

## Overview

**GDP:**  
357.3 billion (est.2010)

**Per capita GDP:**  
US\$10,700 (est.2010)  
US\$10,400 (est.2009)  
US\$10,600 (est.2008)

**Inflation:**  
4.1.0% (est.2010)

**Population:**  
49.0 million (est.2011)

**Population Growth:**  
-0.38% (est.2011)

**Demographics:**  
0-14 years: 28.5%  
15-64 years: 65.8%  
65 years and over: 5.7%



**Infrastructure Opportunities:** South Africa experienced a dramatic boost in infrastructure spending as a result of hosting the 2010 World Cup. Despite the event having come and gone, the country is still planning on high levels of infrastructure investment in the coming years. In fact, South Africa's public sector expects infrastructure expenditures to reach approximately USD\$121-billion in the next 3 years with industry growth estimated to be around 1.73% (USD\$14.97-billion) for 2011. High on the infrastructure priority list are energy and transportation projects as well as low-cost social housing.

## Business Opportunities

South Africa currently has one of the most sophisticated and developed business environments in Sub-Saharan Africa – a factor that has added merit to its label as a regional economic powerhouse. Moreover, strong state-owned entities have been fundamental in attracting and sustaining investment from abroad over the past several years. However, the current state of South Africa's power and energy industry has caused many investors to be cautiously optimistic on their outlook of the country's business environment – especially companies with energy-intensive operations, such as mining.

## Major Infrastructure Projects

**Power:** The power & energy industry in South Africa is facing a high-level of demand that it is currently struggling to satisfy. Eskom is the major state-owned power & energy company, as well as the largest provider of power & energy to South Africa (approximately 95%); the other 5% of supply is delivered through independent power producers. Through the expansion of operations, Eskom hopes to sustain a 15% reserve power margin between 2010 and 2012 and reduce demand by 3,000MW over the next four years. Eskom's expansion has been partially funded by a USD\$1.2-billion investment from the state-owned Public Investment Corporation (PIC), and a USD\$3.75-billion World Bank loan. In early 2011, the Integrated Resource Plan for Electricity (IRP) 2010 was passed, giving the country a new electricity strategy and outlining plans to add 41,346MW of new electricity generating capacity over the coming 20 years to meet an expected peak demand of 67,809MW by 2030.

**Railway:** Railways in South Africa account for a significant portion of overall transportation infrastructure industry value (approximately 43%). In fact, the amount of railways per 1000 km<sup>2</sup> in South Africa is far ahead of other emerging markets – this is the result of water transport not being a viable transportation option due to a lack of rivers and passageways throughout the country. Overall, the railway system in South Africa is by far the largest in all of Africa, with Transnet looking over the freight & rail network, and the Passenger Rail Agency of South Africa (Prasa) looking over passenger rail. In 2005, The Bombela Concession Company was given a 20-year concession to design, construct, and operate the Gautrain Rapid Rail Link which will link the OR Tambo International Airport (formerly known as Johannesburg International Airport) with Johannesburg and Pretoria; the entire route is expected to be complete by 2011, and is currently estimated to cost USD\$3.4-billion.

**Roads:** Roads in South Africa account for approximately 31% of overall transportation infrastructure industry value – almost half that of railways. Recent reports indicate that South Africa has over 73,506km of paved roads across the

## EDC Contacts

### Paolo Utano

Sector Advisor, Ottawa  
Infrastructure & Environment  
(Power, water & Environment)  
(613) 598-2969  
[inf-env@edc.ca](mailto:inf-env@edc.ca)

### Marie-Claude Erian

Sector Advisor  
Infrastructure & Environment  
(Construction/ Infrastructure)  
(613)-598-2969  
[inf-env@edc.ca](mailto:inf-env@edc.ca)

### Patricia Bentolila

Chief Representative, Ottawa  
Africa, Europe & Middle East  
(613) 598-3219  
[pbentolila@edc.ca](mailto:pbentolila@edc.ca)

### Anna Pipin

Sr. Associate, Ottawa  
Africa, Europe & Middle East  
(613) 597-3051  
[apopov@edc.ca](mailto:apopov@edc.ca)

country, which puts it behind other emerging markets in terms of paved roads per 1000 km<sup>2</sup>. The government is pursuing a USD\$5.95-billion road upgrade programme. Plans for the country's secondary road network were announced in March 2011, with a spending breakdown that outlined investment of USD\$1.71-billion in 2011/12, USD\$1.99-billion in 2012/13 and USD\$2.19-billion in 2013/14. The projects will be given momentum after two commuter trains collided outside Johannesburg in late May 2011, threatening to spark more protests over transport infrastructure conditions.

*Airports:* South Africa has a total of 728 airports – 146 of them with paved runways. The three major airports are located in Johannesburg, Cape Town, and La Mercy. The OR Tambo International Airport, located in Johannesburg, is Africa's largest and busiest airport; the airport is expected to serve approximately 21-million passengers per year once current expansion projects are completed. In May 2010, the King Shaka International Airport, located north of Durban in La Mercy, was officially opened; the airport is expected to serve approximately 7.5-million passengers annually, and will be a key instrument in meeting strong demand from Asia. To help aid future growth in the air transportation industry, the Development Bank of Southern Africa provided a USD\$1.8-billion to the Airports Company of South Africa (ACSA) in February 2010. ACSA plans to invest a total of USD\$2.6-billion in upgrading the country's airports by 2012.

*Water:* Water is in short supply in South Africa. As a result, the water infrastructure industry value has been steadily increasing year-over-year, with a particularly larger increase occurring in 2009; the industry value in 2008 accounted for approximately one percent of total infrastructure industry value, whereas the industry accounted for just over seven percent in 2009. In June of 2010, South Africa's Department of Water and Environmental Affairs announced that they would be investing USD\$3.9-billion in 15 water resource infrastructure projects over the next five to eight years. The Department is hoping to reduce water losses by approximately 20% over the next five years. Additionally, to help address water shortages, GE is in the process of completing a USD\$220-million desalination plant in Johannesburg that will provide 70,000 cubic metres of potable water daily – the refinery will be owned and operated by Strait Chemicals.

*Ports:* South Africa has six major seaports which act as the country's key gateway to valuable regional markets. The value of the port & harbour infrastructure industry relative to total transportation infrastructure has almost doubled last year - reaching 23% in 2009 versus 12% in 2008. Transnet (which owns the majority of ports in the country) announced last year a five year USD\$10.7-billion capital expenditure plan that, while targeted at improving all of its operations in various segments, will certainly help add capacity to its current ports. Transnet has also borrowed funds to help widen and deepen several of its ports to allow for larger shipping vessels.

### Green Energy

With power & energy being a significant concern for South Africa, there is an increasing need to explore renewable energy sources as a viable alternative. Although renewable energy sources only account for 3.4% of South Africa's current energy mix, the country is very well positioned to make the shift – particularly in the wind energy sector – given its optimal location along the southern coastline. In May 2008, the Darling Wind Farm, located in West Cape, was officially commissioned – adding four turbines with a combined output of

## Useful Contacts

### EDC Infrastructure

[www.edc.ca/infrastructure](http://www.edc.ca/infrastructure)

### EDC Economics

[www.edc.ca/economics](http://www.edc.ca/economics)

### Consulate of Canada to South Africa in Durban

Tel: +27 31 202 3432

Fax: +27 31 202 3431

[rmcelligott@telkomsa.net](mailto:rmcelligott@telkomsa.net)

[southafrica.gc.ca](http://southafrica.gc.ca)

### High Commission Trade Office of Canada to South Africa in Johannesburg

Tel: +27-11-442 3130

Fax: +27-11 442 3325

[jobrg@international.gc.ca](mailto:jobrg@international.gc.ca)

### South African Chamber of Commerce and Industry

[www.sacci.org.za/](http://www.sacci.org.za/)

### South African Consulate

#### General in Toronto

Tel: 416-944 8825

Fax: 416-944-0925

### Canadian Council on Africa

Lucien Bradet, President/CEO

Tel: 613-565-3011

Fax: 613-565-3013

[lucien.bradet@ccafrika.ca](mailto:lucien.bradet@ccafrika.ca)

### Canada – South Africa Chamber of Business

Tel: 416-588-7749

Fax: 416-588-7504

[bshapiro@](mailto:bshapiro@)

[canadasachamber.com](http://canadasachamber.com)

5.2MW. A second wind farm is now being planned for St. Helena's Bay which would provide an output of approximately 150MW. In order to diversify and increase generation, South Africa is also planning to add 7.2GW of renewable capacity – more than expected and including 3.8GW of wind, with renewable planned to take 5.1% share of the country's total power generated in 2013.

### Key Players

**Eskom:** is a monopoly utilities company owned by the South African Government. Eskom provides approximately 95% of South Africa's energy, and 45% of Africa's energy. The company exports energy to neighbouring countries such as Botswana, Namibia, and Mozambique. Eskom is primarily focused on coal as a source of energy (approximately 90% of its energy mix); however, hydropower and wind power sources are currently being developed. The company is pursuing a very ambitious five-year expansion plan valued at approximately USD\$50-billion, with the intent of satisfying South Africa's growing demand for energy and establishing a reserve power margin of 15%.

**Transnet:** is a holding company for numerous state-owned transport companies in both the freight and passenger sectors. Much like other major players in South Africa's infrastructure industry, Transnet is also actively pursuing an aggressive USD\$15.5-billion expansion plan over the next five years. Transnet's expansion plan is geared towards increasing capacity at several of its ports, as well as replacing some of its current transport infrastructure assets.

### Conclusion

South Africa's position as an economic powerhouse in Africa, and its stability via large state-owned corporations, has made the country a very desirable location to foreign companies when evaluating their options for FDI. However, the current state of South Africa's power & energy sector has caused many foreign investors – especially those with energy-intensive operations - to be cautiously optimistic on their outlook of South Africa's business environment in the long-term. The Government of South Africa and its various departments have recognized a need for investments into this sector, as well as transport infrastructure and have committed spending towards them as a result.

With infrastructure expenditures expected to reach approximately USD\$121-billion over the next three years, Canadian companies will have many opportunities to capitalize on. Before entering South Africa it is imperative that all companies have strong market and sector intelligence, as well as having a solid international business strategy. Having a local partner or contact will also help mitigate unidentified issues and will allow firms to focus on day to day activities and market potential.

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