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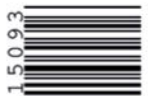

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from the editor

JANA MARAIS

Don't panic about the downgrade to junk, new finance minister Malusi Gigaba is telling South Africans.

Well, I'm panicking. And not only because Gigaba is so friendly with the Gupta family, and has a patchy record at best at public enterprises and home affairs, his previous ministerial gigs. I simply can't see how he will be able to restore investor confidence, not to mention ensure the efficient functioning of the Chief Procurement Officer's office, which has been investigating state tenders, including those suspicious Gupta/Eskom coal dealings.

But mainly I'm panicking because I foresee things getting a lot worse. Ask the Brazilians, once hailed as an economic model for SA to address inequality and poverty and create jobs. The similarities were many – a boom in commodity prices in the first decade of the 2000s boosted the economy, allowing room for government to increase spending on things like health, education and social security. The party ended pretty swiftly when commodity prices came tumbling down in 2011.

Standard & Poor's cut Brazil's credit rating to junk in September 2015. The country has been in recession since 2014 – over the past two years, its economy has contracted by 7.2%, the worst recession on record. More than 3m jobs have been lost; the unemployment rate is at a record 12.6%. Millions of Brazilians protested for months to get rid of their corrupt president, Dilma Rousseff.

Our saving grace until now has been relatively prudent fiscal management during the boom years – we didn't overspend quite as much as the Brazilians, and our debt load has been more manageable. Perhaps you believe Gigaba, who used the state kitty to buy his wife flowers, will maintain the same level of prudence, but I certainly don't.

In Brazil, Rousseff's successor, Michel Temer, has had the tough task of restoring investor confidence, and that really only happens in one way: tough economic reforms have to be implemented. For Brazil, Temer's plan includes cutting government spending, increasing the retirement age, loosening labour laws to encourage employers to increase hiring, and reforming tax laws and fixing the education system in order to make the country more competitive. As nobody likes perks and protections being taken away from them, his approval rating stands at a whopping 15%.

So beware Gigaba and his talk of "radical economic transformation". Ask Temer – this will only leave us with a really bad, extended hangover.

Matter of fact

In the article *Atha-Africa optimistic despite legal challenges*, published in the 6 April issue of *finweek*, reference is made to Edna Molewa as the minister of water affairs. Molewa is in fact the minister of environmental affairs. We regret the error. ■

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By Junaid Jadwat

AGRICULTURE

African agribusiness: Much opportunity for growth

Partnerships between global and local players are key to growing agricultural producers on the continent.

Organic growth and global partnerships are seeing Africa's dynamic domestic agribusinesses rapidly develop new markets for African food products across the continent.

The African continent has a number of advantages driving its ability to ramp up food production and access new global markets despite coming to large-scale food production and export relatively late.

The world's population is growing even as incomes are increasing. This is changing diets, driving the demand for food globally. Africa's population and income are also growing, with increases in the volume and variety of foods consumed, tracking middle-class formation in key regions across the continent. All this is happening at a time of investment in transport and logistics infrastructure, supported by legislation alive to the benefits of developing competitive trade within Africa.

This is also all happening on a continent with 60% of the world's unused arable land.

Rapid changes in Africa's agriculture sector, advances in the scale of aggregation and investment, in processing and associated industries, are promoting the large-scale accumulation and movement of African commodities. This includes grains, cocoa, pulses, sugar and edible oils, amongst others, and occurs within African countries, between African regions and globally.

These changes are being driven by local family-owned agribusinesses expanding their processing, warehousing and distribution capabilities into neighbouring territories, or across regions.

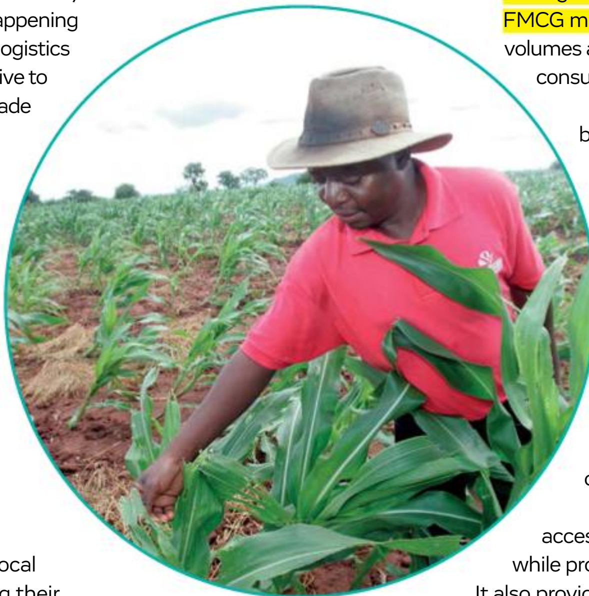
Local companies like Bakhresa Group, Bidco Group, Export Trading Group, Mohammed Enterprises Tanzania Limited and Willowton, with local expertise and strong distribution capabilities, are expanding across borders in their home regions and diversifying across the consumer value chain into higher-value fast-moving consumer goods (FMCG) processing.

The resilience and growing strength of Africa's family-owned agribusinesses points to their strategic advantage in local knowledge and established relationships.

One of the many opportunities for agribusiness on the continent is the growth potential increasingly being realised through partnerships between global agribusiness companies and local or regional players. Established global agribusiness players like Louis Dreyfus Company, Olam and Wilmar have partnered and are continually looking to partner with locals to pursue opportunities for expansion across the continent, bringing skills, global standards/benchmarks, as well as a strong supply network and scale. However, it would be exceedingly difficult for a newly arrived global agribusiness to access these networks without working with a local partner.

On the continent the growth potential is increasingly being realised through partnerships between global agribusiness companies and local or regional players.

Many African commodities businesses are at the same time at a stage in their development where they are increasingly seeking access to the international trading and distribution networks that the global FMCG multinationals have – if they are to expand volumes and access a wider footprint of global consumers and a larger basket of consumer goods.



One example is Land O'Lakes, which has been supporting dairy farmers in Africa for more than 20 years by administering funds for USAID in addition to providing access to markets and technical assistance to improve farmers' yields and competitiveness. Land O'Lakes is the second-largest cooperative in the United States with 2016 net sales of $13.2bn and a clear vision for accessing the African agricultural market. In 2015, it acquired a 52.5% stake in Villa Crop Protection, a leading crop protection company based in South Africa.

The synergy provides Land O'Lakes access to a continental agricultural network while providing vital chemical and fertilizer inputs. It also provides Villa Crop Protection's clients with an alternative and expanded global market for their produce. More recently, Land O'Lakes completed a joint venture in Kenya with the Bidco Group, called Bidco Land O'Lakes Ltd, on their animal feeds business, further expanding their African footprint.

The agricultural sector employs 70% of sub-Saharan Africa's labour force and contributes 30% towards its GDP.

Since the agricultural sector employs 70% of sub-Saharan Africa's labour force and contributes 30% towards its GDP, investing in and supporting the growth, health and dynamism of African agribusiness is central to the future growth and prosperity of the continent. ■

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Junaid Jadwat is an executive, consumer sector, corporate and investment banking at Standard Bank.

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in brief

>> **IN THE NEWS:** Junk. Time to convert investments to cash? *p.8*
>> The drop in the rand has some smiling *p.9*
>> **TREND:** A human-centred approach to design *p.10*

"Whether Zuma goes or stays, we still have a problem – no one will be able to stabilise the political and economic environment at the same time."

– **Alan Mukoki, CEO of the South African Chamber of Commerce and Industry (SACCI).** Mukoki believes it will be difficult to restore political stability and investor confidence until the next general election in 2019. (Also see page 33.)

Malusi Gigaba
Minister of finance

Gallo Getty images/Felix Dlangamandla/Foto24

"We are not a bunch of wild gunmen running into National Treasury to do something else."

– Newly appointed **minister of finance Malusi Gigaba,** speaking at a media conference on 3 April.

"THE REAL DANGER FROM HERE IS THAT WE SUFFER A RATINGS MELTDOWN AND ARE DOWNGRADED AGAIN AND AGAIN. WE ARE ON A SLIPPERY SLOPE HERE."

– **Old Mutual chief economist Rian le Roux** comments on Standard & Poor's decision to downgrade South Africa's international credit rating to sub-investment grade.

THE GOOD

The National Crop Estimates Committee is expecting a commercial maize crop of 14.323m tonnes this season, an increase of 84.1% on the 7.778m tonnes produced during the previous season. In total, South Africa's major summer field crops are estimated to increase production by a healthy 77.5% in 2017 compared with the 2016 season, Stanlib said. At this stage, the estimated improvement in agricultural output in 2017 is expected to boost GDP growth by an estimated 0.3 to 0.5 percentage points. Summer crops will add the bulk of this uplift, while fruit farming "also appears to be in good shape", Stanlib stated.

THE BAD

Will we see the appointment of Brian Molefe as new director-general of Treasury, following the announcement that Lungisa Fuzile has resigned? The departure of Fuzile, closely following the axing of former finance minister Pravin Gordhan and his deputy, Mcebisi Jonas, would seemingly suit newly appointed finance minister Malusi Gigaba quite well – he's reportedly moved into the Church Square offices with 28 ministerial staff and advisers (Gordhan and Jonas shared nine people in the same roles). One of Gigaba's appointments is political adviser Thamsanqa Msomi, who serves on the Denel board and has been reported to have links with the Gupta family, according to *Business Day*.

THE UGLY

The only thing more painful to watch than Standard & Poor's decision to downgrade South Africa's credit rating to junk for the first time in 17 years, was the U-turn by ANC secretary general Gwede Mantashe on President Jacob Zuma's disastrous Cabinet reshuffle. Mantashe, who was initially critical of the president, saying that the ANC was not consulted and that the lists appeared to have been "developed elsewhere", took all of five days to change his tune completely, congratulating the appointees and expressing "full confidence" in them. Nomura analyst Peter Attard Montalto believes that the probability of Zuma stepping down as president before May 2018 is only about 20%.

DOUBLE TAKE

BY RICO

CAR SALES BOOST TESLA

2

Electric carmaker Tesla overtook Ford to become the second-largest carmaker in the US based on market capitalisation on 3 April, after a strong sales report boosted its share price. GM is in the first spot. Tesla said it delivered 25 000 of its high-tech vehicles in the first quarter of the year, reflecting a year-on-year increase of 69%, AFP reported. It said it was on track to meet its goal of 50 000 vehicle deliveries by mid-2017. The resultant jump in Tesla's share price saw its market cap climb to $48.63bn, compared with Ford's $45.47bn. Major automakers are under pressure amid concerns about the US market's ability to keep growing, AFP reported.

PRESSURE ON NET1

17%

The World Bank's International Finance Corporation (IFC) said it's pressing Net1 UEPS to complete an assessment of its lending practices this year, after a public outcry following allegations that its subsidiaries are improperly marketing goods and services to the more than 17m grant recipients in South Africa, Bloomberg reported. The IFC bought a 17% stake in Net1 last year for $107m, making it the firm's largest shareholder. Net1's contract to distribute grants in SA was found invalid in 2014 by the Constitutional Court, but it was extended yet again after the South African Social Security Agency failed to comply with an order to find a new distributor.

DE BEERS INCREASES SALES

$580m

Diamond giant De Beers reported an increase in sales in the third sales cycle of the year to $580m, compared with $545m in the second sales cycle, *Engineering News* reported. "We saw the continuation of good rough diamond demand in the third cycle across the product range. This reflected positive sentiment from our customers following the Hong Kong International Jewellery Show in March," CEO Bruce Cleaver said. However, this was still markedly lower than the $729m achieved in the first sales cycle of this year as well as the $666m it raked in in the third sales cycle of last year, *Engineering News* said.

OPEC CUTS TAKE EFFECT

16%

Crude oil shipped over oceans or stored in supertankers is down 16% since the beginning of the year, indicating that supplies could be dropping faster than many in the market believe, ft.com reported. Data from oil tracking start-up Vortexa shows seaborne oil shipments on 3 April totalled 759.6m barrels of crude in transit from producers to refineries or storage farms (1 January: 899.4m barrels), with an additional 52m barrels (1 January: 78.4m barrels) still held at sea on supertankers globally, ft.com reported. "We think this is some of the first evidence that supply cuts are having a major effect," Vortexa CEO Fabio Kuhn told ft.com.

On the JUNK rating

By Marcia Klein

Should you convert your investments to cash?

The recent rating downgrade has fuelled uncertainty and will affect the investment landscape for years to come. But experts warn that investors should keep a cool head.

There are some good reasons why an increasing number of investors want to bail out of equities – or at least reduce their exposure – and rather hold cash.

First, obviously, are the events of the past few weeks, culminating in the rating downgrade that will affect the investment landscape for years to come. Political and economic instability are weighing heavily on investors' minds.

Another reason is that equities have not performed (the JSE All Share Index was up just 2.6% last year) and stocks in general are looking expensive, indicating there may not be good growth in share prices in the near future. Increasingly, investors are saying they would have been better off with their money in the bank. And many would have been, over the past year or two.

But converting investments to cash has its challenges, including additional costs. Experts say the biggest problem, however, is one of timing.

"Holding cash reduces risk and provides optionality. When an investor believes it is the right time to buy, it is better to be in cash than another asset class," says Leigh Köhler, head of research at Glacier. "I think it is quite normal to fear uncertainty, particularly when you look at what has happened over the last year and its impact on equity markets.

"I am not saying one shouldn't be exposed to cash, but we have clients who are wanting to switch out everything and we believe it is not necessarily the right strategy, particularly because it is so difficult to time the market," he says.

"Most experienced investors find it difficult, so a normal investor with less information at their disposal than qualified asset managers is likely to get the timing wrong."

Responding to the increasing number of clients asking about switching to cash, Glacier sent out a presentation that showed that cash has only outperformed SA equity and SA bonds once over the period 2001 to 2016. Over this period, the average return for SA equities was 19.92%, for SA cash 8.12% and for SA bonds 10.35%.

Glacier emphasised that an investor would essentially need to time the market on two separate occasions, "once in terms of when to switch to cash and again in terms of when to re-invest into growth assets".

Stephen Katzenellenbogen, director of the business and private wealth manager NFB Private Wealth Management in Johannesburg, says the problem with political events is to gauge what is going to happen: "Even if one would have predicted that Donald Trump was going to win the US elections, it would have been almost impossible to predict the effects this subsequently had on markets and investment. Following Zuma's Cabinet reshuffle, the JSE did not react the way one would have expected, and while it was negative for banks, this was offset by rand hedges which were more positive. Things often move in ways the market might not have anticipated."

> **Cash has only outperformed SA equity and SA bonds once over the period 2001 to 2016.**

Katzenellenbogen says that with decisions like moving to cash, investors "need to take a step back and ask what they are trying to achieve – is this a short-term tactical move or a long-term plan?"

He says moving out of equities will trigger tax and brokerage, so investors need to assess what it will take for their decision to be vindicated once costs are accounted for. "If it is a short-term tactical move, you have to time the market," he adds, and research has shown how difficult that is.

Glacier's presentation, using the example of a R100 000 investment over the past 20 years, shows with switching out to cash or another asset class and missing the best 50 days of trade, the investment would now be worth R155 000, compared with R1.4m if the investor had stayed invested.

This illustrates that investors need to see through the emotion and invest according to a particular plan. "I think it helped a lot of people see through the noise," Köhler says. "So despite recent events, the message remains the same – when you switch into cash, you need to be aware that cash diminishes an investor's purchasing power once inflation and tax are taken into account and you have to time the market, when to switch in and out of cash."

Stephen Katzenellenbogen
Director of NFB Private Wealth Management

The multi-asset low-equity sector, which comprises **40%** equity, outperformed cash **78%** of the time for investments longer than three years.

Leigh Köhler
Head of research at Glacier

Photos: Supplied

The best option remains to make sure that the person investing your money understands your long-term risk profile, and exposes you to various asset classes in the right way in order to achieve your investment goals.

"The objective of any long-term return is to beat inflation," Katzenellenbogen says. "The problem comes in when, in the shorter term, your return is not beating inflation and cash has outperformed." This may be true at the moment. Over three years the JSE return is less than 3%, but if you look beyond that, it is much greater, "so the longer you invest, the higher the probability of beating cash returns. You have to accept that investing is long term and that sometimes there will be a period of over- and underperformance."

There are numerous investment options for investors looking to move to cash, including money-market unit trusts, managed income, low equity and absolute return funds.

Katzenellenbogen suggests investors first look at their bank's money-market rate as their hurdle rate and look for investments that beat that. Usually when you move beyond cash there is additional risk, he says, so decisions on what to invest in would depend on the investor's risk and tax profile. Then after some time they can start looking at income funds and bonds.

He points out that the multi-asset low-equity sector, which comprises 40% equity, outperformed cash 78% of the time for investments longer than three years.

Köhler recommends that investors leave asset allocation in the hands of experts who can allocate investor funds into cash and equities according to a mandate which suits an investor's aims. "Don't try to time the market or make decisions based on short-term uncertainty. Be disciplined and stay invested," he says.

He adds that investors need to separate emotion from actual investment decisions. "Markets are driven by fear and greed, and that's what determines the misprices in markets. While the past is not a reflection of the future, the lessons of the past have taught us that you need to understand what your plans are and diversify as much as you can [...] geographically and by asset class."

Katzenellenbogen says that converting to cash cannot be a long-term solution, and for those who do convert to cash, he advises a phased approach at periodic intervals back into the market. ■

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By David McKay

Rand's fall positive for some

Those firms with dollar-denominated revenues are set to enjoy an uptick in earnings.

With a second sovereign credit rating downgrade imminent for South Africa – a double blow that will doubtless give the rand another smack – it might be worth weighing up the pros and cons of the recent resuscitation of rand hedge stocks, especially the mining shares.

There has already been some activity among the mining firms that enjoy dollar-denominated revenues such as the Johannesburg-listed gold firms and, to a lesser extent, the platinum group metal companies.

But given the leverage of some stocks to a weaker currency, there may still be some road to travel for the likes of Lonmin, for instance, which has estimated upside to its pre-tax earnings of 120% whenever the currency weakens 10%, according to Goldman Sachs.

Next in line is Anglo American Platinum (Amplats), which would experience a near 80% boost to pre-tax earnings in the event of that quantum of rand weakness, followed by Sibanye Gold (50%), Impala Platinum (30%) and Kumba Iron Ore (just under 20%).

"SA political turmoil deepened as Speaker Baleka Mbete said she is considering a request to recall lawmakers to debate an opposition-sponsored motion of no confidence in President Jacob Zuma," said Goldman Sachs. "This could likely see a rotation out of SA-focused sectors into sectors that have a dollar-based revenue stream and benefit from ZAR depreciation," it added.

Already gold counters are starting to benefit. The rand gold price is 12% stronger since 24 March when it touched R498 883/kg – its lowest level in about 15 months. In short, gold firms are generating R60 000 more per kilogram of gold produced today than just over two weeks ago.

But investing in rand hedge stocks is not a slam-dunk choice for investors in these politically and economically darkened days. According to a report by Citi, short-term profitability gains may be countered in the long term by labour instability and rising costs as inflation starts to march north.

It also questioned whether the anticipated cash flow rush from higher revenues will materialise on a relative basis. "We caution that though the rand has weakened considerably over the past week, it still trades stronger today than it did on average during the second half of 2016. This, together with increasing capital and exploration expenditure in 2017 (as per company guidance) and our expectations of rising unit costs as high-grade material runs out, imply that market expectations for earnings and free cash flow remain too optimistic," Citi said.

When former finance minister Nhlanhla Nene was removed by Zuma in December 2015, there was a 200% rally in the FTSE/JSE gold index. However, a similar run can't be expected as the index today is trading some 63% above the 883 points it traded back then.

There's also the effect of more populist politics in SA and the imminence of the mining charter, which may now face less opposition from National Treasury given one amendment in the document that called for a mining-specific tax collection body.

> Gold firms are generating R60 000 more per kilogram of gold produced today than just over two weeks ago.

"The past week's events to us suggest that the SA political landscape is changing towards a more populist agenda at a time when the new mining charter is due. Following the recent rally, we doubt whether investors are appropriately considering the potential implications from a more populist regulatory regime," said Citi.

Said James Wellsted, head of corporate affairs for Sibanye: "This [the events that led to the depreciation of the rand] is good for revenues and margins in the short term. But political and economic uncertainty is not a positive for us." ■

editorial@finweek.co.za

By Jessica Hubbard

Surviving the age of disruption with design thinking

A powerful new trend in the business world follows the idea that innovation isn't about technology, but about design. And it puts the needs of the customer first.

In a world in which ambitious new businesses come and go within months, and long-established corporate bigwigs are toppled by nimble start-ups within a year, the blueprint for business success no longer exists. Entrepreneurs cannot simply depend on a healthy dose of start-up capital and market research, and big corporates are discovering that a "business as usual" approach is likely to be fatal. As a result, new and somewhat "unconventional" approaches to business development and strategy are being pioneered and adopted around the world.

One of the most impactful of these ideas is the concept of design thinking, which has been made popular by companies, predominantly in the US, which have become synonymous with innovation. A favoured example is IDEO, an international design and consulting firm founded in Palo Alto, California. Tim Brown, president and CEO of IDEO, defines design thinking as follows: "Design thinking is a human-centred approach to innovation that draws from the designer's toolkit to integrate the needs of people, the possibilities of technology, and the requirements for business success."

Tim Brown
President and CEO of IDEO

Feeling your pain

The proponents of design thinking argue that companies can no longer depend on staid and one-way strategies that fail to account for fast-changing consumer trends. Also, consumers are more empowered and knowledgeable than they were five years ago, so business leaders are being forced to depend on them for input and insights.

During a recent visit to South Africa, LC Singh, CEO of Nihilent Technologies, a consulting firm based in Pune, India, explained that empathy lies at the core of the design thinking approach.

"In the past, companies have simply assumed that they know and understand what customers want, and then designed products and services around that," Singh explains to *finweek*. "This no longer works. We first have to empathise with customers – feel their pain, so to speak – and bring them in during the design phase."

In his view, companies have a short window of two to three years to adapt to the new playing field and implement design thinking. Those that don't are likely to be overtaken by more nimble and forward-thinking rivals.

"Business models are changing fast, taking new developments in technology into account," adds Singh. "An example of this is in the banking and financial industry where payment technology and customer service has challenged traditional banking practices as customers demand more, faster."

He points to local examples such as Discovery, Nedbank and Capitec to underscore this point.

> "Design thinking is a human-centred approach to innovation that draws from the designer's toolkit to integrate the needs of people, the possibilities of technology, and the requirements for business success."

'Innovation is about design'

Simon Dingle, founder of consulting firm Phantom Design, says that local companies are indeed waking up to new approaches and strategies such as design thinking.

"As companies aspire to be more like disruptive start-ups, they are beginning to appreciate the counterintuitive processes employed at Google and Facebook, for example," he explains. "They're also realising that innovation isn't about technology. It's about design."

According to Dingle, popular culture is also driving adoption, with series such as *Abstract: The Art of Design* on Netflix and books like *Sprint* highlighting design as the ultimate differentiator within business.

Notably, he says that local adoption is primarily taking place within financial services and the fast-emerging realm of fintech.

"Our clients are predominantly banks where design thinking is the foundation for new products being developed," says Dingle. "SA has always had a very innovative banking sector, although this isn't saying much in the world's most antiquated industry."

When looking to incorporate this concept into business processes, he believes that ego is likely to be the biggest and most awkward stumbling block.

"Successful design requires humility and is incompatible with corporate environments where executives simply get their way because of what it says on their business cards," he cautions. "Design thinking businesses will always win because they focus on what they do, not who they are. As a result, it starts with an acknowledgement that the world does not accord with our intuition and that working at internet scale requires a rigorous scientific mindset."

For local business leaders, the adoption of such a mindset may soon become as important – if not more – than the ability to manage existing processes and people. And for those who struggle to think creatively about the design of products and services, it might well be time to employ an army of those who can. ■

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A reading list for design thinking

These are Simon Dingle's top three picks:

- *The Ten Faces of Innovation* by Tom Kelly
- *Sprint: How to Solve Big Problems and Test New Ideas in Just Five Days* by Braden Kowitz, Jake Knapp, and John Zeratsky
- *How Google Works* by Eric Schmidt and Jonathan Rosenberg

Gallo Getty Images

market place

THIS WEEK:

>> **Killer Trade:** South African banks *p.12*
>> **Invest DIY:** Working out a stock's future headline earnings *p.13*
>> **Simon Says:** Views on National Treasury, DB x-trackers, Sygnia, Pembury, Long4Life *p.14*
>> **Technical Study:** Is a bubble developing in the stock markets? *p.15*
>> **Investment:** Why timing the market is never a good idea *p.16*

CAPITEC*

BUY SELL **HOLD**

By Simon Brown

Even better than expected

I have been a holder of this stock for almost a decade now and it's my second-best purchase ever. While I continue to hold and very much like the stock, my aggressive buying zone for Capitec is around R720, based on my average price-to-earnings (P/E) versus forward P/E rating method. (See *When is the share price right?* in the 30 March issue, or read it at http://bit.ly/2n4iZxT.)

Capitec's recent results beat expectations, with headline earnings per share (HEPS) up 18% as it adds over 100 000 new clients per month. The bank has also become stricter with lending as it now rejects 69% of loan applications (or the client rejects as terms are not what they wanted), up from rejecting 58% in the previous year.

Capitec also has the best return on equity (RoE) in the industry at double the rate of three of the big four banks. Its cost-to-income ratio in the mid-30% is a full 20 percentage points lower than three of the big four. FirstRand is the one that is the best of the big four, but even against FirstRand, Capitec is streets ahead. (Also see page 12.)

The risk here remains a blowout of bad debts, but it has overly stringent risk modelling so while it will hurt, the bank will survive such an event. ■

**The writer owns shares in Capitec.*

Last trade ideas

- HOLD — Anchor Capital, *6 April issue*
- BUY — NFEMOM, *30 March issue*
- BUY — South African Reserve Bank, *23 March issue*
- BUY — MTN, *16 March issue*

IMPERIAL HOLDINGS

BUY **SELL** HOLD

By Moxima Gama

Local exposure the concern

Imperial Holdings operates two main divisions: Imperial Logistics, which offers consumer and industrial logistics; and Motus, its vehicle import, distribution, dealerships, rental, aftermarket parts and vehicle-related financial services operations. Logistics accounts for 46% of group operating profit, with 63% of the profit generated internationally. Motus contribute 54%, with 13% generated internationally.

Its Motus business is quite exposed to the South African economy, particularly vehicle sales and rentals. It is the exclusive importer and distributor of 16 automotive brands, notably Hyundai, Kia and Renault. Its vehicle rental businesses consist of Tempest and Europcar.

A 13% decline in new-vehicle sales in SA, "declining business confidence, fragile consumer health and higher inflation that depressed personal consumption expenditure" weighed on earnings in the six months to end December, Imperial said. Its operations in the rest of Africa were affected by low oil prices and falling commodity demand in the period, which also negatively impacted its financial performance, it said.

Overall, it managed to grow revenue 2% year-on-year in the interim period to R61.3bn, while headline earnings per share (HEPS) were down 15% to 682c. The interim cash dividend declined 14% to 320c/share.

Given its exposure to SA, concerns remain about the health of the local economy. President Jacob Zuma's Cabinet reshuffle late on 30 March not only prompted rating agency Standard & Poor's to downgrade the country's foreign debt to junk, but also led motor industry officials to suspend new-vehicle sales forecasts until the impact on the economy becomes clear.

How to trade it: Imperial has encountered strong resistance at 18 865c/share and is currently a few points away from key support at 16 030c/share. Breaching that level could trigger a sell-off to 12 300c/share. Go short below 16 030c/share with a fair trailing stop-loss. Alternatively, a recovery above 18 865c/share could see Imperial retest 22 400c/share. ■

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Last trade ideas

- BUY — British American Tobacco, *6 April issue*
- BUY — Lonmin, *30 March issue*
- SELL — Remgro, *23 March issue*
- HOLD — Exxaro Resources, *16 March issue*

iol.co.za

By Moxima Gama

BANKING SECTOR

The outlook for banks

The JSE's banks index suffered a big drop from the last week of March and, following the credit rating downgrade, it could fall even further.

President Jacob Zuma's decision to fire finance minister Pravin Gordhan has led to South Africa's long-term foreign currency sovereign debt being downgraded to junk status, with a negative outlook, by credit rating agency Standard & Poor's (S&P). The long-term local currency rating was downgraded to BBB- from BBB, leaving it one notch above junk.

S&P said it is of the opinion that Zuma's executive changes have put fiscal and growth outcomes at risk. "The negative outlook reflects our view that political risks will remain elevated this year, and that policy shifts are likely, which could undermine fiscal and economic growth outcomes more than we currently project," it said in a statement.

The previous time SA was assigned a sub-investment grade rating – of BB, two notches below investment grade – in 1994, it took nearly five-and-a-half years before the international rating was upgraded to investment grade, according to Stanlib chief economist Kevin Lings. SA has enjoyed an investment grade rating for 17 years. (Also see page 33.)

At the time of writing, on 4 April, negativity continued to spread throughout the economy. Though the rand strengthened substantially to around R12.31 against the dollar, ahead of Zuma's reshuffle decision on 30 March, the rapid weakening of the rand since then is likely to persist if the status quo remains politically. We should brace ourselves for further currency weakness and market impact in the form of the repricing of financial assets, including South African bonds and domestic banks. The cost of imports will increase, and the political uncertainty will undoubtedly affect the economy as a whole, potentially resulting in further job losses as business and consumer confidence takes a knock and investors steer clear of SA.

Technical view:

The JSE's banking index is losing steam – it has formed a lower high within its primary bull trend and the three-month relative strength index (RSI) is bearish. The index suffered a big drop from the last week of March when the rand started weakening dramatically, and following the axing of Gordhan and the credit rating downgrade, downside momentum could accelerate. A move through 6 540 would mark a loss in confidence in banking shares. The index would enter long-term bearish territory below 5 890.

The index suffered a big drop from the last week of March when the rand started weakening dramatically, and following the axing of Gordhan and the credit rating downgrade, downside momentum could accelerate. A move through

6 540

would mark a loss in confidence in banking shares.

Nedbank: Downside through 22 500c/share could see Nedbank retrace back to 18 750c/share and possibly hold there. Nedbank would have to trade above 26 900c/share to resume its previous bull trend and test new highs towards 30 000c/share.

Standard Bank: Key support is at 13 820c/share. Failure to hold there could see Standard Bank fall to 11 630c/share. Only upside through 16 260c/share could prompt a return to 17 700c/share and possibly to 22 530c/share.

Capitec Holdings: Sentiment is likely to remain bullish and Capitec is likely to continue outperforming its peers. Having breached the upper slope of its long-term bull channel, a steeper uptrend to 91 790c/share is possible.

FirstRand: The counter could plummet to 3 645c/share on downside through 4 325c/share. FirstRand would have to trade above 5 450c/share to redeem itself and advance to 6 500c/share.

Barclays Africa Group (BGA): BGA has confirmed a negative breakout of its uptrend below 14 275c/share. Failure to recover above 16 000c/share could see it plummet back to 10 660c/share. ■

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Moxima Gama has been rated as one of the top five technical analysts in South Africa. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the research team in the Treasury division of CIB.

JSE BANKING INDEX

SOURCE: MetaStock Pro (Reuters)

By Simon Brown

FUNDAMENTALS

How to determine HEPS growth

We can use expected headline earnings per share growth to determine where a particular stock is headed.

In a recent article titled *When is the share price right?* (30 March edition), I wrote about how I determine the price I should pay for a stock I like. A large part of that process is future earnings, or headline earnings per share (HEPS) growth. Being able to work this out is a critical part of any investor's toolbox. Sure, we expect growth from a company we invest in, but in some cases we need more refined details as to what that growth is likely to be. So how do we determine this?

Working with analysts' consensus views

In the case of many large stocks (about the top 100 in terms of market capitalisation) we can get consensus data if our stockbroker provides it. Consensus data is just what the name suggests – the consensus view of the several research analysts covering the stock. Various financial data providers will canvas the analysts on a weekly basis and ask their view on future HEPS, dividends and whether they rate the stock a buy, sell or hold. That data is then averaged and published.

This is great if your stock is covered and if your broker provides this data. But is it any good? Well, the first thing you need to do is to determine how many analysts are being canvassed. If it is one, then the predictions are not of much use, but if we have five or more, we're starting to get a real consensus. But then, of course, they could still be wrong. Or something unexpected could happen. So while it's great to have these consensus views, they are far from perfect and I always do my own digging as well.

I will also look to other stocks in the same sector and see how they're doing. This is especially useful if the other stocks maybe report results a few months ahead of the stock I am analysing.

Determining your own view of HEPS growth

If it is available, I will start with the consensus view and then determine my own view and see how they fit together. If no consensus is available, I'll come up with and use my own.

I start with the last seven years' HEPS growth and look for the trend. Is it moving higher, by how much per year and has that growth per year slowed? Was there anything in any of the previous seven years that may have hindered or helped the growth? For example, the recent drought has hit food producers, so one would smooth out that HEPS decrease as drought is not an annual event.

What I am looking for is the trend in increasing HEPS and trying to smooth it into the future. What is also important is to understand that a fast-growing company will see growth slow, as we've seen with Capitec* over the past seven years.

I will also look to other stocks in the same sector and see how they're doing. This is especially useful if the other stocks maybe report results a few months ahead of the stock I am analysing. However, you need to be careful – the different reporting periods may skew things, such as the booming holiday season making an impact on one set of results but not the other. But this does give a great indication of how the overall sector is doing.

We'll also get a trading update when the results announcement is near, but this is close to results. So we would have been using our number for a while and the update is more about checking if we are in line with expectations. At the end of the day, this is a very dynamic number and while I may only look to adjust it every quarter, it certainly is changing.

Lastly, you must make note of two vital points: First, if you're using consensus data, you must accept that it may be wrong and you must take that responsibility. You can complain and rant against the analysts, but you used it and so must accept the consequences. Second, accept that you may also be wrong. Looking into the future is fraught with risk and with errors; be prepared to make mistakes. ■

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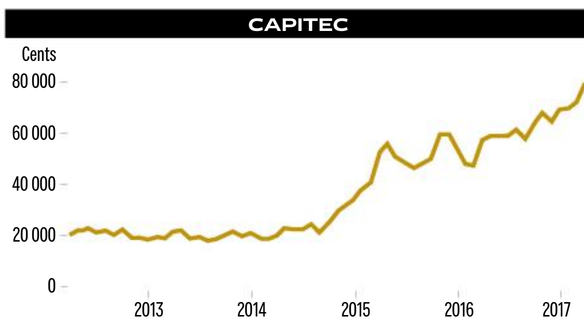
The writer owns shares in Capitec.



52-week range:	R536.21 - R811.00
Price/earnings ratio:	23.43
1-year total return:	31.05%
Market capitalisation:	R88.9bn
Earnings per share:	R32.81
Dividend yield:	1.63%
Average volume over 30 days:	374 989

SOURCE: IRESS

Supplied

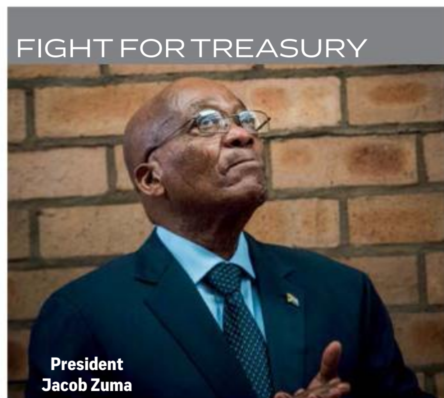
By Simon Brown

On the JUNK rating

Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown, is *finweek*'s resident expert on the stock markets. In this column he provides insight into the week's main market news.

FIGHT FOR TREASURY



President Jacob Zuma

Gallo Getty Images

Keep focus on longer term

A little over 15 months since the first attempt, President Jacob Zuma now has the Treasury in his pocket with the firing of both finance minister Pravin Gordhan and his deputy, Mcebisi Jonas, and we have our first junk status from Standard & Poor's on our foreign currency debt.

Local markets and the currency saw a sell-off with banks the big losers, but the sell-off was relatively muted compared to the market reaction in December 2015.

The reason for a more modest response is simple: the market has been expecting this. Back when the first attempt was foiled, I wrote that we needed to position our portfolios accordingly. Unfortunately, I suspect a lot of investors had forgotten the advice; we call this recency bias – the tendency to focus on the very recent past, ignoring or forgetting the bigger picture playing out over the longer term.

The fight for Treasury and ultimately also the Reserve Bank is ongoing; Treasury is now captured but we need to continue investing with this in mind. In short, be wary of local GDP-dependent stocks and banks, and favour offshore-earning stocks and exchange-traded funds (ETFs).

LONG4LIFE

Don't follow blindly

Brian Joffe, founder of Bidvest, is listing a R2bn investment firm on the JSE to be called Long4Life and focusing on lifestyle businesses. But readers must exercise caution here. It is too simplistic to see Joffe as a local version of Warren Buffett and blindly buy into his new company hoping to make massive returns. We've seen most other successful CEOs flounder with their second attempts and while Bidvest was a massive success, that does not ensure that his new venture will be. The stock will have a net asset value (NAV) of R2bn at listing and if you want to buy, pay around that NAV price (adjusted for the per share value). Do not chase the stock, let's rather see what the firm buys and how it plays out.

It is too simplistic to see Joffe as a local version of Warren Buffett and blindly buy into his new company hoping to make massive returns.

Brian Joffe
Founder of Bidvest

DB X-TRACKERS

About-turn raises credibility questions

Lost in the noise of the Cabinet reshuffle was the announcement that Sygnia has bought the five DB x-tracker ETFs from Deutsche Bank (Europe, US, World, UK and Japan). As a holder of any of these ETFs (and I hold two, DBXUS and DBXWD) this is of no concern in terms of your holding or risks.

There is, however, something I must remind readers of. Back in 2015 Sygnia CEO Magda Wierzycka was all over the media in interviews and paid advertorials calling ETFs the worst possible investment, claiming they were hugely expensive with layers of hidden fees. She was purposely sowing concern and confusion among the ETF-investing public.

Her comments were of course nonsense, as witnessed by Sygnia's sudden about-turn and purchase of the DB x-trackers. But it does question her credibility as it is now clear her anti-ETF comments were more about marketing her own index-tracking unit trust products.

An important point on the Deutsche Bank x-trackers sale – this deal is only for the ETFs, not the exchange-traded notes (ETNs). Unless they are sold (and this seems unlikely), I suspect they may be wound down and those holding positions will be paid out net asset value for each ETN you hold.

PEMBURY

Riding Curro's coattails?

The Pembury listing was a modest affair, although they listed on the day of the Cabinet reshuffle. With new shares issued at 100c, the stock traded between 90c and 100c, closing the first day at 97c. I did not apply and am concerned that this listing may be a dud, as it seems opportunistic in that it is trying to plug into the hype that surrounds Curro, and the listing lacked any institutional support. In the company's defense, listing on the day of the Cabinet reshuffle did not help either, but further weakness would concern me if I was a shareholder. ■

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By Lucas de Lange

MARKETS

Wall Street has reached a 'danger zone'

Research by Professor Robert Shiller of Yale shows that historically the market is very expensive.

It has been noteworthy lately that a growing number of reports are being published asking whether stock markets and especially New York – the world leader – are developing a bubble. This could, it is warned, cause pain for those who have so eagerly been buying US shares. The JSE itself is still on the road to nowhere, although it has traditionally not exhibited much originality unless it takes fright in the face of something akin to the Nene crisis.

How widespread the strong trend has been so far, is apparent from the MSCI World Index reaching one high after the other. It has increased by some 18% since its low in December before pulling back slightly.

And the influential Dow Jones Industrial Index has also forged ahead. Since the start of its current bull trend in February last year, it has risen by 33% before recently pausing for breath. When it broke through the psychological resistance at 20 000 in February this year, it was generally felt that a new bull trend had been confirmed.

People are, however, worried about Wall Street's valuations as supplied by Professor Robert Shiller of Yale University, which show that a danger zone has been reached. He points out that the cyclically adjusted price-to-earnings ratio (P/E), which averages earnings over ten years, is close to 30.

This, according to him, has only happened twice before: during the overhyped dot-com bull market in the 1990s, and during the wild bull market of 1929 before Wall Street imploded and then dragged the rest of the world with it into a protracted depression.

However, market players have pointed out that the current situation differs a great deal from what had transpired before these two previous market collapses.

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
KUMBA IRON ORE	27.1
EXXARO	23.9
M&R HOLDINGS	22.8
ADCOCK INGRAM	22.7
GLENCORE	17.5
BARLOWORLD	17.4
THARISA	17.2
SAPPI	16.02
KAP	15.02
ASTRAL FOODS	14.3
ASSORE	13.8
CAPITEC	13.7
SOUTH32	12.8
WBHO	12.7
PSG	11.9
RICHEMONT	11.3
MONDI PLC	10.9
RAUBEX	10.8
MONDI LTD	10.5
TELKOM	10.5
ANGLO AMERICAN	9.97
NORTHAM	8.9
GRINDROD	8.6
SANTAM	7.9
A-V-I	7.8
AVENG	7.5
REBOSIS	7.3
NASPERS-N	7.3
BAT	7.06
CLICKS	6.98
DISCOVERY	6.5
STEINHOFF	6.3
PIONEER FOODS	6.05
RCL	5.9
SHOPRITE	5.76
NEDBANK	5.7
MASSMART	4.3
TRUWORTHS	4.1
SANLAM	3.5
TIGER BRANDS	2.9
TFG	1.6
RMI HOLDINGS	1.4
CITY LODGE	1.4
REINET	1.39
HYPROP	0.8
SA CORPORATE	0.4
GROWTHPOINT	0.37

BREAKING THROUGH

COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
RMI HOLDINGS	1.4
CITY LODGE	1.4
REINET	1.39
VODACOM	0.19
BIDCORP	0.03

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EXPONENTIAL MA
LONMIN	-55.5
NETCARE	-21.1
ANGLOGOLD ASHANTI	-18.4
SIBANYE	-18.2
BIDVEST	-17.3
MEDICLINIC	-17.02
LIFE HEALTHCARE	-16.6
PPC	-16.1
RBPLAT	-13.5
GROUP FIVE	-12.1
HARMONY	-11.7
NEPI	-11.5
REMGRO	-10.8
SUN INTERNATIONAL	-10.5
BARCLAYS AFRICA	-10.5
PAN AFRICAN	-9.8
CAPCO	-9.7
GOLD FIELDS	-9.7
NAMPAK	-9.2
ASPEN	-9.1
DRDGOLD	-8.6
IMPLATS	-8.4
CORONATION	-8.3
WOOLIES	-8.01
OCEANA	-7.97
SPAR	-7.9
ITU PLC	-7.5
LIBERTY HOLDINGS	-6.99
SUPER GROUP	-6.9
AB INBEV	-6.6
FIRSTRAND	-6.5
RMB HOLDINGS	-6.4
MR PRICE	-6.2
OLD MUTUAL	-6.0
AMPLATS	-5.9
MPACT	-5.8
RHODES	-5.4
MMI HOLDINGS	-4.97
LEWIS	-4.09
MTN GROUP	-3.8
EMIRA	-3.6
ARM	-3.2
PICK N PAY	-2.6
INVESTEC PLC	-2.2
BHP BILLITON	-2.04
IMPERIAL	-1.9
RESILIENT	-1.13
FORTRESS-B	-1.1
TONGAAT	-1.06
REDEFINE	-0.7
TSOGO SUN	-0.6
SASOL	-0.4
STANDARD BANK	-0.38

*Based on the shares with the 100 biggest market caps.

The most important is that there are increasing signs of renewed world growth with the US economy doing well and signs that Euroland's prospects are also improving, while China should show steady growth.

A local review by Merrill Lynch shows that fund managers are generally optimistic that the JSE will not weaken over the next six months. They expect better economic growth here as well (provided politics don't again bedevil everything) in the midst of a declining repo rate while inflation should drop.

Somewhat of a surprise is that Kumba, which increased by more than 160% since January last year, fills the top spot among the strongest shares. Measured in terms of its 200-day exponential moving average (EMA) it undoubtedly finds itself in a bull market. However, it's still far below the R620 it reached in 2013.

Another counter that is experiencing strong buying pressure so that it has become one of the strongest shares, is Adcock Ingram. It's fast approaching its all-time high of R72.50 reached in 2013. Bidvest's Brian Joffe made no mistake when he took over the group under contentious circumstances.

Among the weakest shares we find the once-popular Netcare, which surprised by being the weakest of the weak if the struggling Lonmin is excluded. ■

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Lucas de Lange is a former editor of *finweek* and an author of two books on investment.

Gallo Images/Getty Images

By Schalk Louw

DANGER PAY

The price of equity risks

Don't try to call the peak of the market – if you do, you might miss out on some good months.

I've referred to the term "danger pay" on previous occasions as a concept that especially soldiers are quite familiar with. Danger pay is that extra payment in exchange for their willingness to, amongst other things, do service in extremely dangerous areas. This type of payment may sound very attractive, but it's of crucial importance that soldiers remain aware of the possibly huge price attached to danger pay. They have to be willing to sacrifice their own lives for a few thousand rand extra a month.

In the investment world, we are also familiar with danger pay, or risk premium, and although it won't necessarily claim your life, it's definitely something that you should be aware of at all times, especially when compiling your own personal share portfolio.

The famous mathematician Benoit Mandelbrot illustrated it best when he said, "Winning strategies tend to have a brief half-life." The main reason for this is due to the dynamic nature of stock markets. The moment a mispriced opportunity arises, clever strategies are used to identify and isolate them. However, this isn't possible all the time.

Graph 1 clearly shows the difference in danger pay or risk premium attached to shares, versus the more risk-free environment of the money market. The average of this difference over the last 52 years used to be approximately 9 percentage points, which meant that you would have earned 9 percentage points higher returns when compared to the RSA TB three-month rates, in exchange for taking higher risks. An interesting statistic indicates, however, that even though you would have performed better if you were invested in shares over the 52 years in question, you only would have managed to outperform RSA TB three-month rates by 9 percentage points or more for 25 out of these 52 years (48% of the time).

When we adjust this graph to reflect the 12-month rolling returns (graph 2), the picture doesn't change much at all. Out of the 613 months, local shares only managed to outperform the risk premium 301 months of the time (or 49% of the time).

What this tells us is that investors weren't rewarded for the risks they were taking over 50% of the time. In fact, the huge dips in the graph show us that these risks sometimes ruined investors, which unfortunately is the downside of taking risks.

What this tells us is that investors weren't rewarded for the risks they were taking over

50%

of the time.

I cannot say with any amount of certainty what the future risk premium will be, but I am convinced that it will keep on showing the same up-and-down movements.

The problem is that we don't know when those up-and-down months will occur, which means that as investors, we have to be willing to take the bad with the good. What I mean by this is that if you were invested in local shares full-time over the past 52 years, your annual returns would have totalled 16% per year. If you became uneasy with the risks at times, tried to call the peak of the market and missed the 15 best months (2.4% of all months) in the process, your annual returns would have dropped to roughly 11.5% per year.

Unfortunately, the picture becomes even bleaker if you had managed to miss out on the 50 best months, which would have resulted in your earnings dropping to below 5% per year. In other words, it would then have been better to stay in the less risky environment of the money market.

My message this week is simply this: the best approach to an investment in shares lies in the fact that you should never try to earn "danger pay" if it doesn't fall within your personal risk profile, and more importantly, that you should measure your success over the long term. ■

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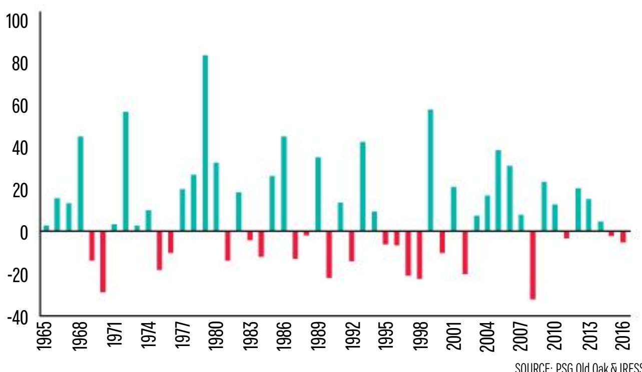
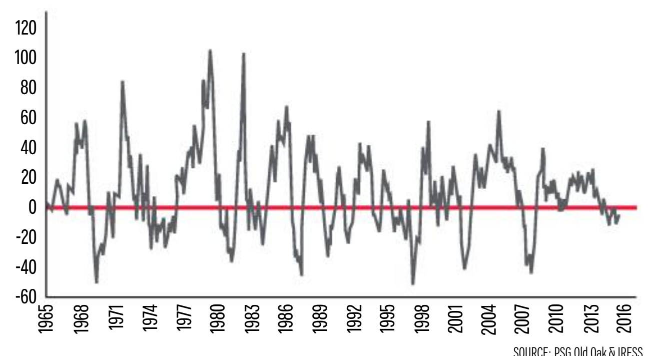
Schalk Louw is a portfolio manager at PSG Wealth.

GRAPH 1: DIFFERENCE IN ANNUAL RETURNS BETWEEN FTSE/JSE ALL SHARE INDEX AND RSA TB 3-MONTH RATES



GRAPH 2: ROLLING 12-MONTH RETURN OF FTSE/JSE ALL SHARE INDEX MINUS RSA RSA TB 3-MONTH RATES



finweek

COLLECTIVE INSIGHT

INSIGHT INTO SA INVESTING FROM LEADING PROFESSIONALS

APRIL 2017

BUILDING THE FINANCIAL SECTOR IN AFRICA

Inside

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31 Invest in Africa's future, not its past

By Heidi Raubenheimer

INTRODUCTION

#Decolonise African markets

A great deal can be done to ensure that the continent becomes less reliant on foreign investment.

In preparing for this edition of *Collective Insight,* titled *Building the Financial Sector in Africa*, I have come to realise how persistently we frame discussions of African markets as investment destinations rather than a trading place for domestic capital to meet investment opportunities. Writing from the coalface of the call to #decolonise the way we think, learn and develop knowledge, I'm eager to make the transition.

Financial markets are essentially still filling the same human need: since the first agricultural markets where one farmer's produce could be exchanged for another's, people need a place to meet, price and exchange goods. A formal market further contributes to keeping things fair and reduces the cost of information when we exchange capital for a stake in the next idea or going concern. Why, then, do we so easily forget the role of our own savings in our markets: why do we pay so little attention to the benefits of the capital deployed within our continent to our own future lives?

Economists will tell you that investment in any country (or continent) is limited by the country's own savings. World Bank development indicators have sub-Saharan Africa saving an average of only 17% of GDP over the last five years. Some of our nearest neighbours are great "savers": Botswana and Zambia's savings have been consistently high over the last five years, averaging 41% and 31%, while South Africa manages only 16% of GDP. China's average is 49%!

The capital needed to build and repair our developing continent is much higher than our savings, hence our dependence on foreign investment and our framing of Africa as an investment destination. Patrick Mamathuba's article in this edition speaks to the ways in which the route to investment funding in Africa can be simplified and thereby encouraged and offers us inspiring tales of success from the rest of the continent.

But while we court foreign investment capital, we should not forget that we are already heavily invested in our own financial sector, mostly through retirement savings but also through our labour and human capital. And so we too must be satisfied and enticed by what is on offer for investors in Africa.

In South Africa, the bogeyman of #WhiteMonopolyCapital allegedly stands in the way of the collective ownership, direction and funding of our own capital market. The most recent edition of *Today's Trustee* dispels this myth with some interesting facts: the department of trade and industry (dti) puts black ownership of JSE-listed companies (excluding foreign operations) at 39%.

Alternative Prosperity's research confirms that since 2014 there have been more black South African share owners than white, and that interestingly this has been achieved not through BEE initiatives, but through collective investments such as pension fund savings.

> Botswana and Zambia's savings have been consistently high over the last five years, averaging 41% and 31%, while South Africa manages only
> **16%**
> of GDP.

And so, with an associated, necessary call to greater shareholder activism, retirement savings have the potential to democratise our financial markets by distributing ownership more broadly at home. Ayabonga Cawe adds his voice to those calling for the transformation of financial services in South Africa in his article *Lessons from the North* and encourages us to examine the context-specific challenges of African financial consumers.

While collective savings schemes such as retirement funds are an easy route to financial democracy, it's worth questioning whether the deployment of our retirement savings toward domestic sovereign debt and large, listed companies on our own exchange entirely suits our people and our continent. Not to pre-empt next quarter's edition on rethinking retirement, but why aren't these, our largest and most consistent source of savings and investment, deployed toward longer-term investment goals whose activities are more closely related to our own required benefits?

Infrastructure investment, for example, appeals as an investment that, beyond generating a good rental for the use of our savings capital, also delivers a geared economic return in the form of things we need for life on the continent: water, energy, transport, education, bandwidth and a

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habitable planet in our retirement.

Ultimately infrastructure investments improve the capacity (and reduce the cost) of the citizenry to be productive, which in turn should decrease dependency on the state and broadly increase personal savings capacity, thereby securing our own ability to invest in home-grown opportunities and ultimately securing our future democracy. But the gap between capital and the infrastructure projects that need it is still too high. Nazmeera Moola's article on the infrastructure funding gaps speaks to the challenges and opportunities of deploying capital towards this asset class, and Paul Frankish looks forward to an environment more encouraging toward plugging this funding gap.

Complementing the large and lofty infrastructure goals are the multitude of finance-ready start-ups in the small- and medium-sized enterprises (SME) sector. Banking capital on the continent is not coming close to fuelling this engine room for our developing continent. Pension funds find SMEs too small and diverse as investment targets for their often stagnant pools of capital. St John Bungey's article explains the massive funding gap for SMEs and what could unlock the capacity of this sector to transform our continent.

Standing between each investment and its investor are layers of costs cutting directly into the profits of both. Poor integration and inefficiency of the African financial sector adds to this layer, making our investments less attractive to all. A 2013 Society for Worldwide Interbank Financial Telecommunication (SWIFT) white paper revealed that 48% of settlement processes within Africa involve banks outside of the continent. The same report shows, for example, that 39% of Africa's financial flows go to the US although only 9% of commercial flows are directed there. The settling of so many payments in dollars implies additional costs that encumber our trade within the continent. Greater financial market integration toward safer, easier and cheaper cross-border payments are essential to a more cost-efficient industry in Africa enabling more attractive investment targets.

Initiatives such as the Continental Free Trade Area (CFTA) and its goal of increasing intra-African trade to 25% of total trade in the next decade is one such initiative. The Cape to Cairo of Rhodes's time involved integration of about a dozen countries for the benefit of the empire (#RhodesMustFall). But the African Free Trade Zone (AFTZ) integrates most of the continent from Cape to Cairo and more than half the production, trade, population, land mass and resources. If this integrated trade zone is realised, it would rival other economic unions with its large and youthful population, vast natural resources and massive markets.

Nerina Visser's closing article to this edition is a call to action and speaks to the need to unlock idle capital within the continent and change the way we think of our continent's opportunities.

So let's #decolonise our continent's markets by rethinking our own participation, waking up our sleeping capital and requiring its effective and efficient deployment within the continent for the most desirable future. #AfricaRising ■

39% of Africa's financial flows go to the US although only 9% of commercial flows are directed there.

SAVINGS AS % GDP IN AFRICAN COUNTRIES

COUNTRY NAME	2011	2012	2013	2014	2015	AVERAGE 2011 TO 2015
Botswana	41	38	42	46	39	41
Zambia	35	33	29	29	29	31
Nigeria	26	33	19	22	16	23
Namibia	17	18	21	25	23	21
Tanzania	20	17	18	20	23	19
Uganda	18	19	20	19	17	19
Ghana	17	20	16	18	17	18
Rwanda	21	16	19	14	14	17
South Africa	17	15	15	15	16	16
Angola	25	25	19	9	(6)	15
Egypt	17	13	14	12	10	13
Burundi	10	18	18	13	2	12
Mozambique	10	8	9	11	10	10
Malawi	10	2	14	13	9	10
Mauritius	13	14	8	4	6	9
Liberia	(11)	0	2	(3)	18	1
Zimbabwe	(4)	(7)	(10)	(6)	1	-5

SOURCE: World Bank's World Develeopment Indicators, March 2017

Since 2014 there have been more black South African share owners than white. Interestingly, this has been achieved not through BEE initiatives, but through collective investments such as pension fund savings.

Heidi Raubenheimer is a full-time faculty member of the University of Stellenbosch Business School. She has extensive experience in financial services and is a chartered financial analyst (CFA).

94669/E

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By Patrick Mamathuba

INFRASTRUCTURE

Boosting investor interest in Africa

Simplified access to funding, currency stability and improved access to infrastructure can contribute to increased investment on the continent.

Simplified access to investment funding in Africa is needed to stimulate growth across the continent. While the fundamentals of key countries across sub-Saharan Africa indicate significant growth and investment opportunity, access to reliable financing is often a barrier for foreign and local investors.

Funding takes different forms including private equity and venture capital. According to the Preqin Special Report *Private Equity in Emerging Markets*, 12% of all private equity investors based in emerging markets are in Africa. This is ahead of Central and Eastern Europe at 7% but lags Latin America (13%), the Middle East (17%) and Emerging Asia (50%). Local and regional banks are another source of funding. Africa has an opportunity to increase its share of investment by creating transparent and effective regulatory frameworks and by overhauling physical infrastructure.

Studies have shown that poor road, rail and port facilities add between 30% and 40% to the costs of goods traded among African countries.

When only a quarter of Africa's road network is tarred and only 38% of the African population has access to electricity, investment in infrastructure development is key to unlocking growth potential that will attract new investors.

Regulatory enablers, such as forward-thinking initiatives by governments to attract foreign investment through transparent and consistently applied legislation is critical to enabling investors to accurately quantify risks when considering Africa-based development projects.

Economic growth and infrastructure

Sub-Saharan Africa's economic growth has slowed to its lowest rate in 20 years, according to the International Monetary Fund (IMF). Its meagre growth of 1.4% in 2016 was lower than 2015's muted growth of 3%, which was largely due to sub-Saharan African countries' exposure as commodity exporters.

However, certain key markets, particularly in East Africa, have been undergoing infrastructural transformation where the fibre cable network, which spans Kenya, Uganda and Rwanda, has had a hugely positive effect on the region.

Through a government-led "build it and they will come" approach, Kenya now has access to almost four terabits of fibre from three combined fibre optic cables put in place in 2010. Although landing the cables is only the first step, it has already had a huge impact on the local market, lowering wholesale bandwidth costs by 80%.

In road infrastructure, construction of a Uganda-Rwanda Highway is due to begin this year, which although relatively insignificant at only 24km, will open up connections between the two landlocked countries. In Kenya, building is set to start on a 856km crude oil pipeline transporting 600m barrels of oil from the Lake Turkana Basin to a new port at Lamu for export markets. Another 1 400km pipeline between Uganda and Tanzania is expected to be completed by 2020.

With a population across the continent of over 1.2bn, of which only 40.5% are urban, the opportunities are significant.

However, much work is still needed to ensure that projects are well-funded at predictable rates and timelines, especially in the private sector.

Financially engineering investments

Investors into Africa typically base their decision-making on multiple factors, two of which take centre stage – the ability to grow an investment and the ability to financially engineer it.

For infrastructure funds in particular, being able to financially engineer funding or borrow at competitive rates for periods that match the lifetime of assets is critical.

Currency stability will go a long way to reassure investors. An environment of strong financial management frameworks, low inflation, solid market structures and predictable regulations that allow investors to take long-term calculated risks will significantly boost foreign investor interest across the continent.

Opportunities and progress

Drawing on Kenya's example, an *Information for Development Program* report found that the country's success in broadband cable development was due to four key factors. A clear national vision, strong leadership and direction, a credible regulatory, policy and institutional framework, and leveraging the strength of the public and private sectors through public-private partnerships.

Foreign investors looking to assist in large-scale infrastructure development projects have various risk mitigation products (effectively insurance) at their disposal to protect against extreme market risks that might otherwise be a barrier to investment.

Organisations such as the World Bank's Multilateral Investment Guarantee Agency (MIGA), and more recently the African Development Bank, offer various products that insure private sector investors against extreme political risks. While this type of insurance can be expensive, it adds a level of certainty that is attractive to many foreign investors.

Fundamental investment conditions on the continent are compelling. With a population across the continent of over 1.2bn, of which only 40.5% are urban, the opportunities are significant. Increasing urbanisation will bring increased consumer buying and social needs.

As is the case with Kenya, government-led initiatives, when they come to the fore, create significant development opportunities. A simplified, predictable and stable investment funding environment will remove one of the last remaining barriers to accessing Africa's potential. And make no mistake, the potential is significant. ■

Patrick Mamathuba is head of Stanlib's Alternative Investments.

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By Nazmeera Moola

OPPORTUNITY FOR PARTNERSHIPS

Infrastructure funding gap creates opportunities in Africa

While infrastructure projects are mushrooming across the continent – brought to life by public-private partnerships in many cases – certain issues need to be addressed so more funds become available.

African markets have gone through a challenging two-year period, marked by less accommodative US monetary policy, negative sentiment towards emerging markets and the fallout from the sharp plunge in commodity prices between 2013 and 2015. Investor sentiment towards emerging markets has improved over the last few months and many commodity prices have enjoyed a bounce. While the fundamental structural drivers of economic growth on the continent are still intact, a lack of funding, especially in the infrastructure space, remains a challenge.

The fall in commodity prices and slowdown in economic growth in Africa have put pressure on both government and international private sector financing. After steadily increasing direct investment in Africa since 2000, Chinese entities have sharply reduced the number of new projects since 2013. In addition, commercial banks have withdrawn funding due to worries about the Africa growth outlook and Basel III requirements. Government finances are constrained and rising bond yields have pushed up Africa's borrowing costs significantly since 2014.

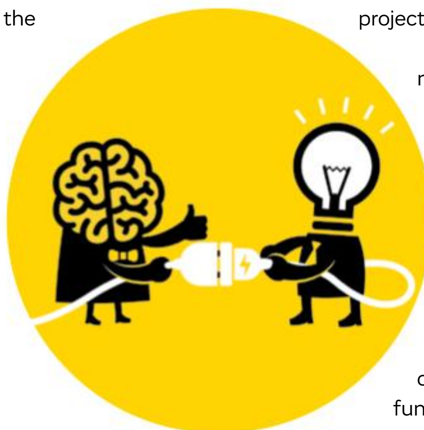
Private-public partnerships gaining traction

Africa still requires at least $93bn in infrastructure investment per annum, with an estimated infrastructure funding gap of some $31bn a year. We believe it is an ideal opportunity for private-public partnerships (PPPs) to provide long-term funding for African infrastructure. This should boost long-term potential growth on the continent.

We are starting to see PPPs gaining traction. Investec Asset Management manages the $670m Emerging Africa Infrastructure Fund (EAIF). EAIF is currently funding 42 projects across Africa, all of which are run by the private sector. The bulk of them rely on offtake agreements from the public sector.

One of the most successful countries in this space is Uganda, where the GET FiT programme has provided a template for renewable PPPs. Senegal and Mali have also successfully utilised PPPs. For example, the EAIF has helped to finance the Tobene power plant in Senegal. The 96MW power station provides electricity to 1.5m Senegalese. Boosting energy-generation in Mali is also enjoying top priority, with the government making use of PPPs in the power sector.

What is heartening is that we are seeing new entrants to this space. The government of Benin has identified 45 key infrastructure projects worth $15bn that will be rolled out over the next five years. More than 60% of these projects will be financed through PPPs.



Investec Asset Management manages the **$670m** Emerging Africa Infrastructure Fund (EAIF). EAIF is currently funding 42 projects across Africa, all of which are run by the private sector.

In our view, insurance and pension funds need to develop asset-liability management strategies that require good-quality debt instruments with long maturities such as investments in the infrastructure asset class. The reality is that infrastructure projects are more likely to be funded by development finance institutions (e.g. the EAIF, International Finance Corporation, World Bank, African Development Bank and the Islamic Development Bank) than by commercial banks and pension and insurance funds in developed markets.

Infrastructure projects need long-term investors who can stay invested, typically for 15 to 20 years. Because commercial banks have a much shorter investment horizon, funding infrastructure projects generally does not fall within the ambit of these institutions. The mandates of pension and insurance funds in developed markets typically exclude investment in sub-investment grade debt; hence, these funds are also not in a position to access infrastructure investment opportunities on the continent.

Pension funds in Africa excluding South Africa are still relatively small. The four countries with reasonably sized pension funds are Namibia, Botswana, Nigeria and Kenya. Namibia and Botswana are trying to channel their funds into infrastructure projects in their countries. However, the flow of projects in both has been slow.

Projects have been more plentiful in Nigeria and Kenya. In those two countries, pension funds are relatively new and are therefore risk-averse. They desire liquidity – which infrastructure investing does not offer.

Strong demand for long-term funding

The African debt markets are much less developed than those of the large financial markets, such as the US. In particular, the corporate credit markets are still in their infancy.

Therefore, private sector real estate developers, infrastructure sponsors and companies are much more dependent on either bank funding or private debt funding to grow. In the last three years, the breadth and depth of the credit market have both expanded significantly as the number and size of issuers have grown.

While there is some liquidity in sovereign debt markets, this has fallen significantly in recent years. The private credit markets, which include infrastructure, are by definition illiquid. However, investors in these areas are well aware of the constraints and benefits of these investments.

The slowdown in economic growth has had a bigger impact on the supply of capital than on potential ventures on the continent. Many projects have been shelved. But given the lack of facilities in many countries, there are still viable projects and opportunities for business expansion. This is particularly true in the infrastructure space. However, even within the broader economies, there is a huge lack of shopping facilities, schools and accessible financial services.

Ensuring the long-term viability of projects

A decision to invest in a credit opportunity is typically dependent on: **1.** the fundamental assessment; **2.** market conditions; **3.** supply and demand dynamics; and **4.** valuations.

Challenging market conditions have resulted in limited appetite for credit – this has resulted in valuations that have become much more attractive. But for the cautious investor, the fundamental assessment needs to be solid before investment can be considered.

A hydro-electric power station in Bujagali, Uganda.

Images: Getty Images/iStock Images   Gallo Getty Images/Thomas Koehler/Photothek

In order to induce private sector financing into infrastructure, it is crucial that projects are commercially and financially viable at initiation.

In order to induce private sector financing into infrastructure, it is crucial that projects are commercially and financially viable at initiation. The availability of reasonably priced debt is a key determinant of commercial viability. However, the deteriorating economic circumstances have also brought challenges that must be carefully considered with all new projects. These are primarily:

- Finding private sector sponsors still willing and able to bring projects to fruition;
- Where offtake agreements are required, securing the revenue stream that will fund the projects; and
- Retaining the affordability for end users of the newly built infrastructure.

Despite the challenges, there are still viable, bankable investments in Africa to be found at this juncture. The shortage of traditional sources of funding has provided an opportunity for private sector funding to fill the gap – and to make good long-term returns.

Conclusion

While the fundamental structural drivers of economic growth on the continent are still intact, governments in Africa have a key role to play in attracting more investments into infrastructure. In short:

- They need to create clear regulatory environments that allow projects to be structured in a manner that makes projects financially viable and provides sufficient protection to project sponsors. Greater transparency, clearly defined regulatory frameworks and appropriate policies will help to bolster private sector investment.
- The focus should be on infrastructure programmes instead of mega projects. We believe smaller, replicable projects are more likely to go ahead. SA's renewable energy programme and Uganda's GET FiT programme provide ample evidence of this.
- Correctly pricing infrastructure for end users is crucial. Political and socio-economic realities need to be balanced with the need to introduce more market-related pricing that is less reliant on government subsidies.
- Pension funds should be allowed to invest in regional projects to facilitate diversification and project programmes. While countries would prefer their scarce savings to be channelled into local projects, these are often not available. In contrast, regional projects that could create significant regional benefits are neglected.
- The development of local bond markets should be supported.
- Political stability and liberalisation in foreign exchange markets should help to build investor confidence. ■

Nazmeera Moola is co-head of South Africa & Africa Fixed Income at Investec Asset Management.

By Paul Frankish

UNLOCKING CAPITAL

Looking inwards to plug Africa's infrastructure funding gap

Africa's financial sector has hitherto been reluctant to invest in infrastructure largely due to the long project timeframes involved. But with such investments offering reliable returns, what's it going to take to properly unlock this asset class?

Despite encouraging progress over the last decade, financial systems in Africa (excluding South Africa) remain amongst the most undeveloped in the world with a shortage of diverse financial institutions. It's the acute lack of long-term finance which is holding back economic growth and nowhere is this more evident than in infrastructure which, by the African Development Bank's (AfDB) reckoning, needs $93bn a year in funding for the next 10 years. Of this, 40% – or $36bn a year – is required for the power sector alone.

Without universal access to electricity and better roads, ports and airports, Africa won't be able to compete on the global stage. The AfDB estimates that poor infrastructure reduces productivity by 40% and cuts the continent's economic growth by two percentage points per annum. In contrast, the World Economic Forum highlights the fact that every dollar spent on a capital project generates an economic return of between 5% and 25%.

The AfDB estimates that poor infrastructure reduces productivity by 40% and cuts the continent's economic growth by two percentage points per annum.

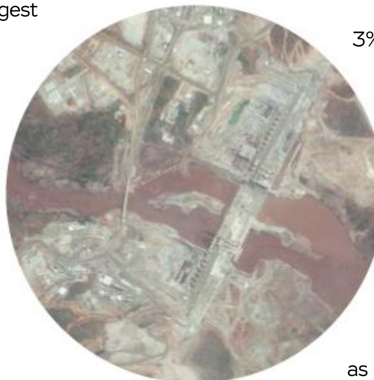
Africa is not short on bold ambition. East Africa's Grand Ethiopian Renaissance Dam will host the largest hydro-electric power plant in Africa, the seventh largest in the world once complete, with installed capacity of 6 450MW. DRC's proposed Grand Inga Dam if/once completed would then take over as the planet's biggest hydro-electric power project with expected generating capacity of 39 000MW. What Africa is short of though, is financing to fund those ambitions.

Funding models

A more innovative approach to funding infrastructure is required. In an environment of increased budgetary pressures, the funding for infrastructure projects can no longer be dependent on governments and multinational organisations. The importance of developing these funding models is being recognised with 10 of Africa's leading economies having established public-private partnership-specific frameworks and a further three with policies moving through the approval process. Alongside this greater private sector involvement, the local debt markets require significant development to support an increased depth and availability of long-term funding for infrastructure.

A challenge is lack of access to local banks, which have limited balance sheets to support this sector, and the fact that project finance is a specialised aspect of credit markets and not yet well developed in local markets.

Outside of SA, local banks generally only offer five- to seven-year lending terms whereas infrastructure requires funding terms of 15 years or more. So there's a strong requirement to develop the financial sector and diversify sources of debt to complement the development finance institutions (DFIs), which are certainly still required to support infrastructure while the local finance sector matures.



A satellite image of the Grand Ethiopian Renaissance Dam, taken in 2016. The dam, which is still under construction, is expected to be finished later this year.

Mobilising pension funds

Additionally, changes are needed to mobilise local pension funds in Africa for infrastructure investment. Outside of SA, the retirement industries in Nigeria, Kenya and Ghana are in early stages of development and as a result have adopted conservative asset allocations. While there's mounting pressure on local pension funds to unlock some of this capital, the perception that infrastructure is a "riskier" investment class has so far been a barrier with the pension funds preferring to allocate capital towards lower-risk government bonds or liquid equity strategies.

Globally, the pension industry is more developed, with 3% to 4% of total assets invested in infrastructure; Canada leads the way here with a fifth of its pension pot invested in real assets like infrastructure with some of the largest funds increasingly investing in greenfield projects as they become more comfortable with the infrastructure sector and seek to support their return requirements in the increasingly competitive OECD (Organisation for Economic Co-operation and Development) markets.

These well-developed pension markets have identified the long-term nature and predictability of infrastructure return, uncorrelated to other asset classes, as providing strong diversification benefits for their portfolios and the inflation-linked returns as a strong hedge for long-term pension liabilities.

While private equity has a greater risk tolerance and is able to fund projects at the financial close stage, it's at the operational stage of infrastructure projects, when yields are visible, that there's great scope for the pension funds to enter the market. Infrastructure investments, which need to be seen as long-term investments, offer an inflation hedge, stable returns, transparent and reliable cash flow as well as a reprieve from market volatility.

Pension funds should consider infrastructure as a requirement for a diversified portfolio and regulations to encourage this should be adopted, not just in the leading markets of SA and Nigeria, but more broadly across the continent.

Namibia's Government Institutions Pension Fund's recently published

Pension funds should consider infrastructure as a requirement for a diversified portfolio and regulations to encourage this should be adopted.

mandate to invest in Namibian infrastructure, and Nigeria's sovereign wealth fund's recently announced partnership with the UK's Guarantco to offer guarantees for pension fund infrastructure investments, show the growing sophistication of efforts to encourage pension participation in the sector.

Once there's a track record of successful independent power producing (IPP) projects, still a relatively new industry in Africa, and regulatory constraints, such as lack of clarity on selling off-grid power to national grids, inconsistent implementation of regulation and attempts to renegotiate tariffs, are eased, pension fund administrators may become more alert to the upsides of investing in infrastructure.

Challenges

Project finance bonds, deployed extensively in more developed markets, are another debt finance avenue to fund infrastructure projects, offering a different angle to traditional long-term debt. Project bonds have been implemented with success in Kenya and Nigeria and to a greater extent in SA, including the listing of the first investment-grade rated infrastructure project bond in 2013.

Lack of credit ratings by international ratings agencies is a key factor stemming the growth of project finance bonds in Africa, and capital markets will rarely invest in greenfield projects with no track record. But if credit ratings are forthcoming, projects are well structured, trailblazers demonstrate reliable returns and credit enhancements such as forex risk mitigation are forthcoming, we see project finance bonds as a further avenue to support a broader participation in the sector.

The infrastructure sector offers investors long-term exposure to Africa's growth in a contractually robust and risk-mitigated manner. In order to maximise this opportunity, an altered approach is required on the part of investors towards adopting a more patient, longer-term view with the understanding that rather than the traditional five-year private equity model, the African infrastructure sector necessarily involves an initial construction programme but thereafter generates steady long-term returns well-suited to the pension industry.

Once the market is more established and IPPs prove this worth over time, governments need to share best practice and regulatory processes across boundaries to support an increase in private investment.

The increased availability of private capital to fund their infrastructure deficits will support a shift in regulatory attitudes by governments to create the consistency in frameworks necessary for infrastructure to be considered a conventional asset class by pension funds. A regulatory framework is needed that provides long-term investors with policy certainty across political cycles, and which encourages pension funds to enter the infrastructure sector at an earlier stage. And that's when infrastructure funding will start to flow at the levels seen in more developed markets. ■

Paul Frankish is investment director: strategic initiatives, African Infrastructure Investment Managers.

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By Ayabonga Cawe

SPECIALISED SOLUTIONS

Lessons from the North

In many cases, Western models cannot be applied to financial services on the continent. How can players in this space adapt to the unique challenges posed by the local environment?

Globally, the model for financial development has been largely modelled on a Western template. Benefits are provided to an employee, who is part of a "nuclear" family, in a society where much of the infrastructure, distribution of wealth and assets (both fixed and social), ensure that with the "right preservation", one can retire comfortably at the end of one's working life.

This approach has been (and may continue to be) relevant in a particular context, however as many in the industry realise, it is not a matter of one horse for different courses, but gearing the industry to answer fundamental questions about its role in a changing society.

Two related questions are of interest. First, if we are to look at context-specific problems or challenges, are these different in South Africa and Africa, and if so, do they warrant and demand different solutions? Second, has SA's financial services sector (with its deep capital markets and great liquidity) addressed South African challenges?

There will be no consensus regarding the answers to the questions above – they will differ depending on whom one asks. It goes without saying though, that Africa has some key contextual features and challenges that make it different from the Western societies on which much of the financial services industry is modelled.

In Africa, if we understand it to be different, a different set of questions should be asked. Maybe we should ask whose financial and funding needs are in question. And whether, in post-colonial societies, it is justified that we pay attention to the financial and funding needs of the masses.

The first question's answer should lead us to a more informed perspective on who the target consumers are, and the second question, to what the consumers care about (beyond themselves, their households and nuclear families). In addition, our discussion would be incomplete without a thorough inquiry into the role of the individual or household in debates around the "transformation" of the financial services sector.

Empowerment

With regard to the content of this transformation, in his 2017 Budget Speech, former minister of finance Pravin Gordhan emphasised the role of "banking the unbanked", improved market conduct and market access as part of this transformation:

"...more needs to be done to broaden access through more affordable financial services, improve market conduct, ensure employment equity at top management levels, provide procurement opportunities and transform ownership."

Strive Masiyiwa
Founder of Econet

There is also a recognition that this transformation is occurring in a fast-changing society; not only dealing with the divisive legacies of our past, but also confronting an uncertain and rapidly digitising future. Ensuring that this transformation is "inclusive" rather than that focused on "entryist" and proxy-driven approaches to inclusion (such as the BEE policy of the 1990s with its "special-purpose vehicles") is vital not only for society, but commercially as well.

A cruel irony is at play here as well: SA ranks highly on competitiveness indicators concerning the depth and liquidity of its capital markets, but doesn't rank as well on financial inclusion. In short, our industry has achieved a podium finish on influential global indicators without any clear record on solving key context-specific challenges of an ever-changing consumer profile.

Success stories

What examples do we have of this being done successfully? Two contemporary cases are instructive here. The first is that of Econet Wireless, a Zimbabwean telecoms provider, which having initially made a foray into mobile cash transfers, remittances and third-party payments, now offers a wide array of insurance offerings.

It recently launched its EcoSure Thwala Sonke (meaning "carry us all") product, offering affordable life insurance cover open to multiple beneficiaries. This means a great deal in a region with such a high cross-border flow of goods, people and challenges. From humble beginnings in 2002, a time when Zimbabwe was crippled by hyperinflation, the founder of Econet, Strive Masiyiwa, was able to confidently say by 2014 that "today 43% of the GDP (of Zimbabwe) moves through Econet Wireless".

The second example is of East African retail banking giant, Equity Bank. When the bank was formed in 1990, only 4% of the Kenyan population was banked. The unbanked,

Vendors working from **Econet Green Kiosks** are provided with an inventory in the form of airtime and solar gadgets. Econet trains them in the proper use of the unit and products as well as its mobile banking facility.

seen as a "high-risk" category, were without the collateral, credit history and consistent incomes that would make them "bankable". Since then, Equity Bank has been able to scale its inclusion of the erstwhile "unbankable" into the mainstream of financial services in Kenya and East Africa. The bank's track record speaks for itself: it has provided youth and women in more than 7 500 lending groups across the country with access to credit. It also boasts a network of 11 000 agents in Kenya, Rwanda and Tanzania, servicing clients in remote rural areas, urban and peri-urban areas (including densely populated informal settlements).

What these two examples indicate is that it is crucial for a business to understand its costumers and the environment it operates in. Both players had a keen understanding of the shifting demographic profile of the societies they operated in, and where areas of new growth presented themselves. In the Econet case, the fact that a sizeable number of the Zimbabwean population lived outside the country was not only a challenge, but presented a commercial opportunity for innovative and accessible remittance services.

Sometimes the regional and continental comparison is unhelpful, SA's use of retail channels to sell financial products (bill payment services, cash-to-cash transfers and savings, credit and insurance products) is an interesting case in its own right that deserves greater scrutiny. (Ask anyone from the Eastern Cape or any other rural province living in the city, about the efficacy and relevance of transacting services offered by, for example, Shoprite Money Market.)

Retail channel

It therefore shouldn't be surprising then, in line with the financial transformation commitments made in the Budget, that one of the three firms to receive a banking licence is Tyme. A fairly new player, it has used the distributional channels of Pick n Pay and Boxer Superstores for its money transfer offering over the past few years.

A 2014 study by the Finmark Trust, looking at the activities of these retailers, showed a strong reliance on transactional banking services in relation to insurance and savings offerings. Of the six major retail players surveyed (Shoprite, Checkers, Pick n Pay, Boxer, Spar and Clicks), five out of the six offered money transfer, cash back and third-party bill payments, while only one offered retail bonds (or any other long-term saving instrument beyond saving stamps) and only three retailers offered funeral insurance and other short-term insurance products.

As stated above, context is important, and these retailers are able to leverage "strong customer relationships, rich internal customer databases and monthly instalment platforms". To the extent of comparison, the same can't be said of other African markets, at least not yet in the case of retail.

Customers wait at a payment desk inside a Shoprite store in Alexandra, Johannesburg.

A recent Old Mutual report found that 58% of those earning less than R5 000 a month (a segment similar to that set to benefit from the national minimum wage at R3 500) are most vulnerable to financial shocks, "as they often do not have any discretionary savings either or own any property that they can sell to finance their post-retirement lifestyle. As long as this situation continues, a significant reliance on the state old age pensions will remain, and at only R1 600 a month the state pension cannot provide real security".

Surely this would be an opportunity to take advantage of this situation, through the marketing and provision of financial services aimed at building a base of discretionary savings, social mobility and asset acquisition. With regard to the retail channel, and the role of FMCG retailers and others, the ideal frequency of engagement with the consumer or member would determine the ideal channel. Retailers offering high shopping frequency will be best suited to offer high-frequency transaction services, whereas those with seasonal or annual purchasing frequency will focus on products that require less frequent interaction such as credit and insurance.

58% of those earning less than R5 000 a month "often do not have any discretionary savings or own any property that they can sell to finance their post-retirement lifestyle".

Providers who offer a combination of short-, medium- and long-term savings and risk/insurance services could potentially develop retail distribution channels through a combination of both FMCG, credit and cash-based retailers with varying degrees of member/consumer engagement that suit the respective service or product on offer.

Now while this might work for Generation X, it is yet to be seen whether or not it will work for the millennial generation, who one hypothesises have different tastes and preferences when it comes to engagement and the channels through which that engagement happens. This requires the industry, as a whole, to adopt a more holistic and agile approach where this generational segment is concerned. This is because millennials have a strong preference for consultative or freelance employment, as a recent Deloitte study showed. Similarly, with the emergence and predicted future prominence of the "gig economy" (which is a contentious issue even here in SA), and with its tremendous flexibility, is there scope for benefits for these workers to be provided through micropayments? How would these work? These are questions common to SA, as they are to any other vibrant economy on the continent.

Answering some of these questions, as an industry, is a commercial imperative. If this does not occur, traditional players would potentially lose ground as patterns of consumer engagement and preferences change with regard to both the short-term and long-term financing and savings sectors. ■

Ayabonga Cawe is managing director of Xesibe Holdings and hosts #PowerHour, a political economy and policy show, on PowerFM.

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By St John Bungey

SMALL BUSINESS

Plugging Africa's SME funding gap

Is Africa different in terms of our financial and funding needs?

Africa has 400 companies with more than $1bn in revenue and 700 companies with more than $500m in revenue. Over the past five years, debt transactions totalling $110.2bn have been placed in African debt markets or by African companies on international markets, the majority of which was US dollar-denominated, according to PwC.

Taking all of this into account, the size of the corporate loan market across sub-Saharan Africa (excluding South Africa) is estimated to be greater than $150bn. While at face value these nominal sums may seem surprising, if not impressive, they mask a massive shortage of finance.

The International Finance Corporation estimates that the credit gap for small- and medium-sized enterprises (SMEs) in sub-Saharan Africa is between $70bn and $90bn. This implies a requirement to increase bank advances by threefold to this sector, if there is any hope of closing that gap.

The lack of access to capital is by no means unique to sub-Saharan Africa. It is the concentration of that funding gap in specific areas, and the economic reasons why, that make for interesting reading. When delving deeper, there is almost a "preferred habitat" phenomenon which, in this case, appears to be not loading on term structure or duration, but rather loading on type of counterparty and size of borrower.

While both are still underfunded, the large long-term infrastructure projects are dominated by development finance institutions and, as noted above, multi-nationals and regional corporate players are serviced by the larger international banks and have limited access to capital markets. With the exception of SA, real access to finance for SMEs is almost non-existent.

> The size of the corporate loan market across sub-Saharan Africa (excluding South Africa) is estimated to be greater than $150bn.

The role of SMEs in Africa

There are many studies that point to the role that SMEs can play in creating employment and reducing poverty. This varies substantially across countries, from as low as 16% of GDP in low-income countries to 51% of GDP in high-income countries, according to the Edinburgh Group. Furthermore, almost all studies agree on a further point – that in order for this economic flywheel to begin to turn, there needs to be reasonable access to capital (both equity and debt).

As we know, capital is fluid and has a habit of moving to meet demand, particularly where the risk-and-reward skew is attractive. So what is causing this funding mismatch and why does it persist? Are most African SMEs a bad credit risk or do they offer sub-par investment prospects?

The macro-economic backdrop of generally high GDP growth rates, a demographic dividend and the most rapid urbanisation rate in the world is mostly positive. If one zooms out to place African SMEs in a global context, their equity would be in the global micro-cap category and the debt in the very high-yield or mezzanine space. Both asset classes, particularly given the drivers of where these businesses operate, should offer very attractive returns.

The risk-return continuum

The key point, however, is that as a collective, high yield and micro-cap investing work extremely well in a portfolio context. The predictability of risk and return rises with spread or diversification of exposures.

Herein lies the problem of funding SMEs in Africa. While the attractive returns tend to be at the lower end of the market-cap spectrum, SME deals, on the continent, tend to be very small, difficult and time consuming to originate.

During the building phase, while there are few exposures, the risk and return experience can be more extreme, which often colours investors' perceptions of the space. The net result is that capital often heads back up the market-cap spectrum toward the lower risk corporate deals, where origination is easier, deal size warrants the cost of due diligence and, most importantly, a spread of assets can be achieved relatively quickly.

So what can be done to facilitate investment into SMEs?

Providers of capital need a marketplace to assess businesses that require funding. This would allow relative evaluation, some level of standardisation and the ability to create a portfolio of small loans or equity investments relatively quickly.

A pipe-dream? Using a parallel example, the continent jumped fixed telephony to becoming the world's fastest-growing mobile market. That in turn enabled the success of businesses like M-Pesa, which means that Kenya now accounts for a third of the world's mobile money users.

Could sub-Saharan Africa lead innovation and use mobile connectivity to improve on the peer-to-peer or online lending platform models like Lendingclub, Prosper or Avant? Digital technologies facilitate the establishment of efficient matching. A result is the ability to aggregate and match the market with a level of efficiency and speed that was not possible in the past, according to The Centre for Global Enterprise.

Several contenders have tried to create lending bridges or origination platforms; others like PesaYetu in East Africa and Pollen Finance in SA continue to innovate. Who will win and how the model will evolve is unclear, but that Africa will solve its SME funding gap in a unique way is almost certain. ■

St John Bungey is the CEO of Sanlam Africa Investments.

By Nerina Visser

DIRECT INVESTMENT

Invest in Africa's future, not its past

Companies involved in the development of the continent are not necessarily listed on African stock exchanges. But investors do have options to put their money into one of the highest growth regions on the globe.

An overhead view of the African continent – with the railroad infrastructure highlighted – provides a stark reminder of its colonial past, and especially the extent to which infrastructural development focused on exports to the rest of the world, rather than on transport on the continent. Not only are the clear majority of railway tracks laid down between the mining operations and ports of export harbours; many of these railway sections cannot be connected to one another as there are differences in gauges and other specifications, making them incompatible with one another.

The former "Dark Continent" is currently on a significant infrastructure development drive – especially of the physical kind. Simultaneously, technological "highways and rural byways" are also being rolled out, as both telecommunications and financial services providers compete to reach the millions of unconnected and unbanked throughout the "Middle Africa" region – essentially sub-Saharan Africa excluding South Africa.

Unless we heed the lessons from the past, we run the risk of making the same mistakes in technological and financial market infrastructural development, as were previously made with the rail infrastructure. An analysis of Society for Worldwide Interbank Financial Telecommunication (SWIFT) data on transaction volume in Africa present warning lights of development that is too focused on traffic flow in and out of the African continent (like the export of raw materials and the import of beneficiated finished goods), and not enough on intra-African trade and investment "traffic" flow.

One positive indicator is the shift in focus from foreign direct investment (FDI) to intra-Africa investment (IAI), as the realisation sets in that there are vast amounts of capital already available on the continent, but that much of this lies idle as it is tied up in the coffers and pension funds of the governments across Africa. As much as the pro-FDI protagonists, investment bankers, private equity funds and venture capitalists scramble to secure external capital flows to fund growth on the African continent, there are several initiatives underway to unlock some of the idle capital already present in Africa.

The reality is, however, not that there are no investible opportunities available in the African growth story, but rather that many of these opportunities are not to be found on the stock exchanges on the African continent.

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Challenges

The problem is that a cursory glance across the capital markets of Africa, most notably the stock exchanges, highlights the (apparent) dearth of options available to invest and participate in one of the highest growth regions in the world. The reality is, however, not that there are no investable opportunities available in the African growth story, but rather that many of these opportunities are not to be found on the stock exchanges on the African continent.

This is most prevalent in the mining and resources sectors – it is quite stark that one will find very few metals and mining, resources or commodities company listings on the African Securities Exchanges Association (ASEA) equity markets, other than the JSE in South Africa. This is even though Africa is recognised as one of the richest sources of minerals, precious metals and gems in the world. One must look much further afield to the stock markets of London, Toronto and Australia to find listings of the companies that are involved in mining operations on the African continent.

The reason for this is quite simple: the complexity and capital-intensity of mining and exploration activities limit the range of financing partners available to these companies. They must turn to the capital markets that understand mining and know how to value and assess it. The aforementioned markets provide both the analytical skill and financial depth that these operations require from investors. Unfortunately, unless this is changed, Africa runs the risk of being further hampered by a form of neo-colonialism on the continent, again to the detriment of its people.

Investment capital provides direct benefit to the companies with mining operations in Africa, but none of the return on that capital accrues to the local markets. To add insult to injury, all the spin-off benefits within the financial services industry accrue to the foreign capital market and none to the local market. This is akin to raw materials being exported from the African continent, the beneficiation of those materials being undertaken in other markets, only for the final product to be imported back to the country of origin – obviously at a much higher price!

Opportunities

Investors in Africa – both institutional and retail – do not have ready access to investments representing a large part of their own countries' GDP, if at all. Thus, they largely miss out on the opportunity to participate in this aspect of wealth creation. Giving investors in Africa direct access to the wealth generated from their own natural and human resources would amount, in a small way, to rolling back the impact of colonisation, without having to "repossess" or take back any assets from existing investors.

Fortunately, we don't have to be slaves to our past – i.e. just because the legacy of our continent was outward looking, doesn't mean we must continue in that form. In fact, we can change that and refocus on what we can do for ourselves, such as finding better ways to improve the liquidity of our markets. It is thus good to see that not all financial infrastructural development is of the retrograde kind. There are some initiatives that are clearly aimed at facilitating and accelerating intra-African trade and investment.

One key to unlocking the access to these wealth-generating assets lies in exchange-traded products (ETPs) and global depository receipts (GDRs). An exchange-traded fund (ETF) that tracks an index of companies (e.g. mining and commodity stocks) that operate on the African continent, irrespective of the stock exchange on which they are listed, can provide exactly the type of exposure required.

Furthermore, by creating such ETFs and making them directly available to investors across the continent's stock exchanges (i.e. list the ETF units on ASEA member exchanges), will provide the opportunity for the entire spectrum of investors – from pension funds to retail investors – to participate in the benefits and wealth created by Africa's natural resources and growth sectors.

As global companies have expanded their footprint into Africa, they too extract value from African growth dynamics to boost their own value proposition, but without leaving behind much benefit beyond the first round of economic injection. It is very difficult to reverse this process by convincing individual companies with operations on the African continent to come and list their equity on African stock exchanges. Simplistically, GDRs can be viewed as single-stock ETFs; they provide the means to offer direct access to such global companies, operating in Africa, by listing a GDR over them on African stock exchanges.

Not only does this provide further locally relevant opportunities for investors across the continent, but at the same time, trading in these instruments in the local markets can go a long way to developing the stock exchanges and related financial services industries in these markets. This will broaden the investor base for the listed companies and allow a better spread of the wealth generated, without any sacrifice or penalty required from the current investors.

Gallo Getty Images/Reuters

One key to unlocking the access to these wealth-generating assets lies in exchange-traded products (ETPs) and global depository receipts (GDRs).

Pension funds

Pension funds in Africa have the potential to become prominent continental investors, although it may require an update to their allowable asset allocation limits and other related regulations. Much of their current asset base is held in sovereign bonds of their own government, which may have been appropriate during a time of double-digit coupons/interest rates and single-digit economic growth rates. However, as the demographic shift on the continent continues toward a younger and more urbanised population, so the risk appetite increases along with its ability to shift asset allocation further along the risky asset curve.

The obsession with liquidity as a prerequisite for pension fund investment is a moot point, especially in the context of multi-decade investment horizons and the desire for impactful investment to create the future required and desired by the younger members. Pension fund assets can be powerful agents of change, but it requires trustees and fiduciaries with vision and fortitude – to assess investment opportunities from the perspective of the future it can create, rather than the past from which it has come.

Africa has made a key shift in focus – from looking towards the rest of the world for development aid and investment flows, to an intra-Africa focus of how to unlock investment opportunities *on* the continent, and building infrastructure (especially of the technological kind) that serves the people of the continent before it serves its former colonial masters. This shift in mindset offers a win-win solution to investment in and for Africa! ■

Nerina Visser is a strategist at etfSA.

ZUMA STRIKES AGAIN

By Mariam Isa

OVER THE PAST FEW WEEKS, SOUTH AFRICANS HAVE HAD TO ENDURE THE RECALLING OF FORMER FINANCE MINISTER PRAVIN GORDHAN FROM AN INTERNATIONAL INVESTOR ROADSHOW, A CABINET RESHUFFLE AND A CREDIT RATING DOWNGRADE. AND WHILE THE NEW MINISTER OF FINANCE MALUSI GIGABA IS OPTIMISTIC THAT HIS TEAM WILL "MANAGE THE ECONOMY REALLY WELL", EXPERTS WARN OF BLEAK YEARS AHEAD.

Gallo Images/Getty Images

South Africa could be headed for a series of further credit rating downgrades, which will nudge its sovereign debt further into junk territory unless decisive action is taken to stabilise the country's turbulent political environment and restore faith in the future of its economic policies.

This appears unlikely after President Jacob Zuma's decision to abruptly recall finance minister Pravin Gordhan during an overseas investor roadshow and then fire him in a Cabinet purge which saw the departure of several ministers and their deputies, who were replaced with politicians seen as allies willing to pursue policies of self-enrichment.

Zuma's reshuffle and the reckless manner in which it was carried out prompted Standard & Poor's (S&P) to downgrade SA's long-term foreign currency rating to sub-investment grade for the first time in 17 years, citing risks of policy shifts that could undermine economic growth and fiscal prudence.

This will raise the government's cost of borrowing, making less money available for spending on infrastructure and social programmes and in turn curbing the economy's sluggish pace of growth, stunting job creation and spooking investors.

Further turmoil in domestic financial markets, which has been manageable so far,

has raised the spectre of rising inflation and already destroyed any chances of interest rate cuts that had previously been predicted for the second half of this year.

Treason against the poor

Old Mutual chief economist Rian le Roux has described Zuma's actions as "radical economic sabotage" and "treason against the poor". "The real danger from here is that we suffer a ratings meltdown and are downgraded again and again. We are on a slippery slope here," he said.

S&P raised the spectre of that scenario by slapping a negative outlook on the country's new BB+ long-term foreign currency rating, which means that the next move is likely to be downwards. Just hours after its announcement, Moody's Investors Service said it was placing its Baa2 rating for SA – which is two notches above investment grade – on review for a downgrade. Its decision is due within one to three months.

More worrying, however, is the likelihood that Fitch, which has already placed SA on the lowest rung of the investment-grade ladder, will also soon downgrade its sovereign credit rating to junk status. "Zuma's Cabinet reshuffle signals a change in policy direction and will raise political tension within the African National Congress and its traditional allies, potentially weakening public finances and standards of governance," Fitch Ratings Agency senior director Jan Friederich said on 31 March.

Political tension has already ratcheted up, with the ANC's traditional allies, the South African Communist Party and Cosatu, calling for Zuma to step down. Former president Kgalema Motlanthe has also urged Zuma to resign, while three members of the ANC's "top six" – deputy president Cyril Ramaphosa, secretary general Gwede Mantashe and treasurer general Zweli Mkhize have all voiced dismay at the lack of consultation within the party ahead of the reshuffle.

Mantashe initially said that the decisions appeared to have been "made elsewhere", a veiled reference to the influential Gupta family, which is believed to wield undue influence over the strategy of Zuma and his allies within government. The three leaders have since apologised for speaking out in public, saying it was "a mistake that must not be committed again".

Pravin Gordhan
Former minister of finance

Mammoth breach of trust

Standard Bank's chief economist, Goolam Ballim, was blunt in his assessment of the S&P downgrade. Overall economic growth was going to "sour", job insecurity would increase and people would become

Rian le Roux
Chief economist at Old Mutual

Demonstrators protest against President Jacob Zuma's firing of finance minister Pravin Gordhan outside Parliament in Cape Town on 31 March.

> "Zuma's Cabinet reshuffle signals a change in policy direction and will raise political tension within the African National Congress and its traditional allies, potentially weakening public finances and standards of governance."

TROUBLE AT SARS

The South African Revenue Service has been embroiled in controversy, including allegations that refund payments have been delayed and of questionable moves by members of its top brass.

Gallo Images/Getty Images

Tax compliance levels are beginning to deteriorate because of "negative media coverage" and criticism by those outside the South African Revenue Service (Sars) over the past 18 months, Sars Commissioner Tom Moyane said on 3 April.

At a presentation on the preliminary outcome of tax revenues for the financial year 2016/17, Moyane complained that tax morality was being undermined by waning confidence in the country's tax system.

"We cannot afford this. Taxpayer confidence in Sars's mission is critical to ensure and encourage good fiscal citizenship," he told reporters. "I find the comments extremely regrettable. I once again urge those who have concerns to deal directly with Sars."

Tax ombudsman Judge Bernard Ngoepe is investigating Sars to find out whether "systemic problems" are to blame for the high number of public complaints in the past year about delayed repayment of refunds, particularly for VAT.

There has been speculation that there has been a deliberate delay in the repayments to inflate the figures for the year, which the Treasury said in its February Budget for 2017 would fall R30bn short of initial projections – the biggest underperformance since 2009/10 when the country was in a recession.

Moyane released figures showing that VAT refunds for the year ended in March amounted to R181.4bn, up by 8.6% compared to the previous year and exceeding estimates by R1.2bn. He repeated that Sars supported the investigation by the Tax Ombud and said he was confident that the results would help restore taxpayer confidence in the institution.

Former finance minister Pravin Gordhan suggested to reporters just ahead of his 2017 Budget statement in February that the way Sars was being managed was partly to blame for the large revenue shortfall, although slower wage growth, lower employment and bonus tax-payouts hit personal income tax, the largest contributor.

Moyane has repeatedly maintained that last year's downward revenue revisions were solely due to a slowdown in economic growth, which has repeatedly been revised down by Treasury. Sars had exceeded the latest revised estimate of R1.144tr by R300 000, he said on Monday.

His frosty relationship with Gordhan may have contributed to President Jacob Zuma's decision to axe the minister in the recent Cabinet reshuffle. Moyane had asked Zuma to intervene regarding the rift between the two of them, which dates back to allegations of the existence of a "rogue unit" in Sars when Gordhan was its head – leading to a court case against the minister, which eventually collapsed.

Since he was appointed in September 2014, Moyane has also spearheaded a "purge" at Sars in which almost the entire senior management team left the institution.

Gordhan had planned to amend tax laws to compel Moyane, seen as close to Zuma, to improve his tax collection accountability and provide the Treasury with the information it requires for planning.

Moyane declined to comment on the status of an investigation of his second-in-command, Jonas Makwakwa, after he was suspended last year after evidence of suspicious payments into his account and that of his girlfriend came to light. ■

poorer, he said. "What happened last week was a mammoth breach of trust. Prospects for prosperity have been materially dimmed by this downgrade," he said.

"What is critical to pulling ourselves out of this quagmire is commitment to a reform agenda," he said. Unfortunately, the new finance minister, Malusi Gigaba, doesn't have the credentials to restore the required level of trust, and has been given a role which at this stage is far greater than his shoulders can bear, Ballim added.

There are doubts about Gigaba's fitness for the post as he has no experience in Treasury and during his tenure as public enterprises minister, governance was severely eroded at several key state-owned enterprises, including SAA, Denel and Eskom. In his last post as home affairs minister he presided over the introduction of stringent visa requirements which hurt the country's vibrant tourism industry.

Sfiso Buthelezi
Deputy minister of finance

The new deputy finance minister, Sfiso Buthelezi, is a former chairman of the Passenger Rail Agency of South Africa (Prasa) and the target of an investigation launched by the previous Public Protector, Thuli Madonsela, into his relationship with Makana, a subsidiary of Cadiz Holdings, which secured advisory work on a R51bn rolling stock tender.

Peter Attard Montalto
Analyst at Nomura

Zuma unrepentant

Hope that rising opposition to Zuma could lead to his resignation or removal, restoring faith in the ruling party's economic policies and ensuring the integrity of South Africa's key institutions, was most likely misplaced, warned Nomura analyst Peter Attard Montalto, who places only a 20% possibility of that outcome.

Zuma had taken a "calculated risk" in terms of understanding the level of support he has in key ANC bodies and Parliament, Montalto said in a research note on 4 April. "Put another way, is President Zuma being politically naïve or is he being a master tactician who can play the internal machinations of the ANC much better than anyone else? We believe the latter," he said.

Montalto has slashed his forecast for

It takes an average of seven years for a country to regain its investment grade credit rating.

economic growth this year to 0.2% from 1.1% previously, to 0.7% from 1.5% next year, and to 1% from 1.7% in 2019. He sees a "risk of recession" and expects "multiple ratings downgrades, if not immediately, then rapidly on the fiscal shock to come".

So far Zuma has been unrepentant of the consequences of his actions and said he was proud that he had added many young ministers to his Cabinet. "If we do not enable our young MPs to gain experience now, we may battle in the future with leadership and governance experience within the national executive," he said on 4 April.

Zuma also injected a jarring note into the sequence of events which he had started, voicing his gratitude to Gordhan and his deputy, Mcebisi Jonas, for their contribution to "strengthening" the Treasury and ensuring a smooth transition, which he said showed "maturity and leadership" in the governing party.

This was inexplicable as Zuma had justified his damaging recall of Gordhan from the roadshow by telling top ANC officials he was concerned about Gordhan's connections to "white monopoly capital". Zuma also presented a dubious intelligence report alleging that the minister was meeting with individuals who wanted to overthrow the state.

Contradictions from Gigaba

While maintaining that the Treasury would stick to its policy of keeping spending in check and stabilising the ballooning burden of government debt, Gigaba has already made contradictory comments. In his first media conference on 1 April, he said that he was "committed to maintaining an investment grade credit rating for SA" even while pursuing "more progressive economic policies".

On 4 April, he told journalists he had been informed of the impending downgrade by S&P when he took office on 31 March, but was not at liberty to disclose the information.

Gigaba has also been unclear about what "radical economic transformation" actually means, apart from better

Malusi Gigaba
Minister of finance

leveraging of the state's R500bn procurement bill to support black-owned businesses – a policy first mooted by Zuma during his State of the Nation Address in February.

"I think that at the right time from the vantage point of the Treasury we are going to elaborate a bit more on what we understand about our radical economic transformation and the role we are going to play in that regard," he said in reply to a question at the media briefing on 1 April.

Economic growth on its own is not enough to transform the economy and there is growing consensus inside the ANC and "progressive sectors of society" that if anything, the pace and depth of transformation has been too slow, and in many instances superficial, he said.

In his second media conference on 3 April, Gigaba sounded a more conciliatory note, putting more emphasis on economic growth, maintaining the stability of the country's institutions, and engaging with business and labour to build consensus. "We are not a bunch of wild gunmen running into National Treasury to do something else," he said.

"A downgrade won't be permanent if it happens [...] I think we are going to manage the economy very well," he added. But according to Christie Viljoen, a senior economist at KPMG South Africa, history shows that it takes an average of seven years for a country to regain its investment grade credit rating.

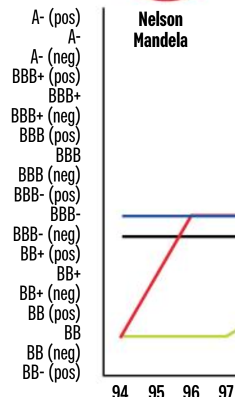
Worst may not be over

Gigaba quite correctly pointed out that SA's domestic debt – which comprises about 90% of its overall borrowing – remains investment grade. Rand-denominated government bonds would have to be rated junk by both S&P and Moody's for them to fall out of Citigroup's World Government Bond Index – an event that would be disastrous as

The yield on the benchmark 10-year government bond had climbed to just above **9%** from 8.32% since the Cabinet reshuffle – which already means that the government will pay significantly more interest on its borrowing.

CREDIT RATI

Nelson Mandela



foreigners hold more than a third of the country's domestic debt.

RMB currency strategist John Cairns says the problem is that this could become a real possibility next year if there are further foreign currency-denominated debt downgrades. "We're saying it's possible – there is some undue optimism about Zuma going," he said.

Reserve Bank deputy governor Daniel Mminele pointed out at a Reserve Bank function on the evening of 4 April that the yield on the benchmark 10-year government bond had climbed to just above 9% from 8.32% since the Cabinet reshuffle – which already means that the government will pay significantly more interest on its borrowing.

"A downgrade won't be permanent if it happens [...] I think we are going to manage the economy very well."

While forward rate agreements on domestic money markets had "priced in" more than one interest rate cut in the country by the first quarter of 2018, they were now implying that rates would remain unchanged next year, he noted.

The rand has also depreciated significantly, from R12.31 to the dollar on 27 March – its strongest since mid-2015 – to nearly R14 in the first week of April in response to Gordhan's recall, the Cabinet reshuffle, and the credit rating downgrade.

The impact on the currency so far has not been as severe as many had expected because of continued global appetite for emerging-market assets, and higher commodity prices.

The JSE's banking index has declined by about 8% since Gordhan was removed. The credit ratings of domestic banks will now automatically be downgraded, which will make it harder for them to raise money, while the impact on the economy will lead to less lending and more non-performing loans.

Daniel Mminele
Deputy governor of the Reserve Bank

Mminele described the S&P downgrade as a "serious setback" for the country, which means that efforts to provide assurance of continued commitment to sound economic policies and their predictable implementation would have to "redouble" to reverse the current ratings trajectory.

Prolonged political uncertainty

According to Alan Mukoki, CEO of the South African Chamber of Commerce and Industry, it would be difficult to restore political stability and investor confidence until the next general election in 2019.

The leadership battle within the ANC will not be resolved before the party's elective conference in December, while next year there would be uncertainty over whether the ANC will lose its majority status – which will also unsettle markets even if a change was ultimately seen as positive, he said.

"Whether Zuma goes or stays we still have a problem – no one will be able to stabilise the political and economic environment at the same time," he said. ■

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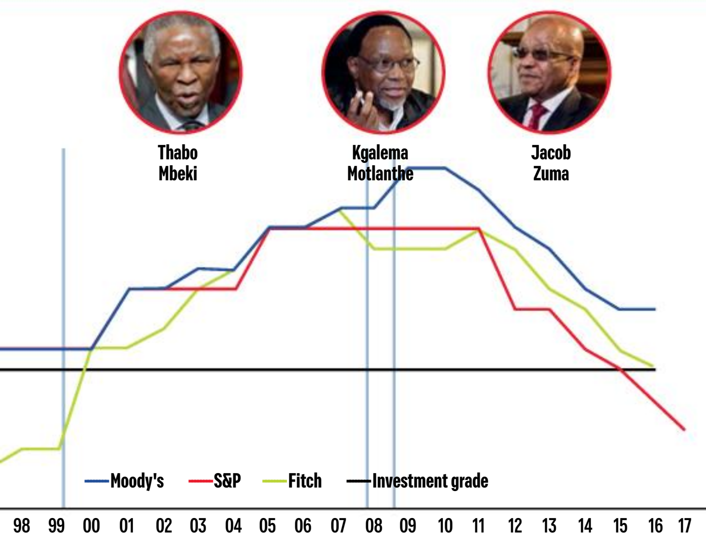
Alan Mukoki
CEO of the SA Chamber of Commerce and Industry

Gallo Images/Getty Images/Reuters/youtube.com

NGS UNDER DIFFERENT PRESIDENTS



SOURCE: Bloomberg, Nedbank

Mariam Isa is a freelance journalist who came to SA in 2000 as chief financial correspondent for Reuters news agency after working in the Middle East, the UK and Sweden, covering topics ranging from war to oil, as well as politics and economics. She joined *Business Day* as economics editor in 2007 and left in 2014 to write on a wider range of subjects for several publications in SA and in the UK.

on the money

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>> **Entrepreneur:** The story behind Pratley's putty *p.41*
>> **Management:** Making better decisions faster *p.44*

CEO PROFILE

By Glenda Williams

From student loan provider to education enabler

Fundi's CEO Amasi Mwela is carving out a new industry to enable learning.

Amasi Mwela has a rather considerable – and certainly not pedestrian – long-term goal for his company. "I want Fundi to become a one-stop-shop for all things education."

It's a tall order, but if anyone is likely to pull it off, it's Mwela. He has already made significant inroads into carving out that blueprint.

Formerly Eduloan, Fundi is a private enterprise that has provided more than 800 000 student loans over its 20 years of operation, the value of that a not inconsequential R5bn. But it is no longer just a loan provider. Mwela is seeing to that.

His passion for education is deep rooted. He is a man of action, his energy rubbing off and inspiring those around him.

Over the past 13 months, the company has rebranded and rebuilt its systems, has launched new solutions and opened a concept store. It has also developed and provided an innovative student cash card.

Fundi's previous CEO Totsie Memela poached Mwela, the former acting head of operations at Old Mutual iWYZE, the financial services group's insurance business.

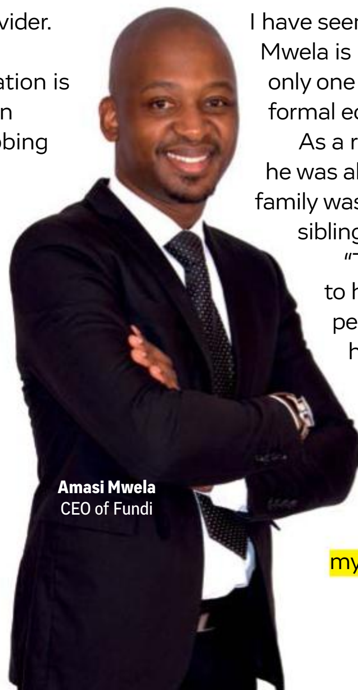
"I had just received a promotion at Old Mutual, but I truly believe that education is Africa's answer to its many problems, so it was an easy decision," Mwela tells *finweek.*

A mere four months after joining as Fundi's chief operating officer in 2015, and 14 days short of his 35th birthday, charismatic Mwela was Fundi's CEO, ready to put his stamp on the education space.

"Education for me is quite personal. I have seen the difference it makes." Mwela is referring to his father, the only one of 10 siblings to receive a formal education.

As a result, the standard of living he was able to provide his own family was very different to that of his siblings and their families.

"The best way I can contribute to humanity is to get as many people to experience what I have experienced from my dad's journey. Education has a multi-generational effect and that first generation makes the difference. I will dedicate myself to producing more people like my father."



Amasi Mwela
CEO of Fundi

Changing the company to fit the education space

Since taking over the reins as CEO, Mwela has radically transformed the company. No longer just a loan provider, the company now provides education services and resources from Grade 8 to MBA stage. It's an A-Z solution, both online and on the ground, that includes tuition, textbook and laptop funding to university registration.

Reinventing the company necessitated its rebranding from Eduloan to Fundi.

"The Eduloan name didn't reflect what we now did. Predominantly, Eduloan provided loans to civil service parents and guardians of students," says Mwela.

"We knew how many loans we were providing and our collection rate. But we weren't measuring what students were doing or whether or not they were passing. While the granting of a loan solves the funding issue, it does not necessarily ensure that a student gets through university. Research showed the need was much broader than we were able to provide so we looked at what we could do to change that."

Fundi aspires to what it calls its Vision 2020 – it views education as an ecosystem; the players, stakeholders, revenue flows and the levers that would need to be pulled to offer more support to students.

Over 200 000 bursary students now utilise the Fundi card at over 2 500 selected merchants countrywide.

"I wanted to create an organisation with heart. If a person passes we want to know, and if they don't we want to know what help they need," he says.

In developing its new model the company bought two young IT start-ups – Stoogle (rebranded to EduOne) and a division of LIV.

"Some of the platforms were completed within three months. Traditionally that can take years. But these [21-year-old] 'kids' don't sleep; they just get it done," says Mwela.

Fundi's new online platform EduOne now provides the support and resources needed to help students on their education journey. Among the offerings on the online portal are subject choice information, career advice, course-matching tools, university qualifying guidelines, funding applications and bursary information.

The technology also anchors Fundi's loan business as well as its R1.5bn bursary management business, introduced a few years back.

Apart from taking on the administration that comes with managing bursaries for the entities that provide them, Fundi developed innovative card technology with category 'pockets' that bursary students use to manage spending.

Over 200 000 bursary students now utilise the Fundi card at over 2 500 selected merchants countrywide. Apart from teaching students how to budget, the technology provides online visibility of student spend for bursary providers.

With this level of accountability and visibility, the bursary administration portion is growing, currently accounting for 40% of Fundi's business.

Making up the other 60% is the loan business where students or their sponsors receive a preferential rate for tuition, laptops and books.

The company collects a whopping 98% of its loans. "It's an indication of the value that people place on education," he asserts.

In addition to its online presence, Fundi boasts 48 branches, located mostly on university campuses. Now, though, there's a move to stores located in major cities. Its new concept store in Polokwane with its self-service portal, university registration facility and in-store laptops, is an example of this.

"The goal is to have one of these stores in every major city across the country in the next 18 months," says Mwela.

Shaping the one-stop-shop blueprint

No longer does the company have a transaction-only relationship with its clients. Now it knows everything it needs to know about those clients. "What's key is that as an organisation we can measure the impact of education and measure skills contribution. Very few financial institutions can do that."

Fundi also recently piloted its cashless school solution in two schools where students transact using a wristband pre-loaded with cash.

The company plans to roll out this cashless solution to at least 10 additional schools during the financial year.

Fundi CEO Amasi Mwela at the opening of the company's new concept store in Polokwane.

To realise his goal of taking students from grade 8 all the way into the working environment, Mwela's vision also expands to building or partnering in a jobs portal. The company is already in discussion with various partners.

Different leadership. A different culture. Different values, vision and mission. All are facilitating Fundi's ability to enable learning, disrupt traditional financial and education industries and along the way carve out new ones as it is doing in the fund administration industry.

"It's now a much bigger cause than just granting loans," says Mwela. ■

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GETTING TO KNOW AMASI

Education: Mwela has a BComm from Bond University and holds an MBA from Milpark Business School. "My parents ensured we got the best possible education; all seven of us [siblings] have a degree."

Difficulties encountered: Being told he was a slow learner by his grade 4 teacher. "I was young, so I believed her. I don't think many teachers understand their impact on young lives. I carried that stigma until matric."

What was unexpected? "Getting a distinction for my thesis."

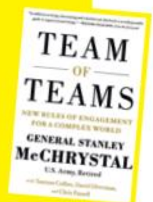
Best business advice: "No matter how senior you are in an organisation, you don't have all the answers."

Management style: Mweni is no figurehead, managing by 'walking around' and interacting with his team. Endowed with a quirky sense of humour and an endearing modesty, he is quick to laugh and equally quick to give credit where it is due.

What has motivated you? "My parents. My mom is a nursery school teacher, my father a mine metallurgist. He managed to achieve that against all odds and with help from the Catholic Church."

Non-work habits: "I play the piano but only when I'm really bored. I mostly spend time with my two kids (aged three and 18 months) playing choo choo!

"I'm not a very sporty type. I play golf, but I suck at it. I also gym and swim, but nothing extreme."



Dream car: Jaguar XJ

Currently reading: *Team of Teams* by General Stanley McChrystal

By Lloyd Gedye

BROADCASTING LANDSCAPE

ANC: 'Dismantle monopolies'

In a recently released policy document, the ruling party suggests ways to increase competition in the local broadcasting arena.

The ANC has acknowledged that attempts to make the broadcasting landscape more competitive have failed drastically and that it will need a new strategy if it is to break MultiChoice's stranglehold. It is also deeply concerned about the state of the SABC and wants to see greater transformation across the ICT sector.

This is according to an ANC discussion document titled *Towards the Fourth Industrial Revolution*, published ahead of the party's national policy conference to be held at the end of June. The report states that efforts to licence competitors to take on MultiChoice have been "futile" and suggests a review of licensing conditions for pay-TV players.

"The current regulatory regime, imposed at the time when the subscription market was small and had a relatively insignificant share of the total audience, must be changed to reflect the size and therefore the obligations to ensure fairness across the whole television market," reads the document.

It proposes addressing decoder monopoly in order to promote interoperability of decoders, a move that would have a big impact on MultiChoice. The paper also calls for the accessibility of national events and sports of national interest to be looked at, a possible reference to SuperSport's stranglehold on sports rights. As a sports fan who doesn't fork out a fortune on a DStv subscription every month, this is welcome news.

"South Africa must open the subscription television market, which is currently dominated by one player, Naspers[*], through MultiChoice and DStv," reads the document.

However, it also singles out over-the-top (OTT) services such as Netflix, YouTube and Amazon Prime Video for greater attention. The ANC warns their entry could lead to "unfair competition" for existing licensees who have public interest obligations attached to their licences. The ruling party wants to see the creation of local OTTs to compete with foreign OTTs.

The document bemoans the lack of progress with digital migration, saying it's "far from completion". "Recent court cases around the nature of the set top box control mechanisms pitting government against e-tv have exacerbated the delays – thus deferring the urgent release of the strategic radio frequency spectrum needed to accelerate the rollout of broadband and high-speed internet networks," reads the report.

It suggests that the digital migration process for South African television should be used to break up "monopolies and concentration" across the television value chains.

These criticisms of the delays in digital migration highlight the fact that the ANC and the ANC-led government do not see eye-to-eye, with previous minister of communications Faith Muthambi acting contrary to ANC policy on digital terrestrial television (DTT).

"Dismantling monopoly must be through legislative interventions in areas like ownership and control rules, [and] probes into anticompetitive behaviours and market structure", reads the discussion document.

It calls for the establishment of two regulators as per the national integrated ICT policy white paper, one for content and one for competition and networks. "These two regulators must be established without delay so that they provide the necessary capacity for flexible and proactive regulation," it adds.

It calls for the establishment of two regulators as per the national integrated ICT policy white paper, one for content and one for competition and networks.

According to the document, the state of the SABC is a great cause for concern. "A trust deficit has emerged between the citizenry and the SABC, as the public broadcaster lurches from one crisis to another," it reads. "The opportunity cost of this has been substantial, as millions of South Africans turn to social media and antagonistic mainstream media platforms for their sources of information, many of which lack credibility."

Faith Muthambi
Former minister of communications

Gallo Getty Images/Esa Alexander

The document also highlighted concerns aobut corporate governance at the SABC, saying there is a need to clarify the "legislative scheme as it pertains to the governance and operations of the SABC". The broadcaster currently has to comply with both the Broadcasting Act and the Companies Act, which has led to some ambiguity.

BEE also gets a mention. The document states that government will work together with the ICT industry to achieve 51% black and South African ownership of the "major networks and platforms".

It calls for the acceleration of the roll-out of the national broadband plan SAConnect and calls on government to identify and introduce various funding models to accelerate the roll-out. It also calls for regulatory institutions to allocate resources to complete the outstanding market reviews to reduce the costs of telecommunications services, following the #DataMustFall protest movement. ■

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*finweek *is a publication of Media24, a subsidiary of Naspers.*

By Glenneis Kriel

The disruptive innovator

The Pratley Group has established itself as a world leader in the manufacturing of electrical products and adhesives. Since its inception back in 1948, the company has registered over 350 patents and currently manufactures more than 1 200 products and 10 000 product components.

Say the word "Pratley" and most people will think of Pratley Putty®, which, by the way, is the only South African product ever to have gone to the moon. Talk to people in the building and mining industries and the first thing they will come up with is Pratley cable glands and junction boxes. Kim Pratley, CEO of the Pratley Group, talks about the company's journey to success.

Pratley was started by your dad, George 'Monty' Pratley. Tell us more about him. What did he do before he started the company?

He was a very fair person, but a tough businessman and great engineer. He was an inventor and entrepreneur at heart. No matter what he looked at, his first thought was always about how he could improve it.

Monty grew up in South Africa, but studied mechanical engineering at Lanchester Polytechnic in England after his father died. He attended evening classes and during the day worked at British Thomson-Houston Company (BTH), which later became a subsidiary of the General Electric Company. When WWII broke out, he started working as an apprentice turbine engineer as part of the team at BTH in Rugby, who secretly developed the British jet engine under the guidance of Frank Whittle, the inventor of the jet engine.

Later during the war he joined the British Army and landed in Normandy, France on D-Day with the 7th Armoured Division. He was swept all over Europe until the end of the war. He and my mom, Marguerite, met while he was still studying in Rugby. They came to South Africa about a year after the war was over. I think he just wanted to get back home.

What happened when Monty came back to South Africa?

I believe he had a study loan from Rand Mining, so he worked at Durban Deep Mine when he came back. He got extremely frustrated with general inefficiencies in mining, but even more so with the inertia in big mining groups when trying to address inefficiencies.

In 1948, he opened up his own engineering jobbing shop – taking on engineering jobs outsourced by the mines. Besides an engineer, he was also an amazing artisan and had been building small engines and models since he was a child. He positioned himself in the market as someone who fixed difficult jobs, in other words, jobs that other shops avoided.

Kim Pratley
CEO of the Pratley Group

First of all, you need to be disruptive. You're not going to break into a well-established market by supplying what is already there.

What were the company's greatest breaks?

Being an inventor, my dad had thousands of ideas on ways to improve things in the mines.

Some of these early ideas, which he patented, included a vulavala valve, a hose connection and then the one that gave him the big break around 1950: the world's first electric explosive delay igniter. The company who bought the patent made delay fuses and saw the igniter as a huge threat to their core business, so they never marketed it. They nevertheless paid my father enough for it to get him into manufacturing.

After that, he patented another first of its kind – the Pratley adjustable cable gland, which helped to significantly accelerate company growth.

How has the company grown since then?

My father worked alone for most of his first year in business. Thereafter he employed two people, Sam Mathebe and Don Cock. Sam worked here until he passed away a few years before my dad, and Don retired several years ago and has since passed on. We currently employ over 200 people.

Our business has expanded greatly over this time. We manufacture electrical products, high-performance DIY and industrial adhesives, decoupage craft products and we mine and sell unique zeolite and perlite products. We even have a haircare division and a laboratory providing micro-analysis services.

The company is very diversified. How do you keep things together?

On the surface it might seem that these business divisions have nothing to do with each other, but at a technical level they are actually quite

Photos supplied

Q&A:

interconnected. Many of our electrical products rely on polymers to impart specific properties such as being flameproof, or watertight sealing. Modern adhesives are also polymer-based and the research and science we bring to bear in this field is also uniquely applicable to the electrical products.

What have been some of the company's greatest achievements?

Many people think it was the recognition we received when NASA sourced Pratley Putty® to use in their space craft. We have, however, had various other very significant achievements and product developments.

Our Pratley Wondafix®, a tough yet flexible adhesive, was the first of its kind in the world. Our new Gunge Spunge® clean-up powder can clean up oil spills and other liquid hydrocarbons commonly found at fuel service stations, refineries and airports. Clinobrite®, which serves as a high-tech pool filter, helps pool owners save money by scavenging unwanted ammonia from pool water, thereby reducing the swimming pool's chlorine consumption. It also helps to remove heavy metals and radio-active compounds from the water. We have also developed some unique petrochemical catalysts and have helped clean up nuclear radiation disasters like Chernobyl with our Zeolite technology.

For me, the protocol we developed to process our perlite was pretty amazing. When we diversified into the mining of perlite to take advantage of the huge potential of this mineral in the building industry, we did not realise at first that our ore deposit was different and in some ways superior to what was available in the market up until then. These unique properties however also required a completely new way of processing the ore.

When did you get involved in the company?

One can say I have been involved in the company all my life, since I "grew up" in it. After school, however, I did a mechanical engineering degree before joining the company in the late 1970s. My

The Pratley head office and manufacturing facility is situated in Krugersdorp on the West Rand.

dad passed away in 1983, when I was only 27 years old. I think the transition was eased by the fact that my dad and I are so much alike. I am also an engineer and inventor at heart.

Doesn't all this invention and engineering interfere with your management of the company?

No, I actually think it is one of the many things that set us apart from other companies. We have a very strong research and development division because of it, which has allowed us to continuously improve products and bring new solutions to the table.

Put the cart before the horse and create employers; employment will naturally follow.

How have you changed the company since taking over?

The company has had great core values, such as scrupulous honesty, ultra-high-end performance and high-quality products, which I would not dream of changing. It is actually becoming more and more difficult for companies to pursue these values due to the growing shortage of well-skilled researchers and developers and tighter-growing cost margins.

My biggest focus therefore has been on improving systems to streamline the company and improve efficiencies.

What was some of the biggest lessons you learnt from Monty?

Nothing is more important than good management. Good management is strategic, but also pays close attention to detail.

Also, something is only impossible until somebody has done it.

Who is your competition and how do you maintain your competitive edge?

Our main competition, as with many local companies, is cheap imported products: adhesives from China and electrics from India. The fact that we are a well-established brand name that is associated with good quality helps to differentiate us from these products.

I don't, however, see competition as a threat to a company. Competition is normal and can even be healthy. All businesses have to deal with it. The biggest threat to South African businesses, in general, is our government with its anti-business and -manufacturing policies and legislation.

George 'Monty' Pratley started the company in 1948.

Could you give examples of these 'anti-business' policies?

Labour legislation is one of all manufacturers' biggest headaches. SA has one of the highest unemployment rates in the world. Even so, government does not seem to realise that you cannot create employment without an employer. Hence, instead of creating policies that significantly increase companies' risks when employing more people, government should rather aim to create an environment where companies want to employ more people. Put the cart before the horse and create employers; employment will naturally follow.

Most business won't acknowledge this openly, but I tell you that the number of employees required to successfully take on a new project is one of the biggest determinants of whether a company will pursue a new task or not. It is because of this issue that many manufacturers have closed down shop in the country or started sourcing components from overseas instead of producing everything locally. Pratley would employ 10% more people tomorrow if it weren't for these unfriendly policies.

> It is because of this issue that many manufacturers have closed down shop in the country or started sourcing components from overseas instead of producing everything locally. Pratley would employ **10%** more people tomorrow if it weren't for these unfriendly policies.

Are there more ways in which government makes life difficult for business and the manufacturing industry?

Complex taxation and government inefficiencies also drain business potential in the country. We, just as an example, recently discovered that somebody was selling fake "Pratley" products in Africa. The company is faking our packaging and even fraudulently using my signature on the packaging. Asking the department of trade and industry (dti) to help us resolve this issue has been fruitless. The dti could not even give us diplomatic assistance into the country.

Then there is the South African Bureau of Standards (SABS). Many of our products carry the SABS mark of approval. Currently renewing these test certificates is near impossible, as it seems that the SABS has become totally defunct in our industry.

How does the company deal with the policy environment? Would you consider moving the business overseas?

No, we are not going to move overseas, we will stay here. We might, however, consider importing some of the components we previously bought locally or manufactured ourselves to reduce our risks. These imported products would, however, have to comply strictly with our product specifications and quality standards.

If you had two tips for aspiring entrepreneurs, what would they be?

First of all, you need to be disruptive. You're not going to break into a well-established market by supplying what is already there. You need to supply something new or better or differently, whether it be a service or a product.

Second, remember that one of the main advantages a new entrepreneur has is that he/she has less to lose. Poor management of debtors and cash flow is nevertheless one of the main causes of business failure. Hence it is best to start small, keep overheads low and grow as the demand for your service grows.

How do you manage to balance your work and personal life?

I guess my life isn't that well balanced, but I live close to work which means that I do not spend long hours on the road and I can go home quickly if needed. My work, however, also doesn't seem like a job because it is a passion. My two sons, Andrew and Charles, have also joined the company and we are enjoying working together. We are avid aviators, so we also spend many weekends flying together. ■

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By Helena Wasserman

How to make faster, better decisions

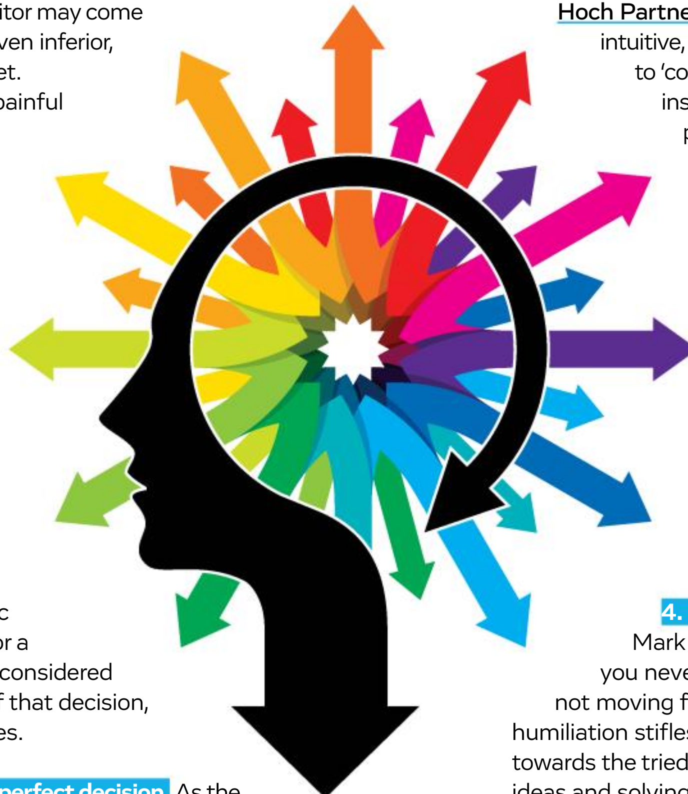
Dithering can come at a large cost – not only for your company but also for your personal reputation.

There is no shortage of spectacular mistakes in the business world. From Kodak, which developed the technology for one of the first digital cameras (and a cellphone prototype), but chose to focus instead on its traditional film-based product until it was completely destroyed by cellphones, to Anglo American, who decided to buy and invest billions in the Brazilian iron ore project Minas-Rio, right at the peak of the commodity boom.

Given the huge cost of potentially getting it wrong, making a big call can be debilitating. Often managers endlessly delay key decisions in order to review all possible information, analyses and opinions to make sure they are doing the right thing.

But protracted decision-making is costly too. In the current environment, the fast eat the slow. There can be enormous opportunity costs in waiting to make sure that all moving parts have been considered. Your competitor may come to market first with a similar, even inferior, product and capture the market.

Dithering also comes at a painful cost to your own reputation. Indecision does not instil confidence in your abilities. Teams want to see their manager taking decisive action: hesitation and overthinking create uncertainty.



How to take more effective decisions:

1.Set a strict deadline. Waiting for all information or for the planets to align perfectly before you make a decision will result in endless delays. Instead, have a realistic deadline (preferably: today) for a decision, make sure you have considered the worst possible outcome of that decision, and live with the consequences.

2. Abandon the pursuit of the perfect decision. As the Italian saying goes, "The perfect is the enemy of the good enough." Make peace with the fact that your decision can only be based on all known factors, and that you won't provide for all eventualities. Be open to adapt your plan as new circumstances emerge, but press ahead as soon as you can make an informed decision.

3. Avoid analysis paralysis. Too much information (including all possible statistics, numbers and surveys) can cloud your judgement and add to confusion. Take for example the experiment detailed in Daniel Kahneman's bestseller *Thinking Fast and Slow*, where experienced German judges tended to give a shoplifter a longer sentence if they had just rolled a pair of dice loaded to give a high number. Be very clear about what you want to achieve with your decision and only focus on pertinent information that will help you in that aim.

"For complex decisions with unknowable outcomes, consider following your gut," says Jonathan Hoch, founder and executive coach at Hoch Partners in Johannesburg. "Our brain's 'fast' intuitive, subconscious processing is superior to 'cold' rational thought. Our brain can instantly process and compare infinite patterns from the past in order to make predictions about the future."

Trust your own experience and have confidence in your ability. As Malcolm Gladwell famously explained: If you've had 10 000 hours of experience in a specific field, you can "blink" and make a decision.

But for simple, yet important decisions, you should follow your head, says Hoch. "Use cold, slow, rational thought. Calculate and make sure."

4. Embrace failure and uncertainty. Mark Zuckerberg often said that if you never break anything, you're probably not moving fast enough. Fear of failure and humiliation stifles experimentation and will steer you towards the tried and tested, and away from bold ideas and solving challenges with new thinking.

5. Don't spend time on unimportant decisions. Zuckerberg wears the same type of T-shirt every

Gallo Getty Images /iStockphoto

Jonathan Hoch
Founder and executive coach at Hoch Partners

Make peace with the fact that your decision can only be based on all known factors, and that you won't provide for all eventualities.

day so that he doesn't have to decide what to wear in the morning: one less decision that helps him focus on those that really count. This is supported by new research on decision fatigue, which shows that mental energy and willpower are limited, and that taking many little decisions will sap your ability to make the important decisions.

Take the powerful example of a survey of 1 000 parole decisions made by eight judges in Israel over a 10-month period. The study showed that the judges were far more likely to grant parole at the start of a session than at the end: in fact, a prisoner's chances of receiving parole more than doubled if his case was heard at the beginning of a session. Also, the more cases a judge had to hear, the less likely it was that a prisoner at the end of the session would receive parole.

Accordingly, by limiting the number of decisions you have to make during the day, you will enhance the quality of the decisions you do make. Determine what decisions are important to you, and automate or outsource the rest. For example, schedule exercise sessions long in advance (to avoid deciding every morning whether you feel up to it), or pre-order lunch.

6. Limit advice. Inviting too many people to provide their inputs on a decision will add to the confusion and won't necessarily lead to enlightenment. Instead, choose one or two strong experts on the topic and ask them the difficult questions. Also, don't try to come to a decision by calling a meeting.

7. Make sure you are in the right state of mind. "We make our best decisions when our brains are at the optimal balance of arousal: focused and alert, yet calm," says Hoch. "Too much or too little stress can impact negatively on decision-making." ■

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on the money quiz & crossword

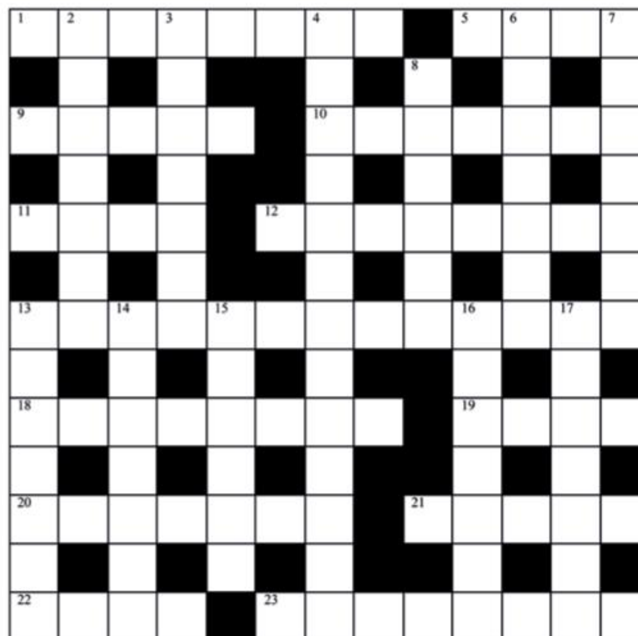
This week, we have a copy of Theuns Eloff's *Turning Point: South Africa at a Crossroads* up for grabs. For a chance to win this book, complete the online version of this quiz, which will be accessible via fin24.com/finweek from 10 April.

1. Near which South African city is the Coega industrial Development Zone situated?
2. **True or false?** Botswana recently had an earthquake.
3. How long did SA enjoy an investment grade rating before the recent downgrade by Standard & Poor's?
4. **True or false?** Sfiso Buthelezi is the new SA finance minister.
5. Name the British Overseas Territory located off the southern tip of Spain.
6. **True or false?** The finance minister has criticised the government's proposed nuclear build programme.
7. Which regulation of the Pension Funds Act imposes limits on the investments of retirement funds?
   - Regulation 41
   - Amendment 66
   - Regulation 28
8. **True or false?** In SA, it is now legal to grow dagga for one's own use.
9. Which is the judicial capital of South Africa?
   - Cape Town
   - Bloemfontein
   - Durban
10. What type of company is Bell Pottinger?
    - A manufacturer of mining consumables
    - A luxury goods distributor
    - A public relations consultancy

CRYPTIC CROSSWORD — NO 675JD

ACROSS
1 Left-handed boy replaced by another without new quibble (8)
5 Failing from the start as tribune (4)
9 Falling out and about (5)
10 Money set aside for device to induce hens to lay (4,3)
11 Cross the track of a hunted animal (4)
12 GT changeover in trouble when wet (8)
13 King Edward's familiar reference to member of legal profession (7,6)
18 Drop in concessions to trap shellfish (8)
19 Silly fashion back in time (4)
20 Needed to get solvent fast? (7)
21 Desert country I am first to leave (5)
22 Decides to return in a specialist position (4)
23 Major attraction – rats! (4,4)

DOWN
2 Dreamer's reference about nine (7)
3 Not outfitter's medical aid (7)
4 Corresponding life for one having the same interests (7,6)
6 Go before hunter misses or gets eliminated first (7)
7 Intellectual who needs to be removed before soldiers can be deployed (7)
8 From the beginning money collector's more like a corpse (6)
13 Toying with Oslo, the destination is elsewhere (7)
14 Pro-Palestinian Libyan is terrorist leader (7)
15 Synthetic material used secondly to make hose (6)
16 Indian crowd flowing into US (7)
17 Nice start provided line gets more stylish (7)



Solution to Crossword NO 674JD
ACROSS: 1 A case of wine; 9 Grannie; 10 Tourn; 11 Inert; 12 Sardine; 13 Unfirm; 15 Kishke; 18 To India; 20 Sidle; 22 Roist; 23 Swear at; 24 At this stage
DOWN: 2 Crate; 3 Senator; 4 Obeism; 5 Water; 6 Nourish; 7 Agriculture; 8 Antecedents; 14 Foilist; 16 Inspect; 17 Tarsus; 19 Dutch; 21 Derig

On margin

A crazy ride

A lady in a taxi leaned forward to ask the driver a question. She gently tapped his shoulder to get his attention.

The driver screamed, lost control of the cab and nearly hit a bus. He drove onto the pavement, almost going through a shop window.

For a few moments the inside of the cab was silent. The shaken driver turned and said: "Are you okay? I'm very sorry, but you scared the piss out of me!"

The passenger, very startled at this point, apologises to the driver and says: "I didn't realise a mere tap on the shoulder could give someone such a massive fright."

The driver replied: "No, no, I'm the one who's sorry, today is my first day driving a cab. Before that, I drove a hearse for 20 years!"

A dog's world

A dog is sitting in the cinema with its owner. The dog stares at the screen intently and growls whenever the villain appears and wags its tail whenever the hero comes on.

An old lady has been watching the dog's behaviour. She turns to its owner and says: "That's extraordinary behaviour for a dog."

"You're right," says the owner. "It *is* surprising – he hated the book!"

Those Yanks

Q: How do you get Americans to join a World War?
A: Tell them it's almost over.

Q: How do you know when Trump is not lying?
A: His mouth is closed.

In brief

When the inventor of the USB dies…

They'll gently lower the coffin, then pull it back up, turn it the other way, then lower it again.

Why was astrology invented? So that economics could be an accurate science.

An agriculture student said to a farmer: "Your methods are too old-fashioned. I wouldn't be surprised if this tree gives you less than 50kg of apples."

"I wouldn't be surprised either," said the farmer. "That is an orange tree."

JD Breytenbach @mynamejd
The how-to guide to investing in SA:
1. Buy
2. Pray
3. Panic
4. Buy the dip
5. Quote Buffett and become a long-term investor if it doesn't work

Ryan Cummings @Pol_Sec_Analyst
In all fairness, a #cabinetreshuffle was the only way Zuma was going to generate new employment in South Africa.

Mr. Missing @chestermissing
You know shit just got crazy when Cosatu is trying to get an elderly black man fired.

Charl du Plessis @CharlduPlessc
Jeez. Soon the only people who don't want Zuma recalled will be Manyi, Esethu and ANN7.

Stuart Theobald @rationalhill
"How did you go bankrupt?" Bill asked. "Two ways," Mike said. "Gradually and then suddenly."

Terry Bell @telbelsa
Question: When the ship of state, rotted by corruption, starts to sink, should one welcome ashore the rats who were complicit in the decay?

Cobus Bester @CobusB
Defenders of Zuma will do well to heed Churchill: "An appeaser is one who feeds a crocodile, hoping it will eat him last." #Zuma

Gus Silber @gussilber
A suggested philosophical slogan for our troubled times: "Môre is nog 'n dagga."

"Beware the barrenness of a busy life."

– Socrates, classical Greek philosopher (470/469 BC-399 BC)

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