

SOUTH AFRICA'S 2019 ELECTIONS:

The Never Ending Struggle





PRESIDENT CYRIL RAMAPHOSA

It is almost 25 years to the day that the world witnessed a remarkable event in south african history as huge snaking queues of voters heralded the end of apartheid and the dawn of a new democratic era. The African National Congress's (ANC) 1994 election victory was the pinnacle of a decades-long struggle to free South Africa from the tyrannies and injustices of apartheid. Yet 25 years on, the memories of Nelson Mandela's principled leadership are growing fainter and it will be a far more despondent set of voters heading to the polls.

South Africa's economy is in the doldrums, inequality remains acute and politics has been mired in a series of scandals and government blunders, which sit at the heart of the sombre mood. While an ANC victory is almost inevitable in the upcoming polls, the election will test confidence in the party and its current leadership. As such, it is likely to have a significant bearing on the kind of political mandate President Cyril Ramaphosa can take forward to pursue his reform agenda. Even with a strong mandate, questions will remain around the President's mettle and his ability to tackle the country's pressing political and economic challenges head-on rather than continue with the cautious approach adopted to date. This approach has been process-driven and incremental. It either sets a foundation for a party revival supported by stronger governance and a recovering economy, or it is indicative of a leader treading water to avoid a bruising internal battle with the ANC troublemakers who surround him in office for fear of the political forces this will unleash against him. Ramaphosa and the ANC's upcoming performance, and the party leadership's reaction to it will be intrinsically tied to the outlook for South Africa's broader economic and political recovery.

Our headline election scenarios are summarised below:

SCENARIO 1

WALKING THE TIGHTROPE {65%}



58-61%

- ANC vote share slips further but majority is comfortable
- Ramaphosa names streamlined cabinet with fewer controversial name
- ANC infighting persists



20-23%

- State capture prosecutions effort is highly politicised
- Ramaphosa gradually asserts authority and advances reform agenda though patchy in areas
- Economic recovery is slow and marked by setbacks and stiff union resistance
- Land reform settles on a pragmatic middle way
- Eskom is unbundled and partially privatised



10-14%

- Gradual institutional recovery
- Slow pace of reform progress and inability to tackle parastatal debt issue ultimately triggers Moody's downgrade, exacerbating economic situation
- Investor confidence is damaged but not destroyed

SCENARIO 2

THE ALLURE OF POPULISM {20%}



55-57%

- ANC is punished at the poll for under-performance and governance issues
- Voters favour EFF and minority parties over DA
- Ramaphosa's leadership comes under heavy pressure from his internal opponents in ANC amid effort to force him out



19-21%

- Compromise cabinet includes a number of controversial figures
- Policymaking becomes more influenced by populist pressures
- EFF cements status as a credible electoral force
- Talk of future need for coalition government
- Reform process is slowed and marked by multiple setbacks as vested interests assert themselves over a weak President



15-17%

- Land reform debate becomes more aggressive and fractious
- Eskom debt continues to deteriorate, weighing on public finances
- Moody's downgrade is swifter and exacerbates economic picture. Investor confidence falls considerably
- Efforts to remove Ramaphosa unsuccessful despite concerted push

SCENARIO 3

CYRIL PRESSES ON {15%}



62-65%

- Voters back Ramaphosa as the best option for bringing about economic revival and tackling the ANC's issues
- DA holds ground but fails to make notable gains while the EFF makes creeping gains but fails to become a central electoral force



20-24%

- Ramaphosa sees the election result as a validation of his approach and pushes forward his reform agenda
- Significant shifts in ANC power base to Ramaphosa's favour
- Streamlined cabinet with fewer controversial figures reassures investors
- Pragmatic middle ground found on land reform and other commission investigations and reforms progress well



8-11%

- Eskom reforms are far-reaching including as regards partial privatisation
- Rising investment and investor confidence boosts economic outlook
- South Africa avoids Moody's downgrade though debt management remains problematic
- ANC seen as a revivalist party, though socio-economic inequality and development challenges persist

THE ANC: SLOW DEMISE OR ROAD TO RECOVERY?

The story of South Africa's decline in recent years is also the story of the ANC's decline. As the party that spearheaded the struggle against apartheid's oppression, the ANC retains a privileged status in history and in the hearts of many South African voters. But the younger generation of 'born free' citizens has seen little from the country's current leadership to inspire hope and confidence that they are blessed with a government that will improve livelihoods and drive socio-economic transformation.

After almost a decade of wayward rule under former president Jacob Zuma, many hoped that the emergence of Ramaphosa as President in 2018 would trigger a revival of party and state fortunes. Zuma's rule was characterised by endemic corruption and cronyism, exploitative populism, policy blunders and broader economic mismanagement, which have either directly caused or at least augmented South Africa's economic decline over the last decade.

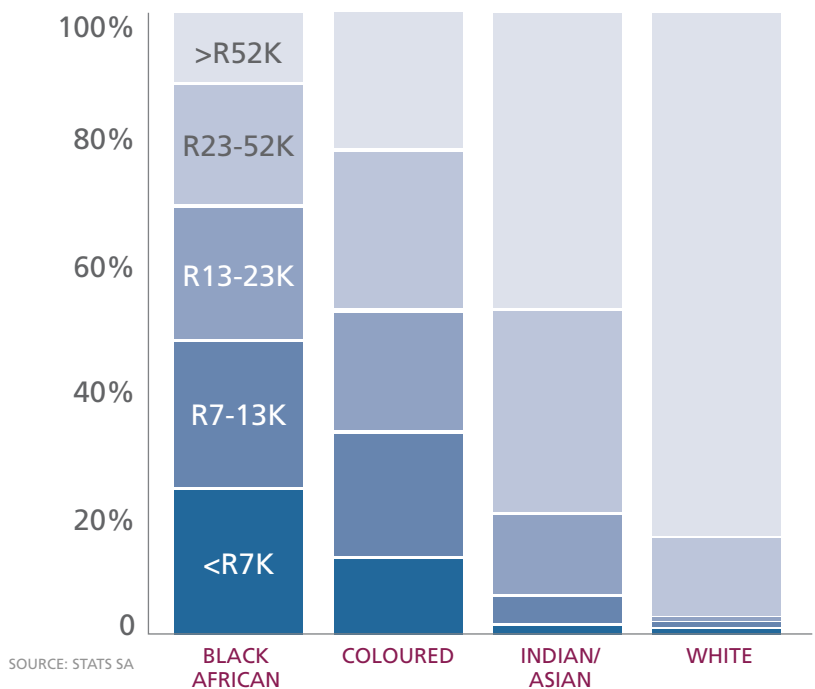


Ramaphosa's hard-won victory in the ANC's leadership succession was seen as a critical step to recovery. As a powerful former unionist and party statesman with a background in business and a reputation as a pragmatic reformer, he is widely seen as the best man for the top job. Indeed, since taking office, he has adopted several positive measures to tackle the rot and re-set the government's course. These include appointing proven technocrats to key positions in government, committing to a new style of governance,

opening commissions of enquiry to investigate abuses of power committed in the last decade, and launching a drive to attract greater investment and re-assure investors that the ANC is committed to providing greater policy clarity.

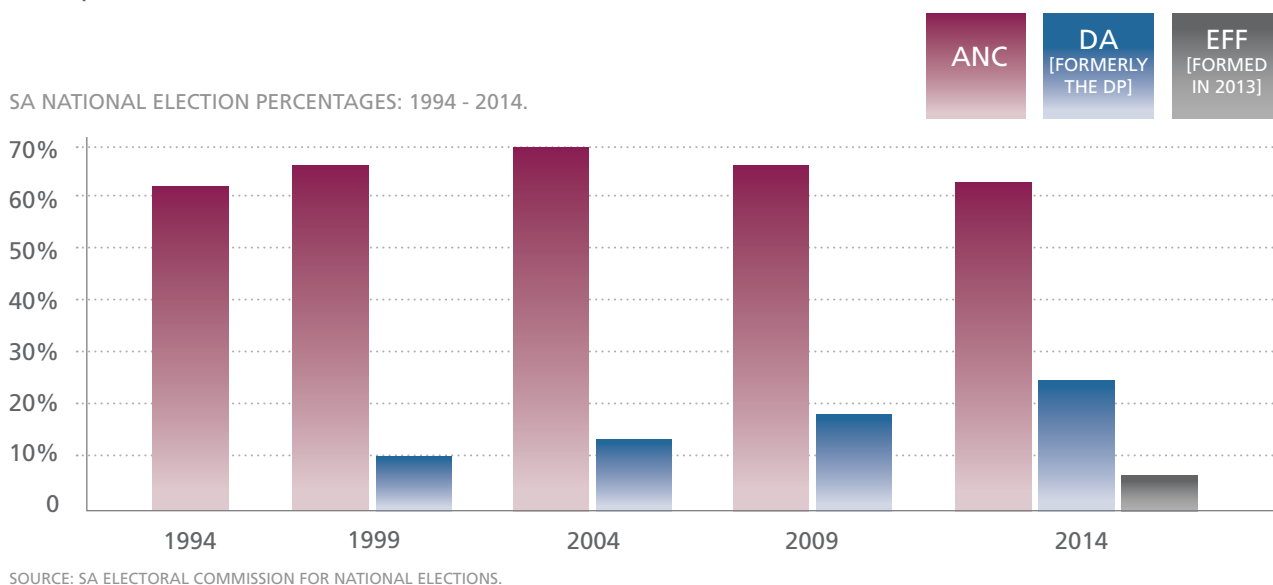
But the President faces a monumental challenge to turn around an economy that is structurally weak, public finances that are caught in a fiscal trap of rising costs and falling revenues, and a political party that remains riven by infighting and corruption. On top of this, there remains a pressing need to stay true to the ANC's foundational goal to achieve continued economic transformation and redress the chronic socio-economic imbalances left by apartheid.

HOUSEHOLD MONTHLY INCOME BY POPULATION GROUP. % (2015)



By and large, Ramaphosa remains a popular and respected figure in South Africa across political fault lines. Indeed, were it not for his leadership, there seems little doubt the ANC would be heading for an electoral disaster come election day on 8 May. Yet the initial goodwill and optimism that greeted Ramaphosa's rise to power has all but vanished as we head to the polls. The President's failure to achieve swift economic results, his inability to wrestle full control of his unruly party and reluctance to hold party members accountable for the abuses of recent years outside of a slow-moving judicial process will be at the forefront of some voters' minds as they head to the polls.

The mood in South Africa around the elections is sombre and levels of voter apathy or outright resentment towards the ANC - particularly among young voters - have risen. Even some of the most committed ANC voters may be holding their nose as they head to the ballot, especially given the controversial make-up of the party list that constitutes the ANC's internally-voted selection of candidates for elected office. As opposition parties have been keen to point out, a vote for the ANC is not just a vote of approval for Ramaphosa's leadership, but rather a vote that will bring back into office many highly tainted and controversial figures who make up the wider ANC party leadership.



Against this backdrop, the electoral campaign has been lacklustre and uninspiring. Thankfully for the ANC, the main opposition Democratic Alliance (DA) party has itself been mired in internal disputes and policy gaffes, while still struggling to overcome its legacy image as a party that was dominated by white leadership and interests in its formative years. Once hailed as the great hope of the party, its leader Mmusi Maimane has seen his star fall somewhat, while the DA's claims to represent the true 'rainbow nation' envisaged by Nelson Mandela continue to fall short of reality despite some progress in widening the party's appeal within the black voter base. As such, although the ANC will likely see its vote share further eroded this year from its last outing in 2014, including notably by the populist left-wing Economic Freedom Fighters (EFF) and their firebrand leader Julius Malema, the ruling party still stands to hold a comfortable enough majority to remain the country's driving political force.



FOUR ISSUES ARE LIKELY TO DOMINATE THE ELECTIONS & THEIR AFTERMATH:

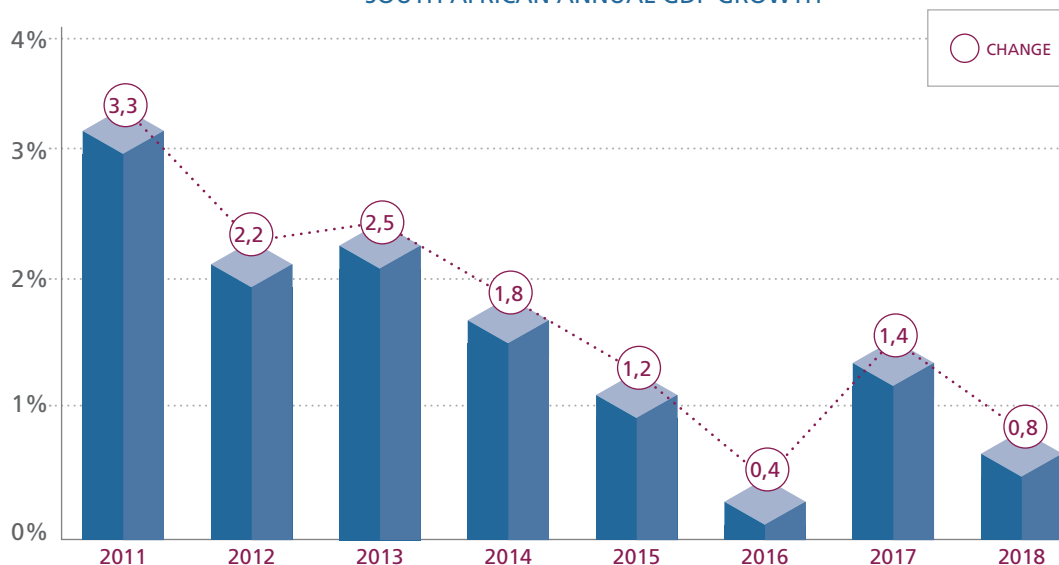


1} THE ECONOMY

South Africa's economy has been flat-lining for several years now, with small variations in performance largely driven by fluctuating mineral prices, agricultural production and manufacturing output. Policy uncertainty, governance issues and the failure to tackle structural issues in the economy have been central to the country's stagnant growth, declining investor confidence and volatile Rand. In the latest evidence of the economy's weakness, the IMF cut its growth projection for South Africa to 1.2% in April, making it one of the worst performers on the continent. Meanwhile, unemployment levels remain stubbornly high at 27%, according to official statistics - the real figure is thought to be nearer 40% if you include individuals who have given up searching for jobs. And the World Bank ranks South Africa as the most unequal society on the planet as a further indication of the deep structural issues the country faces.

Ramaphosa's approach to tackling the economy has been to set about a major investment drive, seeking to reassure investors over the ANC's commitment to policy stability and to sell the broader opportunities evident in South Africa's economies. There are signs he has made some success, with foreign investment levels more than doubling in 2018 to almost \$5bn. Yet the ANC remains inherently statist in its approach to some aspects of how the economy is run - not least because it is propped up by the country's powerful unions and is also shedding votes to the left where populist influences are gaining momentum. The radical EFF pledges that its policies to nationalise the country's mines and banks will bring an end to the exploitive capitalism that was a hallmark of the apartheid administration, also arguing that a more aggressive form of land expropriation will serve to reverse apartheid's injustices and empower black communities.

SOUTH AFRICAN ANNUAL GDP GROWTH



CONSTANT 2010 PRICES. SOURCE: GROSS DOMESTIC PRODUCT (GDP), 4TH QUARTER 2018.

While many observers recognise these populist pledges for what they are - a dangerous economic plan that could produce a Zimbabwe-style collapse and deeper social division - they are drawing a growing body of support, even somewhat surprisingly from the country's educated black middle classes. The risk of the EFF's policy agenda becoming truly mainstream remains limited for now but the party will continue to have a disproportionate influence over the ANC's policy approach due to the extent to which it is eroding vote share from the ruling party. Even Ramaphosa is alert to this threat from the left and has sort to curtail it, notably with his approach to land reform (see below). But in reality, economic policy under a Ramaphosa-led ANC is likely to tow a far more moderate and pragmatic line for all the headlines that may alarm investors in the meantime.



“If I were running a chicken farm and I kept on putting in inputs but I wasn’t getting any eggs, I would close it down.”

Finance Minister Tito Mboweni on under-performing parastatals.

One of the biggest challenges facing the government, handed to the highly capable Minister of Public Enterprises Pravin Gordhan, will be tackling the huge debt burden sitting in the country's parastatals, most notably utility firm Eskom, which has now accumulated debts of over \$29bn, weighing on the broader stability of public finances. Eskom has suffered from years of mismanagement, corruption and spiralling costs under the Zuma years which have left the parastatal unfit for purpose and structurally insolvent. The firm is selling roughly the same amount of electricity as it was a decade ago despite seeing its cost base quadruple. As with other parastatals, the Ramaphosa administration has undergone a process to clear out management, investigate the state of affairs and consider its options for reform and recapitalisation. Partial privatisations with some parastatals seem credible (including with Eskom) but parcelling off the debt will be challenging as was evidenced by the recent \$5bn Eskom government bailout, which has been little more than a stop-gap. And that is not to mention the challenges entailed in standing up to inevitable union resistance. This is likely to be a long and bloody battle which will test the government's mettle. But it is essential if South Africa is to face any chance of a recovery and brighter future.



2} GOVERNANCE

The issue of 'state capture' in which state contracts were routinely awarded to business cronies and state funds were plundered by political players through a variety of schemes under the Zuma administration is now well and truly out in the open. Since coming to office, Ramaphosa has launched a series of commissions of enquiry including the 'Zondo Commission' into state capture, the 'Nugent Commission' on the beleaguered tax administration authorities and the 'Mokgoro Commission' on the failure of prosecuting authorities to hold government to account. These initiatives have been welcomed by many, and have resulted in a series of damning revelations that extend far across the political and institutional system - including notably implicating senior figures within the ANC leadership.

But for now at least, this is the limit of the government's achievements. Nobody has ended up in jail yet and formal charges have been few and far between. In fact, many of the implicated figures still sit on the ANC's voting lists poised for a further term in power, including within the top tier of leadership. Lacking full control of his party which is deeply divided and replete with vested interests tied to the Zuma administration, Ramaphosa has been very cautious in allowing due process to play out and not intervening politically in what he views as a purely judicial process. As a result, he continues to stand shoulder-to-shoulder with several deeply implicated individuals, many of whom are working directly against his interests. But as the party list internal voting process showed, many of the party's branches are still loyal to Zuma and his allies, and Ramaphosa will struggle to control these at least in the short term. This is because the ANC's internal voting mechanisms give significant powers to the branches, many of which remain 'captured' or at least aligned to the patronage structures of the Zuma administration.

Accordingly, while we are likely to see more in the way of prosecutions going forward and the next cabinet may be 'cleaner' as Ramaphosa seeks to send out a message to his party on governance, his relatively weak control of party structures - which could risk being further accentuated by a weak electoral margin of victory - will limit the extent to which the President can fully hold his party accountable and drive changes in behaviour including by influencing the types of individuals gaining elected office. The hope remains that Ramaphosa will be able to use a second term to gradually tackle the rot and set clearer accountability structures that reward hard work and performance over cronyism and corruption. Though this remains to be seen.



3} LAND REFORM

Land reform is a highly emotive issue in South Africa, steeped in historical injustices and current imbalances in land ownership and broader wealth distribution. The policy debate is seen by many of the country's landowners - notably the white population and traditional chiefdoms - as a zero-sum game that directly threatens their interests. In reality, land reform could be a critical force multiplier for the South African economy, redressing deep flaws in the existing system and providing a legal framework through which the country can increase land ownership. Currently, only a third of the country's land is in private hands and a majority of this is held by the minority white population as a legacy of the apartheid era. However, the ANC's policy narrative of 'expropriation without compensation' is creating deep investor unease and the government is failing to manage communications effectively, such as the sabre-rattling from the left.

In reality, we anticipate the land reform debate will drag on well beyond the elections and will settle in a far less strident position than some pessimists predicting a Zimbabwe-style mass land-grab predict, with the process supported by a more robust legal process and institutional framework. It is important to note that there are huge economic opportunities in the land reform process. But the manner in which Ramaphosa handles a highly emotive and indeed high-risk exercise will be central to determining South Africa's future trajectory, given the need to drive investment and growth to counter the negative tailspin currently underway. The main focus of land reform is likely to centre on confirming deeds in informal dwellings, putting disused land into use and redistributing government lands, while protections are likely to be granted to commercial and residential property - including actively farmed land.



4} SERVICE PROVISION

Eskom's financial travails are symptomatic of a deeper failing in public service provision. Alarming, even where the government has been ploughing funds into state institutions, performance levels have been highly variable. Eskom is a case in point having received billions in investment to support modernisation and expansion of supply, much of which has been wasted through poor management decisions and procurement approaches, not to mention corruption. Meanwhile, the education sector receives more spending as a percentage of GDP than any country in the world but performs woefully on a series of metrics and international indices, performing below even some other African countries with far lower spend.



Poor service provision - ranging from increasingly unreliable power supply which has had a huge impact on productivity to the quality and evenness of teaching and health facilities - remains a major gripe for South Africans. Structural imbalances in infrastructure and services in poor black areas that existed during apartheid have also yet to be properly addressed, further accentuating this issue. The matter has been notably politicised during the electoral campaign with allegations that the ANC fomented unrest in local township municipalities the party had lost to the DA in local elections in 2016 in the lead-up to next week's vote.

State capture can certainly be blamed in part for poor service delivery, but South Africa still has some of the best established and resourced institutions on the continent, and South Africans expect greater improvements in this area. Change is likely to be incremental and variable between institutions depending on leadership and prioritisation. But a clear agenda on improving the quality of service delivery will be critical beyond the elections if South Africa is to take a more positive development trajectory.

CONCLUSION

South Africa remains Africa's largest and most mature economy, justifiably placed alongside other BRICS nations. It has the best-developed institutions and laws, the deepest financial markets and a strong track record on private sector innovation. Yet the country's economic stagnation under the Zuma years is a story of party and state decline. The 2019 elections mark a pivotal moment in shaping the kind and strength of leadership we are likely to see going forward from Ramaphosa. This will likely mark the moment when we see whether South Africa takes a reformist trajectory to tackle the rot that has set in and pursue the transformation agenda with balanced policies and decision-making, or falls into the trap of political gameplay and populist policy-making that could further damage the economy, harden racial lines and send the ANC into a further spiral of decline that pulls the country down with it. Much rests on the shoulders of Ramaphosa and how he handles his party in the elections aftermath. Many South Africans will hope that he can recover the spirit of Mandela's vision for a rainbow nation and move towards uniting citizens behind a committed economic and political reform agenda. But the future is by no means certain as the ANC battles with its demons and wrestles with its future direction. The election result will surely be a key determinant of what direction it takes.

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