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BUSA
BUSINESS UNITY SOUTH AFRICA

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contents

- 2 BUSA Activities
- 5 Opinion piece – *BUSA's view on SMEs*
- 6 Profile of BUSA member
- 7 Economic Review *by Jac Laubscher*
- 9 Upcoming Events

Message from the CEO



> BUSA CEO Bheki Sibiyi

The last few months have been very exciting for BUSA, with a fruitful BUSA meeting with President Thabo Mbeki, a wonderful BUSA celebratory dinner with the Deputy President and a dynamic conference on SME development.

As you can see, the issue of ensuring growth in our country remains a core theme in our current activities. During our

discussions with President Mbeki, he emphasised that an accelerated and shared growth strategy, with all the elements that accompany this, including skills development, employment creation and SME development, is a crucial topic for continued discussion between government and business.

BUSA believes that an enterprise driven solution will be the most appropriate route to follow to achieve a 6% growth rate

BUSA believes that increasing South Africa's GDP growth rate to greater than 6% per annum, when combined with substantial micro-economic reforms, would materially address unemployment, facilitate greater transformation (because of the higher growth in economic opportunities), reduce poverty and help address absolute levels of inequality – particularly in relation to the unemployed.

However, BUSA fully recognises the challenges in achieving this and believes that an enterprise driven solution will be the most appropriate route to follow – especially at the small and medium enterprise level. Clearly all social partners, including business,

government, parastatals and labour, have a role to play in achieving this end.

In line with this, BUSA's submission to the President focused on the following core areas:

- The sound macroeconomic framework foundation achieved through appropriate fiscal, monetary and trade policies should be further built on to continue to grow investor confidence in the country
- South Africa needs to adopt an "Enterprise Development Strategy" which supports and promotes the development and growth of small and medium businesses
- South Africa should adopt a regulatory impact assessment strategy (RIAS) which tests the impact of new legislation on investment, growth, employment and empowerment
- A comprehensive review of red tape should be undertaken with a view to reducing the compliance costs on business (especially small business)
- The teams working on logistical infrastructure bottlenecks must expedite their work programmes
- Partnerships at the local level may be necessary to facilitate real delivery of services
- A more comprehensive assessment of the lack of competition in key markets is required

Message from the CEO (continued)

- A benchmarking exercise that highlights the costs for factor inputs versus key competitor countries needs to be done

During the meeting with the President it was agreed that:

- There would be further consultations between government and BUSA regarding the development of an accelerated and shared growth strategy
- Greater focus would need to be put on labour intensive initiatives that were sustainable from environmental and commercial perspectives. In so doing, special attention would need to be placed on the initiatives that would have the greatest impact on poverty alleviation
- To promote effective dialogue between BUSA and government, BUSA needs to have more structured interactions with the Directors General and Ministers of the economic cluster

As the development of the accelerated and shared growth strategy was still at an embryonic stage, BUSA was promised that the next government presentation on the subject would have clear performance indicators and timeframes. However, we are pleased with the progress we have achieved so far and look forward to continued interaction with government on this matter.

Our celebratory dinner with the Deputy President was attended by more than a 1 000 highly esteemed guests from government and business. Deputy President Phumzile Mlambo-Ngcuka also reiterated President Mbeki's call on business and government to work closely together to address growth and poverty alleviation in this country.

In line with the core role enterprise development and small business development will play in achieving the higher growth rate for our country, BUSA and CHAMSA hosted a Conference for Small and Medium Enterprise in late September 2005. Several quality issues

were discussed during the two days, with a series of high-level speakers such as the honourable Minister of Trade and Industry, the Gauteng Premier, Mr James Emery from the World Bank and Mr Lionel October from the Department of Trade and Industry. Following the conference, BUSA is now in the process of finalising its formal SME strategy, which will be made available to members and other stakeholders for input. More information on BUSA's approach to SME can be found on page 5 of this newsletter.

Furthermore, BUSA has recently signed a Memorandum of Understanding with the International Trade Centre (ITC) to hold joint workshops to train various role players in the exports of services. Three separate workshops were held at the end of October. During these workshops members debated the current government negotiations of a number of bilateral and multilateral trade agreements. These negotiations have historically been restricted to trade in goods, but more recently negotiations have been extended to the services sector. Detailed feedback will be provided to members.

Lastly, BUSA concluded an agreement with Environmental Affairs and Tourism Minister, Minister Martinus van Schalkwyk, to collaborate on the establishment of a national greenhouse gas inventory. Once a set of national guidelines has been developed, all businesses operating in sectors identified in the International Guidelines for emissions will be encouraged to submit emission data. Further details on this can be found on page 3 of this newsletter.

In the meantime, please diarise our upcoming Annual General Meeting on 24 November 2005 at the Hilton Hotel in Sandton at 16:00 for members and 17:00 for invited guests.

BUSA Activities

Social Health Insurance and Low Income Medical Schemes

Dr Jonathan Broomberg, General Manager: Strategy and Health Policy at Discovery Health, is co-ordinating a consultative investigation into low income medical schemes (LIMS) on behalf of the Council for Medical Schemes and the Ministerial Task Team on Social Health Insurance. The LIMS process is designed as a combined research and stakeholder consultation process which it is hoped will develop consensus amongst as wide a group of stakeholders as possible regarding the extension of medical scheme coverage to low income households, prior to the reforms envisaged for the implementation of social health insurance. Dr Broomberg briefed members of the Standing Committee on Social Policy and a number of guests with an interest in this subject on 19 October 2005. The Standing Committee is now in the process of establishing a Task Team to develop the BUSA position on the basis of which further engagement with Dr Broomberg will take place.

*For further information, contact
Corinna Gardner at the BUSA Office.*

Queries

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

BUSA Signs an Agreement on Climate Change with the Minister of Environmental Affairs and Tourism

On Monday, 17 October, BUSA concluded an agreement with Environmental Affairs and Tourism Minister, Martinus van Schalkwyk, to collaborate on the establishment of a national greenhouse gas inventory. Once a set of national guidelines has been developed, all businesses operating in the sectors identified in the International Guidelines for emissions will be encouraged to submit emission data.

Addressing the gathering at the signing of the agreement, BUSA President, Patrice Motsepe, indicated that business welcomes the recognition in the National Climate Change Response Strategy that it has a role to play in addressing the challenges of climate change. He committed business to working with government and other stakeholders in meeting these challenges.

BUSA believes that a national approach to climate change rests on three broad areas:

- the development of an accurate

sustainable national greenhouse gas inventory covering all sources of emissions

- the development of a national adaptation plan
- the incorporation of mitigation approaches in sectoral development strategies

BUSA recognises that any attempts to develop strategies to reduce overall greenhouse gas emissions must be based on a solid understanding of both the amount and sources of all gases and must be pursued within the context of the need to increase industrial production.

BUSA believes that as the major contributor to greenhouse gas emissions in Africa, South Africa needs to play a much stronger role in international deliberations. We look forward to working with government and other stakeholders in strengthening national positions for forums such as the upcoming Conference of the Parties of the UN Framework Convention on Climate Change.

For further information, contact Nwabisa Matoti at the BUSA Office.

Database for BEE service providers

The BUSA Standing Committee on Transformation is considering the development of a database for BEE Service Providers to assist enterprises to have access to the available black talent, skill and expertise that exists in South Africa.

The Standing Committee members feel that BUSA is strategically positioned to develop such a database as it is the principal organisation that represents the interests of businesses, business people, employers and professional entities in South Africa.

Project on Preferential/Affirmative Procurement

In line with its commitment to the effective implementation of the objectives of BBBEE, BUSA has commissioned research to shed light on the current state of preferential procurement in the economy. The primary objective of the project is to evaluate the effectiveness of preferential procurement in promoting the BEE and transformation processes.

The project proceeds from the premise that preferential procurement is an important vehicle for implementing sustainable BBBEE.

The project proceeds from the premise that preferential procurement is an important vehicle for implementing sustainable BBBEE. In the light of this, the project seeks to:

- determine the value of goods and services procured from BEE entities
- identify the areas of procurement that BEE entities participate in
- identify the sectors/industries of the economy that contribute significantly to BBBEE through preferential procurement and those that lag behind
- identify the emerging trends with regards to preferential procurement
- make some broad generalisations regarding the current state of BEE preferential procurement in the economy

African Union: African Peer Review Mechanism

The African Peer Review Mechanism (APRM) is a voluntary self-monitoring tool that was agreed upon by member states of the African Union at the 6th Summit of Heads of State and the Government Implementation Committee of NEPAD held in March 2003. The process to conduct the South African APRM was launched by the Minister of Public Service and Administration, Ms Geraldine Fraser-Moleketi, on 13 September 2005.

BUSA CEO, Bheki Sibiyi, was present at this launch and expressed BUSA's support for the Peer Review process.

In line with APRM Guidelines, the South African review process will culminate in a country assessment report and a programme of action. In order to

A national consultative conference on the APRM took place at the end of September, followed by a series of provincial conferences and community level workshops.

develop the report and build consensus on the accompanying programme of action, a broad-based consultative process is being implemented.

A national consultative conference took place at the end of September and will be followed by a series of provincial conferences and community level workshops. Mechanisms have been put in place to involve civil society, the youth,

women's groups, faith-based organisations, organised labour, organised business, organisations representing people with disabilities and NGOs.

All these sectors of society are being encouraged to make submissions on all, or any, of the APRM's four focus areas, namely: Democracy and Political Governance; Economic Governance and Management; Corporate Governance and Socio-economic Development.

To facilitate the submission process, an APRM questionnaire is available on the website of the Department of Public Service and Administration:

www.dpsa.gov.za

It is anticipated that the final report will be published in June 2006.

Skills Development for Future Growth and Job Creation

The BUSA Sub-Committee on Education and Training is giving attention to proposals to improve skills development in South Africa. Currently, the system is not producing enough people with skills, it is not delivering the skills the economy needs and it costs too much for the results it yields. Therefore, the Sub-Committee is looking at ways in which to:

- increase the quantity of skills
- improve skills relevance and quality
- offer better value for money

The Sub-Committee has identified four pillars that should underpin improved skills development, namely:

- an integrated HRD strategy and system based on agreed objectives and linked to the economic growth, development and transformation plans for the country
- effective and measurable impact
- a common vision embraced by all
- committed leadership

The Sub-Committee believes that successful skills development in South Africa is more likely if government, labour and business work in partnership to develop shared understandings of the challenges we face, together with practical and effective initiatives to solve them. It is currently developing proposals for

appropriate interventions to:

- improve co-ordination and effective alignment of the system
- strengthen the capacity of the skills development institutions
- develop impact measurement tools

The Sub-Committee is also working on proposals regarding the establishment of a high-level Task Team of stakeholders to provide a forum to agree upon the measures needed, and their implementation, to ensure a skills development system capable of supporting South Africa's economic growth and job creation potential.

European Union – SADC Business Forum

In September, the BUSA COO attended a meeting in Brussels organised by the SADC Group of Ambassadors with the objective of bringing together the business communities from Southern Africa and the European Union. It was resolved at the meeting that attempts should be made to establish an EU-SADC Business Forum to provide a platform for the private sectors from Europe and SADC to interact to make the most of potential trade and other opportunities. It appears as if the main focus of the Forum will be the Economic Partnership Agreements that will replace the Cotonou Agreement between the EU and the African Caribbean Pacific group.

BUSA has agreed to support the establishment of the EU-SADC Business Forum on the basis that it will be a body that can achieve its stated aims and objectives, and provided that BUSA should be represented on such a forum in its own right and not only through the SADC Employers' Group.

At the meeting in Brussels, the European Union made a presentation on a number of EU Aid to Africa Programmes. One of these dealt with investment and inter-enterprise co-operation promotion. This initiative is driven through ESIPP and has its headquarters in Botswana.

ESIPP's mandate is to increase investment and job creation in SADC countries. This is intended to contribute to the economic integration of the region and make it a significant player in the world economy. More detailed information on ESIPP is available on its website at www.esipp.org

BUSA's view on SMEs

In the past, social policy matters dominated debate in South Africa, whereas now the focus has shifted to matters that influence economic growth. While our country's macroeconomic principles and monetary and fiscal policies are sound and we are making strides in terms of growth of 4% in 2005, we are still not attaining the levels of economic growth necessary to create jobs and reduce poverty.

While we believe it is not a simple task to increase South Africa's investment, growth and employment performance, we believe what is needed is a combination of appropriate economic policies that foster competitiveness, build long-term confidence and make this country an attractive place to do business. Core to this strategy is the adoption of an enterprise development strategy that supports and promotes the development and growth of small and medium businesses.

Currently, South Africa's existing small business support measures are not working as effectively as they should. BUSA believes that local and global research that investigates reasons for failures and successes should be initiated and supported to continually improve the small and medium business success rate. Promotion of SMEs should also form an integral part of all sectoral development strategies currently being formulated.

We believe a national enterprise development strategy between business and the government will help to create the right conditions for new businesses by lowering compliance costs, addressing SME skills deficits, decreasing the tax burden, providing institutional support

and linking research centres to small business projects.

BUSA is putting forward several recommendations, such as the ones mentioned above, in various spheres of influence in its mission to ensure that South Africa achieves an environment in which businesses of all sizes and in all sectors can thrive, expand and be competitive, both nationally and internationally.

In the past, social policy matters dominated debate in South Africa, whereas now the focus has shifted to matters that influence economic growth.

For example, the Small Business Project (SBP) research on "Counting the Cost of Red Tape for Business in South Africa" in June 2005 found that "total resources spent by formal business in South Africa on regulatory compliance are high by international standards, and represent a significant slice of the country's overall economic output." Overall, South Africa's business regulatory environment ranked better than poor income countries, but was worse than comparable middle-income country rankings.

The SBP project helped reveal the scale and regressive distribution of regulatory compliance costs in South Africa to be about R79 billion annually or about 6.5% of GDP. In particular, SMEs incur the largest costs of compliance. These regulatory costs represent real resources, which have alternative uses – such as growing investment.

Opinion piece (continued)

If some of the resources currently spent on compliance costs were reduced, business could use the freed up capital to grow investment, innovation, employment and economic growth. In terms of a World Bank report, many developing countries could add as much as 2 percentage points onto their GDP growth rate per annum if their regulatory environment was improved to the level of the average country in the top quartile.

BUSA recognises that government has taken steps to address some of these most troublesome regulations (such as eliminating RSC levies, and better VAT arrangements for SMEs) and proposes that government set a target for reducing the cost of regulatory compliance from the current 6,5% of GDP to a figure more in line with South Africa's major competitor nations. The SBP recommendations about adopting a System of Regulatory Best Practice (which includes adopting a

Regulatory Impact Assessment Strategy), creating more flexible approaches to regulation, adopting regulatory cost surveys and creating greater competition in markets should be considered by government.

BUSA believes that government, through the Presidency and Premiers, can play a vital role in changing the mindsets from big business towards that of SMEs. In particular, BBBEE and the inculcation of entrepreneurship need to be driven through SME development. We believe empowerment, transformation and economic growth go hand in hand, and we need to move away from the narrow-based measurement and definition of BEE, which focused mainly on equity ownership and control. We believe economic transformation driven by BBBEE must culminate in the empowerment of a broad base of enterprises and individuals.

BUSA also recommends that an annual process is implemented that evaluates

the successes of the national SME development strategy. It must look at how many SMEs survive their first, second and third years and offer reasons for successes and failures. Attention also needs to be given to the corrective measures needed to address challenges and how we can build on successes. Indeed, we believe it may be appropriate to set up a National Institute for Entrepreneurship and SME development.

South Africa has already achieved the political miracle – we now need to focus on creating an economic miracle to ensure we succeed in ensuring growth and job creation in our country and the development of our continent.

Our SME Committee, which is chaired by Mr Thami Mazwai, will further develop our approaches and strategy over the next few months for a detailed submission to members.

Profile of BUSA Member

The Banking Association South Africa



> Mr Cas Coovadia – Managing director of the Banking Association South Africa

The Banking Association was established through the merger of the Association of Mortgage Lenders (AML), Merchant Bankers Association (MBA), Clearing Bankers Association (CBA) and the Association of General Banks (AGB) in 1992. This created the Council of South African Banks. The name was changed to The Banking Council South Africa in March 1998 and to the Banking Association South Africa (The Banking Association) in April 2005.

The Banking Association South Africa is the representative organisation for banking in South Africa. Its members include foreign, retail, merchant, investment and commercial banks. Its role is to establish and maintain the best

possible environment in which the banking groups can do competitive, profitable and responsible banking. Comments and submissions on regulatory changes, legislation, consumer concerns and policy documents, as well as research into best international practice are core strategic activities of The Banking Association. The association is also playing a central role in enabling its members to meet their commitments under the Financial Sector Charter.

As the representative banking body, The Banking Association continuously interacts with various government departments, consumer bodies and other interest groups regarding banking issues. The Banking Association also seeks to ensure that its members maintain best international practice.

Mr Cas Coovadia is the Managing Director of The Banking Association South Africa.

Emerging markets are maturing

The recent annual meetings of the IMF and the World Bank in Washington showed that the group of countries, including South Africa, regarded as the emerging markets of the world are receiving increasingly greater recognition.

On an official level it is clear that the days of the G7 countries' hegemony over the international economy are numbered. In the near future supervision of the global economy will be entrusted to an extended group of countries. Some people advocate a G12, which in addition to the G7 countries will also include China, India, Brazil, Russia and South Africa. Others are in favour of the G7 being replaced by the existing G20, of which South Africa is already a member.

South Africa's inclusion in this select group is obviously not due to its weight in the international economy. Unlike the other four countries mentioned above, South Africa cannot be regarded as a systemically critical country within the universe of emerging markets. Rather, its inclusion is owing to the realisation that Africa as a whole cannot be excluded and that South Africa is probably the only country in Africa that has the capacity to make a meaningful contribution to international debate and decision making.

The esteem of emerging markets is also rising in the private business sector. This has been illustrated inter alia by the unprecedented interest of investors in the emerging market conferences held annually by the major investment banks to coincide with the IMF meetings. Merrill Lynch, for instance, has experienced an increase of 50% in the number of clients attending its conference. This is good news - the bad news, however, is that a

large percentage of these were hedge funds that are more interested in short-term market opportunities than in long-term fundamental investment.

The reasons for this turnaround are legion. Emerging markets have shown that they can also be part of the solution rather than the problem, with, for example, capital flow from China to the USA playing a major role in financing the latter's substantial current account deficit. Previous crises in emerging markets have taught investors that the countries that find themselves in such a situation do recover, and that the crisis often presents an opportunity to acquire good assets at ridiculously low prices.

From their experience of the nineties the emerging market countries have learnt that there is no substitute for sound fundamental economic practices. They have abolished fixed exchange rates, which not only fuel balance of payment crises but also deprive the economy of an important adjustment mechanism. The majority of emerging countries have only a small current account deficit, or even a surplus.

They are actively diversifying their exports as far as the type of product is concerned (greater emphasis on manufactured goods than on commodities), as well as export destination, in an effort to reduce the vulnerability of their balance of payment positions.

Unlike in the past, the opportunity afforded by the abundant availability of international liquidity is being used prudently. National balance sheets have been improved by reducing public debt ratios. Currency risk has been reduced drastically by issuing less debt in foreign currencies, and refinancing risks have

been addressed by negotiating loans for longer periods. Local financial institutions and markets have been developed further.

Inflation is the one economic variable that reflects a country's macro-economic health, and there has been a noticeable decline in the inflation rate in most emerging countries to more stable levels

Inflation is the one economic variable that reflects a country's macro-economic health, and there has been a noticeable decline in the inflation rate in most emerging countries to more stable levels (of the major countries only Russia has a double-digit inflation rate). The increasing number of countries that issue inflation-linked government bonds is evidence of their commitment to maintaining low inflation.

One could be cynical about the question of whether the emerging countries will continue maintaining sound policies once international liquidity dries up, which is bound to happen as interest rates rise. However, the fact of the matter is that the structural improvement in emerging countries in recent years makes a recurrence of the crises of the nineties virtually impossible. Emerging markets' adjustment to tighter liquidity conditions will therefore in all likelihood be more orderly than in the past.

Any future emerging market crisis is therefore more likely to have its origin in an event in one of the systemically important countries. In this regard China is probably the main candidate, in

Economic comment (continued)

spite of all the excitement about the recent performance of the Chinese economy. The Chinese financial system is underdeveloped and fragile, and the exchange rate is still pegged.

Resistance to the fact that China has an authoritarian government is likely to increase as the standard of living rises, and will be boosted by large

inequalities in income and wealth amidst a rapidly aging population.

Therefore there is still much that can go wrong.

BUSA comments on the Medium Term Budget Policy Statement (MTBPS)

BUSA believes the overall thrust of the latest MTBPS again reinforces predictability and certainty in fiscal policy, as well as underpinning SA's current economic performance. The decision to continue the 3%-6% inflation target over the next three years is a pragmatic one. Higher economic growth must also include steadily increasing the percentage of total fixed investment to Gross Domestic Product (GDP) from its current modest level of 17% to 25% over the next decade.

As the MTBPS is additionally an indicative plan of what might be contained in the main Budget in February 2006, BUSA believes that the fiscal and economic trends revealed should permit the National Treasury to address the following:-

- The revised growth outlook, robust revenue and a declining burden of debt service costs clearly allow a

Maximise the use of effective public-private sector partnerships to ensure that infrastructural spending actually occurs and is invested productively.

range of acceptable policy options in the main Budget but it is important to note that tax revenues as a ratio of GDP have been rising steadily and it requires to be addressed

- In view of the large revenue overruns drawn from corporate taxes, emphasis in the main Budget should also fall on a further reduction in company tax to help reduce the costs of doing business in SA and to encourage investment. Investment is a key foundation of growth strategy

- Maximise the use of effective public-private sector partnerships to ensure that infrastructural spending actually occurs and is invested productively. Capacity, not money, is the challenge here at all levels of government, especially at the local level. BUSA welcomes the Minister's reference to creating 'developmental partnerships' to translate policy intentions into practice in the period ahead.
- Positive attention needs to be given in 2006 to the question of the additional liberalisation of exchange control – in the light of positive capital inflows and a strong rand – to normalise the foreign exchange market, to which no reference was made in the MTBPS.

Generally BUSA sees the broad message of the MTBPS as confidence building and it will help to unlock South Africa's growth potential.

Upcoming events

25 Nov – 10 Dec 16 Days of activism campaign

This year's 16 Days of Activism for no Violence Against Women and Children Campaign will run from 25 November to 10 December 2005. The campaign is an annual, United Nations endorsed awareness raising campaign. It is part of the South African government's integrated and cross-sectoral drive to eliminate the abuse of women and children.

25 November:

International Day for no violence against women

1 December:

International HIV and AIDS Day

3 December:

International Day for people living with disabilities

10 December:

International Human Rights Day

16 – 20 Nov "Made in India Show"

The Confederation of Indian Industry, together with the Consulate General of India in Johannesburg, will host the third Made in India Show at Gallagher Estate from 16 to 20 November 2005. The Made in India Show will showcase some of the best Indian products, technologies and capabilities and will provide a platform for possible co-operation between South African and Indian businesses. For more information contact the Commercial Section of the Consulate General of India: (011) 482 8484/5/6.

24 Nov BUSA Annual General Meeting

The second BUSA Annual General Meeting will take place on Thursday, 24 November 2005, at the Hilton Hotel. BUSA members who would like to attend are asked to contact Dorothy Coston at the BUSA office.

Gala Dinner in honour of the Deputy President



∨ The Deputy President, Phumzile Mlambo-Ngcuka, addresses the guests



> The Deputy President, Phumzile Mlambo-Ngcuka with keynote speaker, Wendy Lubabe



> The Deputy President enjoys a moment with guests



> BUSA CEO, Bbeki Sibiyi, introduces the Deputy President



> Business honours the Deputy President