



# **Establishment of the Tshwane Development Agency**

## **A BUSINESS PLAN FOR THE TSHWANE DEVELOPMENT AGENCY**

**15 December 2005**

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### **1. What is the Tshwane Development Agency?**

The Tshwane Development Agency (TDA) is tasked with the operational support, facilitation, implementation and initiation of development projects for the City of Tshwane Metropolitan Municipality. The agency is wholly-owned by the CTMM and acts in the best interests of its shareholders – the people of Tshwane.

The TDA is a small, flexible and highly effective organisation. It consists of a core of highly skilled and motivated individuals representing the CTMM and the private sector. The structure is designed to facilitate and implement large development projects while at the same time accommodating small and medium enterprise (SME) development.

#### **1.1 Focus of the TDA**

The TDA focuses on five areas for achieving its development objectives:

- Investment and trade promotion
- City regeneration
- SME development
- Tourism and cultural development
- Effective utilisation of CTMM land and property

#### **1.2 The role of the City Development Strategy**

In order to meet the demands of the city and to utilise the development opportunities, the CTMM has designed the City Development Strategy. The strategy contains strategic priorities and focus areas. These priorities and focus areas inform the activities of the TDA.

The strategic priorities are:

- Growth and development
- New structures for democratic, responsible, equitable governance and efficient service delivery
- Managing the integration of the city to improve urban life
- Addressing poverty and making services affordable and accessible
- Ensuring safety and security
- Enhancing the national status of the city as the administrative capital
- Building the international image of the city as an African city of excellence
- Caring for and utilising local natural and cultural resources

The focus areas of the City Development Strategy are:

- Infrastructure-led expansion of the development potential of the north to tackle poverty
- Continued development of the rest of the city
- Strengthening key economic clusters to take advantage of growth in manufacturing, government and business services
- Repositioning the inner city as a cultural and government centre
- Building high levels of social cohesion and civic responsibility to maximise development opportunities

- Modernising the administration
- Ensuring sound financial practices

## **2. Vision**

"An internationally acclaimed African capital city that empowers the community to prosper in a safe and healthy environment"

## **3. Mission**

To enhance the quality of life of all the people in the city through the rendering and implementation of effective and sustainable initiatives by being an efficient development delivery mechanism

## **4. Structure of the TDA**

### **4.1 Ownership**

The TDA is an independent Pty (Ltd) company wholly-owned by the CTMM. The CTMM nominates private sector business leaders, relevant experts and key roleplayers to serve on the board of the TDA.

### **4.2 Organisational structure**

The TDA is structured in a vertical non-hierarchical way. It is designed to provide efficiency in decision-making and implementation. Furthermore, the structure employs a small number of highly motivated and skilled persons. The structure consists of five line functions and one project function.

The line functions provide services that cannot be managed on a project basis. It also provides a specialist focus to the area involved.

The project function is more general in nature, but much more flexible. It serves as the facilitator of development projects of any nature.

Because the TDA employs a core group of people, unit heads are expected not only to manage units, but also to have the technical skills to carry out the same tasks as their team members.

- **Chief executive officer (CEO)**

The TDA has a CEO who directly reports to the board. The CEO is responsible for the overall performance of the TDA. He or she will also head a committee that will assess capital investment proposals. This investment committee will include corporate financial experts and will meet on a regular basis. The CEO will have a personal assistant.

- **Finance and administration**

The finance and administration line function is responsible for the daily running of the TDA and for matters such as financial reporting, cash flow and risk management. This line function will initially be run by five people (to be expanded to seven):

- Executive Director: Finance and Support Services
- Financial Manager

- Accountant
- Risk Manager
- Company Secretary

The Executive Director is responsible for the unit. She or he also reports directly to the CEO.

- **Business development support**

The Business Development Support Unit is tasked with the development and assisting of businesses in the city, with special focus on SMEs. The unit will further be tasked with developing programmes for this. Assistance will include business plan development, market analysis, etc. This is a line function because many of these aspects occur on a continuous basis and cannot be managed as a project. However, the Business Development Support Unit may be required to assist the Special Project Unit. The unit can also ask a fee for certain support that is offered to businesses.

This unit will initially consist of two people (to be expanded to three):

- Head: Business Development Support
- Analyst

- **Property**

The property management team focuses on the effective use of municipal land for development purposes. It also identifies commercial opportunities for the CTMM with respect to municipal and other property. Furthermore, this unit is responsible for facilitating and driving private sector requests for land. They will also advise on the acquisition of land for specific projects. This unit is required to assist and participate in project development.

This unit will initially be made up of two people (to be expanded to three):

- Head: Property
- Property Analyst

- **Marketing**

The Marketing Unit is responsible for marketing the city as an investment and trade destination. The unit will also be responsible for marketing the TDA and its projects. This unit will also support the Special Project Unit.

This unit will initially be made up of two people (to be expanded to three):

- Head: Marketing
- Marketing Coordinator

- **Research and development**

The Research and Development Unit is responsible for research on and identification of opportunities for the TDA to pursue. It is also responsible for stimulating policy with regard to development.

The focus of the RDU will be the same focus areas identified for the TDA, ie:

- Investment and trade promotion
- City regeneration

- SME development
- Tourism and cultural development
- Effective utilisation of municipal land

The RDU will also explore projects related to major events (eg 2010 Football World Cup), provincial initiatives (Blue IQ), and private sector initiatives.

The RDU will identify projects, do pre-feasibility studies and then pass the information on to the Special Project Unit. The main task of the RDU is therefore to feed the Special Project Unit with feasible, high-impact projects.

This unit is initially made up of three people (to be expanded to four):

- Head: Business Intelligence
- Researchers

- **Special projects**

The Special Project Unit (SPU) runs all projects it receives from its various sources (except SME and marketing projects which are handled by the relevant line functions).

The sources for the projects include:

- RDU of the TDA
- CTMM (eg ideas from the Economic Development Department, projects in the office of the Chief Operating Officer (COO))
- Private sector initiatives
- Provincial initiatives (Blue IQ)

The following projects are foreseen:

- Development of an inner-city park
- Internet access via the electricity distribution network
- Negotiations, planning, fund raising and establishment of a new airport
- Public-private partnerships at the Tshwane Market

The SPU will drive the projects. However, for each project it will put together a team with the necessary expertise, either from the TDA, the CTMM or the private sector. Different projects require different skills and so this unit needs to be flexible. The project managers in this unit take ownership of the projects and are accountable for the outcomes. Once a project has been developed and established, the TDA exits. The SPU may also charge a fee for services rendered.

The SPU is initially made up of four people (to be expanded to five):

- Head: Special Project Unit
- Project managers

Although the permanent core of this unit is small, it is their task to assemble the necessary skills for projects. A project manager will have multiple projects under his or her management at any given time.

The CEO and unit head might decide to appoint managers for different areas. For example, a manager might be in charge of all projects in the northern region, the central region, etc. This might be done according to areas as indicated in the Alternative Service Delivery Mechanism document. Alternatively, the CEO and unit head might decide to assign managers according to sectors. For example, one

manager might specialise in tourism development projects and another in special projects. By doing this, the unit will ensure a focus of attention on areas or sectors. However, it does have the disadvantage of having managers with many projects and some without any.

#### 4.3 Reporting structure

The CEO reports to the board of directors. The CEO signs a contract with a contract committee (or a section 79 committee). The contract committee is made up of the Municipal Manager, the Chief Operating Officer, the Chief Financial Officer and the Strategic Executive Officer of the Economic Development Department. This is to legally bind the TDA to the functions as set out in the business plan, and to improve accountability to the CTMM. This contract also serves to speed up the decision-making process of the CTMM, if or when necessary. The contract enables the TDA to act without interference and to be held responsible for its actions. The contract is renewable annually. Once a year, the CEO also reports to the Mayoral Committee on the TDA's actions.

However, the TDA should also be closely involved with the Economic Development Department of the CTMM. Therefore, strategically, the TDA should liaise with the SEO: Economic Development.

#### 4.4 Where does the TDA fit into the broader picture?

The success of the TDA is dependent on its relationships with various bodies. It is the task of the CEO to ensure that these relationships are managed in a professional manner.

The TDA needs support from the political and the operational side of the Municipality. The success of the TDA also depends on credibility, accountability, efficiency and a track record for delivering quality projects.

Figure 1: The structure of the Tshwane Development Agency

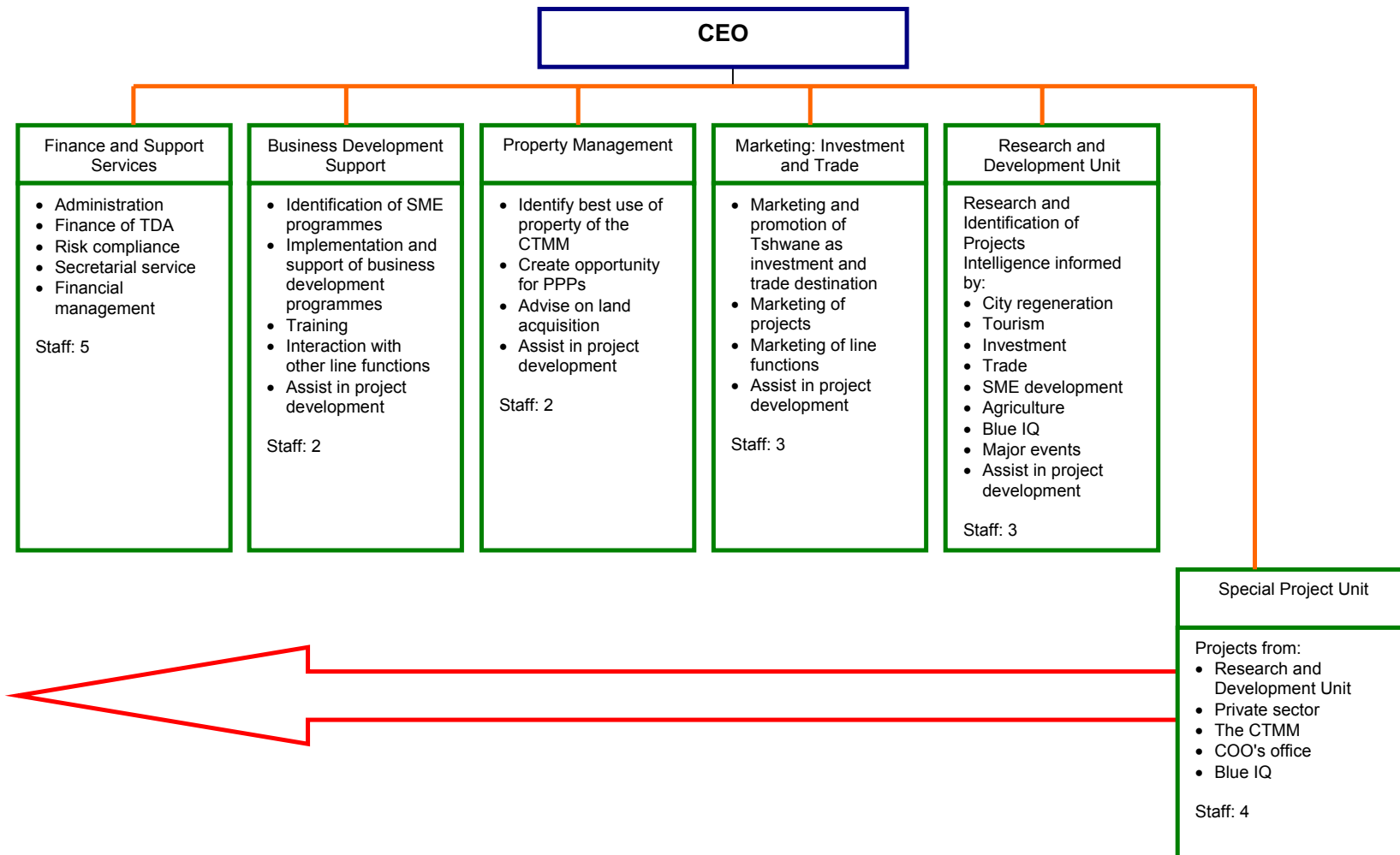
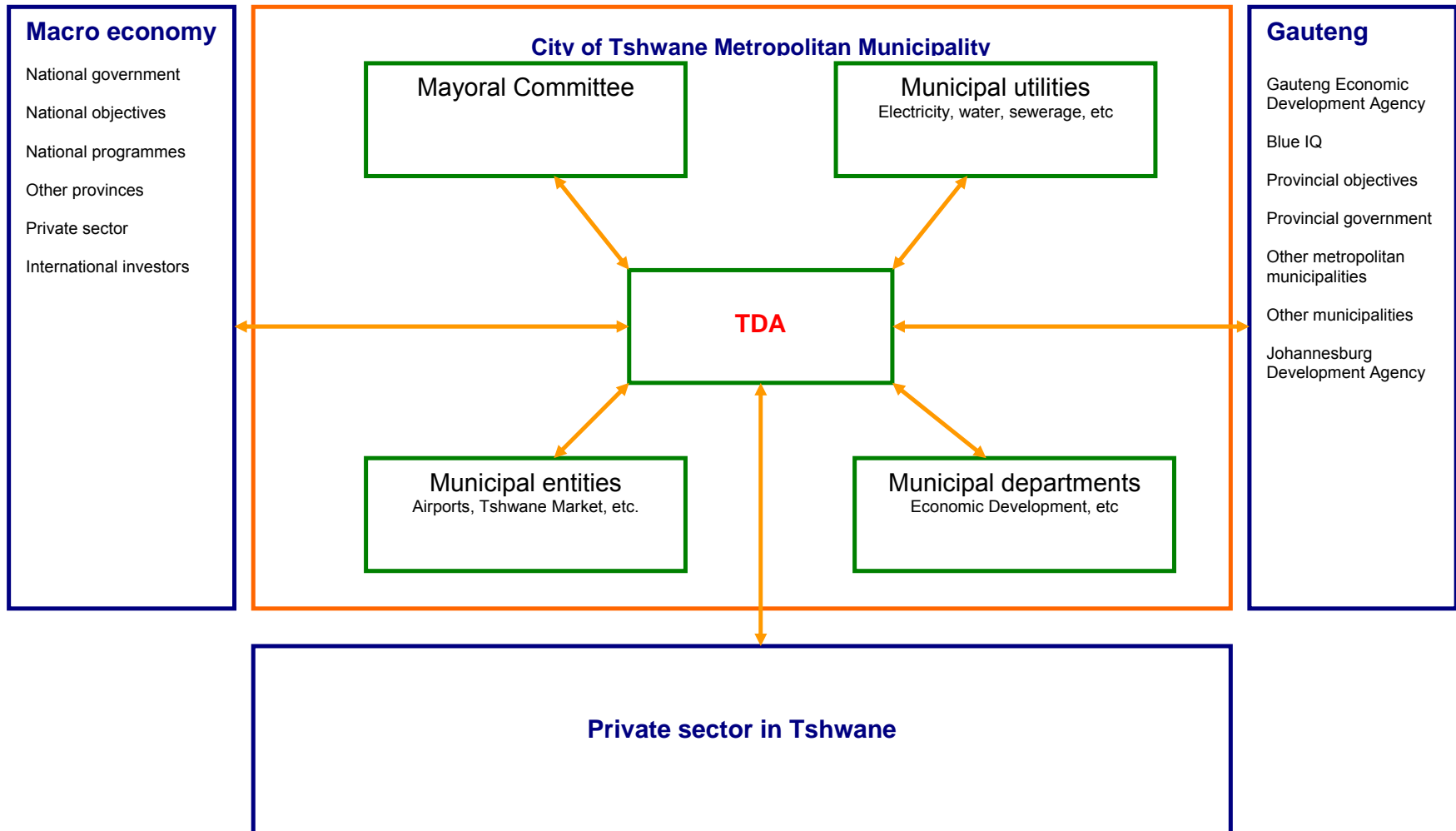


Figure 2: The Tshwane Development Agency and other organisations



## 5. How does the TDA work?

### 5.1 Model

The functions of the TDA are two-dimensional: ongoing line activities and special projects. The line activities are specialised fields which are not driven by project outcomes. They include business support, marketing and the RDU. They are daily activities and involve recurrent projects or tasks, mainly in one specialised area. However, as line activities they also support the SPU. The line functions will generally boil down to smaller projects.

Special projects are large projects (with high impact) that require specialised skills in many areas. These projects can take any form, as long as they support the broad strategic objectives of the Municipality. The SPU does not start a project, but receives projects from other sources. That is, projects undertaken by the SPU must have a pre-feasibility assessment attached. The SPU will then drive the project. Once any project has been completed and the necessary vehicle for it has been established, the TDA exits and is no longer responsible for the project. The SPU projects typically require greater amounts of capital expenditure. These projects will be the "face" of the TDA and will require input from all line function units of the TDA.

### 5.2 Financial systems, procedures and governance

The TDA acts in compliance with –

- Generally accepted accounting practice
- Good corporate governance as prescribed in the King II Report
- The Public Finance Management Act, 1999 (Act 29 of 1999), and the Municipal Finance Management Act, 2003 (Act 56 of 2003)

Operating and financial procedures are in place to allow for a transparent and consistent process.

### 5.3 Performance management

The structure of the TDA is geared towards high performance of key individuals. The salaries of the staff are highly dependent on performance outcomes. This also motivates the employees to perform at optimal levels. A good performance management system must be in place against which outcomes can be measured.

### 5.4 Income and balance sheets

Like any new business, the TDA can rely either on equity or debt to fund its activities. During the first few years, the TDA will be highly dependent on equity income provided by the CTMM. Therefore, the initial contributions of the CTMM to the TDA are seen as equity. After a few years the contribution to the TDA will be recorded as grants. The TDA also earns some income from fees charged for services rendered. These services may be to the CTMM, the province or the private sector. Grants, other than those received from the CTMM, are another source of income.

It is envisaged that the TDA will eventually become self-sufficient.

At the same time, it will be the task of the CEO to build up the balance sheet of the TDA. The CTMM, in collaboration with the TDA, might consider transferring certain assets to the TDA at a later stage.

## 6. Projected operational budget

A projected operational budget for the first three years of operations is given in Table 2. This operational budget does not include any capital expenditure that might result from projects that are undertaken.

In the cases where funding of projects is necessary (capital expenditure), it is recommended that the CTMM provide (some of) the resources (especially if the asset is CTMM property). The TDA will therefore need a capital expenditure budget. This budget will entirely depend on the type of projects undertaken. To indicate the size of a possible capital budget, the Johannesburg Development Agency's (JDA) capital expenditure budget is given below:

Table 1: JDA capital expenditure (in R 000s)

	2001-03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Total funding by the City of Johannesburg Metropolitan Municipality	142 900	71 500	52 000	128 500	310 000	310 000	214 000

To finance the projects, it is recommended that the TDA explores the possibility of creating a "growth fund". This fund can also be used to attract private investors and to cover the shortfall on capital expenditures. It will provide a fast and efficient way to create public-private partnerships and allow the TDA to undertake social projects that might be too risky for private investors. However, the fund should be sustainable; capital for the growth fund can be generated internally or through donor support.

Table 2: Operational budget for the TDA (excludes capital expenditure)

	Y1	Y2	Y3
	R000s	R000s	R000s
<b>INCOME</b>	<b>21 000</b>	<b>23 810</b>	<b>26 656</b>
Grants	18 000	18 810	19 656
Development fees	3 000	5 000	7 000
<b>EXPENDITURE</b>	<b>20 050</b>	<b>20 588</b>	<b>23 104</b>
Audit fees	130	136	142
Bank charges	10	12	14
Computer expenses	2 000	800	900
Management salary	3 600	4 122	4 720
CEO salary	1 575	1 803	2 065
Marketing	1 000	1 500	2 000
Office rentals	80	100	100
Operational expenses	155	250	350
Research	1 500	1 568	1 638
Administration	600	600	600
Salaries and wages	4 900	5 852	6 583
Director emoluments	1 500	2 000	2 000
Staff recruitment and training	2 000	800	900
Specialist services	1 000	1 045	1 092
Depreciation		100	100
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>950</b>	<b>3 222</b>	<b>3 553</b>
<b>Net profit margin</b>	<b>4,52%</b>	<b>13,53%</b>	<b>13,33%</b>

## Notes on the operating budget

Grants	Grants have been inflated at 4,5% over the three years.
Development fees	A modest increase in development fees for the first three years
Computer expenses	R2 million in the first year to set up, thereafter R800 000 and R900 000 to cover upgrades, expansion and maintenance of existing system
Management fees	Derived from the Tshwane senior officials budget. General management R561 000, TDA general management R400 000 plus incentive bonuses for six general managers The fees were then inflated by 10% above compensation for inflation of 4,5% for subsequent periods.
CEO's salary	Derived from the Tshwane Senior Officials budget. Strategic executive management R756 000, TDA CEO R900 000 plus incentive bonuses The CEO's salary was inflated for subsequent periods in the same manner as the management fees above.
Office rental	Estimated at 100m <sup>2</sup> at R80 per m <sup>2</sup> For periods 2 and 3, the figure of 125m <sup>2</sup> was used to cover expansion and the increase in rental costs.
Operational expenses	Increased from R155 000 to R250 000 and R350 000 in periods 2 and 3 to account for expanding operations. The increase was calculated to keep operational expenses at 5% of the development fees.
Research expenses	Projected to grow at the rate of inflation: 4,5%, because the first three years of operation are anticipated to be equally research intensive, although the kind of research may change.
Administration fees	Estimated to be 5% of the development fees
Salaries and wages	Non-management remuneration figures were based on an average salary of R200 000 for 14 employees in year 1, 16 for year 2 and 18 for year 3, after making adjustments for a 4,5% inflation rate and providing for an incentive bonus equal to 75% of the base salary.
Recruitment and training	R2 million has been provided for in the initial year, and after that R800 000 and R900 000 to provide for the training of additional staff and for developing additional skills of the existing staff.
Specialist services	R1 000 every year inflated at 4,5% to provide for the services of legal and other expertise that is needed to drive the projects

Director emoluments	Eight board members
Depreciation	In year 2 and 3, R100 000 depreciation is accounted for, which is equivalent to 10% straight line depreciation on R1 million-worth of assets.
Profit/loss	These are operational surpluses, and will be off-set by any capital expenditures.
Net profit margin	The ratio of profit to income

## **7. Benchmarking**

Certain TDA key areas are benchmarked against other similar agencies to guide the CTMM and the public on the establishment, structure and operations of the TDA. Table 3 provides a summary of the results.

The TDA structure is essentially a hybrid of various development agencies. Based on the defined focus areas, as well as the desire to keep the structure lean, the two-dimensional structure was recommended. The TDA has five focus areas. This resulted in five line functions and one project function. Project-driven and line-driven structures are both observed in development agencies.

Table 3: Comparison of various development agencies

	JDA	London Development Agency (LDA)	Singapore Workforce Development Agency (WDA)	KC Report <sup>1</sup>	TDA
<b>Vision</b>	Promotion of economic growth by developing efficient business environments in defined geographic areas.	For London to be a sustainable world city with strong, long-term economic growth, social inclusion and active environmental improvement.	A resilient, skilled and agile workforce for a vibrant Singaporean economy.	To act as a weapon against poverty	To become the leading international African capital of excellence that empowers the community to prosper in a safe and healthy environment
<b>Mission/key objective</b>	To stimulate and support area-based economic development initiatives throughout the Johannesburg metropolitan area in support of Jo'burg 2030.	To deliver more effective infrastructure for future growth and create healthy, sustainable and high-quality communities. Also to enable London to remain a global success story – in the next year, the next decade and the next century.	To enhance the employability and competitiveness of employees and job seekers and to build a workforce that meets the changing needs of Singapore's economy.	To establish partnerships between local governments, community-based groups and the private sector to manage existing resources <sup>2</sup> , create jobs and stimulate the economy of a well-defined territory.	To enhance the quality of life of all the people in the city through the rendering and implementation of effective and sustainable initiatives by being an efficient development delivery mechanism
<b>Core activities</b>	To deliver a range of developments and programmes aimed at achieving the goals of Jo'burg 2030 within the framework of its mandate from the City of Johannesburg Metropolitan Municipality.  The JDA stimulates and supports economic development through area-	The LDA has adopted a three-year rolling corporate plan in carrying out its activities. It conducts reviews on various aspects every year, and this year the focus was on workforce development, business support, land and property, and external communications, all of which the LDA regards as important in achieving excellence.	To establish new activities and create new jobs needed to absorb workers as the economy restructures. To stay employed, workers have to adopt new skills and capabilities – and it is the WDA's responsibility to ensure that such a	To tackle poverty by adopting infrastructure-led expansion. Strengthening key economic clusters. Repositioning the inner city as a cultural and government centre. Building high levels of social cohesion and civic responsibility to maximise development	The TDA should actively participate in the government's Accelerated Shared Growth Initiative. (See core activities of the KC Report for more information).  The TDA should also ensure that Tshwane is ready to host the 2010 Football World Cup.

<sup>1</sup> The KC Report (Kagiso Trust/Cenbus Report) is a report commissioned by the CTMM to perform a pre-feasibility study on a possible development agency for the city. This report summarised the position of various development agencies.

<sup>2</sup> Both natural and cultural resources

	based initiatives involving both capital and non-capital developments.		goal is attained.	opportunities.	
<b>Budget of 2004/05</b>	<i>Capital budget:</i> R368 million <i>Operational budget</i> for the year ended June 2005: R58 000 profit before tax, was attained from the R27,8 million income for the year.	Of the £421 million cash budget for 2004/05, the agency realised a surplus of £55 000.	For the financial year 2004/05, the WDA had a budget of US\$10, 2 million and had a surplus of US\$1, 7 million at the end of the financial year.	-	-
<b>Legal position</b>	Wholly-owned by the City of Johannesburg Metropolitan Municipality	Wholly-owned by the Greater London Authority	Ministry of Manpower	Recommends an arm's-length relationship	To be wholly-owned by the City of Tshwane Metropolitan Municipality
<b>Ownership of significant assets</b>	No	No	-	-	No
<b>Funding</b>	The JDA obtains capital financing from its municipality, Blue IQ and other innovative options, while operating finance comes from development management fees, council grants and JDA's own capital reserves.	The LDA receives funding from central government through the Department of Trade and Industry (DTI) and the Greater London Authority.	The WDA obtains funds from various institutions such as the Ministry of Manpower and other public and private institutions.	Municipal government and Business	To continue obtaining funds from the Municipality and loan guarantees from the business sector.
<b>No of employees</b>	± 30	35 in the management team, excluding supporting staff	16 board members and 11 in the management team	No indication	Initially 20

To provide further insight into other agencies, the Johannesburg Development Agency, the London Development Agency and the Kagiso Trust/ Cenbus Report are briefly discussed below.

#### a) The Johannesburg Development Agency (JDA)

The JDA is an agency of the City of Johannesburg Metropolitan Municipality tasked with stimulating and supporting area-based economic development initiatives throughout the Johannesburg metropolitan area in support of Jo'burg 2030. The JDA initiatives are mainly project driven. As development manager of initiatives, the JDA coordinates and manages capital investment and other programmes involving public and private sector stakeholders. The objectives of the JDA are –

- to promote economic growth through the development or promotion of efficient business environments in defined geographic areas;
- to regenerate decaying areas of the city so as to enhance their ability to contribute to the economic development of the city and the quality of life of its residents;
- to promote economic empowerment through the structuring and procurement of JDA developments, their management, etc;
- to promote productive partnerships and cooperation between all relevant stakeholders on area-based initiatives; and
- to develop best practice and organisational expertise in area-based development management.

The project-driven mandate means that the JDA has a structure that accommodates the project functions.

#### b) The London Development Agency (LDA)

The LDA is guided by the London Economic Development Plan. The plan provides for four basic functions or themes, which all connect with each other. They are:

- Investment in places and infrastructure to deliver more effective infrastructure for future growth and create healthy, sustainable, high-quality communities, particularly with a view to the 2012 Olympic and Paralympic Games
- Investment in people to tackle the barriers to employment that still affect so many Londoners
- Investment in enterprises to tackle the barriers to enterprise start-up, growth and competitiveness
- Investment in marketing and promotion to harmonise the way London promotes itself to the rest of the UK and the outside world

From the above, it is clear that the JDA has a much more focused "city regeneration" function to attract investment, while the LDA has a broader mandate that also includes human development, SME development and marketing. The LDA has a structure to accommodate line functions.

#### c) The KC Report

The KC Report recommends eight programmes or functions to be undertaken by the TDA. The report further suggests that the TDA select projects under each function and implement them. These functions are:

- Community development facilitation. This includes training initiatives, small business support, affordable housing and access to micro business loans.
- Investment promotion services. These are aimed at competing for international capital for investment in the city.
- Major events promotion and facilitation. Major events are defined broadly as any sports, cultural or business event which draws visitors from outside the region. These events have become an important economic development tool for many cities.
- Management and development of public land and property. Public real estate and infrastructure can make a significant contribution to economic growth and development. They also hold great potential for public-private partnerships.
- SMME support. The SMME sector has proven to be a critical component in every economy and vital to any economic growth strategy. However, this sector faces a number of constraints.
- Export promotion. A successful export marketplace forms part of a virtuous circle, which results in more wealth and a higher quality of life for a country's citizens.
- Sector support. Initiatives that comprise a unique set of business development services tailored to meet the needs of specific industries.
- Metropolitan development coordination and facilitation. This function aims to maximise economic development and mobilise the resources required for the revitalisation of economic potential in the city.

The KC Report makes no recommendation on structure.

## **8. Recommendations**

It is recommended that –

1. an "interim" structure be implemented until the legal process has been completed. This will create momentum for the TDA until it becomes fully operational as a company.
2. the CTMM start looking for possible candidates to fill positions in the TDA – starting with the CEO. However, these positions should be advertised to be sure that the best people are employed. The success of the TDA depends on the quality of its people.
3. the TDA be housed in a separate building. It might be necessary to start looking for possible space.
4. the performance measures of the CEO be identified first. This will allow the CTMM to negotiate with and appoint the person. The CEO can then develop performance measures for the unit heads, after which they can be contracted. Lastly, the unit heads will develop performance measures and appoint staff accordingly.
5. the Executive Director: Finance and Support Services also develop proper systems for procurement, administration, etc.
6. the Office of the COO in the CTMM work closely with the CEO and Special Project Unit head on projects that can be shifted to the TDA immediately (including their budget if legally possible).

**-End-**

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