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## Message from the CEO

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>BUSA CEO Bheki Sibiyi

Our August newsletter reflects a month focused on looking at the issue of creating growth opportunities in South Africa. We include the full address given by Deputy President Phumzile Mlambo-Ngcuka at the BUSA-hosted event where she addressed over 500 large and small business leaders on the economy and SME development. You will also see in the economic review that economist Jac Loubser, part of our Standing Committee on Economic Policy, outlines his views on the government's target growth rate of 6% for South Africa over the next decade.

The thread between all these

issues is that, as our BUSA President Patrice Motsepe said during his welcoming address with the Deputy President, business has a critical role to play to ensure that there are more South Africans who become meaningful participants in our economy. The future of business in this country is inextricably linked to giving a broad spectrum of South Africans hope for the future.

BUSA believes that the economy is capable of progressively doubling its growth rate in the years ahead if the public and private sector fully collaborate in creating an environment in which this can happen. Achieving much higher rates of growth and labour absorption in the local economy depends on getting several things right, including attracting more fixed investment and encouraging entrepreneurship and capacity-building at all levels.

Although employment has grown, especially in the last two years as the Deputy President outlines, our rate

of unemployment remains high. Attaining the government's objective of halving poverty and unemployment by 2014 will only happen if business, labour and government join hands to tackle these issues collectively. Government and BUSA have already identified several areas of similarity in our approaches to addressing growth in this country. We both believe that the important areas to address are infrastructure, skills development, addressing the cost of doing business in South Africa, positioning South Africa for investment and addressing government's capacity to deliver.

We are very excited about the commitment the Deputy President has made to work closely with business in South Africa in identifying weaknesses, challenges and effective solutions for our country. As she said, BUSA has to focus in the next few years on bringing small and big business together. Only then will we be able to look back on the second decade of democracy as having created true empowerment and a better life for all.

BUSA believes that a focused strategy should be driven to ensure that SMEs become the economic growth engine that will address poverty and unemployment in South Africa.

In its role as a unified business organisation, BUSA should ensure that effective mechanisms are implemented that would enable, support and underwrite greater participation of SMEs in the local and global markets.

To stimulate debate around this important issue, BUSA and CHAMSA's planned Small and Medium Enterprises Conference will now take place on the 20th and 21st September 2005 at Gallagher Estate, Midrand.

The overall theme of the conference is "Unity of Purpose is Unity at Work". If you are interested in attending the conference, please contact Nicola Vilakazi at BUSA's offices on [nicola.vilakazi@busa.org.za](mailto:nicola.vilakazi@busa.org.za) or 011 784 8000.

## >QUERIES

If you have any queries regarding the articles or information in the BUSA Bulletin please contact the BUSA offices on 011-784 8000 or email [busa@busa.org.za](mailto:busa@busa.org.za)

## >NATIONAL CREDIT BILL

The Portfolio Committee on Trade and Industry held public hearings on the National Credit Bill on 5, 8, 10 and 17 August 2005. The groups and associations who made presentations under the auspices of BUSA included the Banking Association South Africa, Life Offices Association, South African Insurance Association, Retailers Association, Furniture Traders Association and Small Medium Enterprises.

The Portfolio Committee was extremely complimentary about the manner in which BUSA

co-ordinated and facilitated the business input on a very complex matter. Although there was broad support for the Bill, the different sectors highlighted specific areas that were of concern to their respective sectors.

The meeting ended with the Portfolio Committee acknowledging that they had heard what business representatives have said and would contact the relevant parties if they required further information or clarity on any of the points raised.

## >SOCPOL – DEPARTMENT OF LABOUR PRESENTATION

On 20 July 2005 the Standing Committee on Social Policy was briefed by the Department of Labour on the Department's new on-line system for the submissions of employment equity reports.

Section 21 of the Employment Equity Act deals with the submission of employment equity reports to the Department of Labour by employers. Large employers submit reports every year and smaller employers every other year. In 2005 only employers who

employ 150 or more employees are required to submit reports to the Department by no later than 3 October 2005.

The Department of Labour's new system will permit employers to submit their employment equity reports on-line through to the Department's website: [www.labour.gov.za](http://www.labour.gov.za). This system will be operational from 1 September 2005.

A copy of the presentation can be obtained from the BUSA offices.

## > TRANSPOL – FRONTING UNCOVERED

***Dr Siyabonga Ndabezitha, BUSA's Chief Officer of Transformation, submitted the following document to TRANSPOL in an effort to clarify the issues surrounding fronting.***

One of the greatest impediments to the effective implementation of the objectives of broad-based Black Economic Empowerment (BBBEE) is fronting.

As the findings of the recent investigation into contracts awarded by the Department of Public Works (DPW) over the last two years have revealed, fronting is very rife in the marketplace. Of the 45 businesses probed, 15 were found to be fronts. As a result of fronting, DPW has been 'fleeced of close on R500 million.'

The fronting incidents uncovered in the DPW's investigation invariably involve the misrepresentation and exaggeration of black shareholding in white businesses that were awarded contracts.

However, this form of fronting represents only the tip of the iceberg. Fronting manifests itself in many different ways, which can range from outright misrepresentation of a white business' equity ownership status to more sophisticated corporate structures designed to obscure the true nature of relationships between a company and its BEE partners.

Fronting is a source of grave concern for the public in general, and the business community in particular.

To appreciate the extent of fronting in the marketplace, it is important to understand the meaning of fronting within the context of BBBEE. The Codes of Good Practice on BBBEE released in December 2004 define fronting as 'any entity, mechanism or structure established to circumvent the BEE requirements as required under various policy instruments'.

At the core of fronting is the desire to circumvent the BEE requirements to

***The fronting incidents uncovered in the DPW's investigation invariably involve the misrepresentation and exaggeration of black shareholding in white businesses that were awarded contracts.***

make a commercial or an economic gain. In practice this assumes different forms. One way in which this finds expression is the inclusion of blacks among directors of the company without intending to accord them the standing of white directors.

While in some cases the victims are not aware of the full meaning of their actions, in other cases those appointed to such positions are aware of the fact that there is no intention to ever let them play the role their white counterparts will be permitted to play. This can happen both in the case of non-executive as well as executive directors.

Another form of fronting, which is not dissimilar from the above, takes the form of simply changing the name of the company and changing the racial composition of the company's frontline staff. This change might be accompanied by all sorts of cosmetic changes that do not go to the heart of the changes envisaged in empowerment legislation. The rest of the practices of the company are left intact.

In the area of employment equity, fronting might assume the character of employing people in positions for which they are never given the authority that should go with the job.

Finally, in some BEE transactions, sophisticated corporate instruments are employed to obscure the true nature of the relationship between the parties in a situation that is presented as black empowerment. In such situations, white shareholders might structure voting arrangements such that they maintain control and influence in a company that is otherwise presented as empowered.

As outlined above, fronting can manifest itself in many guises affecting any one of the various elements of the BBBEE scorecard. It is essential that all the social partners, including business, work together with the authorities to expose incidents of fronting. Only then can we stamp out a practice that is detrimental to the objectives of BBBEE and the transformation of the South African economy into a dynamic and globally competitive economy.

Profile of BUSA Member

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>Gerhard Joubert

The Life Offices' Association of South Africa, referred to as "the LOA", is a company limited by guarantee and is incorporated under Section 21 of the Companies Act, 1973.

The LOA is an association of registered long-term insurance companies conducting business in South Africa. The LOA is a forum where member offices can interact to promote their interests and the interests of current and future stakeholders.

The LOA recognises that these interests will be served best by a soundly managed economy with the benefits of economic growth being shared by an increasing proportion of our population.

The association, which was established in 1935, seeks to

promote the interests of the life insurance industry, and the insured public, in three ways:

>the association seeks to promote a better understanding of life insurance among the general population of the country

>the association represents the industry and its policyholders in negotiations with the authorities

>it is under the LOA that South African life insurers regulates their industry

The association's activities are directed by a Board of Directors. This Board of Directors consists of twelve members who are senior executives of member offices and who are elected at the annual general meeting. Gloria

Serobe is the Chairman and Mike Jackson is the Deputy Chairman.

Apart from certain administrative and official functions, the chairman is regarded as the life insurance industry's principal spokesman.

The association's day to day activities are conducted by a small secretariat, with the executive director Gerhard Joubert at its head.

The Board of Directors and the secretariat are assisted by a number of committees and sub-committees, the membership of which consists of executives from member life offices.

## Economic Review – In pursuit of higher economic growth by Jac Loubser member of BUSA Econpol

The announcement that a task team under the leadership of deputy president, Ms Phumzile Mlambo-Ngcuka, has been appointed to investigate boosting economic growth to at least 6% per annum should be welcomed.

The fact that the task team must report back as early as the end of September 2005 is evidence of the urgency of the matter.

There are obvious things that could be recommended and which could stimulate economic growth in the short term, such as a reduction in corporate tax and a concentrated campaign to deregulate the business environment.

It's a sobering thought that in most cases an acceleration in economic growth is not the result of economic reforms, and the vast majority of comprehensive economic reform programmes do not lead to accelerated economic growth. These are the findings of research conducted by three Harvard professors (Hausmann, Pritchett and Rodrik).

It would be incorrect to assume that there is a short list of four or five actions that South Africa can take to grow at a sustainable 6% per annum. The South African economy and society have more serious shortcomings that need to be addressed before we can reach this point. Some of them are well known, namely:

>Human capital is by far the most important production factor in the modern economy. South Africa has a shortage of skilled labour, and it is therefore vital that the available talent

be utilised optimally. The time for addressing the shortcomings in the education system is also long gone

>Productivity is not increasing fast enough to sustain a much higher growth rate. After increasing to 4.5% per annum in the second half of the nineties compared with 1.5% in the first half of the decade, growth in labour productivity in the non-agricultural sector declined to only 1.3% in 2004

***In an article on growth strategies, Dani Rodrik of Harvard University stated a change in the attitude of the political leaders in favour of a more market-oriented, private-sector-friendly policy***

The initial improvement in productivity was mainly achieved by the retrenchment of workers, which of necessity is not repeatable. The solution once again lies in the education system

>South Africa's savings rate of 13% of gross domestic product is too low to make a growth rate of 6% per annum possible, and foreign capital cannot fill the gap completely

However, there are also other "soft" issues that need to be addressed:

>A country's institutional framework plays a crucial role in economic growth, and care should therefore be taken to ensure that it functions properly. For example, a dysfunctional public service is not

compatible with high economic growth

>Research (inter alia by Francis Fukuyama of "The End of History" fame) has found that societies that display a great deal of trust among economic role-players achieve higher growth rates

>South Africa will have to find a balance between growth and redistribution in the order of priority of economic objectives

>South Africa will not achieve a growth rate of 6% per annum simply by boosting existing activities. Entrepreneurs play a crucial role in the growth process, and creating a culture that promotes and rewards entrepreneurship is therefore essential, especially for job creation

>Creating sufficient profitable business opportunities is of vital importance. In an article on growth strategies, Dani Rodrik of Harvard University stated that a change in the attitude of the political leaders in favour of a more market-oriented, private-sector-friendly policy framework is as important as policy reform itself

Economic growth is not a technical problem that can be addressed in a mechanistic way. Rather, it is a mystery, and policymakers must be willing to experiment to find a workable policy framework for South Africa's specific circumstances.

The key issue is whether South Africa's population has the ability to be as enterprising and hard working as a growth rate of 6% implies.

## Growing the economy and SME development by Deputy President Phumzile Mlambo-Ngcuka

**Business Unity South Africa had the honour of hosting a meeting with Deputy President Phumzile Mlambo-Ngcuka at the Hilton earlier this month.**

**She addressed leaders from both large and small business on the growing the SA economy and SME development. Her address follows:**

Since 1994 we have made great strides in establishing our democracy and providing a better life for all. And yet, in our election manifesto for last year's general elections we pointed not so much to our achievements, but to the work we still need to do so that we can halve the percentage of people living in poverty, and halve the rate of unemployment.

But before we look at the tasks that still lie before us, let's consider what we have achieved so far. We have brought our economic house in order. We have reduced government's debt and the deficit to the point that our financial management is seen as world class.

As a result, we have increased the average rate of growth from about 1% per year in the decade before 1994 to 3% per year in our first decade of freedom and we are currently growing at 4%.

Employment has grown, especially in the last two years, even though we still have a very high unemployment rate. The rate of unemployment has fallen from a high point of over 32% to under 27%.

And the signs are indicating that our efforts to increase the rate of investment are beginning to bear fruit with investment rising from a low point of 14% of GDP to close to 17% by the end of last year.

Because of the improved economic conditions and our stronger government management systems, we have made really significant social gains.

Our social grants, the pensions, the child support grant, the disability grant and the foster care grant now reach about 90% of intended recipients - a huge improvement. By December last year 10 million South

***We have issued nearly two million housing subsidies since 1994, and built more than 1.5 million new houses.***

Africans have received access to potable water since 1994.

We have issued nearly two million housing subsidies since 1994, and built more than 1.5 million new houses. Primary school enrolment has risen to over 95%, and secondary education enrolment is now 85%. These are just some examples of our social achievements, without even mentioning access to electricity, communications, and the provision of free basic services.

Our economic objectives are simple to describe. We want to halve poverty and unemployment by 2014. To do this we have to raise the rate of economic growth to 6%, and we

have to include the excluded, those living in the second economy. These are two sides of the same coin.

If we don't increase economic growth, we won't be able to address the challenge of the second economy; and if we don't address the challenge of the second economy we will risk rising conflict and falling confidence, which will deter investors. Alongside these goals is the overall goal of transforming the economy so that all our citizens are able to contribute to their fullest ability.

How do we grow the first economy, and raise our growth rate to 6%?

I can give you a flavour of some of the key strategies. Firstly, investment.

The Government is escalating its own rate of investment from extremely low levels. The main vehicles for investment are the public corporations like Eskom and Transnet, and the municipal and provincial infrastructure grant programmes.

Projects include upgrading Spoornet, building a new pipeline between Durban and Johannesburg, Eskom building new power stations, and refurbishing others, and agencies improving the infrastructure in the poorer parts of the country, especially roads, communications, electricity and water. Because we have reduced government debt and the cost of borrowing, we are in a much better position today to make the investments we want to make.

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## Growing the economy and SME development by Deputy President Phumzile Mlambo-Ngcuka

But most new investment in the future will come, as it always has in South Africa, from the private sector. Three quarters of investment currently comes from the private sector. To increase private investment so that we get to 6 % growth, we as government have to work with business, and with labour, to identify and develop the best investment projects we can.

We have discussed the matter with the private sector and the unions, and we have agreed that we have to develop more effective industrial policies. In other words, strategies aimed at developing a potentially strong sector of the economy.

In the past the government and its social partners have worked well together in developing and implementing strategies for the motor industry and for the tourism industry. We can do it in other industries too, and we plan to do so.

One sector that we are looking into quite carefully (for example) is the business process outsourcing industry. This is a general name for the industry where some of the work of businesses in countries where labour is expensive is moved to developing countries. India has managed to create many jobs in the software engineering sector, and also in call centres.

In South Africa we already have some investments in call centres, and we also do quite a lot of administration of insurance policies for companies in other countries, especially the UK.

These are very labour intensive

activities. If government, labour and business work together effectively in developing a business process outsourcing industry in South Africa, we could create over 150 000 new jobs within the next five years, and many more afterwards. These are figures from a study of South Africa done by the international consulting company McKinsey.

Another key challenge is in human resource development. We have an economy that is short of key skills. We are not only short on the high level skills that need university degrees, but

***We are not only short on the high level skills that need university degrees, but also the bread and butter artisan skills such as welders and electricians.***

also the bread and butter artisan skills such as welders and electricians. Here the main challenge is to get our industrial training systems and our formal education systems working together effectively.

We believe that we are making progress in this respect. For example, the departments of Labour and Education are working together to fix the technical colleges (the Further Education and Training system).

Empowerment remains a key element of our strategy to build the economy and to build democracy. Without effective empowerment programmes, our economy will have feet of clay that can crumble under

stress. With effective empowerment our capacity to build businesses and create jobs will expand rapidly. The key role of business is to ensure that we have the right kind of empowerment - not just the transfer of share certificates, but real investment skills and new business activities. We are obviously jointly responsible in this task as in many other tasks. If we do it together in the right way it will serve our mutual long-term interests of growth and employment creation. I have already mentioned some of our second economy initiatives and plans. I will mention a few more here. One is the Expanded Public Works Programme.

From the beginning of April last year to the end of March this year we have created 175 955 net work opportunities. It will expand far beyond that.

We also have a new agricultural credit scheme for emerging farmers. We have transferred R100 million to the provinces for Farmer Support Programmes, we are setting up an APEX fund for micro-credit for very small businesses, and we will be amending several laws this year to encourage the promotion of cooperatives and banking services for the poor.

Other key growth challenges are improving the quality of regulation. This brings me to small businesses. Small businesses in particular have an excessive regulatory burden at present which dampens business responsiveness and potentially discourages entrepreneurship.

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## Growing the economy and SME development by Deputy President Phumzile Mlambo-Ngcuka

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We are working on how to make the regulatory environment more attractive for small businesses.

We have already announced that we have reduced the tax administration workload, and several other unnecessary burdens, but we think we can further improve the environment. Good progress has been made with regard to small business development. The emerging of Ntsika and Namac (National Manufacturing Advisory Centre) into the Small Enterprise Development Agency (SEDA) is progressing smoothly with the Chief Executive Officer having been appointed and the National Small Business Act amended, as a legal framework for SEDA's establishment.

Given the need identified to clarify the corporate governance framework between national, provincial and local structures, SEDA is currently engaging with the provinces to establish working relationships. SEDA is also busy fast tracking implementation strategies and systems. The integrated small business strategy is being reworked for presentation to Cabinet.

However, a number of challenges still remain for SMME development. Key amongst these is that the culture of pursuing self-employment in South Africa is low compared to other developing countries. The Global Entrepreneur Monitor (by University of Cape Town and London School of Economics) ranks South Africa to be 24th out of 34 countries in

terms of Total Entrepreneurship Activity.

The main contributing factors are culture (e.g. communities tend to respect/prefer highly paid white collar individuals compared to a small business person), lack of entrepreneurship education, lack of awareness and perceived difficulty in starting a business. This is largely a problem that faces black youth.

In addressing these challenges, the role of the business community is important. The initiative of CHAMSA and BUSA as discussed in the Presidential Business Working Groups around small business promotion and development must be accelerated and expanded.

In particular, the initiatives around improving SMME access to information, services and training; assisting existing SMMEs to be economically viable; and facilitating partnerships between existing business and emerging black business should receive focus.

Big business through their procurement policies can play an important role here as demonstrated by Anglo American's Zimele programme or the programme run by South African Breweries.

Access to finance also remains a challenge, largely as a result of the Financial Services Charter. There are signs of the formal banking sector increasing its participation in this market. The challenge that remains

is entrepreneurs in the rural and pre-urban areas that are still disadvantaged. Young people, due to lack of assets and experience, also battle to find ways to start or sustain businesses. Banks tend to have a bias towards loans that start from R150 000 upwards. The average for SME loans would be around R250 000, which is too high for many start-ups. SEDA provides Business Development Support to SMMEs and the Umsobomvu Youth Fund runs a successful Business Development Support programme.

The challenge is a lack of integration between the Business Development Support initiatives and lending activities of the mainstream banks (and other lending programmes) which could further enhance access to finance and mitigate credit risk. To address these problems, partnerships between business and government are required.

That should give you a flavour of our work ahead, the remaining challenges and proposed solutions. Very little of it can be done without effective cooperation between government and business.

I believe that we have shown in the past that we are steady partners. We are serious, we are dedicated, and we are here to fulfil our electoral mandate. We think business has shown too how they can be effective partners. At a national level, the Business Trust is an excellent example to us all. Our future is about effective partnerships. Let's continue to build them, day by day.

## Upcoming Events

### > BUSA TO HOST GALA DINNER FOR THE DEPUTY PRESIDENT

BUSA is proud to be hosting a gala dinner on 9 September 2005 in honour of our recently appointed Deputy President of the Republic of South Africa, Ms Phumzile Mlambo-Ngcuka.

As the organised business constituency, we want to pay tribute to the Deputy President for the role that she has already played in building our nation and also to congratulate her on her appointment to this high office -

the first woman in South Africa's history ever to hold such a senior position in Government.

This prestigious event, sponsored by Sanlam, will be attended by about 1000 senior business people from all around the country.

More information can be obtained from Ms Dorothy Coston at the BUSA Office on [dorothy.coston@busa.org.za](mailto:dorothy.coston@busa.org.za).

### > EXPLORING THE IBSA INITIATIVE

The IBSA Business Council was established in March 2005 by organised business from India, Brazil and South Africa on behalf of business in their respective countries.

IBSA Business Council aims to play an active and facilitating role in promoting trade and co-operation between the business communities in the three countries.

As part of efforts to enhance IBSA's South-South trade initiative, the South African Institute of International Affairs (SAIIA) has joined forces with the Brazilian Institute for International Trade Negotiations (ICONE) and the Indian CUTS-Centre for International Trade, Economics and Environment (CUTS-CITEE) in a year-long transcontinental research project aimed at encouraging policymakers, the business sector and civil society organisations to work together to translate IBSA's broad action plan into tangible results.

BUSA and SAIIA invite you to make inputs into these studies, and to learn more about the IBSA process and its implications for your business by attending a meeting on these issues that will be held at 10am on 27 October 2005 at the BUSA offices.

Those wishing to attend are asked to email Ms Judy Davies on [judy.davies@busa.org.za](mailto:judy.davies@busa.org.za) or to call 011-784 8000.

### > BUSA AND CHAMSA TO HOST SMALL MEDIUM ENTERPRISES CONFERENCE

BUSA and CHAMSA will host a Conference for Small and Medium Enterprise on 20 and 21 September 2005 at Gallagher Estate, Gauteng.

This conference is aimed at improving meaningful participation of previously disadvantaged individuals in the economy. These individuals and groups, including women, youth and the differently abled will now be given assistance to benefit from business opportunities.

The Conference is endorsed

by the Department of Trade and Industry. The plenary session discussion topics include BEE Scorecards, Business Strategies for the new economy and Capacity Building for SMEs.

In addition, there will be sessions on Tax and SMEs, Occupational Care, Business Plan Development and Finding the right partner for BBBEE deals. All speakers are industry leaders. Those wishing to attend should contact Ms Nicola Vilakazi on [nicola.vilakazi@busa.org.za](mailto:nicola.vilakazi@busa.org.za)