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Message from the CEO



> *BUSA CEO Bheki Sibija*

Since BUSA's creation in October 2003, we have aimed to tackle many issues facing organised business in this country. Although many challenges remain, some of the more recent noteworthy achievements include:

BUSA has been promoting greater unity in the business constituency by pursuing formal linkages with other business-funded institutions. In particular, BUSA has signed a memorandum of agreement with the South African Business Coalition on HIV/AIDS (SABCOHA), with Business Against Crime (BAC) and the NEPAD Business Foundation (NBF). These initiatives prevent duplication of efforts and services and also allow for more effective and co-ordinated business interventions in the general

business arena. As you are aware, we recently conducted a feedback exercise amongst our members to establish where we are succeeding and where we need to improve. We thank all of you for giving your time to participate in this survey. We have been studying the findings and will revert back to our members over the next few months.

During the last few months, we have played a role in important issues facing South Africa today. The most crucial, I believe, is the issue of broadening the base of empowerment in this country. BUSA has been engaging government, corporates and other stakeholders on issues of broad-based black economic empowerment (BBBEE) to influence appropriate legislation to create an enabling environment for the transformation of the South African economy into a dynamic and globally competitive economy. We therefore participated in the consultative processes leading up to the release of the revised Codes of Good Practice on BBBEE on 24

We are pleased to note that the revised version of the Codes deal with some of our previously expressed concerns...

June 2005. BUSA wholeheartedly supports the fact that the revised Codes emphasise that empowerment, transformation and economic growth are interlinked and move away from the narrow-based measurement and definition of BEE that focuses only on equity ownership and control.

We are pleased to note that the revised version of the Codes deal with some of our previously expressed concerns, although we are still concerned about the complexity of the regulatory environment established by the Codes

In addition, the draft Codes dealing with the measurement of employment equity, skills development, preferential procurement and enterprise development elements of BBBEE are still outstanding. BUSA urges the dti to release the draft versions of these Codes as quickly as possible.

BUSA's Transformation Officer outlines our position on the codes in more detail in his review in this newsletter.

Profile: BUSA Member

SABTACO

The South African Black Technical Allied Careers Organisation (SABTACO) is featured as part of the BUSA Member profile this month...

Founded in 1990, SABTACO has grown into a national organisation representing members in the science and engineering disciplines. Members are categorised into public and private companies, practitioners and employees in relevant technical disciplines.

SABTACO has active branches in all nine provinces of South Africa and is in the process of creating alliances with similar organisations globally.

Their mission is to facilitate the creation of an environment conducive to the development and promotion of science and engineering skills in the black community.

The organisation also aims to enable effective utilisation of current

and future potential of technical skills in South Africa

SABTACO has developed student programmes at many tertiary institutions around the country. They conduct regular workshops, training and career guidance programmes, encourage technical skills and promote careers in tertiary institutions.

Through strategic alliances with recruitment agencies and direct liaison with employers, SABTACO is able to assist practising and student members to acquire relevant employment opportunities.

SABTACO offers its members and stakeholders opportunities to network and exchange ideas through regular forums with consultants, practitioners and students. Through this initiative SABTACO provides technical advice to local authorities, NGOs and CBOs in their pursuit of economic development.

BUSA was delighted to host the **Small Business Project (SBP)** launch of the South African Regulatory Compliance Cost Survey "Counting the cost of red tape for business in SA" on the 23rd June 2005 at BUSA offices.

SBP and the Commonwealth Business Council (CBC), working in partnership, are currently engaged in this two year project to raise awareness of the importance of regulatory best practice (RBP).

The project was launched in December 2003. To read the survey go to www.sbp.co.za

BUSA CEO Bheki Sibiyi attended the **World Economic Forum African Summit** held in Cape Town from 1-3 June. The Summit focused on the recent Commission for Africa report which calls on the G8 to boost African efforts to improve governance and institution building by doubling aid.

Mr. Sibiyi said: "I think the effects will enable the continent to improve infrastructure and product capacity and this will in turn promote exports, enabling the continent to reduce its debt."

What has BUSA been doing?

At its last meeting the **Socpol Standing Committee** was addressed by Ms Nerine Kahn, Senior Executive Manager: Labour Relations in the Department of Labour and Acting Compensation Commissioner.

In regard to the Compensation Fund, Ms Kahn briefed members on backlogs, pending court cases, poor stakeholder relations, deficient management information systems and out-dated IT infrastructure. Ms Kahn then detailed the processes she had instituted, or was in the process of putting into place, to address these problems. Ms Kahn indicated that she had an open-door policy and would welcome further interaction with business representatives.

The **Standing Committee on Transformation** met on 13 July 2005. Several topical issues were highlighted on the agenda:

> **Fronting Project** – A draft 'Guide to Reduce Incidents of Fronting in BBBEE Transaction' is being considered for approval.

> The Minister of Trade and Industry unveiled the draft amended **Codes of Good Practice on BBBEE** to the BUSA senior leadership and member organisations on 24 June 2005. Copies of the amended Codes were circulated to TRANSPOL members.

> A draft **Health Sector Charter** was released on 11 July 2005 for public comment. As the closing date for the submission of comments on the Health Sector Charter was 15 August 2005, the Monitoring and Reporting Task Group was directed to expedite the coordination of comments on the Charter.

What has BUSA been doing?

4th World Chambers Congress closes

On the second last day of the 4th World Chambers Congress (WCC), President Thabo Mbeki addressed the 800 international business delegates, urging them to issue a common message to the leaders of the G8 meeting.

“We should communicate a common message that it is in the interest of international business to ensure market access for developing countries because this will accelerate the necessary growth of entrepreneurship and business in these developing countries,” President Mbeki said.

Joint Global Business Coalition on HIV/AIDS

BUSA and the Joint Global Business Coalition on HIV/AIDS recently hosted a breakfast with Ambassador Richard Holbrooke, President and CEO of the Global Business Coalition on HIV/AIDS and a delegation of international business leaders.

Ambassador Holbrooke emphasised that education and testing were the keys to prevention and ‘saving your great country.’

“People respond to their employers,” he said. “By encouraging testing, you can do so much more than governments and clinics.” The Ambassador reiterated that the lack of testing was the weak link in the war on AIDS.

Economic Review: Sanlam Limited: Group Economist Jac Laubscher

South Africans are accused of being obsessed with the rand exchange rate. Even if they were, it's perhaps not without reason.

The fact of the matter is that during the past ten years the fluctuation in the value of the rand has played a decisive role in the economy. For a start, it has had a determining effect on inflation, and therefore on interest rates. The same can be said of economic growth; at least as far as the sector composition thereof is concerned. Occasionally unexpected movements in the exchange rate have also resulted in government finances not going according to budget.

Movements in the rand direct the financial markets as far as trends and volatility are concerned. And this does not apply only to South Africa – every crisis in emerging markets over the past ten years originated in currency markets. In a world of financial globalisation, international capital flow is often the dominant influence.

South Africans usually argue that the Rand exchange rate is determined exclusively by local events. However, it is not that simple – exchange rates are determined by international economic conditions, in particular as far as the flow of capital across international borders is concerned. The strong rand exchange rate over the past three years can be attributed mainly to four factors:

>The recovery in the value of the rand from an extremely undervalued level following the sharp depreciation in late 2001.

>The improvement in South Africa's terms of trade (the relationship between prices of exports and imports) owing to strong global economic growth, including the emergence of

China, which has resulted in the demand for commodities skyrocketing. This trend was further underpinned by the lack of investment in new capacity by commodity producers in the nineties.

>The depreciation of the dollar in response to the rising US current account deficit.

Looking for reasons in South Africa for the rand's show of strength is futile. In recent years international conditions have been very favourable for financing South Africa's rising current account deficit, but the cycle is turning.

The global slowdown in economic growth is still to be reflected in lower commodity prices, the status of the dollar as the global reserve currency is no longer being questioned, US interest rates are likely to continue rising and eventually result in higher long-term rates, and emerging market risk premiums are at historical lows.

The weakening of the rand from R6,00/\$ in May 2005 to a low of R6,90/\$ on 1 June was not due to the cut of 50 basis points in the Reserve Bank's repo rate in April, as the rand is far too volatile for foreigners to park short-term funds in South Africa. It was also not due to statements by the Reserve Bank or the ANC that the rand is too strong.

The Rand, the Hungarian Forint and the Turkish Lira have moved in tandem, as indicated in the accompanying graph. The common factors with regard to these three countries are that they all have large deficits on the current account of the balance of payments, and all are tied to the euro as the benchmark currency

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Economic Review cont...

The fact that these three countries have all displayed currency weakness in recent times is probably partly an indication that the inflow of capital to emerging countries has reached a turning point.

Countries burdened with large current account deficits will be the first to feel the pinch.

In South Africa's case, the sharp decline in the balance on the financial account and the negative trend in unrecorded transactions in Q1 2005 serves as confirmation of the changing climate for capital flows. Strong net purchases of SA equities and bonds by foreigners are supporting the rand for the moment, but they are bound to slow down.

However, the fact that the British company GUS has decided to sell its 50% share in Lewis Stores in South Africa to reduce its debt levels in Britain is sobering. Lewis Stores is in one of the strongest growing sectors in the South African economy, which will continue to benefit from the growing black middle class in the future.

On the other hand, the after-tax interest rate in Britain is only about 3%. GUS decision therefore definitely does not appear to be a motion of confidence in the South African economy.

The purchase by Barclays plc of a controlling interest in ABSA is regarded by some as the start of a new era, with the drought in direct foreign investment having been broken.

The conclusion is that South Africa should not count its chickens before they have hatched. Policymakers must be aware of the wider international context within which South Africa is moving and not be blinded by local developments.

Opinion piece – BBBEE Codes of good practice by Dr Siyabonga Ndabezitha

BUSA'S INPUT ON THE DRAFT AMENDED CODES OF GOOD PRACTICE ON BROAD BASED BLACK ECONOMIC EMPOWERMENT (BBBEE) UNVEILED ON FRIDAY, 24 JUNE 2005.

Below is an outline of our detailed response sent to the Minister of Trade and Industry, Mr M B M Mphahlela:

BUSA is committed to the effective implementation of BBBEE and will continue to work with government in developing a BEE regulatory environment conducive to greater investment, growth and sustainable economic transformation. BUSA therefore welcomes and supports the amended Codes, which represent a significant improvement on the version released for public comment at the end of last year.

Now that the BUSA Task Team on BBBEE has had the opportunity to interrogate the amended Codes, we wish to bring the following to your attention:

BUSA has noted with gratification that a significant number of principle and other concerns articulated in its submission on the first draft of the Codes have now been addressed in the amended Codes. This is inspiring, as it demonstrates the Minister's commitment to meaningful consultations with organised business and other stakeholders.

While BUSA acknowledges that a number of positive changes have been effected in the contents of the amended Codes, BUSA believes that there is still room for improvement in the draft amended Codes.

In view of this, BUSA suggests that

the following changes be incorporated in the draft amended Codes to help bolster the effective implementation of the objectives of BBBEE in the economy:

>One of the primary objectives of BBBEE is to promote sustainable economic transformation that empowers a broad base of individuals and enterprises.

To accomplish this, the Codes specify the obligations of organs of state and public entities in relation to the implementation of BBBEE and encourage the private sector to apply the same BBBEE principles in their interaction with one another. This formulation has, however, created an erroneous impression that those business sectors that do not, in their day-to-day economic interaction, directly interface with the private sector, organs of state and public entities are somewhat outside the ambit of BBBEE. This is an incentive for business to do more than meeting the minimum BEE requirements. Business must be encouraged to embrace BBBEE.

For this reason, BUSA strongly urges the Minister to consider introducing bonus points for businesses that far exceed the minimum requirements in complying with the other pillars of the BBBEE scorecard.

BUSA supports the overall target of 50% on discretionary procurement spend. However, BUSA contends that a mechanism needs to be built into the Codes to ensure that at least a sub-minimum of 40% is spent on each item of discretionary procurement before a business can claim to have met the

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BBBEE Codes of good practice cont...

overall target of 50% on discretionary procurement spend.

While the charter compliance challenges faced by diversified enterprises that straddle a number of economic sectors have been addressed in the amended Codes, new difficulties have arisen as a result of the way some enterprises are structured. In particular, whereas it is clear that a subsidiary enterprise may not use its BEE compliance level as that being applicable to its holding enterprise, it is not clear how to measure the BEE compliance levels of independently operating divisions or business units. More clarity is needed on this matter to avoid confusion.

A new institution (Industry Body) has now been introduced into the verification process. This makes the process more complex. Consideration needs to be given to simplifying the process and to explain how the proposed new institution will interface with the Charter Councils, on the one hand, and the BEE Advisory Council on the other hand.

The methodological underpinnings for reporting under the Employment Equity Act, Skills Development Act and the BBBEE Act are different. BUSA wishes to emphasize that the implications of these methodological differences be carefully examined and rationalized so that businesses operating in sectors with charters will not, once the Codes are gazetted, be expected to report in terms of the Employment Equity Act, Skills Developments Act and the BEE Act.

BUSA supports the development of an economic environment in which businesses of all sizes and in all sectors can thrive, expand and be competitive both nationally and internationally.

As different sizes of business operate under different conditions in many respects, the circumstances facing small and medium-sized enterprises (SMEs) need to be taken into account in the formulation of economic and industrial policies.

BUSA therefore hopes that Code 001, the SME scorecard, will adequately address the concerns of SMEs regarding compliance with the seven pillars of the BBBEE scorecard. While improvements have been effected in the contents of the Codes, BUSA believes that the obscure language used in some statements of the Codes makes it difficult for an average person to understand the main thrust of the Codes.

BUSA is still very concerned about the delay in releasing the outstanding Codes, as the delay inadvertently encourages businesses to adopt a piece-meal approach to compliance with BBBEE. BUSA urges the dti to expedite the finalisation and release of all outstanding Codes in order to :

- > provide the business community with a comprehensive understanding of what is expected of them in terms of successful implementation of BBBEE; and

- > encourage businesses to adopt a holistic approach to the implementation of BBBEE. BUSA, however, reserves the right to submit further comments on the existing Codes and statements once the remaining outstanding Codes and statements are released for public comment. It is BUSAs view that the incorporation of the above-proposed changes in the current draft of amended Codes will create more certainty and predictability in the marketplace, and assist to pave the way for the implementation of BBBEE in the economy.

BUSA's latest acquisition

Nwabisa Matoti is a BCom honours graduate and is currently completing her MCom in Economic development and policy issues at the University of Johannesburg. She joins the BUSA staff this month. Ms Matoti comes from a banking background, and will be managing the Econpol Standing Committee at BUSA where she hopes to gain an intimate view of business through practical experience. Ms Matoti recently attended a meeting with the IMF.

IMF information sharing session with the Nedlac constituencies on 10 June 2005. She reports as follows:

The IMF stressed the importance of macroeconomic stability that forms a basis for rapid economic growth which is vital for poverty alleviation. GDP growth in South Africa amounted to 3,5 % during the first quarter of 2005, and the IMF forecasts a 4 % growth this year. Furthermore, the IMF recommended structural reforms as key to achieving rapid sustainable growth.

The following issues, amongst others, were raised by business:

- > Sustainable policies are needed to increase the level of economic growth. Small businesses should be allowed to grow more aggressively, but not in a bureaucratic way.

- > There is a need to improve the level of foreign direct investment.

- > Labour market flexibility would reduce the burden on small businesses.

In conclusion, the IMF stated that the only way to respond to the formidable challenges of achieving rapid sustainable economic growth and poverty reduction is to tackle them head-on, and the IMF is already working on ways in which it can assist Africa in this regard.