

Pocket Guide to South Africa 2016/17
Economy and Finance



South Africa's ability to sustain socio-economic progress is supported by the sound institutional framework established by the Constitution of the Republic of South Africa of 1996 and a vibrant civil society.

The country's strong institutions, stable macroeconomic environment, well-developed financial markets, relatively high levels of innovation capacity and strategic position in the region provide a solid platform for stronger growth. The fiscal framework and the monetary policy stance support a sustainable recovery in economic activity.

The Auditor-General of South Africa, the South African Reserve Bank, the Independent Electoral Commission, the Public Protector and the various courts are among the many institutions that are effective and independent. Policymaking is rooted in the Constitution, which sets out the basic values and principles of public administration, including:

- A high standard of professional ethics
- Efficient, economic and effective use of resources
- An orientation toward development
- The impartial, fair, equitable and bias-free provision of services
- Transparency.

The Constitution assigns National Treasury with the responsibility to ensure transparency and expenditure control in each sphere of government, and to enforce compliance with these objectives. It also states that public procurement must be fair, equitable, transparent and cost-effective.

The country's socio-economic roadmap, the National Development Plan (NDP), recognises that faster, broad-based growth is needed to transform the economy, create jobs, and reduce poverty and inequality.

Government continues to prioritise infrastructure investment to ease bottlenecks and raise the economy's potential growth rate.

According to Statistics South Africa's (Stats SA) Quarterly Labour Force Survey (QLFS), the number of employed people in South Africa rose by 235 000 people to reach 16.1 million people aged 15 to 64 years were employed in the fourth quarter of 2016.

The QLFS noted that there were 36.9 million people of working age in South Africa.

Growth in employment was driven by the services sector, which grew by 73 000, followed by transport and manufacturing which grew by 46 000 and 44 000, respectively.

Encouraging private-sector investment

Government's initiatives that are underway to expand private-sector investment to improve productive capacity and grow the economy include:

- **Easing the regulatory burden and making it easier to invest:** InvestSA has set up a one-stop shop to help investors with the procedures required to start up and run a business.
- **Reducing time spent on compliance and paperwork.** As a result of increased automation at the Companies and Intellectual Property Commission, it now takes less than a day to register a firm. Title deeds are now available within seven days at the Deeds Office. And the Department of Justice and Constitutional Development has streamlined contract enforcement, introducing court mediation to reduce legal costs.
- **Strengthening competition law.** Sections of the Competition Amendment Act that came into effect earlier this year make it a criminal offence for directors or managers of a firm to collude with their competitors to fix prices or collude in tenders. This should reduce prices and increase market access.
- **Enhancing the environment for small business.** The Department of Small Business Development (DSBD) is updating legislation to improve support for small businesses. Government has targeted support to small firms, and is encouraging large businesses to contract more work from small companies.

National Minimum Wage (NMW)

In February 2017, representatives of government, business, the community sector and two of the three labour federations represented at National Economic Development and Labour Council signed agreements on measures to strengthen labour stability and collective bargaining and on modalities for the introduction of a NMW.

The social partners reached agreement on modalities for the introduction of a NMW of R20 an hour to be implemented from no later than 1 May 2018.

This translates to about R3 500 for those working 40 hours per week and about R3 900 for those who work for 45 hours per week.

The NMW, which is a floor below which no worker may be paid, is expected to significantly improve the lives of millions

of low-paid workers and begin to address the challenge of wage inequality.

A NMW Commission will be established to recommend annual adjustments to the level of the NMW.

The NMW will also be regularly reviewed to take into account the impact of the level on employment, poverty and inequality.

Businesses that are unable to afford the NMW may apply for an exemption for up to 12 months.

National Treasury

National Treasury's legislative mandate is based on section 216(1) of the Constitution of the Republic of South Africa of 1996, which calls for the establishment of a national treasury to ensure transparency, accountability and sound financial controls in the management of the country's public finances. This role is further elaborated in the Public Finance Management Act (PFMA) of 1999. The department is mandated to:

- promote national government's fiscal policy and the coordination of macroeconomic policy
- ensure the stability and soundness of the financial system and financial services
- coordinate intergovernmental financial and fiscal relations
- manage the budget preparation process
- enforce transparency and effective management of national revenue and expenditure, assets and liabilities, public entities, and constitutional institutions.

The NDP recognises that faster, broad-based growth is needed to transform the economy, create jobs, and reduce poverty and inequality in South Africa. Outcome 4 (decent employment through inclusive economic growth) of government's 2014-2019 Medium Term Strategic Framework (MTSF) gives expression to this vision, with National Treasury's work contributing to its realisation.

Over the medium term, the Treasury will continue prioritising infrastructure investment to ease bottlenecks and raise the economy's potential growth rate. The department will also continue working on preventing South Africa's credit rating from being downgraded to sub-investment grade.

The department's strategic focus over the medium term period will continue to be on managing future spending growth and fiscal risk; reviewing tax policy; supporting sustainable employment; supporting infrastructure development and

economically integrated cities and communities; making government procurement more efficient; strengthening government financial management; strengthening the regulation of the financial sector; regional and international cooperation; and managing government's assets and liabilities.

Entities under National Treasury

- The **Accounting Standards Board** develops uniform standards of generally recognised accounting practice for all spheres of government. It also promotes transparency in and the effective management of revenue, expenditure, assets and liabilities of the entities to which the standards apply.
- The **Cooperative Banks Development Agency's** mandate is to provide for the registration and supervision of deposit-taking financial services cooperatives, and savings and credit cooperatives, collectively referred to as cooperative financial institutions. The agency also facilitates, promotes and funds the education and training of these institutions.
- The **Financial and Fiscal Commission's** legislative mandate is to advise the relevant legislative authorities on the financial and fiscal requirements for the national, provincial and local spheres of government.
- The **Financial Intelligence Centre's** mandate is, among other things, to identify the proceeds of unlawful activities, combat money-laundering activities, combat the financing of terrorist and related activities, exchange information with law-enforcement and other local and international agencies.
- The **Financial Services Board (FSB)** is an independent institution established by statute to oversee the South African non-banking financial services industry in the public interest.
- The **Government Pensions Administration Agency** provides pensions administration services to the Government Employees Pension Fund.
- The **Government Technical Advisory Centre** is mandated to assist organs of state in building their capacity for efficient, effective and transparent financial management.
- The **Independent Regulatory Board for Auditors** develops and maintains auditing and ethical standards that are internationally comparable, provides an appropriate framework for the education and training of properly qualified auditors, inspects and reviews the work of registered auditors, and investigates and takes appropriate

action against registered auditors who do not comply with standards and are guilty of improper conduct.

- The **Office of the Ombud for Financial Services Providers** is mandated to consider and dispose of complaints against financial services providers, primarily intermediaries selling investment products.
- The **Office of the Pension Funds Adjudicator** investigates and determines complaints lodged in terms of the Pension Funds Act of 1956. The office ensures a procedurally fair, economical and expeditious resolution of complaints in terms of the Act.
- The **Public Investment Corporation** is one of the largest investment managers in Africa, managing assets worth more than R1,7 trillion. The corporation is mandated to invest funds on behalf of its clients, based on the investment mandates as agreed on with each client and approved by the FSB. The corporation's clients are public-sector entities, most of which are pension, provident, social security, development and guardian funds.
- **South African Airways** is South Africa's national air carrier, which operates a full service network in the international, regional and domestic markets.
- The **South African Special Risks Insurance Association** is mandated to support the insurance industry by providing cover for special risks such as riots, strikes, political unrest, terrorist attacks, civil commotion, public disorder and labour disturbances.

South African Reserve Bank (SARB)

The primary purpose of the SARB is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa. Together with other institutions, it also plays a pivotal role in ensuring financial stability.

The primary function of the SARB, as the country's central bank, is to protect the value of South Africa's currency. In discharging this role, it takes responsibility for:

- ensuring that the South African money, banking and financial system as a whole is sound, meets the requirements of the community and keeps abreast of international developments;
- assisting the South African Government, as well as other members of the economic community of southern Africa, with data relevant to the formulation and implementation of macroeconomic policy;

- informing the South African community and all stakeholders abroad about monetary policy and the South African economic situation.

The SARB is governed by the SARB Act of 1989, as amended. It has more than 600 shareholders.

South African Revenue Service (SARS)

SARS is an organ of state outside the Public Service that aims to provide a world-class, efficient, transparent and taxpayer-centred service, ensuring optimum and equitable revenue collection. Its main functions are:

- collecting and administering all national taxes, duties and levies imposed under national legislation;
- collecting revenue that may be imposed under any other legislation, as agreed upon between SARS and an organ of state or institution entitled to the revenue
- advising the Minister of Finance on revenue
- facilitating trade
- providing protection against the illegal import and export of goods
- advising the Minister of Trade and Industry on matters concerning control over the import, export, manufacture, movement, storage or use of certain goods.

Tax administration

National Treasury is responsible for advising the Minister of Finance on tax policy issues. As part of this role, National Treasury must design tax instruments that can optimally fulfil a revenue-raising function. These tax instruments must be aligned to the goals of government's economic and social policy. These instruments are then administered by SARS.

A single, modern framework for the common administrative provisions of various tax Acts administered by SARS, excluding Customs, was established by the Tax Administration Act of 2011, which commenced on 1 October 2012. The Act simplifies and provides greater coherence in South African tax administration law. It eliminates duplication, removes redundant requirements, and aligns disparate requirements that previously existed in different tax Acts administered by SARS.

The Act provides for common procedures across the various tax Acts, and strives for an appropriate balance between the rights and obligations of SARS and the rights and obligations of taxpayers in a transparent relationship.

Office of the Tax Ombud

The function of the Office of the Tax Ombud is to provide taxpayers with an impartial and low-cost mechanism to resolve service, procedural or administrative difficulties that taxpayers have not been able to resolve through SARS's complaints management channels.

South African tax system

South Africa has a residence-based income tax system. Residents are, subject to certain exclusions, taxed on their worldwide income, irrespective of where their income was earned. Non-residents are taxed on their income from a South African source. The liability of taxpayers is determined subject to the provisions of International Agreements for the Avoidance of Double Taxation.

Tax is levied on taxable income, which is calculated as gross income, less exemptions and permissible deductions, plus the applicable percentage of the net capital gain, for the year.

The main tax revenue sources are income tax (individuals, trusts and companies), value-added tax (VAT) and customs and excise duties. Relief is often available from any consumption-based tax when the goods are exported under certain terms and conditions.

Company income tax

Companies are subject to a flat tax rate, which is 28% of taxable income. Exceptions to the rule are the lower, progressive tax rates that apply to small and micro-businesses, as well as the reduced rate that applies to companies operating in designated Special Economic Zones.

Value-added tax

VAT is levied at 14% on the supply of all goods and services by VAT vendors (certain supplies are zero-rated). The quoted or displayed price of goods and services must be VAT-inclusive. A person who supplies goods or services is liable to register for VAT, if the income earned is more than R1 million in a 12-month period, or when there is a reasonable expectation that the income will exceed this amount.

A person can also register voluntarily for VAT, if the income earned from supplying goods or services for 12 months exceeded R50 000.

Personal income tax (PIT)

PIT mainly focuses on the taxation of an individual's income. The main contributor to PIT is employment income from salary earners, and income generated from sole-proprietor activities. The tax rate applicable to PIT-related taxable income is progressive, ranging from marginal rates of 18% to 41%.

As a means of collecting income tax from salary and wage income, a mechanism known as Pay-As-You-Earn is in operation that enables employers to withhold tax due to SARS from employees and pay this over to SARS on a monthly basis, and reconciled biannually.

Excise duty

Excise duty is levied on certain locally manufactured goods and their imported equivalents, such as tobacco and liquor products, and as an ad valorem duty on cosmetics, audio-visual equipment and motor cars.

Environmental levy

The four main areas of levies in this category are plastic bags levy, electricity generation levy, electric filament levy and motor vehicle carbon dioxide emission levy.

Fuel levy

The fuel levy is a consumption-based levy that is levied on petroleum products that are imported or manufactured in South Africa.

Transfer duty

Transfer duty is payable on the acquisition of property. Property costing less than R900 000 attracts no duty. A 3% rate applies to properties costing between R900 001 and R1,25 million.

In respect of property with a value between R1,25 million and R1,75 million, the duty is R10 500 plus 6% of the value above R1,25 million. In respect of properties costing between R1,75 million and R2,25 million, the duty is R40 500 plus a rate of 8% of the value exceeding R1,75 million.

For property above R2,25 million, the duty is R80 500 plus a rate of 11% of the value exceeding R2,25 million.

For a property above R10 million, the duty is R933 000 plus 13% of the value exceeding R10 million.

Estate duty

Estate duty is levied at a flat rate of 20% on residents' property and non-residents' South African property. A basic deduction of R3,5 million is allowed in the determination of an estate's liability for estate duty, as well as deductions for liabilities, bequests to public benefit organisations and property accruing to a surviving spouse.

Dividends tax

Dividends tax is a final tax at a rate of 20% on dividends paid by resident companies and by non-resident companies in respect of shares listed on the JSE. Dividends are tax exempt if the beneficial owner of the dividend is a South African company, retirement fund or other exempt person.

Non-resident beneficial owners of dividends may benefit from reduced tax rates in limited circumstances. The tax is to be withheld by companies paying the taxable dividends or by regulated intermediaries in the case of dividends on listed shares. The tax on dividends in kind (other than in cash) is payable and is borne by the company that declares and pays the dividend.

Securities transfer tax

Securities transfer tax is levied at a rate of 0,25% on the transfer of listed or unlisted securities. Securities consist of shares in companies or members' interests in close corporations.

Skills-development levy

Affected employers contribute to a Skills Development Fund that is used for employee training and skills development. This skills development levy is payable by employers at a rate of 1% of the total remuneration paid to employees. Employers paying annual remuneration of less than R500 000 are exempt from the payment of this levy.

Unemployment Insurance Fund (UIF)

The UIF insures employees against the loss of earnings due to termination of employment, illness or maternity leave. The contribution to the UIF is shared equally by affected employers and employees at a rate of 1% of remuneration each. The employee share of 1% is withheld by the employer and paid to SARS, together with the employer share of 1%, monthly.

Tax on international air travel

This tax is levied as follows: R190 per passenger departing on an international flight, excluding flights to Botswana, Lesotho, Namibia and Swaziland, in which case the tax is R100.

Rates on property

Property-related taxes include municipal rates and charges for refuse and sewerage, which are collected by municipalities.

Customs duty

Customs duty is a tax levied on imports by the customs unit within SARS. Customs duty rates and trade remedies relating to the importation of goods into South Africa are set by the International Trade Administration Commission under the authority of the Department of Trade and Industry (the dti).

The new Customs Control Act of 2014 and Customs Duty Act of 2014 provide a platform for the modernisation of customs administration that achieves a balance between effective customs control, the secure movement of goods and people into and from South Africa and the facilitation of trade and tourism. In addition, VAT is also collected on goods imported and cleared for home consumption.

Voluntary Disclosure Programme (VDP)

A permanent VDP is part of a package of compliance measures aimed at encouraging non-compliant taxpayers to regularise their tax affairs.

In addition, a Special VDP allowed non-compliant taxpayers to voluntarily disclose offshore assets and income, with a limited window period, from 1 October 2016 to 31 August 2017.

Economic Development Department (EDD)

The EDD has assumed responsibilities relating to the creation of decent employment through inclusive growth.

This includes the implementation of certain aspects of the NDP, the new growth path and the national infrastructure plan, as captured in Outcome 4 (decent employment through inclusive growth), Outcome 6 (an efficient, competitive and responsive economic infrastructure network) and Outcome 7 (comprehensive rural development and land reform) of government's 2014-2019 MTSF.

The department is also responsible for five public entities, three of which are regulatory bodies and two are development finance institutions. The entities are the:

- The **Competition Commission**, is empowered to investigate, control and evaluate restrictive business practices, including the abuse of dominant positions and mergers; and to promote the advocacy of competition issues to achieve equity and efficiency in the South African economy.
- The **Competition Tribunal**: All large corporate mergers and allegations of restrictive practices are brought before the tribunal by the Competition Commission and interested parties for adjudication.
- The **International Trade Administration Commission of South Africa** is mandated to manage an efficient and effective trade administration system.
- The **Small Enterprise Finance Agency** was established in 2012 and combines the operations of Khula Enterprise Finance, the South African Micro-Finance Apex Fund and the Industrial Development Corporation's small business operations.

Why invest in South Africa

South Africa is one of the most sophisticated, diverse and promising emerging markets globally. Strategically located at the tip of the African continent, the country is a key investment location, both for the market opportunities that lie within its borders and as a gateway to the rest of the continent, a market of about one billion people.

South Africa is the economic powerhouse of Africa and forms part of the BRICS group of countries with Brazil, Russia, India and China. It has a wealth of natural resources (including coal, platinum, coal, gold, iron ore, manganese nickel, uranium and chromium) and it enjoys increased attention from international exploration companies, particularly in the oil and gas sector.

The country has world-class infrastructure, exciting innovation, research and development capabilities and an established manufacturing base. It is at the forefront of the development and rollout of new green technologies and industries, creating new and sustainable jobs in the process and reducing environmental impact.

South Africa has sophisticated financial, legal and telecommunications sectors, and a number of global business process outsourcing operations are located in the country.

It has a host of investment incentives and industrial financing interventions that are aimed at encouraging commercial

activity and its trade rules favour a further expansion in South Africa's burgeoning levels of international trade.

State-owned enterprises (SOEs)

The Department of Public Enterprises (DPE) is the shareholder representative for government at the state-owned companies (SOCs) in its portfolio. The department's mandate is to fulfil oversight responsibilities at these SOCs to ensure that they contribute to the realisation of government's strategic objectives, as articulated in the NDP, MTSF, the New Growth Path and the Industrial Policy Action Plan (IPAP).

SOCs are crucial to driving the state's strategic objectives of creating jobs, and enhancing equity and transformation. The department does not directly execute programmes but seeks to use state ownership in the economy to support the achievement these objectives.

The DPE oversees the following six SOCs, which are key drivers of economic growth:

- **Alexkor** – A diamond mining company primarily operating in Alexander Bay and the greater Namaqualand.
- **Denel** – A defence company and although it is established as a private company in terms of the Companies Act of 2008, government exercises full control over it.
- **Eskom** – It generates, transmits and distributes electricity to industrial, mining, commercial, agriculture and residential customers and redistributors.
- **South African Forestry Company** – It is the government's forestry company, conducting timber harvesting, timber processing and related activities both domestically and regionally.
- **South African Express Airways** – South African Express Airways is a domestic and regional air carrier with a mandate to be an African airline.
- **Transnet** – It is a freight and logistics company responsible for pipelines, ports and rail transport infrastructure operations in South Africa.

Department of Trade and Industry

The dti works to promote industrialisation and transformation, and respond to unemployment, poverty and inequality. The strategic direction of this work is derived from the National Development Plan, and is underpinned by Outcome 4 (decent employment through inclusive growth), Outcome 7 (comprehensive rural development and land reform) and Outcome 11 (create a better South Africa and contribute to a

better Africa and a better world) of government's 2014-2019 medium-term strategic framework.

Through the implementation of its higher-impact IPAP, the department will focus over the medium term on providing industrial financing, strengthening export capabilities, and developing industrial infrastructure. Cabinet has since approved the ninth annual iteration of the IPAP 2017/18 to 2019/20. Drivers of IPAP 2017-2020 include a redoubled commitment to radical economic transformation and ongoing efforts to secure shared and inclusive growth.

Other drivers include the rapid acceleration of the Black Industrialist Programme, and a much stronger and ongoing focus on labour intensity across the value chains that link the primary sectors of the economy to the manufacturing and services sectors.

By February 2017, the Black Industrialists Programme had supported 22 black industrialists and created 1 500 jobs, with R1.5 billion being injected to support the industrialists.

Department of Small Business Development

The DSBD was established in May 2014 to lead an integrated approach to the promotion and development of small businesses and cooperatives. The department's work in this regard focuses on the economic and legislative drivers that stimulate entrepreneurship and contribute to radical economic transformation.

The realisation of this mandate will lead to increased employment, poverty reduction and reduced inequality. The DSBD's work supports the realisation of the National Development Plan's goal of supporting small enterprises to transform the economy and make it more inclusive.

It also contributes directly to Outcome 4 (decent employment through inclusive growth) of government's 2014-2019 MTSF, which sets the department the task of identifying the institutional and regulatory changes required to accelerate growth of the small business sector and increase its contribution to job creation.

The Small Enterprise Development Agency provides non-financial support and incubation to small enterprises and cooperatives through the National Gazelles and Incubator Support programmes. The National Gazelles Programme is an enterprise accelerator that identifies high-potential small enterprises and provides them with mentorship and coaching, training, market development and access to finance.

The department will continue to support small, black-owned enterprises through the Black Business Supplier Development Programme, which is a cost-sharing grant offered to small, black-owned enterprises to acquire tools, machinery, equipment and training to the maximum of R1 million per applicant.

Small enterprises will also benefit from the National Informal Business Upliftment Scheme, which aims to develop and grow informal businesses and cooperatives by providing financial and non-financial support services to improve competitiveness, facilitate market access, and leverage public and private procurement.

The department plans to continue improving coordination between all spheres of government to strengthen support for cooperatives through the cooperative incentive scheme.

The incentive is a 100% grant for registered primary cooperatives, and is aimed at improving the viability and competitiveness of cooperative enterprises by lowering the cost of doing business.

Strengthening export capabilities

The department plans over the medium term to develop and implement products for target markets, in collaboration with stakeholders such as export councils, trade and investment provincial agencies, and other national and provincial government departments in the export value chain.

It aims to provide financial assistance to 3 290 companies in the medium term to strengthen their export capabilities, including facilitating their participation at national pavilions, trade missions, and trade and investment initiatives. In providing this assistance, the department plans to balance supporting large, leading and dynamic companies with maintaining support provided to emerging exporters, SMMEs and black industrialists.

Banking industry

South Africa's five largest commercial banks – Capitec Bank, FNB, Absa, Nedbank and Standard Bank – continued to dominate the South African banking sector.

By September 2017, there were 10 locally controlled banks and six foreign controlled banks, as well as 15 branches of foreign banks in South Africa.

Johannesburg Stock Exchange Limited (JSE Ltd)

The JSE Ltd is the largest exchange on the African continent and the 19th largest in the world.

In keeping with international practice, the JSE Ltd regulates its members and ensures that markets operate in a transparent way, ensuring investor protection.

The JSE Ltd's roles include regulating applications for listing and ensuring that listed companies continue to meet their obligations.

Jobs Fund

The Jobs Fund, launched in June 2011, aims to co-finance projects by public, private and non-governmental organisations that will significantly contribute to job creation.

This involves the use of public money to catalyse innovation and investment on behalf of a range of economic stakeholders in activities that contribute directly to enhanced employment creation in South Africa.

To address the challenge of unemployment, South Africa requires high rates of sustained economic growth. The country's macro-economic policy environment, infrastructure asset base, schooling system and regulatory frameworks are all key to growth. However, improving and reforming these factors is a long-term process.

As of December 2016, the Jobs Fund had supported a total of 64 enterprise development projects, across all sectors, and the SMME beneficiaries of these projects have created 77 289 permanent jobs and 13 306 short term jobs.

By April 2017, the Jobs Fund had a portfolio of 125 approved projects with a total allocation of R6.5 billion in grant funds. These projects will potentially leverage an additional R9.1 billion from the fund's partners to create 146 008 permanent jobs.

A total of 106 implementing projects have already created 91 626 new permanent jobs and placed an additional 51 353 people in vacant permanent positions. These projects created 22 923 short-term jobs and provided work- readiness and technical training to 182 489 participants.