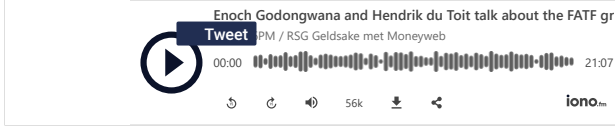


RSG Geldsake

# Enoch Godongwana and Hendrik du Toit talk about the FATF greylisting

The minister of finance and the CEO of Ninety One discuss the implications for the country, with the latter saying that we as South Africans 'must address the deeper malady, speak bluntly, and not accept feeble excuses'.

By Ryk van Niekerk 27 Feb 2023 19:46



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**RYK VAN NIEKERK:** On Friday the Financial Action Task Force, FATF, put South Africa on its grey list. That means that South Africa has failed to comply with international standards to combat corruption, money laundering and the financing of terrorism. The National Treasury has worked very hard in the past year to avoid this, but we have nonetheless been put on this list.

On the line we have Enoch Godongwana, the South African Minister of Finance. Minister, thank you so much for joining me. Were you surprised at the announcement?

**ENOCH GODONGWANA:** No, not a surprise, because we knew beforehand, but in terms of their rules we were not allowed to announce it.

Let me tell you what happened, why we knew. It was because there were 67 areas which they identified in their [mutual] evaluation report.

We then dealt with about [52 of them] – including legislation, as you are aware, we amended the money laundering and anti-terrorism financing acts with the broad amendment in 2022; we also dealt with a number of other pieces of legislation, but FATF doesn't tolerate 99%. We may have scored 99%, but they want 100%.

So we then knew that we'd clocked all of those 67, except for 15.

As for those 15 they then told us, okay, you have cooperated or provided more evidence; you must finalise the remaining ones by January 2025. What then happened is they greylisted us.

What does that mean? It means that South African businesses and transactions will be placed under what they call 'enhanced scrutiny'. It does not mean the end of trade relations with anyone. All it does mean is that in dealing with us there'll be what they call 'enhanced scrutiny'.

**RYK VAN NIEKERK:** The FATF warned South Africa in 2019, four years ago. Why could we not address all of those issues within four years?

**ENOCH GODONGWANA:** You are making a mistake. They started the evaluation in 2019 and issued their report in October 2021. That's when the report came out. They did the evaluation starting from 2019. Their report came in October 2021. The whole of last year we were working, including changing a whole range of legislation. As you know, in South Africa it takes longer to change even legislation. So we've done a lot of work within a year in order to deal with and close those loopholes.

**RYK VAN NIEKERK:** But it's a huge embarrassment for South Africa. We have a very, very well-developed and respected financial system, and this does not offer a lot of confidence in our ability to fight these things – because we have a corruption problem.

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Was it not possible to do it within the allotted time frame?



**ENOCH GODONGWANA:** Mr Van Niekerk, have you read the findings?

**RYK VAN NIEKERK:** Yes, I have.

**ENOCH GODONGWANA:** If you look at those findings, our financial sector is intact. There are no findings against our financial sector. Where the problem lies is on the prosecution side, which is something which we're beginning to deal with. Our financial system is well respected globally, and so it's not affected. That's why I suspected you didn't read the report properly.

**RYK VAN NIEKERK:** But it reflects that there are no prosecutions, or very few prosecutions. It does reflect badly on the financial system that the events show that possible corruption does not flow through to prosecution. Does that mean the problem lies with the prosecution authorities or with the financial system?

**ENOCH GODONGWANA:** Not with the financial system at all. As you have indicated, the financial system has been found to be solid. The outstanding matters relate to actions still to be executed, which government is going to demonstrate were actioned.

By the way, you will see that's why in the budget we're making more resources [available] to the prosecution authorities and the law enforcement agencies – not for FATF only, but because for the nation the crime levels are not acceptable.

So as a nation we've got to demonstrate, not only for the financial task team, but for our nation, we've got to make sure that we deal with crime and corruption not [only] in our interest – and we're making resources available over two consecutive years.

Now, if you have been following the budget process, in the year that we're ending now we're employing about 10 000 police, and over the next three years we'll be employing another 15 000.

**RYK VAN NIEKERK:** There are some issues remaining which need to be addressed as soon as possible. But what are the main outstanding issues which the FATF is concerned about?

**ENOCH GODONGWANA:** The remaining ones, not the main ones, are concerning us. I'm saying the remaining ones. There were other major issues that we have satisfied. The remaining ones relate really to action and are related largely to the investigation and prosecution of money laundering and terrorism financing.

**RYK VAN NIEKERK:** And what needs to happen for you to address those? Is it legislative changes or are there other processes and regulations that need to be amended?

**ENOCH GODONGWANA:** I said we've finished the legislative process. We brought [in] the General Laws Amendment Act last year, which has been assented to by the president. So legislative issues have been sorted out and FATF has accepted those legislative changes that are serious in relation to the law. What now is required is to tighten the investigation and the prosecution side of things.

**RYK VAN NIEKERK:** Is money the only solution to that problem?

**ENOCH GODONGWANA:** Money is not the only solution to that problem, but we have from our side to equip [the authorities]. Whether the prosecution authorities [have sufficient] resources is a different matter, where the relevant department is going to make sure that, with the relevant resources, they're going to make sure that people perform.

By the way, we have got an in-depth departmental team which works on this, and that departmental team is going to continue to make sure that even other departments that are still not performing well will do so.

**RYK VAN NIEKERK:** How long do you think it'll take for us to be removed from this list?

**ENOCH GODONGWANA:** I'm quite sure by the middle of next year we will have been removed.

**RYK VAN NIEKERK:** We'll have to leave it there. That was Enoch Godongwana, the minister of finance.

Hendrik du Toit is on the line now. He is the CEO of Ninety One, the biggest asset manager in South Africa and he is chatting with us from London.

Hendrik, a warm welcome to the programme. This seems to me a policy-implementation problem rather than legislation that is still not up to standard. What is your reaction?

**HENDRIK DU TOIT:** Good afternoon, Ryk. Good afternoon listeners. You will remember that we were the first public company to mention these things a year-and-a-half ago, warning that South Africa had to implement [policy]. It's not a question of just making laws, but also the implementation of what is required of us. And unfortunately SA's implementation record is abysmally poor, such as for example with the electricity situation. And now we are sitting with the spoils.

The good thing is that – and Minister Godongwana and his team need to be complimented on working very hard to pull chestnuts out of the fire – we have just a very short action list to implement in the next 12 months to get removed from the arev

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very often we don't see implementation in the next 12 months to get removed from the grey list.

Usually, if you get on the grey list, it's not really clear how to get off it. Now Team South Africa needs to work together – and to please stop just making plans, but to put words into action.

And I think we need the media, especially, to get everyone focused on this problem. Staying on the grey list for too long will prove very expensive for South African business.

**RYK VAN NIEKERK:** He said one of the critical things that needs to happen is for our prosecution authorities to be more efficient, that persons guilty of corruption, money laundering and the financing of terrorism must suffer the consequences – and that's not something we have seen happen over the past five years. During this period there has been an increased focus on that. Could the prosecution authorities possibly become more effective within the year?

**HENDRIK DU TOIT:** Where there's a will there's a way.

I think one should take promises with a pinch of salt, especially when you think that we are at the same position as Nigeria on this list, and Cambodia was recently removed from it. The standard is not that high.

I would suggest that an interministerial task team applies itself to this task and not a department. That is ultimately a leadership function.

What is actually being required of us *can* be done, and that's the important point. Whether it *will* be done is another matter.

I think those of us in the financial sector will need to keep talking, keep exerting pressure, because you have seen South African banking shares falling 2% to 3% following Friday's announcement. Ultimately that will have a huge impact, although not in the short term. In the longer term it will make it very difficult for South African entities to work with overseas institutions, but I don't think this problem will become evident within the next year if we tackle the problem as Team South Africa. I sincerely hope that people are hearing what we are saying here.

**RYK VAN NIEKERK:** I don't know whether we should or shouldn't but, hopefully, we might get a 'grey list minister'.

But what would be the consequences you now see because, as I understand it, it might not be the end of the world, but it is really hugely embarrassing for South Africa to be on that list. Could you say how people, analysts and investors in London have interpreted this news?

**HENDRIK DU TOIT:** Ryk, fortunately FATF's grey list is not the biggest news globally.

I think [former Eskom CEO] André de Ruyter's interview and the shocking reaction of the South African cabinet ministers to that interview did a lot of damage.

I don't think André de Ruyter caused damage; I think the shocking reaction did far more damage than this [greylisting] could have done.

But in time it will drive up the cost of business, access to international capital and quite simply confidence.

In practice, lights that do not normally go on flicker in the legal division or the risk division of a big financial institution if you get involved with greylisted entities, and that slows down processes and ultimately pushes up the cost of finance, which impacts businesses. That is over the longer term.

So this situation will not have an immediate impact, but in the long run it cannot be good. And especially for an economy like that of South Africa, which is dependent on international flows, it's not a good thing.

But I think the big issue that needs to be discussed is the silence around corruption and criminality that is so very obvious in the South African economy and state.

**RYK VAN NIEKERK:** What you are saying now colours this grey list a dark grey.

**HENDRIK DU TOIT:** Yes, but I'm saying the grey list itself is a symptom of a much deeper malady, and we as South Africans must now address this deeper malady, speak bluntly and not accept the excuses.

We are so often inclined to just accept an excuse or say, okay, things will be a bit better. We are approaching the point where things have to be done, otherwise we face a massive cost – and I think we have already seen that.

*Businesses, farmers and the like are complaining; they don't think it's white or black –*

businesses, farmers and the like are complaining, they don't think it's white or black all South Africans are currently suffering from this incredible [mess].

**RYK VAN NIEKERK:** I think the minister also said the prosecution authorities have to really start doing their thing, and that of course includes dealing with the happenings at Eskom and within those networks, and prosecute people.

But the minister also said that he expects that the things required to get off this list will be implemented within 18 months. What if 18 months is too optimistic and it takes two years? Will we suffer a lot of damage if it indeed takes two years for us to get off the list?

**HENDRIK DU TOIT:** I think the true damage will be remaining on that list. In the short term one can just patch the problem. That will be somewhat more difficult. Financial businesses such as ours and the banks and everyone have all made plans. We are ready for it, we have [developed] our strategies. We can thus work our way through this. But if we stay on the list, the reputation cost to businesses that refer back to their South African origin, such as ourselves, will be detrimental.

I think we now have to raise our voices strongly at every level, not just about this. If we leave Eskom like it is, and we listen to the feeble excuses, and we listen to a management team that is honestly trying to change things, and we accept that, then we can only hold ourselves responsible for the bigger mess we will find ourselves in.

**RYK VAN NIEKERK:** I hope that happens. Loud voices are needed.

Hendrik, thank you very much for your time this evening. That was Hendrik du Toit, the CEO of Ninety One.