Doing business in South Africa

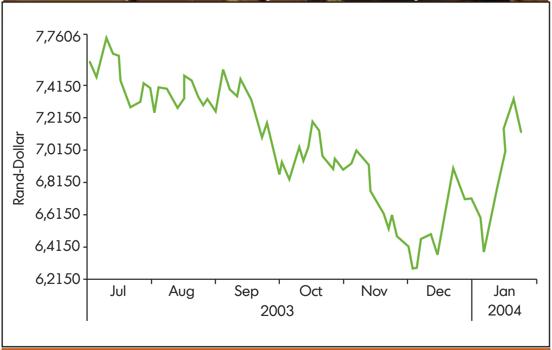
While in the past South Africa's economy was characterised by artificial intervention and market manipulation, post-Apartheid growth and economic resilience have been achieved by fostering investment and competition.

Excellent investment opportunities exist in a number of sectors. These include tourism, mining and mineral beneficiation, hi-tech industries and communications, manufacturing, transport and agriculture.

Policy

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

Rand performance July 2003 – January 2004



Source: *Quarterly Bulletin 2003*

Business confidence, average per year							
1996	1997	1998	1999	2000	2001	2002	2003
100,2	101,0	97,1	94,5	100,0	106,0	104,1	119,7

November 2003

Source: South African Chamber of Business

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

Old manufacturing support schemes, such as the Tax Holiday Scheme and the Regional Industrial Development Programme are being replaced with a suite of six incentives, some of which are still being finalised. The components of the suite are:

- Small Medium Manufacturing Enterprise Development Programme
- Skills Support Programme
- Critical Infrastructure Facility
- Industrial Development Zones (IDZs)
- Foreign Investment Grant
- Strategic Investment Programme.

Trade and Investment South Africa (TISA)

TISA, a division of the Department of Trade and Industry, aims to develop South Africa's industries.

The Micro-Economic Reform Strategy (MRS) proposes micro-economic improvements in priority sectors. With

Trade in merchandise and services		
Macro-economic stability	**Period**	**Quantity**
Budget deficit	1993 2003	9,5% GDP 1% GDP
Public sector debt	1994 2003	64% GDP 50% GDP
Net open forward position (SARB)	1994 1998 2003	\$25 billion \$22,5 billion \$0
Foreign reserves	–	Risen from 1 month's import cover to 2,5 month's cover

Source: *Towards a Ten Year Review*

responsibility for the MRS, TISA's role has been broadened from investment and export promotion to an all-encompassing agenda of sector development.

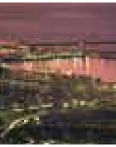
From March 2003, TISA has been responsible for developing the following priority sectors:

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

National Industrial Participation Programme (NIPP)

In terms of the Programme, large government contracts may be awarded to foreign companies supplying appropriate

By April 2003, the National Industrial Participation Programme had generated R2 billion worth of investment through 155 projects, translating into R7 billion in local and foreign sales.



FACT

During 2002, eight strategic investment projects were approved. Expected investment is R2,4 billion. Tax allowances totalled R1,7 billion. These projects are expected to create 1 458 direct and 8 085 indirect jobs.

technology which would normally represent a drain on foreign reserves and negatively affect local businesses. Contracts worth more than US$10 million must satisfy industrial participation obligations equal to 30% of the contract value. These obligations may be discharged through investments, subcontracting, export promotion or similar undertakings.

Spatial development

To encourage investment in geographic areas of greatest poverty and economic potential, 11 Spatial Development Initiatives (SDIs) and four 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

FACT

Thresholds above which mergers and acquisitions must be reported have been raised. At the same time, merger fees have been significantly reduced, for example, those for large mergers have been halved from R500 000.

- Sectoral mix – Maputo Development Corridor
- IDZs – Coega, Saldanha and East London.

IDZs are located near major transport notes 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.

Coega

In 2001, work started on the Coega Deep Water Harbour and Industrial Development Zone (IDZ) near Port Elizabeth. By the end of March 2003, contracts worth more than R500 million had been awarded for various projects within the IDZ.

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

The Organisation provides incentives in four key areas for:

- investments that promote higher rates of domestic and foreign direct investment in targeted sectors, through tax incentives and cash grants for investment
- investment in critical economic infrastructure through public-private partnerships
- investments that will create world-class management practices and promote the transfer of important skills and knowledge
- initiatives to promote businesses owned and managed by women and black people.

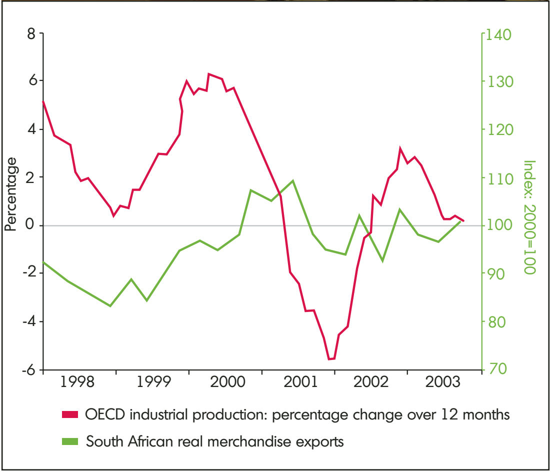
Help for exporters

The Export Credit Finance Guarantee Scheme for small and medium enterprises (SMEs) facilitates finance for SMEs that lack working capital for export. Pre- and post-shipment finance of up to R1 million may be obtained for

FDI in Dollar	2002	2003
Foreign direct investment	$3,8 billion	$5,5 billion

Source: BusinessMap Foundation

OECD industrial production and SA real merchandise exports



Source: *Quarterly Review*

export orders. Finance is provided by banks and can constitute up to 90% of export orders.

Guarantees are issued by the Credit Guarantee Insurance Corporation and are reinsured by the Department. The exporter has to have assets of less than R5 million, or fewer than 200 employees.

Through the Export Finance Scheme for Capital Projects, exporters can compete internationally by offering prospective overseas buyers competitive repayment rates denominated in US Dollars.

Venture capital

The Venture Capital Fund is a joint initiative between the Department of Trade and Industry and the Council for Scientific and Industrial Research to provide early-stage capital, and to a lesser extent, expansion capital, for technology-based small, medium and micro enterprises, and management support for investee companies.

Incubators

The Department of Trade and Industry directly funds four Technology Business Incubators which provide an environment in which technology-based companies are nurtured. These are the:

- Furniture Technology Centre
- National Fibre Centre (specialising in natural fibres)
- Downstream Aluminium Centre for Technology
- Mpumalanga Stainless Steel Initiative.

Other incubators are supported by the European Union and the private sector.

Competitiveness Fund

The Department of Trade and Industry's Competitiveness Fund was launched in September 2003 to provide grants of up to 50% of entrepreneurs' eligible costs. The Fund committed over R200 million to more than 1 300 companies during its first phase of operation.

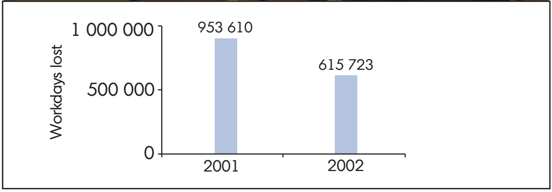
Employment and skills development

At the June 2003 Growth and Development Summit, government, business, trade unions and community leaders

FACT

By February 2004, a skills development strategy had been launched, 25 Sector Education and Training Authorities established, 478 learnership programmes registered and 70 000 learners enrolled. An estimated 29% of workers underwent training in 2002/03.

Workdays lost due to strikes, 2001 – 2002



Source: Department of Labour

recommitted themselves to creating jobs and boosting training. Employers and unions agreed to strengthen the 25 Sector Education and Training Authorities. These government-business-labour organisations were established in March 2000 to identify and meet skills needs in each sector.

Taxation

Companies are taxed at a rate of 30%. In addition to this, secondary tax is levied on companies at a rate of 12,5% on dividends. A formula tax applies to gold-mining companies. Small-business corporations (annual turnover limit will be increased to R5 million) benefit from a graduated tax rate of 15% on the first R150 000 of taxable income and can write off certain investment expenditure in the year in which it is incurred.

Small businesses also receive double deductions for expenses initially incurred, with respect to a new business, capped at the first R20 000 of available deductions.

Black Economic Empowerment (BEE)

Government will use a scorecard to measure progress in achieving BEE by various enterprises and sectors, adapted to the particular circumstances of each sector.

These scorecards will be used when granting licences or concessions, selling assets or entering into public-private partnerships.

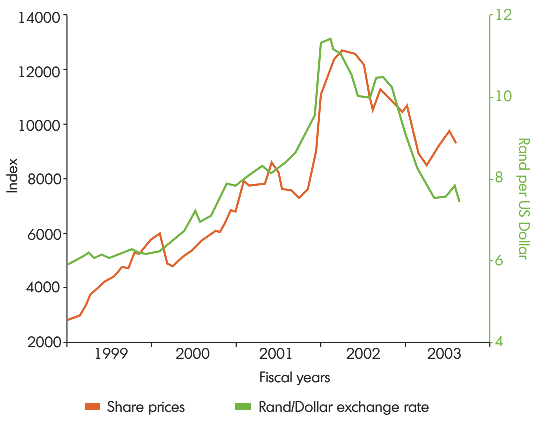
Over five years, to December 2002, there was an increase of 39% in empowerment funding. In the first six months of the 2002/03 financial year, R1,2 billion was allocated to fostering BEE.

Black businesses with turnover not exceeding R12 million can qualify for cost-sharing cash incentives under the Black Business Supplier Programme while emerging black contractors are eligible for bridging finance for working capital. Since August 2001, 79 construction projects worth R188 million have been awarded to women-owned businesses.

Exchange control

The Government is committed to an open capital market and the gradual relaxation of exchange controls. The private individual investment allowance was increased to R750 000 in February 2000. In February 2003, moves towards the

Resource share price and exchange rate



Source: South African Reserve Bank

prudential regulation of institutional investors' foreign investments were announced. These investors are allowed to invest up to 15% of total assets for long-term insurers, pension funds and fund managers, and 20% of total assets for unit-trust companies.

From 2002, the exchange control allowance for South African corporates investing in Africa was increased from R750 million to R2 billion. For investment elsewhere the allowance was doubled to R1 billion.

JSE Securities Exchange (JSE)

The JSE is the largest securities exchange in Africa and has a market capitalisation several times that of all the other African markets combined.

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.