PUBLIC INVESTMENT CORPORATION®
Est. 1911

MEMO

BRIEFING NOTE FOR THE PANEL DISCUSSION

NEPAD BUSINESS FOUNDATION
"AFRICAN LEADERS IN DIALOGUE"
8 NOVEMBER 2012, SANDTON CONVENTION CENTRE

EVENT THEME: Africa Determining its Own Path - A New Role for Politics and Business

---

INTRODUCTION

Higher economic growth is arguably the most potent tool to deal with unemployment and poverty, over the medium to long-term. Africa has, until recently, been somewhat left out of this process for many reasons, including small market sizes, poor infrastructure, weak regulatory frameworks, debt problems and, in some cases, political instability. However, over the past decade, there has been considerable progress with economic and political reforms in several African economies. These developments mean that Africa now sits on the cusp of explosive economic development and growth.

For FDI to contribute fully to economic and social progress in Africa, host-country governments need to create a policy environment that enables the domestic country concerned to extract development returns on investment. That means, the absorptive capacity needs to be improved to maximize returns from foreign and continental investment.

Governments should thus develop a set of policies that are not only focused on investment promotion, but also address issues such as political stability, eradication of corruption, human capital and skills transfer, infrastructure and enterprise development. These are likely to increase FDI spill-over effects and contribute to diversifying the economic base of countries. Progress will also be sped up as international investors realise that massive growth potential lies in Africa.

Governments also need to develop the capacity to engage with partners to ensure that relationship with investors favour the host country, at best, or are at least equitable. All sectors of society need to work in a collaborative rather than antagonistic fashion (towards the common goal of growth and prosperity).

PUBLIC INVESTMENT CORPORATION®
Est. 1911

BASIC QUESTION TO PIC IN PANEL DISCUSSION:

What motivated the PIC to increase its Africa focus and what challenges and opportunities did you have to consider and mitigate?

PIC is one of the largest investors in South African equities, with investments contributing towards approximately 13% of the market capitalisation of JSE limited. The PIC's largest client is the Government Employees Pension Fund (GEPF). The current GEPF mandate prescribed that up to 10% of the equities fund can be invested outside South Africa. Currently PIC has invested 5% in offshore equities, while the remaining 5% (which translates to the minimum of R50 billion), will be invested in the rest of Africa continent outside South Africa. This move is in anticipation of growth opportunities that are available on the continent and the need to diversify risk, while at the same time ensuring that returns are sound. The move by the GEPF in terms of mandate was already signaled by them with the launch of their developmental investments policy in 2011. The Africa strategy of the PIC is therefore fits with that and is a manifestation of the mandate granted to us by the GEPF.

Although investment in Africa often targets the transport and energy sectors, there are important investments in the telecommunication, retail and real estate sectors. New investors are also active in areas that are particularly important to Africa's developmental agenda, such as infrastructure and agriculture. The experience at the PIC indicates that we have barely touched the tip of the iceberg, in terms of investment in these areas.

We are also mindful of the risk associated with such opportunities. The African story presents the PIC with unique investment opportunities as well as challenges. Although Africa's prospects are bright, they differ not only by country but also by sector. Our expansion into the rest of the Africa will not only focus on growth in sectors and geographies. It will focus on a broader strategic commitment, namely that prosperity must be shared if the economic success of the continent is to be sustained. As South Africans we must actively participate in the shaping of this future not only for South Africa but for the whole of Africa.

Our engagements thus far have been extremely diverse and have taken us to countries such as Tanzania, Nigeria, and Zambia. Of course there are both challenges and rewards to investing into new African territories, but all investing holds both threat and opportunity and it is up to investors like the PIC, to discern the good from the bad.

Our own PIC investments into companies such as EcoBank which operates across Africa, and Tanga Cement which operates out of Tanzania, are recognition of the growing opportunities in Africa and the confidence we have in Africa's future. The message is that of course the challenges are there, but so are the opportunities. Sage investors do their homework, they realise that one cannot delink development, social and financial return. There is also certainly scope for collaboration of investment effort and for co-investments in each-others regions, above import-export trade.

PUBLIC INVESTMENT CORPORATION®
Est. 1911

Challenges / risks:

- **Education** in most African countries is still an area requiring great attention. Often countries are faced with people who lack necessary skills to support the high growth prospects these countries may present. This is especially acute in the mining and engineering sectors. This has often resulted in a large inflow of expatriate skills in order to support the initial stages of business development, with often limited skills transfer.

- Unfortunately, cases of **corruption** both in the private and public sectors in some countries still present a challenge to overcome. Though not unique to any region of the World, participants in Africa needs to do the right thing, conduct business openly, honestly and with integrity. These actions by investors, coupled with a strong political will to do and enforce the same, will mean a stronger base from which opportunities can be fully realized.

- The **lack of road, rail and port infrastructure** in many African countries makes logistics in respect of the transport of raw material and finished goods difficult. It is one thing producing an excellent product, and another to economically and timeously get that product to market. There are currently plans to improve road, rail and port systems in some countries (like South Africa), while even that challenge has meant business opportunity for others.

- Lack of **internet connectivity and access**. This has been massively affected too by the cell phone revolution, which in many countries has even led to a banking revolution. A lot more though can be done in terms of internet connectivity.

- Sometimes, a shortage of **energy** infrastructure leads to a restriction of possible mining and smelting activity. This means energy initiatives (not only in the renewable space) are critical.

Additional challenges investing into the Continent (short bullets):

- Sometimes a number of possible investors in effect chase the same opportunity (thereby bidding up its price).
- Collaboration between different entities which may have different mandates / objectives / principals, and risk appetites. Lack of co-ordination seems to exist.
- “Dollarisation” or one currency becoming the norm is sometimes politically sensitive
- Physical presence in a country strengthens one’s position and foothold. Are there means by which collaboration could help on this front?
- How can we co-ordinate with both Government, DFI’s and others to make the case for “SA Inc” going into a country or a specific investment, stronger.
- Creditworthiness of counterparty’s in sometimes a problem that needs to be overcome.