Doing business in South Africa

The South African economy is firmly on a higher economic growth range, emphasising the economic turnaround that has been achieved since 1994.

This has created a strong platform for accelerated growth in the next decade, with an emphasis on achieving higher levels of productive investment, employment creation, exports and productivity.

Fiscal deficit has been reduced from 4,6% in 1996 to just 1,5% of gross domestic product (GDP) in 2005.

Excellent investment opportunities exist in a number of sectors, including tourism, mining and mineral beneficiation, hi-tech industries and communications, manufacturing, transport and agriculture. By April 2005, South Africa's investment rate had increased from 14% to 17% of GDP. Business confidence was at a record high.

Policy

To reinforce and sustain economic growth, government is focusing on three key areas of intervention, namely, increasing the rate of investment, improving levels of competitiveness and broadening economic participation.

Over the past few years, government has initiated various measures to speed up economic growth and job creation, including the Accelerated and Shared Growth Initiative for South Africa (see Chapter: *Economy*).

In recent years, South Africa has made great strides in opening the domestic economy to international competition.

Fact:
The automotive sector is the leading manufacturing sector and the third-largest sector in the South African economy. The sector's contribution to gross domestic product in 2003 amounted to 6,4%, up from 5,7% in 2002 and 5,4% in 1999.

Achievements include:

- a market-related and competitive exchange rate
- no restrictions on the type or extent of foreign investments
- strengthening competition policy
- abolishing exchange control for non-residents, and a reduction in that applicable to residents
- a significant reduction in tariff barriers, ahead of the World Trade Organisation timetable
- providing world-class investment incentives.

Attracting investment

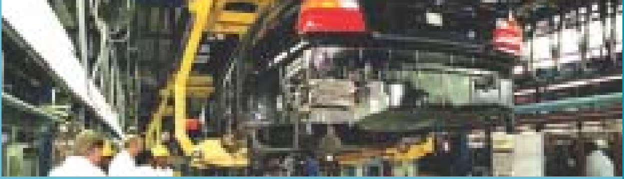
In line with promoting foreign investment in South Africa and positioning the country as a financial centre for Africa, government announced in February 2004 that foreign companies, governments and institutions may list on South Africa's bond and securities exchanges.

Increasing competitiveness

A number of incentives are being offered to both large and small businesses to improve their competitiveness, including those under the:

- Small and Medium Enterprise Development Programme, which has benefited over 12 000 enterprises
- Competitiveness Fund, which supported over 1 200 enterprises
- Sector Partnership Fund, which has assisted over 85 successful partnerships consisting of over 600 individual enterprises
- Black Business Supplier Development Programme, which has assisted over 600 small, black-owned enterprises to improve systems, quality, skills and marketability.

To improve access to affordable finance as a key element to broadening economic participation, the National Empowerment Fund was relaunched in May 2004 and allocated R400 million during



2005/06, which has been committed to Black Economic Empowerment (BEE) transactions.

The South African Micro-Finance Apex Fund, launched in April 2005, provides loans of up to R10 000 to micro businesses and some small businesses.

Broadening economic participation

The Broad-Based BEE Strategy is the overarching framework to broaden economic participation. In 2004, the National Small Business Act, 1996 was amended to provide for the merging of Ntsika and the National Manufacturing Advisory Centre, and the birth of the integrated Small Enterprise Development Agency.

The Small Enterprise Development Strategy was unveiled in 2005.

Trade and Investment South Africa (Tisa)

Tisa, a division of the Department of Trade and Industry, aims to develop the South African economy by focusing on investment development and promotion, export development and promotion, and sector policy development.

Tisa is responsible for developing the following priority sectors:

- agroprocessing
- chemical and allied industries
- clothing, textiles, leather and footwear
- cultural industries
- exportable services (business process outsourcing)
- information and communications technology (ICT) and electronics
- metals and mineral-based industries
- tourism
- transport industries.

During 2004/05, outward-bound missions that had been financially assisted by Tisa considerably increased market access for at least 123 companies.

National Industrial Participation Programme (NIPP)

The NIPP became obligatory on 1 September 1996, focusing on purchases arising mainly from the transport, energy and ICT sectors.

Since 2000, there has been a major increase in the size of obligations as a result of purchases from South African Airways and the Strategic Defence Procurement package. By November 2004, the size of obligations being monitored was in excess of US$14,5 billion.

By November 2004, the programme had facilitated over 125 projects, resulting in investments and sales credits worth US$2 billion, consisting of investments of US$677 million, export sales of US$1 billion, and local sales, including BEE and small and medium enterprise (SME) promotion of US$457 million.

These projects have created and/or sustained 7 000 direct jobs, increased international markets for South African value-added products, developed whole new ranges of products in emerging, higher opportunity industrial sectors, and brought in millions of rands in new investment, mostly to the poorest and most neglected parts of the country.

Spatial development

To encourage investment in geographic areas of greatest poverty and economic potential, 11 spatial development initiatives (SDIs) and four industrial development zones (IDZs) have been created and are at varying stages of delivery.

Those created are:

- SDIs: Maputo Development Corridor; Lubombo SDI; Richards Bay SDI, including the Durban and Pietermaritzburg nodes; Wild Coast SDI; Fish River SDI; West Coast Investment Initiative; Platinum SDI; Phalaborwa SDI; and Coast-2-Coast Corridor
- IDZs: Gauteng, Coega, East London, Saldanha and Richards Bay.

The SDI concept may have a variety of focuses, such as:

- industrial – KwaZulu-Natal and Fish River SDIs
- agritourism – Lubombo and Wild Coast SDIs
- sectoral mix – Maputo Development Corridor
- IDZs – Coega, Saldanha and East London.

IDZs are located near major transport nodes such as ports or airports. The benefits of IDZs are support to investing companies, especially for greenfields development projects; access to transport for export; waiver of import duties for export products; and subsidised skills training.

In 2001, work started on the Coega Deep Water Harbour and IDZ near Port Elizabeth.

Investments committed for the Coega Project – both the IDZ and the deep water port of Ngqura – amount to R5 billion. The French aluminium group Pechiney selected Coega over other sites in Canada and Australia for the first of a new generation of smelters.

The Enterprise Organisation (Teo)

Teo's purpose is to stimulate and facilitate the development of sustainable competitive enterprises through the efficient provision of effective and accessible supply-side incentive measures.

It contributes to the realisation of the Department of Trade and Industry's strategic objectives by:

- developing incentives in support of identified policies and sector strategies
- efficiently administering the department's incentive programmes
- facilitating access to and impact of products and services rendered by Teo through a focused business development effort.

Fact:
An incentive scheme for the film industry was launched in June 2004. Thirteen approvals were granted in this sector in 2004/05.

Help for exporters

A draft export development strategy was developed in 2004/05. Eleven trade bulletins were published containing over 613 unified business opportunities. It is estimated that the bulletins are distributed monthly to over 4 000 exporters.

Non-financial assistance in the form of information and general advice was provided to over 857 exporters. Some 1 500 copies of the *Export Answer Book* were also distributed. The export-readiness of 15 enterprises in the cosmetics sector was improved by facilitating training in supply-chain management for export delivery.

For export promotion, 28 national pavilions across eight sectors were organised and managed. Some 375 companies were financially supported in national pavilions. The value of the orders taken from these companies at these events was R330 million.

In addition, 87 companies were trained in maximising their participation in trade fairs, and 14 companies and five export councils were trained in intelligence-gathering techniques at trade fairs. A total of 22 inward-buying missions were facilitated from 26 countries across nine sectors. Fourteen outward-bound trade missions were facilitated. Outward-bound missions financially assisted by Tisa have considerably increased market access for at least 123 companies.

Employment and skills development

At the June 2003 Growth and Development Summit, government, business, trade unions and community leaders recommitted themselves to creating jobs and boosting training. Employers and unions agreed to strengthen the 25 sector education and training authorities (Setas). These government-business-labour organisations were established in March 2000 to identify and meet skills needs in each sector.

The amalgamation of several Setas, which began in March 2005, resulted in the formation of three new Setas. One of the country's largest Setas, the Safety and Security Seta, came into effect on 1 July.

By 31 July 2006, the Department of Labour had collated the results of phase one of the National Skills Development Strategy 2001 – 2005 and registered 170 926 learners into learnerships and apprenticeships. Of these, 109 674 (64%) were unemployed, and 36 703 were apprentices. Of all the learners, 71% were placed in income-generating projects, employment or further training within three months of them completing their training. The department exceeded the target it set itself in 2005 of registering at least 50 000 learners in scarce fields by registering 116 425 learners.

For the 2005 academic year, R26 million was allocated to the National Research Foundation (NRF) for bursaries to be awarded to postgraduate students in areas of scarce skills. The NRF awarded 621 honours and postdoctoral studies bursaries.

The R49 million that was allocated to the National Student Financial Aid Scheme (NSFAS) was for bursaries to undergraduate students in areas of scarce skills. In 2005, the NSFAS awarded 6 320 undergraduate bursaries, mainly to students with disabilities.

The actual amount spent on training programmes conducted under the social development funding window during 2005/06 to the end of December 2005 amounted to R131,7 million.

The National Skills Fund committed R181 million to develop the skills of 7 330 unemployed learners through various learnerships. An additional R88 million was committed towards 2 300 learnerships that were implemented through employment and skills development lead employers.

Taxation

Companies are taxed at a rate of 29% after a 1% reduction in 2005/06 to stimulate investment and job creation. In addition, secondary tax on companies is levied at a rate of 12,5% on dividend distributions.

A formula tax applies to gold-mining companies. A number of administrative interventions as well as tax-relief measures were announced in the 2005 Budget to regularise and stimulate growth for small businesses.

Small business corporations (annual turnover limit increased to R6 million) benefit from a revised graduated tax rate of 0% on the first R35 000 of taxable income, and 10% up to R250 000 of taxable income; are eligible for accelerated depreciation allowances; and can write off investments in manufacturing plant and equipment in the year in which it is incurred.

Additional measures to reduce the administrative and compliance burden on small business were announced in the Budget.

Exchange control

National Treasury has followed and continues to follow a policy of gradual relaxation of exchange controls since 1995. The following major reforms were announced by the Minister of Finance and implemented in 2004 in relation to resident and non-resident corporates, and South African individuals:

- Foreign-owned South African companies were able to borrow locally up to 300% of the total shareholders' investment. This debt capital would be used to finance investment in South Africa or as domestic working capital.
- Foreign entities (including foreign governments and multilateral institutions) were allowed to list their securities, both bonds and equities, on South African exchanges (i.e. inward listings). South

The Companies and Intellectual Property Registration Office became a trading entity in July 2002 and has registered over 100 000 close corporations in the past three financial years. In 2002, 10 408 patents were registered.

Highlights for the Competition Commission in 2004/05 included its 284 mergers and acquisitions cases. Of these, 278 were finalised, 262 approved and seven approved with conditions. A total of 82 complaints on prohibited restrictive business practices were completed.

In 2004/05, the National Lotteries Board paid out R262 million in lottery funds, of which 61% went to charitable organisations, 22% to beneficiaries in the sport and recreation sector, and 14% to beneficiaries in the arts, culture and heritage sector.

African institutional investors are allowed to invest an additional 5% of their total retail assets in 'African'-classified inward-listed securities, while South African individuals can invest freely in such African and non-African inward-listed securities.

- Exchange control limits on outward foreign direct investment by South African corporates have been abolished. Yet, South African corporates are still required to lodge an application with the South African Reserve Bank. As part of further relaxation on corporates, South African companies are no longer compelled to repatriate foreign-earned dividends to South Africa. Government is working towards the transition from exchange controls to a system of prudential regulation for institutional investors.

Currently, South African long-term insurers, investment managers and pension funds can invest up to 15% of their total retail assets offshore, while collective investment schemes can invest 20% of their total retail assets offshore.

Fact:

The 2005 – 2010 National Skills Development Strategy (NSDS) has been finalised and R21,9 billion in funding allocated to it over five years.

The new NSDS is expected to play a key role in realising government's goal of halving the country's unemployment by 2014.

JSE Limited (JSE)

Founded on 8 November 1887, the JSE is the sole licensed securities exchange in South Africa. In July 2005, after 188 years as a mutual association, the JSE celebrated its demutualisation and is now known as JSE Limited, a public unlisted company.

In 2001, the JSE incorporated the South African Futures Exchange, presenting two new divisions – the Financial Derivatives Division, which covers the equity and interest-rate futures and options markets, and the Agricultural Products Division, which covers commodities futures and options.