

South Africa Investment Promotion Strategy & Target Sector Assessment

Discussion Framework

Pretoria, March 2019

DELIVERED BY



IN PARTNERSHIP WITH



Program Overview

South Africa seeks to restore and rebuild its competitiveness to encourage new domestic and foreign investment. The World Bank Group, supported by the Swiss (SECO) and UK (Prosperity Fund) governments have been asked to help the government of South Africa address these objectives through a four year \$6.3M advisory program.

This initiative is aligned to South Africa's National Development Plan (NDP) 2030 and focuses on four critical themes →

1

Business Regulation

Identifying priority areas to address to improve South Africa's investment climate in ways that will be perceived and appreciated by the international investment community.
- Including the *Doing Business Reform* agenda

3

Opening Markets & Competition

Strengthening South Africa's competition regulatory system to improve the vibrancy and openness of the economy, including areas dominated by major private sector oligopolies and by state owned enterprises.

2

Investment Policy & Promotion

FDI Promotion & Linkages
Strengthen South Africa's FDI investment promotion, and domestic value chain linkage structures at both national and sub-national level and identify and propose ways to address key policy obstacles to FDI inflows.

4

Diagnostics for Policy

Implement standard WBG diagnostic studies and surveys which will be helpful in guiding future private sector policy formulation in South Africa.

DELIVERED BY



IN PARTNERSHIP WITH



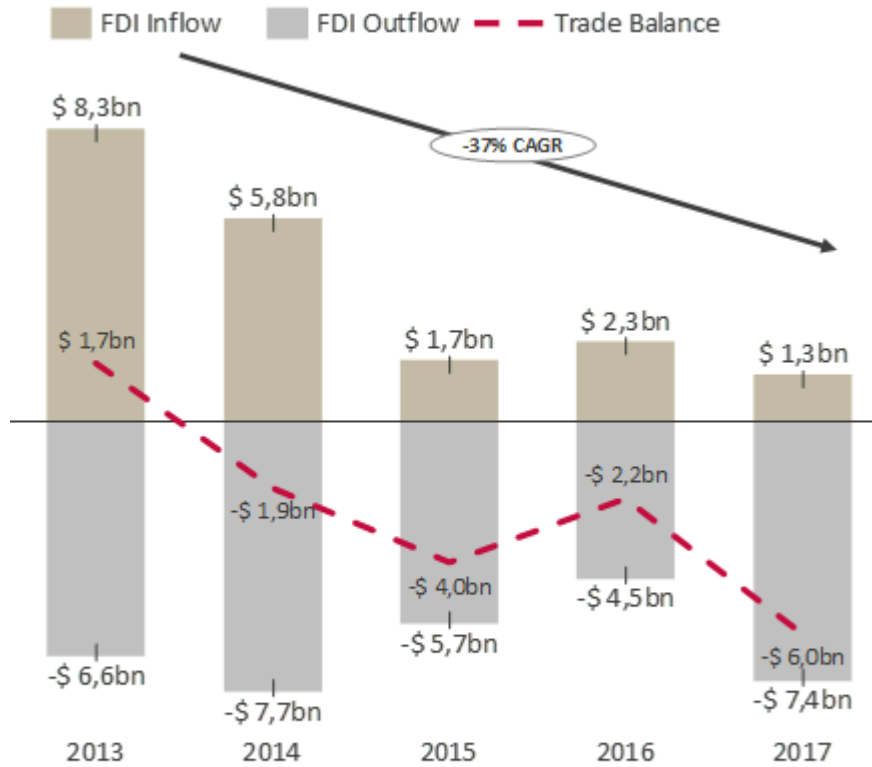
South Africa Investment Promotion Strategy & Sector Competitiveness

Presentation Overview

- High level World Bank Findings and Perspective:
 - Findings on Investment Policy
 - Existing Institutional Framework.
 - Sector Scan for South Africa.
 - Private Sector Diagnostic
- What next?

Why we are here

Investment Trends, 2013 to 2017

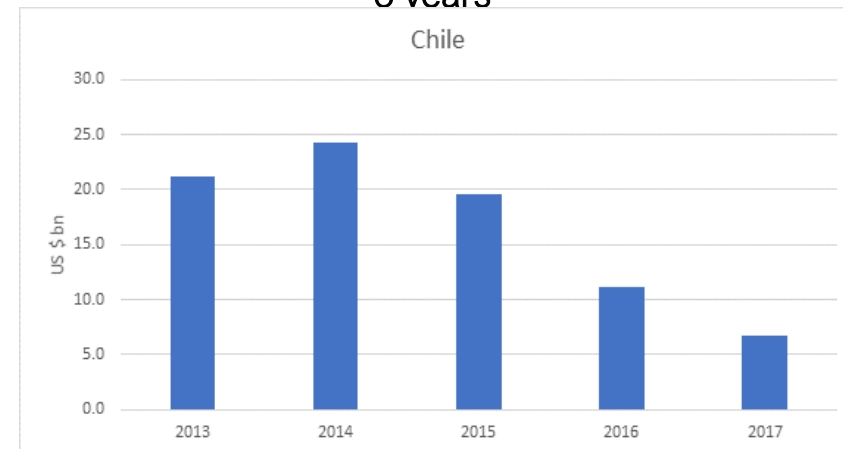


Source: UNCTAD
Note: CAGR - compound annual growth rate

2017 FDI trends:

- Global FDI down by 16%
- FDI to developing economies 2% growth
- FDI to SSA down by 21%
- FDI to SA down by 41%

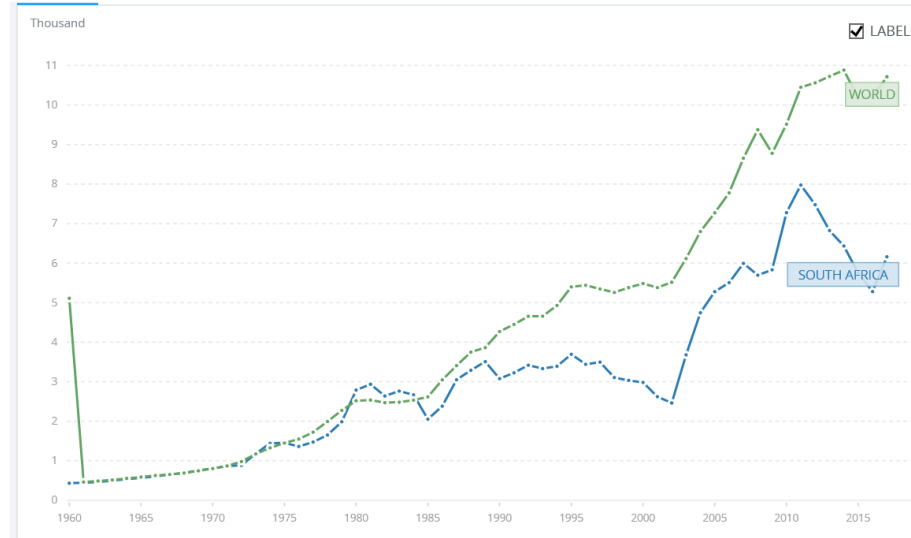
Chile managed to attract \$83bn FDI over the past 5 years



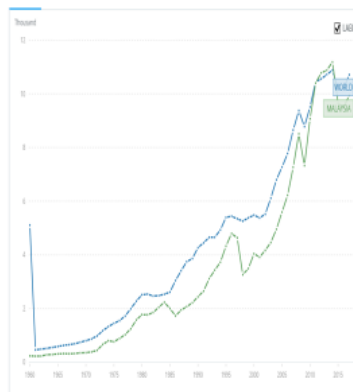
Source: authors own calculation using UNCTAD data

Why we are here

South Africa's evolution GDP per capita 1960-2017

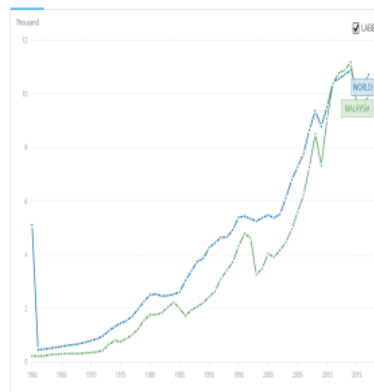


Mexico's Evolution in GDP PC 1960-2017

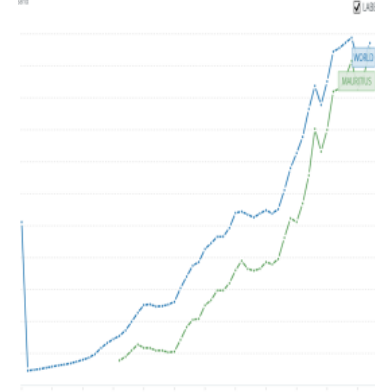


Source: WBG

Malaysia's Evolution in GDP PC 1960-2017

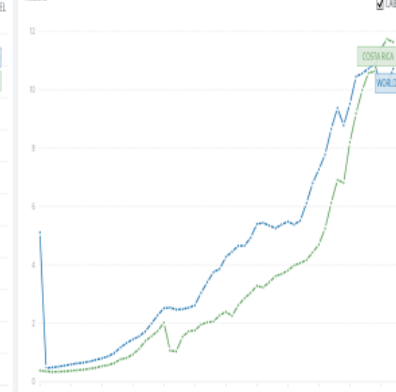


Mauritius' Evolution in GDP PC 1960-2017



Source: WBG

Costa Rica's Evolution in GDP PC 1960-2017



Why we are here

Emerging conclusions

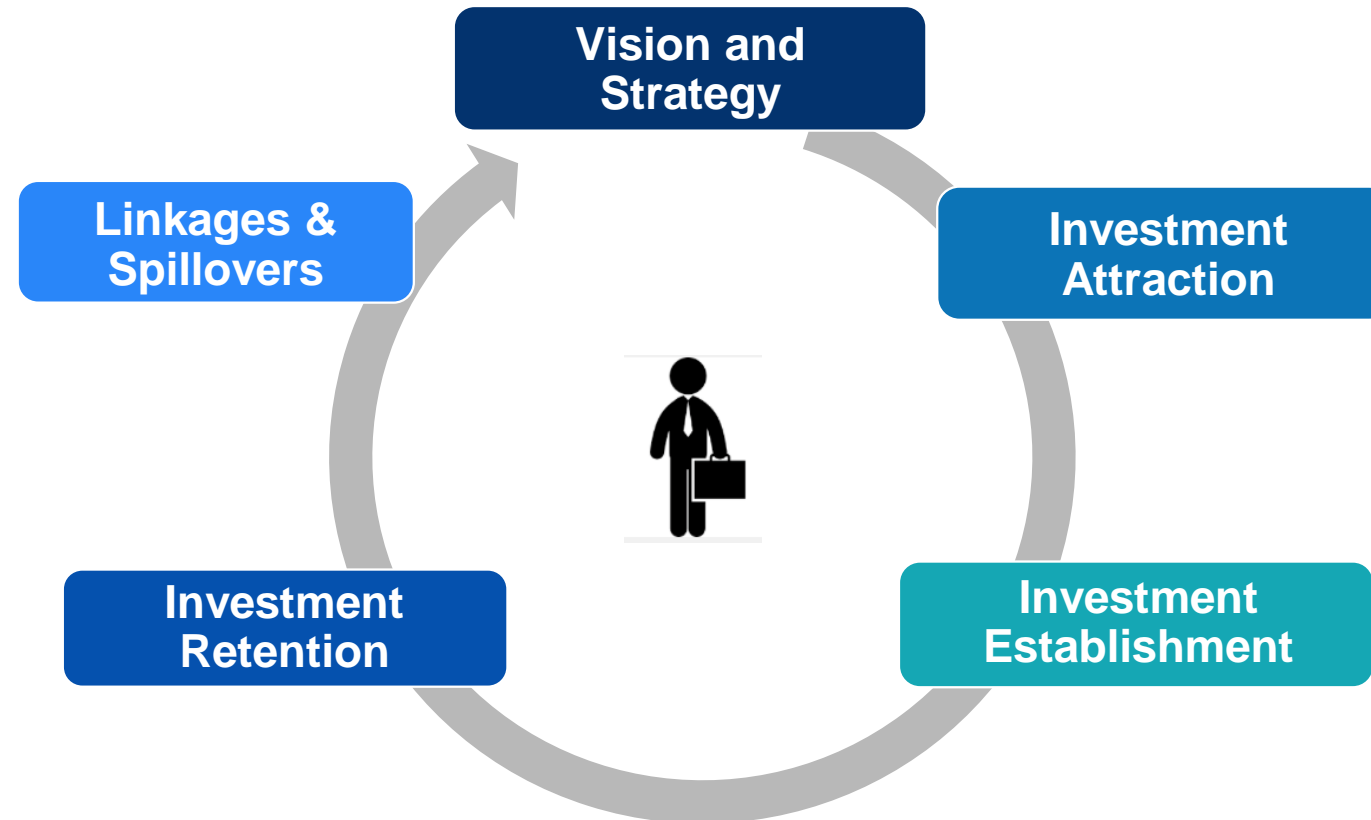
1. The \$100 billion investment target represents a strategic repositioning of South Africa in the global economy
2. In a globalized world, domestic investment has the same drivers as FDI. Foreigners invest when locals invest – often as partners!
3. A strategic shift is needed in terms of sector prioritization and FDI attraction – South Africa will need to *compete* for more investment
4. Key investment policies will need to be aligned
 - Fit for purpose institutions required to implement strategic shift
 - Incentives alignment to attract FDI in new sectors
5. Restoring investor confidence is ‘sine qua non’ to turn the tide

“As a country we love to compete and win in sports. Similar focus, effort and dedication is needed to compete and win at an economic level”

- 1. Key investment policy findings**
2. Institutional framework for investment promotion
3. Preliminary sector scan findings
4. Private Sector Diagnostic
5. Next steps

Assessing key aspects of South Africa's investment policy framework

An organizing framework



Detailed Review of Investment Policy in International Context

Legal & de facto barriers to investment

- Policy uncertainty
- Political uncertainty & governance issues
- Skills & technical constraints

Investor Protections

- Bilateral Investment Treaties
- Expropriation debates

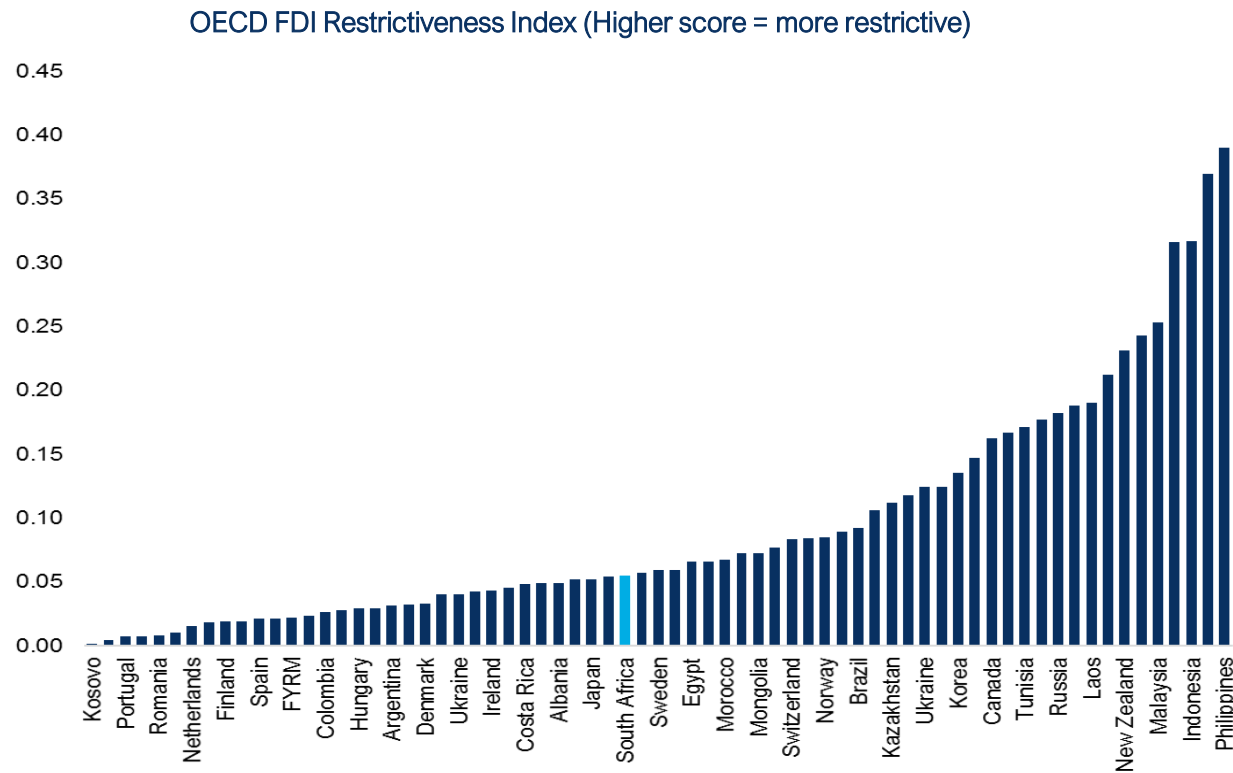
Investment Incentive Framework

- Competitive incentives
- Insufficient M&E of incentives
- Could review targeting to tighten targeting
- More automatic, transparent and less discretionary

The FDI Policy Landscape

Key finding and observations – legal barriers to entry

Legal restrictions are not a major barrier to FDI entry in SA



- South Africa is a relatively open economy for FDI
- Except energy, mining, banking, insurance and defense industries there are no restrictions to FDI.
- Main foreign equity restrictions in air transport, media and some business services

The FDI Policy Landscape

Key finding and observations – de facto barriers to entry

De facto barriers are more important than legal restrictions...



Uncertainty around key policies and regulations

- ✓ In South Africa, investors recognize the importance of economic transformation and redress of historical inequities



Long waiting times for visas and work permits

- ✓ Need clarity, transparency and stability with regard to requirements and compliance around B-BBEE



Market concentration of the South African economy.

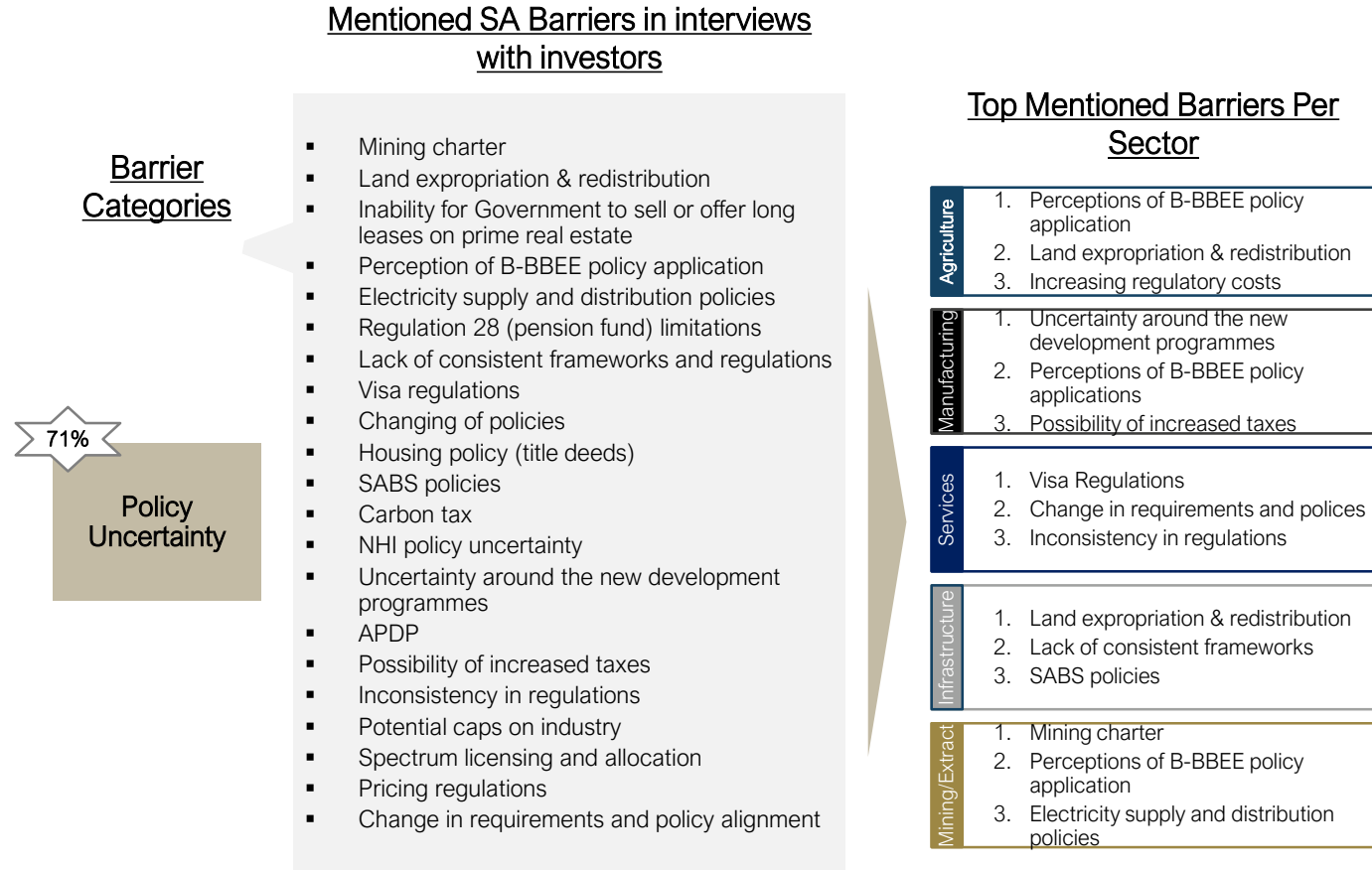
- ✓ Localization requirements in general are counterproductive when targeting efficiency-seeking investors.



Red tape and cumbersome regulatory regimes

The FDI Policy Landscape

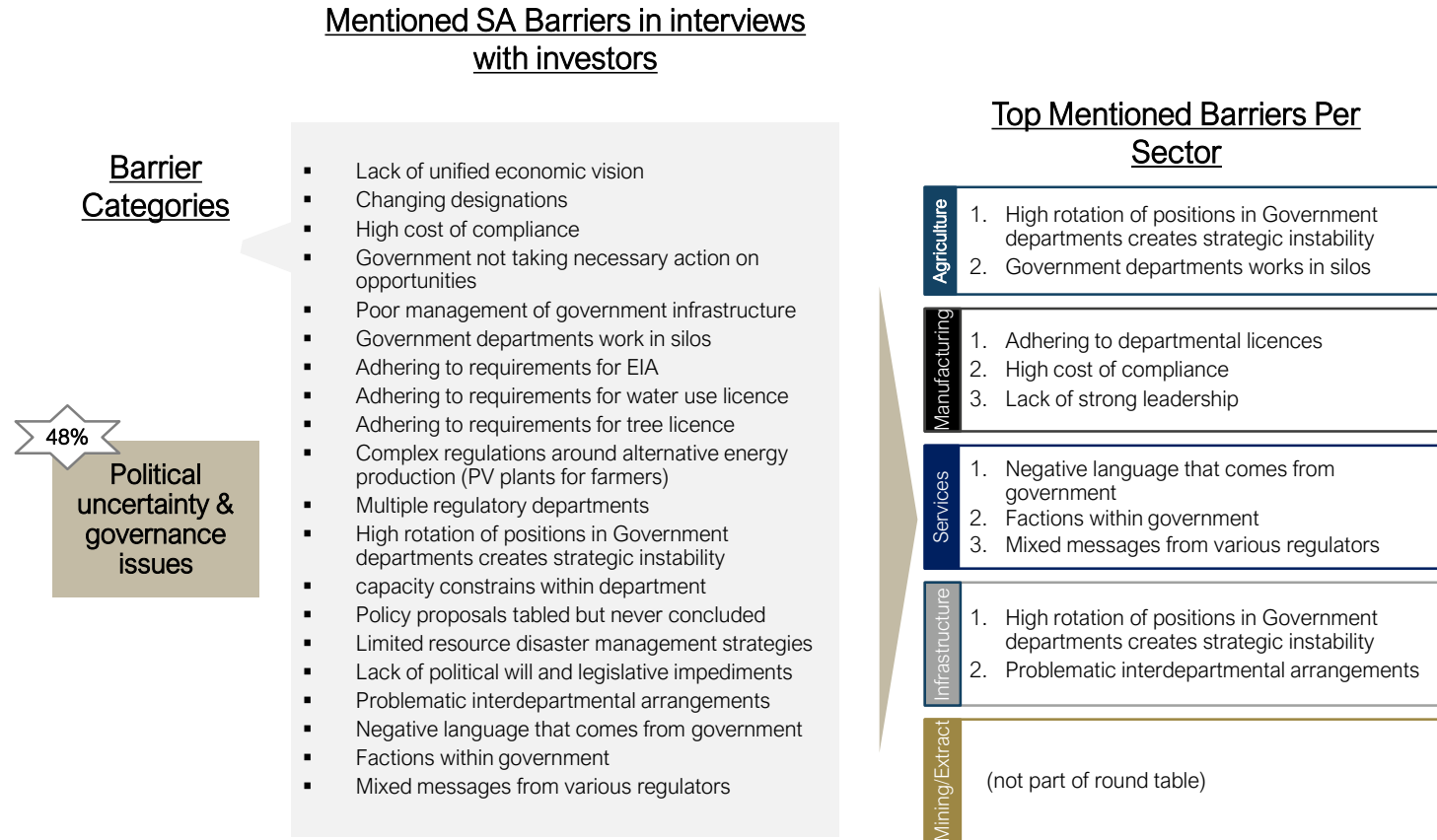
Key finding and observations – de facto barriers to entry



SA also has a number of key sector related policies that are not finalised notably the mining charter and revised APDP

The FDI Policy Landscape

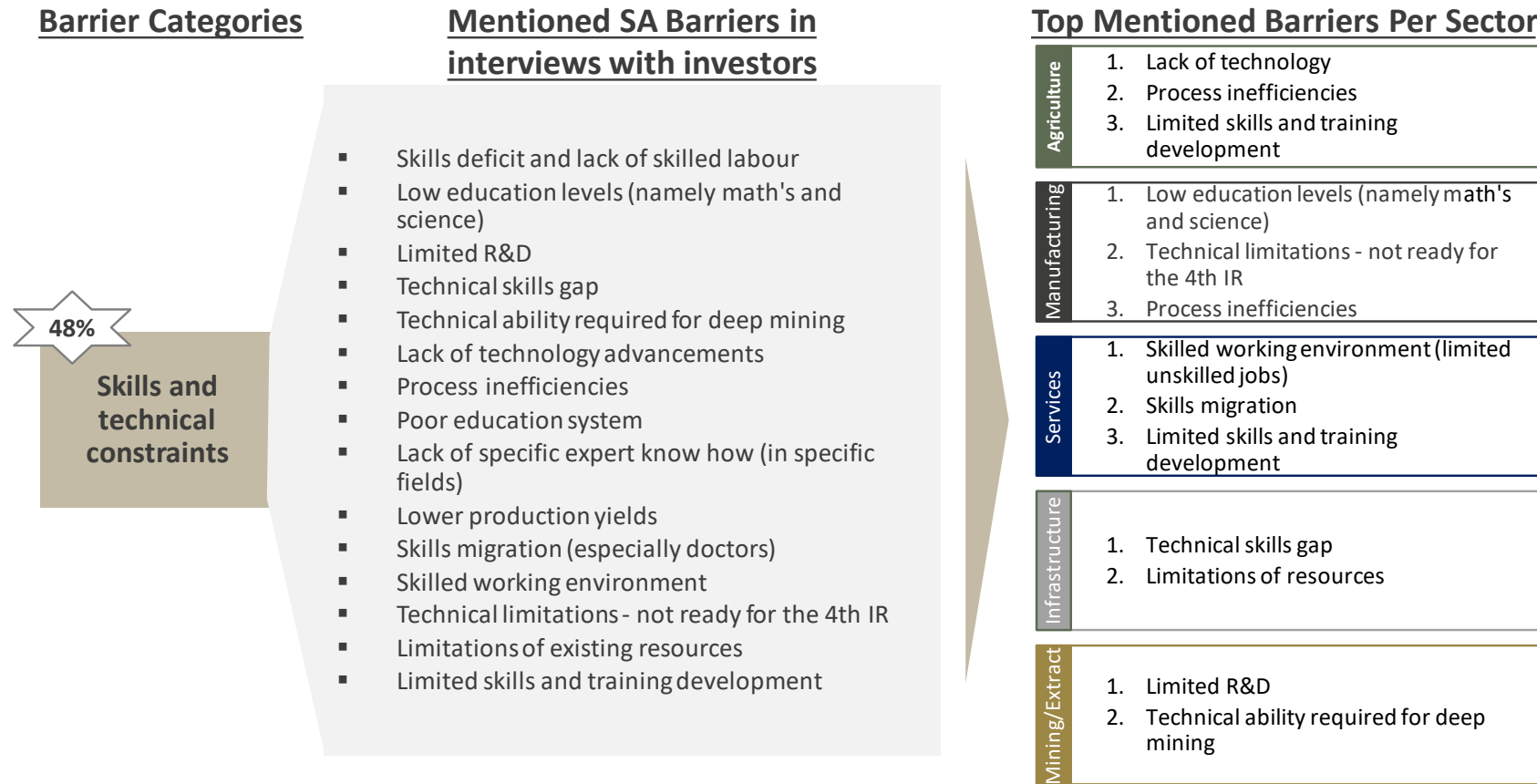
Key finding and observations – de facto barriers to entry



A stronger level of trust and effective collaboration between the private sector and government needs to be established in order to “turn the tide” on FDI

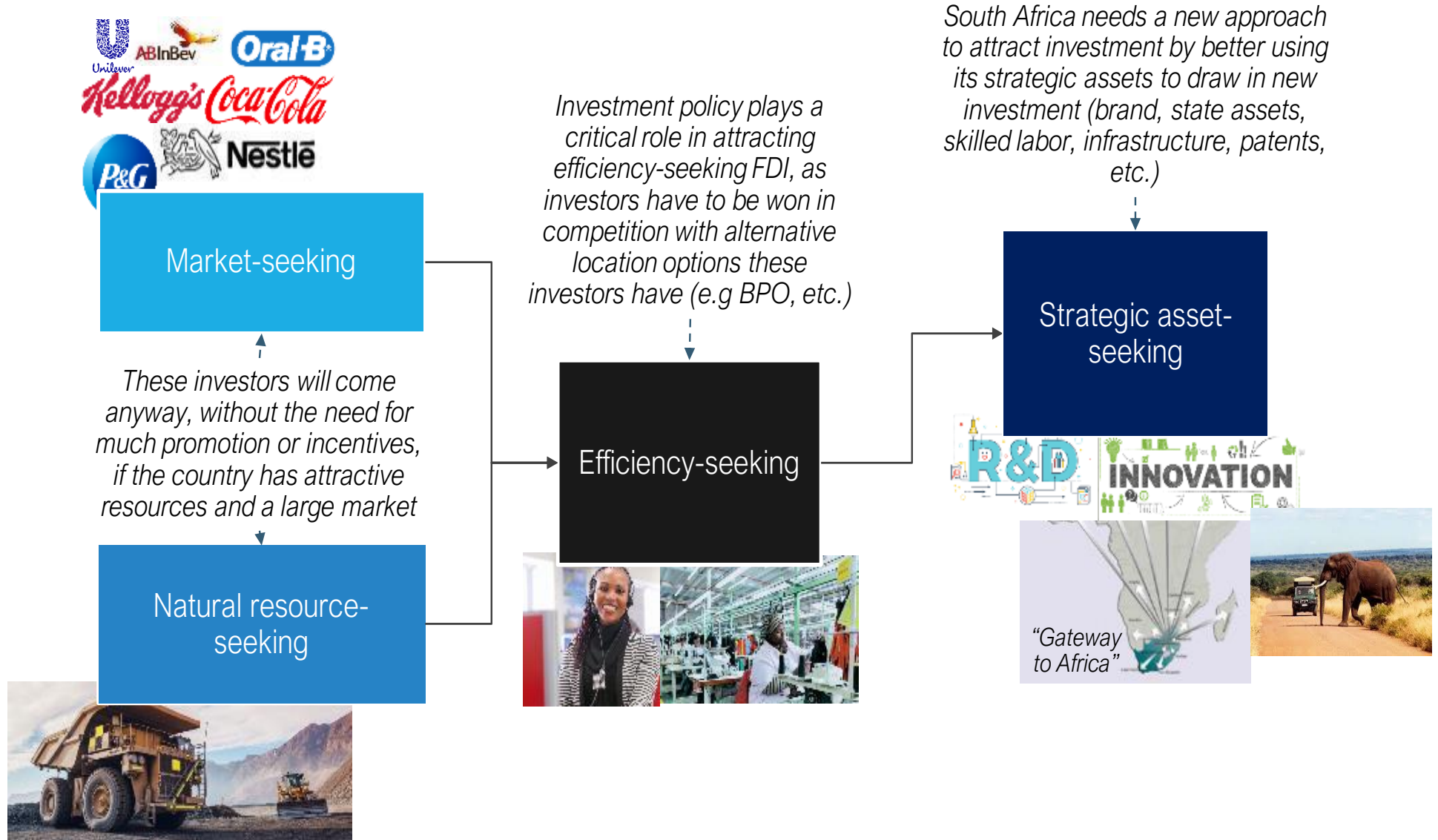
The FDI Policy Landscape

Key finding and observations – de facto barriers to entry



The unemployment rate in South Africa remains one of the highest in the world and over the past year it has become harder to fill positions ⁽¹⁾

A strategic shift in sector priorities and mindset is needed



Investor motivation unpacked

Natural Resource-Seeking FDI

- **Factors**
 - Location, quantity and quality of natural resources
- **Political economy issues:**
 - Fair distribution of gains derived from exploitation of resources
 - Sovereignty over natural resources
 - Environmental matters
 - Enclave economics: resource-seeking FDI may not always generate strong in-country spillovers;
 - Need to focus on developing input industries/services
- **Relationship with trade**
 - This type of FDI tends to be export oriented, but value added tends to be limited
- **Historical perspective**
 - Oldest type of FDI
 - Developing countries' first vehicle to integrate with international markets



Domestic market-seeking FDI

- **Factors**
 - Market dimensions and income per capita
 - Market growth
 - Consumers' specific preferences
 - Vehicle to serve goods and services where proximity to consumers is needed:
 - Perishable goods, beverages,
 - Many services: retail distribution, financial services, etc.
- **Political economy**
 - Determined by its effect on domestic production - import competing interests are likely to resist new entry
- **Relationship with trade**
 - This type of FDI may be import-substituting, but in smaller economies generates needs for imported inputs.
- **Historical perspective**
 - Import-substituting industrialization spurs so-called "tariff-jumping" FDI
 - Push for first wave of regional integration in the 1960s

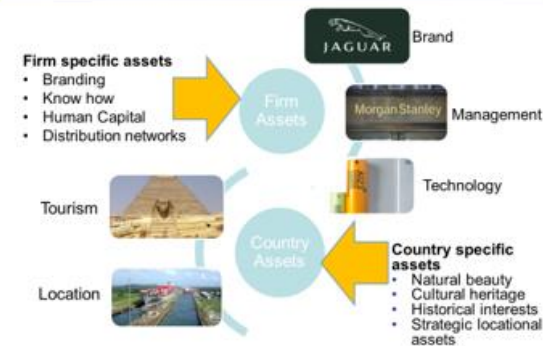


Efficiency-seeking FDI

- **Factors:**
 - Investment will come provided countries enable firms to compete
 - Vicinity to greater markets may play a key role
 - Key: competitiveness
- **This kind of investment tends to be:**
 - Export oriented
 - Net generator of foreign exchange
 - Generator of jobs
 - Significant potential gains in terms of expansion and diversification of export supply of host economy and transfer of technology
- **Political economy of this type of FDI**
 - Determined by the level of competitiveness of the host country vis-à-vis other potential host countries (importance of signals)
 - Increasing controversy in home countries
- **Relationship with Trade**
 - This type of FDI generates more trade of goods and services



Strategic Asset-Seeking Investment



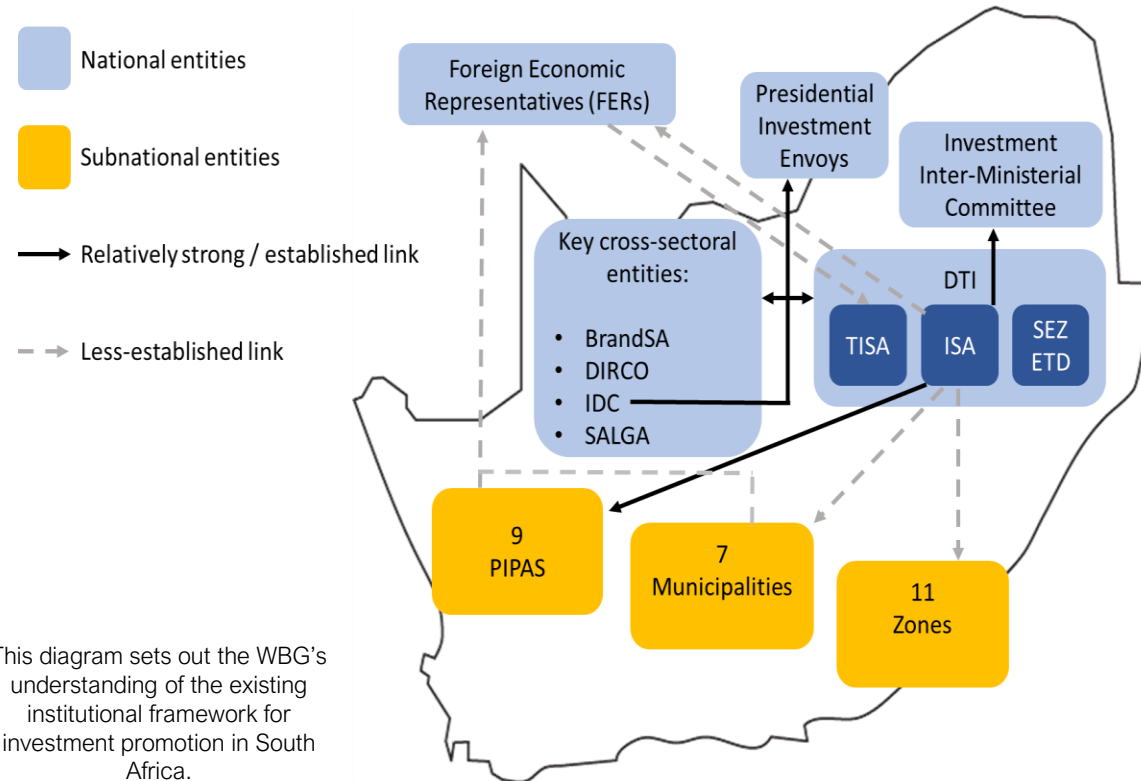
1. Key investment policy findings
- 2. Institutional framework for investment promotion**
3. Preliminary sector scan findings
4. Private Sector Diagnostic
5. Next steps

The FDI Policy Landscape – Institutional Framework

Key findings and observations

Multi-sphered, fragmented, confusing landscape

- Over 30 entities across the country with direct or supporting role in investment promotion
- Varying degrees of links amongst them
- Some collaboration led by ISA
- Overlaps and gaps in investor service provision



The FDI Policy Landscape – Institutional Framework

Key finding and observations

National framework? – beyond DTI

Several other national entities are playing a role in Investment Promotion, such as:

Presidential Envoys

- Reportedly met >150 local & intl. business leaders, both in SA and overseas since April 2018.
- Concerns that they meet investors 1-on-1 without involving InvestSA for follow-up.

Industrial Development Corporation (IDC)

- Assigned a temporary responsibility by the Presidency to be the core secretariat of the October 2018 Investment IMC and (ii) the Presidential Investment Envoys.
- Good business capacity.

Inter-Ministerial Committee (IMC)

- InvestSA reports to it.
- Has traditionally met every 6 months to discuss investment related issues.
- However, this IMC has not met in a while and it's not yet sure when it will reconvene.

Brand SA

- Close collaboration with InvestSA and IMC on October's Conference.
- However, WBG review notes significant confusion among some investors as to their respective mandates.

Not to mention Ministries responsible for tourism, water, telecommunications, mining, etc.

Integrated National Investment Promotion Framework

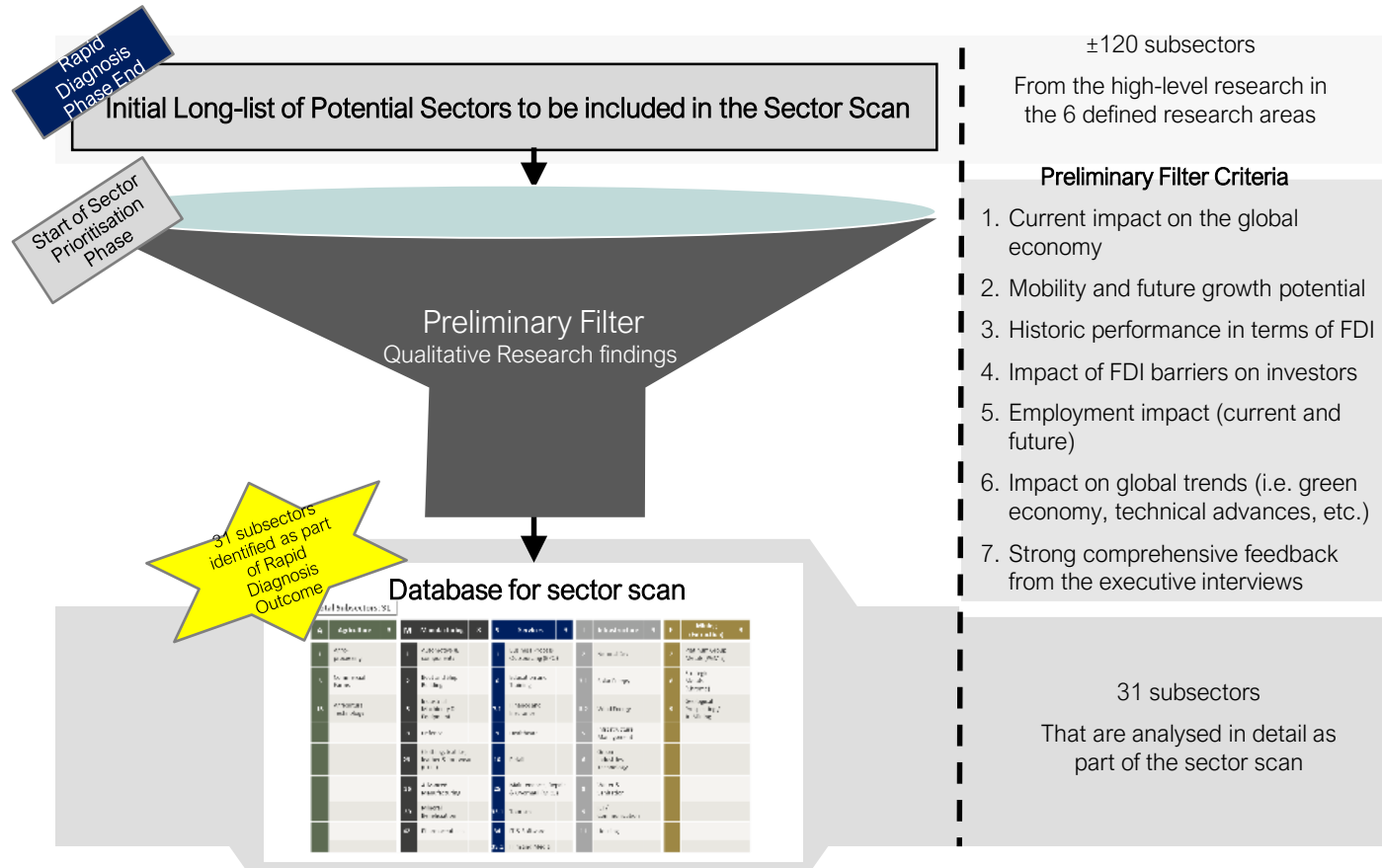
All successful and developed nations have a unified and integrated national investment promotion framework, the operational models differ. This is currently not the case in South Africa.

South Africa's strategic shift needs to be supported by a clear strategy and implementation structure, including the following:

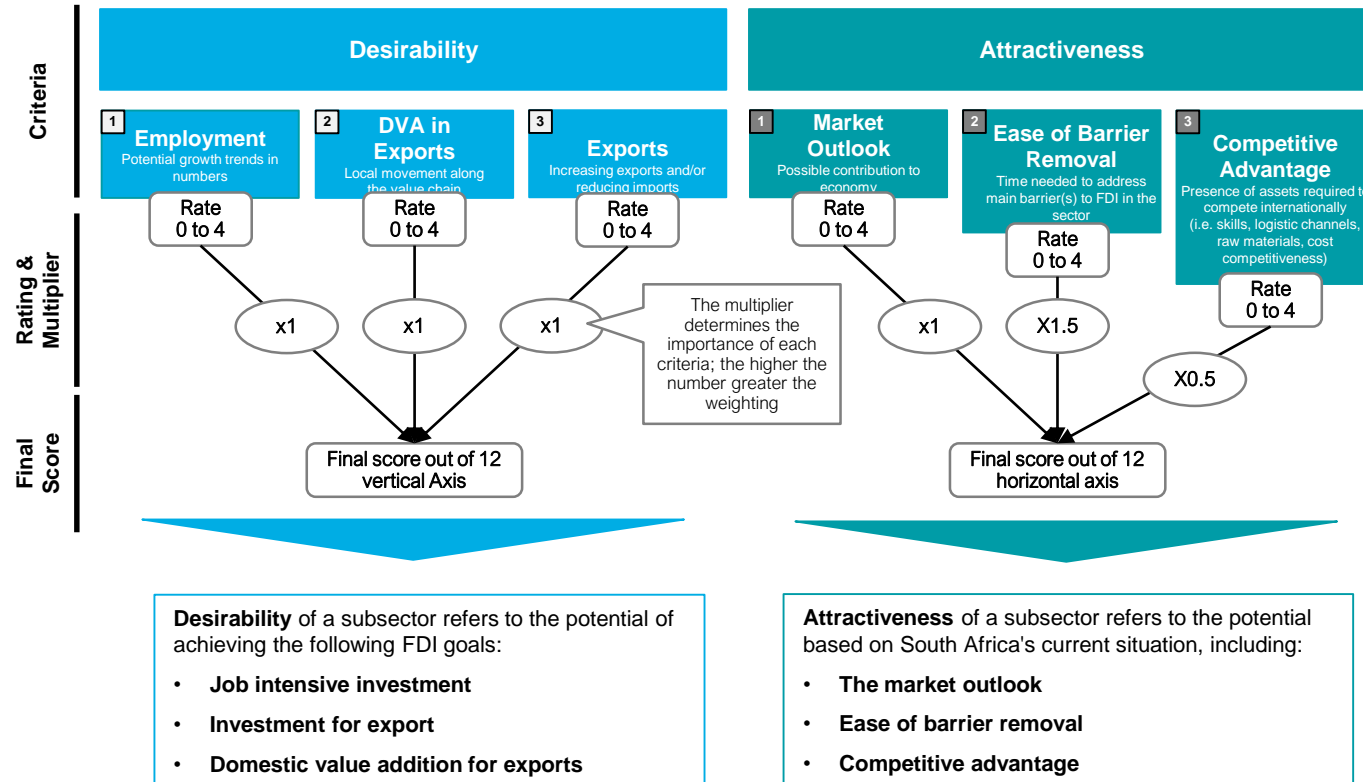
- **National Investment Promotion Strategy** – owned and driven at the highest levels in government. Actively supported and delivered by appropriate Central Government Departments.
- **An empowered, highly professional National IPA** with a specific mandate, positioned and reporting at a high level in Government.
- **Reinvigorated Provincial IPA's with specific mandates** which compliment the National and Metro IPA's
- **Metro and SEZ IPA's with specific mandates** which operate seamlessly with the national and provincial entities - this is where investment materialises.

1. Key investment policy findings
2. Institutional framework for investment promotion
- 3. Preliminary sector scan findings**
4. Private Sector Diagnostic
5. Next steps

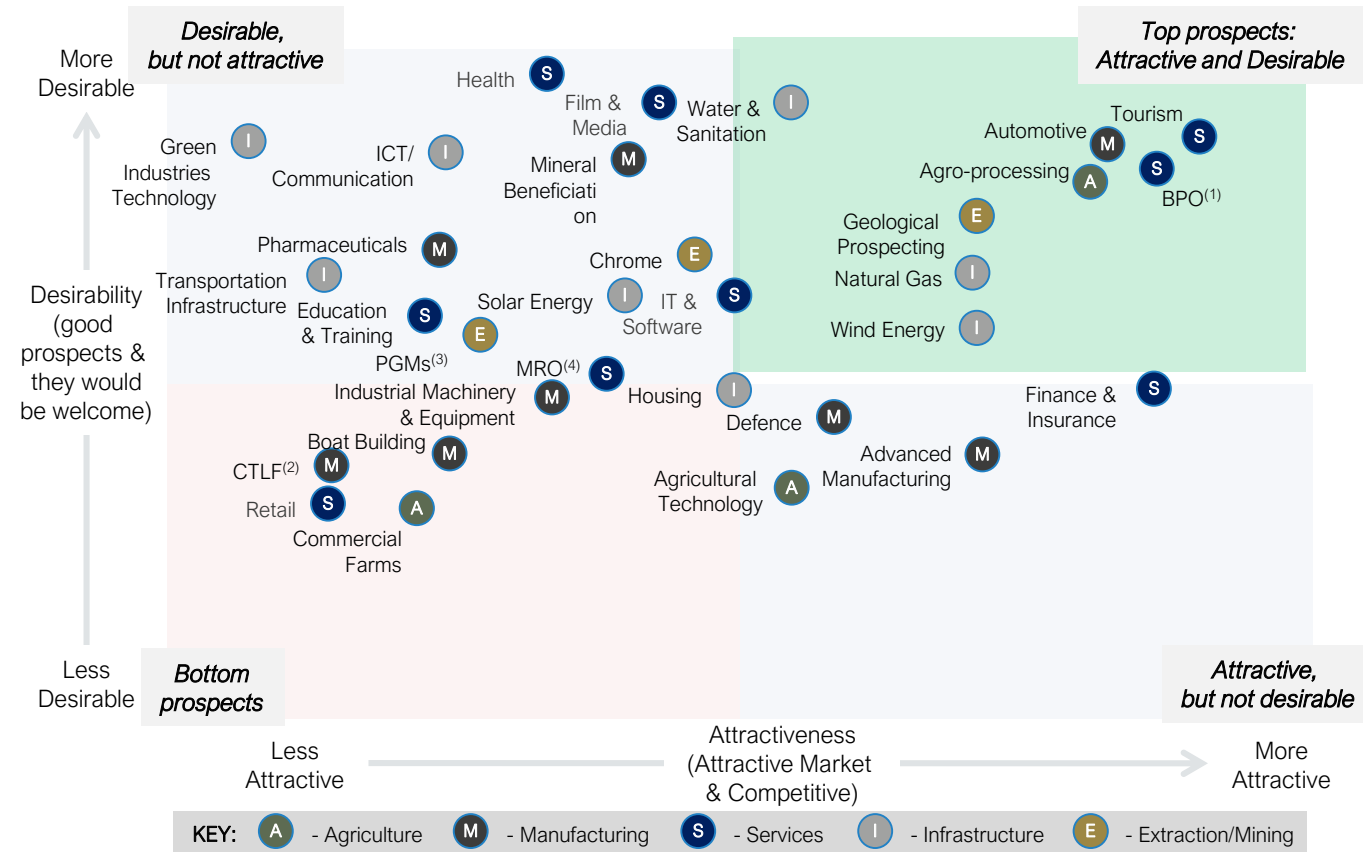
A structured filtering process was followed during the rapid diagnosis in order to determine the initial long-list of potential subsectors for prioritisation



Each component of the Desirability vs Attractiveness matrix is made up of criteria that have been rated to find the total score and the subsector placement



SA's economy is currently experiencing uncertainty, this has resulted in a high number of FDI barriers leaving subsectors to be desirable but not attractive



NOTE: (1) BPO – Business Process Outsourcing; (2) CTLF - Clothing, textiles, leather & footwear; (3) PGM's – Platinum Group Metals
 (4) MRO – Maintenance, repair and Overhaul

The top prospects which are “ready to go” have various impacts on the initial objectives that were set out in the beginning of the sector scan

Relative Scale

	Subsector	Financial Target “\$100bn”	Objectives			Key areas for policy and/or regulatory reform
			Jobs	DVA ⁽¹⁾	Exports	
Top prospects “Ready to Go”	Tourism	●	●	●	●	<ul style="list-style-type: none"> Development of a regional travel visas Clarification on visa changes (i.e. correction of the unabridged certificate request) Process consistency
	BPO	●	●	●	●	<ul style="list-style-type: none"> Consistent labour policies and practices Skills development and transformation incentives Effective utilisation of labour broking
	Automotive & Components	●	●	●	●	<ul style="list-style-type: none"> Finalisation of the Automotive Production and Development Programme (APDP) Consolidation of market to leverage economics of scale Supply chain and small business development
	Agro-processing	●	●	●	●	<ul style="list-style-type: none"> Clarification around land expropriation without compensation Strategic regional trade policies
	Geological Prospecting / Jr. Mining	●	●	●	●	<ul style="list-style-type: none"> Mining charter finalisation Issuing of mining licenses Clarity and security around land ownership
	Water & Sanitation	●	●	●	●	<ul style="list-style-type: none"> Right of way/land servitude agreements Construction law related to permits & approvals Private sector engagements around a suitable PPP model
	Natural Gas	●	●	●	●	<ul style="list-style-type: none"> National Ports Act Electricity Regulations Act Right of way/land servitude agreements Construction law related to permits & approvals
	Wind Energy	●	●	●	●	<ul style="list-style-type: none"> Electricity Regulations Act Construction law related to permits & approvals

Potential impact on objectives: ● Low ● Medium ● High

Note: (1) DVA – Domestic Value Addition

The “aspirational sectors” also have various impacts on the initial objectives which can be unlocked through focused policy and regulatory reform

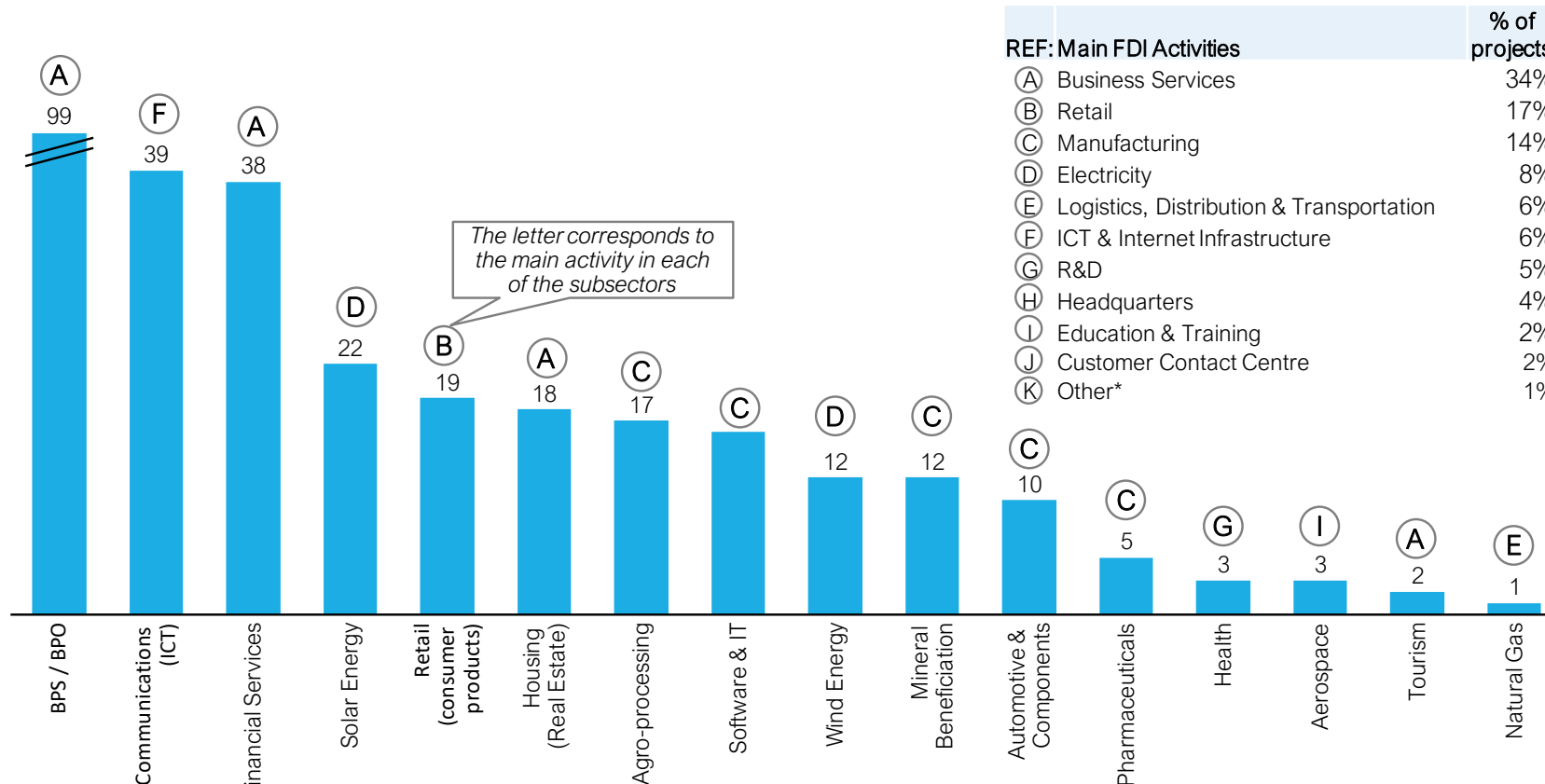
Relative Scale

	Subsector	Financial Target “\$100bn”	Objectives			Potential impact on objectives: ● Low ● Medium ● High
			Jobs	DVA ⁽¹⁾	Exports	Key areas for policy and/or regulatory reform
Desirable, but “aspirational” sectors	Mining (chrome, magnesium, PGMs, etc.)	●	●	●	●	<ul style="list-style-type: none"> ▪ Mining charter finalisation ▪ Issuing of mining licenses ▪ Clarity and security around land ownership
	Health care	●	●	●	●	<ul style="list-style-type: none"> ▪ Visa policies that allow for freedom of movement of people and their skills ▪ Education system and the availability of the necessary skills
	Mineral beneficiation	●	●	●	●	<ul style="list-style-type: none"> ▪ A secure energy supply ▪ Freedom of movement for goods ▪ Reduced transportation costs, notably port tariffs ▪ African development contracts stipulating local SA metals & materials to be utilised
	ICT & Software	●	●	●	●	<ul style="list-style-type: none"> ▪ Development of a national level integrated strategy ▪ Finalisation of the proposed policy for the licensing of high-demand spectrum. ▪ Visa policies that allow for freedom of movement of people and their skills ▪ Constraints applied by exchange control regulations on IP ▪ The communications regulator decisions around the plans to auction spectrum for 4G services
	Training and Education (notably at the tertiary and technical collage levels)	●	●	●	●	<ul style="list-style-type: none"> ▪ Introduce alternative operating models – such as the “collaboration model” being piloted in the Western Cape ▪ Improve the professionalism, teaching skills, subject knowledge and computer literacy of teachers ▪ The accuracy of data produced and captured
	Transportation infrastructure (rail & port)	●	●	●	●	<ul style="list-style-type: none"> ▪ Construction law related to permits & approvals ▪ Private sector engagements around a suitable PPP model ▪ Efficient and effective management of SOE’s

Note: (1) DVA – Domestic Value Addition

In the past 5 years greenfield FDI announcements in South Africa were dominated by projects in Business Services, ICT, renewable energy and retail sector.

Number of projects per subsector considering the main activities over the past 5 years



The BPS / BPO subsector covers a wide base of 14 various services; individually technical support services had the highest amount of projects at 22

Source: 1) fDi Markets South African data
 2) FTC analysis
 Note: * Other includes; Customer contact centre, Construction, Extraction and Recycling

1. Key investment policy findings
2. Institutional framework for investment promotion
3. Preliminary sector scan findings
- 4. Private Sector Diagnostic**
5. Next steps

Private Sector Diagnostic

- ✓ Standardized IFC methodology implemented globally to identify opportunities for private sector investment to drive development
- ✓ Discusses the opportunities for investment in the context of the overall and sectoral political economy
- ✓ Identifies cross-cutting and sector-specific policy and infrastructure constraints for greater private sector participation
- ✓ Seeks to promote a dialogue among stakeholders

Issues reviewed in South Africa:

Opportunities for greater (private) investment in “enabling sectors” to remove economy-wide constraints:

- ***Skills and education*** – in schools; TVET; and university level. Blocked by regulatory obstacles;
- ***Infrastructure*** – energy, water and sanitation, and transport. Need to revisit the role of SOEs and introduce pro-competitive regulations.

Deep dive analyses of three sectors to unpack the sector-specific constraints:

- ***Agriculture & Agribusiness***
- ***Automotive and components***
- ***ICT***

Document being finalized for review and discussion with government and stakeholders in March-April

Private Sector Diagnostic – Selected Recommendations

Cross-cutting constraints

Business environment

- Mitigate policy uncertainty in key areas for investors
- Scale-up e-Government platforms to increase efficiency of services

Regulatory obstacles to competition

- Introduce pro-competitive regulations
- Review the role and mandate of industry associations

Limited integration into global value chains.

- Hedging products for SMMEs, and strengthen capacity of support microfinance institutions.

Enabling sectors

Education and skills

- Make it easier for private institutions to enter and expand by relaxing stringent regulations
- Improve offering of TVETs through deeper partnerships with industry and encouraging entry of private providers

Energy

- Continue to strengthen the governance and management of Eskom.
- Reduce the costs of obtaining electricity connection and improve reliability of supply

Transportation

- Improve governance of SOEs such as Transnet and SAA
- Foster more PPPs to drive greater private investment by drawing on the success of Gautrain

Water

- Foster PPPs to increase investment into infrastructure
- Implement international best practices to reduce non-revenue water

Deep dives key productive sectors

Agriculture and agribusiness

- Assess capabilities of ministries and producer organizations for key support functions
- Potential for PPPs to improve trade-related services
- Increase lending to emerging farmers through blended finance initiatives
- Mitigate non-tariff barriers within SADC region

Automotive manufacturing

- Expand exports towards the Africa region through technical partnerships and supporting component manufacturers in exporting aftermarket parts
- Evaluate and scale up good practices in existing supplier development programs

Information and Communication Technologies

- Clarify the policy direction on the assignment of high-demand spectrum
- Accelerate digital migration to free spectrum
- Strengthen the independence and capacity of ICASA
- Enter into PPPs as a tool for fostering digital skills that are directly needed within the private sector

1. Key investment policy findings
2. Institutional framework for investment promotion
3. Preliminary sector scan findings
4. Private Sector Diagnostic
- 5. Next Steps**

Proposed Next Steps

- At SONA 2019, the President announced the establishment of a cross-ministerial team to “address the **policy, legal, regulatory and administrative** barriers that frustrate investors”. WBG continues to support the DB Reform agenda.
- WBG team engages further with private sector and local initiatives around **sector identification and obstacles**. It is finalizing its Private Sector Diagnostic to discuss with government, business and society.
- As **investment policy reform** unfolds, WBG can assist by providing further analytical inputs and technical support, and drawing on its experience supporting similar processes in other now-successful investment locations.
- These analyses could to include international **benchmarking of competitiveness** of investment in selected sectors.
- Draw on the experience of other countries in developing *new generation* **Bilateral Investment Treaties** to give more confidence to investors