# Doing Business in South Africa

*Expert knowledge means success*


## Contents

# Introduction

After the British seized the Cape of Good Hope area in 1806, many of the Dutch settlers (the Boers) trekked north to found their own republics. The discovery of diamonds (1867) and gold (1886) spurred wealth and immigration and intensified the subjugation of the native inhabitants. The Boers resisted British encroachments, but were defeated in the Boer War (1899-1902). The resulting Union of South Africa operated under a policy of apartheid - the separate development of the races. The 1990s brought an end to apartheid politically and ushered in black majority rule.

The economy of South Africa is the largest in Africa, accounts for 24% of its Gross Domestic Product in terms of PPP, and is ranked as an upper-middle income economy by the World Bank, which makes the country one of only four countries in Africa represented in this category (the others being Botswana, Gabon and Mauritius).[1] About a quarter of the population is unemployed and about the same proportion lives on less than US $1.25 a day.

South Africa has the most sophisticated free-market economy on the African continent. The country represents only 3% of the continent's surface area, yet it accounts for approximately 40% of all industrial output, 25% of gross domestic product (GDP), over half of generated electricity and 45% of mineral production in Africa. It acts as the gateway to the Southern African market of 185 million people: the majority of imports into Southern Africa are manufactured or transported via South Africa.

The country's economic system has a marked duality. A sophisticated industrial economy has developed alongside an underdeveloped "informal" economy.

The industrial economy has an established infrastructure and economic base with great potential for further growth and development whereas the "informal" economy presents both untapped potential and a developmental challenge for South Africa. South Africa is also a gateway for investment into Sub-Saharan Africa and since 1994, South Africa's trade and investment interaction with other countries has increased significantly in recent years.

Most of South Africa's economic activity occurs in the four main metropolitan areas:

- Witwatersrand area surrounding Johannesburg in the Gauteng Province;
- Durban/Pinetown area in KwaZulu-Natal;
- Cape Peninsula;
- Port Elizabeth/Uitenhage area in the Eastern Cape.

The main activities are as follows:

- Cape Town - Legislative capital, major tourist destination, regional manufacturing centre and port;
- Durban (eThekwini) - Africa's busiest container port, centre of sugar industry;
- Johannesburg - Financial, manufacturing and mining centre;
- Pretoria (Tswane) - Administrative capital, important rail centre with iron and steel industry;
- Port Elizabeth (Mandela Bay);- Automotive centre;
- Bloemfontein - Judicial capital, major transportation hub;
- East London - Major automotive and fishing industry;
- Kimberley - Diamond mining centre.

# UK-South Africa Trade

**UK Trade (Goods only) with South Africa 2003-2007 (£million)**

| | UK Exports | UK Imports |
|---|---|---|
| **2003** | 1,780 | 3,029 |
| **2004** | 1,883 | 3,349 |
| **2005** | 2,083 | 4,012 |
| **2006** | 2,187 | 3,989 |
| **2007** | 2,160 | 3,158 |

***Source: HM Revenue & Customs***

Balance of Payments figures for 2008 released by National Statistics show that UK exports to South Africa in 2008 increased to £2,654 million and UK imports from South Africa increased to £4,725 million.

In many ways, South Africa is the ideal high growth market for UK companies to set their sights on. The UK and South Africa are natural trading partners, English is the main business language and there are similar legal systems and business cultures.

The top ten exports from the UK to South Africa are:

- Road Vehicles;
- Non-Metallic Mineral Manufactures;
- Miscellaneous. Manufactured Articles;
- Machinery Specialised For Particular Industries;
- Power Generating Machinery & Equipment;
- General Industrial Machinery etc;
- Beverages;
- Medicinal & Pharmaceutical Products;
- Machinery & Appliances;
- Other Transport Equipment.

In recent years, there has been significant investment in South Africa by household British names such as Barclays Bank, Rolls Royce, Cadbury's, Vodafone, Virgin Mobile and Associated British Foods.

In global terms South Africa offers a unique and compelling package: the stability of a developed country, the opportunities of a vibrant emerging market, and a cultural climate that fosters growth.

Opportunities abound at every level. South Africa is hungry for UK innovation and the UK is already a major contributor in a wide swathe of technological developments.

UK Trade and Investment has identified five priority sectors for UK companies in South Africa:

- Agriculture;
- Education and Skills;
- Water and Environment;
- Power;
- Sports & Leisure.

Six opportunity sectors have been identified for UK companies in South Africa:

- Advanced Engineering;
- Construction;
- Creative Industries;
- Financial Services;
- Life Sciences;
- Rail;
- Airports.

Crime, bureaucracy and red tape raise some concerns as does the regular power cuts. Broad-Based Black Economic Empowerment legislation means UK companies seeking to set up, or to create partnerships in South Africa, have to be aware of the new rules.

Another challenge generated by growth is the need for a better trained workforce in every type of work from manual to tertiary services.

# Reasons to do business in South Africa

South Africa offers good potential to UK companies looking to develop long-term business partnerships. It has an open and stable economy, strong macro economic fundamentals, a sound financial structure, superb physical infrastructure and significant potential for growth and commercial prosperity.

South Africa is still a developing country in need of foreign capital to sustain economic growth. It is the South African Government's policy to encourage the country's economic development and stimulate industrial development through the initiative and contributions of private enterprise. The Government welcomes long term investments, particularly when they go hand in hand with new technology and skills.

Opportunities exist across the board and include:

- Privatisation/re-structuring of the ports, railway, power and water sectors;
- Consultancy, telecoms and IT/electronics;
- The environment and water; and
- Healthcare, tourism, creative industries and agriculture.

## Financial Incentives

The South African government, is very keen to encourage foreign direct investment (FDI) into South Africa, and offers a range of taxation and other incentives in order to entice international (and in some cases domestic) investors. The Enterprise Investment Programme was launched by the government in July 2008, to provide sector-specific financing in order to encourage growth in key areas.[2]

A brief summary of incentives available are:

- **Industrial Development Zones (IDZs):** these are purpose-built industrial estates providing facilities and services tailored for export-oriented industries. They are linked to international airports or ports, and run along similar lines to Export Processing Zones, which fall outside of domestic customs zones, and so are able to import items free of customs and trade restrictions, add value, and then export. Sites already earmarked for, or actually being used as IDZs include Richmond, East London, Durban, Coega, Saldanha, and the Johannesburg international airport.

- **Small and Medium Enterprise Development Programme (SMEDP):** The SMEDP is a programme designed to generate employment, and create opportunities for the introduction of new and advanced skills to South Africa, as well as to encourage foreign investment in the country. One of the programmes it offers provides incentives for those planning to expand existing South African based enterprises, or to start new projects in a range of sectors, including manufacturing, tourism, business services, information and communications, technology, and high value agricultural projects. Eligible projects can claim an annual tax free cash grant of up to 10% of the qualifying investment cost, paid over two or three years if a labour usage criteria is met.
- **Skills Support Programme:** Another incentive, offered to businesses with approved training programmes, is the Skills Support Programme, which can be accessed simultaneously with any other investment or competitiveness programmes. The SSP offers a three-year grant to the value of up to 50% of the cost of training new staff as the result of an expansion or new project. It also offers a capital grant for training equipment and course materials.
- **Spatial Development initiatives (SDIs or 'Investment Corridors'):** The government is also very keen to stimulate domestic investment, as it believes that this is the key to foreign investment, as international investors, to a certain degree, follow the sentiment and mood of their domestic counterparts. To this end, a number of Spatial Development initiatives (SDIs or 'Investment Corridors') have been set in place to establish conditions that will be attractive to both domestic and international investors.
- **Incentives for Manufacturing Start-Ups:** A company which incorporated on or after October 1, 1996 contemplating carrying on a manufacturing project as its sole business, may be awarded a tax holiday, up to a maximum of six years, if the project meets certain conditions. The project may consist of one or more of three components, namely a spatial component, an industry component and a human resource component.
- **Strategic Investment Projects:** The Strategic Investment Project (SIP) program offers a tax allowance of up to 100 percent (a maximum allowance of R600 million (app. $100 million) per project) on the cost of buildings, plant and machinery, for strategic investments of at least R50 million (app. $85 million).
- **The Enterprise Investment Programme:** The Enterprise Investment Programme was launched by the government in July 2008, to provide sector-specific financing in order to encourage growth in key areas. The scheme currently operates under two sub-programmes – the Manufacturing Investment Programme (MIP) and the Tourism Support Programme (TSP – though further sub-programmes are expected to be added in the future to address the needs of other specific sectors.

The South African government has introduced a number of other schemes designed to encourage investment in certain industries, including:

- **Critical Infrastructure Programme (CIP):** This programme provides subsidised support for economic infrastructure required for committed productive investments, including new or expanding existing projects. It also assists companies with a top-up grant, with funding ranging from 10% to 30% of the qualifying development costs.
- **Technology and Human Resources For Industry Programme (THRIP):** The Technology and Human Resources for Industry Programme (THRIP) is a partnership programme, which challenges companies to match government funding for innovative research and development in South Africa. The placement of SET graduates in firms, while they are working towards a higher degree on a joint research project.
- **Support Programme for Industrial Innovation (SPII):** The programme, administered by the Industrial Development Corporation of South Africa, promotes technology development in the manufacturing and IT industry through innovation of new products and processes. All private sector firms and commercialised state owned companies, which incur direct costs in the development of innovative new products/processes qualify for the funding.
- **Product process development:** Financial assistance is provided for small, very small and micro enterprises in the form of a grant of between 65% and 85% of the qualifying cost incurred during the technical development stage with a maximum grant amount of half a

million Rand (R500,000) per project. For enterprises with more than 25% black shareholding, the grant is 65%, for enterprises with between 25% and 50% black shareholding, the grant amount is 75%, and for enterprises with black shareholding of more than 50%, the grant amount is 85%.

- **Matching scheme:** This is a conditional grant that is repaid by means of levy sales. Financial assistance is provided to SMEs with more than 200 employees, a turnover of more than R51 million, and assets less than R19 million, in the form of a grant of up to 50% of the qualifying cost incurred during the technical development stage up to a maximum grant amount of R1.5 million per project.
- **Partnership scheme:** Financial assistance is provided in the form of a conditionally repayable grant of 50% of the qualifying cost incurred during development activity, with a minimum grant amount of R1.5 million per project, repayable on successful commercialisation of the project. In considering support for a project under SPII, there should be a clear indication of the causality (additionality) that will follow from the support.
- **National Industrial Participation Programme – NIPP:** The programme seeks to leverage economic benefits and support the development of South African industry through government procurement. The programme is targeted at the South African industries, enterprises, and suppliers of goods and services to government/ parastatals, where the imported content of goods and services equals to or exceeds US$10 million.
- **Film incentives:** A large Budget Film and Television Production Rebate Scheme has been introduced where an eligible applicant will be rebated a sum totalling 15 percent for foreign productions, or 25 percent for qualifying South African Productions. This includes official co-productions of the Qualifying South Africa Production Expenditure (“QSAPE”) that the applicant has spent on an eligible film production.
- **Export Marketing & Investment Assistance Scheme (EMIA):** The EMIA Scheme partially compensates exporters and investors for costs incurred in respect of activities aimed at developing export markets, and assists with the facilitation of investments into South Africa. Any assistance provided under the EMIA Scheme is at the discretion of the CEO of Trade and Investment South Africa (TISA).

## Strategic Location in World Markets

South Africa is ideally positioned for easy access to the countries of the Southern African Customs Union and the Southern African Development Community (14 countries with a total population of 180 million). It serves as a trans-shipment point between the emerging markets of Central and South America and the newly industrialised nations of South and Far East Asia.

## Rapid Liberalisation of Trade and Investment

A level of economic liberalisation has accompanied the political transformation in South Africa. Reinforced by democratic and restructured institutions, the new constitution provides a foundation for political stability and long-term real economic growth. South Africa's trade and industrial policy is in the process of fundamental change, moving away from a highly protected, inward looking economy towards an internationally competitive economy. It aims to achieve balance between greater openness and improvement in local competitiveness whilst pursuing a process of industrial restructuring aimed at expanding employment opportunities and productive capacity. These changes have opened South Africa's domestic economy to international competition, and have included:

- a significant reduction in tariff barriers as well as a market related and competitive exchange rate;
- no restrictions on the type or extent of investments available to foreigners nor is government approval required;
- the strengthening of competition and development of industrial cluster support programs;
- the abolition of exchange control on non-residents and the substantial reduction of controls of residents;
- a proactive strategy to attract foreign strategic equity partners into the process of restructuring state assets and infrastructure;
- the introduction of greater labour market flexibility; and the availability of investment incentives to enhance international competitiveness, technology transfer and foreign direct investment.

## Modern Infrastructure

South Africa has a modern and sophisticated infrastructure which includes rail, road and transportation services, postal and telecommunications facilities, including one of the fastest growing cellular telephone industries in the world. South Africa is served by most major international airlines and has a nationwide network of both state owned and private airports.

## Sophisticated Financial Markets

South Africa has a well-developed financial system. Legislation governing the financial sector has been streamlined to meet international norms and provides the platform for the introduction of major foreign financial institutions into the local market. There are more than 70 foreign banks in SA, most arriving since 1994, initially as stockbrokers before moving to the broader financial services sector. The Johannesburg Stock Exchange (JSE) is the tenth largest stock exchange in the world by market capitalisation and provides market-making through a screen-based trading system. The admission of limited liability corporate members, dual capacity trading, negotiable brokerage and the automation of the trading system have led to increased turnover and more competitive rates and services for investors. The South African Futures exchange (SAFEX), trades in equity futures contracts, options on equity futures and a host of other futures contracts. The Bond Exchange of South Africa was licensed to trade on 15 May 1996. The growing momentum in the field of public-private partnerships in project financing as well as the emergence of powerful black economic empowerment consortia continues to drive innovation in this sector. Legal, accounting, management consulting and advertising fees are considerably lower than in most developed economies, with most of the leading international service firms operating major South African subsidiaries.

## Telecommunications and Information Technology Industry

Telecommunications is one of the fastest growing industries in South Africa promoted largely by the introduction of cellular telephones and the partial privatisation of Telkom. Network operations provide services such as Internet connectivity, electronic mail, protocol conversion, data processing and access to global databases.

## Productivity

South Africa is using industrial policy to focus on its competitive advantage in multi-factor productivity, a weighted combination of labour and capital productivity. As the major para-statal corporations accelerate the process of operational restructuring through the acquisition of strategic equity partners, there is potential for further capital and labour productivity increases. This is complemented in education by a shift away from academic towards technical and vocational training at secondary and tertiary levels to ensure a large pool of skilled managers and technicians. Trade Unions are strong, and there is a perception of inflexibility and instability in the industrial relations system. The Council of Conciliation, Mediation and Arbitration (CCMA) has been established to mediate in labour disputes and has achieved a success rate of around 85% in dispute resolution. Whilst there is still a way to go, the system of industrial relations is maturing, and both organised business and labour recognise their shared common interests. Strike action is however commonplace.

## Quality of Life

South Africa recognises that no developing country can market itself as a sound investment destination without offering a comparable standard of living. Foreign visitors and residents are able to purchase properties at significantly lower prices than in the United Kingdom. There is good access to primary, secondary and tertiary education, sporting and recreation facilities. Private healthcare is sophisticated, though state healthcare is underfunded. However, as with any major political and economic transition, problems of adjustment are evident in the incidences of crime and violence in the major metropolitan centres.

The concerns of foreign investors, which are shared by all South Africans, are being addressed by a comprehensive national crime prevention strategy focusing on all components of the criminal justice system. The appointment in 1997 of Meyer Kahn, a leading industrialist, as Chief Executive of the South African Police Service has already led to some positive results. Those planning to visit the country are advised to consult the Foreign and Commonwealth Office who issue regularly updated travel advice.

## Government To Government Investment Facilitation

Investment Promotion and Protection Agreements (IPPA) are Government-to-Government treaties of long duration designed to encourage investor confidence and investment flows by setting high standards of investor protection applicable in international law. Key elements provisions for non-discriminatory treatment by the host State, compensation for expropriation, unrestricted remittance of profits etc, and international arbitration in the event of an investor/host State dispute.

The United Kingdom/South Africa IPPA was signed on 20 September 1994 and was ratified on 27 May 1998.

### Trade and Investment South Africa (TISA)

TISA is the national trade and investment promotion agency of South Africa. Established as a division of the Department of trade and Industry, TISA seeks to promote and facilitate the successful entry of foreign direct investment into the country and the growth of exports. TISA operates on private sector principles of performance and service delivery. Potential investors in South Africa are advised to make early contact with TISA.

## Economy

South Africa is a middle-income, emerging market with an abundant supply of natural resources; well-developed financial, legal, communications, energy, and transport sectors; a stock exchange that is 17th largest in the world; and modern infrastructure supporting an efficient distribution of goods to major urban centres throughout the region.

South African economic policy is fiscally conservative but pragmatic, focusing on controlling inflation, maintaining a budget surplus, and using state-owned enterprises to deliver basic services to low-income areas as a means to increase job growth and household income.

In part, South Africa has a sophisticated economy based on manufacturing, mining and financial services, in which macro-economic indicators like interest rates and the strength of the Rand are critical. But it also has an economy consisting of the very poor who eke out a living through near-subsistence agriculture or the informal sector, for whom economic statistics mean little. Daunting economic problems remain from the apartheid era - especially poverty, lack of economic empowerment among the disadvantaged groups, and a shortage of public transportation.

The Government has viewed economic restructuring through privatisation as important for growth and employment generation in the long run, despite short-term transitional costs. There have been political difficulties in pushing privatisation forward. The left-leaning and union elements within the ANC governing alliance are strongly opposed to privatisation which, they argue, involves handing control of state assets to a white and 'black elite' dominated business sector. The Government has recently shifted its focus from pursuing wholesale privatisation to developing profit oriented public sector enterprises.

Growth was robust from 2004 to 2008 as South Africa reaped the benefits of macroeconomic stability and a global commodities boom, but began to slow in the second half of 2008 due to the global financial crisis' impact on commodity prices and demand. However, unemployment remains high and outdated infrastructure has constrained growth. Relatively small improvements in living standards can make a huge difference to people’s lives. Unemployment levels are officially 23.5% (March 2009) but some commentators quote figures as high as 40%.

## Population

South Africa has a population of 50 million (2010, Source: World Bank). This explicitly takes into account the effects of excess mortality due to AIDS; this can result in lower life expectancy, higher infant mortality, higher death rates, lower population growth rates, and changes in the distribution of population by age and sex than would otherwise be expected.

### Staffing

South Africa is currently experiencing a shortage of skills in specific fields. The South African Government has introduced the national economic plan ASGISA (Accelerated and Shared Growth Initiative of South Africa), comprising a set of interventions to remove obstacles to sustainable higher rates of growth, employment creation and poverty reduction. This will involve expanding and fast-tracking development and acquisition of skills, including the facilitation of the importation of skills. However, the private recruitment agency industry for skilled workers is well developed, and with professional advice from local consultants and partnering with a South African company, the staffing challenge can be overcome.

## Geography


The Republic of South Africa has a total land area of 1,228,376 sq. km. This makes the country larger than Holland, Belgium, Italy, France and Germany combined. The country is bordered in the west and east by the Atlantic and Indian Oceans. To the north, South Africa is bordered by Namibia, Botswana, Zimbabwe, Mozambique and Swaziland.

South Africa has a coastline of 2,954km, with few natural harbours. The coastal strip is below 1,500 feet fringed by steep mountain ranges, with a high plateau in the interior ranging up to 6,000 feet above sea level. On the west coast the cold Atlantic current produces arid scrubland conditions, changing to summer rainfall grassland as one approaches the central plateau of the country. A continuous mountain range runs down the east coast, which is warmed by the Indian Ocean producing a sub-tropical climate. The far north of the country has savannah-type vegetation, whilst the southern tip has a winter rainfall Mediterranean climate.

## Climate

In Cape Town, December to March is generally warm and dry with strong south easterly winds. Rain falls mainly in winter, from May to September when it is frequently overcast.

Winter nights can be quite cold. In Johannesburg, Pretoria and elsewhere on the highveld, the winter months provide a succession of sunny and dry days followed by cool and sometimes cold nights. Summer days are hot and sunny with frequent and torrential thunderstorms.

In Durban and other low lying parts of Natal, winter temperatures rarely fall below 18°C and summer months' temperatures range from 25°C to 33°C with often 100% humidity. Rainfall occurs mainly in the summer, from November to March.

## Government Structure

South Africa is a stable, robust democracy characterised by a progressive Constitution, a vigorously vigilant Parliament, a vibrant civil society and democratic institutions that protect rights and limit abuses of power. The Constitution provides for regular, free and fair elections where public representatives are chosen, and South Africa has a proud record of such free and fair elections.

At the end of 2007, the ruling African National Congress (ANC) – a 96-year-old movement that ushered the country to democracy in 1994 – elected a new leadership headed up by Jacob Zuma to take it up to its centenary in 2012, and a leadership that will sustain the country's developmental policies and programmes beyond 2009. The ANC leadership has publicly committed itself to ensuring smooth working relations with Government, and reiterated that there should be no apprehension about these relations. The party has also indicated publicly that policies – including those pertaining to the economy – adopted in December 2007 do not constitute a fundamental shift from policies adopted since 1994.

Parliament consists of two houses, the National Assembly and the National Council of Provinces. The Constitution says that the National Assembly should have no more than 400 and no fewer than 350 members. Members of the National Assembly are called Members of Parliament (MPs) and are directly elected by the voters in a national election.

On 22 April 2009, South Africa held its fourth General Election since the end of apartheid. ANC President Jacob Zuma was elected President for a five-year term. The ANC won 65.9% of the national vote (down from 69.7% in 2004). The opposition Democratic Alliance, (DA) won the Province of the Western Cape from the ANC and increased its national share to 16.7%. New party Coalition of the People (COPE - formed from former ANC members) achieved 7.4%, emerging as the official opposition in five of South Africa's Provinces. COPE is the third largest party (in terms of representation) in South Africa. The combined share of the smaller parties halved from 2004 to 4.72%.

## National Assembly

The National Assembly makes the laws that govern the lives of South Africans. It debates all the draft laws (bills) that Ministers bring to Parliament and can approve, reject or change them. It must also consult the public.

The President and his Ministers are accountable to Parliament. The National Assembly is the place where Ministers must report on the work they do and answer questions about this work.

## National Council of Provinces

The National Council of Provinces is a unique legislative body, as it is composed of delegates from South Africa's nine provincial legislatures, and has representation from organised local government.

Each province has the same number of delegates on the NCOP, no matter how big or small the province. This means that a small province has as much say as a big province. There is, therefore, a balance of interests between each of the nine South African provinces.

Each province has 10 delegates. There are four special and six permanent delegates. The delegation is headed by the Premier of each province who is one of the special delegates. If necessary, the Premier can appoint someone to take her/his place.

The delegates come from the provincial legislatures. The delegation must reflect the strength of the different parties in the province.

## Legal Background

The legal system based on Roman-Dutch law and English common law; accepts compulsory ICJ jurisdiction, with reservations. Anyone doing business within South Africa should be aware of the following Acts.

### *Promotion of Access to Information Act*

The South African Constitution states that everyone has the right of access to:

- any information held by the state; and
- any information that is held by another person and that is required for the exercise or protection of any rights.

The Promotion of Access to Information Act lays down the procedures for accessing information from government as well as from private bodies, subject to certain limitations. The Act mainly deals with recorded information.

### *Financial Intelligence Centre Act*

The Financial Intelligence Centre Act was introduced to combat money-laundering activities. It states that banks and other "accountable" institutions, such as casinos, law firms, and estate agencies, are obliged to verify the identity and residence of new clients before proceeding with transactions and to provide the same data for their existing clients. Where a client does not provide the data, the banks must freeze the client’s accounts until the account holder's identity is verified.
There is no stated definition of a high risk customer, but it is generally accepted that it includes businesses with monthly account turnovers of more than R50,000 and individuals with account turnovers of R25,000 who have failed to verify their identity and residency.

A set of 'indicators' has been established by the authorities to help businesses identify suspicious transactions such as:

- transactions with no business purpose;
- transactions for which the client can provide no proper explanation; and
- transactions where the client is keen to remain anonymous.

### *The Financial Advisory and Intermediary Services Act*

The Financial Advisory and Intermediary Services is designed to protect consumers against poor advice and financial scams. An individual or institution providing financial advice (for which they charge a fee or commission) or selling a financial product must:

- meet certain minimum requirements;
- behave honourably, professionally and with due diligence; and
- provide appropriate advice.

Failure to adhere to the FAIS Act will render the adviser subject to disciplinary procedures.

# Establishing a Business in South Africa

Investors often appoint solicitors or chartered accountancy firms to take care of the legal aspects of the establishment of industrial under-takings. However, this is not always a requirement in South Africa.

The usual choice of business entity is a company with limited liability or a branch. If the foreign investor is an individual (or group of individuals), a close corporation may be used instead.

If you wish, you can set up a subsidiary company - the company must be registered with the registrar of companies. The minimum legal costs are R1 500, to which should be added stamp duty and registration and other fees. Formation and registration can normally be completed within one month.
It is usually slightly easier to set up a branch rather than a company but this should not be the overriding consideration in deciding which type of entity to use. A branch can be reorganised as a subsidiary company but there would be significant withholding tax cost if substantial profits were remitted after the reorganisation. Moreover, relief for any branch tax losses could be forfeited.

There is no legal restriction on the foreign ownership of South African shares.

## Exchange Controls

The South African Government is committed to removing all exchange control regulations. However, they are doing so through a gradual series of reforms rather than using the so called 'big bang' approach. Exchange control is not an issue for most British companies exporting to South Africa. For those companies who have invested in South Africa there are still regulations covering the repatriation of profits.

The South African Reserve Bank (http://www.resbank.co.za) is responsible for the administration of the exchange control regulations and is the authority which should be consulted, normally through the enquirer's commercial bank, about their interpretation.

For further details of exchange control regulations, it is advisable to approach a commercial bank in South Africa.

## Starting a New Business

Starting a business in South Africa is comparatively easy. No permits are required for foreigners (apart from business and work permits) or locals to begin a business. Having obtained business and work permits, the following steps need to be taken:

- Registration of Company - the company must be registered with the South African Registrar of Companies in Pretoria within 21 days of the company being started;
- Registration with the Receiver of Revenue
  - as a Provisional Taxpayer
  - as a VAT vendor
  - for Pay As You Earn (PAYE) income tax on employees
  - for Standard Income Tax on Employees
- Registration with the Cape Metropolitan Council or District Council - businesses employing staff pay a gross revenue or salary related levy to the CMC;
- Registration with the Department of Labour - Businesses employing staff will have to contact the Department of Labour regarding mandatory contributions to the Unemployment Insurance Fund (UIF);
- Registration with the Local Authority - only businesses dealing in fresh foodstuffs or health matters are required to register with the local authority.

Other procedures include:

- Checking Exchange Control procedures (Please note that non-residents are generally not subject to exchange controls except for certain categories of investment (See the Exchange Control page for more information);
- Obtaining approval for building plans;
- Applying for industry and export incentives;
- Applying for import permits and verifying import duties payable;
- Registering as an exporter and applying for an export permit;
- Ensuring Exchange Control compliance when remitting payments overseas.

## Business Formats

### *Sole Proprietorship - Public and Private Companies*

These are the most common forms through

which foreign investors conduct their business activities.

The decision as to whether an entity should be formed as a public or private company is dependent on the individual needs of the investor. No distinction is made in the Companies Act between companies that are locally owned and those that are foreign owned. Incorporation is achieved by satisfying the requirements of the Companies Act in respect of the registration of the memorandum and the articles of association. The memorandum lists certain essential facts about the company, including its name, objectives and share capital. The articles list the company's internal regulations. The average time taken to register is five weeks. Directors of companies registered in South Africa need not be resident in or be nationals of South Africa.

Companies should be registered at The Company and Intellectual Property Registration Office (CIPRO) who are a sub-directorate of the SA DTI. Details of their activities can be found at www.cipro.gov.za

### Incorporated Companies

This type of company is one in which the liability of its directors is unlimited. Such a private company is mainly intended for professional associations. Members of professions permitting such incorporations find this an acceptable form in which to be associated, notably for tax considerations and the advantages of corporate existence.

### Branches of Foreign Companies (External Companies)

With the exception of banking and insurance companies any foreign company, i.e. corporations or other associations of persons incorporated outside South Africa, may establish a place of business and carry on its activities without being required to form a separate locally registered company. The establishment of a branch of a foreign company requires registration of that company as an 'external company' within 21 days after establishing a place of business in South Africa. Incorporation is effected through observing the formalities prescribed in the Companies Act, including the filing of a certified copy of the memorandum and articles of association of the company in English or Afrikaans. An external company is not required to appoint a local board of directors, but must appoint a person resident in South Africa who is authorised to accept service of process and any notices served on the company.

### Close Corporations

Close Corporations are a simpler form of corporate structure suited to the needs of smaller businesses. A close corporation may have no more than 10 shareholders, who must be naturalised persons. An annual audit is not mandatory. Because companies may not hold shares in close corporations, they are not available to foreign companies wishing to invest in the country. The liability of members is limited similarly to that of members of private companies. Close corporations may own fixed or movable property and they enjoy perpetual succession.

### Partnerships

Any form of business, with few exceptions, may be carried on in South Africa by a partnership. However, the Companies Act prohibits any unincorporated company, association or partnership from including more than 20 persons, except in the case of certain professional partnerships e.g. lawyers, accountants where there is no limit on the number of partners. Partnerships carrying on a trading business must comply with the requirement of the Business Names Act, which provides for the disclosure of the names of the partners (other than special partners) in all business letters, trade catalogues and the like. The Act also imposes certain restrictions on the names that may be used by trading partnerships. Partnerships must keep proper books and records and submit a copy of the partnership balance sheet and income statement in support of each individual partner's personal annual tax return. There are no legal requirements as to meetings and the annual accounts need not be audited. No details of the financial position of the partnership need to be made public.

### Joint Ventures

Joint Ventures are normally formed for carrying out some specific purpose. As joint ventures are formed on an agreement between two or more parties, the joint ventures may be constituted as partnerships and, as such, are subject to the common law relating to partnerships. Alternatively the joint venture may take the form of a company with investment by the non-resident and resident participants in agreed proportions.

## Sole Proprietorship

There are no statutory regulations relating to the registration of a sole proprietorship except that proper books and records of trading activities must be maintained and a balance sheet and an income statement must be submitted each year to the Receiver of Revenue together with the owner's private tax return. It is not necessary to have the accounts audited and no public disclosure of the affairs of the sole proprietorship need be made. In the event of insolvency of the business, the proprietor's private estate is liable to make good any deficiency in the business. Any income earned by the sole proprietorship is taxable in the owner's hands.

## Trusts

Trusts are administered (at least partially) for the benefit of other persons and can make suitable business vehicles. They offer limited liability without all the administration and regulation requirements of a company. There are no formal requirements relating to the maintenance of capital, solvency or liquidity. Rules applicable to trusts are largely determined by the contents of the trust deed. Trust income is taxed at a rate of 40%.

The Trust Property Control Act, 1988 governs the operation of trusts in South Africa. Trust deeds and amendments must be lodged with the Master of the High Court and trustees must obtain written authorisation from the Master before they are permitted to act in that capacity. Trustees are accountable to the Master regarding administration and disposal of trust property. A court has discretion to vary the provisions of a trust or even to order the termination of the trust so as to protect the achievement of the founder's objects, the interests of beneficiaries or the public interest.

Trusts have no separate legal personality (except for taxation purposes). Income vesting in or awarded to beneficiaries within a tax year is not taxed in the hands of the trustee but is taxed only in the hands of the beneficiary at his or her applicable rate.

### Advantages of a Trust over a Company

A Trust has, in effect, Limited Liability status as neither the trustees nor the beneficiaries are liable for obligations incurred by the trustees. It can therefore be an attractive alternative business entity to a company. Other advantages include:

- if income is distributed by a trust, this income is regarded as the income of the recipients, and it retains its character and other general features;
- a trust is not required to prepare financial statements or make annual returns and does not need to be audited;
- there is no limitation on the qualification of persons who may act as trustees;
- there is no restriction on the use of trust capital to finance the acquisition of interests in the trust;
- the provisions dealing with winding-up do not apply;
- there are no restrictions on the way in which decisions can be taken or in respect of the enlargement of the trust capital or as to what may be provided in the trust deed of amendments of the trust deed;
- greater secrecy as to the interests and operations of the trust is possible.

### Advantages of a Trust over a Partnership

A trust can also be an attractive alternative business entity to a partnership. Advantages include:

- a trust has perpetual succession; a partnership terminates on the exit of a partner;
- the management of a trust is simpler; in a partnership all the partners are entitled to participate in management issues;
- a trust has effectual limited liability;
- there is no limitation on the number of trust beneficiaries; the membership of a business partnership is limited to twenty persons.

## Accounting and Auditing

Only public companies must make their financial statements available for public inspection.  Private companies or close corporations need not publish their financial statements to the public, but they must publish them to their own shareholders or members.

Companies must have their statements audited by independent, professionally qualified auditors, but close corporations need not.

Financial statements must be prepared and distributed to the shareholders at least twenty-one days before each annual general meeting and the first meeting must be held within eighteen months of the date of incorporation.

Financial statements in South Africa must "fairly present" the position of the company or close corporation to its shareholders or members.

## Labour

Although employment is high, there is an imbalance in the labour market with a shortage of skilled workers and an excess of semi and unskilled workers. In some sectors, productivity is low. The Government's policy is geared towards creating opportunities for the previously disadvantaged communities.

The private recruitment agency industry for skilled workers is well developed.

No formalities are required to conclude a valid contract of employment. Employment legislation does, however, prescribe some basic conditions of employment. Other conditions may be imposed under the contract itself, an industrial agreement between an employer and employees in the particular industry concerned, or a separate agreement between an employer and a labour union. Case law makes it clear that dismissals must be conducted in a substantively and procedurally fair manner. Employers are required by law to pay full-time employees during short periods of absence from work due to sickness. Payment may also be required under the terms of an industrial agreement, a separate agreement with a labour union, or a similar arrangement.

South Africa's government has set out its plans to introduce a universal health care scheme. A pilot scheme in 10 areas is to start in April 2012, and will then be phased in nationally over the next 14 years.

## Employment Legislation

The labour legislation is extensive and far reaching, and should be studied in detail. There are various legislative acts relating to employment in South Africa including:

- the Labour Relations Act, 1995 which regulates collective bargaining, the right to strike and dismissal of employees;
- the Basic Conditions of Employment Act, 1997 which regulates minimum terms and conditions of employment;
- the Employment Equity Act, 1998 which regulates the implementation of equity and anti-discrimination measures in the workplace;
- the Occupational Health and Safety Act, 1993 which regulates the health and safety of persons at work;
- the Pension Funds Act, 1956 as amended which regulates retirement funds and surplus apportionment;
- the Medical Schemes Act, 1998 as amended which regulates employee medical schemes;
- the Skills Development Act, 1998 which regulates the provision of workplace strategies to develop and improve employee skills; and
- the Skills Development Levies Act, 1999 which regulates the imposition of a skills development levy payable by employers. The amount of the levy is 1% of the total payroll. Companies who train their employees can claim the levy back.

## Black Economic Empowerment

The State President has referred to South Africa as consisting of two nations: “a rich white nation and a poor black nation”.

The South African Government is implementing a Black Empowerment strategy - to address the social imbalances caused by the apartheid regime - through legislation and the introduction of individual charters designed to introduce empowerment in the various sectors of the economy. The strategy aims to help the majority of South Africans, who were disadvantaged by the apartheid regime, including African, Asian or coloured people, women and disabled persons to become active participants in the domestic economy by giving them preferential access to job opportunities, educational programmes and procurement activities.

Companies with a Black empowerment element have been given preference during the bidding process for state tenders, however this preferential status has been abused. Black businessmen have been offered financial inducements to pose as empowerment partners by white businessmen in their bids for state business. The black businessmen were paid well for their assistance by being bought out of the deal once the bid was won. There is therefore some reluctance on the part of financial institutions to lend money to Black entrepreneurs for their ventures.

However, it is important that British companies doing business in South Africa take into account the South African Government's affirmative action programme and in particular the need for including a

Black Economic Empowerment dimension in their business plans.

As far as business is concerned, there has been a growth in the number of black owned and managed companies listed on the Johannesburg Stock Exchange since 1994. However, there are signs that the growth in numbers has slowed down or even declined following a number of mergers. The main focus of activity has so far been in financial services, IT and media industries. Other companies are being encouraged to have an empowerment dimension to their operations, ideally in terms of equity shareholding, partnerships, or managerial control.

There have been some successes - most notably in the form of joint venture arrangements between existing white and newly formed empowerment companies. A significant empowerment dimension is particularly important for companies bidding for government contracts. Points are awarded according to the extent of active empowerment interest in the bidding company or consortium.

It is important therefore that British companies seeking government contracts demonstrate as great a level of empowerment participation in their bid as possible. This is rarely easy, as so few potential partners among the empowerment companies are able to demonstrate a proven track record. Indeed, many companies to date have been shell companies, set up for the purpose of securing a particular contract. The South African Government is aware of these difficulties and is attempting to regularise the situation. The Consulate General in Johannesburg is building up a database of South African empowerment companies.

# Taxation

The following is intended to provide a brief outline of tax issues. You should always take professional advice on these matters to determine the correct position according to your own personal circumstances. Taxation in South Africa[3] may involve payments to a minimum of two different levels of government: central government through the South African Revenue Service (SARS) or to local government.

- Central government revenues come primarily from income tax, value added tax (VAT), corporation tax and fuel duty.
- Local government revenues come primarily from grants from central government funds and municipal rates.

## Personal Tax

Upon arriving in South Africa, you should notify the local tax office. Generally, you will have to pay South African tax if you have any income from a South African source. If you become ordinarily resident in South Africa, you become liable for tax on various types of income, including bank interest and royalty income, on which you would not be liable as a non-resident.

If you are an employee, your employer will withhold the tax from your salary. Any balance due from or to you will be calculated subsequently on the basis of your annual income tax return. If you are self-employed or are receiving other South African income not derived from employment, you must pay tax in semi-annual provisional instalments and over and underpayments are rectified by means of assessments.

Income tax rates[4] in South Africa range from 18% (for income below R150 000 a year) to 40% (for amounts over R580 000), although the tax threshold of R59,750 means that anyone earning less than this amount pays no income tax.

## Company Tax

The company tax rate is levied at 28% of the taxable income of the company. Certain companies qualifying as a small business corporation pay tax at 10% for taxable income above R59,750 up to a limit of R300,000 and 28% on taxable income above R300,000. Dividends are subject to an additional tax called the Secondary Tax on Companies which is 10% of declared dividends.

## Estate Duty

Estate duty is a tax on the transfer of wealth. The duty is charged on the death of a person and is based up the value of the deceased's estate at the date of their death. It is 20% on the amount remaining in the deceased’s estate over R1.5 million.

## Capital Gains Tax

First introduced on 1 October 2001, capital gains tax is a portion of the net gain added to the taxpayer's taxable income from the increase in value of an asset that is disposed of for more than its base cost. The proportion of this net gain is added to the individual’s income tax (see normal tax). For individuals, deceased estates and special trusts 25% of the net gain is added to their taxable income. For companies, close corporations and trusts 50% is added.

### Withholding Tax

With effect from 1 January 2013, non-resident taxpayers will be subject to a 10% withholding tax on interest, subject to certain exemptions.

### Value Added Tax (VAT)

VAT is levied on most goods and services at a rate of approximately 14%. Display prices in stores almost always include the tax. Excise and Customs duties are imposed on all goods.

#### *What VAT rates are charged?*

VAT is charged at two rates, a standard rate of 14% and a zero rate.

#### *Are all sales subject to VAT?*

A number of supplies are exempt from VAT. Other supplies - principally exports - are zero rated. Those making the first type of supply cannot recover VAT paid on purchases. Those making the second type can.

#### *What special records must be kept for VAT purposes?*

Normal commercial records usually suffice. These records form the basis for the returns that must be submitted to the VAT authorities.

#### *Is any VAT paid on expenses not deductible from VAT charged to customers?*

VAT paid on entertainment, the acquisition of motor vehicles and subscriptions to sporting and recreational clubs is generally not deductible.

#### *Branch offices and VAT*

Unless your office registers, it will not be able to recover VAT charged to it in the course of its operations. However, only a business that supplies goods or services, either in or partly in South Africa, for a consideration will be eligible for registration as a vendor. When the value of such supplies (excluding VAT) exceeds R300 000 for any twelve-month period, registration becomes obligatory. The format of and information included on VAT invoices is regulated.

## Exporting

The Integrated Tariff of the United Kingdom, contains helpful information on Importing or Exporting. It includes references to the relevant laws and regulations. For further information, visit www.hmrc.gov.uk

### UK Trade and Investment

The UK Trade and Investment Export Finance team encourages the availability of competitive export finance to all UK companies seeking to export goods or services or invest overseas. For further information visit www.uktradeinvest.gov.uk

You should check with HMRC to see if a licence is required for any goods you wish to export to South Africa. There are a number of licensing requirements, relevant to exports. These include:

- Common Agricultural Policy (CAP) Licences;
- Department for Business, Innovation and Skills (BIS) Licences;
- Department for Environment, Food & Rural Affairs (DEFRA) Licences;
- Department of Culture, Media and Sports (DCMS) Licences.

An export licence is mandatory if you are exporting certain products. If a licence is required and is not presented at the time of export, the consignment will not be able to leave. For further information, visit: www.hmrc.gov.uk

The BIS's Export Control Organisation is the first point of contact for information on export controls. They provide advice on many issues, including how to establish whether or not specific goods need an export licence, the different types of export licences, how to complete export licence application forms and how long they take to process. They are also the point of contact for Export Control Organisation publications and licence application forms. For further information visit: www.bis.gov.uk/policies/export-control-organisation

The Defence Export Services Organisation (DESO) can provide information concerning the export of defence related equipment. For further information visit www.deso.mod.uk

For information concerning export controls on antiques and works of art, please visit the Department for Culture, Media and Sport website. For further information visit www.culture.gov.uk

## Export Credits Guarantee Department (ECGD)

ECGD can provide insurance or arrange medium/long-term finance packages in a wide range of markets worldwide for UK exporters of capital goods and projects. They can also provide contacts for private sector insurance for UK exporters of consumables. For more information on how ECGD may be able to help you visit the ECGD website at www.ecgd.gov.uk or contact their helpline: Tel: +44 (0)20 7512 7887.

## Technical Help for Exporters

Technical Help for Exporters (THE) is a service provided by the British Standards Institution (BSI) to provide information and advice on compliance with overseas statutory and other technical requirements. THE produces a wide range of publications and provides a special updating service of information in some product fields.

THE can supply detailed information on foreign regulations; identify, supply and assist in the interpretation of foreign standards and approval procedures; research and consult on technical requirements for a specific product; and provide translations of foreign standards, items of legislation and codes of practice. Fees vary according to the amount of work involved.

For further information visit the British Standards Institution (BSI) website at:
www.bsi-global.com/Technical+Information/

## BIFA

The British International Freight Association's New Importer / Exporter Initiative aims to provide specialist help and assistance to companies who are new to exporting. This service, available through selected BIFA registered members, offers up to one day's free consultancy to advise companies on such matters as modes of transport, distribution methods, costing, documentation and payment terms. They can be contacted on +44 (0)20 8844 2266.

## Export Documentation

SITPRO is the UK's trade facilitation body dedicated to simplifying the international trade process by cutting red tape. A company limited by guarantee, SITPRO is a Non-Departmental Public Body.

SITPRO manages the UK Aligned Series of Export documents, and licenses a network of approved suppliers to provide them. SITPRO also offer advice, briefings, publications and checklists covering various international trading practices.

Contact SITPRO for more help or information on export documentation and procedures.

Tel: 020 7467 7280
Fax: 020 7467 7295
E-mail: info@sitpro.org.uk
www.sitpro.org.uk

## CGIC

Contact details for CGIC, the South African credit Agency, is as follows:

Credit Guarantee Insurance Corporation of Africa Ltd
PO Box 1025, Randberg 2125, RSA
Tel: 00 27 11 889 7000
www.creditguarantee.co.za

## Import controls

The present regulations permit payments to be made for imports of goods into South Africa, provided such imports are in accordance with existing import control regulations, i.e. an import permit is obtained, as required.

Inspection rules change frequently so exporters should check the requirements either with their customer or with the relevant pre-shipment company.
Exchange to cover the cost of imports into South Africa is made available by the importer's bank (no formal authorisation from the Reserve Bank is required), against the production of documentary evidence of shipment of the goods to the country or of the relative Customs Bill of Entry/Import.

Payments for imports in advance of shipment are not normally authorised by the Reserve Bank, unless it can be shown that such payments are normal in the particular trade concerned. Any concessions require the specific approval of the Reserve Bank.

The import of certain goods, e.g. dangerous weapons, obscene literature, second-hand or surplus military clothing, is prohibited or permitted only where special authority has been granted by the appropriate government department. Permits are normally issued for reconditioned machinery only against specific orders from end-users.

In addition, the import of some goods (including plants, livestock, veterinary preparations, certain animal and vegetable and dairy products and some seeds and cereals) is subject to permit from the Department of Agriculture.

Import permits are valid for clearance up to 31 December of the year in which they are issued.

All importers may be required to be registered with the Directorate of Imports and Exports, according to the category of the goods they import.

Goods requiring an import permit, i.e. those referred to in schedule 1 or the import control regulations, should not be shipped, unless the importer is in possession of a suitable valid import permit.

### Documentation

South African importers frequently complain about delays in receiving shipping documents; the importance of despatching documents by air at the earliest possible opportunity after shipment cannot be too strongly emphasised. Some allowance must be made for the possibility of postal delays. South Africa now follows a method of valuation for customs purposes, based on the GATT approved system or transaction value. A bill of lading is required, but no special customs form of invoice is needed, except in cases where there is more than one rate of duty on an item exported, and where the exporter is claiming the most favoured - nation rate when the Certificate of Origin (DA59) must be used; otherwise clearance can be effected by normal commercial invoices which should, however, clearly identify the package covered. The South African Customs require a copy of this form for retention.

For textile fabrics, an additional copy of the invoice is required for retention by customs; a sample of the material, at least 15cm, by 8cm, must be fastened to each copy.

The following details must be shown on each invoice: country of origin; marks and numbers of packages; number and description of packages; quantity and description of goods; contract selling price to purchaser; carriage and other charges to port of shipment or place of final despatch in the country of export.

Sanitary certificates are mandatory for various specified plant and animal products.

### Commercial Samples and Temporary Imports

On 1 June 1976, South Africa acceded to the Customs Convention on ATA Carnets for the temporary importation of goods and samples; the ATA Carnet conditions also apply in Botswana, Lesotho and Swaziland.

Although goods imported on a temporary basis for subsequent re-exportation are exempted from import control, it should be noted that ATA Carnets do not confer immunity from other conditions of importation. Carnets are obtainable from your nearest Chamber of Commerce and may be used for the temporary importation of:

- goods for display or use at exhibitions, fairs, meetings and similar events;
- professional equipment (including ancillary apparatus and accessories);
- owned by persons resident abroad and for use solely by or under supervision of a visiting persons;
- samples of commercial value owned abroad and imported for the orders for goods to be supplied subsequently from abroad.

## Importing

The Integrated Tariff of the United Kingdom contains helpful information on Importing or Exporting. It includes references to the relevant laws and regulations.

Although the UK version is called the “Integrated Tariff of the United Kingdom”, the same format is used throughout the EC. For further information, visit www.hmrc.gov.uk

### Import licences

You should check with HMRC to see if a licence is required for any goods you wish to import from South Africa There are a number of licensing requirements, relevant to imports. These include:

- Common Agricultural Policy (CAP) Licences;
- Department for Business, Innovation and Skills (BIS) Licences;
- Department for Environment, Food & Rural Affairs (DEFRA) Licences;
- European Commission Licences;
- Forestry Commission Licences; and
- Radio Communications Agency (RDA) Licences.

# Customs Duties

From 1 July 1983, the South African Customs and Excise authorities have implemented the GATT-approved system of transaction value, as the basis for levying customs duty on imported goods. The free on board (fob) contract has been retained, as the basis for valuation.

South Africa has also adopted the harmonised system, which came into effect on 1 January 1988. South African Customs and Excise has accepted the HS as the basis for its custom tariffs. While the headings and subheadings in the HS are mandatory and may not be varied, each national customs authority has the liberty of extending the codes by adding subdivisions as it may find necessary. Within the South African tariff, these subdivisions in many instances extend to 8 digits and occasionally to 10. These subdivisions are necessary in order to distinguish in greater detail between commodities and products upon which the South African Government wishes to impose differing rates of duty. In consequence, the South African tariff distinguishes approximately 11,000 separate classifications.

Since the Customs & Excise Act places total responsibility upon the importer to classify the goods he imports correctly and to make valid customs entry for them, it is obvious that the interpretation of the tariff requires great skill. It is therefore essential to emphasise this since Customs checks every entry, where necessary demanding additional information and/or physical examination of the goods. The discovery of an error in classification or in the compiling of a customs entry, will involve the imposition of a penalty (usually financial).

It is therefore recommended that a Clearing Agent be used as they are trained to interpret the tariff and can therefore act as vital intermediaries between yourselves, the importing company and Customs.

VAT is levied at 14% on all goods and services except some basic foods. Visitors should retain all invoices and receipts on purchases (highlighting the VAT amount) to claim a VAT refund on departure from South Africa.

Excise duties are levied on a few items, such as spirits, beer, tobacco, oil and motor vehicles.

# Terms of Payment

Throughout South Africa, the most general method of payment for orders placed in Britain is for the orders to be confirmed to the manufacturers and paid for by the British representative of the buyer, acting as his/her confirming and buying agents.

Some of the larger importers have their own buying offices in Britain, and, in many cases, pay cash in order to take the fullest advantage of discounts offered. The majority of importers, however, use the services of confirming houses in London and elsewhere in Britain, with whom they have long established connections.

Briefly, the procedure followed is that the British buying agent pays the supplier of the goods direct, arranges shipment and, for his outlays and charges, draws a Bill on his importer client, varying from 60 to 120 days after acceptance (D/A), an average of 90 days being the most usual terms.

Where necessary, the buying agent will also arrange for the collection of small individual orders and their dispatch by a shipping firm on an omnibus bill of lading, so that advantage can be taken of minimum bill of lading and port charges.

# Advertising and Marketing

There are many professional advertising and public relations/communications consultants in South Africa, many of whom are establishing international links.

The Press and Public Affairs section of the British Consulate-General, Johannesburg can assist you with all your South African media enquiries, with particular emphasis on trade. For further information on the South African media, visit:
http://en.wikipedia.org/wiki/Media_of_South_Africa

British exporters are advised to consult their advertising agents before embarking on an advertising campaign. Alternatively, exporters can seek advice from:

Overseas Press and Media Association
c/o Powers International Ltd
517-523 Fulham Road, London, SW6 1HD, UK
Tel: 020 7630 9966
www.opma.co.uk/

## Sales Promotion

A brief description is given below of the most common marketing methods for different groups of commodities:

### Consumer goods

The manufacturer usually supplies to importers in South Africa, against indents (orders for goods) obtained by his local representative. Most representatives act only on a commission basis, but for some products the agent may hold stocks for distribution. Sometimes, a product is marketed by a combination of both methods, indent orders being supplied to the larger importers (who may also draw on the local representative's stocks for filling in), other customers being supplied from local stocks. While the wholesale merchant is an important part of the trade in consumer goods especially in supplying the small retailers, the larger stores buy a high proportion of their imported merchandise directly from overseas manufacturers. The orders are usually placed with the manufacturer's local representative, although some stores have their own buying organisation in Britain, or employ British buying houses which place orders with manufacturers.

It is customary under agency contracts, wherever possible, for agents to be credited with their usual commission in such cases, even though they themselves have not obtained the orders; ill-feeling can otherwise be aroused.

The proportion of merchandise imported direct by the larger retailers varies according to the commodity. For instance, many stores import some of their drapery requirements but also buy from local wholesalers; chemists' items are bought mainly from wholesale chemists, most of whom represent or are subsidiary companies of overseas firms which manufacture most products locally; textiles and tableware are usually imported direct; domestic electrical appliances are usually imported by the manufacture's representative for distribution to retailers.

Some wholesale merchants are associated with, or control, retail outlets; but they usually sell to other retailers as well. There is also buying between wholesalers, especially where one wholesaler has the exclusive representation of an overseas manufacturer. Some wholesalers sell direct to the public, usually at a price between the normal wholesale and retail prices, while the discount store is now an accepted part of South African life. In short, the lines between agent/wholesaler/retailer are much more blurred than is normal in Britain.

Bank credit cards are widely accepted in South Africa. Accounts are usually on a monthly basis, but many stores allow credit considerably beyond this limit. In consequence, mark-ups have to be higher than if sales were mainly on a cash basis. Hire purchase sales are common, although many prefer credit.

### Capital goods

These are usually sold through the manufacturer's associated or subsidiary organisation in South Africa, or through a technically qualified agent. Equipment in steady demand is usually stocked by the local representative. Orders for equipment in occasional demand are usually supplied by the manufacturer, against indents only - placed by his local representative on receipt of firm orders; some commission agents specialise in representing manufacturers of this type of equipment.

The local representative is responsible for ensuring that adequate stocks of spare parts and after sales servicing facilities are available. In the case of agents acting purely on a commission basis (and sometimes in the case of other agents too), stocks are placed with local merchants, and servicing facilities arranged with a suitable local concern, usually under contract. If the agent is to be efficient, he requires technically trained staff and this can sometimes best be achieved by sending out staff from the British factory, or by arranging for local staff to visit Britain for training courses.

Visits from representatives of British principals are very welcome; service management of local companies also make regular trips overseas including visits to principals. These visits are regarded by both agent and customer as an indication of the importance attached to this market.

### Raw materials

These are handled either by commission agents obtaining orders from merchants or users or in certain cases by agents importing on their own account for distribution. A combination of both methods is frequently used, the holding of emergency stocks being very usual.

### *Price quotations*

Exporters will find Incoterms 1990 p140 a useful guide for specifying their obligations for delivering goods safely in international contracts.
www.jus.uio.no/lm/icc.incoterms.1990/doc.html

# Business Hours

### Government and local government offices

08.00-16.30 or 07.30-16.00 Monday to Friday (most offices close for lunch, which varies between 12.15 and 13.30).

### Commercial offices

Usually 08.00-16.30 or 08.30-17.00 Monday to Friday. The five day week is almost universal and few commercial offices are open on Saturday.

### Banks

09.00-15.30 Monday to Friday
08.30-11.00 Saturday.

### Post Offices

Usually 08.00-16.30 Monday to Friday
08.30-12.00 Saturday
(The smaller offices close for lunch from 13.00 to 14.00. Savings, money orders, licences and similar transactions are not carried out after 15.30 Monday to Friday or after 11.00 on Saturday).

### Shops

08.30-17.00 Monday to Friday
On weekends the hours vary considerably. On Saturdays shops close at either 13.00, 15.00 or 17.00. On Sundays most small shops do not open but some shops in the large shopping malls are open.

### British Consulate-General

08.00-12.30 and 13.15-16.30 Monday to Thursday.
08.00-13.30 Friday.

# Business Etiquette

Business etiquette is very similar to that in the UK. Appointments should be made for meetings through the normal channels. It is often difficult to schedule meetings from the mid-December to mid-January or at least two weeks surrounding Easter, as these are prime vacation times.

For the summer months, men will need light-weight suits during the day. Medium-weight suits, as worn in Britain, will normally be required during the winter; but it is advisable to take one light-weight suit for exceptionally warm days. A suit is usual for evening wear; but for the occasional more formal function, a black dinner jacket may be necessary.

Ladies will require light clothing for the summer months. Medium-weight woolen suits or dresses and a light top coat are necessary during the winter. Full length dresses or skirts are very rarely worn for formal functions.

Business cards are usually exchanged at the beginning of meetings.

# Transport and Travel

## Getting your goods to the market

The main ports of South Africa and Namibia are, in order of tonnage landed and shipped:

- Richard's Bay;
- Durban;
- Saldanha Bay;
- Port Elizabeth;
- Cape Town; and
- East London

There are lighterage facilities at Mossel Bay and Luderitz Bay, Namibia. A considerable tonnage also passes through Maputo in Mozambique, which has direct rail links with Gauteng Province.

Equipment for the mechanical handling of cargoes is available at all ports and there are also oil bunkering facilities. Containerisation was generally introduced from mid-1977, with Durban, Port Elizabeth, Cape Town and East London as container ports, and City Deep, Johannesburg, an inland terminal. In general, cargo sheds are intended for in transit traffic only and no special facilities are provided at the ports for the storage of general cargo.

## Air

British Airways, Virgin and SAA all operate regularly (at least daily) scheduled flights direct to and from South Africa. In recent years, Singapore Airways, Cathay Pacific and Emirates have all added South Africa to their itinerary.

The three major commercial centres of Johannesburg, Cape Town and Durban are linked by daily high frequency jet services provided by Comair and South African Airways. Johannesburg is linked to Bloemfontein, East London and Port

Elizabeth with frequent jet services provided by South African Airways.

Daily regional services run between all the major cities including Johannesburg, Cape Town, Durban, Mmabatho, Sun City, Kimberley, Upington, George, Pietersburg, Phalaborwa, Nelspruit, SkukuzaUmtata and Richards Bay. Airlink, Comair, Interair, South African Express and Transkei Airways all provide internal flights.

### Local transport

There is limited public transport around South African cities, though major hotels will be able to arrange for taxi services. The chosen method of travel in South Africa is through motor vehicles, but there are frequent flights and bus travel between the major cities. South Africa drives on the same side of the road as the UK.

### Hotels

International standard hotels can be found in most parts of South Africa. The large commercial centres have good, comfortable hotels. In the smaller towns single rooms are not always available, and visitors may have to accept a double room at a higher rate. Advance reservations are always advisable, and are essential during the peak season of December/January in all the coastal towns and, in addition, July/August in Durban.

UK Trade and Investment does not recommend staying in the Central Business District of Johannesburg at the moment. Most business people stay either in the Sandton area or near the airport (which is close to the industrial area of Isando).

As the cost of hotels rise many business people are seeking the cheaper and more personalised services offered by the bed and breakfast end of the market. It is therefore advisable to consult your travel agent for information regarding suitable hotels.

## Travel Advice

South Africa is a beautiful country with many business opportunities and so is well worth a visit. Security is a major concern in South Africa and so routes to and from destinations should be planned in advance and local advice should be taken on places to visit and places that should be avoided.
The Travel Advice Unit provides up-to-date advice on problems that may arise owing to political unrest, violence, natural disasters and epidemics. Travel advice is available from the Foreign and Commonwealth Office (FCO) at www.fco.gov.uk

Since mid-May 2008 there has been a spate of violent attacks in townships within Gauteng Province. Foreign immigrants from Zimbabwe and other neighbouring states have been targeted. There is no indication that these attacks have been directed against foreign tourists and business visitors but the FCO advises visitors to exercise extreme caution and avoid townships in Gauteng Province until further notice.

### Health advice/risks

It is essential to take out full medical insurance when visiting South Africa as there are no reciprocal healthcare agreements between South Africa and the UK.

No special health precautions are necessary for visits to the main population centres, but visitors with any history of heart condition should avoid over-exertion in the high altitude towns.

Malaria is present in some areas of Mpumalanga, Northern Province and northern KwaZulu-Natal. If you are planning to visit these areas, especially during September to April, it is recommended you seek medical advice regarding the appropriate tablets to take.

Information on health hazards and on precautions to take when travelling abroad can be found in the leaflet 'Health advice for travellers' which is available from main Post Offices.

Acquired Immune Deficiency Syndrome (AIDS) is now prevalent in South Africa and is affecting both the male and female population. The virus can be contracted via sexual contact or through medical treatment involving the use of hypodermic or blood transfusion equipment which may be infected. There is very little chance of contracting AIDS from a hospital in South Africa's major population centres. The announcement by the former State President Nelson Mandela in January 2005 of the death of his son from AIDS is expected to help lift the taboo on AIDS.

In the 2008 Report on the Global AIDS Epidemic the UNAIDS/WHO Working Group estimated that around 5,400,000 adults aged 15 or over in South Africa were living with HIV; the prevalence rate was estimated at around 18.1% of the adult population. This compares to the prevalence rate in adults in the UK of around 0.2%. There are confirmed human cases of A (H1N1) - Swine Flu in South Africa.

# Passports/Visas

All visitors to South Africa require a valid passport with at least six months remaining on the passport. British business visitors do not require a visa to enter South Africa. However, journalists and business people coming to commission new machinery supplied to South Africa are advised to check with the South African High Commission in London as to whether or not they need a work permit:

South Africa High Commission
South Africa House
Trafalgar Square, LONDON, WC2N 5DP
Tel: +44 (0)20 7451 7299
http://southafricahouseuk.com/

South Africa authorities state that officially only one blank passport page is required for entry. However, recently several visitors have been refused entry and sent back to the UK as some officials are insisting on two blank pages.

# Useful Contacts

**The CIA Factbook**
www.cia.gov/cia/publications/factbook

**The British Chamber of Business in Southern Africa**
E-mail: info@britishchamber.co.za
www.britishchamber.co.za

**The Industrial Development Corporation**
Offers financing facilities for small, medium and large scale industries to assist entrepreneurs in the establishment and expansion of economically viable manufacturing concerns in South Africa.
Telephone (Call Centre): 0860 693 888
E-mail: callcentre@idc.co.za
www.idc.co.za

**The South African Chamber of Commerce & Industry**
This is the umbrella organisation for local chambers of commerce.
www.sacci.org.za/index.php?option=com_contact&view=category&catid=0&Itemid=21

**South African High Commission**
Phone: +44 (0) 20 7451 7299
E-mail: general@southafricahouse.com
www.southafricahouse.com

**South African Revenue Service (SARS)**
Tel: +27 12 422 4000
www.sars.gov.za

**Trade and Investment South Africa (TISA)**
TISA is the national trade and investment promotion agency of South Africa.
Tel: +27 12 394 9500
www.thedti.gov.za/default.jsp

**UK Trade & Investment**
South and Southern Africa Unit
General Enquiries: Tel: +44 (0)20 7215 8539
E-mail: enquiries@uktradeinvest.gov.uk

Contacting UKTI in South Africa directly
Enquiries: +27 11 537 7203
E-mail: satrade@fco.gov.uk

Johannesburg (lead Commercial Post)
PO Box 1082
Parklands 2121, Johannesburg
Tel: (00 27) (11) 537 7204

Cape Town
PO Box 500, Cape Town 8000
Tel: (00 27) (21) 405 2433

Durban
PO Box 1404, Durban 4000
Tel: (00 27) (31) 562 7900

# Country Data

| Feature | Country Data |
|---|---|
| Local time | +1 hour BST and +2 hours GMT |
| Population | 50 million (2010, Source: World Bank) |
| Capital City | Pretoria is the capital city (population 1.25m). Cape Town is the seat of Parliament and Bloemfontein is the judicial centre. Johannesburg is the commercial centre of industrial activity. The other main towns are: Cape Town, Durban, Port Elizabeth, East London, Bloemfontein and Kimberley. |
| Language /Religion | South Africa has eleven officially recognised languages: English, Afrikaans, Zulu, Xhosa, Sepedi, Setswana, Sesotho, Zitsonga, Siswati, Tshibenda, and Ndebele. However, English is widely spoken and understood. All principal religions are represented in South Africa with Christian the most dominant at 68% of the population. |
| Literacy/ Poverty Levels | Literacy is 86.4%. 50% of the population is below the poverty line (higher in the 15-64 age bracket at 65.3%). |
| Area | 1,228,376 sq. km |
| Public and Statutory holidays | Public holiday dates in South Africa can be found at:http://en.wikipedia.org/wiki/Public_holidays_in_South_Africa |
| International dialling code from UK | 00 27 |
| Local currency | In South Africa the unit of currency is the Rand (R), divided into 100 cents. |
| Weights and measures | The metric system is used in South Africa: distances and speed are measured in kilometres, liquids are sold by the litre, and temperature is measured in Celsius. |
| Electricity supply | With the exception of Pretoria and Port Elizabeth, the electricity supply is 380-220 volts AC 50 Hz. In Pretoria the supply is 415-240 volts and Port Elizabeth 433-250 volts. Three round-pin plugs are common for power points. An adaptor is required for equipment with UK 3-pin electrical plugs to function - some hotels are able to lend adaptors to their guests. Light bulbs are normally the bayonet type. |

# Further Information

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

If you would like to receive further information about this subject or other publications, please call us – see our contact details on the next page.

## References and Acknowledgements

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[1] Source: http://en.wikipedia.org/wiki/Economy_of_South_Africa

[2] Some of the information in this publication has been derived from Crown Copyright material and Crown copyright therein is therefore acknowledged.

[2] Information on incentives is derived from: www.lowtax.net/lowtax/html/offon/southafrica/safi.html

[3] Source: http://en.wikipedia.org/wiki/Taxation_in_South_Africa

[4] Rates are for 2010/11

[5] Some of the text in this publication has been reviewed by John Cook of John Cook & Associates, a Cape Town firm of Public Accountants. John Cook is a member of the Council of the South African Institute of Chartered Accountants (Southern Region). Tel.: +27 (0)21 419 1594, E-mail: jca@iafrica.com, www.johncookadvisers.com

### Important Notice



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