

South Africa

Building a New Legacy

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South Africa has come a long way since its first democratic elections in 1994. President Nelson Mandela and his successor Thabo Mbeki will leave a legacy for South Africa and its continent that few outsiders would have dared predict a decade ago. Though great challenges still remain, South Africans continue to find solutions. As Deputy President Phumzile Mlambo-Ngcuka makes clear, the spirit that led to the “miracle” election of 1994 burns on in South Africa’s determination to see that the promises of freedom are fully realized.

On course for accelerated and shared growth



South Africa has entered an age of hope. Not vain hope, but hope based on firm foundations. We have grown at around 4.5 percent per year for three years. In the past five years GNI per capita has risen from under \$3,000 to over \$5,000. During the same period we cut taxes several times; reduced the budget deficit to virtually zero; reduced government debt to one of the lowest levels in the world; reduced inflation to 3-5 percent; and reduced poverty through a system of social grants which now reaches 11 million beneficiaries. For two years in succession we have created over 500,000 additional jobs in the economy.

In the first decade of democracy, 1994 to 2004, we stabilized the economy, sometimes at great cost. Interest rates were high in the late 1990’s, government spending fell back, and growth was slow. But GDP growth averaged about 3 percent, with about 2 million more people employed.

Nevertheless, great social and economic challenges remain. The African National Congress went to the electorate in 2004 on a platform of “working together to create jobs and fight poverty”. We committed ourselves to halve unemployment to less than 15 percent and ensure that less than one-sixth of South Africans live in poverty by 2014, a year ahead of the Millennium Development Goals timetable.

After engaging our political party and its alliance partners, we discussed the plans with a range of domestic stakeholders. We did this through the President’s ‘working group’ system - the President, Deputy President, and cabinet ministers meet at least twice a year with several business groups, organized labor, religious leaders, youth leaders, and leaders of organizations representing women. Possibly the most decisive meeting was with President Mbeki’s International Investment Council. Twice a year the council brings the working group together with business leaders such as Jürgen Schrempf, Niall Fitzgerald, Ratan Tata, and Percy Barnevik. The council advocated a very public program with numerical targets and effective mobilization of key public and private players.

After approving a broad strategy paper prepared under

the leadership of the Minister of Finance, the President asked me and a small team of cabinet ministers and provincial premiers to develop a program. We called it the Accelerated and Shared Growth Initiative, or AsgiSA. To organize our ideas and strategy we borrowed the concept of “binding constraints” from a school of development economists based at Harvard University. These are constraints which, if removed, would undoubtedly have a significant effect on a county’s growth trajectory.

Overall we had a commodity sector that was reasonably strong and a non-tradable sector – retail, services, construction and so on – that was steaming ahead as employment and disposable incomes rose. Yet how could we use this period of strong demand for our natural resources (including gold, platinum, coal, iron and steel) to build foundations for more sustainable growth? How could we bring the one-third of the population who were marginalized from economic benefit into the mainstream to reduce inequalities? Both equity and sustainability of growth require eradication of the divide between first and second economies.

The key constraints were: the relative volatility of the currency; the cost, efficiency, and capacity of the national logistics system; shortages of suitably skilled labor; limited competition and new investment opportunities; the regulatory environment and the burden on small and medium businesses; deficiencies in state organization, capacity, and leadership. For each constraint we compiled a set of actions. We now had a new system of priorities and a new set of mechanisms to enforce decisions at presidential, cabinet, and constituency level.

So far things are going well, with gross fixed investment having risen from 14 percent of GDP to 18.5 percent, and growing at an annual rate of over 11 percent. We are injecting major new funding into skills development institutions and are investing a great deal in the performance of government institutions, performing surgery on the more serious cases. New investment opportunities in promising sectors such as tourism, business process outsourcing and off-shoring, and bio-fuels are being developed. From 2010, as the AsgiSA reforms kick in, we expect to raise our growth rate from 4.5 to about 6 percent. We believe that our performance so far makes this a credible and eminently achievable target.

Phumzile Mlambo-Ngcuka
Deputy President of the Republic of South Africa

Principled Pragmatists and Innovators Build a New South Africa

South Africa is alive with possibility as it addresses the stubborn aftermath of apartheid and lays the foundations of a better life for all of its people. This is a country that has defied expectation and solved problems that have left less fortunate societies in ashes. Some attribute South Africa's much-heralded miracle to the statesmanship of former President Nelson Mandela, but as Independent News and Media group newspaper publisher Sir Anthony O'Reilly puts it, Mandela is "the quintessential South African" and his qualities are very much those of his nation.

One of the most important of those qualities is a principled and imaginative pragmatism that favors lasting, consensus-based solutions over ideological abstraction or quick fixes. "We have a tendency to look around the world, find best practice and then ask how do we make it work for us?" says Yvonne Johnston, CEO of the International Marketing Council. To illustrate this point she cites, among other examples, the Truth and Reconciliation Commission, which was adapted from models pioneered in Latin America. The pay-off? "We now have macroeconomic stability, our interest rates are at an all-time low, our GDP is at an all-time high, and there's a lot of investment coming in. People do not make investments to be kind, but because it makes good business sense."

"South Africa's political success has already been quite phenomenal, and it is very important to bring economic success up to the same level."

Raisibe Morathi Economic Adviser to the Deputy President

Key to South Africa's economic transformation since 1994 have been its bold moves to open its markets to global competition, and in the process make its own previously protected and isolated industries more dynamic and competitive. There has also been a successful focus on diversifying the country's hitherto heavily resource-dependent export base to include a growing proportion of manufactured goods, including high quality cars. One result is that South African exports to the US have more than doubled over the past ten years, going from \$2.3 billion in 1996 to \$5.9 billion last year. Says Xavier

Carim, Chief Director of Trade and Policy Negotiations at the Department of Trade and Industry, "What we have seen in South Africa post-1994 follow WTO rules, adhere to multi-lateral trade agreements, liberalize the economy, and in that way initiate a process of structural reform in the economy." Export competitiveness has also been enhanced through strategic partnerships with the European Union, with emerging powerhouses like China and India and the promising new markets of Africa itself.

Age of Innovation

South Africa's "we fix it" approach extends far beyond politics and economics. The country also harbors a legitimate aspiration to become a global leader in science and technology. In 2005 President Thabo Mbeki inaugurated the Southern Africa Large Telescope, the largest optical telescope in the southern hemisphere and a resource for astronomers around the world. The country is a finalist in its bid to host the giant assembly of sensors that will comprise the Square Kilometer Array (SKA) in the Northern Cape's remote Karoo. SKA, the world's largest radio telescope ever planned, promises to revolutionize our understanding of the cosmos' origins. South Africa is a contender not just because of its location but because, with its world-class universities and research and engineering base, it has the talent.

"The main reasons why you come and invest in a country are a huge market on one hand, and people with high level skills, researchers, and engineers on the other," says Dr. Phil Mjwara, Director General of the Republic's Department of Science and Technology. "We have thus been able to attract the International Center for Genetic Engineering and Biotechnology to South Africa because of our biodiversity. Likewise, we have considerable capacities in aerospace, so we have set up the Aerospace Industry Support Initiative (AISI) to enable private companies in the area to become globally competitive." The Department is also funding the South African AIDS Vaccine Initiative (SAAVI) in conjunction with the Council for Scientific and Industrial Research. Dr. Mjwara notes that such projects involve homegrown technologies, and build on a human capital development plan to provide an environment in which large numbers of Masters and PhD students can make the most of their skills. The projects, he adds, mesh closely with the government's Accelerated and Shared Growth Initiative (ASGISA), aimed at putting the economy on a 6 percent annual growth path by 2010.



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Driving Development

ASGISA is driven by the conviction that growth without higher living standards and improved opportunities for all is not sustainable. A key player in realizing the ASGISA vision is the country's state-owned development finance institution, the Industrial Development Corporation (IDC). By creating investment opportunities and increasing business confidence, IDC is changing risk perceptions that have kept capital from flowing to many areas long starved of jobs and opportunity.

Geoffrey Qhena, IDC's CEO, believes that by addressing areas of market failure and opportunity, significant potential can be unlocked in various sectors. "The anticipated extent of project activity associated with the combined efforts of ASGISA, the Joint Initiative for Priority Skills Acquisition (JIPSA), and various customized sector programs creates an environment ripe with opportunities for IDC involvement," says Qhena. "This should effectively translate into financing approvals leading to enterprise development, sustainable job creation, poverty reduction, and overall economic growth."

IDC investments run the gamut from small-scale agricultural enterprise to airport construction and other large-scale infrastructure projects. The institution also supports South Africa's growing music and motion picture industry. Both three-time Oscar-nominated *Hotel Rwanda* and the 2006 Best Foreign Movie Oscar winner *Tsotsi* were IDC-funded projects. Concurrently, the organization is actively involved in the regeneration of South Africa's textile industry, as it retools to take on global competitors such as China in the challenging post-Multifiber Agreement environment.

IDC's former Chief Operating Officer, Ms Raisibe Morathi, is now Economic Adviser to Deputy President

Phumzile Mlambo-Ngcuka, who oversees ASGISA. "I think South Africa's political success has already been quite phenomenal, and it is very important to bring economic success up to the same level," she says. If South Africa is to reach its full potential, it cannot afford to leave any of its citizens behind on the margins of the country's dynamic economy. "The people who are less involved in the economy are the black people in rural areas. Against their choice they have found themselves below the threshold of participation, and therefore part of the second economy."

"People do not make investments to be kind, but because it makes good business sense."

Yvonne Johnston, CEO of the International Marketing Council

Since the end of apartheid-era isolation, South Africa's young democracy has moved decisively to forge close ties with its continent. President Mbeki has been a driving force behind Africa's bid to become master of its own economic destiny via NEPAD (the New Partnership for African development). As a result, the IDC's mandate has expanded to cover the continent as a whole. "The IDC continues to search for business opportunities and partnerships on the African continent, taking our role as partner for development on the continent very seriously," says Qhena. "We currently have 37 projects at various stages of development in 14 African countries, with overall exposure predominately concentrated in Southern African Development Community (SADC) countries."

An investment partner that's giving back to its people.



Chief Executive: MG Qhena

The Industrial Development Corporation (IDC) is an innovative Development Finance Institution that is empowering millions of entrepreneurs in the African continent by providing necessary funding solutions to foster sustainable economic growth.

A valuable institution which continues to play an active, indispensable role in the shaping of the South African economy and the continent at large, the IDC is committed to enhancing job creation and poverty alleviation in areas that need it most.

The IDC is an investment partner that is strong in its values, fortunate for its motivated employees and alive with passion for South Africa and the rest of Africa. It is through the pursuit of new business opportunities, that the IDC is enriching a nation of potential entrepreneurs.

www.idc.co.za

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IDC

Together we can turn big ideas
into big business

Wake Up Coal for Energy Security

How do you keep a modern, dynamic, and fuel-thirsty economy from running out of energy? It seems to have become the trillion-dollar question of the millennium, and we're not even through the first decade yet. Worldwide energy demand is growing by the day. It will no doubt be a priority issue among Heads of State gathering at this January's World Economic Forum in Davos. 'Scaling up Sustainable Solutions' is the Forum's friendly phrase to define this hot topic. If developed nations already find themselves cornered into a tight spot, what can developing countries do to secure their emerging needs?

South Africa has found a serious solution and has been continuously developing it for the past 50 years. The country's lack of crude oil reserves has driven an inventive approach towards exploiting the resources South Africa does have in abundance, especially coal. Sasol, formerly state-owned, now a publicly traded multinational headquartered in Johannesburg and quoted on the New York Stock Exchange, uses a proprietary technology based on the Fischer-Tropsch conversion process to transform coal and natural gas into liquid fuel. Sasol's CEO Pat Davies says the technology offers a viable alternative to coal- and gas-endowed economies. "Our gas-to-liquids (GTL) and coal-to-liquids (CTL) solutions come at a time when more and more countries are seeking greater security of energy supply and the opportunity to add value to underutilized gas and coal reserves."

The company already meets about 40 percent of South Africa's fuel needs and accounts for about 4.4 percent of the country's GDP. With 30,000 employees, including the largest number of PhD's of any company in the southern hemisphere, Sasol is also one of South Africa's largest employers.



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South Africa – a great investment destination Sasol – a great investment opportunity

Through innovation and vision, Sasol has become the world leader in the commercial production of liquid transportation fuels from natural gas and coal. An integrated oil and gas company, we also have substantial chemical interests. With operations around the world and annual revenues exceeding US\$10 billion, we are listed on the JSE in Johannesburg, South Africa, and on the New York Stock Exchange.

Sasol brings to the world innovative and viable energy solutions based on our Fischer-Tropsch conversion technology, which we pioneered in South Africa and have continuously developed over the last 50 years.

Increasingly, countries such as Qatar, China, the US, India, Nigeria and Australia are looking to our new generation alternative energy solutions to add value to their underutilised natural resources. Our gas-to-liquids and coal-to-liquids technologies can go a long way to help them realise their national visions of energy security.

For more information, visit us at www.sasol.com

SASOL
reaching new frontiers



Its long experience with the technology has enabled it to move beyond synfuels to include value-added chemicals production to its activities. "Best of all," says Davies, "our alternative clean fuels utilize conventional infrastructure. Just as motorists don't ask if the fuel they're putting in their vehicle was made from Venezuelan, Nigerian, or Texas crude, motorists in South Africa don't ask if their fuel was made from coal, gas, or crude oil."

■ No shortage of solutions

As the high oil prices drive the quest for alternative sources, Sasol is starting to export South Africa's world-class technology to countries that meet its key requirements, basically large reserves of coal or natural gas. The candidates include Australia, India, China, and the United States, which has the largest coal deposits in the world. Sasol has already commenced projects in joint ventures with companies in Nigeria, advancing the NEPAD concept of African-owned and -driven economic development, as well as in the Persian Gulf and Asia. The Oryx plant in Qatar, which turns natural gas into liquid fuel, was inaugurated in June 2006. At a cost of \$1 billion, the plant's price tag may be somewhat higher than that of a usual refinery, but its long-term sustainability covers the investment in terms of creating jobs, wealth, value, and skills transfer. Two coal-to-liquid plants are planned in China.

At home, Sasol continues to offer cleaner energy alternatives and promote social development in the process. Through various support programs in education, healthcare, economic capacity-building, the environment, and culture, the company is doing its part in the creation of a more equitable South African society. "Sasol views transformation in South Africa as a strategic, business, and moral imperative," Pat Davies says. "We are totally committed to black economic empowerment (BEE). We believe all South Africans should have the opportunity to contribute to the national economy and to enjoy the rewards of their contribution."

While pessimism abounds about the growing gap between energy supply and demand, and its potential impact on growth, Sasol CEO Davies has a more positive outlook. "The world is not short of energy, the world is short of innovative energy solutions." Sasol is at the forefront of finding those solutions, and American drivers should not be surprised if, within the next generation, Sasol-pioneered technology is getting them to work.

South Africa at a Glance

President.....	Thabo Mbeki
Area.....	470,693 sq miles
Population.....	45.3 million
Capital.....	Tshwane
Religions.....	Christianity, Islam & Indigenous
Life expectancy.....	47 years (men), 51 years (women)
GDP per capita.....	\$4,960
Climate... subtropical along east coast; sunny days, cool nights	
Languages.....	11 official languages including English, Afrikaans, Sesotho, Setswana, Xhosa and Zulu
Currency.....	South African rand (ZAR)
Exchange rates.....	1 US dollar = 7.21 rand

Greater Goals in Gauteng

In 2004, South Africa earned a once-in-a-lifetime opportunity when it won the right to host the 2010 soccer World Cup. This greatest of sporting events has a proven track record of generating major investment and revenue flows for its host countries.

One of the primary locations for the event is in the economic heart of South Africa, Gauteng province. Home to Johannesburg and Tshwane (formerly Pretoria), Gauteng is a business gateway to southern Africa and the continent beyond. "Gauteng will be the center of 2010 in every way," says Keith Khoza, Chief Executive Officer of the Gauteng Economic Development Agency (GEDA). "The legacy that 2010 must leave is the reality that Africa should be treated as an equal in the sporting world, because it is the first time that the World Cup has come to any African nation."

"Getting the stadiums, transport system, and other infrastructure ready is going to create thousands of jobs, some of which will be sustainable beyond 2010."

Keith Khoza, CEO of GEDA

"Our attitude is that we have a shared destiny," continues Khoza. "We need to start making sure our voice is heard, but that we do that in concert with the rest of the developing world." South Africa's World Cup is being heralded as an event with soul, where athletes and chanting supporters alike will create the authentic African experience. "We are starting to articulate the African challenge, championing trade between developing nations. The need exists to consolidate the African market, and start building the notion that we are a common market for anyone who wants to do trade in Africa."

Closer to home, the work that must be done in preparation for 2010, especially in terms of improved infrastructure, is where much of the legacy will be created, Khoza says. "Getting the stadiums, transport system, and other infrastructure ready is going to create thousands of jobs, some of which will be sustainable beyond 2010." This fits perfectly with GEDA's mandate of attracting investment to sectors which create employment, and permanently placing Gauteng on the map as a springboard for African development.

Tourism in motion

The World Cup will also showcase South Africa's exciting tourism potential. Gauteng's hospitality industry is preparing a warm and open-armed welcome for the tens of thousands of fans who will be descending on South Africa from all over the world for the big event. "Tourism is being called the new gold," Khoza says, surpassing in its contribution to GDP the yellow metal on which South Africa's wealth was built. Although

accommodation is widely available at all levels of luxury, work still needs to be done on the transport front. This is being tackled by both regional and national departments. Major upgrades are in the works, including the high speed Gautrain between Johannesburg and Tshwane, to ensure that fans and players get to matches smoothly and on time.

"The plans that we have and the funding that is going to accompany them will not only assist 2010," says Jeffrey Radebe, South Africa's Minister of Transport, "but will be a lasting solution for our country. We have set up the Public Transport Infrastructure Fund that now has a budget of 3.8 billion Rand (\$525 million) which will be distributed to all cities hosting World Cup games." The Gautrain is part of an overall effort to improve passenger rail service. Metro Rail and the South African Commuter Corporation (SRCC) have been consolidated into one entity, and from March this year the Shosholozha long distance train will be operational. The country's bustling taxi industry currently transports 63 percent of all commuters, and \$1 billion has been set aside to modernize the taxi fleet and integrate it with the nation's bus systems.

The most investment-intensive transport sector is aviation. Over the next three years \$1.1 billion will be pumped into Johannesburg's Oliver Tambo International Airport, Cape Town Airport, and a brand new airport in Durban. "We are one of the nations in Africa that is at the forefront of making regional integration happen, and aviation can be a catalyst for the transformation of our continent," Radebe notes. He adds that, having invested significant sums in the improvement of airspace management, South Africa is "leaving no stone unturned by co-operating with other African states so that our skies can be safe."

"We are one of the nations in Africa that is at the forefront of making regional integration happen."

Jeffrey Radebe, Minister of Transport

The country is engaging all of its citizens, Africa, and the global business community in the exciting 2010 event. Where challenges exist, it is finding solutions and mobilizing its people's skills and talents to get the job done. South Africa is looking forward to celebrating not only the successful organization of the 2010 FIFA World Cup, but also a social and economic victory as a proud, modern nation.

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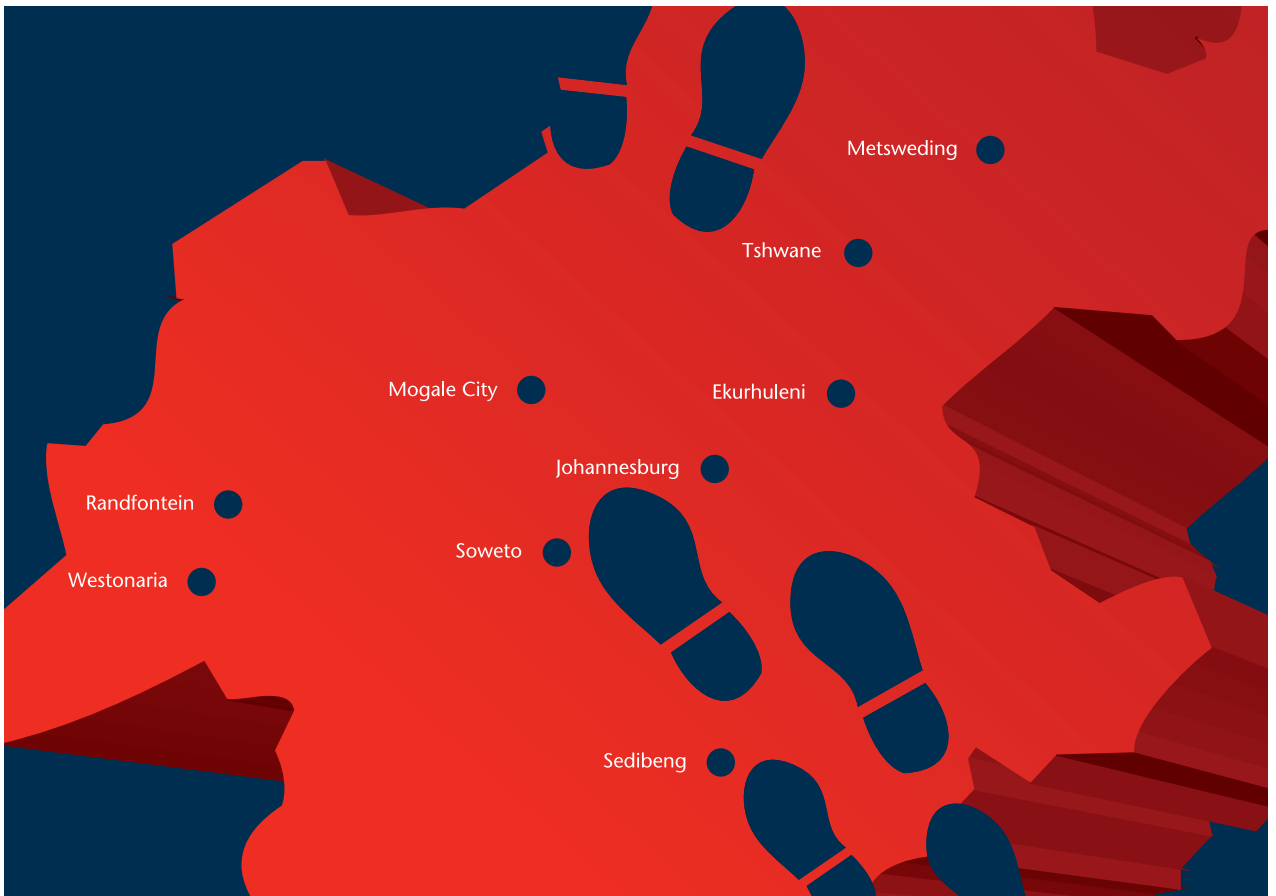
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Enter Gauteng, Enter Africa

Opportunities to grow your business into Africa are increasing. Since our democracy, many South African companies have shown impressive gains in African markets, especially in mining and financial services. The Southern African Development Community (SADC) and the New Economic Partnership for Africa's Development (NEPAD) informs policies in Gauteng, encouraging stability, economic development and free enterprise across the continent. GEDA - The Gauteng Economic Development Agency - is the first point of contact for smart investors and entrepreneurs who want to unlock value in the Gauteng province, South Africa and beyond. We nurture economic development and trade, exports and investment. So if you want to understand the African opportunity - talk to us today. We will help you find the right opportunities, the right information and the right partners, at the right time.

Whether it's opening shop or mushrooming into Africa, we'll help you make your mark.

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