EU ECONOMIC AND TRADE COUNSELLORS MEETING - PRETORIA, SOUTH AFRICA
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REMARKS BY LANGA MANQELE, CHAIRPERSON - BMF GAUTENG

Head of the EU Economic and Trade in South Africa, Massimo De Luca
Counsellors and Secretaries,
Distinguished guests,

Ladies and gentlemen, good morning.

I would like to thank the European Union mission in South Africa for inviting us at this important meeting.

This year marks the 10th Anniversary of the **South Africa-European Union Strategic Partnership**.

Not withstanding the ebbs and flows of politics in Continental Europe and here in South Africa. South Africa and the EU still consider each other true strategic partners.

Ten years ago - on the occasion marking South Africa-European Union Strategic Partnership - the Council of the European Union said in its press release *"South Africa and the EU share common values and beliefs, making us natural partners to promote development, socio-economic and political progress, as well as stability in a globalising world."*

Chairperson, in this context, I have been asked to reflect on the topic:

"Repositioning Johannesburg as a hub for financial services – impact of current economic and political turmoil, establishment of the NDB office, Financial Sector Code and Brexit."

This is quite a weighty topic, it is loaded with all diplomatic and political intrigue.

Having agreed to speak on it, I wondered if it is wise a decision. After all, I am neither a diplomat nor a politician and enjoy neither of the immunities.

Now that we are here, allow me to get right into it. When I began to prepare my remarks for this morning. I reluctantly looked up the verb 'repositioning' from the dictionary and this is what it said:

(a) to place in a different position; adjust or alter the position of something.
(b) to change the image of (a company, product, etc.) to target a new or wider market.

Could it be that - in the case of Johannesburg - we are referring to both meanings, (a) that Johannesburg must *"adjust or alter position"* and (b) *"target a new or wider market"* in its quest to remain a hub for Financial Services in Africa?

Chairperson, let me attempt to answer the problem statement or question as follows:

South Africa is ranked number **49th** in the **2015/2016 Global Competitiveness Report.** The same report ranks South Africa number **12th** under **Pillar 8: Financial Market Development.** At the end of 2016, the Johannesburg Stock Exchange had:

1. **R 14 271 trillion** market capitalisation
2. **388** listed companies
3. rank **Top 20 internationally** by market capitalisation in dollar terms
4. **AB INBEV** listing added **$180.2 billion** market capitalisation last year

South Africa has deep and liquid **domestic debt capital markets** by far in the continent. Yet it is in our debt capital markets where the European Union could consider playing a catalytic role. The questions we may want to deal with in this respect are:

1. What conditions give rise to the EU role in South Africa's financial services sector today?
2. What policy frameworks and instruments are at our disposal?
3. Is there a space for the EU given the launch of the New Development Bank Regional Office in Johannesburg?

To answer these questions, I have relied heavily on the work of Trudi Makhaya and Nicholas Nhundu. Respectively, a Senior Research Fellow and an Economist from Centre for Competition, Regulation and Economic Development (CCRED), University of Johannesburg.

In their paper titled ***"Competition, Barriers to Entry and Inclusive Growth in Retail Banking: Capitec Case Study"***. Makhaya and Nhundu observe that:

> Between 1999 and 2002, South Africa experienced a 'small banks crisis'. During this period Regal Treasury Bank, Saambou and BoE failed and a number of micro-finance (lenders) failed too.
>
> Two years earlier PSG Investment Bank - a member of PSG Group - had bought two micro-lenders, namely SmartFin and Finaid. PSG Group happened to be in possession two banking licenses at that time, one of which it transferred to Capitec.
>
> In 2001, Capitec registered as a bank and it listed on the Johannesburg Stock Exchange on 18 February 2002 at the back of:
>
> (a) PSG Investment Bank's banking license.
> (b) Strong 'shareholder of reference' backing, again from PSG Investment Bank.

Today, Capitec is worth R95 billion in market cap and its a share price closed at R,878 yesterday. It has 7.9 million clients, it is now ranked ahead of Nedbank and First Rand by number of clients.

Capitec had many challenges to overcome but **one key challenge** was how to finance itself to grow as a small and unrated bank in Africa?

In the early period between 2001 and 2003, the company was mainly financed by equity, which represented more than 80% of long term financing at the end of the 2003 financial year. Debt instruments were first utilised in 2004 (Makhaya, T., & Nhundu, N. (2016)

Capitec's answer for its debt funding requirements came from the European development finance institutions. However, it is said that the discussions about raising debt funding were lengthy and difficult.

The European Union's catalytic role in this almost miraculous story of Capitec should not be missed. Today, it could be repeated at Ubank and probably at two other small and unrated banks that are pro-poor and much older than Capitec.

Ubank is owned and controlled by the Mining Workers Union Trust. It has more or less the same client profile as Capitec. It has no debt in its book, its Tier 1 capital is comprised entirely of retained earnings.

Unlike Capitec, Ubank doesn't have the force of a PSG Investment Bank behind it which can serve as a confidence builder for other investors. It is a small and unrated bank, funders would not give it needed capital to scale up and enter the big league.

What policy framework and instruments are at our disposal?

The **Joint African Development Bank, IMF and World Bank Group Report** adopted by the G-20 Finance Ministers and Central Bank Governors Meeting held in Germany earlier this year, in March 2017 has endorsed the **G20 Compact with Africa.**

As you know, the **G20 Compact with Africa** covers three main areas:

(i) the Macroeconomic Framework,
(ii) the Business Framework, and;
(iii) the Financing Framework.

Let me quickly touch on the last two. **The Business Framework** lays out how to make Africa more attractive for private investors.

This includes setting up reliable regulations and institutions, including by strengthening the legal and regulatory frameworks to reduce uncertainty.

In this regard, the occasional jostling on policy positions in South Africa is par for the course. The debates on the FICA Bill, the recent court judgements on the powers of the Minister of Finance over banks and the Public Protector's recommendations on changing the mandate of the South African Reserve Bank (SARB) have been roundly rejected.

This week, President Jacob Zuma signed into law the new **Financial Sector Regulation Act** thus bringing South Africa in line with global frameworks, notably the UK, on Prudential and Financial Conduct.

The **Financial Sector Regulation Act** puts in place a strong set of balance and checks for financial stability in our overall financial system and provides for a framework to drive financial inclusion and for us - as the Black Management Forum - to continue driving socio-economic transformation in what is still a racially skewed workforce and equity ownership profile in the sector.

Lastly, **The Financing Framework** is aimed at increasing the availability of financing at reduced costs and risks - as was the case with EU funding of Capitec's debt. This includes efficient risk mitigation instruments to effectively attract and sustain private investment and developing domestic debt markets.

There is an opportunity for South Africa and the EU to work together in building a primary market for mutli-currency debt in South Africa.

The key challenge to overcome would be a decision on where liquidity would reside, would it be with SARB, local banks, International Financing Institutions or a combination of these?

There are already movements within National Treasury to consider this as part of South Africa's effort to position itself as Africa's financial hub.

Is there even a space for the EU given the launch of the New Development Bank (NDB) Regional Office in Johannesburg?

My short answer is a resounding yes, not withstanding the turmoil across BRICS member states. The block is here to say and it should not be wished away.

Africa is reported to have a **$93 billion** infrastructure backlog, this backlog costs Africa 2% of GDP per annum - a huge opportunity cost given the secular stagnation challenge globally. It is evident then, that the NDB cannot fund this backlog alone. The NDB will need partners.

The EU's own record of pursuing a strategic agenda - chiefly with South Africa - should stand you in a good stead in so far as collaborations with the NDB Regional Office in Johannesburg is concerned.

The EU-SA 10th Anniversary we mark this year has - over the past ten years - culminated into an Economic Partnership Agreement with SADC and it is a telling reminder of what is possible.

That said, it would be useful for us to reflect on some of the old and ongoing concerns from the Global South regarding the perceived governance and power imbalances within the international finance institutions.

At the heart of these concerns lay the much decried 'conditionalities' of loans and the lack of effective rights, in other words, full and proper membership in the international finance institutions.

Chairperson, thank you for affording us time to share our thoughts with this important forum today.

We wish you well in your deliberations and we are looking forward to a continued strategic engagement with the European Union in South Africa.

Thank you.