

# Apartheid Grand Corruption

Assessing the scale of crimes of profit  
in South Africa from 1976 to 1994



A report prepared by civil society at the request of the  
Second National Anti-Corruption Summit  
May, 2006



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A report prepared by civil society in terms of a resolution of the Second National Anti-Corruption Summit for presentation at the National Anti-Corruption Forum, May 2006

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2006

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## Acronyms

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<b>ABSA</b>	Amalgamated Banks of South Africa
<b>AC</b>	Amnesty Committee
<b>ADS</b>	African Defence Systems
<b>ANC</b>	African National Congress
<b>ARMSCOR</b>	Armaments Corporation of South Africa
<b>BOSS</b>	Bureau of State Security
<b>CCB</b>	Civil Co-operation Bureau
<b>DA</b>	Democratic Alliance
<b>DDA</b>	Department of Development Affairs
<b>ESCOM</b>	Electricity Supply Commission
<b>IFP</b>	Inkatha Freedom Party
<b>ISCOR</b>	Iron and Steel Industrial Corporation
<b>MI</b>	Military Intelligence
<b>NIA</b>	National Intelligence Agency
<b>NIS</b>	National Intelligence Service
<b>NNP</b>	New National Party
<b>NP</b>	National Party
<b>NPA</b>	National Prosecuting Authority
<b>PAC</b>	Pan African Congress
<b>PFP</b>	Progressive Federal Party
<b>PITU</b>	Presidential Investigations Task Unit
<b>R&amp;R</b>	Reparation and Rehabilitation Committee
<b>RDM</b>	Rand Daily Mail
<b>RSA</b>	Republic of South Africa
<b>SADF</b>	South African Defence Force
<b>SAHA</b>	South African History Archive
<b>SANDF</b>	South African National Defence Force
<b>SAP</b>	South African Police
<b>SAPS</b>	South African Police Service
<b>SIU</b>	Special Investigations Unit
<b>SSC</b>	State Security Council
<b>TBVC</b>	Transkei/Bophuthatswana/Venda/Ciskei
<b>TML</b>	Times Media Limited
<b>TNS</b>	Total National Strategy
<b>TRC</b>	Truth and Reconciliation Commission
<b>UBS</b>	United Bank of Switzerland
<b>UDM</b>	United Democratic Movement

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A civil society project reference group (constituted by the ISS) initially agreed to the research framework and subsequently commented on a draft version of this report and largely endorsed its findings at a meeting in November 2005. The reference group consisted of the following people:

- Themba Masuku and Gareth Newham (Centre for the Study of Violence and Reconciliation);
- Prakashnee Govender (Congress of South African Trade Unions);
- Jonathan Faull and Judith February (Institute for Democracy in South Africa);
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## Foreword

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South Africans, whether in their individual capacities or as members of some form of organized civil society institution, have this proud history of engaging head-on with the issues affecting us. This outstanding trademark stems from our history of injustice and oppression. Coupled with this is our deep concern about the well-being of our fellow citizens.

Corruption is a legacy of our past and it is therefore not surprising that the civil society sector pushed that the issue of apartheid grand corruption be put under the spotlight. This sector discussed the matter at its preparatory meeting to the Second National Anti-corruption Summit in March last year and raised the matter during the Summit itself. As one of 27 resolutions the Summit agreed that the sector should prepare a research report on crimes of corruption committed under apartheid and that this research be presented to the National Anti-Corruption Forum (NACF).

This report is welcomed for the contribution it makes to the ongoing debate about the nature of South African society. Obviously not all persons will welcome the report, but that should not detract from the need to engage with it and with the research findings.

As chairperson of the NACF I wish to thank the authors of this report for their dedication and commitment in preparing it and in lifting the veil of secrecy that surrounds many actions of the past. Corruption is a crime committed in secret and the deed is often only discovered at a later stage. Collecting the information underpinning the research must have been a monumental task.

The discussion of this report within the NACF provides the public, business and civil society sectors with another opportunity to strengthen the partnership against corruption. I also expect that the report will be discussed widely, in many other forums.

Ms. Geraldine J. Fraser-Moleketi

Minister of Public Service and Administration  
in her capacity as Chair of the National Anti-Corruption Forum

22 May 2006

## 1. Introduction

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*One name for another, a part of the whole: the historic violence of Apartheid can always be treated as a metonymy. In its past as well as in its present...one can always decipher through its singularity so many other kinds of violence going on in the world. At once part, cause, effect, example, what is happening there, what takes place here, always here, wherever one is and wherever one looks, closest to home. Infinite responsibility, therefore, no rest allowed for any form of good conscience.*

Jaques Derrida (1994), from his dedication to the murdered Chris Hani<sup>1</sup>

Corruption, the abuse of entrusted power for private benefit, costs the people of South Africa billions of rand annually.<sup>2</sup> It is a burden that is carried disproportionately by the poor as it effectively subsidises criminal elites within the public and private sector. It is a matter of public record that in the dozen years since South Africans claimed the right to elect a democratic government, almost no day has gone by without media reports highlighting the extent of the scourge. This includes allegations of intrigues involving individuals ranging from corporate tycoons to local councillors in remote rural areas, who have abused the power with which they have been entrusted in favour of narrow self-interest.

Yet South Africans have made remarkable strides in countering criminal business in the past dozen years. Building on the foundation provided by the Constitution (1996) and the Bill of Rights, elected lawmakers have asserted their mandate to create laws and institutions that for the first time seriously combat corruption. The country has a comprehensive framework consisting of a host of public bodies with a mandate to vigorously tackle graft—and they are doing this with increasing success. Although the anti-corruption mechanisms are not without their flaws,

they do ensure that many ordinary South Africans have the sense that justice usually prevails. The media, unshackled from apartheid-era press censorship, use this freedom to report on the anti-corruption efforts of the state and, importantly, to probe the thorny issues that citizens in every modern society fear are being covered up by various interest groups.

However, it is worth noting that this was not always the case. For more than 300 years, all South Africans were under the yoke of colonial and apartheid rule, a system that benefited the few at the expense of the many. It was a system that ensured that white settlers—and later, white South Africans—were at the helm of a racial oligarchy that was built on the subjugation of black South Africans. It was a corrupt system of governance. A near monopoly on money, power and influence were in the hands of a minority and they used this to either violently suppress the majority or, at best, transfer resources in order to stave off the inevitable revolution.

Racist nationalism is as vulnerable to corruption as most systems of authoritarian rule. In closed societies, which are highly militarised under dictatorial rule, the truth is hidden from public view by design. Access to power (and a monopoly over it) provides the elite in the public and private sectors with a unique opportunity to line their pockets. In so doing, the defenders of an illegitimate and corrupt system start to defy their own rules and laws that criminalise such behaviour. In terms of common law crime they are simply crooks dressed in the guise of patriots representing the interests of their *volk*, their race or their narrow class. They have effectively corrupted themselves.

Such a system can also only survive for as long as a monopoly over power is maintained. Its survival is therefore tenuous—common knowledge to all functionaries of the system, who are the first to ensure that they are taken care of should there be a break with the past. This leads to a reliance on ‘insurance’, usually in the form of cash or other easily moveable assets that can be moved abroad in the event of regime change. It is in the period before regime change that the elite, in particular, are likely to accumulate as many resources as possible for fear that they may soon be out of a job or, at worst, have to flee the country.

This is illustrated in the history of many countries. In Peru, President Alberto Fujimori was alleged to have embezzled \$600 million (over R7 billion) from the Peruvian people before he fled to Japan, where he resisted requests for his extradition to Peru.<sup>3</sup> It was also only after fascism in Germany was smashed in the mid-1940s that tales emerged of generals who had stolen gold and fantastic treasures from the victims of the European genocide. All the Nazi gold did not end up at the bottom of an illusive lake in the Alps, as was often theorised—some of it was located soon after the war but much of the money remained locked up in Swiss bank accounts for decades or financed homes in South America and elsewhere.<sup>4</sup>

Closer to home, in the past decade, between \$2 and \$5 billion (between R14 and R32 billion) was allegedly stolen by the Nigerian dictator, Sani Abacha.<sup>5</sup> Some of this money has since been located in Swiss and English banks accounts. In contrast, the money allegedly stolen by former Kenyan dictator, Daniel Arap Moi, is said to still elude the authorities, as is the \$5 billion (R32 billion) stolen by Zaire's dictator, Mobutu Sese-Seko.<sup>6</sup> Banks in the global North, which in many instances may have not had knowledge of the identity of the depositor, have profited handsomely from harbouring stolen wealth. In response, the United National Convention Against Corruption (2003) binds its signatories to provide mutual legal assistance, among other things, in order to trace such funds. South Africa has both signed and ratified the United Nations Convention Against Corruption. As a sign of Africa's commitment to the process 19 African states (out of a total of 52) have ratified or acceded to the Convention, which came into force in December 2005.<sup>7</sup>

In South Africa the issue of grand corruption under apartheid has been the source of comparatively little public debate. Since the advent of democratic rule scant attention has been paid to the possibility that leading apartheid-era functionaries (in government and business) may have used the cover of authoritarian rule to illegally acquire vast sums of wealth in defiance even of the legal 'norms' of that time.

Public perception that a democratic South Africa is more corrupt than the apartheid regime dominated much of the public discourse for a number of years after 1994. It may be that white and black South Africans alike had come to believe their masters' lie. Public perception of apartheid-era corruption was reinforced by the views of former leaders of the National Party, such as F.W. de Klerk, who noted in 1997 that:

*With regard to...crime and corruption, the true facts are that the situation has deteriorated seriously since the ANC took over.<sup>8</sup>*

This commonly held view probably reinforced another misconception, namely that there was a sort of South African 'exceptionalism' during apartheid. This is perhaps better described as a belief in white 'exceptionalism' that allows the regime to be remembered as 'brutal' in the way in which it wielded power, yet 'honest' in the way it managed its finances at the same time. It would follow, using this logic, that there was no war profiteering under apartheid and although other African dictators may have shifted funds abroad, in South Africa under white minority rule this was not the case. In such a scenario the politics of apartheid is trivialised as misguided idealism and the role of the business community in such a system was primarily about legitimate shareholder profit.

In this regard, South Africa is not unique. Russia, once the apartheid regime's greatest foe, is an example of a state in which corruption has existed for centuries.<sup>9</sup> This view challenges any misconception that graft originated under the rule of the reformer, Michael Gorbachev, or his successor, Boris Yeltsin. Rather, as criminologist Patricia Rawlinson points out, it was already prevalent in Tsarist Russia which preceded the Soviet Union.<sup>10</sup> This provided the foundation for a Bolshevik state that also allowed corruption to grow and eventually saw the rise of social bandits (or organised criminal groups) by the 1930s. There followed a passive assimilation of these groups by the state until endemic corruption was recorded in the Communist Party structures under Brezhnev. As private property was slowly legalised in the 1970s, the mafia began to rise in importance until they were eventually actively assimilated into the state and economy under Gorbachev's economic reforms. In summary, the Russian state created an environment that favoured such criminal behaviour. The rise of the Russian oligarchs in the 1990s was not accidental: they were borne out of a historical process that had evolved over many centuries.

This report attempts to document and describe instances of corruption that we know took place during apartheid and in particular, during the period 1976–1994. Through documented evidence and testimonies of those who have information about this period it attempts to highlight on some well-known corruption cases. However, the report is equally concerned with that about which little is known: the questions that are asked throughout are those that have either not been answered, or not fully explored, by the Truth and Reconciliation Commission (TRC) or any other organ of the democratically elected government. Importantly, the report is not intended to be an exhaustive expose of corruption under apartheid. In highlighting examples it does not mean that these are necessarily the only examples of apartheid-era corruption. The report does not attempt to make judgement on all the cases presented and has been limited in the extent of its enquiry by the amount of material available on the subject. It is worth noting that additional research is required to build a body of knowledge (which does not exist to any significant degree at present) of the types of governance failures that occurred during apartheid. This, together with limited human resources available in undertaking research for this report should also contextualise the reliance on newspaper clippings and single source interviews.

The report begs the question: why has there been no successful dedicated prosecution of crimes of corruption involving the apartheid era elite? Is it due to a lack of evidence? Is this, in turn, due to a lack of capacity? Does it reflect part of a broader political agreement as part of the sunset clause? This report does not attempt to provide answers to these difficult questions but rather attempts to lay the groundwork for probity by others.

The report also attempts to help explain, from a governance perspective, the extent to which the apartheid state was not only criminal in terms of international law by the early 1990s, but had been criminalised in itself (see Stephen Ellis's excellent description of criminalisation of the state in Africa<sup>11</sup>). The legacy of such a corrupt system did not disappear into the night in 1994, when the white flag was lowered and a new South African banner hoisted. Rather, it had entrenched itself to such an extent that it would inevitably serve to corrupt the new order.

Individuals who entered the public and private sector after 1994 and were motivated by greed to act corruptly were likely to welcome the opportunity to work through, and with, influential people, often well networked, who had escaped criminal prosecution under apartheid for similar activity.

The linear or inter-generational nature of corruption is seldom understood as a system that straddles the old and new order— a number of individuals who were alleged to abuse power for private benefit under apartheid are seen either courting power (most often as business people) or holding public office during the past dozen years. They have managed to negotiate the transition with aplomb, ingratiating themselves with corrupt elements in the old and new elite. Although this report does not deal with that phenomenon in great detail, it is an important factor to keep in mind.

The years before and after 1994 cannot simply be neatly compartmentalised. However, there was (and possibly still is, in some quarters of society) political support for this point of view as summed up in comments made by National Party (NP) leader, Martinus van Schalkwyk, (a supporter of the NP under P.W. Botha and a Cabinet Minister since 2004), in his preface to the National Party Corruption Barometer (1997):

*...They [the ANC] turned South Africa into a Mecca of maladministration, crime and corruption. It is the NP's duty to take them to task on this, and we will do precisely this.<sup>12</sup>*

In making this comment van Schalkwyk appears to support the argument that corruption is an import of democracy, as opposed to apartheid-era corruption making any contribution at all to contemporary corrupt behaviour. However, as Frene Ginwala, the former Speaker of Parliament (1994–2004), points out, to break with the past may not have been so easy:

*In South Africa we inherited an intrinsically corrupt system of governance...To survive, it created a legal framework that was based on and facilitated corruption. It has taken years in Parliament to repeal old laws and introduce even the basic legal framework that would enable us to deal with corrupt bureaucrats, politicians and police. The private sector also operated in a closed society and profited by it. There were partnerships*

*with international criminals, and the corruption that was built into the system is very difficult to overcome.*<sup>13</sup>

Recognising all of this, civil society organisations met on 21 March 2005 (Human Rights Day) in Pretoria, to formulate policy recommendations to the Second National Anti-Corruption Summit (22–23 March 2005). Civil society recommended that the state invest dedicated capacity to investigate crimes of corruption that took place during apartheid.<sup>14</sup> This was motivated not to detract from ongoing anti-corruption efforts, but rather as a simple (or probably more correctly, complex) matter of justice that, for a number of reasons, could bolster attempts to counter the corruption we experience today. Following debate at the conference, the compromise reached was that:

*Civil society will prepare a research report on crimes of corruption under Apartheid and present these to the National Anti-Corruption Forum (NACF) for consideration within six months.*

A draft of this report presented to the NACF at its first meeting after the six-month period (November 2005). A final draft version of the report was submitted to the NACF in March 2006. It was again discussed at a NACF meeting in April 2006, where it was agreed that the final report would be released by civil society after an NACF meeting in May 2006. The report does not purport to be the definitive guide on the subject—rather, it is an attempt by civil society to point representatives of all government, business and civil society towards what can only be considered as the tip of the corruption iceberg.

It also does not attempt to reflect all voices in South Africa's large and diverse non-profit sector. Rather, it reflects research undertaken by the Institute for Security Studies (ISS) Corruption and Governance Programme. A draft version of this report was presented at a workshop in Cape Town<sup>15</sup> to members of civil society organisations (see the Acknowledgements above for details), who broadly endorsed the main findings. These individuals and the organisations they represent have a track record of anti-corruption activism, advocacy and research. The organisations formed a research reference group that also agreed to the project's Terms of Reference, including:

- *The period under review*

The research focuses on the period 1976–1994. This period covers the student uprising, includes apartheid's first big corruption scandal (Muldergate) and concludes with the country's first democratic elections in April 1994. It is assumed that this period created a climate conducive to grand corruption, as it was characterised by growing political uncertainty over the future of white domination, increased state spending on 'covert' military operations,

economic decline, sanctions (particularly oil and defence since 1976) and increased state secrecy.

- *Types of corruption*

The research focuses on large-scale corruption (known as grand corruption) or maladministration involving members of the private sector or functionaries of the apartheid state. Special attention has been paid to money that may have been illegally externalised from South Africa (and placed in foreign banks or invested in real estate etc.), as well fixed assets that belong to the state (such as houses), which have found their way into private hands through an illegal enterprise. Petty corruption (administrative corruption), although prevalent during apartheid (the pass system, for example, was open to such corruption), is not the main focus of the study.

Although the study focuses on corruption, it also touches on other economic crimes that facilitate corruption and did so under apartheid. These include:

- large-scale fraud/white-collar crime;
- exchange control contraventions; and
- sanctions busting (particularly where this is facilitated by corruption).

- *Focus areas*

The research focuses on corruption in both the public and private sectors. To narrow its focus the following areas were identified as being prone to grand corruption (involving individuals in the private and public sector) as they were characterised by large cash flows combined with low levels of public oversight:

- arms purchases and covert defence funding;
- defence activities (in Namibia and Angola, involving the South African Defence Force [SADF]);
- activities by members of the Broederbond ('Brotherhood');
- corruption involving the executive in both the 'white' state and the 'homelands';
- exchange control (circumvention of laws);
- oil purchases by the state; and
- sanctions busting, including activities involving the private sector.

This list is by no means exhaustive but provides a good basis from which to examine corruption under apartheid.

The report does place an emphasis on acts of corruption involving the state and its security apparatus. However, mention is also made of the private



sector, which played the dual role of propping up and benefiting from the apartheid regime.

The report does not focus on corruption involving members of the country's liberation movement inside or outside of South Africa's borders. Of course, this is not to say that there were not opportunists who abused the struggle against apartheid for personal gain.<sup>16</sup> Such corruption may also have taken the form of people acting as informers in exchange for cash, pilfering donations to various organisations or, in the extreme, involvement in drug trafficking in Southern Africa. Although not trivial, when seen in their entirety these allegations pale into insignificance in comparison with the corruption that took place under the watch of the apartheid regime. The resources at the disposal of corrupt individuals within the South African state bureaucracy and private sector were vast beyond imagination when compared to those at the disposal of the liberation movements. It was here that the *real* intersection between power and money took place.

- *Recommendations*

Finally, this report makes policy recommendations for consideration by the National Anti-Corruption Forum and other state and non-state actors for possible future action.

## 2. Research methods

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### 2.1 Research challenges

Undertaking research on corruption is notoriously difficult. It is a crime that almost always takes place where there is little light or probity. As the evidence of corrupt transactions often relies on paper trails and official records, these are the first to be destroyed. Where money has been taken abroad, it is either difficult to document due to geographic distance, banking secrecy provisions or because attempts are made to hide all traces of bank transfers through trusted money-laundering schemes. Where individuals are subject to knowledge of corrupt behaviour they are usually silenced through intimidation, violence or co-option. Evidence of corrupt activity therefore relies on official investigations, media reports or whistleblowers. This limited number of sources of information—particularly the reliance on newspaper clippings—does limit the depth of the research. However, as noted above, it is hoped that this research will nonetheless be a contribution to a research field to which others will add.

All these factors present a challenge to any enquiry into the financial crimes that took place under apartheid. Given the time allocated to the research and limited research capacity, this report is not intended to be exhaustive but rather indicative of corruption and related economic crime under apartheid. The research therefore not only provides answers but also poses questions that only a competent state investigation with greater capacity and legal powers could answer. **These questions are asked in boxes at the end of each section of the report.**

### 2.2 Sources of information

The research is primarily historical in nature, which raises its own challenges, and draws on the following sources of information:

- *Primary research*

In-depth interviews were conducted with over 20 individuals including researchers (such as TRC researchers), journalists, ‘struggle’ activists, politicians active in ‘homeland’ and ‘white’ politics, members of the business community and security personnel (police, defence etc.). Some of those interviewed have since retired. It is worth noting that a number of interviewees requested that comments not be attributed to them and they are accordingly not referenced in the report. This reflects the fact that the nature of this research is still considered sensitive by many.

- *Secondary research*

This focused on information collected from various public and private archival collections. It is worth noting that little exists in the way of official records of corruption under apartheid. Many of the official records that were not destroyed prior to 1994 are either accommodated by disparate departments, the national archive or are held in private collections by officials who have may kept them out of ignorance. This makes the task of any research in this field very difficult. Equally important is that some material, such as official submissions to the TRC, can only be accessed from the TRC after presenting an ‘access to information request’. Many of these were once a matter of public record and should (from a public research perspective) remain so. General relevant information is either to be found in reports of official commissions of enquiry (often whitewashes, as reflected below), or in academic papers and books and newspaper clippings. The latter is a rich source of information and points to allegations throughout the period under review. Committed journalists were not afraid to investigate allegations of scandal involving top officials. However, the impact of their investigations was limited by the number of journalists prepared to do this, the courage of their newspapers’ owners and the might of the security apparatus and the laws it used to silence critics.

### 2.3 Making sense of money<sup>17</sup>

It is important to understand that R1 million stolen through corruption in, say, 1976, does not have the same value as it would in 1994 or 2005. This potentially makes it difficult for the reader to grapple with the relative value of some of the allegations documented in this report. The report attempts to compensate for this by providing estimates of the value of the money in 2005. The figures below should assist the reader with comprehending the relative value of the rand today—and, importantly, how currency fluctuations and profit would have impacted on

the rand if the money had been kept in South Africa or taken out of the country. The formula has not been applied to all amounts mentioned in this document and equally, where it was felt not to be relevant, all three figures are not included. For ease of reference 'keys' listed below identify the three calculations.

The calculations are based on the following questions:

1. *What would the 2005 (August) value of a rand be if it was kept in South Africa over a number of years?*

This is calculated by using CPIX (Consumer Price Index) data from two sources, namely, for 1981–2005, the Economist Intelligence Unit; for 1960–1980, the December 1987 Statistical News Release published by the Central Statistical Service (RSA).

According to this calculation R1 in 1981 would be worth R12,62 in 2005.

*Key: ZAR2005*

2. *What would the 2005 (August) value of a rand be if it was invested (conservatively) in a US Bank account over a period of time?*

These figures have been calculated using an average interest rate of 3% per annum and a currency exchange rate of R6,5 to the US Dollar in 2005.

According to this calculation R1 in 1981 would be worth R16,96 in 2005.

*Key: USD-Bank*

3. *What would the 2005 (August) value of a rand be if it was invested on the New York Stock Exchange (NYSE) over a period of time?*

This is calculated by using figures drawn from the NYSE composite index (last day of the year and at 23 August 2005). A currency exchange rate of R6,5 to the US Dollar in 2005 is used.

According to this calculation R1 in 1981 would be worth R82 in 2005.

*Key: USD-NYSE.*

***In summary, this research report set out to try and answer some of the following questions:***

- Do we know the true extent of corruption under apartheid?
- In what manner did the apartheid system of governance facilitate corrupt behaviour?
- Which areas of the public service and economy were vulnerable to corrupt behaviour?
- Are there known allegations of grand corruption that have not been sufficiently investigated?
- What can be done to ensure that we learn from our past, while ensuring that justice is seen to be done?

### 3. Investigations

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There have been a number of attempts to establish the truth about crimes that took place under apartheid. These were primarily focused on gross violations of human rights and the Truth and Reconciliation Commission (TRC) undertook the bulk of that work. However, a number of investigations (listed below) did focus on commercial crimes under apartheid, such as corruption. It could be argued that the two major constraints that any investigation experienced were:

#### *1. The nature of the negotiated transition*

South Africa emerged in 1994 from a prolonged period of civil war and strife as a country that had negotiated a peaceful settlement and the transition to democracy. It was a recognition of the stalemate of the early 1990s (between the regime and its opponents) that would, in part, define the nature of the transition. This meant that certain issues were either too politically sensitive to be dealt with or may have been part of deals brokered to facilitate the transfer of power and therefore remained untouched. It remains unclear if grand corruption under apartheid could be such an area. In addition, in order for any investigation to prove successful, the assistance of officials in the previous regime would be required. It was clear that although some officials quickly backed the new constitutional order, many did not share such sentiments. In 1997 Moss Chikane (chairperson of the Parliamentary Public Works programme), commented on the slow process of identifying state assets, such as houses and land abroad, saying:

*Officials in the previous government have been unhelpful in the extreme...Even before we start looking at what properties the former homelands bought, we should at least be able to establish what the central government owned. But we have not...we have inherited an empty house.<sup>18</sup>*

At the time of this comment was made, the Department of Public Works had started the tedious process of compiling a national asset register. It had (by then) identified over 25,000 buildings, pieces of land and other properties that did not form part of the original register of approximately 125,000 buildings.<sup>19</sup>

## 2. *Destruction of the evidence*

As Terry Bell and Dumisa Ntsebeza point out in their book, *Unfinished Business*:

*...tons of files, microfilm, audio and computer tapes and disks were shredded, wiped and incinerated. In little more than six months in 1993...some 44 metric tons of records from the Headquarters of the National Intelligence Service alone were destroyed.*<sup>20</sup>

This would translate into approximately 5.5 million standard A4 photocopy pages of paper.<sup>21</sup> The destruction of documents took place on a massive scale considering that the Presidency, Department of Defence, State Security Council, Military Intelligence, South African Police (SAP), homeland states (and their bureaucracies) and front organisations for the security and intelligence sector also disposed of documents. Bell and Ntsebeza go on to describe the extent of the destruction and the impact thereof:

*There was so much material that the state incinerators could not cope; the furnaces of private companies, such as steelmaker ISCOR, also had to be used. Into these flames disappeared the last vestiges of the voices of thousands of victims. It was a paper Auschwitz...A new eco-friendly generation would pen their own, private, secrets on the recycled remains of much of a nation's memory.*<sup>22</sup>

At the time the then-President, F.W. de Klerk, and later the National Intelligence Agency (NIS), obtained a legal opinion stating that any documents marked 'secret' should not be archived.<sup>23</sup> In so doing, evidence that might have changed the course of post-apartheid politics and given closure to numerous victims of apartheid were destroyed. Evidence of theft of money by state officials may well have gone up in smoke over the ISCOR factory, south of Johannesburg. Some of the evidence may also have found its way into the garages and safety deposit boxes of individuals, either as a means to ensure future protection from prosecution and/or to gain an unfair advantage (possibly through extortion) by monopolising the information.

### 3.1 Apartheid commissions of enquiry

The use of commissions of enquiry into allegations of corruption and reporting to Parliament—or more often, the State President—became more frequent from the late 1980s into the mid-1990s. Of these, the Erasmus Commission into irregularities in the Department of Information (the Information Scandal) received a high public profile. However, commissions were also public pressure valves that created the sense of a state committed to tackling corruption. As the then-leader of the Progressive Federal Parliament in the white parliament notes: “They were a way of buying time and covering up the problem. It was one meeting after another and a waste of time.”<sup>24</sup> In addition to this, they could also be used to isolate potential rivals: some believe the Erasmus Commission was designed to ensure that P.W. Botha could stymie aspirations his political rival, Connie Mulder, had for the Premiership. However, despite these obvious shortcomings, the commissions did go some way towards uncovering specific instances of corruption that took place in the apartheid state and the various homelands. Some of the details that emerged from these commissions are documented elsewhere in this report. Some of the relevant commissions include:

- The Commission of Enquiry into Alleged Irregularities in the Former Department of Information (1978, the Erasmus Commission);
- The Commission of Enquiry into the Alleged Misappropriation of Funds of the Lebowa Government Service (1989);
- The Commission of Enquiry into the Affairs of the Department of Development Education and Training (1989);
- The Commission of Enquiry into Certain Alleged Murders Report (1990, the Harms Commission);
- The Commission of Enquiry into Development Aid (1991);
- The Commission of Enquiry into 1986 Unrest and Alleged Maladministration in KwaNdebele (1993);
- The Commission of Enquiry Regarding the Prevention of Public Violence and Intimidation. Report by the Committee appointed to inquire into allegations concerning front companies of the SADF and the training by the SADF of Inkatha Supporters in the Caprivi in 1986 (1993, the Goldstone Commission).

### 3.2 The Truth and Reconciliation Commission (TRC)<sup>25</sup>

The South African ‘miracle’ is the story of compromise over conflict. Well before the final negotiations were concluded in 1994, two competing claims were being made for what would be done to deal with the ‘past’ in what would hopefully be



a peaceful 'future'. The NP favoured the option of blanket amnesty for all apartheid-era crimes, while the liberation movements wanted individuals to account for their role in perpetuating what the United Nations has classified a crime against humanity. A breakthrough came in 1995 when Parliament passed the Promotion of National Unity and Reconciliation Act and the Truth and Reconciliation Commission was established under the chairpersonship of Nobel Peace Prize recipient, Archbishop Desmond Tutu, in the same year. The TRC was to promote national unity and reconciliation through the achievement of four objectives during the 18-month period of its existence:<sup>26</sup>

- the discovery of the causes, nature and scope of 'gross violations' of human rights between 1960 and 1994;
- the extension of amnesty to those who fully disclosed their involvement in politically motivated violations of human rights;
- the identification and location of victims of violations and the design of reparations for them; and
- the compilation of a report, which should contain recommendations for measures to prevent any future violations of human rights.

The TRC effected its mandate through the following three committees:<sup>27</sup>

- the Human Rights Violations Committee;
- the Reparation and Rehabilitation Committee; and
- the Amnesty Committee.

Corruption was never the focus of the TRC. Its focus was the thousands of applications for amnesty that were submitted and the public hearings on gross violations of human rights. The loss of life inflicted across the political divide as a result of apartheid was the focus of what had become a cathartic national process (although with strong religious overtones).

According to the former Director of the TRC's research division, Charles Villa-Vincencio, corruption fell outside of the mandate of the TRC and was therefore never discussed or seriously considered by the Commission.<sup>28</sup> The already extensive mandate of the TRC and its limited resources no doubt also limited the possibility of extending its mandate.

However, Martin Welz, a seasoned financial journalist and the editor of *Noseweek* magazine, described his experience of how difficult it was to get the issue of white-collar crime and corruption on the TRC's agenda. Welz, who has investigated and reported on these issues since the 1970s, approached the TRC soon after it was established and indicated that he would be interested in undertaking research on issues such as offshore trust funds.<sup>29</sup> When finally invited to appear before an interview panel Welz was told that he would not be suitable for the position. The

reason given was that, since he had been fired some years earlier from the Sunday newspaper, *Rapport* (which had strong links to the National Party), he had a track record of ‘disloyalty’. Welz was taken aback and is of the opinion that others in the TRC investigation department had been against his employment. The TRC probably lost an opportunity to bring on board some expertise to look at an issue that would eventually only feature peripherally in its final reports.

The TRC not only attempted to establish the truth about individual acts of terror. It also understood the context in which apartheid era crimes took place. This led to the establishment of a number of special hearings focussing on the media, business, prisons, the faith community, the legal system and the health sector. Many argue that the hearings only touched the surface of the way in which various professions and sections of society, including South African and foreign business, propped up the apartheid regime. It did, however, shed some light on the sectoral responsibility for apartheid.

Many companies either made no submission to these hearings (such as Armscor, which was responsible for all state weapons procurement during the 1980s) or, when they did, were criticised for not sufficiently engaging with the past (the Chamber of Mines, for example, omitted any reference to the migrant labour system in its submission).<sup>30</sup> Some of the critics of the TRC argue that it did not go far enough in holding senior members of the former government, the security establishment and the business community to account. The TRC process was, of course, about restorative justice rather than the Nuremburg-type trials that took place in Germany after the defeat of the Nazi regime.

By sacrificing the ‘lower’ and ‘middle managers’ of apartheid (the policemen, soldiers and others who were rightly implicated in the system), the top end of the apartheid elite were left to while away their days in holiday homes along the country’s coastline (such as P.W. Botha, who retreated to his villa in the aptly named resort town of Wilderness). Many of these individuals, including leaders in business, have never accounted for all their crimes, nor did they apply for amnesty for offences they might have committed, refusing in some instances even to cooperate with the TRC. This should not, however, detract from the fact that the TRC did help thousands of victims of political violence to find some answers to what had happened to loved ones and thereby contributed to the process of national reconciliation in South Africa. According to Zenzile Khoisan, a TRC researcher:

*As a start it was good, it was auspicious and audacious. It held open the door of promise to those who have been harmed by history. But it is up to us who live in the aftermath of the nightmare to wake gently and work tirelessly to realise the substance of that promise.*<sup>31</sup>

### 3.3 Apartheid corruption investigations post-1994

There are very few examples of state funded public investigations of apartheid-era corruption since 1994. It is important to recall that the democratic state was immediately forced to deal with the legacy of apartheid, including evidence that the incidence of corruption had apparently not abated.

Some of the investigations into specific instances of corruption include:

- The Commission of Enquiry into the Alleged Smuggling of, and Illegal Trade in, Ivory and Rhinoceros Horn in South Africa (1996): The Kumleben Report focused on ivory smuggling involving members of the SADF before 1994 (this is discussed elsewhere in this report).
- The Commission of Enquiry into Alleged Irregularities or Malpractices Regarding the Allocation, Leasing, Alienation and Transfer of Certain State Land (1997): This focused on areas in the former provinces of Natal, Transvaal and the Cape.
- The Heath Special Investigations Unit (as the Special Investigations Unit, or SIU, was known before Willem Heath's departure), was also reported to have investigated acts of corruption predating 1994.<sup>32</sup>
- The South African Police Service (SAPS) and arms of the National Prosecuting Authority (NPA) have investigated alleged instances of corruption involving individuals such as Dr. Wouter Basson, who was involved in the apartheid state's chemical and biological warfare programme (this is described in more detail elsewhere).
- In 2003, the Minister of Finance, Trevor Manuel, announced a government foreign exchange control amnesty. Although not an investigation, it did prompt the identification of over R68 billion in assets held abroad and government netted R2.9 billion in levies through that process.

The state, through the National Intelligence Agency (NIA), other special presidential task forces or other means, has also investigated corruption that took place during apartheid.

- *The Thabo Kubu Unit*: This intelligence operation was eventually shut down when a number of its members themselves became embroiled in allegations of fraud, theft and corruption. The unit, headed by NIA operative Thabo Kubu, was "apparently set up to recover money said to have been taken out of the country as slush funds for intelligence operations during the apartheid years, and capital smuggled out of the country prior to 1994."<sup>33</sup> Allegations in the press were that this 15-person unit, which was at one time based in Sandton and operated as Mhlanga (or Umhlanga) Rocks Transporters CC, had misused as much as R3 million allocated to it.<sup>34</sup> Despite this awesome

responsibility, questions were raised about the choice of personnel selected. The unit is alleged to have included among its members characters such as Rian Stander, a former security policeman linked to apartheid-era Civil Cooperation Bureau (CCB) operative Craig Williamson.<sup>35</sup> Membership of the unit was also alleged to include a known fraudster, who had once attempted to pass himself off as the President of Portugal to a small Boland town. According to Dirk Coetzee (who blew the lid on the CCB in the early 1990s with the help of the *Vrye Weekblad* newspaper), the unit, which was disbanded very shortly after he joined, "...was a joke, I could see that when I first walked in there."<sup>36</sup> To add substance to this, a member of the unit was fingered by the SAPS for his involvement in a R180 million scam following the unit's suspension in mid-1998.<sup>37</sup> There is no evidence that this special unit ever managed to track down money that had been taken out of the country; rather, it became a burden on taxpayers through its alleged corrupt dealings.

- *The Presidential Investigations Task Unit (PITU)*: This unit was established to investigate high-profile organised crime, with a focus on alleged mafia member and convicted fraudster, Vito Palozollo. It was also disbanded following infighting and allegations of corruption.
- It was alleged by some individuals interviewed that the Executive, authorised an investigation by a *private company* that tracks stolen assets internationally. This allegation has not been substantiated. This is alleged to have taken place in the late 1990s or the early part of this decade and was allegedly aimed at tracking public money that had been moved abroad. It is believed that the company was unable to trace any assets.

It is possible that intelligence operatives within the liberation movement have undertaken investigations. If so, these records may either be with the individual operatives who undertook such investigations or may be contained in the current national intelligence archives.

Although speculative, it has also been argued by some that in the lengthy period of negotiations in 1994, deals were not only struck at a political level but possibly also at a personal level between individuals of the old and new orders. This could have taken the form of promises not to release compromising information (held by apartheid security agents about informants, for example) or possibly bribes (often in the form of gifts). Individuals active in organised crime or those wishing to secure continued access to public contracts from a government-in-waiting potentially corrupted individuals even before they had been elected or appointed to public office.

***This section raises an important issue:***

Attempts to investigate apartheid-era corruption appear to be piecemeal and have not led to many high profile prosecutions since 1994, raising the issue of unfinished business that should be addressed.

***It also raises some important questions:***

- Why have allegations of corruption under apartheid never been investigated through a state body other than intelligence agencies?
- Has the state invested any assets into investigations since the Kubu Unit was closed down?
- If so, what were they looking for and have they managed to trace any stolen funds?
- Are there presently any plans to continue such investigations?
- Should there be call for individuals to open their private archives and share information they have with the state?
- Greater access to information—such as TRC documents—has to be secured for those undertaking research on South Africa’s past.

#### 4. Corruption, colonialism and the apartheid state (1652–1976)

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Although this report focuses on the period from 1976 to 1994, it is important to contextualise corruption, thus the examination of the preceding era. This is equally relevant to help understand how corruption before 1994 affects South Africa today.

White supremacy in South Africa has always been premised on greed and corruption. Ideology has often been misused as a pretext for what constitutes corrupt behaviour. The first attempt by Europeans to ‘settle’ at the Cape was a decision of the Dutch East India Company—a forerunner of modern-day multinational corporations—which required a replenishment station that would aide its business forays to the East and to Indonesia in particular. The success of the station at the Cape of Good Hope required the subjugation of local inhabitants, to the benefit of the company’s Dutch headquarters.

The subsequent British colonial administrations were no less subtle when wars were raged and people subjugated (both black and white) in order to acquire access to the country’s wealth of minerals and land. Although sharply critical of the white English for entrenching poverty among white Afrikaans-speakers, Prof. Sampie Terreblanche points out that some more introspection is required. As far back as the nineteenth century, ‘Notables’, such as Generals Botha, Cronje, Koos de la Rey and others, had as many as 20–30 large farms. The Transvaal in the late nineteenth century was a feudal society in which the Voortrekkers each ‘received’ a farm for which they had to pay regular tax. However, when they defaulted on their tax payments, the farms were put up for sale. With the connivance of the local *Landrost* (magistrate) the ‘Notables’ were often the first to be informed of such sales and so they became landlords with many farms in their possession. When gold was discovered, many of them would become involved in corruption.

After the end of the South African War (1900–1902) the political leaders of the ‘Notables’, such as Generals Botha and Smuts (both later Premiers of the Union of South Africa) entered into political deals with the British. This was the beginning of the so-called ‘bloed SApe’ (members of the South African Party), who would make way for the rising force of Afrikaner Nationalism in the second half of the twentieth century.<sup>38</sup>

Another historical text indicates that:

*One of President [Paul] Kruger’s three sons was his private secretary. A son-in-law of his, C.F. Eloff, was a businessman who was granted several (government) concessions, namely business monopolies of one kind or another.*<sup>39</sup>

Writing in 1899, Hillegas notes that “Eloff was several times a millionaire”.<sup>40</sup> At the time reference was also made to a secret ‘third Volksraad’ (a second Volksraad, or Assembly, existed to represent ‘foreign’ whites), which was an undercover group of businessmen who secretly controlled the economy and of which the aforementioned Eloff was said to be a ‘member’.<sup>41</sup>

Following the bloody South African War, the Union of South Africa, under British imperial rule, cemented the white dominated political system for the next 50 years. The two former British colonies and the Boer ‘free’ states constituted the provinces and territory of this new state. A white parliament was elected with an upper house (Senate) that included representatives of the majority black, coloured and Indian South Africans. The nascent white state, with the approval of its imperial overlords, systemically used power to corrupt. The 1912 Land Act placed 87% of the country’s land in the hands of 13% of the population. This served two purposes: ensuring white domination of the agricultural sector and ensuring that black South Africans were forced to move to the cities where labour was in short supply in the county’s mines. This situation suited the emerging mining companies, including the forerunners of the latter-day de Beers and Anglo American. These crony capitalists were the beneficiaries of political patronage resulting from the convergence of interests between the business and political elite in the country.<sup>42</sup>

When the NP came to power in 1948 it deviated from the system of British colonial rule in that it wished to swell the ranks of those who benefited from the oligarchy to include working-class white Afrikaans-speakers. However, it had no intention of extending it beyond this group.

One of the first problems the NP faced in 1948 was that it had won the elections with a majority of seats (based on a constituency system) but without a majority of votes. Party leaders were well aware that they would need to grow their electoral support in the next election and for that, the NP required funding. In such an

environment political parties are vulnerable to outside influence. The NP soon started a drive for funds and it is believed that the emerging white Afrikaans capital became the conduit for party support and fundraising.<sup>43</sup> Large corporations that were close to the NP at that stage included Genkor, Sanlam, Nasionale Pers, Rembrandt and others. At the same time there was a noticeable *toenaadering* (drawing together) between the NP and the English business establishment. It was during this time that people such as J.F. Klopper, the leader of the Broederbond, and Nico Diedrichs, the Minister of Finance and later leader of the Broederbond, and some of the staunchest Afrikaner (national) socialists became darlings of the Chamber of Mines when the creation of an 'Afrikaner' mining group, Genkor, was accepted as a pay-off for not nationalising the other 'English' mines.<sup>44</sup> Parallel contact was also sought with foreign capital, such as large construction companies, who conducted work for Eskom. At one point in the 1960s it was suspected that a large part of the top echelon of Eskom, together with individuals such as Klopper and Diedrichs, used their political leverage to secure contracts for large multinational corporations.<sup>45</sup>

What differentiates the early apartheid state from later years is its efficiency in ensuring that those who benefited from the system were not only the top leadership and their families. Hundreds of thousands of individuals would be afforded access to state grants, free education and job reservation at the expense of the majority, ensuring that the patrimonial network was comparatively massive. The beneficiaries were not all white, as elites within other communities were also bought off in this process. It was a system, however, that relied on a number of key tenets for its survival:

- blind acceptance of party authority from beneficiaries of the system;
- successful repression of those who questioned its legitimacy (both within and outside the network); and
- an acceptance that apartheid's beneficiaries were not allowed to become 'too greedy'—the creation of an elite within the group could eventually result in the alienation of working-class supporters.

The third element, the necessity for class solidarity within the ranks of white Afrikaans speakers, lay at the heart of the support the NP received from working class voters in 1948. However, it was access to capital and power—and the inevitable abuse of such power to accumulate more capital—that would deepen the faultlines that already existed within the white Afrikaans community. Corruption entrenched class differences between a growing groups of 'haves' and working-class supporters of the NP, who relied on job reservation to secure jobs in the public sector. The difference in quality of life is apparent to any observer who drives from the rich (primarily) white suburbs to the east of Pretoria (a city that was once the engine-



room of Afrikaner nationalism) across the city to the working-class (primarily) white suburbs to the west. The discrepancy is still not comparable to the wealth gap between the wealthy and the black working poor. However, it would also be true to say that the aspirations and lived experiences of white Afrikaans speakers on both sides of Pretoria differ dramatically. Corrupt behaviour played no small role in this process, as discussed elsewhere in this report.

The NP dedicated a large amount of money to (white) social spending from when it took office in 1948. However, by the 1960s the NP's focus shifted to the concerns of the large farmers and Afrikaner industrial sector. From then on the NP was in the grip of Afrikaner capital and, increasingly, also English capital.<sup>46</sup> The locus of interest for the ruling elite started to shift away from *volk* towards that of capital.

This is mirrored in the rise of an Afrikaner *haute bourgeoisie* (the Afrikaner *nouveau riche*) by the late 1960s. Evidence of the growing position within white society of this class can be seen in the fact that per capita income of white Afrikaners increased from 50% of that of white English South Africans in 1948, to 75% by 1975. Although all whites made progress at that time, it was the top 20–30% of Afrikaners who became extraordinarily rich. It was these people who, together with a white English elite, began to pull the strings in South African society.<sup>47</sup>

Welz argues that the real rot (in terms of corruption) set in with Verwoerd, who maintained control by doing deals with corrupt elements. This coincided with a shift whereby the urban elite displaced the rural (agricultural) elite in positions of influence and control. Terreblanche places this slide slightly later, with the advent of B.J. Vorster's presidency. He is:

*...alleged to have started some of his cabinet meetings by sending out details of recent land bankruptcies in the Transvaal (province) to inform Ministers about the availability of farms in the farm market.*<sup>48</sup>

This has an uncanny resemblance to the dealings between the 'Notables' and the *landrosts* described earlier in this report.

An allegation of corruption in the late 1960s involved a businessman called Agliotti, in what became known as the Agliotti Affair. O'Meara notes that he:

*...bought land at the end of Jan Smuts International Airport [now Johannesburg International] for R5 million [ZAR 2005=R212 million], selling it back to the state for R95 million [ZAR2005=R4,028 billion] shortly thereafter. The Sunday Times campaigned unsuccessfully for years for an enquiry into ministerial collusion. Agliotti was eventually obliged to return much of his profits to the state.*<sup>49</sup>

Corruption in the late 1960s and 1970s appears crude compared with the sophistication of the 1980s, which saw a clampdown on access to information under the Botha imperial premiership. Within Afrikaner society there were also many pressure groups, such as the wine farmers, represented by KWV, who used their close proximity to Parliament to ‘take people to parties’ and provide them with a quota of wine annually—this continued in the immediate post-1994 period, when MPs had access to cost-price wines. Similarly, the large white landowners further north were equally effective in lobbying by taking ministers on hunting trips in winter, a practice that started in earnest in the early 1970s.<sup>50</sup> These were all subtle forms of influence buying that could be compared with contemporary private sector-subsidised golf days for politicians and public sector officials.

The growing nexus between private capital and political power apparent in the 1970s is exemplified in a case of alleged property speculation. The NP elite in the Cape Province became embroiled in a deal surrounding the creation of new seaside holiday resorts. They had effectively reversed an earlier decision (made by the NP government) not to allow any more resorts to be built and favoured a scheme whereby a private investor (with backing from the Trust Bank) would sell holiday homes to working class Afrikaners. They were, however, unable to make their bond payments and the Trust Bank faced financial ruin through this enterprise. In order to save the NP and its leadership in the Cape huge potential embarrassment, it is alleged that Sanlam, the life insurance company, was convinced to bail out Trust Bank in order to prevent a potentially catastrophic political and economic fall-out.<sup>51</sup>

In parallel, freedom of political association, movement and the press were increasingly curtailed by the state machinery. So, too, were other checks and balances hemmed in. One example is that “...the Auditor-General’s reports stopped routinely detailing malfeasances after 1967”.<sup>52</sup>

***Some of the important issues raised in this section include the following:***

- Corrupt behaviour in South Africa has been both systemic and for centuries also perpetrated by individuals within the dominant class.
- The twentieth century saw the rise of crony capitalism and the general blurring of lines between party and state.
- The issue of private funding of political parties—the nexus between private capital and political parties—has always been vulnerable to corrupt behaviour in South Africa.

## 5. The insiders: The Broederbond

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A key tenet of the apartheid state was secrecy. This manifested itself in the creation of secret organisations such as the Broederbond, a group of white male Afrikaner Nationalists that numbered 12,000 by the late 1970s (almost all loyal members of the NP), who were the invisible hand directing NP policy and who held enormous influence over government policy and its implementation.<sup>53</sup> The mere existence of such a secret society, with unparalleled power within the state, questions the often-held assumption that the white state was democratic. If anything, it was manipulated by a secret elite. This caused a crisis of conscience for a few leading members of the Afrikaans clergy, such as Beyers Naude, who resigned from the Broederbond and suffered the personal and political consequences.

In such an environment, highly vulnerable to the abuse of power, the idea of transparent, accountable government would be extremely difficult to implement. The Broederbond was established in 1918 and operated through front organisations such as the Federation for Afrikaans Culture, seeking to ensure domination of South Africa by white Afrikaans-speaking members of the NP. It could count among its membership (secret at the time and controlled through a cell-like structure), every NP President from D.F. Malan to F.W. de Klerk, as well as three State Presidents.<sup>54</sup> In addition, most Cabinet members, military leaders, heads of Afrikaans-speaking universities (including rectors and professors) and of the South African Broadcasting Corporation (SABC) were *broeders* ('brothers'). Leaders of white Afrikaans clergy, teachers and established farmers also featured prominently among its membership. This small group of people wielded tremendous influence and power within the state, parastatels, Afrikaans universities and the private sector.

Ivor Wilkins and Hans Strydom exposed this organisation in their 1980 book, *The Super-Afrikaners*. The Broederbond had become the preserve of the wealthy

and powerful among the white Afrikaans elite. In 1968 the first Chairman of the Broederbond, H.J. Klopper, proclaimed at the organisation's 50th anniversary:

*Do you realise what a powerful force is gathered here tonight between four walls? Show me a greater power on the continent of Africa! Show me a greater power anywhere, even in your so-called civilised country!*<sup>55</sup>

Such 'power' may well have translated into opportunity: *Broeders* were likely to be among the first to know of forthcoming large government procurements and of where universities and harbours were to be built (an advantage for property speculators). Efforts were made to stack the public service with *broeders* who shared similar values of racist nationalism.

According to Prof. Sampie Terreblanche, a former member of the Broederbond, what was initially networking created opportunities for "circles within circles".<sup>56</sup> A similar argument can, of course, be made about other exclusive 'clubs' that are the preserve of the elite—golf clubs, country clubs, the Freemasons etc. However, the Broederbond was different in that it had a near monopoly on political power. This, combined with its support for white capital, meant that it had the power to set policy that would direct the thinking of the NP and ultimately the white Parliament and Cabinet. It became the hidden hand that steered the white establishment and was perhaps only paralleled in power and influence by P.W. Botha's State Security Council in the 1980s (discussed below).

By the 1970s the Broederbond had fulfilled its 1918 mission of alleviating Afrikaner poverty. The organisation had become a powerful network of patronage, which meant that *Broeders* had access to contracts and to quotas where the Minister had discretionary power.<sup>57</sup> Author Hennie Serfontein goes on to argue that the Broederbond was originally an "underdog" organisation concerned with the interests of impoverished Afrikaners. However, once a significant part of the Afrikaner community became wealthy it continued to promote Afrikaner interests—i.e. the interest of the "top dogs". Terreblanche argues that when a "top dog" organisation acts as if it is still involved with the interest of the "underdogs", it is almost inevitable that a culture of nepotism and corruption will set in.<sup>58</sup>

According to Serfontein, as early as the 1940s the Broederbond had a system called *help mekaar* ('help one another'). Through the network of about 800 cells throughout the country, information about vacancies in almost every field of employment was sent to the head office in Johannesburg. These ranged from vacancies in public bodies and the professions to openings for tailors and shoemakers.<sup>59</sup>

***Some important issues raised in this section:***

- There is an inherent propensity for corruption to flourish in closed and secretive systems.
- The Broederbond was a powerful and influential group and was most likely the scene of deal making and patronage between members.
- It is unknown whether, during the negotiations preceding democratic rule, the Broederbond and others supported amnesty for certain crimes committed under apartheid, including corruption.

## 6. Information, blood and gold

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### 6.1 The Information Scandal

Between 1977 and 1979 scandal raged in apartheid South Africa. The Prime Minister, Balthazaar John (B.J.) Vorster, had authorised secret funding to the Orwellian Department of Information to wage propaganda wars at home and abroad. This included establishing publications such as the government mouthpiece, *The Citizen*, and attempts to purchase established foreign newspapers, such as the *Washington Star*, in an attempt to ensure that the apartheid state received better press around the world.

The central figures in this enterprise included:

- The Prime Minister, B.J. Vorster, who kept information of the slush fund from (some) of his Cabinet colleagues;
- The Minister of Information, Connie Mulder, who was tipped to succeed Vorster as Prime Minister;
- His number two, Dr. Eschel Rhoodie, head of the Department of Information, who was involved in spending the Department's money;
- 'Lang Jan' Hendrik van der Berg, the vicious Head of the State Intelligence Service, the Bureau of State Security (BOSS). Funds for the Department of Information's secret slush account were at first diverted from the BOSS budget and later from the Department of Defence's secret accounts (which were kept secret by law);
- The Minister of Defence, P.W. Botha, who later claimed that he "strongly" disapproved of the Secret Defence Fund being used in this way. It is alleged that this powerful Minister had the ability to stop it, should that really have been his wish. In his account of the scandal, published in 1983, Eschel Rhoodie

maintained that both Botha and General Malan knew full well about the activities of the Department of Information and had agreed to these throughout.<sup>60</sup> He goes as far as to reproduce a note from Botha to Mulder acknowledging how much money would be transferred from his budget to the Department of Information that year;

- The Minister of Finance (and later State President), Nico Diederichs, is thought to have known of the existence of the slush fund (Diederichs is discussed in more depth in this section). The Treasury was kept in the dark about the secret account; and
- Louis Luyt, a private businessman who was the one-time fertiliser king and later became the rugby supremo in the 1990s. Luyt had acted as the conduit for the purchase of *The Citizen*, one of the Department of Information's loss-making assets.

Importantly, the rest of the white Cabinet, white Parliament and its electorate were kept in the dark.

This was to change in 1977 when *Rand Daily Mail (RDM)* journalists Chris Rees and Mervyn Day were approached by a 'deep-throat' with information that would lead to a scandal known as the Information Scandal, or Muldergate.<sup>61</sup> Whether an honest bureaucrat leaked the information or if it was part of internal National Party machinations is not known, but evidence started to emerge of the vast sums of money and the gilded lifestyles members of the Department of Information enjoyed. Importantly, Day and Rees also learnt of allegations that Rhodie had, for example, spent R320,000 (ZAR2005=R5,9 million) on publication of a book that was meant to cost half that amount.<sup>62</sup> In April 1978, the *RDM* reported that Rhodie had admitted that his Department had:

*...spent R10 million [ZAR2005=R187 million; USD-Bank=R26million; USD-NYSE=R827 million] in foreign currency annually and for some of this he did not know if he had the authority of the Reserve Bank.*<sup>63</sup>

The full extent of the money available to the Department of Information is not known because the Secret Defence Fund was used, in part, to channel the money and details of this account have always been kept secret. Only a handful of the suspected over 130 'projects' undertaken by the Department of Information (such as buying publications) were ever revealed—and it is suspected that the majority continued to function well into the Botha presidency. A surprising revelation was made in September 2000 on the CBS programme, *60 Minutes*, by a renowned Hollywood producer, Arnon Milchan. Prior to making blockbuster movies such as *Pretty Women*, *Free Willy* and *The Fight Club*, Milchan was an arms dealer for the Israeli government (as an Israeli citizen).<sup>64</sup> It is worth remembering that

apartheid South Africa and Israel co-operated closely on the development of nuclear and conventional weapons for a number of decades. In the *60 Minutes* interview, Milchan reportedly disclosed that he had worked for the South African state and that he “used a \$100-million fund to buy off politicians and unsympathetic media”. This was a massive amount of money (ZAR2005= R1,8 billion; USD-Bank= R2,6 billion; USD-NYSE= R8,27 billion) and points towards the types of resources that were available to defend apartheid. It also gives a picture of the extent of funds that officials in the Department of Information (and more importantly, those who had access to the Secret Defence Fund) had at their disposal. Given the amount of money involved it is also questionable if all of it was spent on its originally intended purpose. It is also not clear if this was just one of many such funds that the Department of Information or the South African government controlled at the time.

The Information scandal was probed by the Auditor-General, a one-man commission headed by Judge Mostert, and finally by the Erasmus Commission, which is accused of having not probed the matter sufficiently. Ten years later a retired member of the bench, Judge Hiemstra, would slam the Erasmus Commission for being “unequaled in the number of blunders it made,” describing it as “a means to remove the Information Scandal from the arena”.<sup>65</sup>

Hiemstra questioned the wisdom of appointing a provincial judge to head up a commission in a scandal that implicated the State President, the Prime Minister, a series of other Ministers and senior public servants. He also challenged the merit of appointing two public servants to undertake investigations in a case that implicated senior members of the public service.<sup>66</sup> From the findings of the Commission it was also clear that it did not undertake its work without intimidation from the likes of van der Berg, the head of BOSS, who did not mince his words when appearing before the Commission:

*I really want to tell you...that I can do the impossible...I have enough men to commit murder if I tell them...to kill. I do not care who the prey is or how important they are. These are the types of men that I have. And if I want to do something like that to protect the security of the state, nobody would stop me. I would stop at nothing.*<sup>67</sup>

He had effectively warned the Commission that he was beyond the law. Although commissions of enquiry are meant to signal the beginning of attempts to tackle issues such as abuse of office, as epitomised by the Information Scandal, the attempts to investigate this scandal signalled, in reality, the end of any attempt at probing the myriad of secret accounts that would grow under the tenure of P.W. Botha's Presidency.



Soon after the official enquiries were closed many of the central characters moved on. P.W. Botha survived the scandal to become Prime Minister and later, Executive State President. Eschel Rhoodie and Connie Mulder left public office and later public life. General van der Berg also left unscathed—but the brutal activities of his hated BOSS (and its involvement in fraud) would later probably inform the activities of the CCB. His old friend B.J. Vorster resigned as Prime Minister. Before the final report of the Commission was released, Dr. Nico Diedrichs, the State President at the time and former Minister of Finance, had died, taking his knowledge of many secrets (and possibly bank accounts) to his grave.

***Some important issues raised in this section:***

- Did the Erasmus Commission ever uncover the true extent of the Information Scandal?
- Do we know what happened to the remaining Department of Information funds that were held abroad?
- Was P.W. Botha privy to information on the true extent of the Information Scandal? If so, should he not, as the Minister of Defence at the time, share responsibility for it as the responsible accounting officer?
- Do we know if the Department of Information's funds were ever used to finance activities of the National Party?

## 6.2 Dr. 'Gold' (finger)

Dr. Nico Diedrichs served for 20 years in the Executive as Minister of Economic Affairs from 1958–1967, Minister of Mines from 1961–1964, Minister of Finance from 1967–1974 and finally, as State President, by then a largely ceremonial position, from 1974–1978. A Broederbonder since he was young, his position as State President was secured through Broederbond support.<sup>68</sup> Admired during his tenure by many in the press, he was nicknamed 'Dr. Gold' for his unwavering belief in gold, then an essential part of the South African economy. Helen Zille (now a Democratic Alliance MP) reported at the time of his death in the *RDM* that "His economic brilliance brought him recognition from all over the world".<sup>69</sup> The *Sunday Times* pondered if this was "the richest politician since Rhodes", given that his assets were valued at R744,000 (ZAR2005= R13 million), excluding the six companies he owned.<sup>70</sup> Neither his fame nor his fortune would last for very long.

By December 1978 allegations surfaced regarding his involvement in property speculation with a company called Glen Anil. The most spectacular of many deals he concluded while serving as State President took place in 1975, when he sold a piece of land for R125,000 (ZAR2005= R3,2 million), which amounted to 62 times the purchase price of R2,000 two years earlier.<sup>71</sup> Glen Anil was considered a blue chip township developer and had a prestigious board, including non-executive director Michael Katz (the latter-day tax guru). The ‘investment’ was alleged to be bribes paid to Diedrichs. According to a story published by former *Finance Week* editor, Alan Greenblo, in 1999, he had wind of the story for some time.<sup>72</sup> An article was prepared and presented to Diedrichs for his comment and he asked to see Greenblo (then at the *Financial Mail*) and his editor. Diedrichs allegedly never denied the story but by the end of the nearly four-hour meeting at the Union Buildings, he had pleaded that the press should not bring his name into disrepute and finally warned that he would charge them if they attempted to bring the office of the State President into disrepute. The then-editor of the *Financial Mail*, who attended the meeting, eventually decided that he did not want to face prosecution for publishing the story.

Diedrichs was later implicated in a steel scandal involving Iscor<sup>73</sup> and a massive land acquisition that would, coincidentally, some years later be purchased to develop Hoedspruit air force base (in Limpopo province).<sup>74</sup> His estate was eventually declared bankrupt as he owed money to everyone from meat barons to diamond companies—a reflection of his healthy appetite for credit and his connections to various influential lobbying groups.

## 6.3 Two mysteries

### 6.3.1 The Swiss bank account

However, there was more to come in the way of revelations. In 1980 retired Judge Joe Ludolf (a ‘hanging’ judge who sent the so-called Johannesburg station bomber and freedom fighter John Harris to the gallows in the 1960s) informed the *RDM* of a R28 million secret bank account held in Switzerland (USD-Bank= R475 million; USD-NYSE= R2,3 billion). The bank account was said to be linked to Dr. Nico Diedrichs.

It was alleged that Diedrichs, as Minister of Finance, had agreed to moving the base for South Africa’s gold sales from London to Zurich in the 1970s on condition that a small amount (possibly US 10c per ounce sold) would be transferred into a private account.<sup>75</sup> This would probably not have been too far fetched, as other ‘commissions’ in the natural resource sector such as the oil trade work on similar kickbacks.

Alister Sparks, the then-editor of the *RDM*, travelled to Switzerland and made two deposits into a numbered Swiss bank account (no. 187-613-L1 E) totalling 50 Swiss Francs. The main branch of United Bank of Switzerland (UBS) in Zurich accepted both these deposits. On the same occasion Sparks spoke to the former chairman of UBS, Dr. Saager, who commented: “I was a very good friend of Dr. Diedrichs and I will not do anything that will raise matters again that will harm him”.<sup>76</sup> His comment was in line with the Swiss banking policy of ‘don’t ask, don’t tell’ at the time.

After huge public outcry the Advocate-General eventually launched an investigation that completely exonerated Diedrichs. The secret account belonged to a Mr. David Mort and contained as little as R500 (ZAR2005= R7,200).<sup>77</sup> However, it was also clear that Mort was a friend of Diedrichs and a former business associate of his family—a matter largely ignored by the Advocate-General at the time. The Advocate-General could also not find any details of the deposits made by Sparks, which raised eyebrows as Sparks published the deposit slips on the front page of *RDM*.

At around the same time (1980) a story broke that the Erasmus Commission, which investigated the Information Scandal, had probed an alleged secret Swiss Bank account which was supposed to contain R128 million (USD-Bank= R2,1 billion; USD-NYSE= R10,5 billion).<sup>78</sup> It seemed impossible to shake the story that money was being stashed abroad and that Dr. Gold was linked to this in some way.

The mystery deepened when it was revealed that a safety deposit box Diedrichs had opened at Volkskas Bank months before his death was found empty only three weeks after he died.<sup>79</sup> What evidence had been whisked away? Did Diedrichs own a foreign bank account to conceal stolen assets, or did it belong to others within the ruling elite (including the Broederbond)? This is not known but as Minister of Finance Diedrichs spent months at a time travelling abroad, particularly to see South African creditors in Europe (including Switzerland). In 1974 the NP rag, *Die Vaderland*, described him as South Africa’s “son of the clouds”, who travelled a half a million flight miles per year.<sup>80</sup>

It was clear that the NP government had little interest in pursuing the matter much further: it had been bruised by the Information Scandal and didn’t need another scandal.

According to journalist and author Alister Sparks, he gave photocopies and details of the Swiss transfers to the former Minister of Justice, Dullah Omar, in 1995/1996. He is not aware if the Minister requested any further investigation into the matter as he made no further mention of it. Sparks still believes that there is a strong possibility that there is a lot of money in the Swiss banks, but expresses the concern that inactive accounts become the property of the bank after 30 years.

Questions remain about the bank account and whether it was linked to the mysterious 'Smit murders' in 1977.

### 6.3.2 The Smit murders

Robert Smit, a bright, ambitious former South African representative to the International Monetary Fund, was found slain with his wife in his home in Springs in 1978 together; both were riddled with bullet and stab wounds. The mysterious words, 'Rau-Tem', were sprayed on the wall of their kitchen. Smit was a NP parliamentary candidate in Springs and his brutal murder made the headlines. One theory about his murder is that Smit was on to something, possibly involving foreign bank accounts; he indicated to one of his closest colleagues shortly before the murder that he was planning to drop a bombshell that would "rock the nation and go straight to the top".<sup>81</sup> Smit is alleged to have visited B.J. Vorster some months before his death to disclose secret information and some newspapers speculated that he was part of a government probe. This was something P.W. Botha denied at the time.<sup>82</sup>

During the years that followed, extensive investigations were undertaken by the police but the murder remains an open case as the killers have never been found. It is widely believed that the murders were probably an assassination, linked to information Smit had collected. A former BOSS agent, Gordon Winter, who would later flee the country, confirmed the assassination to journalist Alister Sparks.<sup>83</sup> Winter had worked for Sparks at the *Sunday Express* for a while although Sparks suspected Winter of being a spy, which he later confirmed. In approximately 1979 (when Sparks was editor of the *RDM*), Winter arrived at his house one evening and claimed that the police were trying to kill him as he planned to write a book about BOSS. Winter spent the entire evening in discussion with Sparks at his home and admitted that he had been the 'cleaner' (the person responsible for removing any incriminating evidence from a crime scene before the police arrive) for the Smit murders. He eventually left after daybreak, abandoned his car at Jan Smuts airport and boarded a flight to Ireland, never to return to South Africa.

The Smit murders were again raised at the TRC in 1997 but no further evidence was produced that could assist the Commission. The Commission did conclude that the murders were politically motivated and a gross violation of human rights, and not just a criminal act. The TRC report went on to say that the murders were likely to have been perpetrated by members of the security forces. It also believed that "explosive information" may have led to the assassination, which may have been linked to massive corruption in the government, the nuclear programme and the sanctions-busting programme of the state.<sup>84</sup> However, it was clear that those involved were still around and had much to hide. At the time of the TRC investigations the daughter of the Smit family (one of two surviving children)

reported that she had received “numerous death threats” and was promised a “couple of million rand” to buy the family’s silence.<sup>85</sup>

In the early 1990s, Eschel Rhoodie, who was linked to the Information Scandal, indirectly shed some light on the issue in an interview with *Noseweek* magazine.<sup>86</sup> He points to the fact that Smit may have come across a contingency fund for a government-in-exile that was held in an overseas bank account. Such an account would serve to assist the white regime should it be forced to flee South Africa due to war or revolution. According to Rhoodie, the Secret Defence Fund, when not a laundering house for Department of Information activities, was used to procure weapons abroad. However, he noticed in the 1970s that a massive amount of money was lost due to “fruitless expenditure”. He explained:

*We figure out that, even with all the mark-ups which one must have when buying in secret, even allowing for third parties who are always involved in the process of covering your tracks, allowing for excess commissions and bona fide fruitless expenditure, that about R200 million more was going out each year (USD-Bank=R3,4 billion; USD-NYSE=R16,5 billion). That was just a ‘guestimate’. But even if we were way off by R50 million a year, there could be a fund sitting out there amounting to a billion or two. If not, our buyers have been milked to the point where they are the biggest suckers in the world. And I don’t believe our people are that stupid or unqualified.<sup>87</sup>*

**Unanswered questions:**

- Why was Nico Diedrichs allowed to retain senior office for so long, even when he had a track record of involvement in corruption and other shady deals?
- Did the ‘Diedrichs’ Swiss bank account ever exist and if so, what happened to it?
- Do any other foreign bank accounts still exist (for a government-in-exile or as an overseas slush/defence fund)? What happened to these accounts after 1994?
- Why were Robert and Cora Smit murdered?
- What secret information did Robert Smit have that caused his daughter to still receive death threats 20 years later?

## 7. Corruption under P.W. Botha and F.W. de Klerk

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This section describes some of the many scandals that characterised the presidencies of P.W. Botha (1978–1989) and F.W. de Klerk (1989–1994). It excludes three case studies that are discussed separately because of their importance. They are:

- the Homelands;
- defence spending and the SADF; and
- foreign exchange fraud and sanctions busting.

It is argued that, although the Information Scandal was not the largest financial scandal during apartheid, the NP learnt an important lesson from it, which was about how to cover up information. The eleventh Commandment of the regime would now be strictly followed—‘Don’t get caught’.<sup>88</sup>

Under the leadership of P.W. Botha, an old warmonger and long-time Minister of Defence, the government developed a new over-arching understanding of its relationship with the world. According to this, South Africa was facing a so-called ‘Total Onslaught’ by forces both internal and external that were bent on destroying the regime. This was in part informed by growing internal and external resistance to apartheid by South Africans (at home and in exile) and the international anti-apartheid movement. To counter this a ‘Total National Strategy’ (TNS) would have to be developed. As the 1980s unfolded it was clear that everything that could be part of the TNS became the over-arching focus of the government. As Sampie Terreblanche argues, “If you could make a contribution to the TNS you are in the pound seats. This ideological ploy was a formula for corruption”.<sup>89</sup>

As the former Minister of Defence who had overseen the South African invasion of Angola and later conducted proxy wars in Mozambique and Rhodesia, P.W. Botha employed a policy of ‘co-optive domination’ between 1985 and 1989, in

close collaboration with the SADF. As Botha muscled out the influence of civilian structures such as Parliament, the SADF started to play an increasingly important role within society, occupying townships and exhausting a massive amount of the annual budget in the process.

Having taken over the reins as Executive President in 1981, Botha's so-called Imperial Presidency reigned supreme over the new tricameral Parliament (into which some Coloured and Indian South Africans were co-opted). According to Frederick van Zyl Slabbert, the former leader of the white opposition party, the Progressive Federal Party (PFP), he had made it his business to visit parts of the country and neighbouring states (including the war zone in Northern Namibia) and he realised that the average NP MP had little idea of what was going on.<sup>90</sup>

One of the Botha establishments' pet hates was the press and, in particular, some of the English language newspapers such as the *RDM* (and later, *South*, the *Weekly Mail* and the Afrikaans language weekly, *Vrye Weekblad*), which courageously reported the news that the SABC and other state organs refused to. One of the issues that the *RDM* was not prepared to shy away from was that of corruption. The government, in turn, did battle against the press through censorship or buying journalists as spies at many newspapers. No doubt to the relief of the establishment, the *RDM* was eventually closed down in 1985 by its proprietors, the South African Newspaper Association (later to become Times Media Limited, TML, and today owned by Johnnic). A source has indicated that the *RDM* may have been shut down in favour of 'inducements' offered by the government at the time.

In the early 1980s the Minister of Broadcasting Services, Pik Botha, announced that applications for licences to run a new pay-TV channel would be invited from parties who feared that their businesses might be adversely affected by pay-TV (later to become M-Net). The two leading applicants were Ster-Kinekor (then under Sol Kerzner) and Naspers, on behalf of a consortium of daily and Sunday newspaper proprietors (the ownership was split on the following basis: Naspers 26%, Perskor 24%, TML 24%, *Argus* 24% and *Daily Dispatch* 2%).

After canvassing with Pik Botha, the licence was awarded to the newspaper consortium. This would see the birth of the pay-TV channel M-Net, an entertainment-driven broadcaster (a condition of its licence was that it could not broadcast news). The reason given by Pik Botha was that televised advertising would have an adverse effect on newspapers and it was in South Africa's interests to have a 'dynamic' print industry. However, in the decade after that newspaper advertising volumes grew and they never suffered the loss that was predicted. One question that arose out of the deal is whether the government would have favoured the newspaper consortium had the *RDM*, a voice critical of government, not have been closed down by TML. Was there a trade-off between the newspaper

consortium and government: the licence in exchange for support of government in the 'total onslaught' era? How did the award of the licence to the newspaper consortium affect the income (such as shares) of the newspaper proprietors and directors?

Botha further weakened the general 'accountability' that the white electorate had over the Presidency with the creation in the mid-1980s of the State Security Council (SSC), which came to virtually dominate the country. This group of individuals, largely appointed by Botha, became extremely influential in shaping the country's security policy. Given the importance placed on security by the mid-1980s this translated into policy that would impact on almost all economic, social and political activity in South Africa. The SSC would meet before Cabinet meetings and therefore directly inform Cabinet's thinking. It became an 'insider' group whose hidden hand in guiding white power can probably only be compared with the influence exercised by the Broederbond. The Imperial Presidency, as Botha's tenure became known, therefore intensified the environment for structural corruption. If not benefiting from it directly, Botha and his cohorts ploughed and fertilised the fields in which corruption could grow unabated.

Sampie Terreblanche believes that this:

*...can be regarded as an important episode in the long drama (or tragedy) of white power. However, this method of co-optation did not benefit all whites, but only those members of the elites (of all population groups) who were willing to be co-opted. This development hastened the downfall of the old order.<sup>91</sup>*

Van Zyl Slabbert goes on to explain that, as far as political corruption is concerned, there was an old saying that someone was "taking a brown paper bag to Pretoria," referring to attempts to bribe senior civil servants or Ministers.<sup>92</sup>

Almost non-existent disclosure regulations made it possible for Cabinet Ministers to own more than one home in South Africa and abroad without attracting attention to the fact that they may have been living beyond their supposed financial means.

A number of sources have drawn links with the flight of capital from South Africa, possibly involving members of the Executive as well as Portuguese banks, at a time when it was nearly impossible to remove substantial amounts of foreign exchange from South Africa. Although the validity of such alleged illegal transactions could not be established, there were, of course, legitimate links between Portuguese banks and South African capital. The most prominent was the Bank of Lisbon & SA (acquired by Mercantile Bank in the late 1990s). In *The Rise of the South African Reich* (1969), Brian Bunting draws attention to the fact that three Portuguese banks (including *Banco Nacional Ultramarino*, which primarily traded in Portugal's former colonies in the Far East and Africa), joined together with



General Mining (the first big white Afrikaans mining conglomerate) in 1965 to establish the Bank of Lisbon.<sup>93</sup> This association, especially given the links between General Mining and the Broederbond and the NP, was no doubt politically advantageous to the Bank at various stages in its history. The actions of the Bank's chairperson, Justice Cecil Margo, raised eyebrows in the early 1990s. Margo, (who, among other things, became known for chairing the controversial enquiry into the aeroplane crash that caused the death of Mozambican President Samora Machel), wore another hat while chairing the Board of the Bank of Lisbon, serving simultaneously on the Bench of the Supreme Court. The *Sunday Times* highlights the conflict of interest this created in a 2000 obituary:

*As Judge he heard cases involving the bank...which played a murky role in several highly questionable apartheid era deals...of which he was chairman. There can be little doubt that his authority and stature made it very difficult for people to ask questions about the bank that many feel should have been asked.*<sup>94</sup>

Margo succeeded Portuguese billionaire, Joe Berardo, as Chair of the Bank of Lisbon.<sup>95</sup> Berardo, who once held interests in South African mining, is an internationally recognised art collector and now lives in Madeira. He was also the subject of public attention in 1990 when he was fingered in the van Zyl Commission of Enquiry for illegally exporting 297 extremely rare and endangered species of South African cycads to Funchal, the capital of Madeira. Berardo, who received permission to transport the trees from the Eastern Cape to the Transvaal, shipped them out of the country after having declared to the Reserve Bank that their value was R22,300 (ZAR2005=R104,943). The true purchase price of R285,000 was almost ten times more (ZAR2005=R1,341,202).<sup>96</sup> It can only be speculated that this assisted with ensuring favourable import taxes that may have been levied for the importation of the cycads to Madeira. However, testimony before the Van Zyl Commission also indicated that Berardo's agent in the purchase had, on a number of occasions, used the Minister of Foreign Affairs Pik Botha's name in negotiating the permits—a suggestion that both Botha and Berardo's agent, van Blommenstein, denied at the time.<sup>97</sup> However, it appeared that Pik Botha and Berardo had at some stage developed a cordial relationship. The Madeiran website, [www.madeiraisland.com](http://www.madeiraisland.com), briefly announced in 1998 that Botha had arrived on the island and:

*...was invited for a stay on the island by Multi-Millionaire Joe Berardo... 'Pik' is a very popular personality with the Madeiran community in South Africa and his personal contacts extend beyond Joe Berardo to other prominent Madeiran Businessmen and Leaders.*<sup>98</sup>

However, these questionable relationships between the business and political elite aside, it is important to note that the inner workings of the apartheid state

were fertile ground for corruption. It took considerable infrastructure to create the multiple levels of government required by apartheid laws, such as the Population Registration Act, Section 10 of the Urban Areas Control Act and the Homelands Government Act. Each piece of legislation required a bureaucracy to be created to administer it. The country was divided into the white state and various 'homelands', each with their own bureaucracy. The white state then had its white parliament, coloured and Indian 'parliaments', local councils and black local councils. It was almost impossible to make such a system accountable. As Hyslop argues, corruption at the lower levels of the bureaucracy was intensified by this:

*...Kafkaesque elaboration of the administration of racist legislation, especially the pass laws...Here minor officials, both white and increasingly by the seventies, black, had the opportunity to gouge money out of impoverished migrants.*<sup>99</sup>

As the imperial presidency of P.W. Botha declined in the late 1980s, a series of scandals was revealed in 1989 that threw light on a "R650-million foreign exchange fraud and various other multimillion rand scams. These implicated Cabinet Ministers...MPs, several government departments and multiple rungs of the state bureaucracy".<sup>100</sup> However, it was inconceivable that rot would not set in within a system that had become so bloated with these 'multiple rungs' of structures that it was probably almost impossible to oversee state expenditure with any certainty. O'Meara notes that Botha's 'reform' was no more than 'reform' through bureaucratic proliferation and patronage.<sup>101</sup> He gives an overview of the officialdom that managed the central state and the four 'independent' and six 'self-governing' Bantustans:

*The central government bureaucracy included the departments to manage 'general' (white) affairs as well as three parallel bureaucracies for 'own affairs' [for blacks, coloureds and Indians]. Each of the four 'independent' and six 'self-governing' Bantustans were likewise endowed with 'national' bureaucracies and seconded white officials. Tens upon tens of thousands of additional functionaries served the networks of Regional Services Councils and Local Authorities. Coordinating all of this were the still further parallel bureaucracies of the National Security Management System...By 1988 South Africa was governed by five presidents, nine chief ministers...14 Cabinets or ministerial councils, close to 300 Cabinet ministers, more than 1,500 Members of various Parliament and/or legislative bodies, and literally tens of thousands of local councillors. All were paid by the state.*<sup>102</sup>

It was under these circumstances that F.W. de Klerk would take control of a corrupted state. A career politician, de Klerk had served in Botha's cabinet and

must have been all too familiar with the state of affairs when he took over the State Presidency in 1989. Sampie Terreblanche argues that of all NP leaders, de Klerk presided over the most corrupt period:

*...[it] might have been the most corrupt of them all. The shortage before lending in the budget increased from three to nine percent between 1990 and 1994. Public sector debt increased from R90million [ZAR2005=R198billion] in 1994 to R240 billion [ZAR2005=R486 billion] in 1995 [this includes the debt of the homelands that was incorporated after 1994]. This was the final period of white plunder.<sup>103</sup>*

He adds that by the 1990s:

*the entire bourgeoisie establishment knew that they only had a few years left and they enriched themselves shamelessly. This includes the government bureaucracy and a large segment of Police and Defence Force.*

This is not dissimilar to situations where regimes are about to implode and which see a virtual free-for-all in the run-up to an inevitable regime change. In South Africa by this stage it had become a matter of 'when' and not 'if' a democratic government would be elected. As *Sunday Times* editor, Ken Owen, noted at the time:

*...the prosperity of the mandarins is teaching South Africans of every race, what matters in this game: it is to get your snout into the trough and grab as much as you can get. For the manoeuvrable man with a flexible conscience, this is the time to get yourself elected to some council or other, or to get astride the floods of money that flow from the fiscus, or simply pick up the contracts that flutter like confetti at a wedding in the name of privatisation.<sup>104</sup>*

Hyslop (2005) argues that:

*...once it became clear that the end of white rule was at hand, there was a rush to grab as much in the way of spoils as possible before the curtain came down. De Klerk shut down the Department of Development Aid in 1991, after a commission under Judge Pickard found that it was a swamp of corruption. Pickard wrote that 'public officials felt they were missing out if they were not helping themselves' and noted significantly that 'many of these officials had become disillusioned by their futile efforts to serve apartheid ideology'. Similarly, an enquiry into the Department of Education and Training found the department riddled with 'corruption, fraud, bribery, kickbacks...and a general lack of accountability'.<sup>105</sup>*

Speaking at a conference on Public Sector Ethics in 1989, Justice Victor Hiemstra exclaimed that:

*There is a strange atmosphere in the land, as if people have no faith in the future and consequently want, as soon as possible, to make as much money as possible. By the time they are discovered, so they reason, the whole affair would have collapsed anyway...an atmosphere of let us eat, drink and be merry for tomorrow we die.<sup>106</sup>*

When the scale of this abuse had become clear, the media, which gradually operated in a slightly more open environment, reported on some of these instances of state plunder. Some illustrative examples are listed below. They exclude the issues of defence, homelands and foreign exchange fraud that are discussed in the next section:

- The electricity monopoly, Escom/Eskom, lost “hundreds of millions of rands in secret overseas deals” by the mid-1980s, according to former accountant, Dr. Gert Rademeyer. In just one nuclear energy deal that turned sour Escom lost R67 million (ZAR2005= R490 million).<sup>107</sup>
- By 1988 a total of R130 million (ZAR= R540 million) was being investigated by the Attorney-General in the Transvaal alone.<sup>108</sup>
- The Auditor-General released a damning report on the House of Representatives in 1990, claiming millions of rands had been misused or stolen.<sup>109</sup>
- The government continued its funding of secret front companies well into the early 1990s. One such example, Project Crist, saw millions of rands transferred abroad to launch anti-ANC publications. The head of the outfit, Abel Rudman, later declared to the *Weekly Mail* that:

*Volkscas Bank was intimately involved in the transfer of secret funds and its International Department transferred over R2,3 million [ZAR2005= R8,3 million] from its accounts in London to an investment front company.<sup>110</sup>*

- In 1992, the Department of Development Aid was in the spotlight when a manager of the Consultative Forum on Drought stated that it was:

*...impossible to say how much of the R1,4 billion [ZAR2005= R3,9 billion] allocated by government to drought [relief] had been misspent because of a total lack of transparency and the poor accounting procedures of homeland governments.<sup>111</sup>*

- A secret Department of Education and Training project was funded by subsidies for farm schools “in order to pay for printing work done by Pretoria publishers Thinus Strydom, son of the Department’s Deputy Director-

General”.<sup>112</sup> Evidence in front of the van der Heever Commission suggested that part of the R46,000 (ZAR2005= R190,000) bill was paid in that way. Strydom prepared “dummy quotations on fake letterheads” and received work worth more than R2 million (ZAR2005= R8,4 million) in two years.

However, large scale corruption was not only a problem in the public sector: it affected the private sector as well:

- Standard Bank Investment Corporation’s chairman, Henri de Villiers, called for strenuous measures to eradicate corrupt practices in public life, noting that in 1989, “the disturbing decline in standards of business morality” in South Africa.<sup>113</sup>
- In 1990, Dr. Raymond Korbin, an East Rand doctor, was shot in the head and dumped in the boot of his car. He had been investigating a cartel which he believed controlled the pharmaceutical industry in South Africa and his death took place a month after he showed a draft of the report to the *Sunday Times*.<sup>114</sup> This case has a chilling echo in December 2004, when Mpumalanga official, Andrew Tladi, was shot and dumped in the boot of his car. At the time he was investigating corruption in multi-million rand tenders that had been awarded by the Mpumalanga Department of Health.<sup>115</sup>
- According to Witwatersrand Attorney-General, Klaus von Lieres, by 1992 “economic crime seemed to enter a bull phase”. He disclosed that reported fraud complaints increased from 33,101 in 1986 to 58,572 in 1992, an increase of almost 80%. During this period all serious crime also increased by 20%.<sup>116</sup>
- In 1993 the South African Chamber of Commerce estimated that economic crime was costing the country R5 billion per year (ZAR2005= R12,1 billion).<sup>117</sup>
- The Masterbond scam was one of the biggest private sector collapses to hit apartheid South Africa. An investment scheme, it took with it the savings of almost 22,000 lower-middle income earners, leaving many destitute (a number subsequently committed suicide). The auditing firm Ernst & Young may still be prosecuted for its failure to take appropriate action when it saw that the investments were in trouble. In 1996 it paid R40 million (ZAR2005= R76 million), without admitting guilt, of a total of R600 million (ZAR2005= R1,3 billion) that was lost at the time.<sup>118</sup> (For more detail see Section 9.)

These are only a handful of indicators pointing towards the extent and scale of corruption facing the apartheid state. This was probably only the tip of the iceberg given that some departments, such as Defence, had access to a R10 billion secret account by the early 1990s.<sup>119</sup> As the old guard was preparing to abandon ship there were also moves afoot to privatise parastatals such as the SABC and ISCOR.

It is also believed that there was a rush of long-term contracts entered into at the time with various service providers that would tie the new government's hands for some years to come.

Had sanctions and the liberation movement brought the country to its knees or was it a case, as Ken Owen argued, that F.W. de Klerk was brought to the negotiating table by "the bankruptcy of a nation that had been looted until it could no longer honour its debts"?<sup>120</sup> Owen goes on to argue that we "owe our liberation, really, to greed". This is clearly true in part; however, liberation was brought about by a number of factors including internal and external struggle. Corruption, on the other hand, became the drug of choice for a regime intent on self-destruction. It had the predictable consequence of severely damaging society as a whole and not only the incumbent political elite.

Looking back, Sampie Terreblanche remarks that:

*With the wisdom of hindsight, we now realise that the structural corruption that took hold in the public sector and in the dealings between the public and private sector in the 15 years before 1994 was far more serious than was appreciated at the time and the long-term effects were extremely damaging. When the democratically elected government assumed power in 1994, corruption in the private sector proved to be really 'structural' or 'endemic'.<sup>121</sup>*

**This section raises some important questions:**

- Given the massive amount of corruption taking place in the period 1978–1994, was self-enrichment not taking place at all levels of government?
- If so, were there ever investigations into the assets and property owned by leaders in the Botha and de Klerk Cabinets (both in South Africa and abroad)?
- What knowledge did leaders in government and the private banks have of corruption within their own ranks that was never disclosed?
- What was the true extent of secret funds and deals used to silence the press in the 1990s?
- How much money was lost by the public sector in this period?
- How much money was lost by the private sector in this period?
- How much of the money lost to corruption was ever recouped?

## 8. The security state

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*When statesmen were allowed to practice deception with impunity, national integrity was corrupted. Innumerable lives were thrown away by waging unwarranted wars on false premises. The State itself became corrupt.*<sup>122</sup>

Nelson Mandela (1998)

In the previous section the rise of the security state under P.W. Botha was discussed as well as the impact of the resultant culture of secrecy on the South African state. This section deals with some of the key elements linked to the militarisation of the apartheid state and the alleged links to elite plunder. These include:

- the production and procurement of arms: Armscor and sanctions busting;
- the role of the SADF in corruption: the case of ivory; and
- covert projects and covert profits: the CCB and other operations.

### 8.1 The production and procurement of arms: Armscor and sanctions busting

The arms industry is one of the murkiest in the world with kickbacks, commissions and bribes being accepted as the norm. The cost of such 'sweeteners' increase dramatically when a country that sells or produces arms is under an international arms embargo. The UN placed South Africa under an arms embargo (together with a restriction on the sale of oil to the country) in 1977. For nearly two decades South Africa's strategy was to develop a massive domestic arms industry through large-scale subsidisation, while continuing to procure all essential weapons material abroad, at a premium, from countries and middlemen who were prepared to bust the embargo. The country probably paid a hefty financial price for such sanctions busting.

As will be discussed in a later section on oil, sanctions busting only increases the opportunity for graft, as monies have to be paid to middlemen who demand even heftier commissions to acquire weapons when the client is a 'rogue state'. In turn, the local officials who are entrusted with this task of procuring weapons have an almost unique opportunity to inflate the prices they have been quoted and keep the change or possibly split it with weapons suppliers, who inflate their prices accordingly. As has been mentioned earlier, the secret defence fund probably paid for many illegal expenses that we have little knowledge of today. The secret defence fund is reported to have been allocated between R4 billion<sup>123</sup> and R10 billion per annum by the state (approximately R20–R30 billion in 2005 rand value), which would have been used to buy weapons and fund various covert activities such as the Department of Information in the 1970s and the CCB hit-squads in the 1980s and early 1990s.

According to Jacklyn de Kock, the estimated defence budget in 1986 was R6,8 billion (ZAR2005= R44 billion).<sup>124</sup> However, she argues that most analysts felt that it was much higher and could have been closer to R15 billion (ZAR2005= R70 billion), translating into 28% of the national budget by 1988. With such amounts of money the propensity grows for officials to use the cloak of secrecy for private enrichment.

An area of massive expenditure was also the country's nuclear weapons programme. According to Dr. Garth Shelton, South Africa's nuclear weapons programme consumed an enormous amount of state funding, totalling approximately \$5 billion (quoting a figure published in 1994<sup>125</sup>). When this is translated into 2005 monetary terms it translates to over R22 billion. He goes on to add that the real figure is probably double that if secret defence funds and the nuclear research and enrichment programme are included (bringing the value to over R44 billion at 2005 prices). The sole known output of the programme—six nuclear weapons—were destroyed in the early 1990s on the orders of F.W. de Klerk. The amount of money available for developing such secret technologies must have meant that these were also open to abuse by those in a position of power within the defence establishment.

Central to the procurement and sale of weapons was Armscor, which had become the country's largest exporter of manufactured goods by the mid-1980s. Armscor did not make a submission to the TRC and therefore little is known about its business dealings during apartheid. What is known is that it used approximately 1,500 private sector sub-contractors who had become important players in the siege economy.<sup>126</sup> According to Prof. Sampie Terreblanche, big business profited from Armscor and many private businesses were effectively subsidised by government through Armscor.<sup>127</sup>



In many instances businesses not only profited from the sale of goods to Armscor, but also from investments Armscor made in their businesses thereby subsidising the development of weapons that could be sold for profit on the international market. According to a former employee in the arms industry, Mr. Fritz Louw, one company he worked for was allegedly involved in such activities.<sup>128</sup> Louw, a former employee in African Defence Systems (ADS), was involved as an engineer in upgrading the Cactus (Crotale) missile system. ADS was a subsidiary of Bill Venter's Allied Electronics Group (Altech) at the time and is now owned by the French company, Thomson CSF (Thales), which has more recently been linked to alleged corruption in the South African post-apartheid arms deal. According to Louw he was originally employed in 1992 by an Altron subsidiary called Teklogic (later to become ADS), which was updating the technical requirement of the Cactus missile. Louw was aware that the French (as original developers of the missile technology) were supplying the various technical specifications or codes as required in return for payment by Teklogic. This all took place in contravention of the arms embargo and Armscor is alleged to have carried the cost of acquiring this information. According to Louw, ADS could then sell the technology on the international market, while the South African public had effectively subsidised the development of the technology without seeing any monetary profits from the sale.<sup>129</sup> If what Louw alleges happened at Teklogic it is likely that this was a common practice across the arms industry.

## 8.2 The role of the SADF in corruption: The case of ivory

*During the period from 1975–1987, there was large scale destruction of wildlife including elephant and rhinoceros in Angola and Northern Namibia as a result of civil strife...During the period from mid-1978 to about 1986 the South African Defence Force (Military Intelligence Division) officially, though covertly, participated in the illicit possession and transportation of ivory and rhino horn from Angola and Namibia to the RSA. Originally the SADF was directly involved and at a later stage collaborated with its 'front company', Framma Inter-Trading (Pty) Ltd., in continuing such illicit handling of ivory and rhino horn.*

Kumleben Commission of Enquiry, 1996<sup>130</sup>

The SADF, under the leadership of P.W. Botha in the 1970s and later under General Magnus Malan, openly supported Jonas Savimbi's rebel Unita movement in South Western Angola from the mid-1970s until the late 1980s. This took the form of direct military intervention (attacks) in Angola on civilians, the Angolan military as well as SWAPO and ANC freedom fighters. The SADF also assisted Savimbi

by supplying him with a generous annual budget, weapons and military support in his battle against the Angolan government.

By the late 1980s news began to trickle out that the SADF (and possibly senior SADF personnel) may have been involved in profiteering while waging war. In 1988 a US environmentalist, Craig van Note, testified before the US House of Representatives that senior members of the SADF and the government were involved in Africa's biggest ivory smuggling ring, which had slaughtered almost 100,000 elephants to help finance the civil war in Angola and Mozambique.<sup>131</sup> The tusks were being smuggled through South Africa, Burundi and Zaire (the Democratic Republic of Congo) for resale abroad. These allegations led to a commission of enquiry that cleared the SADF of any involvement. However, the Kumleben Commission appointed after 1994 found substantial proof of SADF involvement in the ivory trade through a front company, Frama Inter-Trading, which was later supposedly privatised.

One person who witnessed the wholesale slaughter of Angolan wildlife, and was prepared to talk out about it, was Colonel Jan Breytenbach. Among other things, he founded the SADF's 32 Battalion and spent a large part of his career in the SADF based in north-eastern Namibia. Breytenbach eventually wrote a book, *Eden's Exiles*, which presents an account of his experience during that time.

In an interview Breytenbach described what he witnessed while based in the Caprivi in the late 1980s.<sup>132</sup> Breytenbach saw the bush, which was teeming with wildlife in the 1970s, turn into a "green lifeless desert" by the 1980s. He received reports from informants in south-eastern Angola and Caprivi that animals such as rhino had been shot almost to extinction. Simultaneously he also learnt of reports of soldiers coming across ammunition boxes full of ivory, either in transit to South Africa or waiting for transport at SADF military bases.

South West African Nature Conservation set up roadblocks at that time and began coming across cars carrying Kiaat wood and some ivory as well. Rumour also had it that there was an ivory 'pipeline' that members of the SADF were using to channel diamonds (from Angola) and drugs (primarily mandrax) from Zambia.

When Breytenbach attempted to raise his concerns with a number of senior officers he was effectively blocked. However, he realised that there was more at play when at least two people investigating the matter died mysteriously:

- Captain Hennie Brink of the Diamond Branch in the South West African Police met with Breytenbach and confirmed that a number of people were involved in the ivory trade—some potentially higher than the generals. It was then that Breytenbach realised that ivory smuggling was organised at the highest level. Brink, who some time thereafter (1989/1990) died in a car accident, maintained that the ivory hunting operation had been knocked

together at a ministerial level and would have to have been a joint operation between the military and the administration. In order to get tusks registered in South Africa there would have had to be co-operation with the Northern Transvaal Nature Conservation Department (whose responsibility this was at the time). To facilitate this it would require a man with power, such as General Magnus Malan, the Minister of Defence, or somebody else with equal rank.

- There are further allegations that before Brink investigated the matter a Nature Conservation official (Muller or Mulder), who had also been investigating the ivory trade, was killed in a car accident. Breytenbach alleges that a friend of his in Nature Conservation, Manie Grobler, was played an audio tape recording that implicated the military in smuggling ivory. The tape contained incriminating evidence and Grobler told Muller to make a duplicate copy as soon as possible. Muller then placed the tape in his briefcase and left by car to Grootfontein from Rundu where he was to hand the tape over to another official. Before he could do this he was killed when he drove into a large grader that pulled out in front of him. When Muller's contact in Grootfontein heard about the accident he rushed to the scene but the briefcase containing the evidence had disappeared.

According to official SADF accounts, the money that would have been recouped from the sale of ivory would flow back into funding the Unita rebels. However, Breytenbach knew that in the year 1986/1987 alone, the SADF's assistance to Unita through military intelligence totalled R400 million (ZAR2005= R2,5 billion) and this excluded the supply of almost all Unita's hardware and fuel. It is therefore unlikely that this was the reason behind the SADF's interest in ivory smuggling. It is more likely that the potential for self-enrichment that this presented to SADF officers was enormous. General Chris Thirion, Former Deputy Chief of Staff Intelligence, agrees and suspects that Savimbi was in fact over-funded at the time.<sup>133</sup>

Stefaans Brummer, an investigative journalist, compares the access that the SADF had to diamonds and ivory in Unita territory to the mining concessions provided to the Zimbabwean government and generals who were involved in supporting Josef Kabila's government in the DRC.<sup>134</sup> General Thirion also points out that numerous highly placed generals were allegedly invited to hunting parties in Angola at the state's expense (directly or via Unita). The excuse used was that they were Jonas Savimbi's guests. Savimbi had started to develop a personal relationship with many highly placed SA military officials and had ways of thanking them for fighting his battles in Angola (and in South Africa, with the South African securocrats).

General Thirion, who is very clear that he refused to touch a diamond or any ivory while in the SADF, maintains that there were many honest members of the

SADF, such as General Constand Viljoen. However, he acknowledges that there may have been others who were less honest. According to Thirion, when he was employed as Director of Foreign Liaison in Pretoria towards the end of his career in the SADF (1990/1992) he went through the inventory of SADF gifts (usually purchased for visitors to the SADF) and found that a lot of items had not been given away. Soon thereafter he visited the Military Intelligence stores to decide what should be written off. He then stumbled across four to six large elephant tusks but nobody could tell him where they were from and what they were meant for. According to Thirion:

*I instructed officers working for me to find out who in the SAP we must speak to, which we did. The SAP came and I handed the ivory over to them and it was then given to Nature Conservation. Some people were very angry when they heard about this... This does not confirm they were involved in anything but it was a strange reaction.<sup>135</sup>*

This does not prove anything other than the fact that the ivory was not necessarily all sold off to aid Unita. Whoever kept the ivory in the Military Intelligence stores may have had more to hide.

***This section raises some important questions:***

- What measures were ever taken to investigate which SADF or SANDF members were involved in ivory smuggling?
- Were there ever any successful prosecutions of these individuals?
- Would the Minister of Defence at the time (Magnus Malan) have been aware of such smuggling operations if they were intended to subsidise UNITA?

### 8.3 Covert projects and covert profits: The CCB and other operations

*...the recent history of South Africa shows clearly how the pursuit of state interests by covert or clandestine means, and the provision of funds or the implementation of plans which are not publicly accountable, encouraged the growth of corruption in South Africa and elsewhere.*

Stephen Ellis, *Africa and International Corruption*, 1998<sup>136</sup>

This section probes the secret funding by the state of various covert units within the SADF and other state structures (such as the Police), which were designed to

murder, steal, spread propaganda and buy political influence on the instruction of the security state. The details of these intrigues only became public in the 1990s through the work of investigative journalists, whistleblowers, commissions of enquiry and, finally, the TRC. This section focuses on the following elements of South Africa's covert war:

- investigations into secret funds by the TRC;
- the CCB;
- covert funding and 'Dr Death' (Wouter Basson);
- Operation Marion (KwaZulu); and
- covert theft.

### 8.3.1 Investigations into secret funds by the TRC

The architects of South Africa's secret propaganda and death squads system required access to large sums of money to realise their ambitions. Such money could not be tied to any oversight from Parliament and at best, could allow for only cursory oversight by the office of the Auditor-General. The roots of such funding can no doubt be traced to the infamous 'Z-Squad,' alleged to have carried out covert operations and murders for BOSS under Hendrik van der Bergh.

Secret funds were not only used to murder opponents of the state, they were also crucial in 'buying off' others. They were possibly used to corrupt foreign officials or political parties and were certainly used to assist with various forms of sanctions busting. The sanctions-busting operations were primarily focused on economic sanctions but included operations such as covert funding of the 1989/1990 English Cricket Tour of South Africa.

The TRC probed the use of secret funding (1996–1998) to promote the policies of the former state and to fund operations directed against the opponents of apartheid. In its report on these investigations, it found that:

*The need clearly exists for the President to appoint an appropriate committee to enquire further into covert funding—not least with a view to ensuring that, where possible, funds in covert accounts are paid back to the treasury.<sup>137</sup>*

It adds that better management of such funds is required in future:

*Where such funding continues to be absolutely necessary, clear guidelines need to be put in place and the nature and extent of such funding reported to Parliament on a regular basis. This requires an evaluation of existing structures and regulations governing the use of secret funds.<sup>138</sup>*

At the outset of its investigation the TRC requested the Auditor-General to provide a report on the auditing of all secret funds from 1960–1994. Many of the relevant departments informed the Auditor-General that much of the documentation had

been destroyed in accordance with various approved procedures—a fact that no doubt hampered the work of the Auditor-General tremendously.<sup>139</sup> In addition, it was ascertained that there had been no auditing of secret accounts before 1979 when Parliament ordered this in the wake of the Information Scandal. Where audits did take place, the Auditor-General’s level of probity was limited as he was only allowed to carry out audits after 1979 and certain special accounts still remained classified for a number of years.

According to information that TRC was able to collect, it ascertained that secret funds had been transferred to various departments between 1978 and 1994 by the Treasury and later the Department of State Expenditure. These funds are listed below. The amount allocated to the Defence Special Account is particularly noteworthy.

Please note the ZAR 2005 value is calculated against the 1986 value of the rand. This date is used as it falls in the middle of the period under review and attempts to compensate for the massive currency fluctuations during the period 1978–1994:

Table 1: Estimated value of allocated secret funds by department (1978–1994):		
Department/account	Value estimated by the Auditor-General	ZAR 2005 value (based on 1986 value)
SADF Defence Special Account	R49,648,737,696	R320 billion
National Intelligence	R2,279,261,995	R14,70 billion
SAP	R289,907,000	R1,58 billion
Foreign Affairs	R79,434,205	R0,515 billion
South African Information Services	R60,240,017	R0,391 billion
Finance	R18,138,112	R0,117 billion
SADF	R15,285,000	R0,099 billion
National Education	R8,768,841	R0,056 billion
Bantu Administration	R6,000	R39 thousand
<b>TOTAL</b>	<b>R52,399,778,866</b> (over R52,3 billion)	<b>+ - R339,19 billion</b>

The staggering figure of R339,19 billion is approximately equal the amount the modern South African state spends on procurement over a two-year period, or marginally less than the annual budget as presented by the Minister of Finance to Parliament. When reading this balance sheet together with the lack of oversight over these funds, it is clear that tremendous opportunity existed for abuse of such funds. Even if 1% of the 2005 value of the budget was lost through corruption and fraud it would mean that a handful of individuals are in possession of almost R3,39 billion in current value. Given the secret nature of the accounts and lack of oversight the figure could conceivably be five to ten times as high.

The SADF Defence Secret Account stands head and shoulders above the rest in terms of its total value and many other departments would turn to it for additional funding for covert operations. The Auditor-General found that the Department of Foreign Affairs (under the helm of Pik Botha for much of the time), spent R210,087,535.32 (ZAR2005= R1,36 billion) “for control of sanctions and disinvestment out of secret funds” in a total of 417 projects.<sup>140</sup>

Given the inherent limitations in auditing these figures, the Auditor-General could not guarantee their accuracy. They could be lower or, more likely, higher.

The TRC did make some important recommendations with regards to secret funds:

- *Secret funding was inadequately administered and audited—although attempts were made after 1991, through the Kahn commission, the ministers’ committee on special projects and the evaluation commission, to redress this situation.*
- *Initiatives undertaken by the Auditor-General’s office to execute a more precise audit were hampered by legislative constraints and a ‘need-to-know’ milieu which prevailed in state departments, as well as by the refusal of some state officials dealing with secret funds to provide the documentation and other information needed for auditing purposes.*
- *Agents and state employees working on secret projects received financial and other settlements when specific secret projects were terminated, which should be regarded at least as morally questionable.*
- *Funding through the special defence account in particular was not subject to adequate auditing until at least the 1985–86 financial year.*
- *The funding of CCB activities was at no time subjected to an adequate audit.*
- *Questions remain as to both the activities and financial resolution of several projects. In particular, the issue regarding the use made of the large sum of money located in a foreign trust account is outstanding. It*

*is suggested that the assets of the trust were in the vicinity of R20 million [ZAR2005=R44 million; USD-Bank=R55 million; US-NYSE2005=R111 million], after the payment of recommended settlements.*

- *The commission finds that insufficient information is presently available to describe these projects adequately and recommends that further research and investigation be done into these secret projects to establish a fuller picture of their range of activities.<sup>141</sup>*

### 8.3.2 The CCB

Shortly after F.W. de Klerk announced key political reforms in February 1990, Nelson Mandela described the existence of a 'third force' in South Africa bent on destabilising the process of negotiation and killing innocent civilians. It would take seven years before South Africans had a better (although some argue, still opaque) understanding of the range of activities the state-funded terror squads were involved in. Almost all the seurocrats and military men denied a third force's existence following exposures in newspapers such as the *Vrye Weekblad* and *Weekly Mail*. They would go on to try and sue the independent newspapers into silence, betting that the 1991 Harms Commission (widely regarded as a whitewash of true events) would reveal little. However, through the Goldstone Commission (1993) and efforts by investigative journalists the story remained alive until the TRC dealt with this chapter of South Africa's history in some detail. Names such as Eugene de Kock became closely associated with one of the many front companies employed by the security establishment to fight white South Africa's dirty war in South Africa and abroad. However, the Generals and senior politicians effectively walked free while de Kock and some of his cohorts were prosecuted and imprisoned.

By the time F.W. de Klerk publicly called a halt to funding of covert operations in 1990 an industry had been spawned out of the business of duplicity. At the helm were the Chief of Staff Intelligence and the CCB, which had set up hundreds of companies that were involved in anything from state propaganda and weapons trading to peddling in political influence.<sup>142</sup> They could hire hit men and bribe politicians and had essentially become a law unto themselves. Old Military Intelligence documents that formed part of the Steyn Report to the State President (located in the South African History Archive's TRC collection) describe an increasing state of paranoia even among the military intelligence establishment as to the impact that the CCB and others could have on the negotiations process.<sup>143</sup> When the SADF first admitted the existence of the CCB, the Chief of the SADF, General Geldenhuys, indicated that 0,28% of the annual defence budget was allocated to it.<sup>144</sup> This equalled approximately R28 million per annum



(ZAR2005= R116 million per annum), which was likely to exclude supplementary funding received from the secret defence budget at the time.

According to Jaques Pauw, if Parliament had controlled the funds available to the SADF, it is unlikely that the CCB would ever have existed. He adds that:

*...the Botha era left South Africa with a Defence Force which had become a law unto itself—a state within a state, owing accountability to nobody and wasting millions of rands.*<sup>145</sup>

For operations outside the borders of South Africa the CCB and other covert operations required vast amounts of money to be moved offshore. Given the country's strict foreign exchange regulations at the time it is unclear which public officials/bodies (in and outside of the security establishment) would have sanctioned and facilitated the movement of funds offshore.

Given the secret nature of its activities and the high risk of corruption, one would have accepted the senior Defence establishment to entrust its money to reliable individuals. A number of CCB operatives were highly trained soldiers and policemen. Others, however, were convicted murderers, such as CCB bookkeeper Theuns Kruger.<sup>146</sup> The lack of any effective control measures is exemplified in the fact that before 1986, CCB members were handed huge wads of cash purely on the basis of trust. This changed when an operative took R480,000 (ZAR2005= R3,1 million) meant for a secret mission and gambled it on the famed Swazi roulette wheels.<sup>147</sup> We are unlikely to ever be able to establish how many other operatives invested CCB money in get-rich-quick schemes, or simply stole them. Many could also have made use of the financial rand to return money to South Africa that had been taken out on the commercial rand, through front companies. Since the financial rand was valued at four times the commercial rand value, such 'round tripping' would have ensured a healthy return on an illegal 'investment'. A report of the Auditor-General found that R12,5 million (ZAR2005= R45 million) spent on CCB projects between 1988 and 1990 was unauthorised.<sup>148</sup> The Chief of the Defence Force sent him documentation that stated that expenditure had been approved in advance—a highly questionable practice, which the Auditor-General accepted. At the same time he noted that he had:

*...a strong suspicion that virtually everything my audit team sought was/is in fact available in writing somewhere but that the archives have been selectively and purposefully withheld or destroyed.*<sup>149</sup>

In contrast, if a post-apartheid-era Auditor-General displayed such simple trust in those s/he suspected of destroying records it would earn a public outcry—such were the standards of oversight over expenditure of public funds in apartheid South Africa.

Even after de Klerk had supposedly shut the CCB down (and stopped all other covert funding in March 1990), Magnus Malan is alleged to have authorised a further payment of approximately R9 million (ZAR2005=R21 million) to the CCB between April and July 1990.<sup>150</sup> In 1991 the *Weekly Mail* broke the news that the SAP had been covertly funding Inkatha Freedom Party rallies and that the SADF had been involved in the training of IFP soldiers in Namibia.<sup>151</sup>

The legacy left by the CCB can be traced to both the untold suffering it caused and the many front companies it spawned. In an interview journalist Jaques Pauw, who first exposed many of the CCB activities with the help of CCB turncoat Dirk Coetzee, recounts an experience when he was handed a US\$100 bill to look at by (ex-CCB operative) Ferdie Barnard.<sup>152</sup> It was counterfeit but looked so genuine that only an expert could tell the difference. According to Pauw, before Vlakplaas was finally disbanded in 1992/1993 it had a 'money-machine'. It is believed that one of the fathers of the Vlakplaas members worked at the South African Mint and had produced plates for Vlakplaas to use in making US dollars. When Vlakplaas was disbanded the 'money-machine' disappeared and may have been used to print cash for private gain. At the time (the mid-1990s) the continent was awash with fake dollars and the US Federal Bureau of Investigation (FBI) was allegedly so worried about this development that they came to see South African officials to discuss the matter.

### 8.3.3 'Dr Death' and Project Coast

On 20 October 2005 Dr Wouter Basson—the man who will be remembered by many South Africans and Namibians as 'Dr Death'—was a free man. After nearly seven years of attempts spearheaded by the NPA to pin a guilty verdict on Basson, the former head of the apartheid regime's Chemical and Biological Warfare (CBW) Programme won his court battles. He could now return to live out his life in the leafy suburbs of Pretoria, like so many implicated in apartheid-era crimes against humanity. The courts found him not guilty on almost all of the 67 charges of murder, drug trafficking, fraud and theft brought against him. Following a Constitutional Court judgment the NPA concluded that a fresh prosecution was not permissible under South African law.<sup>153</sup>

Basson was originally acquitted on 46 charges in 2002 by Justice Willie Hartzenberg in the Pretoria High Court. The state felt that Judge Hartzenberg was biased (he has a reputation as a conservative judge) and took the matter on appeal to the Constitutional Court, requesting a retrial. The Constitutional Court found that Hartzenberg had not been biased but did agree that he had made some incorrect findings.<sup>154</sup>

The state built up an enormous amount of evidence in the course of the trial, which highlight the manner in which secret funds were used to purchase front

houses, take trips abroad on private jets and purchase equipment (such as chemical warfare suits) that was allegedly never used and may have been sold for private gain at the time of the first US invasion of Iraq in 1990/1991.<sup>155</sup>

Authors Chandre Gould and Marlene Burger give an excellent account of the dealings that Basson and his cronies were allegedly involved in during the almost dozen years (1980–1992) that he headed up the SADF’s CBW Programme.<sup>156</sup> The infamous Project Coast was a product of the CBW Programme and manufactured poisons, drugs and other chemical agents for use in apartheid’s war. There were allegations that SWAPO fighters were drugged and dumped from helicopters over Namibia’s Skeleton Coast. Throughout this period Basson and others lived a life of luxury, moving between large homes and private jets. They were, to an extent, a law unto themselves with little effective oversight over the way in which funds were spent.

In an interview researcher and CBW expert Chandre Gould questions the entire plausibility of the CBW programme, believing that “it made no sense in the first place”. She argues:

*Why spend R10 million on a programme that one effectively has in place already? There was no assessment of biological threat. There was no need for specialised crowd control, they already had CS gas (tear gas).<sup>157</sup>*

Gould goes on to argue that this begs the question, “Was it about satisfying personal ambition—or was it about self-enrichment?” Unless the NPA finds new evidence that could lead to a further prosecution, Gould’s question will remain unanswered.

#### 8.3.4 Operation Marion

The CCB and Wouter Basson’s Project Coast are only two examples of covert funding of security operations. In KwaZulu-Natal a special investigations unit was established in the mid-1990s to investigate hit squads in the security forces. Its focus was support provided by the SADF to the Inkatha Freedom Party and the KwaZulu Police for the creation of hit squad capacities and the implementation of other political actions. In March 1997 Howard Varney, convener of the Investigation Task Board, submitted a report of the Board’s findings to the Minister of Safety and Security and the President before it was passed on to the TRC. The report, entitled *The Role of the Former State in Political Violence, Operation Marion: A Case Study*, is an analysis of the body of evidence produced by one of the enquiries of the Investigation Task Unit.

Secrecy, as shown elsewhere, provides opportunities for corrupt activity. Although there is no proof (or allegation for that matter) of corruption in Operation Marion, the case study does show the environment it created, which was potentially

open to abuse. All effort was made to distance Pretoria's funding of Operation Marion from the KwaZulu government of Chief Minister Mangosuthu Buthelezi. A report presented at a State Security Council (SSC) sub-committee in January 1986 notes that:

- i) Chief Buthelezi is concerned that open special support will destroy his political credibility, therefore it must be 'considered and discussed with him thoroughly'. He must not be seen as a 'puppet of the RSA govt'.*
- ii) The project must be carried out on a 'need-to-know basis'.*
- iv) The impression to the outside must be that the capabilities provided came out of their own resources.*
- v) Funds must be channeled through the Treasury in a way that it cannot be traced back to state depts.<sup>158</sup>*

A premium was placed on secrecy and this shows the difficulty in controlling the actual expenditure of funds. The financial aspects of Operation Marion (which ran between 1986 and 1992) provide details of secret funding channeled to the IFP and operatives on the ground in a way that could not be traced back to state departments. According to State Security Council Sub-Committee Minutes (15 January, 1986), the budget of the project for the 1986/1987 financial year totaled R19,5 million (ZAR2005= R126,5 million).<sup>159</sup> This excluded the establishment of offices, which the government of KwaZulu had to provide. Even though the funding would have been wound down from 1989 into the early 1990s, the sums of money spent were large and could have run into many hundreds of millions of rands over a very short period. This excludes money that the report says was secretly channeled through Armscor for the purposes of supplying arms and ammunition.

#### 8.3.5 Covert theft

When not collecting vast sums of money through state budgetary allocations, it appears that covert operatives were not beyond stealing foreign funds. In his amnesty application to the TRC, Marthinus Ras, a former Vlakplaas warrant officer, indicated that "P.W. Botha personally ordered money destined for the African National Congress and 'leftist' organisations from overseas to be intercepted and channelled into state coffers".<sup>160</sup>

A similar allegation was made by Dirk Coetzee (former Apartheid hitman turned whistleblower) in 1996 that apartheid's 'super spy' (and later Angolan diamond dealer), Craig Williamson, stole millions of rands from the Swedish International University and Aid Fund when he infiltrated the ANC on behalf of the regime.<sup>161</sup>

According to Coetzee the money was used to buy Daisy Farm, 15km from Vlakplaas and close to the Pelindaba nuclear facility. Coetzee alleges international assassinations were planned from there including that of vocal apartheid critic, Olof Palme, the Swedish Prime Minister, who was assassinated in the 1980s.<sup>162</sup> A week before Coetzee's revelations, former CCB operative Eugene de Kock is reported to have made allegations in the Pretoria High Court that Williamson was involved in the Palme assassinations and others.<sup>163</sup> Williamson denied any involvement in the Palme assassination at the time.<sup>164</sup> If there is any truth to these allegations it would mean that monies stolen from Sweden may have been used to assist in plotting Palme's death—a macabre twist.

***This section raises some important questions:***

- Has the R20 million identified by the TRC as being held in a foreign trust been returned to South Africa?
- Was the TRC recommendation of further investigation into secret funds ever followed up?
- What has happened to all the companies that formed part of the CCB and other covert operations?
- If any are still in operation should they not be closed down and the money returned to the state?
- How did the CCB and other secret operations manage to move money outside of the country? To what extent were currency regulations broken in the process and who outside the police/military establishment was aware thereof?
- How much of the CCB's funds for its operations outside of the country (especially Europe) have been accounted for adequately?
- What happened to the alleged CCB 'money machine'?
- Were covert funding operations, such as Operation Marion in KwaZulu, thoroughly probed to trace the use of funds?
- Were any of the funds stolen by covert operatives returned to their rightful owners?

## 9. Crime, capital and apartheid

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*South Africa (in 1987) is one the few countries in which there is no control whatsoever over foreign capital...any foreigner can, with no restrictions, either bring money into South Africa—whether it is hot or not, does not matter—bring it in, or take it out. There is no restriction whatsoever on the flow of capital...*

General Tienie Groenewald, former Head of South African Military Intelligence, 1987<sup>165</sup>

*There is a tradition of corruption in South Africa and it's a white tradition. If we want to tackle corruption we have to realise that big business came to do business in a certain way and it will take time to reverse that...the macro-economic co-operation between business and apartheid regime was a common conspiracy.*

Prof. Andre Thomoshausen, UNISA, 2005<sup>166</sup>

As explained in earlier sections the South African economy had developed the characteristics of a siege economy by the 1980s. This was precipitated by the UN-imposed economic sanctions starting in 1977 that focused on the export of arms and oil to South Africa. The country could develop the infrastructure to produce much of its weaponry locally but the South African economy ran on oil and Sasol's 'coal to oil' synthetic fuel industry could not cover all its requirements. This required the government to set in motion various sanctions-busting operations, which are discussed later in this section. Sanctions busting is, of course, extremely vulnerable to fraud and corruption due to the secret nature of such activity and the use of middlemen throughout the process.

Apart from arms and oil, a third set of sanctions that took a heavy toll on the economy concerned the lack of foreign credit available to the regime. In the mid-1980s foreign banks, traditionally loyal supporters of the apartheid state, started calling in many of South Africa's short-term loans. This was both due to the growing influence of the international anti-apartheid movement and a result of P.W. Botha's 'Rubicon' address in August 1985 (this was a hardline address that confirmed the fears of an already jittery international market that Botha was not ready to choose compromise over conflict). The Reserve Bank was subsequently in desperate need of foreign capital and accordingly, in the mid-1980s a parallel currency—the financial rand—was introduced. This allowed foreign residents to bring in capital on the basis that it would be valued at approximately four times the rate of the commercial rand. This, too, was a system that was open to massive abuse, through a process known as 'round tripping', as discussed in more detail below.

An additional factor that placed strain on the economy was driven not by sanctions but by sentiment among the South African elite, who wanted to get as much money off-shore as possible since they had little confidence that the 'party' was going to last. This became known as capital flight or foreign exchange fraud. Those involved were in search of foreign bank accounts and foreign assets in which to invest their money. However, moving money abroad without the permission of the Reserve Bank was illegal. Until the mid-1990s, South Africans were limited to moving a tiny annual sum of money (relative to the wealth of the country's rich) out of the country (less than R20,000 for individuals and R30,000 for tourists).

This section examines these four areas in more detail. It also discusses the role of the Reserve Bank as a key player in South African monetary supply.

## 9.1 Sanctions busting: Oiling the wheels of corruption, greasing the wheels of apartheid

Oil—black gold—is one of the few natural resources not found in South Africa's mineral-rich soil. It also became the source of great intrigue and alleged corruption after the UN oil embargo was announced in 1977. The country was forced to buy oil at a premium price from secretive middlemen with dubious backgrounds, who extorted a premium from the country in the process. This was sometimes also associated with corruption. Some of the allegations of corruption surrounding South Africa's oil purchases in the 1980s are discussed in this section. However, it is worth noting the absolutely secrecy of the environment in which oil purchases took place. The former Minister of Energy Affairs, F.W. de Klerk (1978–1982), is on record as stating in the early 1980s that:

*Any relaxation in respect of secrecy, however small, can...enable our enemies to identify our friends and partners who deliver [oil] to us. Secrecy is essential.*<sup>167</sup>

Once again, this was an area with little or no public oversight and newspaper reports on the issue were censored regularly.

### 9.1.1 Allegations of corruption

One of the first allegations of corruption on record concerning oil sales occurred in 1984 when the PFP received a large bundle of documents, possibly from a senior official at the Strategic Fuel Fund (SFF), alleging large-scale corruption in the purchase of oil. The then-leader of the PFP, Frederick van Zyl Slabbert, recalled in an interview that he knew that P.W. Botha had also received a copy of the documents.<sup>168</sup> According to van Zyl Slabbert, he sent a note in Parliament, via parliamentary messenger, asking to see Botha about this matter. He recalls receiving a furious phone call from Botha's office, in which the State President cursed him in Afrikaans: "Who the...do you think you are to send me a message that is not enclosed in an envelope?"<sup>169</sup> Two weeks later van Zyl Slabbert was again contacted about the matter but this time by Botha's Cabinet colleague, Chris Heunis, who informed him that there was nothing to the story as they had also been handed the same documents. The PFP decided to hand the information over the Advocate-General, whose responsibility it was to investigate corruption. Nothing came of it.

In the context of secrecy, rumours and speculation were rife. In April 1984, van Zyl Slabbert told the President and Parliament that the PFP had received anonymous phone calls alleging that certain civil servants had opened Swiss bank accounts.<sup>170</sup> The consequences of the allegations could have been disastrous for the Botha administration but the Advocate-General once again reported that there was no truth to the rumours. However, PFP MP John Malcomess, who was critical of public corruption and of the secrecy in the oil industry, stated in Parliament:

*There is no doubt from my personal experience, that there were many, many suppliers of oil who wanted to do business with the South African government and were able to supply cheaper oil. On many occasions, I, as the spokesman for the official opposition, was approached by people from outside the country, telling me what they had to offer, including bribes, if I could get their oil accepted.*<sup>171</sup>

However, an earlier case involving the supertanker *Salem* was proof of the type of fraud the state was involved in. It would become known as the greatest fraud in maritime history. At least 25 countries were touched by this case, setting off 13 separate investigations and legal proceedings in the US, Greece, the Netherlands, Britain and Liberia. The only country in which no investigations or prosecutions took place was the beneficiary state: South Africa.



Arthur Klinghoffer, who has written extensively on the fraud in his book *Oiling the Wheels of Apartheid*, describes how three novices in the international oil trade offered to supply the South Africa SFF with oil.<sup>172</sup>

The South Africans agreed and supplied a cash advance that allowed the traders to purchase a tanker, shipping company and the required insurance. The tanker docked in Kuwait and filled its tanks with oil owned by Shell. The oil was registered for delivery in France. However, en route to Europe from the Gulf the tanker stopped in Durban and off-loaded almost all of its oil crude oil—almost 180,000 tonnes—with the South Africans paying the difference between the purchase price and the fees it had advanced for the purchase of the tanker. The *Salem* was then filled up with water in order to create the impression that it was still laden with oil. Off the coast of West Africa (Senegal), at one of the deepest points of the Atlantic, the ship was scuttled and the crew, who were prepared for the evacuation, were conveniently ‘rescued’. They had hoped to make an extra \$24 million off the insurance claim for the lost oil. Following investigations by the insurance company the main perpetrators were prosecuted. The biggest loser next to Shell was South Africa, as it agreed to pay the Dutch multinational US\$30 million (ZAR2005= R436 million) in an out-of-court settlement. Shell was left to carry a remaining loss of US\$20 million. The use of corrupt middlemen had cost South Africa almost half a billion rand. There was no prosecution in South Africa of the officials at the SFF who had authorised South Africa’s procurement of a full tanker of oil from three novice (criminal) entrepreneurs.

### 9.1.2 Agents and agency fees

Being embargoed is costly: the Amsterdam Shipping Research Bureau has calculated that between 1979 and 1993 South Africa spent US\$36,2 billion (ZAR2005= 87,7 billion—calculated at 1993 rand value) on purchasing crude oil.<sup>173</sup> It then calculated the cost of middlemen, searching for oil on- and off-shore, the Moss gas project and the development of synthetic fuel facilities and the operation of storage facilities. The total estimated cost is \$34,6 billion (R83,8 billion—calculated at 1993 rand value). The embargo and South Africa’s response to it cost the country a fortune in valuable resources. The cost of middlemen, in particular, is worth noting. According to official reports, South Africa was paying them anything from \$8 to \$20 per barrel of oil in the period 1979 to 1980, when the cost of a barrel of oil on the open market was \$13. Middlemen such as John Deuss, Marc Rich, Mario Chiavelli and others became rich off the pariah state. It is clearly possible that officials working in the oil sector may have brokered deals that would see them receiving a kickback from the middlemen if this was built into his price. There is no proof of this happening but it would provide an enticing opportunity for an official wishing to get rich quickly.

Dealing in embargoed goods also means that a country is forced to start doing business with middlemen who may have dubious records when it come to good business practice. The Amsterdam Shipping Research Bureau compiled a comprehensive list of companies that shipped oil to the apartheid state. At the top of the league was Marc Rich, a fugitive from US justice (later to be pardoned by President Bill Clinton in the late 1990s, shortly after he allegedly made donations to the US Democratic Party).<sup>174</sup> Of the 865 shipments of oil in excess of 50,000 tons delivered to South Africa that could identified by the Amsterdam Shipping Research Bureau (there were probably many more front companies that went undetected), 15% (+ - 26,2 million tons) can be attributed to Marc Rich.<sup>175</sup>

In the mid-1990s Frene Ginwala, the Speaker in the South African Parliament, remarked:

*There may have been other companies that we [the liberation movement] would have liked to see disinvest from South Africa but instead remained in the country. But I want to distinguish these from people like Rich who were pure speculators and profiteers, who broke laws and violated sanctions and who I personally would want to see treated as criminals and pirates. But what I would like to see and what actually happens is another thing...But if South Africa awards a big contract to Marc Rich, I am still able to write to the press and speak about it.*<sup>176</sup>

In 2003 Rich, who made his first big deal with apartheid South Africa in 1978, was once again doing business with South Africa. His company, Glencore, supplied Imvume with oil in the infamous 'Oilgate' deal. Allegations are that the oil parastatal, PetroSA, purchased oil from Imvume, which was an alleged conduit for funding of the ANC (there are no allegations that PetroSA was aware of this). Few, if any, media commentators have made the connection between Marc Rich, the supplier to apartheid South Africa, and Marc Rich, oil dealer to a democratic South Africa.

## 9.2 Capital flight

In 2003, during his budget address to Parliament, Minister of Finance Trevor Manuel announced a foreign exchange control amnesty and accompanying tax measures to allow past transgressors of exchange controls to declare their assets and regularise their financial positions.

In his 2006 Budget speech, the Minister announced the completion of adjudication of applications.<sup>177</sup> Some 42,672 applications had been dealt with and R68,6 billion in foreign assets had been disclosed. Linked to the amnesty was the requirement of a one-off tax payment (higher if the funds remained offshore) of 5–10% of the value of the amount disclosed to the South African Revenue Service.

This raised R2,9 billion in revenue which Trevor Manuel announced would be assigned to joint public-private partnership investments in community infrastructure and business development in low-income neighbourhoods.

This was an important process but, given the nature of amnesties, did not see any individuals or companies involved in foreign exchange fraud facing prosecution. In a sense it was a milder form of the TRC in that it only carried with it a financial burden for those willing to participate in complete disclosure. This does not, of course, exclude the possibility that the Minister of Finance may request the state to institute charges against those individuals who did not disclose their foreign assets.

The foreign exchange control amnesty includes the period post-1994, when the country saw the biggest outflow of cash. This outflow was probably a mix of exports of personal assets, often illegally, along with short-term investments by foreigners in the stock exchange (legal) and large institutional outflows (for example, the legal listings on the London Stock Exchange of several South African corporations).

This does not detract from the sheer value of criminal externalisation of South African funds in the period before 1994. While conducting this research no exact measurement of this could be found. However, according to research conducted by Brian Khan<sup>178</sup> in 1991 (looking at capital outflows from 1978 until 1988), there are three models to determine capital outflows. Two are reproduced below.<sup>179</sup>

- *The balance of payment approach*: This focuses on the recorded flows of residential capital in the Reserve Bank balance of payments account. According to this model (which is not described in detail here), there was capital flight from South Africa in every year between 1972 and 1988, except 1982. Cumulative capital flight for the period is estimated at \$12,4 billion and, during the two heaviest periods of outflows, estimated capital flight averaged 10% of gross domestic fixed investment.
- *The partner country trade approach*: This recognises that a major channel for capital flight is the over-invoicing of imports and the under-invoicing of exports. The figures calculated from this are in addition to the figures above and represent an additional form of capital flight. The methodology, although with its problems, suggests that under-invoicing of exports was a greater problem at the time than over-invoicing of imports. The research shows that cumulative capital flight through under-invoicing may have amounted to US\$20 billion (worth well over R100 billion in 2005 value) for the period 1970–1988.

In a separate study, Mohammed and Finnoff also suggest that there was a large volume of capital flight during apartheid, indicating that “during the 13 years of

apartheid from 1980 to 1993, average capital flight as a percentage of GDP was 5.4 percent a year”.<sup>180</sup>

Lost between the tens of billions of rands are the tales of elite crime and misconduct. Such misconduct is less tangible than the theft of a loaf of bread by an indigent person but has a social and economic impact which far outstrips the crimes of the poor in society. It also stresses the fact that the elite were prepared to break apartheid’s own laws when this was in the interests of private profit. This is exemplified in the simple act of moving funds offshore illegally or in the US\$20 billion estimated to be lost to under-invoicing. This and other forms of exchange control fraud are discussed in the next section.

### 9.3 Round tripping and the abuse of export incentives

Some of the specific instances of fraud designed to abuse the exchange control mechanism or illegally move assets abroad are discussed below.

#### 9.3.1 Gold

Anecdotal stories from the late 1980s tell of wealthy socialites leaving the country laden with gold jewellery and furs that, once they arrived in the global North, were sold and turned into cash. Such activity was probably minor in comparison with smuggling operations. Gold and other precious metals (as well as precious stones) are easy to come by and can be bought from illegal mining operations if necessary. This provides a perfect conduit for externalising currency. If the person wishing to shift money offshore is a senior South African government official, the trusty diplomatic bag is one option that could be used to smuggle small quantities at a time to a safe haven such as Switzerland or the Isle of Man. Some ‘entrepreneurs’ are also said to have woken up to this opportunity. In 1996 Minister Sydney Mufamadi (then Minister of Safety and Security) announced that police had investigated a scam connected to the smuggling of 49 consignments of gold out of South Africa in 1994, with a value of US\$52 million (well over R300 million).<sup>181</sup> This smuggling ring may have acted on behalf of wealthy South Africans wishing to move their money out of South Africa illegally. In November 1996 Safety and Security Minister Sydney Mufamadi informed Parliament that Police investigated (but did not charge or convict) socialite Paul Ekon.<sup>182</sup> Ekon, who is reported as saying that, “...he found the charge ‘unbelievable’ and that ‘Mufamadi has a lot to answer for’”,<sup>183</sup> had made efforts in the preceding years to ingratiate himself with the ANC leadership, including funding birthday parties for prominent politicians.

#### 9.3.2 Round tripping

As described earlier the financial rand mechanism was, if not policed properly, custom-made for fraud. The system allowed non-residents to invest in South Africa

through the financial rand and then take their money out at the higher commercial rand rate. The South African public would directly subsidise the investment—or alternatively, if it involved ‘round tripping’, the fraud.

One example of alleged currency round tripping involved Oliver Hill, a South Africa resident who was sequestered. Although resident in South Africa, he artificially brought funds into the country at the financial rand rate and expatriated real profit (as the difference between the two) at the commercial rand rate.<sup>184</sup> Hill, who fled South Africa in the 1980s, was eventually arrested in London and faced extradition on 500 charges involving foreign exchange fraud totalling R210 million (this was primarily linked to the forgery of Eskom bonds).<sup>185</sup> Hill was held in custody in the UK while fighting the application from South Africa for his extradition. It is believed that the matter was eventually settled on the basis that Hill would be released from custody and could return to South Africa as a free person, having paid back to South Africa some portion of his ill-gotten gains. It is furthermore believed that the amount paid back was kept confidential as part of the agreement between Hill and the Reserve Bank.

### 9.3.3 Fraudulent invoicing

As discussed in the previous section, foreign exchange fraud involving fraudulent invoicing may have led to the loss of \$20 billion between 1970 and 1982. In this scheme goods were exported but then sold for a discounted price abroad. The balance was kept abroad in banks or investments. For example, ‘X’ is the South African owner of company ‘A’ in the UK. ‘A’ buys clothing from ‘X’ for R500,000. However, the clothing is worth R1 million. The excess clothing is sold in the UK and the profit (R500,000) is kept in the UK and not repatriated—and not declared in South Africa. This is a system that many medium and large South African corporations probably employed, either at the instigation of employees (as individual fraud) or with the knowledge of senior management (corporate fraud).

### 9.3.4 Tax avoidance

Newspaper reports from 2005 indicate that the South African government is investigating a massive quantity of diamonds moved off-shore by the global diamond giant, de Beers, just before the 1994 elections. It is alleged that de Beers did not pay any tax on three and a half tonnes (19 million carats) of stones that it exported.<sup>186</sup> De Beers has strongly denied this.

However, this would not be the first time that de Beers was implicated in tax avoidance. In their book *South Africa Inc.*, Pallister, Stewart and Lepper focus on the activities of the Oppenheimer’s de Beers empire which was, for years, charged with operating as a cartel in the USA, among other things.<sup>187</sup> According to Pallister *et al*, a commission of enquiry was set up in 1982 (under Natal Supreme Court

Judge Pieter Thirion), to investigate allegations of corruption and maladministration in Namibia (then under effective South African control). Thirion was serious about this mandate and in 1984 he turned his attention to state control over the mining industry and the way in which tax for mining companies was assessed. Since mining rights were vested in the state in Namibia, attention quickly turned to de Beers, which was by far the largest diamond company mining and the country's second biggest export earner. Against the protestation of de Beers, Judge Thirion found "...the allegations of mining and tax evasion proven and he accused the company of deliberately doctoring reports to state officials who were, in any event, incompetent".<sup>188</sup> The commission and investigators produced detailed evidence linking de Beers to tax evasion in Namibia.<sup>189</sup> One of the allegations was that diamonds were exported through a host of de Beers subsidiaries, who each took a cut of profit, before the diamonds were channelled through the tax haven of Bermuda.<sup>190</sup> This meant that the Namibian holding company would receive only 86% of the selling price. In the first six months of 1983 diamonds worth US\$171 million were channelled in this way.<sup>191</sup>

#### 9.3.5 Other forex fraud

Many instances of foreign exchange (forex) fraud were investigated by the SAP, the Office of Serious Economic Offences (OSEO) and the Reserve Bank during the 1980s and 1990s. Newspaper reports from that time indicate that authorities were well aware of the extent of the problem. In 1993 the Reserve Bank Executive Director, Charles van Vuuren, said that 254 foreign exchange rackets were being investigated, involving about R2,7 billion (ZAR2005= R6 billion).<sup>192</sup> Some of the investigations undertaken by the SAP and the OSEO included:

- suspected scams in the motor industry by component manufacturers, who were believed to have swindled the Department of Trade and Industry out of R600 million (ZAR2005= R1,3 billion) in false claims;
- large-scale smuggling of Kruger Rand gold coins out of the country; and
- in the textiles trade, the falsification of accounts regarding imports and exports.

Other newspaper reports from that time confirm that forex fraud was on the increase and although the state had made attempts to investigate and prosecute such activity, the crisis probably ran much deeper:

- Trust Bank manager Simon Samuels fled South Africa in 1988, a day after he was quizzed by officials who were investigating his involvement in an irregular R60 million (ZAR2005= R282 million) forex deal.<sup>193</sup> It is not known if the police pursued the matter any further.

- The Standard Bank International trade centre reported in July 1992 that it had detected a R160 million (ZAR2005= R441 million) foreign exchange fraud attempt involving a major international syndicate.<sup>194</sup> Although police were investigating the matter it could not be ascertained if anyone was charged or convicted.
- In March 1993 a couple charged with exchange control contraventions admitted to the Johannesburg Regional Court that they were part of a R400 million (ZAR2005= R969 million) scam and had “exported” R19million out of the country for “customers”.<sup>195</sup> It is not known if they were found guilty of any crime in court.
- In November 1993 a warrant of arrest was issued for Mr. Neville Jessop. Allegations against him related to charges of fraud and contravening exchange control regulations involving R64,8 million (ZAR2005= R157 million).<sup>196</sup> It is not known whether he was eventually charged and convicted on such charges.
- The company auditor and other shareholders in Postmansburg Mining and Exploration (Pty) Ltd were charged, arrested and appeared in court in 1993 for alleged contravention of foreign exchange regulations to the value of R72 million (ZAR2005= R174 million).<sup>197</sup> It is not known whether they were found guilty of such contraventions.
- Wealthy Pretoria businessman Jacques Joubert was arrested and appeared in court in 1993 in connection with alleged foreign currency fraud involving R179 million, which had been allegedly mostly transferred abroad through a company called Namib Gems (ZAR2005= R433 million).<sup>198</sup> It is not known whether he was convicted on such charges.
- Cape Town chartered accountant Nicolaas Griesel was convicted in August 1993 on charges of fraud and foreign exchange control contraventions totalling R80 million (ZAR2005= R220 million). Griesel was implicated in round tripping.<sup>199</sup>

#### 9.4 The role of the Reserve Bank in various scandals

At the heart of the system of moving monies in and out of the country is the Reserve Bank. From its seemingly faceless tower are made some of the most important decisions on how to regulate South Africa’s private banks to ensure that they retain their integrity and other functions that are common to central bankers the world over. However, though enjoying a good reputation in international monetary circles as a sound institution, the Reserve Bank was also run by individuals who were responsible for smoothing the way for the CCB and hundreds of other ‘secret’ operations by shifting funds abroad. It was this sort of involvement in subterfuge that no doubt had an impact on the Reserve Bank’s

institutional culture. At the helm of the institution from the early 1980s until after 1994 were two alleged members of the Broederbond, Gerhard de Kock (1981–89) and Dr. Chris Stals (1989–1999). Stals is now one of the lead players in the continental African Peer Review Mechanism Process. These two leaders' membership of the Broederbond and their positions at the Reserve Bank may, of course, have been purely coincidental, but it was clear that the Broederbond had friends in high places.

Within the Reserve Bank, the exchange control directorate was under massive pressure to efficiently police the number and value of capital transfers. Were there temptations for corruption? To date, there have been no such allegations but there has been no public investigation, either. As an agent of the apartheid government, the Reserve Bank and its personnel knew all about the movement of capital in and out of South Africa.

Professor Andre Thomashausen of UNISA's Institute of Foreign and Comparative law points out that the Reserve Bank enjoyed, and still enjoys, unfettered and draconian powers in terms of a broad and vague Act of Parliament that gives the Minister of Finance unlimited powers, by means of regulations, to control any transactions involving foreign currency.<sup>200</sup> The Minister simply delegated this power to the bank itself, which exercised it by appointing a small number of forex dealers as the only persons allowed to receive and process applications for forex authorisations. The decisions over forex applications were governed by secret Directives, issued by the Reserve Bank from time to time to its appointed forex dealers. The Directives may not be disclosed to clients and forex applicants or the public and are often changed with retrospective effect. According to Thomashausen, the Directives form a body of "secret law", something extraordinary anywhere in the world. Thus, in the apartheid years forex authorisations could be delayed or withheld at will from politically undesirable persons and businesses. According to Thomashausen this was an "enormous opportunity for corruption". As an example, take a manufacturer who needs to buy steel on the international market. However, he is required to pay in US dollars within two weeks, to take advantage of good prices prevailing in the market at the time. In such an instance, having contacts within the Reserve Bank will result in the granting of an immediate authorisation and allocation of the required forex, thus ensuring that the manufacturer is able to pay for the steel at the price quoted and not at some future (more expensive) price.<sup>201</sup>

However, it was not only the Reserve Bank that could be manipulated by the state for personal or political benefit. The tentacles of the state machinery reached into the private banking sphere. One example thereof was Volkskas, the government's bank of choice and, together with Trust Bank, eventually part of the Allied Bank of South Africa (ABSA). It is understood that there was a room in



the Volkskas head office in Pretoria known as the *Geheime Kamer* ('Secret Room') where many decisions were made to finance sanctions busting deals—and in which Volkskas handled foreign exchange for the government.<sup>202</sup> It was also alleged that leading bankers in Volkskas were also members of the Broederbond. According to former ABSA banker Bob Aldworth, he was told by Hennie Diedericks (former CEO of Volkskas and Trust Bank) that, "...it was a prerequisite to be a Broederbonder if one sought to rise to the top".<sup>203</sup> Aldworth adds: "At board meetings, Broederbond matters were openly discussed and the ethos of Afrikaners sustaining other Afrikaners was paramount".<sup>204</sup>

There are a number of high-profile cases implicating the Reserve Bank in alleged corruption. It should be noted that they include a number of other actors as well, but are included in this section for ease of reference. They include:

#### 9.4.1 The Bankorp 'lifeboat'

The Reserve Bank also had the power to help friends in trouble. Allegations surfaced in the early 1990s that it had assisted banks with well-connected Broederbond executives, such as giving Bankorp (the holding company for Trust Bank, Senbank and Bankfin),<sup>205</sup> over R1 billion in loans when it was theoretically bankrupt.

Bankorp was bought by ABSA, today Africa's biggest commercial bank, which was formed out of amalgamation of United Bank and Volkskas in 1990 and eventually a further acquisition of the three banks that constituted Bankorp in 1992. Prior to that Bankorp was owned by Sanlam/Sankorp—a financial services giant that historically was well connected to the NP and the Broederbond. However, Bankorp was in financial trouble for some years and in 1985 the Reserve Bank provided it with a 'lifeboat' of approximately R300 million to prevent it from capsizing.<sup>206</sup> In order to further assist Bankorp, in mid-1990 the Reserve Bank made a loan of R1,5 billion available at an interest rate of 1% per annum.<sup>207</sup> These were extremely favourable terms not available to any individual (or probably commercial lender) in South Africa at the time or since. Former ABSA banker Bob Aldworth, in his exposé on the deal (*The Infernal Tower*), writes that R1,1 billion was invested in government stock and R400 million was put on deposit with the Reserve Bank and both earned interest of 16% a year.<sup>208</sup> Aldworth goes on to explain how the scheme worked in practice:<sup>209</sup>

*To put it in simple terms, if the Reserve Bank gave (debited) Bankorp a total of R10, Bankorp had to repay R10,10 (R10 plus 1%). But since the R10 earned R16% [interest] (R10 plus R1,60 = R11,60) Bankorp's gift was the difference between R10,10 and R11,60 = R1,50. The return of the R10,10, so to speak, is what enables Stals to call the lifeboat a loan. But the 'R1,50' never gets repaid. In short it is not a loan. It is a gift.*

As Aldworth points out, these small numbers do little to help one understand the magnitude of the sums involved. The interest (the R1,50 described as a gift above) earned first by Bankorp and from April 1992 by its new owners ABSA, “...equalled R1,125 billion [ZAR 2005= R2,281 billion]. The agreement remained in force until 23 October 1995”.

When the Reserve Bank’s Governor, Chris Stals, was confronted with evidence of this secret deal, his response was that it was in the interest of the economy to keep it secret, he had done it to protect the country’s banking system and that it wasn’t really taxpayers money as it had all been created with a specific purpose and it was a loan to boot.<sup>210</sup>

Aldworth, and a number of other commentators, have critiqued Stals’s response.<sup>211</sup>

- This was no loan—but was clearly a gift by the Reserve Bank to a private institution which benefited its shareholders. A large bank was given unfair advantage by the state over its competitors.
- The Reserve Bank, in creating R225 million a year to finance this deal, diluted the value of the Rand in the process.
- No tax was required to be paid for the loan/gift to Bankorp and ABSA—meaning that the loss in tax revenue may have been as large as the loan/gift itself.

The Bankorp affair was the subject of a number of investigations including the Heath Special Investigations Unit in the late 1990s (the unit acted with a Presidential mandate) and later a specialist panel headed by Cape High Court Judge Dennis Davis.<sup>212</sup>

In February 2002 the Davis expert panel found that the Reserve Bank, under Chris Stals, had exceeded its authority in the way it assisted Bankorp between 1985 and 1995.<sup>213</sup> Although the Bank had not acted within the law, Davis is reported as saying that:

*...he was confident that the Reserve Bank had acted in good faith, and there was no suggestion that former [bank] governor Chris Stals had intentionally broken the law.<sup>214</sup>*

The report also found that ABSA had paid a fair price to Sanlam in 1992 for Bankorp and “unlike Sanlam was not a major beneficiary of the lifeboat extended to Bankorp”.<sup>215</sup>

Following the release of these reports, financial journalist David Gleason argued:

*This was the biggest fraud ever perpetrated on the South African taxpayer. It was executed directly against the Reserve Bank’s own act; it contravenes the Companies Act; and it constitutes fraud as defined in common*

*law... what is available is quite enough prima facie evidence collected and revealed in two judicial reports for him [Reserve Bank Governor Tito Mboweni] to refer everything... to the Director of Public Prosecutions.*<sup>216</sup>

#### 9.4.2 Masterbond's 22,000 victims

The Masterbond scam, an investment scheme that collapsed in October 1991, was one of the biggest private sector collapses to hit apartheid South Africa: it erased R615 million (ZAR 2005= R1,957 billion) in savings of almost 22,000 lower-middle income earners, particularly pensioners. Many were left destitute and a number subsequently committed suicide.

*Noseweek* (No. 31) provides a comprehensive summary of Masterbond's rise and fall, on which this section of the report draws extensively.<sup>217</sup> Masterbond was formed in 1984 by a trio of businessmen with a marketing pitch aimed at pensioners who were struggling to make ends meet. The enterprise started on shaky footing as the company had insufficient capital and the directors soon started dipping into investors' funds to cover operating costs. It would later be described by Judge Hennie Nel as "SA's largest-ever chain letter". According to *Noseweek*, the directors were moving funds around so freely between the group's 85 bank accounts that it made nonsense of the types of investments and projects chosen by investors.<sup>218</sup>

How could this take place without the knowledge of the investors? It is alleged that auditors Ernst and Young should shoulder a fair share of the blame. The company may still be prosecuted for its failure to take appropriate action when it saw that the investments were in trouble. In 1996 Ernst and Young paid a R40 million (ZAR2005= R76 million) fine, without admitting guilt. The total lost at the time was R600 million (ZAR2005= R1,3 billion).<sup>219</sup> According to Judge Nel, "the auditors were only so dishonest because they had taken their cue from the standards of dishonesty set by the Reserve Bank itself."<sup>220</sup>

In 1989 Masterbond approached the Reserve Bank with a request for a banking licence. The directors were referred to Amore 'Piet' Strydom who suggested they should rather gain effective control of an existing entity, Pretoria Bank. Through a Masterbond loan, Strydom acquired 10% of Pretoria Bank and was appointed its Executive Director.<sup>221</sup> Strydom in turn appointed Stan Lee, who reportedly had links to the CCB, as the bank's chief accountant, allegedly "enabling Lee to use his position at the bank to fund CCB operatives by granting loans to dummy companies without any requirement of security or the prospect that they would repay the loans".<sup>222</sup> By 1991 Lee and Strydom had run Pretoria Bank into the ground by issuing unrecoverable loans, resulting in the Reserve Bank placing Masterbond under curatorship which, unlike liquidation, means that curators are not accountable to the creditors—they are only required to report to the courts.<sup>223</sup>

Ironically, it seems that the Western Cape Attorney-General, Frank Kahn, received reports as far back as 1986 indicating criminal activity at Masterbond. According to *Noseweek*, the Reserve Bank was fully aware of these reports but according to some accounts, it was the “head of banking supervision at the Reserve Bank, Dr. van Greuning, who persuaded Kahn not to prosecute.”<sup>224</sup> This is amplified by the experience of George Philippaki, co-owner of the Cape leisure development, Mykonos, in which Masterbond also had interests. Philippaki fell out with the Masterbond directors in 1990 and he decided to expose the fraud at Mykonos. When he visited Frank Kahn’s office to sign an affidavit detailing this, he was told by a policeman, Brigadier Visagie, that he did not have to sign an affidavit at all and that things would be “sorted out”.<sup>225</sup> They never were, however, and even though the Nel Commission of Enquiry probed the Masterbond affair, this brought little financial relief to many of the impoverished investors. It remains unclear why the Reserve Bank did not act sooner on Masterbond and why it never tried to offer a ‘lifeboat’ to Masterbond similar to the one given to Bankorp at roughly the same time, in the form of R1 billion.

#### 9.4.3 Albert Vermaas—friends in high places?

In May 1996, Albert Vermaas was found guilty of operating illegal investment schemes and foreign exchange round tripping. The Pretoria lawyer and businessman was sentenced to 18 years in prison after having been found guilty of 110 charges ranging from fraud to insolvency. Members of the public, including the Public Service Association, lost R139 million (exchange rate compared with 1989, as this is when he was fingered by the Harms Commission: ZAR2005= R579 million) in some of his fraudulent schemes.<sup>226</sup> Vermaas took another R100 million out of the country (ZAR2005= R417 million) and brought in R92million (ZAR2005= R383 million) as part of a round tripping exercise.

During his trial Vermaas denied the evidence of his former accountant that he had once mentioned that “he knew the right people who could solve his problem”, including the former State President, P.W. Botha, the Minister of Finance, Barend du Plessis, and the Minister of Foreign Affairs, Pik Botha.<sup>227</sup> What was, however, confirmed by Magnus Malan and Pik Botha at the Harms Commission is that they were good friends with Vermaas for 15 and 12 years respectively.<sup>228</sup> Malan went as far as to indicate that he went hunting on Vermaas’s farm on seven occasions and had asked Armscor to investigate making him one of its directors.<sup>229</sup> Vermaas also had important friends at the Reserve Bank, such as its Governor, Dr. Gerhard de Kock, who opened Vermaas’s R1 million game farm, Sebaka. Another influential friend was John Postmus, general manager of the Reserve Bank’s exchange control division, with whom Vermaas discussed his forex applications.<sup>230</sup>

It was the Reserve Bank that drew much of the Harms Commission's fire. Some of the issues raised were that:<sup>231</sup>

- The Registrar of Banks wrestled with Vermaas's bank activities, yet at the same time the foreign exchange control section continued to issue him with forex.
- Top officials had varying views on the control mechanisms around foreign transactions. Johan Postmus believed it was a Customs and Excise responsibility while the Deputy-Governor, Jan Lombard, argued that they nothing to do with it.
- Harms noted the unsatisfactory manner with which the Bank handled Vermaas's dealings. He noted that extensive documentation was "either not read, or...viewed in an uncritical light".

Once again, the activities of the Reserve Bank leave unanswered many questions about why senior officials acted in the manner that they did.

#### 9.4.4 Container fraud?

From 1979 onwards many wealthy South Africans made use of an ingenious system of moving monies abroad: they bought shipping containers worth hundreds of millions of rands in South Africa and then legally moved them offshore. The scheme, devised under the auspices of Trade and Industry Department, was as an attempt to source much needed foreign reserves. It also benefited from tax breaks provided by the Ministry of Finance which allowed individuals who moved containers offshore to write off the value of the containers against tax.<sup>232</sup> However, the scheme was open to abuse by individuals and it is alleged to have amounted to:

*a huge fraud on...(the) department of Trade and Industry. In the following ten years it paid out tens of millions of rands in export incentives for fictitious exports.*<sup>233</sup>

*Noseweek* reported that the Reserve Bank did not attempt to investigate the matter until one of its officials, Nico Alant, stepped in and probed it jointly with the SAP Commercial Branch and the British police. His investigation took almost five years, beginning in the early 1990s.<sup>234</sup> When Alant approached the Transvaal Attorney-General, Baron Klaus von Lieres, on this matter, the Bank effectively accused Alant of disloyalty and of talking to an outsider. It is alleged that Alant was eventually hounded out of his job at the Reserve Bank for blowing the whistle on the abuse of the container export system.<sup>235</sup>

***Some important questions raised in this section:***

- How much control did the Broederbond and security establishment have over the Reserve Bank and how did that impact on organisational integrity?
- Was there an attempt to further investigate alleged crimes of corruption in the oil industry after 1994?
- Do we know the real extent of South African money that has been moved offshore in contravention of the law?
- Do we know the real extent of foreign exchange crimes in South Africa?
- Has the state ever investigated the Bankorp lifeboat and who should be held criminally liable if the Reserve Bank loan was a gift in disguise?
- Why did the Reserve Bank not act more speedily in resolving the Masterbond matter to the benefit of investors in the scheme?
- To what extent did Albert Vermaas's good connections at the Reserve Bank and in the Executive assist him with round tripping and foreign exchange fraud?

## 10. Grand apartheid—grand corruption

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In Hendrik Verwoerd's grand understanding of apartheid, he not only saw cities divided along racial lines but the creation of 'black' ethnic states within the white ethnic state. It was this madness that would spawn six 'self-governing' and four 'independent' homelands, or Bantustans. They largely became labour repositories for white South African capital and served as an attempt to contain encroaching 'black spots'.

Leading many of the homelands were elites that had been compromised and co-opted by the system. There were exceptions, particularly from the 1970s and 1980s when some homeland leaders became vocal supporters of the liberation movements. However, many of the homelands were no less corrupt than the white central state on which they relied for political and, importantly, monetary support. Ultimately, of course, it was Pretoria that tightly managed the purse strings of all the homelands and could turn the tap on or off. Where corruption became endemic, the central government of the day therefore shares in the responsibility for the levels of graft, even if only for its inaction in stemming the looting.

As indicated earlier a number of commissions of enquiry into corruption in the homelands began in the 1980s. However, as Pretoria relied on the homeland leaders for legitimacy, the homelands also relied on Pretoria for patronage. It was an abusive relationship, not unlike that of puppet states in the cold war, which had been utterly corrupted and existed largely at their masters' mercy. Only one post-1994 commission of enquiry focussed on corruption in a former homeland: the Skweyiya Commission, which looked at the abuse of power in Bophuthatswana.<sup>236</sup> It came across massive irregularities but it was argued by critics that the focus only on the Lucas Mangope's administration and not that of other homelands was prompted by political expediency.

A handful of the instances of corruption during this period (both alleged and proven, as reported in the media) are listed below. This short overview should be read as instructive of the *types* of corruption that took place—but it by no means provides an accurate assessment of *levels* of corruption in the apartheid homelands:

- *Lebowa*: The South African government required police protection to secure a computer in Lebowa that had been spewing out cheques valued at millions. It is estimated that if such action had not been undertaken in 1993 it would have cost the state R1 billion (ZAR2005= R2,4 billion).<sup>237</sup>
- *KwaNdebele*: The financial chaos in KwaNdebele was so bad by 1993 that the Auditor-General, Henry Kluver, was unable to rely on the administration's accounting system and could not express an audit opinion for the 1992–1993 financial year.<sup>238</sup>
- *KwaNdebele*: the Parsons Commission of Enquiry heard in 1991 that Deputy Minister of Law and Order and Order Steve Mabona granted a R13 million (ZAR2005= R41 million) tender to Springbok Patrols, despite far lower bids being submitted. In addition, Mabona extended the contract by two years, while the state was still funding officials to do the same work, implying an effective duplication of functions and equivalent waste of state revenue.<sup>239</sup>
- *KwaNdebele*: The former KwaNdebele police commissioner, Hertzog Lerm, who was later to become a Conservative Party councillor in Warmbaths (Bela Bela), claimed that “alleged abuse(s) by police under his command were part of a strategy sanctioned by Pretoria”.<sup>240</sup>
- *Lebowa*: Hundreds of tons of chemicals were dumped in Lebowa by a company called Firechem Lebowa, which had donated R100,000 (ZAR2005= R275,000) to the ruling United Peoples Front shortly after it was awarded a R15 million contract (ZAR2005= R41,3 million). The contract was never put out to tender.<sup>241</sup>
- *Ciskei*: A 1992 report by the select committee on public accounts showed that parasatals under the control of Ciskei's Department of Agriculture had ‘lost’ almost R30 million (ZAR2005= R82 million) in just over two years.<sup>242</sup>
- *KaNgwane*: The government of Mpumalanga inherited a debt of over R118 million (ZAR2005= R260 million) from KaNgwane in 1994. The government of Enos Mabuza had gone on a multimillion rand spending spree that was so badly accounted for that the Auditor-General could not complete his reports for the financial years 1992–1993 and 1993–1994.<sup>243</sup>

The story of corruption in homelands is largely a reflection of the venality of some of the leaders in these ‘states’. However, what is often not reflected on is the



role that external actors (primarily from South Africa) played in corruption and bribery in the 'homelands'. The next section addresses a few well-known examples.

### 10.1 The Sun King: Sol Kerzner

The 1970s and 1980s saw the rise in fortune of Sol Kerzner, hotelier and gambling supremo, who understood the monetary reward of bringing Las Vegas to South Africa. It was Kerzner who dreamt up the idea of luxury resort hotels in the homelands, which would benefit from being out of reach of the Calvinist rulers of the white central state. Here gambling would be permitted, pornography could be viewed and the chorus line in the 'shows' at his hotels could titillate without fear of imminent prosecution by the censor board. Kerzner offered not only the luxury accommodation he already offered in South Africa (as part of the Sun International group), but lured monied (largely white) South Africans across 'the border' to visit Sun City and the Lost City in Bophuthatswana and the Fish River Sun in Transkei, among others.

However, the relationship that Kerzner enjoyed with the rulers in these homelands was problematic at times. In 1990 the Harms Commission found that Kerzner had paid R5 million to Transkei's Chief George Matanzima, linked to his gaming licences in this homeland. It was alleged that R2 million (ZAR2005=R8,3 million) of that payment was a bribe. Kerzner contested this, claiming that he was under pressure to pay for a gambling licence he already owned (this would technically be extortion). At the time it was also revealed that Holiday Inn had paid a R500,000 (ZAR2005= R11,5 million) fee to buy a company that had been awarded exclusive gambling rights by Matanzima in 1976.<sup>244</sup> Clearly, Matanzima and his government had also come to appreciate the value of such gambling rights.

After the prosecution eventually dropped its charges in 1997, Matanzima claimed, "I don't consider it to be a bribe. There is a difference between a gift and a bribe".<sup>245</sup> The Transkei Attorney-General, Christo Nel, reported to the Parliamentary Portfolio Committee in Cape Town that Matanzima, who had been the key state witness, had been "incorrigible, unreliable, vacillating, prevaricating and even obstreperous".<sup>246</sup> It was because of Matanzima that the state eventually dropped the case. Nel added that on two occasions Matanzima had requested that he drop the charges. "He said, 'Mr Nel, you must let Sol go.'" <sup>247</sup>

Linked to this alleged bribe was R50,000 that was allegedly paid to a minister in Matanzima's government, Stella Sigcau. The former military leader of Transkei, Bantu Holomisa, raised this at a TRC hearing in 1996—an act that ultimately saw his sacking from ANC structures and his departure to form a new political party.<sup>248</sup> Ms. Sigcau, who served as a Minister in both the Mandela and Mbeki cabinets,

denied allegations of bribery and was eventually cleared by a judicial enquiry headed by Justice Gerald Alexander.<sup>249</sup>

It was in the best interests of Sol Kerzner that the case against him was dropped. Not only did that allow him to return to South Africa from his London home, where he was now based, without fear of prosecution, but it could also help smooth out the international expansion of his resort hotels that he was vigorously pursuing in the US and the Caribbean. On at least two occasions the alleged 'homeland' bribe became an obstacle to being awarded gaming licences: first, in 1996, when he applied for gaming rights on the Mohegan native American reserve in Connecticut,<sup>250</sup> and again in 2003, when he was vying to turn the London white elephant Millennium Dome into a casino.<sup>251</sup>

However, Kerzner has more than once had to deal with bad publicity. In 1997 respected financial journalist Alan Greenblo and his publisher, Jonathan Ball, were prohibited from publishing a biography of Kerzner, titled *Kerzner—Unauthorised*. Witwatersrand Judge Monas Flemming handed down a controversial decision that resulted in one of the first book bannings under the democratic constitutional order. The Judge's decision to ban the book outright went even beyond Kerzner's request that sections be cut out.<sup>252</sup> Labelled a blow to free speech by many free speech activists, the decision was eventually upheld on appeal in 2002.

This did not stop *Noseweek* from publishing extracts from the book in 1997. They provided some insight into Greenblo's perspective on the manner in which Kerzner had been operating in Bophutatswana. In summary:<sup>253</sup>

- President Lucas Mangope wrote to Kerzner in 1987 requesting that he finance a salary increase for his Minister of Finance, Leslie Young, to the tune of R20,000 (ZAR2005= R109,000) per year. He also indicated that Gencor, which had substantial mining interests in Bophuthatswana, was doing the same.<sup>254</sup> There is no information that verifies the allegation that Gencor did make such payments. However, *Noseweek* states that the Deputy Chairperson of Sun International, Ian Heron, is alleged to have written a letter (Kerzner's is reported to have been abroad at the time), stating:

*We would certainly be prepared to contribute to the augmentation of Mr. Young's salary... Upon receipt of the amount required each year and the desired manner of payments we will make the necessary arrangements.*<sup>255</sup>

- In February 1984 Young had already agreed that any investment by Sun International that would have the effect of marketing apartheid abroad was tax deductible.<sup>256</sup>
- In a secret agreement in 1987, Young agreed that 90% of the taxes collected from entertainers working in Bophutatswana would flow back to Sun

International. Any performer or sportsperson who earned more than R26,000 (ZAR2005= R142,000) per month was required to pay half their income to the Bophutatswana revenue authorities.<sup>257</sup>

- Sun International had access to an extraordinary array of tax breaks. Greenblo is quoted in *Noseweek* as saying:

*From the 1960s and into the 1970s there was a one-time allowance on new equipment; a depreciative allowance on used equipment; and a further investment allowance for the first year. There was a 'basic' buildings allowance; plus an additional grading allowance, plus another investment allowance on the cost of buildings...the upshot was that Southern Sun [as it was at the time] paid next to no tax.*<sup>258</sup>

- The directors of SunBop are alleged to have set up a company called Sun International Management (SIM) in 1985, which paid them a management fee through the Bermuda-based tax-sheltered company. It is alleged that this allowed the SunBop directors (Kerzner and his confidantes) to pay themselves more than double the normal management fee through SIM. Greenblo is quoted as saying that they were making these payments either with the knowledge of the Reserve Bank or in contravention of the Exchange Control regulations. Young estimates the excess paid into the Bermuda-based bank account was R50 million per annum (ZAR2005= 324 million; USD-NYSE= R739 million).<sup>259</sup>

## 10.2 Mafia links in the Ciskei? The case of Vito Palozollo

In the past 15 years numerous attempts have been made to extradite former Sicilian mafia boss Vito Palozollo (known as Robert von Palace Kolbachenko since 1987) to Italy, to stand trial for his involvement in the infamous 'Pizza connection'. The New York Pizza connection was the biggest detected international heroin operation at the time. Palozollo has today transformed his image into that of a responsible businessman, owner of a wine farm and guesthouses in the Franschoek mountains and proprietor of a bottled water company, La Vie de Luc, which, among things, supplies South Africa's national airline, South African Airways. The persistence of Italian prosecutors in trying to secure his extradition to that country is, however, proof that he was not always a respected member of South Africa's rich. The background to his South African connection is as follows:

In 1986 the NP MP for East London, Peet de Pontes, flew to Switzerland to assist a new client, Mr. Vito Palozollo, a former financial trader in Switzerland, who was now in jail for breaking the law in Switzerland. Palozollo had accepted lesser charges in Switzerland to escape extradition to the Mafia trials in Italy.<sup>260</sup>

The meeting went well and by October Palozollo had been offered temporary residence by Ciskei's President Sebe, who was keen on Palozollo establishing a bank in the impoverished homeland. Before the end of the year, Palozollo had escaped from prison, crossed into Germany and was ready to settle in the Ciskei (or at least in the Eastern Cape, as he moved between Bisho and East London with ease—despite not having a visa for South Africa). De Pontes had allegedly offered to help President Sebe to amend legislation to grant Palozollo citizenship within two weeks of his entry into Ciskei.<sup>261</sup> Palozollo nurtured his relationship with Sebe, contributed to various Presidential charities (and the NP) and was soon appointed plenipotentiary for the Ciskei (a position from which he resigned in 1990).<sup>262</sup>

In the meantime, de Pontes was charged with theft, forgery, and bribery—some of which was related to his relationship with Palozollo. It was a major scandal as de Pontes was a member of the NP caucus in Parliament at the time and had introduced Pik Botha and others to Palozollo at his home. They had developed a business interest that would, among other things, see toxic waste exported to the Ciskei for a handsome profit.<sup>263</sup> Palozollo chose to act as a state witness in the trial in which de Pontes was found guilty.

Palozollo went on to establish himself in South Africa as businessman, owning property around Cape Town and a game farm in Namibia. The Ciskei provided his entry point into South Africa. In 1994 a *Noseweek* expose (*Nose 9: A cute little bankhaus in Bisho*) revealed that one of the reasons that President Sebe had wanted Palozollo (who was also a banker in Italy and Switzerland) in Ciskei was to help establish the Bank of Bisho (later Eurobank). Palozollo had shares in the bank together with Albert Vermaas (see the Crime and Capital section of this report). The bank, which was alleged to have links to South African and Israeli intelligence, would be a conduit for cleaning 'hot' money needed to finance the joint South Africa/Israeli arms and nuclear programmes. However, as Vermaas's financial pyramid collapsed in the late 1980s, so too did the bank.

Ciskei served as foothold from which Palozollo, an internationally wanted fugitive from justice, settled in South Africa. His almost effortless ability to move between the old and new South Africa perhaps best describes the links between corrupt activity in these two areas. The period before 1994 and after 1994 are intrinsically linked and those who were alleged to have been involved during the former period remained rooted in the latter.

Palozollo was the subject of the Presidential Investigative Task Unit's focus in the 1990s. This unit was, however, eventually disbanded, in large part due to allegations that it had been compromised by corrupt dealings of its members which may, or not, on turn have been linked to infighting within the South African security establishment (which was undergoing a transformation from old to new guard) at the time.

***Some important questions raised in this section:***

- Do we know the full extent of corruption in apartheid-era homelands? Has enough been done to try and prosecute homeland leaders and officials implicated in corruption?
- Has the relationship between gambling companies and homeland leaders been sufficiently investigated?
- Does the public have a right to read Alan Greenblo's biography of Kerzner?
- Why has Vito Palozollo not been successfully prosecuted in South Africa—or extradited to Italy to stand trial?
- To what extent were homelands used as money laundering operations by the state and foreign intelligence agencies?

## 11. The time for action: Policy recommendations

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Although we have made many strides in the past 12 years, the truth about much of our history still escapes us. However, what we do know is that when the apartheid state was at its most repressive, it was also at its most corrupt. The racist state was criminalised by an elite that was not only bent on retaining exclusive political power but also wished to profit handsomely while doing so. It is also argued here that when its grip on power was waning the elite stepped up its efforts to plunder the country, moving money abroad, subverting secret funds and engaging in economic activities that would have a devastating long-term effect on the state. It would rob the poor of future opportunities, while entrenching old elites. These activities were criminal even by the apartheid state's skewed sense of legality. The law was broken, but it is suspected that only a few of the perpetrators were eventually prosecuted. This may have been the cost of our compromise as a society in 1994, or perhaps the consequence of a collective fear of what skeletons lie buried in the closet. It is also clear that the intergenerational nature of corruption means that some of those who were involved in corruption before 1994 now profit from the fruits of democracy. These are powerful interest groups that any society would find difficult to challenge.

It is argued that this report contributes in three ways to facing up to the past:

- It debunks the position that South Africa under white rule was 'corruption free'. Rather, the conditions of secrecy, oppression and authoritarian rule created a climate in which corrupt activity was stimulated. Huge slush funds were potentially rich pickings for individuals from both the public and private sector. Public perception that says otherwise is either deeply ignorant or racist (although the former can be a prerequisite for the latter).

- It stresses the need to see the link between the period between 1994 and today, to see how our society was fundamentally corrupted in the past and to highlight the need for South Africans to learn from these experiences in order not to repeat them. No society is likely ever to be free of corruption—however, the apartheid era provides a measure of how national integrity can be completely corrupted. This alone should encourage us to tackle corruption in a democratic South Africa with zeal.
- It asks difficult questions about how we deal with aspects of our past that are characterised more by questions than answers. Do we investigate and prosecute or just return the gaze on the past?

Facing up to the past requires some difficult questions to be answered:

- How do we deal with alleged perpetrators of corruption under apartheid who have never been brought to book?
- Do we need a TRC for economic crimes in South Africa?
- How do we start to learn from the mistakes from the past?
- Should those in positions of authority in the apartheid-era military and executive, who might have profited from corruption, at the very least be investigated to establish the source of their assets and where they are located?
- Should those in positions of authority within the private sector, who might have profited from corruption or illegally taken money abroad, be prosecuted?
- If so, which state agency would be best placed to do so?
- How do we ensure that this does not detract from current anti-corruption efforts but rather assists in building existing anti-corruption capacity?
- How do we deal with crimes of the past while ensuring that its intentions are communicated to all South Africans not as a witch-hunt but rather a step in the search for justice?

These are difficult questions that this research report cannot answer alone. A response is required from the National Anti-Corruption Forum and government to take these issues forward.

We are faced with two options in handling this matter. Both will have profound consequences:

- If our interest in the subject of apartheid-era corruption is limited to learning more about our history as a nation, then we will benefit, at the very least, from the wisdom of hindsight. However, this could also represent a missed opportunity, for as the past slips away so too do the perpetrators and witnesses to such crimes. Evidence of these crimes will be further erased over time and

money stolen will continue to enrich the beneficiaries of corruption. In taking this path, we choose to close the book on the past. Such a decision will not threaten the South African elite and will no doubt be welcomed by many. It will, however, probably always haunt us as a society. If billions of rands were stolen, this path means they will not be made available to be used for reconstruction and development. When we see the patterns of old replicate themselves in our democratic society, we will also have to admit that we have chosen not to fundamentally break these cycles.

- If we choose to forthrightly engage with the past, head on, through initial calls for more information and eventually criminal investigations, resourced by the state, we will have chosen a risky option but one which may reward us in many ways. It could help in seeing money returned to the country and long-denied justice being done. Many obstacles will have to be negotiated in the process: it cannot become a witch-hunt but should be a process owned by all South Africans. It should not detract from current investigations but should rather seek to ensure that the country's anti-corruption efforts are bolstered. It would require a change in the law, as commercial crimes 'age' after 20 years. If carefully managed, it could represent an important step in healing the divides that continue to scar this land. If not correctly handled, it could also entrench divisions within society, alienate private capital and impact negatively on South African society. However, if this is seen as a process, such obstacles could be negotiated step by step.

Democracy affords us, and especially so those who can influence policy, with choices over certain issues. The choice of how to deal with crimes of corruption under apartheid is now ours, as a society, to make.

This research suggests that the time for action is now and, though mindful of the associated risks, the second of the two options would be the more rewarding option for those committed to sustaining the fight against corruption in South Africa.



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## Notes

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*"Civil society will prepare a research report on crimes of corruption under apartheid and present these to the National Anti-Corruption Forum (NACF) for consideration within six months."*

Resolution of the Second National Anti-Corruption Summit  
held in Pretoria/Tshwane (22–23 March 2005).

*"...any simple straightforward truth about political institutions or events is bound to have polemical consequences. It will damage some group interests. **In any society the dominant groups are the ones with the most to hide.** Very often therefore truthful analyses are bound to have a critical ring, to seem like exposures rather than objective statements, as the term is conventionally used...For all students of human society, sympathy with the victims of historical processes and scepticism about the victor's claims provide essential safeguards against being taken in by the dominant mythology."*

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