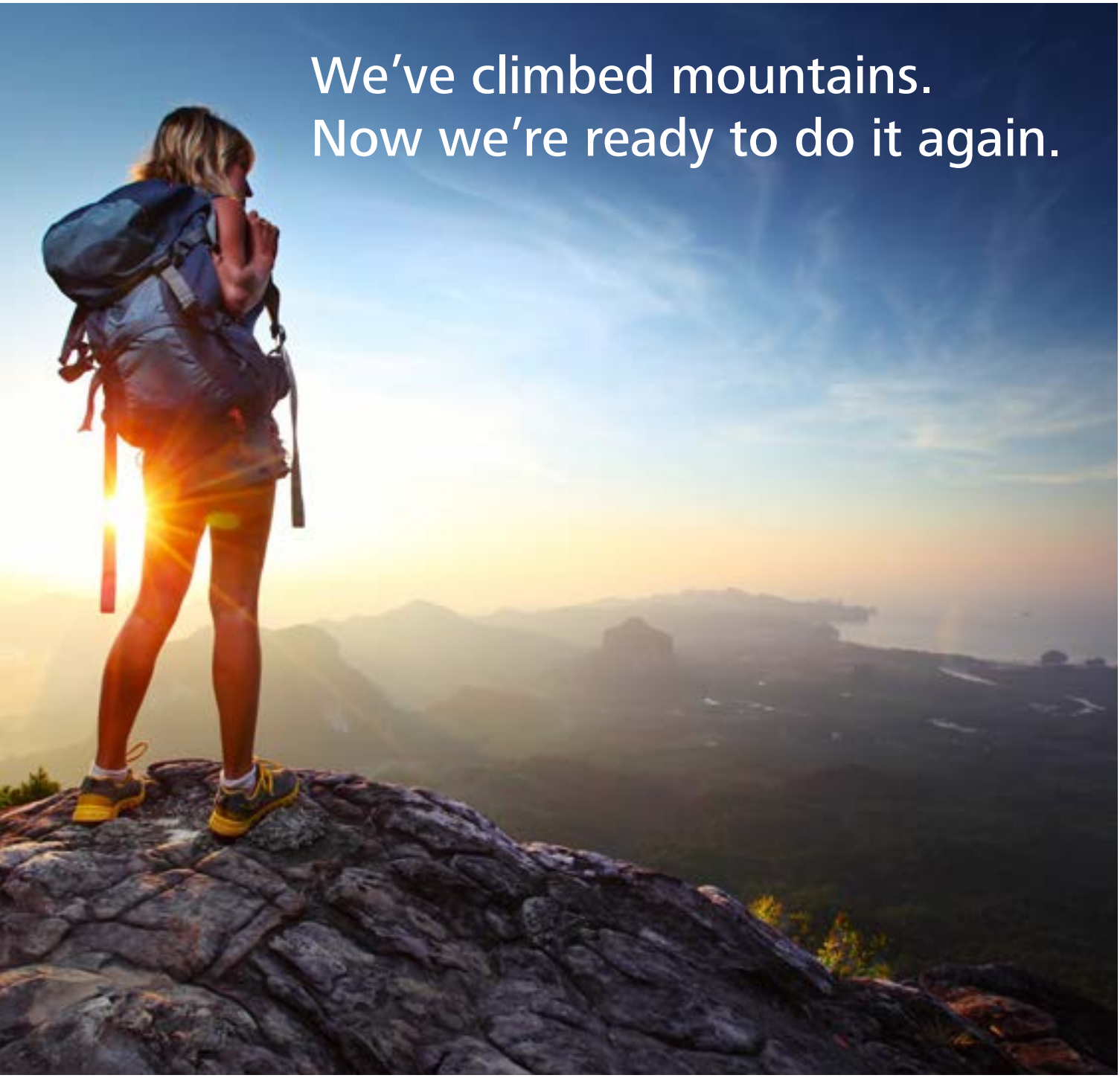
Deloitte.

CFO 2014 Report



Deloitte conducts this CFO survey each year to provide a better understanding of the current mind-set of CFOs.

Welcome to the 2014 Deloitte Southern African CFO Survey

Foreword

Dear Reader

We are proud to present our seventh Deloitte CFO Survey to you. This year our survey was expanded to include CFOs operating in South, Southern and East Africa. For the purposes of this report, Southern Africa refers to Namibia, Botswana, Zimbabwe, Zambia, Mozambique and Malawi. South Africa is excluded from the Southern African sample and is instead polled separately due to the sheer size of its economy in this region. East African respondents hail from Kenya, Uganda, Tanzania and Ethiopia.

Deloitte conducts this CFO survey each year to provide a better understanding of the current mind-set of CFOs. From this survey, we hope to gain insights into the underlying mood of CFOs and to ascertain what the underlying drivers are which are shaping their behaviour and driving their strategic choices. In our survey we also seek to determine whether there is a convergence or divergence of views on a number of topics and whether or not there are common trends among actions proposed by CFOs that may be insightful to their peers and to other readers of this report.

This involves canvassing CFO views on:

- The economy and current business climate
- Their strategic intent
- The cost of funding (interest rates) and the availability of funding
- Short and medium term currency outlook
- Cash flow and investment priorities for 2014 and beyond
- Availability and use of key talent
- Growth opportunities in Africa and other markets
- Topical subjects such as E-Tolling, smart technology and social media
- The role of the CFO

We are delighted to report that we have had an overwhelming response to our survey this year. In fact, this year's report is arguably the most comprehensive gauge of CFO opinion we have ever conducted on the African continent. This has provided us with rich insights as to what is top of mind for African CFOs as they navigate through today's exciting but challenging times. Deloitte recognises the crucial role that CFOs play around the globe as key decision makers in their respective companies and the daily challenges that CFOs face as they juggle the roles of Steward, Operator, Catalyst and Strategist.

We have a well-established CFO Programme with the purpose of supporting and partnering with CFOs to better equip them to meet these everyday challenges. We have assisted many CFOs in unlocking great potential for themselves and their companies in the past. We sincerely hope that the insights and information provided in this report will be of great value to our valued clients and readers.

Best Regards

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Summary

A Sentiment Gap

This seventh Deloitte CFO Survey issued by Deloitte in Africa now includes comparisons to respondents from East Africa for the first time. What is telling about the inclusion of East Africa is not only the insight gleaned from one of Africa's most dynamic regions, but also the stark gap in sentiment between East Africa and the economies of the southern part of the continent.

CFOs in South and Southern Africa are exhibiting a general feeling of anxiety about the future, which appears to be driven by concern about the underlying health of their economies. To a large extent this is no doubt influenced by the ongoing domestic challenges and the underlying negative business sentiment in South Africa. Many businesses in the country still appear to be in "survival mode" long after the 2008 financial crisis with CFOs still heavily focused on cost reduction and achieving greater operational efficiencies. New investment among South African corporates is overwhelmingly directed towards expanding into other parts of the continent, where economic growth rates are higher. The 2014 Deloitte CFO Survey makes it crystal clear that the Africa strategies of South African corporates are now firmly in the execution phase of their lifecycles.

The prevailing climate of uncertainty in South Africa also appears to have filtered through to the smaller economies in the region, which conduct a large proportion of their trade with that country. Consequently, CFOs from Namibia, Botswana, Zimbabwe, Mozambique, Malawi and Zambia appear generally cautious about their companies' prospects.

In comparison, East African CFOs seemed almost uniformly optimistic. Apart from some concern about increased domestic competition, which is no doubt due to new market entrants from South Africa and abroad, CFOs in East Africa were far more bullish than their Southern counterparts.

This gap in sentiment can largely be summed up by the following salient features of the report:

- Some 52% of South African CFOs said their companies had recently expanded into the rest of Africa, up from 38% last year. Of those who hadn't yet done so, 80% indicated they would be doing so during the course of this year.

- Southern African CFOs appear more reluctant to expand into other parts of the continent, preferring to focus on consolidating operations within their own region. Only 19% of southern African CFOs said their companies had recently expanded into the rest of Africa and only 37% were considering doing so in the near future.

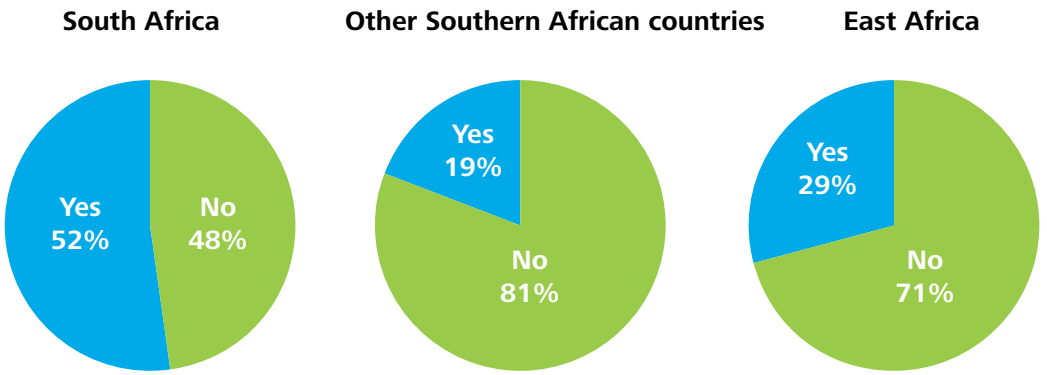
- East African CFOs appeared more bullish about expanding into the rest of Africa, with 29% saying they had recently ventured into other parts of the continent and 57% indicating they would do so in the near future.

- An overwhelming 95% of South African CFOs believe the country's economy will expand by less than 3% in 2014, up from 62% who made that prediction last year.

- The proportion of Southern African CFOs who expect their economies to expand between 5.1% and 9% in 2014 has declined to just 16%, from 42% in last year's survey.

- In East Africa, half of all CFOs expect the region's economy to expand between 5.1% and 9% this year with a further 11% predicting growth of 10% or more. This is contrary to the majority of market analysts and economists who generally expect growth of around 5% this year.

Figure 1. Recent expansion into Africa



Key Finding

South African companies have focused more on expansion over the past 12 months. In 2013, 38% of respondents indicated that they recently expanded into Africa.

Timing may have played a significant role in the results of the Deloitte 2014 CFO Report. CFOs were polled over the course of seven weeks between May and June 2014, a period marred by continued labour strife in South Africa. Nevertheless, the survey was comprehensive. In total 252 CFOs and Financial Directors participated in the survey.

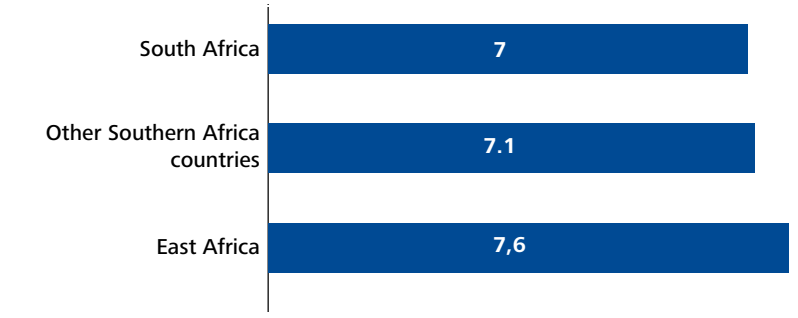
The 2014 survey also elicited a greater response from larger companies in South Africa than the previous year. No less than 44% of South African respondents came from companies with annual turnovers above R5 billion, up from 32% last year. Respondents included CFOs from a number of blue chip listed entities.

In Southern Africa there was little change in the size of the entities that respondents represented with approximately 13% of CFOs stemming from companies with turnovers of R5 billion or less in 2014, compared to 16% in 2013. In East Africa the picture was markedly different with 58% of CFOs representing companies with annual turnover of less than $25 million, reflecting the predominance of smaller corporate entities in the region.

The 2014 survey also showed a marked increase in CFO respondents from global companies with the number climbing to 77 from 43 the previous year. In some cases comparisons were made to results stemming from Deloitte's West Africa CFO report, which gauged the opinions of financial stewards in Nigeria and Ghana.

Respondent profile summary

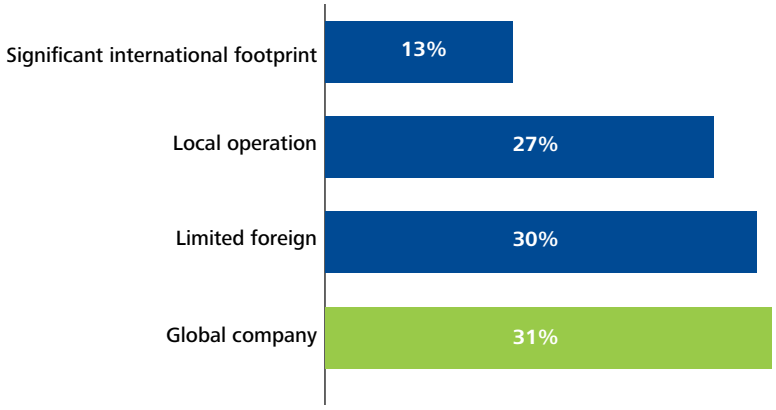
Figure 2. Average of years experience in current role



Key Finding

Most CFO in the industry have seven years' of experience or more

Figure 3. Company footprint*

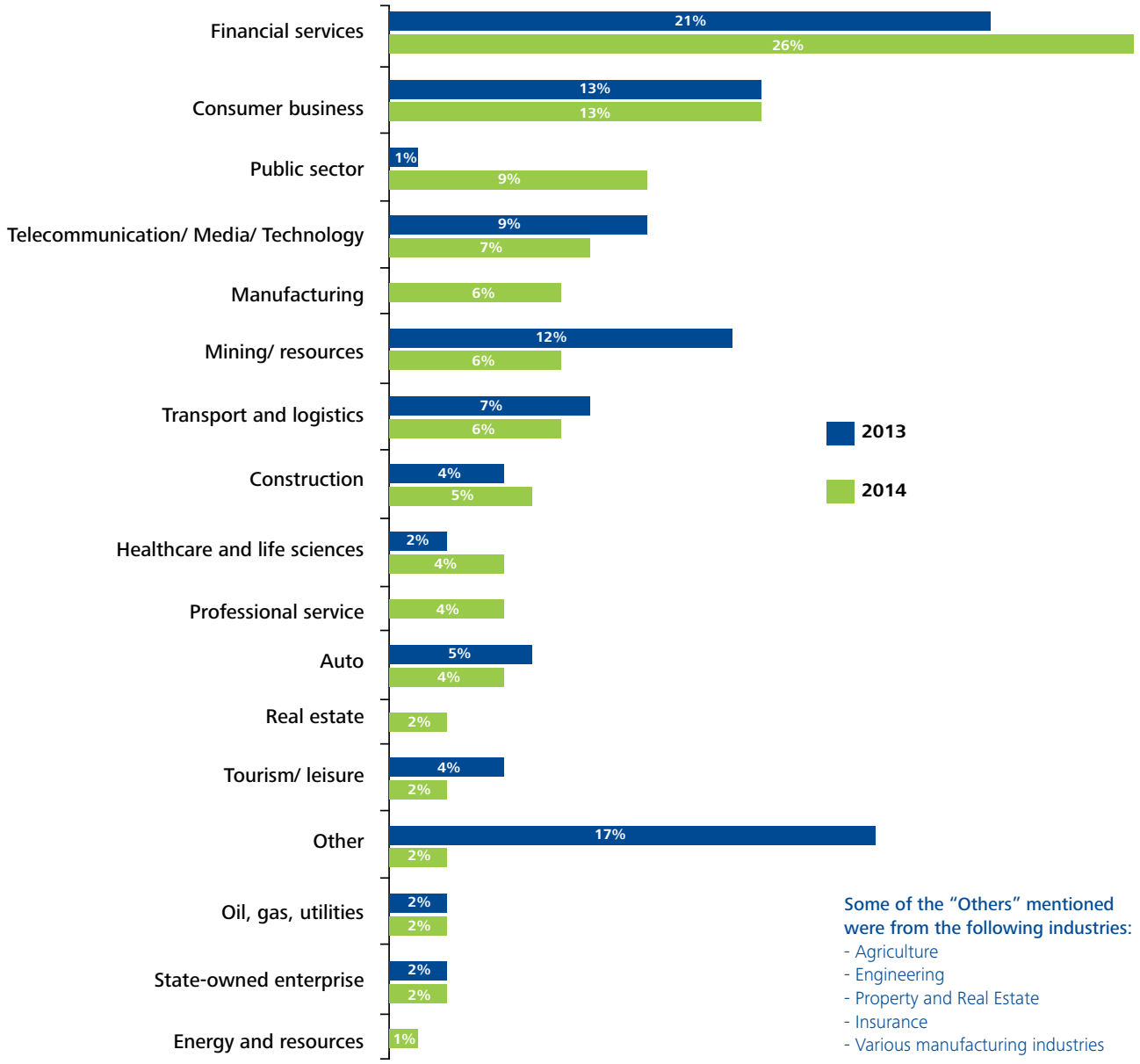


Key Finding

73% of companies also operate outside their home base

** South Africa, other Southern African countries and East African countries*

Figure 4. Industry sector breakdown*



Key Finding

A large proportion of respondents come from the financial services industry

** South Africa, other Southern African countries and East African countries*

The economic environment

Waning Optimism in South and Southern Africa

The ongoing labour disputes and economic inertia in South Africa, which culminated in lowered growth forecasts by government as well as sovereign ratings decisions by the major credit agencies, clearly had a big impact on the results of 2014 Deloitte CFO Survey.

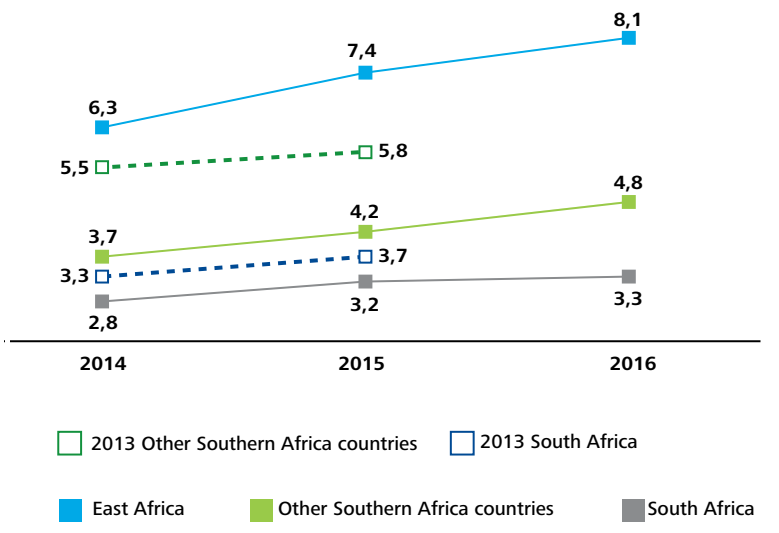
Perhaps appropriately for Friday the 13th, Standard & Poor's downgraded South Africa's sovereign rating on 13 June 2014 to BBB-, placing the country's debt just one notch above junk status. On the same day Fitch lowered its outlook on South Africa's credit rating to negative from stable.

This waning optimism in South Africa's economic resilience was also evident in the gross domestic product forecasts of the country's CFOs. While last year's CFO survey revealed an average economic growth projection of 3.3% for South Africa in 2014, this year's survey revealed a far more sedate estimate of 2.8%. This reduction in the economic growth estimate for 2014 may even prove to be overly optimistic given that newly appointed Finance Minister Nhlanhla Nene revealed on 1 July that the 2.7% growth target outlined in the February budget would probably be missed.

Unfortunately, the economic pessimism in South Africa appears to have rubbed off on its regional counterparts. In fact, negative sentiment appears to be even more pronounced among Southern African CFOs. Whereas the 2013 survey predicted economic expansion of 5.5% for that region in 2014, this has been tempered to just 3.7% in this year's sampling. The 2015 economic growth outlook for Southern Africa also declined to 4.2%, from 5.8% in last year's report.

In East Africa the picture is entirely more optimistic with respondents predicting a regional economic expansion of 6.3% this year, 7.4% in 2015 and 8.1% in 2015. This compares favourably with the International Monetary Fund's (IMF) forecast for Sub-Saharan Africa excluding South Africa and Nigeria, which comes in at 5.7% for this year and 5.6% for 2015. This supports the intentions of companies who wish to expand across the continent with East Africa being a key target destination.

Figure 5. Expectations for GDP growth

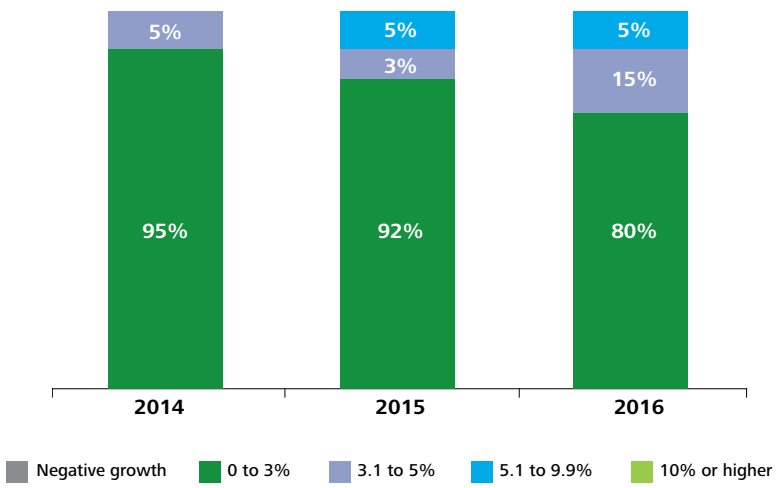


Key Finding

We find that other Southern African and East African countries have a more optimistic outlook on GDP growth when compared to South Africa

Perhaps the biggest indictment of the perilous state of South Africa's domestic economy is the increase in the proportion of CFOs who made lacklustre growth predictions for the country. Whereas 62% of South African respondents in the 2013 CFO survey predicted an economic expansion of less than 3% in 2014, this figure has swelled to a massive 95% in this year's survey. Sadly, the outlook for next year is not much better with 92% of CFOs predicting growth will remain below 3%.

Figure 6. Expectations for GDP growth ranges - South Africa

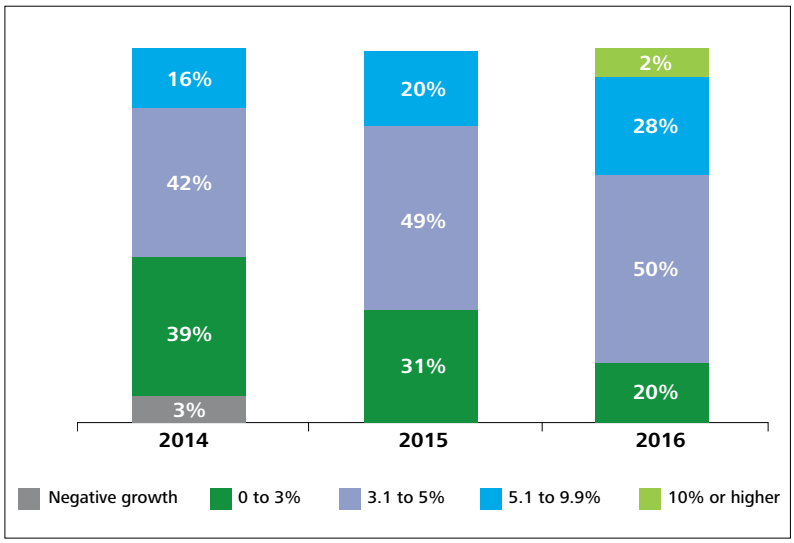


Key Finding

Expectations have lowered in both South Africa and Southern Africa compared to the 2013 survey growth predictions

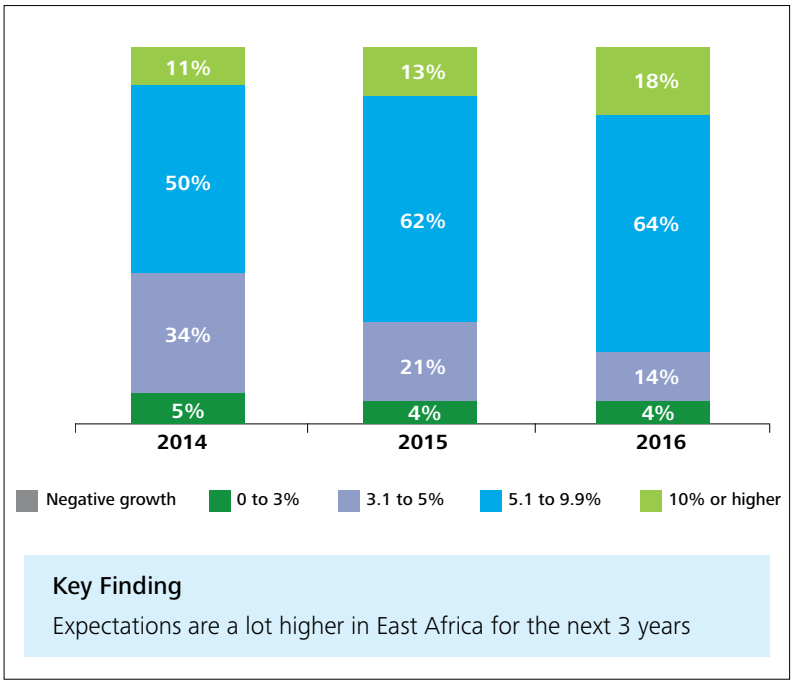
Southern Africa exhibited a similar theme of waning economic optimism. Last year 42% of CFOs predicted the region's economy would expand between 5.1% and 9.9% in 2014. However, in this year's survey only 16% made the same prediction. Estimates for negative economic growth also expanded in 2014, with 3% of CFOs predicting a recession compared with just 1% in last year's survey. That was most likely due to the influence of respondents from Zimbabwe, where the economic picture seems to be deteriorating despite the relative inflationary stability that the country has enjoyed since adopting the US dollar. Mozambique's tourism sector has also been hurt by strife in the north of the country. It would also be naïve to assume that Southern Africa has not been impacted by the steady slowdown in China's economy, which is a big importer of commodities from the region. The Euro zone's apparent inability to decisively deal with its socio-economic woes would also not have helped given its strong historical and economic ties with South and Southern Africa.

Figure 7. Expectations for GDP growth ranges - other Southern African countries



East Africa appears to have been less affected by these external economic influences. The rapidly expanding middle class coupled with the impending reality of a common regional trading bloc may be among the causes for optimism. The region once again emerged with the greatest proportion of optimistic CFOs. Half of all respondents polled in the 2014 survey expect the region's economy to expand between 5.1% and 9.9% this year with a further 11% predicting growth of 10% or higher. The outlook for the next two years is even brighter with more than 60% of CFOs expecting regional economic growth of between 5.1% and 9.9% in 2015 and 2016.

Figure 8. Expectations for GDP growth ranges - East Africa

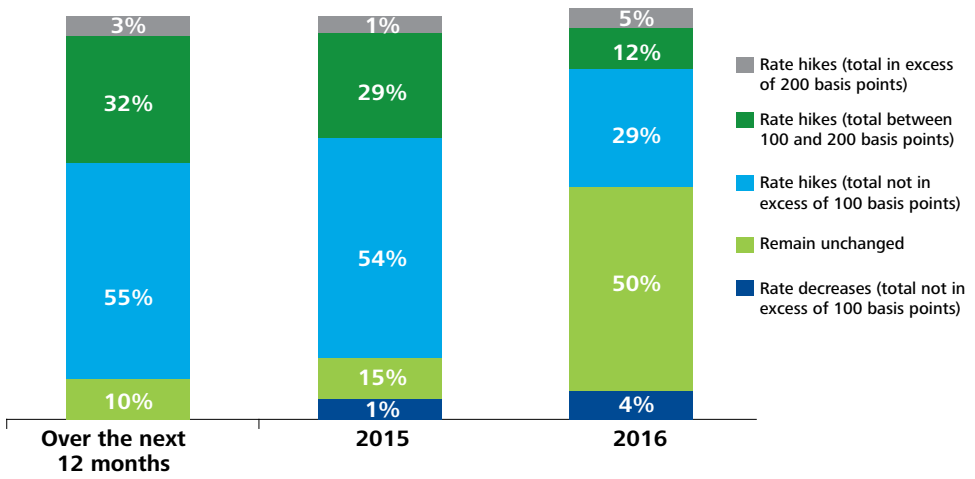


South African CFOs Hawkish on Rates

South African CFOs are largely in agreement with the country's central bank on the subject of interest rates, with the majority agreeing that monetary policy is headed for a prolonged bout of moderate tightening. This is no doubt due to the cumulative impact of continued rand weakness, a series of fuel and electricity price increases coupled with tentative signs of a US economic recovery.

The proportion of respondents who believe that the central bank will hike rates by no more than 100 basis points swelled to 55% in the 2014 survey, up from 47% last year. Likewise, the percentage of respondents who expect rate hikes of between 100 and 200 basis points climbed to 32% in the 2014 survey, from 16% the year before. Respondents are also marginally more negative in their rate expectations for 2015. Some 54% expect a rate hike of as much as 100 basis points next year, up from 51% in the 2013 survey. A further 29% expect rates to climb by between 100 and 200 basis points next year.

Figure 9. Short-term Interest rates South Africa

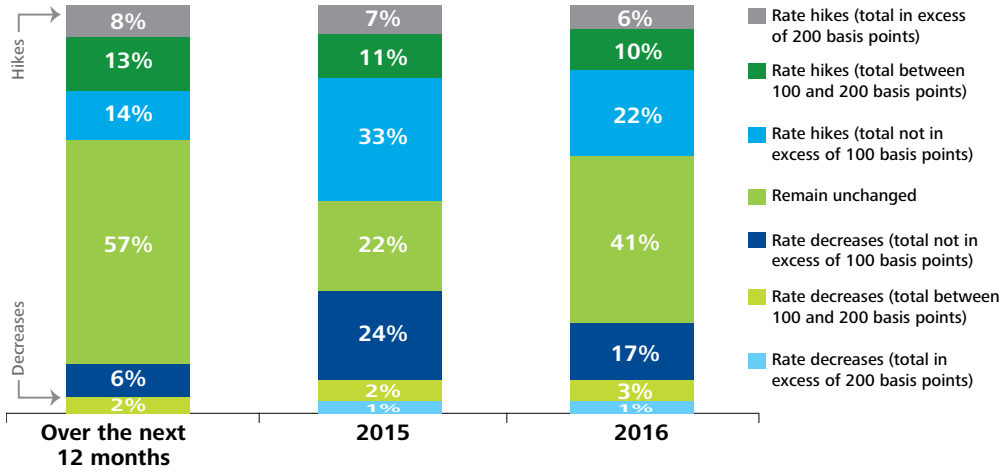


Key Finding

Rate hike predictions have gone up somewhat compared to 2013 report. This could be due to the weakening Rand

Southern African CFOs have a more stable view on rates than their South African peers over the course of this year. Whereas last year's survey indicated that 42% of Southern African respondents expected minor rate hikes of less than 100 basis points in 2014, this moderated to just 14% this year. Some 57% of Southern African CFOs expect rates to remain unchanged this year, an increase on last year's 24%.

Figure 10. Short-term Interest rates other Southern African countries

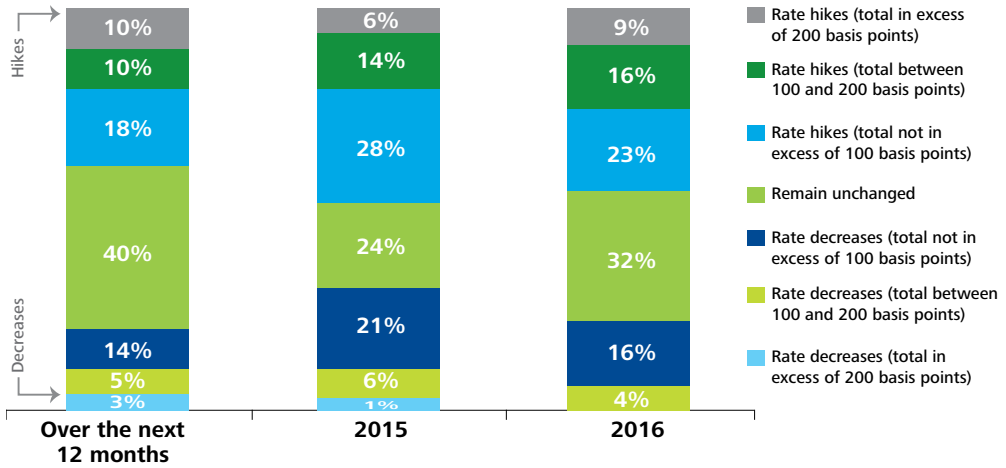


Key Finding

Southern African CFO's have a more stable view of rates than their South African peers

In East Africa, the buoyant economic mood appears not to have engendered any significant fears of monetary tightening. Some 40% of CFOs in East Africa expect no change in monetary policy over the course of this year while 14% anticipate rates to fall by as much as 100 basis points and a further 5% predict moderation of between one and two percentage points. Of those who expect monetary policy to tighten, 18% predict a hike of 100 basis points or less.

Figure 11. Short-term interest rates East Africa



Key Finding

Some 40% of CFOs expect no change in monetary policy over the next year

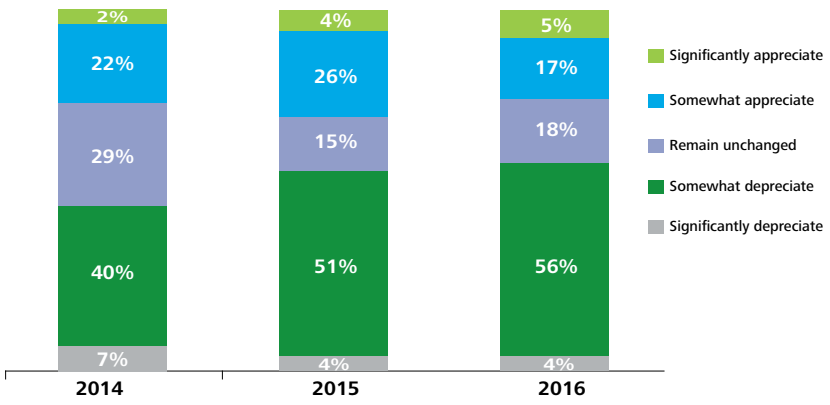
Currency Woes

The rand's precipitous decline, which saw the currency slump 21% between the beginning of last year and 16 July 2014, still has South African CFOs worried about further depreciation. However, their fears appear to be abating. That could be due to the assumption that the bulk of the rand's slide has already run its course. South Africa's currency is already the second worst performing emerging market currency since the beginning of last year after Argentina's Peso, based on data compiled by Bloomberg. Expectations of further interest rate increases in South Africa may also have played a role in curbing fears of continued rand weakness.

Whereas 64% of South African CFOs polled in 2013 expected the rand to "somewhat depreciate" against the dollar in 2014, this moderated to 39% in this year's survey. Those who feel the rand will remain unchanged totalled 29% of respondents in 2014, compared with 12% last year. There was also an increase in the proportion of CFOs who expect the rand to strengthen in 2014 with 24% of respondents saying the rand would appreciate, up from 18% the previous year. Fewer South African CFOs are worried about the currency's outlook for 2015 than last year with 56% saying the rand will decline next year, down from 68% in 2013.

Southern African CFOs are notably less concerned about potential currency depreciation against the dollar in 2014 than their South African peers. Zimbabwe has been excluded from these results due to the country's large scale adoption of the US dollar and the scrapping of its own currency in 2009. Of those who participated, 30% of Southern African CFOs predicted that their currencies would remain unchanged in 2014 with 20% making the same prediction for next year.

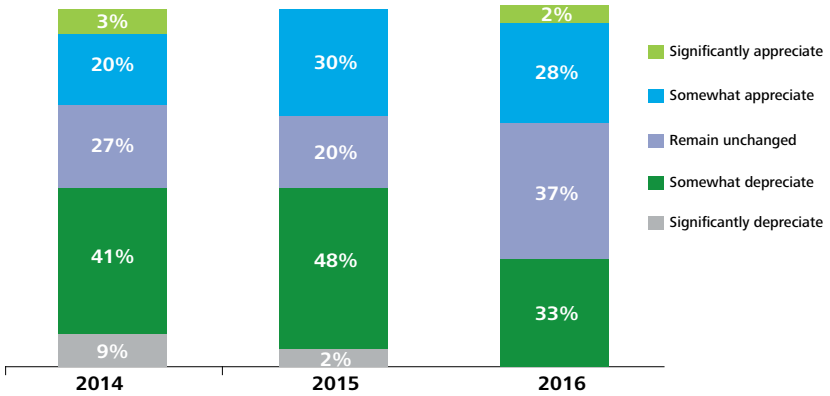
Figure 12. Local currency South Africa vs US dollar



Key Finding

Respondents have mixed views about whether the Rand will continue to depreciate against the US dollar over the coming years

Figure 13. Local currency other Southern African countries vs US dollar

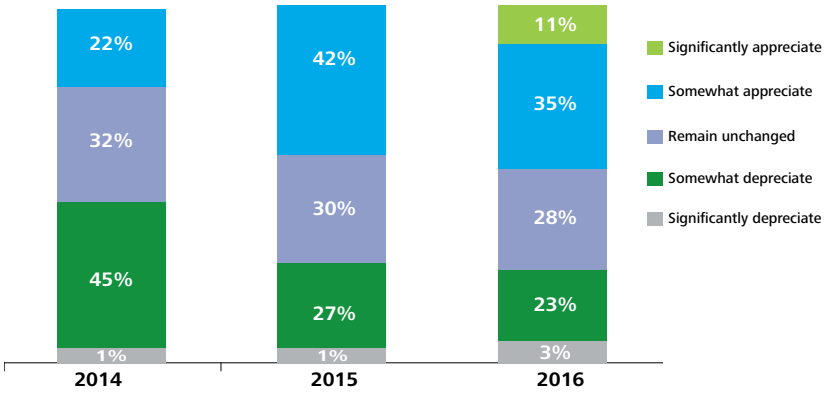


Key Finding

Southern African CFOs are less concerned about potential currency depreciation against the dollar in 2014 than their South African counterparts

The characteristic optimism of East African CFOs also appears to have rubbed off on their currency predictions for the next three years. Although 45% of respondents said their currencies will "somewhat depreciate" in 2014, this was counterbalanced by the 54% who said their exchange rates would either appreciate "somewhat" or remain unchanged. However, it's in their currency predictions for the next two years where the optimism of East African CFOs clearly becomes apparent. No less than 42% expect their currencies to advance in 2015 while 46% anticipate further appreciation in 2016.

Figure 14. Local currency East Africa vs US Dollar



Key Finding

East African respondents have the view that their currency will systematically appreciate over the following three years

The comparatively cautious stance on currency stability among South African CFOs may be both a symptom of historical experience as well as the relative openness of their economy. The rand has slumped to record lows on several occasions over the past two decades, only to stage dramatic and unexpected comebacks. It is also among the more liquid emerging market currencies available, exposing the rand to financial speculation. The comparative ease with which international money can flow in and out of South Africa's bond and equity markets is a powerful factor that influences rand volatility.

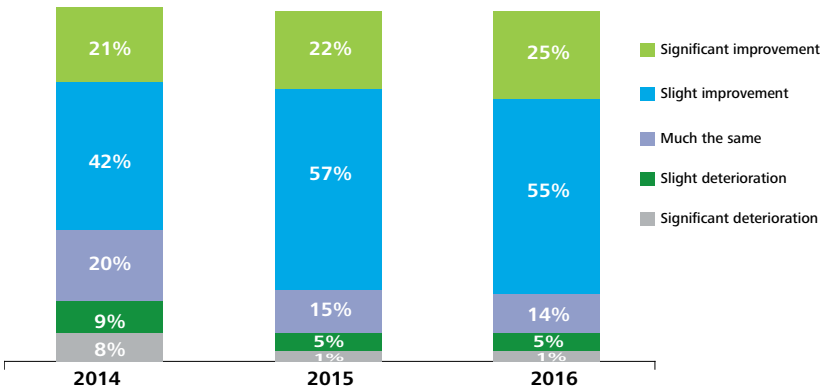
The business environment

A Jaundiced View

As with the outlook for the broader economy, the majority of South African CFOs had a fairly jaundiced view when asked what the outlook was for their company's performance over the next three years. The proportion of respondents who expected a "slight improvement" waned to 42% in the 2014 CFO Survey, compared to 58% the previous year. Those who predicted "significant improvement" slipped to 21% in this year's analysis, down from 26% last year. Nevertheless it is clear that most respondents expect some form of improvement in one way or another, albeit that the trend is declining. These declining sentiments could signal a longer recovery period than is hoped for, thus becoming a self-fulfilling prophecy of sub-par economic growth and stuttering corporate performance.

Interestingly, respondents appeared to show a markedly greater tendency to exhibit negative sentiment with regard to the near future. This was evidenced by the 30% of CFOs who expected a slight or significant deterioration in their business in 2013 when asked in that same year, whereas only 3% made the same prediction for the subsequent two years. The 2014 CFO Survey mirrored this outcome with 17% of respondents expecting a deterioration in business conditions this year, while only 6% made the same prediction for 2015 and 2016.

Figure 15. Outlook for future company performance - South Africa

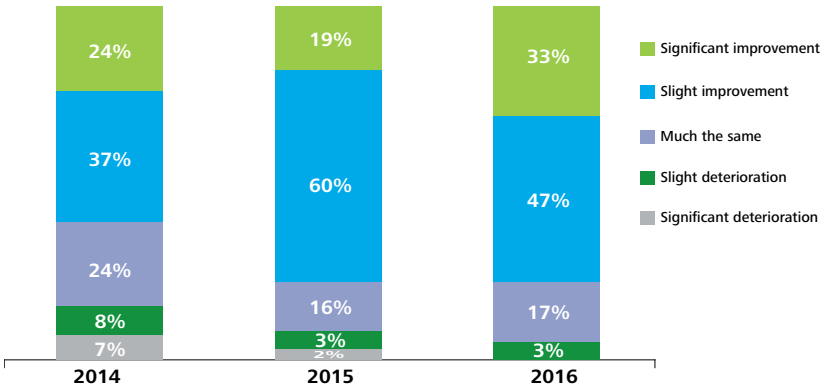


Key Finding

Respondents appear to show a greater tendency to exhibit negative sentiment in the same year in which they are surveyed

Again, Southern African CFOs echoed the declining optimism of their South African peers. Whereas 43% expected "significant improvement" in the fortunes of their companies in 2014 when canvassed last year, only 24% made the same prediction in this year's survey. Unsurprisingly, East African CFOs were the most optimistic with 71% expecting a slight or significant improvement in their company's performance this year and 84% making the same prediction for 2015.

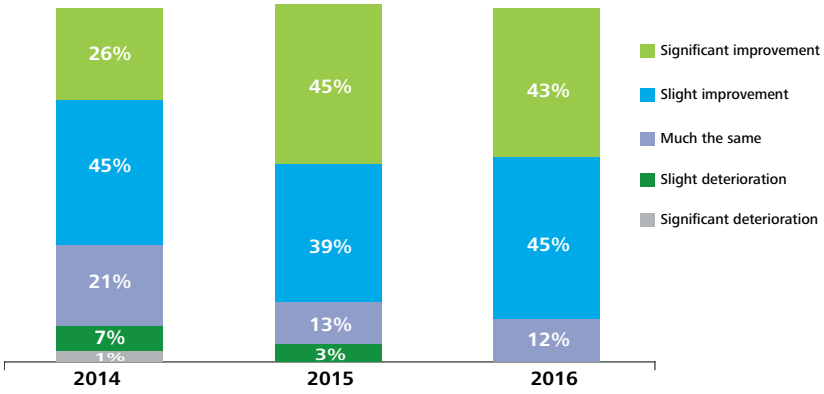
Figure 16. Outlook for future company performance other - Southern African countries



Key Finding

Southern Africa respondents foresee a slight improvement in their company performance over the next couple of years

Figure 17. Outlook for future company performance - East Africa



Key Finding

East Africa respondents believe that their companies will see a lot of improvement over the next three years

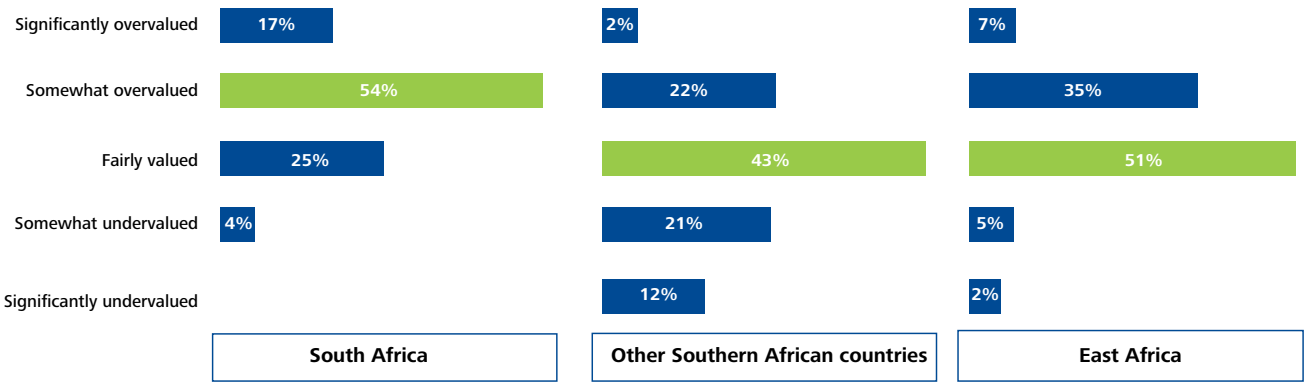
Equity Valuations

With the JSE All-share index having rallied 32% between the beginning of last year and 16 July 2014, surging from one record level to the next in the process, it's not surprising that South African CFOs feel the nation's equities are overvalued. The proportion of CFOs who harbour this sentiment also increased this year. Some 54% of South African CFOs feel equities are "somewhat overvalued" while a further 17% believed them to be "significantly overvalued" and only 25% describing them as "fairly valued." Only 5% of South African CFOs surveyed feel that equities are undervalued!

In Southern Africa 22% of CFOs describe their equity markets as "somewhat overvalued," lower than last year's figure of 25%. Nevertheless those who believed equities were "fairly valued" declined to 43%, from 61% the year before. A much larger proportion of CFOs in Southern African countries view equities as being undervalued.

Somewhat surprisingly, just more than half the CFOs surveyed in East Africa say their equities are "fairly valued". Only 35% of East African CFOs believe stocks on the region are "somewhat overvalued" and a mere 7% say they are "significantly overvalued."

Figure 18. Equity evaluations



Key Finding

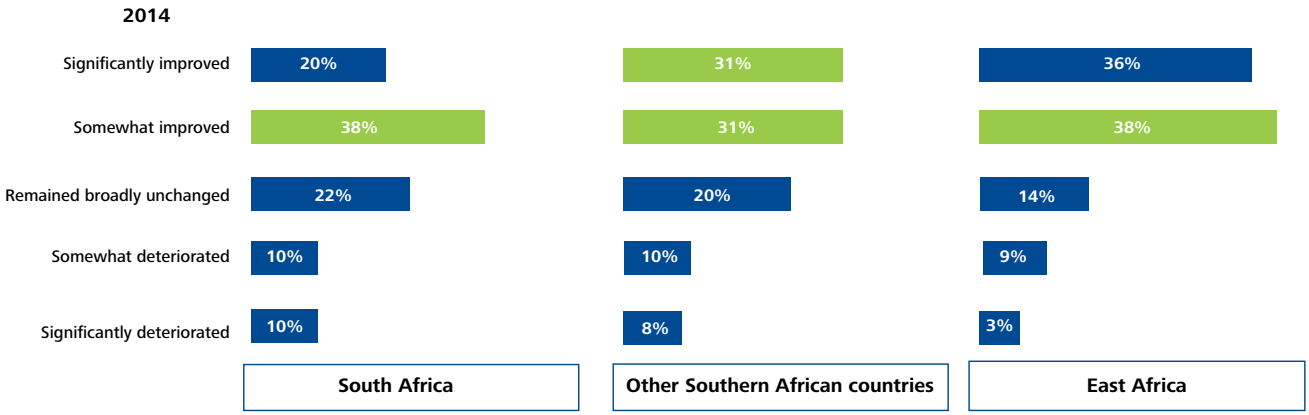
The majority of the respondents in South Africa view their equities as being over valued while in other countries CFOs view their equities as being fairly valued

Financial Performance in Past Financial Year

The glaring sentiment gap between CFOs in South and Southern Africa on the one hand and their East African counterparts on the other was a recurrent theme throughout Deloitte's 2014 CFO Survey. When asked whether their company's performance had improved over the last financial year, 41% of South African CFOs said conditions had either remained unchanged, deteriorated somewhat or significantly deteriorated. While this was balanced by 38% who claimed conditions had somewhat improved in the past year and a further 20% who indicated significant improvement, there was a greater proportion of respondents who leaned towards the negative side of the spectrum in 2014 than was the case last year.

Similarly, in Southern Africa there was a seven percentage point decline in the number of CFOs indicating that company performance had somewhat improved in the past financial year with 31% voting in favour of that option in the 2014 survey. At the same time 8% said performance had "significantly deteriorated", three percentage points more than in 2013. In East Africa, CFOs were again overwhelmingly positive about their company's performance with 74% saying it had either somewhat or significantly improved. Just 3% said performance had significantly deteriorated while 9% claimed moderate deterioration in the past financial year.

Figure 19. Company's performance over the past financial year



Key Finding

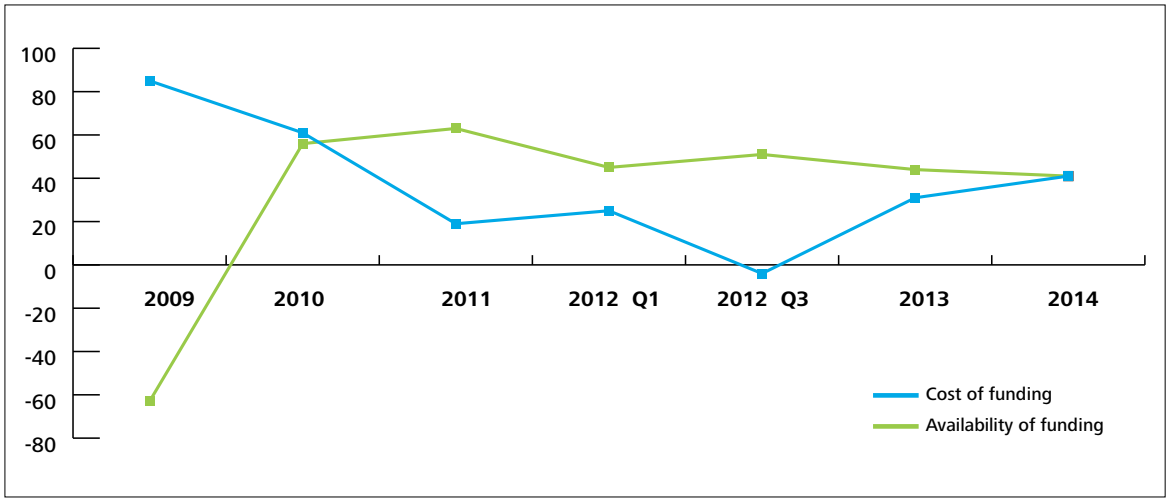
South African respondents have indicated that their companies have slightly improved over the last year

The Cost of Capital

One area where East Africa fared less well than South and Southern Africa relates to the cost of funding new capital investments. Some 71% of East African CFOs described the cost of capital in their region as either fairly or very expensive. Southern Africa fared moderately better at 66%. The depth of South Africa's financial markets and its comparatively lower local currency interest rates means it fared far better than the other regions in this aspect. Only 43% of South African CFOs said their cost of capital could be described as either fairly or very expensive.

This variance in the cost of capital across the continent is an obvious reflection of the premium that companies must pay lenders in order to fund investments in high growth markets, which typically have less mature financial systems. It is also a reflection of the comparative risk profiles of the three surveyed constituencies, which again can be observed in the domestic interest rate profiles of these constituencies. South Africa may be suffering from sub-par economic growth but it is still perceived as the most advanced economy on the continent, with a financial system that is comparable to those of industrialised nations.

Figure 20. Cost and availability of new funding/capital - South Africa



All three surveyed constituencies fared more or less equally in terms of the availability of funding, indicating a broadly positive view of liquidity conditions across the continent. This is clearly due to the extensive banking networks enjoyed by the likes of Standard Bank and Barclays across the surveyed areas as well as the widespread presence of strong local players.

BRICS Trade Not Necessarily Favoured

The 2014 Deloitte CFO survey once again interrogated the extent to which respondents traded with each other as well as their BRICS counterparts. Perhaps due to the relative size of its economy as well as its diplomatic ties with its BRIC peers, South Africa showed a far greater propensity to trade with the likes of China, Brazil and India than the other regions in this survey. Of the South African respondents who trade with entities outside of their borders 28% of imported goods came from China while a further 24% and 14% were sourced from Brazil and India respectively.

South Africa is the biggest source of foreign inputs for Southern African companies, accounting for 65% of their imports. By comparison, China accounted for just 27% of imports by Southern African companies followed by India (21%) and Brazil (18%).

East African respondents exhibited a far greater propensity to trade with BRICS countries with respondents from the region indicating that 37% of imports came from Russia followed by India (22%) and China (21%). South Africa accounted for only 14% of East African imports and Brazil only 9%.

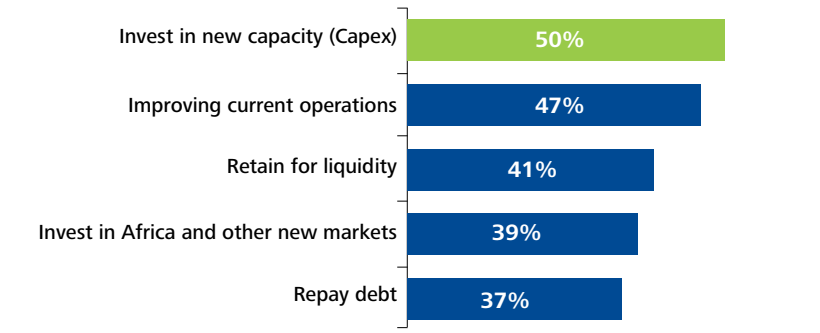
Where are CFOs deploying cash?

It has been widely reported that South African corporates are sitting on a cumulative cash pile that is estimated to range between R580 billion to as much as R1.3 trillion. This has been a point of much debate given the prevailing environment of economic stasis in the country. Critics claim that investing this money would go a long way towards sparking some much needed economic dynamism in the country. Despite this, CFOs remain cautious in their outlook and their top three priorities for cash flow spend are as follows:

- Retain cash for liquidity
- Inject cash to improve current operations
- Invest in new capacity

Nevertheless, there does appear to be some light at the end of the tunnel. Half of all respondents in the 2014 CFO Survey ranked investing in new capacity among their top three priorities. That's up from 43% in the 2013 survey, suggesting that corporate decision makers are beginning to consider capital expenditure plans with more fervour this year. Returning cash to shareholders was once again among the least popular uses of cash among South African CFOs with 9% ranking it among their bottom three priorities.

Figure 21. Cash flow priorities - South Africa

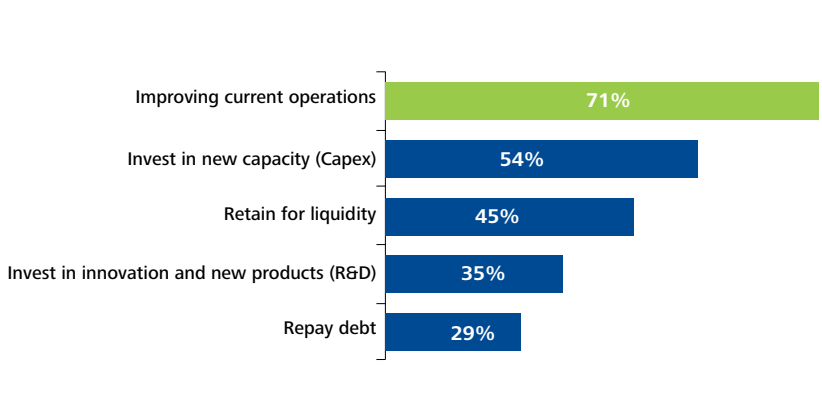


Key Finding

Investing in Africa has become more important during the past year

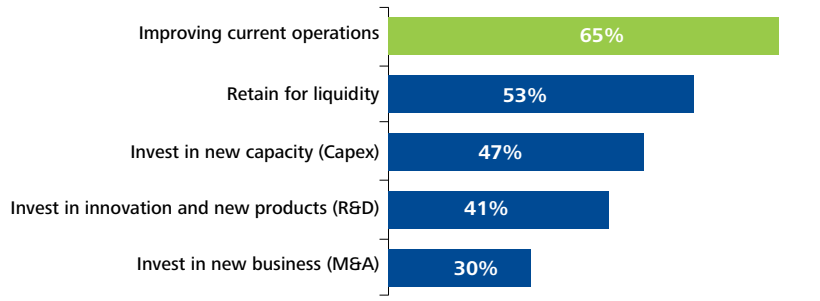
Among CFOs in Southern Africa, 54% identified incurring capital expenditure among their top three cash flow priorities. However, that's still far short of the 71% who are focused on improving current operations which suggests that businesses in this region are still largely focused on defensive strategies. Returning cash to shareholders is not a key priority for some. In this year's survey 27% of respondents said returning cash to shareholder was among their bottom three priorities, decreasing from last year's figure of 46%.

Figure 22. Cash flow priorities - other Southern African countries



Despite their generally positive mood, CFOs in East Africa are cautious on where to deploy cash. Some 53% favour retaining it for liquidity followed by 65% who are intent on using it to improve current operations. Only 24% of East African CFOs ranked investing in Africa among the top three most important uses of cash, supporting anecdotal evidence that companies in this part of the continent prefer to expand within their region. Investing in new capacity was ranked by 47% of respondents among their top three priorities. Payments to shareholders were again deemed least preferable.

Figure 23. Cash flow priorities - East Africa



Key Finding

Current operations are more important for East African respondents

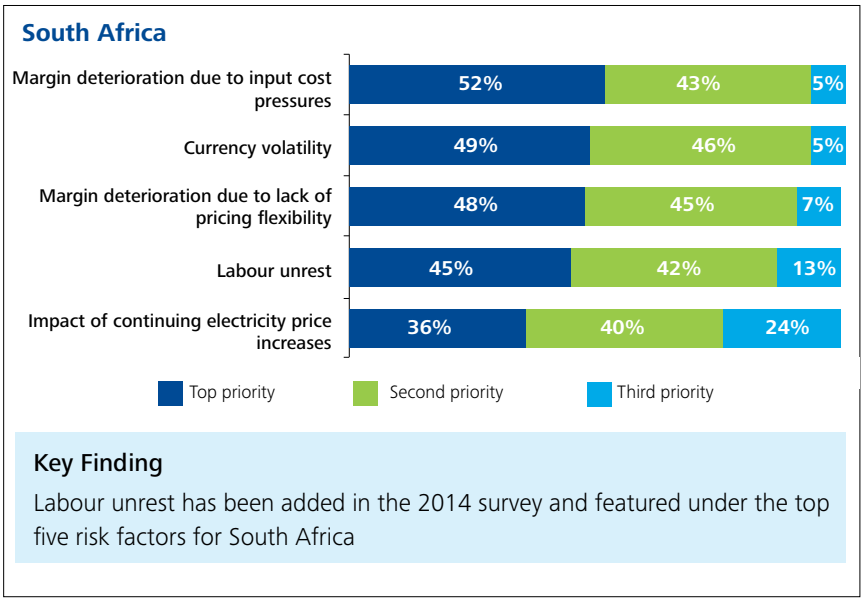
South African Domestic Risks Increasing

One of the more worrying features of the 2014 Deloitte CFO Survey is the degree to which anxiety about domestic risk factors among South African respondents increased, even as concern about global stability waned. The sluggish state of the domestic economy in the face of accelerating inflation appears to have translated into greater fears of margin compression and an inability to pass on rising input costs to customers. Margin deterioration due to input cost pressures is highlighted by 52% of respondents as a significant risk while pricing inflexibility is seen by 48% as a major concern. Currency volatility and the impact of continued electricity price increases again feature strongly among the perceived risks. The threat of labour unrest, a new category in 2014, is placed fourth with 45% of respondents regarding it as a significant risk.

Deteriorating margins are also becoming an issue for Southern African CFOs. They also place greater emphasis on customer credit monitoring than their South African peers with 36% of CFOs in Southern Africa identifying this as a major risk factor. That may be due to the comparatively high domestic interest rates in these nations, which may reflect a higher propensity to default. Political uncertainty among CFOs in Southern Africa also appears to have increased since last year. While the fragile state of the global economy still ranks among the top five risk factors, a smaller proportion of CFOs highlighted it as a major concern this year.

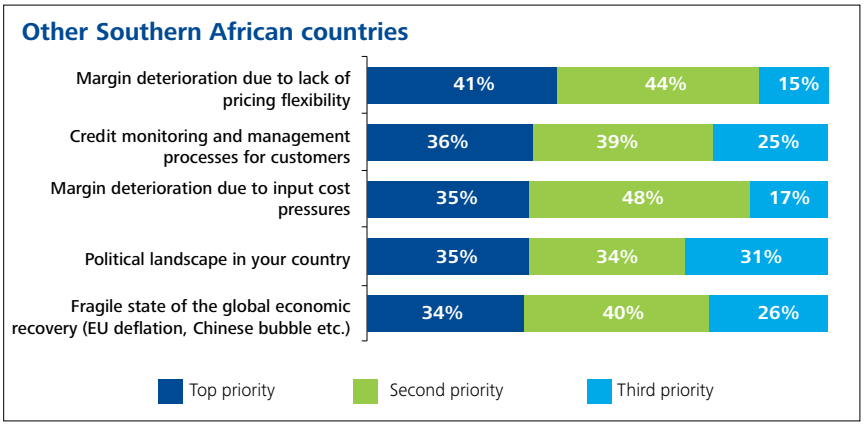
East African CFOs are also fretting about margin pressures but are similarly concerned about currency volatility and the impact of rising electricity prices. Respondents in this region appeared somewhat less concerned about labour unrest.

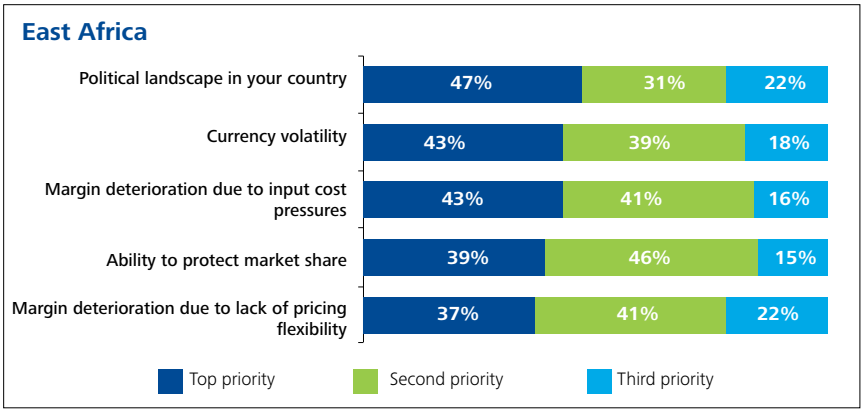
Figure 24. Top five business risk factors



Key Finding

Labour unrest has been added in the 2014 survey and featured under the top five risk factors for South Africa



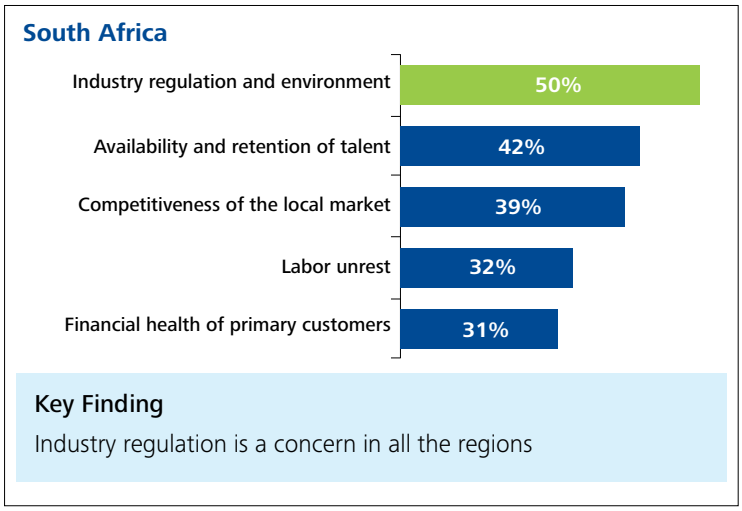


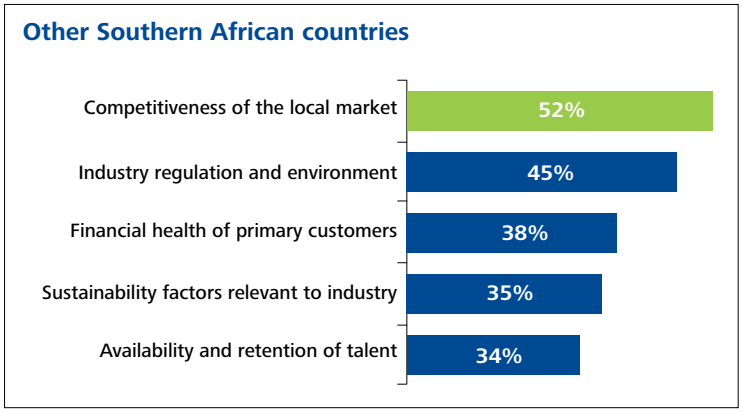
Tied up in red tape and rising competition in East Africa

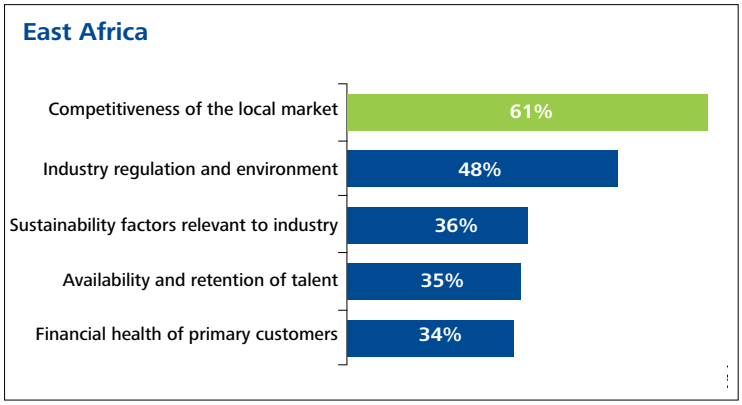
Bureaucracy is becoming an increasingly problematic barrier to doing business in Africa. CFOs from all three constituencies polled in the Deloitte 2014 CFO Survey cited red tape and regulation among their top three industry concerns along with rising domestic competition and the financial health of customers. South African CFOs appear most concerned about regulation with 50% saying it was among their top three most pressing concerns, compared to 48% in East Africa and 45% in Southern Africa.

For Southern and East African CFOs the biggest industry concern is increasing competition in their domestic markets. In East Africa, 61% of respondents cited competition in the domestic market as one of their top three most pressing concerns compared to 52% in Southern Africa and just 40% in South Africa. East Africa is probably going through something akin to South Africa's experience after the dawn of democracy, when the return of foreign multinationals to the country forced local companies to dramatically improve. As more foreign investors are lured to East Africa by the region's economic dynamism, so too will domestic companies be forced to improve their operations to remain competitive.

Figure 25. Top industry concerns



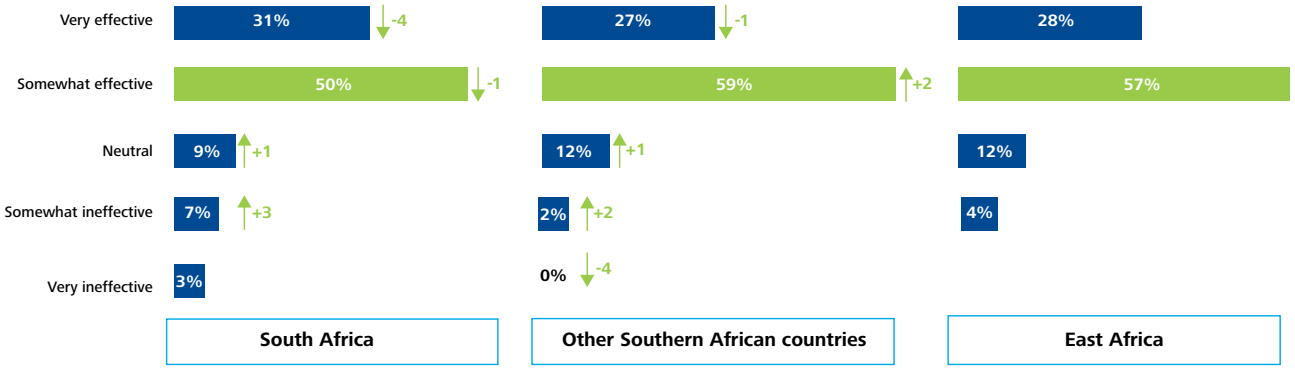




Risk Management

Respondents from all three constituencies appeared overwhelmingly confident in their companies' risk management systems with 81% of South African CFOs rating them either very or somewhat effective. Southern and East African CFOs appeared to have even more faith in their risk management procedures with 86% and 85% respectively rating them either very or somewhat effective.

Figure 26. Effective risk management



Key Finding

Risk management frameworks are perceived to be effective across all regions

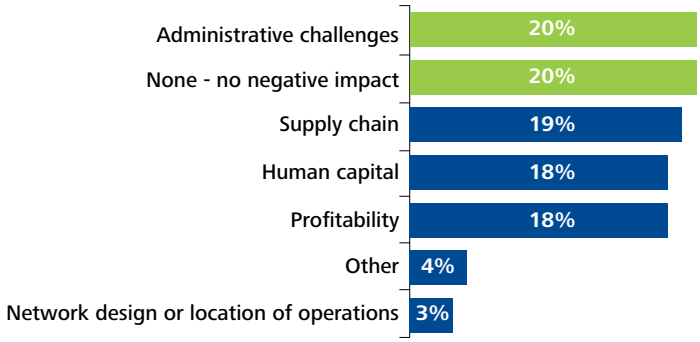
For Whom the Bell E-Tolls

The Gauteng Freeway Improvement Project in South Africa's economic hub was a source of much controversy since the electronic tolling system went live at the end of last year. However, what is interesting is comparing the concerns of respondents surveyed last year, before the system was rolled out, with their responses in 2014 after its impact could be more accurately assessed.

Respondents appear to have underestimated the system's administrative burden on their businesses last year, while at the same time over-estimating its impact on their supply chains, employees and profitability. Last year, prior to the system's rollout, 27% of CFOs were worried about e-tolling's impact on human capital compared to just 18% who voiced the same concern after its implementation. Fears about e-tolling's impact on profitability have also moderated. Last year 22% of CFOs said they were concerned that the system would hurt profits, however this declined to just 18% in 2014. Moreover, 20% of CFOs in 2014 say the system has had no negative impact on their businesses, compared to just 12% last year.

The administrative headache created by e-tolling seems to be the main bugbear with 20% of CFOs polled in 2014 saying it has introduced additional processes and paperwork. In last year's poll only 11% of respondents predicted this outcome.

Figure 27. GFIP Impact



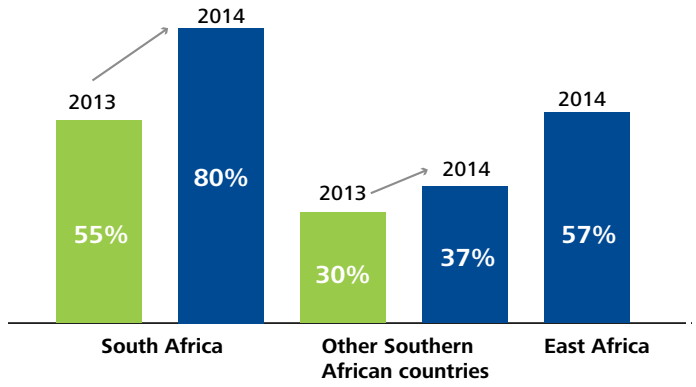
Key Finding

The administrative headache created by e-tolling is the biggest bugbear

The Scramble for Africa

Anyone familiar with South Africa's corporate landscape will know that many companies are looking north of the country's borders for growth. The Deloitte 2014 CFO Survey revealed that a massive 80% of South African respondents said their company intends expanding into the rest of the continent in the next year, a substantial increase from the 55% who indicated this in 2013. East African CFOs were similarly bullish with 57% indicating a desire to expand into the rest of Africa. By contrast only 37% of Southern African CFOs expressed the same interest, marginally higher than last year's 30% figure. This may suggest that they perceive their best option for growth to be within their own economies, which in turn could be symptomatic of the defensive business strategies being employed in response to the region's downbeat economic climate.

Figure 28. Expansion into Africa in the near future



Key Finding

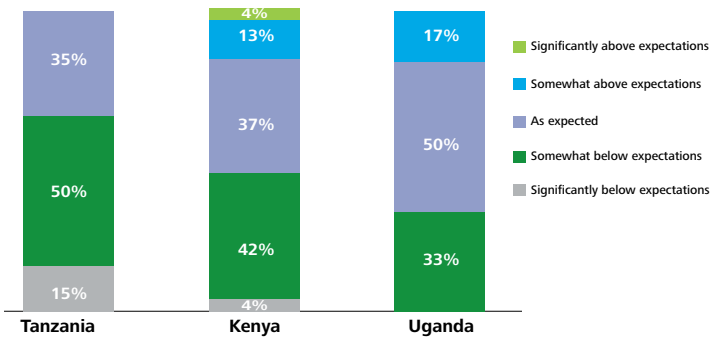
Africa is increasingly being seen as a favoured growth option for companies

East Africa is the Most Favoured Investment Destination

East Africa appears to have replaced Southern Africa as the most favoured region on the continent for South African corporate expansion in 2014. Yet despite this enthusiasm, the reality of operating in these markets appears trickier than first anticipated. Some 65% of South African CFOs indicated that their operations in Tanzania were performing either significantly or somewhat below expectations. Even in Kenya, East Africa's biggest economy, 46% said the performance of their subsidiaries was sub-par. South African respondents seemed less disappointed with the performance of their operations in West Africa with only 34% indicating that subsidiaries in Nigeria were performing either somewhat or significantly below expectations.

The disappointment level in Ghana was even lower at 27%. It is not clear whether this is a function of more realistic expectations for West African operations or better performance. Ghana's apparent attractiveness in relation to Nigeria may be due to a perception that it is easier and cheaper to do business in Accra than in Lagos. Accra also enjoys greater power supply stability and less traffic congestion. Numerous South African and global companies have elected to establish themselves in Accra as their point of entry into West Africa.

Figure 29. South African companies performance in the East Africa region

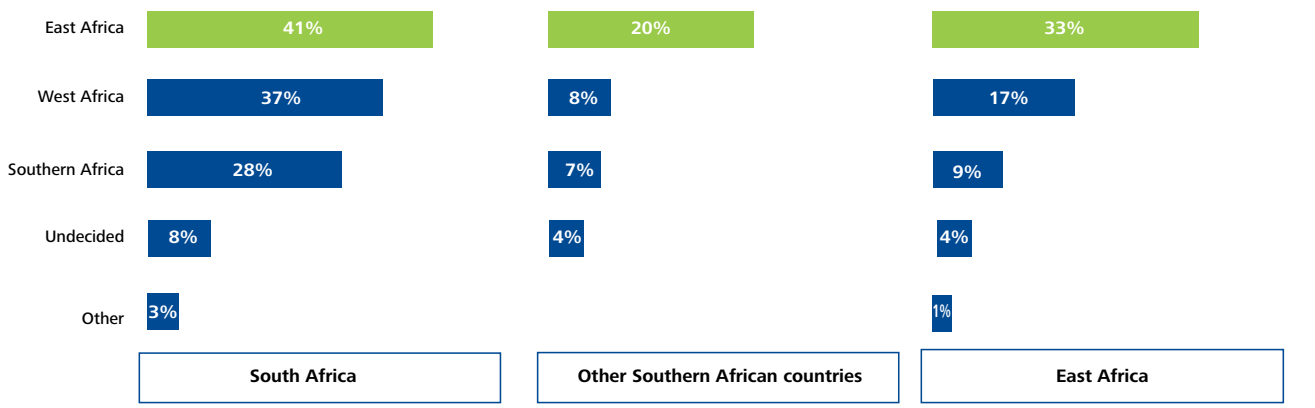


Key Finding

65% of South African CFOs indicated that their operations in Tanzania is performing below expectations

Southern African CFOs appear far more inclined to invest closer to home with 20% saying they intended expanding within their region in the near future and only 8% and 7% considering East and West Africa respectively. East African respondents showed a similar preference with 33% favouring investment in their own region and a further 17% highlighting West Africa as future investment destination. Only 9% showed an interest in investing in Southern Africa, in keeping with the generally downbeat sentiment exhibited by CFOs in the south of the continent.

Figure 30. Regions identified for future expansion



Key Finding

While South African countries focus their expansion efforts abroad, East African countries focus more of their efforts within their borders

Africa's Skills Deficit

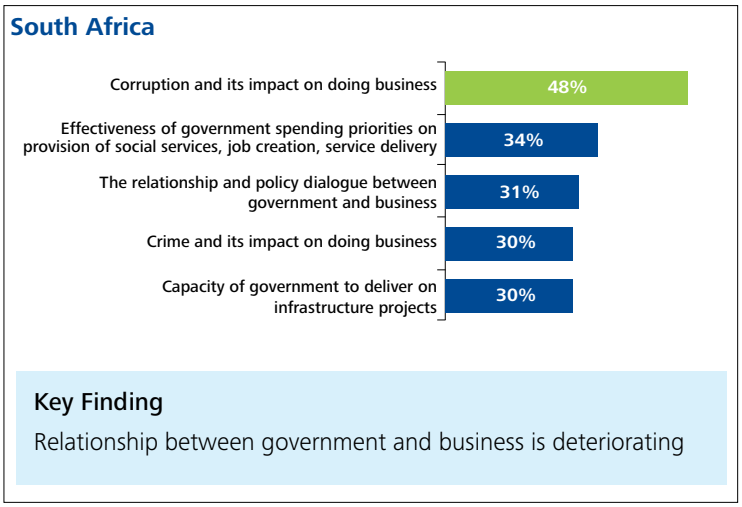
A shortage of appropriate skills in the rest of Africa is a key issue, particularly for South African businesses who rank it as their biggest challenge to expanding on the continent. In fact, South African CFOs identified the skills deficit as an even bigger operational difficulty than regulation, currency volatility, infrastructure, logistics and economic stability. That would suggest that even with the well documented return of the African diaspora population in the wake of the 2008 financial crisis, getting the right people remains a stumbling block for many businesses on the continent.

East African CFOs are more concerned about competition, in-country political factors and currency volatility with only 5% of respondents highlighting skills as an operating challenge in the rest of Africa. For Southern African CFOs regulation is the biggest challenge in African countries other than their home base followed by skills shortages and in-country political factors. The prominence of politics in the minds of East and Southern African CFOs may have a lot to do with the ongoing threat of terrorism in Kenya, political uncertainty in Zimbabwe as well as worsening relations between Frelimo and Renamo in Mozambique.

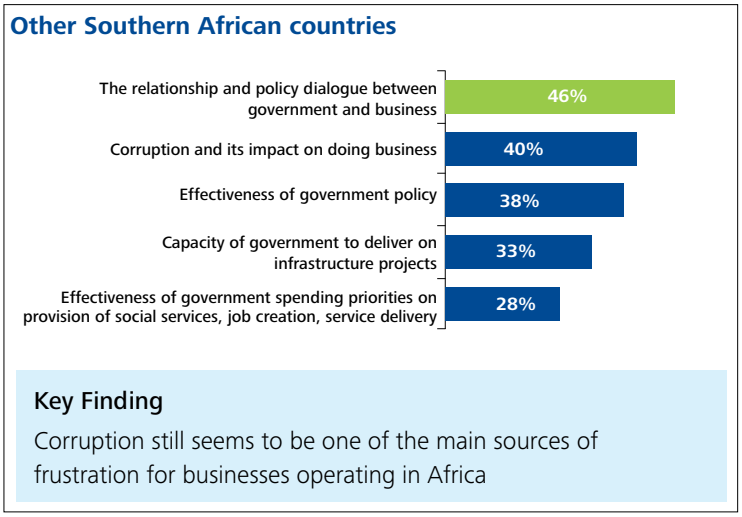
The Scourge of Corruption

Sadly, corruption still seems to be one of the main sources of frustration for businesses operating in Africa. No less than 48% of South African respondents rated it among the top three political concerns in the country at present. While it is heartening to note that this is an improvement on the 64% figure recorded in the 2013 survey, corruption still topped the list of three biggest political worries, trumping the impact of education on skills; effectiveness of government spending; policy dialogue between business and government; and nationalisation threats.

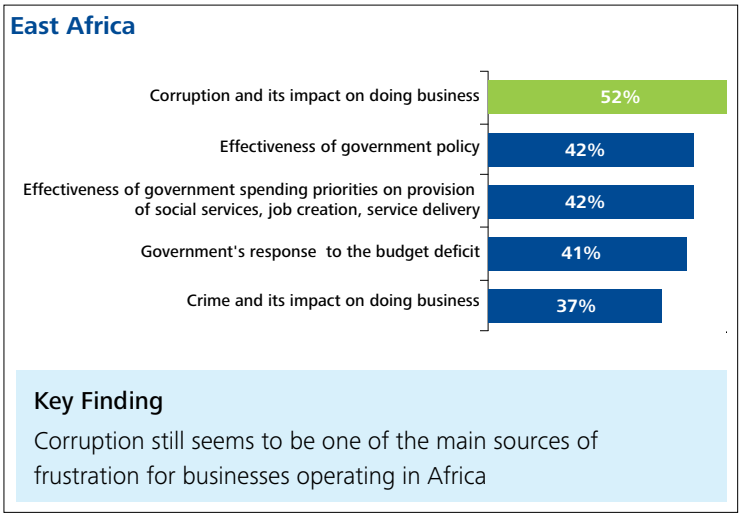
Figure 31. Political concerns (Top three concerns, aggregate %)



In Southern Africa, 40% of CFOs rated corruption among their top three political concerns although only 12% identified it as number one.



East African respondents were similarly worried about corruption with 52% ranking it among the top three political concerns, followed by the effectiveness of government spending priorities and policy dialogue. Respondents from East Africa seemed noticeably less worried about the quality of their education systems and the threat of nationalisation with only 5% and 4% respectively ranking these among their top three political concerns.



Strategic introspection

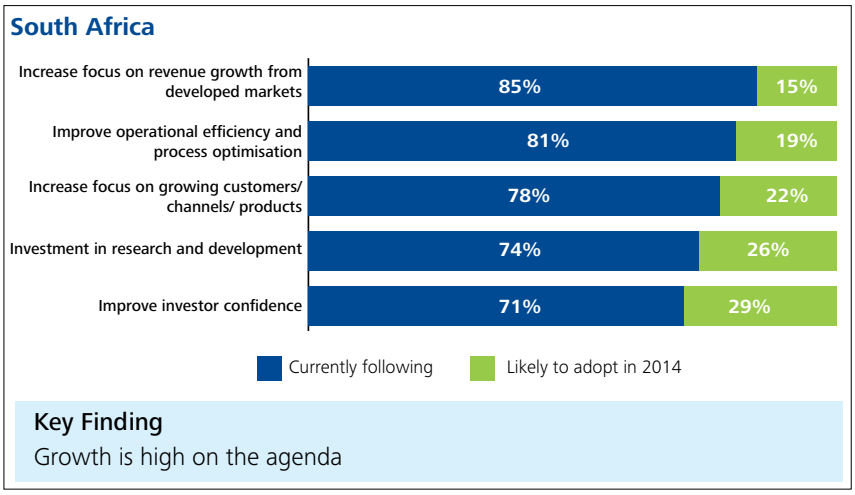
Much like last year's iteration of this survey, South African businesses are exhibiting a bias towards growing revenue from established markets, improving their operational effectiveness and intensifying their focus on customers, distribution channels and products. One interesting change from last year was the greater emphasis on investing in research and development, with 74% of respondents saying it was a current strategy compared with 54% last year. However, research and development did not rank among the top five priorities for CFOs when asked where they were deploying cash.

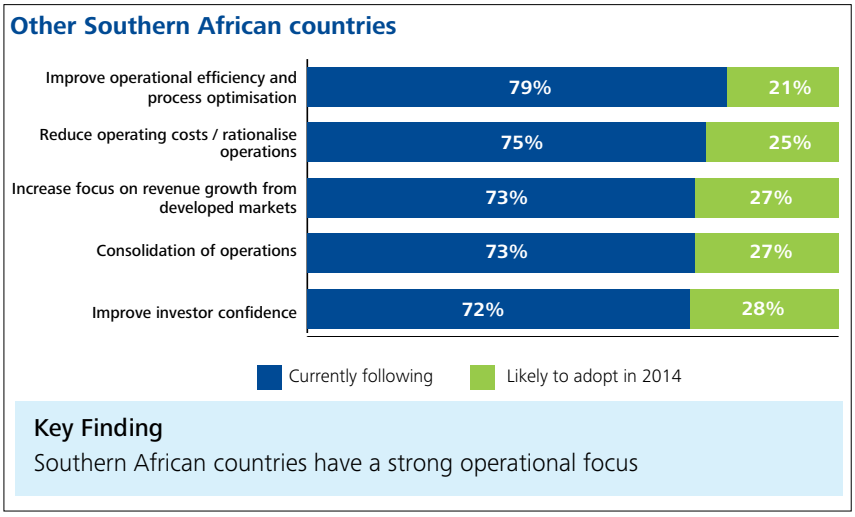
Southern African companies are heavily focussed on defensive strategies such as improving operational efficiencies, reducing costs, consolidating operations, increasing their focus on established markets and boosting investor confidence.

Somewhat surprisingly, East African businesses appeared similarly focussed on these rather defensive strategies with 88% of respondents indicating that they were trying to improving operational efficiencies. What may seem like conservatism at first glance could merely be a symptom of East Africa's corporate leaders wanting to maintain efficiency in the face of rapid growth and greater foreign competition.

Across all three surveyed territories, cost reduction and the desire to achieve more efficient internal processes were the two biggest motivators for investing in new technologies. Business intelligence and apps were the biggest recipients of this expenditure.

Figure 32. Strategic approach





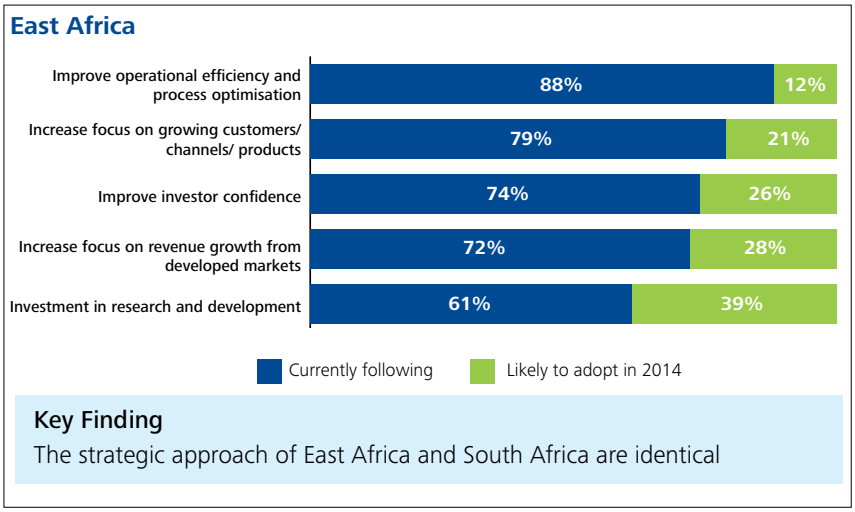


Figure 33. Smart technology drivers

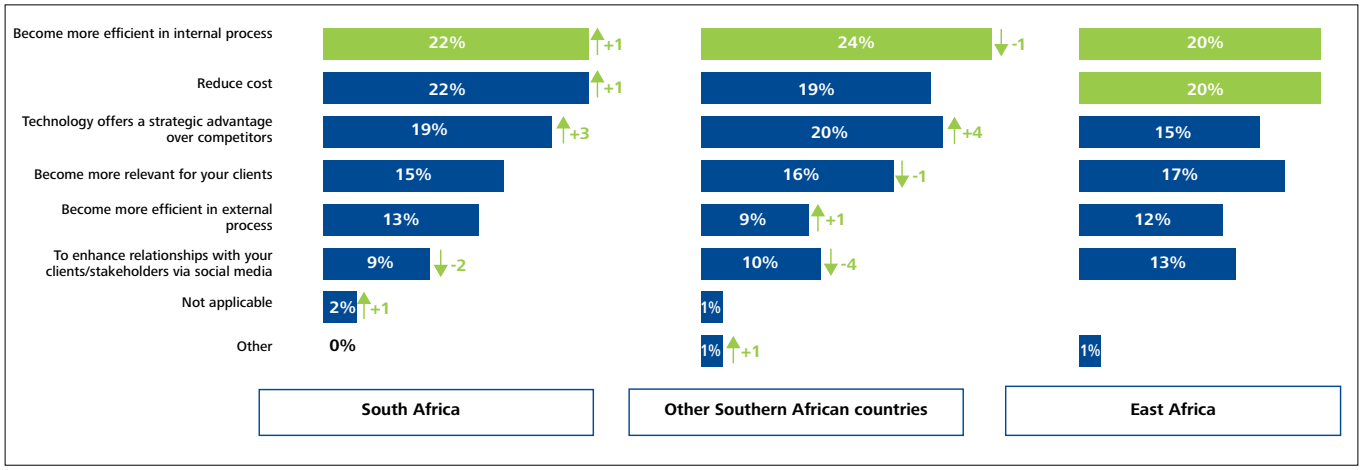
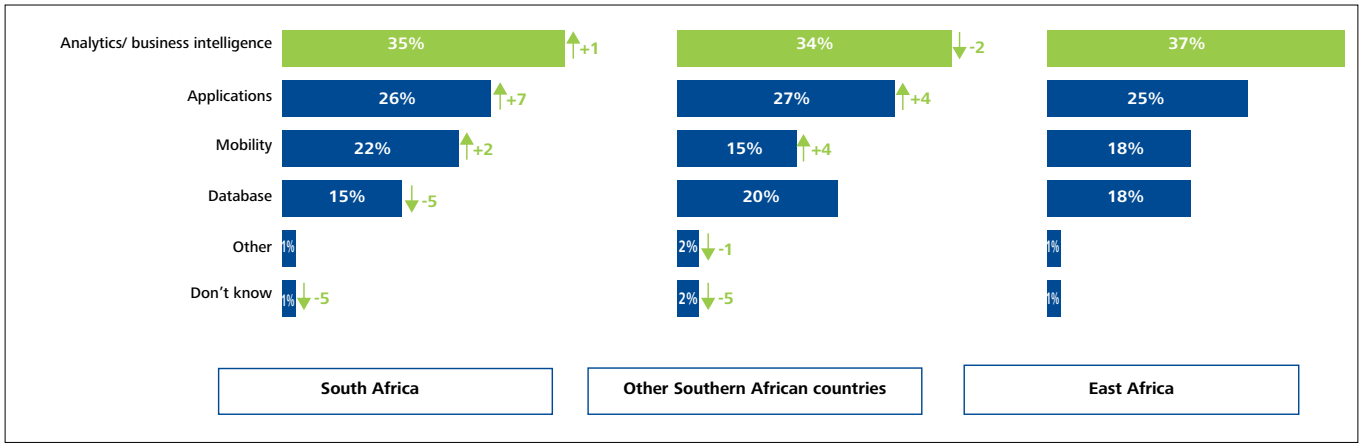


Figure 34. ERP spend focus in the next three years



CFO Agenda

Overworked but Fairly Paid

As with previous years, the 2014 survey revealed a CFO who is overworked, poorly supported and worried about company performance. However, CFOs once again acknowledged that they are fairly compensated for these burdens.

An excessive workload was by far the number one stressor for South African CFOs followed by changing regulatory environments, concern over company performance, strategic ambiguity and the expansion of their roles to include non-core responsibilities.

This has been a recurring theme in all the previous Deloitte CFO surveys. The continued lack of support staff for CFOs highlights the lack of adequate skills available on the continent. However, one could also argue that it raises questions about what companies are doing to train internal staff as part of their succession planning programs for incumbent CFOs.

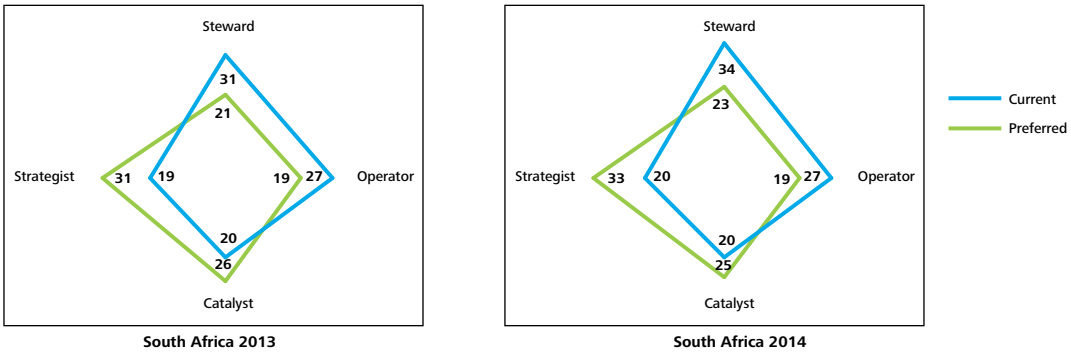
The lack of skills appears to be most pressing in Southern Africa where 47% of respondents highlighted "insufficient support staff" among their top five job stresses while a surfeit of administrative work was also named. Top stresses for East African CFOs included the excessive workload, concerns about company performance, changing regulations and the expansion of their role into non-core areas. CFOs across Africa appear to be spread too thinly across multiple responsibilities that are not necessarily core to their roles.

CFOs still not getting involved in strategic issues

Ever since Deloitte first introduced this survey in 2009, CFOs have found it difficult to unshackle themselves from the drudgery of everyday administrative tasks. The constant juggling act between the roles of Steward, Operator, Catalyst and Strategist has left the vast majority of CFOs unable to fulfill their aspiration of playing a bigger role in driving organisational change, innovation and decision making, which is characteristic of the roles of catalyst and strategist. This may be cause for minor concern given that a large swathe of Chief Executive Officers first cut their teeth as the financial heads of corporate entities before eventually being handed the reins of the company.

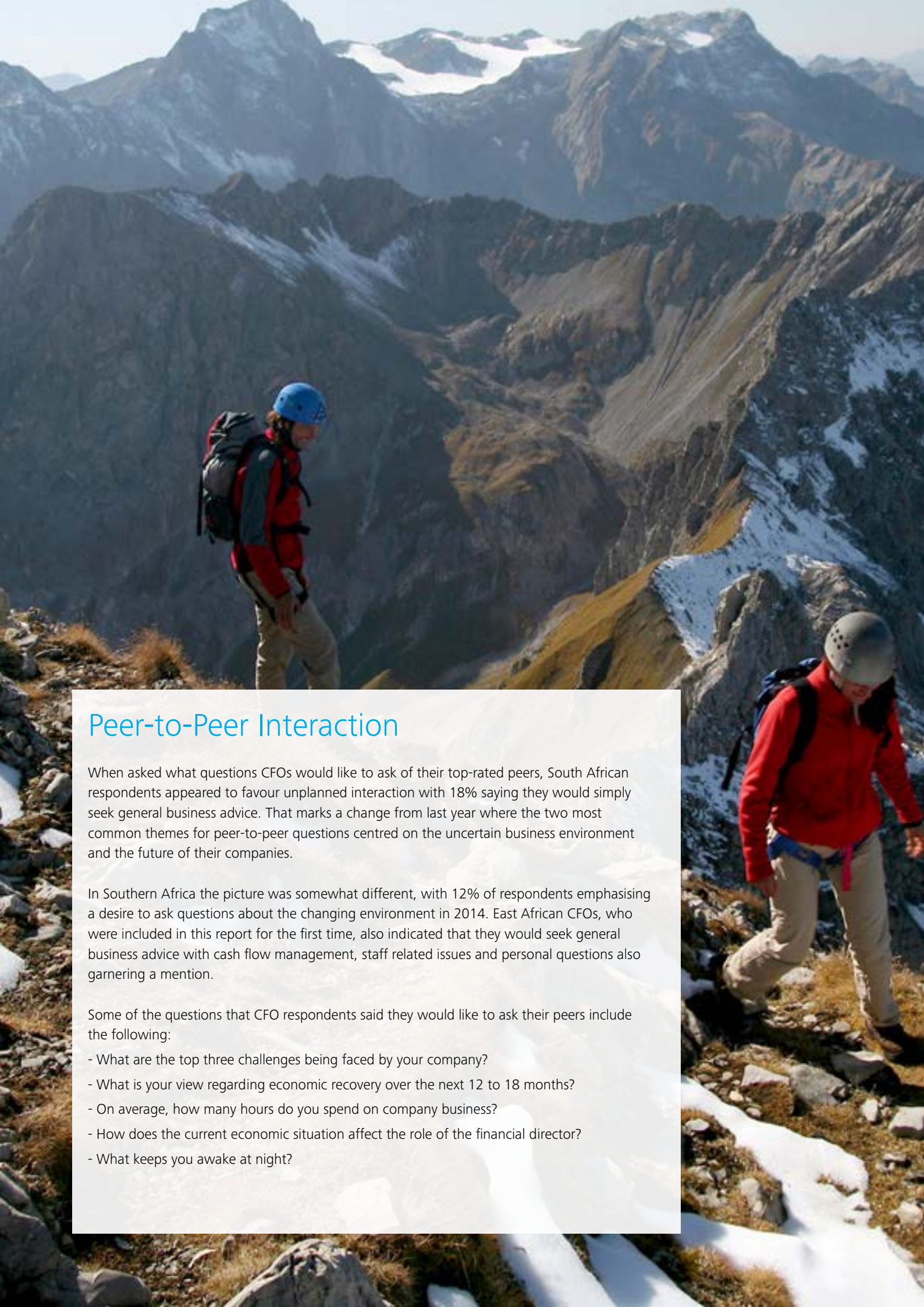
This discontent may well be a direct symptom of the inability of CFOs to recruit quality human resources to support them in their day-to-day functions, thereby forcing them to carry out many of these duties themselves. It may also be an unintended consequence of redundancies made during possible rationalisation processes.

Figure 35. Work allocation South Africa



Key Finding

Two thirds of CFOs spend less than 20% of their time on strategy, far short than the expressed ideal



Peer-to-Peer Interaction

When asked what questions CFOs would like to ask of their top-rated peers, South African respondents appeared to favour unplanned interaction with 18% saying they would simply seek general business advice. That marks a change from last year where the two most common themes for peer-to-peer questions centred on the uncertain business environment and the future of their companies.

In Southern Africa the picture was somewhat different, with 12% of respondents emphasising a desire to ask questions about the changing environment in 2014. East African CFOs, who were included in this report for the first time, also indicated that they would seek general business advice with cash flow management, staff related issues and personal questions also garnering a mention.

Some of the questions that CFO respondents said they would like to ask their peers include the following:

- What are the top three challenges being faced by your company?
- What is your view regarding economic recovery over the next 12 to 18 months?
- On average, how many hours do you spend on company business?
- How does the current economic situation affect the role of the financial director?
- What keeps you awake at night?

Designed and produced by Creative Services at Deloitte, Johannesburg. (808469/ver)