

AFRICA

Weighing the options

Sometimes SA can look at the rest of Africa for lessons on what or not to do — and it won't be taking a positive leaf out of the pages of Africa's pensions systems. Much of the lessons it will glean from Africa are "what not to do", say some of the architects shaping SA's pension reforms.

"We're more advanced than the rest of Africa. They're playing catch-up to some extent," says Alexander Forbes head of consulting strategy Rowan Burger. "We could learn some lessons in terms of how to include people (the more informal workforce) who haven't historically been involved. This is the greatest challenge for SA — how the system reaches more."

Pension reform is intrinsically tied to the development of capital markets. In countries where there is no developed stock exchange, which is much of the

case in the rest of Africa, there won't be a pension fund industry. Africa is more diverse — there's nothing Pan African about its pension systems.

There isn't much information forthcoming on the pension systems in Africa. What is known is that Botswana has quite a developed pension system. And Nigeria is creating a pension fund industry where it never existed before, but this is being done as the country goes through an extensive financial system reform. So, should investment of pensions money in Africa then be considered a mainstream opportunity rather than a high-risk option?

There are two arguments: there is a liquidity and investability problem in Africa; but equally the continent could yield bigger and better returns over the long term.

Firstly, most African economies are quite like SA in that it is commodity reliant and infrastructure dependent, so there's no diversification of the investment risk.

"Africa is only about 1% of the world's total assets, so why would people want to invest in Africa?" asks a fund manager.

Africa's entire market capitalisation, for example, is twice that of the JSE, which has a market cap of US\$3 trillion.

The Nigerian market cap of \$40bn, which includes foreign listings, is almost the market value of SA's MTN (R217bn).

Though Africa attracted \$60bn in foreign direct investment in 2008, not much of it was pensions money. Fund managers question why the richer G8 countries, like the US and the UK, would want their citizens' pensions money in Africa when its capital markets are so small. The market cap of Berkshire Hathaway, for example, is \$135bn — one

company is 20% of the whole of Africa.

There's also an investability problem. Even if you want to invest in Africa it's hard to get hold of shares, liquidity is low and expensive. "But pension funds can be used for political ends, which is an abuse of people's savings," says an analyst.

There's a social responsibility argument. People should be contributing to Africa for its development. But says a fund manager: "It's a check to use your retirement savings to develop somebody else's country. Do pension members really express a desire to invest in social responsibility or do they want the maximum returns/savings for when they retire."

However, fund managers such as Coronation and Investec argue that Africa could be a good investment in that it tends to lower the risk of one's portfolio. There's a low correlation between African asset returns and other parts of the world. The question then is what kind of asset capacity do you get out of Africa?

The Coronation Africa Fund has picked up well since the beginning of the year — from about 65% in February to levels of more than 100% in May. The JSE all Africa index and Investec Africa Fund are also performing well.

Says Coronation's Peter Leger: "Because African markets are unknown to foreigners and difficult to invest in, they should yield bigger and better returns over the longer term than you would get out of SA equities."

So what's the verdict? Should SA invest its pension funds in Africa? In terms of exchange controls, SA can't invest more than the regulatory limit of 5% until the African markets develop themselves. But, says Burger: "Investors might find that with global markets being flat, there might be more demand for higher yielding investments, and this might be the time the demand for investments in Africa would pick up." **Sharda Naidoo**

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A hurdle Without a developed stock exchange, it'd be hard to have a pension fund industry