MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

MEDIA RELEASE: SA'S ECONOMIC PROSPECTS INCREASINGLY TIED TO AFRICAN CONTINENT'S

South Africa's economic prospects have become increasingly intertwined with those of the rest of the African continent which is forecast to remain the second fastest growing region. Sub-Saharan Africa is forecast to grow by 6.1 per cent this year and 5.8 per cent in 2015.

The continent's economic fortunes have improved, largely because of macroeconomic stability, political reform, favourable demographics and stronger institutions. These trends have contributed to a virtuous cycle of increased investment and economic growth, a cycle from which South African companies have benefitted during the past 20 years.

South Africa provides a number of natural advantages as an African hub, including advanced financial, regulatory, tax and accounting standards; a modern telecommunications network; extensive economic infrastructure; and direct air connections to most major cities on the continent and internationally.

"Investment into Africa has reached R36 billion a year and in a range of industries South Africa is the second largest developing country investor on the continent," Finance Minister Pravin Gordhan said today (Wednesday, 26 February 2014). "Foreign assets owned by South African firms are an important source of income, and reduce our vulnerability to future domestic downturns."

He added: "In 2013, 29 per cent of our exports were destined for Africa. In 2012, 12 of our dividends came from Africa, up from 2 per cent a decade earlier. In addition, 18 large African firms now have debt and equity listings on the JSE."

In recent years, government has announced tax and financial-sector reforms to encourage greater investment into and trade with other African countries, and to promote South Africa as hub for financial services. Government remains committed to supporting the expansion of South African firms into Africa, which will bolster long-term growth prospects on the continent and provide a stream of dividends back into South Africa.

In this regard, Minister Gordhan announced a number of proposed measures, including the extension to unlisted companies of the regime that allows firms create a holding company for their African and other offshore operations which will not be subject to foreign exchange restrictions. For companies listed on the JSE, the size allowed for transfer into the holding company (HoldCo) will be increased. Proposals relating to the HoldCo regime for listed companies include the following:

1) Transfers in and out of the HoldCo up to R2 billion will be allowed provided such transfers are reported on regularly and are not undertaken to avoid tax;
2) Additional amounts up to 25 per cent of the listed companies' market value will be considered on application to the SA Reserve Bank, provided there is a demonstrated benefit to South Africa;

3) Listing of the HoldCo and joint ventures will be considered on a case-by-case basis; and
4) A HoldCo must remain a South African tax payer, be incorporated and effectively managed and controlled in South Africa.

To help South African-based technology, media and telecommunications companies raise capital to further their expansion across the rest of Africa as well as other fast-growing emerging markets, National Treasury proposed a number of measures.

These include allowing:

1) Unlisted technology, media, telecommunications, exploration and other research and development companies to freely list offshore to raise capital for their operations, provided they remain incorporated in South Africa, remain tax residents, are effectively controlled and managed locally and that their intellectual property remains registered in South Africa. Within two years of their offshore listing, they will also need to have a secondary listing on the JSE;
2) Listed companies to have a secondary listings and depository receipt programmes to facilitate expansion, subject to reporting requirements; and
3) Intellectual property generated in South Africa to be freely assigned offshore, subject to appropriate tax treatment.

"South Africa is an important centre for financial services such as fund and asset management. We propose new 'foreign member funds', which will simplify the foreign exposure rules," Minister Gordhan said. "These funds will support South Africa as a hub for African fund management and provide a domestically-regulated channel for investors to obtain foreign exposure."

Foreign member funds will have no foreign exposure limit, and may source funds from non-residents, domestic institutional investors (whose investments in these funds will remain subject to macroprudential limits), and individuals (who will remain subject to their annual investment limits). Foreign member funds must be based and managed in South Africa as well as be tax compliant locally. They must be registered with the Financial Services Board and the SA Reserve Bank.

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