

AFRICA RISK CONSULTING

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South Africa Summary 23 April 2019

The ruling African National Congress (ANC) releases its parliamentary list for the 8 May elections. The inclusion of members associated with corruption leads to criticism that President Cyril Ramaphosa (2018-present) has not kept his word to clean up the party. The ANC is nevertheless forecast to capture at least 60% of the vote in the elections. United States-based ratings agency Moody's keeps South Africa's sovereign credit rating at BAA3, one level above sub-investment grade, and the economic outlook at stable, after initially delaying the credit rating announcement. The department of tourism announces it will issue the first e-visas in New Zealand in April, fulfilling Ramaphosa's promise to do so in an attempt to increase tourism.

ANC headed for over 60% election win

The ruling **African National Congress (ANC)** released its parliamentary list for **South Africa's** 8 May elections on 14 March. The inclusion of members associated with corruption has led to criticism that President **Cyril Ramaphosa** (2018-present) has not kept his word to clean up the party. The ANC leadership has tried to address the criticism, but corrupt individuals will remain on the list for the election. South Africa uses a closed-list proportional representation system in which voters elect a party and the party chooses the candidates who sit in parliament based on its pre-election list. The aim is to ensure equal representation, but the party has used the system to allow cadre deployment rather than meritocratic appointment.

Despite criticism of the parliamentary list, the ANC is forecast to capture at least 60% of the vote in the elections. It will be the actions after the elections, not the election results, that will be significant for investors. Ramaphosa's actions to deal with a divided ANC and a faltering economy will be crucial to South Africa's future, particularly if he can use the criticism of the parliamentary list to remove his ANC enemies. In addition to criticism from ANC members, the public and media,¹ the **Independent Electoral Commission (IEC)** reportedly wrote its objections to the ANC regarding some of the candidates, particularly those implicated in the on-going state capture commission of inquiry that began on 20 August 2018.²

The ANC included all implicated members such as former ministers **Nathi Nhleko** and **Des van Rooyen** on the list, and also kept controversial members of parliament such as former home affairs minister **Malusi Gigaba**, minister of women in the Presidency and **ANC Women's League** leader **Bathabile Dlamini**, and former mineral resources minister **Mosebenzi Zwane**. It also added former **North West Province** ANC chair **Supra Mahumapelo** to its list.³ In response to the criticism, ANC secretary-general **Ace Magashule** said,

"You are talking about people that have never been charged with any crime or offence. Why do you want to single out people because they're out there in the media with allegations?"⁴

While it is true that none of the members are criminally charged, there were constitutional court findings against Bathabile over a **South African Social Security Agency (SASSA)** grants scandal, and

¹ Mail & Guardian, 3 Apr 2019

² IOL, 4 Apr 2019

³ News24, 15 Mar 2019

⁴ News24, 15 Mar 2019

Gigaba was found to have lied under oath in the **Oppenheimer Fireblade** saga.⁵ As for Magashule, his past offences as **Free State** premier have been in the spotlight in **Pieter-Louis Myburgh's** newly published book, *Gangster State*, and he has been using his political capital to fight any further investigations into his actions.⁶ Magashule has risen to become Ramaphosa's main challenger within the ANC.

In response to the criticism, the ANC referred the list to its internal integrity commission for review on 2 April.⁷ The integrity commission was formed in 2012 and is composed of party veterans. Its decisions are supposed to be binding, but its only previous decision – in which it recommended all **Limpopo** party officials implicated in the **VBS Mutual Bank** saga be removed from government – was not instituted because the integrity commission's terms of reference are still being finalised.⁸ In its current findings over the parliamentary list, the integrity commission recommended that 22 candidates, including deputy-president **David Mabuza**, withdraw their names from the list, but the ANC stated on 23 April that it would only deal with the controversial candidates after the election.⁹

While the ANC is legally not allowed to change the list after the 28 March cut-off date, it would have been unlikely to do so due to the internal split in the ANC between Ramaphosa and supporters of former President **Jacob Zuma** (2009-2018). The majority of those supporting Zuma are also those implicated in corruption and state capture and who offer the most resistance to Ramaphosa's planned reforms. Ramaphosa may have been handed an opportunity to remove many of Zuma's allies with the integrity commission's ruling, but he will struggle to do so because of Magashule's influence.

Despite the in-fighting, local pre-election polls show the ANC winning over 60% of the vote in the election, while the **Economic Freedom Fighters (EFF)** are likely to raise their share of the vote to above 10%.¹⁰ For Ramaphosa, keeping the ANC's strong majority will not help his cause to remove those opposed to his rule and reforms, but instead will strengthen their hand. For Magashule and others, a strong win in the elections – despite the continuing corruption and state capture allegations – legitimises Zuma's quote that the ANC will rule "*forever*"¹¹ no matter what the politicians do. This is an unlikely scenario, as South Africa is destined to become a country of coalitions. The question for investors is what kind of damage will occur to the economy and social fabric in South Africa before this happens?

Moody's holds SA credit rating above junk

United States (US)-based ratings agency **Moody's** kept South Africa's sovereign credit rating at BAA3, one level above sub-investment grade, on 2 April after it initially delayed its credit rating announcement.¹² Moody's also kept the economic outlook at stable.¹³ While this is a positive note for the country, the real test will be Moody's decision after the elections, particularly if Ramaphosa is not able to make sweeping changes to his cabinet and policies after winning a majority.

Moody's had delayed its announcement on South Africa's credit rating, which was scheduled for 29 March, causing



⁵ News24, 15 Mar 2019

⁶ News24, 2 Apr 2019

⁷ The Sowetan, 3 Apr 2019

⁸ The South African, 3 Apr 2019

⁹ Briefly, 23 Apr 2019

¹⁰ Daily Maverick, 23 Apr 2019

¹¹ Mail & Guardian, 8 Jan 2014

¹² EWN, 2 Apr 2019

¹³ IOL, 2 Apr 2019

the South African rand (R) to drop to a monthly low before gaining momentum after analysts noted that a downgrade was unlikely (see chart). Markets were wary of Moody's rating for South Africa as it is the only large ratings agency, including US-based **Fitch Ratings** and **S&P Global**, that has not downgraded South Africa's credit to junk. If Moody's were to join the other ratings agencies and downgrade South Africa's credit, then South Africa would be removed from the **Citi World Government Bond Index**, which it joined in September 2012, and asset managers would be forced to sell around R200 billion (\$14 billion) worth of South African bonds¹⁴ due to agreements to deal only in bonds from creditworthy countries (see *ARC Briefing South Africa* October 2018).

Moody's decision to not downgrade South Africa's debt, but also to keep its economic forecast as stable, demonstrates its awareness that President Ramaphosa is attempting to make reforms but that more time is needed. Trade and industry minister **Rob Davies** had also said on 27 March that he hoped Moody's would

"... see the improvements that are underway and ... cut us some slack."¹⁵

A decision to downgrade now would not only have caused major economic damage, but could have been portrayed as politically motivated given that elections are scheduled for 8 May. Moody's does take politics into account with its ratings and would recognise that Ramaphosa is more likely to make the reforms which Moody's and others have called for – namely ending massive payments to failing state-owned enterprises, fighting corruption and reforming economic policy – after the elections. Moody's also said that the strength of South Africa's judiciary and central bank, as well as its relatively deep financial markets also helped it to avert a downgrade to junk.¹⁶

Moody's and other ratings agencies will watch to see how Ramaphosa is able to perform after the elections. The ANC will win another majority in the national assembly, which should enable Ramaphosa to make the necessary changes. However, unless Ramaphosa is able to make a drastic political play to remove his ANC opponents, he will struggle to properly reform state-owned enterprises, limit calls for accelerated land reform, and reduce corruption. This would place South Africa on track for a downgrade to junk by the end of 2019.

South Africa introduces e-visas to boost tourism

The tourism department stated on 9 April that it will issue the first tourist e-visas for South Africa in **New Zealand** in April, fulfilling Ramaphosa's promise to do so in an attempt to increase tourism.¹⁷ The new e-visas should help to entice more tourism to South Africa and allows the government to encourage tourism from specific destinations. The e-visas will allow tourists to apply and receive the visa online rather than having to visit a South African embassy as in the past.¹⁸ The new visas will be piloted in New Zealand and then rolled out worldwide. Former home affairs minister Malusi Gigaba placed visas restrictions on New Zealand on 13 December 2016 after New Zealand imposed similar visa restrictions on South Africans in October 2016.¹⁹

Along with relaxed visa rules for minors announced in December,²⁰ the hope is that the new visa system will encourage more tourism to South Africa. The government is aiming for 21 million tourists by 2030, up from 10 million in 2018.²¹ The government is counting on increasing tourism specifically from **China** and **India**, not only for tourism, but also for business. Long-term multiple entry visas will also be available in the future.²²

¹⁴ Fin24, 31 Oct 2017

¹⁵ EWN, 27 Mar 2019

¹⁶ IOL, 2 Apr 2019

¹⁷ Business Insider South Africa, 9 Apr 2019

¹⁸ Business Insider South Africa, 9 Apr 2019

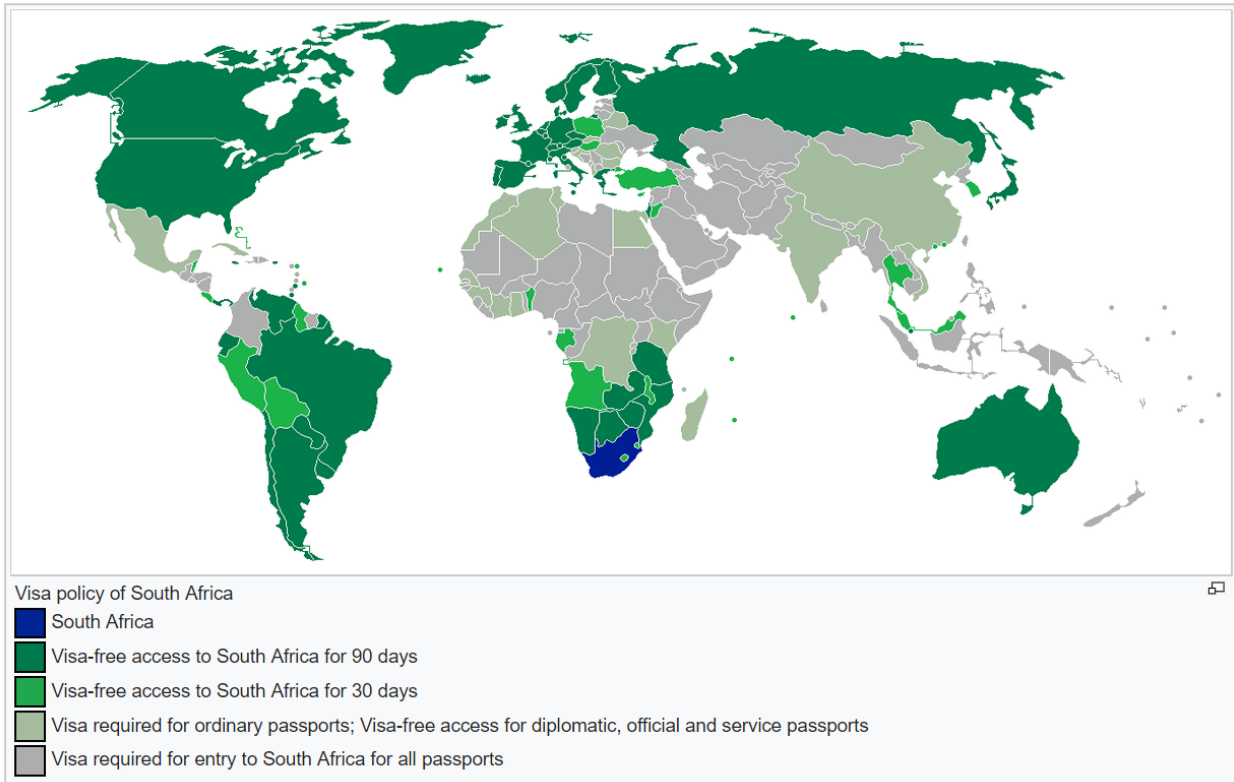
¹⁹ Traveller24, 13 Dec 2016

²⁰ BusinessTech, 5 Dec 2018

²¹ Business Insider South Africa, 9 Apr 2019

²² Business Insider South Africa, 9 Apr 2019

The new system is an easy way to encourage tourism and will be welcomed by local businesses. South Africa was still the most visited destination in **Africa** in 2018, despite a 1.9% year-on-year decline. It is facing competition from other African countries, notably **Ethiopia**, which saw a 48.5% increase in tourism in 2018.²³ For South Africa's numbers to grow, however, the government will need to improve not only the visa situation, but also the ailing state-owned carrier, **South African Airways**, which lost its title as Africa's largest carrier to **Ethiopian Airlines** in 2017,²⁴ and improve the country's image abroad away from reports of xenophobic attacks and violence-ridden cities.



Planner

8 May 2019: General election;

21-23 May 2019 **South African Reserve Bank (SARB) Monetary Policy Committee (MPC)** meeting;

16-18 Jul 2019 **SARB MPC** meeting

Chronology

19 Apr 2019 **Johannesburg (South Africa) BusinessTech**. The government reportedly pays R5 billion (\$355.2m) in emergency funds to state-owned **Eskom** to pay wages, bills and repay a bridge loan to **Absa Group Ltd**;

17 Apr 2019 **Johannesburg (South Africa) BusinessTech**. The **South African Reserve Bank** (central bank) warns that sustained power outages could lead to a 1.1% decrease from GDP and cost 125,000 jobs;

²³ The South African, 22 Mar 2019

²⁴ Business Insider, 9 Jun 2018

- 15 Apr 2019 **Johannesburg (South Africa)** *Business Day*. President **Cyril Ramaphosa** will not oppose the review application of the arms deal inquiry filed by NGOs **Corruption Watch** and **Right2Know**, which could have consequences for former President **Jacob Zuma**;
- 10 Apr 2019 **Pretoria (South Africa)** *Sowetan*. **Japan**-based automobile manufacturer **Nissan** will begin a \$213m upgrade of a **Rosslyn** plant to build the **Navara** model;
- 9 Apr 2019 **Johannesburg (South Africa)** *Citizen*. The **International Monetary Fund** forecasts 1.2% economic growth for **South Africa** in 2019 and 1.5% in 2020;
- 8 Apr 2019 **Johannesburg (South Africa)** *Business Insider*. The tourism department will issue its first e-visas in **New Zealand** in April as **South Africa** tries to revive its tourism sector;
- 8 Apr 2019 **Pretoria (South Africa)** *eNCA*. The **South African Revenue Service** says that the illegal economy cost South Africa almost R1 trillion (\$71 billion);
- 7 Apr 2019 **Durban (South Africa)** *Sunday Times*. Local media reports that former President **Jacob Zuma** hid \$30m of **Libya**'s former late President **Muammar Gaddafi**'s funds during the **Arab Spring** in 2011 in Zuma's **Nkandla** residence;
- 4 Apr 2019 **Pretoria (South Africa)** *702.co.za*. A **Pretoria** high court finds **United Kingdom**-based oil company **BP** guilty on eight counts of building service stations without environmental clearance, which could allow similar cases to be prosecuted;
- 3 Apr 2019 **Johannesburg (South Africa)** *Reuters*. State-owned power company **Eskom** chairman **Jabu Mabuza** says he would like Eskom's debt to be \$18 billion lower but does not elaborate on how this will be achieved;
- 2 Apr 2019 **Johannesburg (South Africa)** *Fin24*. **Morocco**-based businessman **Othman Benjelloun** says he will not support insurance company **Sanlam**'s acquisition of Morocco-based **Saham Finances SA** because South Africa supports the **Polisario Front** in the **Western Sahara**;
- 2 Apr 2019 **Johannesburg (South Africa)** *CBNC Africa*. **United States**-based ratings company **Moody's** keeps South Africa's sovereign credit rating at investment grade;
- 1 Apr 2019 **Johannesburg (South Africa)** *BusinessTech*. **BRICS New Development Bank** president **Kundapur Vaman Kamath** says the bank will approve \$2.3 billion in development financing for **South Africa** by the end of 2019;
- 1 Apr 2019 **Johannesburg (South Africa)** *Citizen*. The **South African Revenue Service (SARS)** collected \$91 billion in tax in 2018/2019, roughly \$1 billion short of its target;
- 1 Apr 2019 **Johannesburg (South Africa)** *Business Day*. **United States (US)**-based ratings agency **Moody's Investors Service** delays releasing its report on South Africa's economy, giving President **Cyril Ramaphosa** more time to implement structural reforms;
- 28 Mar 2019 **Johannesburg (South Africa)** *Daily Maverick*. President **Cyril Ramaphosa** names **Edward Kieswetter** as head of the **South African Revenue Service**, effective 1 May;
- 27 Mar 2019 **Johannesburg (South Africa)** *Business Day*. The **South African Minerals Council** files an application for judicial review of the 2018 mining charter;
- 27 Mar 2019 **Cape Town (South Africa)** *Daily Maverick*. Trade and industry minister **Rob Davies** says he hopes ratings agencies will "cut us some slack" in regards to the threat of a downgrade;
- 25 Mar 2019 **Johannesburg (South Africa)** *The Sowetan*. South African mining industry employer organisation **Minerals Council South Africa** says that over 90,000 jobs are at risk due to state-owned power utility **Eskom**'s electricity tariff increases;

25 Mar 2019 **Johannesburg (South Africa)** *BBC*. **Duduzane Zuma**, the son of former President **Jacob Zuma**, stands trial for culpable homicide.

22 Mar 2019 **Johannesburg (South Africa)** *Reuters*. President **Cyril Ramaphosa** says that state-owned energy company **Eskom** will receive 900 megawatts of extra power from **Mozambique** after damaged power lines were restored;

22 Mar 2019 **Johannesburg (South Africa)** *Tourism Update*. **South Africa's** tourism economy declines by 1.9% year-on-year in 2018;

21 Mar 2019 **Johannesburg (South Africa)** *Reuters*. **Goldman Sachs** says that planned power cuts will cut 0.3% off **South Africa's** first quarter gross domestic product;

20 Mar 2019 **Johannesburg (South Africa)** *Reuters*. The **South African Reserve Bank** (central bank) says that foreign direct investment inflows rose to \$4.88 billion in 2018, the highest since 2013;

19 Mar 2019 **Johannesburg (South Africa)** *BusinessTech*. Presidency minister for planning **Nkosazana Dlamini-Zuma** says that South Africa will introduce e-visas to encourage tourism;

18 Mar 2019 **Johannesburg (South Africa)** *Business Day*. State-owned energy company **Eskom** warns of severe power cuts until 20 March;

15 Mar 2019 **Johannesburg (South Africa)** *Reuters*. A labour court rejects an **Association of Mineworkers and Construction Union** request to hold an industry-wide strike;

14 Mar 2019 **Johannesburg (South Africa)** *Bloomberg*. The ruling **African National Congress** releases its party list for the May legislative elections, which includes many implicated in corruption under former President **Jacob Zuma**;

12 Mar 2019 **Johannesburg (South Africa)** *MoneyWeb*. Construction company **Group Five** files for bankruptcy protection, the fifth local construction company to enter business rescue in one year;

11 Mar 2019 **Johannesburg (South Africa)** *Business Day*. The **National Prosecuting Authority** says that former President **Jacob Zuma** should have been charged with corruption 15 years ago with **Schabir Shaik**;

10 Mar 2019 **Johannesburg (South Africa)** *Business Day*. The state-owned **Public Investment Corporation** says it will recover R4.3 billion (\$298m) from **Ayo Technology Solutions Ltd**.

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