

UK
TRADE &
INVESTMENT



Fiscal Stimulus Package
and Opportunities for UK Companies
in South Africa

Location: East Midlands

Date: 19th May 2010



Agenda

- About South Africa
- Fiscal Stimulus Initiative
- The Economic Challenge





About South Africa

Priorities of the New ANC Government:

- ➔ The introduction of a massive programme to build economic and social infrastructure.
- ➔ To improve the health profile of all South Africans.
- ➔ Working with Africa and the rest of the world, to pursue African advancement and enhanced international co-operation.
- ➔ To ensure sustainable resource management and use.

9 Provinces – Their Contribution to GDP

- Gauteng 33%
- KwaZulu Natal 17%
- Western Cape 15%



3 Provinces account for 65% of GDP

Some Basic Facts

- ➔ A fast growing middle class
- ➔ An abundant supply of natural resources
- ➔ Well-developed financial and legal services
- ➔ A stock exchange amongst the global top 10
- ➔ Modern infrastructure:
 - excellent telecommunications
 - energy
 - transport systems

Some Issues

- ▶ High unemployment
 - Lost close to 1m jobs during 2009/10

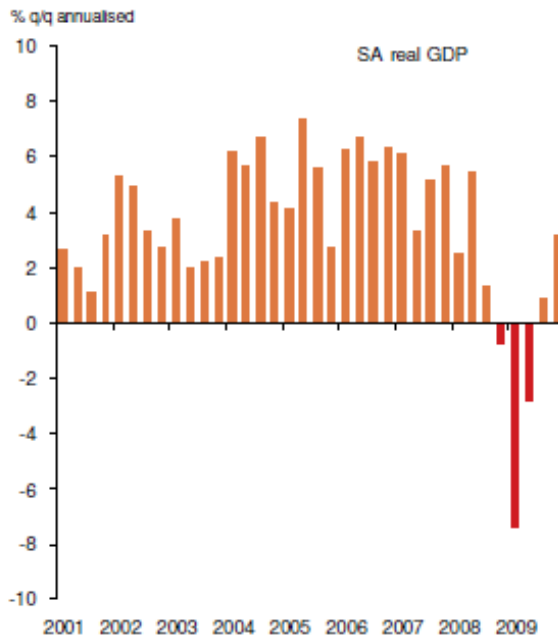
- ▶ Daunting and related economic / social issues
 - Poverty
 - Low economic empowerment
 - Skills shortage
 - HIV Aids
 - Crime
 - Inflation circa 5.4%

- ▶ Political Succession
 - Break up of the ANC - COPE

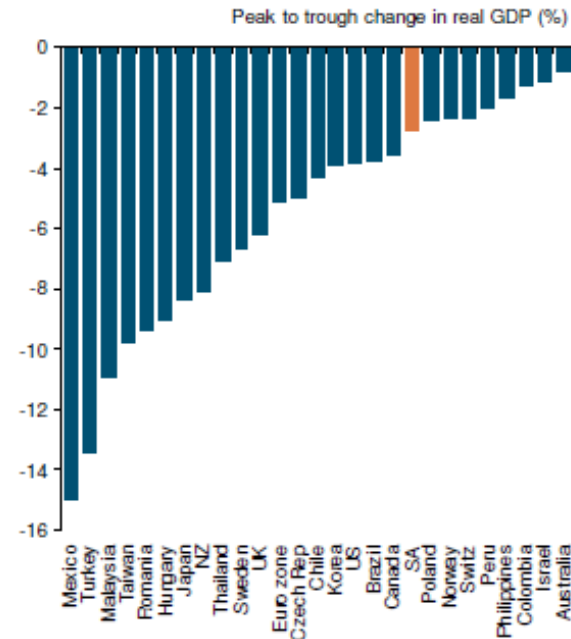
- ▶ Strength of the Currency - ZAR

Economic Performance - 1

Recession short lived



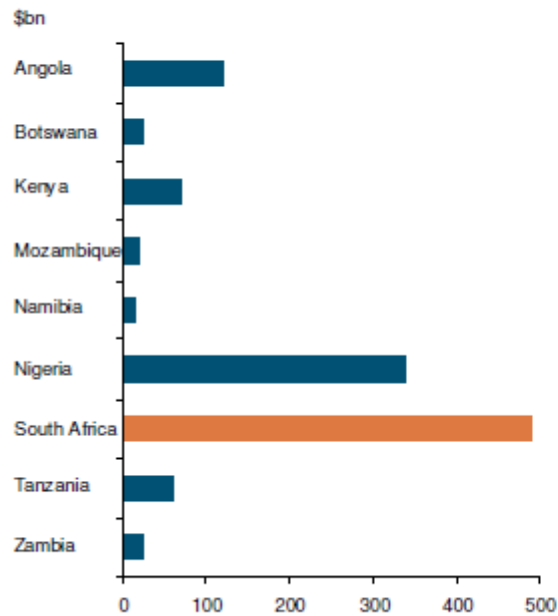
SA not that hard hit



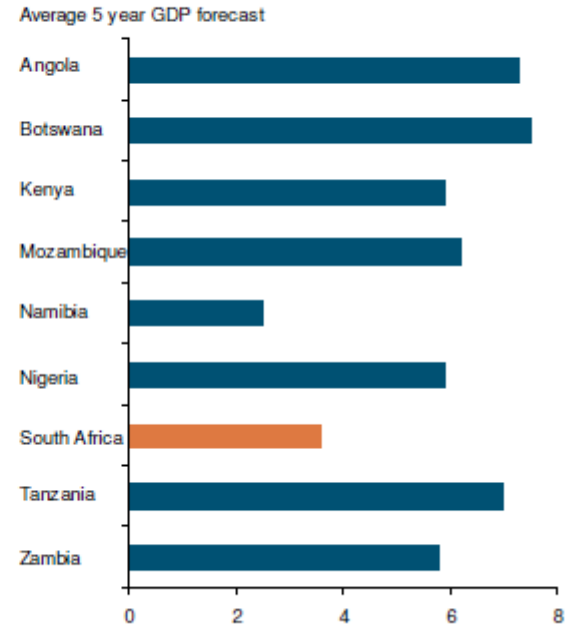
- The economic growth annualised rate of +3.2%
- The recovery led by manufacturing sector, and to a lesser extent mining, with consumer spending being slower to recover.
- Recovery is underway in South Africa but unemployment rate in excess of 20%.

Economic Performance -2

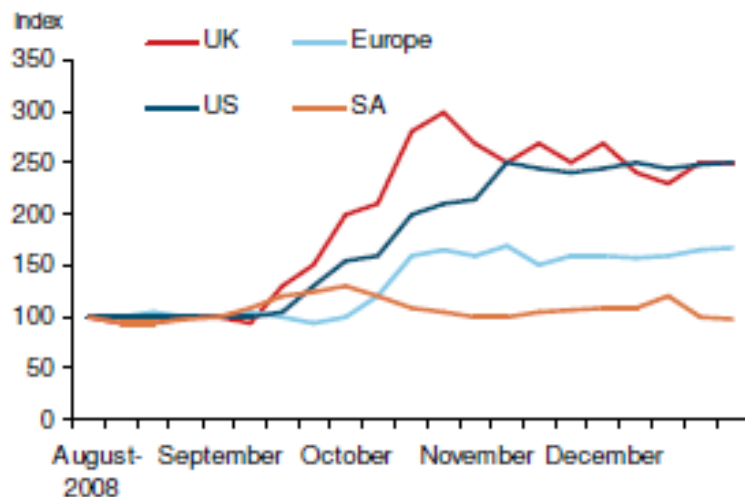
2009 GDP in PPP terms



Encouraging growth prospects



Sufficient liquidity



Superior SA banking system

- Conservative credit environment (NCA)
- Regulation prevents participation in toxic assets
- Less reliant on foreign funding (95% of credit is local)
- Banks are well capitalised with low leverage ratios
- Lower profitability, but still profitable
- Asset quality did deteriorate, but didn't collapse

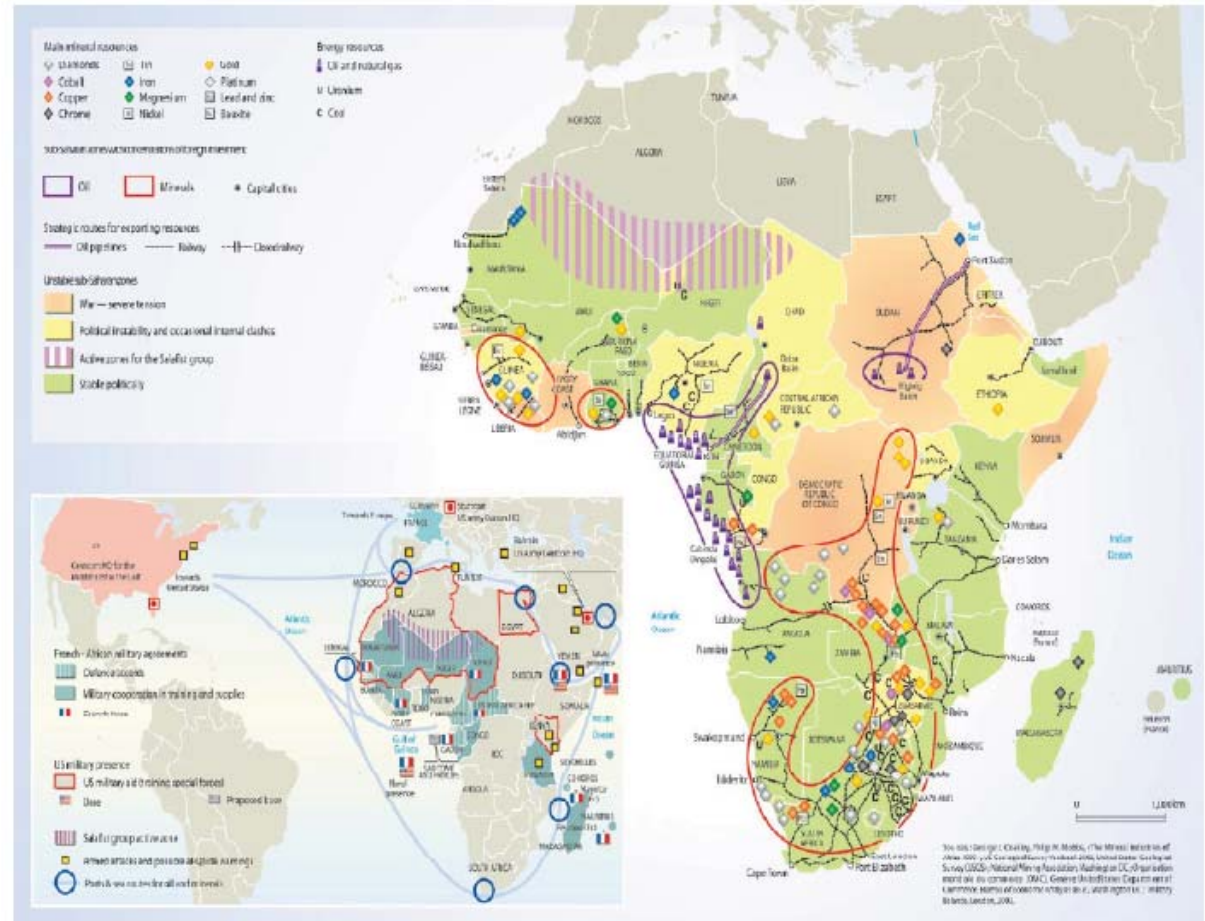
Global Rankings

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Singapore	1	4	2	1	16	4	2	5	1	13	2
United Kingdom	5	16	16	35	23	2	10	16	16	23	9
Germany	25	84	18	158	57	15	93	71	14	7	35
France	31	22	17	155	159	43	73	59	25	6	42
South Africa	34	67	52	102	90	2	10	23	148	85	76
Greece	109	140	50	147	107	87	154	76	80	89	43
India	133	169	175	104	93	30	41	169	94	182	138

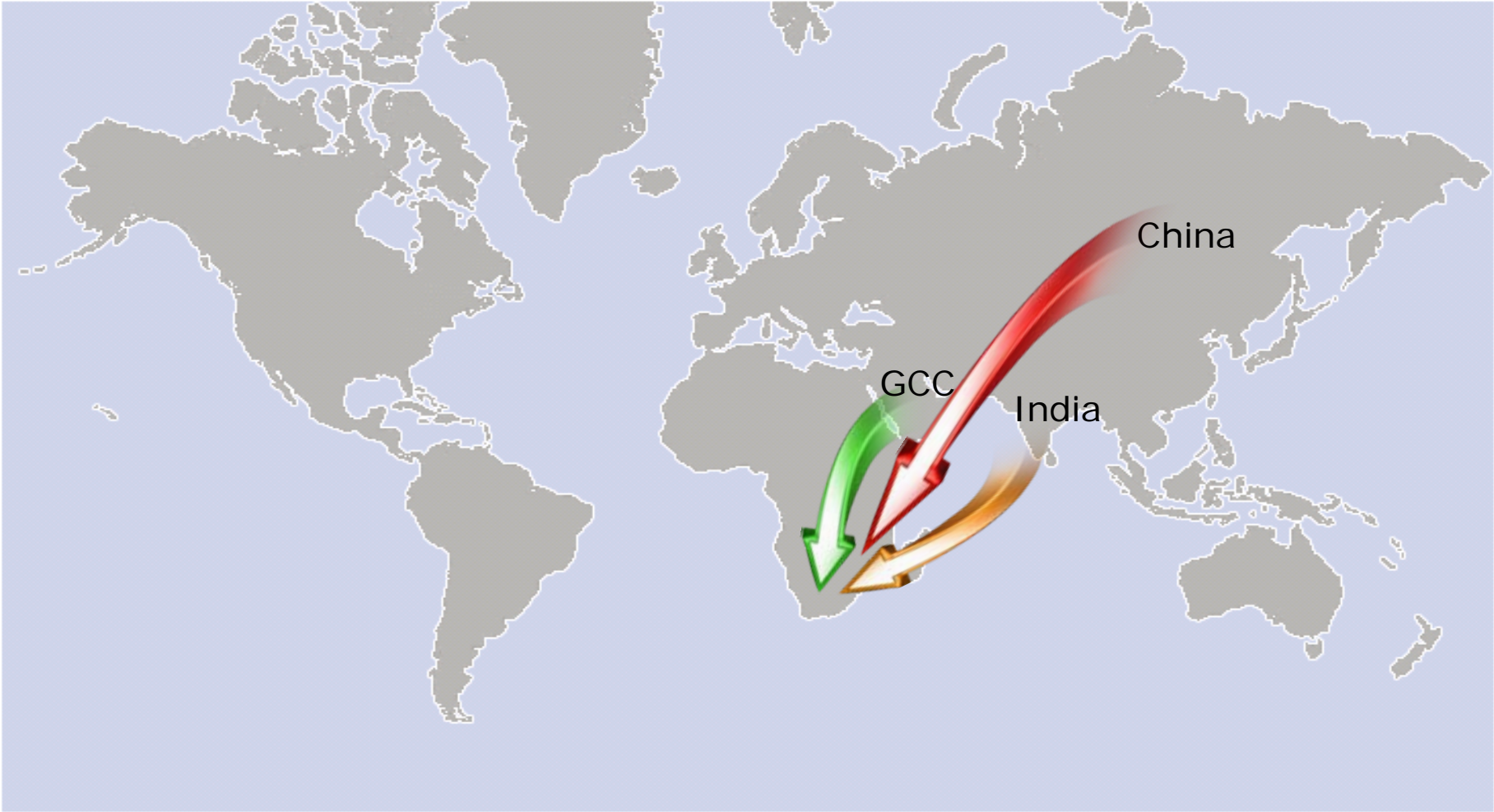
Source World Bank 2010

Abundance of Raw Materials

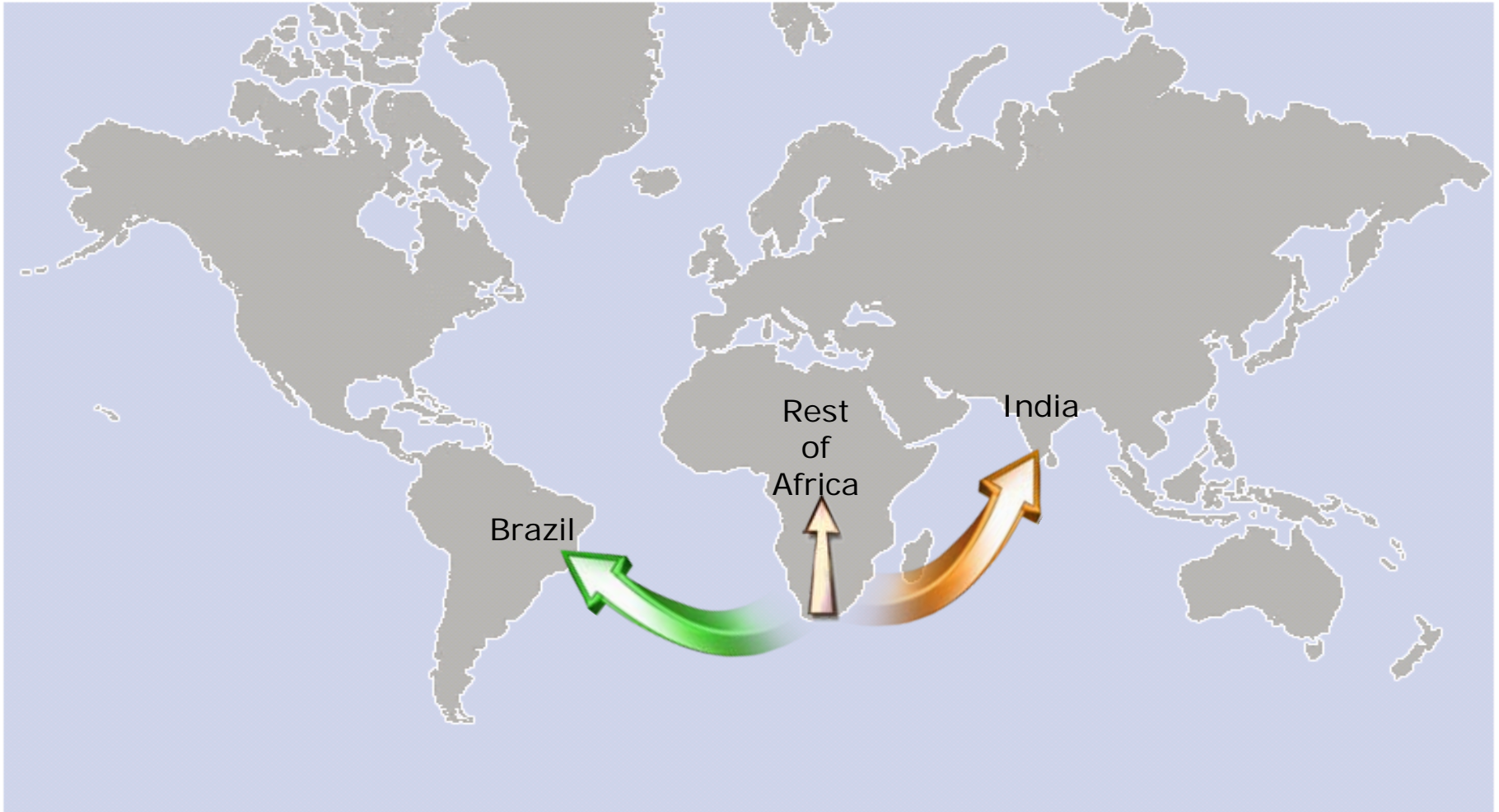
- 30% of the world's proven mineral resources.
- By 2001 only 10% of land mass had been prospected.
- Asia currently accounts for 27% of Africa's exports (14% in 2000).
- Africa is a key partner for the developed world and for the industrialising of economies of India and China.



Flow of FDI



South Africa as a Hub



Johannesburg

Bigger than Chicago, Manchester, Frankfurt!



Durban

2x bigger than Barcelona, Same size as Madrid, 6x bigger than Edinburgh

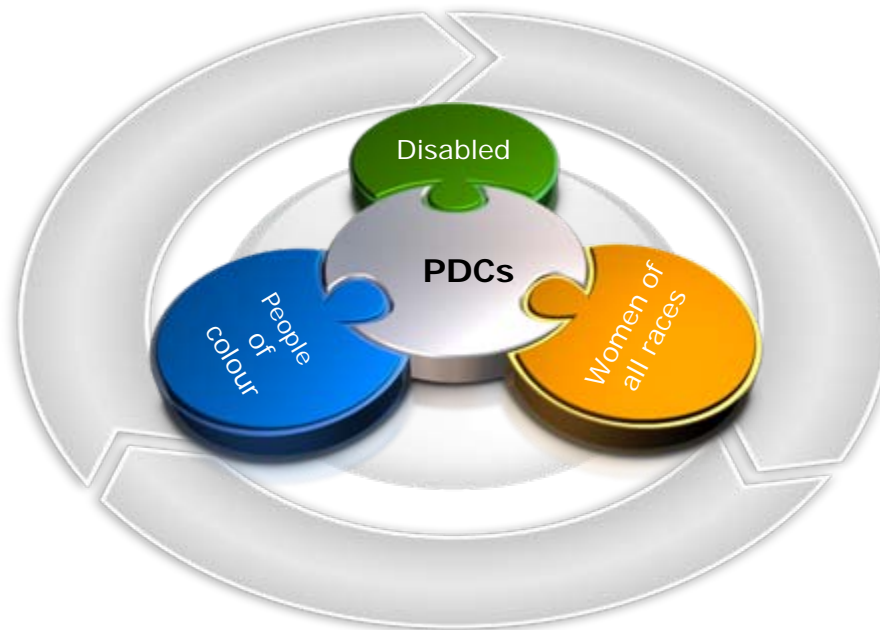


Cape Town

2.5 x bigger than Milan, Same size as Madrid, 4x bigger than Leeds



BEE - Black Economic Empowerment



- Government Policy to bring the Previously Disadvantaged Communities (PDCs) into the economic main stream;
- Over 60% of South African business owners regard black economic empowerment important for winning new business;
- These companies prefer to fast-track key employees and develop existing staff to achieve empowerment targets.

Realising the BEE Objective

The Government is seeking to achieve B-BBEE by:

- ▶ increasing the number of PDI's who manage, own and control businesses;
- ▶ facilitating the ownership and management of such businesses by communities, workers and other collective enterprises;
- ▶ boosting human resource and skills development;
- ▶ achieving equitable representation in all categories and levels of the workforce;
- ▶ promoting preferential procurement which would involve the purchase of goods and services with a strong B-BBEE score;
- ▶ encouraging investment in enterprises that are owned or managed by PDC's.

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Fiscal Stimulus Initiative (FSI)

Background

The Programme is part of UK Trade & Investment's response to the global economic downturn.

In difficult times, businesses need to be flexible and innovative and seek out opportunities where they exist.

Governments of the G20 have introduced Fiscal Stimulus Packages of various types.

The Fiscal Stimulus Initiative helps UK-based companies capitalise on business opportunities arising from major overseas spending programmes.



How Does FSI Work?



The FSI Value



The FSI Team



Paul Corcut
France & Russia



Phil Dowrick
GCC



Jeremy Gordon
China



Phil Haymes
GCC & Brazil



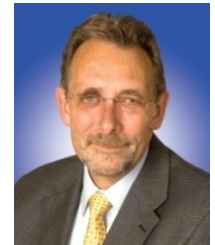
Andrew Hinton
USA



Jeet Jandu
India & Australia



Shakeel Mughal
Spain & S Africa



Steven Spalding
Germany & China



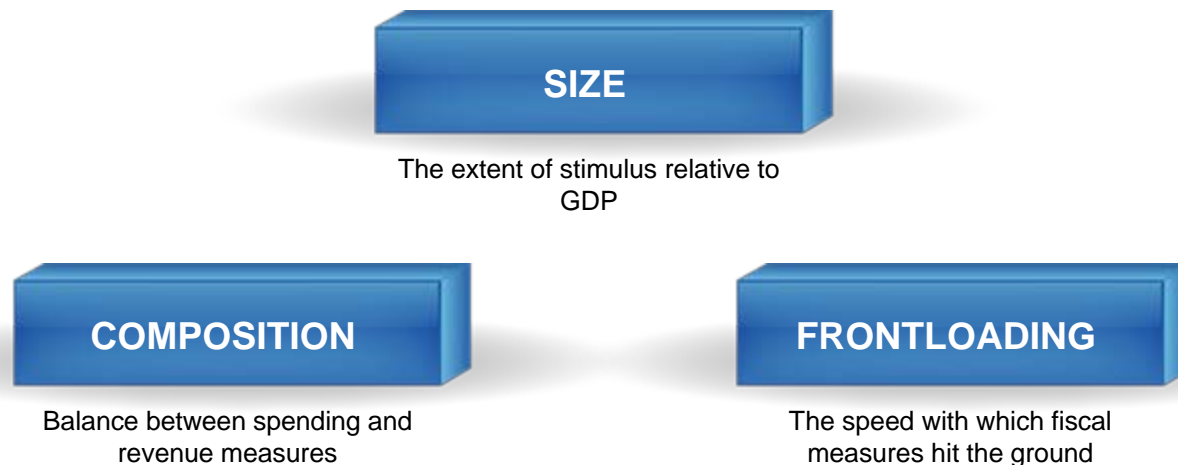
Kevin Thorpe
USA & Canada



Chris Wall
Brazil

Fiscal Spending Comparator

- Data on the size of fiscal stimulus packages in USD as announced by the governments and compiled by the IMF;
- Data represents estimates of the size of new measures, rather than the announced size of stimulus packages, and includes measures already planned before the scope of the crisis became clear;
- This allows us to evaluate the fiscal stimulus packages based on three key criteria:



Make Up Of The Fiscal Packages

- It is estimated that 20% of project spending in the EU is accessible to non national Companies;
- Most G20 countries use open tenders and VFM criterion.

So where is the Fiscal Stimulus Money?

- The total G20 stimulus spending is approximately USD1.64Trn of which USD1.1Trn is not tax related;
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South Africa

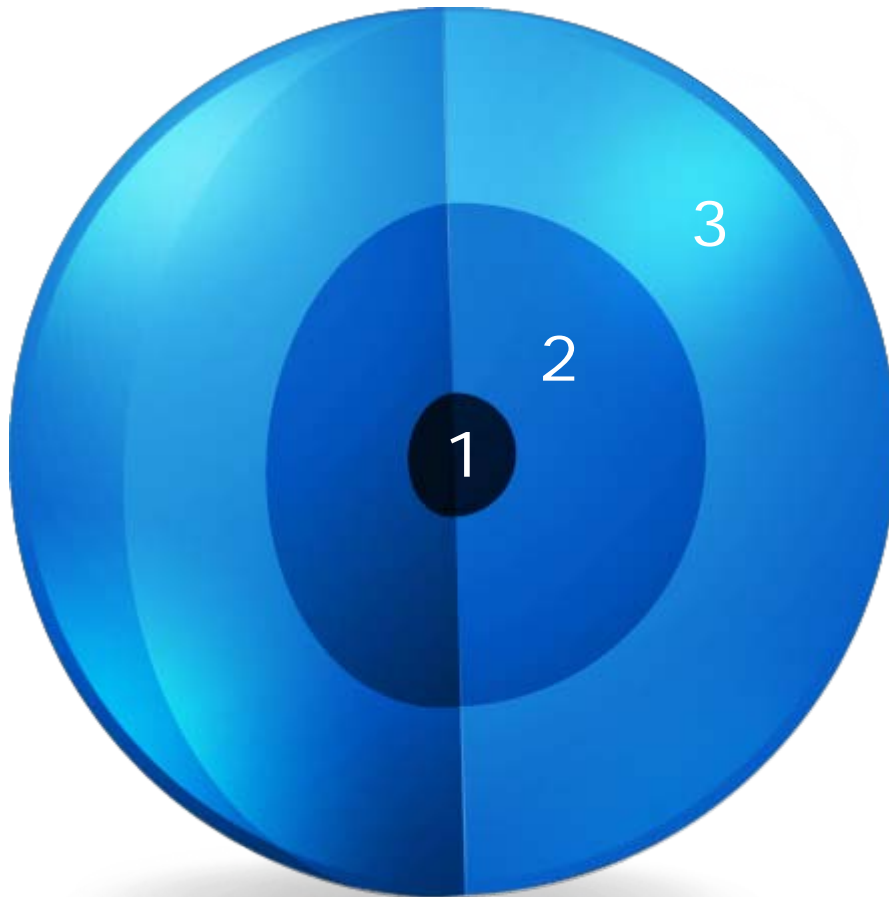


South Africa– Synopsis

- The economy entered recession in 2008/09 after 17 years and for the first time under ANC rule;
- The South African Banking system relatively unscathed due to tight regulation;
- The Government has announced a ZAR 846Bn (£80Bn) Stimulus Package:
 - ZAR261bn (9.7% of GDP) in 2010/11
 - ZAR283bn (9.5% of GDP) in 2011/12
 - ZAR300bn (9.1% of GDP) in 2012/13
- 36% of the fiscal initiative budget will be spent on:
 - Electricity supply,
 - Followed by transport, water, housing, schools and hospitals.
- Increasing use of public-private partnership (PPP):
 - 25 PPPs with a private investment value of ZAR13,8bn completed
 - Additional ZAR29bn of private capital is committed to new PPP projects.

South Africa – Synopsis continued

Value ZAR Bn	Purpose
59.4	Expanded public works programme intended to create 1.5m short-term jobs annually over the next three years.
94	Infrastructure investment.
390	Spent on state-owned enterprises.
80	Rail Projects.
12	Bus Rapid Transit system.
1.6	South African Airways to support its turnaround strategy.
67	Infrastructure grants to municipalities.
45	Breaking New Ground housing programme.
97	Other initiatives.
846	Total



1. Cluster 1

Qualitatively new areas of focus -

- a. Realising the potential of the metal fabrication, capital and transport equipment
- b. Sectors arising from large public investments
- c. 'Green' and energy-saving industries
- d. Agro-processing.

2. Cluster 2

Scale up and broaden interventions

- a. Automotives, components, medium and heavy commercial vehicles
- b. Plastics, pharmaceuticals and chemicals
- c. Clothing, textiles, footwear and leather
- d. Bio-fuels
- e. Forestry, paper, pulp and furniture
- f. Strengthening linkages between cultural industries and tourism

3. Cluster 3

Sectors with potential for long-term advanced capabilities

- a. Nuclear
- b. Advanced materials
- c. Aerospace

South Africa - Fiscal Stimulus Sectors

Priority Sectors
Security
Power Generation and Distribution
Ports & Logistics
Roads & Rail
Rail Rolling Stock
Electronics & IT Hardware
Environment
Healthcare & Medical
Mechanical Electrical & Process Engineering
Automobile and Advanced Engineering
Agriculture and Aquaculture
Software & Computer Services
Water & Forestry
Research & Development

FSI currently working with UK companies in projects of over £3Bn:

- a. Rail
- b. Power
- c. Ports

FISCAL STIMULUS INITIATIVE



Fiscal Stimulus – South Africa

In April 2009, South Africa went to the polls for the fourth time since 1994 and elected the ANC to form the next government under President Jacob Zuma. In his inaugural speech, the President set out 10 areas which form part of his governments' Medium Term Strategic Framework for 2009 to 2014.

These are:

- To speed up economic growth and transform the economy to create sustainable skills and livelihoods.
- The introduction of a massive programme to build economic and social infrastructure.
- To develop and implement a comprehensive rural development strategy linked to food security and sustainability.
- To strengthen the skills and human resource base.
- To improve the health profile of all South Africans.
- To intensify the fight against crime and corruption.
- To build cohesive, caring and sustainable communities.
- Working with Africa and the rest of the world, to pursue African advancement and enhanced international co-operation.
- To ensure sustainable resource management and use.
- And, to build a developmental state, improve public services and strengthen democratic institutions.

domestic demand. Current GDP growth is 3 per cent for 2009/2010; and the forecast is 3.2 per cent for 2010/2011 and 3.6 per cent the year after.

In order to stimulate the economy, the government has also announced a ZAR 846Bn (£70bn) Stimulus Package. The bulk of this package will be targeted at major infrastructure renewal and expansion programmes thus creating opportunities for UK companies.

For the UK these include:

- 1 Security;
- 2 Power generation and distribution, focus on both conventional and sustainable sources;
- 3 Ports, roads and rail infrastructure;
- 4 Rail rolling stock;
- 5 Sustainable and affordable housing for which 600HA of land has been set aside;
- 6 Education and training;
- 7 Automotive and Advanced Engineering;
- 8 Agriculture and Aquaculture;
- 9 Healthcare;
- 10 Water and Forestry.

Following a year of 'bedding down', all government departments are under pressure to deliver the Strategic Framework.

During 2008/2009, South Africa saw its first recession in 17 years, which resulted from depressed global and

South Africa should also be seen as a base from which UK companies can springboard into the rest of Sub-Saharan Africa, particularly into emerging economic neighbours such as Angola, Botswana and Mozambique.

For further information on business opportunities in South Africa under the Fiscal Stimulus Initiative, please contact:

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South Africa – Project Opportunities

Sectors	Use	Value	Project Opportunities
Infrastructure	Rail rolling stock and network expansion	ZAR80Bn	<ol style="list-style-type: none"> 1. Refurbish and upgrade current rolling stock 2. ZAR 19.5 billion a year over 4 years to upgrade and extend rail network 3. New rolling stock; passenger and cargo <p>SADC has agreed a further \$100Bn facility for the transport sector in South Africa</p>
Infrastructure	Roads development of new infrastructure and ICT .	ZAR1.153Bn	<ol style="list-style-type: none"> 1. ZAR 200 million on Intelligent Transport Systems, 2. ZAR 700 million on new and improved bus and taxi infrastructure, 3. ZAR 144 million on new intermodal interchanges and facilities, 4. ZAR 109 million on non-motorised Transport Infrastructure Projects
Infrastructure	Ports	ZAR80Bn	<ol style="list-style-type: none"> 1. Upgrade and extend Ports Infrastructure
Housing	Housing and the eradication of informal settlements	ZAR119.8Bn	<ol style="list-style-type: none"> 1. ZAR 67 billion - Infrastructure grants to municipalities - Feb 2009 2. ZAR 45 billion - Breaking New Ground housing programme - Feb 2009 3. ZAR 3.7 billion - Housing Provision. Low-housing projects <p>An additional ZAR 4.1 billion is set aside for the second phase of the Expanded Public Works Programme (EPWP) although many of these projects will only run to the end of 2009.</p>
Power	Guarantees to Eskom for funding of new power stations and feed in Tariffs for renewables	*ZAR70Bn	<ol style="list-style-type: none"> 1. New power stations over 5 years 2. Return to service of power stations Camden, Grootvlei and Komati 3. New feed in Tariffs published by Eskom for power from renewable sources <p>* Additional funding will be made available over and above the fiscal stimulus package</p>
Environmental and water	Infrastructure	ZAR 50Bn	<ol style="list-style-type: none"> 1. Water treatment plants 2. Pipe network

Tender Sites – South Africa

Name	Website	Coverage	Type	Industry Focus
Cape Business News Tenders	www.cbn.co.za/tender	South Africa	Commercial and Public Sector	Construction, Consultancy, Education, Energy and Environment, Infrastructure, Transportation
Tenders in South Africa	www.tendersinsouthafrica.co.za	South Africa	Public Sector	Construction, engineering, health services, education, utilities, industry
Leads 2 Business	www.dailytenders.co.za	Africa	Mainly Public Sector	Consultancy, Education, Industry, Energy and Environment, Infrastructure, Transportation

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But it should be part of a Strategy

6 Killer Questions

- Does your strategy fit with what is going on ?
- Does your strategy exploit your key resources ?
- Are you differentiators sustainable ?
- Are the elements of your strategy consistent and coherent across the company ?
- Do your resources match your strategy ?
- Is your strategy implementable ?

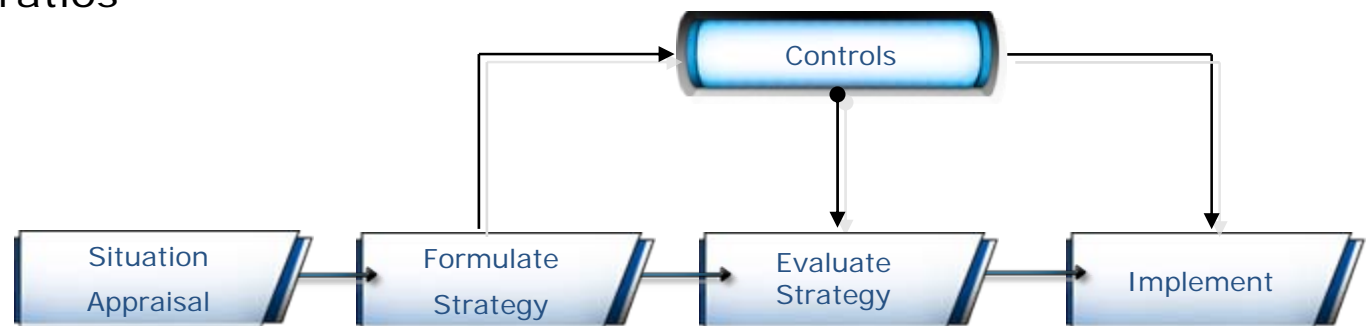


What is Your Approach?

Are You Opportunistic or Do You have a Strategic Plan?

- Opportunistic:
 - Reactive
 - Unfocussed
 - Resource intensive and Expensive
 - Low win ratios

- Strategic:
 - Planned
 - Focussed
 - Efficient use of resources
 - High win ratios



South Africa
Case Study



Case Study –



Rail Sector

Project:

- a. 700km Rail line refurbishment and extension. Value circa \$1.5Bn.

Requirement:

- a. Local content;
- b. Transfer of technology;
- c. Skills transfer;
- d. PPP structuring;
- e. Black empowerment.

FSI Involvement:

- a. Working with the local lead company to understand the requirement and tactical approach;
- b. Breakdown the project technology and skills requirement;
- c. Work closely with other UKTI stakeholders and industry bodies to map onto UK capability and identify companies who could participate;
- d. Approach UK companies and alert them of the opportunity;
- e. Position UK companies with the South African company leading the consortium.

Provides access to:

- Business Specialists;
- Sector Specialists;
- Its Teams based in the target country;
- Information on Fiscal Initiatives and about new business opportunities in these markets.

UKTI can assist with informed inputs to your Strategy



Hit the world running **UK**