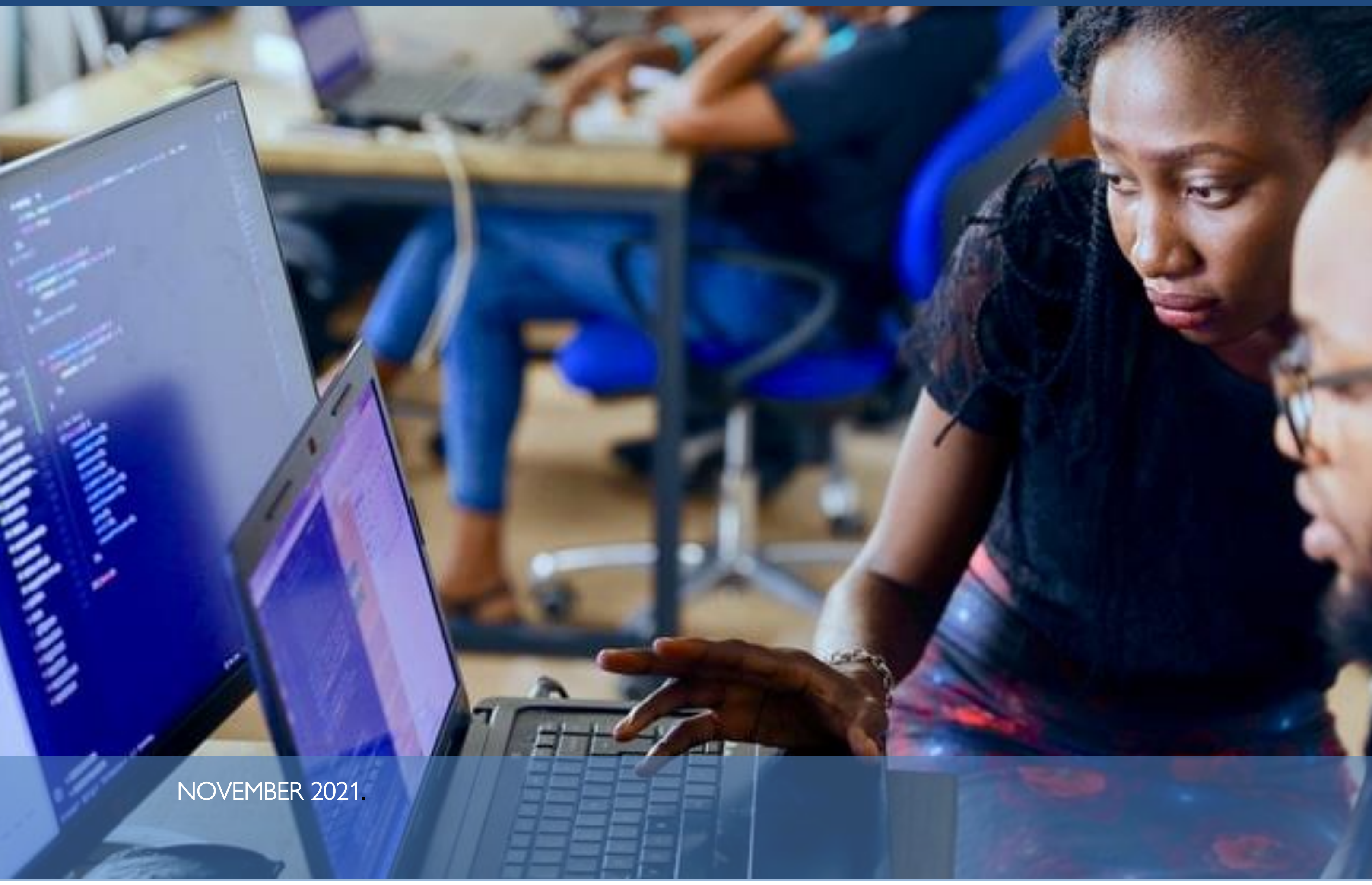
The American Chamber of Commerce
SOUTH AFRICA

AMCHAM SOUTH AFRICA BUSINESS BAROMETER



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AMCHAM SOUTH AFRICA

Business Barometer 2021

Conducted by the American Chamber of Commerce in South Africa and funded by USAID
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Contents

Tables

Figures

Executive Summary

The American Chamber of Commerce in South Africa (AmCham) conducted a research program in 2021, funded by USAID, aimed at putting together a comprehensive portrait of U.S. companies in South Africa.

The AmCham Business Barometer 2021 confirms that there are at least 662 U.S. companies active in South Africa and that they employ over 220,000 people. The fact that the total number of U.S. firms has hardly shifted over the past five years is almost certainly a reflection of difficult trading conditions in the South African economy generally. South Africa's GDP growth has been below 1.5 percent every year since 2014.

Nevertheless, the U.S. remains a critical international business partner for South Africa. It is South Africa's third largest market for exports and third largest source of imports. The United States is also South Africa's fourth largest source of Foreign Direct Investment (FDI). It is also an important source of quality investment measured in term of successful business models, technical capacity, organisational cultures, and corporate citizenship. U.S. companies punch above their weight in areas such as skills development and corporate social investment.

Nearly 80 percent of the U.S. companies surveyed in 2021 spend over R1 million on skills development and for some at the top end, spending is much higher (over R50 million). Although foreign investors are under pressure to develop skills, many U.S. companies say they would have engaged in this activity anyway, because it is part of their corporate culture, in their self-interest, or both.

The 2021 AmCham Survey of U.S. Companies in South Africa draws a picture of a group of resilient companies that are somewhat stressed by a business environment that many of them do not find easy. While the survey's 49 respondents are not representative of U.S. companies in South Africa, it does raise concerns that need to be taken seriously. It showed that Smaller U.S. companies (turnover under R100 million) and Medium-companies (R100 million – R1 billion) showed more signs of stress across most issues than Large companies (more than R1 billion). Almost all respondents (94 percent) have been present in the South African market for over a decade and are experienced veterans whose views should be taken seriously.

In general, U.S. companies have done well in the past but are less certain looking forward. About 70 percent of them reported that they had been "profitable" or "very profitable" over the past five years. However, the vast majority (69 percent) have an "undecided" or "neutral" outlook for the next three years. It should be noted that only a small minority (12 percent) have a "pessimistic" outlook, which leads to the conclusion that U.S. firms in South Africa have a "wait and see" attitude to the investment climate, promised reforms, and the prospects for future business.

Job retention is difficult for U.S. companies in South Africa as it is across the economy generally. Some 61 percent of those surveyed report a reduction in their number of employees over the past five years. No Large company was able to report a "substantial increase" in employee numbers. Although without a representative sample we cannot definitely say that the total number of people employed by U.S. companies in South Africa has contracted, such an observation would accord with employment data from Statistics South Africa (Stats SA).

The impact of COVID-19 on company outlook was heaviest among Medium- and Smaller-companies. Nearly half of these companies were "less optimistic" than they had been before COVID-19. By contrast, half of the "Large" companies were "more optimistic," even though the objective consequences of the pandemic were similar across the three categories.

Broad-Based Black Economic Empowerment (B-BBEE) was flagged as the issue of highest concern to U.S. companies in the previous (2016) AmCham survey. Accordingly, it was investigated in greater depth in the 2021 survey. B-BBEE ownership was only the sixth highest ranked among challenges identified by respondents. However, there is no reason for complacency. It was still one of seven categories considered to be "challenging" by more than half of the respondents. And only 12 percent of respondents found it not challenging at all.

B-BBEE ownership causes most stress to Smaller U.S. companies. It was their second biggest problem (out of 19) behind "energy supply reliability." By contrast it was only the 11th biggest challenge for Large companies. International multi-national companies are allowed to make "equity offset" arrangements rather than diluting equity. While this option is not without its challenges, it is probably one of the reasons bigger U.S. companies find B-BBEE equity less stressful. Smaller companies have no such option. The problems Smaller companies especially have with B-BBEE are partly related to the complexity of the regulatory environment around this issue. Only eight percent of Smaller companies find the B-BBEE Codes of Good Practice set by the Department of Trade, Industry and Competition (DTIC) clear or very clear, while sectoral charters are experienced as even more opaque. All sizes of companies find frequent changes to the regulatory framework problematic and, for some, even threatening. Frequent changes make it difficult to optimise B-BBEE arrangements.

No single feature of the South African investment climate stands out for attractiveness. The most attractive feature—Opportunities in sub-Saharan Africa—was rated as attractive by only a third of respondents. Government's Economic Recovery Program was the least attractive feature, rated by only four percent of companies.

While this certainly does not mean that South Africa is without attractions, it does indicate that these are fragmented and perhaps sometimes incoherent. This makes it difficult to present and market the attractions of the country's investment climate.

U.S. companies operating in South Africa, like foreign investors everywhere, tend to accept the challenges of the investment climate as an inescapable part of what they chose to buy into.

This is all the more the case among Large companies, which are invariably local subsidiaries of big international operations and tend to be well resourced. It was evident in the survey where Large companies proved most optimistic, most comfortable with B-BBEE, and most inclined to invest in the future.

However, the concerns of Medium- and Smaller- firms need to be taken seriously. It is desirable to have a healthy ecosystem of firms across all sizes. Although all have roles to play, innovative and entrepreneurial breakthroughs tend to arise from firms at the smaller end of the scale. U.S-origin firms of all sizes have challenges with the identified issues: electricity supply and cost, crime, economic growth, B-BBEE ownership, currency volatility, and policy uncertainty especially.

Although Smaller companies complain least about the challenges, this is most probably a product of a sense of resignation on their part. Their greater negativity on a range of issues (the likelihood of future investment, job retention, compliance with B-BBEE) illustrates the extent to which challenges in the operating environment weigh more heavily on firms at the smaller end of the scale. Addressing their concerns will be the foundation of a more attractive South African investment climate.

Introduction

As the global economy recovers from the 2020-21 COVID-19 pandemic, the issue of foreign investment has come into focus as a critical driver of South African economic growth.

The United States is an important source of South African FDI. It features as South Africa's fourth largest investment partner, after the United Kingdom, the Netherlands, and Belgium[1]. It is also a critical trade partner to South Africa, as the third largest market for South African exports and the third largest source of South African imports.

The 2021 AmCham survey of U.S. companies in South Africa focuses on the approximately 650 active U.S. companies in South Africa. The survey informs the Business Barometer in assessing these investors' experience of business conditions over the past five years, their plans for the future, and the scale and nature of their contribution.

Background

The study

AmCham in South Africa commissioned a study of the character and experience of U.S. companies in South Africa in 2021. The purpose of the study is twofold: first, to capture a snapshot of U.S. interests in the South African economy; and second, to investigate the opinions of these companies regarding business conditions and the direction of play.

The study was conducted by the Centre For Risk Analysis in partnership with AmCham, and was funded by USAID. It follows a 2015/16 investment-climate study conducted for AmCham by another party. Some inferences are drawn from a comparison of the 2016 and 2021 data although the two studies asked somewhat different questions, with the 2021 exercise attempting to probe the actual operations of U.S. companies in South Africa.

The 2021 study is based on three inputs. First, a desktop/Internet study was conducted to identify

[1] Measured in terms of capital stock. South African Reserve Bank (2021) Quarterly Bulletin, June https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/quarterly-bulletin-publications/2021/full- quarterly-bulletin---no-300---june-2021

U.S. companies in South Africa, within and beyond AmCham's 135 members, and tocategorize these companies by type of company and industrial sector. The presence of all Fortune 500 companies in South Africa was investigated and lists of other U.S. investors were obtained from a variety of sources, including the South African Government's departments and agencies, the U.S. Government, and the commercial information sector. Researchers went on to produce an estimate of the number of employees in U.S. companies in South Africa after working through the consolidated list on a company-by-company basis.

The second study leg consisted of an opinion survey of U.S. companies in South Africa, conducted over three months in mid-2021. The survey assessed company past performance and future outlook; the effects of COVID-19 on business; employment, Skills Development, B-BBEE and Corporate Social Investment, and the perceived attractiveness and challenges of features of the South African investment climate.

Finally, the insights generated by the first two legs of the research were tested in a series of conversations with executives of U.S. companies in South Africa. These generally confirm the veracity of the insights generated by the survey and provided a number of points to illustrate the narrative.

The Global Economy

COVID-19 plunged the global economy into the deepest recession since the Second World War[2]. In 2020, the virus reduced global growth by between 3.4 percent and 7.6 percent, depending on country, according to the U.S. Congressional Research Service. At the same time, it reduced total international trade by 5.3 percent[3].

Economic recovery is underway in 2021. In June 2021, the World Bank stated that it expected global growth to accelerate to 5.6 percent for the year. The United States and China are the main drivers of global recovery, and each is expected to contribute one quarter of global growth in 2021. As two of South Africa's top three trade partners (the third is Germany)[4], this is positive news for the South

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[2] World Bank (2020) COVID-19 to plunge world economy into worst recessions since world war II, Press Release, 7 June https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world- war-ii

[3] Congressional Research Service (2021) Global economic effects of COVID-19, update, 9 June https://fas.org/sgp/crs/row/R46270.pdf

[4] South African Revenue Service (n.d) Trade Statistics https://www.sars.gov.za/customs-and-excise/trade-statistics/

African economy. Despite the pick-up, global GDP is still expected to be 3.2 percent below pre-pandemic projections and the World Bank expects "emerging market and developing economies to remain below pre-COVID-19 peaks for an extended period[5]".

The South African Economy

Even before the impact of COVID-19, the South African economy had been relatively flat for several years. GDP growth had been below 1.5 percent every year since 2014 (when it was 2.5 percent)[6]. Indeed, per capita growth had been negative every year since 2014, implying that South Africans have, on average, become poorer over the past seven years[7].

COVID-19 hit the South African economy severely. The seven percent annualised contraction was near the upper end of the scale experienced internationally. Stats SA described the impact as "a severe punch in the gut" and one which took economic output back to its 2009 level[8]. This was not a surprise. The World Bank, in June 2020, suggested that the economic impact of the pandemic would be "hardest in countries where the pandemic has been the most severe and where there is heavy reliance on global trade, tourism, commodity exports, and external financing[9]".

South Africa's recovery from the pandemic is expected to be only "moderate". The World Bank projects a growth rate of 4 percent for 2021, 2.1 percent for 2022 and 1.5 percent for 2023[10]. The pandemic recession highlighted South Africa's biggest weakness: the country's high rates of inactivity and unemployment in the labor market. The economy shed over half-a-million jobs between March 2020 and March 2021[11] ,and the official core unemployment rate climbed three percentage points to 32.06 percent in January 2021[12]. Low wage earners suffered four times the job losses suffered by high-wage earners under COVID-19[13].

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5 World Bank ibid

6 World Bank (n.d) National Accounts Data https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=ZA

7 Stats SA (2021) Quantifying SA's Economic Performance in 2020 http://www.statssa.gov.za/?p=14074

8 Stats SA (2020) Steep Slum as CIOVID-19 takes its Toll on the Economy, 8 September http://www.statssa.gov.za/?p=13601

9 World Bank 2020 ibid

10 Fengler, W., Marie-Nelly M.F., Indermit, G., Baudel, B. and Facundo Cuevas, P. (2021) South Africa after COVID-19 – Accelerating job creation, 13 July https://blogs.worldbank.org/africacan/south-africa-after-covid-19-accelerating-job-creation

11 Stats SA (2021) Jobs in SA formal non-agricultural sector down in the 1st quarter, 29 June http://www.statssa.gov.za/?p=14476

12 Trading Economics (n.d) South Africa Unemployment Rate https://tradingeconomics.com/south-africa/unemployment-rate#:~:text=Unemployment%20Rate%20in%20South%20Africa,the%20fourth%20quarter%20of%202008.

13 World Bank (2021) Preserving Macroeconomic Stability, Revitalizing Jobs and Improving Investment Climate Critical for South Africa's Post-COVID-19 Recovery, 13 July https://www.worldbank.org/en/news/press-release/2021/07/13/preserving-macroeconomic-stability- revitalizing-

South Africa and the U.S.

Trade between the United States and South Africa, valued at US$17.8 billion in 2019, was disrupted by the COVID-19 pandemic, which closed international borders for periods of time. The aggregate disruption was, however, probably less extensive for international trade than it was within either domestic market. The reason is that South Africa's largest exports to the U.S. are primary products and minerals (iron, platinum, gold, coal, chemicals, and plastics), the production of which was only briefly affected by the COVID-19 lockdown[14]. While there was much disruption of manufacturing value chains around the world, the South African and U.S. economies are not closely integrated in this respect[15].

Trade in services was a different matter entirely as bans on international travel between South Africa and the United States decimated local (South African) tourism and travel. But this is a much smaller component of U.S-South African relationship than is the trade in goods. Trade in goods between the two countries was worth US$13.2 billion in 2019, while trade in services was valued at US$4.6 billion in the same year[16]. Professional and management services are one of the three most important trade in services imports by the United States from South Africa (i.e., management functions are "imported" by the U.S-based head offices, franchisors, and partners) and much of this relationship is now managed differently (mostly online—as illustrated by the AmCham 2021 survey).

On a positive note, a study of inbound U.S. capital investment between 2003 and 2021[17] showed no decline in the COVID-19-ridden year of 2020. In fact, the R7.2 billion in capital investment was the highest in the nearly two decades covered by the study. Even more impressively, inbound investment for 2021 had already exceeded the total 2020 figure within the first six months of the year. Previously, the best year had been 2007, when inbound FDI from the United States was R6.2 billion (Appendix A: Table 11).

jobs-and-improving-investment-climate-critical-for-south-africa-s-post-c

14 Viljoen, W. (2020) South Africa's April 2020 trade statistics – reduced exports lead to a significant trade deficit, TRALAC, 16 June https://www.tralac.org/blog/article/14662-south-africa-s-april-2020-trade-statistics-reduced-exports-lead-to-a-significant-trade- deficit.html

15 Makgetla, N. and Levin, S. (2020) Regional Value Chains and Industrialisation: The Southern African Experience, TIPS Working Paper, April file:///C:/Users/dwchr/Downloads/Regional_value_chains_and_industrialisation_in_Southern_Africa_April_2020_.pdf

16 https://ustr.gov/countries-regions/africa/southern-africa/south-africa

17 FDI Markets.com Crossborder Investment monitor. Information provided by the DTIC 2021

South Africa is a beneficiary of two U.S. government initiatives: the General System of Preferences (favored status in terms of World Trade Organisation (WTO) rules, from about 1974); and the Africa Growth and Opportunity Act (AGOA), implemented in 2000, twice renewed since, and due to run to 2025. Both initiatives are designed to allow duty- and tariff-free access for most South African goods to the U.S. market. AGOA is in many ways an enhanced version of the GSP.

Only about 10 percent of South Africa's exports to the United States. are under either AGOA or the GSP, even though South Africa is one of the most active users of these concessionary terms of trade (ranked 8th worldwide)[18]. This is nevertheless important to South Africa as it includes the manufactured products with the highest value added (e.g., automobiles).

U.S. Firms in South Africa

Total Number

It is generally assumed that there are "more than 600" U.S. firms operating in South Africa. Our extensive search has produced a list of 662 known firms and some detail about each. Given that a number of firms will have been missed in this search, especially at the smaller-end of the scale, it would be credible to claim that there are somewhere in the range of 700+ U.S. firms in South Africa.

Sectoral Presence

U.S. firms are active in every sector of the South African economy. Our analysis (Figure 1) revises national accounts and general industrial categories in order to give a better sense ofwhat these firms actually do. The sectoral spread of U.S. firms in South Africa tends to correspond with the structure of South African GDP.

[18] Nauman, E. (2020) South Africa under GSP country review: what implications for preferential exports to the United States, TRALAC, 18 January https://www.tralac.org/publications/article/14355-south-africa-under-gsp-country-review-what-implications-for-preferential- exports-to-the-united-states.html)

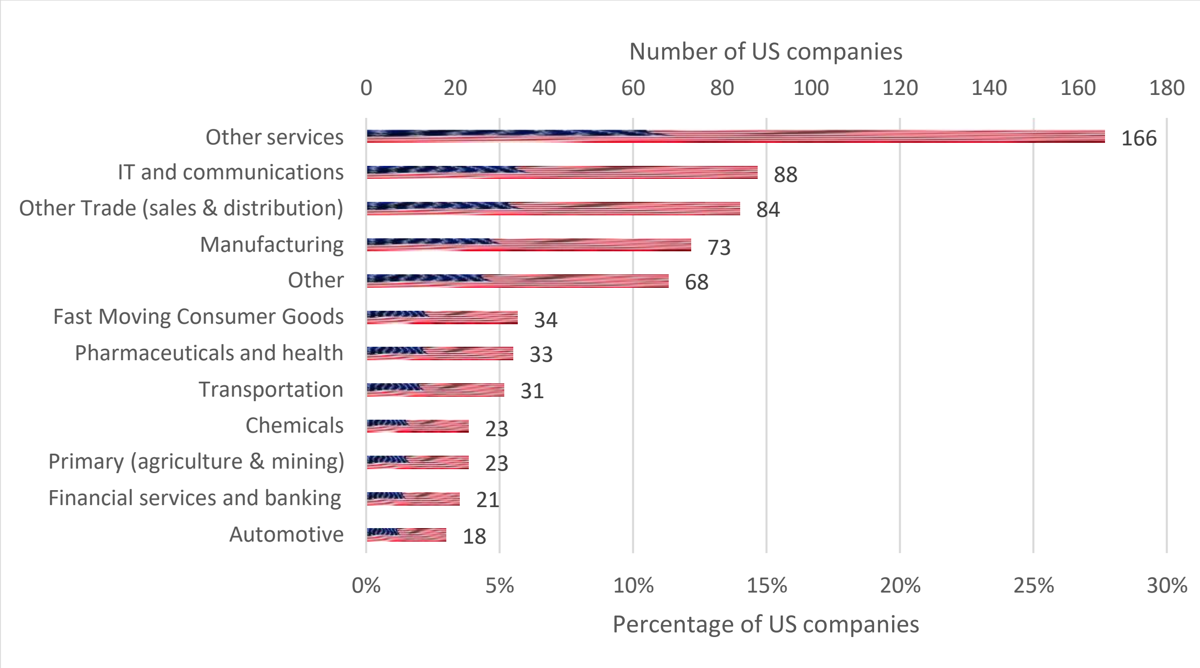

Figure 1: U.S. companies in South Africa by sector

Value of U.S. Investment in South Africa

Most U.S. investment into South Africa is portfolio investment. According to the South African Reserve Bank (SARB), total investment amounted to R1 865.4 billion in 2019, the most recent year for which figures are available. This represents 28.5 percent of all foreign investment into South Africa. FDI from the U.S. into South African amounts to R123.2 billion, which is 6.6 percent of total U.S. investment in South Africa and 6.0 percent of all total direct investment in South Africa[19]. The U.S. Trade Representative gives a similar figure (US$7.8 billion in 2019), and notes that this was a 6.8 percent increase from 2018, adding that U.S. direct investment in South Africa is led by manufacturing, finance and insurance, and wholesale trade[20].

Total Employment

The 2021 research showed that the 2016 claim (that U.S. companies in South Africa employ at least 100,000 people[21]) was a massive undercount. In 2021, AmCham researchers found that U.S. firms in South Africa employed at least 220,000 individuals.

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[19] South African Reserve Bank (2021) Quarterly Bulletin, June https://www.resbank.co.za/en/home/publications/publication-detail- pages/quarterly-bulletins/quarterly-bulletin-publications/2021/full-quarterly-bulletin---no-300---june-2021

[20] Figures reworked by the CRA 20 Office of the US Trade Representative (n.d) South Africa https://ustr.gov/countries-regions/africa/southern-africa/south- africa#:~:text=U.S.%20foreign%20direct%20investment%20(FDI,and%20insurance%2C%20and%20wholesale%20trade.

[21] Gaspard, H. (2015) "More than 600 US companies are invested in South Africa" Wanted Magazine, 2 June https://za.usembassy.gov/more-than-600-us-companies-are-invested-in-sa/

To ensure that the outcome was realistic, the methodology used was as conservative as possible[22]. Company sources and AmCham records were the preferred references.

Quality Investment

U.S. investment in South Africa is high-quality investment. Almost all U.S. companies that choose to invest in South Africa are already successful in the U.S. and other markets. They tend to arrive in South Africa with tried and tested business models, technology, skills, capital, and international networks. However, more than being high-quality businesses, they are also products of one of the most demanding corporate citizenship environments in the world.

U.S. investors have had to meet the corporate governance standards required by U.S. regulators, especially the U.S. Securities and Exchange Commission (SEC). Beyond this, there are also U.S. standards of ethical business behavior, epitomised by the anti-apartheid Sullivan Principles (1977), which required that U.S. companies integrate their workplaces. These standards are monitored and reinforced by investors with high ethical standards, suchas U.S. universities, "activist investors" like the California Public Employees Retirement System (CalPERS), U.S. politicians and officials, and U.S. companies themselves.

[22] Where no figures were available, the company was excluded from the count. Where a range of figures were made available (e.g. "between 100 and 500"), the count included only the lowest figure.

Insights from the 2021 Survey

Respondents to the AmCham questionnaire

A total of 49 (10.2 percent) of the 481 companies approached responded to the survey (Table 1). Almost all these companies (94 percent) were well-established, with a presence in the South African market for at least 10 years.

There was a marked geographical concentration of survey respondents. Most respondents (86 percent) have their primary business in Gauteng, with 12 percent in the Western Cape, and a single company in the Eastern Cape. This corresponds approximately to the spread of head offices and main operations of U.S. companies in South Africa, although it should be pointed out that many Gauteng-based firms in fact run national operations.

The number of responses to this survey was somewhat lower than expected. Among the possible disruptors were the COVID pandemic and the July 2021 civil unrest in Gauteng and KwaZulu-Natal, which necessitated an early closure of the survey. Owing to the low response rate and possible sampling bias, the sample cannot be considered representative of the population of U.S. firms in South Africa. However, the answers to the questionnaire provide critical insight into the views of the companies who responded. These insights are consistent with feedback from U.S. companies in South Africa are treated here as an adequate basis for certain general points.

Table 1: Description of company respondents (n=49)

Company description		n	%
Business Sector	Business Services	1	2%
	Fast Moving Consumer Goods (FMCG)	6	12%
	Financial Services	2	4%
	Healthcare, Pharmaceuticals and Medical Devices	6	12%
	IT and Communications	6	12%
	Manufacturing	15	31%
	Miscellaneous Services	1	2%
	Professional Services	7	14%
	Services	1	2%
	Transportation	3	6%
	Wholesale and Retail Trade	1	2%
Type of South African business	Associate	1	2%
	Branch Office	9	18%
	Distributor	2	4%
	Franchisee or Licensee	1	2%
	Joint Venture	2	4%
	Representative	1	2%
	Subsidiary	33	67%
Years present in South African market	4-5 years	1	2%
	6-10 years	2	4%
	More than 10 years	46	94%
Province	Eastern Cape	1	2%
	Gauteng	42	86%
	Western Cape	6	12%
Company annual revenue	Less than R10 million	1	2%
	R10 million-R100 million	12	24%
	R100 million-R1 billion	18	37%
	R1 billion-R10 billion	12	24%
	R10 billion-R50 billion	4	8%
	More than R50 billion	2	4%
Employees in South African operation	Fewer than 10	3	6%
	10-50	13	27%
	51-100	6	12%
	101-500	15	31%
	501-1 000	9	18%
	1 001-5 000	1	2%
	More than 10 000	2	4%
TOTAL		49	100%

Size of Companies

The distribution of company annual revenues (Table 1) shows values that range from under R10 million to more than R50 billion. Most responding companies had revenues between R10 million and R10 billion.

For the purposes of analysis, we have categorised the respondent companies into three meaningful groups, while retaining company anonymity (Figure 2): Companies with revenues of over R1 billion, have been referred to here as 'Large', those with revenues of R100 million-R1 billion are referred to as 'Medium', and those with revenues of less than R100 million are referred to as 'Smaller'. The categories are used only for the purpose of analysing AmCham's 2021 survey results and do not correspond with the terms used by the South African Government (most of our Smaller companies would be classified as medium-sized by the Department of Small Business Development)[23].

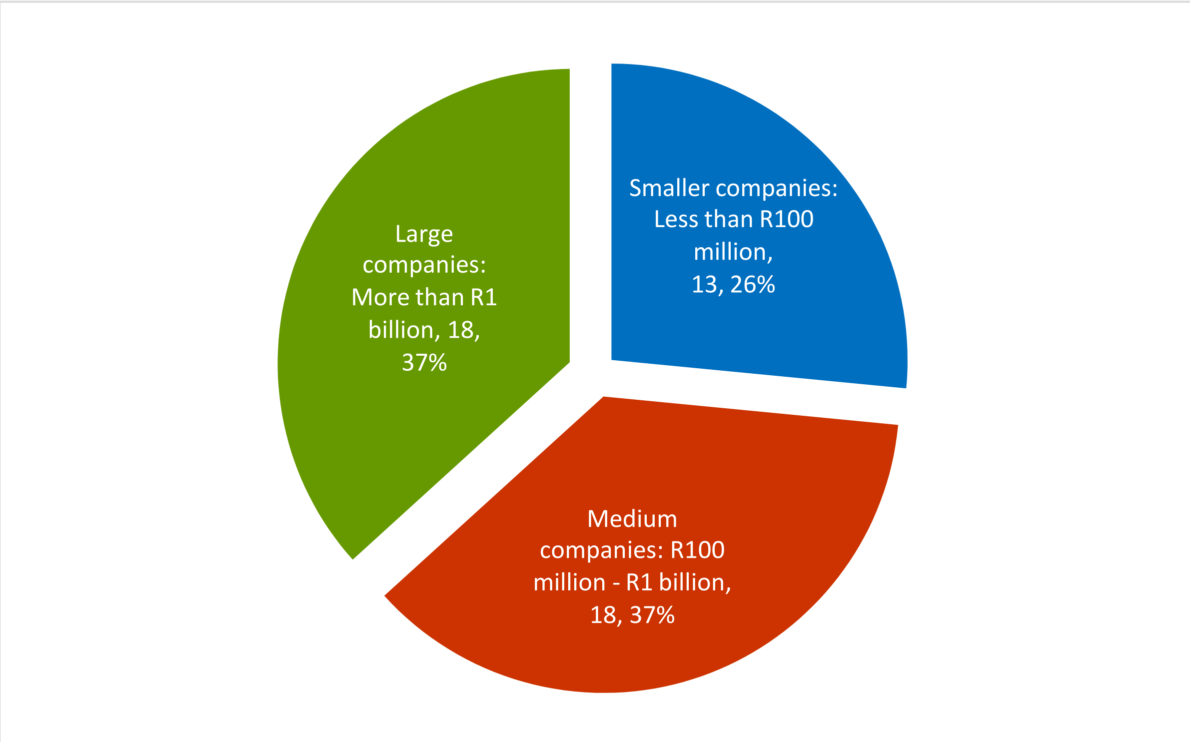


Figure 2: Annual revenue categories of company respondents (re-categorised)

[23] Staff writer (2019) "These are the new definitions of micro, small and medium enterprises in South Africa" Businesstech, 24 March https://businesstech.co.za/news/business/305592/these-are-the-new-definitions-for-micro-small-and-medium-enterprises-in-south- africa/

Five-year Business Outlook for South Africa

The 2021 survey was used to assess how well U.S. companies had done in South Africa's generally flat economy over the past five years, and how they viewed prospects for the next three years.

While 70 percent of respondent companies reported that they had been either "profitable" or "very profitable" over the past five years, most were undecided or neutral in their five-year business outlook for their South African company. Looking ahead, approximately two-thirds (69 percent) of respondents hold a neutral outlook, with 18 percent optimistic and 12 percent pessimistic (Table 2). We have concluded that most of the survey group have adopted a "wait and see" attitude to the South African investment climate, promised reforms, and future business.

However, we also noted a clear distinction between Large companies and the rest (Table 2). Large companies are the least pessimistic in their outlook (six percent), and the least negative on the likelihood of their company's further investment in their South African operation in the next three years. Only 17 percent of Large companies regard future investment as unlikely.

Indeed, most (61 percent) of Large companies value further investment in their South African operation in excess of R25 million, with some of them foreseeing values of more than R500 million. Furthermore, almost all (89 percent) of these Large companies anticipate that their company turnover is likely or very likely to increase over next three years. Almost half (44 percent) regard it as likely that they will be employing more people in South Africa in next three years, and a third are undecided (Figure 3).

Respondents from the Medium and Smaller companies tend to have a more negative outlook for their South African operation. Smaller companies are the most negative on the likelihood of further South African investment in the next three years, with only 15 percent regarding this as likely, and any potential investment limited to R25 million (Table 2, Figure 3). Despite this rather negative outlook, approximately half (54 percent) of Smaller companies are neutral or undecided on further company involvement, and many claim neutrality in their five-year business outlook. What is more, approximately half of this respondent group (54 percent) regard it as likely that they will increase employment over this period. These attitudes may reflect expectations of a post-COVID-19 recovery (Table 2).

Table 2: Outlook per company annual revenue category

Company outlook		Smaller (13)	Medium (18)	Large (18)	Total (49)
Company five-year business outlook for South Africa	Pessimistic	23%	11%	6%	12%
	Neutral	69%	61%	78%	69%
	Optimistic	8%	28%	17%	18%
Likelihood of further company investment in South African operation in the next 3 years	Unlikely	31%	22%	17%	22%
	Undecided	54%	39%	56%	49%
	Likely	15%	39%	28%	29%
Likelihood of company turnover increasing over next 3 years	Unlikely/Unsure	31%	17%	11%	18%
	Likely/very likely	69%	83%	89%	82%
Likelihood of company employing more people in South Africa in next 3 years	Unlikely	23%	39%	22%	29%
	Don't know	23%	11%	33%	22%
	Likely	54%	50%	44%	49%
Profitability of business in South Africa over past five years	Large loss	9%	0%	6%	5%
	Small loss	18%	6%	0%	7%
	Break-even	18%	19%	18%	18%
	Profitable	55%	81%	71%	70%
	Very profitable	18%	6%	12%	11%
TOTAL		100%	100%	100%	100%

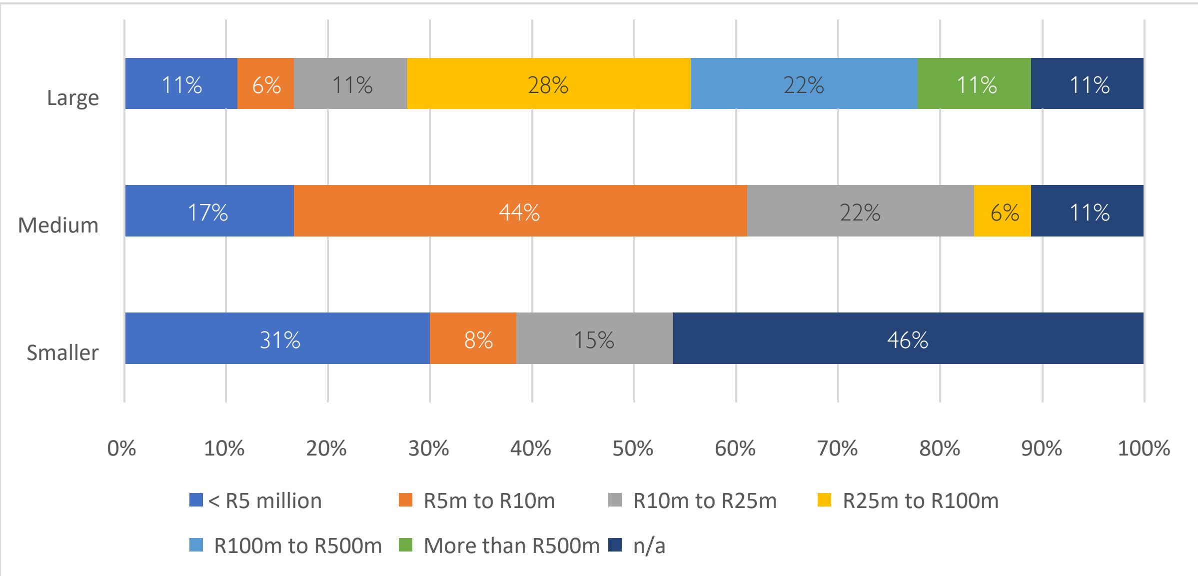


Figure 3: Value of further investment in South African operation per company annual revenue category

The impact of COVID-19

Large companies appear to be the most optimistic in their business outlook in South Africa compared to their pre-COVID-19 stance. Half of Large companies are "more optimistic" in outlook, compared to a quarter (23 percent) of the Smaller and 39 percent of the Medium group. These group views are consistent with the three-year company outlook, which was also the most positive for the Large companies (Table 2). However, we also found that Large companies are most cognizant of the negative impact of COVID-19 on their company's volume of business. About 39 percent of Large companies acknowledge a COVID-19 driven decline, compared to less than a third of the Medium and Smaller companies (Table 3).

Overall, just over half (53 percent) of all companies were able to get by with no retrenchments since the COVID-19 lockdown[24]. Retrenchments mostly affected less than 10 percent of the workforces of the Large and Medium companies, with some evidence of more severe retrenchment levels in the case of Smaller companies[25] (Table 3).

Finally, both the high and middle revenue companies pivoted their pre-COVID-19 business model to a similar extent, with over three-quarters of companies in these two groups implementing moderate or larger changes, compared to 46 percent of companies in the lowest revenue group (Table 3). The literature on the impact of COVID-19[26] suggests that many of these changes involve the use of remote working and Internet-based systems, although, again, we do not have company-level details.

[24] A "not applicable" response from a Medium company likely explains the discrepancy in the percentages of the Smaller, Medium andLarge companies with no retrenchments.

[25] Numbers are, however, too small for reliable inferences.

[26] HSRC (2021) Working from Anywhere: Is South Africa Ready http://www.hsrc.ac.za/en/review/hsrc-review-march-2021/working-from-anywhere

Table 3: Responses to business issues related to COVID-19

Business issue		Smaller (13)	Medium (18)	Large (18)	Total (49)
Company's business outlook in South Africa compared to 18 months ago	Less optimistic	46%	44%	22%	37%
	Unchanged	31%	17%	28%	24%
	More optimistic	23%	39%	50%	39%
Impact of COVID-19 on company's volume of business	Negative impact	31%	28%	39%	33%
	Neutral	69%	50%	50%	55%
	Positive impact	0%	22%	11%	12%
% of workforce forced to be retrenched since COVID - 19lockdown	None	62%	39%	61%	53%
	1-10%	8%	39%	22%	24%
	11-25%	15%	6%	11%	10%
	26-50%	15%	6%	6%	8%
	51-75%	0%	6%	0%	2%
	n/a	0%	6%	0%	2%
Changes to pre-COVID-19 business model	Not at all	15%	6%	0%	6%
	Minor changes	38%	11%	22%	22%
	Moderately changed	31%	44%	44%	41%
	Largely changed	15%	33%	33%	29%
	Completely changed	0%	6%	0%	2%
TOTAL		**100%**	**100%**	**100%**	**100%**

Employment and Skills Development

Employment

As expected, Large companies have the biggest workforces, with 17 percent employing more than 1,000 people, a third between 500 and 1,000. Medium companies employ at most 1,000 people, and the Smaller companies employ at most 100 people (Table 4, Figure 4).

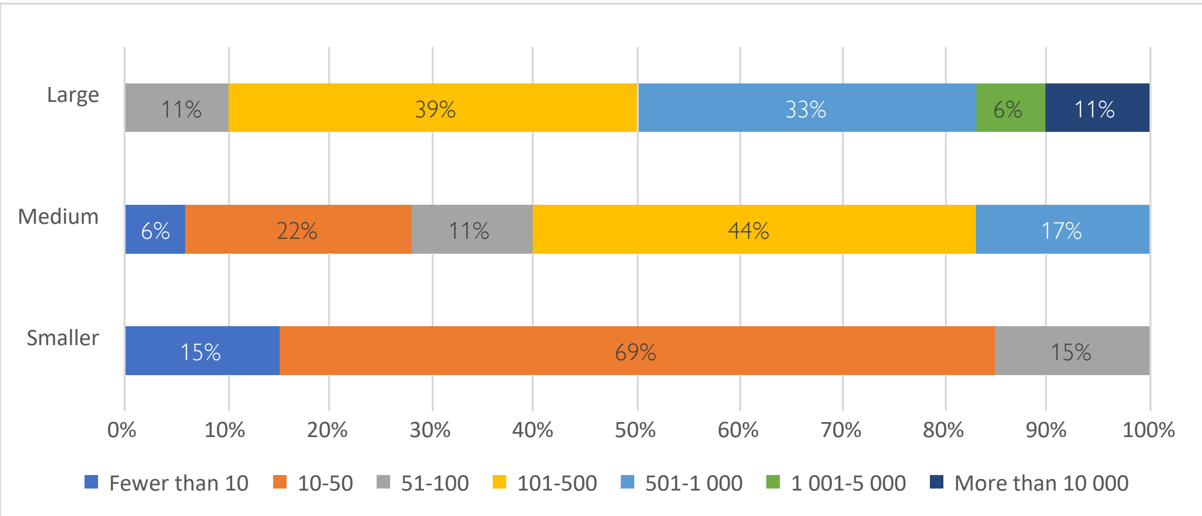


Figure 4: Number of employees in South African operation per company revenue category

We asked about changes in the number of employees over the past five years. The results were not encouraging from a job-creation perspective. The majority of companies (61 percent) reported that their number of employees had decreased over the past five years. There is, however, some evidence of increased employment (26 percent of companies), as 40 percent of Medium companies reported an increase (compared to 17 percent of Large and eight percent of Smaller companies) (Table 4).

Table 4: Employment and employment changes per company revenue category

Employees		Smaller (13)	Medium (18)	Large (18)	Total (49)
Number of employees in South African operation	Fewer than 10	15%	6%	0%	6%
	10-50	69%	22%	0%	27%
	51-100	15%	11%	11%	12%
	101-500	0%	44%	39%	31%
	501-1 000	0%	17%	33%	18%
	1 001-5 000	0%	0%	6%	2%
	More than 10 000	0%	0%	11%	4%
Change in number of employees over the past five years	Decreased considerably	31%	17%	17%	20%
	Decreased slightly	38%	33%	50%	41%
	Unchanged	23%	0%	17%	12%
	Increased slightly	0%	39%	17%	20%
	Increased considerably	8%	11%	0%	6%
TOTAL		100%	100%	100%	100%

Skills Development

Skills development and skills transfer are widely acclaimed benefits of foreign investment. There are many channels through which skills development is mandated in South Africa. All companies have to pay a skills development levy of one percent of their payroll. A portion of this expense can be reclaimed for the relevant Sectoral Education and Training Authority (SETA) once approved training has been done. Other skill-development targets are set by the B- BBEE generic scorecard, while others are laid out in the sectoral B-BBEE charters or other sectoral arrangements. Some of the larger U.S. investors have other specific training and skill-transfer targets agreed with the South African Government at the time of their initial investment.

Large companies consistently invest the most in Skills Development, with 33 percent of respondents investing R10 million-R50 million annually, and 11 percent investing over R50 million. Most (94 percent) Medium companies invest up to R10 million annually, with one company investing R10-R50 million annually, and none investing more. Most (92 percent) of Smaller companies invest a maximum of R3 million annually, with one company investing R3 million-R10 million annually, and another company R10 million-R50 million (Table 5, Figure 5).

Accordingly, Large companies support the most Skills Development beneficiaries, with almost half (48 percent) supporting between 51 and 1,000 beneficiaries per year. Almost all Medium companies (94 percent) and all the Smaller companies support at most 50 beneficiaries per year, with most (64 percent) of the latter supporting 1-5 Skills Development beneficiaries per year (Table 5, Figure 6).

Finally, approximately two-thirds of all the companies (69 percent) find that most or all of the skills they require are available in South Africa (62 percent, 67 percent, and 85 percent of the Large, Medium, and Smaller companies, respectively) (Table 5).

Table 5: Skills Development and availability per company revenue category

Skills Development		Smaller (13)	Medium (18)	Large (18)	Total (49)
Annual value of company investment in Skills Development	Less than R1m	54%	22%	0%	22%
	R1m-R3m	31%	44%	11%	29%
	R3m-R10m	8%	28%	44%	29%
	R10m-R50m	8%	6%	33%	16%
	More than R50m	0%	0%	11%	4%
Skills Development beneficiaries in your company per year	1-5	64%	13%	0%	20%
	6-10	9%	13%	12%	11%
	11-20	18%	31%	18%	23%
	21-50	9%	38%	24%	25%
	51-100	0%	6%	6%	5%
	101-200	0%	0%	24%	9%
	201-1000	0%	0%	18%	7%
Availability in South Africa of skills company requires	Some available	8%	28%	22%	20%
	About half available	8%	6%	17%	10%
	Most available	62%	61%	56%	59%
	All available	23%	6%	6%	10%
TOTAL		**100%**	**100%**	**100%**	**100%**

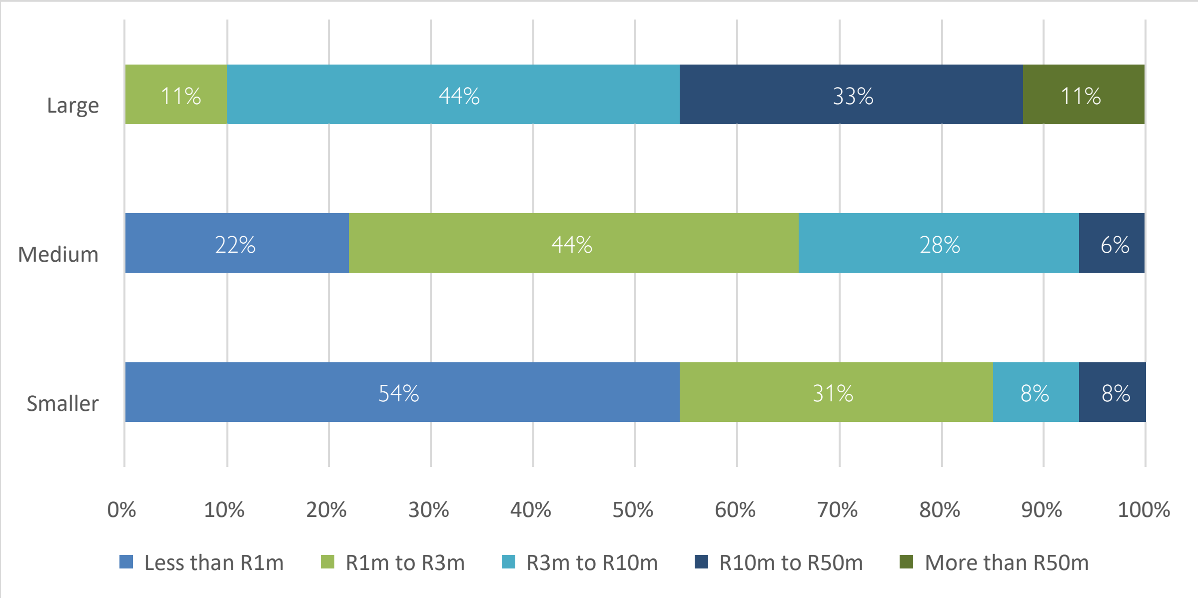


Figure 5: Annual company investment in Skills Development per company revenue category

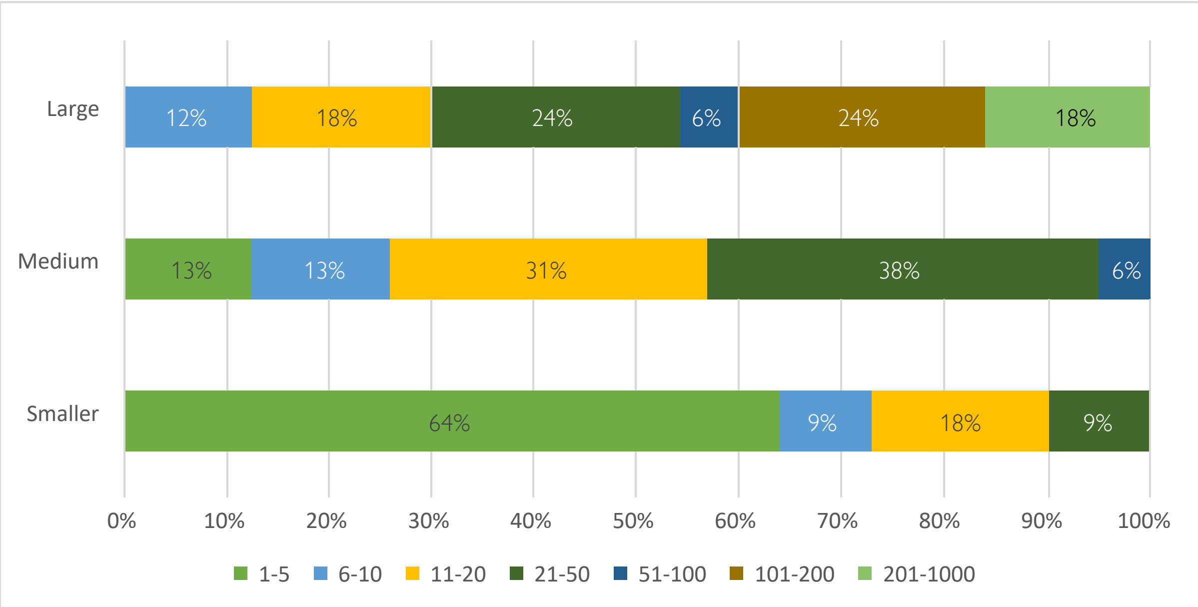


Figure 6: Skills Development beneficiaries in company annually per company revenue category

Broad-Based Black Economic Empowerment

B-BBEE ownership was flagged as the issue of most concern to U.S. investors in South Africa in the 2016 AmCham survey. B-BBEE was thus included in the 2021 questionnaire as a separate section in order to tease out the details of this concern. The issue is also covered in the section below on Challenges in the South African Investment Climate (Figure 13). The results may surprise some. B-BBEE ownership was only the 6th ranking challenge to U.S. companies in South Africa (out of 19).

However, Smaller companies found it a much greater than did either of the other two size categories. It was their second highest ranking challenge while "other aspects of B-BBEE" ranked fourth.

Types of B-BBEE activities

The overwhelming majority of companies covered in the AmCham 2021 survey participate in B-BBEE programs. Only 16 percent (eight companies) are "non-compliant" (i.e., score fewer than 40 points on the DTIC's generic scorecard). Seven of these companies are Medium or Smaller in size, and one is Large (Table 6).

Table 6: Company B-BBEE rating per company revenue category

B-BBEE ratings		Smaller (13)	Medium (18)	Large (18)	Total (49)
Company B-BBEE rating	Level 1	31%	11%	22%	20%
	Level 2	0%	6%	11%	6%
	Level 3	8%	6%	6%	6%
	Level 4	15%	6%	17%	12%
	Level 6	0%	11%	11%	8%
	Level 7	8%	17%	6%	10%
	Level 8	8%	17%	22%	16%
	Non-compliant	23%	22%	6%	16%
	Exempt	8%	6%	0%	4%

Many larger U.S. companies are eligible for (B-BBEE) equity offset arrangements. These come about because most multi-national corporations (not just U.S. ones) are not willing to surrender part ownership of their investments. By agreement with the South African Government, these companies are then allowed to make up their B-BBEE ratings through other types of activities[27]. Some have targets set at a sectoral level (e.g., local supplier development).

For all companies, Skills Development and Enterprise Development are the most favored B- BBEE options (84 percent and 67 percent, respectively, Table 7). All Large companies participate in Skills

[27] The DTIC's Generic Scorecard lays out five elements: Ownership, Skills Development, Enterprise and Supplier Development, Management Control and Socio-Economic Development. The first three are "Priority Elements" which are mandatory for all companies with an annual turnover of ZAR50 million or more. See: https://www.bakermckenzie.com/-/media/files/insight/publications/2020/03/doing-business-in- south-africa-2020.pdf

Development, 72 percent in Enterprise (supplier) Development, and two-thirds in Socio-Economic (community) Development. Medium companies participate mostly in Skills Development and Enterprise Development (78 percent and 61 percent, respectively). Smaller companies also participate mostly in Skills and Enterprise development. However, their outstanding characteristic is their participation in B-BBEE partnerships (54 percent compared to 22 percent of the Medium companies and 33 percent of Large companies) (Table 7, Figure 7).

Table 7: Company participation in B-BBEE arrangements per company revenue category

B-BBEE participation		Smaller (13)	Medium (18)	Large (18)	Total (49)
Type of B-BBEE arrangement	B-BBEE Partnership	54%	22%	33%	35%
	Skills Development	69%	78%	100%	84%
	Enterprise Development	69%	61%	72%	67%
	Community Development	15%	33%	67%	41%
	Employee Ownership	23%	17%	22%	20%

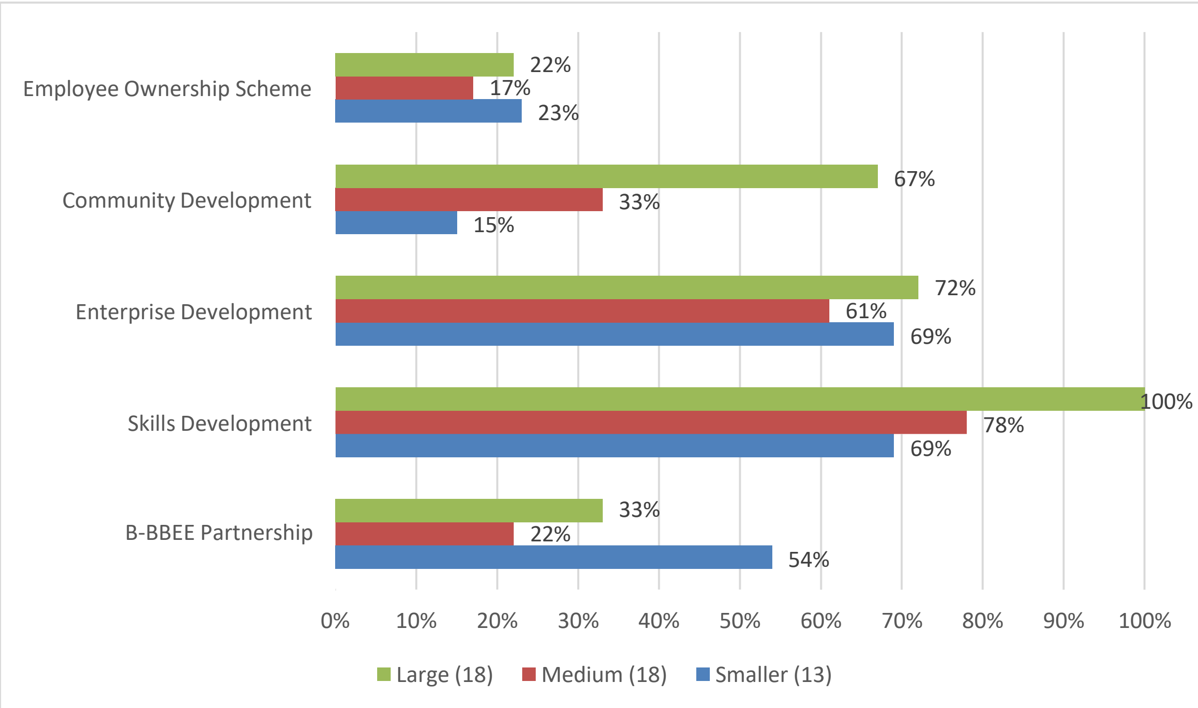


Figure 7: Company participation in equity offset arrangements per revenue category

Perceptions of B-BBEE and Sectoral Charters

Few companies find the B-BBEE Codes of Good Practice clear (41 percent, 38 percent, and 8 percent of the Large, Medium, and Smaller companies, respectively). The corresponding ratings of the clarity of the Sectoral Charters are even lower (31 percent, 15 percent, and 8 percent, respectively) (Table 8 and Figure 8). We were struck by the extent to which Smaller firms are uncertain about B-BBEE expectations/obligations and attribute this, in part, to the likelihood that they have less access to specialist legal and regulatory advice.

B-BBEE compliance is rated as particularly difficult, with only 17 percent of Large companies finding this easy, none of the Medium companies, and 23 percent of Smaller companies. This difficulty is probably reflected in the B-BBEE non-compliance of some of the companies that responded to the survey (6 percent, 22 percent, and 23 percent of the Large, Medium, and Smaller companies, respectively).

Table 8: Perceptions of B-BBEE and Sectoral Charters per company revenue category

Perception		Smaller (13)	Medium (18)	Large (18)	Total (49)
Clarity of B-BBEE Codes of Good Practice	Not at all clear	0%	6%	6%	4%
	Slightly clear	25%	19%	0%	13%
	Somewhat clear	67%	38%	53%	51%
	Very clear	8%	31%	24%	22%
	Extremely clear	0%	6%	18%	9%
	N/A	8%	11%	6%	9%
Clarity of Sectoral Charters	Not at all clear	8%	15%	8%	11%
	Slightly clear	17%	8%	8%	11%
	Somewhat clear	67%	62%	54%	61%
	Very clear	8%	15%	23%	16%
	Extremely clear	0%	0%	8%	3%
	N/A	8%	28%	28%	29%
Difficulty of B-BBEE compliance	Very difficult	23%	28%	22%	24%
	Difficult	23%	39%	28%	31%
	Sometimes difficult	31%	33%	33%	33%
	Easy	23%	0%	11%	10%
	Very easy	0%	0%	6%	2%
Overall impact of B-BBEE on your business	Very negative	23%	22%	0%	14%
	Negative	23%	17%	22%	20%
	Neutral	23%	56%	44%	43%
	Positive	31%	6%	28%	20%
	Very positive	0%	0%	6%	2%

Companies' perceptions of the overall impact of B-BBEE on their businesses are mostly negative or neutral (67 percent of Large, 94 percent of Medium, and 69 percent of Smaller companies).

Of these companies, four Medium and three Smaller companies rate the overall impact of B-BBEE on their business as "very negative" (Table 8, Figure 8).

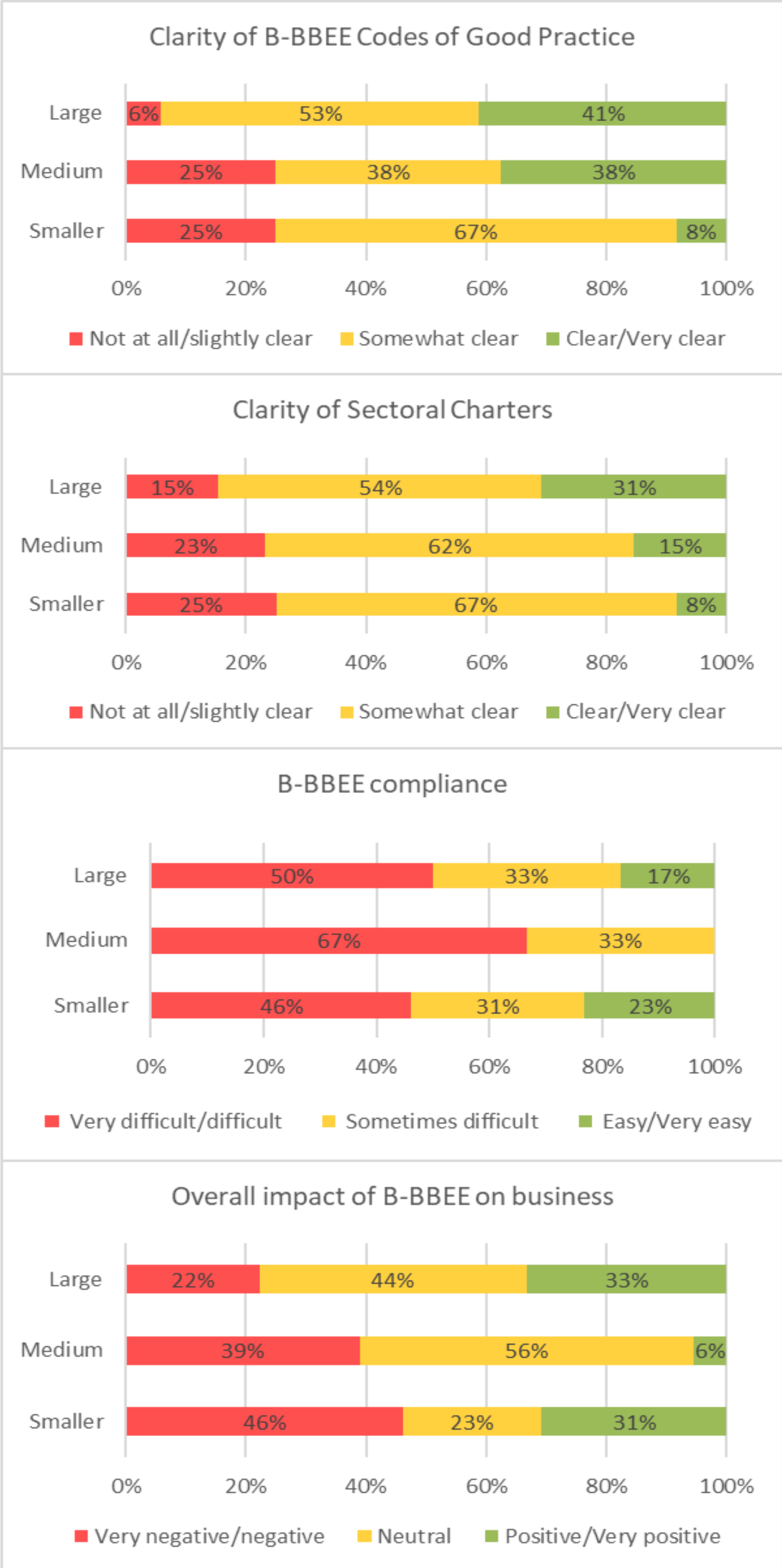


Figure 8: Ratings of B-BBEE and Sectoral Charters per company revenue category

In summary, Large companies appear to find B-BBEE compliance the most problematic of the four issues. Companies in the middle revenue group find both B-BBEE compliance and its overall impact on their businesses as the most problematic issues. Companies in the lowest revenue group find the clarity of the B-BBEE Codes of Good Practice, and the clarity of the Sectoral Charters, as the most problematic (Table 8, Figure 8).

Corporate Social Investment (CSI)

CSI is money given by companies without any expectation of a financial return. It is often regarded as a component of companies' Environmental, Social, and Governance (ESG) commitments, and is especially important to foreign-owned companies who can use it to demonstrate that they have a (social) "license to operate" in the countries in which they have invested. Most (83 percent) of the companies in the AmCham 2021 survey contribute at least R100,000 to CSI every year and some give a great deal more. Half of Large companies each spend in excess of R7.5 million on CSI per annum, with 22 percent spending R7.5 million-R15 million, 17 percent spending R15 million-R50 million, and 11 percent spending over R50 million. Most Medium companies (88 percent) and all the Smaller companies spend up to R2.5 million on CSI per annum (Table 9 and Figure 9).

Table 9: Responses to B-BBEE and Corporate Social Investment items, per company revenue group

		Smaller (13)	Medium (18)	Large (18)	Total (49)
Company spend on Corporate Social Investment per year	Less than R100 000	46%	13%	0%	17%
	R100 000- R500 000	31%	31%	0%	19%
	R500 000- R2.5m	23%	44%	17%	28%
	R2.5m- R7.5m	0%	0%	33%	13%
	R7.5m- R15m	0%	6%	22%	11%
	R15m-R50m	0%	6%	17%	9%
	Over R50m	0%	0%	11%	4%
	n/a	0%	11%	0%	4%
Primary focus areas of company's CSI program	Education	54%	67%	78%	67%
	Community Development	31%	44%	50%	43%
	Health	8%	17%	50%	27%
	Enterprise Development	54%	33%	56%	47%
	Other	15%	17%	6%	12%

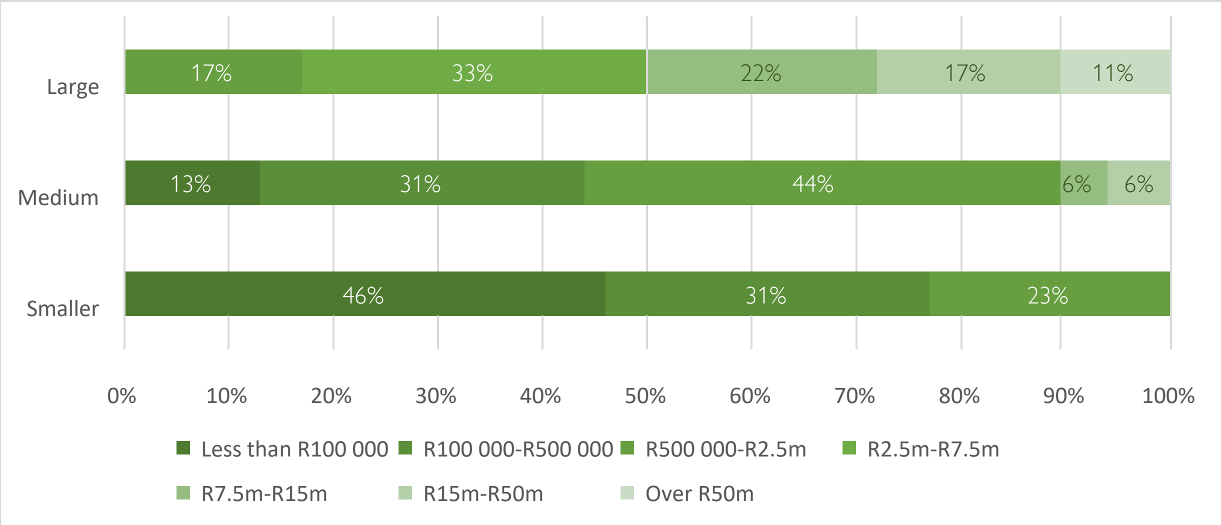


Figure 9: Company annual expenditure on Corporate Social Investment per company revenuecategory

Companies ranked the primary focus areas of their CSI programs as follows: Education, Enterprise Development, Community Development, and Health. Large companies were themost engaged on all these issues (Table 9 and Figure 10).

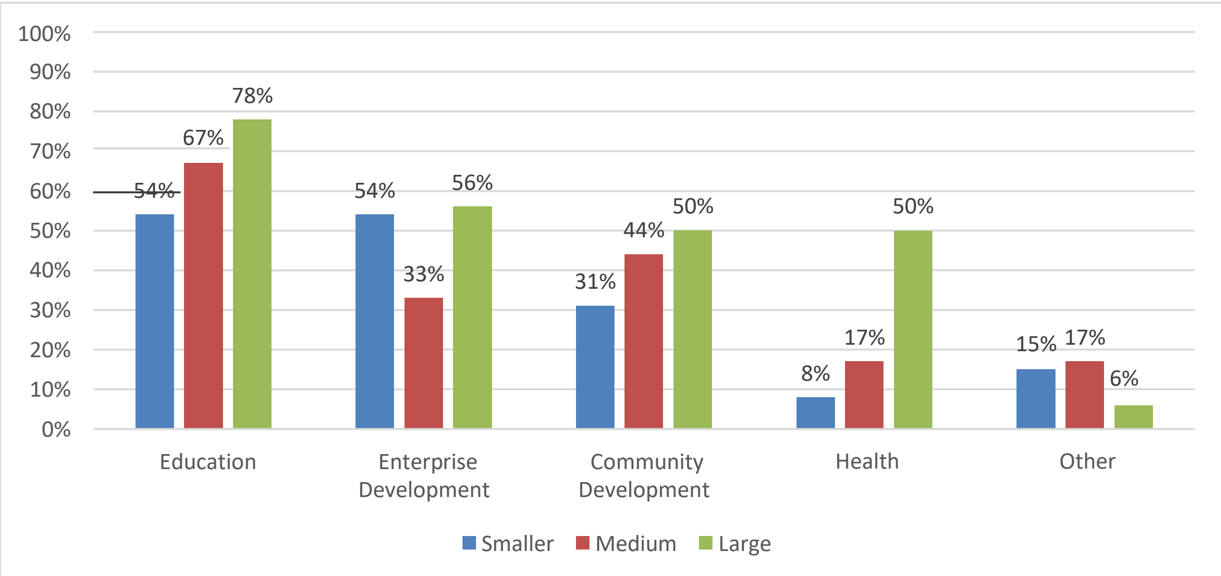


Figure 10: Primary focus areas of company CSI programs per company revenue category

Doing Business in South Africa

Attractive features

Our researchers were interested in understanding what features of the South African investment climate had attracted U.S. investors in the first place and to ask whether these attractions still exist and can be enhanced. With almost all respondents being well-established (in South Africa for over 10 years), we did not gain much insight into the initial attraction to investors. However, we were able to draw some conclusions about what they find attractive in the present context.

Respondents were tasked with rating the attractiveness of each of the following features of the South African investment climate: Opportunities in sub-Saharan Africa, Local market opportunities, Integration with global supply chains, Quality of physical infrastructure, Quality of business support industries, Availability of skills, and Government's Economic Recovery Program. They used a 10-point scale from Not at all attractive (1) to Extremely attractive (10).

For analysis purposes, ratings from 1-3 were categorized as Not attractive, ratings from 4-7 as Moderately attractive, and ratings from 8-10 as Attractive. The percentages of responses in each attractiveness category were computed for companies in each revenue group (Figure 12).

The features are first ranked on the percentage of companies who rated them as Attractive (ratings 8-10) for the total group of respondents (Figure 11). The features are ranked from most-to-least attractive as follows: Opportunities in sub-Saharan Africa (1), Local market opportunities (2), Integration with global supply chains (3), Quality of physical infrastructure (4), Quality of business support industries (5), Availability of skills (6), and Government's Economic Recovery Program (7) (Figure 11).

It is important to note that the feature ranked the most attractive—Opportunities in Sub-Saharan Africa—was rated as attractive by only a third (33 percent) of companies, with the less attractive features also rated less often. This indicates that no feature was attractive to the majority of companies. Government's Economic Recovery Program, the least attractive feature, was rated as attractive by only four percent of companies. Stated simply, a minority of the respondents perceived the features of the South African investment climate as highly attractive.

A further concern was that 84 percent of respondents rated the much-heralded quality of South Africa's physical infrastructure as either only Moderately attractive or Not attractive. This would also seem to suggest that another aspect of the South African investment landscape that is often singled out as a reason to invest—our access to other sub-Saharan markets—is only of moderate interest to U.S. companies. For most U.S. investors, we suspect, the business case rests solely on the merits of their presence in the South African market, with further African business ventures being a nice idea and possible future ambition.

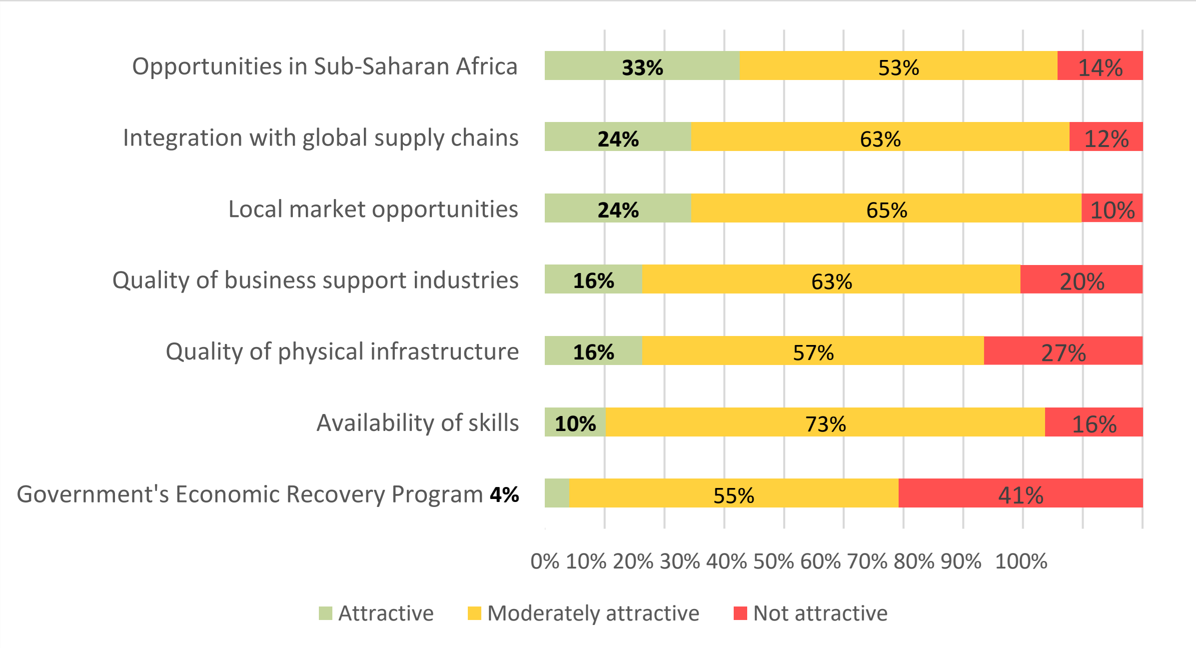
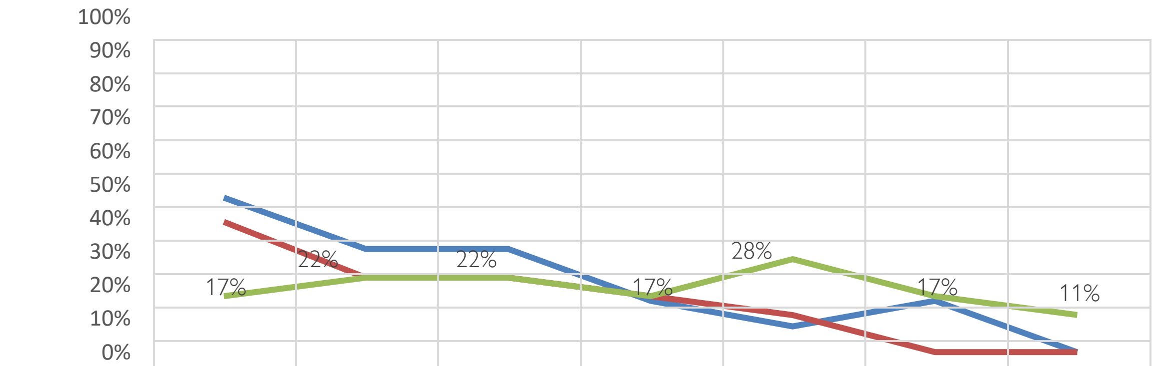


Figure 11: Features of the South African investment climate ranked on attractiveness

Figure 12 provides the percentage of companies in each revenue group that rated each feature as Attractive. The features are ranked slightly differently for each group: Large companies rated Quality of business support industries as most attractive (28 percent of respondents); Medium and Smaller companies rated Opportunities in sub-Saharan Africa as most attractive (39 percent and 46 percent of respondents, respectively).



	Opportunities in Sub-Saharan Africa	Local market opportunities	Integration with global supply chains	Quality of physical infrastructuree	Quality of business support industries	Availability of skills	Government's Economic Recovery Program
Smaller	46%	31%	31%	15%	8%	15%	0%
Medium	39%	22%	22%	17%	11%	0%	0%
Large	17%	22%	22%	17%	28%	17%	11%

Figure 12: Percentage of companies which rated each feature as attractive per company revenue category

Challenges to Doing Business in South Africa

A similar method (to that used to rank "Attractive Features") was used to analyse the extent to which the 19 features of the South African investment climate supplied in the questionnaire were rated as challenging (i.e., rated 8-10 on the rating scale supplied, from Not at all challenging (1) to Extremely challenging [10]). The 19 features are ranked on the percentage of respondents in the total group of 49 companies who rated each feature as challenging (ratings 8-10). The results are provided in Figure 13.

Seven features are rated as challenging by more than half of the respondents. These are: Energy supply reliability (86 percent), Crime (71 percent), Economic growth (65 percent), Energy supply cost (63 percent), Foreign exchange volatility (55 percent), B-BBEE Ownership (53 percent), and Policy uncertainty (51 percent).

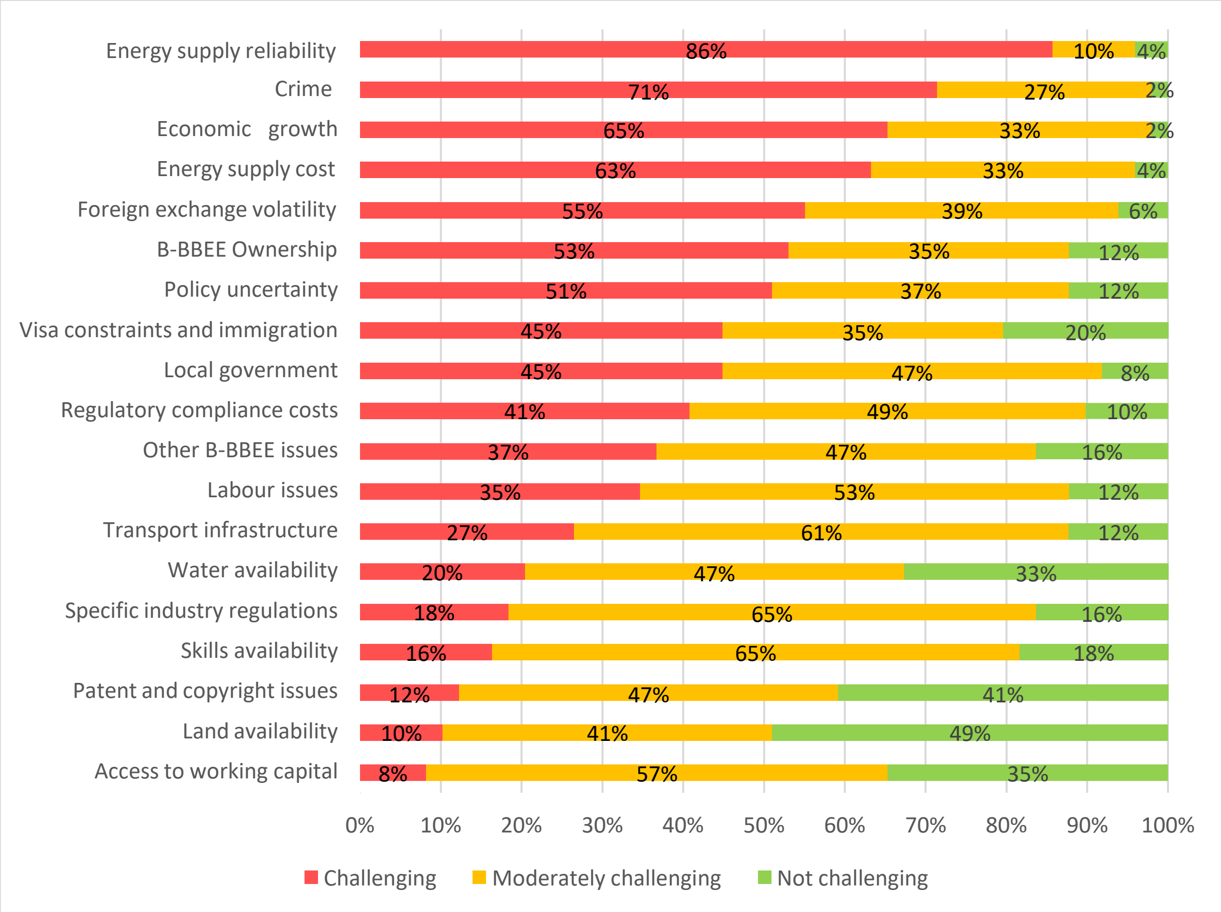


Figure 13: Features of the South African investment climate, ranked on degree of challenge

It is not surprising to see the reliability of electricity supply at the top of the list of challenges to U.S. companies doing business in South Africa. Intermittent supply has been a feature of the South African business climate since 2008. The year prior to the survey (2020) has been described by South Africa's Council for Scientific and Industrial Research (CSIR) as the most intensive (worst) load-shedding year since 2015[28]. For the attractiveness of South Africa as an investment destination going forward, it is also worth noting that the fourth most challenging feature is the cost of electricity. Electricity costs have climbed by an average of 16 percent per year since 2008[29]. As pointed out previously, almost all respondents have been present in South Africa for over a decade. Over the period of their investment, they have watched one of South Africa's virtues (cheap electricity) become a vice.

[28] Sonjica, N. (2021) "Last year was worst load-shedding year since 2015, CSIR says" Business Day, 6 August https://www.businesslive.co.za/bd/national/2021-08-05-last-year-was-worst-load-shedding-year-since-2015-csir-says/

[29] CSIR (2019) Presentation to the Portfolio Committee on Mineral Resources and Energy, 21 August https://www.csir.co.za/sites/default/files/Documents/CSIR%20Portfolio%20Committee%20on%20Mineral%20resources%20and%20Energ y2019.pdf

The second and third most challenging features of the South African investment climate — (2) Crime and (3) Economic growth—are well-known problems. The outburst of civil unrest in Gauteng and KwaZulu-Natal (July 11-16) occurred after our survey had closed and was thus not a factor in the high ranking of crime. Only two percent of companies considered crime and low economic growth to be Not challenging.

Exchange rate volatility was not a challenge identified by the 2016 survey. The rand is known to be one of the most volatile emerging market currencies[30], which is especially challenging to companies engaged in international trade. Survey opinions may have been influenced by the 38 percent fluctuation of the rand against the U.S. dollar over the course of 2020[31].

Although B-BBEE ownership only ranked sixth as a challenge among respondents, it is still challenging to over 50 percent of companies and only 12 percent of our sample found it not challenging at all. Smaller companies find B-BBEE ownership especially challenging. For this group, it is in fact the second biggest challenge after energy supply reliability. Smaller companies also find "other B-BBEE issues" disproportionately challenging compared to Large and Medium companies.

It is interesting to note that the percentages of companies that rate each issue as challenging are generally relatively low for Smaller companies and relatively higher for Medium and Large companies. Smaller companies may quite simply be more accepting or fatalistic when it comes to confronting investment climate issues beyond their direct control.

Although policy uncertainty was one of the lower ranked of the seven challenges identified by more than half the survey respondents, feedback from U.S. companies suggests that it is a theme that runs through many of the other issues. Many U.S. company executives in South Africa regard the country as a "difficult" investment climate and part of the reason is very slow policy making and "fudged" decisions. They point out for instance that proposed changes around intellectual property—while not an issue raised by a majority of companies in the survey—have been "in the

[30] Kallis, L. (2019) "Making sense of the Rand," Allan Grey, 10 October https://www.allangray.co.za/latest-insights/markets-and-economy/making-sense-of-the-rand/

[31] Wasserman, H. (2020) "The Rands's massive comeback: It's as if lockdown and 'junk' never happened," 26 December https://www.businessinsider.co.za/rand-comeback-in-2020-2020-12

pipeline" for at least the last eight years. Further uncertainties around the energy sector, digital policies, empowerment, emigration, and customs administration are often cited in feedback.

We provide further detail on the challenges in Figure 14. Here, the percentages of companies in each revenue group who rated each feature as challenging are plotted, and labels are supplied for Large companies. The features are ranked fairly similarly for Large, Medium, and Small companies. For readability, the percentages of companies per revenue group, which rate each of the 19 features as challenging, are supplied in Table 10. The ranks of the challenges are provided alongside, per revenue group.

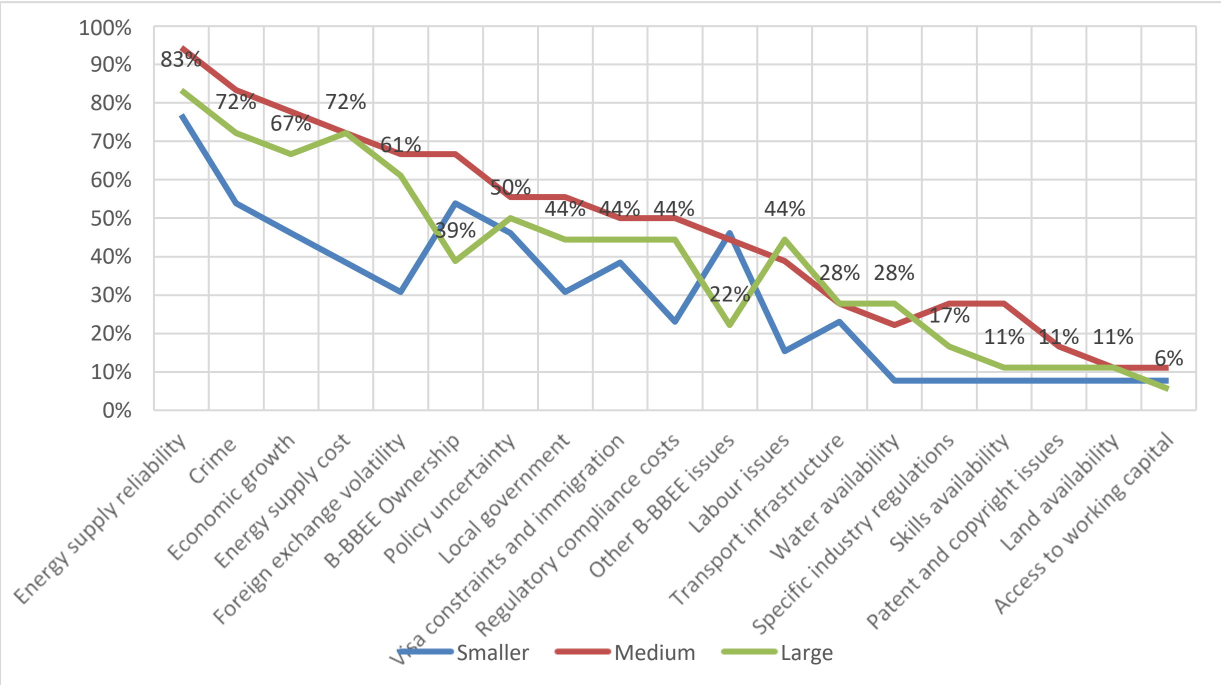


Figure 14: Features of the South African investment climate, rated as challenging, per companyannual revenue category

Table 10: Features of the South African investment climate, ranked as challenging, per company revenue group

Challenge	% Smaller (13)	% Medium (18)	% Large (18)	% Total (49)	Ranked challenges Smaller (13)	Ranked challenges Medium (18)	Ranked challenges Large (18)
Energy supply reliability	77%	94%	83%	86%	1	1	1
Crime	54%	83%	72%	71%	2	2	2
Economic growth	46%	78%	67%	65%	4	3	4
Energy supply cost	38%	72%	72%	63%	7	4	2
Foreign exchange volatility	31%	67%	61%	55%	9	5	5
B-BBEE Ownership	54%	67%	39%	53%	2	5	11
Policy uncertainty	46%	56%	50%	51%	4	7	6
Local government	31%	56%	44%	45%	9	7	7
Visa constraints & immigration	38%	50%	44%	45%	7	9	7
Regulatory compliance costs	23%	50%	44%	41%	11	9	7
Other B-BBEE issues	46%	44%	22%	37%	4	11	14
Labor issues	15%	39%	44%	35%	13	12	7
Transport infrastructure	23%	28%	28%	27%	11	13	12
Water availability	8%	22%	28%	20%	14	16	12
Specific industry regulations	8%	28%	17%	18%	14	13	15
Skills availability	8%	28%	11%	16%	14	13	16
Patent and copyright issues	8%	17%	11%	12%	14	17	16
Land availability	8%	11%	11%	10%	14	18	16
Access to working capital	8%	11%	6%	8%	14	18	19

Conclusions

Research for the AmCham Business Barometer 2021 found 662 U.S. companies active in South Africa. The fact that the total number of U.S. firms has hardly shifted over the past decade is almost certainly a reflection of difficult trading conditions in the South African economy generally. South Africa's GDP growth has been below 1.5 percent every year since 2014.

U.S. companies in South Africa employ at least 220,000 people. Although this is a much higher figure than the widely used previous figure ("over 100,000"), it does not reflect an increase in employment but rather a more accurate count. In fact, the 2021 AmCham Business Barometer survey illustrates a decline in employment figures (for U.S. companies) over the last five years, again corresponding with more general trends in the South African economy.

However, the U.S. remains a critical international business partner for South Africa. It is South Africa's third largest market for exports and third largest source of imports. The U.S. is also South Africa's fourth largest source of FDI.

FDI and growth

U.S. FDI seems to have increased over the past two years and was already at record annual levels in mid-2021, after reaching a new high in 2020 (R7.2 billion) despite the effects of COVID-19. The previous record year was 2007 when U.S. FDI totaled R6.2 billion. It is not clear from our research whether this reflects an increase in the attractiveness of South Africa as an investment destination or looser U.S. fiscal policy and the post COVID-19 recovery in that country. As there had been few corresponding substantial reforms to the South African business climate, we suspect the second set of factors (internal to the U.S.) to be the primary driver.

The 2021 Survey

The 2021 AmCham survey of U.S. companies in South Africa draws a picture of a group of resilient companies that are somewhat stressed by a business environment that many of them do not find easy. While the survey's 49 respondents are not representative of all U.S. companies in South Africa, it does raise concerns that need to be taken seriously. Insight came from segmenting the responses by company size defined in term of turnover.

We have insights from three more-or-less equal sized groups of companies, which we have called Large (turnover of more than R1 billion), Medium (turnover of R100 million-R1 billion) and Smaller (turnover of under R100 million). It should be noted that these categories are used only for the purposes of analysing the survey and do not correspond to South African Government definitions. Almost all respondents (94 percent) have been present in the South African market for over a decade and are thus both survivors and experienced veterans whose views need to be taken seriously.

U.S. Company Outlook

The survey found that many U.S. companies in South Africa are more confident looking backward than forward. About 70 percent of them reported that they had been "profitable" or "very profitable" over the past five years. However, the vast majority (69 percent) have an "undecided" or "neutral" outlook for the next three years. It should be noted that only a small minority (12 percent) have a "pessimistic" outlook, which leads to the conclusion that U.S. firms in South Africa have a "wait and see" attitude to the investment climate, promised reforms and the prospects for future business.

Large companies appear to be more positive in both outlook and on the likelihood of future investment. Fewer than 20 percent categorise future investment as "unlikely" (compared to a third of Smaller companies) and some of their anticipated investment could be over R500 million. Almost all Large companies expect increased turnover, and nearly half say they are likely to employ more people in South Africa over the next three years.

Respondents from Medium and Smaller companies tend to be more negative in their outlook. Smaller companies are the most negative on the likelihood of further South African investment in the next three years, with only 15 percent regarding this as "likely."

Employment

It is the story around the number of employees in U.S. firms in South Africa that most clearly illustrates the tough trading conditions in recent years. About 61 percent of U.S. companies across all three size categories report a reduction in their number of employees over the past five years. No Large company was able to report a "substantial increase" in employee numbers. Although without a representative sample we cannot definitely say that the total number of people employed by U.S. companies in South Africa has contracted, such an observation would accord with the Stats SA employment data.

One of the most positive features of FDI is its ability to generate employment, something recognised by the South African Government through its investment attraction conferences. However, once investment has landed, foreign-owned companies have to deal with business conditions and governance on a day-to-day basis. It would seem that these factors combine to make job retention difficult.

Skills Development

The availability of skills is only a moderately attractive feature of the South African investment climate, as illustrated by responses to the survey. But it is not a major challenge either, ranking only 16th among the 19 challenges mentioned. The survey illustrated the point that Large companies make a bigger impact on skills development, with 44 percent of them spending more than R10 million, and 48 percent reporting that they upskill more than 50 employees per year.

While the questionnaire does not flag skills shortages as a concern at the forefront of the minds of U.S. investors (with "Skills Availability" ranking only 16th out of 19 challenges to doing business in South Africa), there are concerns about importing needed skills after the investment has been made. Visa and emigration issues were listed as a challenge by 45 percent of the respondents.

Corporate Social Investment

The survey also indicates that Large companies are most engaged in Corporate Social Investment (CSI), sometimes described as "corporate giving." Large companies are more inclined to be involved in community development projects (67 percent) than are Medium and Smaller companies (33 percent and 15 percent, respectively). The ranking of focus areas across CSI programs for all sizes of companies: Education (1), Enterprise development (2), Community development (3) and Health (4). Education (including bursaries) is the most popular form of CSI, while health seems to be almost exclusively the preserve of Large companies.

In feedback, it is clear that executives see an overlap between CSI, skills development, and B-BBEE. They often point out that activities in these spaces are standard company practice, which renders many of the requirements of the regulatory framework redundant. "These are all things we would have done anyway, without any compulsion," said one.

COVID-19

The 2021 survey showed that COVID-19 has been a factor in making Medium and Smaller companies gloomier in outlook. Nearly half of these companies were "less optimistic" than they had been before COVID-19. By contrast, half of the "Large" companies were "more optimistic," even though the objective consequences were similar across the three size categories.

It was striking that the impact of COVID-19 on employment was much more negative for Medium companies among which only 40 percent managed to avoid retrenchments (compared to 60 percent in the other two size categories). We reiterate that our sample is not representative. Nevertheless, it is probably pertinent to observe that Large companies have more internal resources to deploy during times of crisis, while Smaller companies are usually characterised by more personalised relations which, in the case of COVID-19, may have facilitated alternatives to retrenchment.

B-BBEE

Broad-Based Black Economic Empowerment (B-BBEE) was flagged as the issue of biggest concern to U.S. companies in the previous (2016) AmCham survey. Accordingly, it was investigated in greater depth in the 2021 survey. B-BBEE ownership was only the sixth highest ranked among challenges identified by respondents in 2021. However, there is no reason for complacency. It was still one of seven categories considered to be "challenging" by more than half the respondents. And only 12 percent of respondents found it not challenging at all.

What stood out about the challenge posed by B-BBEE ownership was the extent to which this affects Smaller companies. It was their second biggest problem behind "energy supply reliability." By contrast, it was only the 11th biggest challenge for Large companies. Smaller companies also found "Other B-BBEE issues" (including compliance costs) problematic (their fourth ranking challenge), which compared dramatically to Large and Medium companies, which ranked it only 14th and 11th, respectively.

International multi-national companies are allowed to make "equity offset" arrangements, which require that they invest in activities such as skills, enterprise, and socio-economic development rather than offering equity to Black South Africans. In the survey, only one third of Large companies had B-BBEE partners (and only 22 percent of Medium companies) as opposed to 54 percent of Smaller companies. It is likely that this reflects the tendency of bigger U.S. companies to make use of the equity offset exemption while Smaller companies have no such option.

The problems with B-BBEE are partly related to the complexity of the regulatory environment around this issue and the fact that the rules have repeatedly changed. While 41 percent of Large companies say they find the DTIC's B-BBEE Codes of Good Practice clear or very clear, only eight percent of Smaller companies could say the same. Generally, the requirements of sectoral charters, where applicable, were found to be even less clear than the Codes of Good Practice.

Feedback indicates that uncertainty about B-BBEE goes beyond interpreting the regulations; executives worry that that despite their best efforts, their companies may be found wanting in this space. They worry that they have missed something in the multiple regulatory changes and may not be adequately compliant. They feel harassed by the need to explain something they are not sure they clearly understand to their principals back in the United States, and they are unclear about the consequences of non-compliance or partial non-compliance.

Attractive features

The survey asked respondents about which features of the South African investment climate they thought were attractive. While feedback from U.S. executives suggests that they appreciate South Africa's stronger points ("relatively good" infrastructure, an established private sector) by comparison with many other countries, what was notable was that no single feature stood out for attractiveness. The most attractive feature—Opportunities in sub-Saharan Africa—was rated as attractive by only a third of respondents. Government's Economic Recovery Program was the least attractive feature, rated by only four percent of companies. The survey appears to indicate that the features of the South African investment climate perceived as "attractive" are regarded as such by a minority of respondents.

Challenges to doing business in South Africa

Seven issues are rated as challenging by more than half of the respondents. These are, in order of magnitude: Energy supply reliability (86 percent), Crime (71 percent), Economic growth (65 percent), Energy supply cost (63 percent), Foreign exchange volatility (55 percent), B-BBEE Ownership (53 percent), and Policy uncertainty (51 percent).

This is a list of not unexpected challenges. However, the big difference from the results of the 2016 survey is the prominence of energy supply issues. In 2016, respondents quite possibly believed government assurances that the issue was in hand and that unplanned load shedding would soon be in the past. Feedback in 2021 suggests a much greater concern, on the part of U.S. companies in South Africa, with slow implementation and poor decision making.

U.S. companies operating in South Africa, like foreign investors everywhere, tend to accept the challenges of the investment climate as an inescapable part of what they chose to buy into. This is all the more the case among Large companies, which are invariably local subsidiaries of big international operations and tend to be well resourced. It was evident in the survey where Large companies proved most optimistic, most comfortable with B-BBEE, and most inclined in invest in the future.

However, the concerns of Medium and Smaller firms need to be taken seriously. It is desirable to have a healthy ecosystem of firms across all sizes. Although all have roles to play, innovative and entrepreneurial breakthroughs tend to arise from firms at the smallerend of the scale. But this is also where investment climate challenges weigh most heavily. Addressing their concerns will be the foundation of a more attractive South African investment climate.

APPENDIX: Headline FDI trends by year

Table 11: Headline US FDI into South Africa trends by year

Year	Number of projects	% growth per annum	Jobs created		Capital investment	
			Total	Average	Total (R million)	Average (R million)
2021	3	n/a	0	0	9 868.31	9 868.31
2020	23	n/a	3 003	1 501	7 208.47	3 604.95
2019	28	27.3	1, 240	620	651.65	217.22
2018	22	4.8	0	0	103.57	51.79
2017	21	n/a	0	0	1 934.82	968.13
2016	21	n/a	1 289	257	3 180.59	635.83
2015	34	21.4	255	85	899.08	450.26
2014	28	12	425	106	4 258.04	1 064.51
2013	25	n/a	703	234	2 961.93	1 481.68
2012	39	2.6	58	11	4 085.42	1 021.36
2011	38	46.2	1 723	344	1 227.06	245.99
2010	26	116.7	647	215	1 209.80	604.18
2009	12	n/a	300	300	729.33	729.33
2008	32	60	200	200	4 593.22	765.30
2007	20	11.1	63	31	6 182.80	2 061.41
2006	18	5.9	0	0	2 990.70	1 496.07
2005	17	183.3	520	173	2 196.63	549.52
2004	6	n/a	0	0	1 237.13	618.57
2003	11	n/a	1,000	1,000	978.20	978.20
TOTAL	**424**	**n/a**	**11 426**	**285**	**56 496.77**	**1 065.95**

SOURCE: FDI Markets.com Crossborder Investment Monitor. Supplied by the DTIC, 2021

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