



Investment Climate Update: South Africa

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FAST FACTS:

South Africa is the region's biggest economy. The country faced recession in May 2009 after a sharp slowdown in the mining and manufacturing sectors, but the construction industry benefited from massive government investment ahead of the 2010 World Cup.

- Boosting economic growth, jobs and investment will remain the government's primary focus. If unemployment worsens from the current rate of 25%, the nation is at risk of state intervention.
- Real GDP is projected to 3.6% in 2012, helped by accommodating monetary and fiscal policies and higher investment, although the weak global environment will act as a constraint.
- Land redistribution is an ongoing issue. Most farmland is still white-owned. Having so far acquired land on a "willing buyer, willing seller" basis, officials have signaled that large-scale expropriations are in the cards. The government aims to transfer 30% of farmland to black South Africans by 2014, but that deadline has been postponed.

Infrastructure Development

The South African government announced that over the next three years it will invest at least \$95.6 billion to develop and improve the country's infrastructure, including energy, transportation and logistics, hospitals and clinics, education, and residential. This is critical to the government's top priority of creating 5 million jobs and reducing unemployment from 25% to 15% by 2020.

The government is also eager to partner with the private sector to achieve its infrastructure goals. In March 2011, the South African government, together with its partners in the Southern African Development Community (SADC), launched a virtual network that serves as a one-stop shop for policymakers and private businesses seeking advice and information on best practices to meet the region's infrastructure challenges.



The Electricity Supply

At the top of the South African government's national agenda is expansion of the country's electricity-generating capacity to meet the needs of the growing population

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Information and Communications Technology Sector

The Information and Communications Technology (ICT) market is booming in South Africa, where close to 6 million people are now regular Internet users. The country is linked through two undersea fiber-optic cables connecting South Africa to Asia and Europe. An additional cable will connect South Africa to South America by 2013.

Overall ICT spending in South Africa is expected to increase from \$10.7 billion in 2011 to about \$17.4 billion in 2015, faster than real GDP growth.

Connectivity is a strategic driver in Africa's growth. The level of broadband penetration in a country has a direct impact on GDP—as much as 1% for every 10% of broadband penetration achieved.

In December, South Africa's Minister of Communications Dina Pule said that the government is working to deliver 100% broadband penetration to the country, as it aims to create 1 million jobs in the ICT sector.

The government is undertaking an expansion of online banking through the post office's Postbank system, promotion of South Africa as a venue for business process outsourcing, and increased ICT training to advance job growth. South Africa's Department of Education has also announced a target to provide laptops to all school children by 2014. The government is looking at various ways to achieve this, including the use of portable mobile computer labs for schools where there is no infrastructure.

SOCIAL MEDIA

Social media has also taken off in South Africa because of increasing connectivity. Africa is currently Facebook's fastest-growing market, and Groupon is taking the nation by storm.

The ICT sector, perhaps more than any other sector, reflects the dynamic changes taking place in Africa. Some industry insiders say that South Africa can be compared with the United States in the late 1990s in terms of internet usage. That alone should be enough to tempt investors to investigate further.



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Private Equity Industry

South Africa's private equity market is performing better than its peers in more developed economies. Investments from private equity funds in South Africa increased from \$852 million in 2009 to \$1.2 billion in 2010.

According to the audit, advisory, and tax firm KPMG, investor confidence in the sector can be attributed to the relative insulation of South African financial institutions from the global banking system, low interest rates, and ongoing infrastructure development commitments. Asset managers are also attracted by 4% to 8% projected growth rates in Africa and view South Africa as the gateway to the continent. They are also impressed by the high level of investment from local sources. In 2010, 42.4% of all funds raised came from South African sources, indicating internal confidence in the country's prospects.

An investment gateway to Africa

The government of South Africa has eliminated exchange controls requiring private equity funds to seek Reserve Bank approval on a deal by deal basis for transactions outside the common monetary area of South Africa, Namibia, Lesotho and Swaziland.

Private equity funds now only require up-front approval for foreign investment and thereafter provide annual reports on the fund's drawdowns and realizations.

International investors are now exempt from local taxation, eliminating the need for dual local or foreign fund structures and the associated legal and administrative costs. Last October, South Africa announced its intention to allow trade in shares of offshore companies listed on South Africa's stock exchange to be classified as local, easing rules restricting foreign stock ownership.

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The Protection of State Information Act

In November 2011, the South African parliament passed the Protection of State Information Act, commonly referred to as "the secrecy bill."

The law bans the release of classified documents—as determined by government security agencies—and stipulates that anyone revealing a state secret will face up to 25 years in jail. The critics—including Nobel laureates, opposition politicians, and news editors believe that the provision will have a chilling effect on whistleblowers and investigative journalism in a country rife with corruption.

The bill has been referred to the National Council of Provinces (NCOP). If the NCOP rejects the bill, it will be sent back to the National Assembly for amending. Once it clears both chambers, President Zuma will sign it into law. Opposition parties plan to take their case to the Constitutional Court, South Africa's highest judicial body, to determine the bill's legality. The main sticking point is that the law lacks a provision allowing a legal defense for those acting in the public interest by exposing criminality, corruption or incompetence.

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Infrastructure Development

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and industrial production. The unplanned rolling blackouts in 2008 highlighted the urgency of the problem.

To ensure that South Africa has sufficient energy, the government has budgeted \$34.8 billion over the next three years to build new power stations, upgrade and maintain existing plants—which are, on average, 30 years old—and to expand sources of renewable energy.

The government is increasingly focused on renewable sources and announced the South African Renewable Initiative to scale up and secure long-term funding to grow the industry. *The Wall Street Journal* reports that the government is holding five tenders to allocate 3,725 MW valued at an estimated \$12 billion over the next two years.

Transportation

The South African government plans to pour \$27 billion over the next three years into transportation infrastructure for facilitating manufacturing and exports. Investments are targeted for maintaining the coal haulage road network that serves South Africa's power-generating plants, upgrading provincial roads and bridges, replacing rail signaling infrastructure and refurbishing rail coaches, and supporting municipal public transportation systems and infrastructure.

The South African National Roads Agency is overseeing a \$2.5 billion freeway improvement that has already significantly eased congestion on roads in Gauteng province. Provincial roads, however, are deteriorating with 74% still unpaved, and municipal roads are in need of capacity improvements.

Transnet Freight Rail, South Africa's state-owned freight train operator, plans to invest \$9.6 billion over the next five years on upgrading capacity through new locomotive acquisition and infrastructure and wagon maintenance. Partnering with Passenger Rail Agency of South Africa, it will invest \$2.7 billion in new rolling stock and is seeking strategic partners for the venture.

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ABOUT ABI

The Africa Business Initiative (ABI) is an advocacy-driven initiative focused on market access and trade facilitation, financing, and engagement with the governments of the United States and African nations.

ABI engages the U.S. business community on legislative policies that foster foreign direct investment in Africa. It provides tailored guidance to American companies about doing business in African nations and introduces U.S. companies to the continent's vast economic opportunities.

Under ABI's leadership, working groups made up of U.S. corporate representatives engage key members of Congress, the administration, and foreign governments in strategic dialogues to promote private sector engagement. The established working groups include the Ghana Working Group and the Banking and Finance Working Group.



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