Teneo

Insights

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Sub-Saharan Africa: Three Things to Watch in 2018

- Many Sub-Saharan Africa (SSA) countries are gradually confronting political sea change as long-serving rulers and dominant ruling parties face increasingly uncertain futures.

- Nowhere is this more apparent than in South Africa, where a divided ruling party will struggle to address urgent fiscal and economic issues ahead of elections in 2019.

- Growing sovereign debt poses a critical risk at a time when few countries have the political appetite or capacity to address their debt profiles, though there will be better and worse performers in 2018.

1. Political Sea Change For Autocrats And Party Juggernauts

The 2017 departure of two of the continents longest-serving leaders – Angola's Jose Eduardo dos Santos and Zimbabwe's Robert Mugabe – has raised expectations of a political sea change. Both transitions demonstrated that, rather than from Arab Spring-style street protests, change can come from within. For Mugabe's compatriots, including Equatorial Guinea's Teodoro Obiang, Cameroon's Paul Biya and Uganda's Yoweri Museveni, the end of an era in Zimbabwe and Angola also raises uncomfortable questions about their tenure.

Even more competitive democracies are facing unprecedented tests ahead of polls in 2018-19. Dominant ruling parties are confronting existential crises – namely the once unthinkable prospect of losing their electoral majorities in the next couple of electoral cycles – as electorates become increasingly disenchanted with liberation movements. Political powerhouses such as South Africa's ANC, Tanzania's CCM, Mozambique's Frelimo, Ethiopia's EPRDF and Uganda's NRM will have to grapple with varying degrees of electoral threats emanating from both internal and external pressures over the next couple of years. At least in some countries (for example in Tanzania and Uganda) these pressures will force ruling parties to resort to questionable, populist economic policies or using state resources to suppress external and internal dissent.

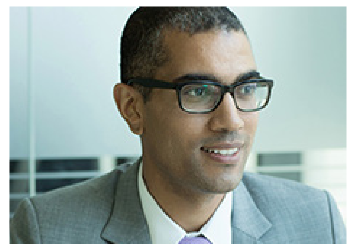
Tanzania's President John Magufuli may exemplify a new generation of leaders whose populist choices undermine state institutions and alienate foreign investors, but are broadly popular. An expected economic slowdown will coincide with increasing political tensions as Magufuli seeks to consolidate power following the CCM's lowest recorded presidential electoral performance of 58% in 2015. With diminishing checks and balances, the country risks economic and political regression. After a very public assault on the mining sector, the Magufuli government will likely seek tax concessions from other sectors, such as in the agricultural sector and financial services, to finance the government's ambitious industrialization plans.

Even in Nigeria, the political playing field – usually a two-horse race – is unusually unpredictable ahead of elections in 2019. Primaries likely in H2 2018 will cloud policy-making as the ruling All Progressives Congress (ACP) party decides whether to nominate President Muhammadu Buhari again despite obvious health and popularity concerns. Meanwhile, the People's Democratic Party (PDP) is still struggling to regroup from its unprecedented 2015 electoral loss. The weakness of both sides increases the possibility of an unprecedented run-off vote in 2019.

2. South Africa: Instead Of Renewal, More (Messy) Muddle Through

There is no better example of the problems facing established ruling parties than South Africa. While a reformist Deputy President Cyril Ramaphosa narrowly won the African National Congress (ANC)'s make-or-break leadership election in December, an even factional split among the party's top six

Anne Frühauf
Senior Vice President,
Teneo Intelligence, Mexico City



Ahmed Salim
Vice President,
Teneo Intelligence, Dubai

leaders will make for a messy showdown against scandal-dogged President Jacob Zuma. While the results unify the party and reduce the risk of a party split, the outcome signals more paralyzing internecine battles, rather than the much-needed renewal for the party and economy.

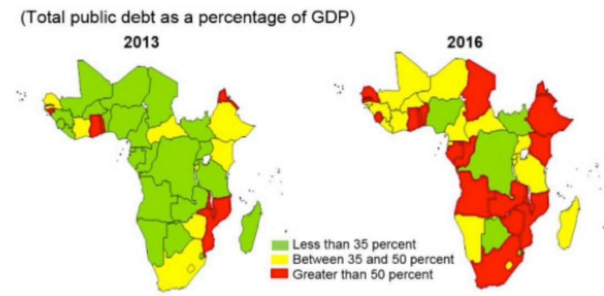
The divided top six will seriously constrain Ramaphosa's agenda. He faces four huge and immediate problems. The first is his now-limited ability to remove Zuma from the Union Buildings (i.e. as head of state). With a cleaner victory, Ramaphosa's team could have tried to remove the compromised president by February 2018. However, it is now much more uncertain when or whether Ramaphosa can try to secure Zuma's recall via the 86-member National Executive Committee (NEC) or, should he refuse to resign, via parliamentary impeachment.

The second challenge for Ramaphosa is to run a credible anti-corruption campaign while Zuma remains president and while some of the potential targets of his campaign serve right alongside him in the party's top leadership. Thirdly, the ANC president may struggle to stimulate economic growth through a 'New Deal' when the ANC's internal balance of power signals more messy compromises, rather than greater policy certainty around the contentious issues such as 'radical economic transformation'. The single most urgent challenge is to begin to fix the fiscal trajectory – which could see debt reach 60% of GDP over the next two years. However, there is little time ahead of the February budget, when the next round of critical credit rating downgrades looms.

3. A Growing Sovereign Debt Burden

Despite a modest acceleration in GDP growth, worsening debt profiles across most of SSA have raised sovereign risks over the last four years. As the International Monetary Fund (IMF) has cautioned, total public debt exceeded 50% of GDP in nearly half of SSA countries at the end of 2016. Particularly concerning is the fast growth of debt accumulation and debt-servicing costs as a proportion of revenue, which absorb more than 60% of revenue in Angola, Gabon and Nigeria.

A growing concern



Source: IMF, *World Economic Outlook* database.

Across sovereigns, the response has been mixed at best and few countries have embarked on serious reforms. One of the improving sovereigns is Ghana, which adopted an IMF program in 2015 and appears to have passed the worst of its debt crisis.

The outlook for a new round of IMF deals is mixed. In the Republic of Congo, where debt is estimated at 110% of GDP, the government may have little choice but to strike a deal with the IMF in 2018. In Angola, which remains in the thick of a severe debt and liquidity crisis, the presidential transition could yield greater political and fiscal adjustments, and speculation over a rapprochement with the IMF. By contrast, Zambia's President Edgar Lungu will try to avoid an IMF deal for as long as GDP growth and debt deadlines permit.

In Kenya, where debt stands at 53% of GDP, the biggest sovereign risk will be the country's fiscal and debt outlook as President Uhuru Kenyatta enters his final term. In 2018, a syndicated 2015 loan will be due as well as the first principal repayment of the country's inaugural Eurobond; in response Kenya will return to international capital markets to issue a second Eurobond. Without fast-tracking fiscal discipline and austerity measures there is a real risk of repayment delays and even default between 2018-2019. However, the circumstances will be significantly different as the country tries to recover from an unprecedented electoral crisis, sluggish credit growth, drought and a deteriorating debt profile.

By contrast, Mozambique remains stuck on the path of sovereign default, with little sign of turnaround other than from an uptick in GDP growth. The IMF has adopted a harder line on the need for disclosure around the country's USD 2bn debt scandal, fiscal consolidation and changes at the finance ministry. However, it remains politically difficult for President Filipe Nyusi to make significant concessions ahead of local and general elections in 2018 and 2019. As a result, it is highly uncertain if a reinstatement of financing from the fund – and a stalled debt restructuring deal with creditors – can be achieved in 2018.

Across the board, contingent liabilities have emerged as a particularly concerning area for the sovereign debt outlook, from Ghana to Angola and South Africa. In South Africa, the state-owned power utility Eskom now poses the single greatest risk to already strained public finances. Even in Ghana, contingent liabilities in the energy sector could threaten to derail the country's nascent recovery. SOE reform is urgently required across the board, but only a handful of countries will have the political appetite and capacity to get serious about sorting out parastatals.

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