UP-SCALING PRIVATE-SECTOR INVESTMENT

MR LIONEL OCTOBER: DIRECTOR-GENERAL

14 AUGUST 2015

the dti
THE DEPARTMENT OF TRADE AND INDUSTRY SOUTH AFRICA

Outline

1. Problem statement
2. Analysis of Investment Trends
3. Alignment to NDP
4. Implementation Progress
5. Challenges

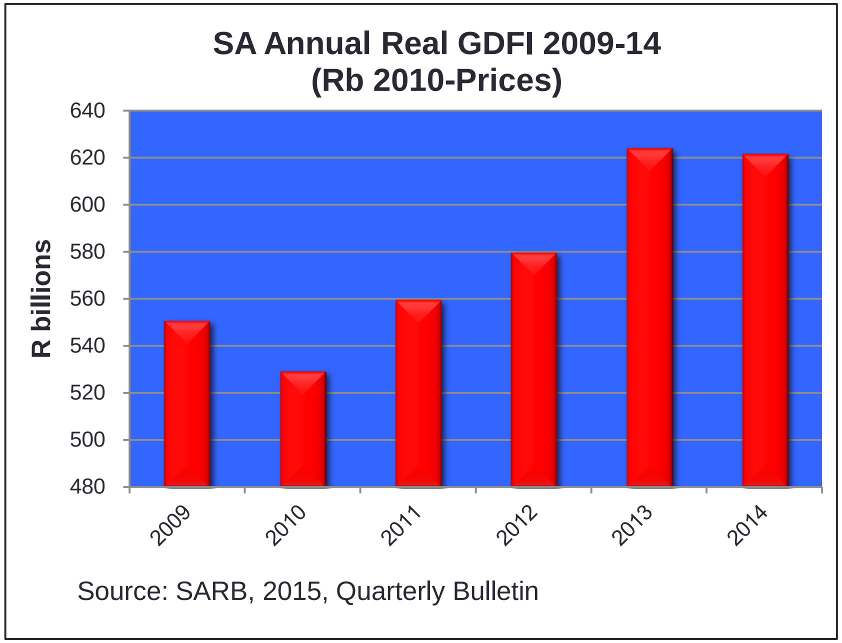
1. Problem Statement

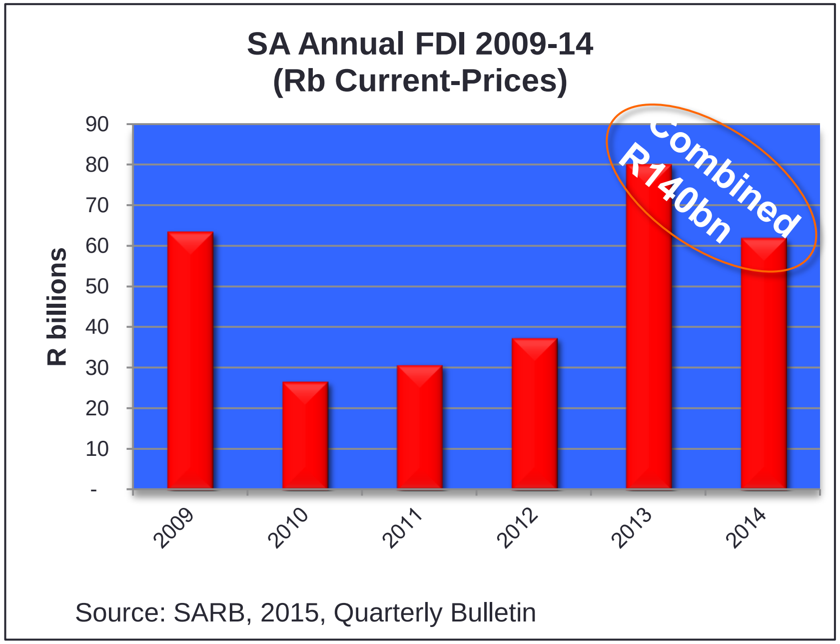
- Investment is the most reliable predictor of future economic growth.
- The fastest growing developing countries have Gross Domestic Fixed Investment (GDFI) to Gross Domestic Product (GDP) ratios of above 30% while SA's is around 20% against the NDP target of 30%.
- At the aggregate level, the challenge South Africa faces is that private-sector investment is not growing fast enough to grow the economy by 5%.
- However, this aggregate picture hides important differences in sectoral investment trends. Sectors are interdependent, faster growing productive sectors tend to stimulate growth in other sectors of the economy.
- Domestic <u>and</u> foreign investors are first and foremost returns driven. This is borne out by a range of studies which show that the strongest incentive to invest is the expectation of strong economic growth in the country.
- Issues such as availability of skilled labour, 'red tape', network costs, policy certainty and the like, can gradually – sometimes quickly – erode the investor's expectation of returns.

2. Analysis of Investment Trends

Public and private-sectors (total)

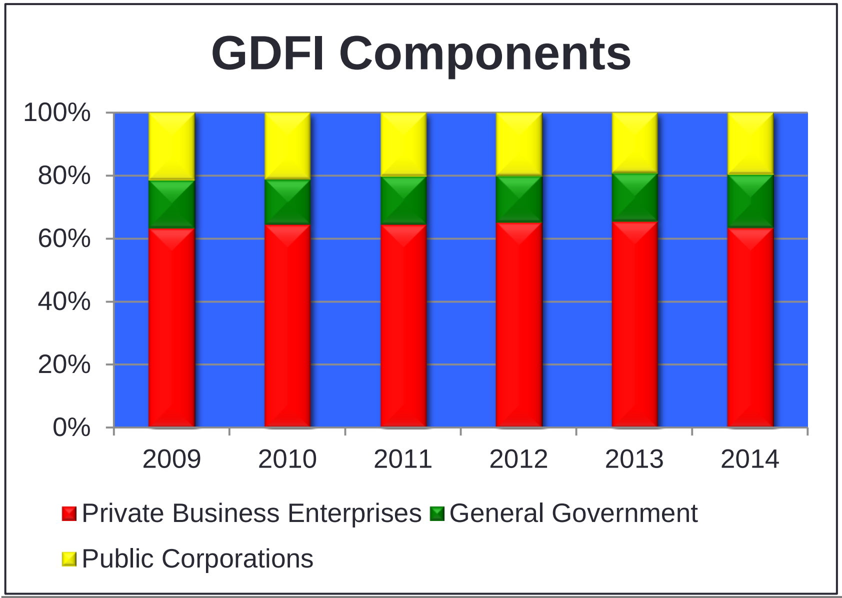
- Gross Domestic Fixed Investment has been growing steadily since the Global Financial Crisis.
- FDI in 2013 was boosted by the R20bn Barclays investment.
- Latest FDI data show that SA attracted over R140bn in 2013-14.
- Global FDI fell by 16% in 2014.
- SA FDI inflows also slowed in 2014 but remain at a level almost <u>double</u> the level of FDI in 2012
- SA FDI performance is not unusual as:
  - many multinationals already operate in SA,
  - we have sophisticated financial markets to raise domestic capital, and
  - our FDI stock is already high by international standards (42%).

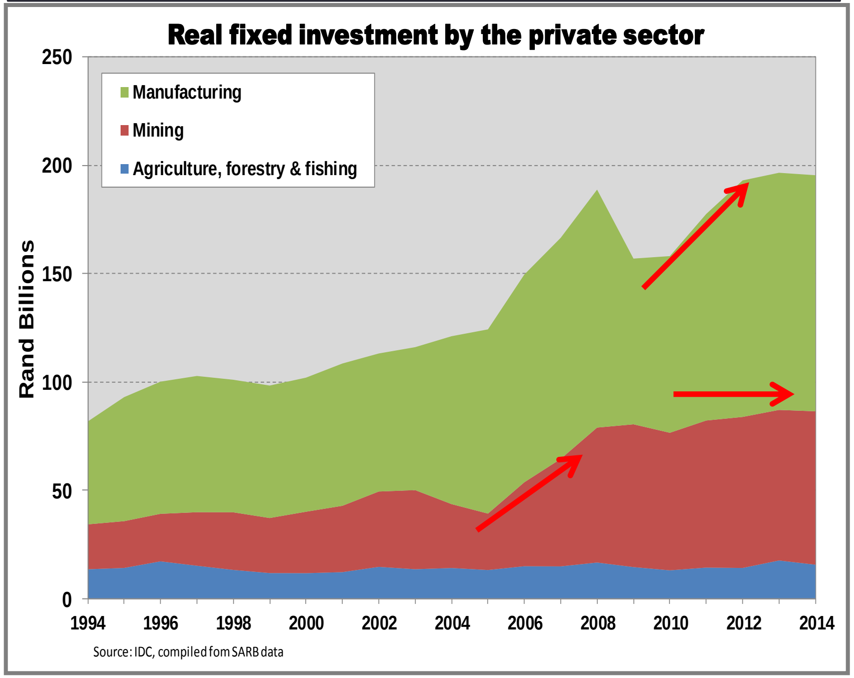




Private-sector

- Private-sector accounts for 60% of SA GDFI.
- The main driving force of investment in the period 2004 - 2008 was the mining sector in response to the ‘commodity supercycle’.
- This has not been sustained in the 2010 - 2014 period as the after-effects of the GFC linger.
- Weak mining outlook has led to investment declining in the gold, manganese, platinum and stone-quarrying sectors – the knock on effect is beginning to show in manufacturing sector as well.
- Manufacturing investment recovered relatively strongly after 2010, partly due to infrastructure build programme.



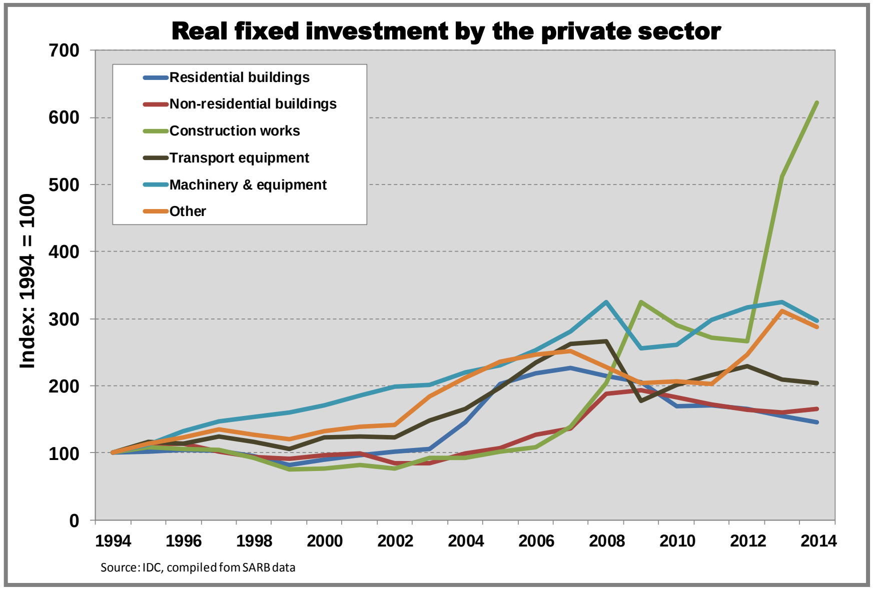


the dti
THE DEPARTMENT OF TRADE AND INDUSTRY SOUTH AFRICA

2. Analysis of Investment Trends

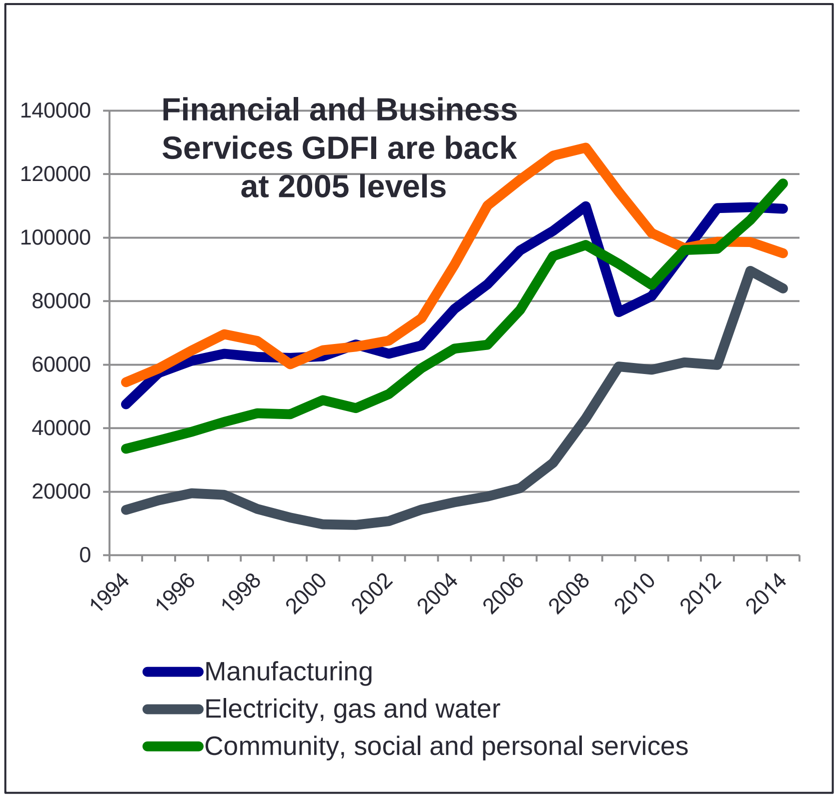
Private-sector

- Private sector fixed investment has been fairly modest in recent years, with real capital outlays in the manufacturing sector having remained almost unchanged over the period 2012 to 2014.
- Overall fixed investment has to expand at a substantially faster pace.
- National Development Plan (NDP) goals:
  - A ratio of gross fixed capital formation to GDP of 30% by 2030 (20.3% in 2014).
  - Equivalent ratio for overall public sector investment reaching 10% by 2030 (7.4% in 2014, as per chart).



Public sector

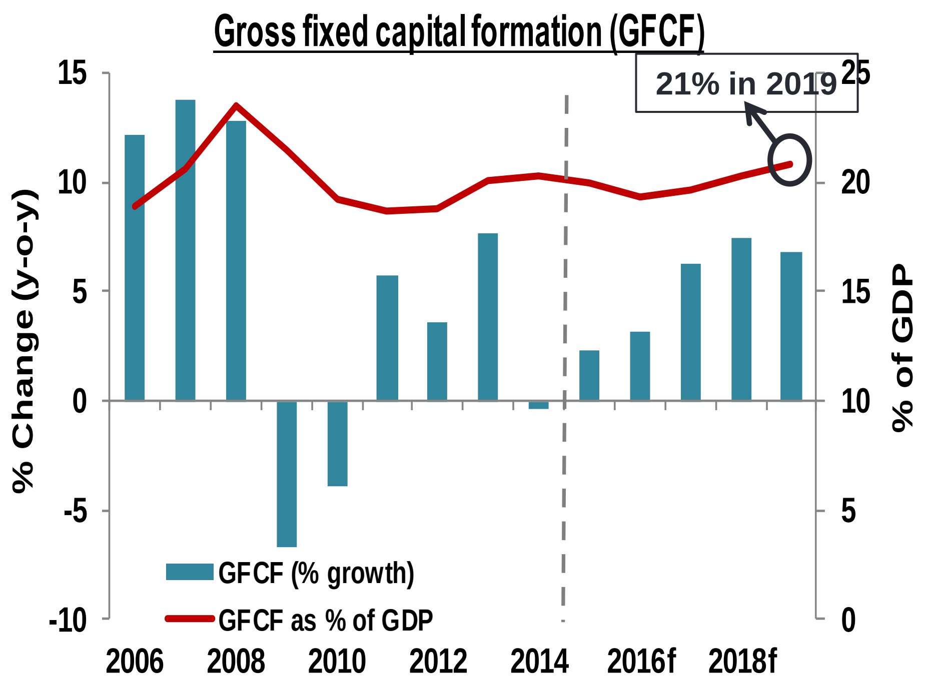
- General government investment rates remain strong as social and economic infrastructure investments are carried out.
- Investment in the private electricity sector slowed as projects in the REIPPP Bid Window 1 and 2 were completed.
- In addition, investment levels in Financial & Business Services remains very weak and has dragged down GDFI growth.



2. Analysis of Investment Trends

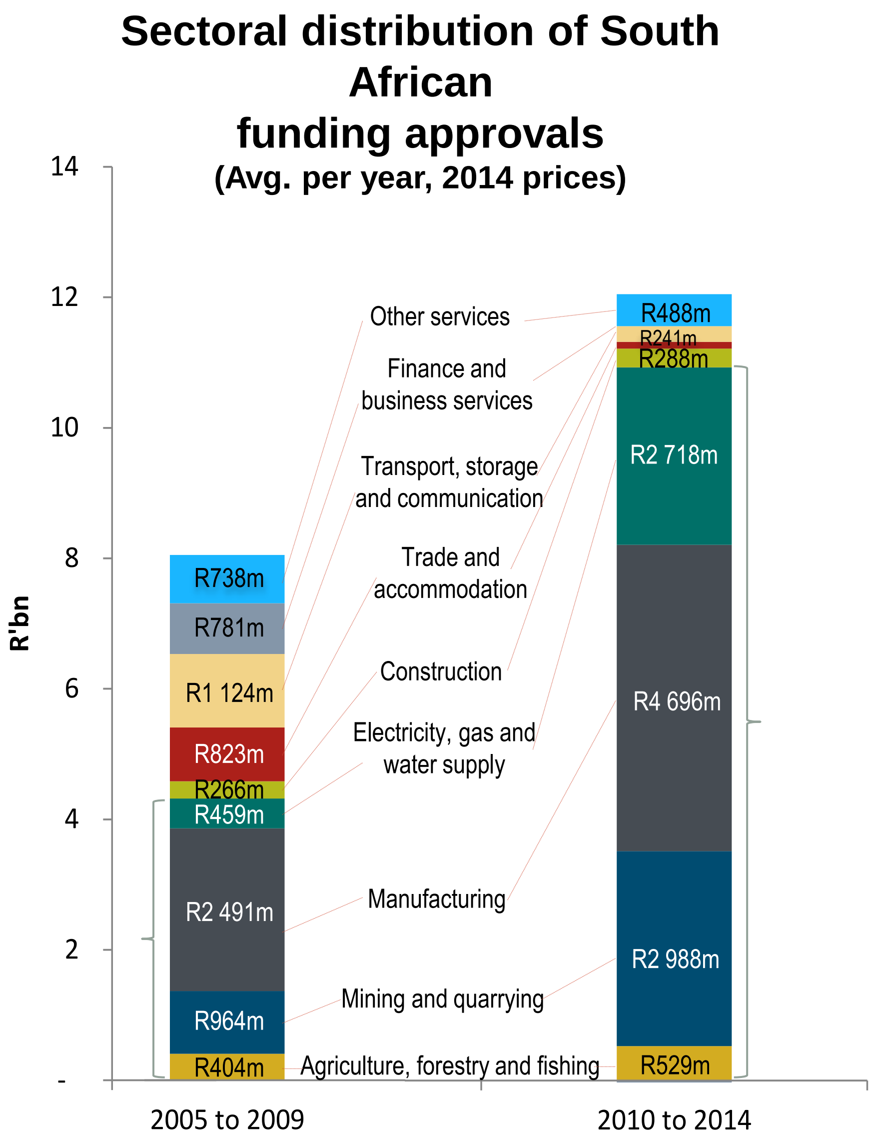
Prospects

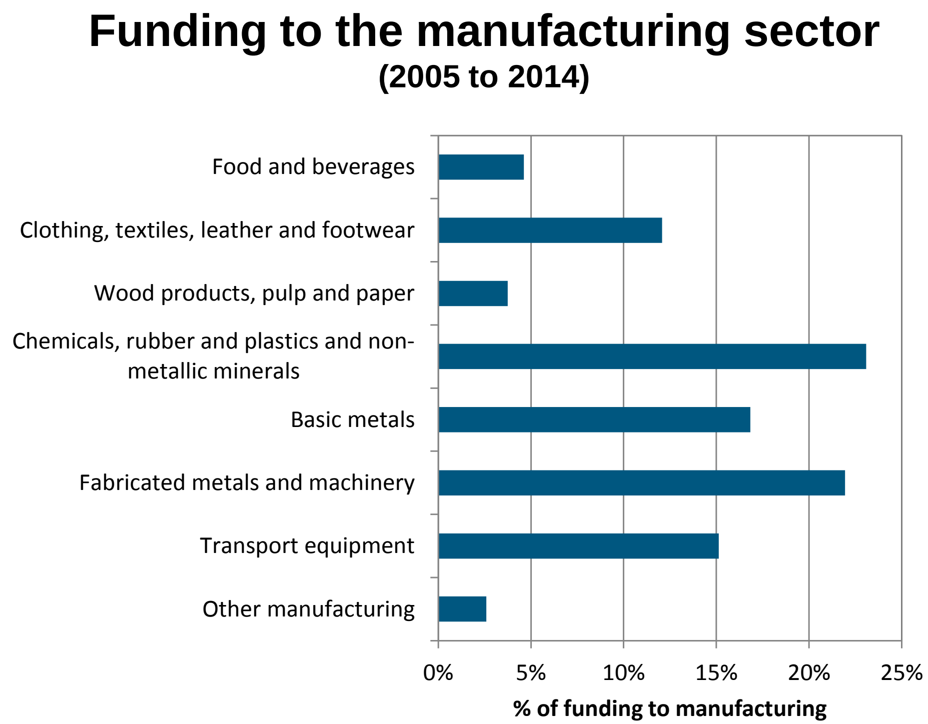
- IDC forecasts indicate that fixed investment by general government will rise by an average rate of 5.9% p.a. over 2015 to 2019.
- In turn, public corporations will expand by 0.9% p.a. over the same period.
- Private sector investment is forecast to increase by an average of 6.3% p.a.
- Overall GFCF will rise by an average rate of 5.2% p.a. (2.5% p.a. for 2010 to 2014).



Source: SARB data, IDC forecasts

Alignment of historical funding approvals with sector priorities



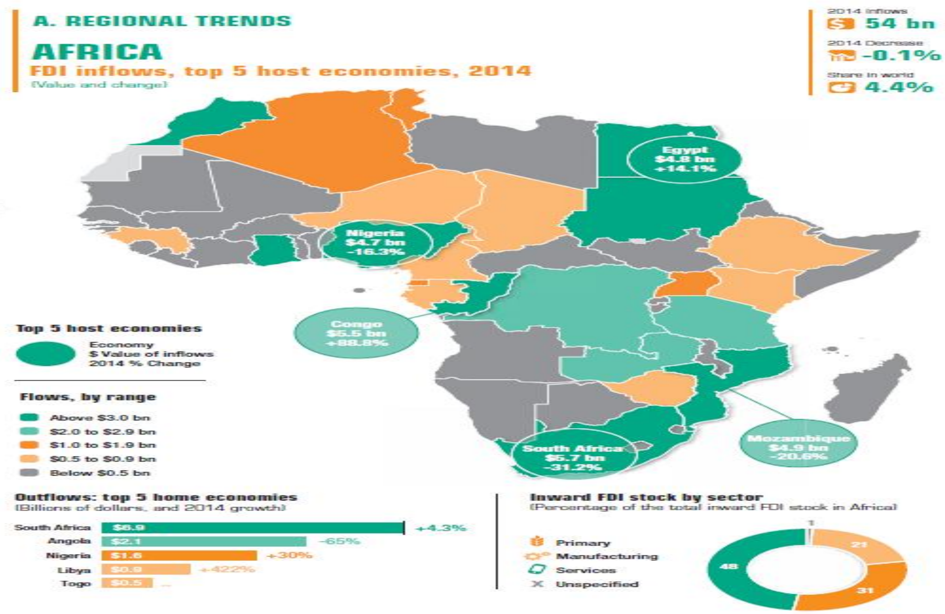


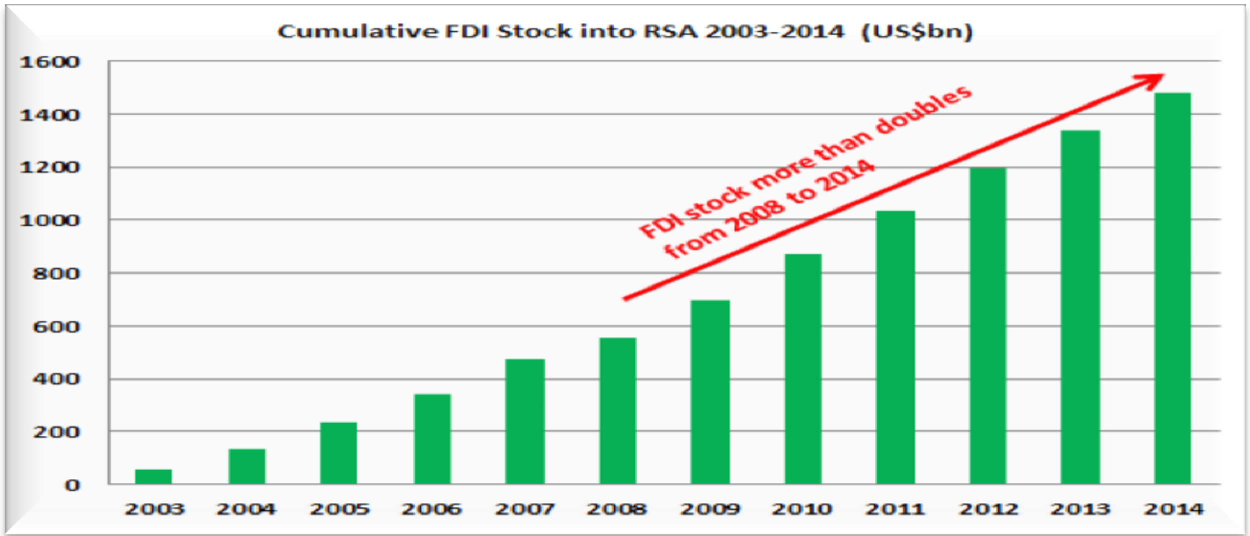
2. Analysis of Investment Trends

Foreign Direct investment flows into Africa

- However, foreign investors do believe in the African growth story, they believe in SA as a major destination for investment.

- FDI inflows to Africa continues to grow and SA continues to have a lion’s share of that FDI





Building a better working world

EY's 2015 Africa attractiveness survey
Making choices

FDI project numbers fall in 2014, but capital investment and job creation surge

Source: fDi Markets, January and February 2015.

Region	% change
Asia-Pacific	17.3%
North America	14.0%
Africa	-8.4%
Western Europe	-14.8%
Latin America and the Caribbean	-17.5%
Middle East	-17.7%
Rest of Europe	-21.3%

FDI projects by world region (% change, 2014 versus 2013).

Capital
136%
YOY growth in FDI value in 2014

Jobs
68%
YOY growth in jobs created by FDI in 2014

US$128b invested

188,400 jobs created

All-time high share of global capital investment and jobs created by FDI

North Africa
22% YOY rise in FDI projects
51% share of Africa's FDI capital in 2014

West Africa
FDI projects
23% down

Sub-Saharan Africa
15% YOY drop in FDI projects
49% share of Africa's FDI capital in 2014 – down from **81%**

East Africa
FDI projects
12% down

Southern Africa
FDI projects
11% down

FDI by destination region (% change, 2014 versus 2013).

South Africa remains on top

Africa's top destination for FDI projects in 2014 was South Africa. Over the past five years, it received twice as many FDI projects as any other African country. Investors are attracted by:

- Diverse economy
- Solid infrastructure
- Ease of doing business

EY's 2015 Africa attractiveness survey 2015 (total respondents: 193).

Urbanization and a growing middle class create opportunities

Rising urbanization has resulted in real estate, hospitality and construction becoming the fourth most attractive sector in Africa.

A growing consumer class in Africa continues to spell opportunities for financial services; technology, media and telecommunications; and consumer products and retail.

31% of respondents expect **agriculture** to drive growth in Africa over the next two years.

Sources: fDi Markets; *EY's 2015 Africa attractiveness survey* (total respondents: 501).

24 countries in Africa will grow at a Compound Annual Growth Rate of 5% or above, by 2030.

Source: *Africa 2030: Realizing the possibilities*, EY, 2015.

The EY view: 5 priorities for inclusive and sustainable growth

Shared value + Entrepreneurship + Regional integration + Infrastructure development + Partnerships

Africa

Africa's perception gap persists

Respondents who are already established in Africa

#1 Africa is the **most attractive** investment destination in the world

66% believe **attractiveness** has improved over the past year

81% believe **attractiveness will** improve over the next three years

Respondents who are not established in Africa

Africa is the **second least attractive** investment destination in the world

30% believe **attractiveness** has improved over the past year

50% believe **attractiveness will** improve over the next three years

Source: *EY's 2015 Africa attractiveness survey* (total respondents: 501).

Learn more

Download *EY's 2015 Africa attractiveness survey* at ey.com/emergingmarkets
@EY_EmergingMkts
#AfricaAttract

Visit the Africa Business Center™ at www.ey.com/za
@EY_Africa
#AfricaAttract

NUMBER OF FOREIGN BASED COMPANIES IN SA

- USA: 700
- UK: 600
- GERMANY: 600
- JAPAN: 280
- FRANCE: 185
- INDIA: 120

JAPANESE ECONOMIC ACTIVITY IN SOUTH AFRICA

- 280: Number of Japanese enterprises registered in South African amounts to 280 as of October 2014.
- 130 : Number of Japanese company groupings in South Africa.

(One Japanese company sometimes have more than one registered company in SA for manufacturing and sales, corporate and SPV, etc).

- 150 000: Number of people employed by Japanese companies
- 1448: Number of Japanese living in SA
- 18.2 billion ZAR: CAPEX of projects invested in between 2009-2014

(*Source* : *fdi markets*)

2. Analysis of investment trends

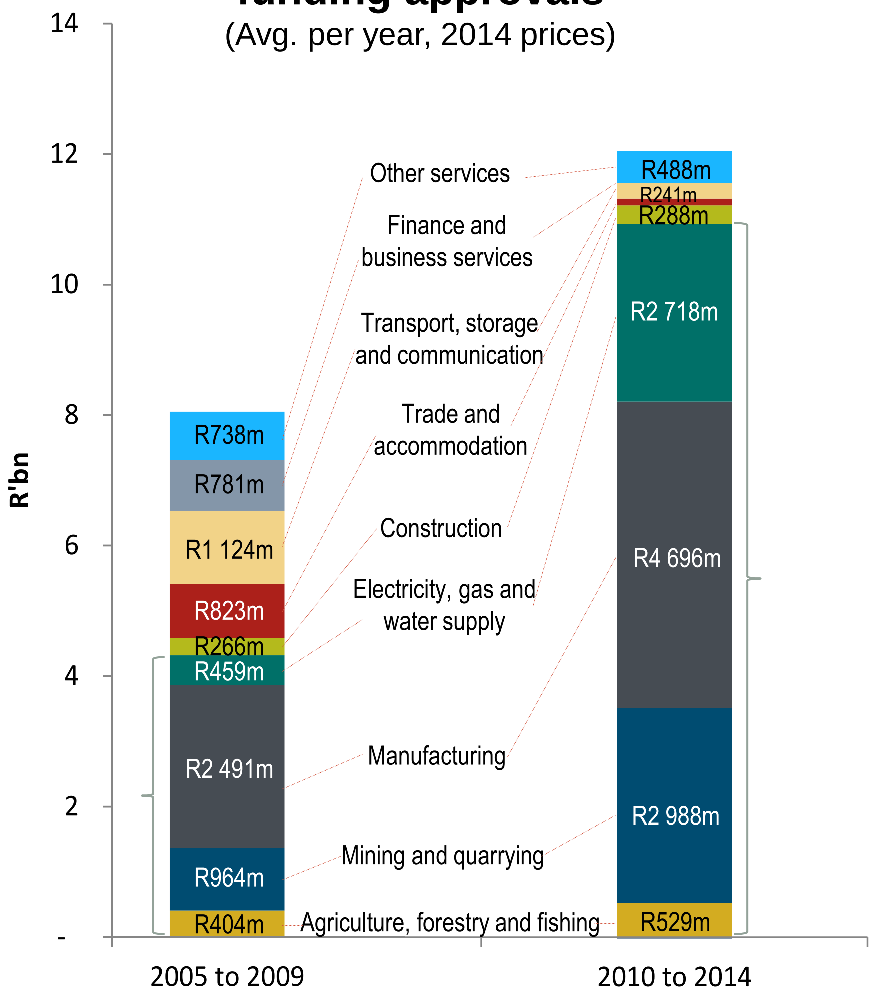
- Investment pipeline for the financial year 2014/15 was R43.8 billion and the target for 2015/16 is R45 billion

Investment pipeline for potential investors

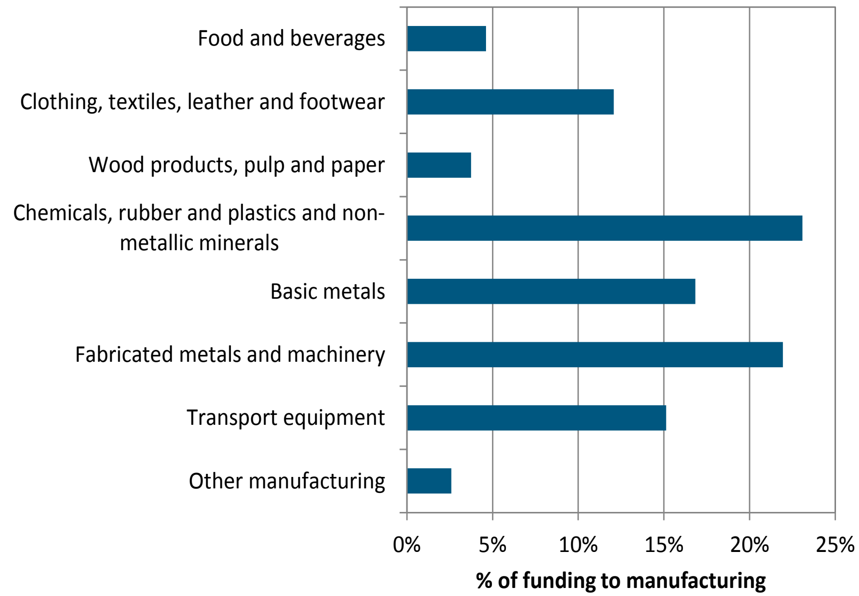
Manufacturing	Unilever R4bn over 4 years
Manufacturing	Gestamp (R220m)
Manufacturing	Toyota (R550m)
Advanced Manufacturing	Samsung (R228m)
Services	CCI Call centres (R200m)
Services	Four Seasons Hotel (R560m)
Services	Vodafone (R220m)
Services	Hunting Plc (R300m)

Alignment of historical funding approvals with sector priorities

Sectoral distribution of South African funding approvals
(Avg. per year, 2014 prices)

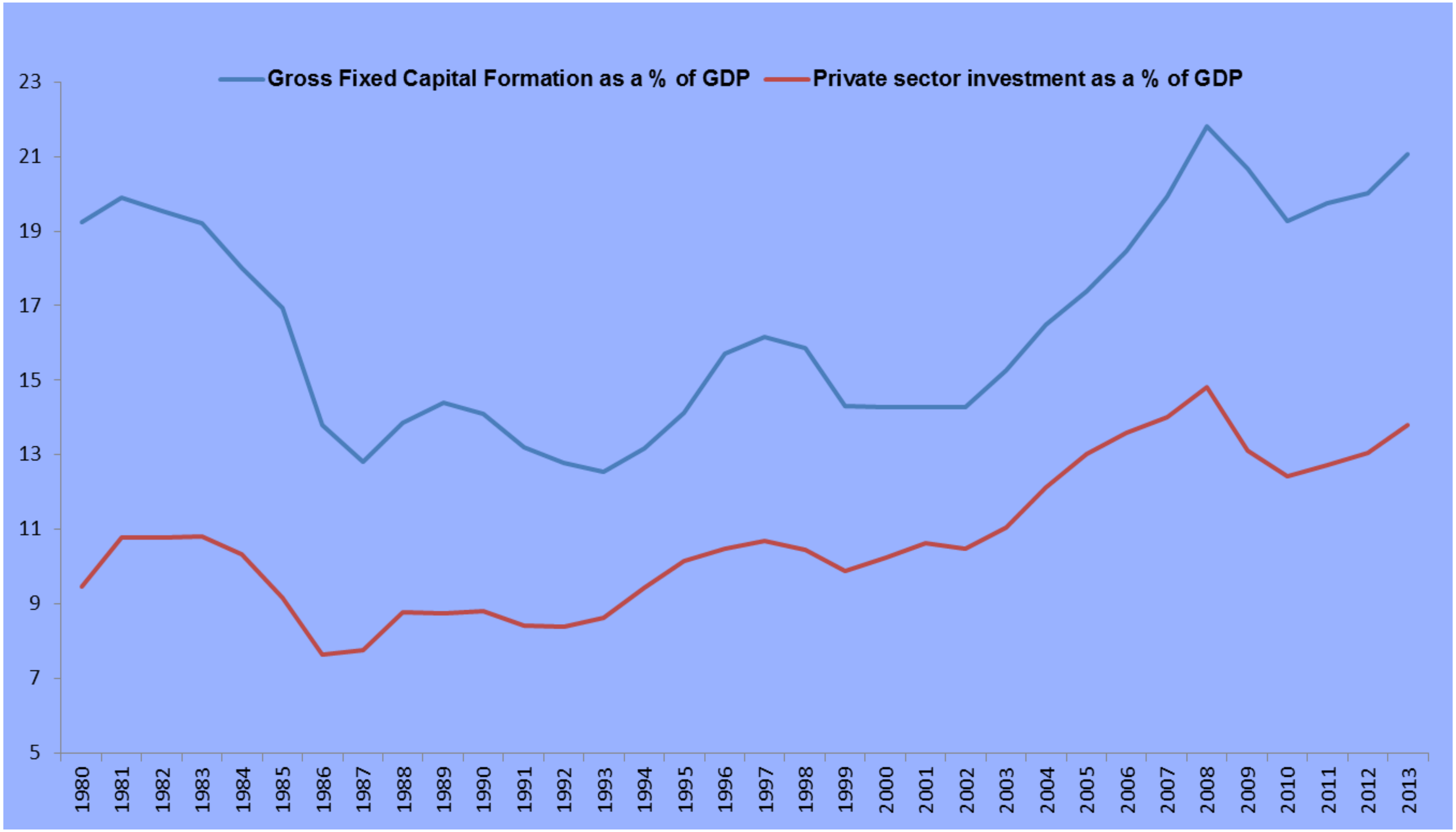


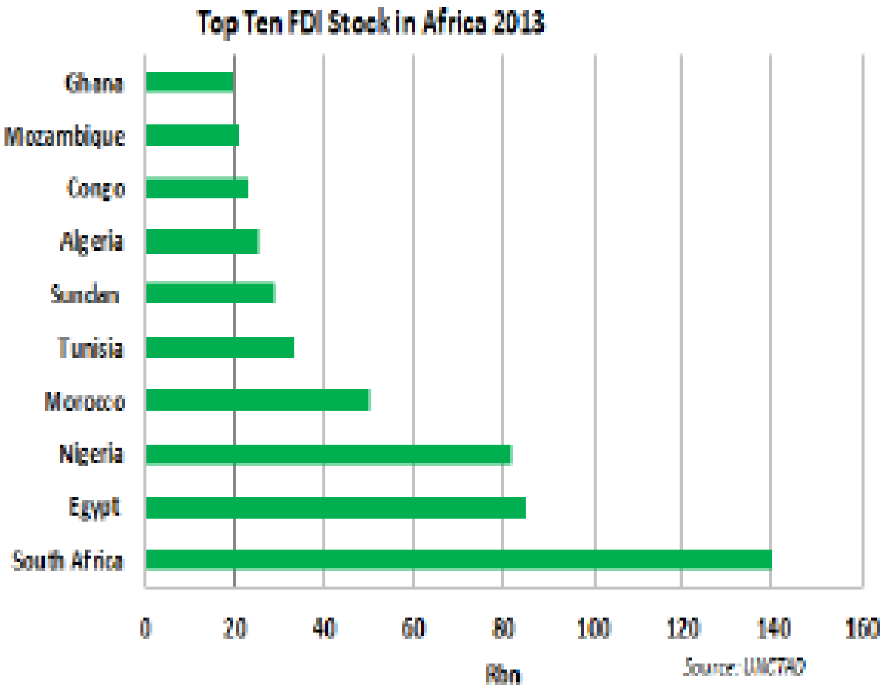
Funding to the manufacturing sector
(2005 to 2014)

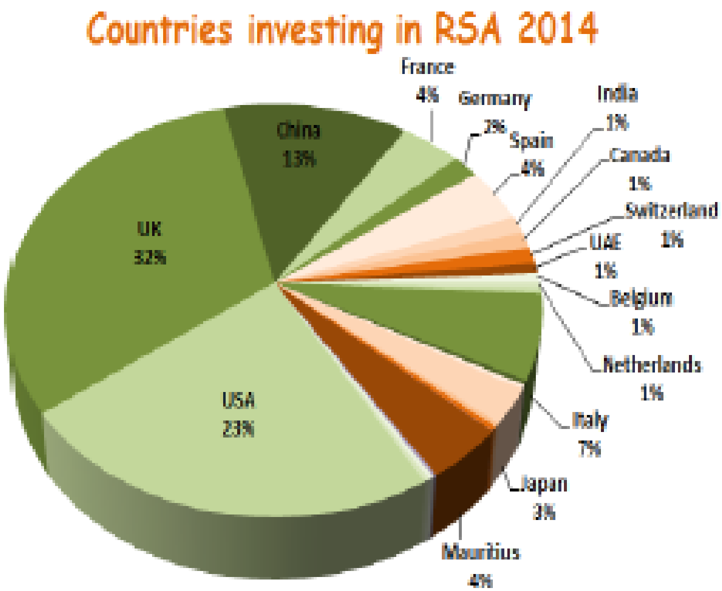


- The revitalisation of the Industrial Policy Action Plan in 2010 and the introduction of the New Growth Path and National Development Plan in 2011 and 2013 saw increased direction in IDC funding to priority industrial sectors.

Investment is lower than boom - but private investment still higher than 80s and 90s







Source: FDIMarkets

Table 1

FDI INTO MIDDLE EAST AND AFRICA BY PROJECT NUMBERS 2014		
Country	Projects 2014	% change
UAE	302	11%
South Africa	116	-15%
Saudi Arabia	75	-22%
Morocco	65	59%
Kenya	57	-12%
Egypt	51	42%
Mozambique	50	67%
Qatar	44	-21%
Nigeria	43	-4%
Ghana	33	-33%
Other	403	-18%
Total	1239	-6%

Source: fDi Markets

Investment Promotion and Inter-Departmental Clearing House

Financial Year: 2014/2015 R43.8 billion

Target for 15/16 is R 45 billion

Investment pipeline for potential investors

Manufacturing	Unilever R4bn over 4 years
Manufacturing	Gestamp (R220m)
Manufacturing	Toyota (R550m)
Advanced Manufacturing	Samsung (R228m)
Services	CCI Call centres (R200m)
Services	Four Seasons Hotel (R560m)
Services	Vodafone (R220m)
Services	Hunting Plc (R300m)

3. Alignment with NDP

- The NDP acknowledges that investment spending has been very low (averaging 16% in early 2000s compared to 30% in 1980s). Public infrastructure spending has been low by historical standards,

- It further mention that SA has missed a generation of capital investment in roads, rail, ports, electricity, water sanitation, public transport and housing.

- The NDP emphasises that for the economy to grow faster and more inclusively, the levels of investments must increase.

- The NDP projects SA’s total gross fixed capital formation (GFCF) as percentage of GDP to rise to 30% and the public sector GFCF to 10% of GDP by 2030

4. Implementation Progress

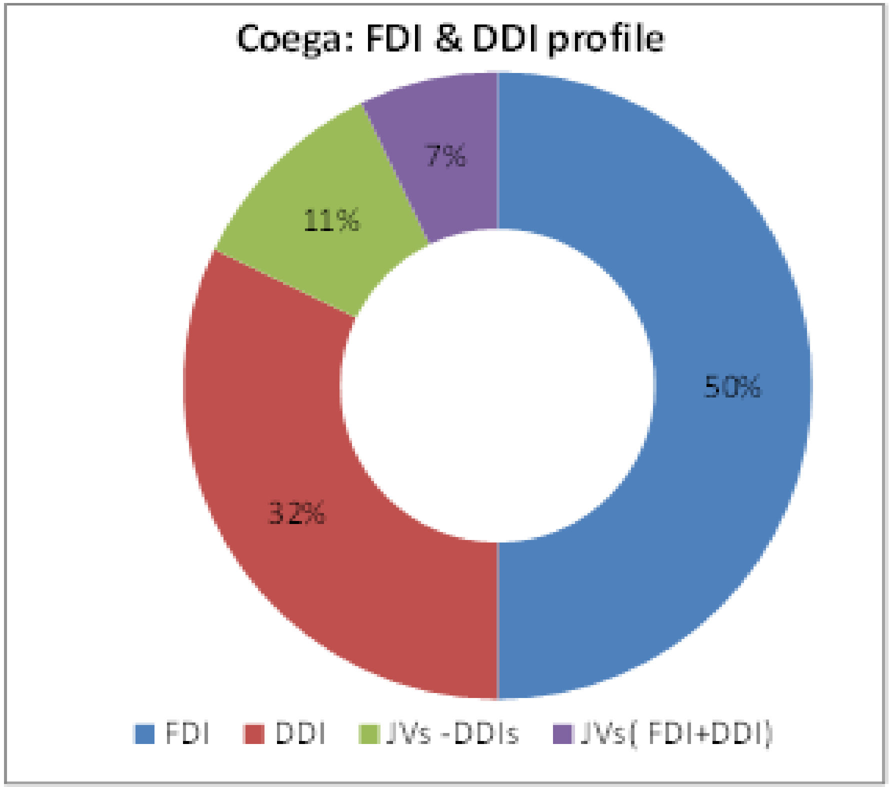
Industrial Development Zones (IDZ)

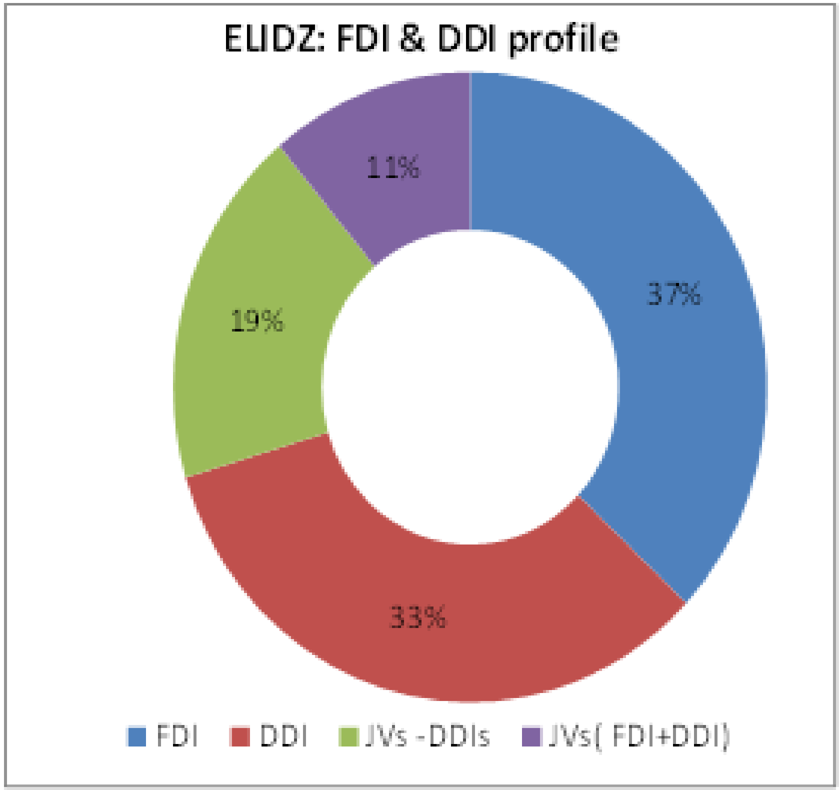
Between 2002 and 2014, the following 6 IDZs have been designated and have so far attracted a total of 59 investors on site with an investment value of more than R10.7 billion

Province	IDZ	Designation date	Focus
Eastern Cape	Coega	2001	Automotive; Agro-processing; Chemicals; General Manufacturing; Business Process Outsourcing; and Energy.
	East London	2002	Automotive, renewable energy, ICT, and Agro-processing sectors
KwaZulu-Natal	Richards Bay	2002	Aluminum, Titanium, dry dock(ship & repair), and furniture
	Dube Trade Port	2013	Value niche aquaculture and horticulture, automotive, electronics and fashion garments
Gauteng	OR Tambo	2002	Specialized jewelry manufacturing
Western Cape	Saldahna Bay	2014	Oil & Gas services complex

Industrial Development Zones

Foreign Direct Investment (FDI) and Domestic Investment (DDI) profile of investors in the zones





4. Implementation Progress

Special Economic Zones (SEZ)

- Since the Special Economic Zones Act (Act no.16 of 2014) was assented to by the President in May 2014 the SEZ Advisory Board has been instituted and its members have been appointed

- The Secretariat to support the Advisory Board is being set up and the SEZ Regulations are being finalized.

- Feasibility studies for 8 proposed SEZs in 7 provinces -Free State, Limpopo-Tubatse and Musina, Mpumalanga, western Cape, North West, Northern Cape and Eastern Cape were finalised.

Already there is significant potential investment:

- In Atlantis Gestamp Renewable Industries launched a R300 million factory in November 2014.

4. Implementation Progress

Special Economic Zones (SEZ)

- In the Platinum Valley a lot of interest has been shown by several potential investors including:
  - Anglo Platinum and Ballard Power Systems – Establishment of Fuel Cell Product Development Plant
  - Paus, Germany – Manufacturing of Mining Equipment

- In Musina a Memorandum of Agreement has been signed between the Limpopo Government and Hong Kong Mining Exchange Company Limited.
- In Upington, two companies have indicated interest in Maintenance, Repair and Overhaul of air transport equipment, and manufacturing of PV solar panels.

4. Implementation Progress

Special Economic Zones (SEZ)

- The Dube Trade Port was launched in 2014 and has attracted over R900 m in investment.
- China-South Africa Science Park to be located at NASREC SEZ, Gauteng.The project championed by the Department of Science and Technology and the dti will be located in the proposed SEZ Gauteng.
- In Maluti A Phofung SEZ, Free State, the proposed investment pipeline include:
  - The Construction of rail-based container terminal by Transnet - Transnet Freight Rail (TFR) (R1.8b),
  - Pre-assembly of sub components through utilising the cross-dock facility by Toyota South Africa,
  - The manufacturing of Anti-retroviral tablets.

4. Implementation Progress

One stop Investment centre (OSIC)

- A central nodal operational structure will be established at national level to act as an implementing body and to serve as the convener for the one stop investment centre.
- It will improve the Investment Climate and ease of doing business by identifying bottlenecks, administrative barriers and have a plan of action to improve service delivery.
- The focus on reducing regulatory inefficiencies, setting up norms and standards, turnaround times, coordinate, fast track, unblock and reduce red tape for all investors.
- It will also coordinate the One Stop Investment Centres in the SEZ's; the work of the Provincial Investment Agencies; local authorities; and relevant government departments involved in regulatory, registration, permits and licensing.
- Policy blockages regarding investment and business will be identified and resolved by the council and escalated to technical and executive implementation forums for resolution and unblocking in case they cannot be resolved by the council.
- It will provide the following for Investors :
    - Facilitation of the entire investment value chain;
    - Specialist advisory services to investors;
    - Co-ordination between the various line ministries;
    - Communication of these services to potential investors; and
    - Be the single-window clearance for registration, licensing and permits.

INVESTING IN SOUTH AFRICA

- Coega IDZ
- East London IDZ
- Richards Bay IDZ
- OR Tambo International Airport (licensed)
- Dube TradePort IDZ
- Saldanha Bay IDZ

REASONS TO INVEST IN SOUTH AFRICA - WORLD COMPETITIVENESS RANKINGS

- # 1 For the strength of auditing and reporting standards
- # 1 For the efficacy of corporate boards
- # 1 For the protection of minority shareholders' interests
- # 1 For the regulation of securities exchanges
- # 1 Legal rights index
- # 2 For the availability of financial services
- # 3 For the soundness of banks
- # 10 For the strength of investor protection
- # 11 For the quality of air transport infrastructure
- # 53 Overall ranking out of 149 countries and # 2 of all the BRICS economies

Top Investors in 2013/14

Unilever · Nestlé Good Food, Good Life · SAMSUNG · Hisense · FAW · EVONIK · Ford Go Further · TATA · webhelp · P&G

Trade and Investment South Africa (TISA) is the national investment promotion agency of South Africa offering a one-stop-shop approach to investing in South Africa

- 2014 UNCTAD winner for excellence in promoting foreign direct investment (FDI) projects to advance sustainable development
- South Africa was ranked third in the world for investment in clean energy, according to the Climatscope 2014 report released by Bloomberg New Energy Finance
- SA voted overall winner for Africa by the *Financial Times* for best investment destination for 2013 and 2014
- In May 2013, AIM award for facilitating the second-best investment project (pharmaceutical sector)

The Department of Trade and Industry
77 Robert Sobukwe Street, Sunnyside, Pretoria, 0002, South Africa
www.thedti.gov.za
e-mail: investmentsa@thedti.gov.za
International Callers: +27 12 394 9500/41339/45935

South Africa

5. Challenges

- Regulatory inefficiencies;
- Divergent messaging on the state of our economy;
- Relatively weak demand conditions, both locally and abroad leading to spare production capacity across various industries;

- Government has introduced a range of incentives to leverage private-sector investment but local and international demand conditions remain very uncertain;
- On infrastructure constraints, we have initiated a massive infrastructure investment programme under the auspices of the Presidential Infrastructure Coordinating Commission; and
- Significant localisation opportunities are presented by the State's massive rollout of water and sanitation, broadband, and rail infrastructure programmes. The key will be to minimise import leakages and to leverage private-sector investment.

APPENDIX - Trust deficit

- The President has initiated the Presidential Business Working Group made up of five joint task teams focusing on specific issues including education and skills; infrastructure; regulatory environment; labour relations environment; and inclusive growth.

- These assist to promote dialogue between government and business including developing and implementing programmes jointly.

APPENDIX - Access to electricity

- Challenges here include difficulties in getting connected as well as disruptions from load shedding which cause work stoppages.
- This is echoed in global surveys, for example, in terms of electrifying new buildings, South Africa ranks 150th out of 185 countries in the *Doing Business* survey.
- According to the Doing Business Report, 2011, it takes 226 days to get connected to electricity in South Africa (more than double the global average of 111 days and significantly more than the sub-Saharan average of 137.
- Although electricity tariffs have risen sharply, they are still relatively low compared to our competitors. It costs US$1,506 to get a connection, below the world average of US$1,932.