

Day 1 in Review: The SAVCA 2019 Southern Africa Industry Conference

27 February – 1 March 2019, Cape Town

Kicking off the first ever joint Private Equity and Venture Capital in Southern Africa Conference, SAVCA Chairman Craig Dreyer noted that the industry continues to grow from strength to strength each year. It is this unceasing growth, said Dreyer that inspired the theme for this year's conference, which is "*RISE to a new level*". He outlined how the conference will explore and showcase how, despite a tough and ever-changing economic landscape, the industry continues to RISE.

Dreyer went on to say that the country also appears to be taking industry investors' concerns increasingly seriously, sharing a story of how – for the first time ever – President Cyril Ramaphosa's office sought counsel from SAVCA members last year ahead of the Investment Summit. This, he said, opened a meaningful dialogue where members were able to speak frankly about what needs to happen to attract further foreign investment.

Offering a glimpse of what is to come in 2019, Dreyer mentioned the exciting new Fund Manager Development Programme – a transformation initiative of SAVCA – as well a bigger focus on educating local investors.

Reimagining Africa: 5 policy puzzles which will shape the continent's future

Amid the recent global economic turbulence, the first keynote speaker, Ronak Gopaldas, said that the West needs to stop infantilising the continent and avoid over-simplifying the situation. There is no one-size-fits all solution to understanding Africa. He went on to discuss the five key policy puzzles which will shape the continent's future.

Firstly, in terms of politics, there is the conflict of democracy versus development – to which Gopaldas said Africa is being expected to achieve the difficult task of delivering on both simultaneously. He went on to point out the current divergent trends that are underway in terms of democracy on the continent, which include reform in Southern Africa, rising authoritarianism in East Africa and political maturity in West Africa.

With regards to the economic tension of globalism and protectionism, Gopaldas said the question is whether Africa is going to go the route of the West, which is looking more inwards, or that of the East, which is taking a more expansive approach. Ultimately, he concluded there is scope for both to co-exist in various forms – greater globalism through the African continental free trade agreement (AfCFTA) alongside certain instances smart protectionism in order to boost job creation in strategic, job creating sectors. In a global context, however, where Africa needs external investors, he noted too much protectionism can be dangerous.

He then went on to discuss the third puzzle, which involves the demographic clash of the Facebook versus the face-lift generation, and the fourth which focuses on the new geopolitical

scramble for Africa between the East and the West. This, Gopaldas said, is essentially the battle of “America first” and the new “champions of globalisation” and that African agency and choice should be prioritised as global powers compete for relevance on the continent.

Lastly, Gopaldas spoke about the puzzle of technology and whether Africa will leapfrog or lag when it comes to stages of development. The fourth industrial revolution: Fear or excitement?

He pointed out that in Africa, innovation is driven by necessity, which is something that can really stimulate “catchup growth” and create meaningful opportunity.

What does this all mean? We’ve got these tensions but how are we going to navigate them? Gopaldas concluded that the continent and its people cannot afford to be bystanders anymore. Africa must therefore adapt and commit to economic diplomacy, collective leadership and regional integration.

Focusing in on South Africa

Providing an overview of South Africa’s Economic Stimulus Initiatives, Anthony Costa – a senior executive who was seconded to the Investment Mobilisation Programme (IMP) established by President Cyril Ramaphosa last year – discussed the IMP’s progress to date and unpacked some of the key initiatives aimed at driving increased domestic and foreign direct investment in South Africa.

He also outlined some of the prominent investor concerns regarding South Africa, which include land reforms, state of SOEs, mining charter, NHI – essentially high level policy issues and practical implementation issues.

Importantly, he highlighted that the country had some R300m investment pledges and, while this fixed capital investment may have created a bit of a headache, it does show continuing confidence and growth. There were also importantly some pure greenfields investments, which he said are a vote of confidence – signifying that the country is moving in the right direction.

The evolution of the regulatory environment

Loraine van Deventer, Senior Specialist (Legal): FSCA, and Michael Denenga, Partner: Webber Wentzel, discussed the plethora of regulatory changes that has had an impact on Private Equity, as well as future regulatory changes that may have an impact on the industry going forward. In doing so, Denenga noted how different private equity is from other equity classes, which has made it very difficult for the industry to practically handle some of the legislation that has been introduced.

Among the regulations discussed were the Twin Peaks – a model for regulating financial services – which South Africa has implemented through the Financial Sector Regulation Act (FSRA). When questioned about the direct impact of Twin Peaks on the industry, van Deventer said that the major impact of this regulation is that every single private equity deal will now be

subject to oversight and that a license will now be required under the Conduct of Financial Institutions (*COFI*) Bill 2018.

Retail Distribution Review (RDR) – which is intended to ensure that financial products are distributed in a way that supports the delivery of Treating Customers Fairly ("TCF") outcomes – was also discussed by van Deventer and Denenga. They said that the objectives of RDR will apply equally to the advice, distribution and investment management activities within the private equity space.

Van Deventer noted, however, that policy makers are aware that the private equity industry differs from traditional investment industries in a number of ways. As such, continued engagement and industry commentary is encouraged in order to ensure the RDR legislation takes all these unique industry characteristics and deal structures into account.

We all RISE together

Wrapping up the first day of conference, Daniel Hatfield, the Managing Director of Edge Growth and SAVCA Transformation Sub-Committee Chair, unpacked SAVCA's Transformation Strategy and provided an update on the progress of the highly anticipated Fund Manager Development Programme.

Hatfield explained that the transformation policy had three policies – changing mindsets; bringing new entrants and the best talents into the industry; and facilitating the increase and growth of black- and women-owned fund managers into the industry. This third point, he noted, is what the Fund Manager Development Programme will focus on.

This, he said, will be achieved by providing support in the raising of capital and working capital, and unlocking strategic and operational constraints faced by "first time" fund managers. This is not a case of the programme doing this for the fund managers, it is a case of providing support. With regards to funding. Hatfield said that SA SME fund and FNB are the two primary sponsors for the project, and SAVCA has also contributed significantly.

Showing that things are really taking shape, Hatfield then announced the new appointment of a full-time programme manager, Melanie De Nysschen, who will be committed to seeing the project through. Looking forward, he said that Melanie will begin selecting candidates between April and May, with the aim of officially kicking the programme off in June.

He concluded that, in his opinion, mindset remains the number one barrier in terms of moving the needle for transformation. As such, there is no debate of whether this should be done, but rather deliberation around the how and the when. In closing, Hatfield said that they've already explored the how, and that the time is now.



About SAVCA:

The Southern African Venture Capital and Private Equity Association (SAVCA) is the industry body and public policy advocate for private equity and venture capital in Southern Africa. SAVCA represents about R165 billion in assets under management through 170 members that form part of the private equity and venture capital ecosystem. SAVCA promotes the Southern Africa venture capital and private equity asset classes on a range of matters affecting the industry. SAVCA also provides relevant and insightful research, offers training on private equity and creates meaningful networking opportunities for industry players.

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