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Futuregrowth's response to South Africa's National Treasury document titled "*Economic transformation, inclusive growth and competitiveness: Towards an Economic Strategy for South Africa*" (27/08/2019)

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10 September 2019

As one of the largest fixed income asset managers in South Africa, with client funds of R197 billion under management, Futuregrowth is committed to financing the economic growth and development of our country. For more than 20 years, we have actively invested in the infrastructure sector as a fiduciary asset manager on behalf of our retirement fund clients[1].

In the wake of the nation's immense economic and social upliftment challenges, Futuregrowth agrees with the preamble of National Treasury's document: "*The combination of low growth and rising unemployment means that South Africa's economic trajectory is unsustainable. Government should implement a series of growth reforms that promote economic transformation, support labour-intensive growth, and create a globally competitive economy.*"

The key word is "implement": Government needs to apply single-minded determination and focus on execution and delivery. Bold, urgent and sustainable decisions need to be made in order to create the environment needed for job creation and inclusive economic growth. There are immediate investment opportunities that we believe could easily be unlocked by decisive government action and thereby re-ignite investor confidence in the future of the country.

The National Treasury correctly calls for reforms and interventions in a number of sectors. We believe that investors stand ready to invest in well-considered and well-structured projects that will raise the infrastructure capacity of this country and kick-start the sustainable job creation and inclusive economic growth.

Critically, projects must be financially and operationally sensible and sustainable. As an example of what is possible and has been successfully executed, one only needs to look at the Renewable Energy Independent Power Producer Procurement (REIPPP) Programme, which to date has seen over R220 billion in investment since 2012. With over 80 projects an additional 6329 MW of renewable energy has been procured to date, of this, 4065 MW is currently connected to the grid[2]. Arguably, these amounts could have been greater, and the timeline shorter, had policy confusion and vested interests not stalled the programme for almost two years.

Furthermore, the REIPPP projects to date have been delivered on time, on budget and without any allegations of malfeasance, corruption, or impropriety. By government's own estimates[3], the REIPPP Programme has:

- created 38 701 job years for youth and women from the surrounding communities in which these projects are located;

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[1] Futuregrowth's Infrastructure & Development Bond Fund has been in existence since 1995, and is now the largest infrastructure bond fund in southern Africa, representing dozens of pension fund investors. The fund size is R15.5bn and is invested in a variety of infrastructure sectors (e.g. alternative energy, healthcare, housing, telecommunications, air/road/rail transport and water) as well as a range of social investments in housing, education, healthcare, SMME finance etc. The fund gives investors a sound return, with the 10-year annual return to the end of July 2019 of 11.2% p.a. versus the All Bond Index return of 8.64% (and a 5-year return of 10.33% p.a. versus the ALBI return of 8.42% p.a.).

[2] https://futuregrowth.co.za/newsroom/reippp-comes-of-age/

[3] https://www.sanews.gov.za/south-africa/renewable-energy-programme-attracts-r2094-billion-sa-economy

- benefitted local communities through over R1bn spent by the projects on education, bursaries, health facilities, feeding schemes and supporting old age homes and early childhood development;
- helped establish more than 1 000 small enterprises; and
- provided black South African companies with, on average, 33% ownership in the projects.

Notably, over the life of these projects the programme will provide qualifying communities with R27.1 billion in net income from the dividends generated by their shareholdings in these projects.

In short, REIPP demonstrates that there is capital, competence and good will to fund appropriately structured and managed national development initiatives.

Futuregrowth manages retirement funds, and we are one of the custodians of the nation's savings. It is imperative that investors allocate capital to entities and projects that are sustainable and will deliver an appropriate risk-adjusted return. The National Treasury document highlights a number of sectors that we believe could roll-out a similar programme to the REIPPP Programme, including further rounds of REIPPP, as well as new projects in agriculture, telecommunications, tourism, water infrastructure and transport networks.

For infrastructure projects in these sectors to be investable, they need:

1. certainty of cash flows;
2. policy and regulatory certainty;
3. policy coherence and alignment across the appropriate government ministries and departments;
4. clear rights and obligations, as set out in robust legal agreements;
5. appropriate alignment of interests between parties;
6. certainty that the project is fit-for-purpose, appropriately costed, and – to be frank, given our recent history in South Africa - that there is no possibility for rent-seeking, malfeasance or corruption;
7. clear and enforceable mechanisms for recourse when rights/obligations are not met;
8. appropriate risk sharing;
9. appropriate returns (for example, pension fund clients need to earn a commercial risk-adjusted return, while developmental finance institutions (DFIs) can provide subsidised funding); and
10. transparent terms of engagement between government and all stakeholders, which will build trust and give rise to optimal investment outcomes.
11.

South Africa's DFIs can be mobilised to provide technical support and subsidised funding for national infrastructure projects. The Development Bank of Southern Africa, for example, can prepare projects, develop the infrastructure pipeline with government, and capacitate municipalities and other entities lacking in skills and capacity. Other DFIs can be mobilised in particular sectors - Land Bank (food security, land and agri infrastructure), Trans-Caledon Tunnel Authority and Rand Water (water infrastructure) and the Industrial Development Corporation (tourism, transport). All of these are able to borrow on the capital markets.

Many of the sectors mentioned in the National Treasury document need policy unblocking, regulatory reform and/or policy consistency. For example, broadband needs spectrum to be released; open road tolling needs certainty on its future structure and viability; and energy projects need the updated Integrated Resource Plan to be published. These conditions need to be clarified and/or delivered by government before any projects in these sectors can be considered investable.

Persistent delays by government are undermining confidence, economic growth and job creation. Long lead times are required for infrastructure development of this nature and magnitude. The focus right now needs to be on execution with clear and realistic targets and time frames. We believe that using the expertise of the DFIs, and replicating what we know has worked (like the REIPPP programme in the energy sector), will ensure timely execution. We believe it is time for decisive leadership.

The time for action is now. We support the Government's intention to take action and hope that this will indeed start delivering a "better life for all".

This response to National Treasury's document was sent to the Minister of Finance and then published on www.futuregrowth.co.za/newsroom.