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COUNTRY SPOTLIGHTS

South Africa

The IMF cut its forecast for South African growth for a second time this year to 0.7% citing policy uncertainty and raised central bank borrowing costs. Data released by Statistics SA (StatsSA) showed mining production has fallen by 8.7% compared with 2015 after a 5.5% contraction earlier this year. Agricultural production, another key sector, has also continued to weaken but SA retail trade sales grew 4.1% year on year in February with general retailers making the biggest contribution while textiles and pharmaceuticals contributed 0.8 and 0.5 percentage points respectively.

The SA Chamber of Commerce and Industry (SACCI) Business Confidence Index rose slightly with SACCI giving some positive economic data despite warning things could deteriorate again. There remain fears of another downgrade by ratings agencies which will have a further negative effect on investment confidence and weaken the Rand just when it shows signs of a slight strengthening. Nevertheless the Treasury successfully concluded a \$1.25bn 10-year bond issuance in the international capital market which was oversubscribed.

Events linked to the political crisis in South Africa continue to impact a fragile market under severe strain. Fractures in the governing African National Congress (ANC) are reportedly widening amidst increasing pressure from many sides for President Jacob Zuma to resign, something dramatically strengthened by the Constitutional Court judgement that Zuma has acted against the Constitution.

Finance Minister Pravin Gordhan is continuing his commendable actions to improve South Africa's image as a business destination and protect it from further ratings downgrades which political events help make a possibility, although Government moves towards a new Mining Charter are increasing uncertainty for businesses in the sector. The South African economy remains weak with global and local factors contributing to this. There are rising costs on many fronts, especially in food. Further interest rate hikes by the Reserve Bank are expected.

The overall trend in policy has remained supportive of an increased role for business alongside government to achieve improved economic growth and governance. This continues to be driven by Gordhan especially in his attempts to improve governance at South Africa's State-Owned Enterprises (SOEs). This month the Treasury announced that directors of state-owned armaments manufacturer Denel will face charges of financial misconduct if the board has formed its new joint venture Denel Asia without the permission of Gordhan, as has apparently taken place.

Commentators including some insiders have confidentially confirmed many reports in media that the ANC is rupturing with recent alleged revelations about the extent to which the Gupta family have been

able to influence government appointments and policies, through an influential relationship with the President. There are some in the party of the opinion that Zuma should be replaced, but not before the local elections now due on 3rd August this year. The choice of a successor is now a key issue and informal consultations have begun by some key ANC members despite the fact that an extraordinary ANC elective conference would have to be called for Zuma to be removed.

The realisation that business has to have a greater role in the country's economy and probably its SOEs has apparently been broadly accepted along with the need to prevent "state capture" by any single business interest. There is a growing understanding on many sides that more needs to be done to understand the other's interests and part of a new political dispensation could include an economic CODESA with such groups as the Economic Freedom Fighters (EFF) being very relevant participants.

News that the Department for Mineral Resources has gazetted a new version of the Mining Charter without consulting stakeholders has incensed business and labour. It has potential to undermine investor confidence around South African regulatory frameworks and increases the possibility for another ratings downgrade. The proposed version wants new mining rights to be 26 % owned by black entrepreneurs, communities and workers with this level of empowerment being maintained throughout the life of a mine. It also sets new targets for black managers and the procurement of goods and services from Black Economic Empowerment (BEE) compliant companies.

Elsewhere, the continuing key role of organised labour was underlined when challenges by the Food and Allied Workers' Union (FAWU) halted progress on the US \$108bn merger between SABMiller and Anheuser Busch InBev (AB InBev), despite the South African government and the companies having reached agreement. The manner in which this plays out has implications for major joint ventures in the country and the wider South African business climate.

Senegal

The co-operation between Turkey and Senegal entered a new phase recently, after the Turkish construction of the Abdou Diouf Conference Center (CICAD). In April, the ongoing financial woes of Senegal Airlines pushed President Macky Sall and his Government to dissolve it and to consider the creation of a new national company with a strong international partner. Turkish Airlines have been tipped to take on this role. During his recent visit to Istanbul, President Sall met with leaders of the Turkish company, who have reportedly seen the potential of Dakar as a hub of sub-regional air transport. The works for the Blaise Diagne International Airport (AIBD) are also being completed by two Turkish companies, Summa Group and Lumak Holding.

As in many countries around the world there has been substantial press interest around leading Senegalese figures mentioned in the so-called Panama Papers. Highly influential people in business and politics have been linked to Mossack Fonseca. No action has yet been taken against some of the individuals mentioned (some of whom have been linked to Mossack Fonseca in the past), although Mamadou Pouye (who was mentioned in the papers) is serving a prison sentence for illicit enrichment.

The development of the gas sector in Senegal is an ongoing priority for the Government. At a Cabinet meeting in January the President announced the discovery of a vast deposit of natural gas by Kosmos Energy estimated at 450 billion m³ in the Saint Louis exploration area. It is hoped that the discovery will allow Senegal to Senegal to profoundly reduce energy costs and increase revenues in the export of fossil fuels.

In the political sphere, Senegalese voters approved constitutional reforms during a March referendum. Parliament now has increased powers and presidential terms have been limited to 5 years (from 7). The Constitutional Council's role has also been strengthened. With the present

insecurity in the West Africa region, Senegal has upped its visible police and military presence, particularly at strategic political, business and tourist locations. The re-emergence of Ebola in Guinea also forced the government to put in more restrictive border controls.

Sierra Leone

The IMF project GDP, which continues to languish from the effects of Ebola overlaying a drop in demand for commodities, to grow by 4.3% in 2016 - from a 21% contraction in 2015, spurred by the resumption of iron ore mining. The Leone continues to devalue, with an official Dollar selling rate of Le 6006 (Le 6500 on the black market) from Le 4500 a year ago.

The World Bank has criticised government ambitions to build a second international airport, at a cost of \$300m, instead offering to bolster existing infrastructure around the existing airport. The Bank also highlighted the need to liberalise the international telecom gateway to Sierra Leone in order to reduce the costs of internet and communications and, on the fisheries sector, said they were discussing how to improve the sector, especially around the licensing of foreign fishing boats, and mechanisms to strengthen fishing services in the country. In the extractives sector, Shandong Iron and Steel Group (SISG) resumed iron ore production, shipping over 10 shiploads since the resumption of operations in February. Responding to a question on the government's position with regard to the highlighting of Sierra Leone in the Panama Papers, President Koroma said he hopes to review government's agreement with OCTEA. Sierra Rutile, which announced a second year of losses, raised \$20 million on the London market. Proceeds of the share placing will be used to increase production from its dry-mining operations. President Koroma expressed hope of attracting FDI to kick-start the economy, citing agriculture in particular. On 5th May 2016 Herbert Smith Freehills hosted Invest Sierra Leone, a forum dedicated to encouraging investment into Sierra Leone, endorsed by the Sierra Leone Investment and Export Promotion Agency, in London.

In the largest cabinet reshuffle of his presidency President Koroma made over forty appointments. Six ministers and deputies were relieved of their duties, and six transferred to other ministries or were given another appointments. Key moves were the transfer of Finance Minister Kaifallah Marah to head the Bank of Sierra Leone, while Bank Governor Momodu Kargbo will move to Finance. The Ministry of Trade and Industry, whose erstwhile head had been on sick-leave for over a year, will be led by Allieu Pat-Sowe, formerly of Fisheries.

The state of the economy continues to be the main topic of conversation for the public. Although some infrastructural development continues, most obviously the resumption of road building after the Ebola hiatus, key elements within the private sector have yet to resume business fully. Given the ongoing slump in commodity prices doubt continues as to when some will. For some, the recent, and long-anticipated, reshuffle was something of a disappointment. The moving of the respected Minister of Finance was considered surprising, although his caution with regard to government spending (and his presidential ambitions) are well known. The elevation of erstwhile head of the Anti-Corruption Commission to the Attorney General's office reawakened speculation that he is being groomed to succeed President Koroma when his term ends in 2018. In general however the announcement was seen as a lost opportunity by President Koroma to give direction to what some see as a listless government.

The issue of corruption is very much in focus, with social media awash with rumours. The release by popular songsmith Emmerson of a new song fiercely critical of government corruption and mismanagement has set tongues wagging, and made public issues that have been at the forefront of private discussions. The extractive industry has received particular attention; the Panama Papers exposé of the dealings of Beny Steinmetz's OCTEA, which stands accused of profit transfer through

the undervaluing of stones exported from Sierra Leone, and Bloomberg's, supposedly erroneous and since deleted, listing of President Koroma as an officer in local affiliate Koidu Holdings.

Burkina Faso

Burkina Faso's landlocked economy still relies heavily on agricultural production. Deeper structural and institutional reforms are critically needed to maintain stability, diversify the production base, and ensure long-term economic development. A new mining code adopted in June 2015 is intended to standardize contract terms and provide greater clarity on regulations. Burkina Faso's 2016 Economic Freedom Index score stands as 59.1, 104th in the world, denoting that it is a "mostly unfree" economy. There are particular concerns around property rights, corruption and regulatory efficiency. The systemic weaknesses in the protection of property rights particularly hinder the development of a more dynamic entrepreneurial environment. Little progress has been achieved in the fight against corruption. The weak rule of law, exacerbated by ongoing political turbulence, continues to undermine investor and consumer confidence.

Burkina Faso has an average tariff rate of 8.4 percent. Importation of goods is time-consuming and expensive. State-owned enterprises distort several sectors, including electricity and mail delivery. The government has pursued banking liberalisation and restructuring, encouraging competition in the financial sector, but banking remains underdeveloped and provides a low level of access to basic financial services. The government has recently adopted a National Plan for economic and social development for 2016-2020 period, although the plans and projects therein are still subject to funding. In June 2016 the Government is due to meet the development community and investors to discuss funding arrangements.

In April, President Kaboré received the President of Endeavour Mining, Sebastian Montessus . They discussed the construction of the Houndé gold mine (an investment of 200 billion FCFA), job creation and social development. The President also hosted a delegation from the Czech Republic. The visit focussed on strengthening co-operation between the two countries, good governance and development needs.