

AFRICA RISK CONSULTING**South Africa Monthly Briefing September 2018****South Africa Summary 11 September 2018**

Former President Jacob Zuma (2009-2018) and top African National Congress (ANC) officials reportedly meet in secret in Durban to plot how to remove President Cyril Ramaphosa (2018-present). Statistics South Africa (Stats SA) reports that South Africa's economy contracted 0.7% in the second quarter of 2018, pushing South Africa into a technical recession after a 2.6% contraction in the first quarter. South Africa-based financial technology start-up Yoco raises R245m (\$16m) from international and local investors in a private funding round.

SA media reports Zuma and allies plot Ramaphosa ouster

South Africa's weekly newspaper, the **Sunday Times**, reported that former President **Jacob Zuma** (2009-2018) and top officials of the ruling **African National Congress (ANC)** met in secret on 6 September in **Durban** to plot how to remove President **Cyril Ramaphosa** (2018-present).¹ Other ANC officials present reportedly included ANC secretary-general **Ace Magashule**, former **North West** premier **Supra Mahumapelo**, ANC Women's League secretary-general **Meekgo Matuba**, and ANC Youth League **KwaZulu-Natal (KZN)** secretary **Thanduxolo Sabelo**.² A meeting in **Umhlanga Rocks** reportedly also took place on 5 August, and involved Magashule, Mahumapelo and former **South African Airways** board chair, **Dudu Myeni**.³ Zuma was reportedly not present at the 5 August meeting.⁴

The **Sunday Times** reported that the officials met to discuss a strategy to challenge the outcome of the 2017 ANC national conference in which the ANC elected Ramaphosa as party president, which eventually led to Zuma's ouster.⁵ The plan was reportedly to challenge the election results on the basis of mass irregularities at branch meetings and claim a large number of illegitimate delegates.⁶ The legal strategy comes as the group – all Zuma allies who have lost considerable political power since Ramaphosa took office – tries other avenues to regain power.

The ANC has dismissed the allegations as "*sensational hot air*" and "*senseless gossip*".⁷ Sabelo lodged a complaint with the Press Ombudsman stating that he was not part of any meeting or aware of any plot to try to remove Ramaphosa.⁸

Although Zuma, Mahumapelo and Myeni have been pushed to the fringes of the party, Magashule is in charge of the day-to-day running of the ANC. Magashule appears to have concealed his presence at the meeting: his diary indicated he was to be in **Bloemfontein** on 6 September, and ANC KZN chair **Sihle Zikalala** stated there was no formal meeting scheduled for 6 September with Magashule or Zuma.⁹ Magashule reportedly denied meeting with Zuma, as did Mahumapelo and Matuba, despite a picture showing the three speaking with Zuma at the **Maharani Hotel** in Durban.

¹ Business Day, 9 Sep 2018.

² Business Day, 9 Sep 2018.

³ Business Day, 9 Sep 2018.

⁴ Business Day, 9 Sep 2018.

⁵ Sunday Times, 9 Sep 2018.

⁶ Sunday Times, 9 Sep 2018.

⁷ EWN, 10 Sep 2018.

⁸ News24, 9 Sep 2018.

⁹ Sunday Times, 9 Sep 2018.

According to an ANC insider, Zuma is still upset about his removal and has been actively attempting to hurt Ramaphosa and the ANC in the lead-up to the 2019 elections.¹⁰ Even with Magashule's reported defection, Zuma will find it difficult to unseat Ramaphosa and re-install his allies into power. Their only option appears to be at the ballot box, potentially hurting the ANC through in-fighting that removes Ramaphosa's eye from the electoral ball. The group may use the threat of poor electoral numbers to push through policies and ideas that are beneficial to them and their supporters. The threat of continuing in-fighting and a potential no confidence vote in Ramaphosa, reportedly led to Ramaphosa's 31 July announcement to support a constitutional amendment to expropriate land without compensation¹¹ – placating his opponents at least for a short while.

In the lead-up to the elections, South Africans can expect more political manoeuvring from both sides. Zuma's side will potentially work with **Andile Mngxitama's Black First Land First (BLF)** to push for more radical reforms on the land issue; Ramaphosa will attempt to continue reforms to right the economic ship while remaining captain.

South Africa enters technical recession but Ramaphosa still bullish

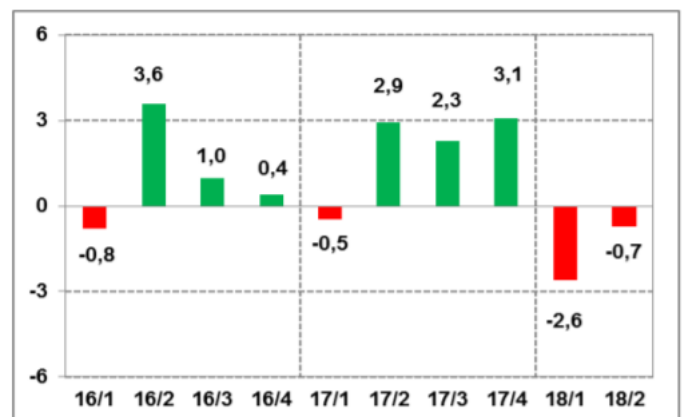
Statistics South Africa (Stats SA) reported on 4 September that South Africa's economy contracted 0.7% in the second quarter of 2018, pushing South Africa into a technical recession after a 2.6% contraction in the first quarter.¹² Stats SA initially reported on 5 June that the economy shrank 2.2% in the first quarter,¹³ but has since revised that figure (see figure 1¹⁴). The recession, the first in South Africa since the 2008/2009 global financial crisis, has put further pressure on President Ramaphosa to improve the economy.

The economic downturn is due to a large extent to a decline in agricultural production, which decreased 29.2% in the second quarter.¹⁵ The 17% increase in agriculture last year makes the decrease seem larger. The drought in the **Western Cape** as well as other weather issues around the country also contributed to a decrease in agricultural production.

Fears of expropriation of land without compensation do not appear to have contributed to the current economic downturn. However, it could lead to further economic malaise as several large banks have warned of financial catastrophe if the government begins expropriating land without due process.¹⁶ The state-owned **Land Bank** stated on 20 August that expropriation could lead to defaults that would eventually cost the government R41 billion (\$2.8 billion) if the Land Bank's rights as a creditor are not protected in any future expropriations.¹⁷

Parliament is currently debating the expropriation issue. As negotiations over changing the constitution to allow expropriation of land without compensation continue, the government will need to lobby extra hard to convince investors that South Africa is a stable destination in the long-term.

Figure 1 – Growth in GDP (%)



¹⁰ Sunday Times, 9 Sep 2018.

¹¹ BizNews, 11 Sep 2018.

¹² Fin24, 4 Sep 2018.

¹³ Fin24, 5 Jun 2018.

¹⁴ Stats SA, 4 Sep 2018.

¹⁵ Fin24, 4 Sep 2018.

¹⁶ Multiple sources: Moneyweb, 7 Sep 2018; Business Tech, 21 Aug 2018.

¹⁷ Reuters, 20 Aug 2018.

Ramaphosa and finance minister **Nhlanhla Nene** have downplayed the current recession:

*"[South Africans] should not be fearful and think that we're in a recession – we're not, this is going to be corrected. I have no doubt about it."*¹⁸

Following the Stats SA announcement, Nene stated that he plans to present economic structural reforms and a stimulus package in his **Medium Term Budget Policy Statement** in October to pull the economy out of recession.¹⁹ Nene did not stipulate what reforms are likely, or the size of the stimulus package, but said that some will be unveiled at Ramaphosa's investment conference, also in October.²⁰

Despite Ramaphosa and Nene's optimism, there is reason for concern. Nene noted on 10 September that the economic downturn could exacerbate revenue collection at the **South African Revenue Service (SARS)** and that SARS may miss its 2018 forecast.²¹ This would be SARS' third consecutive year of tax shortfalls.²² The announcement of recession also resulted in fears of a credit-rating downgrade. **United States (US)**-based ratings agency **Moody's** reduced its 2018 growth estimate from 1.5% to between 0.7% and 1%, and stated that South Africa's economy faced challenges due to a slowing economy mixed with increasing inflation due to higher fuel prices and rand depreciation.²³ Moody's is the sole global ratings agency to rate South Africa's sovereign debt above investment grade (not 'junk'), which allows South Africa to remain on the **Citi World Government Bond Index** and in other investment funds.²⁴ However, if Moody's downgrades South Africa's debt to junk, asset managers would be forced to sell South African bonds if an investment fund requires investment-grade ratings. This could lead to an estimated \$8 billion at risk of forced selling.²⁵

Opposition **Democratic Alliance (DA)** leader **Mmusi Maimane** blamed the recession on poor government decision-making. Maimane noted that other **African** economies are growing while South Africa has had five straight years of recession based on GDP per capita.²⁶ Maimane put forth several recommendations to curb the economic malaise, mostly relating to cutting government expenditure for state-owned enterprises and scrapping nationalisation policies.²⁷

Ramaphosa will not be able to follow the DA's guidelines with an election fast approaching. However, he knows that the ANC cannot run on a platform of reforming the economy if the economy continues to decline. Ramaphosa will need to temper political pressure to take drastic measures and buy himself time. Thus far, he has made many positive changes to South Africa's economy, but it will take time for these changes to take effect after a decade of economic mismanagement under Zuma. A sharp rebound is unlikely. The **South African Reserve Bank** has little room to raise interest rates due to rising inflation. Stable economic policy, as



¹⁸ Ramaphosa quoted in EWN, 8 Sep 2018.

¹⁹ Times Live, 4 Sep 2018.

²⁰ Times Live, 4 Sep 2018.

²¹ EWN, 10 Sep 2018.

²² Mail & Guardian, 10 Sep 2018.

²³ Fin24, 6 Sep 2018.

²⁴ Fin24, 6 Sep 2018.

²⁵ 10 Apr 2017.

²⁶ Business Tech, 10 Sep 2018.

²⁷ Business Tech, 10 Sep 2018.

well as clarity on the new mining code and land issues, may help the economy to emerge slowly from this recession.

Fintech start-up Yoco raises R245m (\$16m) in funding

South Africa-based financial technology start-up **Yoco** raised R245m (\$16m) from international and local investors in a private funding round on 6 September.²⁸ Yoco, which started in 2015, offers a debit/credit card reader and app which turns smartphones into payment terminals.²⁹ Investors include US-based venture capital firm, **Partech**; France-based corporate venture fund, **Orange Digital Ventures**; Netherlands-based **Entrepreneurial Development Bank**; and South Africa-based **FutureGrowth**.³⁰ Yoco chief executive officer **Katlego Maphai** said the company would use the funds to expand its network, which currently stands at 27,000 small businesses across South Africa.³¹ Yoco processes over R3.5 billion (\$231.5m) in card transactions annually.³²

The funding will allow Yoco to expand outside of South Africa, having already run pilot programmes in two markets.³³ The new investors have strong footprints in Africa, which will help to facilitate this expansion and bring point-of-sale software, as well as business intelligence, accounting integrations, and working capital financing, to small business owners across Africa.³⁴

The funding, while small relative to **Silicon Valley**-type funding, represents two positives for South Africa. First, it is extra foreign capital that will help to create more jobs, desperately needed in the current economic climate. Secondly, and perhaps more importantly, it may help to drive more financial technology start-ups in South Africa. Despite the large pool of skilled people in South Africa's fintech sector, a **Digital Frontiers Institute** survey in March 2018 found that fintech managers earned more in **Kenya, Nigeria** and **Tanzania** than South Africa, largely due to the growing fintech sector in these countries.³⁵ South Africa needs to implement policies that help to regulate innovation without stifling the initial entrepreneurship. All financial institutions – the SARB, the national treasury, the **Financial Intelligence Centre**, and the **Financial Sector Conduct Authority** – must collaborate to ensure the long-term potential of fintech in South Africa.

Planner

October 2018: Finance minister **Nhlanhla Nene** presents **Medium Term Budget Policy Statement** to parliament

12 Nov 2018: Proposed date for start of Zuma's trial

May 2019: Presidential election

Chronology

10 Sep 2018 **Johannesburg (South Africa)** *News24*. Belgium's foreign minister, **Didier Reynders**, pledges \$34.9m to **South Africa** for the process of land reform;

10 Sep 2018 **Johannesburg (South Africa)** *Reuters*. Finance minister **Nhlanhla Nene** states that tax revenue may be lower than forecasted due to a downturn in the economy;

9 Sep 2018 **Johannesburg (South Africa)** *Reuters*. The ruling **African National Congress**

²⁸ EWN, 7 Sep 2018.

²⁹ EWN, 7 Sep 2018.

³⁰ EWN, 7 Sep 2018.

³¹ EWN, 7 Sep 2018.

³² Business Report, 7 Sep 2018.

³³ BizNis Africa, 6 Sep 2018.

³⁴ BizNis Africa, 6 Sep 2018.

³⁵ Techfoliance, 24 Mar 2018.

disputes reports that former President **Jacob Zuma** and ANC secretary-general **Ace Magashule** are plotting to unseat President **Cyril Ramaphosa**;

7 Sep 2018 **Cape Town (South Africa)** *Reuters*. **Nedbank** warns that expropriation of land without compensation may trigger a banking crisis;

6 Sep 2018 **Johannesburg (South Africa)** *Reuters*. **South Africa**-based diversified metals company **African Rainbow Minerals** reports a 50% increase in profit in the 2017/2018 year due to gains from debt restructuring;

6 Sep 2018 **Johannesburg (South Africa)** *EWN*. Mobile payments company **Yoco** raises \$16m in a private funding round;

6 Sep 2018 **Johannesburg (South Africa)** *Business Day*. The ruling **African National Congress** blames former President **Jacob Zuma** for the current recession;

4 Sep 2018 **Johannesburg (South Africa)** *Reuters*. **South Africa** enters a technical recession as the economy contracts 0.7% quarter-on-quarter in the second quarter of 2018, after a 0.6% contraction in the first quarter;

3 Sep 2018 **Cape Town (South Africa)** *BBC*. A blast at South Africa state-owned munitions company **Denel** kills eight people;

30 Aug 2018 **Johannesburg (South Africa)** *Reuters*. Mines minister **Gwede Mantashe** aims to publish the mining charter by November;

30 Aug 2018 **Johannesburg (South Africa)** *EWN*. **United States (US)**-based ratings agency **Standard & Poors** states that **South Africa's** sovereign credit rating is unlikely to be downgraded further despite **Turkey's** recent downgrade;

28 Aug 2018 **Johannesburg (South Africa)** *Reuters*. The ruling **African National Congress** withdraws the 2016 expropriation bill that allowed the state to make compulsory purchases, in order to pass a new bill that allows expropriation of land without compensation;

27 Aug 2018 **Pretoria (South Africa)** *Reuters*. Energy minister **Jeff Radebe** cancels plans to add 9,600 megawatts of nuclear power by 2030 and will focus on renewable energy sources;

27 Aug 2018 **Cape Town (South Africa)** *FT*. The **United Kingdom's** prime minister, **Theresa May**, plans to use the international aid budget to deepen trade ties in **Africa**;

24 Aug 2018 **Johannesburg (South Africa)** *BBC*. Former deputy finance minister **Mcebisi Jonas** claims the **Gupta** family threatened to kill him if he disclosed they offered him a bribe;

23 Aug 2018 **Johannesburg (South Africa)** *Reuters*. State-owned utility company **Eskom** plans to reduce staff by 15% by 2023;

22 Aug 2018 **Johannesburg (South Africa)** *Reuters*. The presidency seeks clarity from US President **Donald Trump** over a tweet about land reform;

21 Aug 2018 **Johannesburg (South Africa)** *Africa Report*. Grocery store chain **Shoprite** posts first loss in 19 years as markets battle foreign exchange shortages and poor economic growth;

21 Aug 2018 **Johannesburg (South Africa)** *The Citizen*. Energy minister **Jeff Radebe** states that South Africa is looking to **Algeria**, **Equatorial Guinea**, and **South Sudan** for crude oil sources;

20 Aug 2018 **Johannesburg (South Africa)** *Reuters*. State-owned **Land Bank** states that expropriation of land without compensation may trigger defaults that would cost the government \$2.8 billion;

20 Aug 2018 **Johannesburg (South Africa)** *Al Jazeera*. The inquiry into state capture during former President **Jacob Zuma** begins;

20 Aug 2018 **Johannesburg (South Africa)** *News24*. Platinum miner **Impala Platinum** expects

its full year loss to increase due to impairments at the **Rustenburg** mine;

20 Aug 2018 **Johannesburg (South Africa)** *Reuters*. **South Africa**-based mining company, **AngloGold Ashanti**, posts \$99m earnings for the first half of 2018 compared to \$89m loss in the first half of 2017

19 Aug 2018 **Pretoria (South Africa)** *Daily Maverick*. Opposition **Democratic Alliance** names **Solly Msimanga** as its candidate for **Tshwane (Pretoria)** mayor in the 2019 elections;

19 Aug 2018 **Johannesburg (South Africa)** *Daily Maverick*. Lord **Peter Hain** requests a formal investigation into reports that **Brexit** supporter **Arron Banks** used funds raised by South African mines to fund the **leave.EU** campaign;

17 Aug 2018 **Johannesburg (South Africa)** *Reuters*. The **South African Reserve Bank** (central bank) states that a proposed nationalisation bill would not impact its independence or primary mandate of price stability;

16 Aug 2018 **Johannesburg (South Africa)** *Reuters*. President **Cyril Ramaphosa** agrees to set up a commission of inquiry in alleged government failures at the state-owned **Public Investment Corporation**;

15 Aug 2018 **Johannesburg (South Africa)** *News24*. **African National Congress** chairman **Gwede Mantashe** backs expropriation of land without compensation from owners of more than 12,000 hectares;

15 Aug 2018 **Johannesburg (South Africa)** *Reuters*. Mines minister Gwede Mantashe states that **South Africa**-based mining company **Gold Fields'** economic issues are due to poor management;

15 Aug 2018 **Johannesburg (South Africa)** *Reuters*. **United States**-based ratings agency, **Moody's** warns South Africa of its slow economic progress which may lead to a downgrade;

14 Aug 2018 **Johannesburg (South Africa)** *News24*. President **Cyril Ramaphosa** appoints **Silas Ramaite** as acting chief prosecutor;

14 Aug 2018 **Johannesburg (South Africa)** *Reuters*. Ramaphosa proposes setting up a sovereign wealth fund to boost economic growth.