Hogan Lovells

Africa
FIT FOR THE Future
Hogan Lovells Africa Forum 2018

Hogan Lovells Africa Forum South Africa Report

Africa Fit for the Future

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Chair's Opening Remarks

Andrew Skipper, Partner and Head of Africa Practice, Hogan Lovells International LLP

I would like to welcome you all to our 3rd Hogan Lovells Africa Forum in Johannesburg, and our 8th Africa Forum internationally.

This year our theme is *Africa Fit for the Future* and we have some of our best speakers and panellists to date, with a range of on the ground and global experience and with a vision for the future for their businesses and their continent that is unparalleled in scope. As ever, I want to encourage active and vigorous debate both from the floor and from the panel; this is a topic which is complex, long-term and critical and there aren't any right answers. Knowing many of the speakers well, there is no chance of consensus and even less chance you will be bored – though we all may struggle with some of the concepts. The key is to open our minds to different possibilities and think for the future; and then go away and make our own contribution – it is people and not dogma that direct progress.

We will be hearing about a range of short, medium and long-term ideas and actions which will be critical to the development of the continent to make it "fit". These will include the views of leading CEOs from business, politicians and cultural leaders, from those on the continent and from those outside determined to build their businesses here. We will cover current economic conditions, long-term tech-based revolution, the supply chain and logistics necessary to open up the continent, the future of oil and gas, financial models and deal activity to deliver stability and growth. We will work across the piece with contributions from investors, donors and in-country businesses.

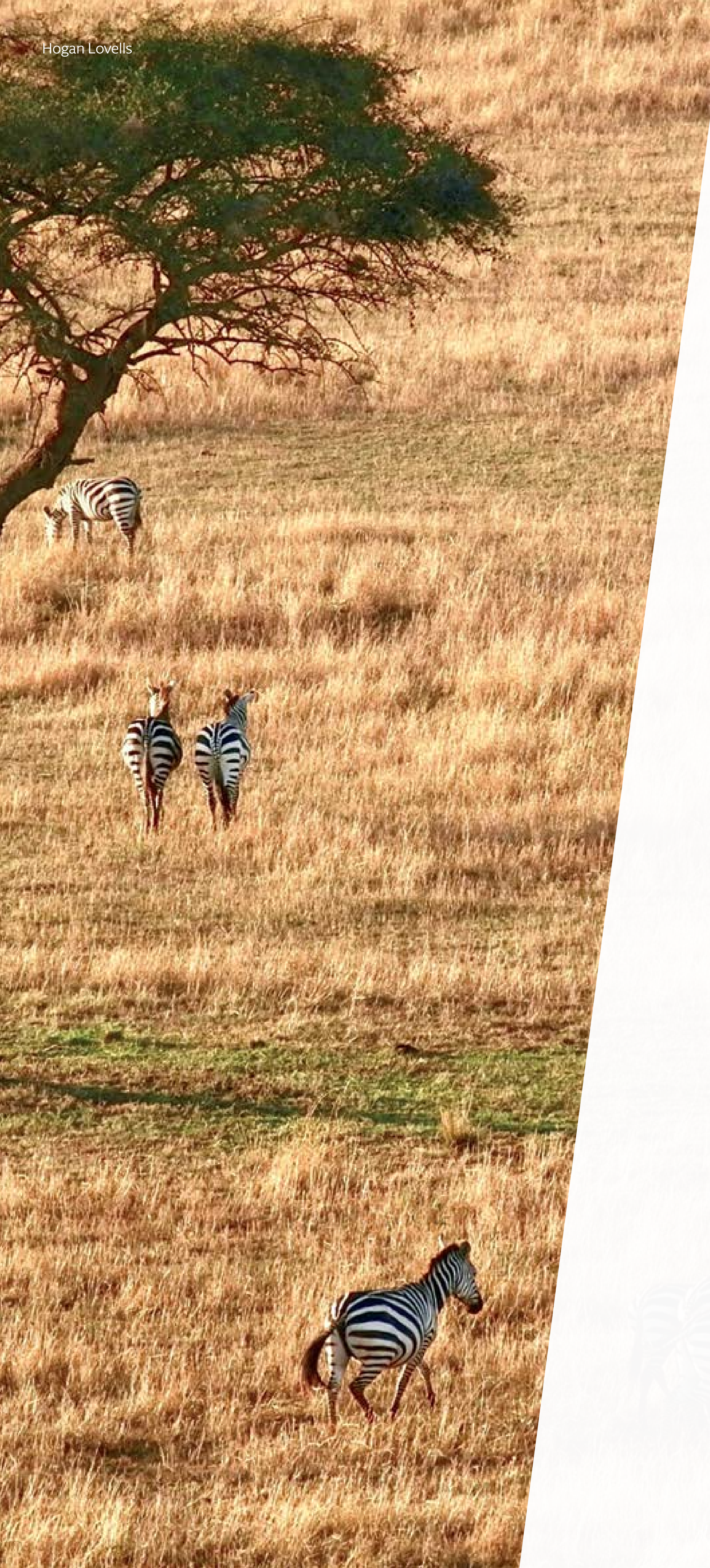
And things are changing. This year I have again spent three to five months on the ground in Africa, from Morocco to South Africa, with countries in between. In all the places I visit there is a combination of optimism and nervousness (which sometimes border on gloom), which can be baffling if you simply sit behind a desk in London or in Sandton, but which reflects the very real conundrum of Africa Rising, a now ancient slogan that has subsided rather like old yeast in recent years. In the last couple of months alone:

- In Abidjan I heard three heads of state (Ghana, CDI and Zimbabwe) announcing their countries are open for business, with renewed transparency, attacks on corruption and a determination to ease business. With a blindfold frankly, you couldn't tell who was speaking. And as we know in South Africa, President Ramaphosa is targeting a hundred billion dollars' worth of business. This is great news, but will they walk the talk - I hope so and I chaired a panel in Accra only this Monday on the subject of UK investment into Ghana.
- We have new governments derived from peaceful transition in a number of states, including South Africa, Kenya and Zimbabwe, next year we hope Nigeria. These face serious challenges due to the past and to current economic and serious social conditions. But the opportunities are enormous, and we have leading players and commentators to highlight these today.
- The scramble for Africa continues in 21st century form as Brexit (Macron at the shrine and Theresa dancing), Trump trade wars (but OPIC changing their rules to allow more investment), Russian interests, and the ongoing tension between Japan (Ticad) and China (Belt and Road) that should drive competitive investment and influence, which should represent amazing opportunities for discerning and well prepared African states – though the dangers of not being fit for the challenge are potentially disastrous.
- BUT - my Nigerian friends in Lagos are as gloomy as it is possible for a Nigerian to be (which frankly is not very gloomy and certainly not for long), and there remain serious concerns about the issues of certainty in Tanzania and corruption more generally, and even the interregnum in South Africa causes some doubt and hence a slowdown in investment. I won't repeat my mantra of the three Cs (or at least not very often) other than to say that whilst many disagreed with me last year getting currency corruption and certainty right would certainly help!

So how do you exercise to be fit for the future and what does "fit" mean? Do you need to be big to be best? Do you need to be good to be best? Do you need to lead in innovation – or is sometimes a good follow up second more effective? Can you be global without being excellent locally? Indeed, what is a fit government?

> Without capacity building on the ground, rule of law simply cannot develop and thrive, as the state and others simply cannot be fit for purpose.

- Fortunately, others will answer most of this today. But whilst this is anything but a legal seminar I wanted to say a few things about how lawyers can help contribute in the gymnasium of continental fitness. I feel passionately about this as those of you who know me will understand and indeed, I may have bored a few of you on the subject in the last few years – for which I do not apologise.
- The rule of law underpins society and secures investment and prosperity in that society; we can probably all agree with that. But promoting rule of law on a sustainable basis, which can support investment, requires more than patronising words from countries outside the continent.
- At Hogan Lovells our Africa practice stands out for its commitment to build on four pillars: that we want to understand Africa, operate and invest in it and, finally, respect



it. Many of you will have heard this before, but today I wanted to focus on an area which spans the range of these pillars – that's our determination to contribute to capacity building across the continent and around South Africa where we have more than 300 people working hard to contribute to our business and their country. Without capacity building on the ground, rule of law simply cannot develop and thrive, as the state and others simply cannot be fit for purpose.

- For this reason we have a well-developed programme of capacity building that focuses not on charity but on areas where we can make a real difference from our global skills base of experience – in supporting and promoting the development of people, firms and institutions in different countries, primarily in the legal sector where we excel, but also elsewhere where our legal contributions can make a telling and real difference.
- I have summarised our determination to contribute in the documents you have in your bags – please read these as they are a real part of what we are and what we try to be on the continent. And we know we can do it better if people know about it and can work with us, as we already do with many clients already in this space. Please pass these on and if you need electronic versions just say.

I will leave you to read but wanted to highlight just four areas:

- Last year we launched a tailored programme, *Go Far Together,* working in collaboration with local law firm partners to grow legal capacity in Africa. We believe that the support and development of their businesses as well as the pure legal skills of lawyers is critical, and we invest vigorously in broad business training, including management, business development, finances and basic client administration. Over the past 24 months we have trained and developed over 60 individual lawyers and 31 law firms in 19 African countries. (We added a few more to that number yesterday and we are soon launching our own online training programme.)
- In South Africa we provide legal advice to many of the disadvantaged and have the first walk-in pro bono legal clinic in our new offices in Sandton. In 2016 our practice provided the legal advice to help create the terms of reference for the Unburdening Panel, a forum that encouraged individuals to report state corruption and which led to the ground-breaking report on state capture in 2017. I am proud of our work in this space and proud of my partners who have delivered it with commitment in South Africa.
- We have also committed ourselves to long-term financial and legal support of Barefoot College and are working with them to help newly trained solar engineers light up 200,000 homes across Africa and India.
- Finally, we are pleased to have recently produced the second edition of the *Special Report on Investment in Africa,* published in collaboration with *African Law and Business*. This year's report expands on the successful inaugural 2017 edition and provides in-depth review of the legal framework for investment opportunities in 29 African countries, from real estate and employment law to competition, antitrust, and intellectual property laws. Each of the 29 country chapters (an increase from the original 23 jurisdictions covered in 2017) is written by established legal practitioners, giving readers market-by-market insight into the different legal challenges facing investors. The report also includes four in-depth sections on finance, natural resources, power and infrastructure, and private equity, as well as additional features on bribery and corruption risk in the context of M&A transactions, arbitration, business and human rights, and recent developments in pan-African trade. I have personally found this a significant tool in supporting local business and investors.

Many of you work to build capacity in different ways – with it everyone benefits as deals can be done efficiently and effectively.

I am looking forward to the day's discussions. We hold these events to learn, to make friends, build relationships and to do business with like-minded and like-focused peers. It remains critical to approach Africa with an open mind and to embrace not only its business but also its people, diversity and culture without which I cannot understand it and we cannot thrive in business long term. At Hogan Lovells, we commit to doing this with a range of events like this and those with a focus on the artistic and cultural world, which helps us be fit for our own personal engagement. I'm delighted we have some of my friends from the artistic and cultural world of Africa here today and that we'll be hearing from some of them later on, and later in the year.

Opening keynote by Bonang Mohale

CEO, Business Leadership South Africa (BLSA)

Africa is not a poor continent, just poorly governed. Because developed countries are not those where the poor can afford to buy cars, but the ones where the rich choose to use public transport. Because it is accessible, and it is indeed safe.

Context is everything. So, it's wonderful that we're having this conversation this morning in this country when so many of us dare to hope that joy and peace will prevail. At a time that most African people are spectators of their own life experiences. At a time that we say the world is confronted probably with two major challenges, one of gender equality - because there are more women than there are men - and yet today we pay women 73% of what we pay men for work of equal value.

Africa is not a poor continent, just poorly governed.

The second being youth unemployment. If we all believe that young people, 35 years and younger, are indeed the current leadership - not future leaders - how is it that all of us can fold our arms and be witnesses, passive spectators, of youth unemployment that is north of 56%, when we know that the devil finds work for idle hands. Elements that were present as imminent as during the Arab Spring are everywhere on the continent and, indeed, in other parts of the world.

At the time that these young people, in South Africa we call them "fallists" *#everythingmustfall*, are telling us that they demand not only to hold leadership finally accountable, but they insist of being involved in policy formulation as well.

This continent when you look at it, the most mis-marketed and under-marketed continent in the world, has no reason why it is known for strife, *coup d'etats* and droughts than its ability to look after its own people. I'm talking about 1.2 billion people that live in 54 countries, they speak 2,000 languages, with a combined continental GDP of US$2.67 trillion.

If you do the math, there is no reason why any of the people on the continent should go to bed hungry. 60% of the world's arable land is found on this continent. All the minerals that are needed by the world are on this continent. Belgium and Switzerland are known as the world authorities in producing the best chocolates and yet the ingredient, cacao, is found in Côte d'Ivoire. At a time that all of us know, and it's no rocket science, that raw material prices are coming down progressively. But the price of finished goods, beneficiated goods, are exponentially increasing. Africa chooses deliberately, consciously and purposefully to continue to extract from the belly of the earth and export raw as it is to buy back often at 10 times the price. So, you can see that Africa is poor by choice rather than by provenance.

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The choice of leaders we make, the choice of the government systems that we embark upon, when we know that today in the world there are probably three ideas that dominate the world. One, the free market, not communism, not socialism. And peace as a way of resolving differences. But most strife, most wars, are found on this continent. And democracy. Not the Uhuru leaders of Daniel arab Moi, of Kwame Nkrumah, of Jomo Kenyatta, who ruled their people for 40 years. Four decades.

At the time that African people know, not just instinctively but through experiences, that three things are important on this continent of Africa. That one, these Uhuru leaders are not good for Africans. Because they have plunged their people into poverty, in spite of the God-given wealth and the minerals under its soil, and the best climate in the world.

Secondly, that even the good guys, left on their own, eventually become the bad guys. If South Africans had listened to our compatriots in the rest of the continent, we would have known that you are Africans just like everybody else. At some stage, your leaders are going to steal from you, they're going to rob you blind. But we didn't believe them, we thought our leaders are incorruptible. We believed that having spent 27 years at Robben Island, they are virtuous, and they will only act in the best interest of South Africa Inc. Today, with absolute shock and horror, we know that we're no different. And it's about putting the systems and processes in place that will ensure that we hold each other finally accountable.

Thirdly, that opposition is good for Africans, to hold these elected leaders finally accountable. Because who polices the police? Who monitors the politicians? Because human nature is such that if you are not being looked at, you will do only what's in the best interest of me, myself and I.

It's no wonder that we have been talking probably for the last 20, 30 years about "Africa Rising", which became the front page of *The Economist*. 10 years later, we said no "Africa stand up". We've been standing up for a long time. Now we say, "Africa fit for the future". Why not fit for yesterday? Why not fit for today?

Of the seven fastest growing economies in the world, seven of them are in Africa.

Especially because in 1960, the Netherlands suffered their second biggest flood when the dykes could not hold. 357 people perished. Ghana sent aid to the Netherlands. In 1960, Zambia's economy was twice the size of Malaysia. 2010, Malaysia's economy was 20 times bigger than that of Zambia. The only difference is that Malaysia had Mahathir, who's now come back in his nineties and he had vision 2020, knowing that it would outlive his hegemony and his political office, but had a bit of vision to be able to imagine a country that can adequately look after its people.

Zambia had Kenneth Kaunda, and the ZCCM even today still produces the best copper in the world and each time they go down they lose a billion U.S. dollars a day. Not because we don't have good miners. But because our leaders are looking after themselves. But there are some - hope springing eternal - on the rest of the continent.

28 of these 54 African countries are nascent democracies. Of the seven fastest growing economies

in the world, seven of them are in Africa. We now have new role-models and the role-models are not Temasek in Singapore, or Midi in Jajipur, but now we talk about Paul Kagame in Rwanda. At the time that we had snaking queues in South Africa, they were experiencing the worst genocide. But in exactly the same time, today when you look at Rwanda, they have been growing a double-digit GDP. They've picked themselves up by the scruff of their neck into tomorrow. They're number four in the world in terms of gender representation. 64% of their leaders are women. Number one is Iceland. South Africa is Number 19.

Three of the mightiest rivers are found in Africa with the capacity to produce hydro-electric power that can light up the continent and still have excess to export to Europe.

Off a small base, we were 10 steps ahead of them and we are in a technical recession. But for the last 10 years our growth has been pedestrian at best. 3.5% on average, the last 48 months less than two percentage points. Last year 1.3% GDP growth. The last quarter 3.1. But the South Africans will tell you that they have been feeling this technical recession where it matters the most, because their quality of life has been deteriorating. Because GDP growth in South Africa has been less than population growth. You don't need to be a rocket scientist to realise that, in fact, we are going backwards.

At the time that you look at Africa and say there is no better place in the world to live than here, three of the mightiest rivers, including the mighty Zambezi, are found here with the capacity to produce hydro-electric power that can light up the continent and still have excess to export to Europe. At the point of the Vic Falls pummelling down 110 metres at 547,000 tons per minute, that's enough hydro-electric power to power the whole of the continent. And yet out of the seven odd billion people in the world, 1.4 billion of them have absolutely no access to any form of energy whatsoever. 647 million of them are in Africa, no wonder we are called the dark continent. But also, we even have towns named after the wind. Like PE and East London, we call them windy cities. 40% of the Netherlands, its turbines pummelled, driven by the wind.

The sun here shines 12 months out of 12 in a year. In Germany, if you have this type of sun three months of the year, they celebrate. And yet they are the world authorities on solar energy. It is free. And Africa continues to build some of the most archaic coal-fired power stations in the world. We have our own here in South Africa, the fourth largest utility in the world, the only one in the world that still does generation, distribution and transmission in one entity, when in the rest of the world, those are three separate businesses often listed separately. 43 Gigawatts, nameplate electricity.

Nigeria with what, 170 million people, 2030 they want to be at 30 Gigawatts. That's what we were in 1960. But we decided to build not one but three of the world's biggest coal-fired power stations. Note the fact, that their price quadrupled from what was quoted, purely and simply because our ANC-led government chose through Chancellor House to be also partners of Hitachi. So, when the price doubles and quadruples, instead of stopping them and holding them accountable, they laugh because they use their calculators, look at what is coming back to us. Madupi, Kusile, Ingula - each one giving us 9.6 Gigawatts. You add all three of them, now we have surplus electricity. We're back to 1960 when we sold this electricity cheaply to Botswana, Namibia, Lesotho and Swaziland. And we marketed ourselves as a country that has the cheapest electricity in the world.

Let me conclude just by telling you a little bit about South Africa as emblematic of the rest of the continent, because we did genuinely believe that we are different. We've just come back from Japan, because the President has set us this target in April of US$100 billion in foreign direct investment. So as Business Leadership South Africa, I represent 86 of these large companies, most of them listed on the JSE, a number of them with dual-listing, 53 of them are responsible for more than half the GDP of this country.

I went to Japan. We saw the eight companies that are responsible for the entire economy of Japan. Japan was illuminating for us. One, because it is a tiny island with zero resources. And I learnt that they colonised China and South Korea and Taiwan. 127 million people, they colonised 1.4 billion people in China alone. They needed the whole world to club together. The only country in the world that has been subjected to an atomic bomb and lived to tell the tale. The only island in the world that takes what nature throws at them in sufficient doses. They have just emerged from Fukushima. And people walk around Fukushima, they've picked themselves up by their own bootstraps and life is going on. Their resilience is truly extraordinary. 20 million Japanese people work in China.

The President sent us because of *Thuma Mina* to see what we can do to meet this target. I think it's like we died and woke up in heaven. Because on 19 December 2017, we thought we were going to the dogs. Now the new dawn has come and arrived. Credible leader, wholesome and doing all the right things. A little bit slowly for some of us. But at least the tide has turned.

So, in Japan when they open their mouth, they say post-Hiroshima and Nagasaki. In Russia when they open their mouth they say after the 1917 Russian Revolution, they were different people, a different country. In Angola each time they open their mouths, they say after Savimbi died, we had new hope.

We are going to look back and say in February 2018 we also were blessed with a new dawn. When for the last 10 years we were subjected to the most vile, audacious looting, industrial-scale state capture. And if we did not have the institutions that we have, there are very few countries in the world that would have survived and brought themselves back from the brink like we did. Thanks to the strength of our institutions. Thanks to the active citizenry that we have of all our social partners. So, there is a lot of hope.

The president announces this in April to say 100 billion in five years, that's an average of 20 billion a year. But by the end of August he had already banked 34. 25th to the 27th of this month, we'll be having his second of the four summits. We just had the job summit. Five commitments, business, labour, civil society and, indeed, government said we are going to do things differently because we are in a spot of bother.

For him to have banked 34 billion says we are going to be successful. Hopefully we are going to regain our mojo and indeed hope will spring eternal. He's going to announce actual companies that have committed another FDI probably by 2019. But we have said to our members, FDI in and of itself is not adequate. Won't it be wonderful if this was fronted by direct domestic investment of another 100 billion. Because if we did that, then it means our FDI quantum will be four percentage points, when in the last 20 years the entire continent has been languishing around 2% of FDI, of the global FDI.

U.S. of A. gives more money to one country, Israel, than it gives to the rest of the continent. So, Japan was very useful for us, because it was probably the sixth since April that we visited. We just emerged from spending three days in London, one in Boston, two in New York, where we saw all the three rating agencies. 120 investors, the smallest has invested in this country US$80 billion. They so badly want us to succeed; they want to be by our side as we go through this fire.

They raised five things. In the interest of time, I will not unpack it. First, they said we don't believe that you'll be able to implement the structural reforms. If there were an Olympic sport for developing plans, South Africa would win hands down. Because I think we are the world's best producers of plans. My best was the reconstruction and development programme, RDP. So, when you ask millennials and Gen Z what an RDP is, they think it's a house. For me it was the best, not because of its content, because there is no perfect plan, it was the best because business signed off on it, and so did government, and so did labour. But in three years we saw fit to change it. And then we embarked on another one called Growth Employment and Redistribution. When there was nothing wrong with the RDP, we even had a ministry dedicated just to this. Who remembers who was the Minister of the Reconstruction and Development Programme? Specially to do just that. Short leave, three years then we came up with GEAR. I don't know why. Since then we had GIZA 14-point plan, nine point, it's an alphabet soup.

Secondly, they said to us you need to bring down your debt, it's too much. Not because we can't service it. There are countries that have borrowed 110 to 210 debt to GDP ratio. But because you can afford the repayments - Rolihlahla Nelson Mandela's government, 20% debt to GDP ratio; Thabo Mbeki's with his GEAR 34%; now 57%. And this excludes guarantees to the state-owned enterprises. If you include them, it's more than 70%. Why state-owned enterprises? Because for six of them the Department of Public Enterprises is responsible, plus one. They've just been given SAA back. So that's seven. They're bigger than 28 economies in Africa, each.

Should I make an example with just Eskom? Eskom has borrowed almost up to 500 billion. From 395 billion government guarantees, they've already accessed 295 billion. These three new built programmes cost them about 57 billion a year just to service the state. 30 billion just for the interest alone. So, you add the two numbers, 90 billion. Last financial year, they've just released their results: cash generated from operations, 47 billion. They have to borrow to service the interest. Imagine you had a house, you can't afford the mortgage repayments. No, worse, you can't afford the interest charged. You have left the capital on its own. Now you have to borrow just to pay for interest. That's what Eskom is in.

But DP only has seven. Transport has 14. Communications has 14. National Government has 372 state-owned enterprises as state-owned companies. If you add provinces and local government, that's more than 700. So as business we are saying - that's a commitment we made at the job summit - we will volunteer warm bodies. Not to be CEOs and CFOs of these companies, because we know there is a perverse incentive. The ANC now is insisting where, if they make you the CEO of Transnet, like they did with Brian Molefe, 10% of your pay must come back to the party so that they can pay their rates and taxes in the Western Cape offices. But at least allow your Audit and Risk Committees to have one business person who understands the difference between income and cash. Not to chair the Audit and Risk Committee, but just to be a member.

Just by changing the narrative, it's amazing how people can perceive you differently and positively.

The third thing they said to us, they said our state-owned enterprises need to be fixed because you can see that they are like an albatross around the economy's neck. They need to be adequately capitalised, they must be well-governed, and they must do what they're paid to do, in the case of Eskom their job is to keep the lights on. To do planned and preventative maintenance; it's part of their job. But they have not been doing that because there was a ministerial edict around 2010 to say keep the lights on at whatever cost.

Imagine you have a car and it says every 10,000 km you have to service it and you don't, but you run it 24/7. That what we've done with our coal-fired power stations. So, when they fail, we shouldn't act surprised.

The last thing they said about us, they said change the narrative. Remember they said, they want us to succeed. South Africans are their own worst enemies. Yes, we must correctly diagnose our problems and very quickly say what's to be done. That's what Lenin said in *Das Kapital*.

2016 Colombia's president won the Nobel Peace Prize. The same year, they killed exactly the same number of people, drug lords, as the year before. But what had changed was the narrative. They stopped talking about how many people they've blown their brains out, they started talking about the plans they're putting in place to have peace with FARC. Just by changing the narrative, it's amazing how people can perceive you differently and positively. And that's what they were asking us to do.

Let me just conclude about what is it that we can do as business. And again, I will not unpack it at the risk of giving you indigestion when you go to tea at 10h00. Because for far too long business has been looking at government and saying you need to give us a conducive environment in which business can thrive. You, government, must give us regulatory certainty and policy stability. They have been looking at labour and saying you need to be more flexible, you need to give us increased productivity and don't go on strike for as long as you did in Marikana, for three months, because it's destructive. Very little said about what is it that they're going to do.

When we went to the job summit we said, let's be clear about not 1001 little things, but four to five big things that we can do to move the leaver and to get ourselves out of this mess we are in. Number one, this is business commitment now what we are going to do. We said we need to be very explicit on land. See, land was not put on the social discourse by this ANC-led government. No, it wasn't even put by business. It was put by the far left. But now that it's on the table, we can't ignore it. Business must be very explicit that we support land expropriation without compensation. Because that's not the agenda. The bigger agenda is land reform. Because if we don't deal proactively and head-on with land reform, not only will we be disingenuous, but we'll be irresponsible. We want to be the first country in the world that has dealt with land responsibly, in a sound and constitutionally correct manner. That's what the president said. Not only because land is central to the struggles of African people, not only because our forbearers were visionary and responsible in the way they couched the 1955 Freedom Charter in Kliptown. It doesn't say the land will be forcefully taken from these white people who murdered our people to take their land, no, it says, and the land shall be shared amongst those who work it. I mean what could be more responsible than that.

If I had time, I would tell you why we support it. But let me end on this note, just on land. That you know land reform has three components, the lawyers would understand this. The first is land restitution, it needs to be restored to the people it was taken from. There's been the 15th land expropriation without compensation against African people. 1913 Land Act was the 10th. Each time the Mining Petroleum Resource Development Act gives mining rights to a company, the surface rights are lost. And who's displaced, mostly African people. The second piece is land redistribution. It's not sustainable that 90% of the population is squashed into 13% of the land.

Lastly, land development. Who owns what for what purpose. 24 years into democracy we haven't even completed a land audit to know who owns what. Because the ANC-led government was focusing on other things. This is where Section 25 of our Constitution is very clear. It talks about property rights; 3(a) talks about security of tenure. It says, when conditions are fair and equitable, compensation can be down to zero. Therefore, land expropriation without compensation is adequately covered in the Constitution in Section 25, and 3(a) says so.

So, what we have witnessed is failure of execution, failure of implementation. Because in 24 years we did nothing. We did nothing even from 1955 about something that is just so critical and central and material to the well-being of the African people. Where we can now rectify the trading-off of reconciliation for justice. Where of the 400 MPs, the land has the least budget and even the Land Court does not have a permanent judge, an acting judge, a budget less than Lindiwe Zulu's small and medium enterprises.

As business we don't think that there's any need to amend the Constitution whatsoever. If we had done our job. Because amending the Constitution should not be undertaken lightly, because it generates more heat than it sheds light. Even though we have handrails and braces that it needs two-thirds majority to amend the Constitution, but just talking about it creates havoc. But the President has been very clear. He allocated it appropriately and he said it needs to be done with the fulfilment of the three conditions, increasing economic growth, agricultural output and food security. The other five I will not unpack.

Business needs to be clear on transformation. This economy must be broadly reflective of the demographics. Thirdly, we need to be also explicit about the fiscal crisis. We are in a crisis. Whether the politicians like it or not. Fourth, it's about growth. If we don't grow this economy, very soon we will be talking about the redistribution of poverty, not the redistribution of wealth. And growth for us, as business, starts with ethical leadership that gives us good policies, so that we can have both business and consumer confidence going up. When that happens, we are able to both attract foreign direct investment and retain it. The GDP grows, jobs are a logical outcome.

The penultimate one is jobs. Unemployment rate of 27.2%, it's a powder keg. It's going to blow up in our faces. Switzerland, when they reach 4% unemployment rate, it's a national crisis. Youth unemployment 56%. That's 4.9 million young people, now 6.2 who are unemployed. What do they do the whole day? 10 million of them are not in education, employment or training. 17 million are on social security and only 15 million of us are gainfully employed. Five million are responsible for 80% of what SARS collects, the 1.2 trillion South Africa rands. Last year it was 1.144 trillion. There's 57 million of us, and again if you divide it by 1.2 trillion there is no reason why any one of us should go to bed hungry.

Lastly, we need to do something about education. We are the only African country that when we became free from colonialism, we didn't do this to the education that we inherited. 57 Kwame Nkrumah's Ghana, 10 years later 80% literacy rate. Gabriel Robert Mugabe's Zimbabwe, despite all his faults, is sitting at 94% literacy rate. South Africa says 30% is okay. So, education matters, not only because Rolihlahla Nelson Mandela told us so, but because it's the only surest way of transcending social classes. To be born in the informal settlement of Alexandra, after

20-24 years of hard work you're able to afford a house in the leafy suburbs of Bryanston. Not because you got a tender, but because you have earned it and you have worked hard, and you deserve it. Education, because when one steadily burns the midnight oil, one gains access to the domain of knowledge and wisdom, the world of meaning, the world that cannot be conquered without a persistent crusade.

Morning Plenary: CEO Corner

The session was chaired by Andrew Skipper, Partner and Head of Africa at Hogan Lovells. The panellists were James Campbell, Managing Director, Botswana Diamond plc; Sindi Mabaso-Koyana, Executive Chairperson, AWCA Investment Holdings; Roberta Naicker, Managing Director, ABN Group; and Vincent Raseroka, Executive Chairman, Bridge Taxi Finance.

Andrew Skipper started discussions by posing a question to Roberta Naicker regarding the power of the media in our society and specifically how, from her and CNBC's point of view, that power should be appropriately exercised. Roberta responded that the media is indeed a powerful tool and that it can be used to create transparency. The media, in fact, has a responsibility to ensure that facts are reported correctly. The media's power is also important from an investment perspective, an aspect which has until recently been widely ignored. The way in which Africa is portrayed in the media cultivates an image thereof abroad, and this image is all too often one of doom, gloom, crime and corruption. Main stream media unfortunately does not cover African investment opportunities, redevelopment efforts etc with the same fervour that it covers the so-called "bad news", which often results in incorrect generalisations of Africa being portrayed abroad. Particularly in Africa, it is therefore vital to understand the power of the media. Therefore, when CNBC launched in 2007, it did so with the mission to portray South Africa and Africa as investment destinations, to use only the most credible sources and heed only the most credible voices to ultimately showcase the other side of Africa.

Andrew invited Vincent Raseroka to address some of the other challenges and obstacles that stand in the way of progress in Africa and particularly South Africa. Vincent noted that "context" should be the key operating word when discussing Africa. Africa presently experiences several challenges when it comes to

its perception of freedom, delivery and expectations. He continued that, in his experience, newly liberated countries often have so-called "big man syndrome", which comes with the expectation that, since others who were previously in power had certain wealth/ privileges, it is now their "time to eat".

The cost of freedom is, however, priceless and cannot be repaid and so, instead, the narrative should be changed. Vincent noted the example of the tripartite political alliance that fought to liberate South Africa from the apartheid regime. While the input of each of those parties was vital to achieve freedom, it simply is not still workable to accommodate each of these parties in the day-to-day running of the economy. By way of illustration, he likened a well-functioning government with clear goals and intentions to a race horse while, on the other hand, likening a government motivated by the divergent interests of different parties to a donkey.

Ultimately Vincent noted that South Africa can either go the way of Rwanda, a benevolent dictatorship, or it can go the "new dawn route". Ultimately, he's hopeful about the future of South Africa under the leadership of President Cyril Ramaphosa, a multi-millionaire in his own right, who need not use his position to get ahead. Finally, Vincent implored that, in order to change the narrative and contribute to the "new dawn" of South Africa, people should stop focusing on the injustices of the past and stop being victims. Black people in particular should "wake up" and make things happen for themselves rather than waiting for government tenders, and South Africans should stop their so-called "political correctness" and rather make their voices heard.

Andrew requested Sindi Mabaso-Koyana's views regarding contributions to be made by women, and the role of women in Africa. Sindi noted that Africa has plenty of opportunities for women in wider business and that there are, in fact, more positions for women in Africa than there are in Europe. By way of illustration, she referred to Rwanda, where 64% of government officials are female as well as to an all-female flight crew currently operating at Ethiopian Airlines. However, Sindi also concurred with her fellow panellists and emphasised the importance of changing the narrative.

While gender equality has been taken very seriously post-1994, the private sector was not as quick to get on board as government and as a result, few women had the opportunity to venture into scarce skills. One of the goals of AWCA Investment Holdings (where Sindi is the executive chairperson), is to find a place for women in industries that previously would not have taken women seriously. When the leadership takes women seriously, women are prouder and tend to find opportunities more easily. The importance of women in the economy is further increased by the fact that they are more likely than men to go back to their families and the rural areas where they grew up and to spread empowerment in that way (a good example of this is the Solar Mamas initiative).

The way in which Africa is portrayed in the media cultivates an image thereof abroad, and this image is all too often one of doom, gloom, crime and corruption.

Andrew questioned James Campbell regarding the challenges currently being faced by the mining industry, as well as the changes needed to overcome those challenges. James noted that he had recently taken part in the Africa Global Mining Forum, where some of the main topics of discussion were the so-called "exploration dollar" and the future of mining. To illustrate his concerns regarding the future of the mining industry, James used the example of Botswana, where the diamond mining industry (currently the country's largest employer), is expected to run out of diamonds within the next 40 years.

Similarly, in South Africa mining is seen as a "sunset industry," with no exploration companies currently listed on the JSE. His recommendations to revive the

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mining sector include divorcing exploration from Black Economic Empowerment (BEE) and creating new capital instruments and training fund managers and bankers on how to invest in mining and exploration. Furthermore, most African countries presently levy royalties on diamonds, while taxation will most likely be more effective from an investment point of view. In his opinion, the relevant legislation in this regard would have to change to facilitate investment.

In Zimbabwe, for example, the government currently has a 50% stake in mining and exploration, which is discouraging to investors. The Zimbabwean minister in charge of mining has, however, indicated that the subject is open for discussion. Overall James is optimistic about the mining sector in Africa, but he would like to see increased momentum in making all the necessary changes.

Andrew made the statement that there is a direct correlation between education and GDP growth and asked each of the panellists to provide their views on that point.

Vincent referred to the mining example and noted that there was opportunity to be found in times of crisis, particularly considering advances in technology. He gave the example that all the minerals required to make batteries can be found in South Africa, and that South Africa can therefore be made into a destination of choice for investors. Vincent noted that white people should also work to change the paradigm that presently exists in South Africa, which starts with the realisation that people like Thuli Madonsela are not the exception, and that there are many capable black people in South Africa. In order to change for the future, we need to move away from race and make the right calls for Africa.

Roberta pondered the question of why education is not “working” at present. She noted that the South African government had discussions about education 10 years ago and, at that point, decided not to bring in global brands or global accreditations. We are now in a position where we need to bring in global investors to assist in solving the education problem.

Sindi noted that education is the fastest growing item in the national budget, but that this investment is not yielding any fruit. Currently 54% of teachers are older than 45 years, which is worrisome for the future of education. To repair the education system, it needs to be given proper consideration, technology needs to be leveraged and the actual impact of ICT on young people should be ascertained and put to use. Where in the past science, technology and maths were the main focus of education studies (for example, Harvard) now show that areas like the humanities and liberal arts require increased focus. Looking at digitalisation, there should be a balance struck between technological advancement and addressing the large illiteracy rate. South Africa should develop an inclusive model for education and investment.

James focused on the ability to recruit in the current market and stated that, in his experience, candidates generally have poor maths skills and that maths education in general is poor in South Africa. James agreed with Sindi that it is important to find a balance between subjects like maths and science and the humanities. In his opinion, the arts are arguably more important from an investment perspective. He finally noted that teachers in South Africa are unfortunately regarded as "second class citizens", which is not the case in Europe, for example. Teachers need to be properly incentivised and better paid for the education system to improve.

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Andrew raised the question as to whether education needs to be more vocational in nature. In response, Vincent gave the example of a trading business that he runs. In his opinion, the business was mature four years ago and he was ready to exit. Instead of exiting the business at that point, Vincent employed the services of a 25-year-old, who was able to increase the profitability of the business by 25% in just three to four years. His young employee was creative, and although he was guided by older, more experienced employees, he had new skills and could use technology that the older employees could not. Moreover, he delivered these services at a quarter of the cost of a more seasoned employee.

Vincent noted that the "fourth industrial revolution" is currently happening and, although this will include and affect all parties, it need not necessarily mean that job losses are at the order of the day. He gave the further example of the South African Police Service, which has managed to reduce heists to almost 0% using AI, but stated that, as a result of the success in that area, cash has unfortunately become a bigger target of crime.

Andrew requested Sindi's views regarding the opportunities presented by the fourth industrial revolution. Sindi started by stating that in many industries in Africa technology is not commonplace

(for example, Rwandan artisan miners). Different companies and industries each have different levels of technological advancement. However, in many blue-collar industries, like the industrial and hospitality industries, many functions (like room service) can now be performed by robots. When investing, investors now need to consider whether it is feasible to train employees for jobs that won't exist for much longer, and where to redeploy those employees displaced by technology. Roberta confirmed that technological advancements also heavily impacted the media industry, which now operates vastly differently than it did just five years ago. Media houses have had to adopt online digital strategies to remain relevant. She gave the example that to cover the World Economic Forum CNBC used to require up to 30 staff members, where presently, with technological advancements, only four persons are needed to perform the same function. Overall, the staff complement of CNBC has decreased from 250 to only about 65 people.

When confronted with the question of what to do with "redundant" employees, Sindi noted that cyclical industries like the agricultural sector are growing and may offer work for displaced employees. Andrew noted, however, that the agricultural sector has also been significantly affected by technological advances.

Vincent continued that, in his view, black South Africans are always victims, and that they should instead try to come up with a response to these problems. Vincent gave the example of the taxi industry, where the average taxi is 12 years old and where there is little to no access to funding (and even if funding can be accessed, the cost of finance is generally very high). He stated that, in these instances, the challenges need to be mapped to come up with a response. His solution in that instance was to make use of cheaper, high quality taxis and technology to monitor whether the taxis are on the road, thus ensuring that any repairs are quickly attended to. In this way drivers are incentivised to keep their vehicles on the road, and technology plays a vital part in holding that business together.

James contributed that mining used to be a very labour-intensive industry, but that this too is no longer the case. He emphasised the need for a so-called "mining incubator" in South Africa. He referred to the 162 Group and the Hunter Dickinson Group, each of which were responsible for the spawning of dozens of mining and exploration companies. He emphasised the importance of also incubating mining and exploration companies in South Africa.

Audience Question & Answer Session

How will the focus on the empowerment of girls (for example, Bring a Girl Child to Work Day) affect the development of boys in the long run (over a 50-year period), and is anything being done in this regard?

Andrew asked if this question was based on the false premise that there are no initiatives in place to empower boys. Sindi added that, considering the maturity level of the boy child, it is clear that they already feel left behind, that their confidence has been affected and that the problem contemplated in the question is already being experienced today. Efforts have already begun to include boy children in empowerment initiatives. Roberta concluded that South Africa has been much more progressive in this regard than the rest of Africa.

Are businesses involved in promoting the quality of education in South Africa (e.g. by lobbying government)?

Roberta mentioned the National Education Collaboration Trust (NECT), which mobilises funds raised by corporates to improve the quality of teachers and training. The main focus of the NECT is on literacy, and it operates in conjunction with government.

What are your views on the new mining charter?

James indicated that, keeping in mind the legacy issues in South Africa, as well as its apartheid roots, the new charter is a significant improvement on the previous draft. The issue is still, however, very complicated and the new mining charter still stops short of incentivising investment. James made the statement that "a dollar is like an orphan, it will find its own home," and stated that, in present conditions, South Africa may still be overlooked when it comes to investment.

When considering incubation and exploration in the mining industry from a Zimbabwean perspective, what is missing, and how can these challenges be overcome?

James responded that presently, the incubation hub that he is part of only focuses on South Africa and that it has not yet begun to look at Zimbabwe. However, they have considered implementing a similar model in Zimbabwe once the necessary will and education is in place. He noted that it is still very early days.

Andrew Skipper asked each of the panellists: Where would you put your money?

James stated that he would put his money in exploration and, in particular, in diamonds, nickel and lithium (for use in batteries). He expects enormous growth in these industries if linked successfully.

Vincent would invest his money in IT, youth, justice and infrastructure to propel development in South Africa.

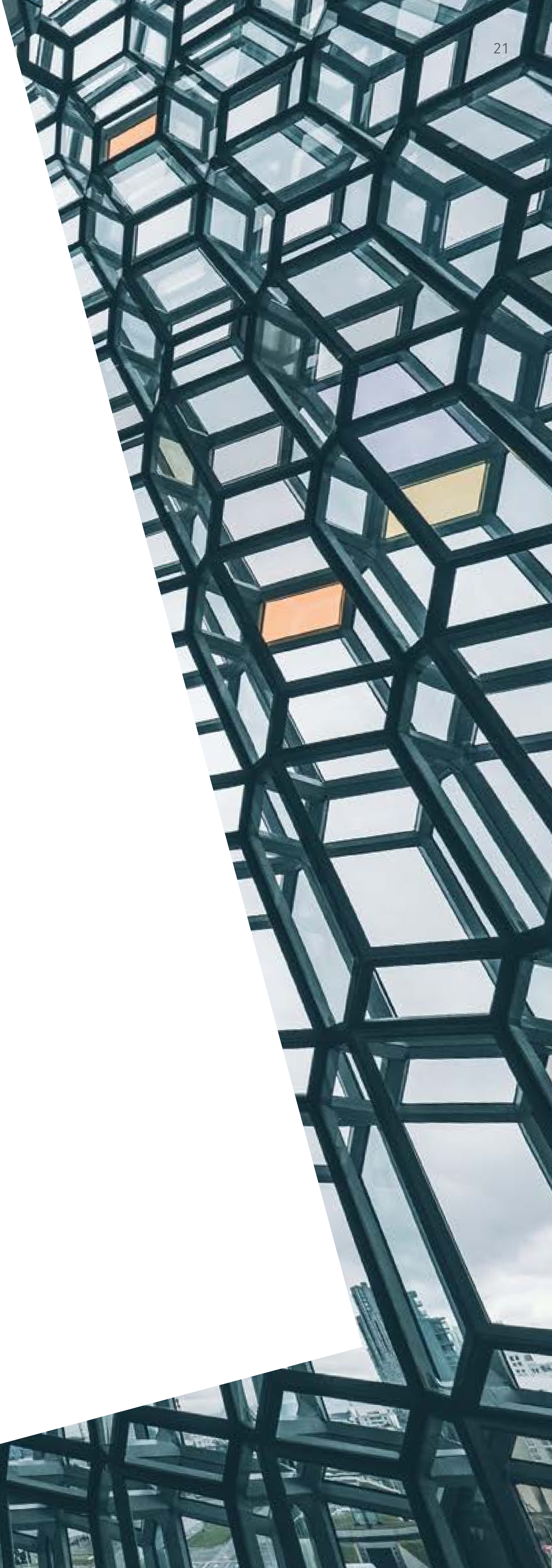
Roberta noted that education is a huge opportunity in Africa as a whole, and that Nigeria in particular has huge investment opportunities.

Sindi stated that she would invest her money in education (from a social point of view) as well as in industrialisation, for example, in Ethiopia.

Straight Talk

Andile Magengelele, Curator, Art Advisor, Co-director Momo Gallery, Art Acquisition Committee Member, Johannesburg Art Gallery

Andile Magengele spoke about the importance of the creative industry and encouraged philanthropy and investment into young artists and into living with art.



Plenary 2: Africa's M&A Market: Correcting the course

The session was chaired by Sibongile Solombela, Partner at Hogan Lovells (South Africa). The panellists Brendan J Mullen, Managing Director, Secha Capital; Neeraj Vij, Regional Sector Manager, African Development Bank; Chetan Jeeva, Head: Specialised Finance : Africa, Investec Bank; and Nangamso Mankai, Investment Officer (Principal), Bigen Group.

The African M&A market has faced numerous challenges over the past two years. Some of these were traversed and debated by the esteemed panel of leading experts in the region, who offered their insights and knowledge into the factors that are currently affecting the M&A landscape in Africa, as well as how best private equity can be utilised to assist in making Africa "fit" for the future.

Sibongile Solombela kicked off the discussion by noting that the narrative surrounding Africa is somewhat contradictory; on the one hand there is an "Africa Rising" narrative, with the continent having one of the fastest growing economies on the planet, and on the other hand there has been a significant decrease in the volume of M&A transactions, which have practically halved. Ironically, there are a number of Africa-focused

> Investors need to develop more creative funding structures to lower the risk found in traditional transaction funding structures.

private equity funds that have billions of dollars of undrawn committed capital that has not been deployed ("dry powder"). There is approximately US$12 billion of "dry powder" available to invest by private equity funds throughout the continent.

Investec's Chetan Jeeva noted that while M&A deal activity in South Africa is currently "flat", transaction activity in the rest of Africa is far more positive. He also proffered that there is a fair amount of capital chasing a small amount of quality transactions across the continent, and that the additional challenges in South Africa are

that it is a very sophisticated market where valuations are too high, the political environment is questionable and economic growth is negligible. As much as the rest of the continent may also experience political challenges and currency volatility, there is measurable growth, as a result of which more money is chasing deals in the rest of Africa (specifically Egypt, Nigeria and Kenya).

Nangamso Mankai confirmed that the Bigen Group has also seen a decline in deals and investments in South Africa, for a number of reasons mentioned by the other panellists. However, she pointed out that the sectors in Africa where substantial growth is being noted are health care, water infrastructure/projects stemming from various water crises, and agricultural investments/projects. She also noted that there are various investment opportunities on the continent, however, investors need to develop more creative funding structures to lower the risk found in traditional transaction funding structures.

A general consensus among the panel was that aside from making financial returns, investors are also seeking to make social returns, which are becoming an important consideration in Africa. Improving the quality of lives of African citizens is high on the agenda for many investors, specifically in respect of investments directed at

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health care, education and Africa's governance systems. Nangamso noted, by way of example, that the Bigen Group, which is an infrastructure development business, looks to promote socio-economic development through its focus on the energy, real estate, water, transport and health sectors across Africa.

A further focus for many investors into Africa is skills development. Brendan Mullen stated that Secha Capital models its non-traditional private equity business around providing human capital support and skills transfer to SMEs, beyond simply raising funds for capital. This enhances investor confidence in the businesses, which in turn attracts more funding support. Brendan argued that the greatest challenge facing SMEs is the lack of "human-management capital" and finding the necessary skills to work in these businesses. Investment needs to be made into these often-overlooked areas, which will assist in bridging the gap and solving the dry powder issue in the long run.

The panel also highlighted the fact that development finance institutions are facilitating private sector development to capacitate African economies. ADB's Neeraj Vij stated that this sector is the engine of economic growth, however, the private sector is held back by the inefficiencies of the public sector, because there is a huge role that the public sector should play before the private sector gets involved. A key challenge ADB faces across the continent is the capacity within the government to effectively engage and negotiate with the private sector. Neeraj believes that Africa needs to use its own resources for itself before importing from other countries. He pointed out that Africa is still the least integrated continent in the world, with inter-Africa trade constituting only 15% of the trade in Africa, compared to 60% in Europe. Accordingly, one of the focus areas for ADB is regional integration.

Chetan followed that, over and above the challenges already discussed, one of the main challenges that Investec faces in its activities throughout Africa is "not having a presence on the ground". In order to make Africa "fit" for the future, Nangamso advises that one needs to be thorough and engage all stakeholders, more specifically aligning with the right partners within African jurisdictions, being active participants alongside policy makers, and being involved post investment "after signing the cheque".

Ecognomic Outlook

Elias Masilela, Executive Chairman, DNA Economics

> “Capitalism is no longer serving us well, we need profit for a purpose.”

Straight Talk: Billion-dollar alcohol trade into Africa

Alvin Visser, Ethnography Specialist, Ipsos

Alvin Visser has conceptualised, planned and personally orchestrated full on-the-ground ethnographic Africa consumer research campaigns that have effectively built and anchored brands, better understood categories/territories, informed market segmentations and also led to ground-breaking innovation. He has worked on projects in South Africa and Africa for multi-national corporates such as Unilever, Diageo, Woolworths, Standard Bank, BATSA, PepsiCo, Engen, J&J, Heineken and GSK, among a multitude of others.

He explained that consumer ethnography is about research in the real context and in authentic environments. It's about immersing, listening, unlocking insight through one-on-one conversations with the core audience in their culturally understood contexts.

He said consumer-centricity is critical to success, because the consumer's truth is their reality and the key to your future. Africa is an assumptions buster. You need to know everything about how your market acts, negotiates, thinks, dreams, believes, worries and purchases.

Alvin then talked about lessons learnt from the beer and spirits world drawing on three examples. One success story in West Africa was a client that wanted to grow their market share in a saturated beer and whiskey market. They investigated localised needs, habits and rituals by researching markets and bars searching for cultural clues. As a result, they created a new product category and launched a new product with zero sugar and zero alcohol variants that is now available throughout West and East Africa.

Another case study was Amstel's release in South Africa of a ground-breaking new format 16-bottle crate to replace the traditional 12-bottle crate. It was to increase profit for taverners and increase sales of the brand - and failed dismally.

Consumer-centricity = Success

No consumer insight = Failure

So they trawled taverns and shebeens searching for insights and clues and found that the issues why people were buying the new crates were very basic: in small businesses where wife and children were carrying the crates they were too heavy; the new crates didn't stack well with the other brands because of the size difference, resulting in breakage; and financial reasons where people could only afford to buy a crate a time for their small shebeens.

He closed with tips on how to succeed in Africa:

- Be always consumer-centric. Avoid boardroom logic. Consumer insight fuels strategy that wins.
- Be constantly uneasy. Assume you know nothing. Research every aspect. Build a contextually rich learning culture.
- Thrive in complexity. Be agile. Africa demands on the hoof learning and quick reactions.

Plenary 3: Finance

The session was chaired by Will Hunnam, Co-Founder, Orbitt. The panellists were Kwanele Radebe Onyango, Legal Executive, Standard Bank; Linda Sadler, Business Development Lead Transactor, Barak Fund Management; and Myles Doherty, Senior Counsel, IFC.

To plug the liquidity gap, the global debt market continues to see a shift from conventional bank lending to alternative forms of funding, ranging from debt funds to debt capital markets issuances – but is this trend sustainable in Africa?

The panellists started by discussing whether the appetite of banks to provide funding in Africa was shrinking. Kwanele Radebe Onyango noted that this is in fact not the case and that in her experience the appetite of Standard Bank is expanding since it has a presence in 17 African countries. A bank's appetite would depend on its investment models and the available opportunities. Standard Bank is able to provide local currency as well as U.S. dollars and other currencies to African borrowers.

Linda Sadler described the African lending market from Barak Fund Management's point of view. Barak Fund Management takes on the deals that the banks are not able to fund based on the regulatory environment applicable to banks. Barak has in the past and is currently collaborating with banks and National and International Development Finance Institutions (DFIs). Barak has witnessed a significant demand for funding in emerging markets.

Myles Doherty echoed Linda's sentiments regarding the state of

non-bank lending in Africa and emphasised her point relating to the regulation faced by banks and that this is often a stumbling block for banks and hinders their investment into Africa. Myles is of the view that the overall financing need in Africa is enormous.

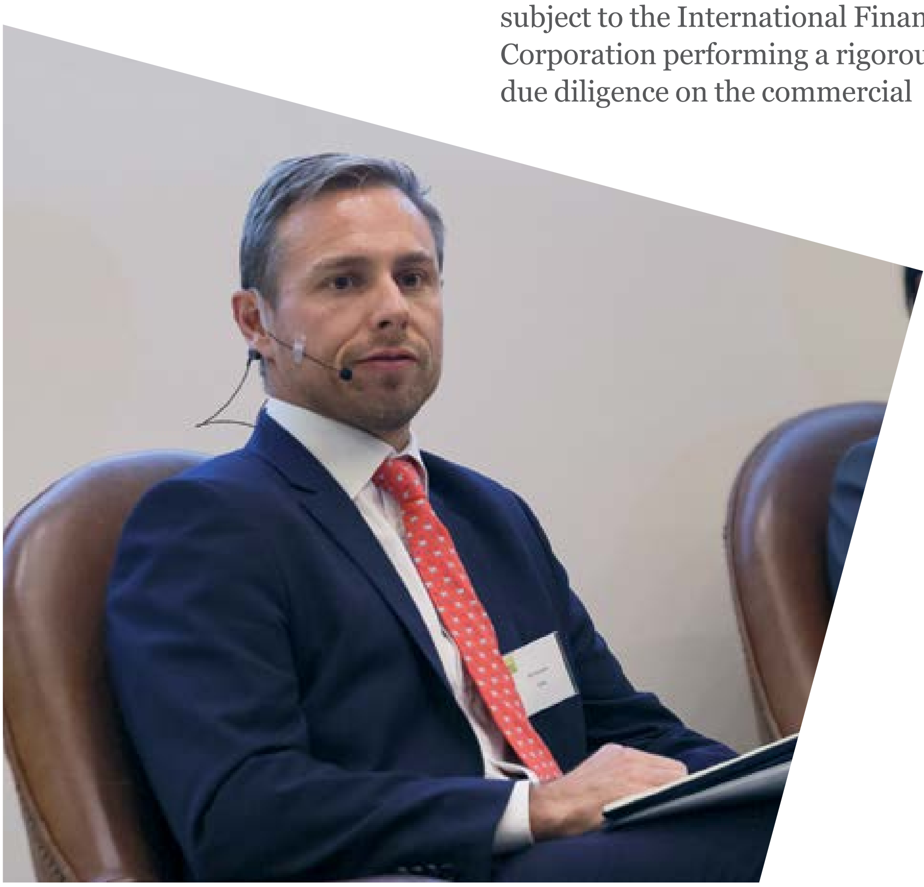
Will Hunnam mentioned that Barak and the IFC are currently collaborating on a project to finance micro, small and medium-sized enterprises (SMEs) in Africa. Linda explained that the scale of Barak's platform enables the parties to access cheaper funding in order to finance SMEs throughout Africa, which would typically not have access to bank funding. Myles Doherty is of the view that the market will be seeing more of such partnerships in future.

The panellists moved on to discuss whether there are any pricing challenges due to new funders entering the market. Kwanele indicated that Standard Bank has had pressure placed on its pricing with new funding players entering the market. Another factor that affects pricing is decreasing commodity prices. It is a conundrum given the lower risk appetites that banks typically have in emerging markets. It is important to note that pricing margins differ from country to country and that deals are structured differently on an individualised basis.

Will agreed and emphasised that Africa is a large continent and not homogenous and that different nuances are applicable in each jurisdiction. Kwanele commented that Africa as a continent may be

likened to a salad, not a soup. Will asked the panel to comment on which countries they have found the most challenging and in which they have enjoyed success. Kwanele commented that it depends on which day this question is asked. Standard Bank is experiencing some challenges in Tanzania currently where the terms of their contracts are being challenged.

Linda mentioned that Barak Fund Management's challenge is that they do not offer a full suite of banking services and that they only offer U.S. dollar funding and no ancillary services and that as a fund are always accountable to their investors. Barak Fund Management has ventured into countries like the Democratic Republic of Congo where many banks are unwilling to do business. Barak Fund Management has developed a level of comfort in the DRC as their transactors have on the ground experience and understand the environment and the key players in the industry.



Kwanele and Linda explained that due to their respective entities' presence in certain jurisdictions, they prefer to act on deals which they have originated rather than risk participate in deals that have already been structured by a third party.

Myles explained that the International Finance Corporation would take risk participation in deals that have already been brokered, subject to the International Finance Corporation performing a rigorous due diligence on the commercial structure of each deal to be able to deal with any risks which may arise – whether it be in the form of sister entities of the World Bank to provide sovereign guarantees or the use of insurance providers.

Will asked the panel to comment on whether the entry of new private debt funds into the African finance sector has affected their pricing. Linda's response was that Barak Fund Management welcomes competition and that Barak does not often lose deals because of pricing because of the level of demand in the market. Barak Fund Management's view may change where the supply of finance matches the demand, but at this stage the demand still largely outweighs the supply. Will then asked the panel to conclude the discussion with their vision of what the future looks like. Myles indicated that boards of financial institutions are focusing on their development impact as well as environmental and gender-based investments. The International Finance Corporation wishes to expand into more historically challenging markets and to build capacity in these markets. It is currently working on a project in Somalia and is having some difficulty because they require the assistance of a counterpart on the ground in Somalia.

Audience Question & Answer Session

There is a perception that the risk and cost is higher when doing deals in Africa. What is the role of each of your institutions in de-risking deals?

Myles Doherty: The International Finance Corporation focuses on risk mitigation to try and bring more private sector capital to the market. International Development Association and the Multilateral Investment Guarantee Agency and the International Finance Corporation will deploy funding to focus on de-risking projects. These entities will provide substitute guarantees where governments are not willing to.

Linda Sadler: There is definitely a perceived risk. There is a lack of information and knowledge and when the news of a single deal going bad in a specific country is shared, the whole country is tainted. One way to de-risk deals is to work with DFIs.

Kwanele Radebe Onyango: Risk in Africa is real. Standard Bank is an African bank and not doing business in Africa is not an option. There is a lot of structuring around the perceived risks. The bank looks at the transferability of risk. The bank also makes use of insurance products, however, this does eat into the bank's margins. It is an important risk mitigant to have the credit team on the ground in the relevant country – a team based in Johannesburg would not be appropriate to assess an operation based in Zambia. The Zambian team would understand the necessary context and realities present in Zambia and risks, which are unique to this country.

Will Hunnam emphasised the importance of matching the deal with the correct counterparty that would have the best view of the local context to give the relevant deal the best chance to succeed.

He concluded the discussion by asking each panellist to comment on the themes they see emerging in future.

Myles Doherty was of the view that the focus for future investments will be gender-equality and environment based.

Linda Sadler similarly commented that "ESG" (environmental, social and governance refers to the key factors to measure the sustainability of an investment) is the current buzz-word in the industry. Socially responsible investment is key, such as bringing power to places that have none.

Kwanele Radebe Onyango would like to see the funding of innovation and technology in Africa in addition to infrastructure and power.

Afternoon Plenary:

Key drivers in investment and funding decisions for African power projects

The session was chaired by Arun Velusami, Partner, Hogan Lovells International LLP. The panellists were Ziyaad Sarang, Managing Director, Fieldstone; Forbes Padayachee, Head of Power - Africa, Eurasian Resources Group; Victoria Bright, Managing Partner, Addison Bright Sloane; and Ezio Vernetti, Managing Director, Natura Energy.

The panellists examined key drivers behind investing in and funding independent power projects in Africa from the perspective of developers who invest equity, lenders who provide debt finance and governments who must in turn provide an enabling environment by providing sufficient and suitably attractive policy framework.

They explored factors behind successful investments and funding of power projects and exchanged their previous experiences on challenges and circumstances that have contributed to power projects in Africa not reaching a financial close.

The panellists discussed and answered these questions:

Which key drivers should developers consider in deciding whether to invest in a power project or not?

- A developer's belief in the project is crucial.
- What sets a project apart from other similar projects?
- A developer must have patience and humility in his/her dealings and engagements in respect to projects in Africa.
- What are the project returns? Is it profitable?
- A clear understanding of the different jurisdictions, their legal and policy landscape as well as the rules and regulations at various steps of the implementation of a project.

What key points must one consider when selling a project to lenders for funding?

Certainty of various factors makes a project bankable and is as a result imperative when selling a project for funding.

Certainty:

- In the processes within which the project was procured.

- In the understanding and pricing of the risk associated with the project.
- In the creditworthiness of the borrower.
- In when and how repayments of the debt finance will be effected. This also entails the lender's access to the jurisdiction's currency (that is, the ease of converting the currency into other currencies), such currency's liquidity and the legal process and remedies available to a lender to facilitate and ensure recourse in case of default.
- That the environmental and social impact of the project are interrogated in order to comply with the international environmental and social standards.

Factors to consider in investment as both a major end user and future generator of power

As a major end user of power in mining operations currently in Mozambique, Zambia and the Democratic Republic of Congo, certainty of power supply in a jurisdiction is incredibly important as it is a lifeline to mining operations. Mining investments and operations are long-term investments and, once commenced, cannot be uprooted when faced with uncertain supply of power, for instance.

These operations therefore rely on a mix of various options of power supply, including generating power on their own even though this is not their core business, purchasing power from independent power producers and renewable energy.

Challenges:

- High price of power in the various jurisdictions.
- Timeously streamlining government's support in the form of guarantees, negotiations and engagements with power utilities as an end user as well as streamlining all the relevant government stakeholders such as the department of minerals and energy.

Ghana's success story and attracting foreign investment

The challenge in this jurisdiction was the generator and transmitter of power's use of a post-paid model as opposed to a prepaid model, coupled with the lack of effective collection from the end users who had already consumed power.

The non-payment of power created a vicious cycle. Due to the non-payment, the generator of power experienced a shortage of funds, resulting in the power generator being unable to generate sufficient power and placing a huge burden on the generation of power in Ghana, resulting in a power deficit, with large parts of the country plunged into darkness.

The government of Ghana responded to the challenge by creating an enabling environment, inviting independent power producers and concluding power purchase agreements.

The unexpected outcome was a surplus of power. Ghana is in the process of streamlining and rationalising power purchase agreements to save the government large sums of money currently spent on these agreements.

Ghana currently exports power to a number of countries such as Liberia and Burkina Faso. The country could certainly export power to more neighbouring countries, however tariffs are an impediment to exporting power.

Challenges and circumstances that have contributed to power projects in Africa not reaching a financial close

The change in the political landscape and therefore change in a country's policies have on numerous occasions adversely affected either the commencement or the completion of projects in Africa.

Infrastructure in a jurisdiction has at times been seen to be linked to national elections, resulting in the timing of projects being affected by these elections.

The closing keynote was delivered by Ayabonga Cawe, Development Economist, Columnist, Radio Presenter, Photographer, Speaker, Programme Director and Activist.

> "The focus of business needs to be people - there are no perfect markets and there is no perfect information."

The forum was closed by Nkonzo Hlatshwayo, Chairman, Hogan Lovells (South Africa).

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