Consumers are spending more and investors are showing greater confidence in the South African economy under the new president. However, question marks remain over the direction of reform.

Investors look to capitalise on the 'Cyril factor'

As an investor in around 200 fast food outlets and 45 pharmaceutical stores across South Africa, Marc van Olst views shopping mall footcount as a key indicator of the health of the businesses. But as the economy stuttered and the Zuma administration lurched from one economic strategy to the next, statistics in recent years made for undeniably grim reading. With footcount in the malls dropping by an estimated 5–10% per year and total retail spend in their trading zones down by 10–15% over three years, van Olst's Spinnaker Growth Partners were forced to hold off on investments in new stores and supply chain improvements.

Yet since the appointment of Cyril Ramaphosa as president, van Olst says an overdue but welcome revival in consumer confidence is underway.

"I'm feeling considerably more optimistic… the mood has already meant that we are seeing steady improvements in sales over the last three months even though there cannot have been any real change in disposable income yet. People are still as poor but maybe not as worried about what will happen in the future and spending with a bit more abandon," he says.

For investors across South Africa alienated by the Zuma administration's anti-business rhetoric and erratic economic policies, the election of Cyril Ramaphosa – himself a multi-millionaire investor, mining magnate and former union boss – offers the chance for a fresh start. Private equity and infrastructure investors who have spoken to *African Business* say that the "Cyril factor" means that they are eager to ramp up investment following years of muted activity and damage control.

"The first thing we think will be different going forwards is the relationship between government and business," says Jacci Myburgh, head of Old Mutual Private Equity. "I think that's been a bit dysfunctional over the last five to eight years and that's not positive for the economy or growth. We think that Cyril has quite a deep understanding of what it takes to alleviate poverty, create jobs, reduce unemployment and grow the economy."

> "The indicators are all in the right direction but the new president has got a fine balancing act.

That confidence has been bolstered by Ramaphosa's first cabinet reshuffle, which returned respected pro-business voices Nhlanhla Nene and Pravin Gordhan to government as minister of finance and minister of public enterprises respectively. There has been a noticeable shift in rhetoric towards the business community, with the president vowing to cut down on red tape and offer regulatory certainty to the mining sector.

While there is a renewed sense of momentum after the inertia of recent years, the scale of the task remains immense in an economy that hasn't seen more than 2% growth per annum since 2013. Furthermore, the partial nature of Ramaphosa's victory at December's ANC conference, where several opponents were elected to leading party positions, means that his natural pro-business instincts may be tempered by compromise.

"I think the biggest thing for us right now is just positive momentum," says Jurie Swart, chief executive at African Infrastructure Investment Managers.

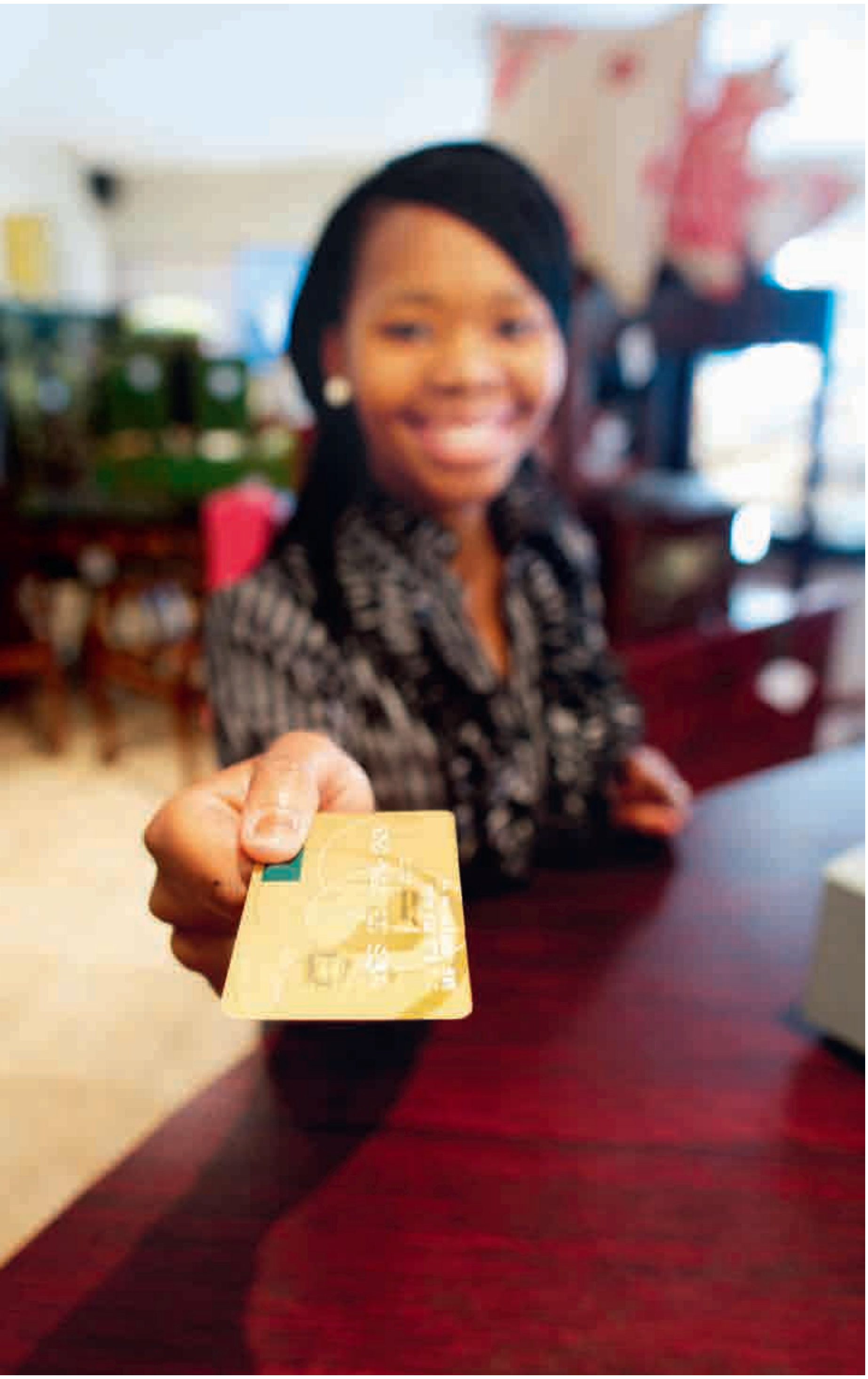
"The indicators are all in the right direction but we've got to appreciate that the new president has got a fine balancing act. He's been given a mandate but in many senses that's a partial mandate. He's not going to take short-term gains and give up the long-term target."

Policy moves

While there is a broad consensus among investors that Ramaphosa's election is positive news for the business community, there are varied perspectives on the kind of reforms that the president should prioritise as he

2%

The South African economy has not seen more than 2% growth per annum since 2013.



looks to rebuild South Africa's credibility as an investment destination. For private equity investors, who largely invest in small and medium-sized companies, there is a surprising focus on the need to revive the fortunes of the largest industries – particularly outside the business capitals of Johannesburg and Cape Town.

"As much as we like the idea of entrepreneurism and SMEs, what the consumer economy really needs is job creators – it needs big industry to come back," says van Olst. "If we can reverse the economic decline in second-tier towns it gives us a massive opportunity to expand… no small business can significantly improve job prospects in markets of those sizes. The second thing is that social grants must stay."

Investors are particularly keen to see a revival of the country's stuttering mining sector, a historic engine of South Africa's economic growth that has stagnated amid regulatory uncertainty and the botched introduction of the Mining Charter. A revival of the strategically important sector – made possible by Ramaphosa's replacement of mining minister Mozebenzi Zwane by veteran Gwede Mantashe – could have positive implications for remote towns dependent on inactive shafts, while feeding into other areas of the economy.

"There's been some dysfunction between the mining industry and the government and Ramaphosa will look to change that," says Myburgh. "If that changes that gives investors the confidence again to get the wheels going and actually invest. Typically the mining sector flows to other sectors like manufacturing… those are two big employers and if we remove red tape and enable those to grow again as they did in the late 2000s, that could be very positive for the economy."

In order to convince the largest investors to spend, there will need to be significant improvements to the country's basic infrastructure, which has stagnated amid widespread dysfunction and corruption at state-owned enterprises (SOEs).

After years of financial mismanagement and boardroom strife, power utility Eskom is in a desperate fight to turn around its precarious financial position. Ramaphosa's appointment of a new board – led by chairman Jabu Mabuza – represents the positive start that businesses are looking for, but power and water problems persist.

"We're starting to struggle with water in some locations, there's now a whole bunch of places that we can't get reliable water supply. Power always affects us – we lose a day's sales with three to four hours' power outage," says van Olst.

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> A quick win could be secured by the relaunch of the renewable energy investment programme.

Above: A South African power plant that uses biomass to produce energy.

Infrastructure improvements

Infrastructure investors argue that a quick win could be secured by the relaunch of the renewable energy investment programme, which was allowed to lag after three successful rounds as the Zuma administration mulled expensive nuclear projects. Swart says that the potential cancellation of the controversial nuclear programme, alongside reform at Eskom, offers hope of the renewable scheme's imminent revival.

"For us the biggest disappointment of the recent past has been the slowing down of the renewable energy programme… for the fourth round they announced preferred bidders, but then there was a hiatus of nothing. Why was that? Number one… there was a nuclear agenda at Eskom. Together with that was the constant changing of energy ministers, some of which aligned with the nuclear agenda. We are delighted that round four appears finally to be back on track under the new minister."

Swart argues that a successful relaunch of the programme would offer a positive vision of how the government and private sector can work hand-in-hand to deliver other major infrastructure projects, including water and roads. Investors are simply waiting for a clear signal before allocating funds, he says.

"Private sector infrastructure investment is fairly limited to renewable energy and some other wish-list areas but there are no actively running programmes at scale. We'd like more investible opportunities in South Africa, to have a framework and consistency of policy that leads to more investment possibilities… where you've got something working quite well, have a bit of consistency and press on."

South Africa is not short on long-term plans – the country already has an overarching National Development Plan (NDP), drafted in 2012, that maps out an ambitious vision for 2030. The challenge for Ramaphosa is to ruthlessly pursue implementation.

"The execution of the NDP has been government policy for a while but has never really been implemented. Cyril was involved in crafting that, so we've got a blueprint which is a good one and that needs to be executed. Other than that, [we need] sensible and market-friendly policies," says Myburgh.

Yet in an era where debates over the future of the economy can often descend into partisan rancour and mutual mistrust, Ramaphosa's importance for investors may go well beyond the implementation of dry policy documents. As van Olst looks to turn around his fortunes, he says that Ramaphosa can help business to engage with its critics.

"The big hope with Mr Ramaphosa is that he can bridge different worlds, he's a translator, an interlocutor – we can now speak to socialists through him because he has the trust of both stakeholders."

David Thomas