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The 'premier league' of Free State, Mpumalanga and North West provinces appears to be backing National Assembly speaker and African National Congress (ANC) chair Baleka Mbete for the presidency. This alters the current balance and predictions on who takes over the running of the government in 2017 and most likely the country in 2019. The International Monetary Fund (IMF) revises its growth predictions for South Africa to 0.6% for 2016. Domestic and international economic confidence is low. The threat of a sovereign ratings downgrade and reduced spending suppresses the economy. Public enterprises minister Lynne Brown tells parliament that her department and the treasury are implementing a part-privatisation programme for state-owned enterprises (SOEs) including Transnet and South African Airways (SAA).

'Premier league' shifts support to Mbete for 2017 presidency

The 'premier league' group of provincial premiers has appeared to shift its support to **National Assembly speaker Baleka Mbete** in the 2017 election for party president of the ruling **African National Congress (ANC)**¹ in a last ditch bid to regain influence. The league is "bound by legal challenges over corruption" and its members are "not the force they once were".²

Some 4,000 ANC delegates will elect the next ANC president in 2017 at a national conference or *lekgotla*, which is held every five years. The ANC president controls the party and traditionally becomes the ANC's candidate for president in the election following the national conference.³ The next election is scheduled to take place in 2019.⁴ The premier league is a group of powerful provincial premiers that include **Free State Province** premier **Sekgobelo Elias "Ace" Magashule**, **Mpumalanga** premier **David Dabede Mabuza**, and **North West** province premier **Supra Mahumapelo**.⁵ These three premiers previously supported President **Jacob Zuma** (2009-present) in his bid for a third term as party president and current **African Union (AU)** president **Nkosozana Dlamini-Zuma** as national president.⁶

However, Zuma's slew of recent scandals, including a **Constitutional Court** decision that he had to pay back excessive spending on his **Nkandla** homestead and two concurrent investigations into his ties to the **Gupta** family, have reportedly rendered him unelectable within the ANC.⁷ Dlamini-Zuma, who remains in the running, reportedly resisted these premiers' insistence that she conform to their political agenda.⁸ Observers in South Africa did not consider Mbete, who has served as speaker since 2014 and as ANC chairperson since 2007, a credible candidate. However, Mbete told the press on 11 April that "many people have approached me to stand for president".⁹ Mbete has achieved national infamy for her frequent clashes with **Julius Malema**, the leader of the opposition **Economic Freedom**

¹ Rand Daily Mail, 18 Apr 2016.

² Source, ties to NUMSA Johannesburg

³ Daily Maverick, 19 Apr 2016.

⁴ Daily Maverick, 19 Apr 2016.

⁵ Financial Mail, 7 Apr 2016.

⁶ Rand Daily Mail, 18 Apr 2016.

⁷ Daily Maverick, 19 Apr 2016.

⁸ Daily Maverick, 19 Apr 2016.

⁹ Mail and Guardian, 11 Apr 2016.

Fighters (EFF), in the National Assembly, and for several breaches of parliamentary rules including allowing state security to jam media signals emanating from parliament. The Constitutional Court described her support for Zuma's spending on Nkandla as "unlawful".¹⁰ The **United States (US) Securities Exchange Commission (SEC)** implicated her in a \$1.7m bribe that mining firm **Gold Fields** paid to operate in South Africa.¹¹ Undeterred by a hostile popular outcry, Mbete appears to have started her campaign. The ANC renamed a ward after Mbete in **Mqanduli**, a town in **OR Tambo District Municipality in Eastern Cape Province** – an unusual move for living leaders.¹² Mbete has a poor reputation; sources inside the ANC describe her as a Zuma loyalist who is now looking for a new patron:

*"Mbete has come far on the back of other people, she helped Zuma become ANC president in 2007, now she needs a new sponsor. She is close to Mahumapelo and has few moral qualms about helping the premier league."*¹³

Mbete joins a field of potential candidates that includes deputy president **Cyril Ramaphosa** – the favourite of moderates within the ANC and big business – and Dlamini Zuma, the former preferred candidate of the premier league and Zuma. Sources within the ANC say that she is unlikely to win a nomination as she lacks the backing of **Kwa-Zulu Natal (KZN)**, the largest delegation.¹⁴ However, her candidacy keeps the race open:

*"Mbete could split the Dlamini-Zuma vote, handing an advantage to Cyril. Alternatively Cyril and Nkosazana could fight over the liberal vote and hand Mbete the presidency. It is wide open."*¹⁵

Confidence down as IMF lowers growth forecast

The **International Monetary Fund (IMF)** lowered its gross domestic product (GDP) growth forecast for South Africa for 2016 to 0.6% from 0.7% on 12 April.¹⁶ The announcement follows further political troubles and further evidence that high-level corruption in the state and poor confidence in President Zuma are continuing to depress market confidence. The IMF reduced its forecast for 2017 from 1.8% to 1.7%.¹⁷ Its 2016 forecasts sit below the forecasts of the treasury at 0.9%, and the **South African Reserve Bank (SARB)** at 0.8%.¹⁸ The **World Bank** also reduced its forecast for South Africa's economy in a report on 11 April, from 1.1%, to 0.8%.¹⁹ The World Bank specifically pointed to the ongoing "political crisis" as the source of the downward pressure.²⁰ A number of financial institutions including South Africa-based **Standard Bank** forecast growth at 0.5% and South Africa-based **Nedbank** is the most pessimistic with a forecast of 0.2%.²¹ According to IMF resident representative **Axel Schimmelpfennig**, South Africa may be on the brink of a further recession due to continued low demand from **China** keeping commodity prices low.²² According to local economic analysts:

*"South Africa is at a significant risk of entering a recession but this is not because of falling confidence but concrete economic problems. Beyond the low price of commodities the public purse is still burdened with an unpayable wage bill, labour disputes in the mining sector may resume over the coming weeks and major financial institutions are looking to disinvest."*²³

¹⁰ Daily Maverick, 19 Apr 2016.

¹¹ Daily Maverick, 19 Apr 2016.

¹² Mail and Guardian, 11 Apr 2016.

¹³ Source, ANC insider, Johannesburg

¹⁴ Source, ANC insider, Johannesburg

¹⁵ Source, ANC insider, Johannesburg

¹⁶ Business Day, 12 Apr 2016.

¹⁷ Business Day, 12 Apr 2016.

¹⁸ Business Day, 12 Apr 2016.

¹⁹ World Bank report, 11 Apr 2016.

²⁰ World Bank report, 11 Apr 2016.

²¹ Business Day, 12 Apr 2016.

²² Business Day, 12 Apr 2016.

²³ Source economic analyst, Cape Town

The threat of ratings agencies cutting South Africa's sovereign debt rating to below investment grade (junk status) also impacts confidence.²⁴ A survey of 16 leading economists in South Africa saw all but one predict that the country will face such a downgrade in 2016.²⁵ They agree that **Standard & Poor's** and **Fitch**, which both have South Africa one notch above junk, are highly likely to downgrade this year.²⁶ They believe **Moody's**, which puts the country two notches above junk, is marginally less likely to do so.²⁷ The threat of such a downgrade has kept the economy depressed since the start of 2016, leading some commentators to believe that it would not have a significant impact on growth, revenues or the budget deficit.²⁸ However, there would be an impact in the increased yields on government debt. According to an economist, a downgrade would

*"...increase the burden on servicing debt, taking money away from the public purse and the considerable infrastructure it supports...it will hit the jobless and the public sector hard."*²⁹

There is evidence that consumer confidence is low as well as that of international observers. The **Bureau for Economic Research** at South Africa-based **First National Bank (FNB)** published its consumer confidence index on 12 April.³⁰ It shows that household spending is at -9 on the index. This is an improvement from the record low of -14 in the fourth quarter of 2015 but still at its lowest rate since the 2009 recession where it dropped to -6.³¹

Brown launches privatisation programme

Public enterprises minister **Lynne Brown** told parliament on 6 April that plans to part privatise state-owned enterprises (SOEs) were underway.³² Privatisation is a politically controversial topic in South Africa and the left wing of the ANC has shut down previous attempts. Brown told the portfolio committee on public enterprises that several major SOEs were considering greater partnership with the private sector.³³ According to a source with ties to the unions:

*"It is against everything that the unions stand for to allow privatisation...but some of the SOEs are so bad that the unions will not come out against greater private sector involvement...they will not support it but there will be no strikes, and no protests."*³⁴

Rail, ports and pipelines operator, SOE **Transnet** is looking to attract private investment for new ports planned for **Buchu Bay** and **Port Nolloth** in the **Northern Cape** province.³⁵ Transnet will also look for private sector partners to run new inland terminals.³⁶ Incoming CEO **Siyabonga Gama** will push the new policy direction.³⁷ The cabinet appointed Gama on 13 April, ending a year of negotiation over the position.³⁸ Gama has served as acting CEO since April 2015.³⁹ He has worked for Transnet since 1994 and reportedly has the expertise to manage the company. However, concerns over disciplinary action Gama faced for irregularities in issuing tenders in a previous position held up the appointments process.⁴⁰ Tension between Gama and members of the board linked to the Gupta family,

²⁴ Business Day, 20 Apr 2016.

²⁵ Business Day, 20 Apr 2016.

²⁶ Business Day, 20 Apr 2016.

²⁷ Business Day, 20 Apr 2016.

²⁸ Business Day, 18 Apr 2016.

²⁹ Senior economist, in Business Day, 20 Apr 2106.

³⁰ Mail and Guardian, 12 Apr 2016.

³¹ Mail and Guardian, 12 Apr 2016.

³² Business Day, 6 Apr 2016.

³³ Business Day, 6 Apr 2016.

³⁴ Source, senior labour source, Pretoria

³⁵ Business Day, 6 Apr 2016.

³⁶ Business Day, 6 Apr 2016.

³⁷ Business Day, 20 Apr 2016.

³⁸ Daily Maverick, 13 Apr 2016.

³⁹ Daily Maverick, 13 Apr 2016.

⁴⁰ Daily Maverick, 13 Apr 2016.

who are under investigation for high level state corruption, also reportedly led to a delay.⁴¹ Gama is looking to diversify Transnet from its current business concerns. He is working on a “*refreshed business model*” to remove Transnet’s dependency on commodities where it relies on demand from China for commodities to fuel its shipping and transport businesses.⁴² Gama wants to move Transnet into fast moving consumer goods (FMCG) shipping, potentially in partnership with the private sector.⁴³

“Gama is as clean an operator as you could hope for, for someone who has worked within SOEs since the 90s...[former CEO Brian] Molefe trusted him to take on Transnet and keep it profitable...[Transnet] has led the way in SOE reform before and taking on more private sector involvement now could lead other SOEs to follow.”⁴⁴

The public enterprises department is also considering placing SOEs **South African Airways (SAA), SA Express, SA Airlink** and **Mango** under a holding company, which could then seek funding from a private sector equity partner.⁴⁵ Brown said the government would consider private sector involvement up to 25% of the group of companies.⁴⁶ However, the state is still undecided on whether to create a holding company for all four airlines, or to merge SA Express and SAA with SA Express operating as a brand name under the SAA flight code.⁴⁷ The minister expressed a personal preference for the latter as it would allow SA Express to operate as the budget line of SAA as the government originally intended.⁴⁸ Deputy public enterprises minister **Bulelani Magwanishe** confirmed on 14 April that SAA, SA Express and Mango were in talks over a potential merger.⁴⁹

Brown admitted that the government is finding it difficult to find private sector companies interested in buying into SAA.⁵⁰ The group is in a very poor financial position. The government is funding its debt after financial partners withdrew a line of credit in January (see *ARC Briefing South Africa January 2016*).⁵¹ Finance minister **Pravin Gordhan** is giving SAA until July 2016 to sort out its finances, including implementing an airline rental deal with **Airbus** that threatened to bankrupt the company in February (see *ARC Briefing South Africa February 2016*).⁵² SAA is currently without a chief executive as chair **Dudu Myeni** has sacked seven people from the position in the last four years. Myeni is allegedly Zuma’s mistress and continues to chair SAA despite successive finance ministers calling for her dismissal (see *ARC Briefing South Africa December 2015, January 2016*). According to a South Africa-based fund manager:

“I wouldn’t invest in SAA unless Myeni went and we were given carte blanche to cut the waste out of the business...the political exposure and debt burden make it a very unattractive investment.”⁵³

Implications

Baleka Mbete has reportedly had ambitions of running for the presidency for some time. However, her chequered record and divisiveness within the ANC had led most commentators to discount her from the race. Both the Ramaphosa and Dlamini-Zuma camps have approached her as a running mate due to her high rankings in the ANC’s **National Executive Committee**. However, Zuma’s rapidly declining popularity opens up a power vacuum for the premier league – who have significant

⁴¹ Daily Maverick, 13 Apr 2016.

⁴² Bloomberg, 14 Apr 2016.

⁴³ Bloomberg, 14 Apr 2016.

⁴⁴ Source, financial journalist, Johannesburg

⁴⁵ Business Day, 6 Apr 2016.

⁴⁶ Politics Web, 6 Apr 2016.

⁴⁷ Politics Web, 6 Apr 2016.

⁴⁸ Politics Web, 6 Apr 2016.

⁴⁹ ENCA, 14 Apr 2016.

⁵⁰ Politics Web, 6 Apr 2016.

⁵¹ Business Day, 6 Apr 2016.

⁵² ENCA, 14 Apr 2016.

⁵³ Source, fund manager, Cape Town

entrenched interests in the current administration – to fill. Mbete’s primary quality is loyalty. She has defended Zuma at every turn and appears unmoved by either public criticism or legal censure. The backing of the premier league – who allegedly control a large number of votes – now makes her a credible candidate. However the most likely course of action is that she will take votes away from Ramaphosa and Dlamini-Zuma. Working out how and where that will happen will now be key to working out the winner in 2017.

South Africa’s economy will remain on the edge of a depression until the government manages to implement wide ranging and effective structural reforms. The upcoming public sector wage bill negotiations in May are likely to coincide with a sovereign debt downgrade – demonstrating the lengths the government needs to go to stimulate growth. It may be that the economy will not get much worse in the event of a downgrade, but with banks already moving money offshore (see *ARC Briefing South Africa March 2016*) the prospect of the 5% growth the government is targeting becomes increasingly distant.

The issue of privatisation remains divisive in South Africa. The fact that the unions appear to be not protesting the private sector taking stakes in Transnet and SAA shows arguments about the lack of economic viability of the current system may finally be reaching them. However, privatisation requires healthy businesses – Transnet is likely to find partners for its profitable ports, especially if it embraces FMCG shipping. However, the government will need to undertake major reforms before SAA becomes an attractive investment opportunity.

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