

POLITICS TODAY



AN EXECUTIVE BACKGROUND BRIEFING FOR PROGRESSIVE BUSINESS

EXTRACT FROM ADDRESS BY ANC TREASURER GENERAL

Treasurer General Dr Zweli Mkhize attends and addresses the Private Equity Mauritius 2013 Conference in Mauritius

The ANC Treasurer General, Dr Zweli Mkhize, paid a brief visit to Mauritius to address an important financial conference, arranged by the Board of Investment (BOI) of Mauritius. His speech headed "Connecting Global Investors with African Opportunities" can be found below.

The two day conference was attended by more than 300 businessmen and bankers from 33 countries. This included a 12 person PBF delegation.

During his 20 hour visit, Dr Mkhize had meetings with the Vice-Prime Minister and Minister of Finance and Economic Development, Hon. Charles Gaetan Xavier-Luc G.C.S.K, and the Minister of Foreign Affairs, Regional Integration and International Trade, Dr the Hon Arvin Boolell G.O.S.K, both whom addressed the conference. Dr Mkhize discussed with them, inter alia, the strong economic and bilateral links between Mauritius and South Africa. Dr Mkhize also informed the

conference attendees that the PBF would be arranging a business delegation visit, which he would lead, during 2014.

The PBF Co-Convenor, Renier Schoeman, paid tribute to the Mauritius Board of Investment and for its dynamic global role and said that the PBF valued its close working relationship with the BOI.

Extract from the address to the Private Equity Mauritius 2013 Conference by Dr Z L Mkhize, Treasurer General of the African National Congress and former Premier KwaZulu-Natal Province on 13 September 2013

Connecting Global Investors with African Opportunities

I wish to thank government of Mauritius as well as the business fraternity for the kindness and hospitality as you host this important conference. Yesterday I had the privilege of meeting the Vice Prime Minister and expressed these sentiments and I was honoured to convey the best wishes to the Prime Minister.

Greetings to all from South Africa and I take this opportunity to thank you on behalf of all South Africans for joining us and all your support as we prayed for the global icon and the father of the New Democratic South Africa Mr Nelson Mandela, the first President of our new South Africa to get well. By God's grace he is out of hospital, recuperating at home. The news of his ill health touched the whole world and united all South Africans and the people of the world as we began consider his immense contribution and his lasting legacy of

peace, justice, reconciliation, democracy, human rights, inspirational leadership with integrity. In short Madiba's life remains an inspiration for us to create a better world order and banish violence, poverty, unemployment, inequality, famine, diseases and ignorance. I believe the conference we are in has as its focus in the building of economies that can assist us in responding to the same challenges that Madiba's struggle sought to resolve.

It is an honour to join you and participate in this year's instalment of the Private Equity Mauritius, when the world's economies are still trying to find their footing subsequent to the worst economic and financial crisis of 2008.

The global economic meltdown has been documented and discussed at various conferences and platforms. This economic meltdown recorded many casualties, from countries to economic regions, and from financial institutions to investment houses.

Africa, apart from the humanitarian aid, was less affected by this crisis largely because of the stage of the financial services sector, which is less developed by global standards and thus does not have the many financial derivatives that were credited for the financial crisis. While Africa may have been less affected, she was not entirely insulated from this crisis, with a large output from Africa being in the form of raw materials and the large consumer for this output being the export market.

The world today, Europe in particular, is facing a renewed debt crisis, fresh concerns over a period of high unemployment, low returns on investment, high risks, and low growth have become a daily discussion, with many fearing this might become protracted in advanced economies. If growth remains weak, unemployment rates and debt levels will be slow to recede and consequently, the global recovery may continue to be fragile for a number of years ahead. The big

question in the investment community is where the growth will come from. It is comforting to note that market commentators and economists are pointing in one and one direction only, Africa. The message from many capitals of the world is that Africa is open for business!

The idiom "every cloud has a silver lining" could not have been so close in respect of the financial crisis. We have since experienced a significant drive towards responsible investing, tighter lending criteria, vigilant shareholders and boards of directors, the introduction of various legislations and the evolution of a legal and regulatory framework for private equity investment.

This cloud though did not have just one "silver lining" but two, the shift of investment focus towards Africa and developing markets is the second. With the global growth projected to remain subdued at about 3% for the next few years, the smart money started to look for a new home, and that home is Africa.

Africa and investment attractiveness

Historically Africa has always been seen in a bad light or treated as an afterthought investment destination for a number of reasons, among others the following:

- Political instability with associated lack of policy direction and continuity;
- Risky investment climate with extremely low growth rates when compared to the rest of the developed world;
- The lack of infrastructure support; and poor perception based on corruption.

How things have changed!

No more beggar nations pleading for scrapping of debts from IMF and World Bank loans and the decimating impact of structural adjustments, but confident masters of their destiny, Africa is calling for investments.

Instead of regular coup de tat, which made military take over and violent overthrow of a government in office; peaceful democratic elections and post electoral stability is now the norm. The African Union frowns at and isolates all regimes that assume control of government in unconstitutional methods.

The message is loud and clear that political intolerance, genocide, and violence against citizens especially rape and abuse of women and children and any infringements of human rights have no place in a modern Africa poised for a Renaissance.

Gone is the era of rogue states who run rough shod over their citizens and sustain their rule by repression. Unaccountable regimes have been rapidly replaced by voluntary affiliation to the African Peer Review Mechanism that makes all government learn from the past mistakes and adopt best practices.

The advent of NEPAD and precepts of the African Union have focused attention to the building of infrastructure and promotion of economic growth under peaceful conditions which encourage intra African trade, and integration of the regional economies.

While there remain numerous challenges to be solved, there is no doubt that the leaders of Africa have demonstrated immense commitment to eradicate many other factors that undermined the full economic potential of the African continent.

While the continent has always been endowed with vast natural and various mineral resources, incompetent and corrupt leadership together with the legacy of colonisation made an otherwise very rich continent to be ravaged by poverty illiteracy and diseases.

All of that is now changing!

It is pleasing to note that the African continent is now fully committed to the principles of democracy and to the advancement of various policies geared towards economic growth, offering various incentives and support to attract foreign direct investment. This together with the growing middle-class, which is estimated to be in the region of 400 million with over \$1 trillion worth of consumer spending annually, presents a compelling investment case for Africa.

Instead of Africa the land of the wretched of the earth, it is seen as an emerging market of one billion people, who consume processed goods and quality services as well as provide a reservoir of youthful skills for the continent to grow for decades to come.

The recent discoveries of oil and gas, largely in East Africa, will require significant capital investment to further explore and develop these finds. Various sectors will benefit from the development of the Oil and Gas sector including general infrastructure, engineering services, support services and consumer goods sectors.

Quite clearly, growth is now being driven from different regions, as opposed to the

past wherein South Africa was the only dominant focus.

In a recent conference in London, the focus in Africa attracted a huge number of global investors and fund managers in a manner unprecedented in this platform in the past.

The West Africa region led by Nigeria and Ghana continues to grow at rates above 6% per annum. Food security and the need for basic goods positions the fast moving consumer goods sector to be among the most attractive sectors. As it is with any developing market, infrastructure and large capital projects continue to offer significant opportunity across the continent.

Kenya leads the growth in the East and countries such as Uganda, Rwanda, etc recording impressive growth trends. In spite of many challenges, Kenya's handling of a highly contested elections boosted the confidence not only in the country but the entire region. I attended a meeting in London soon after the outcome of the court judgement on the results, in which the former Prime Minister Mr Raila Odinga told the audience that Kenya was more important than who lost the elections. How refreshing! Stability in the South Sudan has resulted in it being one of the faster growing areas.

Many companies in Africa's less developed countries and indeed to some extent in countries such as South Africa, Egypt and Nigeria, remain family-owned businesses or owned by an entrepreneur facing challenges relating to capital and capacity for expansion purposes. I believe this is a great opportunity for private equity investors.

Anecdotal success stories emanate from different parts of the continent, such as that government bonds from Rwanda were oversubscribed on their first entry into the bond market.

When President Mahama of Ghana addressed the Times Africa CEO Summit in London and narrated the opportunities and progress, he received a standing ovation for a brilliant presentation.

The strengthening of relations between Nigeria and South Africa will assist in accelerating growth in the continent. South Africa is by far the largest investor into Africa from within the continent.

The sooner the turmoil in Egypt settles the better for the whole continent since it not only sets the Egyptian economy many years back but the continent's trajectory of growth is bound to be affected.

Similarly the stability in the Great Lakes region has received firm attention from the African Union, with a clear message that Africa aspires for more order and dignity as a way to usher in the era of social development and economic growth.

South Africa and its resilience

The current media focus currently emphasizes on the challenges faced by South Africa in the mining sector, especially during this bargaining season in which most unions are going through aggressive bargaining (as it happens in two to three year cycle). The current initiative by the government to mediate dialogue in the mining sector, is already bearing fruits.

Others have emphasized on the downgrading by the rating agencies, which has affected many countries in Europe and elsewhere. We have also seen a mistaken interpretation of the currency devaluation which affected our local currency. Yet when seen in the context of the resurgent confidence in the USA economy, clearly several countries were similarly affected if not worse off than the rand.

Despite all the news of doom and gloom we often read, it is important to state that South Africa remains a strong economy and is considered to be one of the most developed countries in the continent.

South Africa benefited from its tight monetary policy which effectively ensured that the financial services sector was insulated from the global financial crisis. The banking system continues to be among the most respected in the world.

The country also had the fortunes of having been awarded the rights to host the Soccer World Cup in 2010 which necessitated significant investment in infrastructure. This created a comfortable cushion for the economy and helped to weather the storms of the 2008 global financial and economic crisis.

As a long term policy and the one that seeks to provide a long term roadmap, the President of South Africa, his Excellency JG Zuma, has championed and launched the National Development Plan - ("NDP").

It represents Vision 2030, a policy which defines a desired destination and identifies the role different sectors of society need to play in reaching that goal. The NDP has been widely embraced as a source of hope and optimism in the country.

The NDP aims to eliminate poverty and reduce unemployment and inequality by 2030. According to the plan, South Africa

can realize these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.

Thus the NDP gives clear policies and areas of focus for the next 17 years, allowing all the role players to plan and position themselves to play a meaningful role and benefit from it. The NDP integrated with the initiatives of the AU in terms of various infrastructure initiatives and programmes of governance.

I believe we all have a role to play in the NDP, and that this role can be extended to global investors as investment opportunities arise from the NDP. The commitment of government is at the level of R3 trillion (USD 300billion) an unprecedented quantum of investment in the history of the country. The figure will be compounded when private sector commitment come into stream, with large investment expected in the mining sector, manufacturing and value addition and various social and economic infrastructure projects. Many of the NDP projects are already in progress, making the NDP a practical programme rather than a pipe dream or political rhetoric.

Private equity in South Africa continues to be a significant industry, providing much needed capital to grow the economy. As at December 2012, the South African private equity industry had approximately R127 billion in funds under management, with the financial services sector dominating at approximately 60% of the total funds. Sectors such as energy, telecommunications, consumer goods and services, and healthcare remain underexplored from a private equity perspective. This presents potential opportunities for investors looking for exposure in these sectors.

Why should global private equity investors look into Africa?

According to Private Equity Africa: Emerging Markets Private Equity Association, some of the themes in the private equity space in Africa include:

- Private equity in Africa has seen steady growth with large deals being concluded in South Africa and Nigeria. Transactions in other geographies are focused on small to midcaps.
- The nature of private equity activity in Africa is advancing, with increased investor participation bringing focus to operational

value-add - riding the wave of economic growth or financial engineering skills is often no longer sufficient.

- Increased participation has also brought new sources of capital, beyond the traditional development finance, as well as investor specialization.

- For vendors, the increasing number of investors has improved selection criteria, leading to a preference for partners with operational capabilities and networks.

- In spite of increased participation there is still much opportunity, especially for investors providing corporate readiness to local firms that are often founder run and do not meet the international operational and governance standards.

South Africa as destination for investment--outcome of independent surveys:

South Africa has held steady in the face of severe global economic uncertainty, and is confidently meeting its economic challenges. International analysts believe that several African countries, including South Africa, are well placed to weather the global storm. South Africa has a large economy and is widely recognised as having solid fundamentals and sound and effective financial systems.

Global Competitiveness Index

South Africa was ranked as the 53rd most competitive country out of 148 surveyed in the 2013/14 World Economic Forum's Global Competitiveness Index, making it the second highest ranked country in Africa after Mauritius (45th), according to World Economic Forum September 2013

It took over Brazil to take second place among the BRICS' economies, with China at 29 and Brazil dropping to 56th place (from 48).

According to the report, South Africa does well on measures of the quality of its institutions (41st), including intellectual property protection (18th), property rights (20th), and in the efficiency of the legal framework in challenging and settling disputes (13th and 12th, respectively).

The high accountability of its private institutions (2nd) further supports the institutional framework.

South Africa's financial market development "remains impressive" at 3rd place, the report says. The country also has an efficient market for goods and services (28th), and it does "reasonably well" in

more complex areas such as business sophistication (35th) and innovation (39th).

However, the report notes that South Africa's strong ties to advanced economies, notably the euro area, make it more vulnerable to their economic slowdown and likely have contributed to the deterioration of fiscal indicators: its performance in the macroeconomic environment has dropped sharply (from 69th to 95th).

South Africa is rated first overall in terms of economic competitiveness out of 38 African countries, according to the Africa Competitiveness Report, which reviews the degree of competitiveness of Africa's economies.

Rated as being on a par with innovative countries such as India and Brazil, South Africa is credited as having high-quality scientific research institutions, strong investment in research and development, and a significant level of collaboration between business and universities in research.

South Africa is rated as the second most innovative African country, firmly between with Tunisia in top spot and Senegal.

The report notes that while African economies have made important strides in improving their economies in recent years, closer regional integration is a crucial driver for enhancing competitiveness and for ensuring that the continent delivers on its massive growth promise.

Doing Business report

South Africa's ranking: 39 out of 185 countries.

The focus here is about Regulations for Small and Medium-Size Enterprises", annual survey of the time, cost and hassle involved in doing business

South Africa was a strong performer when it comes to getting credit (1st), protecting investors (10th) and payment of taxes (32nd).

39th in dealing with construction permits, and starting a business in South Africa is also easier (53rd).

Emerging Markets Opportunity Index

South Africa has been ranked as the leading emerging economy in Africa and the only country on the continent to be ranked in the top 15 worldwide, according to the Emerging Markets Opportunity Index based on research by international advisory firm Grant Thornton February 2013.

Overall, South Africa was ranked 14th out of 26 emerging economies, with China, India and Russia claiming the top three spots.

Economic freedom

South Africa's ranking: 74 out of 177 countries

South Africa's economy is regarded as "moderately free", and is ranked sixth out of 46 countries in sub-Saharan Africa, according to The Heritage Foundation January 2013

The Wall Street Journal and US think tank the Heritage Foundation, uses 10 benchmarks to measure the economic success of 179 countries, including business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, and labour freedom.

South Africa's economic freedom score is 61.8 and its overall score is slightly higher than the world average of 59.6, and a regional average of 53.7.

Global Gender Gap Index

The index, released by the World Economic Forum. 2012, ranks

South Africa: 16 out of 135 countries according to how much they have reduced gender disparities based on economic

participation, education, health and political empowerment, while attempting to strip out the effects of a country's overall wealth.

Commissioned by HSBC Bank International, the Expat Explorer survey explores the experiences and perceptions of expats while they work abroad. South Africa was rated as the ninth best country out of 30 to live in, falling in between Germany and Australia.

South Africa was rated among the top nations in terms of the ease with which expats integrated into local society, which included lifestyle factors such as making friends with locals, setting up bank accounts, learning the language, and arranging healthcare.

Africa Attractiveness Survey

Source: Ernst & Young recently published a survey involving 500 top chief executive officers globally which indicated that 41% considered South Africa to be top most destination for investments. 21% considered Nigeria and Tunisia. 61% placed South Africa in the top three.

With an average growth rate in excess of 6% for a number of key African markets, Africa presents an exciting investment opportunity for investors who are keen to look beyond the traditional markets and willing to be part of the solution to Africa's unique challenges and opportunities.

I strongly believe that with the political stability across Africa and projected growth for Africa, the time is now for global investors to consider our continent. I trust that as we continue to deliberate and engage through forums of this nature you will begin to appreciate the opportunities in Africa and make our continent an investment destination of choice.

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