



BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN SOUTH AFRICA, 2021

A REPORT FROM BUSINESS SWEDEN IN SOUTH AFRICA

KEY CONTRIBUTORS TO THIS REPORT

Business Sweden in South Africa

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FOREWORD

Over the years, South Africa has incessantly developed its reputation as a host for international companies looking at the African continent as a possible market. With a population nearing 58 million and access to a region with over 350 million, combined with an enabling business environment and developed infrastructure, South Africa has continuously been an attractive market for Swedish export growth.

Furthermore, as an emerging market, South Africa has focused its efforts on growing its economy to becoming a globally competitive and more attractive investment destination through rapid industrialisation and diversity. This puts the country at a significant advantage in comparison to its peers within the region. Today, South Africa is host to about 60 Swedish subsidiaries with additional Swedish brands represented across industries through partners and other third-party distributors. The distribution of these subsidiaries is within different industries including telecommunications, transportation, FMCG, and industrial equipment. Most Swedish subsidiaries in South Africa are original equipment manufacturers (OEMs) that are involved in marketing and sales as their primary business activities.

There are Swedish companies that have production facilities in South Africa while some use South African produced components in their manufacturing. Swedish companies are heavily involved in corporate social responsibility and investment initiatives across the country including supplier and enterprise development, environmental impact, gender equality, training and development, business ethics, anti-corruption and transparency, and community development.

Much like many countries globally, South Africa's socio-economic landscape has been devastated by the Covid-19 coronavirus pandemic. South Africa's economy was already in a tough position before the pandemic's arrival. A combination of public sector debt, particularly among major state-owned enterprises, ongoing load-shedding that inhibited productivity of major economic sectors such as mining and manufacturing, and an already low growth rate had created a precarious situation that demanded urgent remedies.

The purpose of this report is to increase the understanding of the performance of Swedish companies in South Africa while deepening our understanding of the opportunities and challenges that the South African market poses. In addition, this report will hopefully serve as a reference in bilateral dialogue between Sweden and South Africa. It is without a doubt that the Covid-19 virus has caused a shift from the fundamentals of the status quo of these bilateral relations. It is up to Team Sweden together with other stakeholders to develop new approaches to Sweden's international bilateral and multilateral relationships.

Lastly, we would like to extend our most sincere gratitude to the participating companies and respondents who have contributed to this report.



Håkan Juholt
Ambassador



Rupa Thakrar Bagoon
Acting Country Manager

EXECUTIVE SUMMARY

COVERAGE

40%



Swedish Company
Response Rate

ECONOMIC OUTLOOK



53%

of respondents reported
profitability in 2020

40%



plan on increasing
investments in 2021

MARKET



**Low
Business
Climate**

WHY SOUTH AFRICA?



- Access to service providers
- Access to distributors
- Access to suppliers
- Financial Systems
- Customs

SWEDISH COMPANY ACTIVITY

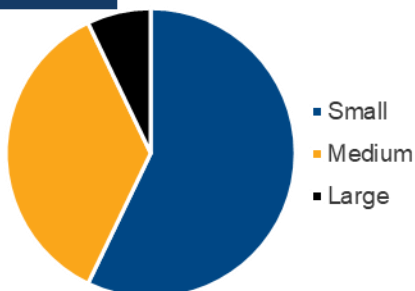


- Marketing and/or sales
- After sales support
- Manufacturing and/or assembly
- Service Provision
- Sourcing and Trading
- Research and Development

COMPETITIVE EDGE



Local relationships a
critical element of
maintaining
competitiveness



SUSTAINABILITY



47%

Of customers consider
environmental impact
when making a purchase

ABOUT THE SURVEY

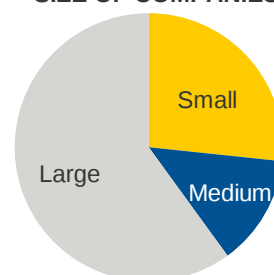
Respondents constitute a mixed crowd

Team Sweden regularly conducts a business climate survey analysing how Swedish companies operating in South Africa perceive the market conditions and the economic prospects of their business, and if, how the views diverge across company type. In addition, this report seeks to elaborate on the economic situation including current business performance and outlook. Respondents answer to the South African market regarding the current business climate in general commenting on the factors that have contributed either negatively or positively to their business operations in the country. 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 is into the following sections: Economic outlook, The market, How Swedish companies succeed in South Africa, and Acting Sustainably. The survey was sent out to 54 Swedish companies in South Africa and the responses are based purely on their experience and existence within the market. Regarding the age of the companies, the responses were a split between mature and experienced companies with no newcomers responding to the survey¹. Regarding the size of the responding companies at a global scale, 60 per cent are large corporations with over 1000 employees globally while 13 per cent are medium-sized companies with between 250 and 1000 employees globally. The remaining 27 per cent of the respondents are from small companies with less than 250 employees globally.

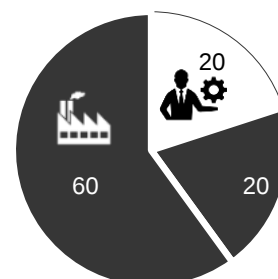
From an industry perspective, 20 per cent of the companies that responded are involved in professional service activities while 60 per cent of the respondents are in industrial activities. The remaining 20 per cent have described their activities as “other” non-industry-specific activities. Overall, 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



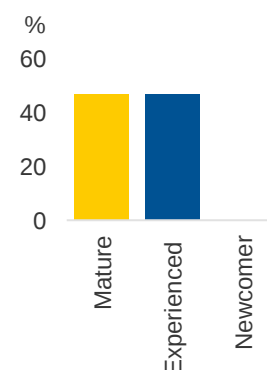
NOTE: Global employees. Large >1000. Medium 250-1000. Small 0-249.

MAIN INDUSTRY



NOTE: 60% Industrial. 20% Professional services. 20% Consumer.

AGE OF COMPANIES



¹ Mature refers to companies that have been in South Africa for more than 20 years while experienced companies have been in South Africa for over 5 years but not more than 20 years. Newcomers have been in the country for less than 5 years.

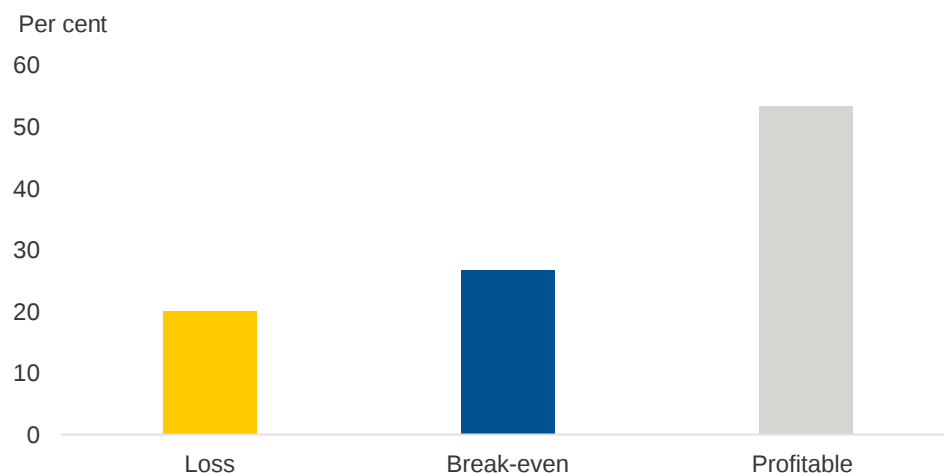
ECONOMIC OUTLOOK

Strong recovery projected as economic activity resumes

Much like the rest of the world, South Africa's business climate has been through challenging times due to the Covid-19 pandemic. Despite having weak economic growth in the last few years averaging just below one per cent in the five years before 2020, the country remains one of the continent's top investment destinations supported by industrial diversity and growing manufacturing and export capacity. To support growth in the short to medium term, the president has announced an intensive infrastructure investment plan focused on job creation and stabilising power supply. This will likely lead to economic recovery and the restoration of investor confidence and activity across the country's key sectors. A further economic stimulus is also expected once the country receives its share from the proposed IMF's Special Drawing Rights (SDR) vehicle later in 2021.

The trend from Q4 of 2020 indicates that the country is now in economic recovery with growth recorded in the third and fourth quarters despite not being enough to offset the devastating impact of Covid-19 in the second quarter when lockdown restrictions were at their most stringent. Economic activity for the entire year decreased by seven per cent in 2020 compared with 2019. Despite the impact of the pandemic on economic growth, there was one shining star in 2020. Agriculture escaped the effects of the pandemic relatively unscathed, expanding production by 13,1 per cent in 2020. Government spending also grew marginally in the year, up by 0,7 per cent.

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN SOUTH AFRICA IN 2020?



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, 2021.

With the Covid-19 imposed lockdowns, there was an expectation of diminishing financial performances within Swedish companies across industries. This was however not the case with 53 per cent of the respondents indicating a profitable 2020. In addition, 27 per cent of Swedish companies that responded still managed to break even despite the

“The uncertainty around electricity supply is a concern to our mining customers and, thus, a concern to *****. Mining companies are prepared to invest in their own power generation facilities, but legislation prevents them from doing so right now and government seems slow to make the required changes.”

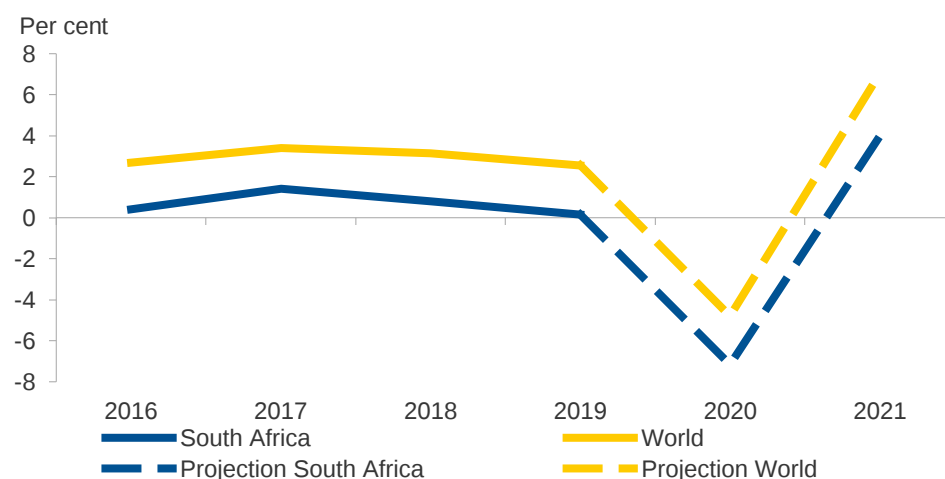
Managing Director
Swedish Mining OEM supplier

challenging operating environment in 2020. Only 20 per cent of the responding companies recorded a loss in the 2020 financial year. On closer analysis, 75 per cent of small companies recorded a profit during the same period with no small companies indicating loss. There was an even split between break-even and profitable periods for medium-sized Swedish companies in South Africa.

It is important to note that many of the Swedish companies represented in the survey have a footprint in other countries within the region. This is normally through smaller satellite subsidiaries and distribution centres. It is common practice to operate through multiple distributors and partners to spread the risk.

Economic Recovery Plan: The key to unlocking SA's growth

PROJECTED GDP GROWTH IN SOUTH AFRICA



NOTE: Constant prices.
SOURCE: Oxford Economics 2021

According to the IMF, the South African economy is projected to grow by 3.1 per cent in 2021 and two per cent in 2022. This is lower than the projected global average growth of six per cent and 4.4 per cent during the respective years. For South Africa, growth in the short term is mainly due to a combination of better commodity resource pricing and incremental improvements in domestic fundamentals supporting the country's economic structure. Local economic reform and recovery are likely to increase South Africa's exposure to global growth with the likely resurgence of international investment.

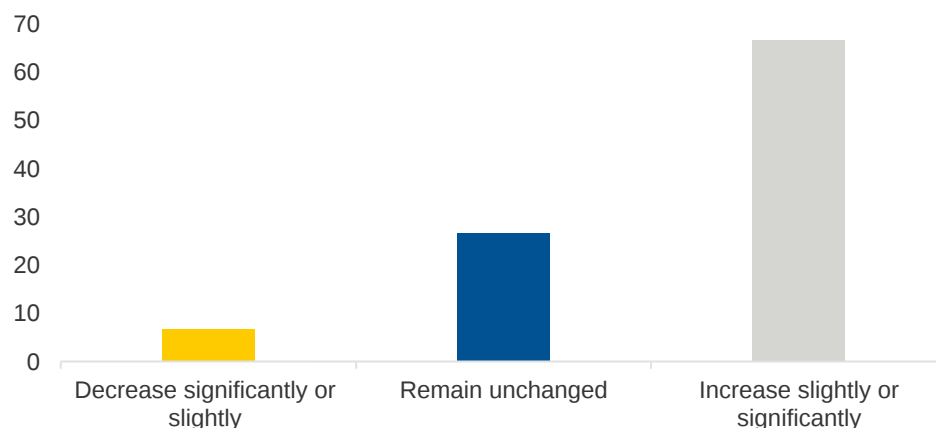
It is also important to note that Covid-19 has exposed some of the country's weaker attributes including inequality which is predicted to worsen compared to pre-pandemic rates. This is because the crisis has accelerated the transformative forces of digitalisation and automation meaning many of the jobs lost are unlikely to return, requiring worker reallocation across sectors – which often comes with severe earnings penalties. In addition, major structural challenges and constraints to economic growth remain, including limitations on electricity and water supply, inadequate transport systems, and an onerous bureaucracy. However, small improvements in these areas in recent months have proven that quicker reforms will lead to accelerated growth.

▶ **The South African economy is projected to grow by 3.1 per cent in 2021 and 2 per cent in 2022.**

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?

TURNOVER WILL...

Per cent



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, 2021.

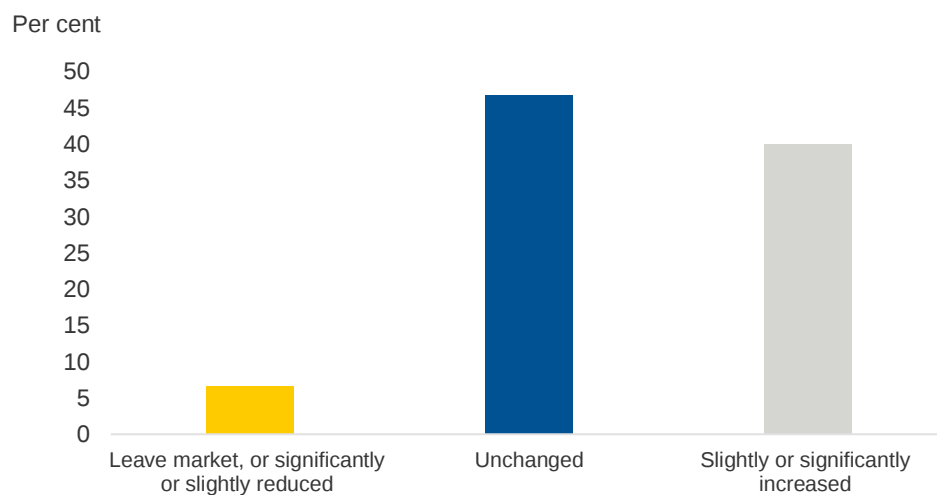
Despite the preceding economic climate that has been heavily subdued due to Covid-19 related lockdowns, most Swedish companies in South Africa foresee an increase in turnover in the 2021 financial year. Up to two-thirds of respondents in the survey believe that turnover will increase in 2021 compared to 27 per cent and seven per cent who believe that there will no changes or decreases in turnover respectively. All respondents from medium-sized Swedish companies are optimistic of an increase in turnover while 11 per cent of large companies that responded remain sceptical of the near future.

Negative COVID-19 economic impact has not changed future investment plans

It is without a doubt that a combination of low growth and the lockdown restrictions due to Covid-19 have harmed some of the Swedish companies' future investment plans. Almost half the companies (47 per cent) indicate that their investment plans remain unchanged while 40 per cent of the companies have indicated an increase in their local investment plans. Only seven per cent of the companies that responded have indicated a reduction in their investment over the short term and no Swedish company has indicated any intentions to leave the South African market.

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

INVESTMENTS WILL BE...



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

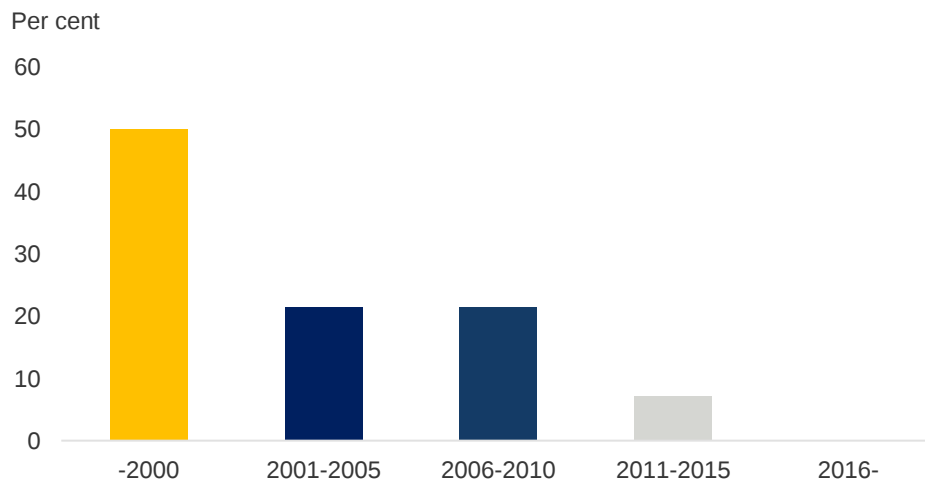
SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2021.

THE MARKET

Swedish companies operating in diverse industries in South Africa

The South African market remains one of the regional centres for international companies hosting what is possibly the largest concentration of multinational companies on the continent. Swedish companies have been part of this legacy for over a century and the number has grown significantly since 1994 with a total of just over 60 companies to date. The growth of Swedish companies in South Africa came in phases with the pioneering phase entering the country at the start of the 21st century. This was followed by the industrial wave that focused on expanding the local industrial capacity over the last 40 years. Nowadays, there is a mix of companies due to factors such as increased globalisation allowing for small and medium-sized companies to actively participate in the South African market.

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



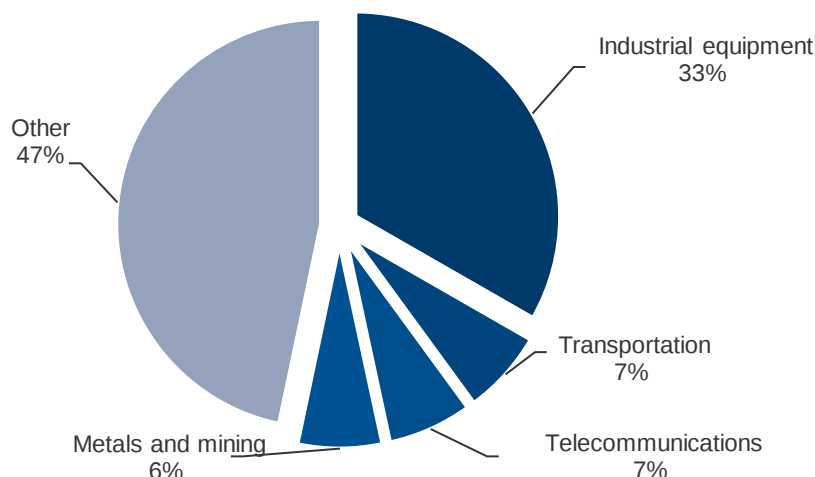
NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2021.

Based on responses from the survey, many of the Swedish companies established in South Africa before the turn of the century. These have since become large international enterprises with a significant footprint throughout the region. The type of foreign establishment in South Africa has however evolved over the years mainly due to the introduction of legislation encouraging shared ownership. This has led to Swedish companies operating in the country selling part ownership to local partners as part of fulfilling requirements of policies such as Broad-Based Black Economic Empowerment (B-BBEE). The South African government has enacted such laws to allow for better wealth distribution within the previously disadvantaged population groups. In some instances, this has resulted in complicated processes for Swedish companies especially in scenarios where they cannot sell any of the ownership to the local partners.

► The type of foreign establishment in South Africa has however evolved over the years mainly due to the introduction of legislation encouraging shared ownership.

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

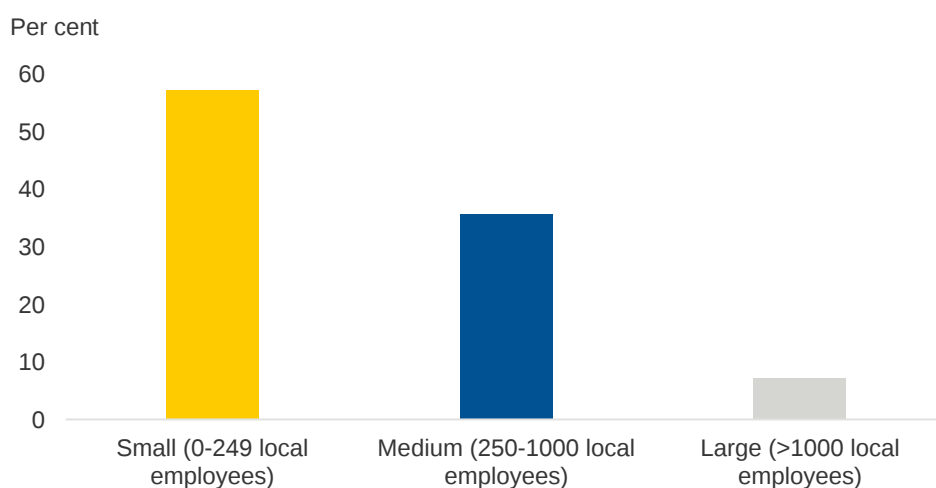


NOTE: The number of respondents for this question was 15. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2021.

As can be seen in the chart above, Swedish companies are active in a wide range of activities in South Africa. Companies identifying as being active within the industrial equipment space constitute the largest individual category of Swedish companies in South Africa. This is reflected accordingly with the trade statistics where the largest amount of imports by trade value from Sweden have been industrial equipment and automotive products. In addition to the industrial equipment, Swedish companies are active in other industries such as energy, telecommunications, retail, mining, and healthcare.

SWEDISH FIRMS' LOCAL NUMBER OF EMPLOYEES 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.

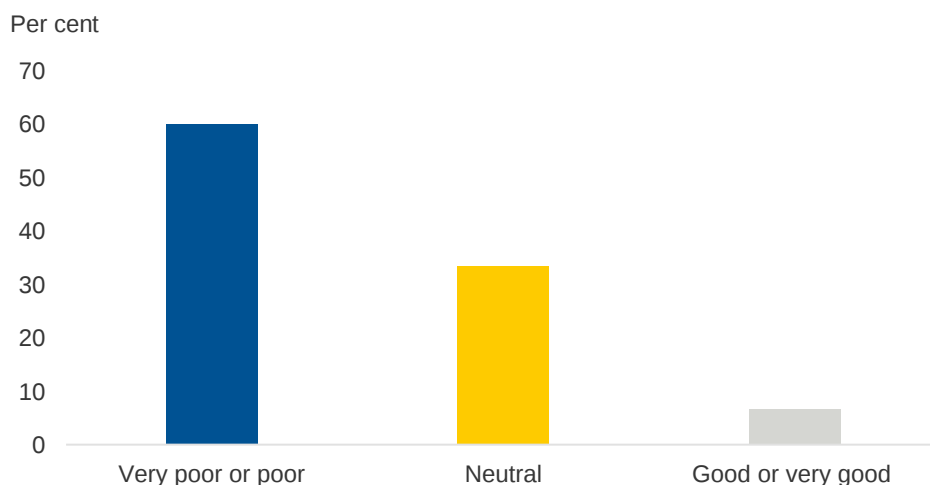
SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2021.

Post-pandemic plan is encouraging for economic growth

Despite having been negatively impacted by the Covid-19 pandemic, the optimism remains high within the South African market with expectations of high economic recovery and growth in the short to medium term. This is supported by a post-pandemic plan that will prioritise investment, job creation, and power supply. Commitments made to the IMF in return for rapid financing are also expected to add impetus to reforms in the face of resistance from vested interests. Following a deep contraction in real GDP in 2020, slow recovery from 2021 onward will help to restore investor confidence and activity across key sectors. Fiscal and debt risks will remain elevated, but trend downwards as growth recovers.

Improvements in the overall business operating environment can be supported by the resurging local business confidence index. According to the South African Bureau of Economic Research (BEU), the BCI has averaged 37.5 between Q4, 2020 and Q1, 2021 from a low of five which was recorded in Q2, 2020. This is however still low as the BCI decreased in some sectors such as retail and manufacturing. On the other hand, there were positive contributors to the local business climate that included increasing export volumes and lower inflation rates. This was in addition to the higher value placed on commodities. From a macro-economic perspective, it has become imperative that declining and low levels of business confidence and a non-inspiring environment for fixed investment and slow economic growth call for bold and decisive economic policy decisions.

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, 2021.

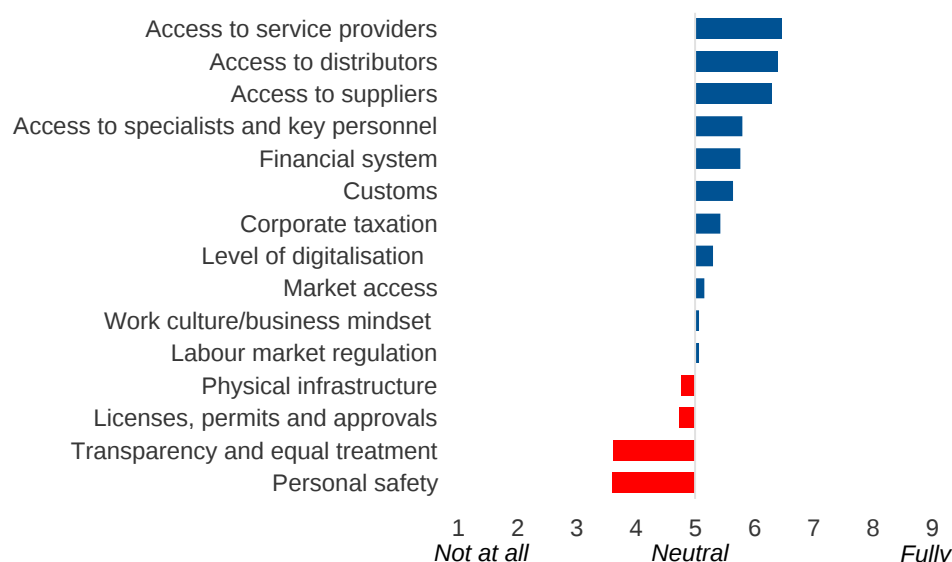
The compounding negative impact caused by the economic activity restrictions enacted in reaction to the Covid-19 pandemic has not been in favour of Swedish companies in South Africa. Up to 60 per cent of the respondents to the survey have cited that the current business climate has become poor while 33 per cent of the respondents remain neutral. The remaining percentage of the Swedish subsidiaries in South Africa still note that it is still a good business operating environment.

Amongst the respondents, 67 per cent of large Swedish subsidiaries have indicated that the current business climate in South Africa is poor. What is perhaps interesting is that all the medium-sized subsidiaries are neutral when it comes to the current South African business climate. On the other hand, up to 25 per cent of small Swedish companies in South Africa are in support of this notion. It is also important to note that the disruption caused by the Covid-19 pandemic has not made it any easier for Swedish subsidiaries in South Africa. The opinion of these companies is also divided based on industries where some industries have been less affected as compared to others and where some industries have recovered quicker than others.

Despite slow economic growth, South Africa's stable policy and advanced infrastructure make it a desirable investment destination

Like most emerging economies, South Africa is a constantly evolving market with significant defining characteristics that makes it preferable to Swedish companies. These all work in favour or against the performance of Swedish companies in the market. One of the characteristics of the South African economy that has drawn the interest of most international companies has been its stable policy regime allowing for the protection of international investment.

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
 SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2021.

As noted in the illustration above, different conditions make the South African market preferable for Swedish companies. 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.

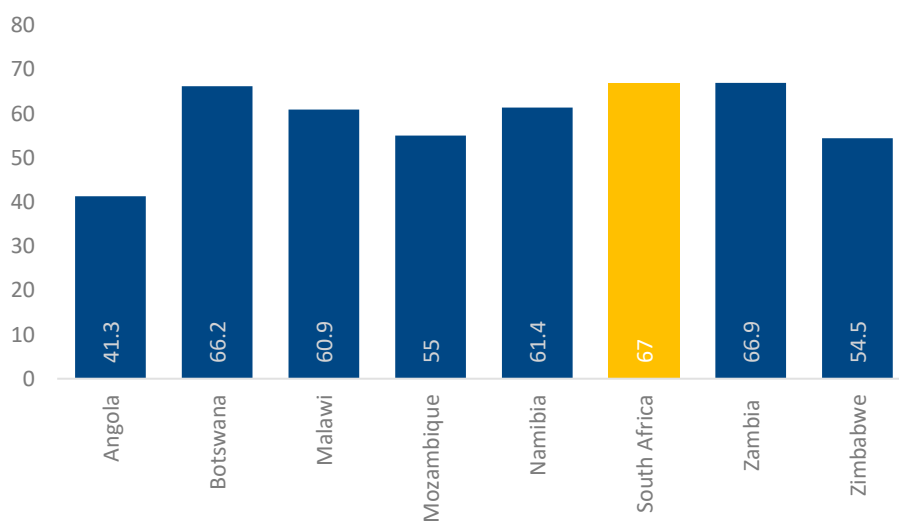
Battling the odds in a slow growth economy

Much like the rest of the world, South Africa's business climate has been greatly restricted by the Covid-19 implications. This in addition to an economy that had been experiencing slow economic growth over the past few years. The South African Chamber of Commerce and Industry (SACCI) has described the economy as "battling the odds" in a tight financial environment and subdued economy. This was after they surveyed with data concluding that "nervous business conditions" continue, with expectations that perceptions surrounding the effects of the Coronavirus (Covid-19) will contribute to a "tentative" stance

on financial and capital markets.

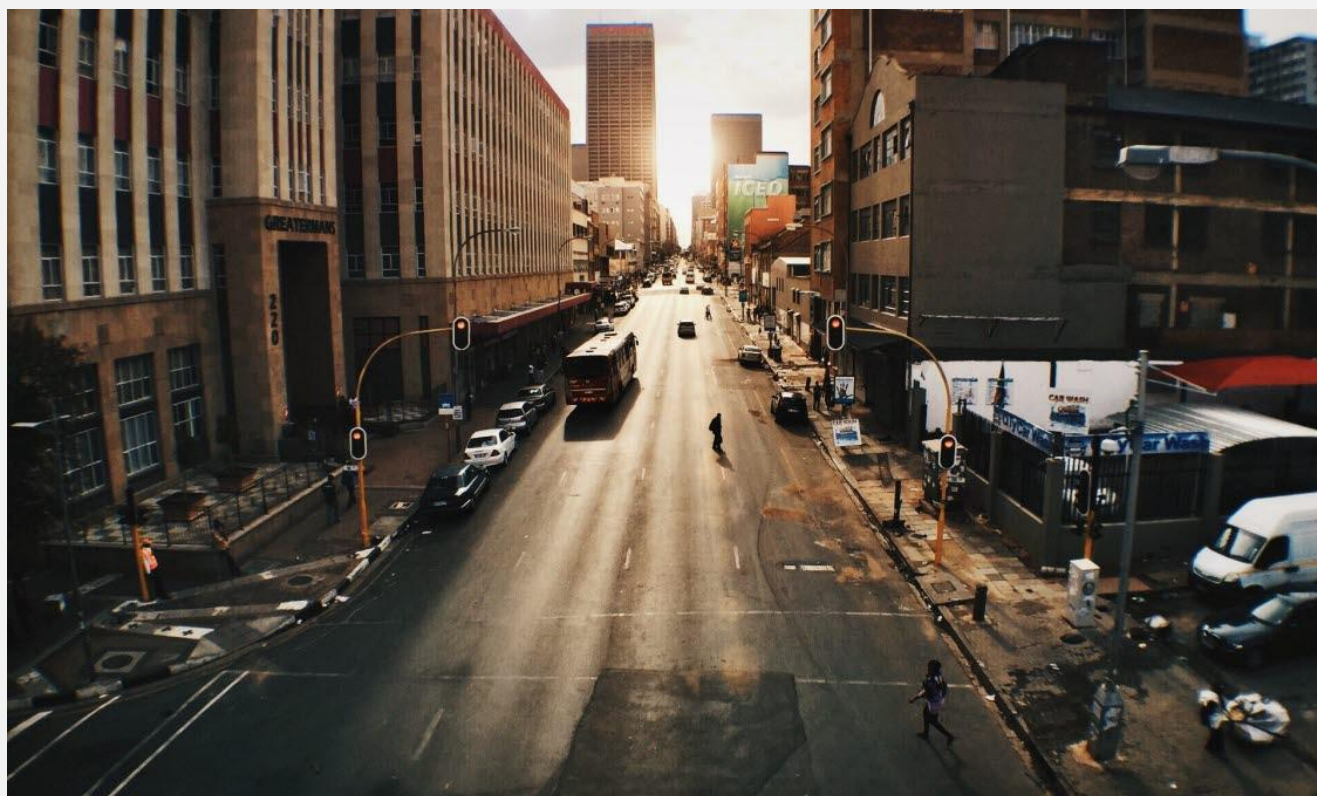
Since the beginning of the year, the Business Confidence Index has been negatively impacted by lower merchandise import volumes, retail sales, manufacturing, and the depreciating rand exchange rate. On the other hand, there were positive contributors to the local business climate that included increasing export volumes and lower inflation rates. This was in addition to the higher US dollar value placed on precious metals. From a macro-economic perspective, it has become imperative that declining and low levels of business confidence and a non-inspiring environment for fixed investment and slow economic growth call for bold and decisive economic policy decisions.

Ease of Doing Business Score



NOTE: An index published by the World Bank. Score 0-100 where 100 = most business friendly.

SOURCE: World Bank 2020



“Companies are under significant pressure to unbundle offerings and to localise to host communities. However, the majority of host communities are so poorly developed that there are often inadequate skills and/or experience to effectively enter the value chain. Business Sweden could put pressure on national and local government bodies to participate in the basic development needs of host communities - water, housing, electrification, schooling, etc. Once the basic frameworks are in place, OEMs can develop those into more value-adding entities.”

Country Manager: Swedish OEM supplier

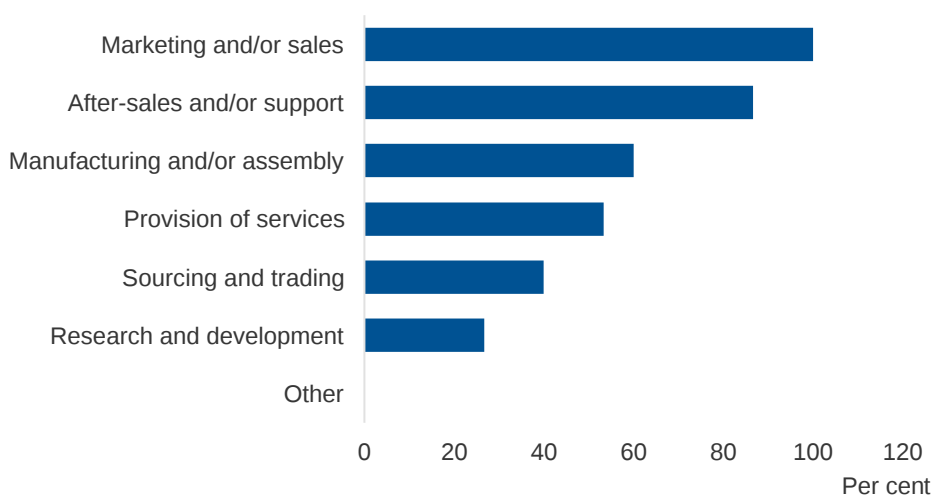
HOW SWEDISH COMPANIES SUCCEED IN SOUTH AFRICA

Most Swedish companies are involved in some form of marketing and/or sales activity

Due to the better operating environment compared to its peers in the region, South Africa has become one of the leading destinations for Swedish companies considering Africa as an export market. While on the same topic, it is important to note globalisation has exposed the region to foreign entities and created competition for international companies to capture market share. Like in many emerging markets, consumers have become increasingly diverse, have higher purchasing power, and have evolved in their demands. Furthermore, processes like globalisation and digitalisation are disrupting traditional sales and marketing models across industries. Several new trends are showing among global companies and successful business practices may need improvement to retain market success.

The South African market profile has evolved as the country has developed into becoming an upper-middle-class. This means that the Swedish subsidiaries within the market have made changes to accommodate the different customer demands. Different industries present different customer groups for Swedish companies in South Africa. 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, private partnerships. In industries such as mining and transport, there has 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, 2021.

Swedish respondents to the survey indicated that all 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 67 per cent of large companies involved in manufacturing activities. Swedish subsidiary activity also extends to research and development with 25 per cent of small companies and 33 per cent of large companies involved.

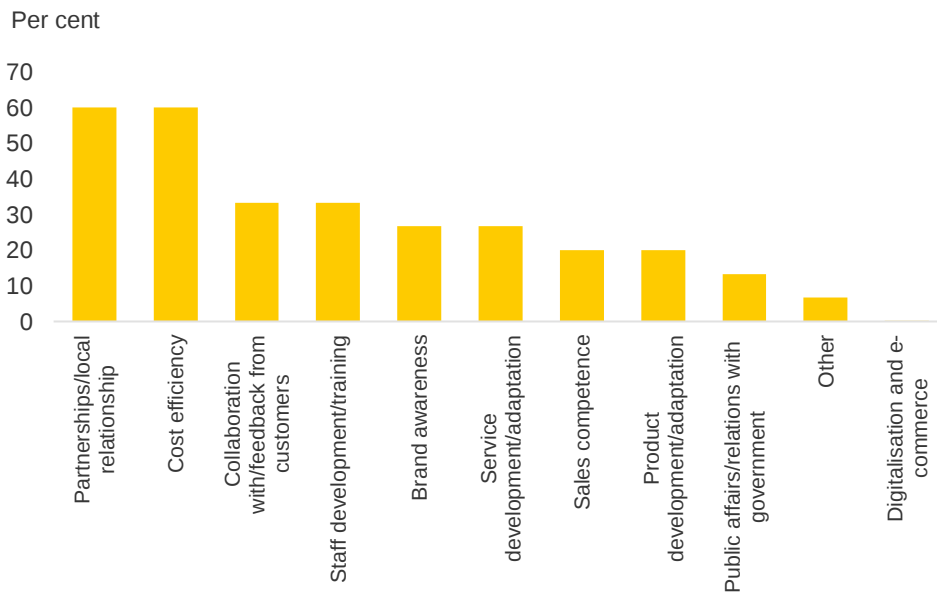
As part of completing the value chain, Swedish companies have gone the extra mile to include after-sales support as part of their service offering as a method of relationship building and customer retention. This is in addition to the 53 per cent whose core operations comprise of service provision. Furthermore, 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.

Relationships are an important element of developing business in South Africa

As commercial activity continues to grow in South Africa and the rest of the region, there has been an increased need for Swedish companies to evaluate and develop their operations over the years. The increasing number of both local and international firms participating in the market has significantly increased competition within an already flooded market space. There are however different approaches that have been beneficial to Swedish companies in increasing their competitiveness in South Africa.

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 also following local rules and regulations such as the Broad-Based Black Economic Empowerment (B-BBEE) legislation that promotes the growth of locally owned businesses.

DO 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, 2021.

Operating through local relationships and partnerships has been identified within the survey as the biggest contributor to Swedish companies gaining a competitive advantage. In addition to local relationships, companies have identified cost efficiency and customer collaboration as important in maintaining their competitive edge. Another important feature of developing a competitive edge in South Africa has been to continuously develop staff and increase brand awareness.

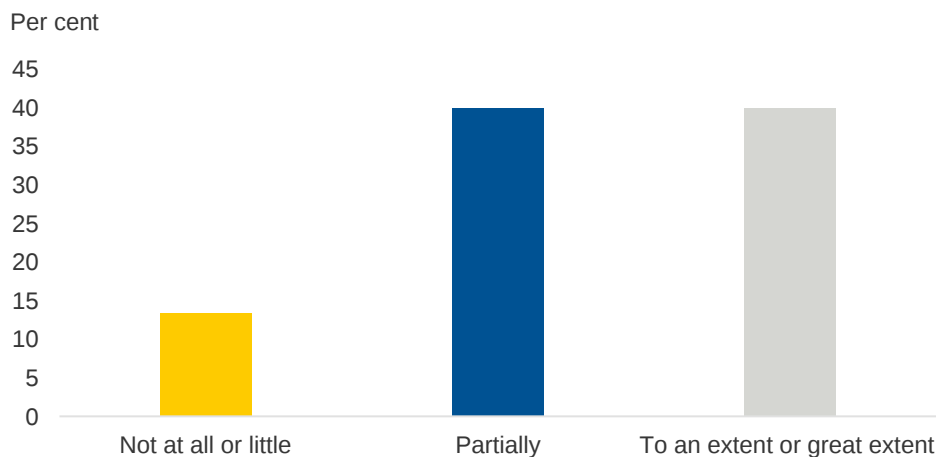
Being a price-sensitive market, product and service pricing is also one of the more important elements that companies put into consideration when strategising on how to maintain their competitive edge. This is a feature that is most common amongst the smaller companies as compared to the medium and larger companies. Medium and large companies are now focusing more on collaborations and product development based on customer feedback and additional market demands. Developing e-commerce channels has proven advantageous for some companies especially during the Covid-19 induced lockdown where 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 to understand the nuances of the local business environment and applying those learnings to their new global operation.

Being part of the “Swedish brand” has an impact on doing business in South Africa

Having Swedish roots is a contributing factor towards developing business in South Africa. One of the major reasons for this has been that Swedish/European products are usually considered as being of superior quality. Additional benefits as described by the customers are 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. Additionally, with Sweden being a global leader in providing sustainable solutions, customers are increasingly becoming environmentally conscious and therefore defaulting towards environmentally friendly products.

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, 2021.

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 largely 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.

ACTING SUSTAINABLY

South Africa is consciously moving towards sustainable business ecosystems

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.

Economic inequality is one of the major challenges that the South African government has been addressing since the country's independence in 1994. Being a former apartheid state, the country is characterised by a significant degree of inequality along racial lines. To address this, the government is implementing different reforms supporting the local native populations. In 2019, South Africa was 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 such as 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. Lack of clear policy from major OEM's to tier one and two suppliers in these industries, regarding local or international cloud services, means uptake of new technologies in these markets is almost non-existent.

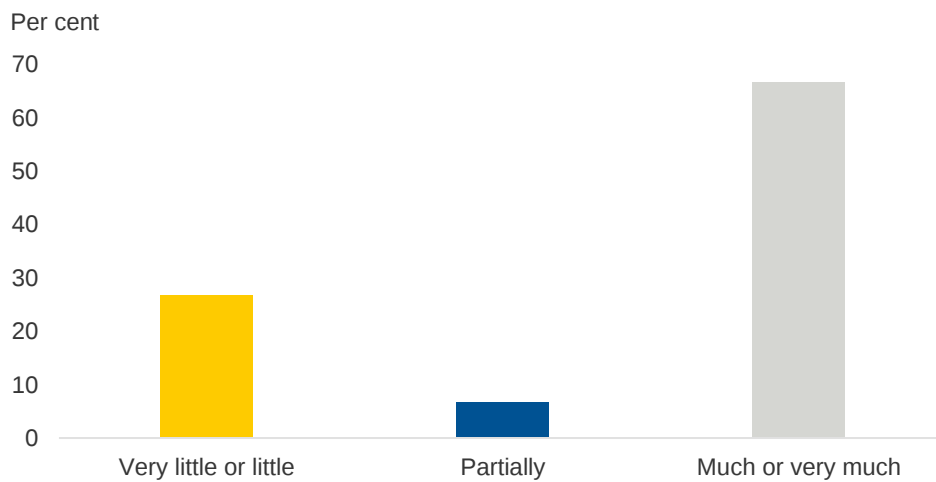
Additionally, the sustainability agenda within most commercial sectors have been negatively impacted in the short-term due to the current economic recession and now the Covid-19 outbreak. This has seen most companies scaling back on new high-value CapEx projects.



“I think there is a slow but steady shift toward more sustainable business in the South African market. This will only be achievable if corruption does not become a factor in entrenching the culture.”

Managing Director
Swedish subsidiary

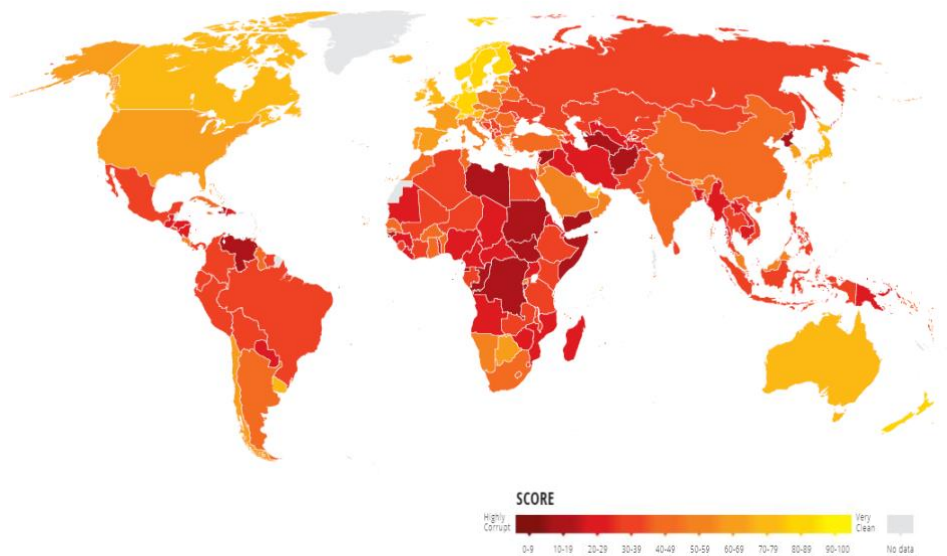
TO WHAT EXTENT DO YOU PERCEIVE THAT CORRUPTION IN SOUTH AFRICA AFFECTS YOUR BUSINESS?



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, 2021.

There is a consensus amongst Swedish companies that corruption has impacted their business conduct in South Africa. A combined 74 per cent have the perception that their business in South Africa has been partially or directly impacted by corruption with small companies indicating the highest effect on their local business practices. One company cited that the challenges they are facing are closely associated with a deteriorating business environment that is increasing the financial strain on most businesses. This is in addition to persistent corruption levels or at least perceived as such, public policies, policy uncertainty for all, declining infrastructure, sustainability is more and more challenged. Despite the shortfalls, Swedish companies continue to operate following predetermined corporate sustainability and governance charts.

CORRUPTION PERCEPTION INDEX 2020



NOTE: insert text
 SOURCE: Transparency International.

The majority of South Africans think corruption has increased in the country

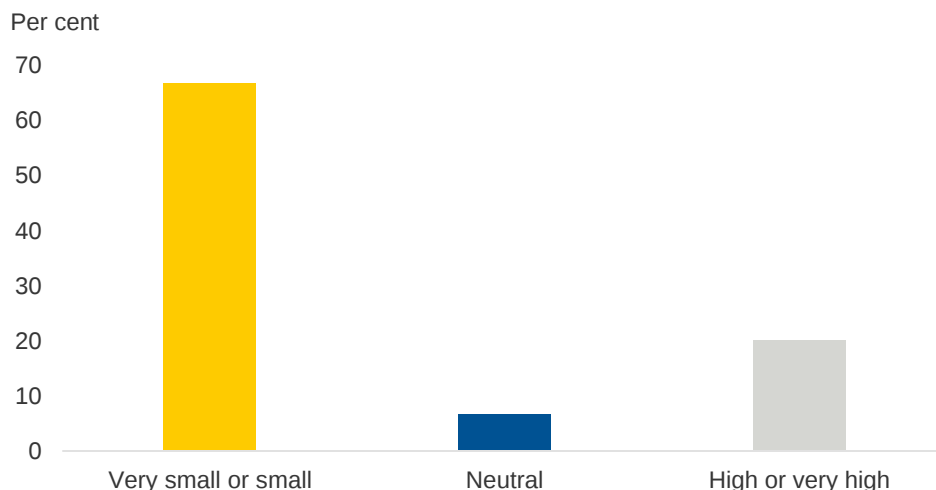
Over the past five years, South Africa's corruption index has averaged 44 points compared to Botswana's 61-point average in the same period. In terms of global position, South Africa is ranked 69 up from 70 out of a total of 180 countries that have been analysed by Transparency International. The region presents a mismatch of rankings in comparison to South Africa, Botswana (35), Namibia (57), Lesotho (83), Zambia (117), Mozambique (149), and, Zimbabwe (157).

Based on research conducted by Transparency International, 64 per cent of people interviewed in South Africa believe that corruption had increased in the period between 2018 and 2019. This has been characterised by an increasing overall bribery rate that has doubled between 2015 and 2019 with police having the highest increase (3-19 per cent) in the same period. 70 per cent of people interviewed in 2019 believe that the government is doing a bad job of fighting corruption compared to the 25 per cent who believe the government is doing a good job.

According to the Human Rights Watch, "Despite South Africa's strong constitutional protections for human rights, public confidence in the government's willingness to tackle human rights violations, corruption and respect for the rule of law has eroded." This has been in reaction to an increase in the cases of violence against women and children, domestic violence, police brutality, the treatment of migrants, refugees, and asylum seekers, and recurring outbreaks of xenophobia violence. On the other hand, the country continues being a proponent of lesbian, gay, bisexual, and transgender people.

Strong policies and active worker's unions have limited the incidents of human rights violations

HOW DO YOU PERCEIVE THE RISK OF ENCOUNTERING HUMAN RIGHTS VIOLATIONS AND/OR LABOUR RIGHTS ABUSES WHEN CONDUCTING BUSINESS IN SOUTH AFRICA?

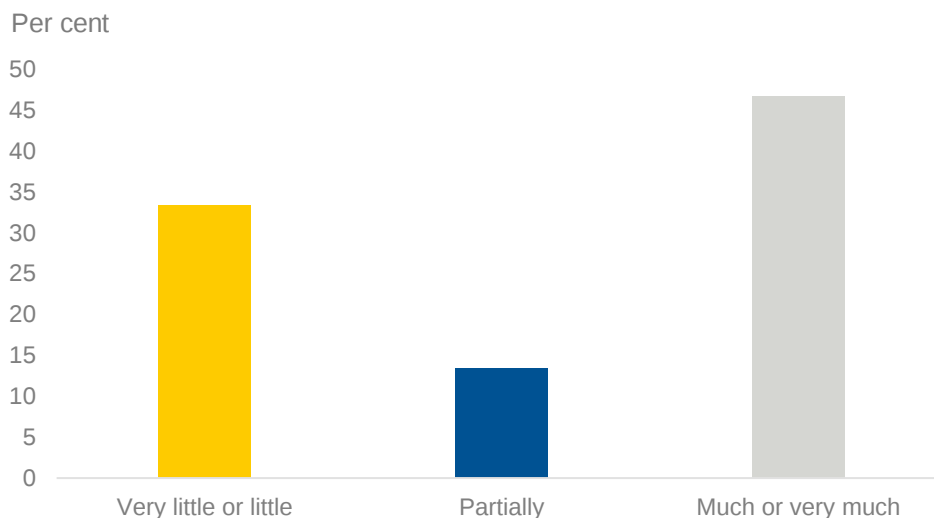


NOTE: The number of respondents for this question was 15. Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Africa, 2021.

In terms of the workplace, the South African government has set a national minimum wage of R20 (about \$1.50) per hour that can be paid to workers. The country also has very active labour unions especially in the major sectors such as mining and manufacturing. These unions have been very vocal in their advocacy for the protection of the local labour force. Due to stable labour policies and active labour unions, Swedish companies have been exposed to limited incidents of human rights violations within the workplace. This is reflected in the survey as up to 67 per cent of responding companies have indicated having a very little risk of encountering human rights violations.

IN YOUR VIEW, TO WHAT EXTENT DO CUSTOMERS IN YOUR INDUSTRY 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, 2021.

Like much of Europe and North America, South African consumers are becoming increasingly conscious of the environmental implications, this is becoming notable to Swedish companies in the market. According to a study by Deloitte and Brands Eye, the number of environmentally conscious consumers continues to grow. In addition to consumers directly influencing the production processes, the government has also put in place policies supporting responsible production and supply.

Given the tough consumer environment, with many consumers living beyond their means, South Africans have become increasingly price-conscious and seek value in their purchases. Suppliers have often been judged on their 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 for 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.

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