

AFRICA RISK CONSULTING

South Africa Monthly Briefing January 2019

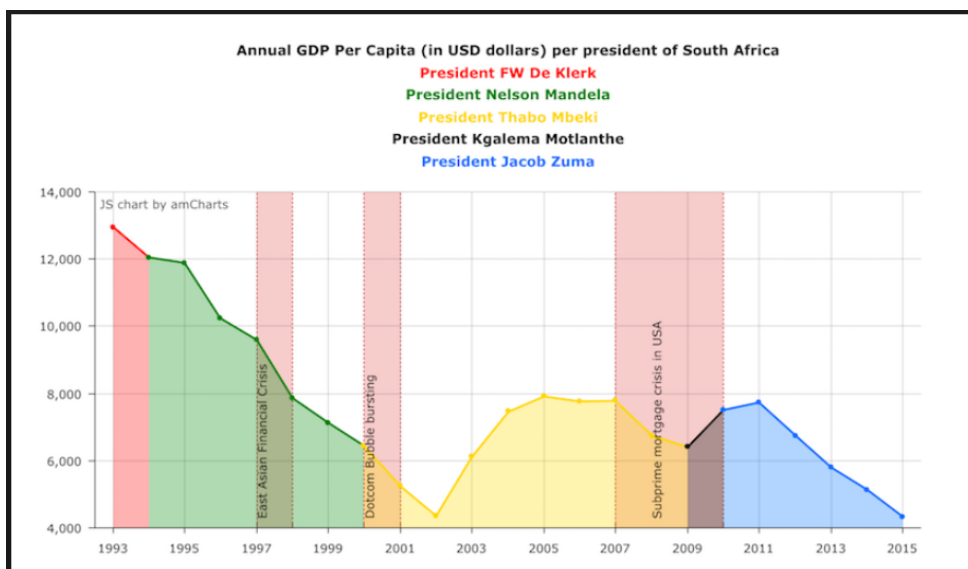
South Africa Summary 15 January 2019

The ruling African National Congress (ANC) outlines its 2019 manifesto and election campaign policies, promising economic and social transformation as well as reducing corruption. State-owned electricity company Eskom CEO Phakamani Hadebe asks the National Energy Regulator of South Africa (Nersa) for a 15% annual tariff increase over the next three years, in an attempt to solve the company's financial problems. United Kingdom-based telecommunications company Helios Towers announces its partnership with South Africa-based Vumatel that will result in fixed line infrastructure and 5G wireless rollout in South Africa.

ANC's election manifesto offers nothing new

South Africa's ruling party, the **African National Congress (ANC)**, outlined its 2019 manifesto and election campaign policies on 12 January, promising economic and social transformation as well as reducing corruption.¹ While no major new policies were announced, the ANC has put more focus on land reform than in previous years, which may spook investors and damage the economy. Several high-ranking ANC officials spoke during the event, which attracted over 80,000 supporters to **Moses Mabhidla** stadium in **Durban (Kwa-Zulu Natal Province)**.² The most important speech was that of President **Cyril Ramaphosa** (2018-present), who outlined the policies that the ANC hopes will allow it to retain its majority at the 2019 general elections.

Much of Ramaphosa's speech and the ANC manifesto focused on South Africa's economy, which slowed drastically during the tenure of former President **Jacob Zuma** (2009-2018).



Source: Biznews, 22 Mar 2016

In addition to the usual pledges to improve the economy and create more jobs, Ramaphosa focused on setting out an economic plan for more inclusive growth, which includes land reform and plans to

¹ PoliticsWeb, 12 Jan 2019

² EWN, 14 Jan 2019

broaden ownership of the economy.³ The ANC's need to focus on these issues has increased due to the strengthening of the opposition **Economic Freedom Fighters (EFF)**, which pledges to expropriate all land without compensation and radically transform the economy. The EFF's promises have excited voters, particularly those in rural areas from previously disadvantaged backgrounds who have struggled to find employment. The ANC stated on 8 January stated that it

"... can declare with confidence that both the ANC and the country have entered an era of renewal."⁴

This is clearly a veiled reference to the removal of Zuma and some of his allies, and an attempt to convince voters to give the party another chance. The main opposition parties, the EFF and the **Democratic Alliance (DA)**, have yet to outline their policies ahead of the election, but recent polls show that the ANC is likely to retain its majority in the national assembly.⁵ An **Institute of Race Relations (IRR)** poll from early December showed the ANC's support increasing to 56%, up from 52% in September, while the DA's and EFF's support both declined.⁶ One of the major reasons for the ANC's decision to push Zuma to leave in early 2018 was due to fears that the ANC could lose its majority in the 2019 elections. Ramaphosa's main goal upon taking office was to assuage these fears. According to the IRR poll, he has succeeded, while fighting within the DA (see *ARC Briefing South Africa November 2018*) and corruption scandals involving the EFF have hurt the opposition.⁷

The major criticism of the ANC manifesto is that ANC officials have made the same promises for the past 25 years and the plans are short on details of how the goals will be achieved.⁸ While valid, these shortcomings are unlikely to drastically affect the ANC's electoral numbers in the upcoming elections. The ANC will need to address issues within the party – such as factionalism and corruption – as well as in South Africa – improving the economy, its international reputation and service delivery – if it wants to keep its majority come the 2024 election. Despite Zuma's claims in 2014 that the ANC will rule forever,⁹ this is unlikely. Younger voters, who never experienced apartheid and do not have the same loyalty to the ANC as their parents, are now eligible to vote and are becoming involved in politics. An **Afrobarometer** poll shows that most South Africans believe the government is mismanaging economic policy.¹⁰ Continual poor governance will ultimately cost the ANC its majority, though this is not likely to happen in the elections scheduled for May.

Eskom seeks electricity tariff increase as it struggles to remain operational

Phakamani Hadebe, the chief executive officer of state-owned electricity company **Eskom**, asked the **National Energy Regulator of South Africa (Nersa)** on 14 January for a 15% annual tariff increase over the next three years, in an attempt to solve the company's financial woes.¹¹ Nersa is responsible for setting Eskom's prices and tariffs.¹² The massive tariff increase will harm the economy, though major changes are needed if Eskom is to remain a viable company. Hadebe stated that the increase was needed because, despite cost cutting initiatives, there is a balance sheet problem and that the finances

"...have reached a stage where Eskom, alone, cannot solve all the challenges it is facing."¹³

Eskom reduced its executive management from 21 to 10 in December as part of its cost-cutting measures.¹⁴ In early January, Eskom stated that the cuts would extend to lower ranking managers

³ PoliticsWeb, 12 Jan 2019

⁴ ANC NEC statement, 8 Jan 2019

⁵ News24, 10 Dec 2018

⁶ News24, 10 Dec 2018

⁷ Daily Maverick, 21 Nov 2018

⁸ Times Live, 14 Jan 2019

⁹ News24, 9 Jan 2014

¹⁰ www.afrobarometer.org

¹¹ Fin24, 14 Jan 2019

¹² Fin24, 14 Jan 2019

¹³ Fin24, 14 Jan 2019

¹⁴ CNBC Africa, 27 Dec 2018

and, in the future, to its 48,000-strong workforce.¹⁵ While major employment cuts will help Eskom's balance sheet, Eskom needs to do more to escape its debt trap. Eskom's debt has grown from R380 billion (\$27.5 billion) in January 2018 to R419 billion (\$30.3 billion) now.¹⁶ Debts costs are expected to grow to R600 billion (\$43.4 billion) over the next five years.¹⁷ Civil society organisations, such as the **Organisation Undoing Tax Abuse (Outa)** and the **Southern African Faith Communities Environment Institute**, have rejected the request for a tariff increase, stating that a tariff hike will not incentivise Eskom to reform.¹⁸

Hadebe has stated he is being transparent, that reforming Eskom will take a long time, and major reforms are on the way.¹⁹ Larger employment cuts and more drastic measures are more likely to happen after the election, as the ANC would not risk upsetting workers' unions and its voter base prior to the election. But even after the election, it is doubtful that the ANC would have the political will to make the changes necessary for Eskom to function on its own. The ANC has used Eskom for deploying politically connected cadres over technocrats,²⁰ which has led to major inefficiencies. The corrupt dealings of Zuma's regime involving the **Gupta's** and high-level Eskom executives have reportedly led to Eskom's current debt position.²¹

More than likely, the ANC will continue to use state funds to bail out Eskom, as hinted to in the ANC manifesto launch.²² In particular, the manifesto stated that the ANC would

*"...investigate the introduction of prescribed assets on financial institutions' funds to mobilise funds within a regulatory framework for socially productive investments (including housing, infrastructure for social and economic development and township and village economy) and job creation, while considering the risk profiles of the affected entities."*²³

This means that the ANC could force money managers, particularly those of state-owned entities such as the **Public Investment Corporation**, which manages South Africa's largest pension fund, the **Government Employees Pension Fund**, to fund organisations such as Eskom.²⁴ The language implies that the ANC plans to keep Eskom as a monopolised public corporation despite its economic and operational issues, and is thinking of new ways to fund Eskom despite its large debt accumulation. To do so would be a major risk to the South African economy, not only as electricity supply remains unstable but because the government will dictate to banks and asset managers to lend to Eskom, expanding the financial stress into other sectors of the economy.

SA mobile telecommunications sector set to improve

United Kingdom (UK)-based telecommunications company **Helios Towers** announced its partnership with South Africa-based **Vumatel** on 14 January, which will result in fixed-line infrastructure and 5G wireless rollout in South Africa.²⁵ Increased Internet access and cheaper data will promote entrepreneurship and investment in sectors such as FinTech. South Africa lags behind other **African** countries such as **Kenya** and **Rwanda** in this sector. Helios Towers is one of the largest tower companies in Africa, with operations in **Tanzania**, the **Democratic Republic of the Congo**, **Republic of Congo**, and **Ghana**.²⁶

In a further boost to South Africa's internet infrastructure, UK-based **Liquid Telecom** announced in late December that it would establish a multi-billion rand 4G network across South Africa.²⁷ Liquid

¹⁵ MoneyWeb, 4 Jan 2019

¹⁶ Fin24, 14 Jan 2019

¹⁷ Sowetan Live, 14 Jan 2019

¹⁸ EWN, 14 Jan 2019

¹⁹ EWN, 14 Jan 2019

²⁰ Business Live, 12 Dec 2018

²¹ Times Live, 12 Nov 2017

²² Citizen, 14 Jan 2019

²³ Business Live, 14 Jan 2019

²⁴ Citizen, 14 Jan 2019

²⁵ IT Web, 14 Jan 2019

²⁶ IT Web, 14 Jan 2019

²⁷ Tech.Africa, 24 Dec 2018

Telecom has invested heavily in Africa, and recently completed a ‘Cape to Cairo’ fibre link from **Cape Town (Western Cape Province)** to **Cairo (Egypt)**.²⁸

Increased access to mobile internet, particularly 4G and 5G, which provide faster data speeds, will benefit South African business and entrepreneurship, particularly FinTech. According to an **Ernst & Young** report, Fintech

“... is expected to attract more investment – particularly as Africa’s e-commerce sector starts to grow and as FinTech start-ups partner banks and mobile companies in markets such as Kenya, Nigeria, Tanzania and Zimbabwe.”²⁹

Better mobile coverage will allow South Africa to enter this sector, potentially increasing foreign direct investment and employment opportunities. South Africa has an 85% mobile phone penetration rate but a **Research ICT Africa** study found that those in the lowest socio-economic status do not connect to the internet. Improved internet access and stronger competition may drive data prices downwards, in turn stimulating South Africa’s social and economic inclusion.³⁰

Planner

17 Jan 2019: **South African Reserve Bank** Monetary Policy Statement release

4-7 Feb 2019: **(Cape Town) Investing in African Mining Indaba**

7 Feb 2019: State of the Nation address by President **Cyril Ramaphosa**

May 2019: General election

Chronology

14 Jan 2019 **Johannesburg (South Africa) Business Day**. State-owned power company **Eskom** CEO **Phakamani Hadebe** requests substantial tariff hikes and a bailout to avert financial disaster;

14 Jan 2019 **Johannesburg (South Africa) Engineering News**. **United Kingdom**-based telecommunications company **Helios Towers** partners with **South Africa**-based **Vulatel** to build wireless and fixed-lined infrastructure;

14 Jan 2019 **Johannesburg (South Africa) Reuters**. The **Association of Mineworkers and Construction Union** plans to strike at **Sibanye Stillwater**’s platinum operation, expanding the protests from gold mines;

13 Jan 2019 **Durban (South Africa) Citizen**. The ruling **African National Congress** launches its election campaign, promising free university education and expropriation of land without compensation;

10 Jan 2019 **Johannesburg (South Africa) EWN**. The **Kempton Park** magistrate’s court postpones the corruption trial of **Mozambique**’s former finance minister, **Manuel Chang**, until 17 January;

9 Jan 2019 **Johannesburg (South Africa) Business Day**. The **World Bank** forecasts economic growth of 1.3% for South Africa in 2019;

9 Jan 2019 **Johannesburg (South Africa) Sowetan Live**. Judge **Sagra Subroyen** dismisses an application to throw out a corruption case against **Mozambique**’s former finance minister, **Manuel Chang**;

8 Jan 2019 **Johannesburg (South Africa) CNBC Africa**. The **South African Reserve Bank** states

²⁸ Tech.Africa, 24 Dec 2018

²⁹ IT Web Africa, 14 Jan 2019

³⁰ 2OceansVibe, 27 Sep 2018

that foreign reserves reached \$43 billion at the end of December;

8 Jan 2019 **Johannesburg (South Africa)** *Business Day*. Trade and industry minister **Rob Davies** plans to double investments in special economic zones to R23 billion (\$1.6 billion) by the end of 2019;

7 Jan 2019 **Johannesburg (South Africa)** *Business Day*. State-owned energy company **Eskom** plans to extend its removal of executive positions to include lower ranking managers and the general workforce to cut costs;

7 Jan 2019 **Johannesburg (South Africa)** *Business Day*. An opinion poll shows that the ruling **African National Congress** will dominate the 2019 elections;

2 Jan 2019 **Johannesburg (South Africa)** *Business Day*. **South African Reserve Bank** deputy governor **Francois Groepe** resigns effective 31 January;

2 Jan 2019 **Johannesburg (South Africa)** *Business Tech*. The **National Minimum Wage** bill comes into effect, set at R20 (\$1.39) per hour;

1 Jan 2019 **Pretoria (South Africa)** *IOL*. **South Africa** assumes its seat on the **UN Security Council** until the end of 2020;

25 Dec 2018 **Lagos (Nigeria)** *Reuters*. **South Africa**-based telecommunications company **MTN Group** states on **Twitter** that it has resolved its \$8.1 billion repatriation dispute with **Nigeria** by paying a \$53m fine;

24 Dec 2018 **Johannesburg (South Africa)** *East African*. **South African Airways** plans to partner with **Air Mauritius**, **RwandAir** and **Kenya Airways** to create an alliance to improve efficiency;

23 Dec 2018 **Johannesburg (South Africa)** *Reuters*. State-owned energy company **Eskom** plans to reduce its executive management team to 10 from 21 to reduce its wage bill;

21 Dec 2018 **Johannesburg (South Africa)** *My Broadband*. **South Africa**-based telecommunications company **Liquid Telecom** plans to build a 4G mobile network across South Africa;

21 Dec 2018 **Cape Town (South Africa)** *Business Day*. **African National Congress** members nominate former President **Jacob Zuma** as a member of parliament;

20 Dec 2018 **Bloemfontein (South Africa)** *Business Day*. Former **South African Revenue Service** director **Tom Moyane** files papers for leave to appeal at the **Constitutional Court** after his dismissal in November;

19 Dec 2018 **Johannesburg (South Africa)** *Al Jazeera*. **South African Police Services** issues an arrest warrant for former **Zimbabwe** first lady, **Grace Mugabe**, for a 2017 assault after her diplomatic immunity is overturned;

19 Dec 2018 **Pretoria (South Africa)** *Reuters*. **International Monetary Fund** managing director **Christine Lagarde** states that **South Africa** has not requested a financial aid programme.