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DESTINATION PROFILE: SOUTH AFRICA

The Rainbow Nation is one of the world's foremost emerging markets

By Chris Pardo, GMS

Located at the southernmost tip of the African continent, home to more than 50 million people, South Africa has long been considered one of the most attractive expatriate destinations in Africa. Considered the single most developed country on the continent, it offers an amazing range of encounters. One of only 17 countries considered biologically “megadiverse,” site of the first human heart transplant, and host of the 2010 FIFA World Cup (held for the first time on African soil), are just a few of “the Rainbow Nation’s” unique claims to fame.

People are drawn by the diverse and stunning landscapes, the wonderful climate, and the relatively cheap cost of living. Many expats enjoy a luxury lifestyle in the midst of an African aesthetic. At the same time, expatriates will be exposed to the ongoing poverty gap, very high unemployment levels, and high crime rates. All of these elements combine to deliver a range and contrast of First World to Third World issues that are the conundrum of the South African experience.

The three most popular cities for expatriates are Johannesburg, Cape Town, and Durban. Ursula Vance, operations manager at Relocation Africa, says, “Johannesburg would be by far the largest and most popular expatriate destination—it initially became a foreign direct investment (FDI) hub due to its wealth of natural resources—specifically gold and platinum.” “Joburg” is both the financial services hub and the economic engine room for the country, where affluent neighborhoods, megamalls, and First World entertainment options are offset by safety issues related to poverty and crime.

Although Cape Town is a smaller city, the population increases sharply in summer thanks to its quality of life, and it attracts numerous professionals in the fashion, design, and advertising industries. In recognition of its rich culture, history, and natural beauty, Cape Town was listed by *The New York Times* as the No. 1 “place to go” in 2014. Many claim that Durban is the country’s best-kept secret, where expats can enjoy the comforts of a major city without the crowds.



Doing Business in South Africa

Relatively unaffected by the global recession and having maintained a stable economy, South Africa is an industrial giant with substantial mineral resources, including gold, silver, copper, and diamonds. Recognized as one of the world's foremost emerging markets, it was ranked 41st out of 189 countries in the World Bank's "Ease of Doing Business Survey" for 2014. As one of Africa's best-performing countries, South Africa is not far behind European economies such as France and Belgium, and is ahead of struggling Eurozone countries such as Italy, Spain, and Greece. Producing more goods than Portugal, Russia, or Singapore, it is now Africa's second-biggest economy, having recently been surpassed by Nigeria.

The country's multiethnic composition is reflected in its constitution, which recognizes 11 official languages—the highest number of any country in the world. Though English is commonly used in public and commercial life, it is only the fourth-most spoken. Afrikaans is a young language—90 years old—that developed from Dutch and other influences into a full-fledged language of its own.

Afrikaans is the second-most-spoken language in South Africa. Zulu is first, as the Zulu people are the largest ethnic group.

Skill shortages exist to a great degree in engineering, education, IT, and executive management. However, labor laws in South Africa are very strict due to high levels of unemployment in the country—around 25 percent. Protecting and developing jobs for South Africans is high on the list of government priorities. Unions play a major part in daily life, and strikes are fairly common, as seen recently in the platinum sector. Strict employment laws in South Africa, where those from "previously disadvantaged" backgrounds are given first preference, make it difficult for anyone from overseas to gain employment.

Experts are cautiously optimistic about the future of mobility in South Africa. Often referred to as the "gateway to Africa," the country is enjoying its 20th year of democracy, but newly elected officials will need to address the issues of high unemployment and skills shortages while seeking to lure new investors into the South African economy.

Immigration

Government officials align immigration policies and procedures with the country's social and economic needs. Ben Wright, manager of consulting and compliance services at Emigra USA, explains, "During the first half of 2014, the Department of Home Affairs made several announcements about planned reforms to South Africa's immigration policies, confirming in May that a series of sweeping policy revisions were to take immediate effect. This led to a wave of confusion and protest by South African companies and officials from various branches of government." Due to this confusion and inefficiencies within Home Affairs, many expatriates' permits are about to expire, as they have applied for new ones and are waiting for the extension to be issued. Per the new legislation reform,

they cannot technically leave the country until their new permit is in place, or they risk being blacklisted. The new legislation focuses on harsher penalties for those deemed undesirable, including those who are overstaying their immigration documents, which will also lead to blacklisting. Also taking effect is a requirement that all persons accompanying minors under age 18 must carry the child's unabridged birth certificate and an affidavit of consent. These measures are designed to help reduce the incidence of human trafficking, abduction, and kidnapping.

Spouses accompanying expatriates are permitted to work in South Africa, but only if they obtain their own work permits—a challenge unless they have unique skills.



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Family/Living

Once work permits are in place, the move to South Africa is not as challenging as many other African destinations—it is more affordable than Angola and Nigeria, for example, and expatriates also tend to drive themselves around, which is not the case in many other African countries. The road networks, housing, medical, and shopping facilities are on par with those in more developed countries.

Housing costs are dependent on the specific city. In expatriate strongholds such as Johannesburg, Cape Town, and Durban, there is a relatively wide selection of homes at reasonable costs by international standards—ranging from apartments to townhouses and houses, either freestanding or within gated communities. Most expatriates elect to stay in very specific expatriate neighborhoods that are gated communities or secure complexes—particularly in Johannesburg, where security is a major concern.

Per Elliott Mobility, leases are typically drafted in English, and the standard lease length is between one and two years, with an option to extend. Early termination break clauses (diplomatic clauses) are accepted by most landlords with three months' advance notice provided after the first nine months

of occupation. The Consumer Protection Act stipulates that a lease agreement cannot be longer than 24 months, and short-term leases are somewhat available starting at three months' length. For an unfurnished property, typically the equivalent of one month's rent is due as a deposit, but occasionally two months may be demanded. For a furnished property, the deposit will almost always be equivalent to two months' rent. When looking at furnished option rental costs, consider adding an additional 20–25 percent per month. The real estate agent's commission is payable by the landlord and is relatively high—typically between 5 and 7 percent of the total rental for the lease period. No rental taxes or stamp duties are applicable to tenants.

Rentals in South Africa are paid monthly, in advance. Rents escalate on an annual basis, usually between 6 and 10 percent, and are paid in South African rand (abbreviation ZAR, symbol R). Utilities are not typically included in rentals. In addition to utilities, tenants can expect to pay homeowners' association levies if they live in gated communities—typically between the equivalent of US\$200 and \$400 per month.



Schooling

There are many excellent private schools in South Africa, including American, French, German, and British schools that provide international curriculums or instruction in foreign languages. These schools tend to run on academic years that match their international counterparts—e.g., starting in September.

As increasing numbers of South Africans are sending their children to private rather than government schools, availability is the biggest concern for expatriates. Because demand frequently exceeds supply and there are lengthy waiting periods during peak times of the year, expatriates are encouraged to register their children on school waiting lists as soon as possible. Another concern for some expatriates will be the cost of school fees at these private schools—with nonrefundable security deposits of up to R 120,000 and annual costs that will likely be between US\$8,000 and \$12,500 per student, depending on the school.

Security/Medical Issues

Because crime is an aspect of daily life in South Africa, security must be taken seriously. As in any country where extremes of poverty and wealth exist, there is some petty crime, but also much violent crime, and people have to be extremely vigilant. Johannesburg is somewhat more dangerous than Cape Town—the majority of people there live in security complexes or lifestyle estates with manned entrances, electrified fencing, security patrols, etc. Freestanding properties will most often have high walls, electrified fences, garden beams, alarms, burglar bars, security gates,

and panic buttons linked to an armed response company. It may sound scary, but after a while it becomes part of everyday life and is hardly noticed. However, it is often something that new expats struggle to get used to.

Medical facilities in South Africa may be better than those in some First World countries. The country has both government and private hospitals, and standards can differ greatly. Therefore, anyone who can afford private medical insurance will have it. It is essential for expats to ensure they have private medical insurance in place.

Financial Matters

According to Steve Daas, chief operating officer of Global Tax Network US, LLC, and Ahmed Jooma, CEO of WTS South Africa, the tax year is a fiscal year beginning March 1 and ending February 28/29. Ending the tax year on a leap day complicates compensation and other income reporting, in addition to the usual challenges of reporting on a fiscal-tax-year basis.

South Africa also has unique rules for determining tax residency. A nonresident is taxable on South African-source income, while a resident is taxable on worldwide income. The residency rules are based on the individual's physical presence in South Africa over a six-year period. Thus, it is important to review the expatriate's travel history to avoid any tax surprises. For short-term assignments, companies should review the applicable treaty, as South Africa has income tax treaties with more than 80 countries, including the U.S.

The top tax rate in South Africa is 40 percent on income above R 673,100 (approximately US\$63,000). Given that the top rate is incurred at a low income level, the company should carefully structure the expatriate's compensation to minimize the taxable compensation. Wages, bonuses, housing, allowances, and other in-kind benefits are subject to income tax.

Jooma notes that the elections in May 2014 could result in two budgets being issued. Last year's budget proposed reduced tax rates and provided other tax relief for individual taxpayers. It remains to be seen what the current budget(s) will include regarding tax matters.

As they relate to the cost of living, goods and services costs are moderate. Per AIRINC, a typical conservative index for U.S. to Johannesburg would

be about 102 at an exchange rate of R 10.25 = US\$1. Many companies pay a hardship premium for South Africa—typically 5 to 15 percent—due mostly to crime concerns.

South Africa's banking system is one of the best in the world, using some of the most sophisticated anti-fraud practices and technology. South African banks offer all of the products one would expect as well as many innovative offerings and sophisticated online and mobile banking.

Most expatriates staying for a year or more will open a bank account. Alexandra Pringle, marketing executive at Elliott Mobility, says, "It is relatively easy for expatriates to open a bank account in South Africa, provided that they are able to provide certain documents in line with the county's FICA (Financial Intelligence Centre Act) regulations, designed to prevent fraud, organized crime, and money laundering. Expatriates require the following documentation to open a bank account: your passport, with valid work permit endorsement; proof of employment and income (a letter from your employer); your contract of employment or a pay slip; proof of residence (a signed copy of your lease will usually suffice). Typically banks will not give expatriates loans that extend beyond the length of the work permit, and certain limitations apply to foreign nationals when borrowing money."

Expatriates will need to open a bank account in South Africa for day-to-day transactions. Funds can be transferred between local and international banks with relative ease; however, foreign exchange regulations and charges apply. The South African rand has been depreciating steadily against the dollar, losing about 20 percent of its value over the past two years.

Unexpected South Africa

“Monkey gland steak” is a very popular dish, available in nearly every South African steakhouse and even highlighted on some fast-food restaurant menus as “monkey gland burgers.” The “monkey gland sauce” is the key to the dish. Knowing that none of the ingredients are monkeys or glands might make the dish more appealing, should you have the great opportunity to be ordering in a South African restaurant. The story behind the mystery meal involves a mad scientist, the search for youth and virility, and a rumor about how the AIDS virus originated.

To top it off, talent mobility should get full credit for the origination of this national dish. The details

are not suitable for publication here, but know that ultimately this South African culinary wonder made its way to Johannesburg when a hotel restaurant worker named Cavaliere Fiorino Luigi Bagatta relocated from London to Johannesburg and introduced it at the old Carlton Hotel in the 1940s. No one knows whether Bagatta was provided a corporate sponsored core-flex policy or simply a lump-sum move, but you have to love the amazing impact of our mobility industry! *M*

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