

Doing business in South Africa

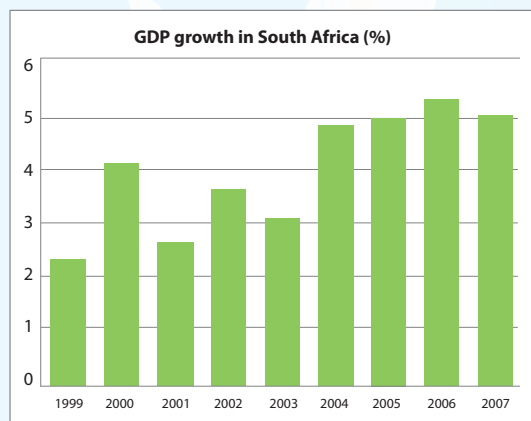
The economic heart of Africa

Famous for its mining and agriculture, the South African economy is underpinned by a strong manufacturing and agricultural base.

Since its re-entry into the global economy, following the demise of apartheid in 1994, South Africa has seen the services sector emerge as the new lynchpin of the most advanced economy in Africa.

Today, the bulk of economic activity still occurs where mining is most prevalent, namely the Gauteng province, home to Johannesburg, the country's financial capital. Due to its geographical location on the southernmost tip of Africa, South Africa is a logistical haven for reaching the sub-Saharan countries as well as trading across the Indian and South Atlantic oceans.

The country is now in its 15th year of democracy, and has undergone substantial economic and social reform, with notable achievements including lower taxes, lower inflation, reduced budget deficits, a relative stronger currency and fewer controls surrounding foreign exchange. South Africa was ranked 45th out of 134 economies in the 2008/2009 Global Competitiveness Report published by the World Economic Forum, and has cemented its position as a consistently well-performing emerging market economy.



The country's improving GDP figures are a significant indicator of economic progress. These figures have been boosted by the increasing levels of direct foreign investment into South Africa, which were helped by the establishment of the Investment South Africa organisation in 1997. Investment South Africa was set up by the Department of Trade and Industry in order to promote investment at both a national and a provincial level and many country-wide and regional investment incentives are available.

These incentives include preferential tax rates for SMEs, a series of SME development programmes and foreign investment grants. As there are no restrictions on the extent or type of foreign investment in South Africa, the country has become attractive to businesses looking to reap the benefits of operating in an emerging market, whilst having the comfort and security of a world-class economic environment, such as the Gauteng Special Economic Zone. Gauteng is also reportedly one of the lowest cost locations in the world for establishing and running a business.

South Africa is often referred to as having 'two economies' – a dynamic first world economy and a rural and urban economy where socio-economic inequalities from the apartheid regime are still rife. In order to redress these historical inequalities and to help South Africa build an adaptive, sustainable economic environment for all its citizens by 2014, the Government launched its Black Economic Empowerment programme which aims to lift the level of participation of black South Africans in the economy. The country is looking forward to hosting the 2010 FIFA World Cup which will bring with it substantial international media exposure and has boosted the country's infrastructure investment programmes. It is expected that the 2010 World Cup will create 160,000 jobs, leaving a lasting economic legacy.



Key facts

Geography and society

- **Population:** 48.8 million
- **Population growth rate:** 0.8%
- **Official languages:** Afrikaans, English, Ndebele, Northern Sotho, Sotho, Swati, Tsonga, Tswana, Venda, Xhosa, Zulu
- **Capital city (executive):** Pretoria
- **Capital city (judicial):** Bloemfontein
- **Capital city (legislative):** Cape Town
- **Time zone:** CET+1
- **Land boundaries:** Botswana 1,840 km, Lesotho 909 km, Mozambique 491 km, Namibia 967 km, Swaziland 430 km, Zimbabwe 225 km
- **Coastline:** 2,798km

Economy

- **Currency:** South African rand (ZAR)
- **GDP per capita:** \$5,952
- **CPI inflation rate:** 11.8%
- **Member of:** UN, IGTA, FATF
- **Fiscal year:** 1st March – 28th/29th February
- **Financial capital:** Johannesburg
- **FX regime:** managed float
- **Trade deficit:** \$5.7 billion
- **Average days to start a business:** 31

History and politics

- **Government type:** parliamentary republic
- **Governing party:** African National Congress (ANC)
- **Republic established:** 31st May 1961
- **President:** Kgalema Motlanthe (interim)

Country credit rating

- BBB+

Trading partners

- **Top import sources:** Germany, China, Spain, US and Japan
- **Top export destinations:** US, Japan, Germany, UK and China

Country Profile

Legal and regulatory requirements

South Africa's colonial past has left its mark on the country's legal and regulatory requirements for businesses, which closely resemble those seen in Europe today. The South African government aims to encourage foreign investment and South African legislation has been tailored to reflect this open attitude. The legal and regulatory requirements for doing business in South Africa are uniform across the country's nine provinces:

- South Africa's banking sector is supervised and regulated by the South African Reserve Bank (SARB), which is also the country's central bank. The SARB issues licences to banking institutions, and monitors their activities under the Banks Act, 1990 (Act No. 94 of 1990), or the Mutual Banks Act, 1993 (Act No. 124 of 1993) as appropriate.
- Central bank reporting regulations require that each cross-border transaction carried out by a bank must be individually reported as far as the balance of payments is concerned, on a daily basis. Monthly reporting on the financial position of the bank is expected, as is periodic reporting of overnight foreign currency positions. Corporates are not subject to central bank reporting requirements.
- The Financial Services Board (FSB) regulates non-banking financial services firms in South Africa. The FSB is a wholly independent institution that aims to promote and maintain a sound financial investment environment in South Africa.
- The agreements that South Africa has in place with international bodies such as the Bank of International Settlements (BIS), the International Organisation of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS) mean that financial regulation in South Africa is increasingly moving toward international best practice.
- The King Report institutionalised corporate governance in South Africa in 1994. In 2002 the King Committee report was updated (King II) and the Code of Corporate Practices and Conduct came into effect on 1st March 2002. The code highlights seven key areas for good governance: discipline, transparency, independence, accountability, responsibility, fairness and social responsibility and is similar to the UK's principles-based regulatory regime.
- South African companies are currently required to adhere to South African Statements of Generally Accepted Accounting Practice (SA GAAP), which have been fully aligned with International Financial Reporting Standards (IFRS). As from 1st January 2005, under the Johannesburg Stock Exchange (JSE) listing requirements, listed companies must comply with IFRS.
- Under the Companies Act and Close Corporation Act, all businesses must register with the South African Revenue Service, the Unemployment Insurance Fund, the Workmen's Compensation commissioner and industrial councils (where applicable).
- All foreign exchange transactions in South Africa are subject to exchange control regulations, which are governed by the South African Reserve Bank. The exchange controls are designed to limit outflows of money from the country. These restrictions apply to both individuals and businesses but are only imposed on transactions between residents and non-residents. The rules are significant as the level of official reserves of foreign currency is a fundamental factor in the value of the rand, which is a managed floating currency.
- All bank transactions (including account maintenance and documentation) are subject to compliance with the above mentioned exchange control regulations.

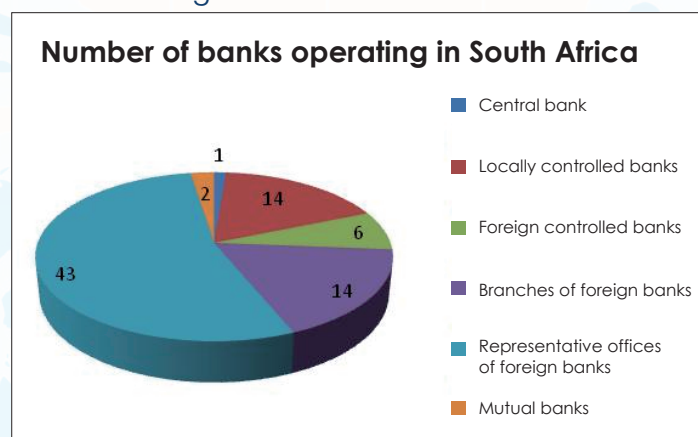
Taxation framework

Since 2001, South Africa has operated a resident-based tax system, as opposed to a source-based tax system. Under this new regime, residents are (certain exclusions aside) taxed on their worldwide income, irrespective of where it was earned, whereas non-residents are taxed on their income from South African sources only. For the main part, state income is derived from income tax. However, indirect taxes such as VAT make up almost one-third of total government taxes.

- On 1st April 2008, the resident corporation tax rate was lowered from 29% to 28%. Non-resident (ie branch) corporate tax is levied at a rate of 33%.
- Companies that pay net dividends are liable for Secondary Tax on Companies (STC) taxed at a rate of 10% of net dividends paid. STC is due to be phased out in the second half of 2010 and replaced with a Dividends Tax which will be a tax on the shareholder and collected in the form of a withholding tax.
- Value Added Tax (VAT) is levied at a rate of 14% (although some exemptions apply) on the sale of goods and the provision of services.
- Securities Transfer Tax is charged at a rate of 0.25% on the transfer or cancellation of equity securities and stamp duty of 0.5% is payable on lease agreements of immovable (real estate) property.
- There is a transfer tax of 8% that applies to the transfer of residential and other immovable (real estate) property, unless the transaction is subject to VAT.
- South African law imposes both transfer pricing and thin capitalisation rules. Under the transfer pricing rules, where goods or services are supplied or acquired under an international agreement between connected persons (ie group companies), the pricing must be conducted at arm's length. The thin capitalisation rules apply where a non-resident investor provides financial assistance to a resident connected person or entity, in which the investor is entitled to participate in 25% or more of the company's equity. The rules are designed to limit the amount of interest paid to the lender by the South African company. The thin capitalisation rules do not apply however if the debt-to-equity ratio exceeds 3:1, or if the financial assistance is granted by a parent company to its branch operating as an external company in South Africa.
- Withholding taxes are imposed on royalties at a rate of 12%. No withholding tax is currently levied on interest payments made to non-residents.

Treasury activities

Local banking sector



Overseen by the Reserve Bank, the local banking industry in South Africa is dominated by four large local players: Nedbank, ABSA (a subsidiary of Barclays Bank), Standard Bank and FirstRand. These national players provide both retail and investment banking services as the sector has become highly competitive with the re-entry of many experienced foreign players.

Foreign banks returned to the South African market in the mid 1990s, having left in the late 1980s due to disenchantment with the government's apartheid policy.

Banks operating in South Africa, when left short of liquidity, need to borrow from the SARB at a fluctuating repo rate, which in turn allows the central bank to monitor liquidity positions.

South Africa operates a single floating exchange rate that is managed by the SARB through intervention in the spot and forward markets, thereby reducing volatility.

Liquidity and cash management

Integrated and advanced cash management is a well-established concept amongst corporates in South Africa, and as such, there is a wide range of products available. Both single and multi-entity cash concentration structures are permitted and options include:

- Notional pooling.
- Zero balancing.
- One-way target balancing.
- Two-way target balancing.

Although multilateral netting is not permitted under South African exchange control rules, single and multi-entity notional pooling is allowed.

Bank accounts

Account opening in South Africa is strictly controlled by the Financial Intelligence Centre Act, which applies to both resident and non-resident accounts.

Interest is paid on both resident and non-resident ZAR and foreign currency accounts.

Money market

Aside from the liquidity and cash management structures, South Africa has an advanced money market, and the main short-term investment instruments are:

- Bankers' acceptances.
- Treasury bills – these are issued by the SARB and normally have a maturity of 91 days, although there are some smaller issues with maturities of 182, 273 or 364 days.
- Debentures – again, issued by the SARB, debentures typically have a maturity of 28 or 56 days, though occasionally they are issued with a 91-day maturity.
- Short-dated government stock.
- Negotiable certificates of deposit – issued by major South African banks on a yield basis, with a maximum maturity of five years.
- Investor promissory notes – these are generally issued with a minimum maturity of two years.

Payments, clearing and settlement

South Africa is well known for having a sound and sophisticated payments infrastructure. The country's National Payment System (NPS), which was established in 1994, is the framework that encompasses payments made between banks as well as the steps involved in the payment process from start to finish.

The NPS is entrenched in law and is one of the nation's pillars of financial stability. The Reserve Bank oversees the NPS and implements risk-reduction measures aimed at minimising systemic risk.

Country Profile

The major payment methods in use in South Africa include: cash, electronic funds transfers, funds transfers via SWIFT, cheques, credit/debit cards, prepaid and contactless cards and mobile e-payments. The main clearing and settlement systems in South Africa are:

- **Bankserv (Automated Clearing Bureau – ACB)** – Bankserv processes ZAR electronic funds transfers (debits and credits) and cheques, and is mostly used by South African resident legal entities. The infrastructure has existed for approximately 30 years and is designed to provide a cost-effective high volume service to the banking industry. Bankserv offers both real-time and non real-time clearing services with immediate or overnight settlement for electronic payments and collections. Bankserv clears in excess of 4m cheque-based transactions each month.
- **SAMOS (South African Multiple Option Settlement)** – originally developed as an inter-bank real-time electronic settlement system now also used to clear retail and commercial payments as well as bond and equity market obligations. The SAMOS system settles on a pre-funded basis and if a bank has insufficient funds in its settlement account, the system will automatically grant a loan to the bank against acceptable collateral. SAMOS can be used by both resident and non-resident entities.

At the end of 2001, the SARB and the Payments Association of South Africa (PASA) introduced certain clearing and settlement limits that were designed to direct payments through the country's SAMOS system. The limits are:

- Electronic fund transfers (EFT) debits and debit orders may not be issued through Bankserv for more than ZAR 500,000.
 - EFT credit payments through Bankserv may not exceed ZAR 5m.
 - Cheques may not be written for a sum larger than ZAR 5m.
 - Funds transfers greater than ZAR 5m must be initiated via SAMOS.
- The South African rand was included as a Continuous Linked Settlement (CLS) currency in December 2004 and the SARB acts as principal in South Africa's CLS transactions.

Key websites

Government website: www.gov.za

South African Reserve Bank: www.reservebank.co.za

The Financial Services Board: www.fsb.co.za

The Banking Association South Africa: www.banking.org.za

Department of Trade and Industry: www.thedti.gov.za

National Treasury: www.finance.gov.za

South African Revenue Service: www.sars.gov.za

Johannesburg Securities Exchange: www.jse.co.za

SA futures Exchange SAFEX: www.safex.co.za

Payments Association of South Africa: www.pasa.org.za

Association of Corporate Treasures of Southern Africa:
www.actsa.org.za

Citi's capabilities in South Africa

Citi is one of the largest commercial banks operating in South Africa today. Citi re-established its presence in South Africa in 1995, and the bank has had a strong presence on the African continent for over 50 years, with offices in 16 countries. An additional 23 countries are covered through a non-presence country unit based in Johannesburg. Including partner banks, Citi's coverage extends to 1,204 branches in South Africa.

Citi's Corporate Banking Division is the hub for the bank's strong relationship with top tier South African companies and global corporations with business in South Africa. The bank's extensive product range, which is tailored to provide integrated banking solutions ranging from Global Transaction Services to complex financing structures, is backed up by customer solution teams, comprising dedicated relationship managers and product specialists. These teams are situated both locally and abroad to provide a diversity of expertise.

Global Transaction Services offers integrated treasury and trade solutions for multinational corporations, financial institutions and the public sector in South Africa. Citi Global Transaction Services is instrumental in the development of clearing, settlement and depository facilities in numerous emerging countries, and is a leading strategic advisor on industry issues such as local securities markets, emerging markets, settlement risk, receivables and payment processes, securities infrastructure and technology integration.

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