



Sweden
Sverige

BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN SOUTH AFRICA 2022

A REPORT FROM TEAM SWEDEN IN SOUTH AFRICA

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FOREWORD

As an emerging economy, South Africa has been a constantly attractive market for Swedish companies looking to expand within the region. Several factors such as developed infrastructure, youthful population, stable regulatory environments, diverse industry, a favourable climate, and culture contribute towards the country becoming a preferred destination. Additionally, South Africa has focused on increasing its capacity as both a regional leader and global contender through leapfrogging industrial and technological dimensions. There has been continuous investment into creating an enabling environment that fosters opportunities for economic growth.

Despite limitations in global supply chains, trade between Sweden and South Africa increased by 19 per cent from the previous year with South Africa importing 780 MUSD worth of goods from Sweden in 2021. Vehicles, machinery, and chemical products remain the main Swedish exports to South Africa.

From a macroeconomic viewpoint, the risks to the growth outlook are tilted to the downside. A sluggish global recovery, multiple Covid-19 waves that could result in further lockdown measures and mounting fiscal pressures culminating in tight monetary policy could further dampen SA's recovery. However, the quick roll-out of vaccines, on the other hand, has resulted in an offset to the risk of a negative growth outlook. It is expected that structural limitations such as electricity supply shortages will remain a binding constraint on growth over the short to medium term. Since last year, important steps have been taken towards addressing structural hurdles threatening growth over the medium term, including the increase in the licensing threshold for embedded electricity generation.

Socially, South Africa remains a dual economy with one of the highest inequality rates in the world with a consumption expenditure Gini coefficient of 0.67 in 2018. This has been perpetuated by a legacy of exclusion and the nature of economic growth, which is not pro-poor and does not generate sufficient jobs. Inequality in wealth is even higher while intergenerational mobility is low causing inequalities to be passed down from generation to generation with little change over time. The recent commodity price increases primarily driven by sharp fuel increases have had a significant impact on the overall inflation making basic commodity affordability harder for low-income households.

As "Team Sweden" in the region, we are constantly looking for new avenues of collaboration and growth focusing on sustainability, technology, and innovation. We are in constant engagement with stakeholders from both the public and private spaces locally, creating platforms that are conducive towards enhancing commercial relationships between the two countries. Our appreciation and commitment towards sustainability continues an upward trajectory with companies indicating an increase in the local demand for sustainable products and services.



Håkan Juholt
Ambassador



Rupa Thakrar Bagoon
Trade Commissioner

EXECUTIVE SUMMARY

ECONOMIC OUTLOOK



- **60%** recorded profit or break-even in 2021
- demand driven by need for products and services to be utilised in economic recovery
- industrial companies remain the best performing in with up to **70%** of the companies indicating a profit in the same period
- **67%** expect an increase in economic activity for 2022
- **40%** will increase investment activity in 2022

Why South Africa? /10

Best reasons

1. intellectual property protection – 7.1
2. stable financial system – 6.8
3. availability of service providers – 6.8

Areas of improvement

1. transparency and equal treatment – 3.9
2. personal safety – 4.0
3. corporate taxation rates – 4.6

Swedish company activity

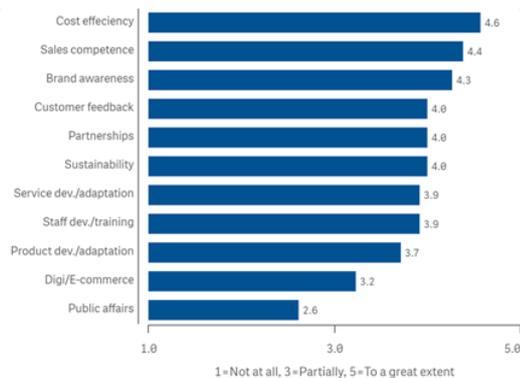
1. marketing and/or sales – 73%
2. after sales support – 67%
3. provision of services – 47%
4. manufacturing/assembly – 40%
5. Sourcing & trading – 40%
6. R&D – 27%

THE MARKET



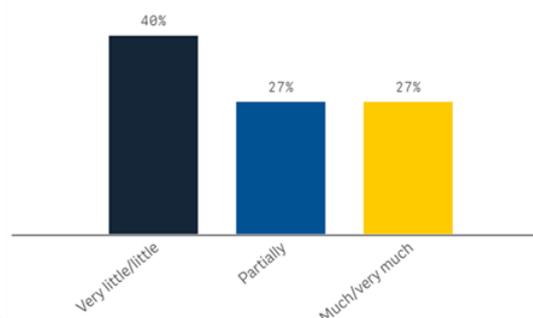
Overall Increasing
Business
Confidence

COMPETITIVE EDGE



SUSTAINABILITY

Do your customers consider sustainability?



ABOUT THE SURVEY

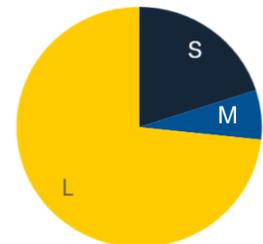
Large industrial companies dominate presence in South Africa

The Business Climate Report is an initiative by Team Sweden globally and in South Africa to analyse the development of the local commercial environment citing pertinent issues affecting the trade in goods and services from Sweden into the country and region. Additionally, the report indicates Swedish companies' perception of the South African economic situation, and business prospects and how these may vary across industry, size of the company, and target customer segments. Besides giving an outlook of how Swedish companies plan on developing their local business operations in the short to medium term, the report also seeks out the perceived success factors within the South African market in addition to exploring sustainability-related aspects and how they are interpreted within the market.

This report has been structured based on the companies' responses to the economic outlook, market, local success factors, and sustainable business practices. To obtain the information used in this report, Team Sweden in South Africa sent out a survey to about 50 Swedish companies in South Africa and responses are based purely on their experience and existence within the market. 73 per cent of the respondents were from large companies with over 1000 employees globally while medium-sized companies accounted for seven per cent. The remaining 20 per cent are classified as small companies with less than 250 employees globally.

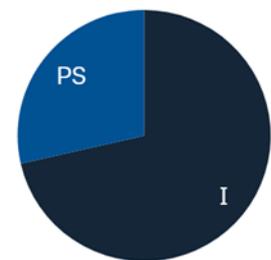
Unlike the previous year, we did not get any respondents from the consumer segment but however had 67 per cent of the companies serving the industrial sector. The remaining 23 per cent of responding companies provide professional services within the South African market. Most companies have relative experience within the South African market. Only nine per cent of the respondents are "newcomers" that have been operational locally for less than seven years. Overall, the survey seeks to elaborate on the prevailing economic environment as described by Swedish companies in South Africa. We hope that this report will allow you to explore how different companies within different industries are affected by changes in the business climate, and what they expect to see in the future.

SIZE OF COMPANIES



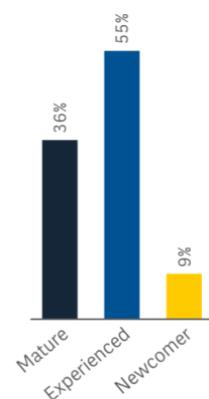
Global employees.
 Large >1000
 Medium 250-1000
 Small 0-249

MAIN INDUSTRY



Industrial 67 per cent
 Professional services 23 per cent

AGE OF COMPANIES



NOTE:
 Mature (-2000)
 Experienced (2001-2015)
 Newcomer (2016-)

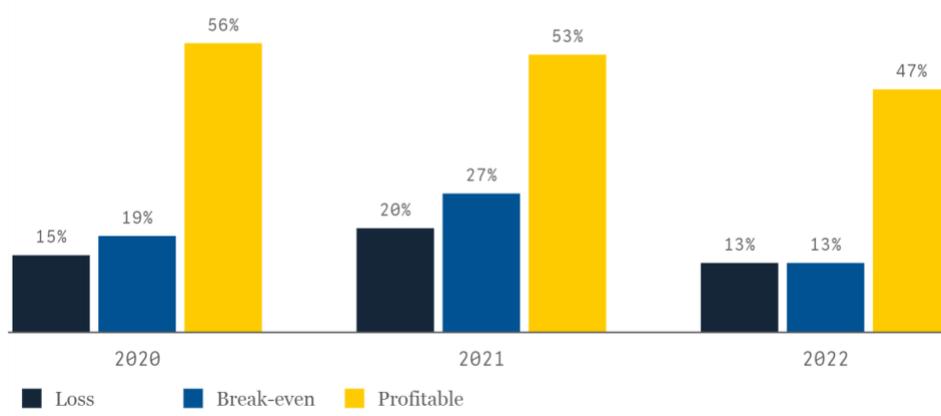
ECONOMIC OUTLOOK

Demand for Swedish exports is likely to increase for both industrial and professional services driven by the need for tools enabling local economic resuscitation.

In the recent State of the Nation Address, the President noted that “the key task of government is to create the conditions that will enable the private sector – both big and small – to emerge, to grow, to access new markets, to create new products, and to hire more employees”. Reforms that promote growth and employment are needed to build on the recovery observed over the past year. These include interventions to stimulate demand through investment in infrastructure, complemented by employment programmes and social transfers that will boost household consumption. Modernising network industries will support an increase in the economy’s productive capacity, boost electricity production and reduce the cost of doing business.

Significant risks to the economic outlook include new Covid-19 variants, global supply chain shocks due to the war in Europe, continued interruptions in power supply, rising inflation, and fiscal risks. Quicker global interest rate increases would also have negative consequences for the economy. Focus, locally, remains on the government’s interventions to support growth in the short to medium term. This includes expanding the country’s baseload generation capacity, improving investments in strategic infrastructure, promoting industrial growth, and strengthening enabling conditions by minimising red tape.

HOW WOULD YOU DESCRIBE YOUR COMPANY’S FINANCIAL PERFORMANCE IN SOUTH AFRICA IN 2021?



NOTE: The number of respondents for this question was 15. “Don’t know/Not applicable” responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

The recovery from 2020 and 2021’s interrupted business cycles is evident in most Swedish companies operating in the country. About half of the respondents recorded a profit in the 2021 financial year. Only 13 per cent of the companies recorded a loss in the last financial

year with the remainder managing to break even. This may have been mainly due to most companies recovering from the previous year where Covid-19 and riots had negatively impacted their sales. Based on industry type, 50 per cent of Swedish responding companies providing professional services recorded a loss in turnover in 2022. Industrial companies remain the best performing with up to 70 per cent of the companies indicating a profit in the same period.

Structural constraints continue to negatively impact economic recovery

The local National Treasury projects real economic growth of 2.1 per cent in 2022, the year in which the economy is expected to return to pre-pandemic production levels. Thereafter, GDP growth is expected to average 1.8 per cent over the next three years. This is based on South Africa successfully implementing structural reforms under Operation Vulindlela, where the government has implemented measures, such as lifting the electricity generation licencing threshold to 100MW, corporatizing Transnet National Ports Authority, implementing a new eVisa system, and overhauling the water-use licence system.

Locally, structural constraints have reduced potential economic growth for the past decade and remain an impediment to recovery. For the past year, the economic effects of the pandemic-lost jobs and delayed investments – were exacerbated by inadequate electricity supply, with the highest levels of load shedding to date. To reduce this impact, the South African government announced intentions to reduce regulatory constraints, provide effective services, and coordinate sequencing economic interventions that will bolster public and private investment, backing up an increased resilience and supporting economic transformation.

PROJECTED GDP GROWTH IN SOUTH AFRICA



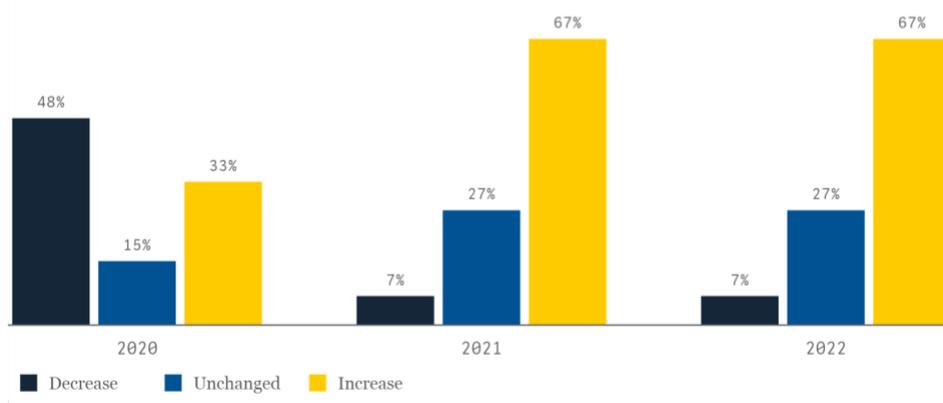
NOTE: Constant prices.
SOURCE: Oxford Economics 2022

Personal services, trade, manufacturing, and agriculture were the most significant positive contributors to growth in 2021Q4. Personal services, such as health-related activities,

continued to register increased activity stemming from the national vaccination program. The electricity, gas, and water supply industry were down 3,4 per cent, with production hampered by load shedding and infrastructure problems affecting electricity and water distribution.

Trade activity increased by 2,9 per cent as lockdown restrictions eased, with positive results from retail, motor trade, tourist accommodation, restaurants, fast food, and catering. Economic activity in the wholesale sector, however, edged slightly lower. The 2,8 per cent rise in manufacturing output was because of the production of petroleum, chemical & plastic products, and food & beverages. Other manufacturing divisions also posted positive results, except for metals & machinery and furniture & 'other' manufacturing that performed poorly.

COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN SOUTH AFRICA REGARDING TURNOVER?



NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

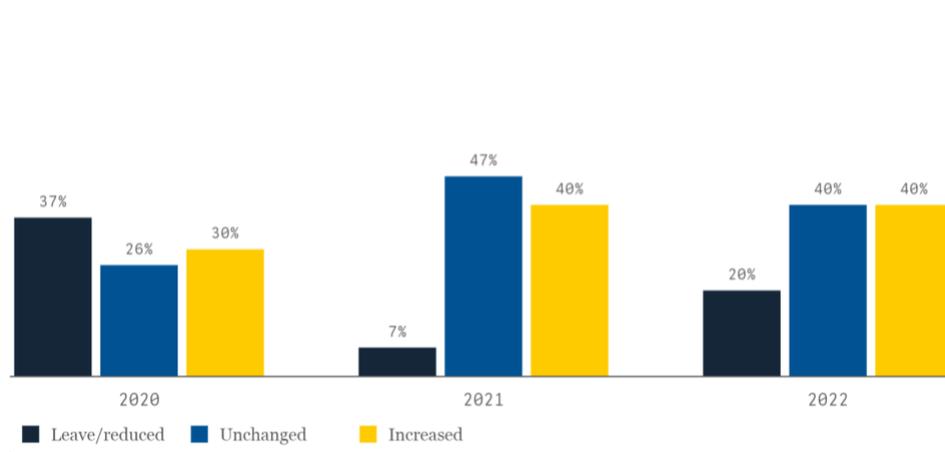
Despite the constraints, Swedish subsidiaries maintain a positive outlook given that only seven per cent of the companies expect a decline in their revenues in the 2022-2023 financial year. All medium-sized companies expect their respective industries to remain unchanged for the next year while 82 per cent of the large companies are operating under the assumption that their industries will expand over the next 12 months.

Positive trends in business performance are expected in the short term as local business confidence index in South Africa rose to 46 in the first quarter of 2022 from 43 in the previous period, reaching its highest level since the second quarter of 2021. The latest reading points to an improvement in sentiment among local companies, helped by strong domestic sales and trade. Overall, demand for Swedish exports is forecasted to increase for both industrial and professional services driven by the need for tools enabling local economic resuscitation.

The continued focus on designation and localisation is holding back the solutions that are needed to resolve the urgent power delivery problems that exist. Local manufacturers do not necessarily have the scale to support the needs timeously or access to new technology to improve their offerings to meet the market demands in the best way. The very slow decision-making process of local government and utilities is making it difficult to sustain a local operation. In many cases, it is more than a year between tender submission and a decision.

Increased investment, mainly from the large companies while medium sized companies plan on maintaining investment levels

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN SOUTH AFRICA, COMPARED TO THE PAST 12 MONTHS?



NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

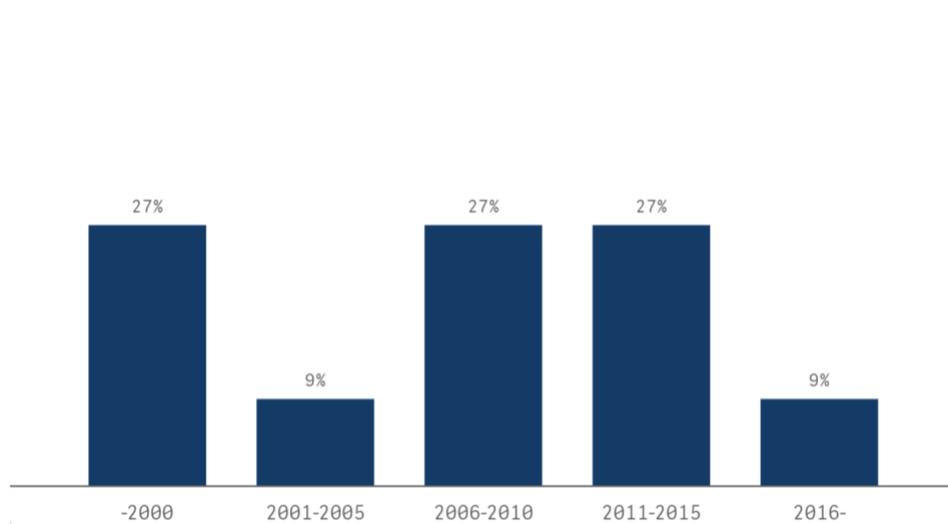
Compared to the previous years, investment plans for the short term remain positive, with most companies planning an increase in their activities in this regard. All medium-sized companies plan to maintain the current level of investment activities, while 45 per cent of the large companies plan on maintaining and increasing investment. Most of the investment will be targeting professional services and industrial sectors, with nothing indicated in the consumer sector. No new companies are planning to increase their investments over the short term but will maintain their level of investment. On the other hand, 50 per cent of the mature companies operating in South Africa are planning on increasing investment over the next 12 months.

THE MARKET

Swedish companies have been present for over a century in South Africa

Hosting the largest concentration of multinational companies in the region, South Africa's legacy as a commercial hub remains an attractive market even for Swedish companies looking to export to the region. This is in addition to a stable legislative and regulatory environment protecting international investment. Swedish-South African commercial relations date back to over a century. During this period, Swedish companies have contributed to local growth aspirations. The growth of Swedish companies in South Africa came in phases. The pioneering group entered the country at the start of the 20th century. This was followed by the industrial wave that focused on expanding the local industrial capacity over the last 40 years. Today, there is a mix of companies due to increased globalisation that allows small and medium-sized companies to actively participate in the South African market.

IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN SOUTH AFRICA?

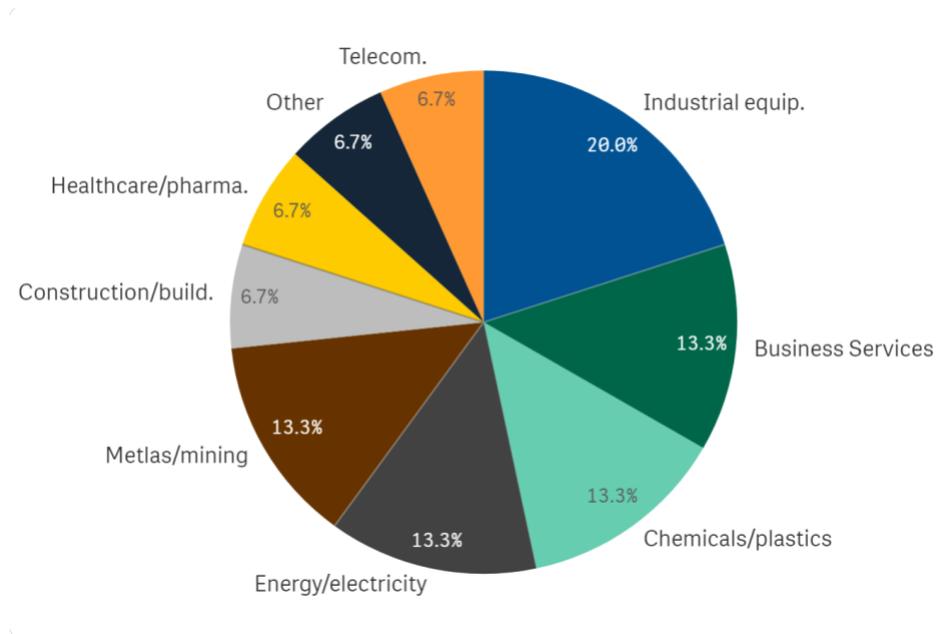


NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

Based on responses from the survey, many Swedish companies were established in South Africa before the turn of the century. For much of this period, the character of companies was traditional, large multinational corporations with a large global footprint focused principally on industrial activities. Over time, this has changed as more companies have now established, with an uptake in medium and smaller-sized businesses exploring the market. The opportunity for shared ownership has also increased the chances of more companies launching in South Africa both from a shared risk perspective and in compliance with the Broad-Based Black Economic Empowerment (B-BBEE) legislation.

WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN SOUTH AFRICA?

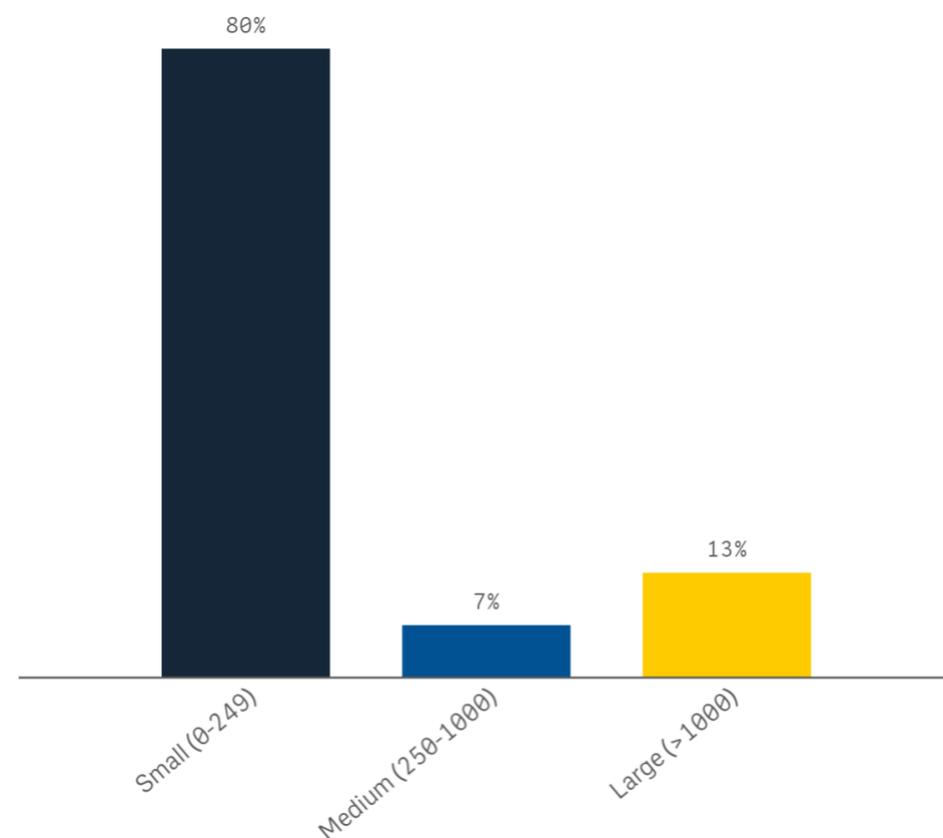


NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

Companies identified as active within the industrial equipment space constitute the biggest individual category of Swedish companies in South Africa. There remains, however, an even distribution of companies regarding activities across industries in South Africa. Most Swedish companies across the various sectors are traditionally OEM suppliers depending on high import volumes, but this is beginning to change as more focus is now on developing local capacities and partnerships, either in manufacturing or assembly. Additional participation for Swedish companies is through distributors who hold different licencing agreements allowing them to trade products and services of Swedish origin.

SWEDISH FIRMS' LOCAL NUMBER OF EMPLOYEES IN SOUTH AFRICA IN 2022



NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

Due to the nature of business of Swedish companies in South Africa that includes mainly sales and distribution, smaller companies consisting of up to 250 local employees are the most common locally. About 13 per cent of the companies that responded have over 1000 employees each. Cumulatively, Swedish companies employ an estimated 10 000 employees in South Africa directly, with numbers multiplying extensively if the survey includes distributors and other third-party channels. This indicates a significant contribution to South Africa's intentions to reduce unemployment which has been as high as 35 per cent in the period after the pandemic. Local initiatives such as artisanal training by some of the larger Swedish OEMs in the country have assisted in reducing the skills gaps that are currently restraining the local industrial potential.

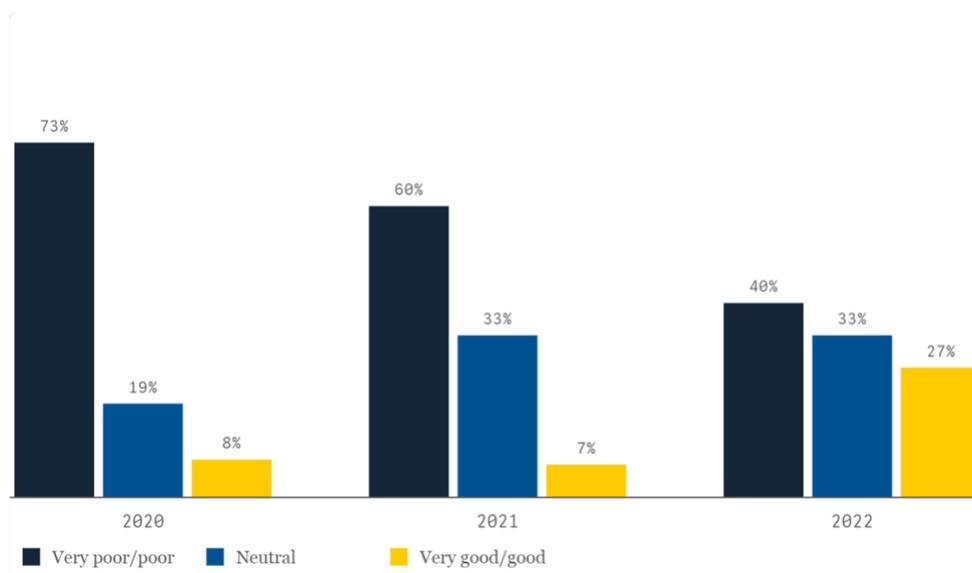
When compared to a year ago, the relative stability of the BCI indicates a positive but delicate balance

Although South Africa is expected to return to pre-pandemic production levels in 2022, it is important to note that the economy was in recession before the outbreak of the pandemic – largely due to the impact of existing structural constraints within the regulatory environment and electricity supply. The South African National Treasury projects real economic growth of 4.8 per cent in 2021 and 2.1 per cent in 2022, compared with 2021 MTBPS estimates of 5.1 per cent and 1.8 per cent, respectively. Real GDP growth is expected to moderate to 1.7 per cent in 2024. Having been negatively impacted by Covid-19 in 2020 and the national riots in 2021, economic activity has started to show signs of resuscitation with Q1 results of 2022 indicating that most industries are in the growth stages once again. Other factors such as natural disasters with the flooding in the KwaZulu

Natal province along the eastern coast of the country also brought about lesser than expected results.

Despite these challenges, there has been a notable increase in local economic capacity supported by the recent increases in global commodity prices. Industries such as manufacturing have started to positively contribute to local GDP growth, with Statistics South Africa (STATS SA) indicating that manufacturing alone contributed 0.6 percentage points to the 1.9 per cent growth experienced by the local economy in Q1 of 2022. Additionally, the South African Chamber of Commerce and Industry (SACCI) indicates that the local business confidence index (BCI), has gradually recovered following the excessive drop in 2020. Currently, SACCI estimates that the local BCI averaged 93.9 in 2021 with the current climate demonstrating a higher figure expected in 2022. This improvement indicates a stronger, underpinning business climate despite adverse economic incidents during January 2022. The stronger BCI is largely driven by increased merchandise import, export, and retail trade volumes. Negative impacts that were not substantial came from rising inflation and higher debt servicing costs due to rising interest rates.

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN SOUTH AFRICA?



NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

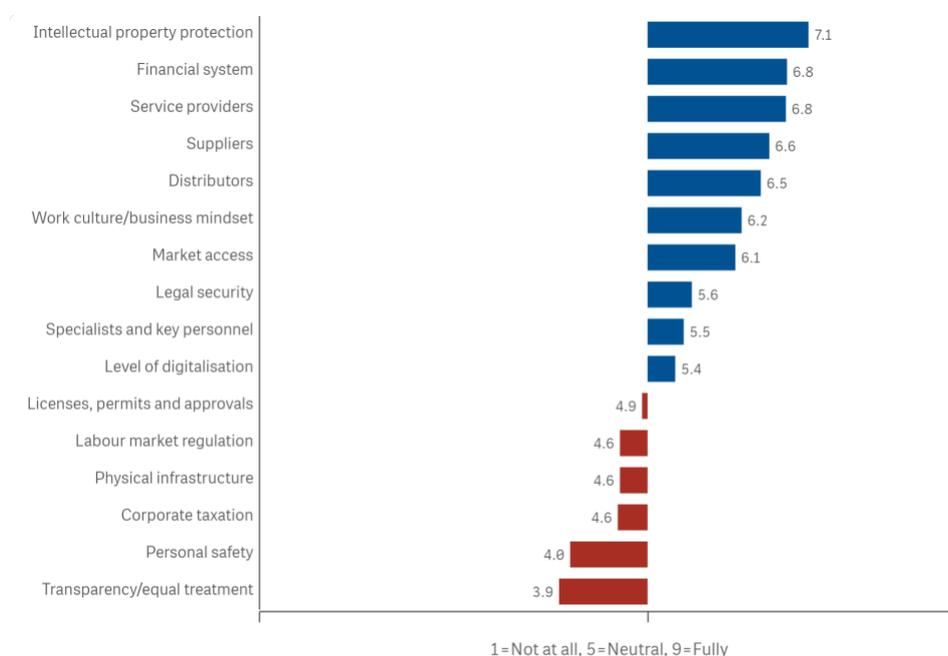
For Swedish companies in South Africa, a resumption of economic activities supports the growing positive sentiment, with the proportion of Swedish companies indicating a good climate improving by 27 per cent from less than 10 per cent the previous year. The proportion of neutral companies concerning the prevailing business climate remains unchanged while fewer companies remain doubtful about the business environment. A comparison regarding sentiment over the years shows that Swedish companies are warming up towards doing business in South Africa. The survey also noticed a positive correlation between the size of the company and the positive sentiment. The larger the size of the company, the more positive it is towards the local business climate.

Intellectual property protection, financial systems, and availability of service providers remain attractive elements for Swedish companies in South Africa

Like most emerging economies, South Africa is a constantly evolving market with significant defining characteristics that makes it preferable to Swedish companies. With one of the most liberal constitutions in the world, South Africa presents itself as an ideal destination for Swedish companies due to the prevailing respect for the rule of law. Additionally, being the regional financial capital, South Africa's financial infrastructure allows for seamless movement of capital, investment, and repatriations. Two areas that are developing within the South African market where Swedish companies have indicated are the transition towards a more digital economy and how to develop key personnel and skills for this within the local labour force.

On the other hand, personal safety remains a major concern as the country experiences high levels of violent crime. Other elements that remain a cause for concern have to do with the labour market regulations where it is has become increasingly difficult to get Visas for ex-pats coming into the market in different capacities. Preferential procurement regulations have also made it increasingly difficult for, not just Swedish but internationally owned companies to do business within the local market.

HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN SOUTH AFRICA?



NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

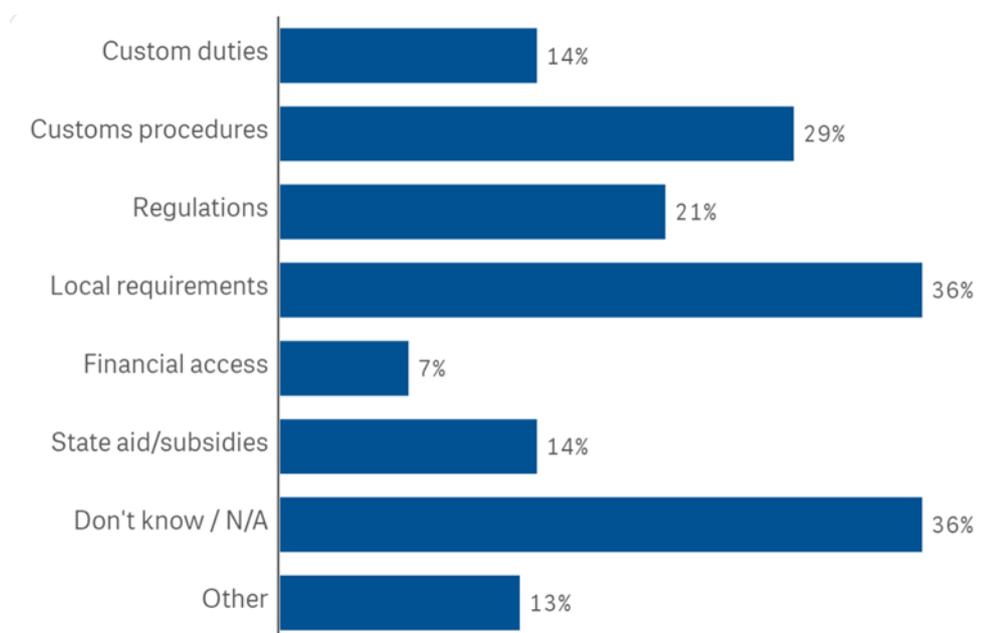
SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

As noted in the illustration above, different conditions make the South African market preferable for Swedish companies. Intellectual property protection, a stable financial system, and accessibility to service providers, distributors, and suppliers are some of the leading attractions that make South Africa a preferable market destination for Swedish subsidiaries. This is in addition to the availability of key personnel, a stable financial system, and customs regulations. However, the survey also noted that there are some limitations regarding personal safety, transparency and equal treatment, licencing, and physical infrastructure that need to be developed.

Need to develop local business environment negatively impacting ability for trade

Swedish companies in South Africa are currently operating in an environment that may be perceived as not as conducive to international companies. Much of the regulatory environment is in support of developing local businesses mainly through the implementation of the Broad-Based Black Economic Empowerment (B-BBEE) legislation encouraging the participation of previously disadvantaged¹ individuals. According to Swedish companies, local requirement demands are the most notable barrier. Where possible, Swedish companies have, either sold off a portion of their business to local partners or have developed complementary relationships in assembly, distribution, and manufacturing.

HAS YOUR COMPANY IN THE PAST YEAR ENCOUNTERED TRADE BARRIERS IN SOUTH AFRICA WITH A NOTICEABLY NEGATIVE IMPACT ON OPERATIONS, IN ANY OF THE FOLLOWING AREAS?



NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

Based on the responses, up to 50 per cent of Swedish companies providing industrial services have cited those local requirements and regulations have created barriers to their ability to trade. In recent discussions, something that has come up in relation to obstacles impeding trade is the increasing availability of counterfeits on the market. This is largely due to the disruptions to the normal supply chains because of the war in Europe. Customers are now looking for replacements from alternative sources exposing themselves to counterfeit products.

¹ It generally means those persons who previously suffered disadvantage, particularly through disenfranchisement. This category includes black people, women, youth, the disabled, and rural communities.

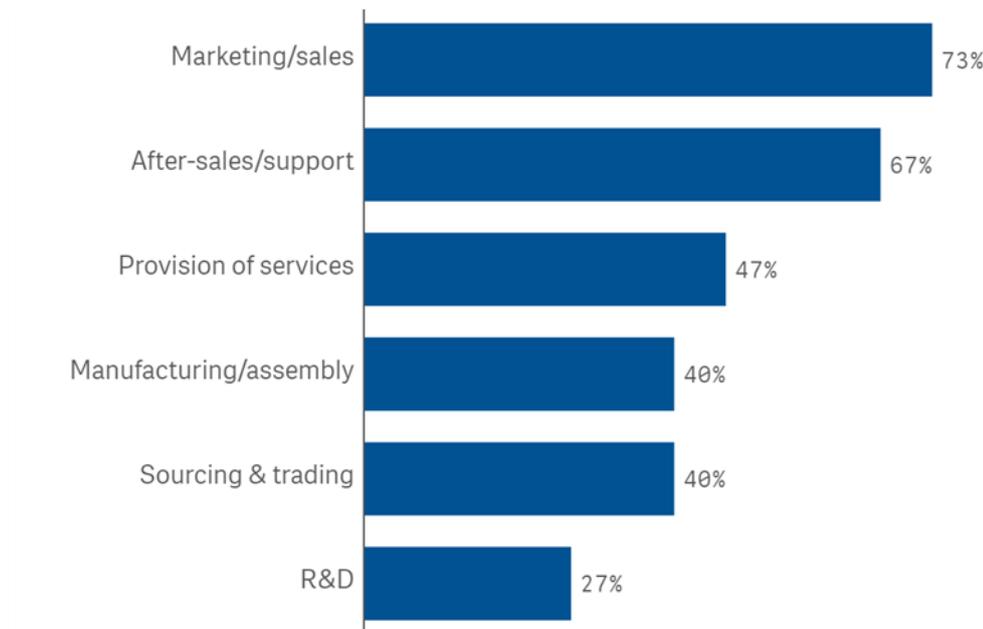
HOW SWEDISH COMPANIES SUCCEED IN SOUTH AFRICA

Swedish companies are predominantly involved in marketing and sales activities locally

South Africa has become one of the leading destinations for Swedish companies because of its healthier business operating environment as compared to its peers in the region. While on the same topic, it is important to note that globalisation has exposed the region to foreign entities and created competition for international companies to capture market share. Being a transitional economy like many other emerging markets, consumers in South Africa have become increasingly diverse, have higher purchasing power, and now have evolved in their demands. Furthermore, processes like globalisation and digitalisation are disrupting traditional sales and marketing models across industries. Disruptive trends continue to be realised among global companies while successful business practices may need improvement to retain market success.

The case is no different in South Africa, where the market profile has evolved into a predominantly upper-middle-class economy despite the high levels of inequality. Additionally, the diverse nature of the South African economy presents opportunities for Swedish companies to operate within multiple sectors. For most high-value projects in the energy and construction industries, the leading customer group has been from the public sector. This is however changing as some of these projects are now co-developed by both the private and public sectors through public and private partnerships. In industries such as mining and transport, there have been a lot of B2B engagements while the retail industry has been through B2C engagements.

OPERATIONS OF SWEDISH FIRMS IN THE MARKET



NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

Swedish respondents to the survey indicated that up to 73 per cent of the responding subsidiaries are involved in some form of marketing or sales-related activity on behalf of the parent companies back in Sweden. Additional activities involving Swedish companies in the market include an after-sales provision, services provision, manufacturing and assembly, sourcing, and trading, and lastly research and development.

For a deeper understanding of the market activities, all the large Swedish companies in South Africa are involved in marketing and/or sales activities. Half of the small and medium-sized companies are involved in local production in addition to the 40 per cent of large companies involved in manufacturing activities. Swedish subsidiary activity also extends to research and development, with 27 per cent of small companies and 33 per cent of large companies involved.

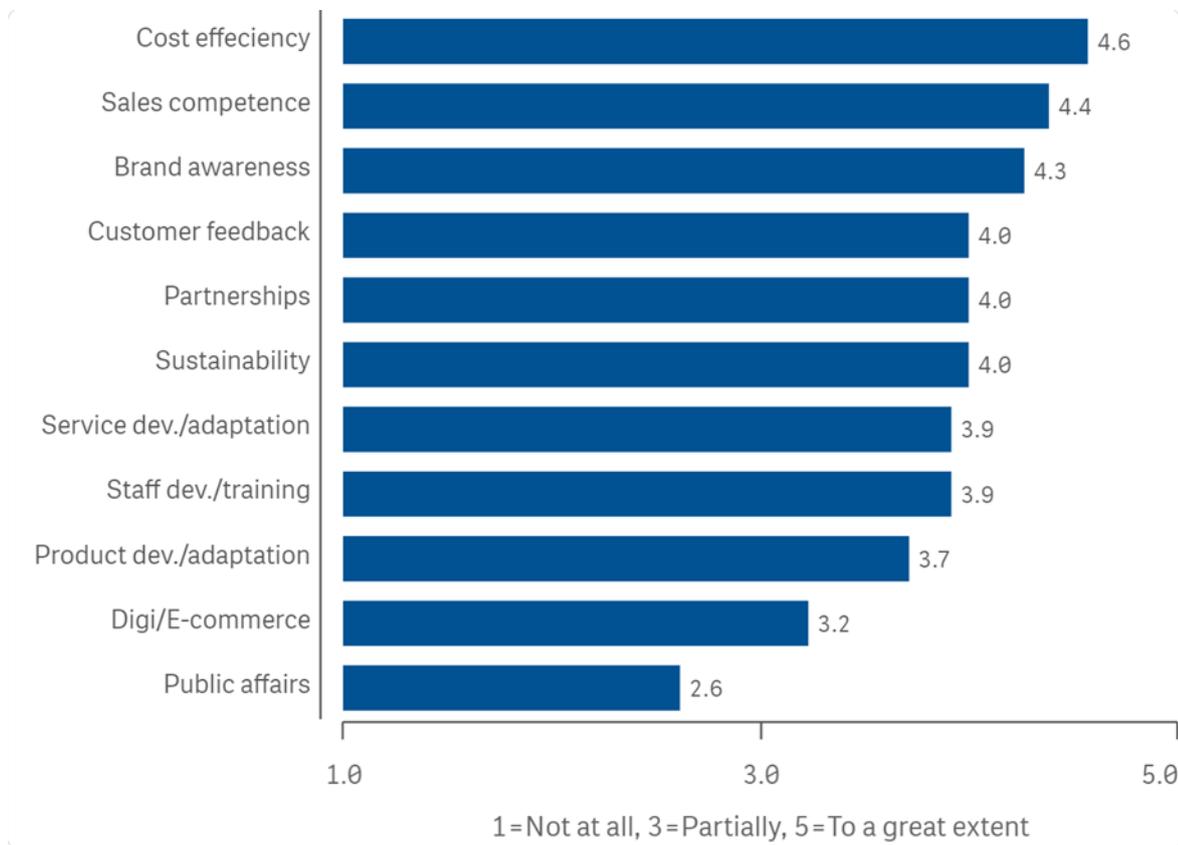
Due to the changes in customer demands, Swedish companies have gone the extra mile to include after-sales support as part of their service offering as a way of relationship building and customer retention. This is in addition to the 47 per cent whose core operations comprise service provision. Furthermore, up to 40 per cent of the responding companies identified South Africa as either sourcing or trading destination leveraging on different value chain efficiencies in logistics, pricing, and availability. Moreover, the strategic location and access to markets with increased importance nearby make South Africa an attractive regional manufacturing and distribution hub for companies with a multimarket footprint in Sub-Saharan Africa.

Improving cost efficiency and maintaining sales competences increase the competitive advantage of Swedish companies locally

Due to increasing global competition and the local market's marginal propensity towards opting for lesser prices, products and services, Swedish companies are continuously working on increasing efficiencies within their value chains to achieve competitive costs. Additionally, Swedish companies are implementing strategies to capture more of this already significantly concentrated market.

Like many other companies, Swedish companies have the objective to access new customers and alternative revenue streams. In most circumstances, developing partnerships with local businesses that have a better understanding of the market when compared to those that do not already have a presence in that market has been beneficial for Swedish companies. This is in accordance with local rules and regulations, such as the B-BBEE legislation that promotes the growth of locally owned businesses.

TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN SOUTH AFRICA?



NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

Improving efficiencies through sustainable cost structures has been identified within the survey as the biggest contributor to Swedish companies gaining a competitive advantage. In addition to cost efficiencies, responding companies have also identified a competent sales structure and improving brand awareness as important factors in maintaining their competitive edge. Another important feature of developing a competitive edge in South Africa that is becoming key in many of the discussions going forward is having a portfolio that indicates sustainability as a key practice.

With skills shortages being an issue, staff development and training will remain priority elements that companies consider when planning on how to maintain their competitive edge. This is a feature that is most common amongst the smaller companies as compared to the medium and larger companies. Medium and large companies are now focusing more on collaborations and product development based on customer feedback and additional market demands. As the world becomes increasingly digital in the wake of Covid-19, developing e-commerce channels has proven advantageous for some companies as most transactions and interactions have been on online platforms.

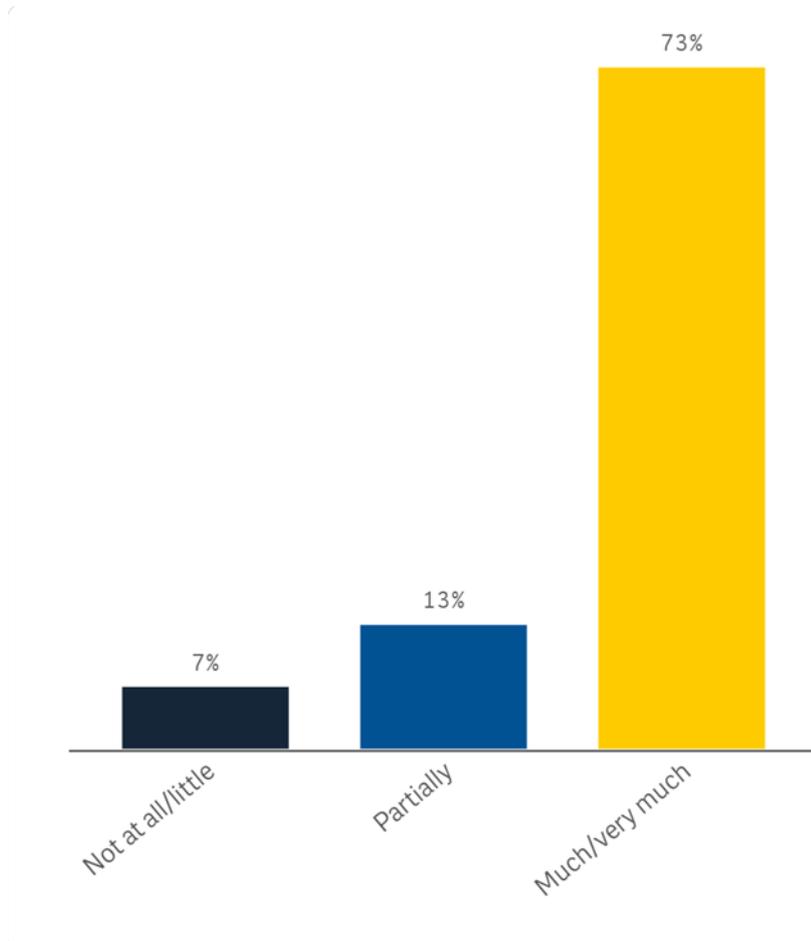
In addition, part of the success of Swedish companies has been that they have been good at bringing more value to the customer by offering better products or services and emphasising value and messaging adjusted to resonate with the local population. Business Sweden has been working with Swedish companies in their expansion efforts, helping them understand the nuances of the local business environment and applying those learnings to their new global operation.

“Team Sweden” has become a household name for sustainable business

Important climate, ecological and other sustainability goals have considerably changed the way markets do business. Sweden’s identity as a sustainability champion contributes toward developing business in South Africa. As such, companies originating from Sweden have a prescribed identity for engaging in sustainable business models with customers. The local market is increasingly becoming environmentally conscious and, therefore, defaulting towards environmentally friendly products. In addition, Swedish/European products are of superior quality. Additional benefits, as described by the customers, include the after-sales service associated with Swedish products. In parts of the economy where price sensitivity is relaxed, Swedish products have been considered as being high-end and preferred as compared to other similar product offerings.

Based on the graph below, a combined 80 per cent of the companies believe that being part of the Swedish brand has assisted in developing their business in the region partially or to a greater extent. This is a sentiment shared with small to medium-sized companies whose international goodwill is not as developed. In summary, the reliance on the Swedish brand sometimes diminishes as the companies grow bigger in South Africa.

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE “SWEDISH BRAND” CONTRIBUTES TO YOUR BUSINESS IN SOUTH AFRICA?



NOTE: The number of respondents for this question was 15. “Don’t know/Not applicable” responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

ACTING SUSTAINABLY

Sustainability is becoming a core topic for companies to consider going forward

Sustainability and South Africa have been making the front pages around the world recently. Less than three years ago, Cape Town came dangerously close to running out of water entirely, and earlier this year, there were severe floods in KwaZulu Natal that claimed close to 450 lives. These illustrate South African struggles to manage the complex, multi-faceted, and long-term transformation in reaction to climate change.

While the South African National Development Plan (NDP) sets the goal of a “transition to an environmentally sustainable, climate-change resilient, low-carbon economy and just society”, the country remains entrenched on a highly unsustainable path as one of the most carbon-intensive countries in the world. This is primarily from using fossil fuels (primarily coal), energy-intensive value chains, and carbon-intensive transport systems. From a social perspective, in addition to severe levels of unemployment, South African society is also one of the most unequal in the world.

From a business perspective, it is important to note that the nature of business is changing. For years, for most, the focus of the business was pure profit. This was business as usual. Then the triple bottom line became trendy: people, profits, planet. In South Africa, planning for the social aspects of a business’s operations is increasingly becoming more mainstream. The need to consider and account for a business’s impact and reliance on natural capital and a functioning natural environment is now encouraged as companies are now measured on their contribution towards corporate social responsibility and investment.

The South African government has put different forms of legislation to promote sustainable engagement within companies operating in the market in concurrence with the country’s National Framework for Sustainable Development. Designated sustainability legislation allows for companies to be part of the national sustainability agenda as prescribed by the United Nations Sustainable Development Goals. As an example, all companies conducting B2G forms of interaction must align to the B-BBEE legislation which encompasses sustainability elements such as human resource upskilling and other forms of corporate social investment.

As noted by the World Bank’s inequality report, South Africa remains one of the most unequal nations globally. This is largely due to its history as an apartheid state, where the country was characterised by a significant degree of inequality along racial lines. To address this, the government is implementing different reforms supporting the local native populations. South Africa was also rated as one of the most unequal states by the World Bank with a consumption Gini coefficient of 0.63. This is a cause for concern, and it has been an important element that Swedish companies have been addressing in the market through various strategies including the hiring of local staff and different corporate social responsibility programs.

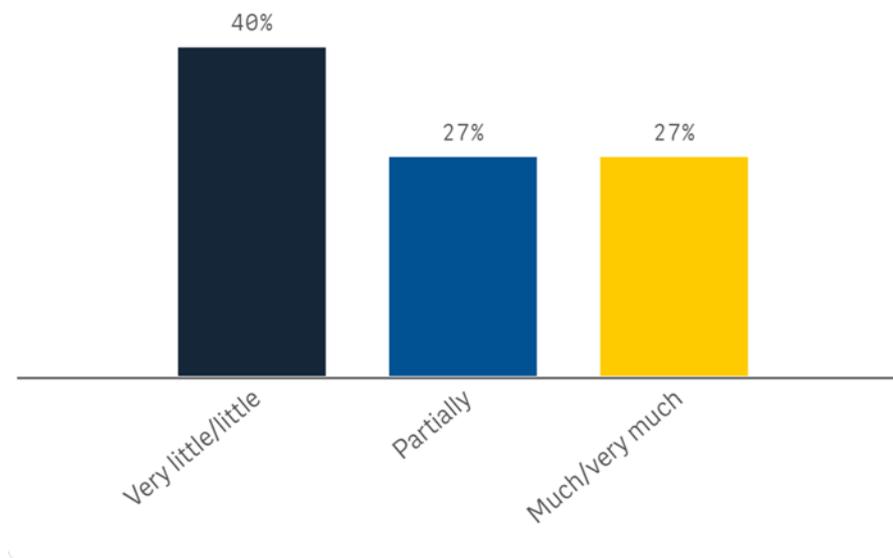
The uptake for additional sustainability matters like becoming increasingly environmentally friendly and adopting industry 4.0 technologies has been slow. One respondent made it clear that while the use of IT-based services has increased in the domestic market, it remains constrained in the commercial sector due to cybersecurity threats. Some affected industries include the automotive and aerospace supply chain manufacturers where IP security and NDA constraints from OEMs are of concern. Additionally, lack of clear policy from the government and major companies in these industries regarding the use of local

“ All our product offerings are geared towards improvements. Customers are slowly adapting and ESG is becoming a factor.

Country Manager, Swedish OEM Supplier

or international cloud services, means uptake of new technologies in these markets will likely take longer than expected.

TO WHAT EXTENT DO CUSTOMERS IN SOUTH AFRICA CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION?



NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

Overall, and as mentioned before, the South African market is becoming increasingly conscious of the environmental implications which are becoming notable to Swedish companies in South Africa. According to the survey, up to 54 per cent of local customers consider sustainable aspects of the product and/or service. In addition to consumers directly influencing the production processes, it is important to indicate that the government has also put in place policies supporting responsible production and supply.

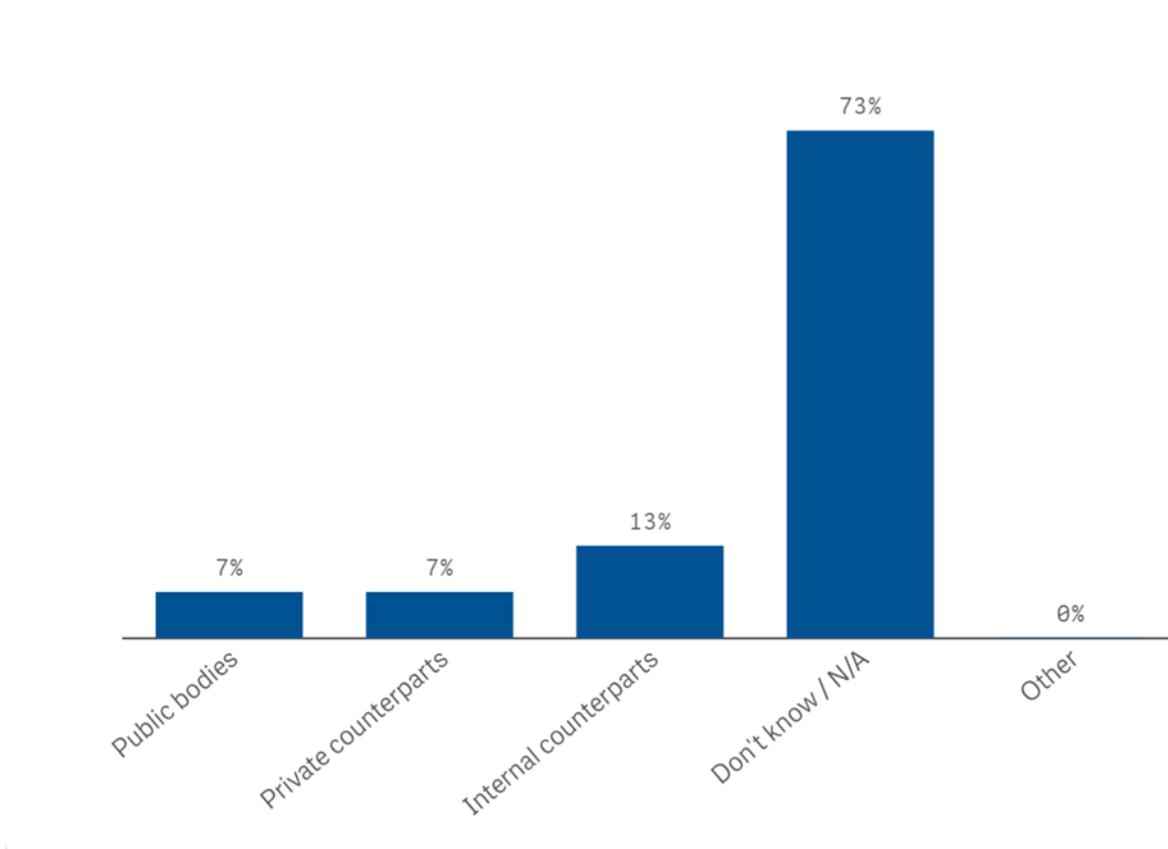
One of the factors that have been negatively impacting the sustainability journey is that sustainable products have been priced higher than conventional products making it difficult for most consumers to afford them. In essence, South Africans have become increasingly price-conscious and seek value in their purchases. Suppliers are oftenly judged on the prices and value they provide, with consumers preferring affordability – or the lack thereof – as reasons for giving praise but also criticism. Conversations about affordability are especially pronounced when consumers compare products across different suppliers. While price is an important aspect of purchasing decisions, consumers in their conversations tend to be prepared to pay a premium for quality products if the value of these products is apparent and justifies the higher price point.

Majority of Swedish companies have not encountered any form

Corruption is one of the main barriers to trade for Swedish companies in South Africa. According to the report, a combined 27 per cent of the respondents indicate having encountered some form of corruption at different levels, both from internal and external

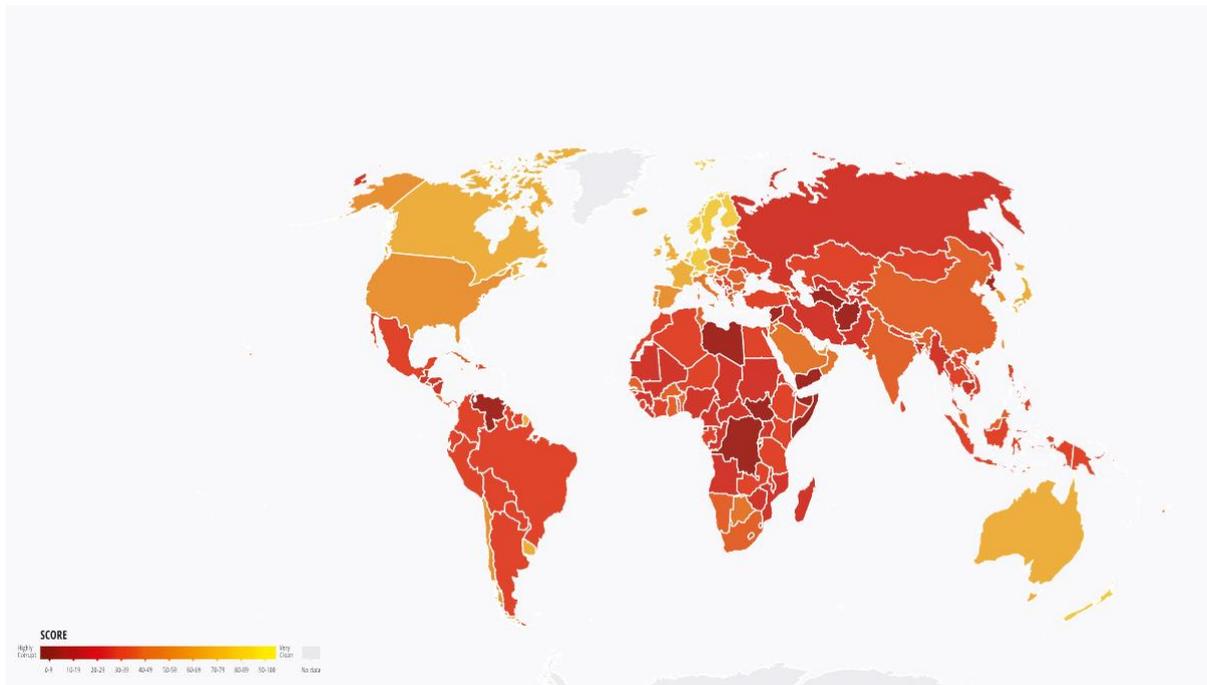
stakeholders. Up to 73 per cent noted that they did not know whether they were exposed to corruption.

HAS YOUR COMPANY IN SOUTH AFRICA BEEN EXPOSED TO CORRUPTION SUCH AS, BUT NOT LIMITED TO, ATTEMPTS OF BRIBERY OR FRAUD IN CONTACTS WITH ANY OF THE FOLLOWING AREAS?



NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.
 SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2022

CORRUPTION PERCEPTION INDEX 2021



SOURCE: Transparency International.

According to the Corruption Perceptions Index (CPI), a respected leading global indicator of public sector corruption, which scores and ranks 180 countries and territories across the globe, South Africa has a CPI of 44/100. This means that South Africa has high corruption within its public sector, despite being above the average sub-Saharan African country that has an average score of 33. In 2021, the group reported high levels of maladministration at 18 per cent of all reports, procurement corruption (16 per cent), and abuse of authority (16 per cent). These acts of corruption include fraudulent activities in state institutions, compliance issues, procurement irregularities, and kickbacks. The CPI reported that most corruption issues or other forms of misconduct stemmed from the public sector, including the national government (28 per cent), the provincial government (eight per cent), and the local government. Corruption Watch said that 24 per cent of all corruption reports in 2021 related to local government. This remains one of the major hurdles for Swedish companies in South Africa.

Technology, innovation, and sustainability will drive future collaboration with the Swedish ecosystem in South Africa

The Swedish green model means integrating business and sustainability. Together with different global partners, Sweden has emphasised that green growth can drive transition through technical innovation rather than pose a risk. This involves adapting society to cope with environmental changes already underway. Through continued interaction amongst affected stakeholders, there is a great amount of potential in helping both countries move towards a circular economy. Team Sweden in South Africa can help by developing a platform that will allow for knowledge sharing with the ambition of moving to completely new and sustainable consumption models. Right now, some big companies are rethinking how they do business.

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