



# DOING BUSINESS IN SOUTH AFRICA



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The Department of Economic Development is responsible to develop economic policy with broad, cross-cutting focus so that macro and micro-economic policy reinforce each other and are both aligned to the electoral mandate.

The department is responsible for economic development planning and works collegially with other departments to ensure coordination around a programme that places decent work at the centre of government's economic policies to secure better employment outcomes. The department's budget of R418 million for 2010/11 is allocated as follows:

- R18,2 million for policy development work
- R25,8 million for economic planning and coordination
- R11,2 million for economic development and dialogue
- R44,8 million for administration, the ministry and capital expenditure
- R152 million for small business funding, through transfers to Khula and the South African Micro-Finance Apex Fund (Samaf)
- R102 million for the competition authorities to strengthen their work
- R64 million for trade administration, and to the International Trade Administration Commission of South Africa.

### Broadening economic participation

Addressing the challenges faced by black- and women entrepreneurs, is a key area of focus for the Department of Trade and Industry in broadening economic inclusion and promoting transformation in the economy. The department aims to ensure the integration and alignment of the Broad-Based Black Economic Empowerment (BBBEE) Policy with the industrial policy framework.

The Public Sector Small, Medium and Micro-Enterprise (SMME) Payment Assistance Hotline provides a single point of contact between SMMEs and government. This is to facilitate the payment of services rendered by SMMEs, within 30 days of delivery, to public-sector institutions.

The Public Sector SMME Payment Assistance Hotline can be reached via a dedicated share call number 0860 766 3729 (0860 SMME PAY). It operates from 06:00 to 18:00 on weekdays. After-hour enquiries may be submitted via e-mail or fax. The e-mail and fax templates can be downloaded via the Small Enterprise Development Agency website ([www.seda.org.za](http://www.seda.org.za)).



The launch of the BBBEE Advisory Council in December 2009 signified an important milestone in fulfilling the transformation agenda.

One of the key functions of the council is to monitor the implementation of BBBEE by all organs of state, public entities, government departments, sector charter councils, and the general public at large. Other tasks of the advisory council include:

- policy refinement and amending legislation to address identified gaps
- finalising the alignment of the Preferential Procurement Policy Framework Act, 2000 to BBBEE codes of good practice
- increasing BEE verification capacity and refinement of the accreditation process.

The Department of Trade and Industry aims to increasingly integrate gender-equity measures into its programmes.

A strategy on gender and women economic empowerment was expected to be finalised in 2010, focusing on integrated solutions for women in various areas, including directly tackling the barriers hindering their participation in the economy.

In February 2010, Deputy President Kgalema Motlanthe addressed the inaugural meeting of the BBBEE Council in Pretoria.

The Codes of Good Practice for BBBEE assist and advise both the public and private sectors on their implementation of the objectives of the BBBEE Act, 2003. The codes provide definitions, interpretation and principles of BBBEE; different categories of BEE entities; and qualification criteria for preferential procurement purposes and other economic activities.

The Codes of Good Practice also provide the weightings, indicators, targets and guidelines for stakeholders in the relevant sectors of the economy to draw up transformation charters for their sectors.

The department established the necessary institutional framework for the promotion of a more inclusive economy, in the form of the Integrated Small Business Strategy and the agencies designed to deliver support and services to small, medium and micro-enterprises, namely:

- Khula Enterprise Finance Limited (Ltd) to provide financial support to the underserved market of between R10 000 and R250 000

## DOING BUSINESS IN SOUTH AFRICA

- the Small Enterprise Development Agency (Seda) for non-financial support
- Samaf for micro-finance of R10 000
- the National Empowerment Fund for financing BBBEE transactions.

The National Small Business Advisory Council advises on issues affecting owner-managed businesses. The 15-member council comprises business owners, academics and international entrepreneurial experts.

The mandate of Seda is to design and implement a standard national delivery network that must uniformly apply throughout the country.

Its role includes the support and promotion of cooperative enterprises, particularly those located in rural areas.

Business Partners Ltd is a specialised risk financier that provides customised and integrated investment, technical assistance, mentorship and property services to small and medium enterprises in South Africa, Kenya and Madagascar.

### Department of Trade and Industry

The Department of Trade and Industry aims to lead and facilitate access to sustainable economic activity and employment for all South Africans. South Africa has trading relationships with over 200 countries and territories.

The department also aims to catalyse economic transformation and development, and to provide a predictable,



Proudly South African is a Buy Local Campaign launched by government, organised business, organised labour and community organisations (represented in the National Economic Development and Labour Council) to boost job creation by promoting South African companies and locally made

products. By buying Proudly South African, consumers/businesses are making a personal contribution to nation-building. Buy Local helps to fight unemployment and in the process also serves to alleviate poverty, crime and disease. In addition, consumers get an assurance of quality because only quality products carry the logo (mark of quality). The Proudly South African logo identifies companies/organisations that are members of the campaign or have been accredited by the campaign. Active members may only use the Proudly South African mark of quality to ensure that it maintains its integrity.



The Industrial Development Corporation (IDC) approved R1,4 billion in loans to distressed companies during 2009's recession. Total loan approvals for the financial year ended March 2010 decreased to R9,4 billion compared with R10,8 billion the previous year. The IDC intensified its lending activities and continued its focus on economic expansion with 65% of new funding approved allocated to start-up companies or expansionary activities. The IDC's lending activities created or saved 25 000 jobs.



competitive, equitable and socially responsible environment for investment, enterprise and trade for economic citizens.

In this way, the department contributes to achieving government's vision of an adaptive and restructured economy, characterised by accelerated economic growth, employment creation and greater equity by 2014.

To contribute to greater shared growth in the country, the department is pursuing the goals of:

- significantly progressing BBBEE
- increasing the contribution of small enterprises to the economy
- contributing towards providing accessible, transparent and efficient access to redress
- contributing towards building skills, technology and infrastructure platforms from which enterprises can benefit
- increasing market-access opportunities for, and export of, South African goods and services
- increasing the overall level of direct investment, as well as investment in priority sectors
- repositioning the economy in higher value-added segments of value matrices in knowledge-driven manufacturing and services
- contributing towards the economic growth and development of the African continent within the New Partnership for Africa's Development framework
- building an efficient, effective and accessible organisation to achieve these outcomes.

In 2009/10, the Department of Trade and Industry:

- gave access to 32 companies in the clothing and textile sector to a R434-million facility for two programmes to the value of R29 million
- issued rebate certificates in 2009 in the automotives sector with a deemed value of just over R5 billion for qualifying products

## **DOING BUSINESS IN SOUTH AFRICA**

- allocated funds for the film, tourism and business processing outsourcing (BPO) subsectors, ensuring that 5 693 jobs were created in the BPO subsector between April and September 2009
- completed and issued amended guidelines for the Enterprise Investment Programme (EIP), simplifying rules and setting realistic requirements in line with commercial realities
- developed the Automotive Investment Scheme guidelines to support the motor industry for a budget of R2,7 billion over the next three years by extending the programme to include investment in the component sector
- developed tax incentive regulations and appointed an adjudication committee
- supported private-sector investment in targeted sectors through the funding of 871 enterprises in the manufacturing, tourism, film, television, BPO and off-shoring (BPO&O) sectors
- supported 795 projects, which will create 16 760 jobs, leveraging an R8,4 billion investment under the EIP scheme
- paid 3 811 Small Medium Enterprise Development Programme claims worth R1,35 billion
- approved 11 BPO&O projects worth R620 million and creating 11 852 jobs
- improved the competitiveness of small, black owned enterprises by supporting 4 008 enterprises to acquire business development services
- revised the Black Business Supplier Development Programme guidelines
- improved the viability and competitiveness of 246 emerging cooperatives through funding of R34,5 million
- completed the consultation process on modernising South Africa's Technical Infrastructure Strategy.

### **Industrial Policy Action Plan (IPAP)**

In February 2010, Cabinet approved the implementation of the second 2010/11 – 2012/13 IPAP, which will help alter the structure of the economy to support decent work and sustainable livelihoods.

The IPAP II expands the first plan with more focus on scaling up the industrial policy interventions to alter the structure of the economy that supports decent work and sustainable livelihood.

The plan will be reviewed annually to ensure that its objectives are met. Progress reports on the implementation of IPAP II will be submitted to Cabinet every six months.

The plan will focus on unlocking South Africa's industrial development in a sustainable manner by identifying strategic industrial interventions.

It fast-tracks development in the four lead sectors of the South African economy, namely capital/transport equipment and metals; automotives and components; chemicals, plastic fabrication and pharmaceuticals; and forestry, pulp and paper, and furniture.

Government aims to create about 2,5 million jobs by 2020 with the launch of the IPAP II, which came into effect in April 2010, and will focus on four key areas to boost industrial capacity.

The areas include looking at ways of strengthening the Industrial Development Corporation, revising procurement legislation, deploying trade policies more strategically and targeting anti-competitive practices.

## **Taxation**

International tax agreements are important for encouraging investment and trade flows between nations, by providing certainty about the tax framework. By reaching agreement on the allocation of taxing rights between residence and source countries of international investors, double taxation agreements provide a solid platform for growth in international trade and investment. South Africa has tax agreements with many countries.

## **Exchange control**

Exchange control is administered by the South African Reserve Bank (SARB) on behalf of the Minister of Finance.

The Minister of Finance has also appointed certain banks to act as authorised dealers in foreign exchange as well as authorised dealers with limited authority, which gives them the right to buy and sell foreign exchange, subject to conditions and within limits prescribed by the Exchange Control Department (Excon) of the SARB. Authorised dealers are not agents of Excon, but act on behalf of their customers.

The Government is committed to an open capital market and the gradual relaxation of exchange controls.

## Pocket Guide to South Africa 2010/11

# DOING BUSINESS IN SOUTH AFRICA

### Institutional investors

Exchange-control limits on foreign investment by institutional investors – insurers, pension funds, collective investment schemes (CIS) and investment managers – have been gradually liberalised since 1996.

Foreign diversification of investment portfolios, consistent with prudential limits, has largely been achieved. This allowed the authorities to replace exchange controls on institutional investors with a system of prudential regulation.

This shift entails the removal of the pre-application process for foreign investment and its replacement with a system of quarterly reporting on and monitoring of foreign exposures.

Retirement funds, long-term insurers, CIS management companies and investment managers are allowed to transfer funds from South Africa for investment abroad:

- Retirement funds and the underwritten policy business of long-term insurers may invest up to 20% of total retail assets. Investment managers registered as institutional investors for exchange-control purposes, CIS management companies and investment-linked businesses of long-term insurers are restricted to 30% of total retail assets under management.
- Institutional investors will be allowed to invest an additional 5% of their total retail assets by acquiring foreign-currency denominated portfolio assets in Africa through foreign-currency transfers from South Africa or by acquiring approved inward-listed instruments based on foreign reference assets or issued by foreign entities listed on the JSE Ltd.

The Coega Industrial Development Zone (IDZ) was designed in 2002 and is a key project for the Department of Trade and Industry and the Eastern Cape Provincial Government.

By July 2010, R2,8 billion of government funding was spent. About 90% of the funding was spent on infrastructure programmes such as road construction, earthworks, electricity, water and sewers, factory buildings and offices. The Coega IDZ is designed to attract private-sector investment in export-orientated industries. It aims to create jobs within the IDZ, promote the use of domestic industries outside Coega and boost growth through increased exports, technology transfer and increased employment. A number of private investments had been secured: 24 private commitments of R49 billion had been finalised and eight investors with R480 million invested were operational by mid-2010.





- Foreign companies, governments and institutions may list instruments, including derivative instruments, based on foreign reference assets, on South Africa's bond and securities exchanges.
- Institutional investors are required to report on a quarterly basis on the allocation of assets according to the major asset classes and provide information from institutions in excess of the foreign-asset limit on proposed portfolio adjustments to bring foreign asset levels back in line.

Effective February 2009, South African institutional investors may invest in rand-denominated instruments issued abroad as well as instruments issued by South African corporates in the offshore market, on condition that the institutional investor remains within its applicable foreign portfolio investment allowance.

As from February 2010, private equity funds that are members of the South African Venture Capital Association, mandated to invest into Africa, may apply to the Excon of the SARB for an annual approval to invest in Africa.

With effect from 1 March 2010, authorised dealers are able to acquire direct and indirect foreign exposure up to a macro-prudential limit of 25% of their total liabilities, excluding total shareholder's equity.

## **JSE Limited**

The JSE Limited is licensed as an exchange under the Securities Services Act, 2004 and is Africa's premier exchange. It has operated as a marketplace for the trading of financial products for nearly 120 years. In this time, the JSE has evolved from a traditional floor-based equities trading market to a modern securities exchange providing fully electronic trading, clearing and settlement in equities, financial and agricultural derivatives and other associated instruments. The JSE is also a major provider of financial information.

