

# Investment Climate in South Africa

## *The Views of EU Business – 2022*



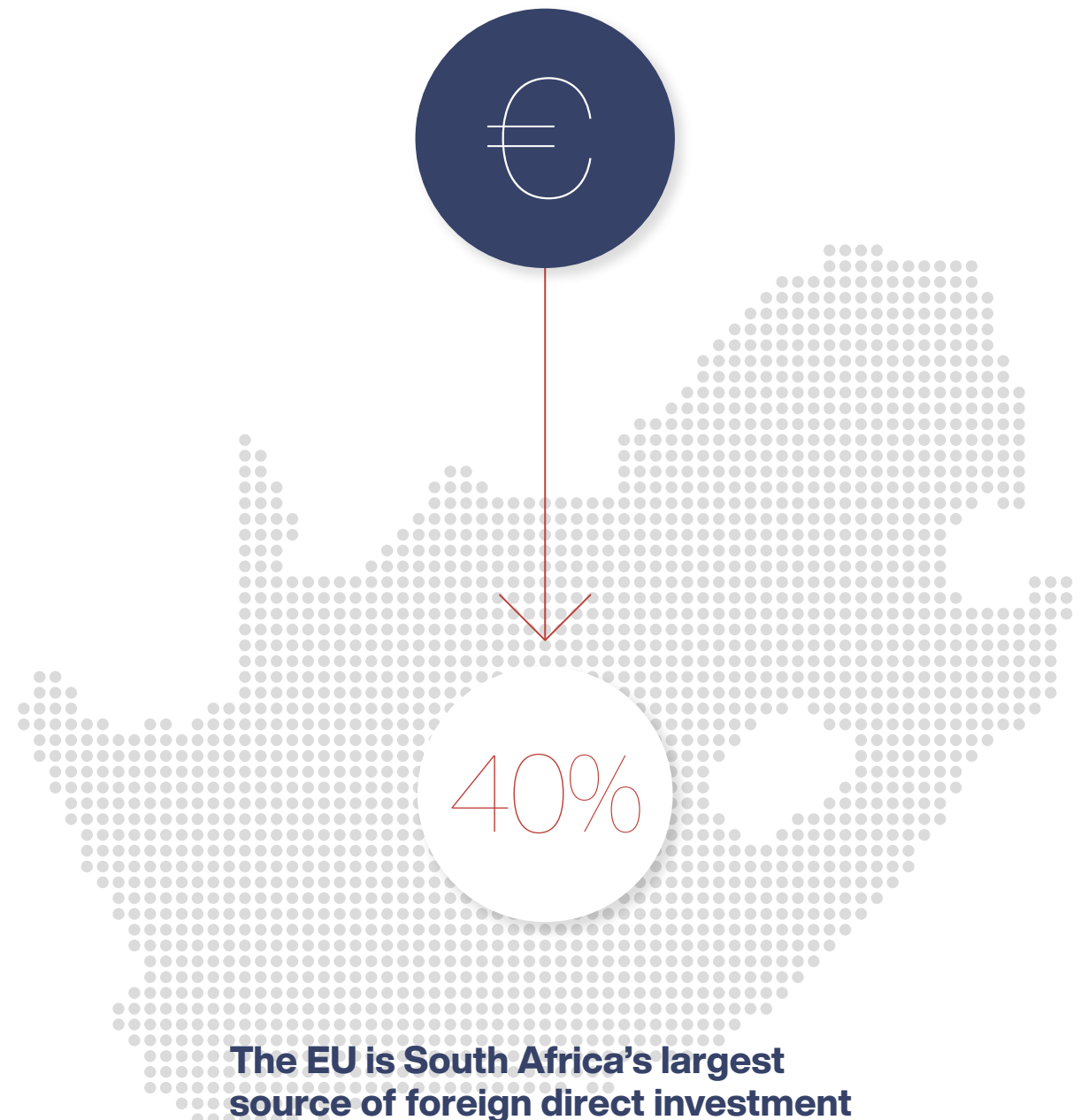
EU CHAMBER  
OF COMMERCE  
AND INDUSTRY IN  
SOUTHERN AFRICA



# Introduction

The European Union and South Africa enjoy a unique strategic and preferential economic relationship that is embedded in the SADC-EU Economic Partnership Agreement, but includes cooperation across a much wider set of social, environmental, industrial, developmental, and security-related matters. The strength and impact of these economic and political relations is reflected in the deep linkages between companies and industries in the EU, and South Africa.

The COVID-19 pandemic has had a dramatic impact on all people and companies in South Africa. This includes many European companies and their local and international employees. The longer-term implications for the world economy, remain greatly uncertain, and investors worldwide are continuously reassessing these risks and their positions. This creates both challenges, and opportunities, for countries such as South Africa. Whereas foreign investors are likely to be much more cautious over the next few years, they will also be looking at possibilities to diversify their supply chains and to enter new growth markets. Countries that can offer an attractive, secure and sustainable business environment, and economies that recover quickest, are likely to benefit most.



In 2018, 40% of all foreign direct investment in South Africa emanated from the EU.

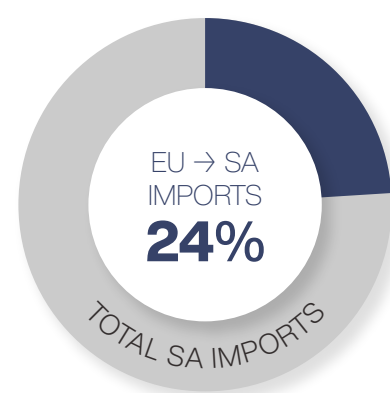
(SARB 2020)

In support of South Africa's efforts to improve the domestic business environment and raise international investment, the EU Chamber of Commerce and Industry of Southern Africa has undertaken two firm-level surveys.

- The first of these surveys targeted businesspeople in Europe, that are not currently in South Africa. The main purpose of this survey was to assess the overall perception of South Africa, as an investment destination, relative to other emerging markets; and to identify the country's main (perceived) strengths and weaknesses.
- The second survey focused on EU companies within South Africa. It seeks to understand their investment performance and plans, and to identify the priority challenges they face in doing business in the country.

Both surveys were implemented between November 2021 and March 2022. The main findings from these surveys are presented in this report.

### The EU is South Africa's most important trading partner

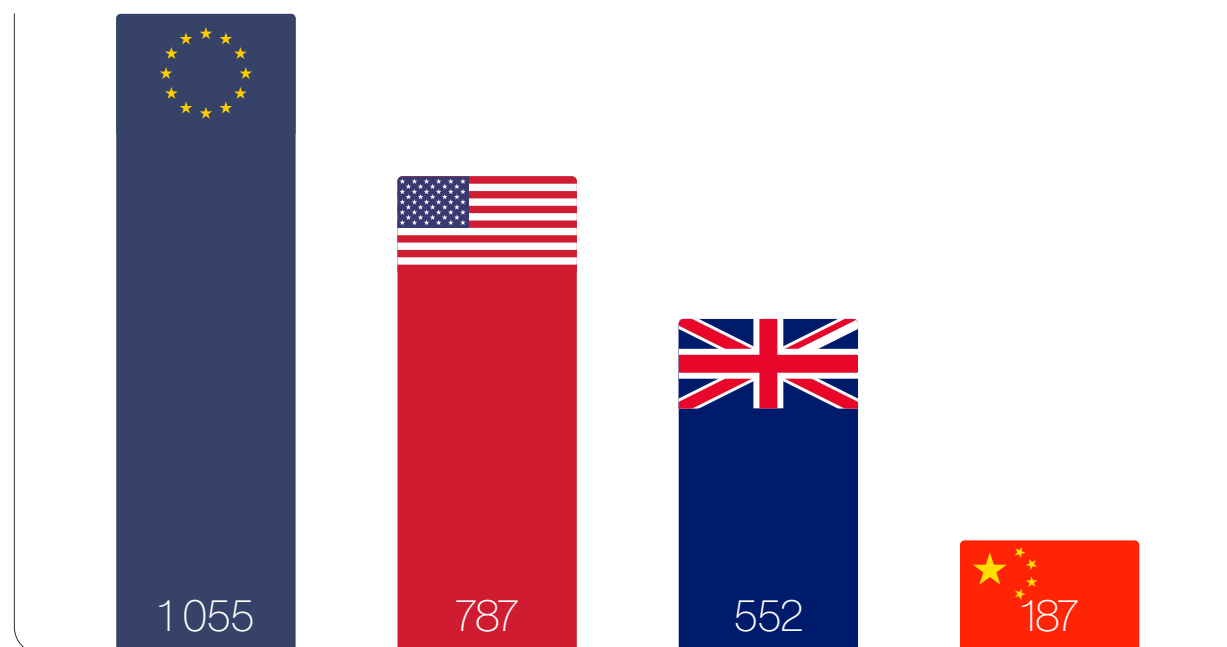


24% of the country's total imports are from the EU, and 19% of its total exports go to the EU.

(StatsSA, 2021)

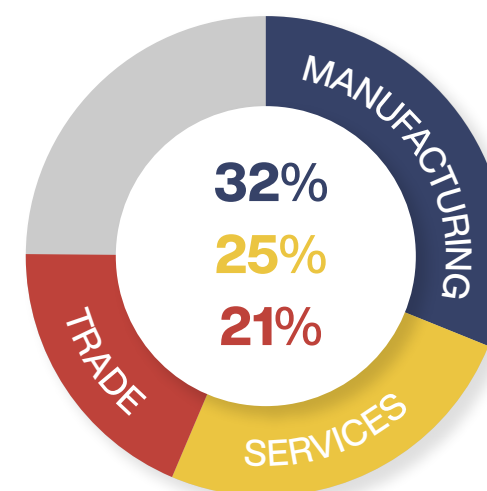


# A snapshot of EU investment in South Africa



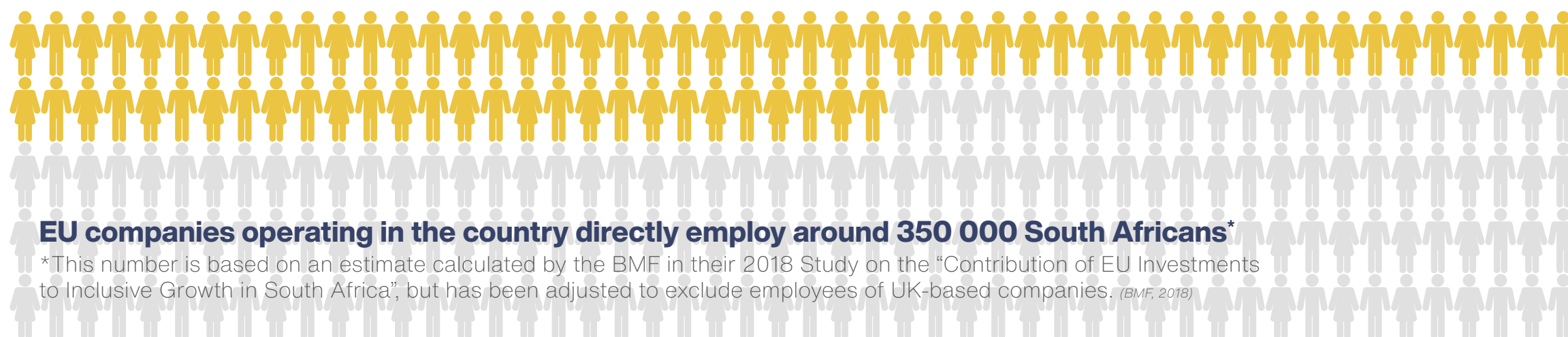
## EU companies active in South Africa outnumber those from other nations

There are 1 055 EU companies active in South Africa, compared to 787 from the USA, 552 from the UK and 187 from China. (WoW, 2020)



## EU firms operate across the industry spectrum

32% of EU firms operating in South Africa are invested in manufacturing, 25% in services and 21% in wholesale and retail. (WoW, 2020)



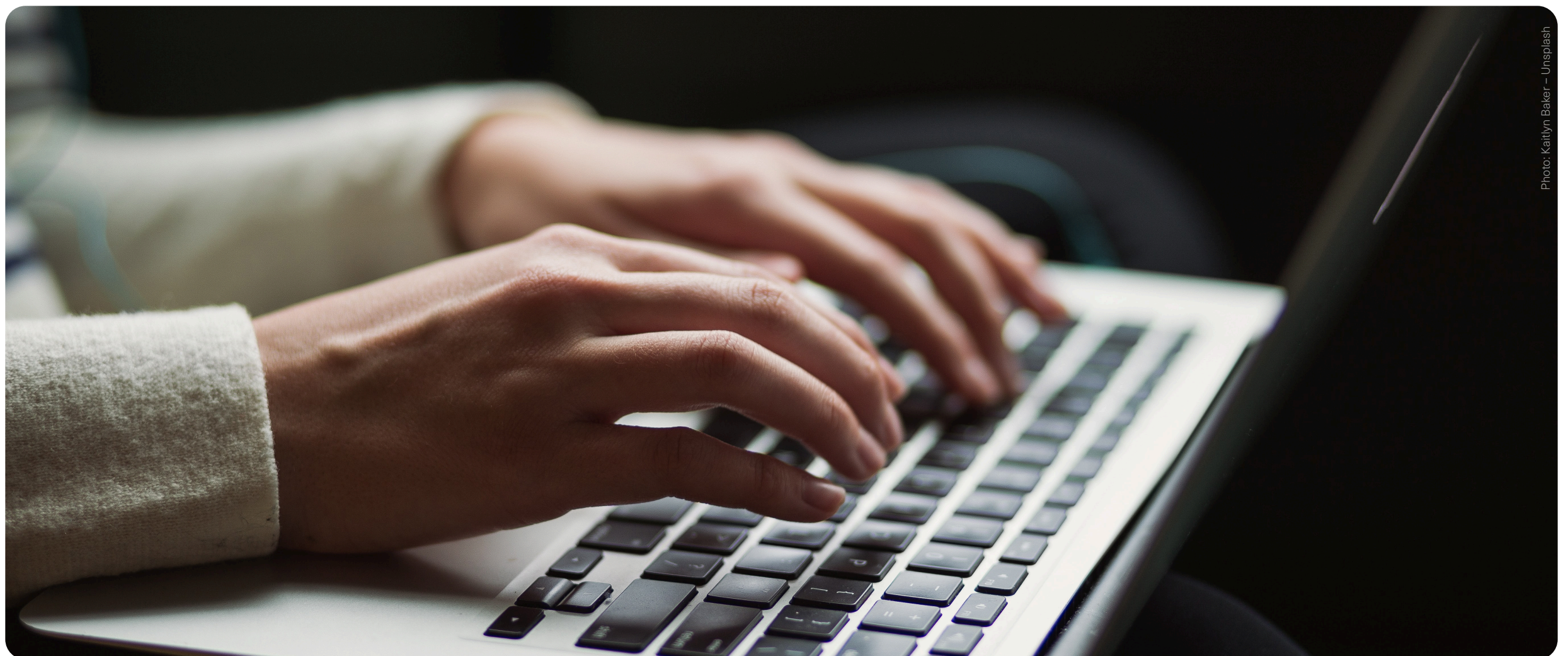
\*This number is based on an estimate calculated by the BMF in their 2018 Study on the "Contribution of EU Investments to Inclusive Growth in South Africa", but has been adjusted to exclude employees of UK-based companies. (BMF, 2018)



# Survey approach and respondents

The survey of EU companies outside of South Africa was distributed electronically through a number of available databases, and responses were received from 328 potential investors across 18 different EU Member States. Whereas most of the respondents are involved in services trade and investment, just under 20% represent the manufacturing sector. About half of the companies employ more than 250 staff. Importantly, 70% of the respondents have had some previous exposure to South Africa, either through exporting, importing or through prior investments; and just 20% indicated that they will not consider doing business in South Africa.

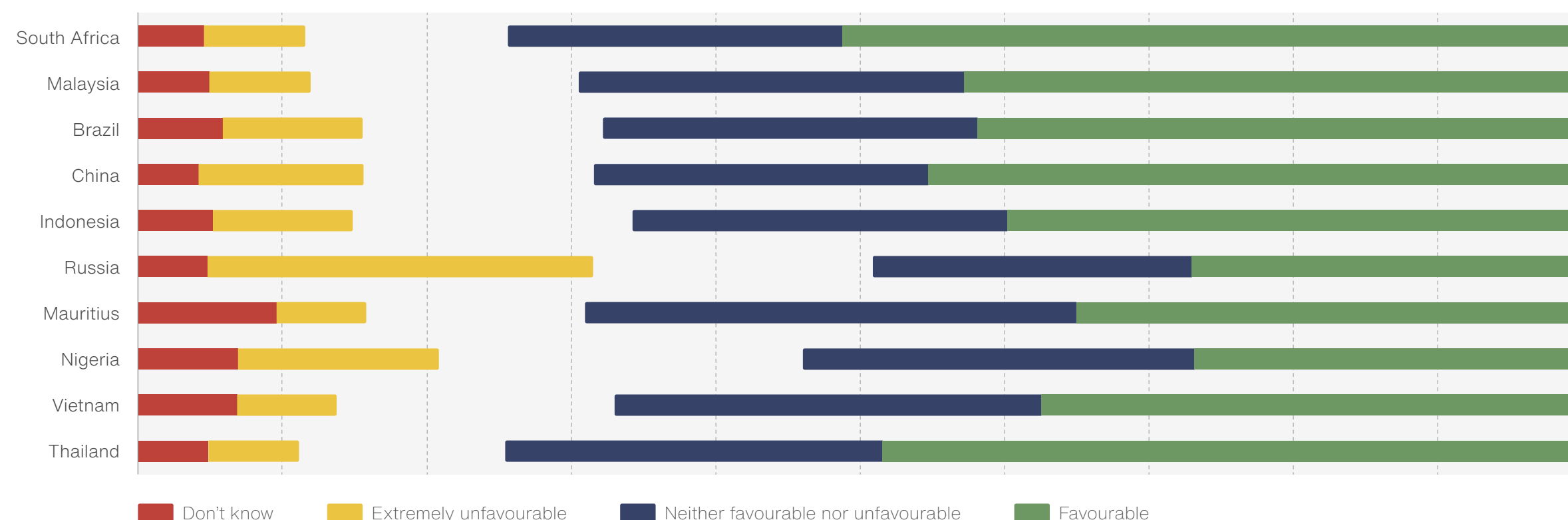
The survey of EU companies within South Africa was distributed electronically through EU bilateral chambers and the embassies of EU Member States and was supplemented by a telephonic survey undertaken by an independent research organisation. Overall, 82 companies participated in the survey across 11 EU Member States. Half of these companies are involved in services activities, followed by manufacturing, at 40% of the total.



# The perception of EU companies outside of South Africa

The representatives of EU companies outside of South Africa have a strongly favourable perception of South Africa as a potential investment destination, relative to the nine other emerging markets that were rated as part of this survey (see Figure 1). It is notable that just 16% of the respondents had a negative perception of South Africa. The results may be influenced by the high number of companies that have some existing or previous business relations with South Africa. Nevertheless, it is encouraging that the vast majority of the respondents perceive South Africa to be more business-friendly than comparator countries in Asia and Africa.

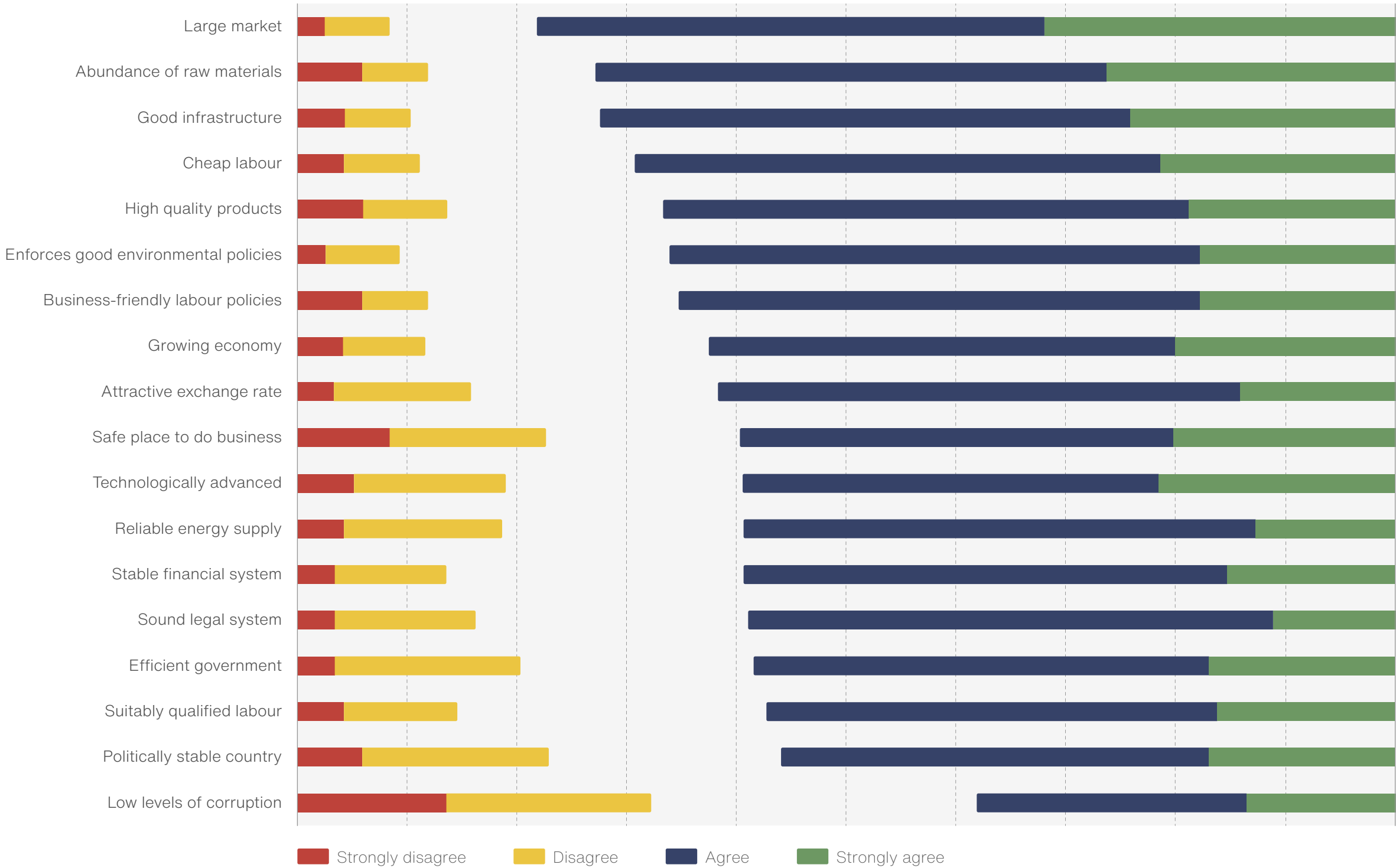
**Figure 1: How do EU businesses perceive the investment climate in different countries (% of respondents)**



Representatives of EU companies outside of South Africa were also asked to score a number of factors that may influence South Africa's attractiveness as a potential investment destination (see Figure 2 overleaf). For all variables, the respondents perceived that the situation was more positive than negative in South Africa. The size of the domestic market, the availability of raw materials, and the country's economic infrastructure were rated most positive. The cost and regulation of labour were also perceived as strengths. Corruption stands out as the weakest contributor to the business environment in South Africa – with less than 40% of respondents agreeing that existing levels of corruption are low.



Figure 2: How do EU businesses perceive the investment climate in South Africa (% of respondents)

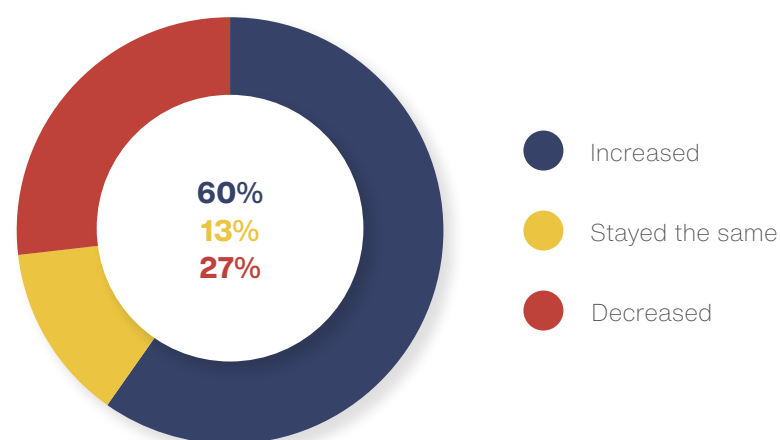


# The view of EU companies within South Africa

## Investment performance and plans

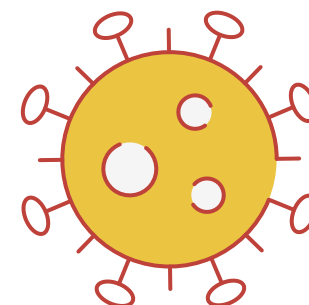
Most of the respondents have a long history in South Africa, with more than 60% of the companies operating in the country for more than 10 years. Moreover, for about half the companies, their South African operations also function as their regional headquarters. Around 80% of all respondents reported an increase in investment in the last two years, with 5 companies recording investments of more than R100 million over this period. Turnover has also increased for 60% of all respondents (see Figure 3).

Figure 3: How has the company's annual turnover changed over the past 2 years?

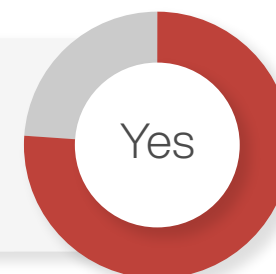


The COVID-19 pandemic, and then the civil unrest in July 2021, have however had a significant impact on the business operations of EU companies in South Africa. In revenue terms, the adverse impact of COVID-19 was reportedly more sizable than that of last year's unrest, and was mostly a result of reduced demand and the country's lockdown regulations. Most EU companies do not expect COVID-19 to negatively influence their future investment decisions. The longer-term impacts of last-year's unrest on EU investment appear to be more severe.

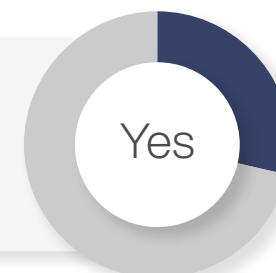
## COVID-19



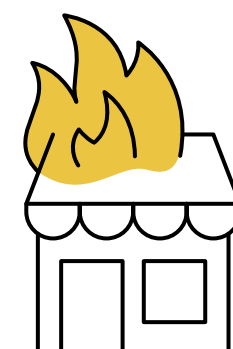
Did COVID-19 and the resulting lockdowns negatively affect your normal business activity?



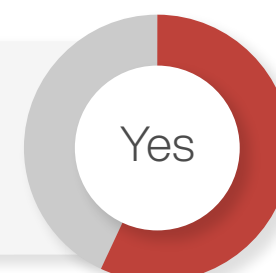
Has COVID-19 negatively impacted your decisions for future investment?



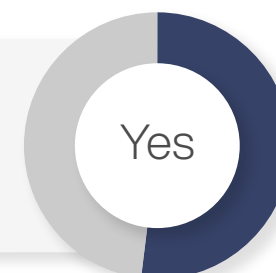
## Civil unrest



Did the civil unrest of July 2021 negatively affect your normal business activity?



Has this civil unrest negatively impacted your decisions for future investment?





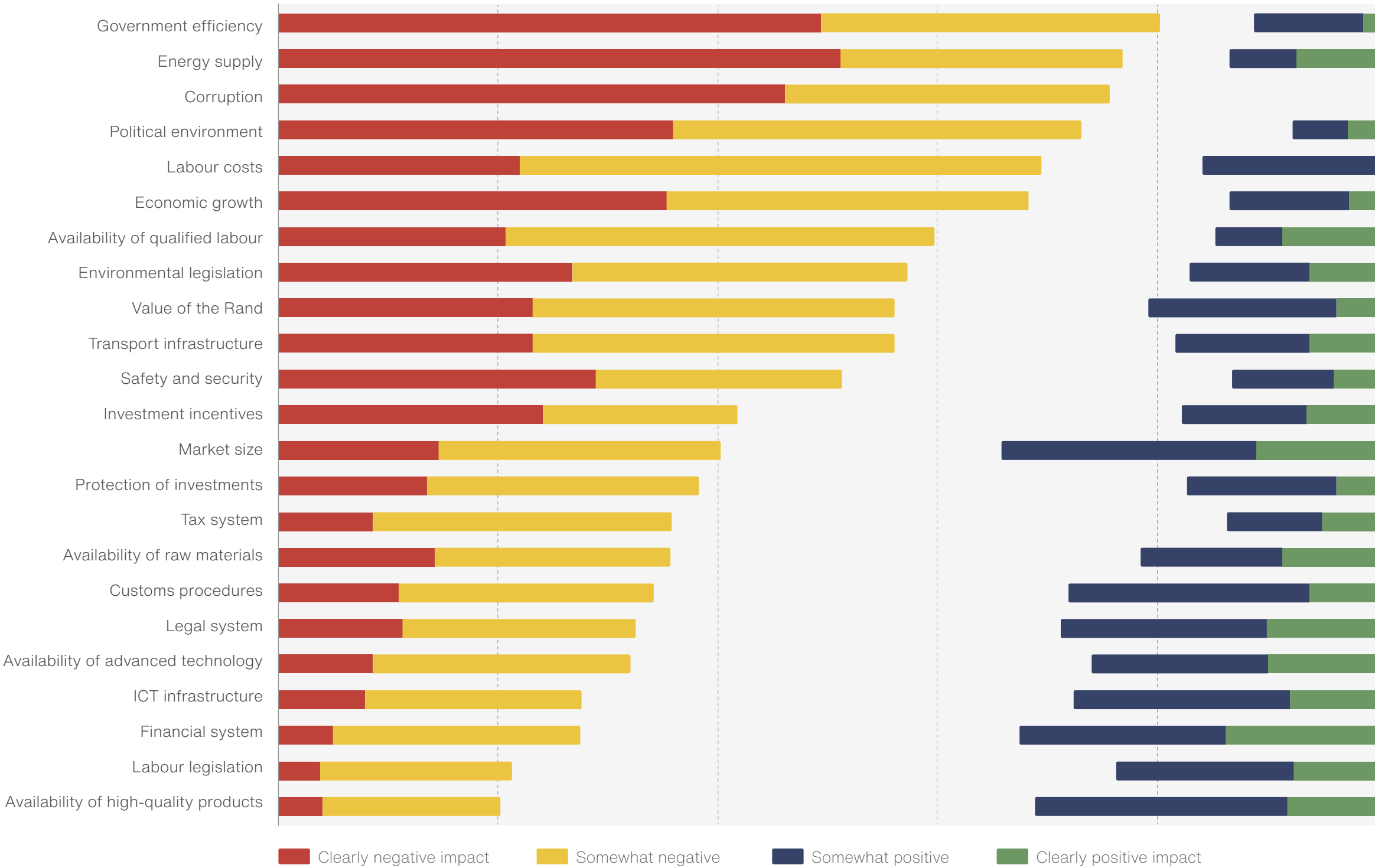


## Investment environment

EU companies operating in South Africa have a strongly negative perception of the current investment climate (see *Figure 4 overleaf*). The ability of government to deliver efficient services, address corruption, and resolve the ongoing electricity shortfall are seen as particularly problematic. The current macroeconomic environment is not seen as conducive to investment, with the country's modest economic growth rate and the value of the rand highlighted as challenges. Safety and security issues also remain a priority concern.

Whereas labour costs and the availability of skilled labour are perceived as negative, respondents are generally more positive about the country's labour legislation. Similarly, whereas the country's transport infrastructure is rated poorly, customs procedures appear to function satisfactorily. The financial system and the availability of high-quality products are seen as areas of relative strength; and a significant number of companies see the overall size of the South African market as attractive.

Figure 4: How do EU investors in South Africa perceive the investment climate (% of respondents)





Employment profile and plans

Most of the companies in the sample are relatively small, with 2/3 employing less than 200 employees. Five companies reported employment of more than 1 000. Overall, South Africans constitute 82% of all employees and around 30% of the workforce are women. Over the last 2 years, 32% of companies have increased the number of full-time employees and only 34% have reduced employment, despite Covid-19. Looking forward, more than 70% of companies plan to hire additional staff over the next two years.

Employees



Most companies find it difficult to find the skills they need in the local labour market. As a result, almost 40% of companies plan to hire or transfer expatriate staff over the next two years. All of these international staff will be employed at the senior or highly skilled level, with just 7% of firms indicated that they might employ semi-skilled staff from abroad. The main reasons for recruiting internationally are shown in (see Figure 5). Obtaining work permits remains a significant challenge for securing necessary skills from abroad for the majority of EU companies in South Africa (see Figure 6).

Figure 5: Which of these factors drive the company's needs for expatriates?

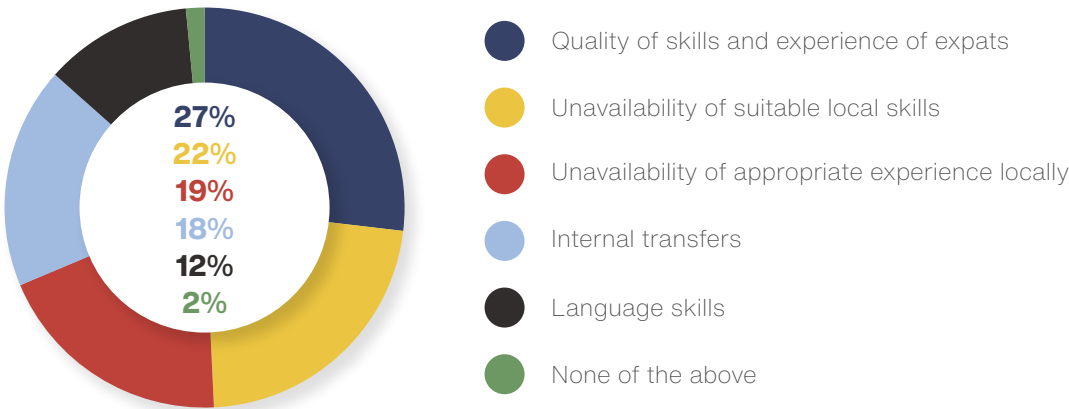
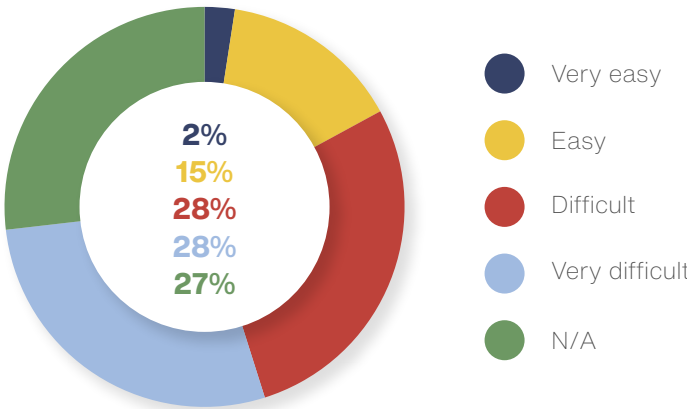


Figure 6: Does the company find it easy to secure visas and work permits?



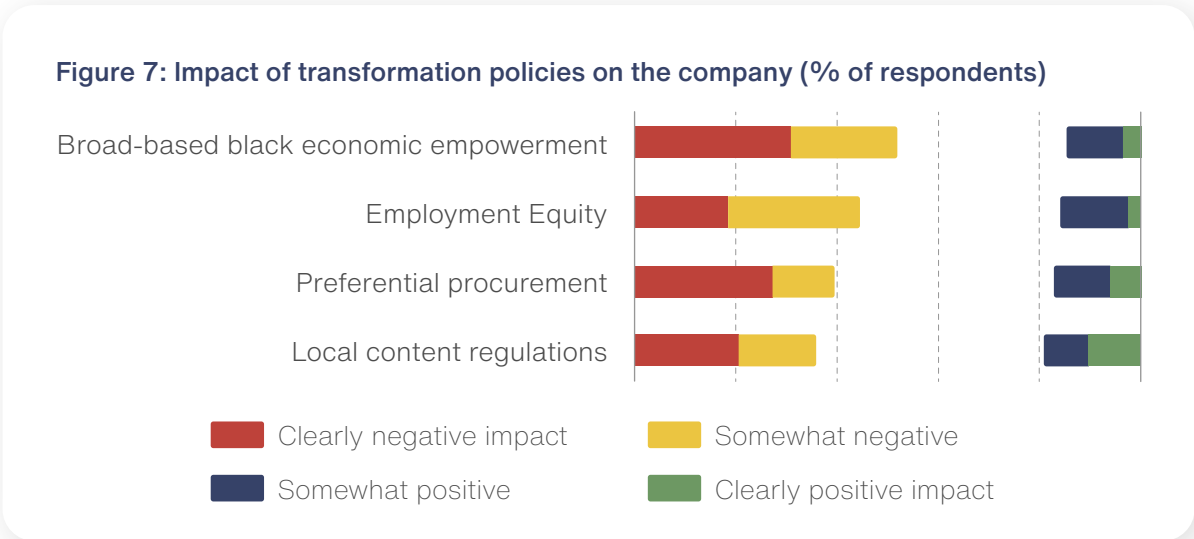
Contribution and constraints to economic transformation

Whereas 91% of the respondents are fully or majority owned by EU shareholders, more than a third of the respondents have a BEE shareholder. Moreover, in most cases, this BEE shareholding exceeds 25%. In 2021, 73% of the respondents invested in skills development and 2/3 of companies invested in enterprise and supplier development. As a result, 48% of the respondents report a BEE level of 4 or better. EU companies have made steady progress in the appointment of black South Africans and women at the executive management level – though further improvements are needed.



Considering South Africa's wider range of economic transformation policies – EU companies in South Africa consider them to have an overall negative impact on their operations (Figure 7). B-BBEE and employment equity are seen as particularly onerous – with around half of all respondents reporting negative impacts on their business. Preferential procurement and local

content regulations are seen as less costly, with a significant number of EU companies benefiting through their local operations.

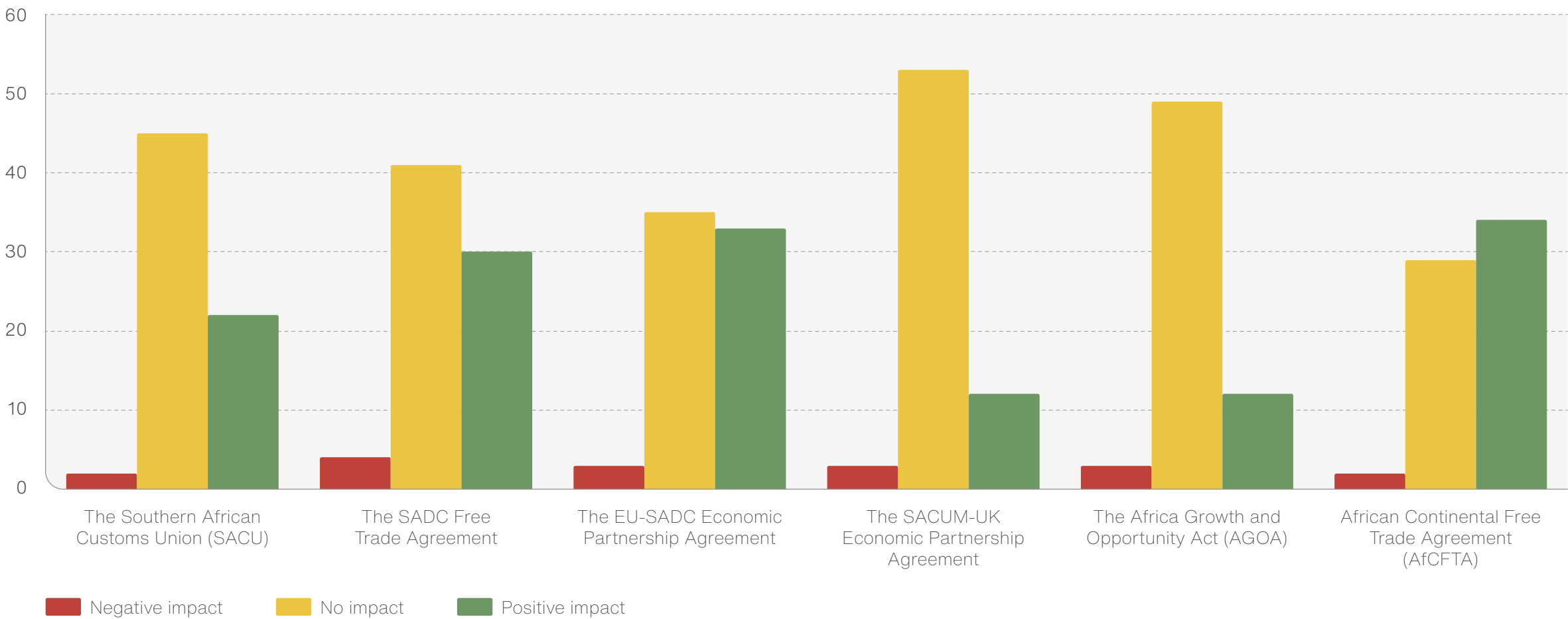


The contribution of free trade agreements

South Africa has entered into numerous trade agreements with key regional and bilateral partners over the last few decades; and trade under the African Continental Free Trade Agreement (AfCFTA) is expected to commence soon. Very few respondents report any negative impacts as a result of these agreements, and for many companies, the impacts are negligible (see Figure 8 overleaf). Of all agreements that have been implemented, the SADC-EU Economic Partnership agreement is of value to the largest number of companies. Likewise, many EU companies head-quartered in South Africa appear to benefit from the regional preferences they receive through the SADC Free Trade Agreement. The AfCFTA is expected to bring significant benefits to EU companies located in South Africa.



Figure 8: The impact of trade agreements (number of respondents)





## Summary of findings

The surveys confirm the significant interest in South Africa from European businesses and the high potential for increased investment, relative to other emerging markets. They also highlight a marked difference in perception between potential investors, and those that are already present in the country. Specifically, companies outside of the country appear to have a much more favourable outlook on South Africa than those with first-hand knowledge and experience of the actual business environment.

The strong interest in South Africa from existing and potential investors presents an opportunity for South Africa to attract further investment from Europe and to deepen existing relations. However, the on-the-ground reality, as expressed by EU businesses in South Africa, raises numerous challenges. This includes serious concerns around economic governance and the delivery of critical services, such as transport infrastructure and electricity; as well as extreme difficulties in accessing critical labour and skills from either within or outside of South Africa.

To overcome these barriers will require substantial public investment and reforms. These will take time to deliver results. In the short-term, more must

be done to raise the incentive for investing and doing business in South Africa. Here, the South African Government may need to review those aspects of its policy framework that have been highlighted as particularly costly in this survey, and to engage openly with international investors on alternative short-term policy options.

This could include:

- A relaxation of restrictions on accessing international skills and knowledge (i.e. work permits) and limiting the use of international inputs (i.e. local content regulations);
- Deeper partnerships with the private sector in the production of renewable energy and the provision of transport services, most notably in rail and at seaports; and
- Changes to South Africa's BEE codes to enable smaller international investors to contribute to South Africa's economic transformation through increased investment in skills development rather than through changes in ownership.



