INVEST

FOREIGN DIRECT INVESTMENT

According to UNCTAD's World Investment Report 2023, FDI flows to Africa reached USD 9 billion in 2022, following the anomalous peak in 2021 (USD 40.9 billion) caused by a large corporate reconfiguration. The 2022 level, however, was double the average of the last decade. In the same year, South Africa attracted several battery storage projects, with capacities ranging from 35 MW to 300 MW. In 2022, the total stock of FDI stood at USD 173.5 billion, around 42.8% of the country's GDP. Compared to other countries in the African continent, the potential attractiveness of South Africa is high; however, its performance is relatively weak for FDI attraction, despite progress owing to investment potential in infrastructure. According to the South African Reserve Bank, the country recorded foreign direct investment inflows of ZAR 53.8 billion (around USD 2.8 billion) in the second quarter of 2023, up from inflows of ZAR 0.5 billion in the first quarter. In the third quarter, FDI stood at ZAR 26 billion. The Ramaphosa-led ANC administration encourages foreign investors as they are responsible for job creation and wealth-creating economic growth. Traditionally, European countries are active investors in South Africa (United Kingdom, Netherlands, Belgium, Germany and Luxembourg), as well as the United States, Japan, China, and Australia. Most of the investments are directed to the financial, mining, manufacturing, transportation and retail sectors.

The country has many attractive assets for investors such as an dynamic demography; a diverse, productive and advanced economy; abundant natural resources; a transparent legal system, and a certain political stability. The government offers various sector-specific investment incentives, such as tax allowances to support the automotive sector and rebates for film and television production. The country is also a gateway to the rest of Africa, with a large and growing consumer market. Despite its attractive features, South Africa also faces several challenges that could deter FDI, including corruption, inefficient bureaucracy, widespread corruption, labour unrest, and a shortage of skilled workers in certain sectors, such as engineering and IT. Moreover, persistent "load-shedding," known as rolling blackouts in South Africa, poses a significant challenge to investment. In 2022, the country endured over 200 days of load shedding, a trend that continued almost daily into 2023. Unreliable power access severely hampers economic growth and remains a primary worry for investors. The Competition Amendment Act introduced a screening process for foreign investments, mandating the formation of a special committee to evaluate potential mergers involving foreign acquiring firms for their impact on national security interests. The committee's findings are forwarded to the Minister of Trade and Industry, who, within 30 days, announces in the Gazette whether the merger is approved, approved with conditions, or prohibited. South Africa ranks 59th among the 132 economies on the Global Innovation Index 2023 and 111th out of 184 countries on the 2023 Index of Economic Freedom. Lastly, the country scored 43/100 in the latest Corruption Perception Index (72nd out of 180 countries).

Foreign Direct Investment	2020	2021	2022
FDI Inward Flow *(million USD)*	3,062	40,948	9,051
FDI Stock *(million USD)*	133,127	174,783	173,584
Number of Greenfield Investments*	103	119	160

Foreign Direct Investment	2020	2021	2022
Value of Greenfield Investments (million USD)	6,662	5,275	26,777

Source: UNCTAD - Latest available data.

*Note: * Greenfield Investments are a form of Foreign Direct Investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.*

Country Comparison For the Protection of Investors	South Africa	Sub-Saharan Africa	United States	Germany
Index of Transaction Transparency*	8.0	5.5	7.0	5.0
Index of Manager's Responsibility**	8.0	3.5	9.0	5.0
Index of Shareholders' Power***	8.0	5.5	9.0	5.0

Source: Doing Business - Latest available data.

*Note: *The Greater the Index, the More Transparent the Conditions of Transactions. **The Greater the Index, the More the Manager is Personally Responsible. *** The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action.*

WHAT TO CONSIDER IF YOU INVEST IN SOUTH AFRICA

Strong Points

South Africa has large market potential, well developed infrastructure and a competitive domestic economy. The country's democracy is also well-established and the rule of law is observed. As a productive pole, it is the most industrialised, technologically advanced and diversified economy on the African continent.

South Africa's main assets are:

- The business climate is good and state financial management is competent.
- The country enjoys a good-sized and active stock exchange.
- South Africa has shifted from its traditional industries to production and financial services, which are the main contributors to GDP.
- The tourism and retail sectors have a great potential.
- The mining sector is a major part of the economy. It is the world's largest producer of chrome, manganese, platinum, vanadium and vermiculite. It is the second largest producer of ilmenite, palladium, rutile and zirconium. It is the world's third largest coal exporter. South Africa is also a huge exporter of diamonds and iron ore (*U.S. Geological Survey*).
- The country also enjoys a strategic geographical location, that makes it an ideal hub to access the sub-Saharan markets.

Weak Points

The economic stability of the country has been weakened by the strict lockdown, which has exacerbated social tensions such as widespread poverty and inequality. Investment (13% of GDP) is also at a standstill due to a lack of business confidence and the postponement of public capital expenditure linked to the diversion of funds for emergency needs.

Other problems may discourage foreign investors:

- Increased labour strikes in recent years, which rating agencies have warned could further lower South-Africa's credit rating

- Violence and corruption continue to hinder the economy, while income inequality remains high
- Access to electricity is insufficient because of a lack of investment.
- Lack of high-skilled labour force, high unemployment (33.6% in 2021), rigidity of the labour market
- Immigration laws make the employment of foreign workers more complicated.
- Import-export process may be difficult.
- Economy depends on the ore prices and FDI inflows.
- Market entry is very competitive, as the market is very mature.

Government Measures to Motivate or Restrict FDI

Nearly all business sectors are open to foreign investors. Government approval is not required and there are few restrictions on how or how much foreign entities can invest. Additionally, the Government has put in place various measures to encourage foreign investments, including simple tax rules, investment incentives, a better regulatory policy on competition and protection of intellectual property. Below are a few examples of these measures:

- The 12I Tax Incentive is designed to support Greenfield investments as well as Brownfield investments.
- The Capital Projects Feasibility Programme (CPFP) is a cost-sharing grant that contributes to the cost of feasibility studies likely to lead to projects that will increase local exports and stimulate the market for South African capital goods and services.
- The Critical Infrastructure Programme (CIP) aims to leverage investment by supporting infrastructure, thus lowering the cost of doing business. The South African Government is implementing the CIP to stimulate investment growth in line with the National Industrial Policy Framework (NIPF) and Industrial Policy Action Plan (IPAP).

For a list of other government incentives for FDI, please visit the Department of Trade and Industry's website.

Despite these measures and a developed economy, some elements may indicate that the government is not convinced of the importance of FDI. Thus, some laws are approved without an initial analysis of the consequences they may have on certain economic sectors.

INVESTMENT OPPORTUNITIES

The Key Sectors of the National Economy

Mineral exports, industrial sector which includes railway rolling stock, synthetic fuels, and mining equipment and machinery, tourism, financial services, health, fruit production, energy (electricity, renewable, petrol), transport infrastructure, telecommunication and information technologies and and the wholesale and retail trade.

High Potential Sectors

Advanced manufacturing (ICT), Green Industries and natural gas, Service exports and tourism, Agriculture value chain, Infrastructure.

Privatization Programmes

Among the sectors currently considered for possible privatisation are energy (Eskom), air transportation (South Africa Airlines) and rail transportation (Transnet).

Tenders, Projects and Public Procurement

South African Government Information, Tenders
SA-Tenders, Tenders in South Africa
Tenders Info, Tenders in South Africa
DgMarket, Tenders Worldwide

Sectors Where Investment Opportunities Are Fewer

Monopolistic Sectors

The South African Government retains and exercises control over certain industry sectors and is the primary shareholder of the so-called "state-owned" enterprises. The key sectors in which state-owned enterprises play a key role are the:

- Electricity generation sector.
- Transport sector.
- Diamond sector.
- Military equipment sector.
- Forestry sector.

Sectors in Decline

Textiles and clothing.

Finding Assistance For Further Information

Investment Aid Agency

The New Partnership for Africa's Development

Other Useful Resources

South Africa Economic Outlook (African Development Bank Group)

Doing Business Guides

Brand South Africa
Country Commercial Guide for South Africa - export.gov
Deloitte Guide on international tax system and on business in South Africa (p. 180-187)