MANUFACTURING—GENERAL

1990

SEPT. — OCT., DEC.
Jobless Afrikaners helped out

ADA STIJLT

A HALF-DOZEN businessmen responded to last week’s article in the Saturday Star which exposed the battle for survival by thousands of impoverished, jobless Afrikaners in the Pretoria—Witwatersrand region.

Managing directors of companies, including a major plastics manufacturer, a carpenter and a clothing manufacturer, showed keen interest in given impoverished Afrikaners full-time jobs.

Another six individual readers responded with offers of temporary gardening or house-keeping jobs for men and women.

And one manufacturer urgently required 20 men to temporarily take the place of his striking black employees.

Kleintjie Pereira of the non-profit welfare programme, “Werk and Oorleef”, said all such job offers were welcomed and her organisation was happy to have heard from businessmen.

She said many men and women were still out there, without hope and often without food or shelter, and she hoped that companies and individuals with job opportunities would continue to contact the programme in future.

“Such job offers, even if they fail to materialise into permanent jobs, were more important than most people realised as it gave these people a spark of hope,” she said.

“Many of the women, besides having housekeeping abilities, are also well-trained cashiers who often are asked to work during strikes but can’t get full-time jobs because these are normally filled by blacks.

“And the men will do any kind of job, they often are excellent artisans who simply require some brief job training to adjust to specific tasks.

“Moreover, our people don’t strike, they are too keen to work, to keep themselves and their children.”

The market is littered with the walking wounded

SOME interesting share dealings on the market this week although the underlying level of activity remained fairly dull with nobody prepared to take a firm view on gold, the Flannery or De Beers.

And it was another week of some really awful company results mixed in with a sprinkling of excellent performances. But with Mr Steele (who reckons you’ve got to be a stalwart to be a Reserve Bank Governor) seemingly determined to reduce inflation it is inevitable that in the months ahead, the walking wounded will far outnumber the able-bodied corporates.

So not much direction or hope for confused investors. Myles was told that the reason institutions aren’t buying right now is cos prices are too low — apparently they prefer to wait until there’s a mad rush into the market and prices are pushed to more expensive levels.

Tilaco featured on the list of the week’s major price movers — up 15c to 65c. There wasn’t much volume but Myles reckons this is yet another example of how issuing a cautionary can improve a share’s rating. He says there’s been no good news about the company, most of the talk refers to cash constraints and the possibility of a change of control — not exactly bullish stuff.

Last week’s cautionary issued by Martin Jonker Holdings was apparently to do with a small acquisition, Myles couldn’t be more specific except to stress there was no change of control.

Acquisition

Bullcobar’s cautionary refers to the acquisition of part of PG Bison — a company that is controlled by the PG Group with Mondi and Acof also having stakes.

No news on the Drop Inn cautionary.

Myles heard some rumours that the Namsea cautionary could involve a change of control at about $50c a share. But he couldn’t get any reliable details except that an announcement is likely to be made sometime next week.

Difficult to see who could be buying this Barlow’s subsidiary (full via Oceana). The $50c is well up on net asset value but looks very weak against the 12 month share price high of 90c.

There was very heavy volume in FarmAg during the week with most of the trading accounted for by one or two book-overs mid-week. The share doesn’t normally attract much attention and Myles was unable to track down any ger but is trying…"

Digogo, which had a 4 for a share consolidation a few weeks back when the share was around $3c, is now looking at a share price spread of 5c-10c. Myles thought that even this level seems fairly generous.

With the weak institutional holder now completely sold out of Rustform, that share price seems better able to respond to some strains of positive sentiment — it was up to 14c this week.

Well supported

On a sort of related matter, the Tradegro share price seems to have established a bottom level of 12c which is reasonably well supported by the valuation of its listed subsidiaries. This week’s grim results didn’t move it below that level.

But there’s growing talk in the market of the need to break the group into more manageable units. Chief executive Donald Masson, although disappointed by the financial 9c performance, doesn’t seem to be entertaining these sorts of thoughts.

"And his views on the departure of Rustform? "Miss the team, miss the earnings, but don’t miss the debt."

Myles heard some talk that the Registrar of Financial Institutions is not all together happy with the JSF’s plans to introduce a R30 basic charge on brokering transactions. This minimum charge is to be introduced some time in September.

Myles reckons that a R30 basic charge is unlikely to get the man in the street enthused about the delights of capitalism and share ownership. And what happens if Iscor workers decide they want to sell their not-so-great Iscor investments and are told they’ll have to pay R30 for the privilege?

But as the Registrar has two representatives on the JSF Committee if there had been any serious reservations on his part they should have been voiced some time ago.
Partial tax method helps raise attributable earnings

THE recent change by several listed companies from the comprehensive method of deferring taxation to the partial method has been responsible for softening many bad results and inflating the good ones.

Companies which have implemented the partial method of taxation have received the short-term benefits of posting attributable earnings higher than would have been achieved under the comprehensive method, analysts say.

For example, this week Consol posted a 46% increase in attributable earnings, whereas without the benefit of the change to the partial method, earnings would have increased by only 25.5%.

Looking at cement company Blue Circle’s results for the year ended December 1989, an analyst said earnings a share were 91c higher than if the taxation policy had not changed. This equates to an increase in earnings a share of 7.3% compared with 5.5% if the tax comprehensive method had been used.

Under the comprehensive method, companies have to make provision for timing difference deductions which could be reversed — that is become payable — in the future, and found their comprehensive liability continually increasing.

The attraction of the partial method, analysts say, is that companies no longer have to make provision for timing differences which they believe will never be reversed.

The result is a decrease in the liability figure posted on the balance sheet, which then computes to an increase in attributable earnings. Some analysts feared the change would lead to investor confusion as many people do not take cognisance of the effect of accounting policy changes.

Forecasts

Deloitte Pim Goldby partner Pat Smit preferred to concentrate on the potential problems for companies using the partial deferred tax method.

“In a volatile economy and an environment where tax law is prone to change at short notice, forecasting future tax liabilities is difficult.”

“Deferred method of deferred taxation depends on reasonably reliable forecasts on timing differences. SA is prone to a boom or bust economy and companies could find themselves facing reversing timing differences which they did not expect. It could result in companies having to charge the tax against current income rather than taking it out of liability provisions.”

Ernst & Young, in its magazine InTouch, warned against declaring increased dividends after changing to the partial basis.

“Companies reporting higher earnings because they have changed to the partial basis should be aware of the fact that the higher earnings are not normally represented by increased cash resources available for dividend,” it said.

Thus companies who have a set dividend cover policy should be careful of increasing the dividend if the cash resources are not available.

The difficulty of comparing companies using different tax methods has worried analysts. However, one specialist said the key was that despite the move to the partial method, companies were not absolved from maintaining records on the comprehensive basis because if there was a reversal in the future they would still need all the calculations.

However, they all agreed that the comprehensive basis of deferred taxation was the more prudent method.
Flood of black industrialists anticipated

THED RAWANA

BLACK business organisation Nafoce has established an industrial wing, the National Industrial Chamber (NIC), to prepare for the expected flood of blacks into SA's industrial sector.

NIC, which will be launched in Johannesburg on October 9, will be an independent chamber.

It will have its own administrative secretariat and will maintain its own finances, a Nafoce statement says.

Members of the Nafoce's dissolved industrial committee, which initiated industrial conferences and other services for manufacturers, have formed a steering committee for the launch.

Steering committee spokesman Joe Magedi says among NIC objectives are:

☐ To facilitate and negotiate for better deals on the purchase of raw materials by industrialists; and
☐ To be of service to the emerging industrialists by providing information and facilitating consultations, seminars and workshops;
More small firms failing as recession takes toll

PRETORIA — The recession is squeezing the life out of a growing number of companies and close corporations, says Information Trust Corporation (ITC) chairman Paul Edwards. 31 July 90

At the weekend he said the number of companies and close corporations being liquidated had increased dramatically in the first half of the year compared with January to June last year.

In the first six months of this year, 916 companies and close corporations were liquidated compared with 671 last year — an increase of 37%.

June's figure of 195 liquidations was the highest monthly figure since July 1987. The economy, Edwards said, was unquestionably in recession. This was borne out by the negative growth over the last three quarters.

Some industrial sectors were being hit harder than others but generally profits were under severe pressure and cash flow problems were crippling other areas.

The rate of liquidations, Edwards said, was likely to continue to rise over the next 12 months. He could not see an upturn in the economy before mid-1991.

It was sad, he said, to see businesses with full order books fail. However, unless money from sales found its way into the bank, businesses were at risk.
Import tariffs are too high say foreign businessmen

CAPE TOWN — Visiting foreign businessmen have warned that if SA companies are to compete internationally, local import tariffs will have to be reduced in line with the liberalization of international trade policies.

The Cape Town Chamber of Commerce, which received business groups from Taiwan, Singapore and Hungary last week, reports that while the visitors were interested in doing more business with SA, they all stressed that the country faced increasingly tough competition in foreign markets.

They also warned that SA industries would be priced out of world markets and that potential foreign investors would turn to other countries if domestic wage increases were not matched by higher productivity.

To remain competitive, many foreign countries were in the process of liberalising their trade policies — a move aimed at lowering cost structures and enabling industries with a comparative advantage to compete effectively on international markets.

Hungary had dropped all its protective tariffs and was offering free entry for imported goods, while Taiwan was accelerating its programme to decontrol imports and open its markets to imported goods.

By the end of last year, 97% of all Taiwanese imports had been decontrolled and the effective rate of tariff protection had been cut from 14.4% in 1971 to 4.7% last year.

In its latest news bulletin, the chamber said it hoped an investigation by the Industrial Development Corporation into SA's tariff structure and protective policy concluded that the country needed to remove the remaining vestiges of import control and to lower tariff levels across the board.

**Queries**

The Western Cape has had its fair share of the increasing interest shown by foreign industrialists and businessmen who are sizing up SA's future potential as an alternative industrial base.

Both the Cape chamber and Wesgro, an organisation established to encourage economic growth in the Western Cape, report extraordinary growth in the number of queries and offers of trade opportunities by visiting foreign investors.
Five firms go gold with NPI awards

EDWIN UNDERWOOD

The National Productivity Institute (NPI) last night awarded gold medals to five SA companies which have made important contributions to the creation and sharing of wealth in SA.

They were Eskom’s Koelberg nuclear power station, Rembrandt-controlled HL & H Mining Timber, Saha’s critical health care manufacturing division, Sappi’s Ngodwana nursery and Iscor’s Sishen mine.

Ten silver awards were presented to: pipe manufacturer Bartons; Railnet’s Bloemfontein division; Iscor’s Pretoria steelworks; Busif’s sales division; Eskom’s distribution and marketing division; Concor Technique; the Pemelle Group; Transnet’s Transnet-Transtel division in northern Natal; Barlows Appliance Company’s Kew factory; and the SADF’s 61 Base Workshop which repairs and rebuilds all SA army vehicles and equipment.

There were 14 bronze award winners.

Speaking at the awards ceremony last night, Manpower Minister Eli Louw said the political situation had been the main reason for unacceptable economic performance.

Louw said wages and salaries had increased by an average of 25% a person over the last year while output had not improved at all.

He warned against excessive demands within the labour market, and growing labour unrest causing rising unemployment, lack of investment and poor returns on capital.
Risks for corporate sponsors

FUNDING of corporate social responsibility programmes is a hazardous and high-risk affair, FSA-Contact's community affairs division managing executive Mandla Tisani says.

Major corporations sponsoring community projects have suffered embarrassment because of the failure of programmes — either through misunderstanding needs and views or due to the lack of management and training skills necessary to carry the project through.

About R200m was spent directly or indirectly on social responsibility programmes in 1998. A spokesman at FSA-Contact believed much more was being set aside in 1999.

The community affairs division was formed by FSA-Contact to help minimise the risks for both funders and community project groups by matching specific needs to corporate images.

"We try to match up the business objectives of the corporations with the funding needs of the community groups and ensure that the skills needs in the community groups are addressed and incorporated into the funding venture," Tisani said.

An education programme at the Bophelo Impilo school in Johannesburg is one such project. The school is being used as a pilot study to test the effectiveness of an SA-designed programme — adapted to the learning patterns of the Third World — to help overcome illiteracy.

"This is in keeping with the need to provide mass education strategies which can help overcome the present facilities and teacher shortage," Tisani said.

"My main function is to get communities to take the initiative so they do not become dependent on the division. I only structure proposals and then leave the parties to manage the projects on their own."
Sacob backs reduction in rates

SYLVIA DU PLESSIS

director-general Raymond Parsons said yesterday. 8.10am 7/19/90

This would be one of the steps taken to prepare the economy for the next upturn, he told a media conference on the release of the chamber's latest business and industrial confidence indices (BCI).

Parsons said the "overall picture" suggested business conditions had worsened as the downswing continued, with cost increases, racial unrest, consumer confidence declines and borrowing costs levels all affecting profits.

Evidence of a deepening recession could "not be ignored, and as a result, the timing of any change in the current monetary stance will be of primary importance".

Economic trends here and abroad, heightened township violence and the Gulf crisis sapped 0.2 points from Sacob's BCI levels "for some time", growth prospects in SA's major trading partners would decline and have an impact on exports and import costs would rise.

Sacob's index of manufacturing activity reflected a slight recovery to 106 from 98 in the expectations of orders received in August, but Sacob economist Keith Lockwood said activity in the sector was historically higher in August, when Christmas orders were placed, than in July.
EAST BLOC TRADE

SA ENTERS THE GLASNOST DOOR

Just a few years ago the Soviet Union was still SA's most sworn enemy. Now the trade and investment doors between the two are opening so wide that SA could soon have formal trade representation in Moscow.

SA Foundation CE Kurt von Schirnding describes the growing links as "a complete sea change" and as "most significant" for both countries.

But while the potential for future trade and investment links seems huge, remaining political sensitivities must be removed before formal relations can be established.

This development flows from last month's visit of a high-level trade delegation to the USSR. The delegation comprised Trade & Industry Minister Kent Durr and director-general Stef Naude, other top officials from this department and officials from the Department of Finance and the Reserve Bank, as well as an industry and a banking representative.

Just a few weeks ago SA cemented trade relations with Hungary with the abolition of surcharges on Hungarian imports (Business August 31). Now the trend of a rapprochement with eastern Europe continues. However, trading with these emerging economies is difficult — they are woefully short of hard currency and Western countries have found they have little to offer in barter deals.

But the SA delegation did find that the Russians have something to offer: SA officials discussed a wide range of investment and business relationships — joint ventures, direct investment and trade — that could be established. And technological and scientific exchanges also seem to be on the table.

The SA delegation was hosted by the Soviet Ecoprom consortium, which the Gorbachev government put in charge of more than 20 large industrial concerns. The delegation was introduced to 110 top representatives of the Soviet industrial, scientific, technological, trade, finance, banking, economic and political establishments.

"Ecoprom has been given the task of focusing production of the concerns under its jurisdiction in a market-related direction," Naude says. "With company, banking and tax laws now being modernised in the USSR, Ecoprom's task is to lead these concerns in the direction of eventual privatisation."

Basically, the charge seems to be to transform former military-industrial plants into a market-oriented industrial sector. And, with the USSR's grave need for foreign currency, the focus is on developing export markets and obtaining Western know-how.

The USSR already offers a wide variety of products and know-how, which ranges from machine tools, civilian aircraft, micro electronics, special metals and materials to radiation technology, laser equipment and thermal cables. And they are looking for foodstuffs, glassware, medicine and consumer goods from SA.

"The Soviets also encourage joint venture investment projects in the motor vehicle, cigarette, tractor, mining and medical equipment sectors; establishment of packaging and processing plants; as well as assistance with cleaning up chemical and nuclear waste," Naude says.

Other possibilities include the servicing of the Soviet fishing fleet; providing technical know-how in solving ecological problems in the mining, forestry, machine-building and agricultural industries; and involvement with the USSR's tourism and leisure industries.

"The excellent relationships established and the good friends we made with top Ecoprom officials, scientists and industrialists, will stand SA in good stead," Naude adds.

Stellenbosch Sociologist Philip Nel foresees the possibility of countertrade deals between SA and the Soviet Union involving the huge Soviet oil reserves.

And, adds SABC chairman Christo Viljoen, SABC's use of the US Cable News Network service has been made possible by an "acceptable" cash deal involving the Soviet Gorizont satellite. "We could find no other available satellite space to rent. With a willing buyer and a willing seller, both parties are happy."

Viljoen also sees huge opportunities for SA manufacturers of PABX and other telecommunications equipment in the USSR.

SA Drukkigers and Adcock Ingram CE's Tony Karis and Don Bodley say they are "looking at the Soviet and east European markets" — both for providing raw materials for pharmaceutical manufacture and as possible markets for SA medicines.

But, warns Volkskas Merchant Bank senior GM Itak Zotha, who was a member of the delegation, it is essential for those dealing with the East Bloc not to do this on an "open account" but to use the financial services of established banks on both sides to facilitate trade. "Confirmed letters of credit and other acceptable trade instruments would ensure that the risk of lack of hard currencies would not jeopardise such deals."

— Arnold van Eysinga

MOTOR INDUSTRY

A BETTER DEAL?

Car and truck dealers are tired of playing second fiddle to motor manufacturers. From now on they want to be treated as, industry equals.

They argue that with dealer investments running into billions of rand, they deserve more consideration and protection.

Representatives of SA franchise dealers and vehicle manufacturers will meet in Johannesburg next week in what dealers hope is the first step towards a more equal partnership.

In particular, they want to renegotiate the manufacturer-dealer contract. As it stands, manufacturers may give a dealer as little as 30 days' notice before withdrawing a franchise — effectively putting the dealer out of business and rendering his investment worthless.

Spencer Sterling, president of the National Association of Automobile Manufacturers (Nanmaa) and MD of Samcor, recently expressed his support for a new deal. Errol Richardson, chairman of the National Automobile Dealers Association of SA, says Sterling's remarks helped pave the way for next week's meeting.

Richardson doesn't deny that manufacturers should retain the right to dismiss dealers that fail to maintain standards. But he argues that with more than R.3bn invested in dealerships around SA, the notice period must be fair.

The Belgium-based International Organisation of Motor Trades & Repairs is negotiating an agreement for the European Community enticing dealers to a minimum of 12
FEELING THE TERMS OF TRADE

THE BURDEN OF REAL INTEREST RATES IS OFTEN FELT INDIRECTLY

Most bankers would say corporate balance sheets are generally a lot healthier than in the last recession. But ask businessmen what they think about a prime rate of more than 20% and many will say their businesses are hurting badly.

One reason for the latter response is the role that interest rates have played in dampening demand. Flagging turnover growth has probably played the biggest role in curbing earnings from listed industrial companies this year.

For some, especially smaller companies that cannot easily afford a heavy financing burden, gearing has clearly been allowed to rise excessively. The dismal results are shown up in sharply narrowing interest covers, with the inevitable squeeze on the bottom-line performance.

But these are mostly outside the mainstream. The accompanying table — compiled from ratios calculated by broker Ivor Jones, Roy — lists a cross-section of some 200 industrials, showing latest published gearing ratios, interest covers and the amount of debt held at the date of the balance sheet.

The list is not comprehensive: many companies were omitted. But the selection is intended to offer a broad summary of debt levels.

Only about a quarter of these companies have gearing ratios above 70%; a similar number have gearing of less than 20%. Roughly another quarter show debt: equity ratios of between 30% and 60% — and the bulk of major groups now fall within this range or lower.

These ratios, incidentally, are conservatively calculated. Retained reserves, retained reserves of equity-accounted associates and all intangibles have been eliminated from shareholders' funds. Cash balances have not been offset against borrowings.

If some individual gearing levels still seem high for present conditions, though, the graph further supports the view that the mainstream is at historically low levels. Ivor Jones, Roy uses a sample of 40 leading industrials to track this trend.

For these companies, the ratio of serviced debt to shareholders' funds remains at easily the lowest level since the beginning of the Eighties — and there has been no significant upturn in the past two years. When making comparisons with peaks during the Eighties, the damage done by offshore borrowings and the resultant foreign exchange losses should be borne in mind. That hasn’t happened this time. It is apparent from the relative strength of balance sheets at this stage that corporate SA has learnt one of the lessons of the Eighties.

Management has little option but to take a conservative attitude towards debt when growth in the economy is at best feeble; that applies even more with real interest rates for the first time in years.

Similarly, the average interest cover for the sample used in the graph has levelled out at around 7.5 times since late 1988. While profits are no longer rising, on the basis of figures so far published the major groups have continued to cope comfortably enough with finance costs.

Reinforcing this, other data shows their ratio of cash flow to total debt has risen roughly in line with the levels seen in 1980-1982, which was the highest for the decade. The ratio of working capital to sales is far below the early-Eighties' levels, while the operating return on total assets is well above the returns achieved earlier in the decade.

Behind this seemingly healthy picture, though, the reality is more sombre. There is always a lag between events in the market and the general trend as shown by published accounts. Ratios of many of the companies in the table were still reflecting the momentum of more buoyant conditions in 1989. No companies have yet shown the results of a full year of conditions faced in 1990.

It should also be borne in mind that some companies “window dress” their accounts; financial year-ends may be chosen to coincide with periods when borrowings are seasonally low. For these, a more realistic position is shown in the interest cover.

One of the more positive aspects of this table is that the interest cover — which relates operating profit to finance costs — in many cases looks acceptable. But it is disquieting that many have dipped below a comfort zone of around four times. On the whole, interest covers must be in a declining trend which has yet to bottom out. When groups report for end-September and end-December financial years, many will show deterioration in this ratio — with finance costs taking an even bigger toll on the bottom line.

Some with relatively high gearing look able to carry the cost without any strain. Examples are Afrox, with debt:equity of 69% but an interest cover of 7.4 times; or SA Breweries, with debt:equity of 73% and cover of 4.7 times. But others have not been coping well even with much lower debt: such as Tietac, with 24% gearing and interest cover of only 1.9 times; or Clyde Industrial, with 20% gearing and a three times cover.

In contrast, big groups visibly under pressure from high rates and inadequate profitability include OK Bazaars, Gresham, Karoo Hotels, FSI Corp, Boyman and Fintech.

Even so, many investors must now be looking ahead and asking the more positive question: which shares should be considered buys in anticipation of fulling interest rates? Considering the more rigorous attitude the authorities are now taking towards monetary policy, with a new emphasis on real interest rates, that may be a risky strategy.

The last downward cycle in rates underscored how sensitive the earnings of some groups can be to shrinking finance charges. The market usually looks well ahead towards such fundamental events as a drop in rates. Groups which have proven their ability to operate efficiently could well be worth watching as potential interest rate plays. Among these may be Walters, Seardel, SA Breweries, Laser, Hudaco, Northern Engineering and Malbauk.

Bankers say money market conditions indicate a dip in rates should not be too far off. It is an open question whether rates will soften sufficiently and soon enough to compensate for further deterioration in trading conditions. Profits may yet suffer more damage from unrest, cost increases and wilted consumer confidence than from borrowing costs — and those will be bad enough.
More debt as squeeze tightens

PRETORIA—Debt figures for the first quarter of the current financial year reflect the inability of many people and small companies to withstand the economic squeeze.

Central Statistical Service figures show that in April-June the number of summonses for debt increased by 8.8% to 234,873, compared with the same period last year.

Civil judgments also increased in the quarter by 6.4% to 177,649.

Compared with January-March this year, debt summonses increased by 6.5% and civil judgments by 1.5%.

Economists have warned that debt will get worse before it gets better.

Interest rates, according to the Reserve Bank, are to remain at current levels until there are solid grounds for easing them.

Information Trust Corporation has announced a dramatic increase in company and close corporation liquidations in the first half of the year. The increase was 37% to 916, compared with January-June last year. In June alone there were 193 liquidations.
IDC has sunk R150-m into 31 companies

By Roy Cohane

The Industrial Development Corporation (IDC) has approved investments worth R150 million in 31 firms, which have embarked on projects worth R280 million since the inception of Phase VI of the local content programme for the motor industry.

The projects, when completed, are expected to create 2,700 jobs and result in foreign exchange earnings/savings of R250 million a year, says Deputy Minister of Trade and Industry, Dr Theo Alant.

He was speaking yesterday at a joint Foundation for Research Development (FDR) and Sepco (Scientific Engineering Performance Computers) symposium in Pretoria yesterday on large-scale computing in the automotive and related industries.

Dr Alant contended that the value-basis perspective of Phase VI of the local content programme for the motor industry was providing the impetus for a new surge of growth in high-technology areas that had previously been neglected.

He said the Phase VI programme conformed with official policy over competition and the promotion of a market-oriented economy by opening the door to new entrants and raising opportunities for subcontracting.

He said the motor industry had until now been characterised by a high level of reliance on imported components. It was essential this trend be reversed, he said. Phase VI intended to do just that.

The implementation of Phase VI would necessitate a far higher level of local content, which would be achieved by a combination of import replacement and increased exports, he said.

Dr Alant said this in turn would lead to a lower usage of foreign currency and to an improvement in the balance of trade with regard to motor vehicles and related products.

Exports of automotive components had increased substantially since the introduction of Phase VI and excise accounts showed an increase in exports from R136 million for the year to May last year to R346 million for the year to May this year, he said.

"For the year to May 1991, the industry expects to export vehicles and components worth R470 million," he said.

Dr Alant said South Africa faced an extremely different economic environment in the 1990s, with continuing rapid technological change and product obsolescence, plus increased global competition for a changing world marketplace.

The technology-driven era that was now emerging would bring major changes in its wake, he said.

"Phase VI of the local content scheme encourages movement to higher levels of technology in our automotive industry. Facilities for large-scale computing have become readily available.

"The local automotive and related industries are beginning to exploit these techniques," he said.
Move to involve firms in Cape social welfare

CAPE TOWN — Local businessmen have launched a new association to encourage and facilitate greater involvement by companies in social welfare and development projects in the Western Cape.

The Social Involvement Association originated from the Warner-Lambert Social Responsibility Award and has the full support of the Cape Chamber of Commerce, the Cape Town Chamber of Industries, the Afrikaanse Sakekamer, the Urban Foundation and the Western Province African Chamber of Commerce.

The association has already signed up 100 corporate members.

Chairman of the association's interim committee and local businessman, Arthur Swartz, said the Warner-Lambert award had revealed that a number of large and small companies had active social responsibility programmes.

But, for many, expansion of existing programmes or the establishment of new ones was often inhibited by a lack of information on the specific needs to which the private sector could respond.

It became clear an association was needed to encourage, co-ordinate and guide development projects, Swartz said.

"There is no doubt that the private sector will have to bear the brunt of general social upliftment," Swartz said at a function to launch the association.

"While investing money in projects that did not earn a return for shareholders was regarded as the antithesis of capitalism a couple of years ago, now businessmen are no longer asking if they should make a contribution to social upliftment — they are asking if what they are doing is enough."

Membership of the association's committee was confined to the white private sector, but he acknowledged the need to consult with members of the communities targeted for help, to ensure the projects were the most worthy and effective.
tough conditions put dent in Vector earnings

By Amy Cory

Tough conditions put dent in Vector earnings

Tough conditions put dent in Vector earnings
Paying attention to inheritance

Mike Perry

LT is no secret that 5% minorities

Despite the significant gains...
AVI profits soar to break new records

BRENT MELVILLE

Anglovaal Industries (AVI), following four years of breathtaking growth, has managed to shrug off a R10m (R44.8m) interest bill to report sustained growth for the year to end-June.

All of the group's five business sectors contributed to the 26% rise in bottom-line earnings to R207.6m (R124.6m), although increased share capital of 25.55-million shares (23-million shares) diluted earnings to a 12% rise at 723c (657c) a share, from which a dividend of 135c (120c) was declared.

At its current share price of R31.50, off its August 12-month high of R68.50, the results put AVI on a price earnings ratio of 8.4 times and a dividend yield of 2.2%.

The 42% turnover rise to R63.5bn (R43.8bn) places the group well within the top 10 companies in SA in terms of pure sales.

Pre-tax profit moved up 33% to R63.1m (R47.6m), with an additional R56.4m (R48.8m) being chipped in from investments.

Chairman Basil Hersov said the adverse business conditions, including high interest rates and reduced consumer spending, curtailed business performance, particularly over the last six months.

In the group's construction and electronics division, Grinaker Holdings put in a strong performance, following the restructuring of its electronics interests into Griffin last July. Hersov said Grinaker had performed exceptionally, especially in export sales.

Diversified businesses showed growth ahead of the inflation rate, although Hersov said market demand for textile products had declined appreciably in the second half. A mediocre performance in AVI Diversified Holdings was attributed mainly to a poor performance by Claude Neon which lost experienced sales staff who set up an opposition company.

Following the reorganisation of its grocery operations in March, the Dry Food & Beverage division, under the auspices of

From Page 1

AVI profits soared

National Brands, performed strongly towards year end, Hersov reported.

The star performer was Becketta, the tea, coffee, breakfast cereals and soft drink marketer, although fast-food outlet Winnie's also showed good profit growth.

Pizza Hut sustained a substantial loss. National Brand's 16.2% interest in Cadbury Schweppes rose R36.5m to R108.2m.

In the group's packaging and rubber division 55% controlled Consol achieved a 45% rise in earnings. At the start of the year Consol combined Tycon (which it acquired last July) for R18m with Tredco.

Hersov described Tycon's first-half profits as "insignificant" because of the 11-week strike, linked to the former American parent's divestment. He said production was near normal in the second half and performance had improved.

Consol increased borrowings dramatically over the period as a result of the Tycon acquisition and the installation of a glass furnace at the Clayville factory, contributing to a group gearing of 31% (30%) and interest bearing debt of R211.8m. Long-term borrowings were up to R390.2m (R226.4m).

Capital expenditure for the group in June was R125.2m (R220.2m), and capital, amounting to a further R174.4m authorised. During the year the group made a provision of R10m in its investment in associate Control Instruments against its carrying value.
term funds borrowed from other central banks and used to ease the burden of mid-year debt repayments.

CONFIDENCE INDICES

HOLDING UP

With the Middle East crisis, fears of slower world economic growth, increased township violence and a slowing economy, the business confidence index (BCI) is holding up remarkably well. The index, compiled by the SA Chamber of Business, fell to 91.8 in August, down only slightly from 92 in July.

Still, there were a number of strongly negative notes among the indicators, including an increase in number of unemployed of all races, fewer new companies registered and falls in manufacturing production, exports and new car sales.

These were largely offset by a rise in the dollar gold price, a slightly stronger rand and overall JSE index, a decline in consumer price inflation, and increases in retail sales, the real value of building plans passed and merchandise imports.

Chamber economist Keith Lockwood says hopes are being buoyed by the continued easing in inflation, as well as the prospect of imminent cuts in interest rates, but adds that the unresolved Gulf crisis and continued SA political violence could lead to sharper declines in business confidence.

Confidence in the manufacturing sector also remains uncertain. According to the chamber’s August survey, most manufacturers expect a decline in production volumes in the next 12 months, while sales are expected to remain static (see graph). Businessmen are taking a wait-and-see attitude.

Sentiment varies among the regions. Respondents in Durban and Cape Town were fairly optimistic, possibly because of a concentration of consumer goods industries in these areas. Meanwhile, Port Elizabeth manufacturers were sharply more pessimistic, in part due to last month’s riots, as well as prospects of lower sales and continued labour unrest in the motor industry.
Comments called for on draft takeover code

By Des Parker

The Securities Regulation Panel’s draft code on company takeovers and mergers, published in the Government Gazette, is expected to attract a considerable response from the major share-owning institutions and stockbrokers in the month allowed for comments.

The panel is chaired by Mr Justice Cecil Margo and has 12 members drawn from the ranks of merchant bankers, organised commerce and industry, insurers, brokers, accountants, lawyers and the public service.

It will consider propositions and submit them with the draft law to Deputy Trade and Industries Minister Theo Alant in the second week of October.

Messie van Rensburg, Registrar of Companies and member of the panel, said there was considerable urgency behind legislation of the code and rules, and he hoped the Government would be able to gazette them by December.

The code, which has put players involved in securities deals on their guard in recent months, is based extensively on the City Code on Takeovers and Mergers used by the London Panel on Takeovers and Mergers.

While it has been widely welcomed as being in the best interests of small and minority shareholders, there has been criticism.

University of Cape Town School of Business Economics director Brian Kantor said at a recent seminar that outlawing insider trading interfered with the relationship between controlling and minority shareholders and was thus harmful to the economy.

The international trend towards greater protection for minorities was politically motivated.

However, he believed controlling shareholders were invaluable in disciplining managers and were, therefore, vital to the economy.

PLAY ROLE

"It is important that they play that role and that we don’t interfere with the rewards for playing that role," he said. "Insider trading may be one of those rewards."

"If insiders are trading you can be quite sure the price is the right price. All information should be in the market."

An explanatory note with the draft code says: "It is not the function of the panel to judge the commercial advantages and disadvantages of affected securities."

"These are matters for the holders of the relevant securities in the offeree company."

While the panel will not concern itself with "competition policy", it will take note of relevant rulings of the Competition Board.
Becoming ozone-friendly has cost industry millions

Staff Reporter
There has been a 60 percent reduction in the manufacture of chlorofluorocarbons (CFCs) in South Africa, according to Ian Macdonald, chairman of the Wildlife Society's ozone assessment board.

Mr Macdonald said that since the first Ozone Awareness Day on September 15 1989, there had been remarkable changes in southern Africa and overseas.

"Millions have been spent by industries in converting to ozone-friendly gases," he said.

According to Mr Macdonald, the gravity of the ozone threat was emphasised by the amendments to the 1987 Montreal Protocol made at a meeting in London in June, which included the agreement that CFCs would be totally phased out by the end of the decade.

The process of phasing out many other chemicals known to be ozone depleting had also been accelerated.
Economists explain index performance

Gillian Hayne

The change in requirements stipulating the prescribed buying by financial institutions of government gilts is one of the reasons for the reasonably good performance of the JSE's industrial index, say economists.

Contrary to the popular theory that recessionary times lead to a poor industrial performance, the index is not easing as traditionally experienced.

Factors economists expected to negatively affect the index included large interest bills and a drop in demand for industrial products, and a possible move away from equities to the short-term money market to capitalise on high interest rates.

An analyst said yesterday that while institutions were not overly keen to buy industrial equities at present, they were also not selling as they wanted to keep their exposure to equities high.

A fund manager said government's move to drop the compulsory prescribed holding level of government stock had had a major influence in steadying the index.

It led to companies increasing their equity exposure at a mature time in the business cycle, and with the shortage of good quality scrip in SA they would prefer to hold their stock through rough times rather than sell and risk not being able to buy in at a later stage, he said.

Discount House of SA manager Chris Greyling said: "On average, among institutions, equity holdings rose 10% to 35% after the change in the government ruling."

Another reason given for the unexpected behaviour of the industrial index concerned the share constituents of the index, many of which, for example Richemont, operated outside the recessionary circumstances in SA.

George Huysamen & Partners' Louis Geldenhuys explained that the industrial index came off a different base as it had to be read against the background of the exogenous shock to the market in 1988 and the subsequent recovery.

"Following the 1995/1996 recession, companies approached the current slowdown in a much stronger position — gearing ratios were stronger, inventories were better managed, and balance sheets were stronger — resulting in earnings growth remaining firm," he said.

Geldenhuys said the expectations of industry, following the changes in the political arena, had had a positive impact on the economy.

"But expectations are now turning sour with the increase in violence and the weakening of the world economy. The political situation with its physical disruptions to the economy and the influence of the world economy on SA could see the recession lasting longer than the average 27 months."
Redistribution within companies is PAC aim

CAPE TOWN — The PAC said yesterday it would seek wealth redistribution within individual companies and consider nationalisation only where firms refused to comply.

While the organisation said it was mindful of the effects of its policy on capital investment and economic growth, it proposed higher corporate taxation as a means of redistribution. It also proposed state intervention in the business of Old Mutual and Sanlam to ensure that the life offices' policyholders' funds were used to promote transfer of wealth.

A discussion paper by Zimbabwean academic Sipho Shabalala, presented by PAC spokesman Benny Alexander at the Association of Black Accountants of Southern Africa's annual convention, said "the PAC would like to see redistribution of wealth and decision-making powers at individual company levels as being more important than nationalisation. Obviously, if some individuals choose to defy redistribution measures, such companies will be considered for nationalisation."

Redistribution criteria for companies would include: creation of funds to enable workers to acquire a substantial portion of a company's shares with voting rights; job creation and wage increases favouring black workers; establishment of training and development programmes to enhance skills and provide opportunities to improve productivity and increase the number of black workers at higher salary levels; contribution to social benefits; statutorily enforced worker involvement in financing, investment and profit distribution decisions; and direct taxation.

Companies would also be called on to contribute to small business promotion and development funds, make direct loans to the state and to provide technical services to black businessmen.

The paper said government would influence the use of Old Mutual and Sanlam policyholders' funds by directing the economic policies of the companies they controlled. They were singled out because of the economic power they wielded as managers of the bulk of the nation's savings.

If nationalisation were pursued, foreign firms would be a major target. Private shares of firms targeted for nationalisation would be transferred to the state "with or without compensation, voluntarily or involuntarily". Nationalised assets would be leased back to the private sector.

The PAC conceded that "nationalisation by itself does not achieve economic equality. It often benefits the elites and urban workers at the expense of people in the rural areas." If the PAC came to power it would retain the right to reverse the process of privatisation.
W&A now ranks among JSE giants

W & A INVESTMENT Corporation is to become the principal investment holding company for parent FSI’s global and SA interests, with a projected market capitalisation in excess of R1bn and expected annual turnover of R2,8bn.

This follows a R650m restructuring at FSI involving a series of interlinked transactions and effective from July 1, details of which were announced today.

W & A will acquire the minority interests in three intermediate investment holding companies in the FSI stable —

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<th>The new W &amp; A</th>
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All holdings are:
- Fully diluted
- Attributable
- 100% unless otherwise stated

Graphic: LEE EMERTON Source: FS GROUP

Teamcor, Hunts and Homemakers — and cash shell Citizens Holdings, all of which will be delisted. It will boost its existing stakes in companies including Burhose, Bi-centre, Gentyre and J D Group, with its holdings in businesses such as MacPhail and Noristan remaining intact.

FSI’s overhaul, widely expected, will rank W & A among the top 20 industrial giants on the JSE and ensure the FSI man-

agement team retains control of the group.

Implementation of the proposals, which follow cautionary announcements last month from seven FSI companies, will result in a three-tier structure: Wacior will become a pure pyramid for W & A, FSI will become a pyramid for Wacior and FSI Group will be a pure pyramid for FSI.

W & A chairman and CEO Jeff Liebesman said in an interview yesterday the steps would enable management to “clean up the group’s structure to facilitate a clearer and simpler understanding of it.”

“We will also have eliminated a lot of cost and cash-flow inefficiencies inherent in the complexity of the previous structure.”

Sidney Frankel, MD of lead house broker Frankel Kroger Vanderline, said the clean-
er structure addressed a number of issues which “bothered investors, and W & A must now become one of the blue chips”.

Payment to minority shareholders of Teamcor, Hunts and Homemakers will be one-third in W & A shares and two-thirds in shares of its pyramid Waicor. For example, Hunts minorities will be offered 233 Waicor shares and 47 W & A shares for every 100 Hunts shares.

Minorities also have the option of a cash offer of 680c per W & A share or convertible debenture, and 241c per Waicor share.

Listings of the FSI companies suspended last week — FS Group, FSI, Waicor, W & A, Teamcor, Hunts and Homemakers — would be reinstated today.

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Major FSI reshuffle leads to large share price gains on JSE

SHARES in FSI companies Teamcor, Hunts and Homemakers — relisted yesterday — registered some of the largest price gains on the JSE on news of a group restructuring involving generous offers to their minorities.

Teamcor shares, second in terms of price boosts, rocketed 46c or 18.1% to 286c; Hunts grew 60c (8.5%) to 730c and Homemakers firmed 30c to 440c.

The strong gains followed an FSI announcement detailing interlinked proposals in terms of which W & A Investment Corporation is to become the principal holding company for FSI’s global and local interests.

The clean-up includes W & A’s acquisition of the minority interests in the three firms, with minorities offered one-third in W & A shares and two-thirds in pyramid Walcor, or cash of 600c and 241c a share respectively.

But while it has generally been welcomed on the market, at least one analyst — Ed Hera, NADIR’s Sid Vianello — believes FSI’s huge post-restructuring debt, with its possible ramifications, is cause for concern.

He said minorities would be offered fair value, and he was “particularly delighted” to see an underpinning cash offer extended to them.

However, a simpler structure would not guarantee an immediate re-rating for the shares: “a major issue to be addressed was that FSI would remain extremely highly geared with interest-bearing liabilities of just under R500m.

Pattern

“It’s in their interests this gearing be cut and if FSI wants to see W & A’s share price appreciate, management will have to give some form of reassurance they’re not going to sell W & A or Walcor paper into the market in the future to liquidate their liabilities,” he said.

“Further, based on W & A’s financial structure on completion of the transactions and given its normal growth pattern in the past, we think it could under normal circumstances require a rights issue in two to three years time.”

But this could be avoided if the group kept to its consolidation policy in the first half of the decade, rather than continue pursuing its former acquisitive strategy, he said.

Vianello said W & A’s current share price represented “more than fair value”, given that SA conglomerates tend to trade at a discount to net asset value, the values now placed on various assets being transferred into W & A and that the share price now recognises those in full.

He saw no reason for a re-rating now which could come later when the group had proved its investment profile could give results in favourable and difficult economic scenarios.

FSI shares closed untraded, Walcor’s were unchanged and W & A’s retreated 30c to 620c, more closely reflecting the value of the firm’s underlying assets as determined by merchant bankers and level with the trend on the market, analysts said.
Unrest is slowly strangling business activity in the townships — mainly because the risk of damage to vehicles has made suppliers reluctant to continue with their deliveries.

Both formal traders and spaza shops were running out of stocks, particularly of cold drinks and bread, by the time operation "Iron Fist" was announced.

Bakeries visibly suffered the most vehicle damage. Fedbake alone lost five vehicles in the last six weeks. Premier Foods MD Willem de Kock says Premier also lost vehicles.

However, he adds: "The good news is that it doesn't look as though businesses have been singled out for attack."

But beer is getting through. SAB’s Albert Botha says bottle store owners and taverners are picking up beer from nearby SAB depots. Coca Cola is not quite so fortunate. Few seem prepared to risk life and limb to ensure continuity of mineral water deliveries.

Trader MD Albert Koopman says: "There has been a downturn and I imagine small traders are destocking during the present troubles." Makro’s Mark Lambert says the most visible effect of the unrest has been on staff morale. "Our staff is now happiest at work. People live in fear of their lives."
FSI 'will not shed holdings'

There was no likelihood of FSI disposing of part of its holdings in W & A Investment Corporation, Ed Hern, Rudolph analyst Sid Vianello said yesterday.

And FSI chairman Jeff Lieberman said the clarification by Vianello of the statement carried in yesterday's Business Day ('Major FSI reshuffle leads to large share price gains on JSE') was consistent with the group's policy.

Vianello was elaborating on his comment that FSI needed to give the assurance that it did not plan to sell W & A or Waiaro paper into the market to liquidate its liabilities.

"We have no doubt FSI's cash flow from the enlarged W & A is secure, so there would be no need to sell any of its holdings," he said.

"Indeed, FSI's position will be more than comfortable once the proposals announced this week have been implemented."

Vianello said the probability of lower interest rates and positive commentary from management must "surely nullify" any suggestions that such sales were imminent or contemplated. They also nullified any suggestions that any group company was contemplating any rights issue in the foreseeable future.
Sacob moots drafting of ten-year parity plan

THE SA Chamber of Business (Sacob) has proposed the drafting of a 10-year socio-economic plan to help establish parity among black and white South Africans in terms of education, housing, health and social pensions.

This was because the cost of establishing immediate equality in these fields would amount to about R51.8bn, compared to a current expenditure of R20.5bn, the "sheer magnitude" of which cautioned against unrealistic expectations and called for creative responses, it said.

The recommendation is one of several outlined in a 35-page document, entitled Economic Options for SA: a Sacob View, details of which were released yesterday.

It has been sent to key opinion-formers and decision-makers in SA and abroad, including State President F W de Klerk, the ANC, and Inkatha leadership.

Sacob director-general Raymond Parsons told a media conference yesterday that the chamber considered an appropriate economic strategy to underpin political change in SA.

"It is not an economic blueprint in a rigidly prescriptive sense, but sets out how Sacob believes the problems of economic growth and poverty could be tackled in a realistic way. We want an economic system which inspires business confidence both internally and externally."

The chamber says in the report SA has "extraordinary growth potential" despite not being wealthy in terms of real income per capita, and calls for economic reform within a market-system framework.

"Sacob rejects all forms of nationalisation and instead identifies roles for the state and the private sector in solving the problems of the country," it says.

It also urges development of an industrial strategy aimed at benefiting raw materials as far as possible, restructuring the education system and creating decentralised political structures.

Parsons said Sacob would initiate discussion on the document with those to whom it had been sent as soon as they had "digested" it. It was the second in Sacob's three-phase programme addressing socio-political issues, he added. The third, on economic aspects of any new SA constitution, would be finalised early in 1991.

© See Page 8
MORE EFFICIENT STRUCTURE

Anybody who compares the proposed structure for Jeff Liebesman’s FSI Group with the existing one is bound to see an improvement. Investors have long complained that the group was cumbersome and difficult to understand. A major objective of reorganisation is to create a more logical structure. From that standpoint the proposals will go a long way.

All operating companies are to be placed directly under W&A, which in turn will be controlled by three pyramids. A number of companies will be delisted and the group will be left with five divisions: manufacturing, distribution, retailing, international and financial services.

The sources of W&A’s profit will thus be far more apparent and cash flow should be substantially greater after the take-out of minorities in various companies. The cash siphoned off by the often large holdings of minorities in subsidiaries was a problem for top companies in the W&A group even before its acquisition by FSI, which then worsened the situation.

A question that needs to be considered now is whether the new structure will sufficiently improve gearing and cash flow for FSI Corp, where large debt is held. The arrangement does not in itself reduce borrowings at the top, so an easing of gearing will depend on how much cash flow is increased, as well as the extent to which repayment of debt later is facilitated.

To be delisted are Hunts, Homemakers, Teamcor and Citizens. This is to be funded primarily by issues or exchanges of shares, through there is a cash alternative of 600c per W&S ordinary share, or 600c per W&A “B” convertible debenture and 241c per Waicor ord. The effective cash element of the deal — which is valued at some R550m — is expected to be low.

Standard Merchant Bank (SMB), advising minorities, gives its “fair and reasonable” imputation to the terms so far as they affect shareholders in FSI, Hunts, Homemakers, Teamcor, Citizens and CIC. Finansbank is the merchant bank to the proposals.

SMB was also asked to evaluate the international interests, now held by FSI but to be put directly under W&A. Liebesman hopes that thorough examination of these will put to rest any concerns that may still exist in the market about their viability — though it is intended to reveal more detail about them in the accounts at this stage.

The group continues to hold large intangibles on its balance sheet. Liebesman says it has not been decided whether this will remain. It may be written off and then assets will be revalued regularly. According to the proposal document, W&A’s net tangible asset set value will rise by 42%, from 264c to 375c, but would be 518c after revaluation. Earnings will rise by 4%, from 110c to 114c.

FSI’s cash flow does appear to improve. A pro forma cash flow statement, had the structure been in place at end-December 1989, shows a total inflow of R68,6m: R19,6m on 105,7m Waicor ords, R13,5m on 46,7m Waicor preferred ords and R34,2m on 65,7m Waicor convertible debentures.

Against this, there is a cash outflow — before dividend payments — of R46,6m: R15,3m dividend on R111m redeemable prefs and R31,3m bank interest on R174m debt. After payment of R19,5m dividends, an available surplus of R2,7m remains.

That does not seem a large margin but also does not appear unduly risky. Waicor convertible debentures will bear interest at 2% below prime and should convert within about five years.

The cash flow risk to FSI Corp is eased in that the bulk of its cash is in interest on debentures, which would take precedence over ordinary dividends. And, if the CD s are rated as attractive an instrument as is hoped, FSI could place the debentures with institutions and use the proceeds to repay its debt.

W&A clearly remains the lower risk vehicle among the holding companies, while the pyramid structure leaves substantial scope for share issues. Indeed, the three-tier pyramid structure is a regrettable aspect of the reorganisation. The JSE has approved it, provided that should any offer be made for any of the pyramid companies, which will result in a change of control, similar offers must be extended to all minorities in the underlying pyramid companies and W&A.

That may be within the spirit of the new takeover code, but wouldn’t be allowed in London — as Liebesman admits. He is frank that the structure ensures the group can expand while maintaining its independence (or, put another way, his own control). Rembrandt is a well-established precedent, but that does not make multiple pyramids any less undesirable.

Andrew McNulty
Business school students are frequently urged to consider changing political trends when it comes to drawing up a strategic plan for their businesses.

Last year, one of the key ponderables they faced was, “What if Nelson Mandela were released?” Then, on February 11, most of their assumptions went out the window when Nelson Mandela walked out of Victor Verster prison.

But far from making for a more stable and predictable business environment, that dramatic change has heightened the need for business to re-evaluate its future. Murmurs that private assets might be nationalised, talk of a radical redistribution of resources and a groundswell of support for socialism give rise to a concern that the future economic landscape might be very different from the one we are confronted with today.

Professor Grant Robinson, business strategy, Wits Business School, believes it was easier for business to plan before Mandela’s release.

“Government used to set distinct policy directives — even if it seldom stuck to them. The major issue which businesspeople had to second guess was the sociopolitical trends.

“The problem is that neither the ANC nor government seem to have a clear idea of where they’re going. To second guess where they think they’re going requires something of an act of clairvoyance.”

The upshot is that both government and business planners have moved into the area of the “pure inspirational,” he says. “F.W de Klerk has launched us on the high seas of the politics of negotiation, which is incredibly dynamic. It’s a situation in which double guessing becomes very difficult.”

One thing’s for certain, he says, P W Botha’s approach to reform within the context of a security blanket and the co-option of ethnic leaders is no more. “Change, in future, is going to be internally driven, but yet externally influenced. Models such as Angola, Namibia and Zimbabwe are not going to be of any real relevance.”

Robinson warns that the vigorous lobby in support of socialism in SA should not be discounted. While SA’s Communists might have accepted that communism has failed in eastern Europe, they’re busy redefining it as an evolving socialism in the SA context. The good news, if one can call it that, he says, is that at least they see a democratic future for SA.

Economically, Robinson says, the ANC and its cohorts remain confused. They’re still talking of wealth redistribution and the breaking up of the mining houses and private-sector conglomerates. Yet, in the same breath, they talk of encouraging foreign investment and business confidence, then threaten to enforce legislative reinvestment and the re-nationalisation of privatised State assets.

“That’s what I call the Robin Hood syndrome,” he says. “Robbing the rich to give to the poor is one of the most self-defeating missions a government can embark on. The rich don’t like being robbed. They’ll invariably take their riches with them and get as far away as possible. We’ve already seen that with De Beers, Rembrandt, Sappi and Middleburg Steel. It could be the beginning of a massive movement and I can’t see foreign capital flowing in to replace it.”

All that sounds pretty gloomy, but Robinson does offer some encouragement to business planners — as well as some of his own forecasts on how the political drama is likely to unfold:

- SA’s new political deal will not be cut by

Robinson ... clairvoyance needed

the Nats and the ANC alone. Other players want in, which will lead to an era of increasing political destabilisation (something we’re already beginning to see in the township unrest);

- The PAC, for example, has yet to properly declare its political agenda. There’s also, he says, real potential for a split between the ANC and the SAPC;

- It’s unlikely that there will be another election in SA within the next four years under the current constitution;

- More likely, there will be an interim government that will be responsible for drawing up a new constitution;

- The constitution is unlikely to be based on race or the protection of group rights. Rather, group interests will be protected by a bill of rights based on the protection of individual rights and freedom of association;

- Contrary to what many believe, he says there’s little likelihood of a right-wing coup. The military in SA traditionally sees itself as an extension of government rather than government itself;

- But in the run-up to a new constitution, the role of the police is going to assume a higher profile and become much more contentious.

The good news for business is that change in SA is likely to be incremental. The reason, he believes, is that the ANC’s economic policies are unworkable.

“They plan to nationalise and rule with organised labour for the benefit of the people and develop the economy at the same time. They’re going to be required to pay labour better, fund capital investment and, in general, give the people a better deal. If they don’t deliver, people will turn to the PAC and other groups to the left of the ANC.”

The upshot, he believes, is that the ANC will be forced to compromise on nationalisation and wealth redistribution. As a quid pro quo, De Klerk will have to give up his insistance on full protection for minority rights.

“Consequently, I don’t believe the economy will be markedly different from the one we have now. There won’t be major step changes ahead, but business plans will, by definition, have to remain robust and flexible.”

Graham Jelford
CORPORATE social responsibility schemes (CSR) in the US — they took off there after race riots in the late 1960s — have great relevance for South Africa, says an American authority, Myra Alperson.

SA's economy, which desperately seeks higher productivity, needs to tackle its literacy problem and related skills shortage.

As part of the solution companies could encourage on-site literacy programmes in terms of CSR schemes.

A survey on trends in CSR in SA indicates that housing and education enjoy the greatest priority. The study was undertaken by FSA-Contact and covered 101 companies.

Miss Alperson says in the Innes Labour Brief that some companies in the US place such a high priority on CSR that they appoint social responsibility committees on their boards.

Corporations, such as Coca-Cola and IBM, have made multimillion-dollar grants for public education. But other methods are also used.

Some companies that are retraining, such as Polaroid and Chevron, are funding schemes to encourage employees to become teachers. Polaroid also takes care of on-site literacy training.

Mentor

In the automobile industry management and unions have developed on-site educational programmes. Ford employees can even obtain university degrees at the workplace.

The "mentor" system is encouraged by General Electric Company. This scheme encourages employers to volunteer — even in company time — as mentors for those interested in science or engineering careers.

Support for minority (black or Hispanic) businesses and banks is a major component of CSR, fostering support for a middle-class of minority entrepreneurs.

In 1989 General Motors spent more than $1-billion on purchases from minority suppliers. It also deposited more than $900-million in accounts of 83 minority-owned banks.

Miss Alperson is project director, corporate social responsibility, at the Council on Economic Priorities in New York. She will be in SA for two years from October, and will be attached to the Labour Brief offices. The publication is edited by Professor Duncan Innes of Wits University.

The FSA-Contact survey shows that 80% of organisations provide housing benefits, whether to their employees or to interest groups the company has identified.

Of those providing housing benefits, 30% are involved in housing schemes in the towns and with community housing self-help schemes (32%).

Priority

About three-quarters of the companies provide education benefits, whether to employees or some other interest group. About 80% assist in the development of schools in areas where their employees live, and an equal proportion help in upgrading teaching skills in the community.

Nearly two-thirds of companies place a priority on health care. But less than half place high priority on the development of small business.
Go for quality, exporters told

By Des Parker

DURBAN — A big quality drive in the manufacturing and service sectors is essential if South Africa is to export its way out of trouble.

So says Michael Carruthers, president of the SA Society of Quality.

Mr Carruthers told a Quality in the 'Nineties seminar in Durban that locally produced goods would sell in major world markets only if they conformed to the high standards demanded.

The small size of the domestic market necessitated exporting so industry could achieve economies of scale. This would reverse the decline in manufacturing capacity.
Chartist Finds Meaning in the Market's Moods

Mervyn Hahns

REVIEW

Mervyn Hahns

Chartist Finds Meaning in the Market's Moods

In Merger & Co. - Personal Finance

Through the years in the UK - RF

The most recent merger has been

with First Northern & Cumberland

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SA firms join European drive

SA COMPANIES were joining the mergers and acquisition (M&A) drive into Europe where attractive opportunities existed in a unified Europe and a more market-oriented Eastern bloc, Ernst & Young Corporate Advisory Services director Claire Herbst said yesterday.

She said SA companies were also aware of the potential offered by a market of more than 300-million people. There was “increasing scope” for international transactions involving SA.

“We expect increasing international M&A activity by local companies, as sanctions get lifted and SA businessmen are able to look abroad for markets and investment opportunities.”

This trend had already started with some firms having formed European operations. “Recently we have advised SA companies looking to invest in Europe and, happily, a European company investing in SA for the first time.”

But she said it would take time for the international community to accept SA as a sound investment arena. “To a large extent they are still waiting on political and economic factors.”

SA companies needed to think more globally, Herbst said. “We have to make our businesses more international by encouraging SA companies to invest overseas and allowing foreigners to invest in SA.”

She said SA companies wanting to invest abroad were hampered by foreign exchange requirements.

Financial risks had to be used for deals of a capital nature, making overseas purchases very expensive.

“As a result, deals must be carefully structured — great emphasis is placed on cost effectiveness and tax structures.”

SA investment in Europe made sense as, aside from opportunities created by social and economic restructuring, Europe was also SA’s biggest trading partner, she added.
Mounting debt reflects tough times — Volkskas

GERALD REILLY (10c)

PRETORIA — The economy’s downward trend was reflected in an increase in the number of companies and individual struggling with shrinking business volumes and mounting debt, Volkskas economist Adam Jacobs said.

He was reading latest Central Statistical Service figures which showed that in the three months to end-July this year the number of summonses for debt increased by 150 to 252 000 compared with May-July last year.

Civil debt judgments also increased — by 13,5% to 227 312.

Jacobs said demand conditions in the economy would continue to weaken and pressure on company profits would intensify as a consequence.

Increasing numbers of companies well-equipped to withstand the pressure would go under and individual insolvencies would also increase.

“Of this trend, according to our calculations, is likely to go on for the next 12 months or 24 months,” Jacobs said.

Volkskas customers complained of increasing difficulties in collecting debts — another symptom of the snowballing recession.

Factors worsening the debt issue, Jacobs said, included inflation and the setback caused by the higher fuel price and the imminent threat of another increase; rising unemployment affecting consumers’ ability to pay for goods and services; limited salary increases; and higher interest rates.
Gold mines on the wane

The gold mining industry was in all likelihood on the wane, and South Africa would have to turn to manufacture for export markets for a growing economy, said Democratic Party leader Dr Zach de Beer.

Addressing the Islamic Business Chamber on Tuesday night, he also made a plea for a minimum of Government interference in the future.

"Hugely expensive apartheid structures, like the departments of health, must go soon."

The Government's role had to be that of a coach who refrained from taking part in the game. — Staff Reporter.
New NMC labour proposals likely to
draw flak from unions, small business

By ALAN HIRSCH

PROPOSALS emanating from the Na
tional Manpower Commission (NMC)
on modifying labour laws to suit small
business development will probably
meet criticism from both interested par
ties — small businesses and organised
workers. Small business will probably
think the proposals do not go nearly far
enough, while trade unions may feel
workers in small businesses will have
even less protection from exploitation.

Trade unions, employer organisations,
and small business lobby groups will
soon have to respond to a set of propos-
sals for amending the conditions under
which workers are employed in small
businesses.

The proposals are contained in a
"working document" issued by the
NMC project committee on small busi-
ness, designed to provoke discussion
and responses, and culminate in amend-
ments to existing laws.

Proposals cover amendments to a wide
range of laws regulating labour relations
on issues extending from minimum wage
measures to safety regulations and
unemployment insurance.

A minority of the committee members
favored the blanket exemption of small
businesses from labour laws, but most
plumped for exemptions for individual
firms on application. This is possible un-
der existing law, but could be made easi-
er for small businesses.

The other major thrust of the proposals
is the simplification of labour regula-
tions to make it easier for small business-
to comply.

Though it had a fairly open-ended brief
from the Manpower Minister, the com-
mittee decided to focus on "micro-
businesses". Independent micro-businesses are
defined as firms which are entirely inde-
pendent, owner-managed, employing
no more than 10 permanent employees,
and having an annual turnover of up to
R250 000.

NMC chairman Frans Barker, who is a
member of the committee, explained that
in firms of 10 or fewer people it was like-
ly that the owner-manager would be re-
sponsible for all aspects of management.
For this reason he, or she, would not
have special knowledge of labour regu-
lations, and probably would not have the
time to learn them.

Larger firms were likely to have the
managerial capacity to cope with the
myriad labour regulations and did not
need special treatment, though they
would also be considered for exemp-
tions.

One of the novel proposals of the com-
mittee is that a "facilitator" should be ap-
pointed by the Department of Manpower
to receive all applications for exemption
from micro-businesses, and to hear ap-
peals on decisions by individual indus-
trial councils on exemptions. Barker said
employers and employees could draw on
the services of the facilitator for advice
on procedure in their dealings with indus-
trial councils.

Another innovation the committee has
put forward is subsidised arbitration in
the case of disputes over dismissals. The
idea is to avoid the extended and complex
bureaucratic dispute settlement proce-
dure entailed in the Labour Relations
Act. If both parties agreed, the NMC
could subsidise the costs of an arbitrator.

In response to the suggestion that such
a system might be open to financial
abuse, Barker said it might help to have a
fixed-sum subsidy, and to have a regis-
ter of arbitrators.

Disputes might also be settled in "small
claims labour courts" which should be
available in outlying areas.

Where an employee had been found to
have been unfairly dismissed, the com-
mittee felt a monetary settlement might
be preferable to a reinstatement order,
depending on the size of the firm and the
degree of personal relationship between
employer and employee.

Perhaps the most controversial element
of the committee's proposal is that it be
written into the Wage Act that the size of
the firm be taken into account when ex-
ceptions from minimum wage determina-
tions are applied for. This suggests
small businesses may expect automatic
exemption from minimum wage rules,
which, as a labour lawyer pointed out,
means no wage protection, as few small
firms are unionised.

As far as health and safety regulations,
and unemployment and accident insur-
ance are concerned, the committee was
divided between die-hard deregulation-
ists, and those who thought the regula-
tions could be simplified enough to make
compliance by small firms feasible. The
moderates generally won out, though in
several cases alternative proposals were
put forward without prejudice.

Barker said summary responses to the
committee's proposals must be submit-
ted by October 8, and that oral represen-
tations would be heard by the committee
a week later.

The next step is for the committee to
take its proposals to the NMC, which
will decide what to submit to the minis-
ter.
Manufacturers ‘replacing workers with machinery’

MANUFACTURERS in sectors that are usually labour-intensive — furniture, leather, footwear, clothing — are committed to replacing labour with machinery because of perceived “labour inefficiency”.

That is one of the findings of a Bureau for Economic Research study, based on surveys among manufacturers, into the reasons for the growing capital intensity of the SA manufacturing sector. The fact that manufacturing had become more capital intensive during the 80s was confirmed by 77,3% of respondents to the survey.

Study author Leon Welcher saw as “particularly worrying” the trend among smaller businesses and traditionally labour-intensive industries to replace labour with capital.

“The rising ‘cost’ of labour is reflected in increased union activity, rising wages, perceived low labour productivity and increased political activity. Consequently, manufacturers have opted for what was considered the ‘cheaper’ option and replaced labour with machinery.”

But Welcher cautioned against “simplistically blaming organised labour” for the replacement of labour with capital and noted that a range of other factors had contributed to the overall capital deepening.

These were technological advancement, growth factors and concern about future availability of machinery. Capital intensity in larger manufacturers was motivated by technological developments. The prime motivating factor for purchasing new technology was to maintain cost competitiveness.

Stagnation

Welcher found that the policy of import substitution was a major contributor to capital intensity as many of the tariffs and duties imposed by government were a direct result of government’s desire to develop capital intensive industries.

“The cost to the economy in 1989 is high unemployment coupled with high capital intensity.”

The stagnation over the past decade of employment growth in the manufacturing sector — traditionally the main provider of jobs in SA — reflected the increasing rate at which labour was replaced by capital in the past decade.

Capital was being used to replace labour rather than boost output and that was why no job creation was taking place in the manufacturing sector.

“A startling statistic of the Central Statistical Service shows that between 1989 and 1990 there was hardly any growth in the number of people employed in the manufacturing sector. During the same period, the capital stock of the country grew in real terms by about 15,7%.”

The policy implications of the BBR study’s findings were that policies should encourage capital investment in industries where SA had a competitive advantage.

“Perceived labour inefficiencies need to be resolved through consultation between management and workers.”
Small business 'has role in new society'

ACHMED KARIM

SMALL business could contribute to the building of a common society and an integrated economy, SA Reserve Bank economic advisor Sebastian Klen said yesterday.

In an address at the Small Business Week symposium, held at Sun City as part of the National Small Business Week, Klen said SA was confronted by deeply rooted structural problems.

Rapid population growth — estimated to reach 47-million by the year 2000 — would require the creation of 380 000 job opportunities a year, or 1 000 a day.

As there was an imbalance between capital and labour, this "clearly calls for a development policy to increase the use of labour relative to capital wherever it is economically efficient".

National African Federated Chamber of Commerce and Industries president Sam Motsenenyane said policy and structural adjustments to remove obstacles to greater business involvement by small entrepreneurs had to be implemented urgently.
SABS, Germans sign agreement

GERALD REILLY 1977

PRETORIA — The SA Bureau of Standards (SABS) yesterday signed an agreement with a German standards authority.

Trade Minister Ken Durr said the agreement could be the first step towards the SABS's official recognition in Europe as a certifying authority.

Durr told an SABS conference on Europe 1992 that Europe and the First World were putting up fences of quality, standards and specifications.

It was vital that SA continued to qualify for entry to European markets and that fences did not obstruct SA trade.

Durr described yesterday's agreement between the SABS and the Deutsche Gesellschaft zur Zertifizierung von Qualitätsicherungssystemen (DQS) as laying the foundation for successful exports to Europe after 1992, providing industry with a head start — "an opportunity that must not be squandered".

Durr said there were 475 companies conforming to SABS standards, which had opened doors for export business running into hundreds of millions of rands a year.

The SABS had to take whatever steps were needed to achieve nationwide quality within the present social, political and economic constraints applicable to the SABS and government.

Durr said industry would have to play a decisive role in creating wealth in the new SA by increasing the export of manufactured goods and beneficiating raw materials for export.
Working Faces Western Cape

Retrenchments and Short-time

By Tom Hood
Modernisation boosts Pointer

An extensive factory modernisation programme undertaken last year has paid off in the form of improved margins for leather garment and handbag manufacturer Pointer Fashion International.

The group lifted operating profits by 27 percent to R1.9 million on sales which rose 15 percent to R15.8 million.

After allowing for an interest bill of R708 000 and tax of R383 000, distributable profits rose by 16.5 percent to R594 000.

The directors have declared a final dividend of 2c a share, bringing the total for the year to 3.3c (3.0c) on earnings of 7.4 cents per share.

They say that the increased turnover was pleasing, in view of the downturn in consumer spending.
The FSI group's major holding companies have turned in a patchy set of interim trading results, while attributable performances ranged from slightly improved to sharply down. W&A's operating result for the six months to end-June was surprisingly good, with a 27% advance — somewhat better than the improvement of 23%-odd for FSI itself. In contrast to these increases, were rises of only 3.8% for both Hunts and Teamcor.

Reassuring though the trading results from W&A and FSI may seem, the accounts underscore several points of concern. Firstly, the weak trading results from Hunts and Teamcor reflect sharp deterioration of some of the major domestic operations. W&A's operating profit was boosted partly by the 58%-held UK company, AAF, whose operating profit was up by 56% at €2.5m.

Secondly, interest costs hit the attributable earnings of both W&A and FSI. FSI Corp's finance charges ballooned from R54,9m to R92,2m, reducing the interest cover to only 2.1 times. This resulted in a R2m drop in pre-tax profit — it was only because of a sharp drop in the tax rate that attributable earnings increased.

Similarly, W&A's finance charges more than doubled. This was partly offset by the lower effective tax rate and a larger contribution from associated companies. Chairman Jeff Liebesman blames the rise in finance charges on both higher interest rates and borrowings associated with recent acquisitions. However, the Hunts subsidiary, Teamcor, and W&A subsidiary Homemakers received an aggregate R11m on disposal of certain interests.

These results again emphasise the group's need for a more efficient structure (Fox September 21). The share has fallen more than 35% in 12 months despite last month's announcement.

Andrew McNally
Letters

The opinions expressed above are the author’s own. The opinions of groups of which I am a member—such as the Small Business Development Center—often differ from my own, and I do not speak for them. I appreciate the opportunity to respond to the writer, and I am grateful for the thoughtful and constructive comments that he or she has made.

The writer raises some valid points about the challenges faced by small businesses today. However, I believe that the real issue is not just the lack of support from the government, but also the lack of support from the private sector. Small businesses need to be more competitive and innovative in order to succeed.

I urge the writer to consider the following:

1. Support small businesses by purchasing their products and services. This will help to keep them in business and create jobs.
2. Provide technical assistance to small businesses. This includes training, mentoring, and access to capital.
3. Encourage entrepreneurship and innovation. This will help to create new businesses and new jobs.

In conclusion, I believe that small businesses are a vital part of our economy. We need to do more to support them and help them succeed. Thank you for your interest in this important issue.

Sincerely,

John Doe
Small Business Owner

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Links benefit businesses big and small

The future of business is a community of mutual support and growth. It is important to recognize the contributions of all businesses, regardless of size or industry. By working together, we can achieve greater success and prosperity.

Small businesses are the backbone of our economy. They are the ones that create jobs and drive innovation. However, they often lack the resources and support that larger businesses have. That is where links come in.

Links are partnerships between businesses of different sizes. They can take many forms, such as cross-promotion, joint marketing, and shared resources. The goal is to create win-win situations that benefit all involved.

For example, a small business owner might partner with a larger company to gain access to new customers and resources. In return, the larger company might gain new insights and ideas from the small business.

Links are especially important in today’s economy, where businesses are increasingly focused on sustainability and social responsibility. By working together, we can create a more sustainable and equitable future for all businesses.

So, let’s support links and the small businesses that make our economy thrive. Together, we can create a brighter future for all.

Philip Maxton
President, Small Business Association

06/15/2023
Call for private sector spearhead into the EC

PRETORIA — There was a crying need for a Brussels-based office representing SA industry and business, said yesterday.

Speaking at an SABS conference on "Europe 1992", Rancho said a private sector lobby to promote SA's interests and monitor developments in a unified Europe would be vital.

"If such a lobby is considered critical to American, Canadian, Japanese and Australian suppliers, then there is no excuse for SA to sit back," he warned that until such a lobby was in place the country would experience a measure of discrimination in gaining access to new markets.

Rancho said a frontier-free common market of nearly 350-million people provided additional exciting opportunities.

For South Africans it was crucial to understand that the creation of a unified European market was well under way.

The EC was SA's number one trading partner and historically its principal source of capital and technology.

Rancho warned SA exporters would have to become increasingly competitive to enter or remain in the EC market after 1992.

A robust single European market would mean many advantages for SA, which ranked as the EC's 13th most important source of imports and its leading trading partner in the southern hemisphere.

To take advantage of a prosperous United Europe, SA businessmen would have to adopt business strategies which gave them a competitive edge in a powerful EC.
High cost of involvement

Marcia Klein

SA companies spent an average of 10% of net profits on social involvement, compared with an average 2% by US companies, Pick n Pay chairman Raymond Ackerman said yesterday.

Speaking at a Sheba event for businesswomen, he said SA businesses had to include social upliftment and social responsibility as part of the running of a good business. (1SS)

He compared events in SA to those in Eastern Europe. In SA the effect of change would result in a power struggle rather than in economic freedom, and a company had to have a positive effect on the hopes of its employees and customers, he said.
EC calls for SA presence

Business Times Reporter

A plea for SA's private sector to "get aligned with the new Europe" was made in Pretoria last week by the Ambassador to the EC in Brussels, Dr Bhadrach Ranchoch.

"Business in every state in the EC has set up its monitoring and lobbying offices in Brussels, but SA's private sector is unrepresented," he told the SA Bureau of Standards Europe 1992 National Symposium on Product Certification.

The 450-odd delegates saw the signing of an agreement which makes the SABS the first standards organisation outside the EC whose certification will be recognised by the German certification body DQS.

Calling for the SA economy to be "relaunched" like Western Europe's, Dr Ranchoch did not mention bodies which he felt could lighten the load of his mission's two officials dealing with trade matters.

However, when the matter was raised in question time, he named the SA Foundation, the Chamber of Mines and the coal industry.

"The coal people have offices in London and Bonn, the Chamber of Mines an office in London and the SA Foundation offices in London, Paris and Bonn. They continue to behave as if Europe is still separate nations and not an integrated place with Brussels as its capital.

Power

A private-sector monitoring and lobbying office could, for instance, produce a monthly update on developments in the EC for which his office did not have the capacity.

Stressing Brussels' importance, Dr Ranchoch referred to power wielded by EC Commission president Jacques Delors. "As chief executive of the largest trading bloc in the world he holds enormous power.

"It was a major breakthrough for SA when State President De Klerk met Mr Delors when he visited Brussels in May."

Apart from that meeting and the visit of the Fact-Finding Mission to SA in April, further evidence of an improving EC attitude towards this country was a statement last week by the commission's senior vice-president in charge of development. He had even called on the SADCO countries to address their task "in a renewed light with South Africa as a partner."

Next week, Business Times will carry a special feature on Europe 1992.
FW’s US visit buoy up confidence.

THE recent meeting between President F W de Klerk and US President George Bush helped buoy up business sentiment in September, but a lack of clarity over future economic policies would continue to limit foreign and

Sylvia Du Plessis

local investment in SA. (130)

This was the warning from the Chamber of Business (Sacob) chief economist Ben van Rensburg, who told a media conference yesterday that the ANC’s new economic policy document offered little assurance to potential investors.

Van Rensburg, commenting on the chamber’s latest business and industrial confidence indices, said a policy which sought to tax businesses more than at present would do little to attract investors.

In addition, it was unlikely to lead to the growing economy required if poverty and unequal wealth distribution were to be effectively addressed.

Sacob’s business confidence index (BCI) — measured against the movements of 18 economic indicators — firmed 2.4 points to 94.2 last month in the face of further evidence of an economic downswing.

The rise was due in part to perceptions that township violence had been brought under control; the uneven impact of present economic conditions; and “technical adjustments” in certain raw data inputs to the index.

Sacob’s manufacturing activity index, which measures the volume of new orders placed with manufacturers compared with the previous month, fell to a level of 86 in September from a revised 89 in August.

Sacob economist Keith Lockwood said it remained clear recent developments in SA and abroad had done little to reduce pessimism among manufacturers in the short term: sales and production expectations continued providing further evidence of a deepening recession.
Unrefined? Seminar told
Press records history

Mandela appeals

By Josina Abrahams

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SOWETAN Tuesday October 9 1990
STELLENBOSCH — Business confidence is deteriorating over a wide front, showing the fact that the economy is firmly embedded in a recession, says the Bureau for Economic Research (BER) at Stellenbosch University.

Its latest survey of wholesale, retail and motor sectors found that despite ostensibly good sales, confidence had deteriorated rapidly, with almost eight out of 10 participants saying business conditions were unsatisfactory.

Although there had been sales optimism, 69 percent of respondents said general business conditions had deteriorated since a year ago, and 51 percent expected a further deterioration in the fourth quarter.

In the wholesale industry, third-quarter sales volumes were down, compared with last year. This was the first time since the third quarter of 1985 that a net majority had reported a decline in real sales. — Sapa.
Industrial chamber launched for black manufacturers

THE emergent black manufacturing industry has been officially recognised with the launch of the National Industrial Chamber (NIC) by black business organisation Nafcoc on Tuesday.

Addressing the launch in Johannesburg, Nafcoc president Sam Motsuenyane said: "Among the specialised services in which the new industrial chamber seeks to provide assistance to emergent manufacturers are: The raising of finance, location and premises, procurement of raw materials and the pricing, marketing of manufactured products."

Although the chamber is part of the Nafcoc family, it is autonomous, with its own office-bearers and committee, membership funds, programmes and projects.
Vital Sacob and ANC talks likely

Sowetan Correspondent

THE South African Chamber of Business hinted this week that talks with the African National Congress about a bold new blueprint for the economic future of South Africa may be imminent.

Sacob director-general Mr Raymond Parsons said there had already been signals of a positive response from the ANC about weekend proposals that top-level meetings should be held to seek wider concensus on future economic strategies outlined by each side.

"We are already busy with the structure of an agenda," he told a news conference in Johannesburg. A date had yet to be fixed for discussions.

Talks between big business and the ANC hierarchy were suggested by Sacob in the wake of the release of an ANC document setting out the economic policies that should be pursued in a post-apartheid era.

The document is now expected to be debated inside the ANC at branch level before the declaration of any formal economic manifesto - expected to be ironed out in the next few weeks.

Sacob has already welcomed what it saw as more realism in ANC thinking - but voiced disappointment that nationalisation and collectivism still appeared to be high on the ANC agenda at the moment.
BLACK BUSINESS

AMERICA OR BUST

ANC deputy president Nelson Mandela and US ambassador Bill Swing were among the 400 political and business representatives at Sunday's gala send-off for 83 business leaders on an 18-day Black Business Observation Mission to the US.

They will visit five American cities, including New York, where the mayor will give them the key to the city.

Willie Ramosheba of WR Consultants, who arranged the mission, had originally hoped to get 120 participants. The R14 000 price tag and foreign exchange limitations on would-be members from neighbouring countries kept the final total down, he told the gathering at the World Trade Centre near Jan Smuts Airport.

So as not to be seen as a sanctions-busting effort, the group is not calling itself a trade mission. But members are hoping to make contacts that will serve them well in the years ahead. One of the stops will be at McDonald's, the Chicago-based hamburger giant, where several members are expected to discuss franchising opportunities.

"We want to study at first hand how (the US) system works," says Dr Nthato Motlana, leader of the mission and chairman of the Get-Ahead Foundation. "We come from a country where a racial oligarchy created a socialist welfare system for the whites and virtually enslaved the blacks to subservience in this system. We blacks are thus without an entrepreneurial culture."

"On our visit we hope to learn from both black and white Americans how to turn the 80% of our people who have always been job-seekers into creators of jobs and wealth."
Institutions just waiting to pounce

SOME prices moved up, some moved down — but nobody bought or sold. It was all very quiet with just the wash of institutional funds lapping in the distance — loud enough to seriously disturb brokers who are now having to contemplate the prospect of retrenchment.

In what seemed like a fairly desperate attempt to provoke some enthusiasm, Myles pointed out that institutional investors are currently building up considerable cash reserves.

This means that as soon as the market turns up, and the first of the sheep come back to the market — prices should move up dramatically.

But in the nearer-term, given the grim outlook for industrial company results, only the most hardened contrarian would be an enthusiastic buyer of equities.

Then there’s the ongoing Middle East crisis which has done nothing for gold or any of the other precious minerals. Myles hears talk of some Iraqi bank trying to sell a few billion dollars of gold — not the sort of rumour that will get gold soaring to new highs.

And as if that wasn’t bad enough, there’s speculation of another petrol price hike this weekend. And air fares about to go up — again. All very grim.

Sasol is seeing some benefit. Apparently it’s being punished among London investors who seem quite keen.

Myles wondered if anyone had seen Digico’s results. They were released in one of the Afrikaans papers last Saturday — a move which seems designed not to excite too much response from investors. He can’t remember the details but thinks some size of a loss was reported.

Some news about the assets that are being injected into Furnitech should be released this week.

Apparently Vivian Im-

man will not be involved in the Graham Beck-led consortium that’s buying out Udo Wine. Of course no one ever said for certain that either he or Royal Corporation would be involved — but there was some speculation — now it seems he won’t be in the deal.

There should be some reasonably firm news on the Spareco front, next week. The major creditors are due to have a meeting on Wednesday to discuss the various offers that have been made to the liquidators — lending the list is the one from Vaalmeel. But there are others.

It seems ages since anything’s been heard from Peggro — almost three weeks since the talks with Tradegro were terminated and still no news of a new acquisition target. Has Mr Wiese finally come to terms with havinig so much cash? Myles redons that the next target will be something like Frame... interesting thought.

Talking of which, if Peggro and Tradehild had got together, the latter’s Fraser subsidiary would have provided a nice outlet for Peggro’s blankets — this could have hurt Frame.

It looks as though Gants is still out of favour. Myles says he’s heard something about the disposal of one of their factories.

No news about the Fedfood deal. Myles is quite certain it relates to the disposal of the group’s local and Namibian fishing interests. Apparently they’re being sold to an unlisted company that is getting some funding from an overseas party.

And then there’s De Beers. The slide continues, with talk of it going to as low as R55. Did somebody mention R135?
Big firms will hire exiles on merit

BRIAN SOKUTU

Some of the country’s major industries this week said they would employ returning exiles on merit, regardless of qualifications obtained from Eastern bloc countries.

Premier Group spokesman Barbara Bester said Premier would “welcome additional skilled people in the South African job market and would certainly give them every opportunity to join the group if vacancies exist and their skills are appropriate.”

Shell said the company had not yet been approached by any organisation with a specific request to employ returning exiles.

“However, we are quite willing to look at all applicants for jobs and match their qualifications and experience against those required for the employment opportunities we have available at the time.”

Toyota said it used the Human Sciences Research Council to establish the local level of competence of job applicants with foreign qualifications.

Said De Beers spokesman Andrew Lamont: “Our policy remains that we will continue to select and recruit individuals on the basis of merit that the job requires.”
Corporate buyers are not confident enough to embark on any major spending spree at present, says Brand Pretorius, marketing MD of Toyota SA.

Mr Pretorius, commenting on the recent drop in car sales, said the market had benefited from some pre-buying in August in the face of uncertainties about price and supply.

"It would have been nice to see this level of activity sustained through September but the total market dropped off by 9.7 percent last month."

The market was still down by around eight percent in real terms, even allowing for the inability of Mercedes-Benz to supply cars.

The used car market had improved a bit but stock was still moving slowly.

"Corporate buying has effectively reached a plateau, mainly because the relative profitability of major companies has dropped off. They are a bit jittery about the medium-term economic prospects.

"Value for money is certainly outweighing pure status considerations. If we look at the small and light car sector of the market we find that today vehicles in this class account for almost 70 percent of sales.

In the early 'eighties small cars accounted for just 45 percent of sales.

Medium commercials were benefiting from a buy-down trend but this was to the detriment of heavy vehicles.

However in the sensitive light commercial vehicle market, year to date sales were down 19.5 percent.

In the same time span the passenger vehicle market shrunk by 5.4 percent.

"Interest rates have stayed high longer than anyone anticipated and this means that we will have to wait a bit for any real upturn in demand.

"There will be price stability from our side up to the end of the year but we may not be able to hold our price increases at the same low levels in 1991."

Sapa.
ANC wants funding from big business

The ANC has launched an initiative to raise millions of rand in funds from SA's corporate sector, a move that has created huge dilemmas for the business community.

It is understood that senior ANC leaders, including Nelson Mandela, have met a range of top businessmen in the past few weeks to broach the subject of monetary donations and payments in kind for activities ranging from the resettlement of exiles to the purchase of office equipment.

Indications are that the organisation is seeking large amounts - well into seven figures from the larger corporations.

Business Day has tracked down two corporations that have been approached, and one that has reason to believe it will receive a request "any minute now".

One of the former, Anglo American, refused to comment at all on the approach made by Mandela in an October 3 meeting with chairman Julian Ogilvie Thompson and former chairman Gavin Keily. The encounter was described at the time as "private and informal".

Citing the extreme sensitivity of the issue, the other two - also leaders in the SA business community - agreed to talk to Business Day only on condition that they were not identified.

Neither has yet given, or is ready to give, a firm response. They indicated requests to fund party political activities raised dilemmas in principle. Regarding the ANC in particular, there was concern about its hostile attitude to big business.

"There was a general resistance towards getting involved in party political funding for the purpose of buying business or financial favours. One company's representative said he believed that if businesses were going to be involved in funding political parties, they would have to be more even-handed than they had been in the past."

He agreed there had been substantial corporate funding of the NP and the DP and its predecessors. It now had to be recognised that company stakeholders supported a range of parties.

"His approach, if party funding was to become norm, would be to support all groups that uphold values such as commitments to negotiating a new SA, to economic growth, to multi-party democracy and to the rule of law."

"There are obviously groups which would not qualify in terms of these principles - for instance, the CP, and the PAC too for as long as it refuses to participate in the negotiating process," he said.

He added there would be a cynical view to assume that providing funding to the NP and the ANC was a way for companies to "hedge their bets". If there was to be corporate funding of political parties, the goal should be to "contribute to a constructive political process".

"Both he and the spokesman for the second company made it clear they would only feel more comfortable if the requests were for specific social projects - such as the resettlement of exiles - rather than for pure party political activities." The second spokesman said it was basic policy not to sponsor political parties and

To Page 2

ANC is unlikely to fund pure political activities "although we would be foolish not to consider any request".

ANC economic policy, particularly its attitude to large businesses, would be an important issue, one spokesman said.

"Few businessmen believed that nationalisation was a serious policy option for the ANC, but there was concern about its policy on dismembering conglomerates."

"We would certainly first demand answers to questions about their intentions on economic policy, and particularly whe-
SA businesses 'have upper hand' in Eastern Europe

SA businesses wanting to operate in Eastern Europe had an advantage over their Western European rivals because the problems facing the region were similar to those in the SA business arena.

These included ethnic and language differences, and a certain Third World component which resulted in a lack of sophistication among a large part of the population.

This was the view of Leslie Bergman, the South African who in July was appointed to the Austrian office of Andersen Consulting to head the international consulting firm's expansion into Eastern Europe.

Bergman was speaking in Johannesburg during a break from his activities in Vienna and Eastern Europe.

"Western European businessmen have become used to operating in an efficient commercial environment. In SA, however, we know one does not always get everything done with the first phone call."

He said SA businessmen were culturally more in tune with Eastern Europe, and could put to use the experience gained in the complex SA business environment.

One such field was the provision of financial services like loans and automated teller services. "We have the expertise in offering such sophisticated financial products to middle and lower ends of the market," he said.
'Baasskap' seen as strike cause

HUMAN resources specialists should address the issue of "how to deal with baasskap" as a matter of urgency, Centre for Development of Human Resources director George Negoda said yesterday.

In his talk at the Institute of Personnel Management convention he said "baasskap" had been at the centre of many strikes at industries in SA.

"The fact that SA companies pay lip service to the enforcement of human resources management principles has created room for 'baasskap' to breed and expand to the level where it has become cancerous," he said.

SA needed a concerted programme of action in which technikons, the private sector, professionals and government should form a part, he said.

The role of technikons should be to respond directly to the needs of both the private and public sectors by providing tuition.

The programme should be aimed at school dropouts, particularly from Bantu Education, to provide them with job skills.
DURBAN — Business would have to redress the imbalances in housing and address low standards of medical treatment, Standard Bank Investment Corporation group MD Conrad Strauss said yesterday.

He was the closing speaker at the annual Building Industries Federation of South Africa (Bifsac) congress.

Strauss said it was no longer enough to be a “good corporate citizen” — more was required.

The key would lie in human resources management. Inadequate training was a major constraint on development and coupled with unrealistic expectations in disadvantaged communities, serious conflict could ensue unless business took steps to redress the imbalance.

Imbalances occurred in housing, low standards of medical treatment, inadequate infrastructure and communications. Management would have to take corrective action — something new for most in SA.

- The provision of housing, health care, pre-primary schooling and other social services had been a feature of business operations in several leading manufacturing countries for a long time.

Small business should be promoted because it created jobs and it made people aware of the market system. Managements could spread their buying to this sector.

Discussing the trends towards increased mechanisation, Strauss said it had been promoted in the past for political ends.

However, business was faced with militancy from trade unions, which resulted in rapidly rising labour costs, while importing machinery strained the balance of payments and was costly because of a weak rand.

He said the next five years would be difficult economically for the country while it was undergoing rapid change.
Be proud you create wealth, firms are told

COMPANIES should pride themselves on being wealth creators, and advertise themselves as such, says Anglo American Corporation public relations and public affairs director Bobby Godsell.

Godsell spoke on the role of companies in building communities at the third annual Sandton Community Investment Awards banquet, organized by the Sandton Chamber of Business, on Wednesday.

He said it had become fashionable for companies to speak about social responsibility. He did not subscribe to the view that making money was morally dubious, but believed a company’s core role was the creation of wealth. Through that, life opportunities were enhanced.

Second role

A company’s responsibility began in the “backyard”, he said. There it could develop skills and human dignity and share power.

A second role for companies was in the building of communities, starting off closest to home with customers and suppliers, said Godsell.

Anglo tried to buy goods and services in small packages, “which is not easy”, but companies should try to place business with small entrepreneurs and so help to spread wealth creation through the community.

There were vital ways to build SA and communities within SA through housing, health care, education and crime prevention.

Anglo, said Godsell, had by no means cracked the challenge of being able to offer secure and affordable housing to all its employees.

On crime prevention, Godsell said it was a paradox that SA was a police state without an adequate police force. Crime prevention was a priority for all South Africans and not just a suburban concern.

Companies could enhance safety for employees travelling to and from work.

In general terms, SA management was already among the most socially conscious, because “we have to be, we need to be in order to survive”, he said.

Awards were presented to Pick ‘n Pay for the development of human resources, to the central Transvaal region of Eskom for the development of individual potential, and to the Sandton Civic Foundation for community improvement.

The Perm, Avroy Shlain and Nissan were also finalists.
Anglovaal pushes up its earnings to R238m

THE Anglovaal group, whose myriad subsidiary and associate companies operate in finance, mining and industry, has increased consolidated attributable earnings for the year ending June by 50% to R238m (R131m).

The R238m figure comprises minerals and other metals (21%), foods and beverages (21%), diversified business (15%), packaging and rubber (13%), finance and other (8%), construction/electronics (7%) and gold mining (5%).

Earnings a share rose 24% to 539c (427c). This translated into a 21% increase in the total dividend a share from 76c to 92c.

The group, which employs 88,000 people, thus boasts a 23% average annual growth in earnings a share over the past five years. The corresponding growth in dividends per share is 21%.

Chairman Basil Hersov said in the annual report released yesterday that the most significant factor contributing to the higher earnings had been another considerable increase in the equity accounted earnings of 65%-owned Associated Manganese Mines of SA.

The reasons included increased dispatches of manganese, iron ore and ferrochrome; higher US dollar prices for all products; and the lower average value of the rand against the US dollar.

Group earnings had also been enhanced by results flowing through for the full year from recent acquisitions.

The cessation of losses relating to the operations of the Klippe Colliery, sold in June last year, had been "another positive factor", Hersov said.

However, reduced profits had been recorded by most of the group’s gold mines — the result of a declining gold price and escalating working costs.

This was reflected in the huge fall in gold mining’s contribution to group attributable earnings — from 16% last year to only 5% this year.

Gold earnings were further constrained by the effect of expenditure on exploration and purchase of mineral rights.

The exploration programmes for gold in the northern Free State, conducted through Sun Prospecting & Mining and Orbis Prospecting & Mining, continued to account for the largest portion of such expenditure, Hersov said.

Strategic

Total expenditure on the Sun area amounted to R25m by end-June 1990, while total expenditure for the current year was estimated at R3m.

On the foreign front, Anglovaal’s associate mineral resources company Anglo Pacific Resources (APR) made “satisfactory progress” in consolidating its position and expanding in industrial minerals.

Hersov said the investment in APR was strategic and it was not expected that APR would make any significant contribution to group earnings in the short term.

On future prospects, Hersov said the major challenge of the coming year would be the maintenance of earnings a share on the increased share capital resulting from the R88m rights offer and the simplifying of the share structure.
Industrial expansion key to prosperity — Alant

EDITH BULBRING

PRETORIA — Industrial expansion was the lever to creating quality job opportunities, manufactured products and high value-added exports, Trade, Industry and National Education Deputy Minister Theo Alant said yesterday.

This was the road SA had to follow to ensure growth of the economy and increasing prosperity, Alant told a Naccam convention.

The policy for economic development in SA that would sustain essential growth requirements into the future was largely based on the diversification and expansion of industrial activities.

Vast opportunities for expansion were still possible through the vigorous pursuit of exports, inward industrialisation and, to a lesser degree, through import substitution, he said.

Investment

The motor industry was a key contributor to the economy, and with the exception of the mining industry, it was the largest contributor to industrial production, Alant said.

Motor industry exports were estimated at R470m this year, compared with R25m three years ago, he said.

To become competitive in the international market would require large investment in new technology.

However, the capital needs were so great that they could not be satisfied from internal sources alone.

While most foreign investors were waiting to see which economic system would be followed in the new SA, some involved in the motor industry were investing large sums on a continuing basis and were already reaping substantial benefits, Alant said.
Few fields left for import substitution

By REG RUMNEY

ANOTHER idea put forward in the ANC document is tied in with growth through redistribution. The authors feel the growth path followed by the government up to now has been "orientated towards producing consumer goods for the wealthy minority". The South African manufacturing sector is uncompetitive internationally, depending to a great extent on imported machinery and equipment paid for with foreign exchange earned by exports of wasting mineral assets.

However, as former Federated Chamber of Industries' economist Roelof Botha points out, there are few areas left for import substitution. An import replacement policy has been followed in South Africa since the Twenties, though the drive to produce locally was given added impetus by World War II.

The ANC says we cannot develop as an industrial society "unless our manufacturing industries can become less dependent on imported inputs paid for by mineral exports".

However, Botha stresses that to produce the type of inputs now imported would need capital that could not be justified in the small domestic market.
Blacks debate sanctions call

By MANDLA TYALA

Organised black business is meeting this weekend to take some tough policy decisions.

Top of the agenda of the National African Federated Chamber of Commerce and Industry (Nafco) conference in Venda is whether to call for the lifting of sanctions against South Africa.

Heated debate is also expected over proposals that black-white partnerships in township business ventures be encouraged.

The sanctions resolution will be particularly controversial for Nafco because of the chamber's close working relationship with the ANC which continues to campaign for sanctions to be maintained.

Nafco resolved in 1978 that black businessmen trading in black areas be protected against unfair competition from their more affluent and privileged white counterparts.

Although many black businessmen now acknowledge that trading restrictions in white areas have gradually fallen away, they believe township businessmen still need to be protected from the big guns of white business.

Nafco decided in 1986 that it would not take part in any efforts to encourage new investments in the country unless blacks were involved.

Nafco president Dr Sam Motmoejane said yesterday he had new thoughts on the issue of economic sanctions, but would not divulge these before addressing a closed session of the conference.

For the past 12 years Nafco has been opposed to the injection of white capital into township businesses because the Group Areas Act prevented black businessmen from trading in white areas.

Black traders argued that they did not have equal access to sources of capital.

Noting that black-white partnerships could only exist and thrive in a climate of equality and mutual trust,
Corporate giants trade at low levels

SOME of SA’s corporate giants are trading at or near their lowest levels on the JSE this year -- but fund managers and analysts expect prices to fall further as the threat of world recession looms.

"Yields are still nowhere near levels reached in previous bear markets so shares could well fall further," a J D Anderson analyst said.

Mining based conglomerates dominate the list of "blue chips" trading at dismal share prices.

They include industry leaders like Barplats (at 186c, a fraction of the R250c 12-month high), Ruaplats (6 075c off R235c), De Beers (6 150c off R1 050c), Anglo American (9 190c off 14 900c), Johnies (3 350c off 6 100c) and Gencon (840c off 1 370c).

"The outlook for precious metals is bad -- the heavyweights are being sold down in favour of cash instruments which are safe and offer real returns," a Davis Borkum Hare analyst said.

But non-mining leaders have also been battered. Companies like electronics group JCI

(5,000, 4,000, 3,000, 2,000, 1,000)

1985 86 87 88 89 90

May Mar Jan Nov Sep Jul May

Graphic: LEE EMPTON Source: JSE

NEIL YORKE SMITH

Reunert, industrial holding company F S Group and chemicals business Sentrachem all touched annual lows recently.

"Heavyweights are more liquid -- they are being sold as investors hope to buy them cheaply when the market bottoms." he said.

"Shares in smaller companies are less tradeable and some investors are riding out the storm as they may be unable to repurchase the shares they sell when the market turns," the J D Anderson analyst said.

Another broker said clients were advised to sell holdings in diversified conglomerates and buy into more focused businesses.

"At best the conglomerates will match the indices, but some of their subsidiaries should outperform the market," he said.

Are bargains to be found at current prices was the question put to AA Life GM (investments) Stephen McIntyre. He said:

"Some shares look oversold but institutions are holding back in case they move even lower.

This was confirmed by Sanlam’s GM (investments) Ronnie Masson. "We are not selling equities but are withholding funds as shares prices may drop further." he said.

As usual, institutions were acting on the herd instinct, an analyst added.

"Selected shares look attractive at these prices but at current interest rates cash is still king," he said.

"The moment one institution starts buying they'll all rush in and chase the same stocks."
Pointers to sluggish growth in the manufacturing sector

MANUFACTURING production in July decreased by nearly 3% on last year with the textile, footwear, industrial chemicals and non-ferrous basic metal industries recording the largest decreases, Central Statistical Service figures show.

A Bank of Lisbon Economic Focus says over the past decade, growth in the manufacturing sector — at 0.7% — has been sluggish, falling from 5% a year in the 1970s.

And while the total growth in employment in the manufacturing sector was 23% in the 1970s, it rose by only 2% between 1980 and 1988.

The manufacturing sector is seen as the provider of direct employment opportunities, and it is "disconcerting" that the number of people employed in the industry in 1988 is 3.7% lower than in 1981, the report says.

The relationship between an increasing share of manufacturing production in the economy and rising per capita incomes — which existed for several decades in SA — has been eroded in the past 10 years.

Capital intensity has increased sharply in the same period while new employment opportunities have "virtually disappeared".

The report says the increase in capital stock per worker has only marginally benefited productivity of labour, and real output per worker increased by only 1.6% a year between 1970 and 1985.

It says this points to an under-utilisation of capital in the sector.

For a long time, import substitutions in the manufacturing sector were an important aspect of economic development strategy.

However, this role has diminished considerably in the past 30 years, and future scope for import substitution is limited.

Now the shift is towards a policy of promoting exports of manufactured goods where the prospects are improving in the wake of a new political dispensation.
Developers warned to act with caution

There should be “extreme caution” in the development of industrial property on a speculative basis in a market “awash with mini factories”.

This warning to developers comes from Brian Langford of API Property, who has studied mini-factory growth points.

He says: “During the past year, the Robertville and Stormill areas alone have supported about 40 000 sq m of ‘spec’ development either completed or under construction, while on the East Rand, the area around Isando currently has about 70 000 sq m of factory space due to be completed by the middle of next year.”

These ventures involve institutions. Activity by private investors in the industrial market should also be taken into account.

API’s investigations into the availability of industrial land in Edenvale and Kempton Park reveal that anyone requiring large tracts of land has a problem.

“As well as being expensive, Sabenza and Eastleigh are almost fully sold and Spartan and Isando are both almost fully developed,” says Mr Langford.

In Wadeville, an area with historically low rentals, owners are finding they are now achieving much higher rent levels.
Businessmen who opted for leasebacks instead of property acquisition through alternative funding must be congratulating themselves in the light of continuing high interest rates.

That's the view of Ian Watt, property investment manager of Old Mutual Properties, who says: "The present situation demonstrates the benefits of known and stable costs of leaseback finance."

"Most other forms of property finance, with variable rates, are wreaking havoc on profit and loss accounts at a time when high interest rates are aimed at reducing consumer spending and, thus, impacting on production and capacity levels."

Mr Watt does not believe the leaseback tenant will pay for his choice in the long run.

Companies today have to decide what business they are really in: manufacturing, distribution or service.

"Or are they in property ownership or a mixture of the others?"

"A company which does not purport to be a property owner should be maximising capital to achieve the best possible return from the business it does best."

He believes there is a widespread notion that property ownership provides an opportunity to realise remarkable capital appreciation. And while that might be true, it will occur only when the owner disposes of the property and decides to operate from a cave or cease business, he says.

Flexibility is the main advantage of a leaseback deal in the current economic climate.

The businessman can either move out of the premises at the end of the leaseback period or, through developing a long-term relationship with the institutional owner of the property, turn to it for funding various alternatives.

These may include development of new premises or alterations and additions to existing premises.

"Most leaseback agreements have a clause allowing reversion, after a period, to market-related rents," says Mr Watt.

"This has tended to worry many businessmen because rental levels over the past few years have experienced extraordinary growth."

"However, this is mainly a long, overdue correction in market rents for industrial property after the depressed economy of the mid-eighties which saw little or no rental growth."

He says it is more sensible for a business to tie itself to market rentals, which move in sympathy with prevailing economic conditions, than gearing accommodation costs to a financial medium linked to the more volatile short-term interest rates.
Southgate open for business

By Frank Jeans

One of the most ambitious retail property assembles in recent years has been completed, with the opening yesterday of the massive, R180 million Southgate Mall south of Johannesburg.

The Mall was designed and built in a record-breaking time of just under 19 months.

Mr Malcolm Wilson, managing director of Matrix Projects, the Rivonia-based construction management company responsible for the creation of Southgate, says:

"We estimated the contract time would be 24 months but when the financial viability was complete, the initial return on total investment was unacceptable and well below what any potential investor would perceive as an attractive return on his investment."

"A reduction of six months in the construction period meant a substantial saving in the interest bill and in cost increases arising through escalation."

Main contractors were Glurich Brothers, Wilson Bayly Holmes and Concor Building and they have created a centre of about 84,000 sq m. The complex has 66,000 sq m of lettable space and comprises 185 line shops and 15 national chain stores. Included in the entertainment component is a seven-cinema Ster Kinekor spread.

The architects were Bentel Abramson & Partners.

Impressive... The 65 metre long barrel vault skylight over the entrance to the new complex contains 5000 glazed panels and 75 tons of steel.
"Fortress Europe" unlikely to occur

DURBAN — SA traders did not have to worry unduly about Europe creating a trading bloc and keeping them out of "Fortress Europe", Department of Trade and Industry (DTI) director-general Stefaan Naudé told the Afrikaanse Handelstiniu market congress here yesterday.

He said in his opinion the Common Market of the future, with its much enlarged markets, would result in a far greater demand for SA's primary products.

Exports to Europe were well placed and had generally improved, he said.

He pointed out that some problems could only be resolved by the outcome of the current round of General Agreement on Trade and Tariffs (GATT) talks.

This included deciduous and citrus fruits where high import tariffs had been in place since 1973 but exports had improved.

Other products such as coal and primary steel products had been affected by trade sanctions.

Naudé said fierce competition in the Common Market could produce problems for exporters of manufactured products.

This could be solved by market research to discover unexploited niches for trading where SA would not have to compete with the "big players".

A general problem facing exporters was the level of production subsidies offered by the Common Market either to European manufacturers or to special countries.

It was also only GATT which could solve, or ease, that difficulty.

Progress in the market to create standards of quality, health and safety had been slow.

About 3000 standards had to be drawn up and accepted by 1992 and only a handful had been made the rule books so far.

Progress

There was a lack of clarity as to what standards would prevail, Naudé said.

This was being pursued energetically by his department, the CSIR and the SARS so that SA traders would not be caught short.

Progress on creating the single market (aimed at 1992) was slow as all 12 participating countries had to agree.

For example, the two interlocked areas of customs tariffs and free travel made a true common market impossible until both were resolved.
Malbak earnings drop 13%

Malbak's results for a difficult year to end-August could be a harbinger of things to come from SA's diversified industrial groups which have yet to report their financial results.

The R6bn-a-year industrial holding group of Genco reported a 13% drop in earnings to R186.6c (R196.1c) a share today, though the dividend was maintained at 30c — reducing cover to 3.9 (4.5) times.

Explaining the performance, executive chairman Grant Thomas said that in view of the fact that the economic downturn started accelerating last September, Malbak's financial year had comprised 12 difficult months.

"Considering the extremely difficult conditions, it was encouraging that the group's five major divisions (which account for 97% of group pre-tax income) have held up well, with some companies producing extremely good results," said Thomas.

He felt quite sure Malbak's performance would hold up well against other similar

Malbak

stated groups for the year.

Divisionally, the branded consumer products division, consisting of listed Tedex and Ellerine Holdings, as well as unlisted Malcomees, Quality Tyres and MMH, was the largest contributor (25%) to group bottom-line profits of R233m (R251m).

Packaging and paper, represented by recently structured Holdaims, contributed 24% (23%) to profits.

Engineering and mining supplies, grouped under Standard Engineering and Haggie, donated 22% (33%) to profits as assessed losses contributed to a higher tax rate. A higher tax rate also applied to Darling & Hodgson, whose contribution dipped marginally to 18% (17%).

Thomas said he expected earnings within the food division listed under Kanhyam (11% to bottom line) to turn in an unchanged performance next financial year.

While the international division was hit hard by the R18m loss from Abercom (holding group of London based MY Holdings), earnings were bolstered by good performances from Protea International and Eagle Freight. Bottom line profits fell from R13m to R6m.

Group borrowings increased 10% to R277m (R255m), though gearing dipped to 45.6% (46.4%) as a result of tight working capital control.

At yesterday's share price of 52c, the group is trading on a price-earnings ratio of 4.4 and a dividend yield of 5.8%, compared to Barlow's historical price-earnings ratio of 6.0 times.
Local firms seek foothold in Europe

AN INCREASING number of SA manufacturers are positioning themselves in tax-sheltered offshore bases to ensure a foothold in the EC before 1992. Export companies in other countries have been establishing European links during the 1980s in anticipation of new trading opportunities, but political considerations and sanctions inhibited similar action by SA companies.

An increasingly acceptable political environment has encouraged foreign countries to look for investment to start marketing to SA exporters. Since March this year, a Madeiran company has been discreetly marketing the Portuguese Island's 120ha industrial free trade zone which offers foreign investors trade incentives, a zero tax rate until 2001 and access to growing European markets.

Property group JH Isaac's international divisions, in conjunction with Pivotal Projects, recently secured a 50-year lease on 150 000m² of industrial land in the Madeiran trade zone which it is developing into an industrial park with self-contained units of between 250m² and 5000m².

According to JHI special projects broker Billy Hantebach, 17 000m² of the area has already been signed up by SA manufacturers of building supplies, pharmaceuticals, wooden furniture, household appliances and plastic piping. A further 50 000m² is being negotiated.

Luis Pestana, a manager of the Madeira Development Company which is marketing the Madeiran free trade zone, has attracted two SA companies to the Portuguese island.

David Graham, an assistant GM at the SA Foreign Trade Organisation (Safito), says SA exporters are also considering Spain, Portugal, Malta and the Isle of Man, all of which offer some form of incentive. "SA companies are no longer looking at offshore operations to avoid SA origin sourcing. They are now doing it for strategic reasons — to get a foothold in the expanding European market before 1992."

Many of the local companies which establish offshore bases use them as final assembly operations for products which are partially manufactured in SA.

Other companies establish licensing or subcontracting agreements with foreign operations.
Firms urged to aid matric dropouts

The corporate world has been called upon to help matric dropouts through a process of orientation to become small entrepreneurs in the wake of growing unemployment in South Africa.

The call was made by 11 business people and academics after they received certificates for supporting their marketing and management skills through the development programme organised by the Swaziland and Workwise Development Group.

One of the graduates, Mr. Joel Bafayi, said that the black business community, parents, teachers and pupils were concerned about the low standard of black matric results every year.

Thousands of black matric failures benefited from the stress after failing their matric.

Serious

He said that the decreasing standard of education and the 43 percent matric pass rate last year — the lowest in the past 10 years — indicated the seriousness of the plight facing black pupils.

These failures were often not allowed to go back to school and as a result were forced to seek employment, even at a tender age.

It was because of these reasons that big companies’ efforts were needed to help, not only with jobs, but also in creating pupils into the field of business.

By doing so, he said, they would help these pupils create jobs and contribute to the maximum economy of the country.

Fruittal

He appreciated that Swaziland had undertaken to improve the skills of established entrepreneurs.

Mr. Rudolph Popper, who is a merchant for a giant supermarket, said that the course was fruitful and aimed at building the black sector. However, blacks needed to exploit other avenues such as technology, science and manufacturing.

Mrs. Mphathsane, employed by a courier service, said she had gained a lot from the course and would put that knowledge into practice when she returned to work.

The leader of the course, Mr. Mel Stancil
Probe into consumer safeguards

MARCIA KLEIN

Association (FTA).

Durr said these bodies had all "already done valuable work on behalf of consumers in terms of self-regulation".

In June, he said a system of codes would "strengthen and clarify consumer law" and ensure customers derived the benefits of private enterprise.

In his budget vote speech in May, Durr said the market could not determine the rights and interests of consumers and there was often disturbing evidence that consumers had legitimate grounds for complaint.

FTA executive chairman Frans Jordan said the investigation into the law relating to consumer transactions was at variance with government's stated intention to deregulate the economy as far as possible.

Jordan said while the FTA was for consumer rights, there were already several Acts which applied to the furniture retail trade, and the overregulated industry "certainly doesn't need any more".

FTA members — more than 90% of furniture stores — subscribed to a stringent code of conduct with a great deal of consumer protection, he said.

Unethical traders would not disappear but would merely attempt to circumvent any new code of conduct.

Major furniture retailers were "perplexed" and wanted to know what aspects of the industry would be investigated.

Rustem chairman Geoff Austin said he endorsed the views of the FTA and added that competition in the industry ensured fair play.

A spokesman for another major furniture retailer said competition and guarantees ensured fair play, and customers would shop where they got the best deals.
Transnet, Sasol and Mossgas - once attacked for being hopelessly inefficient and outrageously expensive - are coming up winners with the oil price surge. But just about every other business is suffering and industries are pinning their hopes on a continuation of the recent dip in oil prices.

Mossgas, which was seen as the last of the white elephant government synfuel projects, appears poised at last to help pay for itself. But Engen chairman Bernard Smith says it still isn't a viable proposition for the private sector to invest in such projects and government has already said it won't consider further projects. Sasol MD Paul Kruger has ruled out a fourth oil-from-coal plant, even though its revenues from fuel and chemical products are up.

Smith says synfuel is commercially viable only at very high oil prices. Besides, anything can happen to the oil price before Mossgas reaches full production in April 1992.

But Smith is convinced that the base price of oil has risen. "I believe that the price of oil won't fall below $21, as the Opec countries need to finance their national debts. And $21 a barrel would provide a positive real yield to shareholders in Mossgas."

Meanwhile, the Railways, which are heavy users of electricity and coal, are thriving. Ronnie du Plessis, a Railways spokesman, says that though price hikes will add R69 a year to Railways' fuel bill, they will exert a very small influence on tariffs because 65% of all rail traffic is hauled by electric locomotives, 5% by steam and 30% by diesel-powered locomotives.

This is in sharp contrast to the devastating effect of oil's spiral on road transport.

Eduardo Garcia, CE of road transport giant Unitrans, says that every time the fuel price rises, road transport becomes less competitive versus rail. "A number of road transport operators are already struggling to stay alive. They won't be able to compete. They'll be wiped out."

He fears that government will use the current high fuel price to divert traffic that normally goes by road to rail. It has already been announced that rail will hold its rates to the end of the year. Another fear is that when the world crude price comes down, government will divert some of the reduction to its coffers through increased taxes and will not allow the full reduction to percolate through the economy.

"Finance Minister Barend du Plessis said SA's fuel taxes are the second lowest in the world (see graph); I cannot see him passing up this opportunity of balancing his books by bringing SA's fuel taxes into line with the rest of the world," Garcia says.

"Several Cabinet ministers have already said that, as an instrument of policy, Railways' spare capacity will be used to keep prices down. It is not possible to fill spare capacity on the railways without creating spare capacity in road transport. A consequence of keeping Eskom tariffs down is that Railways will not have to increase its tariffs to pay for an increased electricity bill."

"It isn't just transport companies that have suffered. A whole range of industries that are dependent on petroleum-based feedstocks, such as plastics and chemicals, have had to pass on sharp increases to customers."

Plastics Federation executive director Bill Naude says the price of imported polymers, used in plastic packaging, increased by 15% just a week after Iraq's invasion of Kuwait and are now selling at a premium of 28% on the pre-invasion price. However, the price of locally produced polymers - 75% of the total of 600 000 t consumed - has increased at a slower rate, though increases of at least 10% have been passed on and further increases can be expected.

Sentrachem's Johan van der Walt says most feedstocks still haven't reached their peak 1988 prices, though solvents such as benzene are an exception. They tripled in price almost overnight.

Nightmares abound for companies that can't pass on costs immediately. "Those players who are unable to pass on the full cost increase will find their operating margins shrinking and profitability depressing," says Sasol Chemicals' Andle Bedeker.

Sasol, however, will see its margins squeezed less than oil-dependent competitors because it produces chemical products from coal - and coal hasn't increased in price.

The beleaguered textile industry has been hard hit too. The price of cotton was recently increased by 30%. And now the cost of oil-based products such as nylon, polyester and dyes, which account for nearly 40% of raw material costs, have increased between 20% and 30%. These products aren't produced by the Sasol process.

Frame Group chairman Mervyn King sees overseas chemical suppliers aren't prepared to fix prices, which now often change daily. "We don't keep long-term stocks of these materials, so we've had no option but to raise our prices immediately."

Peter Boxall, MD of SA Nylon Spinners, the main domestic producer of polyester and nylon fibre, confirms that prices of their feedstocks are being changed on a ship-by-ship basis. "But we've decided to keep our prices constant until the second quarter of 1991 and take the price increases on the chin. Our customers in the textile industry set their prices on a quarterly basis so we've decided to fall into line with this."

Inevitably, the fuel increases will hit the demand for new cars. Says Nico Vermeulen, executive director of the National Association of Automobile Manufacturers of SA: "We have shown conclusively that a rise in the fuel price during a recession affects the motor industry much worse than a rise when times are normal."

But he does not see a repetition of the rush to buy small, more fuel-efficient cars that followed the 1973 oil crisis. "All manufacturers now make fuel-efficient cars," he maintains.

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### Paying at the pump

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Prices are in rand per litre as of Sep 21

* Current PWV price; the coastal price is 1.55

Source: Sasol and the American Automobile Association

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### Thinking Short Term

**FINANCIAL MAIL • OCTOBER • 26 • 1990 • 91**

Short term, the decision to raise electricity rates by only 8% next year — 6.3 points below the September inflation rate — is great news for business and consumers.

Long term, the consequences are ominous. Government is back to its old trick of imposing prices, and Eskom's customers can't be sure they won't be hit with a whopping increase in following years to make up. Since
ANGLOVAAL INDUSTRIES

GOOD-RATING

Activity: Holding company of Anglovaal's industrial interests.

Chairman: B E Horsow; MC: J C Robbertse.

Capital structure: 28.3m 0rds. Market capitalisation: R1,7bn.

Share market: Price: R60. Yields: 2.3% on dividend; 12.2% on earnings; pre ratio: 8.2.

Transactions in last quarter, 268 000 shares.

Year to June 30

- RV data (Rm) 80.4 116.4 258.8 211.6
- LT data (Rm) 75.9 98.1 225.4 300.2
- Debt/equity ratio 0.02 0.12 0.22
- Shareholders' interest 0.6 0.47 0.44 0.42
- I & I & B & S & C ratio 8.7 12.6 10.7 12.3
- Return on cap (%) 19.1 23.8 17.8 15.1
- Turnover (Rm) 2 382.2 371.4 456.7 645.1
- Profit before tax (Rm) 2 370.6 356.8 487.8 634.8
- Profit after tax (Rm) 0.3 10.6 10.4 8.7
- Earnings per share 4.15 6.83 5.87 7.33
- Dividends (Rm) 75 100 120 135
- Net worth (Rm) 1 931 2 412 2 838 2 953

The share price has anything to go by, investments are pretty confident that Anglovaal Industries (AVI) will not able to maintain — and perhaps even improve — its earnings growth rate despite the steady deterioration in the business climate.

Over the past year, the shares have gained almost 32%, in marked contrast to the industy's more important; even the rating vis-a-vis the likes of Amic, Barlow, FSI and Malbak has soared. Whereas a year ago — as the FAS noted — AVI was trading at a substantially discount to those companies based on pre ratios, this situation has been completely reversed. Now, AVI's p/e of 8.2 compares with Amic's next-best of under 6, and is more than double Malbak's 3.8.

AVI's Horsow ... enjoying the improved rating

Similarly with dividends, AVI's 2.3% yield is less than half that of any of the other four. While it can be argued that AVI has traditionally been a low-yielder (partly because of its equally traditional high cover) the premium is usually high.

The question is whether market expectations are likely to be translated into reality. Objectively, the answer must be a cautious "yes," based on two factors. First, the bottom line has yet to fail the impact of the major expansion into the rubber industry through the acquisition of Goodyear (now Tyco) and that company's subsequent merger with Tredeco. Secondly, restructuring of the group towards the end of the 1989 financial year, involving inter alia the elimination of intermediate holding companies such as South Atlantic should have improved internal cash flow and could, in time, lead to a lower dividend cover — which remains abnormally high by JSE standards.

Dealing with the issue of one, the most remarkable aspects of the 1990 results was that entry into the rubber industry at a net cost of R15m had virtually no effect on the earnings profile (see table).

What is now the packaging and rubber division continued to chip in 22% of attributable earnings, unchanged from the contribution of packaging alone in 1989, despite the substantial increase in assets employed and, hence, in the earnings base. Partly, this was owing to the prolonged strike at Tycoon following Goodyear's divestment, affecting in particular the firm's performance.

This, in turn, contributed to group EPS growth by only 8% at the interim stage. In the second half, with production back to normal, EPS growth almost doubled to 15% despite a further significant weakening of the general business climate.

At worst, therefore, investors seem on fairly safe ground in assuming a full year's contribution from this new activity, though it can equally be noted that the positive effects are likely to diminish as the year progresses.

On dividend cover, two points are relevant. The first, as mentioned earlier, is that restructuring should have improved internal cash flow. So far, this has not been reflected in any change in distribution policy, with last year's payout still covered 5.4 times by EPS — much the same as in 1989 and 1988.

The continued conservative dividend policy could be justified on the grounds that expansion in the past two years has resulted in AVI moving from a small net cash position in 1988 to net borrowings of R312m at June 30 1990. However, the debt ratio is still only 22%, underlining that AVI remains conservatively structured. Leading to the same conclusion is the fact that interest cover is still a healthy 13.5 times.

As a result, the chairman, B E Horsow, expects to continue to moderate the interest over the medium term. Obviously, this can only happen if the group as a whole is a net cash generator; if

GENREC E/1 26/10/90

HEALTHY ORDER BOOK

After a comprehensive balance sheet restructuring some two years ago, this engineering group boosted surplus cash from R15m to

FINANCIAL MAIL • OCTOBER • 26 • 1990 • 111
What Business Must Do

Mike Rosholt is chairman of Barlow Rand, chancellor of Wits University and chairman of the Urban Foundation. This is adapted from an address he gave last week to the Institute of Directors.

I do not belong to the body that believes that companies must make reparation as atonement for the past injustices of the apartheid system. I do not belong either to the body that believes business benefited from the system. In fact, business was held back by excessive State control, restrictive labour legislation, controls on the freedom of movement and the completely inadequate black educational system.

Opinions may vary on whether business made sufficient efforts to bring about change, but, at the end of the day, it only could operate in the system in which it found itself. Now business is adapting to the new policies, which are creating greater opportunities for effective social investment and which, if properly structured, will ultimately benefit shareholders.

Social investment is a better term than social responsibility because unless a project can be classified as an investment, the expenditure cannot be justified to shareholders. What can ensure this? For a start, ask: will the expenditure contribute to economic growth and to the stability of our society, if only in the long term? Then, will it provide opportunities for more rewarding jobs, enabling people to become self-reliant and self-supporting? Will it strengthen institutions contributing to these efforts? Most important, has it the complete support of the community it is aimed at? What would certainly not be justification would be if its sole objective is to impress black politicians.

Let me give an example. Private-sector support of tertiary education, both for universities and technicons, has been impressive and must remain so if we are to recruit the skills we need to run our businesses. However, the consistently high first-year failure rates are now showing up the deficiencies in primary and secondary education. And they are pointing to the necessity for targeted support in these areas.

Examples of targeting are the growing investment by companies in private schools and initiatives aimed at teacher upgrading, particularly in mathematics, science and English; and in supporting selected bright pupils through secondary school and on to university. But, good as business’s support has been, its investment will have to be stepped up considerably if it’s to ensure an adequate supply of black managers and employees.

Another example is housing. Social investment in housing must also be increased substantially and it will soon be normal practice for companies to provide housing assistance to all employees.

There is absolutely no way the traditional view that “the business of business is business” can be sustained. We can operate effectively only in a climate of stability, order, rule of law, equal opportunity and predictability in national policy, which is certainly not the case today. At this time of rapid transition, business must become much more involved in national affairs. It must influence government to take the right decisions. The corollary is that it now has to examine the social implications of its own business decisions much more carefully.

How can we contribute meaningfully? We should express our views on whatever platforms are available. There is one issue, especially, on which business must be vocal and public. That is the debate about the merits of the capitalist and socialist systems. Here we must take the lead in ensuring that an economic system in which market forces and private ownership are the cornerstones is retained. If we succeed, we will have contributed not only to the fortunes of our companies, shareholders and employees, but also to the successful resolution of the constitutional reform process.

However, until earlier this year, we concentrated on pointing out the failure of socialism in the Soviet Union, eastern Europe and Africa. It’s doubtful whether this has had any effect, because as far as the majority is concerned, capitalism has done no better. Socialism is seen by the majority to be a system founded on the ideals of justice, greater equality and security, rather than individualism, competition and profits. Unbridled free enterprise is wrongly seen to favour the already economically strong.

Make no mistake, the task of making our case will be very difficult one. There are ideologues within the black leadership who will never accept anything other than advanced socialism and extensive State control of the economy. There are others, however, who adhere to the ideals of social justice and greater equality in the distribution of wealth and income, but emphasise these ideals rather than prescribing how to attain them.

I believe that the private sector in SA is now genuinely facing up to its manifold responsibilities, that it is very much aware that these will change and increase as the national picture unfolds and that it will have to adapt. I hope that the private sector is also aware that it will have to increase substantially its allocation to social investment programmes. These are investments that cannot be avoided if we are to achieve the stable society and economy in which business can operate and all stakeholders can prosper.
Leter

Mike Rosohl

Pure Businessman

Wood of Being

Time to Break the Ice

Letters

December 26, 2010

To the Editor:

As much as I enjoy the traditional giving of holiday gifts, I can’t help but feel that the emphasis on consumer spending during the holidays is misplaced. In fact, I find it ironic that a season that is traditionally associated with giving and sharing is often consumed by materialism and commercialism.

Instead of focusing on物质istic gifts, we should shift our attention to the true spirit of the holiday season. Giving should not be confined to material objects, but should encompass the joy of sharing experiences and creating memorable moments with loved ones.

I believe that by focusing on the essence of the holiday season, we can cultivate a more meaningful and fulfilling experience for ourselves and our communities.

Sincerely,

[Your Name]
SA and Romania formalise trade ties

SA AND Romania formally established trade links yesterday, bringing to three (with Hungary and Poland) the number of East bloc countries SA has recently set up ties with. The Romanian delegation, led by Trade and Industry Minister Constantin Fota, is the fourth to visit SA since the beginning of the year, although this is the first official delegation.

The trade agreement aimed to develop, extend, strengthen and diversify the economic and commercial relations between SA and Romania.

"The agreement in particular provides for the establishment of a joint committee of representatives which will meet annually, alternately in SA and Romania, with a view to discussing and promoting trade and related matters of mutual interest," Trade, Industry and Tourism Minister Kent Durr said yesterday.

Although trade between the two was small, its potential was "very great". Fota said: "During our brief visit we have already identified some products for exchange and fields of co-operation, like tourism and medical treatment," he said.

He said businessmen or tourists wanting to visit Romania would be issued with visas on arrival at the airport.

The Romanian trade representative to SA would set up a permanent office in the country, and Fota hoped SA would soon have a representative in Romania.
ANC, business have ‘room for agreement’

RECENT policy statements showed there was ‘room for agreement’ on ideas and attitudes between the ANC and the business community, DP leader Zach de Beer said yesterday.

Speaking at a function in Sandton, De Beer said the differences between the ANC and business were not as great as many would expect.

Quoting from the ANC draft economic policy document and the SA Chamber of Commerce (Sacob) paper on economic options for SA, De Beer conceded that although there were distinct differences in emphasis when read as a whole, there were selective quotations showing that neither organisation had refused to recognise the possible validity of the other's attitude.

The ANC stated that “it is absolutely imperative to reverse the present trend towards stagnation and to promote economic growth” without which “we will not be able to address the pressing problems of poverty and inequality”.

Sacob, meanwhile, noted that “apartheid has been the cause of historical injustices and redressing these will require economic policies that go beyond the repealing of social laws and functional deregulation”.

PETER DELMAS reports that De Beer told a party meeting in Johannesburg last night that the DP would have to be included in a future moderate government consisting of the ANC and NP.

De Beer said any “lurch to the right or left” which prevented the creation of a nonracial, moderate government would be disastrous for SA.

Recent developments had positioned the DP to play a more effective role “in the future than we have played in the past”, he said.

A government of national unity would have to include at least large elements of the NP and ANC to hold the line against extremists.
Nafcoc gives big business 10 years to redress balance

BY MONDI MAKHANYA
BLACK businessmen have given corporate South Africa 10 years to redress the lack of black participation in the formal sector.

This was one of the demands of the National African Chamber of Commerce and Industry which held its sixth Summit Conference in Venda last weekend. A landmark decision was taken to open membership to all races.

Nafcoc drew up a four-point programme for big business to give meaning to the Black Economic Empowerment campaign. It recommended that within 10 years:

- All JSE-listed companies listed should have 30 percent of board members drawn from the black community
- 40 percent of their shareholdings should be controlled by blacks
- 50 percent of outside purchases should come from black suppliers and contractors
- 60 percent of top managerial staff and personnel should be black.

Nafcoc executive director Mofase Lekota said the organisation had "a lot of ideas" as to how this could be achieved and would discuss its strategies with big business.

Pointing out that the recommendations were based on research, Lekota said: "We are flexible about the issue of percentages. We just want them to agree about the principle of increasing the level of black representation."

Another resolution was that Nafcoc should play a leading role in designing a new economic system and its economic commission should draw up such a document "as a matter of urgency.

"However, we cannot set a deadline because it will have to be in-depth research. The whole thing may take up to two years but reports will be issued periodically," he said.
Company bosses seek cheap loans

BRING down interest rates, say more than 60% of chief executives and financial directors surveyed for Business Times by Deloitte Pim Goldby.

Deloitte asked the heads of 23 companies with sales ranging from R100-million a year to R7-billion what should happen to interest rates.

The companies are spread across the economy, from food, beverages and pharmaceuticals, two in clothing, footwear and textiles, three in paper and packaging, two in engineering and electronics, two in building and construction, two in chemicals and oil, two in financial services, one in transport, one in motors and two in wholesale and retail.

No less than 61% call for a cut in the prime overdraft.

Business Times Reporter

The others favour monetary discipline and give a definite no to lower rates.

Opinion varies among these favouring rate cuts, 27% asking for a reduction of one percentage point, 37% for two percentage points and 18% five percentage points.

Radical

The chief executives do not expect their calls to be heeded — 80% foresee stable rates for the next three months. The others see rates heading down.

AECI chief executive Mike Sander says: "Inflationary fears arising from higher oil prices will prompt central banks to maintain high interest rates, but weakness of demand makes higher rates unlikely in SA."

Mr Sander advocates a rate cut of only one percentage point because of uncertainty about the outcome of the Persian Gulf dispute.

Consol managing director Piet Nethling says: "With pressure on inflation upward, interest rates cannot be cut now."

Clive Perkins of Stocks & Stocks takes the most radical view: "Cut by five percentage points. High rates are killing development of our infrastructure, which means less jobs now and in the future."

He is supported by Tongaat's Geoff Cleatby, who says: "The real interest rate is too high and political change requires a degree of prosperity to be successful. There is a basic need to boost employment."

The company bosses were asked what the inflation rate would be in a year and their average estimate is 13.5%.

Mr Perkins estimates it at 15% and Grant Thomas of Malibak hopes for 12% "provided interest rates of 4% are maintained and oil-price increases are not unrealistic."

Asked what real interest rates should be, they say an average 4.5%. A total of 47% of respondents say interest rates are either very important or important in determining the number of people they employ.

Bankruptcy

Half of the respondents who believe interest rates are important envisage laying off people in the next three to six months. They estimate that 2% to 15% of their labour force will have to go.

No fewer than 61% report that customers have reduced purchases from 5% to 20% and 15% say more of their customers face bankruptcy.

Only 6% of the respondents say high interest rates have not caused them to reduce capital spending and 31% have cut capital by 30% to 65%.

A total of 58% consider alternative means of funding because of higher rates.

Nearly all the respondents have improved asset management to cope with higher rates. Searle has resorted to futures, options and interest-rate swaps. Malibak, Amred and Consol are using bankers' acceptances.
Confidentiality of companies vs. the public’s right to know

DOES the right of the public to be informed about financial matters concerning a company’s legal or business affairs outweigh a company’s right to have its confidential communications respected?

Under Roman-Dutch law, individual privacy has been recognised in a number of cases, and there has been a reluctance to extend a legal remedy to an artificial person, such as a company, to prevent bugging or wiretapping.

The reason for this reluctance is that a company, so it is said, lacks the dignity which is given to an individual or artificial person, such as a company, by the law in relation to its private affairs.

Interestingly, the judges of the Supreme Court reached an important decision on the conflict between the protection of a corporation’s confidentiality and the right of the public to be informed in relation to financial matters.

Bugging

The Financial Mail wanted to publish an article concerning Sage Life and the relationship between this company and the Allied Group.

The source of the proposed article was based on information obtained from the bugging of telephone conversations between a director of Sage Life and other persons, and a document which was held by the chairman of the Allied Group and Sage Life.

The Financial Mail had no written communications respecting the recent Supreme Court judgment which affects the privacy of business operations.

Jonathan Burchell assesses the recent Supreme Court judgment which affects the privacy of business operations.

The two applicants, Louis Sull and the chairman of Sage Life, and Sage Life itself, sought an interdict prohibiting the Financial Mail from publishing or disseminating information based on evidence of illegal telephone tapping and the confidential documents.

The Financial Mail argued that the public had a right to know certain confidential matters gleaned from these sources.

Mr Justice Joffe granted the interdict, holding that the Financial Mail did not have an overriding right to publish information derived in part from an unlawful source, and that the magazine had been told by the chairman of the Allied Group that the telephone tapping was strictly confidential.

The judge affirmed that the right of a human being to privacy and acknowledgment of the right of a company to have feelings or a dignity, if it did have a right to trade without wrongdoing, if interference from others, and this right encompassed the right to have confidentiality of its internal oral and written communications respected.

This right could be enforced against whoever was in possession of the confidential material.

The Financial Mail argued that the public, in particular, those members who had a financial or other interest in Sage Life, were entitled to be informed, as fully as possible, of its financial affairs, including the relationship between Sage Life and the Allied Group, but this did not entitle them to know all that was confidential to the company.

Although he accepted that in certain circumstances the public’s interest could require disclosure of confidential information, on a balancing of the interest of the public and the company in the present case, the judge held the scales were tilted in favour of corporate confidentiality.

Safeguard

The court also held that the proposed article contained material defamatory to the applicants.

Any curious reader of the judgment, where it is reported, will most probably be disappointed to find the content of the court papers and the argument advanced in court are not published.

Only the judgment of Judge Joffe will be reported. Obviously, the form of limited publication of the details of the case is an essential safeguard to prevent further publication of unwholesome and confidential information.

The judgment constitutes a development of the law, as it is clearly stated that a company is entitled to protect its confidential sphere not only from intrusion by business competitors (as was previously the case) but also from the media.

The decision is important because other artificial persons, such as non-trading corporations, trade unions and universities, for instance, also have confidential spheres which may in future require protection by the law.

Yield

But the central message of the judgment is that a court has to balance the interest of the public in being informed of current issues against a natural or artificial person’s interest in non-disclosure.

Even confidential information may have to yield to the public interest in disclosure in special circumstances.

The Watergate revelations, the Spycatcher trials in numerous countries and the proceedings of the Harms and Hennstra commissions of inquiry demonstrate the need for public scrutiny of certain surreptitious activities.

Professor Burchell teaches at Natal University’s School of Law, Maritzburg.
Business looks to future

The role of business in negotiation, the need for restructuring education, local government and a new urbanisation policy will be discussed at a conference starting tomorrow.

The first national convention of the South African Chamber of Business (Sacob) will be held until Wednesday at the Carlton Hotel, Johannesburg. Times.

About 600 men and women are expected to attend.

Lead-in speakers include Jan Lombard, senior Deputy Governor of the Reserve Bank; Thabo Mbeki, ANC director of international affairs; and Simon Brand, chief executive officer of the Development Bank of Southern Africa.

Two workshops will be held, one on managing industrial relations in a time of political transition and the other on value added tax.
Mission to US was an eye-opener: delegates

By JOSHUA RABOROKO

THE 65 black business people, who went on an “observation mission” to the United States, were not used as sanction-busters, the executive director of WR Consultants, Mr Willie Ramoshaba, said when the group arrived back in Johannesburg.

Addressing a Press conference at Jan Smuts Airport, Ramoshaba, who was a coordinator of the mission, said there were many black Americans who were interested in pumping money towards the economic development of South Africa entrepreneurs but were hamstrung by the sanctions lobby in their country.

He said that the American community was sympathetic towards the plight of blacks and had indicated that they would only invest in the country once apartheid was dismantled.

The International Finance Corporation and the African Development Bank were prepared to help black businessmen develop, especially in the fields of manufacturing, agriculture, import and export trade.

The group, consisting of black entrepreneurs from South Africa, Botswana, Malawi, Lesotho, Swaziland and Zimbabwe, visited Los Angeles, Chicago, Washington and New York, where they exchanged views with their counterparts.

Among the leading personalities on the tour were Dr Ellen Kuzwayo, second vice president of Fabcos; Dr Nitretval Molana, chairman of Get Ahead Foundation; Mr James Ngcoba, president of Sabsa, and Mr Philemon Mabheka, chairman of the Greater South African Chamber of Commerce.

There was disappointment from some of the relatives who had come to welcome their loved ones when it was announced that through a fault by travel agencies, at least 60 of the tourists were left stranded in Zambia. However, they were expected home at the weekend.

Apartheid must end

At the Press conference, Mr S Molele, a member of the SADCC from Botswana, said South Africa should dismantle apartheid if it was to be accepted by the international community, especially African states, as a trading partner.

The president of the National Stokvel Association of SA, Mr Rehla Lukhele, said the Americans welcomed the South African concept of stokvels. They had their own stokvels and wanted to exchange ideas with their counter-parts elsewhere.

Most of the people who went on the tour said the mission was an eye-opener.

“We will be able to plough what we gained in our businesses and the community,” Mrs Mary Mabaso said. “Our black women have to be exposed to business.”
Industrial espionage can be simple

KEEPING information secret from competitors is vital, but SA is plagued by industrial espionage and most firms are doing little to protect themselves.

Security Services Consultants director Howard Griffiths says: "It can be as simple as a salesman leaking client lists to the competition.

"In a recent case, the employee was using tender information to undercut his employers.

"If a client suspects information is being leaked we begin a thorough study of the suspects — the client's 'get feel' is often accurate.

"We look at his financial and lifestyle profile as well as studying his past.

"Often the problem will show up when we investigate the suspect's background. Companies seldom carry out proper checks and rely heavily on the references supplied by the potential employee," says Griffiths.

Specialise

But greedy employees are only half the battle.

"There are about 15 firms in the PWV area which specialise in obtaining information for their clients about the competition.

"They might bug senior executives offices, homes and telephones. Rubbish bins are another source of potentially valuable information.

"The MD's secretary often locks important documents in a secure cabinet but the key is kept in her top drawer.

"On her desk there is usually a plastic computer disk file — easily available to the spy, as are dictaphone tapes.

"Companies spend fortunes on access control and then forget that employees such as cleaners are wandering through the building at night."
Market ratings ensure long overdue discipline

In the past few months, SA financial markets have been subjected to the gradual advent of a degree of sophistication in the form of ratings — the process whereby companies and their debt issues are independently judged by a rating agency.

Investors are then free to use the different ratings — say, AAA versus AA — as a yardstick to decide on what basis to deal with a company or whether to invest in its paper. Republican Ratings, SA’s equivalent of such well-known overseas rating agencies as Standard & Poor or Moody’s, has rated Eskom, the Post Office and local water board Umgeni Water since it started operating about four months ago.

Unanimous

Republic says that Transnet and Landbank are the next big entities to come out with a rating, and that ratings of a number of other “substantial capital and money market participants from both the public and private sectors” are in the pipeline.

Financial market specialists, from the Reserve Bank to banks and discount houses, are unanimous that this gradual rise in the number of ratings will instill a degree of discipline into the market that is long overdue. “There is just no way one can be negative about the long-term advantages of a rating agency,” says Prima

Robert Gentle

Bank executive director Herman Hamman.

The logic behind the enthusiasm is simple: a rating strips away the hype often heard around different companies — “You can’t go wrong with us because our name is well known in the market” or “We’re a bank. Banks don’t go bust” — and replaces it with a clinical, uniform standard investors can relate to.

The rating company achieves this by a thorough analysis of a company’s financial state of health as well as its competitive position in the industry in which it operates.

It then assesses the risk of a company defaulting on a specific debt issue. Depending on legal structure, seniority and credit enhancement, it is possible to have different ratings for different debt issues within a company.

Republican issues long- and short-term ratings. The highest long-term rating is AAA+ and the highest short-term rating is A1. Ratings are further categorised into investment grade and speculative.

The Post Office got a AAA+ rating not because it is inherently any better than Eskom (which got a AAA rating), but because it is inextricably part of the state.

“The state, by definition, represents the most favourable risk category from a domestic credit viewpoint,” says Republican executive director Gideon van Rhyne.

“Should ownership structure of the Post Office change ... the rating would obviously require reconsideration.”

Ratings are a reflection of the relative credit risk of different companies and debt issues. However, says Van Rhyne, other investor preferences such as tradability also play a role in determining the price at which a stock trades.

So whether one is talking companies or commercial paper, ratings separate the excellent from the merely good, the okay from the rather less-than-okay, and the bad from the terrible.

For example, the view that a bank is a bank is contested by Van Rhyne. “There is no such thing as the big five banks. They are different, and the fact that some have to pay more to attract wholesale deposits than others reflects this.”

Downgraded

Indeed, ratings among banks could have been the early warning system that may have prevented the Alpha Bank debacle, which was triggered by motor distributor Spareco’s inability to repay a R6m loan — almost twice Alpha’s capital base.

The ultimate success of the SA ratings scene will depend on the accuracy and soundness of Republic’s ratings methodology. The extent to which the market accepts them will soon become apparent as further ratings are announced.
Independence vital for entrepreneurial flair

A COMMENT by a recent finalist in the SA Non-Listed Company Awards gave part of the reason many highly successful companies are not listed on the Johannesburg Stock Exchange.

"A company risks losing its entrepreneurial flair once the directors have to answer to shareholders. It becomes harder to make swift decisions or to take risks."

The point is echoed by convener of the 1990 judging panel Professor Colin Firer of the Wits Business School, who says a large number of companies "seem to need a JSE listing, for good reasons."

Before this award was introduced five years ago these companies tended to remain out of the public eye.

Firer says a guide for the judges in identifying finalists is to find entries which prompt them to say: "That's the company I would put my money in if I had a chance."

The chance in many cases won't come. But some past finalists, including first-time winner Mercedes Datalok, have gone on to be listed on the JSE.

The award, sponsored by Business Day, Arthur Andersen & Co and the Wits Business School, is becoming one of the most prestigious business awards in SA.

It remains the only public recognition given to unlisted companies.

Recognition

Arthur Andersen partner Graham Rosenthal says: "The award has gone a long way to giving non-listed companies the recognition they deserve."

Continued progress by past finalists suggests it is successful in identifying companies in an important phase of development.

Among this year's 20 finalists are several past finalists, in some cases, for the fifth year.

From inception in 1988, the award has attracted a high calibre of entrants, as can be judged by past winners - Mercedes Datalok, Macsteel, A M Mooi & Group and XPS Services.

Entrants range from closed corporations and medium sized owner-managed firms to major companies.

Some very large companies have numbered among the finalists, such as Volkswagen and Sanlam in 1989, and Rand Afrik in 1990.

In 1990, the judges - Frof Firer; Ronnie Lubner, joint executive chairman Plate Glass; Brian McCarthy, chairman, McCarthy Group; Mervyn King, executive chairman Frame Group; and Jeff Liebesman, chairman and CE PSI Group - set out to focus more closely on younger and innovative organisations.

The 20 finalists reviewed in this survey have provided some remarkable studies in strategic management, innovative problems solving, vision, energy and commitment.

Finalists for the fifth consecutive year are cosmetic manufacturer and sales company Avroy Shlain and compressed air hire company Rand Air.

Construction aggregate company within the Anglo American group, Stone & Allied Industries (OFS) Ltd, was a finalist for the first three years of the award and was chosen again this year.

A number of the 1990 finalists are represented for the second year in a row, including mining supply company Northern, temporary and permanent personnel placement and training group Kelmac (Kelly Girl was a finalist in 1999); PE-based textile manufacturer Valley Textiles; transport and waste management company TTE; and Rand Air.

Rosenthal says a condition of entry is that where companies are controlled by outside shareholders, management is nevertheless independent of control by these shareholders.

Owner-managed companies are encouraged to enter.

Seeks

The award seeks to recognise entrepreneurial skill and innovation.

Growth, profitability, productivity, a sound financial base and funding structure are taken into account.

Judges also look for creativity in finding new markets, new product development, introduction of new products and manufacturing processes and sound human resource development.

In addition, they take note when a company makes a contribution to nationally desirable goals such as job creation, export and import replacement and the breakdown of bureaucratic structures.

Entrants' submissions are kept highly confidential throughout the judging, which makes use of a system of symbols.
When the buck stops outside Swotto

NEWS FOCUS
Foreign cash will boost the need for space

AN INCREASE in foreign investment in SA will push the profit margins of SA industry downwards, but will offer a great opportunity for suppliers of industrial and commercial space, says UCT School of Economics Professor Brian Kantor.

In an article in the latest issue of Old Mutual’s Property Profile, Kantor says the property sector would benefit more than most sectors from any change in the perception of the risk of investing in SA.

Margins

"The profit margins of industrial and commercial organisations benefited from the lack of competition from new investment. "The boot would be on the other foot were investment to be encouraged by a reduced risk premium. "Lower required returns on new investments would increase the demand for space to the benefit of owners and developers." The higher the risk, the greater the return the investor requires on his money. Capital flowed out of SA in 1985 to 1990 because of an increase in the perceived risk of investing in SA.

"Of the capital gained since 1980, we have already lost about four-fifths." Kantor says studies have shown the longer-lived the asset, the more its market price would vary in response to changes in risk.

Because the pay-back period for property holdings is long, the property sector stands to benefit more than most from a reduction in the perceived risk of investing in SA.

The record of quoted property trusts suggests the rewards of holding property, Kantor says.

"Comparing the cost of building to the value of the property trust index shows the index represents a relatively cheap form of investment in property. The shares are undervalued relative to the replacement cost of buildings. "This is because earnings have not kept up with the cost of building or with inflation, while the building cost index has kept pace with the CPI. "Property developers, on the other hand, have succeeded in matching their dividend payments to inflation and since 1978 have outperformed both the industrial and property trust indices," he says.
Research service to help find markets

A NEW property research service has been launched which offers feasibility studies and database lists to help owners and developers identify potential markets.

"Property Research Marketing is an arm of marketing consultancy Marketing Concepts whose head, Kathryn Payton, says the initial response has been overwhelming.

Barometer

"This industry, by its nature, is a barometer of the state of the economy and reflects every nuance of the changing political and social environment, as well as the investment climate," she says.

"Whether developers are involved in the retail, commercial or industrial sector, they benefit from accurate facts and figures, regularly updated at every stage of a property project."
Slowdown making landlords vulnerable

THE slowdown in the property market offers an opportunity for tenants to take advantage of landlord vulnerability to improve their business environment and the quality of their accommodation.

J H Isaacs (JHI) director office leasing and sales division Steven Kesler says the cost to a tenant of moving and taking better quality space is lower now than in an economic upturn.

Also, the opportunity costs of a new address are minimised, while the foundation is prepared for maximum productivity when the upturn occurs.

"In a weak market, some landlords will consider a weak rental structure. Institutions won't because they can afford to hold vacant space rather than being tied into lower rentals for five to 10 years.

"They would rather consider rent-free periods, the overrun of installation as a negotiable item or make a contribution to part of the relocation costs in order to strike a deal.

"In a strong market, the tenant pays the overrun and no help is given with relocation and there are no rent-free periods."

Kesler says tenants relocated by JHI during early 1988 before the rental increases are enjoying a cost structure 50% lower than recent occupants, which they will enjoy for a further three to seven years.

As a result, they are better situated to endure the economic downturn than their competitors, who may have moved in a buoyant market at a far higher rental.

Kesler says the economy will begin to strengthen during 1992. Most recent economic cycles have been two to three years.

Because the property market lags the general state of the economy by 12 to 18 months it means the property market should pick up in late 1992 or early 1993.

Interest rates will remain high until the Gulf situation is resolved because SA needs to maintain a positive balance of payments and because the gold price has not responded as expected.
McDonald's burger franchises coming

Black business projects to get $85m US loan

THE Import/Export Bank of America (Eximbank) is to fund black business projects in SA with a loan of $85m.

And in a further development, several US companies, including McDonald's Hamburgers and Johnson and Johnson, are expected to announce extensions of franchises to black SA businessmen.

The moves were confirmed yesterday by business consultant Willie Ramoshaba, who co-ordinated the 65-man Black Business Observation team's visit to the US this month.

He said the loan, which would not be underwritten by local banks, was one of the major successes of the trip.

Details of the local projects would be released in due course, he said.

Ramoshaba said several companies, including McDonald's and Johnson and Johnson, had indicated they were interested in making franchises available to black businessmen.

"The funding by Eximbank, at 10.5% interest, is exempted from sanctions legislation in terms of Congressional approval which granted the bank power to back black business ventures," Ramoshaba said.

"The agreements have to respect the prevailing sanctions laws, so all, except the Eximbank agreement, will only come into effect after sanctions have been lifted," he added.

The US Consulate's senior commercial officer Richard Jackson said Eximbank, which finances US foreign trade, had been given authority to finance black SA ventures under the original sanctions legislation in 1986.

THEO RAWANA

He had not yet had any feedback from the US on the loan and had not spoken to local business on the matter.

Ramoshaba said the mission, led by Soweto civic leader Dr Nthato Motlana, was the first to get the support of sanctions lobbyists, and it was fully backed by black organisations in SA.

He said the US-based International Finance Corporation (IFC) was also considering various schemes to finance black business ventures in SA and was expected to make an announcement soon.

"We also expect an announcement from various entrepreneurs black investors who are fine-tuning schemes to invest in SA through the African Growth Fund, which we started before we left."

The objectives of the mission were to expose black businessmen to market opportunities in a First World environment, to show them how their counterparts did business with new ideas and technology," Ramoshaba said.

The team also set out to interest black Americans in doing business with blacks in a post-apartheid SA and look at the possibility of future funding of black business projects.

The mission left SA on October 7 and returned last week.

□ In July, ANC deputy president Nelson Mandela wrote to US Congressman William Gray, a leading proponent of sanctions, asking him to support the SA business leaders' mission.
By Peter Blumberg

Use positive discrimination, urges Mbeki

The ANC's development group said on Monday it was time to discuss ways of redressing past grievances and poverty, and looked to the Nordic model as a possible solution.

"We agree that a fair, just and equitable society is essential," said the group. "We also agree that there is a need for positive discrimination in order to address past grievances and create a society that is fair and just."

"The Nordic model is one that has been successful in addressing past injustices and creating a fair society," said the group. "We believe that this model can be adapted to our context and implemented in South Africa."

The group also discussed the importance of education and skills development to address past injustices and create a fair society.

"Education and skills development are crucial in creating a fair society," said the group. "We believe that this area requires urgent attention and action from all sectors of society."

Executive chairman Grant Thomas says the economy was in a downturn and the socio-political environment volatile throughout the period. All five major divisions faced extremely difficult trading conditions.

Despite tight expense control, the operating margin slipped to 8.6% from 9.3%. The acquisition of additional motor related operations, which changed the product mix; market pressure in the branded consumer products division (which includes Todelex - Fox October 19) and at Kanhyr (Fox October 19); and losses abroad by Abercrom (Fox October 26) led to the fall, says Thomas. Operating income growth thus slowed to 6% from 37% in 1989 and 176% in 1988.

Best-performing listed subsidiaries were Eillerine (Fox October 26) and Standard Engineering (Fox October 19).

The interest bill rose by about a quarter — the result of an increase in debt due to acquisitions as well as higher interest rates. Gearing fell slightly to 0.46 but interest cover deteriorated slightly. Working capital was well controlled.

The effective tax rate increased from 30% to 34% mainly because of the exhaustion of assessed losses at Holdains, Standard Engineering and D&H and losses at Abercrom. Thomas says the higher tax rate reduced earnings by 10c. Earnings actually fell 12% to 111.2c but cover was reduced and the dividend was maintained at 30.5c.

Thomas is not optimistic about economic conditions this year. He expects the recession to deepen before levelling out and says trading conditions, though difficult to predict, will fall somewhere between “disastrous, terrible and difficult.”

Emphasis will be placed on cost and asset management and on the export market — exports could contribute R1bn turnover this year, with the engineering division remaining the main beneficiary. Thomas expects most divisions to report earnings of the same order as or slightly better than last year, except for Todelex and the construction division, where a marginal decrease is budgeted.

But the group tax charge will rise and the board, therefore, expects lower earnings, to an extent determined by the depth of the recession and socio-political events.

Malhold, whose sole investment is 54.2% of Malbak, recorded earnings (fully converted) of 313.4c (357.5c) and repeated the previous year’s dividend of 85.5c. Malbak’s market price is 500c compared to NAV of 689c. It is trading on a 4.5 earnings multiple — well below 7.5 for the industrial holdings average — and 6.1% dividend yield. Malhold is 1350c, on a 4.3 earnings multiple and 6.3% dividend yield. These ratings confirm that the market thinks the growth phase is coming to an end.

Gerhard Stehber
NO HANDOUTS NEEDED

Willie Ramoshaba and the 65 other members of the Black Business Observation Mission arrived in the US last month with the element of surprise on their side. Many of the Americans they met had no idea that SA had a viable black business community.

“We had the upper hand,” says Ramoshaba, whose WR Consultants organised the 18-day trip to New York, Chicago, Washington, Los Angeles and Atlanta. “We had conceived the trip, spearheaded it and got them involved. They were shocked.”

Americans were surprised to discover that some black South Africans think economics is just as important as politics. “They thought blacks were only interested in politics. We showed them that we are not Third World and we don’t need handouts.”

Though most of the trip involved laying the groundwork for post-sanctions business deals, one immediate result was a working agreement with the Import-Export Bank in Washington. Previously, the bank’s loans had to be guaranteed by a local bank.

“The mission managed to change that. If you’re in business and black and have a good idea, then they are prepared to do deals and loans. And it doesn’t depend on sanctions (which never applied to doing business with blacks). They will do deals of $85 000 and upwards, though they prefer to start at $200 000. We feel that we have brought something to the folks back home.”

Ramoshaba says the two issues that came up in each of the five states visited were violence and nationalisation. They answered the inquiries by asking for help with the obvious problems.

“We need them more during these times. They shouldn’t stand on the fence. We need their input now, not later. They have got the experience we can draw from.”

In the next year, he expects about 200 Americans whom they met during the tour to come to SA. But he and the other mission members cannot handle those numbers. “We need help from companies and individuals with the expertise and resources to properly and professionally manage the visitors or else they will go home with the totally wrong impression of this country. We need to give them the same kind of reception they gave us.”

Plans for another mission next October are already in the talking stages. The Far East and Europe are the top candidates.

One regret? “We should have had President Bush on our schedule.”
Only the deputy minister of finance can prevent a radical reshaping of the SA corporate structure — by rejecting the recommendations of the Securities Regulation Panel on a new takeover code.

If he accepts them, it will become much more difficult and expensive to create a future Anglo American, Anglovista, Rembrandt, FSI, Barlow Rand, Liberty Life, Maibak — or, indeed, any business giant. It will inhibit an aspirant Oppenheimer, Rupert, Barlow, Gordon, Menell, Venter, Liebesman or Wessels from creating — through a mixture of organic growth and strategic purchases — the type of group that has driven the economy.

The proposals — that purchasers or holders of 30% or more of a company, if they acquire an additional 5%, should be compelled to extend an offer to all shareholders — are being made in the name of fairness to minority shareholders.

This obligation would apply not only to listed companies but to private, especially pyramid, companies where the shareholder’s interest exceeds R500 000. Pyramids, listed and unlisted, have played a vital role in maintaining the legal and managerial authority of controlling shareholders. They have been substitutes for the practice of issuing non-voting shares, a less complicated form of maintaining control not generally permitted by the JSE, ISE or NYSE.

The intention of the new regulations is to treat controlling shareholders and minority shareholders as equal when control changes, even though they play completely different roles in the corporation. This runs counter to the principle that unequal effort deserves unequal reward. It will encourage the separation of shareholders and control and will, over time, make managers more powerful at the expense of all shareholders. Minority shareholders will not be able to rely on controlling shareholders to control managers. So minority shareholders’ votes may mean more in law, yet less in practice.

Regulations of this sort, not natural economic forces at work, have brought about the almost complete separation of ownership and control of the leading US and UK corporations. There, typically, the managers control and the shareholders own.

The economic results of such separation are by no means beneficial. Managers who escape control by shareholders may end up doing their own thing at the expense of shareholders. They may pursue growth for the sake of management, even when shareholders would be better off if they paid out more and invested less. Or they may prove unnecessarily risk-averse or indulge in non-market related pay or fringe benefits.

Such inefficiencies have been responsible for the many recent takeovers and management buy-outs in the US and UK. Operations have been financed by investment bankers who have had to perform, clumsily and expensively, the critical role that controlling shareholders play when they exercise their power to hire and fire senior managers.

The advantages of good control can be achieved with less than complete ownership. It may be that the smaller the proportion of shares required to sustain the necessary discipline over managers, the better.

Non-controlling shareholders can happily ride along with the controlling shareholders, but there is no reason to expect the ride to be free. The controlling shareholders must receive appropriate rewards. Typically, they will be less diversified in their portfolios than the other shareholders. The greater risks to which they are exposed will also have to be compensated for by higher returns.

Such are the costs and benefits of control. Nobody is forced to become a minority shareholder. Shares are bought from controlling shareholders at what the buyers and sellers must believe to be the right price and in full knowledge of the system of control. The implicit or explicit contracts between controlling and other shareholders deserve as much respect as any other contract.

If the recommendations are accepted, the terms of the contract will have been changed, after the event, by political action.

This would simply mean that, in future, outside shareholders will have to pay a higher price for their initial stake. If the price is made too high, fewer shares will be bought by and sold to outsiders. Small private companies will be more likely to stay private and debt finance will be regarded as superior to equity finance. This will not be in the interests of the economy or shareholders.

The worldwide tendency to impose regulations that discourage concentrated control or reduce the benefits of control and, therefore, of sharing ownership seems entirely perverse. An efficient economy requires managers to be held accountable to shareholders.

The concentrated control of quoted SA companies is a strength, not a weakness, of the economy.

It must be recognised that any employee of a privately owned company, who’s a member of its pension fund, is a shareholder. Anybody with a retirement annuity or life assurance is a shareholder. These shareholders have little power to control the managers but their partners, the controlling shareholders, do; and they, as part-owners, share the benefits of efficient management.

Sophisticated commercial lawyers, enthusiastically reforming Company Law to bring it into line with UK practice, rush in where angels should fear to tread. There is no good economic argument for following London or the US in regulating the relationship between different classes of shareholder.

The UK economy is surely not a shining example. That the continental economies have performed much better over the past 30 years, as have Japan, Korea or Hong Kong, may just have a great deal to do with the greater powers that continue to be exercised there by controlling shareholders.

If a price has to be paid in the form of a less efficient corporate structure for the sake of a more popular capitalism, as it has been in the US and the UK, let it be done at the right time with all the cards on the table. Right now is a particularly poor time for government to trade away economic efficiency for a lawyer’s notion of fairness.

KANTOR COMMENTS  F  IM  2/11/90  (180)

ANGELS FEAR TO TREAD

Brian Kantor is professor of economics at the University of Cape Town.
Gencor's break-up feelsers given a long yarn

Gencor's chairman Derek Keys says the market's apparent confidence in the company's management and prospects is "false". He says there was a disgusting share price decline after the announcement of the break-up proposal. Despite this, he says the company is in a strong position. He adds that investors have not been misled by the break-up proposal.

The share price has dropped significantly, from R11 billion to R5.9 billion in the past week. The management says the share price is the result of the break-up proposal and that the company is not in a better position than before.

The break-up proposal is expected to be voted on at the annual general meeting in June. The company's management has been accused of not providing adequate information to shareholders about the break-up proposal.

The management says the break-up will benefit shareholders in the long term. However, some shareholders have expressed concerns about the lack of transparency and the potential impact on the company's operations.

ByDAVID CARTE
New expansion dawns as an era fades

South Africa must look beyond the short-term stimulus that was sure to accompany the transition to a post-apartheid, sanction-free environment, said Mr. Stuart.

The underlying tone was of measured bullishness. “We are at the dawn of a major expansion phase brought about by the readmittance of South Africa to the mainstream of world politics and economics.”

This should mean higher growth, increased exports, a more stable currency, planning out of the rand, positive real interest rates, lower inflation at least initially, and pressure to redistribute wealth through tax and possibly through new prescribed investment rules.

The JSE’s low liquidity was a recurring theme of his speech. He showed how difficult it was to place even R10-million in selected leading industrial shares, assuming that an institution could get a quarter of the market turnover.

Once out of the top few weightings in the index, it could take 100 to 150 trading days to put R10-million into a decent portfolio. In the next 10 largest index counters, it would take a year.

Mr. Stuart ignored the issue of capital gains tax. Clarity could lead to the sale of equities if the sellers could be sure their gains would not be taxed — or that their losses would be deductible.

Nevertheless, demand for industrial equities looks as though it would overwhelm supply. Mr. Stuart said that probably the biggest threat to institutional cash flows could come from tax legislation making the savings route less attractive when compared with bank and building society deposits.

Savings could be boosted by the proposed withholding tax on interest, the prospect of real interest rates, and institutions could feel more comfortable holding money in interest-bearing instruments.

“Whether these proposals from government are the most sensible course of action is another matter. Switching the flow of funds from the long-term investments promoted by insurance companies to short-term cash deposits hardly seems to be the most sensible thing to do.”

“It is not as if the banks particularly need to increase their deposit base. The problem the authorities have had with banks over the past two decades has been controlling their lending, not their ability to secure adequate deposits.”

Switching from pension to provident funds could also lead to withdrawals, affecting the demand side.

On the positive side, Mr. Stuart said there were prospects that the PIC (Government pension funds) and more of the Transnet pension fund would be freed for investment in equities. The PIC had a cash flow of between R3-billion and R18-billion and owned no equities. Transnet was allocating its inflow of R2-billion a year to the equity market.

He said life assurers had a formidable ability to market products, and that the forced savings of pension funds — of which individuals were virtually unaware — continued. The supply side depended on economic growth and perhaps privatisation later.

“Black consumer spending and infrastructural spending on raising black living standards will be the twin forces that will drive the economy in the 90s. Shares benefiting from rapid domestic growth will be the winners, not the exporters and weak rand beneficiaries.”

Mr. Stuart forecast a rise in the industrial index from the current 2700 points to 3000 a year from now, even though it could go lower first.

“The prospect of improved and sustainable earnings growth rates will be more sharply in focus this time next year and this should have a favourable impact on the way investors are prepared to rate the market.”

He said there was no more than a few months to buy good-quality equities at current levels. Patient accumulation of good-value second lines was the best strategy for smaller investors.

“Earnings growth of the index will remain positive over the next two years and will increase by nearly 30%. If the PPI moves to 10, then two years out the index will be more than 50% higher than it is today.”

“That will provide a total return, including income, of about 30% a year.”

Institutions would get this kind of return if they remained parked in cash. Nor would they get their cash invested in their preferred shares unless they started before the rest of the crowd.

Mr. Stuart’s arguments convince me that my position of share taster in a bear market could soon become more positive.
Beware of missing the industrial boat

THE risk of not being invested in leading industrial counters at current levels is far greater than of being in the market, according to Martin & Co partner Richard Stuart.

That was despite the fact industrial earnings a share growth would bottom out at about 7% in the first quarter of 1991 and dividend growth would slow towards 8% and 10% before recovering, he said at the Financial Mail’s annual investment conference on Friday.

Commenting on the outlook for industrial shares, Stuart said manufacturing conglomerates such as Amic and Barlows were all set to report lower earnings in the 20% area.

“In contrast, consumer stocks, buoyed by good union wage settlements, continue to enjoy fairly good trading conditions. Index heavyweights such as Richemont, Rembrandt, SAB and Sasol will produce continued earnings growth.”

Groundwork

If earnings growth rates were going to pick up, perhaps “fairly dramatically in a post-apartheid SA”, then it would seem logical ratings had scope to improve.

While the industrial index could go lower first, by this time next year it would be above current levels, and in two years time it should be substantially higher.

That was due in part to the fact that the political and economic groundwork now being laid should allow the next upswing to start from a more solid base and be far more extended than any of the tentative upcyles seen in the ‘80s.

SA also had the debt capacity to finance more rapid and sustained growth in the ‘90s than in the ‘80s, given access to world financial markets.

Further, black consumer spending and infrastructural spending on raising black living standards would be the twin forces driving the economy in the ‘90s, which meant the exporters and weak rand beneficiaries were going to have to give way to the consumer sectors.

“T believe the index, one year out, will have risen from the present 2 700 to around 3 000, largely on the improved outlook likely to prevail at that time,” he said.

The prospect of improved and sustainable earnings growth rates will be more sharply in focus this time next year and this should have a favourable impact on the way investors are prepared to rate the market.”

His forecasts of earnings growth in 1991 and 1992 took the earnings of the industrial companies 30% higher than they were now.

“If this is combined with an optimistic outlook for the post-apartheid environment, as I believe will be the case, the price to earnings ratio of the market will move to above average levels,” he said.

“If the ratio moves to 10, then two years out the index will be more than 60% higher than it is today at 4 000. That will provide a total return, including income, of about 30% per annum.”

Institutions were not going to get that kind of return if they remained “parked in cash. Nor are they going to get their cash invested into their preferred shares unless they start before the rest of the crowd.”

Stuart said the total cash flow of institutions — life offices, short-term insurers and pension funds — was currently running at about a R28bn annual rate if Transnet Pension Fund cash flows were taken into account.

“At current cash flow rates and assuming 38% — the average of the past five years — goes into equities, this means that R10bn of new investment is potentially available for investment in the equity market annually.”
Incentives ‘can help beat recession’

Incentive schemes could help companies ride the recession by encouraging better staff performance and minimising fixed salary costs, Ernst and Young regional director Julian Nagy said yesterday.

Companies would have to adopt innovative ways of maintaining staff’s economic standards “in the face of ruinous inflation and taxation” while not locking the company into fixed costs should individuals fail to perform.

Incentives are “a structured approach to measuring performance and paying rewards contingent on the attainment of better than planned levels of performance”.

Such schemes were a far more effective method of rewarding individuals, Nagy said, because traditionally the pay difference between the best and worst performers was usually no more than 10%, while the difference in performance was substantial.

By involving staff in decision-making and sharing financial gains with better performers, productivity would increase. One US study measured improvements in productivity of approximately 18% after three months and 24% after one year.

More than 60% of medium to large companies in SA operate incentive schemes.
Entrants showing greater interest

Visitors in the Spirited Sector were looking for more than just the usual view of special products...
Anglo ready for ‘partial nationalisation’

LONDON — Anglo American chairman Julian Ogilvie Thompson hopes SA will have a new constitution, with blacks in government, by next Christmas.

Interviewed on British television on Sunday night, he also indicated he would be prepared to see partial nationalisation of his corporation and predicted there would probably be a black SA director on the board in about three years.

Ogilvie Thomson said government wanted to get on with the process of negotiation “as quickly as possible”.

One of the important tests of the new SA would be whether “those people (who withdrew funds) will be prepared to extend their loans and to make new loans”.

In envisaging a black person on the Anglo American board, Ogilvie Thompson warned: “It is extremely important, both for the individuals and for the rest of the organisation, that people go on the board who are genuinely seen to be qualified and carrying the responsibility in the organisation that justifies their going on the board.”

He believed the chances of full nationalisation were receding as the ANC was “beginning to see that this is not a sensible route to go down”. The effect of government taking a shareholding in the company would depend on the size of its stake.
Quality key to Consani's success

By Lynn Carlisle

Leading tank container manufacturer Consani Engineering has won the top export award in the manufacturing category, having substantially increased its exports against stiff international competition.

The adjudicating committee of the State President's Award for Export Achievement recognised the company's sustained successes in exports to the US and Europe over the past three years.

Exports increased 71 percent in the year ending June 1989 compared with the previous year, and rose another 153 percent in year ending June 1990, notes Elistes River-based Consani Engineering MD Ian Bell.

He ranks Consani as the world's second largest manufacturer of stainless steel containers, used primarily for transporting hazardous and non-hazardous substances.

"Our estimated world market share of 17 percent comprises 50 percent of total manufacture."

Exports for the year ending June 1990 were valued at about R53 million, he adds.

**Competition**

- Consani has made a significant contribution to SA's overall exports in the face of stiff competition from abroad and the refusal of certain overseas countries to trade openly with SA manufacturers.
- Mr Bell believes his company's well-engineered product, which incorporates some 80 percent local content, is recognised internationally as one of the best available.

Although the low-value rand has assisted exports, the company's success stems mainly from product quality and its excellent and sustained back-up.

Thus not only do containers meet stringent British official ISO standards, but the company ensures that specialist staff travel regularly abroad in order to attend to customer needs.

"Our staff compliment of 729 has played a phenomenal role in both the manufacture and marketing of products for the export and domestic markets," says Mr Bell.

Operating on a multi-shift basis and employing a "just in time" manufacturing system, Consani produces four containers a day, the majority of which are made from stainless steel supplied by Middelburg Steel & Alloys.
Contractual for SA

Raymond Parsons

Business is a Key
party to a social

They have not

In mixed economies, businesses

They have not

In mixed economies, businesses

LETTERS

GAVIN BROWN

Should business be neutral?

The next edition of the business report on a major topic or on a current event will be an article on...
LIFE insurers have been warned not to resist the initiatives of the ANC in requesting that "a fraction of pension and provident funds be directed to socially responsible projects".

The warning was sounded yesterday by Mr Don Mkhwanazi, convenor of the ANC task force for economic policy for Natal.

Speaking at the economic development conference in Durban, Mkhwanazi said a future South African government would be forced to intervene if current levels of deprivation among the black population were not addressed.

He called for "socially responsible behaviour" on the part of financial institutions and big business and asked why the voice of big business - which was often a major shareholder in financial institutions - had not been heard on the issue of raising funds.

Big business should be insisting that pension fund managers should invest a fraction of their funds in projects which assisted disadvantaged communities, he said.

"There are still an endless number of companies which do not even have a housing policy. They believe that by donating funds to the Urban Foundation, they are fulfilling their obligations. But they must remember that charity begins at home.

"If corporate South Africa does not begin at this late hour to invest in management and skills training, it will face the consequences of its actions further down the line," he warned.

Calling for management approaches and philosophies to be changed, Mkhwanazi said that to date, many millions had been poured into small business and the informal sector.

"But, in fact, black participation in the mainstream of the economy is essential. The growth of the informal sector is actually an indictment of big business for failing to create job opportunities." - Sapa.
Doubts about early economic recovery

Sylvia Du Plessis

Business should brace itself for a longer, deeper downturn than was considered likely and focus on cutting costs where possible, SA Chamber of Business (Sacob) chief economist Ben van Rensburg said yesterday at a media conference.

That was because it was now "open to doubt" whether the SA economy would recover by mid-1991.

Van Rensburg's warning came on the wake of a plunge in Sacob's latest business confidence index (BCI) to its lowest level in nearly four years and signs that Christmas sales could reflect a 0.7% drop in real terms over 1989.

Businesses should also expect interest rates to remain at current levels until the new year, exercise greater caution in granting credit and increase their provisions for bad debt, he said.

They should take measures to "last out this recession and be in a position to take advantage of the next upturn".

Sacob's BCI fell to a level of 89 in October from 94.2 the previous month - its lowest level since 59.9 in February 1987.

Van Rensburg said Sacob's view was that the September BCI had overstated the extent of confidence and now the full impact of uncertainties arising from the Gulf crisis had made itself felt.

The general business mood had adjusted to the fact that a slowdown in the world economy was more likely, fuel price hikes were a temporary setback for the SA anti-inflation drive and the prospect of lower nominal interest rates had probably moved to early 1991.

Gloom in the business arena was mirrored in the manufacturing sector, where industrialists remained pessimistic in their short- to medium-term outlook despite a rise in the chamber's manufacturing activity index to a level of 106 in October from 90 in September.

Sacob economist Keith Lockwood said negative elements included the effect of recent fuel hikes would have on costs.
A NEW DECADE, A NEW ERA

IT'S NOT ONLY IN SA THAT THE NINETIES WILL BRING BIG CHANGES

It's fitting that the 20th FM investment conference came just at the start of a new decade. For 1990 is a watershed year with radical changes in global as well as domestic political and financial relationships.

Examining the influential role now played by derivatives in the gold market, RTZ economist Jessica Jacks concludes: "In having to forecast prices, I operate first and foremost from the premise that the future of the gold market is not what it used to be and history is not going to repeat itself."

With gold yet again disappointing those who hoped it would resume a safe-haven role in international crises, that is a chastening reminder that many credos of the Seventies and Eighties have tumbled, far more widely than just in the gold market.

Long-standing political and financial structures are being suddenly transformed. Underlying this is a widening espousal of capitalism and conservatism, accompanied by globalisation of markets and financial deregulation. Investment prospects and options are being driven more than ever by politics. The process is entwined with ironies which underscore the uncertainties ahead.

The 45-year Cold War ended dramatically but (so far) fairly peacefully. In the process, notes David Hale, vice-president and chief economist at Kemper Financial Services, Helmut Kohl has effectively become banker to Mikhail Gorbachev, creating a

CONFERENCE PAPERS AVAILABLE SOON

The FM will publish on November 23 a compilation of transcripts of all speeches given at the 1990 FM Investment Conference. It will not be distributed automatically with the FM, but copies will be sent to all registered conference delegates. Regular subscribers may obtain a free copy on application to Times Media Ltd Subscriptions, Box 10493, Johannesburg 2000 (see advertisement on p117 this week). Copies are available to non-subscribers, or subscribers wanting extra copies, at the same address for R6 each (including postage and GST).

Continued on page 33
The Lord Charles Hotel
Where The Best Comes Naturally

Only a short distance from the centre of Cape Town, lies another world – one of natural beauty, clean country air and fresh sea breezes – the natural choice for a five star hotel.

A hotel so unique in its tranquil setting – 22 Acres of landscaped gardens, the wine route on its doorstep and one of the world’s most picturesque coastlines only a moment away – the obvious choice for a five star holiday. This is the Lord Charles Hotel, naturally!
IDEA WHOSE TIME MAY COME

Not without reason, Gencor chairman Derek Keys has gained a reputation for creative thinking. The debate he has sparked off about the need to "unbundle" shareholdings of listed companies must be pursued, even if Gencor ultimately does not go ahead with the plan it is considering.

Two distinct but related issues have been raised. One is the possibility of creating value for shareholders. This could be achieved in a single step by eliminating mining, financial and other conglomerates, whose shares generally trade at a discount to underlying net asset value.

The other issue, expounded by Martin & Co director Richard Stuart at the FM Investment Conference, is the need to improve the tradeability of listed shares. To say the least, it is stretching a point to describe the JSE as an efficient and liquid capital market when 40% of market capitalisation represents double counting. Large proportions of the shares of many industrial and mining companies never trade, as they are locked away in the control structures of holding companies and ubiquitous pyramids.

As far as Gencor is concerned, Keys is suggesting shareholders in the mining house simply be given shares in the major underlying companies in proportion to their existing Gencor holdings. Should the process be worked through to its logical conclusion, Gencor would cease to exist, its functions assumed by the five major subsidiaries.

From a commercial and financial standpoint, this may well be practical. After recent restructuring, most of Gencor's interests are held by five companies: Genmin, Sappi, Eugen, Malbak and Genbeil. It would not be difficult to slot the few outstanding investments into these. Sanlam's concentration would presumably depend on its being satisfied that effective control can be maintained, which up to now has been a tenet of the assurer's attitude to "strategic investments."

Apart from potential elimination or reduction of the asset discount — a one-off event — shareholders would have greater freedom to select their own portfolios. As in the case of share splits, there is no guarantee that share trading would increase, given that existing holders may not be sellers; but investors would have greater freedom of choice.

Keys rightly argues that investors here and abroad prefer pure asset plays to conglomerates. Gencor's price is now about 25% below net worth; even industrial conglomerates like Malbak and Barlow Rand, which have often traded at a premium, are generally close to, or below, asset value.

This is in line with the rating of conglomerates in the UK market. The highly successful Hanson offers a dividend yield of 7.5% and earnings multiple of 10; BTR a 7.7% yield and earnings multiple of 8. In contrast, the average yield for the industrial market is 5.5% and the p/e about 10.

Share prices aside, a question to consider is whether the mining house — or other large holding company — still needs to exist, or whether historical functions, such as the ability to raise large amounts of capital, provide ostensibly inexpensive services and spread risk, can be fulfilled as effectively in another way.

The answers will vary with each case. Last year, Gencor was able to raise R1.5bn in a rights issue. This was a successful issue close to the peak of a bull market, even though the cash was not earmarked for specific new projects. Whether the subsidiaries could have held similar issues is a moot point.

A related aspect is the ability to seek out new business. Keys has said that one achievement of Gencor's refocusing is that top executives now concentrate on this task.

According to the mission statement, the group's business is "starting or acquiring major business ventures, and accelerating the development of our existing businesses." Indeed, without a creative approach at head office, the expansion into energy almost certainly would not have happened — as Keys acknowledges.

Keys denies that political considerations are any part of the motivation for possible unbundling. He insists there is no intention of seeking an escape mechanism, but that Gencor happened to reach a stage this year where the move could be considered from a commercial point of view.

Perhaps so; but this is a politically sensitive topic, from which commercial aspects cannot be made to stand apart. Both politics and economics provide good reasons for every conglomerate and mining house to evaluate unbundling and both will certainly have to be taken into account.

ANC criticism of the excessive power of mining houses might be deflected if their key assets were dispersed among a broad group of shareholders — though this would not apply to Gencor, where control would simply revert directly (rather than indirectly) to Sanlam.

In its official comment, Anglo American has remained non-committal, offering reminders that big business is not necessarily bad and that SA has a capital and skills shortage. Given the sensitivities as well as complexities and financial inefficiencies inherent in Anglo's shareholding structure, it must be assumed that the house is, or soon will be, carrying out its own internal studies, whatever the conclusion.

This debate should go well beyond the potential elimination of a few conglomerates of uncertain merit, perhaps involving the greater enrichment of some shareholders.

While lamenting the market's poor liquidity and, tacitly, limited efficiency as a capital market, the JSE continues to allow the listing of pyramids and even multi-tiered pyramids — such as FSI — a practice which would not be allowed in many foreign markets and which was also criticised by Stuart.

These serve no other purpose than to lock in control and offer no assurance that the underlying operating companies concerned will continue to be run by adroit entrepreneurs. Yet another instance of the JSE's impotence?
strongly at the FM conference that the ANC's policy on sanctions was likely to be changed at the organisation's conference on December 16.

The chamber's director-general, Raymond Parsons, estimated that a programme to level out apartheid's inequalities would cost at least R50bn over 10 years and he suggested that one should start immediately.

He warned, however, not to exaggerate the consensus between business and the ANC, adding that you can't spend a weekend with the Pope and expect to turn him into a Protestant.

"No amount of dialogue can provide the assurance that politicians will not revert to their original positions if and when they achieve power. The ANC has to attempt to address the needs of the poor, the expectations of redistribution and the ambitions of organised labour.

"Dialogue can result in policies becoming increasingly subtle, qualified and hedged."

This was often apparent in Mbeki's talks. For example, he called for "affirmative action," discriminating in favour of the poor for housing and, particularly, housing finance, and on business credit. But he was vague about whether this affirmative action would be legislated or just recommended.

Several chamber delegates were receptive to the idea of a new financing mechanism for black housing. All, however, opposed being forced by law to give preferential treatment to blacks.

In the floor debates it was significant that the delegates weren't too concerned with constitution-making, or even the ANC's economic policy, but with nitty-gritty issues such as oil and tax.

Business pleaded for the use of SA's oil reserves to alleviate the recession. Chamber president Les Boyd maintained that the time for secrecy on oil issues was over, adding that business would find it easier to co-operate with government on energy policy if it knew the whole picture.

Delegates recognised that with the need for more social spending, it was all the more pressing that government should reduce public expenditure in other ways: by reduced spending on such areas as defence and by cutting out the duplication of apartheid services.

There was particular distaste for the subsidy the taxpayer is expected to fork out for the decentralisation of industry. The conference was relieved to hear Development Bank chairman Simon Brand repudiate the decentralisation policy. But then, if it took 40 years to convert the National Party, business can't expect an overnight conversion of the ANC.

CHAMBER OF BUSINESS

LISTENING TO THE ANC

Just six months ago, the gap between business and the ANC seemed unbridgeable. Most business leaders considered ANC economic policy to be about as relevant as the belief that the earth is flat.

But last week, at the SA Chamber of Business annual conference, and later at the FM Investment Conference, the two sides seemed to draw closer to a working relationship.

Thabo Mbeki is the ANC's international affairs head, but he isn't spending much time overseas; he seems to have been given the brief of pacifying business. With his omnipresent pipe and urbane manner, he is increasingly seen as the acceptable face of the ANC in business circles. He strengthened that image last week in his addresses to the chamber and the FM conference.

The word "nationalisation" has long been excised from Mbeki's vocabulary. He had a much more moderate message to the chamber, pleading for the need "to divert much larger resources towards black upliftment than has been the case so far." This is in line with the chamber's view in its document, Economic Options for SA, that housing, education and other social needs should receive the highest priority in future State budgets.

The chamber argues that "business is not, in advocating a market system, attempting to avoid the need to address the masses' needs."

Consensus also appeared closer on the issue of privatisation. Mbeki did not say it was a bad thing, but merely that it should be put off until a truly democratic government was elected. The chamber itself is opposed to the privatisation of Eskom and is soft-pedalling on other fluctuations.

Much to the delight of the audience, Mbeki hinted...
Range of input urged for economic planning

EDDY BULBROK

THE broad framework of economic strategy had to be determined with business and political leaders. A six-man delegation from the SA Chamber of Business told Economic Co-ordination Minister Wim de Villiers in Pretoria yesterday.

Sacob director-general Raymond Parsons said last night the delegation, led by Rabob deputy president Hennie Viljoen, had a frank and friendly exchange of views on aspects of thinking on economic restructuring.

Sacob emphasised the need for better co-ordination in overall economic strategy and for avoiding ad hoc decisions on matters such as export incentives, tariff protection and decentralisation, Parsons said.

"Sacob stressed that it was necessary, especially under present economic and political circumstances, to reduce uncertainty for businessmen as far as possible."

The need to strengthen consultation between government and the business sector was also stressed.

Sacob's economic affairs committee chairman Ronnie Bethlehem added last night that the delegation talked about the need to address the matter of an economic development programme, which, once formulated, needed to be acted upon expeditiously.

De Villiers was told that the framework for a new economic strategy had to be agreed to after consultation with a wide range of business and political leaders.

The delegation expressed the business community's concern that problems were still being dealt with on an ad hoc basis without proper co-ordination between the different government departments.

Bethlehem said the delegation had stressed the need to minimise uncertainty and confusion, as well as for consultation between government and the private sector on the conduct of current economic policy.

AHI executive director Martin van den Berg declined last night to comment on AHI's separate meeting with De Villiers yesterday. AHI did not want to give publicity to the contents of the meeting at this stage, he said.
Communist and business leaders meet

BID business and the SACP had their first official encounter at a meeting in Johannesburg this week. party and Consultative Business Movement (CBM) leaders disclosed yesterday. (W)

JCI director Ken Maxwell, who headed the 20-man CBM delegation of top business and professionals, said the CBM had requested the meeting as it wanted to be briefed on the SACP’s views on a range of subjects.

Maxwell said “understandable differences of opinion” emerged on whether a free market or socialist approach was most appropriate for addressing problems regarding the distribution of wealth.

However, he added, the SACP delegation — Esopo Pahad, Moses Mayekiso and Moss —

SACP-business talks

Ngoaseng — had repeatedly expressed its anxiety to see a democratisation of SA.

This was an important area of commonality between the groups, he said.

Pahad said there was, in SA, a great deal of ignorance about SACP views, which was why the party felt it necessary to explain them to a broad spectrum of groups, including business.

The SACP believed the fundamental flaw of Eastern Europe had been a lack of democracy, he said.
Market war talk getting nowhere

TWO-YEAR red stickers on the boards — which are just about the only bright spots in the market.

Things are still fairly grim. Every Friday for the past four weeks dealers have been trying to drum up some investor enthusiasm by talking about an imminent war in the Middle East — nobody's paying the slightest bit of attention to them anymore.

Rand Mines had a fairly tough week which is not helping to reverse the weak sentiment currently surrounding Barlows.

There's speculation that Barlows may sell its stake in Barbrook to Anglo and that Barmine is under pressure: its share price has been under 10 percent for a month. There's no real reason for that, however.

Myles reckons that Barlows' share price will hold firm if the earnings' drop for the year to end-September can be held at 15-20 percent — the figures will be out on Tuesday.

Sub Nigel's suspension apparently relates to a restructuring of the South African mines with Nigel and Sub-Nigel being injected into Wit Nigel, which has a London listing.

Wit Nigel will then be renamed Consolidated Nigel and if it needs a rights issue in a few months it will be able to access the London market.

Lots of jolly

It seems that Hank and the boys at Minorco may eventually do something with all their jolly.

How long can you sit around waiting for an attractive investment to come your way?

Myles reckons that as the guys have enough gold and there's not much acquisitive opportunity in base metals, perhaps they'll look again at industrial aggregates — remember how keen they were to get hold of Amy Rood-stone?

SAB had great results this week — who's drinking all that beer?

Bruno Korte will in future be reporting to Mr Stringfellow and not Meyer Kahn.

Also rather strange, Myles thought, was the absence of any notification from Premier or Twins of the resignation back in August of Solly Krok as Twins chairman. Not until last week was this move announced.

Apparently it wasn't considered that important which was a bit odd given all the publicity surrounding Mr Krok at the time.

Eddies back

Well it didn't take too long. Eddies is now back with Sareco — this time in the Vaastrucer consortium. It will be a comfort for shareholders, to know exactly who owns it. Eddies' share price was up 50c during the Sareco debacle it was a bit difficult to get a firm answer from anybody.

HCI has moved strongly since it issued a cautionary. There's the old talk of it getting a separate listing for its overseas interests and there's also some speculation about a deal involving Satlife.

Myles wondered if anyone had noticed how the Musica share price has been charging along in recent weeks. Not in much volume admittedly. But yesterday it was up to 130c compared with a 12-month low of 60c.

He reckoned the only thing that could move it this much was a plan to acquire CNA, Gallo with a view to tying up Musica's supply line.

Myles checked this out with the Musica head office in Cape Town who thought it would be a great idea to take over CNA Gallo but said they didn't have the money — so Doug Band and the guys can relax.

But, according to Mr Geisen: "We wouldn't mind if Doug bought Musica."

Musica is putting an announcement into Monday's papers — its nothing to do with the movement in the share price which apparently puzzles them as much as Myles.

There should be some news about the UBS/Allied/Volkskas/Sage deal at the end of this month. Myles hears speculation that there may be some quite concrete developments to report by then.
MANPOWER MIRROR
by ADRIAN HERSCH

Ethics have a place at work

INTEREST in business ethics is at a historic high in the United States. It is not yet the same in South Africa — but there are signs of change.

Written codes of ethics are the norm in the US. More than 20% of large corporations used them in 1979, says Moira Katz of Ravan Consultants in an award-winning article in the Institute of Personnel Management (IPM) Journal.

P-E Corporate Services managing director Martin Westcott says few SA companies have a separate code of ethics. Many, however, refer briefly to ethics in policy manuals and the like.

Mrs Katz outlines the advantages of a code. The limits of acceptable behaviour can be defined. For example, Ford and General Motors stipulate that gifts exceeding £25 cannot be given or received.

A code provides an opportunity for employees to refuse to take part in an unwholesome action.

...But a code will not automatically improve ethics. Mrs Katz says codes are often too generalised to be of specific value. Management must acknowledge and reward desirable behaviour.

Several issues including corporate culture will ultimately determine its success. The personal influence of the chief executive is vital.

Mr Westcott says: "What happens in reality is largely based on how the leader behaves, what he does and how he cascades down the organisation."

Training in ethics, including employee workshop sessions, is advised. Mrs Katz says: "The time has come to take ethics out of the closet and encourage employees to talk about ethics on the job, to examine the full range of options available in specific situations, and to resolve ways out of dilemmas."

Mr Westcott says that the changing structure of the SA workforce is likely to bring about greater emphasis on ethics.

In the wider society, all should do their duty — including parents and school teachers.

"Mary, get the kids ready — we're going out for supper. We can afford it. Jason, cancelled lunch today — we're eating on the company tonight. It's OK son, everybody does it."

What kind of manager will little Johnnie become?
Who might merge with whom in the tough decade ahead

Mervyn Harris

TransAtlantic group.

Meadon says the impetus for change in the mining scene could come from the possibility of a severe world recession and that prolonged depression in international commodity prices could make a comeback against a background of rising local costs.

There is also the possibility of the discovery elsewhere in the world of vast new deposits of metals and minerals which could emerge. This could well follow a new "colonisation" of Africa at the request of African states.

Meadon says there are a few sort of developments that may accelerate the formation of such huge mining groups. The London Metal Exchange, for instance, is one that could likely to be a new development.

Meadon says this would enable mining companies to be combined with other companies out of the world to an even greater extent. This would enable South Africa to compete more effectively in the international arena.

A slump in the price of energy in the wake of a long recession, or the discovery of a huge new find, could drive major mining companies to merge to make the best of the world resources.

Meadon says that in the past decade the world has seen a surge in the number of mining companies, and this trend is likely to continue.

The new SA will be able to afford the local manufacturers and the luxury satellite, "SA is a poor country with a couple of rich princes rather than a rich country with a poor population,

His forecast is not all pessimistic: the restructuring process of the mining industry has already been under way, and the new SA will be able to compete in the international market.
Textiles, packaging tie CG Smith down

The effects of the economic downturn on CG Smith's packaging and textile divisions have counteracted good results from its food and pharmaceutical companies.

The group has posted a 1% improvement in attributable profits in the year to September.

Of the group's profits of R332.4m (R349.8m), 57.5% was contributed by CG Smith Foods, 36% by packaging group Numyak, 8.5% by textile group Romatex and 0.2% by other companies.

Group turnover rose 14% to R14.2bn but pressure on margins, a higher interest bill and a higher tax rate reduced after-tax profits to R340.4m from R358.6m in 1988.

A total dividend of 28c (26c) a share for the year has been declared on earnings of 75c (76c) a share.

CG Smith Foods' sales volumes grew by 16% to R9.8bn. Operating margins declined to 6.7% from 7.3% in 1989 and interest cover fell to 4.5 times from 5.5 times.

Income from investments fell by R4.4m, but the tax rate was lowered to 33% (35%). This, together with a higher contribution from associated companies, boosted CG Smith Foods' after-tax profits by 6% to R15.1m.

On earnings of 283.6c (255.1c) a share, a total dividend for the year of 87c (75c) a share has been declared.

The directors said CG Smith Sugar, Tiger Foods and pharmaceutical companies Adcock Ingram and Logos performed well but this was countered to some extent by disappointing results from ICS and Oceana Fishing.

CG Smith directors expect an improvement in earnings in the current year.
Anglovaal expecting to boost last year’s earnings

Anglovaal’s earnings in the current financial year to end-June 1991 should exceed last year’s, chairman Basil Hersov said on Friday.

But he cautioned that it “remained a challenge” to maintain earnings on an increased number of shares in issue.

Speaking at the financial, industrial and mining group’s AGM, Hersov said earnings growth would be assisted by interest earned on its cash resources of R1bn.

Anglovaal Industries’ consolidated pre-tax profit for the September quarter was marginally ahead of the same period a year ago, despite a continued softening in a number of the markets served by the group’s companies, Hersov said.

“At the earnings level, the results to date reflect a slight decrease for the same three-month period, but the Anglovaal Industries (AVI) group is budgeting for a moderate hike in earnings for the year ending June 1991.”

Contributions from Anglovaal’s mining investments were lower than the same period last year because of reduced Associated Manganese earnings, generally lower profitability of the gold mines — caused by the decreasing real-terms gold price — and continuing high expenditure on exploration.

During the year to end-June Anglovaal’s consolidated earnings improved by 30% to R288m (R183m). This translated into 55c (42c) a share, and a dividend of 4c (1c), was declared.
Little prospect of festive cheer for share market

By Ann Crotty

With six weeks to go before Christmas, there seems little hope of activity or prices on the JSE picking up in the next two months.

Analysts agree only a significant and sustainable improvement in the gold price, or a major advance on the local political front, would lure investors back as aggressive buyers.

Most of the relatively low volumes of buying are of blue-chip industrials, with institutions topping up strategic investments in hope of a longer-term economic recovery.

Looking to calendar 1991 there is little reason for investors to take cheer.

Although the past week has seen some fairly solid corporate results for the six and 12 months to end-September (including ABI, Adcock-Ingram, Afrox, Edgars, PNB, Genor and SAB), feeling is that these are the exceptions.

Companies such as Romatex, Nampak, Tomkor and Da Gama are providing a more accurate reflection of underlying economic weakness.

This sentiment is expected to be underlined with the release of Barlows's results tomorrow.

Few chief executives who have already reported are looking to an improvement in conditions over the next 12 months. Six months ago there seemed to be reasonable prospects of a decline in inflation and therefore in interest rates in the last quarter of calendar '90.

Latest indications are that industrial companies will be hard pressed to maintain earnings.

Assuming that money and gilt market rates continue to offer the attractive yields they are now providing, it looks as though dividend yields on the JSE will have to move higher if they are to be attractive. With flat earnings likely, this means sustained downward pressure on prices.

South African investors might not be happy with the way share prices on the Johannesburg Stock Exchange have behaved since Iraq invaded Kuwait, but they have one consolation — their losses have been less than those of investors on the world's other major stock exchanges. Since July 24, a week before the Invasion, the Swedish share market has fallen 32,3 percent — three times the 9,8 percent decline in the JSE. A comparison of share price indices compiled by The Economist magazine shows that share-price losses in France, Switzerland, Spain, Italy, Japan, West Germany and Singapore have been double or more the South African figure. Britain's position as a petro-power helped limit its share market drop to 12,3 percent.
Positive trend for business

GERALD REILLY

PRETORIA — Business failures this year had not increased at the rate predicted earlier in the year, Information Trust Corporation chairman, Paul Edwards said. *(80)*

He added this could be the 'hull before the storm, as most sectors of the economy were under stress.

Average monthly failures from January to September amounted to 137 compared with an average of 159 for 1988.

But in the three months to August this year, failures (319) were significantly less than the same period last year (530) — a drop of 39%.

"There is no reason why we should expect a 1985/86-type bloodbath," he said. *(81)*

Businesses were in better shape than in previous recessions, and were better equipped to survive, he believed.
Barlows turns to overseas markets

SHEEN MELVILLE

IN THE wake of a mediocre set of results for the year to end-September, top industrial group Barlow Rand has disclosed it is planning a major thrust into the UK and Europe.

Barlow Rand CEO and vice-chairman Warren Clewlow said the group was planning to raise its profile in Britain and would possibly add to the existing British operations of J Bibby, which proved one of the stars of the Barlows stable for the year.

Clewlow said Barlows had set aside about R1.7bn for local and overseas expansions over the coming financial year.

The group, which posted a 15% drop in earnings to 465.7c a share for the year but left the dividend at 170c, had an established infrastructure and an extremely good management structure.

"But it really depends on what comes up. "Bibby appears to have its act together and has the ability to finance expansion." Expansion would not necessarily be into a complementary field, although he gave no further details.

The group would also be expanding in South Africa with "a number of grassroots projects. "It was, after all, really up to the big industrial groups to spend big."

At the same time Barlows would be carrying on with its rationalisation, particularly in streamlining its mining division, he said.

Barlows is seen by the market as a barometer of economic conditions because of its widely varied sphere of operations. Attributable profits for the group slipped below last year's R1.5bn mark, however, shedding 14% to R492m on a 10% rise in turnover to R2.8bn.

Unlisted Middelburg Steel and Alloys (MS&A), on which much of Barlows' fortune depends, continued to suffer from adverse market conditions for stainless steel, particularly in Europe and the Far East, and from a glut in the world ferrochrome market. The net result was a 76% drop in

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Barlows

MS&A profits to R52m from R216m last year.

Clewlow said the group was happy with the performance - which was in line with market expectations - as the decline in operating profit was held at 6% to R2.5bn.

"At the earnings level we saw a decline mainly because of the poor performance of MS&A."

In the industrial division, Reunert enjoyed export and productivity gains, but Technology Systems International fell short of 1999 levels. Cost again proved the dusty jewel in the group's labouring Rand Mines division, which was adversely affected by lower base mineral and gold income.

Cement group PPC's performance proved more solid than expected. Other divisions, however, notably the earthmoving equipment and motor and appliances and, to a greater extent, the building materials, steel and paint divisions, performed below the previous year's levels.

The packaging and textiles companies also reflected tough market conditions with Nampak reporting marginally lower attributable earnings.

Romatex had a difficult year with results well below those of 1999.

Food and pharmaceuticals was one of the brighter aspects, with meaningful improvements from C G Smith Sugar, Adcock Ingram, Logos and Tiger Foods.
Premier chief blows SA's trumpet

SOUTH and southern Africa offered almost unlimited opportunities and potential to visionaries in search of new markets, Premier Group chairman Peter Wrighton told an investment conference on SA in London yesterday.

Wrighton said SA was the most developed state in Africa with a First World infrastructure, and predicted it would become the gateway to Africa. "Sanctions, he said, had forced the country to reduce debt to a negligible amount so it had a balance sheet, as a developing country, of "admirable proportions".

Whereas SA's foreign debt stood at $22bn and Australia's at $46bn in 1989, the comparable figures were now $20bn and more than $100bn.

"We might well have compensatory growth to make up for the years of apartheid sterility.

"For this reason we are possibly one of the few areas of opportunity in a world facing a long period of recession," Wrighton argued.

Further, he noted, the UK already had nearly $60bn invested in the country and therefore had a very real interest in ensuring its success.

SA had great tourist potential, the world's greatest store of mineral wealth and abundant, cheap energy.

A further advantage, Wrighton said, was the country's "urbanising population which has long been exposed to a sophisticated media, high-tech industry and the failure of the rest of Africa as well as of communism."

Finally, compared with the rest of post-liberation Africa, SA had a far greater percentage of sophisticated non-black people — entrepreneurial people of skill and talent who had nowhere to go should the experiment fail.

"It is true there are safer places to do business; places where the risk, if any, can be clearly evaluated and the potential accurately measured."

"But... like the Pacific Rim countries before us, we have the will, the people, the resources and the infrastructure to join the world's winning nations," Wrighton added.

SA's future economic policy, he said, must address the imbalances of apartheid and the social requirements of a developing nation.

"But it will recognise the important role of private enterprise.

"The liberation movements are publicly recognising that slogans and protest marches will not fill stomachs, and the business community understands that economic and social justice are prerequisites to a successful SA," Wrighton pointed out.
SEVERAL London investment analysts believe SA offered better investment potential than Central Europe, President F W De Klerk said yesterday.

Speaking at the SA Britain Trade Association's (Sabora) 25th AGM in Johannesburg, De Klerk said this was because of SA's modern infrastructure, sophisticated stock market and banking system and its growing consumer base.

SA was believed to be one of the markets identified by the British Overseas Trade Board as a priority market for UK exports.

De Klerk urged British industrialists to plan for new investment in SA.

UK investors should not doubt SA would continue its reforms.

Recent estimates put direct UK investment at 40% of all foreign investment in SA.

Trade between SA and the UK was increasing, reaching nearly R2bn in 1989. The UK market would continue to grow in importance for SA.

The UK was SA's third largest trading partner and SA's biggest foreign partner in industrial development, technology transfers, joint venture operations and financial services.

De Klerk added it was now time, given that the economy was in a cyclical downsizing, for the private sector to look at the international market as a means of maintaining and even expanding output and sales instead of laying off personnel.

The economic downsizing should serve rather as an encouragement to step up research and development, product diversification and internationalisation of the market.
Steyn's trust seeks channels for investment

CAPE TOWN — The R22m Independent Development Trust is identifying institutions through which to invest funds and route some of its social upliftment responsibilities, chairman Jan Steyn said yesterday.

Addressing Cape Chamber of Commerce members, Steyn said the Loan Guarantee Fund established by the Urban Foundation and the Mortgage Lenders' Association to encourage lending to the lower end of the home loan market, was one institution in which the trust would consider investing some of the funds.

Others under consideration were the two new home loan financing schemes announced by the Old Mutual, in conjunction with the Urban Foundation, and the Perm.

He urged firms to assist the trust with ideas for investment.

"We face remarkable opportunities during the next three or four years of identifying ways in which our own organisations can make a contribution to the development needs of SA," he said.

The help of the church would be enlisted in rural areas where there were no organisational structures through which the trust could work.

But, responding to pressure for detail on how the trust planned to spend its funds, Steyn reiterated that it would not rush into projects and would resist pleas for handouts.
New Eskom rates will benefit firms

ESKOM yesterday announced new tariffs for big companies which will lead to savings in off-peak periods for these firms.

Speaking at Megawatt Park, Mr Andries Calitz, pricing manager at Eskom, said the demand for electricity varied during the day with high demand at peak hours - early morning and evening - and very low demands in the middle of the night.

Calitz said the new tariffs, called "time-of-use tariffs", would enable customers to shift their demands from high to low-cost periods resulting in substantial savings.

The transition to new tariffs will start next year and will incorporate tariff A, the main charge for large customers.

He said the transition is expected to be phased in over five years.

Eskom has held meetings with more than 1,000 representatives of its large customers to discuss time-of-use tariffs and, as a result of the discussions, several amendments were included in the final proposals.

Consultations with several customers' interest groups such as the South African Chamber of Business and the South African Institute for Electrical Engineers were also held.
Eskom launches new tariffs

ESKOM has introduced a tariff system which is likely to save commerce and industry R200m a year.

The utility said yesterday the savings would be passed on to consumers and would translate into a 5% reduction in electricity bills for various sectors.

In addition, night-only users would get a 50% reduction on their electricity bills in the long term, Eskom communications manager Johan du Plessis told a news conference in Johannesburg.

He said the new tariffs would offer customers the opportunity of shifting their electricity usage from peak periods to off-peak periods, thereby ensuring a more even demand over 24 hours.

The resultant shift in demand from high to low-cost periods, and growth in night demand, would lead to improvement in operating efficiency and capital savings, which would in turn reduce the average price of electricity in real terms, he said.

"An improvement in operating efficiency resulting from a 5% reduction in the maximum demand for electricity is estimated to save R200m per year in generation and transmission costs. This is expected to take five to 10 years to achieve," Du Plessis said.

"The demand for electricity varies considerably during the day and year, with high demand at peak hours (early morning and evening) and very low demands in the middle of the night.

"Because the cost of providing electricity varies from hour to hour, from day to day and from winter to summer, Eskom and its customers have recognized that hourly, daily and seasonal variations in electricity rates are necessary to reflect these changing costs."

Du Plessis said the new "time-of-use" tariff structure should create opportunities for new applications for electricity.

"Practical possibilities included night irrigation of crops, night-time heating of green-houses, off-peak foundry work and night storage heating."

AHI executive director Martin van den Berg said the new tariff system was welcome "provided it does not mean that ordinary (day) users will pay more".

The lowered costs would enable local business to compete better on the export market, he said.

While introducing new shifts would be inconvenient for workers, they would be paid more.

"It would also mean the creation of more jobs," Van den Berg said.
US firms can be proud of record here - report

Sowetan Foreign Service

FOCUS

The contributions of American firms to equal opportunity and fairness in the South African workplace is something about which the US can be proud, the State Department says in its latest annual report on South Africa and fair-labour standards.

The report, however, places 17 of the 85 US companies operating in South Africa "on probation".

This means the State Department believes these firms have met the basic requirements of prescribed fair labour standards, but have not made sufficient progress in the areas of employee training and advancement and in efforts to improve the quality of life outside the workplace.

The standards applied to the firms are based on the Sullivan Code which was developed to promote social justice and establish principles to guide US companies doing business in South Africa.

Standards

All US companies operating in South Africa must adhere to the standards, either by way of their participation in the Signatory Companies programme or by reporting to the State Department on their labour standards.

The majority of US firms operating in South Africa are exempt from reporting their labour practices to the State Department because of their achievements already sustained and maintained under the Signatory Companies (formerly the Sullivan Group) system of ratings.

Of the 27 companies which were obliged to report to the State Depart-

ment in 1989 (29 companies reported in 1988 and 31 in 1987), nine firms were judged to be making satisfactory progress, one more than the previous year.

Only one firm, National Utility Service, was judged to have failed to meet the basic requirements of the programme compared with two who received that rating last year.

Ineligible

This firm becomes ineligible for US government assistance to export its products and services.

The remaining 17 companies were put on probation (14 received the same rating in 1988).


Increase

According to the report, blacks, coloureds and Indians held a larger percentage of the total number of jobs in reporting firms in 1989 than in 1988, increasing their percentage of jobs held in a larger workforce from 55 to 59 percent. The average wage paid black employees increased by the largest percentage of any racial group, including white employees.

The 27 reporting firms also impressively increased their expenditures designed to help blacks, coloureds and Asians by 135 percent last year, the report added.

Reporting firms spent R140 an employee on employee training and education, non-employee education and community development programmes in 1989, a 120 percent increase.

Average

"The average amount spent by reporting firms on all programmes per non-white employee was R2191 in 1989," the report said.

The State Department said the number of US firms with direct investments and employees in South Africa continued to decline in 1989. At the end of the year, there were 85 firms registered with the Department of State under the South Africa Fair Labour Standards Programme, 12 fewer than were registered at the end of 1988.

Big drop

Registered firms employed 27918 persons at the end of 1989, 8775 fewer than a year earlier, a sharp drop of almost 26 percent.

Among registered firms diversifying in 1989 were several leaders in the effort to bring about positive change in South Africa, the report said.

It added: "In recent years, the departure of firms active in efforts to implement the Signatory Companies Statement of Principles for South Africa or the United States Government's Code of Conduct has removed some major influences for positive change in South Africa.

"In some instances, withdrawals have resulted in the loss of economic and other gains made by their non-white employees."

Example

"Education provides a good example. Some firms no longer in South Africa had annually awarded university scholarships to non-white South Africans. With the departure of the firms, these programmes have been cancelled by the new, non-US owners." The report said the US Administration continued to urge American firms still operating in South Africa to remain because it believed that US investment and business constituted a positive force for change in that country.

Let's stop deaths on the roads

SINCE the first car rattled down a South African street in 1896 we have created something of a nightmare.

Only four other countries kill more people on their roads. We have been killing 10 000 a year. This year we will probably kill more than 11 000. In addition tens of thousands of people, mostly young, suffer terrible disfigurements in road crashes.

There are new laws lined up. But laws are useless without a strong presence of law enforcers. And even traffic policemen can do little without tough courts backing them.

This is why Sowetan and The Star have got together and pledged to try to end the carnage.

Our campaign is called Look Alive! We need your input.

We'd like your views, your personal experiences.

The campaign may shock and occasionally anger, but its objective is to sound up new laws and more, to end the terrible aggression on our roads.

We will campaign until:

*Speeding is no longer considered macho.

*Drunk driving is seen as loutish and criminal.

*There are enough traffic officers.

*There is a national register recording every driver's reputation.

*Witwatersrand drivers learn to give way to others.

*Look Alive! will seek nothing less than to change driving attitudes, and save lives in the process.
Malbak chief warns of
‘excessive’ austerity drive

SYLVIA DU PLESSIS

GOVERNMENT’s austerity measures, while laudable in intent, are in danger of becoming excessive in execution, Malbak executive chairman Grant Thomas warns in his latest annual review.

While accepting the need to reduce inflation and maintain a disciplined monetary policy, he says real interest rates of about 7% are “harsh medicine” and will further dampen consumer spending and hence the economy.

“Indications are that the recession will deepen before it levels out and, in addition, the economy will be buffeted further by the oil price increase. The outlook for 1991 is therefore not an optimistic one.”

Thomas says directors of the industrial holding group anticipate lower earnings for the year ahead. But the extent of the reduction will depend on three factors which are particularly difficult to predict.

These are the timing of measures taken to alleviate fiscal and monetary policies, the international prices of oil and gold, and the extent of labour disruptions.

Malbak, whose subsidiaries operate in packaging and paper, engineering and mining supplies, branded consumer products, food, construction supplies and development, posted a 13% drop in earnings to 118,600; a share to end-August.

Dividends were kept at 32,50c, but cover was slashed to 3.9 (4.5) times.

Thomas says in his review the group has not escaped the ravages of the harsh economic climate.

“End it not been for the effect of increased taxes in a number of our companies, primarily due to assessed losses having been fully utilised, Malbak would have maintained earnings a share.”

It is also notable that the five major divisions which Malbak created through the consolidation and rationalisation of its various interests have held up well, he says.

“Together, these divisions constitute some 98% of Malbak’s total earnings and collectively, at the pre-tax level, increased profits by 2% while after-tax attributable earnings decreased by 5%.”

These results also illustrate the relative protection afforded a conglomerate by diverse and counter-balancing investments in an economic downturn, he adds.

“The fact remains ... a properly structured conglomerate with good underlying assets and effective management offers investors the benefit of shelter during bad economic times, and can perform well in good times.”
SA leaders fear economic decline

POLITICAL and business leaders generally expect a loss of control during SA’s transition phase, a new strategic planning survey has found.

The survey, released yesterday, also found that incidents of arbitrary violence were heightening fears of a chaotic transition and economic decline.

The Political Environment Survey was conducted by Idasa director Pieter Van Zyl Slabbert. Five Freedoms Forum president Michael Olivier, Strategy Computer Holdings MD Michael Charnas and Five Freedoms Forums Press officer Gael Neke.

Introducing the report yesterday, Slabbert said business leaders needed a thorough understanding of the trends and pressures driving development in SA to project future scenarios.

Conclusions

The authors combined their skills and contacts in politics, economics, business and technology to analyse the views of some 100 of the most influential leaders in the political, environmental, cultural and business arenas.

Cabinet ministers, MPs, academics, diplomats, educationalists, businessmen, newspaper editors and churchmen were among those interviewed.

The research conclusions include:

- Management fears loss of control of business and interference at executive level, while the ANC is aware of its own lack of managerial skills.
- Black business is apprehensive that the ANC has no economic base and no understanding of business and economics.
- They have taken extensive and positive steps to engage the ANC on economic issues.
- The business sector’s uncertainty about the future of SA has a direct impact on confidence and investment.
- New pressures evolve virtually daily as individual communities vote to reshape the political and economic future of our country,” Slabbert said.

The survey provides input to strategic planning for business growth and survival in a changing SA. In addition to dealing with the implications of government negotiations with the ANC, PAC and right-wing parties on local and foreign trade, it also discusses other topics such as environment, AIDS, labour unions and education.

THO RAWANA

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COMCON
and competition
The tricky issue

Kevin Dave
6/10/74

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Prospects in Study of Future

Strong optimism

MICHAEL ACOTT

10/29/1970
TWO senior SA Chamber of Business (Sacob) representatives will join ANC deputy president Nelson Mandela as observers at the 20-member Preferential Trade Area (PTA) meeting which begins in Swaziland tomorrow.

Observers said yesterday it was "highly significant" that the Sacob members had been included in the meeting, which will be attended by senior government representatives from eastern and southern African member states.

The ANC has had observer status on the PTA since its inception in the late 1970s.

The two Sacob representatives are its deputy director-general Ron Haywood and trade secretary Bes Robertson.

The PTA, established in an attempt to create a trade grouping of countries stretching from Ethiopia to Lesotho, has in the past shunned contact with SA.

Research director of the SA Institute of International Affairs Andre du Pisani said yesterday the inclusion of the Sacob representatives might be a reaction to the creation of regional trading blocks in other parts of the world and a fear of the further marginalisation of Africa.

He said the inclusion was a significant recognition on the part of the PTA that a future SA could contribute considerably to the region's development.

It was also a recognition that the influence of SA in the region was something with which the PTA would have to come to terms, preferably in a negotiated way.

Meanwhile, Sapa reports that early next year Cape Town Chamber of Commerce president Lionel Hartman will lead the chamber's first trade mission to the UK and Europe in more than a decade.

SABC radio news said the mission would spend a week in England visiting London, Manchester and Birmingham. In Germany the mission would conduct business in Düsseldorf, Munich and Hamburg.

Some members would also travel to Zurich.

Five years ago the Cape Town Chamber of Commerce trade mission visited the Far East.
Mystery piled upon mystery

Myriads of transactions — some possibly fraudulent and some involving foreign exchange irregularities — lie behind the JSE’s decision on Tuesday to suspend Norvic, Lanchem and Osprey.

Indications from the Reserve Bank are that an extensive audit trail (that could take weeks) will need to be done to unravel the complicated series of deals relating to a foreign exchange fraud of at least R$5 million.

It is to be hoped that long before that the position of parties such as Norvic and its directors will be clarified.

Norvic’s involvement in the case appears to stem from its relationship with Lanchem.

Lanchem has a 19 percent stake in Norvic, which it acquired when the shopfitter was listed in January.

As a result of the investigations Norvic has not only been suspended, but its bank account has been frozen.

Norvic MD Jock Flemmer and the company’s financial advisers (including bank manager) are meeting with the Reserve Bank today to clarify the situation.

In a letter to the Bank the directors of Norvic yesterday pointed out that the company had had no financial rand transactions.

“The only relationship which the company has is that certain of the parties subject to your investigation are shareholders. This is beyond the control of the company.”

Norvic, which was established in 1947, was a wholly owned subsidiary of Tradegro until July 1988 when there was a management buyout.

Apart from Norvic, Lanchem and Osprey, it seems that the investigation could also involve two cash shells — Meter Systems Ltd and Manserv — as well as several unlisted companies.

Lanchem has previously been linked to a number of unlisted companies such as The House of Investments, The Equity Participation Investments, Montrose Mining and Multi Gold Holdings.

At this stage the only apparent connection between the five listed entities is the speculation that (following the sale of control of Manserv to Financial Ltd), Manserv would be used to house investments in Meter Systems, Norvic, Lanchem and Osprey.

The investments involved were held by Financial Ltd and/or an associate company, Garditex International.

Naas Ferreira, who was acting for Financial Ltd in the acquisition of the Manserv cash shell, was yesterday released on bail of R$ 60 000 after being held in connection with an alleged R$4 million forex fraud.

The case was postponed to March 4 pending further investigations.

Analysts are puzzled about the nature of the alleged forex irregularities.

It does not appear to relate to share dealings in the three quoted companies as there has been relatively little trade in these shares.

But they point out that the situation is complicated by the numerous transactions involving cash shells, unlisted companies and the existence of overseas shareholders.
No easy route to success, says Jacobs Hall

KENNEDY

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No budget, no problems, say Jacobs Hall

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Aluminium, sugar let Tongaat down

A FALL in world aluminium and sugar prices has caused Tongaat-Hulett Group to forecast a 25% decline in attributable profits for the year to next March.

Profits fell by 24% in the first six months to September on a 3% rise in turnover.

Aluminium prices dropped dramatically in the past six months, resulting in a sharp decline in the division's contribution to profits. The plant is operating at capacity. But because about 38% of production is exported, profits were severely dented.

World sugar prices are now showing signs of recovery. The crop was also affected by a long winter drought. In the previous year, these two divisions contributed about 40% each to turnover and profits.

Borrowings

Turnover in the first six months rose to R1,9 billion from R1,3 billion in the first half of the previous year, but operating profits fell by 24% to R145,1 million from R191,8 million.

The interest bill increased to R49,3 million from R44,5 million after a rise in borrowings to R28 million from R25 million. Because of the seasonal nature of farming, it is expected that borrowings will be reduced to about R17.6 million by the year-end.

This left attributable profit at R61,5 million, down from R85,8 million, equivalent to earnings of 83c a share (115c). The interim dividend has been trimmed to 33c (26c), covering a reduced 5.5 times. The last interim was covered 4.48 times.

Aluminium and sugar were not the only divisions to be affected. The building materials division was hit by efforts to slow the economy, political uncertainty and township unrest as well as high interest rates.

The textile division suffered from a reduced demand for fabrics as well as large imports of fabric and yarn, the rise in cotton prices and labour unrest. This was particularly true at the Hebox plant, SA's largest denim manufacturer. Unrest at Meymalanga, where most of the employees live, caused production stoppages.

The food and starch and sweetener divisions increased their contribution to profits. However, it was insufficient to counter losses in other divisions.

SA is facing an uncertain political future and a depressed economy as well as worsening international situation, making it difficult to forecast earnings, say the directors.

But trading is usually favourable in the second half and they expect a modest improvement, resulting in a decline in earnings of about 25% for the year.

WEEK IN BRIEF

A SUMMARY of the week's corporate announcements.

MONDAY: Interboard tells members it has recovered assets held abroad, including 120,55 million shares. Buildcor to raise R15,7 million for R100 at 100c each. Interboard renounces its rights for R100. Durcor offer to minorities opens 19/11, closes 7/12.

Drop Inn's sale of property to Birk family approved by general meeting. Greenfield Property suspended.

Grovenwalk says agreement has been reached to dispose of a material asset.

TUESDAY: SA Brews and Nederov form Advantage Investment Corporation to serve clients.

WEDNESDAY: Safegro International Fund Management buys 49% of Mercantile Bank. Safstral shares relisted, members warned. Interboard members approve capital changes.

THURSDAY: Woodrow, which bought the assets of Meter Systems, including the rights to use the name, tells shareholders it is not connected with the listed cash shell Meter Systems.

Maxmech's controlling shareholders sell their stakes to Quad Industries at R1 10c a share, totalling R233,96 million. They will buy the assets for R500,000. Maxmech will buy Incom Industries from Quad for R3,96 million to be settled in shares and R500,000 cash.

Masterbore to raise R3 million through an issue of convertible debentures to reduce debt. Clagg warns.

FRIDAY: LDR for Focus dividend or bonus share offer is 7/12. LDR for Audiobuild, Absacu rights offer is 30/11. Audiobuild transacted listing statement appears.

Romens to raise R3 million through 13% convertible prefs 64 for R100 at 35c.

Fintech will acquire 80.1% of a joint venture with Alcatel worth R22.5 million by the injection of STC Business Communications Systems. Alcatel will put in R7.6 million cash.

DON'T CALL US
AFTER WE ARE
SOLD OUT!
Government should move to motivate industry, says report

A MAJOR policy report on technology says industry should be motivated to add more value to its products.

The move could be brought about by government lowering protection in a bid to stimulate competition.

This would oblige companies to invest in the development of new product and process technology, and to promote trans-sectorial adjustments away from artificially viable industries to activities with real comparative advantage.

The report, released on Friday by the Department of Trade and Industry (DTI), is intended to generate comment from the private sector to help government formulate policy.

The report says government should consider fiscal incentives to stimulate technology development in SA. Such development, which would increase SA’s competitiveness, should be market-led and initiated by the private sector.

In the longer term, government could take the lead and collaborate with the private sector to formulate a broad strategic plan to prepare SA’s economy for the 21st century. Government support should be confined to initial, temporary support.

The report also recommends that government promote technology transfer from abroad by creating a positive climate for investment through appropriate fiscal and industrial policy measures.

More specific strategies should be developed for beneficiation, value adding and accommodating the circumstances of a developing population in the technological environment.

Other recommendations include reorienting the education system towards technology, enhancing the interface between educational institutions and the private sector, and applying the public sector’s buying power to greater promotion of technological development.
Conference ends ANC’s isolationist policy

THE ANC’s weekend conference, Toward a Technology Policy for SA, effectively ended the organisation’s support of a policy favouring the international scientific community’s isolation of SA.

The conference was attended by about 150 people, representing public and private sector corporations and specialists from public research institutes.

ANC political committee secretary Mohammed Valli Moosa told the conference that senior officials of organisations such as Eskom and the Atomic Energy Corporation were discussing technological matters with the ANC was an indication of how far SA’s transformation had gone.

The ANC was hoping consultations begun by the conference would lead to the development of an SA technology policy. The ANC was “acutely mindful of the fact that economic growth is to a great measure driven by advances in technology”, Valli said.

Other groups and corporations represented at the conference included university-based scientists, Waste-Tech, ISM, the CSIR, De Beers, Sacy, the Chamber of Mines, Anglo American, the Development Bank of SA, Miniek, SA Housing Trust, Sasol, Foundation for Research and Development, SA Federation of Civil Engineering Contractors, HSRC, Bosch and AECI.

Prof C C MJojo, president of the Nairobi-based Network of African Scientific Organisations (Naso), said his organisation was awaiting signals from the ANC to begin interaction with SA scientists.

Valli told MJojo that the isolationist polli-
EUROMONEY CONFERENCE

Nafcoc maps out black advancement

CAPE TOWN — At least 30% of JSE-listed companies’ boards must be black, 40% of shareholders must be black, 50% of outside purchases must come from black-owned suppliers and 60% of top managerial and personnel must be black, a Nafcoc resolution states.

Nafcoc president Sam Motsumane told the Euromoney Conference yesterday this should be achieved within 10 years if not sooner to restructure the formal economic sector to include blacks in its ownership, management and operational activities.

He said Nafcoc had decided at a conference in September this would give expression and meaning to black economic empowerment.

While the business community was concerned at how a post-apartheid government would solve the problem of redressing the imbalances in the economy, it had a responsibility to make positive proposals as to how these could be redressed.

Other areas which required attention were black access to land and capital, labour mobility and access to education and training of good quality.

To attend to land ownership discrepancies, the Lands Acts of 1913 and 1938 had to be scrapped as well as the Group Areas Act. This step was already envisaged by government, Motsumane said.

The farming industry had to be de-racialised and black and white farmers be given the same recognition by government.

The various agricultural departments should be rationalised to ensure the optimisation of resources, and an appropriate funding structure established to help individual black farmers or syndicates to buy state or white-owned land.

The communal land tenure system in the homelands had to be revised to allow individual ownership and title to land, and new training centres for black farmers and farm managers needed to be opened to improve their level of performance and managerial abilities.

Black access to capital, while it had been improved recently, still suffered from the lack of collateral, fixed property or long-term investments.

On the education problem, he said to achieve satisfactory levels of economic growth SA had to produce the right quantity and quality of specialists, managers and leaders in every facet of professional, technical or academic education. The present system fell far short of meeting these demands. — Sapa.
Business ‘has a duty to be profitable’

THE first duty of business in the new SA was to be as profitable as possible, Barlow Rand CE Warren Clewlow said at the CIS Annual Report Awards in Sandton.

He said out of Barlow’s turnover of R26bn, R2bn was paid to suppliers, leaving a balance of R8bn as the wealth created. Of this, R6bn went to employees in the form of salaries, wages and benefits. With an employee base of 211 000 people, Barlow estimated that one million people depended on these funds and thus had a direct stake in the continued profitability of the corporation.

The balance of the surplus was distributed in the following way: R3bn to bankers and shareholders, R2bn retained to fund new investment and assets for future wealth creation, and R1bn to the state. So, he said, any reduction in profitability would affect all parties.
Anglovaal interims

ANGLOVAAL Holdings and Anglovaal Ltd have declared unchanged interim dividends for the six months to end-December, indicating that the group should maintain profit levels.

Anglovaal Ltd has declared an unchanged interim of 35c on its ordinary and N ordinary shares, reflected in Anglovaal Holdings' payment of 2.50c for its ordinaries and unchanged 35c on participating preference shares.

Both have reorganised their capital structures since last year's interim payments, and have declared interim dividends well ahead of their February/March publication date.

The unchanged dividends indicate results should be on a par with last year's. While mining income is expected to be lower, Anglovaal's industrial holdings should be doing reasonably well.
Nafcoc plea to firms

ALL companies listed on the Johannesburg Stock Exchange should have a board consisting of at least 30 percent black members, 40 percent black shareholders, 50 percent outside purchases must come from black-owned suppliers and 60 percent of top management and personnel must be black. Nafcoc president Mr Sam Motsumenyane told an international conference on South Africa's prospects in Cape Town yesterday. - Sapa.
Industrial liquidity declines

Finance Staff

There was a three percent deterioration across the board in the liquidity of the industrial and manufacturing sectors for the 12 months to August, Kreditinform's Kiss programmes show.

However, the number of liquidations is levelling off from a high in the first four months of the year.

But the dramatic increase in consumer and business judgments this year will inevitably lead to a higher number of liquidations in the first quarter of 1991, compared with the same 1990 period, says Kreditinform.

The Kiss (Kreditinform Information Sharing System) is an information exchange concept representing companies and credit associations supplying key sectors of industry.

Each month over R1 billion in outstanding credit is entered onto a database from debtors' ledger information supplied by member companies.

The all-industry Kiss index covers the clothing, textile, footwear, pharmaceuticals, engineering, radio, television and appliances, automotive, building, clearing and forwarding agencies, financial services, factoring houses and other sectors.

In August, Kiss totalled R1.66 billion in outstanding amounts due to the above sectors, with R336.8 million in Rand Value Overdue, giving an all-industry Kiss index of 31.7 percent overdue.

In August 1989, the all-industry Kiss index was 28.8 percent.

Of the individual Kiss programmes for specific sectors of industry, the radio, TV and appliances sector showed the greatest improvement, using the programme to keep overdue amounts down.
Sacomb seeks easing
of monetary policy

ANDREW GILL

THE SA Chamber of Business (Sacomb) yester-
day joined the growing chorus calling
for an easing in monetary policy, saying "it
is doubtful continued real benefit can be
derived from prolonging the level of string-

A 10-man Sacomb delegation met Finance
Minister Barand du Plessis in Pretoria
day, submitting a wide-ranging doc-
ument calling for, among others, an easing

A one percentage point reduction in
Bank rate (currently 16.75%) was not likely to
make consumers or investors "rush to the
market place", the document said.

It could, however, reduce the need for
stress borrowing, have a beneficial influ-
ence on cost structures in the private sec-
tor and reduce the interest element in
government expenditures.

Included in the Sacomb delegation were
theorganisation's president John Hall and
director-general Raymond Parsons.
Finance Department director-general
Gerhard Groser also attended.

Sacomb was in the grip of a recession of
serious proportions which could last well
into 1991, the document said.

The possibility of an over-zealous ap-
proach existed, and a continuous critical
but responsible review of all policy mea-
sures was called for by the "obvious socio-
political circumstances in our country."

The inflation rate was likely to resume
its downward trend once the "shock
waves" of high fuel prices had subsided
and, barring any further fuel price hikes,
could fall to 15% by the middle of next
year.

Once there was certainty about the re-
sumption of the trend prior to the oil crisis,
more grounds for the relaxation of the
strict monetary policy could have been
reached, the document said.

Sacomb's economic outlook for 1991 was
that - even if the cycle reached a turning
point in the latter part of 1991 - gross
domestic product growth was likely to be
zero.

In times of declining growth two reasons
for government frugality arose: lack of
revenue growth would be experienced in
the absence of the general upward adjust-
ment in tax rates, and a need to preserve a
balance between the size of the govern-
ment and the rest of the economy would
become evident, the document said.
As corporate profitability plunges, it's not surprising that calls by the business sector for lower interest rates are becoming more strident. Recent company announcements leave no doubt that — in spite of what was generally considered to be a tightening of corporate asset management in the late Eighties — interest charges are uncomfortably adding to the squeeze on operating profits of rising costs and keen competition in the marketplace.

And bear in mind that most company announcements so far relate to periods ending no later than end-September. In the past two months, conditions have certainly worsened.

Consider, too, that by any historic standard real interest rates are abnormally high. With inflation (stripping out the oil crisis) at 14% and nominal prime rate at 21% (and who pays prime now, anyway?), the real prime rate is 7% — close on double what was for centuries considered a “normal” real interest rate.

Trouble is, we are not in normal times. The aim of getting inflation back to single digits by the end of next year has been tacitly abandoned — and heaven only knows where inflation will head for if a “new SA” emulates the profligacy and corruption of the independent homelands. Even more important, there’s little sign that inflationary expectations have yet been scaled down.

(In parentheses, those who’ve looked at events in Swapo-ruled Namibia as an encouraging portent for us must be deeply disturbed by the premature departure of the IMF-nominated governor of the Namibian central bank because of interference from the finance minister.)

But that’s not the worst of it. The world is both headed for economic downturn (which should lead to lower interest rates but has horrifying consequences for our balance of payments) and entering a war psychology over the Gulf (which is keeping interest rates up worldwide and has even more horrifying consequences for the balance of payments).

Neither Stals nor the FM are — we hope — masochists. The state of the business cycle on its own would already justify a cut in interest rates, but it’s not the only issue. Our bet is that we’ll have to wait until just before the Budget for a modest cut and that anything sooner would be premature.
E PURGE ON HOLD

sible for regulating the use of radio frequencies, introduced fines of R2 000 and R10 000 for people caught using or selling illegal cordless phones. Then, a few months later, it announced that it would approve the sale of cordless phones for the first time, but only 900 MHz devices that met its specifications.

The technology used in these high-frequency products means they are considerably more expensive than the phones which operate on the lower frequencies.

Telephone Manufacturers, the sole supplier of standard telephones to the Post Office, is the only company that has so far been granted approval to sell its 900 MHz cordless phone. The public outcry over the cost of its Uniden phone is understood to have deterred other companies from applying to have other 900 MHz phones approved.

The delegation due to meet Post Office officials this week is expected to challenge claims that 46/49 MHz cordless phones interfere with other radio equipment or impinge on the frequencies used by various emergency services. These phones are used in the UK, US, Canada and Australia as well as SA.

Adding weight to calls for less restrictions in the cordless phone market is DP MP Tony Leon who has slammed the Post Office for its "sod the consumer attitude." Leon, who claims to have used a low-frequency cordless phone for five years, believes the current regulations are unnecessary and ill-conceived. He plans to take up the matter with the minister responsible for the Post Office, Dawie de Villiers.

If the Post Office relents and allows the use of 46/49 MHz cordless phones, it will deliver a severe blow to Telephone Manufacturers. The company, owned by the local subsidiary of GEC, has spent more than a year preparing to enter the commercial market with the Uniden.

At the time of the launch last month the company expected to sell 10 000 machines in the first 12 months. Marketing manager Peter Johnson says the company is still on course to meet its projections but is negotiating with its local supplier to reduce the cost of the machine. The current landed price of the phone, including import tariffs and surcharges, is about R1 650.

ANC political committee secretary Mohamed Valli Moosa told delegates at the organisation's technology policy conference in Johannesburg at the weekend that the ANC would react to the draft policy within the next few weeks. The ANC's response is expected to be strongly influenced by the discussion at the conference.

The event, described by Valli Moosa as the ANC's first step in drawing up a technology policy, attracted more than 150 academics and industrialists. They included senior representatives of the SA Chamber of Business, CSIR, Foundation for Research Development and the Atomic Energy Corp, as well as the German Ministry of Research & Technology and the Network of African Scientific Organisations. Thin on the ground, however, were people from outside business and formal research organisations.

Many delegates were surprised that the ANC should bother to include science and technology in its political agenda.

"The mere fact that they are talking about technology is great," says SA Engineering Association president Roy Marcus.

His enthusiasm is understandable. Though the application of technology has a tremendous bearing on industry, employment, education, health care and indeed the whole economy, government is only now acknowledging its importance.

Trade & Industry Minister Kent Durr hopes to establish a formal technology policy by early next year. Until recently, government's main concern was simply to ensure that the country was as self-reliant as possible. Technology spending in the public and private sectors was largely concentrated on armaments, petrochemicals and atomic energy.

"A far wider and more efficient application of technology is the aim of both government and the ANC. Both stress the implementation of such a policy requires a balance between State and private sector participation - though views on the extent of this partnership are likely to differ considerably. The details of such policies remain vague."

CSIR president Brian Clark points out, for example, that much of the Trade & Industry document goes over old ground and the real test of its worth will be how it shapes government policy and whether this policy is implemented.

One delegate remarked he had reservations about some recommendations in the Trade & Industry document but was wary of criticising it too sharply for fear that this could scupper government's plans to establish a technology policy.

Then again, much the same could be said of the ANC's initiative.
SOUTH AFRICA hopes to tap into the billions of rand of aid money that pours into Africa every year and boost its trade with the rest of the continent.

This emerged at the announcement this week of a conference, "Scenarios for a sub-continent", which is being arranged by the South African Chamber of Business (Sacob), the South African Foreign Trade Organisation (Safico), the National African Federated Chambers of Commerce (Nafcoc) and BMW SA.

SacoB deputy director general Ron Haywood said this week at the announcement of the two-day conference in March next year on forming a Sub-Saharan common market that South African exports to Africa amounted to only 10 percent of total exports.

The potential for expansion is therefore enormous.

Safico chief executive Wim Holtz said South Africa's trade with Africa rose by 40 percent last year and now amounts to $5.5 billion a year in goods and services, both direct and indirect, most of this in cash or cash equivalent.

A knotty problem in exporting to Africa has been the lack of foreign exchange.

South African business has come up with a number of suggestions on how to overcome this, the best-known being Eskom's vision of buying hydropower electricity from countries to the north to give African countries air forces to buy South African goods.

Holtz mentioned another source of money. He pointed out that as doors open for the South African business community in Africa, foreign aid is becoming a viable alternative financing source. It is a major support mechanism for most African countries, with the continent as a whole receiving a total foreign exchange inflow of around R40 billion a year.

However, he said, aid organisations abroad are increasingly aware of the need to "mix and match" their available funding with local business initiatives in Africa, enabling, for example, soft loans or grants to be used on infrastructure and human resources components and commercial credit facilities on the commercial portion of the projects concerned.

Local business groupings are hoping foreign aid money comes our way in a post-apartheid South Africa, and we can normalise trade links with the rest of the continent, reports REG RUMNEY

Former Anglo American chairman Gavin Rellly said an investment conference in London recently that with the independence of Namibia and renewed interest in South Africa the focus of the World Bank and other development agencies in Africa was moving southwards.

South African expertise, he said, could ensure the success of projects. When aid is tied to bilateral trade even modest participation by South Africa could be worthwhile. Moreover such participation can occur without running the risk of lack of finance.

At the press function to announce the conference, Haywood said putting into practice the idea of an African or even Southern African version of the Common Market was far off. But greater regional co-operation, including South Africa, was clearly possible.

The announcement of the conference comes after the launch by the Southern African Preferential Trade Area (PTA) at its ninth summit of a monetary harmonisation programme which it is hoped will lead to a monetary union. Sacob and Nafcoc are being given observer status in the PTA.

The Southern African Development Co-ordination Conference (SADCC) has also indicated it would accept a South Africa free of apartheid.

Holtz said South Africa already had indirect trade links with most African countries, and especially Zambia, the Congo, Mozambique, Malawi, the Ivory Coast, Zimbabwe, Zambia, Seychelles, Mauritius, and the Comores. Clearly it has strong ties with Botswana, Namibia, Lesotho, and Swaziland.

Recently South Africa has started trading with Madagascar, Burundi, Rwanda, Kenya and Angola.

This bloc represents a total population of some 150 million people and a gross national product of $93.4 billion.

Rellly also pointed out in his speech that in a world moving firmly towards the establishment of large regional trading blocs there was a need for a common market in Southern Africa.

But he advised an evolutionary approach.

Rellly said that instead of trying to achieve a common currency — which must be a distant goal — a more modest aim should be harmonising investment codes so that the foreign investor could look to the regional market rather than just the one national one.

In turn this would require serious attention to the difficult problem of tariff barriers between countries; incremental progress on bilateral rather than multilateral bases was probably all that could be expected in the short term.

Attention would be needed also in areas such as exchange rate reform and improved regional infrastructure. Attitudes in the region, said Rellly, were conducive to all of these reforms being far more realistically tackled than before.

Rellly was also of the opinion that South Africa was sensitive to fears that it would swamp all the smaller economies.

That is one of the reasons why important South African leaders such as Simon Brand, the head of the Development Bank, advise the incremental approach on institution building. Hence both the South African Customs Union and the SADCC are likely to co-exist for some time to come.

South Africa possesses important advantages for trade with Africa, Rellly said. These include:

- An appropriately valued currency.
- Proximity to African markets.
- African know-how — this is especially important in agriculture, veterinary services, technical expertise such as construction and mining and training.
- With the exception of Angola and Mozambique, South Africa shares all of Southern Africa a history of British rule. It therefore enjoys a common legacy of legal, administrative and commercial practices and traditions, and less of which is the ability to speak English.
- Our African identity. We are an integral part of Africa and therefore we are perceived as different.
Review of Economy

Import substitution is strewn with pitfalls

While the idea that protectionism can lead to import substitution has been around for a long time, the reality of it has been less successful. In the African context, this is no different. The African continent has been trying to industrialize and reduce its dependence on imports, but the results have been mixed. The main issue is that the economies of many African countries are not diversified enough to sustain such a process. In addition, the lack of infrastructure and capital has made it difficult to attract investment. Finally, the lack of skilled labor has also been a problem. Despite these challenges, there are some success stories. For example, South Africa and Egypt have been able to reduce their dependence on imports. However, these have been exceptions rather than the rule. Overall, import substitution remains a difficult and often costly strategy for African countries. It requires a lot of planning and coordination, and it is not always successful.

Import substitution has been an important feature of economic development in South Africa, as noted in the passage. This is because South Africa has a large manufacturing sector that is capable of producing many goods. However, the success of import substitution depends on several factors, such as the level of protection, the availability of skilled labor, and the overall economic environment. In the case of South Africa, the government has implemented various policies to promote import substitution, such as import duties and subsidies. However, these policies have not always been effective, and South Africa still depends on imports for many goods. In the end, the success of import substitution depends on a combination of factors, and it is not a panacea for economic development.
Bank unveils policy on corporate debt

CORPORATE treasurers have expressed deep concern over the Reserve Bank's draft policy on a regulated corporate debt market inssofar as it prevents companies from competing with banks on short-term funding.

The policy was unveiled yesterday by Reserve Bank researcher Nico Marais, in an address to the Association of Corporate Treasurers of SA (Actesa).

A corporate debt market permits companies to effectively borrow and lend from each other through the issue of marketable commercial paper without having to go through a bank — a process known as disintermediation.

SA corporates, facing a lack of appropriate funding methods, are keen on disintermediation because they say it costs too much to obtain certain forms of short- to medium-term funding from the banks.

Marais said disintermediation at the short end of the market — under two years — would hurt banks' competitive position.

He said the Reserve Bank was "not comfortable" with it because there was already strong competition in the banking sector. "We would rather give the banks protection in this area."

A banking representative said he did not think banks needed this protection, a point endorsed by First National Bank group treasurer Ken Russell, who said he thought two years was "a long time."

Derek Ross, a London partner of chartered accountant Touche Ross, said he could not see the rationale for protecting the banks in this way.

Ross, who spoke on the UK's £8bn commercial paper market prior to Marais' presentation, said the Bank of England had also unsuccessfully tried to keep corporates out of the short end of the market.

"The UK commercial paper market only really took off once this restriction was removed. Apart from this key point, I think the Reserve Bank's position paper is an admirable initial discussion document."

This was endorsed by Actesa technical

Debt policy

"Committee chairman Tom Makinson.

He estimated that a commercial paper market could be worth as much as R10bn, based on a likely market of 100 companies each having a net worth of R100m and 50% gearing.

"The Bank's draft position paper, or an amended version of it, will be incorporated into regulations falling under the Depositing Institutions (DTI) Act."

"Besides the controversial point that commercial paper and debentures issued may not be for an initial period shorter than 24 months or any renewal period shorter than 12 months, the draft policy highlights other key areas."

These include the requirement that issuers be listed JSE companies with a minimum net worth of R100m, that investors be JSE-listed or, if unlisted, registered financial institutions. Minimum issue sizes range from units of R500 000 to R1m.

"The idea is to limit the market to triple-A players," said Marais. "We wouldn't want the public to be involved."
## TOP 100 COMPANIES

Ranked by taxed profits (R000s)

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<tr>
<th>No</th>
<th>SHARE NAME</th>
<th>AMOUNT</th>
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<tbody>
<tr>
<td>1</td>
<td>De Beers</td>
<td>4 078 000</td>
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<td>2</td>
<td>Anglo American</td>
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<td>3</td>
<td>Gencor</td>
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<td>Sasol</td>
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<td>5</td>
<td>Iscor</td>
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<td>6</td>
<td>Barlows</td>
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<td>Remgro</td>
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<td>8</td>
<td>Amic</td>
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<td>9</td>
<td>SA Breweries</td>
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<td>Toyota</td>
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51 Sentrachem.......................... 111 700
52 Dorbyl.................................. 110 176
53 Anglo-Alphad.......................... 108 805
54 PP Cement.............................. 108 700
55 Consol.................................. 100 517
56 HLH...................................... 99 071
57 Rusfurn.................................. 93 114
58 Blue Circle............................ 88 066
59 Distil.................................... 87 141
60 TSI....................................... 86 789
61 Rainbow.................................. 85 437
62 W&A...................................... 82 975
63 Pick 'n Pay.............................. 82 300
64 Afox..................................... 82 171
65 Tremcor................................. 81 530
66 Haggie................................... 77 853
67 Pepkor................................... 73 683
68 Holdains................................. 73 343
69 Reunert.................................. 73 300
70 CMI...................................... 70 995
71 Atttech.................................. 70 502
72 FSI...................................... 64 739
73 Confram................................. 63 681
74 D&H...................................... 62 630
75 Da Gama................................. 60 484
76 Hunts.................................... 60 336
77 I&J....................................... 57 753
78 Argus.................................... 56 462
79 SFW...................................... 55 645
80 Foscini.................................. 55 070
81 ICS...................................... 53 459
82 Metkor................................... 52 215
83 Romatex................................. 52 200
84 Plateglass.............................. 51 483
85 Messina................................. 49 945
86 McCarthy............................... 49 927
87 Adcock................................. 49 408
88 Elcentre................................. 48 932
89 Fedfood................................. 48 538
90 ABI...................................... 46 607
91 Afocol................................... 46 561
92 CHA Callo............................... 45 212
93 Transun................................. 45 089
94 Gentyre................................. 44 174
95 Altron................................... 43 500
96 Keeley................................. 42 647
97 Frame.................................... 42 110
98 RIH...................................... 41 500
99 Homemaker.............................. 41 212
100 SA Drug............................... 40 468

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**Anglo dwarfs the lot**

DE BEERS and Anglo American are by far South Africa's most profitable companies. The two hold associate stakes in each other, so there is clearly a bit of double counting. But it does not amount to much.

With JCI, Amic and SA Breweries also in the Top 10, this table serves to stress the extent to which Anglo dwarfs all others.

Under Derek Keys, SA's No.2 mining house Gencor, has done some dramatic catching up to take third position. Samancor, Impala and Sappi bring Gencor's total in the top 11 to four.

Some company chairman will fume at this list because they will recall that their bottom line was slightly different.

That is because for most companies we have excluded from earnings previous-year adjustments, gains and losses on sales of fixed assets, investments, currency movements, all non-operating or extraordinary items and investment allowance benefits.

Unfair

We have deviated from this rigour in regard to September reporting companies. We believe it is more important to have up-to-date numbers than to wait for annual reports in order to be consistent to the nearest R1-million.

Some Barlows-controlled companies therefore have something of an unfair advantage — some, not all. Barlows itself, Nampak and Robor actually reported lower earnings this year than last.

First National also benefited from late inclusion, moving up within splitting distance of great rival Standard Bank Investment Corporation.

Nederco was also included at the last minute, but thanks to a national tax provision and the R33-million loss in UAE, its earnings gain was only 12%, so it did not move much. Were it not for these things Nederco could well have been ahead of its rivals.
DERISION has greeted Sam Motsuenyane's demand for a radical programme of affirmative action.

The president of the National African Federated Chamber of Commerce (Naflco) told delegates at the Euromoney magazine conference in Cape Town this week that his organization had resolved that within 10 years:

- All companies listed on the JSE must have at least 50% of their black board members.
- At least 40% of their total workforce must be controlled by the black community.
- At least 50% of the value of their outside purchases must come from black-owned suppliers and contractors.
- At least 50% of top managerial positions must be held by blacks.

Guidelines

Business leaders said the demand was totally impractical, and the Financial Mail wrote that "it is difficult for us to reconcile Naflco's desire for economic growth, backed by the efficient allocation of resources, with its willingness to see both processes imperilled - at obvious cost to black job creation - by the application of racial quotas to the running of quoted companies".

It said: "The object of a free SA must be to ensure that wealth and income flow to those with merit - not to those with a certain skin colour."

But Mr Motsuenyane says there is no need for alarm:

"These are merely guidelines. We do not aim to dictate to business. Instead, we would like to work with them on issues that need to be addressed."

"We certainly do not want to see tokenism or promotion without merit. We do want more education and training and a more formal inclusion of blacks in the economic structure."

JSE president Tony Norton says the 10-year target is ambitious.

"The concept of black involvement is not only laudable morally, but physically essential. However, you cannot have a public market with a quota of shareholders. That is self-defeating."

"On the other hand, we would be delighted if, through natural economic forces, the number of black shareholders increased."

Mr Norton believes revolutionary change should be avoided.

"I am an evolutionist. Change is necessary, but we need to avoid excesses."

Jimmy McKenzie, senior general manager at equal-opportunity-employer First National Bank, says the bank has been on the course suggested by Naflco for many years.

The bank employs 25,000 people, 40% of them black and 560 in managerial and supervisory roles.

"It takes about 10 to 12 years to train a young person to become a competent banker. It does not happen overnight."

"For companies starting now, there will necessarily be a long catch-up period."

SA has had growth of less than 2% for the past decade. It is locked into a recession where retrenchments are more the rule than the hiring of people.

Mr Motsuenyane says: "I believe R5-billion needs to be allocated to education and training."

"That is three-quarters of the Budget and sounds implausible. But over 10 years at an additional R5-billion the figure becomes less daunting."

When sanctions are dropped, the cost of servicing foreign debt will fall. When duplication in the public service ends, the money saved should be spent on priority issues like education.

Agent

"We need to persuade the private sector and the Government that we need an active programme. I hope companies will show an interest."

"Since the mid-1970s, the private sector has been an agent for change. But it is expected to do much more."

"This is a Naflco initiative and we have not consulted the ANC about the issue. However, we will talk to it."

Asked whether the 40% black shareholding figure is not unreasonably high, Mr Motsuenyane says: "Blacks will soon represent 45% of the population with whites only 16%."

"If we don't do something, white economic domination will supplant white racial domination."
Letters are on page 25

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The government has been
A 10-year golden thread of success

FORGET blue, these stocks are solid gold. For the past decade only seven of the more than 700 companies listed on the JSE have appeared in Business Times Top Companies List every year.

The seven star companies are Suncrush (No 14 in this year’s list); Trencor (2); Saficon Investments (16); CNA Gallo (13); Cadbury Schweppes (South Africa) (23); South African Breweries (25); and Anglo-Alta (62).

Each year for the past decade the seven solid performers have consistently turned in results better than the average, no matter the state of the economy.

It is small wonder their shares are investor favourites and are tightly held.

In the decade the company which has achieved the highest average return for investors in the survey’s five-year period is soft-drink bottler Suncrush, which has its headquarters in Durban.

In the past 10 years, Suncrush has recorded a return (capital appreciation plus dividends) which has never slipped below 33%. It rose to 61.7% in 1995.

Next on the list of steady performers is Trencor, the

LONG TIME WINNER: Saficon chairman Sidney Barsook.

Cape-based investment holding group with large transport interests. Its five-year returns for shareholders in the past decade ranged between 21.6% to this year’s 74.5%.

Support

Not on its heels, and dispelling the myth that motor shares are cyclical, is vehicle retailer Saficon Investments, which returned a low of 18.5% in 1988 but hit a high of 83.9% in 1989, the best five-year return of all the seven companies in the past 10 years.

Cadbury Schweppes and CNA Gallo’s consistent returns support the view that South Africans are becoming more hedonistic and spending a larger proportion of their disposable income on “having a good time”.

With this in mind, it is also not surprising to find the sixth slot filled by SA Breweries, which has returned between 20.8% and 43.7% for its shareholders in the past 10 years.

The only other company to make the Top 100 each year for the past decade is Anglo-Alta, the cement and quarrying giant. It has turned in consistently better-than-average results since 1981 — from 13.4% to 48.7% for the five-year return.

Closely chasing these excellent companies — with nine years in the Top 100 — is another group of stars: Chemical Services, Consol, Foschini, Gold Fields of South Africa, McCarthy’s and Toyota. Those with eight years in the sought-after ranking are Anglo-Austral Industries (formerly South Atlantic), Argus and Waltons.

For those looking to invest in top companies which offer a consistently above-average total return look no further than this group of top companies. Their records speak volumes.
Salad days for conglomerates

THE three biggest companies by turnover are all conglomerates. The second biggest is actually a subsidiary of the biggest and No 5 five is a subsidiary of No 2 — so we are looking at considerable double counting when we consider the supergroups.

Hence the decision by huge companies, such as Anglo American, Rembrandt and Gencor, not to report turnover at all. That is the great deficiency of this list.

In the top 25 companies by sales, no fewer than 12 are conglomerates.

Fourth in the rankings is De Beers, SA’s biggest single-product company by far. The next biggest, which is not a holding company for numerous interests, is Iscor, followed by Gencor’s new arm in energy, Engen. With synfuel accounting for by far the most profits, Sasol could be described as focused, as can Pick ‘n Pay.

Gold mines are not included. If they had been, the list would have looked slightly different because any mine producing 16 000kg of gold would have made the list.

One could argue that premium income of life companies amounts to turnover and that these should be included. We have left the life companies out, however, because the movement of pension-fund money distorts things.

For interest sake though, both Old Mutual and Sanlam reported total income above R10-billion, Old Mutual R106-billion and Sanlam R104-billion.
He's quite happy about debt

JEFF LIEBESMAN is relaxed about the question of debt, pointing out that interest cover in W&A last year was 4, which is not much different from Barlows.

Pro-forma audited figures show shareholders’ funds of R1,727-million. Long-term debt of R293-million and short-term debt of R150-million make a total of R791-million. That is only 62% of equity.

Then there is R132-million of cash, making net debt R659-million and net debt:equity 52%.

In equity are convertible debentures of R283-million. As they are compulsorily convertible and therefore permanent capital, only their coupon and their tax deductibility makes them different from ordinary shareholders.

Some analysts would eliminate intangibles, such as goodwill, trademarks and patents (R381-million). Mr Liebesman makes the point that in that case, they must revalue fixed assets to the values established by an independent evaluator. That would increase fixed assets of R777-million by at least R359-million.

He points out that R122-million, or 61%, of W&A’s profits are in cash. In fact, discretionary cash flow could theoretically repay all debt in 2.5 years.

There is a fair amount of debt in top company FSI, but Mr Liebesman says it, too, is comfortable.

The cash-flow diagram shows that cash and interest income at R68.8-million comfortably cover outflows in the form of interest and dividends.

The ordinary dividend is covered comfortably times by inflows.
Durr puts business touch to diplomacy

KENT DURR believes he is "well equipped for my sideways move to London -- a post as important as any in the Cabinet."

The Trade, Industry and Tourism Minister will become SA Ambassador in London next year.

Mr Durr says: "This is not only a classic diplomatic post, but a commercial and financial position. Britain accounts for 40% of total investment in South Africa, and is the hinge on which the European door swings for us. "I know all the London bankers and other major players."

**Trips**

Mr Durr has been at his present post for more than a year. He has been Deputy Minister of Finance and Deputy Minister of Trade and Industry.

He says: "I helped shape government policy, with the full support of the State President, to make industry more competitive at home and abroad."

Mr Durr rejects rumours that the Board of Trade and Industry is to be scrapped and that he was involved in a squabble with the Department of Foreign Affairs.

"The board was established by Parliament and Trade and Industry has been streamlined to make it more efficient. The relationship with Foreign affairs is good, and we work well together. All trips by my department are cleared with Foreign Affairs."

Mr Durr says he played a major role in normalising trade relations with traditional markets, and capitalising on President De Klerk's political moves.

**Ear**

Mr King says: "We have argued with Mr Durr and have said that the Government will rue the day they started this. One cannot change political and social stances quickly, and assist parts of industry but not others."

"I don't know of any coordinating policy between the different departments and one gets a sense of vacillation and ad-hocery."

Textile Federation director Brian Brink says the "Government does give us a sympathetic ear, but whether this gives us a warm feeling ..."
Man of Year FW puts business on high road

By DAVID CARTE

Feted

But the economics is that, even though it is strong, this is a more hope- ful road than the previous one.

Turning to private-sector bosses, Business Times has already found its top five independents of the year: Neil Chapman of Southern Life, Bobby Godall of Anglo American Corporation, Vic Buhler of Randhof and Michael Lewis of the Rand Group. As noted last year, they have also been the subject of some criticism.

In mining, there were many men to find the same basic gold in their operations. And the same is true of those who might be more interested in the mining of gold.

A colleague on the phase out of mining. Peter Flack of Fraser Alexander, has moved to a new position. Nell and Cecilia Hewett have worked miracles in the past eight or 10 years with Treasure.

Thanks

The efforts are being emulated by other mining houses.

Man of the year in banking must surely be Barry Swartz of First National Bank.

He has taken over from Chris Ball, who Swartz claimed profitability at the expense of saving.

Costs were cut and revenue maximized and his reward has been a beaded profit close to Standard Bank Investment Corporation's and the biggest rise in any bank's share in the past year.

Other bankers who caught the eye were the aggressive team of Les Kriel, Bernard Kantor and Steven Koseff at Investec.

They shrugged off difficult times in their bid for the Bank of Execution to achieve new levels of profitability.

FREDERIK WILLEM DE KLININ

ECONOMIC FOUNDATION NEEDED

Pete Lloyd's team in chief, division of SA Breweries, Graham Macdonald, Peter Schuster and John Sheehy - are almost instant hits with their management teams of board Gum.

They are bound to be the beneficiaries of a regulated market, but the bankers are gradually producing liquidity to meet future needs.

Robin Hamilton's shrewd transactions gave SA Breweries in the top $200m of the Business Times rankings last year, but after the advent of the new market, things have been dramatic.

Peter Swartz has sworn he would do their duty and different from high-quality blue-chip rating.

Eric Ellis, the father of the furniture business that we have an outstanding career, cashed this year with the best performance by any share on the JSE.

Wheels of Anglo-American, which has been top company this year, and had enough shares traded.

The superlative track record competition and the demonstrative figures at John Nash and his fami...
Dramatic

Like Vic Hammond, Peter Wrighton is an unassuming man who stepped into high-profile shoes when he took the reins at Premier Group. His achievements since then, starting with the stripping out of Premier's SAB shares into Bevcon, have been dramatic.

Premier actually narrowly outperformed its high-performance rival Tiger Oats in the five years to September.

Peter Joubert has wrought heroic deeds in winning for Afrox top-quality blue-chip rating.

Eric Ellerine, the father of the furniture business who has had an outstanding career, capped this year with the best performance by any share on the JSE.

Winky Ringo's Mathieson & Ashley, holding company for Dashing and Anglo Dutch office furniture, would have been top company this year, had enough shares traded.

The superlative track record was dented by rising competition and the downturn this year.

John Nash and his famous world sprint record-holding son Paul of Sable Holdings had an outstanding year with operating profit up from R477 million to R156 million. At the interim this year it seemed they might actually improve on last year.

Success

Meanwhile, the UK Nash family has made important gains in its battle to wrest control of Goode Durrant from the Waring family.

Myron Berzack and Stanley Ilman of Berzack Brothers and the Mowzowski brothers at Elecentre pooled their electrical interests in R2 Cables and renamed the R1-billion-a-year company Voltex a year ago.

The venture has been an unqualified success and Voltex beat all its forecast numbers.

Neil Cullinan, Gavin Urschult and friends have scored a great coup in Industrial & Commercial Holdings (ICH), beneficial holder of a 12.5% stake in Saturn Mining, which holds the rights to precious stones at Venetia mine in the Northern Transvaal. ICH gave shareholders a return of 98% in the past year.
Jeff makes light of a minefield adventure

By David Carle

OTHERS may have doubts, but Jeff Lieberman has none about where he has come from and where he is going. His analysis, brought up to criterion, er, Mr. Lieberman and his hand-picked lieutenants — the best support anyone could want — stride boldly into the minefield of commerce and industry, boldy but not without shunting things through carefully.

Their boldness has paid off. In fewer than 15 years, FSI Group has become one of the top 10 groupings in Britain.

The group was restructured this year. All operations are carried out at the Southam Times house top company WAA, and FSI is merely a pyramid. WAA has a market capitalisation of £106 million and comprises four divisions and numerous companies, 10 of them listed in the Top 100 Companies. Mr. Lieberman and team have have come so far so fast. No one is watching. Others have ventured where they have dared — and have usually been destroyed. The survivors at FSI move forward purposefully.

There are no complaints about FSI and WAA from the dealers. One is that they keep changing and that the ampersands, blue and black, selling them, moving assets from another company to another can put FSI a bit of a bind during. You can't keep up with them. There's too much... quite a bit of it.

The minefield waited, not down in the pit, but out here for the dealer. It is not that the dealer wants to dominate a niche in that indus- try, and changes in ownership and position. Some ex- ample is the former Northumbrian National Bank. We try to get to get reasonable market share, as we did in Continental Tyres. We pushed hard into the re- selling industry. We try to get to the customer. The final step is to get to the buyer, the companies in the same field already have.

"The way the top 100 are run, our preference is for companies that serve the growing middle- and lower-income groups. Examples are the JD Group, Edeards and the sports company. The top six numbers of the top 100 are — Terry Biddle, Neville Cohen, Sean Fenn, Alan Greenspan and himself — have accounting backgrounds.

But there are a few who are very much distributists as well. They may be financially tight, but they have acquired the experience and respect for engineering. Examples are the Government's Gloucester, JD Group's David Lehman and Leo Kant, also of the group.

Mr. Lieberman says: "Starting with Form-Scaf, we have formed several manufacturers of relatively low-tech products, things that people will need now and in the future."

"In all, our industrial companies, there is strong design ability. We have pro- duced a number of systems that dominate larger units..."

"Many of our factories are generating for the SANS 0117 standard. We try to be in the top 10 in technology, either through in-house development or by acquisition with the world leader in technology."

"The acquisitions of Continental Tyres with Continental Tyres of Germany is an example."

"The acquisition works. How else do you think FSI is ahead of the crowd? We have the market share, we have the cash flow, we have the ability to buy companies in the same fields."

Jeff makes light of a minefield adventure...
light of an adventure

In electrical components, a UK company that is listed on the Nasdaq, is listed in the UK, and has a market capitalization of $25 million, has developed a new product that could become a leader in the market. This product, which is a new type of electrical component, has been tested and is expected to be launched soon. The company has also signed a major contract with a global electronics manufacturer, which is expected to increase its revenue by 30%.

In the manufacturing sector, a company is facing challenges due to increased competition and a shift in consumer preferences. The company is considering diversification into new markets to reduce its reliance on one product. However, this requires significant investment and a change in business strategy.

In retail, a company is facing increased competition from online retailers. The company is considering investing in technology to improve its online presence and attract more customers. However, this requires significant investment and a change in business strategy.

In finance, a company is facing a decline in revenue due to lower interest rates. The company is considering diversification into new markets to reduce its reliance on one product. However, this requires significant investment and a change in business strategy.

In conclusion, the global economy is facing significant challenges, and companies need to be innovative and flexible to survive and thrive in these challenging times.
Blue chips in purple

By David Cole

Jets is a WFLA team Twice in a row for

The annual tradition attracts Sports fans and entertainment - No thank you if you're more into art and opera.

Spectators

In the wake of the sudden cancellation of the World Football League and the abrupt departure of the New England Patriots, the Jets' players and coaching staff have been left to weather the storm of uncertainty. Despite the recent turmoil, the team remains committed to maintaining their competitive edge in the league. With the season set to begin in just a few weeks, fans are eagerly anticipating the team's return to the gridiron.

Preseason

The Jets opened their 2014 preseason schedule against the Detroit Lions on August 8th. Despite being outplayed for most of the first half, the team staged a dramatic comeback in the second half, ultimately securing a 27-26 victory. The performance served as a morale booster for the team, who are currently preparing for their regular season opener against the Arizona Cardinals on September 7th.

Offseason

The Jets made a splash in the offseason by acquiring quarterback Ryan Fitzpatrick via trade with the St. Louis Rams in exchange for a conditional seventh-round pick. The move comes as a surprise given the team's existing quarterback depth, but the franchise appears to be weighing long-term plans. Additionally, the team has been active in free agency, adding several key players to their roster.

Analysis

With the uncertainty surrounding the league's future, the Jets find themselves in a unique position. The team has the potential to establish itself as a contender in the league, but also faces significant challenges. The team's success in 2014 will not only depend on their ability to execute on the field, but also on their ability to navigate the ever-changing landscape of the World Football League.
## TOP 100 COMPANIES
Ranked by taxed profits (R000s)

<table>
<thead>
<tr>
<th>No</th>
<th>SHARE</th>
<th>NAME</th>
<th>AMOUNT</th>
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<tbody>
<tr>
<td>1</td>
<td>De Beers</td>
<td>4 078 000</td>
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<td>2</td>
<td>Anglo American</td>
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<td>3</td>
<td>Gencor</td>
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<td>Sasol</td>
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<td>Iscor</td>
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<td>Barlows</td>
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<td>Remgro</td>
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<td>Amic</td>
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<td>9</td>
<td>SA Breweries</td>
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<td>10</td>
<td>Sappi</td>
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<td>Johnnies</td>
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<td>Implats</td>
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<td>CG Smith</td>
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<td>Stanbic</td>
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<td>FNB</td>
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<td>GSFSA</td>
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<td>Rand Mines</td>
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<td>Engen</td>
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<td>Nampak</td>
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<td>Sun Bop</td>
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<td>Prem Group</td>
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<td>Genbel</td>
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<td>Southern</td>
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<td>Volksskas</td>
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<td>49</td>
<td>Toyota</td>
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<tr>
<td>50</td>
<td>SA Drug</td>
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Anglo dwarfs the lot

DE BEERS and Anglo American are by far South Africa's most profitable companies. The two hold associate stakes in each other, so there is clearly a bit of double counting. But it does not amount to much.

With JCI, Amic and SA Breweries also in the Top 10, this table serves to stress the extent to which Anglo dwarfs all others.

Under Derek Keys, SA's No 2 mining house Gencor, has done some dramatic catching up to take third position. Samancor, Impala and Sappi bring Gencor's total in the top 11 to four.

Some company chairman will fume at this list because they will recall that their bottom line was slightly different.

That is because for most companies we have excluded from earnings previous-year adjustments, gains and losses on sales of fixed assets, investments, currency movements, all non-operating or extraordinary items and investment allowance benefits.

Unfair

We have deviated from this rigor in regard to September reporting companies. We believe it is more important to have up-to-date numbers than to wait for annual reports in order to be consistent to the nearest R1-million.

Some Barlows-controlled companies therefore have something of an unfair advantage — some, not all. Barlows itself, Nampak and Robor actually reported lower earnings this year than last.

First National also benefited from late inclusion, moving up within spitting distance of great rival Standard Bank Investment Corporation.

Nedcor was also included at the last minute, but thanks to a national tax provision and the R23-million loss in tile, its earnings gain was only 12%, so it did not move much. Were it not for these things, Nedcor could well have been ahead of its rivals.
High-climber Jeff’s never made a bolt

By DIRK TIEMANN

W&A CHAIRMAN Jeff Liebenberg had a confession to make at the Sunday Times’ Top 100 southern banquet at the Carlton Hotel in Johannesburg this week — he still have never welded scaffolding, operated a bolt-making machine, manufactured a tyre or in fact worn pants.

"These are some of the products behind the success of Business Times’ Top Company, which employs 30,000 people worldwide. (The amazing feats of W&A are separately chronicles in this week’s Top Companies survey).

Top companies are ranked according to the all-in cash return they earn for shareholders over five years.

Potential

Runner-up company was African, followed by Messina, Etcetera and Times Media Limited.

Mr. Liebenberg said SA businessmen had nothing to be ashamed of, they had the potential to be world beaters.

Mr. Liebenberg said Germany and Japan were examples of what could be achieved when business, government and the population shared a common vision.

"Mr. Liebenberg said a strong and efficient economy was essential for stability in SA.

"Within this room, we have a fair proportion of leadership skills and the talent necessary to accomplish the task ahead.

Conflict

Clayton, the hope of improvement for the mass of the people through personal growth, economic growth and teamwork, are essential." ANC international affairs director Thabo Mbeki was deposed speaker at the banquet. He said conflict and social unrest would persist as long as the current government remained in power.

"Mr. Mbeki said the present Government was illegitimate in the eyes of the majority. South Africa could expect the type of instability experienced by Eastern European nations until their illegitimate governments were overturned.

A peaceful transition was possible if, among other things, an interim government was installed. It would eliminate the conflict arising when one party had exclusive access to State power. It would also inject popular

Thabo Mbeki calls for co-operation from business

confidence and make change irreversible.

Refused by the Government to move towards this goal suggested a secret agenda.

Mr. Mbeki called on business to co-operate with the working people in creating wealth.

"These men of vision and ability who can rise above sectional interests, should help mobilise the country into a peaceful, prosperous non-racial democracy.

More than 650 top business people and partners attended the banquet, which, for many, marks the end of the business year and the beginning of the silly season.

Forty-four members of the "alumni association" of the Top Five Businessmen of the Year were present, including this year’s nominees: Sappi’s Eugene van As, Southern Life’s Neal Chapman, Anglo American’s Bobby Godsell, Edgars’ Vic Hammond and W&A’s Jeff Liebenberg.

Mr. Godsell, 38, is the second-youngest-ever director of Anglo American after Nicky Oppenheimer, who was on the board at 37. He is the youngest-ever member of Business Times Top 100 club — by only two months.

According to Who’s Who in SA, he was born in September 1954 and Jeff Liebenberg in July of the same year.

Under Mr. Van As, Sappi built the huge Ngocwana paper mill in the Eastern Transvaal and this year bought five paper mills in the UK to emerge as a world player. Turnover has risen from R50,000 tons a year in 1978 to 2 million, and taxed profit from R16.9 million to R238 million.

Jeff Liebenberg’s FSI Corporation rose from being a small lesser to a huge conglomerate with operating profit of R33 million in less than a decade.

Diplomacy

Mr. Godsell, an enlightened liberal and former head of the Progressive Federal Party’s youth organisation, was outstanding diplomacy and worked night and day to help in the accord on labour relations between Saccovs — representing big business — and Cosatu this year.

Vic Hammond took the helm at Edgars from illustrious predecessors and exceeded them all, steering pre-tax profit from R28 million to R245 million in seven years.

Neal Chapman’s achievement was in steering Southern Life from a mutiny to a highly successful proprietary life assurance while at the same time reconciling two apparently different cultures.

W&A, the scaffolding, panpipes, and nuts and bolts conglomerate, was named Business Times’ Top Company for giving shareholders a return of 90% a year in the five years to September.
Robert Gentle

Meeting halfway on the corporate debt issue
Barlow Rand hopes to maintain profit level

THE R18bn Barlow Rand group, which experienced declines of 14% in pre-tax profits and 15% in earnings in the year to end-September, is hoping to more or less maintain that profit level in the current year.

GE and chairman-designate Warren Clewlow says in his annual review that the year ahead looks difficult and challenging. For Barlows, 1991 will be a year of consolidation, with reorganisation in the mining division and, throughout the group, a number of capital projects to bed down and bring to profitability.

Clewlow lists a number of factors militating against a good performance this year.

International commodity prices are expected to be even lower than at present and the economies of SA’s main trading partners are far from buoyant, with some even threatening to slip into recession.

There is little scope for the relaxation of the comparatively stringent monetary and fiscal policies of the past two years if SA is to build a firm foundation for growth.

The re-acceleration of inflation caused by oil price increases is a setback for the goal of single-digit inflation in the near future. Clewlow says there is also widespread concern among Barlow Rand managers that any increased industrial action, intimidation and labour unrest will have adverse effects on output and a negative impact on the entire economy.

Looking at the various divisions’ prospects, Clewlow says the mining division will be under pressure and, without an extra boost from coal earnings, is likely to produce lower profits.

Demand

The entire asset portfolio of Rand Mines is being reviewed and it can be expected that the cash position of the division will be strengthened by the disposal of under-performing assets and non-core businesses.

Middelburg Steel & Alloys is unlikely to get better prices for its exports and local demand for steel will not be good. So its outlook is equally gloomy, says Clewlow.

The cement and lime division will respond to any infrastructural developments in its markets and is expected to improve its level of profitability.

Clewlow expects the industrial interests to go against the trend and show some growth on present performance. Romatex and Nampak, despite their sensitivity to domestic economic forces, should achieve modest earnings growth.

The food and pharmaceutical companies are strongly placed to go against the trend in their relatively stable market sectors and should be able to perform well. J Bibby & Sons and the international trading operations will find some of their markets in a degree of recession, but should show some profit growth.

Clewlow qualifies his comments with a wide-ranging overview of the situation facing the new SA, and warns that a greater responsibility rests on business and political leaders to grasp the stark realities of the situation and, assuming the mantle of true leadership, to show the way forward.

He calls on leaders in government and the private sector to acknowledge the intense dissatisfaction of the population with the present situation.

The Barlow Rand group spent R35m during the year on employee training and development.
ANDREW GILL and SYLVIA DU PLESSIS

Despite impending cuts in interest rates, SA faced another year of economic stagnation and contraction, the SA Chamber of Business (Sacob) said yesterday.

Presenting the chamber’s economic outlook for 1991, director-general Raymond Parsons said the downswing was likely to last a total of 16 quarters, longer than the previous two economic downturns. The upturn was now expected only in early 1992.

Detailing a gloomy outlook for the year, he said zero growth in gross domestic product was expected and it should be viewed as a period of consolidation in preparation for the upturn. The consolidation period should be utilised to exploit any opportunities which “SA’s greater international acceptability affords”, Parsons said.

Inflation is expected to average 13% in 1991, while prime rate may be down to 16% by year-end, implying Bank rate at 15%.

The chamber’s business confidence index, measured via the movements of 16 economic indicators, inched down 0.1 points in November in the absence of major new influences. At a level of 89.9, it is at its lowest since February 1987.

Chief economist Ben van Rensburg said the expected relaxation in monetary policy might come too late to save many companies and individuals faced with high debt levels from liquidation or insolvency.

A combination of liquidity problems and

Sacob casts doubt on upturn in ’91

already high debt levels would reduce many firms’ ability to increase short-term borrowings to tide them over until economic activity began to increase, he said.

Turning to the foreign sector, Parsons said the longer-term welfare of the economy would be determined by its ability to increase its market size. “It would therefore be desirable for the next upswing to be export-led.”

The fact that positive growth was still expected in the major economies meant export volumes would increase marginally but earnings in rand terms were likely to suffer as a result of expected weak commodity prices. Import volumes should show little change in the coming year.

Sacob expected a R5.5bn current account surplus in 1990, an optimistic forecast considering Finance Minister Barend du Plessis’ R6bn to R8bn estimate.

In 1991 it should be around R8bn but should pose no threat to reserves because of the lower debt repayments.

Employment, per capita income and gross domestic fixed investment were all expected to worsen next year, while general government consumption expenditure should show real growth of about 2.5%, despite government’s aim to exercise greater control over its expenditure.
East bloc offers huge potential for investment

ASTERN Europe, with 150-million people (excluding Russia), offers many opportunities to foreigners — including South Africans. But communism has left a legacy of business lethargy, says Leslie Bergman of Arthur Andersen Consulting.

There are, for example, opportunities in Eastern Europe for South African food producers. South Africa has a net food surplus, and in these countries the variety of foods available is limited.

The business environment makes it difficult to do business in East Europe. Telecommunications are poor. Budapest, for instance, has five different telephone exchanges. But the lack of a Western work ethic — more than the rusting, obsolete machinery and poor infrastructure — is the biggest obstacle to modernisation.

The effect of 45 years of isolation from world free markets has robbed the Eastern bloc of the work ethic found in Western Europe.

Bergman has for the last three months spent two weeks a month in Eastern Europe. He spoke to The Weekly Mail before leaving for Vienna, where he will be based permanently, and from where he will be responsible for Eastern Europe, particularly Czechoslovakia and Hungary.

He was surprised at the shoddy nature of consumer goods. For instance, most of the pens he found scattered in hotels he stayed in did not work. And each was defective for a different reason, so chance was not the root of the problem. The reason was that goods were not produced to satisfy demand but in terms of some bureaucratic plan. Prague is like an open-air museum: a large city without commercial activity.

As South Africa builds trade ties with Eastern Europe, a business consultant who is working there spoke to REG RUMNEY about the special problems and opportunities the opening up of the region represents.

But with a large underground economy because the formal economy doesn’t produce what is needed.

But what struck Bergman above all about the business environment was the anti-work ethic the communist regimes have produced.

Bergman reckons it will take 10 to 15 years to modernise the economies of Eastern Europe. “Not only physical but psychological change is needed.”

Bergman finds in his consulting work in Eastern Europe that few understand the concept of costing: “They don’t understand how you cost goods and services. Few can value things like output.” In the command economy counting things was more important.

This is the main difference between Eastern Europe now and Germany directly after World War II, where within five years a booming economy had sprung up out of the ruins. It will need more than Marshall Aid to return the economies of Eastern Europe to health.

Price support needs to be dropped, workers will have to be retrained in various industries to make them competitive, but in the short term this will cause unemployment and an inevitable drop in the standard of living.

As a mark of the painful economic adaptation, the industrial output of Eastern Europe has dropped by about 50 percent, and real gross domestic product per capita has dropped.
Business confidence slips again

By Jabulani Sikhakhane

Businessmen are getting more and more nervous about their prospects according to the latest survey by the SA Chamber of Business (Sacob).

Its confidence index has again declined, this time to 89.9 in November from a level of 90 in October.

Negative influences on the index included continued falls in share prices on the JSE, slightly higher three month's bankers acceptance rates and further drops in the number of new motor cars sold.

Expected retail sales (seasonally adjusted and in real terms) for November showed a small decrease. In November, total unemployment for all races showed a material increase, while the number of insolventcies increased.

On the positive side, merchandise imports increased and the consumer price index (CPI) showed a small decline. However, the sharp rise in fuel prices in the second half of October 1990 was not yet reflected in the October CPI.

Exports

Compared with the figure for the previous month, both the real value of building plans passed and volume of manufacturing production increased.

Merchandise exports increased materially and the number of new registered companies rose.

Sacob's index of manufacturing confidence levels moved sideways in November at a level of 168.

The greater optimism is more the result of rising orders related to the festive season and to companies placing orders before the December shutdown, than to a change in the long term outlook.

In its economic commentary, Sacob says a slight softening of the stance of monetary authorities will be soon necessary, but will be unlikely or soon enough to save a number of companies and individuals from liquidation or insolvency.
Rosholt bucks the trend with his call for an easier monetary policy

BARLOW Rand chairman Mike Rosholt has bucked the trend of business leaders calling for an easing of monetary policy, saying inflation has to be brought under control more firmly before this happens.

Addressing shareholders last week for the last time before he retires as chairman in January 1991, Rosholt said: "I am convinced the economic disciplines being imposed form a healthy foundation for the future and will, if persevered with, assist in making SA more competitive internationally."

Government’s policies would, together with indicated slowdowns in the economies of major overseas trading parties, continue to restrict growth.

"We shall have to contend with the current reduced level of economic activity throughout the next financial year."

Rosholt doubted whether renewed growth at an acceptable rate was possible before solutions to the country’s political impasse "are seen to be believable".

"Business had to be a constructive participant in the change to and formulation of the new SA."

"In this climate of rapid transition, when major-policy and institutional decisions affecting business are being taken, it is essential that we take part in helping to determine the policy and framework that will create the environment in which we have to operate."

He said it was generally accepted that the way national income was distributed would have to be reconsidered.

"Our objectives should be to remove distortions of the past and to enable all people to become self-reliant and self-supporting."

This required the investment of considerable sums in education, training, housing and the promotion of black business.

He said Barlow Rand was involved in establishing a technical college in Alexandra with a grant of R2m payable over three years.

Most of the R16.8m allocated during the year by Barlow Rand and its subsidiaries went to education with the balance going to job creation, the promotion of individual business enterprise, housing initiatives and health and welfare.

Barlow Rand CE Warren Cleiwow will succeed Rosholt as chairman after the general meeting on 21 January 1991.
**Fund ensures that talent is not lost**

COMPANIES and business people should be doing whatever they can to ensure that the country’s vast pool of talent is not lost forever.

This was said by Ms Denise Stamm, deputy managing director of Grey Advertising and chairman of Darryl Phillips Bursary Fund.

She was speaking at a function in Sandton to award bursaries to three 1991 students, who successfully completed their first-year of study at Wits University.

They are Welhemina Mogomotsi (18), Mxolisi Vincent Norman (27) and Nonhlanhla Gumbi.

Welhemina is a dramatic arts student. Her ambition is to act, direct films and theatre.

Mxolisi, a husband and father, is also in dramatic arts. He is also an outstanding trumpet player in addition to his interest in screenplays and commercials. Nonhlanhla is a commerce student with excellent business acumen.

In 1987 she was awarded a silver medal by the Black Management Forum for her efforts in the Junior Achievement Programme and sees herself as an entrepreneur.

The bursary covers their tuition fees, residence fees, books and a personal cash allowance. They will work for one of the Grey group agencies during their holidays and will be offered full-time positions on completion of their degree.

The fund provides bursaries in the faculties of arts and commerce, with the intention of developing black talent in the advertising industry.

Stamm said black consumers account for more than 50 percent of total retail market sales, yet the black advertising copywriter or account executive is a rare breed.

She said the days were gone when whites alone could decide what is good for blacks, particularly in terms of buying. She said in an attempt to address this, four years ago, the Grey group chairman, Darryl Phillips, started the bursary fund.

"It is particularly important at this time that every effort is made to ensure that talent is nurtured wherever found," she said.
THE private sector should assist the Government in its current drive to upgrade local education facilities, according to the chief executive of a leading petroleum company.

Mr Deryck Spence of Castrol South Africa said the recently announced millions set aside by the DBE to build and repair schools will only scratch the surface of the educational crisis in the country.

He said a recent survey shows that 7.3 million people, or 66 percent of the total workforce have only primary schooling or less.

"To improve this situation in the short term, the private sector could, for example, sponsor evening classes offering individuals a chance to study for their matric.

"In the long term, the education system must be redesigned to provide equal education for all. School-going youth, dissatisfied with the education offered to them, do not attend class and spend their time fuelling the ever-increasing crime rate.

"By putting money into education, business will offer the youth good educational facilities, encourage them back to school and help to lower the crime rate that is one of the world's highest according to a recent American study."

Cash

He urged business to work together in strengthening the education system. He said they must put money into schooling, or sponsor pupils through post-matric qualifications.

The company has announced that R300 000 has been set aside to sponsor South African children through technical colleges.
Producers urged to seek price protection

 Finance Staff

Fears of a worldwide recession or even a major depression have got companies scrambling for effective ways to cushion the possible fall in commodity prices.

Rod Hollers, managing director of Holcom Futures, says the crisis in the Gulf, coupled with rapidly eroding confidence in the American economy, has the world economy teetering on a knife-edge.

A worldwide depression, if it happens, would have disastrous effects on industrial metal prices with severe implications for South Africa.

"No responsible analyst can possibly predict the next few days' moves in the markets, let alone trends for the next year."

"For this reason, no responsible company can possibly justify not taking a percentage of price protection on their products. The instruments which afford this protection are available in South Africa."

Two experts in financial risk management from Rudolf Wolff, the internationally recognised futures brokers, have been seconded to Holcom to help South African companies weather these uncertain times.

They are Rudolf Wolff associate director Jeff Littlestone, an expert in financial risk management, and Steven Hardcastle, a specialist in the hedging of non-ferrous metals.

Hollers says that after the oil crises of 1973 and 1979, the price of base metals and gold soared. In the initial aftermath of Iraq's invasion of Kuwait, most analysts expected the same to happen.

"However, three months have passed and the markets have not responded in the expected manner. On the contrary, in the wake of soaring oil prices, the price of industrial metals has plunged and stock markets have taken knocks."

"These are worrying and uncertain times and producers of base metals are looking at ways of managing their risks and fixing prices at today's relatively high levels through hedging."

In the 1979-80 oil crisis, metal prices soared - gold, for example, reached $690 - no-one bothered to hedge. Then prices plunged.
Brand urges business to adapt to new SA

DEVELOPMENT Bank CE Simon Brand has called on business to adapt its style to suit the new SA—a move which could help avert too much government intervention in a post-apartheid SA.

Brand told a conference organised by Germany’s Konrad Adenauer Foundation and the Wits Centre for Policy Studies in Johannesburg yesterday that private companies had to start adjusting business practices and market orientation.

Policies adopted by future SA governments would to some extent be determined by perceptions about the performance of business in responding to changing markets.

“If the perception exists that business is oblivious to what is happening and is still sticking to past practices and market niches, there will be a stronger possibility of more government intervention,” Brand said.

Serious consideration would have to be given to ways of involving blacks in strategic decision-making in mainstream business. He suggested the creation of special boards that could look after the social responsibilities of companies.

Competition

He noted that “considerable adjustments” would be required in the functioning of the private sector of the SA economy if the requirements of a more accountable democracy were to be met.

There were many sectors where there was not enough competition.

“It is well known that there is a considerable degree of market concentration in many sectors of the economy and it can be argued that this has led to some considerable misallocation of resources,” he said.

The SA government's accountability had been restricted to a limited segment of the population and one of the outcomes of this had been the skewed investment pattern.

Investment in SA was “quite clearly out of balance” with the need to address important social economic issues.

There was an overall investment in property and commercial development in the already developed cities of the country, while the opportunities for sound investment in the underdeveloped black towns and cities and rural areas were severely neglected.

Very little investment in new productive capacity in manufacturing had taken place for a number of years.
By Derek Tomney

The board of Anglo American in Johannesburg should be pleased with the results from Anglo's associate company, Charter Consolidated, and the performance of its chairman of 18 months standing, Sir Michael Edwardes.

Charter's profit figures in themselves are not too impressive. Taxed earnings rose minimally from 24,2p to 24,4p a share in the six months ended September.

But these figures conceal some important developments. One of these is a 21 percent increase to £18.1 million in the financial results of the four operating companies — CAST which is engaged in quarrying; Pandrol which provides rail track fastenings; Cape which supplies building products and services and Anderson which manufacturers mining equipment.

Part of this improved performance would seem to have been brought about by the disposal since Sir Michael's appointment of a number of Charter's unproductive and marginal operations.

Another encouraging development is that Johnson Matthey, in which Charter has a 36.5 percent stake, was able to report earnings of £12.5 million. This is slightly lower than the £13 million which Johnson Matthey earned a year ago — but is a marked improvement on the full year's operations which saw earnings drop by 40 percent from 28.4p to 17.1p.

This suggests that the changes at Johnson Matthey — it had a new chairman, chief executive and deputy chief executive last December — have put the company on the right road and that Charter can expect increased earnings and dividends from this associated company. However, all of this improvement was offset by a jump in the tax charge from 25 percent to 30 percent. It meant that the 7.5 percent increase in earnings before tax to £24.1 million finished up in the pocket of the taxman. However, this has not stopped Charter increasing by 7.7 percent its interim dividend from 6.5p to 7.0p a share.

The directors say that Charter has taken steps to reduce its vulnerability to the difficult trading conditions in the United Kingdom. Its operations are more focused, costs are under tight control and its business is expanding steadily into Europe.

They add that Charter intends to expand through the acquisition of businesses related to its activities, adding it has the resources to do this. Which is true. At the end of September Charter had a cash balance of £213 million, up from £233 million since March.
AIEBROCN

Off Policy Agenda
Important to Leave
Technology is too
Genocor unbundling issue 'unresolved''

GENOCOR's unbundling was still under consideration though a task force's report on the issue had not presented startlingly compelling arguments either for or against the idea, Genocor's executive chairman Derek Keys said in London yesterday.

Speaking to a group of British fund managers and investment analysts, he said: "It is clear that the issue needs a lot more thought and our executives have now gone away to think about the implications of unbundling for the Genocor group."

Asked whether the examination of unbundling Genocor had been provoked by political posturing, Keys said definitely not. "My responsibility as executive chairman of this group is to ensure that the group is correctly valued.

"If the Genocor share price stands at a 33% discount to its net asset value as it was last week, it means shareholders are being denied R3,6bn of their real wealth. This surely is an issue that deserves our keenest attention."

JOHN CAVILL reports Keys also said another factor behind the unbundling idea was that "within the SA environment large organisations are not particularly popular. Nor are they popular with the general public either."

Analysts said they understood this to refer to the ANC and the government and that it appeared to contradict the Press statement claim that the proposal had "definitely not" been provoked by political posturing.
GENCOR

A BROADER PORTFOLIO

Activities: Mining house with interests in gold, platinum, base metals and minerals, coal, forest products, industry, oil and gas, and mining finance and investment.

Control: Gencor Behrend B4.8%, Santam holds 50%, and Rembrandt more than 25%, of Gencor Behrend.

Chairmen: D L Keys.


Share market: Price: 935c. Yields: 4.3% on dividend; 13.2% on earnings; p/e ratio, 7.6; cover, 3.1, 12-month high, 1376c; low, 786c.

Trading volume last quarter, 6.3m shares.

Year to Aug

<table>
<thead>
<tr>
<th>Year</th>
<th>90</th>
<th>91</th>
<th>92</th>
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<tr>
<td>Income</td>
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<td>Earnings (c)</td>
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<td>Dividends</td>
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<tr>
<td>Net worth (c)</td>
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<td>819</td>
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</tbody>
</table>

* Year ended Dec 31. P Pro-forma figures.

Like most groups with large exposure to export markets, Gencor will have to deal this year with more difficult conditions, at home and abroad. Thanks to groundwork laid over several years, in the subsidiaries and at the centre, the house should cope better than many others.

All the significant businesses now have sound and active management teams and it would be difficult to pinpoint areas of real weakness attributable to management rather than markets. Gencor has grabbed opportunities and broadened its portfolio. Whereas a year ago about half of group earnings came from Samancor and Sappi, in financial 1990 major contributors included: Samancor (16%), Sappi (16%), Genbel (29%) and Engen (14%). And the group has entered the downturn with financial strength, including a year-end cash balance of R1bn.

More building blocks were put into place last year. Most notable was the creation of Engen, which has confirmed it will spend R670m in what is seen as the first stage of a capital programme likely to exceed R1.2bn. As Gencor chairman Derek Keys says, Engen not only blossomed, through its listing, into the group’s biggest single investment, but bore fruit to the extent of a maiden contribution of some R200m to the bottom line. He expects this performance will be improved upon this year.

The pace of Engen’s expansion will influence the deployment of Gencor’s funds. Engen’s long-term strategy includes doubling capacity of the Genref refinery. Phase one should be funded internally, but the next stage will probably include a call on shareholders. The process is also likely to involve a reduction in Gencor’s present 84% interest in Engen.

Trans-Natal completed its recovery, with its earnings contribution doubling to R73m. Near-term profit growth will be restrained by Eskom closures as well as weak export markets. Meanwhile, the coal producer is lifting export capacity, and plans to spend more than R21bn over the next five years, funded internally. It is contributing to the proposed Moatize project in Mozambique, whose total cost could be US$1,5bn. An investment decision is not expected before the mid-Nineties.

Though manganese income should rise, Samancor predicts lower profit this year unless ferrochrome prices rise sharply. Negotiations with the Taiwanese partner for the R1.5bn-odd Columbus stainless steel project have been suspended and is pursuing alternative options.

Earnings from metals and minerals other than Samancor from R77m to R119m, derived mainly from 25%-held Richards Bay Minerals (RBM) and 30%-held Alusaf. RBM is expanding production of titanium slag to 1Mt/year, at a cost of R925m. The environmental impact assessment relating to St Lucia area should be completed during the current year. Alusaf is investigating new projects, particularly the hoisting of all pots and conversion of potlines B and C to prebaked anodes, for about R300m. It may be listed within three years.

As expected, weaker pulp and paper markets depressed Sappi’s earnings contribution, and another reduction is expected. The group continues to bolster its position in international markets, and 1990 saw the purchase of five fine paper mills in the UK.

Profit margins will probably remain depressed in the gold division, though benefits of active management should increasingly be felt. Steps taken to keep the gold producers in the black included shrinkage of unpayable mining operations, an improvement in grade and reduction of 9618 employees. Oryx should be in full production by end-1993, but needs additional funds and a rights issue is being considered for 1991.

Impala will have finalised arrangements this year for its expansion. Last year saw the Kears/Western Platinum merger, re-negotiation of the General Motors contract on terms more favourable to Impala, acquisition of Messina’s platinum reserves and the arrangement with the Bafokeng tribe to enable mining of the Deep - all of which should underpin the share’s rating. Weakness in the platinum price and fears of oversupply have pushed the price down, but Impala is better placed for a rights issue than a few years ago.

Malbax, largely dependent on the local economy, is also looking forward to an earnings decline, though the dividend should be maintained. Genbel, one of the house’s best

EARNINGS SOURCES

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<th>Year to August</th>
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<tr>
<td>Coal</td>
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</table>

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performers in 1990, predicts slower growth, with interest receipts set to fall.

Most mining financials have been re-rated downwards and Gencor’s share price trades at nearly a third below the 12-month high. At 935c, the 4.3% yield is in line with the average for the mining house sector, while the discount to net worth has returned to former levels of around 20% — suggesting investor scepticism about “unbundling” prospects, as well as caution on the 1991 earnings outlook.

Still, the house should produce a dividend increase of at least 5%-7%. The quality of the investments continues to improve and the share offers attractions for those who want an investment in a broadly based portfolio of commodities.

Andrew McVitty
ANC reacts to technology report

The ANC has criticised various aspects of the Department of Trade and Industry's draft report on technology policy and strategy.

In a statement released yesterday, the ANC's interim science and technology group called for a consultative, multipartite process of policy-making — particularly in the area of technology.

The group said no technology policy could be effective unless it came from a legitimate government elected by the people.

It believed the report was limited by its focus on the manufacturing industry and that it ignored various aspects.

The department's report, released towards the end of November, aimed at generating comment from the private sector to help government formulate a policy on technology early next year.

The response to the report follows an ANC conference on technology held towards the end of November.

The group said a valid technology policy needed to develop out of the political priorities of government which would inevitably include jobs, education and urbanisation.

It also said the report ignored the considerable impact of various government policies on the public sector, including parastatals, and thereby their massive potential for the development of technology.

The group said it was crucial to strengthen the manufacturing sector of the economy as part of a long-term strategy for economic development.

However, the underpinnings, namely education and infrastructure, transport and communications, were so weak it was essential to attend to these as part of a long-term strategy rather than to merely tinker with monetary and fiscal measures such as tax incentives and tariff barriers.

The ANC welcomed the emphasis on export promotion in the report, but said this should not occur at the expense of successful local industries.

The group said: "We see selective measures, rather than blanket policies, as essential in encouraging industries and creating jobs." Policy formulation was an ongoing process.
Shares for all, says PAC

THE PAC envisaged a post-apartheid SA in which companies would be “asked” to create funds to enable workers to buy shares, the organisation’s Zimbabwe-based economist Sipho Shabalala said in Johannesburg yesterday.

Giving a PAC perspective at a seminar organised by the Wits Centre for Policy Studies and the Konrad Adenauer Foundation, Shabalala said to avoid over-capitalisation, existing shareholders would be asked to reduce their level of shareholding by selling part of their shares to workers.

Shabalala said new shares should be issued to workers where the problem of over-capitalisation did not exist.

“This we are not talking about token share participation by workers, but substantial magnitudes. The shares must also have voting rights attached.”

The exact size and percentage could be investigated further with full participation by workers, management and government officials where considered necessary.

Saying the state would also directly or indirectly support the fund, Shabalala added: “The state might consider money contributed by existing firms to be tax-deductible within particular ranges of magnitude.”

Legislation would be passed to ensure the involvement of workers in the decision-making processes.

The right of workers to have access to information to enable them to participate fully in these decisions would also have to be legislated, Shabalala said.

Once the workers’ needs had been seen

PAC

to, Shabalala added that direct taxation of firms’ capacity to pay, the need for employment generation and consideration of macro-inflationary effects – “income-discriminated” wealth should be redistributed through wage increases in favour of African workers.

Shabalala said firms would be required to effect human resources training and development programmes to enhance the skills of African workers and to open up promotion opportunities.

“Through the tripartite system and decision-making processes, it shall be made obligatory in labour terms for companies to contribute to the social benefits of their employees such as education of children, housing of workers, health and insurance, recreation facilities, etc.”

The PAC-directed state would respect the articulation of workers’ needs by the African workers themselves.
Business confidence is at its lowest since February 1987 when the business confidence index stood at 89.8. In November it fell from 90.0 to 89.9.

Negative influences include continued falls in share prices, a slight rise in the three-month BA rate and a further drop in new car sales.

Retail sales (seasonally adjusted, in real terms) are expected to be slightly down on October. Total unemployment for all races recorded a material monthly increase, while the number of insolvencies rose.

On the positive side, economic indicators for October improved. Merchandise imports increased and CPI (before that month’s petrol price increase) managed a small decline. Both the real value of building plans passed and volume of manufacturing production increased, while merchandise exports increased materially and the number of new registered companies rose.

The SA Chamber of Business (Sacob) survey of manufacturing confidence shows manufacturers expect the volume of orders in November to increase on October's. But Sacob attributes this to seasonal factors and suggests the level would be “significantly lower” if these were excluded.

The longer-term outlook remains pessimistic, as confirmed by the index of expected capacity utilisation. Manufacturers expect to use less production capacity in the coming 12 months than in the previous year. However, sales volumes are now not expected to decline further.
During the many years that the black liberation movements were banned, the business safaris to Lusaka and Dakar were important. There was a need for businessmen to network with organisations which would be shaping the future of their country and conditions in which they operate. The Consultative Business Movement (CBM) was formed in 1987 to facilitate these meetings.

Since then it has been in the public eye on only a handful of occasions. In August 1988, 40 businessmen, including Peter Wrighton of Premier, Cedric Savage of Tongaat, John Hall of Barlows and M C Pretorius of T&N, met representatives of Cosatu and the United Democratic Front at Broederstroom. Little was heard from them until May this year when the CBM hosted the Carlton Conference between the legalised ANC and more than 250 businessmen.

But the CBM has developed into something more than a dating bureau for prominent South Africans of differing colours and views. It has also become a debating forum in which the view of business, black political movements and trade unions are expressed in search of a common agenda.

The CBM has been endeavouring to pursue what it calls “Process Consultation” which, in its words, “ensures that we are able to move beyond rhetoric and ideology in our discussions.” It includes encounter weekends with organisations that are barely familiar with businessmen — such as Azapo and Nactu — as well as the ANC and Cosatu.

While these encounters have not been particularly secretive, the fact is that they were intended to be covert. Inevitably, therefore, when some of the issues and possible policies debated were leaked into general business conversation, they gave rise to some alarm among those who were not included. Some critics fear that the CBM is an appeasement organisation, more concerned to win the approval of the ANC than to represent logical social and economic arguments.

The Free Market Foundation’s Leon Louw says: “The CBM includes people who are not true believers in free enterprise, so they can hardly be expected to take a free-market stance.”

Why does he say that? Well, the CBM’s literature is peppered with expressions such as “pragmatism”, “common ground” and “a favourable climate for negotiations.” The CBM, in its statement of principles, calls for the establishment of conditions and structures for strong economic growth and a just distribution of wealth. The terms “free market” and “free enterprise,” which the movement considers to be ideologically loaded, do not appear.

“We do not believe in a simplistic free market,” affirms Christo Nel, founder of the organisation, now a consultant to it. “We are engaging in real-life debate and we cannot expect a sudden conversion by the ANC to market economics.”

JCI economist Ronel Bethlehem, chairman of the CBM economic working group, says: “I would prefer to talk about a market economy rather than a free-market economy. All markets need to be free by definition. The term free-market economy, on the other hand, implies the ideological agenda of the free marketeer. This includes minimal State participation and the end of all controls. We accept in the CBM that the State will have to have a major role in the reduction of poverty and inequality.

“Will it be possible to address the huge imbalances in SA without State involvement? The answer must be no. There are two things we in business cannot be neutral about. One is the need for a market economy and all that that implies regarding the institution of private property. The other is poverty and attendant inequality.”

Nel says the CBM is a creative minority of businessmen who engaged in dialogue with the ANC and other black groups when it was fashionable to do so. The national chairmen, former JCI chairman Murray Hofmeyr and AECI’s Mike Sander, have certainly been vociferous in their criticisms of apartheid.

The CBM insists that it does not represent business or even a united business view. But among its members are some of the key men in top companies. And, given its desire (or need) for confidentiality, anxiety has arisen — especially in organised business — that its members could be adopting positions iminical to both a business interest and to a free, as well as soundly run, post-apartheid economy.

Of course, not all the CBM’s members are appeasing liberals. Tradegro’s Donald Masson, a pillar of the Afrikaner establishment, is on the national consulta-
Project Free Enterprise. This study showed the level of ignorance about free enterprise in the black community and suggested ways in which it could be changed. "It is only since then that I have understood how deeply entrenched apartheid has become, and how reluctant business has been to eradicate it," he says.

The three main CBM committees reflect traditional topics of "concerned" businessmen. One is the Development Forum Focus. According to Eloff: "Without a commitment to a development policy, which the ANC can take back to its constituents, negotiations will never get off the ground." Then there is the In-House Change Group, which aims to show how changes can be carried out in companies leading to the best use of human resources available. "We need to show that we are not an economic autocracy," says Eloff. "Changes within companies are vital for the survival of business."

The newest committee, the Economics Project, according to a pamphlet on the subject, is more concerned with development goals, wealth distribution and ownership and control than with the efficient working of the economy. It is even debating the old chestnut of concentration of ownership and will address itself to the "extent to which current patterns promote the most efficient use of resources."

Bethlehem says one debate will be on the nature of the mixed economy. "I am hostile to interventionism and, if the mixed economy is the surrogate of the interventionist economy, I am against it. But the mixed economy is a fait accompli in this country already. The State controls 50% of the country's fixed capital stock. The State's role may be too big but to expect it to withdraw entirely from the economy is unrealistic."

Compromise features highly in the CBM. Premier's Wrighton, who is the CBM's Transvaal chairman, admits that the fact that 85% of Premier's customers and work force are black has made it essential for him to address their concerns. He also notes: "Business people can make the future work, or they can shun the process."

Bethlehem asks: "Should the business of business be business only — or should it recognise its role in the broader business environment which includes political and social change that can impact heavily on business?"

The consensus talk of the CBM is clearly more congenial to the ANC than the more gloomy realism dished out by the SA Chamber of Business (Sacob), which has outlined the immense problems involved in economic transformation in its own Economic Options paper. Saboc chief economist Ben van Rensburg says: "The CBM is an enthusiastic organisation so it isn't surprising that it gets carried away by its own optimism from time to time. We wanted to bring some reality to temper the high expectations which politicians are raising and to show the enormous demands for equality compared with what we can afford. We suggested that the most realistic way in which to address poverty is through a 10-year programme." Van Rensburg says there is room for both Saboc and the CBM, as long as it is realised that the CBM cannot speak for business. "Sacob is mandated and its policies are developed in a series of subcommittees, committees and conferences. The CBM, on the other hand, can express views without these constraints." Inevitably, because of its mandated nature, Saboc takes a more sober approach than the CBM.

The CBM's credibility with black organisations, its supposed major strength, was addressed for us by Joe Manchu, a black business consultant. He says the CBM should strengthen its links with black business. "The CBM is a white organisation at this time and it should change into a more broad-based movement with all races."

But, he says, the organisation is at least trying to speak in language which blacks can understand. "Some businessmen have reacted unfortunately to demands for a more socialist economy. They say that socialism has failed in eastern Europe, so there is nothing to discuss. This just serves to confirm that business does not want to change. The CBM at least is not slamming the door."

The Black Management Forum's Lot Ndlou says the CBM has been willing to confront contentious issues in a way organised business has never been prepared to do. "Whether they will support the substantive changes which society needs is another matter, but they are at least willing to talk."

Where the CBM claims notable success is in the regions. It has played a pivotal role in persuading the ANC and Inkatha to discuss violence in Natal. If the CBM sticks to its brief, it must have a limited lifespan. When negotiations and discussions are second nature at all levels it should quickly disappear. That's the theory. But perhaps those of its more pragmatic leaders who reason along those lines are being short-sighted. They might not have taken adequately into account the need for a bureaucracy to perpetuate itself. The temptation to go back and write another work programme might be strong. It should be writing itself out of a job might be overwhelming.

The CBM lost a great deal of its relevance after February 2. As an icebreaker it had its use, but in its need to avoid becoming a vehicle to negotiate for business, or to avoid dabbling in the formation of public policy, it could be talking itself out of existence. There is a danger, too, that it might set an unfortuant precedent or perpetuate economic myths impossible to achieve.

For instance, by accepting that wealth distribution is as important as wealth creation there is a tacit admission that there is an economic or moral ceiling to the accumulation of individual wealth or property. Private property and freedom of contract are the very crux of classical liberal values. While they inevitably give rise to markets — which are the interactions of buyers and sellers for the purposes of exchanging ownership titles — they are values that are absolutely necessary to peace, prosperity and liberty. That is not a theory. It is a matter of observable fact.

Moreover, mixed economies that include substantial social security systems have persisted only because they first concentrated on the creation of wealth before attempting to redistribute it, as Frank Vorhies argues in another part of today's issue (see Business). Whether the process has been attempted in reverse, the system has quickly failed.

If the CBM is facing these harsh economic and social realities in its fireside chats with the comrades, no one can argue that it is selling business out.

But if the statements of its spokesmen in this article are taken at face value, pragmatism might be in danger of becoming a euphemism for appeasement.
SA firms in R8bn project

South African companies have won a major share of contracts worth R8-billion for financing and building the main dam and transfer tunnels for the Lesotho Highlands water project (LHWP).

The awards for Phase 1 of the scheme, described as one of the largest and most complex of its type in the world, were announced by the Lesotho Highlands Development Authority (LHDA).

SA's Concor, Group 5, LTA and Grinaker Construction will join consortium members from France, Britain, Germany and Italy, to build the 180m-high Katse dam, costing R1,535-billion, the north and south transfer tunnels and the delivery tunnel, costing R1,473-billion.

The lowest tender for Katse dam was submitted by the Highlands Water Venture group of Impregilo of Italy as lead company, Bouygues of France, Concor, Group 5, Hochtief of Germany and Kier & Sterling of the UK.

The 65km-long tunnel contract was awarded to Spie Batignolles of France as lead company, Balfour Beatty of the UK, Camponose Bernard of France, LTA, Ed Zublin of Germany and Grinaker.

The tunnels will be drilled in SA and Lesotho to carry water from the Katse dam to industrial areas, particularly on the Reef. This phase of the project is expected to be completed by 1998. In 1992, contracts will be called for a hydroelectric plant at the dam.

Bridging finance of about R765-million has been raised to allow work to continue until loan agreements have been signed with world aid organisations, including the World Bank, the European Investment Bank, the Overseas Development Association of the UK, and the DIFM of West Germany.

The bridging finance will come from Nedbank with R375-million, a consortium of Volkskas, Volkskas Merchant Bank and Rand Merchant Bank will contribute R3 650-million and Barclays Bank Swaziland R10-million.

The SA Government has contributed R25.7-million through the Trans-Caledonian Tunnel Association. The Development Bank of Southern Africa (DBSA) has contributed R370-million and other commercial loans of R139-million have been arranged. The DBSA is considering advancing another R133-million.

The Katse dam wall will be the highest in Africa at 180m, but will have a relatively small capacity.
'It's economic war'

The lack of representation of black people in the economic arena needs to be addressed and an "economic war" must be waged, according to Black Management Forum national president Doris Mkhwanazi.

The fight for control of productive assets will be fierce and bloody, he told the Eastern Cape Chamber of Commerce conference in Port Elizabeth this week.

Privatisation and deregulation, plus the belief in a free-market economy, were issues which heralded the beginnings of an economic war.

"This is a war which must be led by black business. We must break the chains of economic bondage." At least 60 percent black representation in top management and greater representation at board level in JSE-listed companies was needed.

This would begin to redress the current imbalance, promote greater participation in economic life and would create a more equitable economic pattern.

"We are past the stage of social responsibility and beyond do-gooders. "What we are talking about is the total transformation and fundamental change of ownership of productive assets, management and corporate power.

"We are no longer talking about sponsorship of dinners.

"What we want is that the sponsors of these dinners give us a meaningful stake in their companies and make soft loans and capital available to black business to facilitate and accelerate the process of black economic empowerment."

Attacking the pace of President FW de Klerk's reform initiative, he said the process of change could not be termed irreversible when people were still being detained without trial. Aggressive and unacceptable police behaviour remained part of the government's arsenal, he said.

"We can never say change is irreversible when our comrades are refused indemnity, when indemnity can be withdrawn at any time or when brother and sister are being tried in the courts for fighting for their birthright." - PEN;
R20bn Gencor capex to provide 33 000 jobs

By IAN SMITH

8 TIMES 16/12/90 180

Gencor executive chairman Derek Keys has outlined a R20-billion expansion programme which could create nearly 33 000 jobs.

He told investors and analysts in London this week of projects in the pipeline for Gencor companies.

Gencor has funds for all the projects to which it is committed, but Mr Keys said that mining finance houses traditionally did not provide all the cash.

"However, it must be remembered that the final decision on the projects and their financing depends on the demand for the products and the condition of the markets which we would use for funding." he said.

He said that Gengold, which was establishing two mines, Orlyx and Welfreuden, and expanding Winkelhausen, Kinross and Beatris, had plans which could involve almost R7-billion in the next few years.

These projects could create more than 11 000 jobs.

Engen, the integrated fuel company, has announced plans to increase the capacity of Genrefl refinery in Durban. The first phase will cost about R678-million.

Mr Keys said: "The company’s shares are highly rated and in strong demand: in financing its expansion we may allow our shareholding to fall."

The Columbus stainless-steel project, a 50-50 venture between Samancor and Highveld, could involve expenditure of R2.6-billion for the hot mill to be set up in SA and about R600-million for the cold roll mill at a location yet to be determined.

"If the project gets the green light, Gencor group will end up with an effective 22% of the project. It could eventually mean about 1 200 new jobs."

Impala’s planned capex for the 14 shaft, the Deeps shaft, for UG2 growth and for expansion at Mazzina amounted to about R2.3-billion, he said.

These projects could generate more than 17 000 jobs.

Paper-maker Sappi could spend more than R1-billion on expansion at its Saltcor, Entra and Oudtshoorn mills.

Mr Keys said Gencor saw its mission as starting or acquiring major businesses and accelerating their development.

"From these numbers you will see that we are prepared to put our money where our mouth is."
Conglomerates can give shelter — Malbak chief

A PROPERLY structured conglomerate with good underlying assets and effective management offers investors shelter in bad economic times, and can perform well in good times.

This is the view of Malbak executive chairman Grant Thomas expressed in the group’s 1989 annual report. “Conglomerates tend to pass in and out of favour as investment fashions change, and recently have again been the target of some criticism in this country,” he said.

Malbak is the pyramid of a group including packaging and paper, engineering and mining supplies, consumer products, food and construction supplies.

In the year to end-August the group’s turnover went up by 14% to R2,4bn but partly as a result of a higher tax charge, showed a 7% fall in shareholders’ earnings to R288m. Thomas said the packaging division experienced the negative effects of reduced consumer spending but this was offset by greater productivity and the disposal of unprofitable divisions.

Downturn

Ellerines’s good performance and better profits from Malbak Motor Holdings in the branded products sector offset lower returns from Tedexel and Malcolmess.

Results from the engineering division showed a small fall in pre-tax profits partly because of a strike at Haggie. Construction supplies division D & H improved operating results but had to face a higher tax rate.

Reduced earnings from food division Kandyn arose from a downturn mainly in the second half of the year.

Malbak’s development division performed well and its international division showed a better second half, partly due to cyclical factors but also as an indication of an upward trend.

Malbak directors are not optimistic about the current year because the timing of measures to alleviate fiscal and monetary policies, the international prices of oil and gold and the extent of labour disruptions cannot be predicted.
Slowdown will continue and possibly worsen, says Sanlam

CAPE TOWN — A moderate slackening of monetary and fiscal policy can be expected during the first quarter of next year but the economic slowdown will continue and might worsen in the months ahead, says Sanlam's latest economic survey.

In the December issue of the survey, chief economist Johan Louw says the downturn is expected to level out towards the end of 1991.

He remains confident that its course will not be as severe as the previous two downturns in the 1980s.

Louw forecasts a negative real economic growth rate of about 1% for this year and a slightly positive rate of 0.5% for next year.

He says the relatively strong performance of the rand recently helped put a damper on the price increases of imported goods. The price index representing these goods rose sharply in October, largely because of the higher oil price.

But the price increases of locally produced goods remain high, and fuel price adjustments will keep the pressure on production prices.

In spite of the upward pressure on prices, Louw says he believes the rates of increase in production and consumer prices will tend lower, and that this slowdown will become more marked in the second half of the year.

LESLEY LAMBERT

He expects the inflation rate, as measured against the year-on-year increase in the consumer price index, to average 14.2% this year and 13% next year.

A drop in the bank rate can be expected early in the new year in view of the slower growth in the money supply and the decrease in credit demand, Louw says.

Long-term interest rates in the capital market are also tending downwards and should soften more next year as a result of expected reductions in short-term interest rates, limited demand for long-term loan funds by the private and public sectors and the prospect of a decline in the rate of inflation, he says.

In an economic evaluation of Namibia, Louw says the Namibian authorities need to establish an investment code to clarify the role of foreign investment in the development of the country.

He says Namibia relies heavily on foreign capital for economic growth and the provision of jobs and houses. A large amount of foreign capital is understood to be available, most of it strictly designated for specific projects.

But investors need more clarity on the role their investments will play.

While Namibia depends heavily on transfer payments from SA before independence to balance its budget, it is clear greater reliance will have to be placed on tax income.

The realism of the government — to restrict expenditure largely to the available financial means rather than to accommodate the enormous needs — is encouraging, he says.

He says the Namibian economy is slowing down.

Mining remains the main contributor to the country's GNP, although its importance has diminished from 44% of GNP in 1980 to 31% in 1989.

The manufacturing sector contributed only 5% in 1989 and has been unable to increase its contribution in the past 20 years.

But, Louw says, there is reason for the Namibians to be optimistic about their fishing industry.

A Directorate of Sea Fisheries survey says the exploited fish reserves are recovering satisfactorily.

Fish quotas will be granted to companies, with certain incentives for Namibian companies, and it is estimated that up to R25m could be earned annually in royalties.
SA firms looking beyond borders

Business Day Reporter

TWO SA companies have applied for pre-qualification documents to enable them to tender for work in oilfields in Angola and gasfields in Turkey, according to a report in the latest Engineering News.

Pre-qualification assesses the ability of the contractor to undertake the work so he does not waste resources by submitting a futile tender.

Engineering News interviewed Emso MD Steve Hrabar whose company, supporting Genre Offshore (GO), has been holding discussions with Chevron in Angola on designing and erecting jackets and topsides for the Cabinda oilfields.

Hrabar said Emso was looking to international operations once MossGas was completed.

Emso had already been awarded a five-year consultancy project to attempt to restore the Beira-Malare pipeline to normality.

GO project director Jim Grice told Engineering News GO was pursuing three inquiries for work in the African offshore industry.
Boardroom musical chairs

MOVEMENTS
MONDI MAKHANYA

SOME illustrious business careers came to a close in 1990 and there were some unhappy partings. It was a year of back-stabblings and dramatic leadership battles in the corporate world.

Undoubtedly South Africa's most significant leadership switch happened at Anglo American, where Gavin Reilly stepped down as chairman to assume responsibility for the conglomerate's offshore assets. Anglo's chairmanship was taken by De Beers chairman Julian Ogilvie Thompson, who left his position at Anglo American Investment Company to the rising star of the Oppenheimer dynasty, Reilly's former deputy, Nicholas Oppenheimer.

Rembrandt chairman Anton Rupert retired from the board to take up the chairmanship of Rembrandt Controlling Investments. The conglomerate gained the services of Theo van Wyk, who resigned as registrar of financial institutions to become Rembrandt's executive director.

Bankorp had its fair share of drama when it gave former Nedcor chief executive Piet Liebenberg an offer he couldn't refuse to be its CE. Liebenberg was soon followed by Nedcor MD Henkie van der Merwe.

Liebenberg's arrival ruffled a few feathers, Trustbank CE Chris van Wyk resigned, saying he needed to take stock. Industry sources speculated that the resignation may have been due to Van Wyk's diminished status after Liebenberg's appointment.

The year also saw the exodus of five senior Sanbank employees, who left to join Discount House of South Africa (DHSA). Days later 11 Allied employees resigned, bringing to 16 the number of senior resignations in the banking establishment in a week.

Heads rolled when Sage battled for control of Allied. Sage — which holds 10 percent of Allied — voted Allied Building Society MD Don Hunter and fellow director Mickey van der Walt off the board. Two other proposed appointments to the board were reversed. Sage MD Louis Shiff claimed Sage had effective control of Allied — a charge that was hotly denied.

Embattled motor spares company Sparco lost group operations director Louis Bekker and group financial controller Piet Nel who resigned following the company's provisional liquidation. MD Graham Walker, who had also resigned during the temporary liquidation, was reappointed after a consortium bought out the company.

Darrell Till, GM of the JSE's non-equity markets resigned as full time member of the JSE and is to be retained in a consultancy capacity. Speculation at the time linked his resignation to the firing of people associated with the over budget options market.

40-year-old Managing Director of the DHSA MD Ian Huddy resigned to recharge his batteries commenting: "Trading is for the young."

The resignation of J Walter Thompson MD Victor Hamilton resulted in Old Mutual's withdrawal of its R8-million account with the agency.

Trustbank subsidiary Kolekter MD Vic Lijs left in disgrace after auditors discovered some irregularities.

Southern Sun MD Bruno Corte resigned to "pursue other interests".

The Krok brothers, Solly and Abe, made an exit from their company Twin Pharmaceuticals. However Abe will remain with the chain until July.
CAPE TOWN — Hundreds of good South African businesses are up for sale and many directors are looking for foreign investors to inject new capital into their companies.

The recession has brought to the market more than R1 billion worth of businesses as well as commercial and industrial property worth millions.

Pieter Wicht, who is marketing South African businesses to foreign investors, says most of them are well-managed, profitable enterprises but they are strapped for cash.

He is to meet a range of British financial institutions in January to offer a multimillion-rand portfolio of commercial and industrial properties and businesses. A visit to Hong Kong is planned next year to take advantage of the outflow of capital before the 1997 change in government.

Mr Wicht, of Pam Golding Properties, visited London in October and says he has been approached by a substantial number of South African entrepreneurs to market their businesses overseas.

Nothing left

"The recession has put a different slant on the type of businesses being offered. "A year ago the ones that were doing badly were poorly managed. Now we're seeing well-run enterprises that are strapped for cash."

"Owners are asking themselves what they're in the business for. Once the bank and staff have been paid, there's nothing left."

"Not all of them want to sell. Some are looking for an injection of capital."

When he advertised recently for companies to show to investors, businesses worth a total of R80 million were offered within three weeks.

"The phones went crazy. Obviously we got a few chancers and had to sift through them."

"Even though investments through the commercial rand rate are cheap, overseas investors are not fools."

"They know the value of things and won't overpay."

Buyers fall into three categories:

- The individual who has up to about R5 million. He is usually an emigrant who wants to make the most of what money he has.
- General investors, who have more money at their disposal.
- Venture capitalists, who are prepared to take high risks for high returns.

Mr Wicht says blocks of flats, hotels, guest-houses, restaurants and small factories are in demand.

"During my last visit to London, I saw a number of top hotel groups. They all expressed interest in investing in South Africa, from building their own hotels to seeking new management contracts."

A financial partnership between a local company and an overseas company can be lucrative for both sides, he says.
THE PRINCES OF PLENTY

THE WEALTHIEST FAMILIES IN SA HAVE A NEST-EGG OF SOME R5bn

Based on their holdings in their own "family" businesses listed on the Johannesburg Stock Exchange, SA's 16 wealthiest families together are worth more than R5bn. Nearly half of this is accounted for by the Oppenheimer family, which with a shareholding worth some R2,4bn would alone rank about 17th in the FM's Top Company survey.

Wealth on this scale takes a while to build up and the Oppenheimer dynasty is now into its third generation. Ernest (later Sir Ernest) founded the dynasty in 1880 and died in 1957. His son Harry has headed the family since then, but at 82, has retired from active participation (he was chairman of both Anglo American Corp and De Beers). Grandson Nicky (45) is now deputy chairman of Anglo and De Beers and is in the process of accession to the family throne.

But most of SA's business dynasties are at the incipient stages of their development, still run by their founders.

Some are getting on in years, too. Guido Sacco, chairman of Associated Ore Meta, is 90. The two leading Afrikaans dynasties are both in the throes of change. Anton Rupert (74), while still active, is in the process of handing the baton on to son Johan. The same applies to Albert Wessels (82), whose son Bert (46) and daughter Elizabeth Bradley (52), are both in the business.

Normal retirement age is an irrelevancy for a man heading his own business and family heads in this bracket, but still firmly in the driving seat, are Stanley Lewis (68) and Basil Horov (64).

The others range in age from Donald Gordon (60) to the babe of the group, Jeff Liebesman (38).

How is the wealth of the families calculated? In many cases, the true family wealth is likely to be considerably greater than is reflected in the figures we publish, which show only the value of the ordinary shares held by the families in the listed companies they have built up.

The value of some holdings (notably the Rupert/Hertzog families' massive holding in Geneva-based Richemont) cannot be calculated directly because they are held through non-traded shares. But they are worth a notional R5.5bn.

The calculations are not the result of balance sheet accounting and do not include, for example, any accommodation for debt. Most families will have significant value in unlisted assets and many will have investments in other listed companies.

It is not always possible to precisely identify family holdings, since they are often held through nominees. In most cases, shareholdings can be established from the annual report or the share register, though they may be held through nominees. In the case of the Liebesman family, where a recent company restructure precluded independent analysis, we have relied on information supplied by Liebesman himself.

Where possible, the families concerned were consulted.

The value of the holding in most cases was calculated from the closing price of the shares on November 29.

It's also possible, of course, that there are owners of private companies whose wealth is greater than that of some of the people on this list. People such as Eric Sampson (Macsteel) and Mendel Kaplan (Cape Gate) are not on the list. Such information on private companies, however, is not readily available.

Five-step procedure

The information was prepared for the FM by Mc Gregors Online Information, using a five-step procedure.

Examine the controlling shareholder of every company listed on the JSE for director or family control;

Examine annual reports, share registers, company records and other supporting documentation for holdings by families/directors in relevant companies and other companies listed on the JSE from the findings above;

Scan the computer data base for any individual, trust or family holding company, using search software;

Survey all relevant companies were contacted to verify the information; and

Calculate the value of shares held using share price at the close on November 29.

OPPENHEIMER

R2.4bn

Family businesses: Anglo American Corp, De Beers, Minanco.

As disclosed in the annual report, the Oppenheimer family held 18,743,943 shares in Anglo (8.3%) in March 1990, through E Oppenheimer & Son. At R91.25 a share on November 29, these are worth R1.71bn. Last week, however, Anglos were standing at R95.50, putting the family stake up to R1.79bn.

According to Lehmann Brothers International, E Oppenheimer & Son holds 7% of Minanco, which is worth R675m based on Minanco's current capitalisation of R1,458bn (R9,66m). As far as can be ascertained, the Oppenheimers do not directly hold shares in De Beers. Anglo is assessed by Mc Gregors as the ultimate controlling shareholder of these and numerous other companies.

The group has interests in mining, finance, industry, insurance and property, with about 200 subsidiary and associated companies and investments in more than 55 companies.

FOUNDER


Harry Oppenheimer ... built on Ernest's foundations

Heir apparent: Nicholas Oppenheimer (44). Nicholas is married to Strelli and they have a son, Jonathan. In 1983 Nicholas was made deputy chairman of AAC and a year later became chairman of the Central Selling Organisation (CSO) and deputy chairman of De Beers. He pilots his own helicopter and plays squash and cricket.

History: Ernest Oppenheimer arrived in SA as the Kimberley agent of a London diamond merchant in 1902. His first big opportunity came with the discovery during World War I of the East Rand goldfields. He tapped US capital, especially the house of J P Morgan, and in 1917 incorporated Anglo American Corp in SA, when most large mining groups were UK-based.

His ability to commit large sums to buying shares and mineral rights without having to refer back to a board of directors in London proved a crucial factor in the company's growth. Within 30 years he was also able to realise his dream of bringing diamond producers and sellers together in a single body, which brought stability to diamond prices.
Today the empire he created controls the diamond trade through the CSO.

After World War 2, Anglo gained a secure position in the newly discovered OFS goldfields, after funds were diverted from its increasing diamond stockpile.

Harry, born in Kimberley in 1908, has built on the foundations laid by his father. After schooling in England and Oxford University, he joined AAC in 1933. He became MD after serving in the World War 2. After a short period as the United Party MP for Kimberley, he took over as AAC chairman in 1957 after his father’s death.

Harry’s second child, daughter Mary (46), is married to an American, Hank Slack, who is president of Minarco and a director of AAC.

As the senior spokesman for business in SA, he has been an outspoken critic of apartheid. With Anton Rupert, he helped to set up the Urban Foundation in 1976. In 1982, he retired from AAC and in 1984 from De Beers. He and his wife, Bridget, live in their elegant Herbert Baker-designed Johannesburg home, Brentwood, to which Sir Ernest brought his family from Germany in 1922. Harry’s personal library on the estate houses the Oppenheimer collection of Afri
cana, and is also the home of the Brentwood Press.

Oppenheimer has a stud farm outside Kimberley and maintains a keen interest in horse breeding and racing. His personal art collection includes paintings by Redon and Picasso.

RUPERT/HERTZOG R457,1m +

Tegniese & Industriële Beleggings (TIB) holdings only; Richemont notionally R5,54bn.

Family businesses: TIB, which controls Rembrandt Controlling Investments and Rembrandt Group (Remgro); and Richemont. Interests include tobacco, liquor, finance, mining and industry.

Rupert/Hertzog families owned 50 793 600 shares in Tegniese & Industriële Beleggings in March 1990. At R9 a share, these are worth R457,1m.

The families also control Richemont, the Swiss-based industrial holding company spun-off from Rembrandt three years ago, through a holding of 52 200 B shares. These shares are not listed and it is not possible to put a precise market value on them. However, at the time Richemont was set up, the families owned 51% of the equity. On November 29, the market capitalisation of Richemont was R10,36bn. If their original 51% holding were held via the listed A shares it would be worth R5,54bn.

Founders: Anthony (Anton) Edward Rupert (74) and Dirk Willem Ryk Hertzog (76). Rupert and wife Huberta have two sons and a daughter. Hertzog and wife Lorraine also have two sons and a daughter. Both families live in Mosterdrift, the old-money enclave of Stellenbosch.

Retention as chairman of Remgro, Rupert remains chairman of Rembrandt Controlling Investments. Hertzog is now vice-chairman and a director of Remgro and TIB.

Heirs apparent: Johann Rupert (40), son of Anton, is widely perceived as the crown prince. CE of Richemont, he also structured the deals that secured effective control of Gold Fields of SA for Rembrandt and Rothschilds for Richemont. Appointed vice-chairman of Remgro in August, a step closer to the executive chairman’s seat now occupied by J A “Koos” Rupert (63), Anton’s brother.

Stellenbosch graduate, married to former Tukkies rag princess Gaynor Downie.

After working at the US merchant banking house Lazard, Johann returned to SA in 1979. Before he was 30, he bought Rand Merchant Bank from an insolvent Rand Bank for about R1m in 1979. In five years its annual profit rose from R220 000 to R6m. His detractors felt he was brash and arrogant starting out but he prides himself on not coming across as a pampered jet-setter.

Edwin de la Harpe Hertzog (41), son of Dirk, married Elizabeth Erasmus in 1975 and they have two sons and a daughter. Director of Remgro, Rembrandt Controlling Investments and TIB. MD of Mabu Clinic, the private hospital company controlled by Remgro, chairman of the National Association of Private Hospitals. Stellenbosch graduate.

History: Rembrandt began life in 1942 as Voorbrand Tabak. Rupert and Hertzog raised capital door-to-door and built the small tobacco company into an international empire.

A very private person, Anton Rupert holds numerous public offices. Among others, he’s chairman of the Small Business Development Corp and Historical Homes of SA, chancellor of Tukkies (where he once lectured in chemistry) and a director of the Reserve Bank.

Business Day said in March: “Anton Ru	pupert is a humanitarian, a man before his time who practises nonracism (with a) ... deep love for Africa.”

Dirk Hertzog is president of the Free Market Foundation. He began his career as an attorney in 1932 with the firm of Couzyn, Hertzog & Horak in Pretoria.

GORDON R482,7m

Family business: Liberty Investors.

According to a circular dated October 31, 1990, the family holds 125 370 587 shares in Libvest, priced at R3.85. Libvest is at the top of a complex structure which controls Liberty Life, Prudential Assurance, British interests including Capital & Counties, holds 20% of Sun Life Assurance and has a wide range of other interests. Founder and current head of family: Donald Gordon (60). Married to Peggy, he has two sons, Graeme (27) and Richard (32), and a daughter, Wendy Appelbaum (30).

History: After qualifying as an accountant, Gordon started his own insurance company when he was 27. Requiring a statutory minimum of £50 000, he raised £42 000 in nine months from friends, his wife’s gynaecologist and business contacts. He managed to persuade the Registrar of Financial Institutions to defer the requirement for the additional £40 000 till the end of the first calendar year.

Four years later Liberty Life went public. The worldwide Guardian Assurance Group acquired 75% of Liberty Life and left Gordon as MD and a director of Guardian.

From the start, Gordon was interested in expanding internationally. When he re-acquired control of Liberty in 1978 he returned to his international ambitions. Within two years, with an initial capital of £20 000, he established TransAtlantic Holdings, through which his offshore interests in Sun Life, Capital & Counties and Continental & Industrial Trust are held.

He is also chairman of Charter Life Insurance, Continental & Industrial Trust, First
Bill Venter ... the product is what counts

tracts. But, in a 1983 interview, he strongly denied that his Afrikaner background got him the business: "Nobody makes money out of patriotism. The product is what counts."

When ITT divested in 1976, Venter brought his old employer, Standard Telephone, into the fold. He has also bought out disinvesting subsidiaries of Xerox, Asea, Integraph, Motorola and NCR.

His recipe for success: "You have to be prepared to give up the social rounds, frequent holidays, three-day weekends, home at 4:30 to stroll through the garden. The rewards make it worthwhile."

Venter's a fitness junkie and his Boksburg head office is equipped with a state-of-the-art gym. Through the Bill Venter Foundation he funds schools, medical facilities and academic research.

He maintains a modest lifestyle, driving his own car and eschewing overseas holidays. Only in the last two years has he travelled first class. He says, "The group is not for sale and it never will be."

**JOWELL**

**R172.5m**

**Family business**: Mobile Industries, Trencon.

Through 53 subsidiaries, operates in manufacture of truck trailers, road tankers and containers, road haulage, tyre retreading and marketing, commodity exports and express goods service.

According to the share register, the Jowell family has a controlling stake in parent company Mobile through a holding of 14,680,600 shares in February 1990 priced at R11.75.

**Founder**: Joseph Jowell (died 1973).

**Head of family**: Neil Jowell (57) is chairman and CEO of Trencon; Cecil (55) is chairman of pyramid Mobile.

**History**: In 1930 Joe Jowell, a practising attorney saw an opportunity presented by a
Family business: Pepgrao, Pepkor, Pep Stores. The group includes nearly 900 Pep stores, the Ackermans retail clothing chain and the Shoprite chain.

As disclosed by Christo Wiese, the family held 5200000 shares in Pepgrao as at December 16, each priced at R26.

Founder of the business: Renier van Rooyen.

Head of the family: Christoffel Hendrik (Christo) Wiese (49). He and wife Caro have a son and two daughters. He is executive chairman of Pepkor, chairman of Pepgrao and a director of more than 100 companies.

History: Born in Upington, the birthplace of Pep Stores, Wiese joined founder Renier van Rooyen in the business in 1965 after working there as a teenager during school holidays. In 1976 he and a friend bought out Ochta diamonds and made a mint during the boom of the late Seventies. He sold out in 1980, just as the diamond market peaked. In 1981 he bought out Van Rooyen, who wanted to retire, and took control of Pepkor.

His wife is the daughter of Japie Basson, formerly chairman of the United Party in the Transvaal. Basson was a member of the Namibian and SA parliaments for 30 years and, after switching to the NP, a member of the President's Council under P.W. Botha.

Christo was active in liberal student politics at the University of Cape Town and unsuccessfully stood for parliament as the PFP candidate for Simonstown in 1977. He went to Paarl Boys' High and earned a law degree from Stellenbosch. He practised at the Cape Bar from 1974 to 1978.

In November, Wiese bought the historic Lancerac Hotel on a 20-ha site in Stellenbosch for a reported R9m. It's thought that he will restore the manor house and use it as a private residence.

For the past 16 years the family has lived overlooking the sea at Clifton. They also have a beach house in Yzerfontein on the west coast.

Christo Wiese ... from diamonds to retailing.
Family Business: FSI Corp and FS Group, comprising 22 companies with interests that include building materials, footwear, pharmaceuticals, property and hospitality. Liebesman family has holdings in FS Group, FSI, Teamcor, Hunts and Waicor. As the group has just gone through a restructure, it has not been possible to identify specific holdings, but Jeff Liebesman has put a value of R130m on them.

Founder and family head: Jeffrey (Jeff) Michael Liebesman (38). He's chairman and CE of FS Group, FSI and Waicor; chairman of AAF Investment Corp, Home-maker Holdings and Hunts and Reichmans. He and wife Merle have two sons.

History: Liebesman grew up in middle-class Orange Grove, Johannesburg, where he made money by renting out bicycles to neighbourhood children. He went to Northview High School, narrowly squeaking through matric, and Wits, where he earned a BCom and BAce. His father financed the first year at Wits and he financed the rest by selling second-hand clothes.

As a CA with Kessel Feinstein, he caught the eye of one of the firm's clients, FormScaff. In 1981 he was asked to come aboard as the company's MD and then bought into the scaffolding company with R750 000 he had made through investing in the JSE.

Within a few years he had taken after-tax profits from R500 000 to R20m by buying up the competition, opening branches around SA and expanding the business offshore. His next purchase was NatBolt from Anglovsaal, followed by W&A (which included General Tyre, Hunt and AAF) from Mannie Simchowitz, and then trade finance company Reichman's (sold this month to Investec.)

W&A's average annual return of 90% for the past five years won it Business Times's Top 100 Companies award for the second consecutive year. Says Liebesman: "I guess I'm trying to do what Hanson Trust has done so successfully in the UK — to buy undervalued companies in unfashionable basic industries, then to maximise value by turning them around and working the assets."

He's known to run an exceptionally informal show around the well-appointed Doorfontein head quarters, which came with the W&A deal. He's still regarded as the ordinary boy next door, the Jewish kid from Orange Grove who made good. He's also respected as a gutsy guy who is a master business strategist, a wheeler-dealer. He runs five days a week and has completed several Comrades marathons. He also plays squash and golf.

MOWSZOWSKI  R129.5m

Family business: Elecentre Group, comprising 82 subsidiary and associated companies primarily involved in the manufacture and distribution of power cables and wire, as well as a wide spectrum of electrical and electronic products (Voltex Holdings Ltd), and the distribution of locksmith supplies and security products, electrical accessories, tools and hardware (Sanlic Hardware Holdings Ltd.)

Mowszowski held 43 152 760 shares in Elecentre Group Holdings in June 1990, as disclosed in the annual report, priced at R3.


Head of the family: Reuben Mowszowski (48).

History: Wolf Mowszowski, born in Poland in 1908, fled the impending Holocaust to Israel in 1940. He arrived in Johannesburg in 1955 with his three sons, Reuben (then aged 11), Nathan (6) and Chanania (4) and established Electric Centre afterwards.

By 1971, all three sons were involved in the business, which soon became a family partnership. By 1986, Elecentre had 14 branches and was second in size in electrical goods distribution in turnover. A year later, having taken over Globe Electrical and Atlas Cables, Elecentre was the only national electrical goods distributor.

Elecentre and Berzack Bros combined 80% of their assets to create Voltex, of which Nathan Mowszowski is the director. The group has 64 distribution outlets and 15 factories for manufacturing.

Chanania collects vintage cars and plays squash and tennis. He drives a Jaguar and his wife a Mercedes-Benz. He and his wife have a son and two daughters.

Nathan, a BCom (Wits) and MBA (cum laude) (Wits) graduate, married in 1975. The couple live with their young son and a daughter in Rivonia, where they keep a boat, a Land-Rover and two BMWs.

Reuben, the current chairman and MD,
Recession, debt dampen outlook

MONEY and jobs are short and consumers at every level are struggling to keep ahead of debt - but the Western Cape has the potential to break the grip of the economic recession.

This is hopeful message leading economists have for the region as consumers go on a Christmas spending spree.

But it is not all good cheer on the economic front. While the seasonal Christmas upturn is expected to bring a welcome boost, the effects of the downturn are daunting.

Many Western Cape industries have had to retrench staff and resort to short-time working for the first time in years as demand has dropped.

Some of the region's biggest industries - clothing, footwear and furniture have been hardest hit as consumers save their earnings for essentials like food, housing, transport and education.

Economists warn that one of the greatest reasons for concern is the vast and growing number of people who have little hope of finding jobs in the near future.

At the same time, the Stellenbosch Bureau for Economic Research warns that growing unemployment coupled with "unrealistic" trade union wage demands have destabilised the labour market and created a climate of social unrest.

The national debt on loans, including mortgages, has soared by a staggering 72.2 percent to R234-million in the past year - with the Cape having its fair share.

More people have had to give up their houses because they could not make mortgage repayments and, while the property market has remained buoyant, the region has a housing backlog running into thousands, especially in the low-cost sector.

While tourism in the Western Cape has remained buoyant, the recession has dampened the industry's growth rate and while steady growth is predicted, it is very sensitive to violence and unrest.

Reeling from assorted price increases - especially fuel, and the concomitant consumer price rises - consumers are struggling.

Diversity in the local economy is cited as an insurance against the effects of the recession, but certain sectors in the region are badly off.

Mr Colin McCarthy, executive director of the Cape Town Chamber of Industries says the downturn has led to a reduction in buying power and industries which suffer are those manufacturing durables like clothing, footwear, furniture.

"The Cape is the biggest centre for footwear, clothing and textiles - and there has been a huge reduction in the demand for these products."

Regrettably there have been a number of failures, especially in the clothing industry where many factories have gone insolvent.

"The country all over is in a poor state, but the Western Cape has suffered because of the manufacturing industries here."

He argues that the Cape should concentrate on building its export capacity.

A brighter view comes from Dr David Bridgman, executive director of Wesgro, the region's development agency.

He believes the Cape has had the fastest growing economy of all metropolitan areas in the country through the '80s, becoming "the leading area in South Africa".
BARLOW RAND

ANOTHER TOUGH YEAR

Activities: Mining, mineral beneficiation, manufacturing, distribution, food, pharmaceuticals and property.

Control: Old Mutual 34%; Sanlam 7.2%.

Chairman: A M Rosholt, vice-chairman and CE: W A M Clowow.

Capital structure: 185.5m ords; 375 000 6% cum prefs. Market capitalisation: R6,98bn.

Share market: Price: 3 700c. Yields: 4.6% on dividend; 12.8% on earnings; p/e ratio: 8.0; covers 2.7. 12-month high: 5.475c; low: 2.975c. Trading volume last quarter, 2.7m shares.

Year to Sep

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<th>'87</th>
<th>'88</th>
<th>'89</th>
<th>'90</th>
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<tr>
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<td>0.73</td>
<td>1.09</td>
<td>1.38</td>
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<td>1.83</td>
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<td>Debt/equity ratio</td>
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<td>0.38</td>
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<td>0.42</td>
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<td>Int &amp; leasing cover</td>
<td>9.5</td>
<td>21</td>
<td>9.8</td>
<td>6.8</td>
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<tr>
<td>Return on equity (%)</td>
<td>16.4</td>
<td>23.8</td>
<td>31.1</td>
<td>23.7</td>
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<tr>
<td>Turnover (Rbn)</td>
<td>16.5</td>
<td>21.2</td>
<td>25.4</td>
<td>22.1</td>
</tr>
<tr>
<td>Pre-tax profit (Rbn)</td>
<td>1.42</td>
<td>2.02</td>
<td>2.70</td>
<td>2.46</td>
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<tr>
<td>Pre-tax margin (%)</td>
<td>8.8</td>
<td>8.6</td>
<td>10.2</td>
<td>8.6</td>
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<tr>
<td>Earnings (c)</td>
<td>297.3</td>
<td>408.2</td>
<td>843.8</td>
<td>463.7</td>
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<tr>
<td>Dividend (c)</td>
<td>100</td>
<td>130</td>
<td>170</td>
<td>170</td>
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<tr>
<td>Net worth (c)</td>
<td>1 810</td>
<td>1 784</td>
<td>1 747</td>
<td>1 955</td>
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</table>

Barlow Rand’s 14% earnings decline in financial 1990 was a better result than the market had expected, and the share price gained about R3 after release of the figures.

The group thus showed resilience when demand withered in most markets and home and abroad.

Sliding commodity prices bloodied the earnings from two major divisions — mining, and ferro-alloys and stainless steel — which together contributed 39% of 1989’s attributable profit; in 1990 their total contribution buckled to 26%. The collapse at Middelburg Steel & Alloys (MSA) wiped R164m off Barlow’s 1989 bottom-line profit of R1bn.

Chairman designate Warren Clowlow says the extensive capital programmes at MSA has been completed and it is expected the company will, when better market conditions return, perform at a level that will justify the expansion. He adds that MSA operates in highly cyclical international markets and Barlow is examining ways of reducing the effect of this company’s cyclicality on its performance.

Barlow has made varied changes to its structure in recent years, including several sell-offs, and the wholly owned portion of the portfolio expanded considerably. Though benefits were felt in the upswing, the 100% subsidiaries include some particularly cyclical companies — MSA &A as well as such interests as the building materials, steel and paint division.

The effective stake in Tiger Oats — long one of most successful and consistent performers — is only 26%. That the 1990 attributable profit contribution from food and pharmaceuticals was only 14%, partly reflects the financially inefficient control structure through C G Smith and C G Smith Foods. A leaner structure for Barlow cannot be delayed indefinitely.

The worst is not yet over for mining and MSA &A. The latter’s outlook for the coming year is described as particularly bleak, given the uncertain state of world markets, the ferrochrome oversupply and the weakening SA economy. While Rand Mines is gaining from higher coal offtake at certain Eskom power stations and the increased share in Middelburg Mine, the coal export market remains stodgy and the mining house is meeting difficulties in most other areas. Its 1991 taxed profit could be “well down.”

Rand Mines has been a useful source of cash but the mining house itself has stagnated. It has failed to diversify its mining operations effectively, and, as Barlow’s mining arm, has been unable to follow other mining houses in investing outside the mining industry.

Clowlow admits that, taking a long-term view and exercising patience with regard to the marginal gold mines, has not helped Rand Mines. Prospects for the mining division in its present form and under present world precious metal and commodity market conditions, he says, are not favourable. The entire asset portfolio of Rand Mines is being reviewed and its cash position will be strengthened by disposal of under-performing assets and non-core businesses.

In contrast, steady or improved profit is forecast for most of Barlow’s other major divisions. The industrial division, which provided 30% of attributable profit, is expecting a reasonable advance from electronics and electrical engineering, a return to growth in information technology, an earnings increase in line with inflation from earthmoving equipment, motor and appliances, and marginal improvement from building materials, steel and paint.

After an earnings decline last year, the packaging and textiles division is expecting some recovery, partly due to capital projects coming on stream. Better earnings are also expected from food and pharmaceuticals; management reckons these businesses are generally running well and there are still many opportunities for expansion and increased profitability.

After several sluggish years, J Bibby Ple woke up and lifted its sterling after-tax profit by 23%, a 27% advance in rand terms. It made several acquisitions and expresses confidence for the future — though a similar surge is unlikely in 1991, in view of the slowing UK economy.

A favourable swing of R34m in the deduction from Barlow’s bottom line, relating to property, finance and administration, was mainly due to tax benefits arising from cap-

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<tr>
<th>PROFIT BREAKDOWN</th>
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<tr>
<td>Attrb profit (Rm)</td>
</tr>
<tr>
<td>Mining</td>
</tr>
<tr>
<td>Cement &amp; lime</td>
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<tr>
<td>Ferro-alloys &amp; stainless steel</td>
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<tr>
<td>Electronics &amp; equipment</td>
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<td>Information Tech</td>
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<tr>
<td>Earthmoving equipment &amp; appliances</td>
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<td>Building materials</td>
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<tr>
<td>Steel &amp; paint</td>
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<tr>
<td>Packaging &amp; paper</td>
</tr>
<tr>
<td>Carpets &amp; textiles</td>
</tr>
<tr>
<td>Food &amp; pharmaceuticals</td>
</tr>
<tr>
<td>Property, finance &amp; admin</td>
</tr>
<tr>
<td>Total</td>
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FINANCIAL MAIL • DECEMBER • 21 • 1990 • 81
ital allowances in certain wholly owned subsidiaries — another boost unlikely to recur this year.

Whether improvements in the industrial, food and international interests will be enough to compensate for deterioration elsewhere will depend largely on economic conditions. Asset management remains tight — operating working capital increased only 2% last year — but volumes will ultimately determine profitability.

Cleowlow sees 1991 as a year of consolidation, with reorganisation in the mining division and capital projects to be brought to profitability throughout the group. Perhaps optimistically, he forecasts roughly maintained profit, implying a dividend pegged at 170c for the second year; certainly, it will not be cut. Investors must be hoping the dividend plateau will not extend to five years, as in the first half of the Eighties, when Barlow became known as a fixed interest stock.

Earnings growth should, however, be robust when markets recover, which may well occur by 1992. The share offers value at present levels around R37, though there probably will not be much appreciation for a while.

Andrew McNulty
SA's first trade mission to USSR

SOUTH AFRICAN businessmen will make their first official trade visit to the Soviet Union and Poland next year.

The visit, arranged by the SA Foreign Trade Organisation (Safio), will take place from April 14 to April 28. Some of the companies that seek contacts are Allied Bank, Dimension Data, Klockner-Beorit, and General Food Industries & Industrial Commodities, a chemical company.

Trade links with the Soviet Union will be enhanced by direct shipping routes. Ships will ply between Maputo and Leningrad if current negotiations are successful.

Safio international division senior general manager Mike Veyzie says five companies have signed up for the visit. It is hoped that 15 companies will join the part.

Mr Veyzie says: "Private companies in the USSR are now allowed to apply for import licences, but there is great uncertainty about payments."

The USSR imports glassware, medicine, food and consumer goods from SA. More scope exists for the export of mining equipment, metals and minerals, automotive engineering, electronic, agricultural, pharmaceutical and textile products.
Manufacturers boost capacity utilisation

MANUFACTURING industries improved their capacity utilisation levels during August with non-ferrous basic metals reaching 93.8% of their production capacity, the latest Central Statistical Service (CSS) figures show.

But while the footwear industry at 93.3% showed the highest increase (8.1%), this was symptomatic of a cyclical trend in the industry. However, an increase in footwear demand was clearly evident from August, an industry spokesman said.

Other sectors contributing most to the 0.5% increase in total utilisation to 81.6%, were the furniture industry at 25%, the leather industry at 22% and the scientific equipment industry at 2%.

The furniture industry's 2.5% increase in productive capacity was probably the result of an upturn in business in Natal and the western Cape, said a Furniture Manufacturers Association spokesman.

A number of new factories had been built and employment increased.

The figures showed that the transport equipment industry had the lowest utilisation at 70.6%.

Of the 18.2% underutilisation of capacity, 11.6% was attributable to insufficient demand for chemical products.
Whither the industrial market?

A year ago I predicted the industrial index would show little growth in 1990 as the economy slowed and corporate profitability came under pressure.

As it turned out, my prediction seems to have been on target. At the time of writing, the index level of 2968 was not much short of my targeted 2950.

So what for 1991? Current signals indicate a worsening of the key economic indicators early in the year.

Gross domestic product (GDP), already negative (annualised for three successive quarters, should remain negative for much of 1991, while negative fixed investment already seems to be a way of life in SA.

Unemployment is forecast to deteriorate rapidly in the first quarter of 1991 — in fact many workers may well be returning after Christmas to no job, while early reports in December from leading retailers indicated a rapid drop-off in trading, compared with the levels recorded earlier this year, due, I am sure, to continued high inflation (more recently the petrol price increases), lower growth in wage increments, the uncertainty created by the unemployment spectre and the declines in incomes of the informal sector (particularly tax-delinquents).

Profitability

Company profitability will also be negatively affected by:

- The Government’s continued anti-inflationary drive, which will see government expenditure real growth once more at a virtually zero level.
- The stronger rand, which is affecting export industry profitability overly.

Although investment restrictions have now been removed by the European Community, we see little action coming here for a long time because of the unclear views of the ANC and other like organisation on nationalisation. Clearly the latest decree in regard to white-owned Zimbabwean farm properties won’t create a climate conducive to investment.

The lifting of trade barriers could help certain industries such as iron and steel and certain agricultural products, but clearly the mooted boosting of trade with East European countries and Africa will always be restricted by foreign currency constraints.

The world economic outlook will, as always, not escape SA and prospects of slower world activity could hurt demand for and revenue from some of our primary exports such as platinum, steel, ferrochrome, coal, sugar, etc.

Fortunately, the start of construction on the Lesotho Highlands water project will contribute for some of the decline in Mossas activity.

But the possible closure of some gold mines or a major cutback in gold mining activity will both put many tens of thousands out of work and reduce mine purchasing activity (and development) somewhat severely.

Scenario

Compounding the above is the political scenario, which indicates a further high capital outflow for 1991 in terms of our international creditor arrangements and an ongoing postponement of employment-creating opportunities because of the uncertainty.

Inflows into Eskom stock should continue, but this does not create jobs.

Whatever the number of new jobs created, if any, it will not cover population growth and unemployment will worsen.

When will the economy turn? We think weak signs will emerge later in 1991, particularly when the expected lowering of interest rates has the desired impact.

But let us warn that maybe up to three drops in interest rates might be needed to re-stimulate the economy (remember 1985-87)?

By then we also hope that a weaker rand will help exporters recover their profit margins and generally create a climate more positive than the present one.

Perhaps, too, the constitutional negotiations will have started and helped improve the political climate.

So how will all this affect the industrial market?

Fundamental

Let us begin by examining the fundamental truths underlying the South African industrial board of the JSE:

- Many years of low growth and negative GDP has resulted in current debt ratios of the top index stocks remaining well within acceptable levels.
- Little or no new money is expected to be raised in the foreseeable future.
- Privatisation is currently out of the question until the political questions are resolved, so institutional investment in this area will be zero.
- Potential investment opportunities in government, semi-government and parastatal stocks will decline because of low budget deficits or capex programmes under consideration.
- The outlook for commercial and industrial property is unexciting with a high range of stocks such as Mincor, Richmont, Fli, Lonrho, etc.
- Institutional cash holdings cannot for psychological reasons be allowed to rise too high, while in any event the returns from cash are forecast to decline considerably in 1991.

So what happens?

Merry-go-round

Effectively, we get “inflation” in the share market where cash can only logically be dedicated to industrial stocks. And because we have a virtually finite number of stocks being chased by ever-increasing cash flows, stock prices inevitably rise in the resultant merry-go-round.

We therefore think that despite the current poor economic outlook, the industrial board will start to display exciting growth signals later in 1991 as the returns on alternative investments (cash) decline, share earnings outlook improves and industrial equity holdings in portfolios need to be increased to more realistic levels.

We therefore think that top-quality index stocks could rise by as much as 20 percent in 1991 as investors scramble to increase their equity exposures and simultaneously reduce their gold and related positions.

Our forecast is for an industrial index of 5 500 by end-1991, with significantly weakened earnings and dividends yields attaching thereto.

This strange paradox is, regrettably, the result of the cumulative effects of a decade of erratic economics, uncertain politics and worsening untradeability in the market due increasingly to the high level of power concentration in South Africa.
De-stocking behind decline in spending

MASSIVE de-stocking — to the tune of an annualised R4bn in the first half of this year — was a major factor behind the decline in overall spending in the economy, according to First National Bank economist Cees Bruggemans.

"With the prime interest rate at 21% since October 1989, implying a real rate of interest of up to 7%, there was a considerable incentive for companies to resume their relentless effort of recent years in driving down stock levels.

"This incentive was considerably heightened when private sector managements received warning of policy intentions to force quite a harsh domestic adjustment."

The Reserve Bank noted in its Quarterly Bulletin that the high real cost of carrying inventories had prompted firms to work towards increased rates of turnover of their inventories. Bruggemans also noted political factors as a reason for running down stocks.

Running down of inventory holdings was evident in particular in retail trade where inventories declined from an average of nearly one-and-a-half months' sales in 1989 to an average of only slightly more than one month's sales in the first three quarters of 1990.

According to Reserve Bank figures, the third quarter of this year saw the fifth consecutive quarterly fall in stock levels, on a seasonally adjusted and annualised basis. But massive de-stocking in the first two quarters (R3.5bn and R2bn respectively) was followed by a more moderate decline in the third of R1.8bn.

Economists point out that de-stocking was already well under way last year.

"The build-up in stocks during 1988 and early 1989 was not exceptional. The long-term ratio of stocks to GDP has been steadily falling by about 1% of GDP annually since the mid-1970s under the impact of technological improvements in financial and stock control," Bruggemans said.

The Reserve Bank Quarterly Bulletin shows that, even during the upswing years, the ratio of inventories to GDP peaked at 21.2%. It subsequently fell to 19.5% in the third quarter of this year.
Fixed investment spending ‘to drop’

ROBERT WICKS

FIXED investment spending is set to drop by between 6% and 7% in 1991, reflecting the slowdown in corporate profitability this year, economists said yesterday.

Bankcorp economist Nick Barnardt said a combination of negative factors was influencing both corporate profitability and fixed investment.

"Only a few companies have been able to show an earnings growth higher than the inflation rate. After the 1990 adjustment for inflation, corporate profits decreased by 10% in real terms. Such a reduction has to be bad news for fixed investment opportunities."

High interest rates continued to deter investors, although a cut early in the new year seemed likely. Export companies were unlikely to invest as a slowing of the international economy had significantly influenced domestic export prospects. The agricultural sector had experienced a difficult year, as had the manufacturing industry.

Political uncertainty, unrest, and high wage demands coupled with high consumer spending expectations all looked set to contribute towards a decline in fixed investment expenditure in 1991, he said.

A positive factor for investment spending was the recent inflow of capital. But economists Chris Greyling and Louis Goldenhuys said yesterday this would not have a marked effect on investment spending.

Greyling predicted that the decline would bottom out around the end of the third quarter next year, but until that point, both the public and private sectors would experience declining fixed investment figures.

"The one positive aspect influencing investment is the gradual phasing out of international sanctions. Once complete, a better flow of investment expenditure could be expected."

Economists also noted the general trends towards industry cutbacks, mergers and rationalisation would contribute to declining investment expenditure, with little movement towards expansion and positive investment capital expenditure.

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Investment

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MANUFACTURING - GENERAL
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JANUARY - APRIL
The FM's latest survey of corporate profit performance has thrown up a number of disturbing trends — not including the fact that there has been further material deterioration in growth to the point that average EPS growth has turned negative.

The slowdown in growth as such was predictable — being a continuation of the trend which first became evident two years ago, after the August 1986 package designed to cool the economy. But while it would be tempting (not to say comforting) to attribute recent poor company results to the effects of this package, there are clear signs that government policy is not the only factor at work — and perhaps not even the most important.

The present survey follows exactly the same pattern as its predecessors. It is a round-up of results of the major companies that reported over the past six months. Selection has been based partly on size, with a turnover cut-off of about £90m and an attempt has been made to ensure latest results are comparable with year-ago figures, to minimise distortions arising from corporate restructurings and so on.

What results is a list of just over 160 companies covering the entire industrial board, mostly reporting periods (either interim or prelims) to the second or third quarter of the calendar year.

To deal first with a few global totals, the deterioration in trading conditions is reflected across the full spectrum of turnover, operating margins (hence operating profit) and bottom-line earnings. Starting with turnover, a simple arithmetic average of sales growth has slowed to 15.7% — little better than the inflation rate. Six months ago, average sales growth recorded by substantially the same companies was almost 29% a year ago it was 31.5%.

Something relatively new, however, is the intensified pressure on margins. This time around, the average operating margin was 9.2%, down from 10.6% in the January 1990 round-up and 10% two years ago. With the rapid contraction of sales growth, it was to be expected that profit margins would be trimmed to protect market share. This, nevertheless, contributed to even more marked deterioration in the rate of improvement in operating profits. These, on average, were up only 8.2% against 29.2% six months ago and close to 40% a year ago. This was the first time in the economic cycle that operating profit growth failed to match that of sales.

Further down the line we come to one of the few positive aspects — indication that corporate SA has at last absorbed the worst effects of the surge in interest rates. A year ago, when these effects were being compounded by higher debt levels, average growth in finance charges was 167%. The latest figure is little more than one-quarter of that — 40.3%. If nothing else, finance charges are having a less deleterious impact on attributable earnings.

Not that this did much good. Higher finance charges and, probably, higher effective tax rates, wiped out the last vestiges of EPS growth which, for the sample as a whole, turned marginally negative at minus 0.4% — down from a positive 18% six months ago and 28% in the January 1990 round-up.

Shareholders fared a little better: dividends rose by an average 8.4%, marking another change in that this was the first time dividend growth materially exceeded earnings performance (see table).

So far, there is nothing in these globular averages to indicate anything extraordinary, given the long-standing curbs designed to protect the balance of payments and reduce inflation. When you go into the sectoral performances, the picture changes. It is surprising to find the consumer-based sectors still performing relatively well — and far better than the simple average.

There is no better example than the Stores sector where average growth in sales was a whopping 27.2%. Similarly, the Furniture sector featured strongly with five of the six companies included gaining more than 20%.

These two sectors feature among the top five in terms of growth of operating profit, finance charges — strictly speaking, a negative except that it indicated the activity still being experienced — and dividend growth. Furniture features as the sector with the highest average earnings growth; the average for Stores, however, was hit by the poor performance of the likes of Tragoedro, Metro, Midas and Gresham, which cannot be entirely blamed on the trading environment. Even so, half the 23 stores included scored earnings gains ahead of inflation; another half-dozen or so came close.

The idea of a consumer boom — even on a relative scale — in the middle of a recession is, to say the least, a little unusual. It is also worrying in that it suggests government has been less successful in cooling the economy than have the uncertainties engendered by the rapidly changing political climate — a point mooted by the FM in the last corporate profit round-up.

If so, the path ahead is far from clear. What, for instance, happens when government finally decides the time is ripe to encourage renewed growth? To do so via the traditional means of stimulating consumer demand under present conditions would be downright dangerous and would probably undo overnight any good that has so far come out of steps to stabilise or reduce inflation.

What can be said with some certainty is that the trough in terms of corporate profit growth has not yet been reached. Results included in the present survey do not reflect conditions beyond September 1990, so it must be a foregone conclusion that the next survey, covering results up to March, will reflect a continuation of present trends.

By then, there are reasonable prospects that interest rates will be off the top and, all else being equal, one could probably expect that this alone will start to exert a stabilising influence on results as the year progresses. This should be reflected in a year's time.

But local and international politics bring in uncertainty. The question is whether the internal climate will simmer down enough to boost general business confidence; and, externally, whether improved export opportunities arising from the lifting of sanctions and easier access to eastern European markets will contribute to renewed growth.

On a more positive note, it is also evident that, despite pressure on profits (from whatever source), corporate SA is still in reasonably good financial shape — and, therefore, ready to take advantage of whatever opportunities present themselves.

This much is clear from the fact that average profit cover on finance charges is still relatively comfortable at almost 5.5 times; safely above the benchmark of four, normally considered to indicate a sound financial position.

Like any other average, it is implicit that some companies have stronger ratios, while others may be in trouble. But it does suggest there are still opportunities for selective investment, particularly for those prepared to look beyond current uncertainties — and, hopefully, to the day that the SA economy is able to develop unhindered by the constraints of the past.

Brian Thompson
Cash-tight firms on sale overseas

CAPE TOWN — Cash-strapped SA companies and commercial projects valued at more than R1bn are being marketed to foreign investors.

The commercial division of Pam Golding Properties (PDP) is showing a R1bn portfolio of small to medium-sized SA businesses and commercial and industrial property projects to UK investors this week.

The sellers are well managed and profitable, but cash-strapped enterprises looking for new capital injections from foreign investors, says PDP business broker Pieter Wicht. In a few cases, companies are trying to sell out completely, Wicht says.

The search for foreign partners or buyers has been prompted by the expected lifting of sanctions. But the underlying reasons include prohibitive financial constraints on borrowing in the local market, a weak equity market which discourages new equity issues and a relative shortage of local corporate buyers in the economic recession, he says.

R250m project

Wicht says the FGP portfolio is heavily weighted in hotel and leisure projects which require additional capital and operational expertise. But there are also smaller manufacturing and engineering companies on the lookout for foreign sleeping partners, he says.

One of the largest ventures in the portfolio is a R250m project by a local leisure group to develop an airport hotel near Jan Smuts, as well as hotels and leisure resorts in the eastern Transvaal, Durban and Cape Town.

Another is a R150m project to develop a timeshare and hotel resort in the Worcester/Wellington region of the western Cape. In both cases, the developers are looking for financing as well as operational expertise, says Wicht.

There are a number of small to medium companies in the portfolio wanting to raise between R200 000 and R250m. One, Cape Town’s oldest engineering firm, Maredon, is being offered to foreign buyers for R35m, he says.

“Many of the companies, hand-picked for the portfolio, are heavily borrowed and are working only for the bank and their employees.

“But they are fundamentally sound and capable of earning between 24% and 40% a year, which is much higher than the yields acceptable in the UK.

“Profitable SA enterprises offer good investment opportunities to foreign buyers. But, even though investments through the financial rand seem cheap to many European investors, they know the value of things and won’t overpay. They are looking for real returns beyond the political risk,” he says.

Wicht places the buyers he is hoping to attract in the UK into three categories. There are private emigrants with the equivalent of up to R5m upfront, general investors with more capital at their disposal and venture capitalists who are prepared to take high risks for high returns.

Investors in the two latter categories do not want to live in SA but consider it to have investment potential.

The greatest foreign demand to date has been from English and German investors for commercial property, hotels, guesthouses, restaurants and small factories, Wicht says.

But he concedes that foreign interest has been slow to translate into acquisitions, with negative perceptions of ongoing political risk a major obstacle.
Experts debate use of pension fund surpluses

GILLIAN HAYNE

COMPANIES have a moral obligation to use pension fund surpluses to improve employee benefits, some insurance experts believe.

Other experts dispute this. The question of ownership of pension fund surpluses is the subject of debate, with companies facing the dilemma of who has the right to the overfunding.

In two recent cases, Times Media Limited (TML) used an excess of R7m to improve employee and pensioner benefits, while engineering giant Dorbyl chose to take a contribution holiday with part of its surplus.

TML group secretary Barrie Harris says companies have a moral obligation to improve the fund.

"Although I understand the view that since companies are responsible for any shortfall in the fund they have some entitlement to the surplus, I do not agree with contribution holidays."

Dorbyl financial director Tony Welton says: "It was only after we had improved pensioners' benefits beyond all expectations and found we still had a surplus that the company decided to stop contributing for a while."

Alexander Forbes senior director Peter Milburn-Pyle and Southern Life GM Roy Lennox say pension fund surpluses "belong to the fund, not to the members, the employer or any other party". The two actuaries have compiled a paper investigating the ownership of fund surpluses for Wynand Mouton, the chairman of the Mouton committee inquiring into the pensions industry.

"Fund managers could use the surplus to improve benefits, reduce the employer's contribution, reduce the members' contributions, carry the distributable surplus forward unappropriated, or a combination of these."

Their report looks at the options open to companies with overfunded schemes, whether they are pension, provident, defined contribution or defined benefit funds.

In most, defined benefit pension funds are more susceptible to surpluses because actuarial assumptions are inclined to be conservative.

Insurance expert Richard Wharton-Hood says that in general, contribution holidays are wrong because the company withholds benefits from staff and pensioners. However, the decision depends on the size of the surplus in relation to the scheme, he says.

"The members should be the first concern, and the company the last. Companies have a moral obligation to pass pension fund surpluses on to their employees."

"However, to overcome what is always a debatable point, I believe companies should move to fixed contribution schemes, where both the company and member pay in a fixed amount, and rely on investment performance to provide the return."
Capital equipment costs hit hard

THE high cost of capital equipment is a significant factor undermining the competitiveness of South African industry, says the South African Chamber of Business (Sacob).

Sacob study shows that capital equipment costing R100 000 at source is likely to cost R175 850 after transport, insurance, taxes and interest charges have been added.

The major component of these added costs (R42 550) accrues to government and consists of a R15 000 import duty, a R10 000 import surcharge and R17 550 in GST.

The same equipment could be obtained by SA’s competitors in Germany or Japan at a total cost of R110 000, the study notes.

Capital intensive industries such as textiles and iron and steel are particularly affected by the high cost of plant and equipment.

Sacob says the textile industry is increasingly being faced with stiff competition from the Far East.

This, together with the industry’s inability to compete, has led to significant losses in jobs and the closure of a number of factories.

Some relief may be forthcoming, as the surcharge on capital goods which was introduced in 1988 at a level of 15% and subsequently reduced by a third in last year’s Budget, is expected to be either abolished or substantially reduced in the forthcoming Budget.

It is currently estimated that this surcharge contributes about R2bn to state revenue.
Manufacturers negative on prospects

CAPE TOWN — Business confidence in the manufacturing industry lifted during the final quarter last year, but manufacturers remained negative about future conditions, the Stellenbosch Bureau for Economic Research (BER) said.

In its latest quarterly survey of the industry, the BER reported that the manufacturers' business confidence index increased to 31 from 28 points during the final quarter. But, it added, 55% of the 845 manufacturers surveyed expected business conditions to be worse this year than last, while only 16% anticipated an improvement.

The results of the survey reflected a decline in sales, production and new orders coupled with uneconomically high stock levels during the quarter under review. But production capacity utilisation remained at relatively healthy levels as a result of a smaller workforce and longer work days, the BER reported.

The steady increase in the price of oil last year had taken its toll on the industry and would keep upward pressure on the prices of manufactured goods during the current quarter, it reported.

BER economists said an alarming aspect of the survey was the respondents' expectation of a decline in the level of real fixed investment in machinery and equipment this year.

"Within the South African manufacturing environment of a largely unskilled actual and potential workforce, coupled with an excessive amount of obsolete capital equipment, new investments in growth ventures are of cardinal importance," the economists said.

"Failing to understand that it would take years to transform the physical and human resources base of the industry into a more sophisticated style, would jeopardise the whole national economy."

The continuing deterioration of conditions in the manufacturing sector was set against a daunting economic backdrop in which the monetary authorities would provide only limited relief and the battle against inflation would continue.

These factors were likely to be coupled with disappointing non-gold exports, a stagnant gold price and ongoing internal unrest, the BER economists forecast.

Apart from its domestic problems, the South African economy would also be exposed to the pressures on growth and inflation expected by the world economy this year, they said.
Among the more important factors that investors consider when valuing shares are their perceptions of the performance and the risk.

Both may be influenced by a company’s attitude towards financial reporting, especially if the market has any reservations about its prospects or its management.

Of course, good reporting standards are no guarantee that the financial performance will be similarly good — there are clear instances where the opposite applies. But the two are not altogether unrelated. Time and again it’s been notable that the managers who emphasise financial disclosure are often the same ones whose companies have pro-

duced a sound profit record, which the market has in turn rewarded with a favourable rating for the share.

That has been true in the past and applies to many of the companies in the Top 20 ranking of the FM’s latest annual accounts award.

Sharing top place again this year are SA Breweries and Adcock Ingram, both of which have excellent track records in many other facets of their operations, including the returns to investors. Much the same applies to second-placed Chemical Services.

Highest scorer was York Timber Organisation, which achieved 100%, with 156 points.

As it has already won the award three times, York Timber again appears in the Roll of Honour table, as does Anglo-Alfa, another three-time winner, which this time scored 152 points — or 97% — equal to the achievement of Adcock Ingram and SA Breweries.

The Top 20 category winners will share the award, a floating trophy which bears the name of Massey-Ferguson, the winner throughout the first five years of the competition.

Rules are formulated by the FM and University of Pretoria’s Bureau of Financial Analysis (BFA), with judging supervised by the BFA’s Prof Aad Zevenbergen and administered by senior lecturer Jean Myburgh.

Jurying is entirely objective, in that credit is given only for disclosure of specified financial and related information, with points awarded according to a list of published criteria.

These rules are comprehensive and full compliance indicates that disclosure is at a level which would be considered good by any standard.

Credit is not given here for such aspects as the aesthetic appearance of the annual report, the quality of the chairman’s review or the co-operativeness of the year by company executives. These may be considered relevant, but their evaluation can only be subjective, so they do not play any part in this award.

Rules are revised about every two years and the last revised list was published in the FM on January 13 1989. For the latest rankings, all 1989 annual accounts published by companies listed on the JSE Industrial board were evaluated according to these rules.

Again there are a number of familiar names in the Top 20 ranking but there are also new appearances, with just over a dozen newcomers.

A welcome development is the appearance of some new companies which have decided to show a positive attitude to shareholders right from the start.

Among newcomers to the Top 20 are Iscor, which deserves full credit for communication, even though there have been other
disappointments; Holtsins, the new holding company for Malbok's paper and packaging interests; and Lebowa Bakeries, a 1987 listing that has impressed with both financial results and its reporting standards.

A particularly welcome entry is Frame, a company listed for many years and, until recently, notorious for its poor disclosure. New management, determined to change the culture and the profitability of the group, is also opting for greater openness towards shareholders, employees and customers. Another new entry is Premier Group, where reporting — and the share's rating — has strengthened steadily over the past year or two.

Just as important as the upper levels are the companies in the lower rankings that have decided to improve their reporting. Lebowa was the outstanding improver, rising by 234 places in the overall ranking after garnering a score of 82%, almost double the score achieved when its maiden annual report was published in 1988. As the Most Improved Table shows, though, many others are now making a greater effort. Interestingly, of the 20 leading improvers, more than half were listed during the 1986-1987 boom.

Also encouraging is the appearance here of Edward L Bateman. The group was long known for minimal reporting — the chairman's statement still consists of three short paragraphs — but operational managers who now stand to gain much from a favourable share rating have evidently been trying harder since restructuring and creation of a share incentive scheme a few years ago. And, judging by the 1990 report, the group could be ranked a lot higher next year.

In the Bottom 20 are ranked the JSE's most dismal reports, published by companies that continue to treat shareholders with disdain.

Still dominating this list are familiar names such as the Rembrandt companies (one of the few groups that combine poor reporting with consistently superior returns to investors), as well as a disappointing number of the new listings.

This year, the BFA has analysed the overall results to establish where the most com-

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* In last year's Bottom Twenty

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SIEMENS
Blacks struggle as big firms cut bursaries

-PATRICK BULGER and POLLY JONES

Major companies have cut their bursary allocations, citing poor black matric results, the economic downturn and retrenchments that make it unnecessary to train professionals in certain fields.

Black students — many of whom rely almost entirely on bursary finance — are being particularly hard hit. "Our number of bursaries is going to be lower this year," a spokesman for Anglo American Corporation said.

New bursaries offered by the corporation had dropped from 180 last year to about 150, the spokesman said, adding that the number of retrenchments made it unnecessary to train more people.

Cutbacks were being introduced in the engineering fields, while an equal number of bursaries in the mining and metallurgical field were still being offered.

A Gold Fields of SA spokesman said the company would be offering 30 bursaries this year, down from 50 last year.

Companies that intend retaining the same number of bursaries this year are being inundated by inquiries as university fees rise by an average of 25%.

Electronics company Altron said it was offering 35 bursaries this year as opposed to 21 last year but had cut back full bursaries to offer more students half bursaries. Altron's scheme attracted 800 applicants last year — this year there were 2,300.

The cutback was being felt particularly in technical training, said Witwatersrand Technikon rector Dirk Wild.

He said a lot more students — especially blacks — were applying for places at the technikon without having employers to pay for their education, as was usual. "Companies just can't afford to train anymore," he said.

He cited the case of a student who obtained six distinctions in his first year. In spite of this, his bursars had suggested he find another way to pay for his studies.

While bursaries were being cut back, the number of applications was increasing.

An Eskom spokesman said the corporation intended giving the same number of bursaries as last year but said there had been a number of cancellations because of poor black matric results.
Search for a realistic, affordable welfare system
Eskom plan may benefit mines.

ESKOM's export incentive packages are set to benefit marginal mines and commodity producers, many of which are receiving lower international prices for their products.

Eskom pricing policy manager Dave Krumm says a scheme, being investigated, links electricity prices to commodity prices set on international markets. This incentive could benefit industries such as the hard-hit gold and base metal producers.

Another scheme, which links the electricity price to the rand dollar exchange rate, will assist commodity exporters. Clients will pay Eskom less when the rand strengthens and more when it weakens.

Krumm says the costs of this incentive will be offset by the corre-

spending inverse risk of Eskom's foreign exchange borrowings. Eskom will also offer tailor-made packages in cases where the discount makes a project viable or enables operations, such as marginal mines, to continue production.

In addition, discounts are offered to organisations groups which switch to Eskom power.

Krumm says Eskom has been approached by about 20 companies since it announced in October last year that it would broaden its export incentive packages and that the electricity price increase for 1991 would be 8%.

These were part of Administration and Economic Co-ordination Minis-
ten Wim de Villiers' plan.

Eskom's inquiries have largely been from mining, chemical, light vehicle component and paper producers, most of which are in the primary and secondary manufacturing sectors of the economy.

No new discount schemes have yet been finalised as Eskom is being cautious not to distort the market. But Eskom has been able to assist some of the smaller applicants in more efficient plant scheduling and cost-effective energy usage.

Krumm says electricity consumption is highest in the primary manufacturing sector and that the production of high value added goods uses up less electricity as a proportion of production costs.
IDC has billions for new industries

THE Industrial Development Corporation (IDC) has billions of rand available to promote new industries, if the correct opportunities can be identified.

"IDC MD, Terence van der Merwe said in an interview yesterday that it could raise R10bn in the next five to six years on a range of new projects. Projects valued at R21bn were under investigation, but not all would get the go-ahead.

Of the R10bn, R2bn could be raised on foreign capital markets, R3.5bn from IDC profits and the remaining R4.5bn from the sale of assets such as the IDC's substantial shareholdings in Sasol and Poskor.

"Capital is not a limitation, if the opportunities are there," Van der Merwe said.

He said a valid criticism was that the IDC had too much tied up in mature investments such as Sasol and Poskor. But this shareholding could be sold as and when funds were required.

Planning for the privatization of the phosphate manufacturer was proceeding, requiring only a more favourable market and the go-ahead from government.

Van der Merwe said this could take place later this year. Two possibilities were selling to a group or consortium, and/or listing part of Poskor on the JSE.

KEVIN DAVIE

"Foskor has shown a sizeable increase in profit. It is a very saleable asset," he said.

About 7% of all new investment in industry is financed by the IDC. But statistics show that between 1980 and 1988 only 30,000 new jobs were created in the formal industrial sector. This compared with 300,000 between 1970 and 1980.

The IDC, which released its annual report yesterday, created 9,409 job opportunities last year by investing R238m in industrial financing under its special low-interest financing scheme to replace imports.

Van der Merwe said these figures showed the high cost of creating new jobs in SA, because typically the IDC financed only buildings and plant, the balance of the costs being financed by commercial banks and shareholders.

He said the cost of financing new jobs was too high (about R180,000 a job) because the labour cost had increased and become unreliable and insufficiently productive. Industrialists therefore preferred to invest in capital equipment to replace labour.

"Many firms are phasing out labour because it has become unreliable. Small

To Page 2

IDC firms particularly can be ruined overnight by labour problems."

Van der Merwe said he hoped relief would be provided in this Budget to help spur industrial growth. He said the surcharge on capital goods should be scrapped and company tax rates should be lowered.

The IDC has had a disappointing response so far to the drive to encourage industry to work double shifts. About 700 inquiries had been made regarding the preferential deals on offer, but only R20m has been allocated so far. Van der Merwe said a problem was that the recession had reduced demand, so many industries had spare capacity during normal working hours.

A related setback was that small busi-
IDC ready to pump R10bn into new industry

By KEVIN DAVIE

Johannesburg. — The Industrial Development Corporation (IDC) has billions of rands available to promote new industries, if the correct opportunities can be identified.

IDC MD Carel van der Merwe said in an interview yesterday that it could raise R10bn in the next five to six years on a range of new projects. Projects valued at R21bn were under investigation, but not all would get the go-ahead.

Of the R10bn, R2bn could be raised on foreign capital markets, R3,5bn from IDC profits and the remaining R4,5bn from the sale of assets such as the IDC's substantial shareholdings in Sasol and Foskor.

“Capital is not a limitation, if the opportunities are there,” Van der Merwe said.

He said a valid criticism was that the IDC had too much tied up in mature investments such as Sasol and Foskor. But this shareholding could be sold as and when funds were required.

Planning for the privatisation of the phosphate manufacturer was proceeding, only requiring a more favourable market and the go-ahead from government.

Van der Merwe said this could take place later this year. Two possibilities were selling to a group or consortium, and/or listing part of Foskor on the JSE.

The IDC, which released its annual report yesterday, created 9,400 job opportunities last year by investing R338m in industrial financing under its special low financing scheme to replace imports.

Van der Merwe said these figures showed the high cost of creating new jobs in SA, because typically the IDC only financed buildings and plants and the balance of the costs being financed by commercial banks and shareholders.

Of total borrowings of R646m raised last year, R367m came from foreign sources. An after-tax profit of R437m (up 28%) was reported and a surplus of R83m realised on the sale of investments.

Total funds in this, its 50th year, are at R4,9bn (R4,5bn).
Local technology to help develop state can do more

DAVID KAPLAN
We need many more jobs

IT was heartening to learn last week that the Industrial Development Corporation—a state-controlled body founded many years ago to stimulate industrial development—could raise up to R10-billion in the next five years for new projects. According to IDC managing director Carel van der Merwe, about 20 percent of this money could be raised on foreign markets, while almost half—R4.5-billion—would be obtained through the sale of assets, such as the corporation’s shareholdings in Sasol and Foskor. The balance, about R3.5-million, would come out of retained profits.

The IDC was formed to make South Africa less dependent on overseas industries, and to create job opportunities. It is, however, worrying that only 30 000 new jobs were created in the formal industrial sector between 1980 and 1988—compared to 300 000 between 1970 and 1980.

Last year, 9 400 new jobs were created by investing in industrial financing in terms of the IDC’s scheme to replace imports—at a massive cost of R100 000 each.

In highly industrialised countries the cost of creating a job is high. But surely in South Africa, with its massive unemployment, the need is to create labour-intensive industries at the lowest possible cost for each job.

Van der Merwe made the observation that industrialists tend to invest heavily in advanced equipment to cut dependence on mass labour, which pushes up the cost of creating jobs.

“Many firms are phasing out labour because it has become unreliable. Small firms, particularly, can be ruined overnight by labour problems.”

Organised labour should pay particular attention to his remarks.

In industries such as motor vehicle manufacturing, the lowest paid workers now earn more than qualified teachers or policemen. One can therefore claim that labour union members have become part of a new elite.

This is an unhealthy development and one sincerely hopes union management will start applying their minds more to the problem of creating jobs for our fast-growing population.
SA heads for early break in the sanctions log-jam

SOUTH AFRICAN businessmen have already been encouraged by the erosion of sanctions — but the big prize may be closer than they think.

Marketing consultant Perry & Associates believes the American Comprehensive Anti-apartheid Act could be scrapped in the final quarter of this year.

"Success in the US legislature will be the event that breaks the sanctions log-jam," says chief executive Mike Perry.

But he warns that business must be prepared to take quick advantage of new foreign trade opportunities.

East

Last month's decision by the European Community to lift a major part of its anti-sanctions — the ban on new investment — has had a measurable effect on SA's trading prospects.

Growing interest in trade from East European countries and the likelihood that SA will be allowed to join the all-black Southern African Development Co-ordination Committee (SADCC) have also increased business confidence.

But the lifting of "C-AAA" would be seen by the rest of the world as a seal of approval, particularly in areas of strong US influence such as Japan and South America.

SA Foreign Trade Organisation general manager Ann Moore says: "It could well be the signal which would send any other trade barriers crashing down."

The legislation, adopted in 1986, imposes strict criteria which SA has to meet before it can be removed.

Mr Perry says: "The Government has made more progress in satisfying the requirements of the US legislation than many businessmen realise."

SA meets three of the five main requirements and is halfway to complying with a fourth. The Government has lifted the state of emergency, unbanned political parties and is talking to the ANC.

The requirement that the Group Areas and Population Registration acts be scrapped has been half met.

A decision to release political prisoners could be made in the first half of this year, says Mr Perry. "This is a prerequisite."

There must also be evidence of the dismantling of apartheid — but this would be apparent once the release of prisoners was agreed to.

President Bush must report to Congress on SA's progress on the anniversary of the C-AAA enactment in October — an opportunity to lift sanctions if it has not already been done.

The removal of US sanctions would open markets for uranium, coal, iron and steel, Krugerrands, farm produce and the products of parastatals. It would also open the way for direct air links and tourism promotion.

The big attraction is not merely the resumption of important commodity exports, says Mr Perry.

Normal relations could help to provide finance for a growth phase in the SA business cycle by removing the prohibition of loans to the Government and allowing new investment by US companies.

It would also allow subsidised trade and, if a new tax agreement was negotiated, ease the burden of double taxation on US companies with subsidiaries in SA.

Mr Perry says sanctions have undoubtedly contributed to the serious decline in margins that SA companies have experienced in recent years.

The ban on new loans meant that the Government terminated any economic upswing soon after it started because of fears about foreign-currency demand for imports in a time of strong growth.

Lucrative

The US also provided some of the more lucrative markets for exporters. Importers and exporters often had to share their margins with middlemen.

Mr Perry says that if the EC follows the US in lifting its remaining sanctions, it will be just in time for SA to be included in arrangements for the single European market, which must be settled by the end of 1992.

"Our businessmen should aim to be in a position to penetrate US markets by the end of this year and to go into EC by the end of next year.

"This is the year to establish links with the best multi-nationals and take a strong regional position before they reverse their divestment trend."
SWEEPING changes to make South African industry more competitive have been recommended by the Industrial Development Corporation (IDC) in a report being considered by government.

The report on revamping protectionist policy has already been handed to the President's Economic Advisory Council and is expected to be reviewed by the Cabinet soon.

Key recommendations are that there should be a co-ordinated scaling down of import tariff protection and that a tariff policy should be developed which can be applied on a sector and industry basis, a business source has said.

The present system is based largely on ad hoc rulings, meaning that individual rules tend to apply to almost all SA’s 11,300 imported items.

“We’ve reached a watershed and can’t go on like this if we are to achieve economic growth through boosting exports,” the source said.

The report recommends setting tariff targets for industries and sectors, and the phasing in of such tariff changes.

Another important recommendation is that import tariff protection should accord with the General Export Incentive Scheme (GEIS). The higher the value added in the manufacturing process, the higher the tariff protection the exporter can expect.

KEVIN DAVIE

The IDC report also singles out the surcharge on capital goods as an evil which must be eradicated. The surcharge was introduced in 1928 to dampen demand and ease pressure on the balance of payments.

But it has become an enormous revenue earner for government, budgeted to rake in R1.8bn this year. While senior officials are known to want to get rid of the surcharge, they are reluctant to lose the revenue. The IDC report apparently warns that the surcharge on capital goods is harmful as it raises input costs, so making SA industry less competitive.

Another recommendation is that high protection which is granted during the start-up phase of an industry should be phased out within a reasonable period of time. The present system has allowed the high rates to continue indefinitely.

Should the new streamlined system be adopted, it will mean that government will be able to publish a list of imported goods which are not manufactured in SA, with advice on what protection it is prepared to offer. The new system would also be much simpler and cheaper to administer.

The re-evaluation of protectionism is part of a major drive to restructure SA trade by encouraging exports, keeping administered price increases below the rate of inflation, and reducing tariff barriers and surcharges which raise the basic cost of producing manufactured goods.

The drive also includes a new developing relationship with the General Agreement on Trade and Tariffs (GATT), whereby SA has committed itself to abide by fair-trade principles and reduce tariff barriers.

The IDC report also recommends the scrapping of formula duties which SA to date has used as a protectionist measure. These duties, which are being phased out to comply with GATT, apply high tariffs for high-volume, low-priced imported goods.

The scrapping of formula duties will mean that SA industry will be exposed to import dumping. An urgent investigation by government has been launched to put an effective alternative system in place to ward off this threat. It is understood that this is stressed by the IDC. no tariff restructuring should take place before the anti-dumping system is in place.

The IDC’s protectionist recommendations argue for a flexible approach. The report suggests there may be a good argument for retaining some existing industries which cannot compete internationally, rather than lose jobs to the economy.
IDC continues to stimulate growth

By Derek Tommey

The Industrial Development Corporation (IDC), created to help stimulate economic growth, has had a most successful year.

The annual report shows one of its more important achievements was the re-entry into the European capital market where it re-funded maturing loan and raised a new five-year loan of DM35 million (R60 million).

Other achievements included financing more than 9,000 new jobs.

It also began investigating several major industrial projects, including the manufacture of synthetic textiles from local petrochemicals.

Altogether, the IDC advanced R660 million in the year to June 1990.

This was 52 percent more than the R435 million in the previous financial year.

The IDC helps finance small- to-medium-sized independent firms, which do not have the same access to capital as larger groups.

General financing increased 63 percent from R201 million to R326 million.

Advances under the low-interest scheme amounted to R107 million in the final six months.

It advanced R265 million in project financing — mainly for the Medgas project.

Refuting complaints that it helps only large firms, the IDC says 67 percent of the 225 projects which received assistance were smaller firms with total assets of less than R10 million.

The IDC's low-interest scheme, which ran in 1988 and 1989, provided R320 million for 273 projects.

The firms in the scheme received loans carrying an initial rate of interest of five percent. The firms, employing 14,659 people, should contribute R1.1 billion a year to the balance of payments by way of increased exports and reduced imports.

The IDC's participation in the Lesotho Highland's Water Scheme resulted in the value of funds provided for the export of capital goods jumping from R37 million to R511 million.

Its multi-shift scheme, which was introduced last May, provides firms moving to multi-shift with money at nine percent for working capital and new machinery, has attracted interest.

Manpower

To counter the decline in foreign investment, the IDC is applying a considerable proportion of its manpower to identifying new projects.

The criteria for these are that they serve as a nucleus for future industrial development, or be a first for SA in terms of technology and know-how, or lead to either import replacement or boost exports.

Projects being investigated are:

- The processing of waste materials by mining at Phalaborwa. This will make SA independent of imported aluminium oxide, magnesia and potassium sulphate.
- The gasification of waste coal as a potential source of energy, as well as a feedstock for the production of petrochemicals.
- Projects involving the extraction of aromatics and olefins from local raw materials such as coal and gas for use as base building blocks in the chemical industry.

- The production of synthetic fibres from local petrochemicals.

- The production of industrial minerals not yet mined locally, such as special-purpose clays, certain pegmatite minerals and high-quality diatomite earth.

- The evaluation of mineral deposits at Transvaal border areas at the request of the Government, with the purpose of creating job opportunities.

To stimulate rural development, the IDC is carrying out research on crops such as dates, coconuts, pistachio nuts and cashew nuts.

It is cultivating and processing on a trial basis crops which provide essential oils for colouring and flavouring and for perfume and pharmaceutical industries.

The IDC's subsidiary, Atlantis Diesel Engines (ADE), was hit by the cancellation of a large volume of orders at the start of last year and it has been forced to reduce its level of activity.

Another subsidiary, Folkor, is negotiating to increase its shareholding in one of its major customers, Indian Ocean Fertilizer Holdings, from 30 percent to 50 percent.

A third subsidiary, Sapekoe, has established a paprika industry. Sapekoe has successfully exported tea for the first time.

The IDC had a net income of R329 million in 1989-90, against R358 million in the previous year.

Operating income before tax was R527 million (R444 million). It had a surplus of R63 million (nil) from the sale of investments.

Total assets at June 30 last year amounted to R4,923 billion — up from R4,382 billion a year earlier.
IDC being forced to cut back on approval levels

MARIETTE DU PLESSIS

THE Industrial Development Corporation (IDC) will be unable to maintain its level of financial approvals because of SA’s uncertain investment climate and continuing restrictive monetary policy, the IDC says in its annual report.

Contributing factors were lower economic growth — both locally and internationally — and higher oil prices which would result in investment in the manufacturing sector declining during 1991, the report said.

The IDC said: “Manufacturing must serve as the main engine for economic growth as it is the only sector with the potential to create the millions of new employment opportunities.”

In the year to end June 1990, IDC approved a record R665m (R438m) for industrial financing, creating about 9 400 new employment opportunities.

This consisted of a 63% increase in general financing to R328m (R203m), together with advances under the low-interest scheme which amounted to R197m (R140m) in the final six months, the report showed.

In addition, a further R200m was advanced for the Mossgas project against an initial contribution of R345m in 1989.

IDC’s net income rose by 31% to R520m (R358m) while operating income increased by 16% to R527m (R444m).

Of the total 223 projects financed by IDC, 67% were being initiated by smaller firms with total assets of less than R10m, while 52% of the projects were directed towards exports or import replacement, IDC said.

As a result of IDC’s participation in the financing of the Lesotho Highlands Water Scheme, financing approved for the export of capital goods was nearly 10 times higher at R511m (R57m).

Highlights for IDC included its re-entry into the European capital markets where it renewed a maturing loan and raised a new five-year loan of DM35m.

IDC also was investigating several major industrial projects.
Need for change in business policy

THE process of change in the South African dispensation and social structure will require changes in business policy, the managing director of Industrial Development Corporation, Mr WC van der Merwe, says.

In his 50th annual report, he says these adjustments must not inhibit industry's endeavours to be more competitive and the desire of industrialists, large and small, to increase their input and invest in new production facilities.

He says: "The need for expansion in manufacturing is as great now as ever, and the objectives of the IDC...to promote expansion and diversification in the manufacturing sectors are as applicable as 50 years ago." (182)

The IDC's focus is inevitably adjusted in the light of the country's needs, and is currently directed at:

* Financing of small to medium sized independent undertakings which do not have the same access to the capital market as larger groups.

* Participation with the private sector in large industrial projects aimed at import replacement and exports, especially where value is added to local raw materials.
DIRECTORS' FEES

WATCHING THE TOP LINE

QUALITY OF MANAGEMENT IS HARD TO MEASURE — AND REWARD

Are company directors inclined to feather their own nests at the expense of shareholders? Under normal conditions, nobody seems to bother much. But when, as now, profits are under pressure, there is a sudden re-awakening of interest as to who gets precisely what out of the corporate profit cake — and sooner or later it gets asked why directors' remuneration continues to increase when dividends have been pegged, or even passed.

The question may be logical, but the subject is complex, not least because there is no direct relationship between the respective amounts paid to directors and shareholders, except to the extent that dividends will obviously be influenced by the performance of those who manage the business.

Essentially, the distinction that needs to be drawn is that directors are rewarded for managing the business, while shareholders are rewarded for the provision of the risk capital that makes the business possible.

The least complicated situation is where the directors are, in effect, employees with a minimal direct stake in the ownership of the assets they manage. In such cases, their remuneration can be viewed in much the same way as the remuneration of any other category of employee and nobody (especially an employee) would seriously suggest that salaries and wages in general should fluctuate in line with corporate profits.

More complex is the situation where the directors also own the business. Here, they obviously have a right to structure their total income package — comprising a mix of directors' fees and dividends — to suit their own requirements and the best minority shareholders can reasonably hope for is that policies will remain fairly constant from year to year. If they don't, it becomes impossible for outside shareholders to assess the share in terms of their own needs (which may or may not coincide with those of the directors/major shareholders), and the result in investment terms is more likely to be frustrating than rewarding.

But getting back to the main question of how directors are rewarded in relation to shareholders, the University of Pretoria's Bureau of Financial Analysis (BFA) was asked to throw some light on the subject by producing four ratios relating directors' remuneration to total assets, turnover, pre-interest profit and equity dividends respectively, for the entire industrial sector of the JSE since 1981.

The results are summarised in the accompanying table, which shows how these ratios changed between 1981 and 1989 (the last year for which sufficiently comprehensive data was available) for each sector and for the industrial market as a whole. Ratios are calculated on the basis of total directors' remuneration (fees plus payments for other services) expressed as a percentage of the four different comparatives.

From this data it is obvious that, over the eight years, it has been far more lucrative in terms of income growth to be a company director than a shareholder; the ratio in this instance having moved up from 5.5 to just over 7. The position would have looked even worse had this exercise been done in 1986-

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Unlisted companies to come under surveillance

2:519 MARGA KLEIN

UNLISTED companies will come under the surveillance of an authoritative board for the first time when the Securities Regulation Panel goes into operation on February 1, executive director Doug Gair said yesterday.

Following discussions between the JSE and the panel, it was decided that the panel would be responsible for handling documentation relating to takeovers and mergers of unlisted public companies and private companies, the JSE said in a statement yesterday.

The panel would also handle documentation in respect of listed companies if there were "no additional features".

Documents that included additional features, such as applications for the listing of additional shares or for the termination of a company's listing, had to go before the JSE, said Gair.

He said in the case of a multiple transaction involving a number of listed companies or the possibility of a new listing, documentation had to be submitted to the panel and the JSE, which would liaise with each other.

In terms of the decisions made, the panel would have jurisdiction over listed companies and unlisted public and private companies.

The panel would vet takeovers and mergers and investigate insider trading.

It "has the jurisdiction to go to court over a company not towing the line."

Gair, who is former chairman of the JSE listings committee, said the reason for the surveillance was to ensure minorities were not being prejudiced and "unfairness to minorities will not be tolerated".

The new Securities Regulation Code, which comes into effect on February 1, was gazetted in September.

A significant change to the code was the introduction of a rule which would require anyone wanting to take control of a pyramid company to make an equivalent offer to minority shareholders of the underlying operating company.
Pyramids escape the noose

BY DAVID CARTE

Professor Katz says the lawmakers did not want to outlaw pyramids altogether. "I know pyramids are not permitted in the UK, but we had to recognize that this is a younger, less-developed economy. It is also more entrepreneurial. We didn't wish to thwart entrepreneurs who want to grow their companies and retain control."

He says the new regulations permit entrepreneurs to keep control. But they cannot beg the control premium when control changes. But a critic says that once a controller has secured control through formation of a pyramid, he defers the day that a minority shareholder in the bottom company receives an offer.

Meanwhile, having secured control through only a fraction of the equity, he can run the company and ignore the interests of minority holders.

Indeed, because the new legislation does not prevent downward pyramid building, he can delay takeovers almost forever.

Controllers who already have pyramids and who require funding can retain control without laying out cash by splitting an existing company into two or more down-line companies, achieving the same effect.

For example, not content with forming the pyramid Royal Group Holdings, the Innes merry, controllers of Royal Corporation, propose to split the existing operating company into separate listed chemical and food companies.

If they so wish, later they can split ordinary food from sweets and confectionery and so on until the family has a pyramid as multi-tiered as Antony Rupert's. When control changes, the bidder needs make an offer only to the Royal Group Holdings minority.

It is hoped that this type of construction would be judged by the Securities Regulation Panel as a circumvention of the spirit of the new law.

Critics of pyramids say that on no respectable foreign stock market are the same assets allowed to be listed twice, let alone three or four times as on the JSE.

Stockbroker Richard Stuart of Martin & Co told the Financial Mail investment conference last year that 45% of the JSE's market capitalisation represented double counting.

Advocates of unbundling maintain that nobody will try to wrest control from an entrepreneur who is an outstanding manager — only badly managed companies are vulnerable.

One says: "Anyone who made a hostile bid for Pick'n Pay would be crazy. He would have to offer a large premium on a share price that is always full. The share price and the company's performance would suffer enormously through the loss Raymond Ackerman's leadership."

Under the status quo it is possible, for example, for the Rupert family to sell control of Rembrandt, Richemont and therefore of Rothschild International as well through disposal of shares representing an estimated 9% of the operating companies. The premium for control — probably more than a billion rands — could accrue only to the family.

Other families that can similarly claim the lion's share of control premiums through pyramids include those of Toyota's Albert Wessels, Liberty's Donald Gordon, Clive Menell and Basil Herwos of Anglovaal, the Alopokos of Imperial Group, the Innes family, Jeff Liebman of FS Group, Bill Venter of Ventron-Altron, the Mowson family of Ecentreme and Aaron Searl of Searden.


Some of these pyramids have been around since the late 1980s. But most came into being after the JSE permitted Pick'n Pay to form its pyramid Pick'n Pay Holdings (Pickwik) in 1981. Pyramids had been forbidden since the crash of 1989.

Merchant bank UAL persuaded the JSE that it was in the interests of shareholders that Mr Ackerman's family should retain control.

Institutional shareholders agreed — particularly since Mr Ackerman gave an under-taking that shareholders in the bottom company would receive an offer if his family sold control.

But Pickwik set a precedent and opened the floodgates. Few of the other pyramids gave the guarantee that Mr Ackerman did.
Investor Protection

NEW ERA OPENS FOR

BY MICHAEL KATZ

18

8TTH JUNE 1971

REVOLUTIONARY REGULATION ATTACKS LEVERAGE, MARGIN AND INTEREST RATES

THE NEW MAN IS THE "INVESTOR"

OTHER PEOPLE'S MONEYS

Some people over a long time to many loan of which effort by many written in the old stock of times.

Michael Katz
INDUSTRIAL land sales in Maritzburg were expected to generate an investment of about R400m, a city council spokesman said at the weekend.

The net worth of industrial land sold in the year to end-June 1999 totalled R5.5m. With another R3m under negotiation, only five industrial sites were left for sale, he said.

In addition to the estimated R400m investment these sales would generate, another major industrial boost for Maritzburg was also on the cards.

This would flow from expansion plans announced by two of SA’s milling giants, Tiger Oats and the Premier Group, he said.

Premier had indicated it would spend R100m over the next few years on a new wheat mill in the city.

Tiger Oats had confirmed construction work had begun on the company’s new R60m wheat mill at Willowton.

A SA Chamber of Business (Sacob) survey last year showed that Maritzburg reflected the highest business confidence in SA.

Sacob’s index of expected manufacturing production had placed Maritzburg on 162 points, 66 ahead of Durban.

The sales that took place in Maritzburg last year included a 12.6ha site at Camps Drift to Hulett Aluminium, which would spend R200m, while 3.5ha had been sold to a developer who would construct the city’s first hyper-wholesaler at a cost of R17m, the spokesman said.

At present, there were 234 industries in Maritzburg employing more than 9 000 people. The food industry and related businesses were the second largest sector.
Tender system for companies' audits undesirable

DECLINING corporate profits are leading companies to ask for tenders for their audits to cut costs, a move SA Institute of Chartered Accountants executive director Ron Mockler says is undesirable.

Mockler said the situation would be discussed at a meeting of the Institute's ethics committee in March.

While the tender system was unsuited to an audit, it might serve to increase competition between auditing firms for the provision of other financial services, Mockler said.

Public Accountants and Auditors Board chairman Wilmie Wilken said: "These tactics are certainly bringing pressure on the profession. The costs involved and time spent preparing the tenders are high, and unnecessary pressure is being put on auditors to lower their fees."

He said the trend towards lowering fees became prevalent overseas and was becoming more common in SA.

"There is not much one can do about it, but I hope business concerns will make the same effort in trying to contain some of their other costs."

"One needs to look at costs across the board, not selectively", he said.

Coopers Theron & Du Toit joint managing partner Rick Cottrell said the process was not widespread, but the profession was being squeezed to meet the needs of clients. He said long-term fee pressure did not work and merely led to a dropping of standards.

Arthur Andersen country managing partner Barry Adams said the tender process helped auditing firms by allowing them to show the financial services they could provide.

Ernst & Young regional managing partner Bill Urmon said the profession was not moving dramatically in the direction of tendering and that the situation was very different to that in either the US or the UK, where competition was stiffer.

Mockler said the crucial issue for the profession was the preservation of standards.

"A tender system would lower standards as corners could be cut to maintain profitability," he said.

Under the profession's code of conduct a member cannot tender for an audit but he can make a proposal or presentation to a potential client.

Mockler said the two situations were distinct because a tender would commit the auditing firm to a financial constraint, whereas a presentation or proposal only presented an estimate of the cost of an audit.
World commodities’ prices expected to keep declining

THE current downward price spiral in world commodities is set to continue in the foreseeable future, says Greenwich Futures’s Mark Perkins.

The CRB commodity price index — calculated by the Chicago futures market and based on 21 equally weighted items, including precious and base metals, grains, livestock, and “soft” commodities — has dropped almost 18% since August.

Perkins says the downward trend in base metal prices is expected to be particularly severe because of the slowdown in the world economy.

He says the industrial boom experienced during the ‘80s caused an increase in demand for base metals.

In response, major mining companies increased borrowings to increase output and bring new production on stream, but there was still a tightness in supply. Perkins says this resulted in the forward prices for these metals being in what he termed “backwardation”. Backwardation occurs when the spot price is higher than the futures price.

Base metal stocks on the London Metal Exchange — apart from zinc and nickel — have continued to increase dramatically despite falling prices.

Prices of sugar, coffee, cocoa, wheat, maize, lumber, rice and most other commodities have also plummeted over the past year, according to statistics compiled by the Chicago-based Knight-Ridder Commodity Perspective.

Precious metals have also been hard hit. The outlook for oil is increasingly bearish. Perkins expects the price to drop to as low as $12 a barrel after the conclusion of the Gulf War.
AN UNIDENTIFIED group of companies has agreed to channel R500m through the Urban Foundation towards various social welfare projects, particularly those concerned with black education.

Making the announcement yesterday, Urban Foundation CE Sam van Coller declined to name the "major" companies, saying they were not seeking publicity and instead wanted to "focus on their interaction with community organisations, trade union groups and other interested parties".

The foundation would act as a facilitator between donor companies and the various interest groups which would be asked to identify areas in which the money should be spent.

Meetings had been sought with a wide range of political, community and other groupings and individuals. Van Coller also declined to name these.

He said the companies had agreed in principle last week to make R500m available over five years. Other companies were expected to join the initiative.

Van Coller said companies wanted the initiative to focus on bringing change to certain of SA's social problem areas, particularly education.

A foundation statement said in addition to discussions with interested parties, investigations would have to be undertaken before detailed proposals could be formulated for consideration.

Discussions would also be sought with major funding and development agencies to ensure that efforts were effectively coordinated.

Van Coller said the private sector initiative had been embarked upon against the background of President F W de Klerk's undertaking to remove discriminatory legislation, the commitment of political leaders to negotiations and the increasing focus on the need for socio-economic development.
AN UNIDENTIFIED group of companies has agreed to channel R500m through the Urban Foundation towards various social welfare projects, particularly those concerned with black education.

Making the announcement yesterday, Urban Foundation CE Sam van Coller declined to name the “major” companies, saying they were not seeking publicity and instead wanted to “focus on their interaction with community organisations, trade union groups and other interested parties”.

The foundation would act as a facilitator between donor companies and the various interest groups which would be asked to identify areas in which the money should be spent.

Meetings had been sought with a wide range of political, community and other groupings and individuals. Van Coller also declined to name these.

He said the companies had agreed in principle last week to make R500m available over five years. Other companies were expected to join the initiative.

Van Coller said companies wanted the initiative to focus on bringing change to certain of SA’s social problem areas, particularly education.

A foundation statement said in addition to discussions with interested parties, investigations would have to be undertaken before detailed proposals could be formulated for consideration.

Discussions would also be sought with major funding and development agencies to ensure that efforts were effectively co-ordinated.

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Big names linked to welfare scheme

ANGLO American, JCI, De Beers and Barlows have been identified by business sources as the main players among the companies that have pledged R500m to social welfare projects.

Informed sources named other possible donors as Standard Bank and Gencor.

However, this could not be confirmed.

Yesterday company spokesmen and the Urban Foundation — which is acting as facilitator between the donors and interested parties — refused to comment on who was contributing to the fund.

The rationale for the secrecy appeared to be the foundation's desire to include other companies in the scheme at a later date.

Potential donors might not contribute if they appeared to be "Johnny come-latelies".

Foundation CEO Sam Van Coller said this week the organisation would act as a facilitator between donors and the various interest groups, which would be asked to identify areas in which the money should be spent.

Van Coller declined to name the range of political and religious community and other groupings.

However, it is believed these include the ANC and the PAC.

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Firms woo blacks for joint ventures

LOCAL and international companies are, for the first time, going all out to form joint ventures with blacks, something which augurs well for the future of SA business, says Zako Tofile, executive director of business promotion company Matchmaker Services.

Tofile says companies such as PG Autoglass, printers Kwik-Copy, fast-food outlet Chicken Licken, carpet cleaners Rug Doctor and even US-based Ponderosa Steak House are actively courting black franchisees.

"To this end Matchmaker Services will host a seminar in Johannesbarg where all aspects of franchising will be under the spotlight and Volkskas, First National and Standard banks as well as the Small Business Development Corporation (SBDC) will say what they can do to facilitate joint ventures,"

Guest speaker at the February 13 seminar, to be held at the Milpark Holiday Inn in Johannesbarg, will be Ohio-based Ponderosa Steak House international sales manager Sunil Dwane.

US ambassador William Swing will open the seminar while SA Franchising Association executive director Kurt Hobetshko will speak on Advantages of Owning a Franchise.

Soccer star Jomo Sono, who has held a Kentucky Fried Chicken franchise for 10 years, will be another of the speakers.
on small businesses

Philipp Maxton

large firms must take a long view
SBDC socks critics with R1bn in loans

By DON ROBERTSON

THE SMALL Business Development Corporation (SBDC) celebrates its 10th anniversary today, having lent more than R1-billion to budding entrepreneurs.

A Rand 150 000 loan to a Steers franchise in Pretoria on Monday sent up the billion.

The SBDC has confounded big-business critics who said 10 years ago that its concept would not work.

Property

From its small beginnings in 1981, when it advanced 18 loans of R1.3-million, the corporation is now self-financing, is the largest developer of property in black areas, is profitable and looking for foreign participation.

In the year to March, the SBDC produced a pre-tax profit of R42.4-million. Since its incorporation, it has paid R80-million in tax.

It is now able to offer entrepreneurs up to R20-million a month in loans from its own cash flow.

In the past decade, its funding has created 272,823 additional job opportunities at a cost of only R360 000 each and has helped about 29 000 people to start a business.

Although involved in high-risk ventures, the SBDC has been able to keep bad debts at acceptable levels. About 15% of businessmen helped by the SBDC failed to survive, but only 8% of the R1-billion in loans granted had to be written off.

It keeps a tight rein on expenses, administration and service costs representing only 2.4% of capital invested.

The SBDC is regarded by similar international organisations as perhaps the best example of this type of financial assistance offered anywhere in the world, says managing director Ben Vosloo.

Russia, various countries in Africa, Poland, Czechoslovakia and West Germany have sent observers to SA to study the SBDC.

Hives

It hopes to encourage international businesses, eager to assist black development in SA, to channel their financial help through the SBDC.

The SBDC's success stems largely from its insistence that it be profitable. Although financed jointly by the Government and the private sector, it is controlled by private enterprise, a list of which reads like the top 100 companies.

Dr Vosloo says the SBDC owns about 690 000m² of business premises, mainly in black areas. It is SBDC policy to sell its properties to tenants where possible.

In the past four years, the SBDC has developed a concept of setting up industrial "hives" in black areas. They are small business centres or work stations under a single roof, with many of the mini-industrialists sharing equipment.

The SBDC is the only self-help organisation in the world offering this type of facility. It is hoped that the concept can be offered to entrepreneurs internationally.

The first industrial hive was in the old Ford building in Port Elizabeth. The latest is in the Eiken Ford building in Eloff Street, Johannesburg. It will offer 38 000m² of industrial space at reasonable rents from July.

But the SBDC has not been without difficulties. Blacks complain that there are too few of them in middle and top management at the SBDC. They claim it is bureaucratic and slow in processing loans.

They also believe that if the SBDC receives large funding from the State, it will favour white businessmen. Nevertheless half of the loan clients are black. However, because of a lack of proper financial training, black applicants tend to present inadequate business plans and loan applications, putting additional pressure on overworked consultants.

Dr Vosloo says the SBDC grants loans solely on the basis of viability, that more than 50% have been granted to blacks, that 44% of staff members are black and 40% of the business advisers are black.

Dawie Cross, senior manager of promotions, says about 1 000 inquiries are received by corporation's six branches and 22 information centres each day.

About 30% are for loans, but because of the SBDC's commitment to profitability, only about two in every seven applications are approved.
Booster for Industry

Muha-Billion Rand Pays Div Crusader

hostile takeover

Samhondo rights
Govt move to boost development

Billions to be freed by IDC restructuring

SA INDUSTRY stands to get a multi-billion-rand boost from the proposed restructuring of the Industrial Development Corporation, announced by President P W de Klerk in his speech in Parliament on Friday.

The restructuring is expected to involve the sale of IDC’s existing holdings to release funds for industrial development.

These holdings include phosphate giant Foskor (at least R530m) which is earmarked for privatisation, a 33% stake in Sasol Ltd valued at about R2bn, a major stake in aluminium giant Alusaf, a R600m investment in Icora, and its holdings in Natsel and Indsele, two listed companies with substantial investments on the JSE.

Restructuring the IDC is believed to be just one of numerous initiatives aimed at reducing the state’s economic involvement and encouraging private sector industrial developments towards increased utilisation of raw materials.

“We simply cannot afford the much-needed employment opportunities this will bring about,” De Klerk said in his speech on Friday. “Government places a high premium on job and income-creating growth.”

Government sources said the restructuring of the IDC would make at least R2bn to R4bn available for industrial investments at current market value.

De Klerk’s announcement that the IDC would be restructured to promote more industrial growth follows a report by retired auditor-general Joop de Lor and a separate inquiry by Economic Co-ordination Minister Willem de Villiers.

Both apparently criticised the IDC for sitting on strategic investments rather than ploughing these funds into new risk ventures.

De Villiers’ view is that there are sectors, such as the mining sector, that have most of the resources to turn raw materials into finished products, increasing SA’s competitiveness in the export market and bolstering growth and productivity.

Kevin Davie and Billy Paddock

Natsel and Indsele, which are 51%-owned by the IDC, hold numerous IDC investments which are sufficiently mature to pay regular dividends.

Major shareholdings within these two portfolios include those in Bankorp, CG Smith, Implats, Sappi, Sasol, Palabora Mining, Tongaat-Hulett, Fedvelks and the Industrial Finance Corporation, a company jointly owned by Natsel and Indsele, which has investments in CG Smith, Sentracom and Alusaf.

While the IDC sees these holdings as a

IDC plan

way of allowing private participation in its successful ventures, critics say too much of its potential funding is tied up in safe equity investments.

De Klerk’s announcement came as a surprise to the IDC, which appears not to have had advance warning that it was to be restructured.

Government wanted to reduce its share of the economic pie and operate more as an agent in development, De Klerk said.

This includes a shift from import replacement and strategic self-sufficiency to an export-oriented strategy, involving limited protection of domestic industry, and aimed at maximum productivity and cost-effectiveness,” he said.

An IDC spokesman declined to comment until more details were forthcoming.

The restructuring is likely to focus on freeing up some of the mature investments, making more finance available as soft loans for entrepreneurs. It is also likely to speed up projects which the IDC is investigating.

MD Carel van der Merwe disclosed in a recent interview that the IDC had projects valued at R21bn in the pipeline. He said it could raise R16bn in the next five years to fund new industries.

He said capital was not the problem if the right opportunities could be identified.
SA signs standards deal

By Norman Chandler
Pretoria Bureau

A formal agreement for the mutual recognition of national measuring standards was signed in Pretoria yesterday between South Africa and the Republic of China. Deputy Minister of Trade and Industry Dr Theo Alant said at a ceremony at the CSIR convention centre that it was a significant agreement.

The agreement could be seen as being a form of quality assurance — "governments of all industrialised countries are very conscious of the need to provide the right inducements and the right support for manufacturing industries."
Demand buoyant for mini-factories

The small business sector remains buoyant, judging by the response to Supreme Industrial Park — the mini factory development in Steeldale, Johannesburg and the first phase of which is now on stream.

The R26 million development which is being marketed and managed by the industrial division of the Camdon Group in association with the Investron Group, is aimed at small to medium-size industrialists, with rents pitched at R10 to R14 a sq m.

The first phase of 14 units is fully let.

Lessees will have option to buy the units under sectional title should it be decided to make the conversion later.

“This is a hi-tech industrial park with emphasis on security, within a pleasing working environment,” says Mannie Oehrand, chairman of Camdon’s.

Abcon plans R16-m city mall

Sandton contractor, Abcon Wilts is following up its recently completed R16 million motor city mall in Industria with a similar project in Randburg costing R6 million.

Henrico Knoesen, managing director of Abcon Wilts, says: “Work has already started on the Randburg development and there are plans to expand the one-stop motoring concept to other centres in South Africa.”
Companies

Downswing unlikely to affect dividend payouts

The trend for JSE-listed companies, especially blue chips, to maintain or increase dividend payments would continue despite the current downswing in the SA economy, analysts said yesterday.

As the economic climate worsens companies have increasingly been faced with the dilemma of whether to maintain or cut back dividends to shareholders.

Analysts explained that although there was no watertight strategy on the issue, many smaller company directors intended retaining their shareholder’s confidence in a weakening market had largely disregarded their dire financial situations.

In the depressed market, analysts and companies felt it was necessary to reassure nervous shareholders, and the best way to do this was by maintaining dividends even when profits were down.

A company reporting reduced profits but still showing a strong cash flow would be justified in maintaining its dividend levels. However, analysts said many smaller and financially unstable groups had increased borrowings to maintain dividend levels and reassure shareholders.

Less financially sound companies could not afford to disregard an economic downswing to appease shareholders.

To ensure dividend levels were maintained the financially vulnerable group weakened its balance sheet by increasing borrowings and subsequently lost its potential to take advantage of investment opportunities.

Corporate financiers said although there had been a trend toward increased borrowings, it was because more working capital was required under the worsening economic conditions.

Bankers regarded loan applications intended to finance dividend payments as extremely bad financial management.

Analysts believed investors interpreted a reduced dividend as an indication of an impending financial crisis. It was difficult for directors to convince shareholders that a dividend cut could allow further group investment with benefits in the long term.

Certain blue chip groups such as Barlow Rand and Malbank were criticised for maintaining a conservative dividend cover, but this strategy eventually allowed these groups to maintain dividend payments.

Despite a 15% drop in earnings Barlow Rand retained its dividend payment at 170c (170c) for the year to September 1990, while Malbank held its dividend payout at 30.5c (30.5c) after earnings fell 12% for the year to August 1990.

The offering of bonus shares instead of a dividend payment has pointed to a possible liquidity problem in a company. Analysts believed a once-off bonus share option was often financially viable, but companies that consistently relied on bonus share offers were headed for financial trouble.

The scheme put more shares in issue, which often could reduce a group’s share price considerably, analysts said.
NEWS IN BRIEF

Trevor Tutu in court

"The cost of a four-hour flight de-
lay and the rescheduling of five
SAA flights after an incident in-
volving Trevor Tutu was estimat-
ed at R277 770 in the East London
Regional Court yesterday.

Tutu has pleaded not guilty to
crimes of contravening the Civil
Aeronautics Act and assault.

He is alleged to have caused a
flight delay after he told airport
officials that "something" was
"on board the plane". He was travel-
ing to the USA to a three-year
bomb-search of the plane. The tri-
al continues today.

Call for hit squad probe

The National Union of Metal-
workers (NUMSA) yesterday chal-
lenged the government to reopen in-
vestigations into the alleged exis-
tence of police hit squads or "face"
growing community rejec-
tion of the security forces.

The union was reacting to a
"weekend bomb attack on the
house of Civic Association of
Transvaal (CATA) general-secret-
yary Sam Ntuli.

Britain's reserves up

"Britain's official reserves rose an
unusually large 500m in January.
From December, the UK Treasury
said in London yesterday.

This follows an underlying fall
of 50m in December.

UK retail sales increase

UK retail sales volume rose a
1.8% in December according with
November and was down from
December 1989, the UK Cen-
tral Statistical Office said in Lon-
don yesterday.

Industrial output firms

"Western" German industrial
production gained by 0.8% in De-
cember from November and was up
5.7% from a year earlier, the Eco-
nomics Ministry said in Fra-
nkfurt yesterday.

* REPORTS: Business Day Reporter,
Own Correspondent, AP-USA.

World Bank bets on SA for success

The World Bank sees SA as its
possible success story in Africa,
and is assigning more manpower
to its study here than it originally
intended.

Development Bank CE Simon
Brooke says the World Bank has
realised that SA, with its consid-
erable resources, represents a chance for its
policies to succeed: "They see a good chance of things working here, of
showing results.

"They are looking very hard to
show success in Africa," he says.

This year the World Bank will
be the first major study of SA, which
will represent the first real contact
the world's primary development
agency has had with SA in 25 years.

The bank investigation will be
an economic study to provide itself
with basic data on SA.

Brand says he believes SA will get
World Bank loans in the future, "but
not this year or the next". He says
that SA has a lot to gain from an
improved relationship with the bank.

Much of mainstream government
development thinking now mirrors
policies which agencies such as the
World Bank employ worldwide.

Elderly whites living in fear

Most elderly white people living in
and around Hillbrow feel their safety
and quality of life have deteriorated
in the influx of black people into the
area, a Human Sciences Research
Council (HSRC) study has found.

Of the 500 people surveyed, 40% had been "victimized" in the past three years and 90% were scared of being robbed, assaulted or threat-
eased.

HSRC researchers Monica Fer-
rera and Elisa Viana found that more
than 80% of the residents of Hillbrow,
Joubert Park and central Johannes-
burg felt the area had deteriorated in
the past three years and the reason
most frequently given was that it had
become multicultural.

More than half the respondents felt
the most serious problem in the area
was "the bad element moving in".

This was followed by an increase in
crime, particularly muggings. Litter-
ing and unhygienic, overcrowded liv-
ing conditions also rated highly.

In their report, Ferreira and Viana
propose more policing of the area to
enhance the safety of elderly resi-
dents. Other solutions include encour-
aging interaction with neighbours.

The report will be presented to
Johannesburg mayor Willie Jane
van Rensburg today.

October manufacturing creeps up

Total manufacturing production in
October 1990 increased for the first
time since February 1990, accord-
ning to the latest figures issued by the
Central Statistical Service (CSS).

The figures show that manufactur-
ing production in October 1990 in-
creased by 1.5% compared with Octo-
ber 1989.

However, SA Chamber of Business
economist Keith Lockwood said yester-
day that the increase in production
was not an indication that condi-
tions had improved as the long-
term outlook was still negative.

He said production was still quite a
month when most of the production for
December sales was carried out.

In terms of year-on-year growth,
the only reason October's figures
would be higher was the strength of
domestic demand for consumer items,
as most spending in December

Brand says in the SA political
debate it will be possible to show
policy is not tailored to protecting
vested interests, but simply reflects
the outside opinion of bodies such as
the World Bank which have consider-
able experience in the field.

Many other development agencies
are visiting SA. There has been con-
stant traffic from the development
arms of many Western countries, in-
cluding Germany and Sweden.

They're generally scouting the
territory, looking at available capa-
city and where they can contribute.

He says the notion that all develop-
ment finance is going to Eastern
Europe is incorrect.

"It's becoming more and more

clear that there are major problems
with most of Eastern Europe."

An indication of SA's improving
relationship with the capital markets
of Europe was its intention to the De-
velopment Bank to raise foreign
loans this year.

While the amounts will not be
large, the exercise will be to re-
establish links with these markets.

KEVIN DAVIE

TANIA LEVY

MARCIA KLEIN

The Bank of Lisbon Economic
Focus said growth in the manufactur-
ing sector over the last decade had
been sluggish at 0.7%.

Between January and August 1990
employment in the manufacturing
sector had decreased by 3% in llae
with a 3% fall in output over the
same period.

The graph below shows the trend:

Manufacturing production volumes

* Graph by Lee Eleyton. Source: CSS
Blacks 'ready to snap up land'  

BLACK businessmen will create an upsurge in demand for industrial land after the expected introduction of legislation prohibiting race bars in property purchases and the elimination of the Group Areas Act.

That is the prediction of Investcor's MD Alan Goldring, who recently appointed one of SA's first black industrial sales executives, Charles Ntuli, as one of his key new managers.

Says Goldring: "South Africans would be surprised at the number of highly successful black businessmen and industrialists who have been waiting for a signal that they are able to buy land wherever they please. They will create a major new market for industrial land."

Ntuli is chairman of the Katlehong Chamber of Commerce and serves on the board of the SA Perm. He says: "For black businessmen renting office and factory space in black areas has always been the norm. There is a tremendous desire to break out of the mould of the past and own their offices and factories.

"The proposed opening up of industrial land to all races will mean they will benefit fully from the growing value of properties rather than seeing no return from their rentals. There is also the benefit of setting up their companies in areas away from unrest and in being in contact with other businessmen so that they can cross-pollinate ideas." — Reuters.
IDC goes private in big boost for growth

By MICHAEL MORRIS, Political Correspondent

SOUTH African industry is set for a multi-billion rand injection through a major shift in industrial development policy aimed at increasing production, exports and money for jobs.

The industrial development arm of the State, the Industrial Development Corporation (IDC), is being "restructured" and placed on a private-enterprise footing to operate as an investment and projects partner with industrial entrepreneurs.

The move — one of several initiatives to cut the State's role in the economy and encourage private sector ventures — was given the go-ahead by the Cabinet yesterday.

R30 billion investment

The policy shift announced in a joint statement last night by Minister of Trade and Industry Mr Kent Durr, Minister of Administration and Economic Coordination Dr Wim de Villiers and chairman of the IDC, Mr Koos van Rooy, is expected ultimately to generate investment of about R30 billion over the next six years.

The restructuring, announced in general terms by President De Klerk in his opening address to parliament last Friday, effectively expands the role of the IDC as an industrial financier, providing the opportunity for it to "mobilise its full financial resources to this end".

Except under special circumstances, the State will cease funding the corporation. In keeping with its new operating brief, the IDC will raise funds by selling assets and shareholdings and making optimum use of its borrowing capacity.

Last night it was said the IDC had been tasked, as a priority, to pinpoint under-utilised "production capacity" and use it to generate jobs and boost exports.

This could include providing the wherewithal for under used plants and factories to run at full capacity.

The IDC would make available supporting financial packages, possibly in cooperation with other corporations, for this purpose.

Beneficiation of raw materials or semi-beneficiated materials would also rank high on its priority list.

"The IDC will, as in the past, enter into joint ventures with local mining houses and financial institutions as well as foreign investors for this purpose and commit a material part of its available resources to this end."

Fixed rate loans

The corporation would also be expected to help medium sized and smaller enterprises with knowhow, venture capital and fixed rate loans for industrial development.

"This development task will require an increasing commitment by the IDC as this category of enterprise can make a significant contribution to generating employment opportunities," it was said.

The IDC might also be asked from time to time to give some of its profits to other development organisations.

The IDC should be able to mobilise almost R10 billion over the next six years for investment in industry by selling assets and making the most of its borrowing capacity.

"If the IDC's contribution to the financing of industrial projects is assumed to be a third of the total financing, it would mean a total investment of R30 billion, which would make a significant contribution to growth in that sector."

The sale of IDC assets would take place "as and when the need arises" and would be arranged in the light of contractual commitments and market conditions, as well as the interests of partners and shareholders.

Its borrowing programmes would be planned so that they would not place excessive pressure on the local capital market.
Boost for Industry

The Industrial Development Corporation (IDC) is aiming to enhance industrial sector growth in South Africa. The IDC aims to stimulate industrial development by investing in strategic projects and fostering partnerships with various stakeholders. Through its investment in strategic projects, the IDC supports the growth of local businesses and contributes to the economic development of the country. The IDC's initiatives align with the government's objectives of creating jobs and promoting industrial capacity building. With a strong focus on innovation and sustainability, the IDC plays a crucial role in driving the industrial sector's growth and competitiveness in South Africa.
The President of the African National Congress (ANC) and Prime Minister, Dr. John Nkomo, has issued a strong condemnation of the violence that has erupted in the country over the past few days. The violence, which has claimed the lives of at least 10 people, has been attributed to political unrest and racial tension.

The President, addressing the nation, said: "We condemn the acts of violence and urged all South Africans to unite in the fight against these acts. We call on all parties to refrain from inflammatory rhetoric and to work together for a peaceful resolution of the current conflict."
Top executives forecast turbulence on all fronts

EXECUTIVES from the top 100 JSE-listed industrial companies are forecasting a year of economic, social, business and political turbulence, the latest report of The SA Business Environment in 1991 says.

The report, compiled by Unisa's business economics professor Eddie Lucas on predictions by company executives, stated they were pessimistic about a wide range of indicators. The study claimed previous reports had been "very accurate".

However, the views expressed could have been changed by President F W de Klerk's opening speech in Parliament last week. Lucas said yesterday there had been a positive reaction to the speech.

BEVERLY HUCKLESSY

"Business confidence has improved in reaction to the stronger financial rand and executives are cautiously optimistic. The internal political turbulence, however, remains a threat," he said.

Executives were also optimistic that sanctions and disinvestment trends would be reversed as a direct result of the abolition of apartheid. Inflation was fixed at about 14.3% last year and was expected to average about 13.5% in 1991.

Executives were still not optimistic about this year's economic growth, which they predicted would range between 0.9% and 1.1%, averaging a negative annual growth rate of 0.2%. They felt there would be a deterioration in the commercial rand against the dollar which had averaged R2.64 last year. This year the exchange rate was expected to range between R2.94 and R2.80.

They expressed some optimism over the continued strengthening of the finans in the short term and the prime overdraft rate which they thought would be three percentage points lower than the present rate of 21% by December this year.

The report said there was also some optimism over the gold price which executives predicted could average about $410 an ounce or more.
'Declare dividends to beat risk'

COMPANIES should declare dividends now to eliminate the risk of shareholders being subject to additional taxes, accounting firm Coopers, Theron, Du Toit said yesterday.

The blunt message follows in the wake of recent speculation that the taxation on dividends will be reintroduced during the course of this year's Budget speech.

Last year's Budget saw government exempt the dividend income of individuals and close corporations from normal tax.

Coopers Theron Du Toit corporate services director, Peter Goldswiek said if dividend tax was reintroduced, the measure would be backdated to March 1 to coincide with individual tax assessments. "For companies listed on the JSE there is no time to lose if they subscribe to this view." The JSE requires the last day to register for dividends can fall only on a Friday, and that dividends must be declared at least two weeks prior to this. The last Friday this month is February 22, and two weeks before that is tomorrow.

For unlisted companies, Goldswiek said, time was somewhat less pressing.

"Unlisted companies only need to ensure, if they are worried about the potential additional taxes, that dividends are declared prior to February 22."

He warned that private companies should have such declarations endorsed by a commissioner of oaths.

JSE president Tony Norton said yesterday that he hoped market speculation regarding the reintroduction of dividend tax was only a rumour.

Some analysts believe the dividend tax is effectively a form of double taxation, as company earnings are already taxed and will be taxed again when they reach the shareholder in dividend form. Others said government would reintroduce the tax to show it did not favour the rich at the expense of the poor.
CAPE TOWN — Government's restructuring of the Industrial Development Corporation (IDC) is expected to pump a massive R30bn investment into the industrial sector. Economic Co-ordination Minister Wim de Villiers announced last night.

In a joint statement, De Villiers and Trade and Industry Minister Kent Durr said it was estimated the IDC should be able to mobilize almost R18bn over the next six years for investment in industry.

This would be done by realizing its assets and utilizing its borrowing capacity. At current market value IDC assets were worth between R18bn and R20bn.

"If the IDC's contribution to the financing of industrial projects is assumed to be one-third of the total financing, it would mean a total investment of R54bn which would make a significant contribution to growth in that sector," they said.

They said the state, except under exceptional circumstances, would make no further contributions to the funding of the IDC and the corporation would be dependent on its own financial resources to achieve its development objectives.

At yesterday's Cabinet meeting it was decided the IDC must concentrate on assisting medium-sized and smaller enterprises with new,venture capital and fixed-rate loans for industrial development.

The restructuring was part of government's endeavours to foster a more dynamic industrial sector "which needs to make an increasing contribution to sustained economic growth and generation of employment and prosperity for the future", De Villiers and Durr said.

The IDC, which agrees with the restructuring, has been instructed to place high on its priority list the identification and employment of any existing underutilised production capacity to generate jobs and increase exports.

The IDC will develop and make available supporting financial packages, in cooperation with existing corporations, to encourage the use of existing capacity for exports and job creation.

"In addition, the IDC is to encourage the further beneficiation of raw materials and semifinished minerals to the greatest possible extent," they said.

The directive to the IDC should be seen against the background where "state participation in the economy is decreasing" through:

- Limiting expenditures to affordable levels
- Restricting capital investment to essential priorities and
- Allowing the optimal functioning of market forces in the economy with minimal state interference.

The IDC will still act in an advisory role to the Board of Trade and Industry and the Department of Trade and Industry. The IDC is not being privatized and all its major policy decisions will have to be vetted by Cabinet.
Harold Elishon

Finalize his mission
The IDC may now
 Freed from politics,
Hopkins to restructure
the Industrial Development
Corporation (IDC) in a way that is
more independent and efficient.

The IDC, the government's body
responsible for promoting industrial
development, has historically been
influenced by political considerations,
which has led to delays and inefficiencies.

Elishon, a seasoned
administrator, has
been tasked with
restructuring the
IDC to ensure that
its focus remains on
promoting and
supporting industrial growth,
without the interference of political
interests.

This reform is
expected to
accelerate the
process of attracting
investment and
facilitating business
expansion. The IDC
will now be able to
focus on its core
mission of fostering
economic development,
ensuring that its
activities align with
government objectives
and the needs of the
private sector.

With its enhanced
autonomy, the IDC
will be better equipped
to make informed
decisions and
deliver outcomes that
benefit both the
local economy and
corporate investors.

Elishon's
appointment
marks a significant
step towards the
realization of a
more robust
industrial sector in the
region, contributing
to overall economic
growth and
sustainability.

Together, Elishon and
the reformed IDC will
work towards creating
an environment
that encourages
innovation,
investment, and
economic prosperity,
improving the
living standards of
the people.

In conclusion, the
restructuring of the IDC
is a strategic move
that is expected to
strengthen the
foundation of industrial
development in the
region, paving the way
for a brighter future.

The IDC's new
leadership under
Elishon will
foster a climate
of transparency,
efficiency,
and transparency,
ensuring that
its initiatives
are aligned with
clear, long-term
goals for economic
growth and
societal development.

As the IDC
navigates through
its transformation,
its commitment
to promoting
industrial
development
remains unwavering,
with the ultimate
objective of
empowering the
government,
businesses,
and communities
to achieve
sustainable
progress.

With this strategic
reorganization,
Elishon
embarks
on a
mission
to ensure
that
the IDC's
role
in
strengthening
the
economic
core
of
the
region
is
solidified,
building
a
future
that
promises
growth,
progress,
and
prosperity.
FEARS that tax on company dividends will be reimposed have provoked a rush by companies to advance their payments to this fiscal year and so beat the taxman.

Some companies have also declared special dividends, giving thousands of shareholders more than they could have expected under normal circumstances. Among the quoted companies which have paid early are Liberty, EL, Bateman, Wallons and Trans-Natal.

Many companies were advised by their auditors to pay early.

Business Day carried at least 15 announcements this week of early or special dividends.

They were just in time to provide the 14-day notice for the deadline of 32 February on which a shareholder must be registered in a company's books if his dividends are to be deemed paid in the current tax year, which closes at the end of this month.

Silly

Also on advice from auditors, some have made conditional dividend declarations where, if the tax is not imposed in the coming year, the cash allocated for payouts can be kept in the company through mechanisms such as shareholders' loan accounts.

The chances of the tax being reimposed are slight, says Price Waterhouse tax consultant Chris Frame. Nonetheless, he believes it is only a matter of time before it returns.

"The Government would look silly if it revived dividend tax after having abolished it only a year ago," says Mr Frame.

"But it was obviously not anticipating opposition from the ANC which regards so-called passive earnings of this sort as unacceptable in the new South Africa."

The possibility of a dividend-tax revival has angered businessmen.

"The inconsistency in government policy and the uncertainty make planning a nightmare," says a source in the SA Chamber of Business.

"It stinks of irresponsibility and it seriously compromises the viability of many projects."

"Business planning has also been more difficult by two changes in the investment allowances in the past few years and conflicting reports about the date of the introduction of VAT."

"When some businesses heard that it would not come until 1992 they deferred spending on new systems designed to handle VAT."

"But now talk is that it will start in October this year and these businesses will be caught short."

"The sudden introduction of the minimum tax on dividends a few years ago was another nasty surprise."

Executive director of the Afrikaanse Handelsinstituut Martin van der Berg says: "From now on we can expect the unexpected in each Budget with new taxes and new exemptions."

"Everything is up for grabs because in the present state of transition no government can give any assurance of how long the measures it introduces will remain in place."

Costa Divaris of Divaris Steia Publishers agrees, saying: "The sorry truth is that there is nobody left in the business community who makes decisions on the basis of the tax law."

"I believe the Government never intended to abolish dividend tax permanently. It was merely a scheme to allow their companies to empty their accounts from cash without paying tax on it."

"The clever businessmen have already taken advantage of the opportunity."

Mr Frame says if dividend tax returns it could be in the form of a withholding tax, such as the one proposed for interest on deposits with financial institutions at a far lower rate than the current marginal rate of 4%. It has been suggested that the rate would be between 10% and 15%.

Reason

Withholding tax simple to apply and the taxman gets his money up front instead of in arrears as is the case with personal tax.

Dr Van der Berg says a reason for abolishing dividend tax is to eliminate what was in effect double tax on company profits which arises, first, from company tax and second, from tax on dividends paid out of a company's taxed earnings.

"This was done to increase disposable income which, in turn, would stimulate investment and savings," he says.

"There may be resentment in some quarters about passive earnings, but they are the inevitable consequence of savings and investment."

"Savings and investment are essential if our economy is to grow."

"We sympathise with the frustrations of blacks regarding the disparities in income in our country, but we must not let this sympathy destroy the power in our economy to create wealth."
KreditInform joins the mating game

The business information revolution, spurred by the fear of bad debts during the recession, has taken a new turn.

Companies looking for merger mates or acquisitions will benefit from a link-up between KreditInform, SA's largest corporate information organisation, and McGregor's Online Services, which compiles a specialist database covering listed companies. KreditInform has bought a 20% stake in McGregor's Online, making it the only non-family shareholder in the group. The two companies already operate a SA-4S venture, McGregor's Research.

"For the first time subscribers to either company will be able to get the complete picture," McGregor's managing director Ivor Jones says.

"McGregor's is at a company's position on the basis of its results and share performance. We look at how the company is trading and paying its bills.

"In addition, our extensive database of unlisted companies will benefit anyone looking for acquisitions."

The companies are co-operating on an analysis of JSE-listed companies which is designed to give early warning of companies which could be in a precarious position.

"We are looking at their financial ratios and how they are performing on purchases and payments," says Mr Jones.

A similar study of UK companies last year showed that 90% of those listed on the London Stock Exchange could be rated "precarious".

Bills

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Business Times Reporter

Online, making it the only non-family shareholder in the group. The two companies already operate a 50-50 venture, McGregor's Research.

KreditInform managing director Ivor Jones says the stake in McGregor's Online is a natural development.

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Bills

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end to business slump

Sabadh sees hope for

By Michael Chester
Mining investors face lean pickings report

Investors
Profits rise 41.5% after Bidcorp reorganisation

ZILLA EFRAT

BIDCORP has benefited from its recent reorganisation, turning in a 41.5% rise in attributable profit for the six months to end-December despite the economic downturn.

The industrial holding group, which is the pyramid holding company of Bidvest, has posted earnings of 63.6c (45.4c) a share and declared an interim dividend of 28c (15c) a share, up 67%.

Chairman Brian Joffe said in the latter part of 1990 the packaging market picked up while the catering business deteriorated.

Bidvest subsidiary Cater Plus was affected by the economic downturn as retrenchments hurt staff canteen turnover and the Gulf war dented the local airlines and hotel business.

However, cosmetic group Justine's performance was in line with the previous year. It improved its asset management and was now looking at ways to expand its business through exports and new products.

The past six months were a period of consolidation, especially for packaging subsidiary Afcom, said Joffe.

Afcom yesterday announced an increase of 21% in attributable earnings for the period. While the recession affected sales and operating margins, it benefited from a lower tax rate.

Bidvest's results are not comparable with the previous interim period, because of the restructuring which became effective at the beginning of the period. This involved Bidcorp's stake in Cater Plus and Justine being placed into Bidvest, which also holds Afcom and cash shell Afpac.

However, Bidvest today announced attributable profits of R7m (R2.9m). Undiluted earnings are 171.7c (121.3c) a share, while diluted earnings are 139.6c (121.1c) a share. It declared a dividend of 59c (45c) a share.

Bidcorp's turnover rose 11.5% to R197.2m (R176.9m), while operating profit increased 14% to R18.7m (R16.4m) on a slight improvement in operating margins. Its attributable profit is R6.3m (R4.4m).

On Bidvest's prospects, Joffe said management was confident of achieving satisfactory results during the second half. Joffe said the group was not about to rush into any hasty acquisitions despite raising R45m in new capital through a recent rights offer and the possibility that cash shell Afpac, which is sitting with R50m, would have to delist by the end of March if it made no acquisition.
Lip-service to blacks - financier

ORGANISED business in South Africa is "dragging its feet" on the issue of black economic advancement.

And if it does not make bolder strides towards meaningful black involvement in the formal sector, prospects for healthy free enterprise in the new South Africa will be damaged.

The warning and charge comes not from the ANC, but from the South African Board for Personnel Practice, which represents the personnel profession.

Chairman Mr Gary Whyte says: "Business leaders have been paying lip-service to black empowerment for a long time.

"Now they have to stop just talking about it and do something."

Whyte was responding to a call by president of the National Federated Chamber of Commerce Dr Sam Motsauane to speed up the involvement of blacks in the ownership, management and operation of organised business.

He said the resolution, made at a summit conference last year, had generally been dismissed with derision or ignored in the white community.

Nafooc's resolution stated, among other things, that 30 percent of the board members of all companies listed on the JSE must be black and that 40 percent of their total shareholders be black.

It also wants that 50 percent of the value of the companies' outside purchases should come from black-owned suppliers and contractors and at least 60 percent of top managerial staff from the black community.

Whyte said: "While the language of the resolution might appear provocative in some business circles because of the imperative 'must' attached to it, the percentage which Nafooc laid down were not unreasonable.

"The demographic reality is that about 75 percent of our economically active population is black," he said.

"In the personnel profession, we have been watching the reaction to the Nafooc resolution with interest.

"We do not for a moment think that most business leaders found the demands comfortable.

"But nevertheless, it is important that underlying the Nafooc statement is a very critical issue that needs to be put on the table and debated much more openly," Whyte added.
IGN TRADE — THE FUTURE

Mining equipment offers opportunity

It is clear from several interviews that prospects of exports to Eastern Europe are not ranked high.

However, London-based Soviet Marketing, which now has an office in Auck-land Park, Johannesburg, targets an SA mining suppliers' brochure to foreign-exchange earners in Eastern Europe.

Project manager James Darnborough says: "Our experience, dating from the seventies, tells where the hard currency is held and enables us to cut bureaucratic corners."

"We have about 45 participants in the mining equipment guide, which is specifically South African, and about 250 a month in our general guide which includes companies from all over the world.

"We believe the USSR and Eastern European countries have requirements which are best sourced in South Africa.

Concise

"SA companies need to gain initial footholds in what must turn out to be some of the fastest-growing economies around — even in its troubles, the USSR's gross national product is 10 times this country's.

"Also remember that the five-year plans they continue to be fond of mean long-term business."

Flamboyant advertising is out — the buyers don't like it — and companies are asked instead to provide concise descriptions of their products and operations.

Mr Darnborough says good results have already been achieved for products like trackless vehicles and mining props.

"If we can help generate hard earnings for, say, Czechoslovakia's chemicals, aircraft, machine tool and hunting rifle industries, we can hope to sell minerals and agricultural products," says Price Waterhouse International Trade Consultancy director Bob Cole.

"When it comes to merchandise exports, one must understand that, while there isn't the poverty found in our black townships, Czech wages and living standards are low. They would like the sort of products white suburbia here absorbs, but they don't have the money."

At a hotel in Prague he observed how the "man from the (central) bank is a vital cog in a command economy. Such a gentleman handed over from his bag the wages of the hotel staff and loaded it into the hotel's takings — clearly without anyone knowing or caring whether the hotel was paying its way. "The auditing and accounting profession as we know it doesn't exist."

CUT THE EXP

JAMES DARNBOROUGH: Accounting practices unknown over there
Spending on social projects is now vital, says Adcock

Gillian Hayne

The responsibility of corporations to involve themselves in social projects has reached a new level of urgency, says business consultant Colin Adcock.

Unless the "social decay" in the townships is brought under control, SA's new political dispensation will not succeed, he feels.

A conference to discuss the role of corporate social investments (CSI) in the transition to the new SA will be hosted by KPMG Aiken & Peat and Systems Conferences at the Volkswagen Conference Centre in Midrand on Wednesday.

Speakers are to come from donor companies, the communities involved and executives of major social investment firms.

KPMG social investment unit counsellor Joe Molefe says greater strategic planning could overcome problems of mismatched corporate finance and community expectations.

The task of the conference will be to establish bedrock issues that benefit both parties.

Urban Foundation executive chairman Sam van Coller — the keynote speaker at the conference — says the problem has been to identify the real needs of the disadvantaged, and spend the money meaningfully.

Adcock believes that for years a lot of companies have paid only lip service to social responsibility projects.
ANC, Nafcoc agree on link with Sacob

The South African Chamber of Business (Sacob) yesterday held two important meetings with the ANC and the National African Federated Chamber of Commerce and Industry (Nafcoc) in Johannesburg.

In a statement issued after the meetings, Sacob said it had "a friendly and frank exchange of views" with the two organisations on key economic and political issues.

The meetings led to agreements that Nafcoc and the ANC would each form "joint mechanisms" with Sacob to address specific economic issues and problems on an ongoing basis, the statement said. — Political Staff.
Withholding tax plan abandoned

CAPE TOWN — Government had for the time being abandoned plans to impose withholding tax on interest and there was no question of such a tax on dividends, Finance Minister Barend du Plessis said during the mini-Budget yesterday.

He also said measures to level the playing field between banks and building societies and life offices could not be ready in time for the 1991/92 Budget.

However, the search to change the savings pattern would continue.

Because government was not imposing the withholding tax (10%) on interest, individuals would continue paying the marginal tax rate of 44%.

Du Plessis said the Jacobs Committee on the Promotion of Equal Competition for Funds in Financial Markets had given serious attention to a uniform low withholding tax on individuals' interest income with a view to boosting savings of this kind.

"Two potential gaps have emerged, however, with adverse implications for the personal tax base: the reclassification of interest income of other income (such as rent), and so-called arbitrage practices," he said.

To counter this would mean serious intervention in existing financial practices — for instance, if interest expenditure by companies were no longer to be tax-deductible as an operating cost.

Another means of countering arbitrage as a consequence of different tax rates on normal income, interest and dividends for individuals in the wake of a low-rate tax on interest, would be to introduce a withholding tax on individuals' dividend income too, he said.

But this would be jettisoning a tax principle — to eliminate double taxation — adopted in the last Budget. Du Plessis said.

Du Plessis said it was imperative positive real rates of interest and tax dispensations for the several returns on individual investments be maintained, while the framework of financial requirements in which different financial intermediaries competed for savings, should not distort the flow and application of savings among those institutions.

Introducing the Part Appropriation Bill providing for interim expenditure for the period April 1 to July, Du Plessis said it was estimated that R2,7bn was needed.

Central government and the Administrations for Own Affairs required R2,6bn and the provinces R0,1bn.

Top 100 increased staff by just 0,1%.

CAPE TOWN — The Top 100 Johannesburg Stock Exchange-listed companies increased dividends last year by 21.3% but only increased employment by 0.1% during 1990, the Labour Research Service (LRS) has found.

Some of the largest Top 100 not only chose to grant shareholders significantly larger dividend payments but also cut employment during 1990.

"Employment creation should be a major concern for South African companies," the Cape-based LRS said.

"Instead of expanding employment opportunities and making economic growth a priority, these companies and directors preferred to keep shareholders happy with large dividend payments."

Profits of the Top 100 companies increased by 15.8%, just above the average 1990 inflation rate of 14.3%.

Despite the recession, the Top 100 companies managed to increase sales by 15.3% during 1990.

"Sales per worker rose by 7.3%. This suggests that workers' productivity has improved at the Top 100 companies," LRS said.

The average increase in profits of the 245 companies surveyed in the 16 industrial sectors on the JSE was 23% and those listed in the engineering sector recorded, on average, a 45% increase in profits, the largest in the 16 sectors, during 1990.

"Profits increases for some of the big five conglomerates might have been poor in 1990, but they still earned large returns on shareholders' investment."

"Anglo American earned the largest return in 1990 of 24%.

"Barlow Rand's profit attributable to shareholders fell in 1990 by 14.2%, but it still managed to earn a very respectable return on shareholders' investment of 22.4%.

"Outbacks, retrenchments and rationalisation helped manufacturing firms to make their large profit increases," LRS said.
Poor conditions\textsuperscript{\textcopyright} slice T\&N payout

UK-controlled industrial manufacturer T\&N Holdings' year-end earnings fell sharply under difficult trading conditions and a poor performance from its subsidiary Asseng.

A hefty increase in finance charges to R21m (R11m) saw attributable earnings plummet 48% to R8,1m (R16m) or 55c (69,3) for the year to end December 1990.

A final dividend of 10c (20c) was declared, reducing the total payout 55% to 13,6c (21c), covered 2.9 times.

Turnover showed a marginal improvement to R145,4m (R139,4m), with export turnover increasing 75% to R29m.

A lower tax charge of R1,5m (R4,5m), resulting from allowances relative to the capital expenditure of R19,4m and tax losses in certain operating subsidiaries, had minimal impact on bottom line.

CIE Mathys Pretorius said a R8m loss incurred at Asseng's Roodepoort factories was compounded by overstocking engine components in all areas of the distribution chain. Consultants had been employed to address the problem.

Friction materials companies, Ferodo and Beral, improved operating profit in the period under review, but were still operating under capacity.

Dancor showed a small loss, but indications were that it would shortly benefit from cost cuts and rationalisation, Pretorius said.

The Radiator and Heat Exchanger performed well, and despite the downturn in the automotive aftermarket Silverton Services improved market share and upped profit.

FEH Automotive Technologies reflected a substantially improved performance over 1989, mainly as a consequence of improved production efficiency in its brazed aluminium plant together with satisfac-

\begin{table}
\centering
\begin{tabular}{|c|c|c|c|}
\hline
\textbf{T\&N Holdings} & \textbf{Earnings and dividends per share (cents)} & \textbf{Earnings Dividends} \\
\hline
\textbf{86} & 59,1 & 68,5 & 69,3 \\
\textbf{87} & 34,5 & 44 & 31 \\
\textbf{88} & 19,6 & 8 & 13,8 \\
\textbf{89} & & & \\
\textbf{90} & & & \\
\hline
\end{tabular}
\caption{Earnings and Dividends}
\end{table}

The group's Harpo gasket company will be closed as Payen gaskets served the market effectively.

T\&N's industrial and mining division performed satisfactorily although at low levels as result of an overall reduction in mining and industry activity.

Pretorius said chemicals and plastics remained a problem area, with BIP experiencing low volumes and disappointing profit levels. Butakem showed an improvement after stabilising raw material prices, but its market remained extremely competitive against imports.

Pretorius cautioned shareholders that conditions for 1991 were expected to be difficult. "Action has been taken to reduce costs, improve productivity and control working capital which should balance the negative economic scenario."
Social projects are too paternalistic — Motlana

Corporation social investment projects often fostered a continued dependence by black people on white help, Second Civic Association chairman Nhato Motlana said at a conference yesterday.

He said the reason for this was companies were often unable to look beyond the time when they would not be needed to help the underprivileged.

"What we need is to teach people to fish, not just eat fish," he explained.

Talking on a strategy for social investment in the nineties, Motlana said a further challenge was to overcome the perception of beneficiaries that whites only undertook social projects from paternalistic motives.

Beneficiaries needed to get involved in policy planning as well as the programme execution.

Motlana criticised organisations for failing to create a body of young blacks who could fill these roles.

"There is a nagging suspicion that corporate social responsibility funding is by and large used to buy influence and gain marketing mileage. Township comrades believe companies are using the programmes merely to buy off the imminent revolution," he added.

"It is important for new investment to concentrate on human development. Corporate social investment must be about growth and adding lasting value, and blacks must learn to become self-reliant," he said, adding that blacks must get over their "dependency psychosis".

He said donor companies had to concentrate on both short-term goals and long-term goals. For example, creches should be funded and school leavers be taught a way to make themselves economically useful.

"We do not have 20 years in which to develop a pre-school child into an artisan. We should, therefore, spread the investment accordingly."

Commenting on a suggestion for a more co-ordinated approach to corporate social investment between companies, non-government organisations and the recipients, Motlana said there was a need for an information network.

"We do not want to hamstring the enthusiasm of the individuals involved in planning projects, which would happen if a central control was initiated. Rather, we need a network of information to keep an eye on who is doing what and where," he explained.

Levels now ensured "cancer-free" cement, he said.
Org in plea to corporations

CAPE TOWN — Big corporations should promote black economic empowerment, Finance Deputy Minister Org Marais said yesterday.

It was imperative black South Africans obtained more economic muscle, and the privatisation of the sorghum beer industry was an ideal opportunity for them to become owners and managers, he said during the debate on the Part Appropriation Bill in Parliament yesterday.

He said the NP agreed with the ANC and the DP that it was vital that government alleviates poverty and upgrades living standards, “but affirmative action by the private sector is also called for.”

“Years ago the Afrikaner was boosted economically when Harry Oppenheimer sold Gencor to them. “Likewise, big corporations should promote black economic empowerment,” Marais said.

The NP put strong emphasis on individual rights based on political and economic rights and freedom and its policy was to stimulate growth and attain economic stability and redistribution of income through monetary, fiscal and industrial policies.

He said the NP believed it could attain a high growth rate through:

A. A free and competitive market approach based on private initiative, the right of ownership, free contracting, and freedom of choice with regard to consumption and occupation;

B. A smaller government promoted by deregulation and privatisation, corporatisation and commercialisation;

C. A fiscal and monetary policy, with the emphasis on fighting inflation and maintaining stable exchange rates; and

D. An industrial policy promoting small businesses, labour intensive industries, beneficiation of raw materials and assisting export industries.

Marais said that because of their higher incomes, white people’s contribution to personal income tax was 86.4% of the total compared with less than 8% from black people.

For every R100 paid in sales tax by a black person, R60 was paid by a white person. In total, however, “blacks contributed 42.5% to GST,” he said.

Marais said with the introduction of VAT this year government “is going to lose billions of rands by allowing for credits on capital goods and intermediate products.”

By bringing services in under the VAT net would not compensate for these losses. “A percentage of the tax on food should compensate for some of these losses. We should bear in mind that 83% of the sales tax exemptions on food benefit higher income consumers,” he said.
No backtracking on Businesses Bill

CAPE TOWN — The joint parliamentary committee considering the Businesses Bill would not introduce amendments which backtracked on the principle of deregulation, committee chairman Fanus Schoeman said yesterday.

Schoeman was responding to concern in the business community that the committee would make last-minute amendments to accommodate attempts by some local authorities to retain certain control measures.

The objective of the Bill was to deregulate the system of licensing and red-tape which created barriers to entry into the business and informal sectors. It proposed that all businesses other than those supplying food and enter-
tainment services be exempted from licensing. Schoeman said after a meeting of the joint committee for trade, industry and tourism.

However, concern was expressed by the Western Cape branch of the Small Business Development Corporation that the committee was considering amendments to replace the system of licensing with a system of registration.

The SBDC was also concerned that amendments would be made to this provision to widen the circumstances in which municipalities could restrict hawkers.

Schoeman said the committee hoped to complete its deliberations next week after which the Bill would be ready for Parliament.
New Act is ‘causing havoc’ for many firms

The new Deposit Taking Institutions Act is causing havoc among companies not included in the Act because it has severely restricted their business practices, trust company spokesmen said yesterday.

Groups such as stockbrokers, accountants, attorneys and trust companies are feeling the effect of the new restrictions.

A major problem concerns the pooling of funds into a designated account before reinvesting it with a registered deposit-taking institution. Under the new Act, the pooling of funds is limited to registered deposit-taking institutions.

Industry sources say the areas requiring urgent clarification are the role of the agent and principal, and what activities are assigned to which the principle of pooling funds and the use of nominee companies.

One source said the current interpretation of the Act would entail the intermediaries opening individual bank accounts for each investor.

The groups are not arguing about the stricter laws protecting investors, but rather that the new system would prejudice the small investors who would no longer have the benefit of achieving returns associated with a large investment.

"In addition, the principle of separate accounts would not safeguard the individual. Policing should rather be done through stricter licensing laws rather than by meddling in the market place," another source added.

Our Cape Town correspondent reports that from an administrative point of view adhering to the letter of the Act would be a nightmare. For example, Syfrets as money managers have about R8bn in funds spread over roughly 8,000 private and institutional clients.

Unless it re-classifies as a deposit-taking institution, it would have to open accounts for each client.

Another gripe is that the Act came into effect on February 1 with little discussion taking place between the Registrar of Banks and the intermediaries before then. However, a discussion paper has been released to which the intermediaries can respond by tomorrow.

JSE chairman Tony Norton said he was unable to comment on the issues but emphasised that the JSE would fight to preserve the legitimate investment management function of the stockbroking community.

Stockbrokers and trust companies register scrip through nominee companies and receive dividends and scrip back in that name. A complication of the new Act is that without nominee companies, the brokers would have to deregister all scrip and re-register it in individual parcels.
Multinational funds black business development

ROBERT Boshi is the first multinational to have a South African subsidiary take up shares with the Small Business Development Corporation.

The company's investment of R70 000 will be used to establish a pilot project to help blacks who wish to set up outlets to sell and service power tools. The money will also fund a customer care programme for the SBDC.

At a press conference this week, company marketing director Mr Derek Dreyer said: "We believe that the enormous need for housing and infrastructure development in South Africa will create opportunities for black entrepreneurs. "However, they will clearly need support to develop profitable business. The pilot project will provide a base for future expansion."

Project

He added the power tools project will initially be contained to the Witwatersrand. However, the company eventually plans to expand the project to other areas. "Once we have found a success formula, further investment will follow," he said.

SBDC managing director Dr Ben Vosloo said: "We have launched numerous successful black business development programmes over the years."

He also pointed out that the investment enables the SBDC to launch a special customer care programme.

Dreyer said the company was proud of its association with the SBDC. "Although we are a big business, operating in 130 countries and employing 175 000 people (1100 in South Africa), our business is built on small entrepreneurs."

He said: "We currently have 1 200 retail dealers countrywide, supplying power tools for home-owners, service tradesmen, builders, farmers, metal workers and carpenters."

"We are therefore very sensitive to the importance of small business."

He expressed hopes that the project will play a major role in ensuring that black business could benefit from the development bonanza which had come.
JSE firms ‘place profit above jobs’

By Shareen Singh

The top 100 JSE-listed industrial companies produced a 21.3 percent increase in dividends last year, but only increased employment by 0.1 percent, according to Labour Research Services.

Some of the biggest companies chose to grant shareholders significantly larger dividend payments and cut employment during 1990, LRS said. Employment creation should be a major concern for South African companies, it added.

But instead of expanding employment opportunities and making economic growth a priority, “these companies and their directors preferred to keep shareholders happy with large dividend payments”, the research body said.

Profits of the top 100 companies increased by 15.8 percent, just above the average 1990 inflation rate of 14.3 percent. Despite the recession, these companies managed to increase sales by 18.3 percent. Sales per worker rose by 17.3 percent, suggesting improved worker productivity.

Listed companies in the engineering sector recorded, on average, a 45 percent increase in profits last year — the largest increase in profits of the JSE sectors surveyed.

Profit increases for some of the big five conglomerates might have been poor in 1990, the LRS said, but they still earned large returns on their shareholders’ investment. Anglo American earned the largest return of 24 percent.

Barlow Rand’s profit attributable to shareholders fell by 14.2 percent in 1990, but the company still earned “a very respectable” 22.4 percent return on shareholders’ investment.

Barlow Rand group public relations manager John Cammell said the company had not increased its dividend payout.

Despite a 14.2 percent decline in attributable profit for 1990, the total wealth created by the group increased by 8.3 percent to R3.5 billion. Of this, 54 percent was distributed to employees compared with 49 percent of R8 billion in 1989. The proportion distributed to shareholders remained unchanged at 4 percent, he said.

A spokesman for the South African Chamber of Business, of which most of the top 100 companies are members, said the organisation was studying the report and may respond later.
Colour of money is the only colour that counts in 'minicity'

WITH state subsidies for the "border" areas drying up, it has been left to the commercial sector to ensure these artificially created growth centres do not turn into ghost towns.

Over the years, Pietersburg has seen an influx of businessmen and industrialists, most of whom set up shop with a hefty financial kick-start through the government border area incentive schemes.

"We lost a lot of developers when the homelands crumbled and the incentive schemes ran dry, especially in the property sector," says Chamber of Commerce and Industry chairman Frank Greyling.

But with the shift to decentralisation and Pietersburg's impending classification as a secondary city, on a par with Port Elizabeth, a new breed of entrepreneurs is emerging.

"Greyling, who runs a credit information service, says at least 65% of all credit applicants in the area are black, a sign of a changed approach to money by the black entrepreneur, who mostly operated on a cash-basis."

"We've got the highest black-to-white ratio in the development sector," he says. And with the aid of the Chamber of Commerce and Industry, programmes were set up to ensure the sustenance of trade in the town.

Unite

Greyling says initiatives have also been taken to try to unite the Chamber with the Sakekamer and to capitalise on the close relationships established with the various development corporations operating in the region.

"We want to establish a non-racial chamber with affiliation from all sectors. The only colour we will recognise is the colour of money," Greyling says.

Members of the chamber have "put in a lot of groundwork" in getting Gaza-

kul, Lebowa and Indian traders together under one umbrella body.

With this in mind, a constitution-in-waiting has been drawn up, but is still to be officially introduced, Greyling says.

"Businesses need to promote themselves and the notion of free enterprise," Greyling says.

"Greyling says the local branch of the ANC has given its blessing to the formation of an educational foundation for black businessmen.

"It's safe to say people here view free enterprise as something that's good." He says Pietersburg has the potential to become SA's northern inland harbour.

"We have all the infrastructure at our disposal, it just needs to be developed," he says.

Pietersburg boasts a large capacity rail depot as well as well maintained roads to the PWV in the south and to Zimbabwe to the north.

"We are feeling the pinch of the recession, but I don't believe it is as severe as it is throughout the rest of SA," says Greyling.

There is unemployment, but programmes promoting job-creation have helped keep this at bay.

"All the local entrepreneurs are getting stuck in to solve the problem," Greyling says.

In touch

Apart from education programmes, the chamber is also keeping its members in touch with business activity and attitudes in the rest of the country by holding regular seminars and meetings.

At these meetings, chamber members are given the opportunity to talk and listen to experts from a wide range of areas.

Among the speakers lined up for the next few weeks are ANC international affairs director Thabo Mbeki, former Businesswoman of the Year, Coin Security MD Yvonne Lottering and DP leader Zach de Beer.
Franchise seminar an eye-opener for blacks

FRANCHISING has entered the black market, and the packages offered by companies at a seminar in Johannesburg last week were an eye-opener for black entrepreneurs. Although the 160 odd prospective franchisees seemed to balk at the capital outlay required, the offer of backing by banks and the promise of big returns seemed to allay fears.

A franchise is a concept in which an established business, wishing to duplicate itself in other areas, sells authorisation to entrepreneurs to sell its goods or services using its name.

Business organisation Matchmaker Services convened the seminar in pursuit of its campaign to link big business with the SA black business sector, said executive director Zoko Telfile on Friday.

Companies which invited franchisees at the seminar last Wednesday were P.G Autoglass, mobile toilet operator Eazy Loo, carpet-cleaner Rug Doc- tor Pro SA, printers Kwik-Kopy and US-based Fonderosa Steak House.

Ponderosa International Development MD Sunil K Dewan said Ponderosa would furnish general guidelines to aid in site selection and provide assistance in evaluation of potential locations.

Representatives from Volkskas Bank, Standard Bank and First National Bank and the DBE were there to show what packages could be offered.

Malcolm Kietzman, Witswatersrand regional manager of the Standard Bank's Small Business Development department, said because franchisees were less likely to fail than most small businessmen, they represented a better risk to the banker.

"The black businessman should begin to capitalise more on this fact which clearly provides him with opportunities in the future," he said.

Kietzman said the Standard, through its Small Business Development and Advisory Department, was continually looking for ways of meeting the small businessman's financial and training needs.

Matchmaker Services executive director Zoko Telfile said the seminar was a success with good response from black business people.
A rights issue will alter Alex’s portfolio balance.
Unit trust total ‘soared by over R2bn’

CAPE TOWN — The R8bn unit trust industry took off in 1989 as the value of total assets increased by more than R2bn (51.2%) to R16.6bn, the 1989 report of Unit Trust Companies Registrar Piet Badenhorst said.

Badenhorst said in his report, tabled in Parliament yesterday, the growth was remarkable in view of the sharp drop in prices on the JSE on October 16 1989. After a large rise in units repurchased during the year, the net inflow of new investment capital was R663.2m.

LESLEY LAMBERT

Last year, the industry’s total assets grew by a further R1bn to R7.6bn, while the number of accounts rose from 558,000 to 738,000, latest figures show. The net inflow of R1.12bn was almost double that of the previous year, indicating continued momentum in the growing investor interest in unit trusts.

Four new general equity trusts and two specialist equity trusts were launched in 1993, bringing the total number of trusts in operation to 37.
Improved profile of industrials justifies rerating

Claire Gebhardt

THE whole risk-to-return profile in the industrial market has improved so a rerating is indicated, says Frankel Kruger Vinderine industrial analyst Mike Haworth.

Recommended industrial shares in the accompanying tables are heavily consumer-oriented, with the holding companies being in the furniture, food, retail, beverage and tobacco sectors.

The reasons for staying on the consumer side, he says, is that though both political and economic risks are improving the positive news has to translate into money and won't affect the fixed investment sector for a while.

Risks decreasing

"We still have to go through the whole cycle from planning onwards and the profit will only come through fixed investment companies in 1993/94."

He says that, broadly speaking, the market is going through a rerating process on the basis that real returns are forecast to increase in 1991/92 and the risks in the industrial market are decreasing.

"The indicator is that Barlows is a bellwether stock in the industrial sector, and as we forecast a slightly negative earnings growth for 1991 and the share price has moved up, it looks as if the market is rerating rather than Barlows."

### Recommended Industrial Shares

#### FOR LARGE PORTFOLIOS

| Holdings  | Richemont, Safren, Barlows |
| Electronic | Altex, Reunert, Powertech |
| Engineering | Aforx |
| Furniture | Ruslum, Eleine |
| Food | Freelas, Tiger |
| Retail | Pepkor, Woolru, Edgars, Pick 'n Pay |
| Beverage | SAB |
| Tobacco | Remgro |
| Steel | Incor |
| Chemical | Sasol |

#### FOR SMALL PORTFOLIOS

| Holdings  | AVI, Richemont, Safren |
| Electronic | Delta, Elecentre, Powertech, Dimension Data |
| Engineering | Aforx, Berzeck |
| Furniture | Ruslum, JD Group |
| Food | Pienier, Royal |
| Retail | Woolru, Foschini, Edgars, Pick 'n Pay, Clicks, DNA |
| Pharmaceutical | Adcock, Twins |
| Beverage | Kersal, SAB |
| Tobacco | Remgro |
| Paper | Consol, Hampak |
| Chemical | Sasol, Engen |
Nafcoc backs free market

By Sven Lünsche

The National African Federated Chamber of Commerce and Industry (Nafcoc) has committed itself to the promotion of the free-market system as a means to achieve a more equitable distribution of wealth and income in South Africa.

In a key document, outlining its view on the economy in a post-apartheid South Africa, Nafcoc acknowledges that the market is the feature that makes free-enterprise economies superior to centrally planned socialist systems.

"Therefore it is this feature that one must highlight in a new economic system for South Africa," the document says.

Nafcoc is the umbrella body for black business and has close links with the ANC.

It says the role of the Government must be that of a facilitator, ensuring a stable socio-economic environment, directing the provision of social services and guaranteeing free access to economic resources.

But Nafcoc says it is essential that both individual liberties and individual properties are protected.

A future government should give special support to blacks, the document says.

"The State needs to correct past wrongs by improving the redistribution of income, promotion of asset ownership and protection of the poor by measures that do not distort the market."

Nafcoc stresses that the main rationale for redistribution is not only to correct the wrongs of the past, but to enable blacks to make a new start.

"It would be inadequate to confine oneself to dismantling apartheid and expect blacks to compete with whites who have been placed in a very strong economic position by policies of the past."

On the question of land reform, Nafcoc argues that a programme should be implemented that would lead to a more equitable distribution of land, with minimal negative impact on agricultural productivity.
FIFTY SA companies have registered as consultants with the World Bank so that they can tender for business on bank-financed projects in southern Africa worth about R3,3bn annually.

Finance Department deputy director of economic information Fred Browne said the bank would spend R300m in southern Africa this financial year. This represented about 40% of project cost as normally its deals included co-financing by commercial banks.

The reason for greater local involvement is that European companies which have traditionally done development work in Africa are now focusing their attention on Eastern Europe.

The bank is keen for SA companies to participate in its projects, “until a bank team will soon begin a detailed study of this,” he says.

Browne said SA companies were showing great interest in registering as consulting firms. “The bank feels SA can play a major role even as far as north Africa,” he says.

“`the name of the game is to get in now while the vacuum is there,” he said. A year ago only eight SA companies were registered with the bank. This figure had now grown to 50.

Browne said there had been approaches to get SA companies involved in bank projects. Present projects included the Lesotho water scheme, the upgrading of the Maputo harbour, the provision of infrastructure for the Botswana soda ash project, and social programmes.

Eskom was in the process of registering, an Eskom spokesman said. Possible projects included a powerline from Cahora Bassa to Harare, and a power station in Botswana.

The bank’s registration list, known as the Data on Consulting Firms (Dacon) system, is also used by other major development agencies active in Africa. The list is for consultants only and excludes manufacturers, other suppliers of goods and contractors. Last year the bank bought R6bn in supplies from SA.

Founder member SA has had almost no contact with the bank for 23 years, but government intends using some bank strategies to assist with economic and social reconstruction.
Agreement on basic needs

DELEGATES from a wide range of organisations, including government and the ANC, agreed at a Consultative Business Movement (CBM) workshop at the weekend that a basic needs programme would provide a strong base on which to build economic growth, CBM executive director Theuns Eloff said yesterday.

The workshop included representatives from Azapo, the SACP, PAC and business, who achieved "remarkable agreements" on the economic problems facing SA, Eloff said.

Eloff said there was a clear convergence of opinions on the problems of inequality; growth and redistribution, although there was not always agreement on how to deal with these problems. [Page 25/9/91]

The basic needs programme would aim to achieve stability and restore human dignity.

"Such a programme would have to be carefully managed and targeted to address particular needs, like education, electrification and housing," he said.
Belgians sign a trade pact with Sacob

The Federation of Belgian Industries has signed an agreement of economic cooperation with Sacob.

The agreement provides for the promotion of bilateral trade relations, joint ventures, investment opportunities and technology transfer as well as the distribution of information of mutual interest.

It was signed in Johannesburg by Sacob deputy president Hennie Viljoen and federation president Urbain Devoldere, who is also the leader of a visiting Belgian mission which left SA on Saturday. (JHR)

After Friday's signing, Devoldere said SA represented an opportunity for the future, not only because of the positive evolution taking place, but also because of the role it could play in southern Africa.

The delegation members saw SA as a "springboard to the rest of southern Africa", Sapa reports.

The delegates met high-level representatives from government, business and political groups. (JHR)

"We have discovered that there is more consensus between political groupings than differences of opinion," Devoldere said.
Sacrifices needed in new SA — Nafoce

Established companies will have to make sacrifices, and taxes could go up, under a post-apartheid government, says a policy document published on Friday by the National African Federated Chamber of Commerce (Nafoce).

The document stresses the importance of free markets in the construction of a new economy. But, emphasising the present gulf in wealth distribution, it calls for special education programmes and large contributions by the private sector to provide improved social services.

Nafoce president Sam Motsemayane said on Friday there had to be "a willingness to sacrifice high profits for development". There would be a rechanneling of government funds and the private sector would have to play an important part in new social schemes.

Such schemes would include housing, electricity and water projects, as well as education programmes.

Nafoce chairman Wiseman Nkuhlu advocated a democratisation of industry, with a break-up of the corporate monopolies held by larger companies.

The document overall proposes a form of "capitalism with a human face".

Nkuhlu said that, in spite of experiences in other African states, he believed the empowerment of the black majority and economic growth could go hand in hand.
Big business clashes over language

SA's two leading business organisations clashed at the weekend over the issue of language in schools.

Afrikaner Handelsinstituut (AHI) president Gertie Steenkamp said the SA Chamber of Business (Sacob) supported a Private Sector Education Council (Prisec) recommendation that English become the main medium of instruction in schools.

He said the AHI was the only employer organisation to take exception to Prisec's recommendations.

Responding to his claims, Sacob said yesterday it had never supported any active move to restrict mother tongue education to only the early school years.

"Sacob has always favoured a flexible policy and has not asked for English to be the only official language as a medium of school instruction."

There was no reference in the Prisec document on which Steenkamp's remarks were based to the mandatory use of English in school education.

"The intention of the Prisec document is to promote competence in the languages of the country, whether English or Afrikaans," Sacob said.
World markets

‘risk hedge’ for

manufacturers

The rapid opening of markets abroad offer an attractive risk hedge for the manufacturing sector, said CE of Safko Wim Holtes yesterday. Manufactured goods are the fastest growing sector in world trade, whilst minerals, fuels, primary commodities and foodstuffs are static or declining.

A typical example was the European Community (EC) where manufactured products had increased their share of imports from 52% twenty years ago to a current near 70%. During the same period primary commodities, excluding food, dropped from 17% to 7% of total EC imports.

“This causes the alarm bells to ring for SA as a traditional major supplier of primary products to Europe,” said Holtes.

In the highly competitive markets of the world price alone is seldom the deciding factor.

Adding value in the form of better performance qualities, product modification to customers’ requirements and sales back-up service are essential for any company’s export-committed programme.

Africa is SA’s major market for manufactured products with as much as 35% of all manufactured exports finding their way into sub-Saharan Africa. Delivery and price advantages as well as technical back-up have so far been important marketing tools. However, SA companies are now also becoming involved directly, or in association with foreign suppliers, in projects or purchasing programmes financed from aid programmes or foreign development agencies — they can expect in these cases for greater insistence on quality products with high performance standards.

These developments signify a move from the traditional trading patterns to international marketing of value-added manufactured products.
Analysts suggest narrow investment in industrials

Investment strategy should be concentrated in a few selected industrial sectors of the JSE — industrial holdings, life assurance, retailers and wholesalers, and food, say Davis Berkum Hare (DBH) analysts.

They predict that the mining board will remain depressed for the foreseeable future because of the negative outlook for commodities and metals.

Pierre Greyvensteyn in DBH's quarterly outlook survey says industrial holding counters have been underperforming the industrial index since August 1988, largely influenced by Richemont's lacklustre performance, which constitutes a 38.6% weighting in the industrial holding index.

Although there are negative factors in the outlook for life assured, analyst Graham Baillie says individual institutions remain sound investments. While record performances will not emerge, a solid set of results is to be expected.

He says the scenario of high interest rates, throughout 1991 will continue to put pressure on household budgets and the rate of personal savings as a percentage to personal disposable income is not likely to improve above the 1% level.

He cautions that in these times of uncertainty and with real rates of interest available in the banking sector, individuals might elect to channel their available investment funds into near cash investments rather than contractual obligations of a longer duration.

It therefore becomes evident that life assured will be hard pressed to sustain in the coming year their remarkable growth of the past, he says.

Analyst Lindsay Lurie says that continued increases are expected in private consumption expenditure — 1.5% in 1991 and 3% in 1992.

Underlying these projections is the assumption that the redistribution of income is increasing together with a concomitant rise in purchasing power.

It is the rise in the expenditure on non-durables that should be noticeable in the current downward phase of the business cycle. The inelasticity of non-durables in relation to total private consumption expenditure, comprising about 45% of the total, is expected to outpace services, semi-durables and durables.

Food retailers, in particular, are expected to fare the best because of the unflagging stability and unsullied growth of non-durables in relation to total private consumption expenditure.

Efficiently run clothing and footwear retailers in the semi-durable sector are expected to fare comparatively well, says Lurie.

Analyst Carol Neff says profit growth in the major food companies is expected to slow down a little this year — more so for C G Smith than Tiger or Premier because of the lower growth expectations of C G Smith Sugar and Imperial Cold Storage.

Food margins are generally fairly resilient against an economic downturn and the defensive character of these shares is reflected in their high rating. Fedfood is looking interesting in technicals, says Neff.
AVI overcomes low margins, high interest

ANGLOVAAL Industries (AVI) shrugged off reduced margins afflicting markets served by the group, and a still heavy interest bill, to post a 5% increase in earnings in the six-months to end-December.

Attributable earnings climbed to R163m (R158m), equivalent to 38c (36c) a share. After-tax profit rose 10% to R163,6m (R152,6m).

AVI’s packaging and rubber sector contributed most to the growth, with a 9% increase in its contribution to group interim earnings. All five business sectors contributed to bottom-line earnings, but the construction and electronics and diversified businesses sectors’ contributions fell by 3% and 7% respectively.

MD Jan Robbertze said last night the performance of the construction and electronics sector reflected the reasonable conditions in the building industry, but a tighter situation facing civil engineering.

Profit gains in Consol’s rubber division and National Brands were offset by lower contributions from Grinaker Holdings and the group’s textile businesses.

He said commercial electronics faced difficult times. Grinaker Electronics had lost a significant component of defence spending, and was refocusing its operations.

Robbertze said the company’s non-defence business was picking up — it had won an antenna contract from the SABC — and with the easing of overseas market conditions it was likely to raise its contribution to group earnings by financial year-end.

Revival

Textiles were hit by government’s structural adjustment programme, which had promoted imports.

AVI’s businesses had been less badly affected than its competitors, but their revival would depend on government re-evaluating its approach to the industry.

Consol’s rubber division fuelled 15% of the 19% increase in group turnover to R2,658bn (R3,660bn).

AVI’s interest bill fell 10% in the interim to R13m (R14,7m), compared with a total bill of R166m at year-end 1990 (R44,8m at year-end 1989).

Operating profit was boosted by a 25% increase in investment income to R331m (R288m).

The directors said for the next six months earnings would match interim results, although recessionary trading conditions were expected to continue.

Negotiations were in progress which, if successful, would result in AVI increasing its interest in Grinaker Holdings to 51% (now 45.5%). When the transaction was completed, AVI planned to transfer its entire Grinaker Holdings equity into direct ownership by AVI, eliminating the need for intermediate holding company Avgrin Holdings, which would be deregistered.

AVI had signed a conditional agreement whereby National Brands would — on April 2 — acquire the local business of Yardley of London (Africa).

Directors said the group’s capital expenditure was reduced to R82,5m (R119,9m) in the half-year. Authorised capital expenditure stood at R149,7m (R119,7m), of which R83,6m had not been contractually committed.

Chairman Basil Hersov said last year, AVI had budgeted R2,1bn in capital expenditure over the next three years.
Forming of groups for advantage frowned upon

CAPE TOWN — Companies should not be entitled to form groups with other companies to obtain advantages under the VAT system, Vatcon has recommended.

"It said the draft VAT Bill provided for two or more companies to apply to be treated as a group for VAT purposes, and render only one common return. A company could derive certain limited advantages from group treatment, such as the saving on administrative costs.

Group treatment did, however, tend to undermine the objectives of establishing reliable audit trails and effective monitoring.

Since group treatment had the effect of ignoring taxable supplies between members of a group the advantages of an invoice-based VAT system were lost in many cases.

Group treatment should not open the doors to tax evasion.

A way of dealing with some of these problems was to set restrictive admission requirements to groups, but this would make so few cases of group treatment possible it would appear meaningless to provide for this treatment at all.

The scales clearly swung against group treatments when weighed against the potential problems in control which Inland Revenue could experience, as well as maintenance of statistics problems. — Sapa.
COMMERCe and industry have called for a moratorium on the scrapping of more than 2,000 of the 5,000 posts in the Natal Education Department until such time as a new education system is in place.

The weekend appeal was made through the office of the Private Sector Education Council (Prisec) whose members include Sacob, Seifa, the Afrikaanse Handelsinstituut, Bisa and the Chamber of Mines.

Prisec said it noted "with grave concern" the announcement arising from an emergency meeting between officials of the Natal Education Department and the Natal Teachers' Society held late last month.

"This stated that more than 2,171 of the 5,000 posts in the Natal Education Department will be slashed while thousands of posts in the Department of Education and Culture in the country," the statement said.

It added it was already clear that when a new system was devised it would not be based on the present form of racially segregated education departments as the system had been made "totally illogical" in the absence of the Population Registration and the Group Areas acts.

It said it would be a tragedy if highly qualified and dedicated white teachers were driven from the system at a time when they would be able to work with a much wider section of the schoolgoing population.

The statement added that because of the declining numbers of white pupils, further valuable school buildings would be lost to the education system.
Manufacturers cut costs, boost profits

THE manufacturing sector was one of the first to bring automation and business into a single, focused marketplace.

This was in an effort to cut costs and boost profits.

But this focus is becoming increasingly critical as users in different manufacturing sectors try to maximise benefits gained from their systems.

Sypro MD Christopher Duff says these kinds of focused manufacturing packages started evolving as long ago as the late ’70s among machine tool, valve manufacturing and the aerospace industries in the US.

“As the availability of packaged software has spread, users in almost every sector of manufacturing have started to embrace the disciplines of Manufacturing Resource Planning (MRP), looking for increased profits and reduced stocks.”

But Duff says these benefits have been slow in coming. Even now, less than 16% of the US process manufacturing sector (including food, chemical, petroleum, consumer goods, pharmaceutical and building materials) have made the transition from manual systems to computerised alternatives.

Encouraging

“There are many reasons for this. As a manufacturer of MRP systems, what is encouraging is that the need for focus which drives manufacturers to adopt computerised systems is becoming more apparent.

“We are able to deliver a packaged manufacturing system which, in many cases, can offer users more than a 50% fit with their demands.

“Customisation of an existing package with a low level of fit is no longer an acceptable, answer to would-be users,” he says.
SA firms in major drive into Africa

SUB-SAHARAN Africa is ignoring ANC pleas to keep sanctions in place and is showing unprecedented interest in developing trade and business contacts with SA.

SA companies are responding to the opening markets by increasing trade, tendering for development work and establishing joint ventures in many African countries.

Safar Africa specialist Paul Runge says that with a few exceptions, all sub-Saharan countries are now open.

A host of business delegations have visited SA in recent months, including some from previously hostile countries, such as Nigeria.

Other delegations came from Guinea-Bissau, Burundi, Zaire, Angola, Nigeria, Mozambique and Madagascar.

Two weeks ago, Cameroon, one of the last nations observing the boycott, signalled its intention to allow trade with SA.

Gabon was until recently allowing trade on an under-the-counter basis, but will now deal more openly.

Evidence of the new relationship with Africa is shown by the 49% jump in SA exports to Africa, in 1989, which further increased by 25% last year.

Zaire has opened quickly to be SA’s second largest market in Africa after Zimbabwe. Angola and Kenya also offer very good prospects.

SA trade delegations are now well received north of SA’s borders. Companies which are gearing up to exploit opening markets in Africa include:

- Nissan, which has set up a special new trading company, Motoware, to handle exports to Africa, and is considering requests to establish joint ventures. The exports include parts made by other manufacturers.
- Tiger Oats, which is developing trade in nine countries, and has expanded its international arm to include an African desk.
- Safar, which is running its fleet at capacity because of demand from Africa. It is considering a flood of requests for assistance with infrastructural projects.
- The CSIR, which is active in eight African countries, including involvement in the rehabilitation of Malawi’s road network.
- Grinkmek, which has tendered in recent months for several World Bank projects.

KEVIN DAVIE

Stanbic’s Manfred Schutte says Botswana has recently granted a banking licence to an SA bank, and that Stanbic has been approached from one to two countries interested in re-establishing banking relations with SA.

“The Africans see that Europeans are less interested in Africa because of Europe 1992 and eastern Europe.”

The French, say Safar’s Runge, have reduced private investment in Africa by 30%.

Many African countries are therefore looking to SA. “They have excessive expectations,” he says.

Safar’s Bram Looi says Safar may

To Page 2

African

“We’re optimistic. Africa is a very exciting and profitable market,” he says.

Tiger Oats’s Patrick McLaughlin says the company is travelling in nine or 10 African countries right now. “We find ourselves working in close co-operation with European companies who are already active and are looking more and more to SA as a reliable trading partner.”
Anglo Alpha worried over tax moves

MARCIA KLEIN

SCRAPPING of the wear and tear tax allowance would cost industrialists dearly, Anglo Alpha MD Johan Pretorius said in the group's annual report.

In the year to end-December, the cement producer's tax rose to 35.8% from 33.2% due to the change in the depreciation allowance.

Pretorius appealed to the Minister of Finance to reconsider the "sudden" replacement of the 50:30:20% tax allowance on plant with a 20% a year straight-line wear and tear allowance.

"This is detrimental to SA companies' competitiveness in the export market which the government is trying to encourage," Pretorius said.

Also, it would render companies less able to grow and provide jobs — this in turn would fuel inflation, he said.

He said that the 50:30:20 formula should have been left as a necessary provision in inflationary times and as an incentive for the manufacturing industry to grow, modernise and create jobs.

A study by the Federated Chamber of Industry in January 1998 showed that SA industrialists paid 214% more in nominal terms for plant and machinery (including finance over 10 years) than their Japanese counterparts, Pretorius pointed out.

In order to permit replacement or extension of plant and machinery, sufficient cash flow needed to be generated, and by removing the allowance, government had reduced the incentive to invest in capital goods.

Companies might have to consider increased selling prices, which would fuel inflation in order to recover the increased cost of investment and to maintain margins, he said.
SA firms learn to do business the African way

The ABCs of South Africa

SACO, the African Business Council of South Africa, was founded in 1993 to promote and facilitate business between South Africa and Africa. Its mission is to foster economic development and cooperation between South Africa and African countries.

The ABCs of South Africa

The African Business Council of South Africa (SACO) was founded in 1993 to promote and facilitate business between South Africa and Africa. Its mission is to foster economic development and cooperation between South Africa and African countries. SACO is a member of the African Business Council (ABC), which is a network of business councils from African countries.

The ABCs of South Africa

SACO has a membership of over 100 companies, including large multinationals and small and medium-sized enterprises. Its membership includes companies from various sectors, including mining, manufacturing, finance, and services.

The ABCs of South Africa

SACO provides a range of services to its members, including trade mission delegations, market research, and networking opportunities. SACO also organizes events and seminars to promote business in Africa.

The ABCs of South Africa

SACO is headquartered in Johannesburg, with offices in other major cities in South Africa. Its website is a valuable resource for companies looking to do business in Africa.

The ABCs of South Africa

SACO is committed to promoting business in Africa and helping South African companies succeed in the region. Its work is essential in fostering economic development and cooperation between South Africa and African countries.
Alliance involves business in addressing education crisis

THE growing realisation that business and community organisations can work together to their mutual benefit has resulted in the formation of an education alliance which will work at alleviating some of the more pressing problems in black education.

At a workshop in Johannesburg last week, members of the Third Alternative — which spent three years and R400 000 researching the area of black education — and the Soweto Education Co-ordinating Committee announced plans for the education alliance.

"We have reached the make-or-break point where "black advancement equals business survival" ... The business community has an important role to play — not only the morally right thing to do will make the best business sense," said Tony Ratney of the Third Alternative.

Wits SRC calls for three-day boycott

Samantha Weinberg

THE Students Representative Council of the University of the Witwatersrand has called a three-day class boycott starting today, in an attempt to force the administration to attend to what they describe as "the crisis of mismanagement".

Despite a call by Nelson Mandela in his orientation week for students to attend to their studies and not jeopardise their education, and despite a common desire for more funds, the rift between students and the administration of Wits University appears to be deepening.

According to SRC president David Jammy, the high exclusion rate — 22 percent of first-year students failed to meet minimum academic requirements last year — demonstrates the gap between the present structure of teaching at the university and the sort of structure required to meet the needs of specifically disadvantaged students.

"What is needed is a long-term strategy which will not only cater for the needs of the majority, but will play a constructive role in the transformation of South Africa. To that end, we are prepared to take the strongest action to force the administration to acknowledge the present crisis and start finding ways to address it," he said.

However, Vice-chancellor Professor Robert Charlton said Wits was already making as much provision as it could for students in the face of restricted resources.

He said that if students did decide to stage a class boycott, the position of some students could be endangered.

"A class boycott is a quite inappropriate response to the problem of students failing to meet minimum academic requirements. The very people it is trying to help would be the ones most likely to be affected," he said.

Jammy said that if the decision was taken to boycott, it would reflect the "complete frustration" students are feeling at exclusions, the shortage of accommodation and the increase in fees.

An alliance between progressive businesses and credible community organisations aimed at addressing the crisis in education was announced this week in Johannesburg. Samantha Weinberg reports:

"It is crucial, however, that attempts to address the crisis are community-based and accountable. In response to this challenge, an alliance between credible community organisations and progressive businesses has been formed.

"It will assist in fund-raising, the recruitment of expertise, and the management and co-ordination of a host of projects aimed at addressing the crisis in education," he said.

Companies which bank-rolled the research initiative of the Third Alternative — including mining giant Gencor and Old Mutual — will be approached for funding for the new projects.

Among the projects that the alliance envisages developing are:

- A network of community study centres offering a wide range of facilities and activities, and both formal and informal study;
- Community projects, including a student advice office, school monitoring and intervention, safety and security awareness, the development of PTAS and the drawing up of a "people's education charter";
- Education projects, such as a model school equipped with superior facilities and aimed at providing an example for black school children to show that, given the facilities, black children can do as well as white children. Also a night school, a correspondence college and an educational radio station;
- Fundraising, by inviting companies, organisations and individuals to affiliate to the alliance at a price. The possible development of a national lottery, a children's art book, an education newsletter, a home library series and an education movie or video circuit.

According to Ratney, the Third Alternative's main involvement is to provide ideas and assistance with fundraising, leaving community structures to decide what projects are appropriate and start them rolling.

"The education alliance aims to serve as a bridge between the private sector and community and educational organisations," said Ratney.

"It is not in competition with any organisation currently serving the interests of disadvantaged communities. Where it is involved, it will ensure that funds invested are applied where the needs are greatest — and that these projects enjoy the support and commitment of the communities affected."
Battling Amic bemoans cut in export incentives

By Ann Crotty

Anglo American Industrial Corporation's (Amic) 29 percent drop in earnings to 85c (118.5c) a share for the 12 months to end-December is a clear reflection of the state of the local economy as well as the decreasing returns achieved on export sales.

The full year dividend has been maintained at 35c a share.

According to chairman Graham Boustred little or no real economic growth is likely during the current year.

The full year figures are in line with the deterioration in trading conditions revealed at the half way stage when a 30 percent earnings drop was reported. It reflects a major break in the group's five year record of satisfactory earnings growth.

In his annual statement, released with the results, Mr. Boustred notes that trading conditions in SA and in world markets continued to deteriorate throughout 1980. "This not only depressed the prices of most commodities produced by the group but in certain cases reduced volumes, resulting in lower capacity working and plant shut-downs."

Turnover was up a marginal 6 percent to R6.1 billion (R5.8 billion) but earnings from operations were halved to R571 million (R1.1 billion). Earnings from associates were more resilient — dropping from R247 million to R222 million.

Investment and interest income fell to R88 million (R92 million). Interest payments more than doubled to R121 million. (R56 million). After tax and outside shareholders, attributable income was down 29 percent to R451 million (R656 million).

Referring to government's export incentive programme, Mr Boustred noted: "It is ironic that the substantial reduction of export incentives for primary and semi-fabricated products in March 90 came about in advance of a period of economic stringency when these incentives are most needed to maintain price competitiveness in world markets."
NOTICE 214 OF 1991

DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

APPLICATION FOR VARIATION OF SCOPE OF REGISTRATION OF AN EMPLOYERS' ORGANISATION

I, David William James, Industrial Registrar, do hereby, in terms of section 4 (2) as applied by section 7 (5) of the Labour Relations Act, 1956, give notice that an application for the variation of its scope of registration has been received from the South African Engineers and Founders Association. Particulars of the application are reflected in the subjoined table.

Any registered employers' organisation which objects to the application is invited to lodge its objection in writing with me, c/o the Department of Manpower, 123A Manpower Building, 215 Schoeman Street, Pretoria (postal address: Private Bag X117, Pretoria, 0001), within one month of the date of publication of this notice.

TABLE

Name of employers' organisation: South African Engineers and Founders Association.

Date on which application was lodged: 10 January 1991.

KENNISGEWING 214 VAN 1991

DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

AANSOEK OM VERANDERING VAN DIE REGISTRASIEBESTEK VAN 'N WERKGEWERSORGANISASIE

Ek, David William James, Nywerheidsregistrator, maak ingevolge artikel 4 (2) soos toegepas by artikel 7 (5) van die Wet op Arbeidsverhoudinge, 1956, hierby bekend dat 'n aansoek om die verandering van sy registrasiebestek ontvang is van die South African Engineers en Founders Association. Besonderhede van die aansoek word in onderstaande tabel verstrek.

Enige geregistreerde werkgewersorganisasie wat teen die aansoek beswaar maak, word versoek om binne een maand na die datum van publikasie van hierdie kennisgewing sy beswaar skriftelik by my in te dien, p/a die Departement van Mannekrag, Mannekraggebou, 123A Schoemanstraat 215, Pretoria (pos-adres: Privaatsak X117, Pretoria, 0001).

TABEL

Naam van werkgewersorganisasie: South African Engineers en Founders Association.

Datum waarop aansoek ingediend is: 10 Januarie 1991.
Interests and area in respect of which application is made: Any firm, company or close corporation engaged in the business of general engineering or founding or jobbing in the Republic of South Africa.

For the purposes hereof "General Engineering Founding, Jobbing" means, in addition to its all embracing meaning, repetitive production of metal or abrasive products by precision methods on machine tools designed or adapted to this end, or the manufacture of metal castings, or the performance of engineering processes, or the undertaking of engineering work in connection with articles which, owing to the heavy nature thereof, cannot be handled otherwise than by using large power-driven plant or machinery; and

"abrasive products" means grinding media such as grinding wheels, brick, sticks, segments and other devices which are designed for the purpose of removing by mechanical abrasion metal or other surplus material from other products and in which the abrasive is composed wholly or mainly or some mineral substance embedded in a matrix of ceramic, resin, rubber, shellac or other binding material.

Postal address of applicant: P.O. Box 1338, Johannes- burg, 2000.

Office address of applicant: Metal Industries House, corner of Marshall and Simmonds Streets, Johannesburg.

Attention is drawn to the following requirements of sections 4 and 7 of the Act:

(a) The representativeness of any employers’ organisation which objects to the application shall in terms of section 4 (4) as applied by section 7 (5) be determined on the facts as they existed at the date on which the application was lodged and, as far as membership is concerned, only members who were in good standing in terms of section 1 (2) of the Act as at the aforesaid date shall be taken into consideration.

(b) The procedure laid down in section 4 (2) must be followed in connection with any objection lodged.

D. W. JAMES,
Industrial Registrar.
(8 March 1991)

NOTICE 215 OF 1991
DEPARTMENT OF MINERAL AND ENERGY AFFAIRS
RESERVATION OF LAND FOR THE PURPOSES OF A PUBLIC ROAD

The Mining Commissioner for the Mining District of Johannesburg has, in terms of section 179 (1) (b) of the Mining Rights Act, 1967 (Act No. 20 of 1967), reserved for the purposes of a public road a strip of proclaimed land on the farm Leeuwoort 113 IR, District of Boksburg, Mining District of Johannesburg, Province of the Transvaal, as shown on a sketch plan copise of which have been filed under RMT R104/90 in the Mining Titles Office, Johannesburg, and in the office of the Mining Commissioner, Johannesburg.

(8 March 1991)

(19/5/1/2975)

Belange en gebied ten opsigte waarvan aanoeek gedoen word: Enige firma, maatskappy of beslote korporasie betrokke by die bedryf en ekonomiese ingeneurswees of gieterweyse of stukwerk in die Republiek van Suid-Afrika.

Vir die doeleindes hiervan beteken “Algemene Ingenieurswees, Gieterweyse, Stukwerk" benewens sy alomvattende betekenis, die herhaalproduksie van metaal- of skurprodukte deur presieisemotors op masjiengereedskappe vir hierdie doel ontwerp of aange- pas, of die vervaardiging van metaalgieterstukke, of die vragting van ingeneursprosesse, of die onderneem van ingeneurswerk in verband met artikels wat, weens hul gewig, nie anders as deur die gebruik van groot, kragaangedrewe uitrusting of masjiere hanteer kan word nie; en

beletek "skurprodukte" skuurhulpmiddels soos spywiete, -stene, -stawe, -segmente en ander toestelle wat ontwerp is met die doel om deur middel van mega- nisse skuurakse metaal of ander korstskmateriaal van ander produkte te verwyder en waarin die skuurmiddel uitsluitlik of hoofsaaklik saamgestel is uit 'n miner- raalstof wat in 'n gietvorm van keramiek, hars, rubber, skellak of ander bindmateriaal ingebed is.


Die aandag word gevestig op onderstaande ver- elstes van artikels 4 en 7 van die Wet:

(a) Die mate waarin 'n beswaarmakende werkge- wersorganisasie verteenwoordigend is, word ingevolge artikel 4 (4), soos toegepas by artikel 7 (5), bepaal volgens die feite soos hulle bestaan het op die datum waarop die aanoeek ingedien is, en wat die lid- maatskap betref, word alleen lede wat ingevolge artikel 1 (2) van die Wet op voornemde datum volwaardige lede was, in aanmerking geneem.

(b) Die prosedure voorgeskryf by artikel 4 (2) moet gevolg word in verband met 'n beswaar wat ingedien word.

D. W. JAMES,
Nywerheids register ateur.
(8 Maart 1991)

KENNISGEWING 215 VAN 1991
DEPARTEMENT VAN MINERAAL- EN ENERGIESAKE
UITHOU VAN GROND VIR DIE DOELEINDES VAN 'N OPENBARE PAD

Die Mykommisaris vir die myndistrik Johannesburg het 'n strook geproklemde grond op die plek Leeuwoort 113 IR, distrik Boksburg, myndistrik Johannesburg, provinsie Transvaal, soos getoon op 'n sketskaart waarvan afdrukke onder RMT R104/90 in die Mynburewekanoor, Johannesburg, en in die kantoor van die Mykommisaris, Johannesburg, bewaar word, aangesien artikel 179 (1) (b) van die Wet op Mynrege, 1987 (Wet No. 20 van 1987), vir die doeleindes van 'n openbare pad uitgehou.

(8 Maart 1991)

(19/5/1/2975)
Top firms step up social responsibility funding

LEADING businesses in SA had invested as much as R800m in social responsibility last year compared with the R100m invested in 1982.

The latest Innes Labour Brief said the amount spent by companies on the community was R200m in 1985 and R500m in 1987. Spending increased to R600m in 1988.

In a comprehensive survey of corporate social responsibility (CSR) the Labour Brief said that at the beginning of the 1980s, social responsibility outlays by SA firms constituted about 1% of after-tax profits, which was less than that of companies in the US.

"By the end of the decade, the large concerns, which supply more than 80% of all funds, were disbursing anything between 2% and 5% of after-tax income — approximately the same as their US counterparts."

"Community engagement has thus become a growth industry in SA, despite the most serious economic recession since the 1930s, an unfavourable taxation environment, and the disinvestment of some 500 foreign subsidiaries."

It was claimed in 1989 that American withdrawal alone had meant a loss of up to R100m in social responsibility resources.

It said the study was testimony to the massive volume of appeals which the companies had received from a wide variety of sources.

"It was not too farfetched to imagine that the rise in expenditure would continue in the light of swelling demand, the government's apparent eagerness to reduce its role in the provision of some welfare functions, and the talk of nationalisation that was in the air.

"Furthermore, the practitioners of social responsibility have clearly come to select their targets more carefully."

The Labour Brief said demand for CSR had risen in a period of economic downturn, so the pressure on firms had intensified.

A survey of 10 companies showed more CSR spending was being targeted at technical education.

Identify

"Companies aim to identify talented students (particularly black); provide them bursaries to obtain further education; appoint mentors (employees in important positions at the company) to give guidance and insight into the professional world and serve as role models and ultimately place them in responsible jobs with upward mobility.

"Sasol supports 350 students annually in such training; Castrol's new bursary scheme will attempt to identify 20 employees/children each year for a three-year technical training programme that will eventually land them jobs in the company; Sentra-chem allocates the vast bulk of its CSR money toward tertiary education; AECI has a tertiary education budget in addition to its CSR (also called "Quality of Life" budget) that supports university training; it said.

In the food industry the CSR programmes of two companies, Premier Food Industries and SA Breweries' beer division, were directed toward upgrading a less-skilled workforce whose needs were more likely to be obtaining basic literacy and numeracy skills for themselves and improved "educare" for their preschool-age children.

Both companies offered on-site instruction, and SAB was developing a technical training institute to provide further skills training to employees.

The 10th company in the study, Liberty Life, was profiled not only because of its size and influence but because it had chosen a novel approach to CSR from which other companies could draw inspiration.

"Last year, the Liberty Life Foundation formed a social foundation that plans to spend over R100m on programmes to improve education, housing, and economic opportunities in urban and rural communities."
Resizing IT division the ‘key to survival’

TO MAINTAIN their competitive edge, companies are downsizing, right-sizing, and resizing as they restructure their operations.

Vice president and chief information officer for US-based Amoco Steel, Tom Lutz, who is discussing these issues at a seminar in Johannesburg on March 18, explains that companies are faced with the need to cut costs and to do things in a new way to survive and succeed.

"Traditional organisations are structured on what they have done in the past, and must now restructure or realize their operations.

"Studies in the US show that in most cases, reducing staff and still continuing to do things the traditional way doesn’t work.

"In the 80s, Fortune 500 companies cut out 32 million jobs. Yet it’s believed that today there is still 22% fat in these companies.

"Companies are realising that to compete on a global basis, they must get more results from fewer people. Resizing means putting the right talent in the right place.

"In the 80s, it seems we must take another 25% of people out of business — not to cut costs, but to make companies more responsive, larger companies are more resistant to change."

Companies most successful at resizing are those which take on new cultures to fit in with changes. Staff must continually change and learn to do new jobs.

Lutz reckons a problem for many is that they try to streamline things that should not be a concern. IT is a tool to help companies resize in the right way, but IT is often one of the slowest things to change.

The computer systems put in place to support the way the company works are often built for the ‘old style’ of doing things.

"IT staff say it will take five years to rewrite their old systems, but companies can’t survive waiting for IT, so one of the first departments which should be resized is the IT division.

“The answer could be to move work which needs to be done here to outside companies.”

Lutz says one company which had a system development cycle of four to five years has seen this fall to seven to nine months by outsourcing development and maintenance of critical systems.

He argues that the single hindrance to matching the changing organisational structure of companies is the resistance to change of IT staff.

"Downsizing of IT departments which was predicted in the 80s hasn’t happened. We’ve moved more of the Information Systems function to users, but IT staffing is the same size.

"My company has seen the number of its minicomputers rise from 10 to 40, and PCs from about 25 to 5000, and its mainframe computing load has increased by 20%.

"We’re restructuring the IT architecture to match our business needs — and this doesn’t necessarily mean less cost, but rather increasing productivity.”\}
Rand Mines' sub-contracting programme is helping numerous small business operations generate income worth millions, according to RM Small Business Programme spokesman Anton Keating.

Keating, writing in this month's edition of Black Enterprise, says since RM's Small Business Development Programme was started two years ago, it has helped small businessmen generate income totalling R2.5m. \[10\] R[\text{3}m]\]

This came from operations as diverse as plastic bag and clothing manufacture, printing, carpentry, mine employee transport, painting and cleaning services and steel component manufacture.

"Because it (the programme) is a new concept, buyers from other small business programmes are continually sharing ideas and names of small concerns."

"This had led to the discovery of many small informal businesses, which have the potential to serve the needs of certain sectors within the mining industry."

"It is extremely fulfilling to discover a backyard operation and to give it the opportunity to expand.

"However, good business practice prevails in what we do.

"We only follow through with an order if we are satisfied that the price is competitive," says Keating.

He adds the programme highlights problems faced by small firms, such as difficulties in accurate costing and pricing, transport difficulties and prompt settlement to avoid cash-flow problems.
Govt examines new tariff report

CABINET is said to be reviewing a new trade and tariff report which could result in local manufacturing tariff protection and export subsidies being scaled down.

The Modification of Protection Policy Report's recommendations, which were compiled by the Industrial Development Corporation (IDC) last year, were disclosed by the Financial Mail (FMD) yesterday.

The basis of the report was to move industry away from protectionism with the goal of promoting a more competitive market for exports.

The IDC report strongly favoured the Board of Trade and Industry's (BTTA) "structural adjustment programmes" approach to various industries as opposed to the general export incentive scheme which came into effect nearly a year ago.

The current DTI scheme was said to have already cost taxpayers millions of rands in paid-out export subsidies.

The DTI previously devised structural adjustment programmes for different industries but these were thrown out in September 1991 in favour of the general export incentive programme.

However, the new report's thrust to government was that present tariff protection should be lowered, depending on the different industries concerned, which would in turn result in a more competitive market. Lower import tariffs would also allow manufacturers to acquire capital equipment at less cost.

The FM said the report recommended cutting tariffs of more than 40% by 10 percentage points and reducing tariffs of 20% to 40% by five percentage points.

The report also proposed the company tax rate should be brought down to 40% initially and ultimately to a 30% level. It suggested the abilities of the surcharge tax and possibly the phasing out of subsidies.

The report proposed that its recommendations would lead to a switch from a "trade orientation" approach, through which export subsidies are used to offset part of the cost incurred through high protection levels, to a policy of lower export subsidies and import tariffs.
Investor confidence is the key, says Clewlow

FOREIGN investor confidence was not being helped by talk of collectivist economic policies and rhetoric from those "who might be expected to know better", SA Foundation president Warren Clewlow said yesterday.

Speaking at the foundation's annual meeting he said participation of all economic players — employers, investors, and trade unions — was required to change the style of economic co-operation.

"Social contracts, negotiated between them, will help determine the shape of industrial and commercial life. But economic reality must underpin everything," he said.

"Equally, no one can deny that without soundly based, world-class economic activity, the dreams of all South Africans will come to naught, together with those in the rest of southern Africa."

Clewlow said the challenge to business leaders to participate with skill and vision in building an economy stood with increased urgency.

The foundation's director-general Kurt von Schirring said the foundation aimed to become increasingly representative of all sections of the SA business community.

"We know that one of the more deplorable legacies of our past were the restrictions placed on blacks entering business," Von Schirring said.

He forecast that by the end of the year formal negotiations towards a new SA would be underway with a democratic constitution in the "not too distant future".

Despite this the need for a credible, independent, private sector organisation like the foundation was now more critically important than at any time before.

"If foreign investment and trade are to be revitalised, with SA the West’s partner in developing the sub-continent, then the foundation is ideally structured to shape the responses of outsiders of influence and standing to developments in this country."
The manoeuvring has begun to determine an effective new trade and tariff policy, which should have far-reaching implications for the direction industry takes.

The Industrial Development Corp's Modification of Protection Policy document, released to the FM this week, contains an eloquent appeal for government to redirect the focus of the manufacturing sector from protectionism — aimed at import substitution — towards exports.

The report, commissioned by Trade & Industry Minister Kent Durr, strongly advocates the phasing out of the blanket tariff protection that has for so long cushioned industry. It also recommends the abolition of the DTI's general export incentive scheme in favour of the DTI's structural adjustment programmes for selected industries.

The IDC argues that the export incentive scheme is too costly and runs counter to Gatt's standpoint that trading nations should move from directly subsidising exports. Rather, it recommends that the structural adjustment programmes should be pursued as they have been internationally proven to be effective in promoting industrial and export growth.

But the report warns that the process of structural adjustment towards export orientation by modifying the tariff protection policy must be carefully managed. "And, once initiated, (it) must be pursued with perseverance in order to achieve eventual success. A turnaround in policy will do irreparable damage to the credibility of economic policymaking."

A "fundamentally correct macroeconomic policy" would be needed to support the changeover, it says, advocating that industrial and economic policy should be more closely interlinked.

The IDC's recommendations include a broad-based, two-pronged approach that would involve an immediate, phased reduction of tariff protection and various measures to encourage exports. It calls for:
- High tariffs to be reduced to reach the following target rates in five years: manufactured consumer goods at 30% ad valorem and all other goods at 15% ad valorem;
- Placing a ceiling on all formula duties, which will then be scaled down in accordance with predetermined steps over a five-year period to the maximum levels set out above, after which formula duties will be scrapped.

A new anti-dumping policy will have to be devised as the formula duties are phased out; Company tax be reduced to 30% as an optimum target, and to below 40% as initial target, to offset a possible lack in investor confidence as tariffs are being phased out;
- Abolition of the surcharge on imports because this unnecessarily adds to the costs of capital goods and makes SA exports uncompetitive. Surcharges, amounting to about 7% of total imports, are "high, compared to the 5% earned from tariffs;"
- Phasing out all export subsidies, including the General Export Incentive Scheme;
- Linking tariff changes to the realistic real effective exchange rate of the rand. This would allow for the protection of the import parity price level against fluctuations in the exchange rate over the long term; and
- Allowing special industry adjustment schemes (such as Phase 6 of the motor industry) to continue and considering expanding them to other areas.

These proposed changes "thus amount to switching from a trade orientation where high export subsidies attempt to compensate for the cost-increasing effect of high levels of protection, to one where neutrality between import replacement and exports is achieved by means of a policy of low export subsidies and low import tariffs," the report says.

It adds that as governments usually do not have the financial means to subsidise exports, "the lowering of tariffs is the appropriate policy option."

The IDC report, submitted to government in June and still with the Cabinet, follows an in-depth, three-month investigation of past, current and future tariff policies.

The IDC says the cost-increasing burden to the economy brought about by tariff protection is equal to about 12% of GDP. When the increase in the cost of imported goods due to the addition of the surcharge is added, "the total cost burden is equal to 14% of GDP."

Tariff protection deliberately increases the import parity price level of local products, giving the new industry an opportunity to find its feet. But the imposition of surcharges and the severe fluctuations in the value of the rand have led to large fluctuations in import parity price levels.

The combined protective effect of the above three factors over the period 1970-l989 created a situation where the cumulative import parity price level (Customs tariffs contributing 30%, plus surcharges, plus the undervaluation of the rand) has led to an effective protection level for industry of about 45%.

"Reduction of tariffs will require industries to adjust in order to produce closer to ruling world prices, which in turn will reduce the cost-increasing effect on exports, so characteristic of protection."

The IDC warns that a scaling down of tariffs would lead to "significant changes on a micro level" as industries discontinue less profitable ventures and increase production of competitively priced goods. "This will lead to a loss of employment opportunities over the short term. Therefore tariff reductions must be phased in a manner that will give firms a fair chance to adjust." This, clearly, is a cost the country will have to bear. As the report points out: "If a fair chance is not given, it will be impossible for the country to provide the capital and technology necessary to achieve economic growth."
APPLICATIONS to the Registrar of Banks for exemption from the Deposit-Taking Institutions Act are flooding in, but very few will escape the net.

Registrar Dr Henkie van Greunen says the definition of the Act is deliberately broad, but that discussions among various parties will soon be held to determine what to hit and what to exclude.

The DTI Act, in force since February 1, will regulate and supervise activities of "deposit-taking institutions". Those ports that are yet to clear. Discussion papers will be released soon.

**Pooled**

The idea is to level the playing field for DTIs, excluding deposit-taking activities of unregistered persons, enabling better supervision by the authorities. Rationalisation, monetary policy will be strengthened by tighter controls.

The Government Gazette of January 31, 1991 outlines the activities excluded from the "business of a DTI". Participation bond and units trust schemes, mining houses, the Ceba Savings Fund (registered under the Employment Bureau of Grievances) are exempted, subject to certain conditions outlined in the Gazette.

Mining houses are unaffected by the new Act. Surplus funds pooled within the group and received from associates remain exempt for the next three years.

Surplus money available after the cross-funding within the group is placed with the banking sector. Mining houses cannot borrow from each other without falling foul of the Act. All houses deny ever having borrowed or loaned money from one another.

Companies' activities falling under "the business of a DTI" in terms of the new Act would be required to stop these activities or register under the DTI. Registration will be difficult and demands high capital and liquid asset requirements.

A Deloitte Pim Goldby paper shows that treasury operations, employee savings schemes, cash management and operations, money and investments, administration of trust funds and repurchasing agreements could all fall under the Act.

If companies accept deposits from the public and employees as a regular part of their business, they fall under the Act. If the money is used for lending, investing or financing and if assets are sold under repo agreements to non-DTI's, they also fall under the Act.

Companies are excluded if they do not hold deposits from more than 25 people totalling less than R600,000 on a regular basis if they do not advertise for them.

Corporate treasuries are restricted to accepting deposits from within the group, excluding associates. The mines are exempt.

Cash management schemes will be restricted to subsidiaries of the same holding companies. The provisions of the Act will in many cases restrict the cash-management services offered by banks or increase their cost. Money-banking activities by non-DTI are permitted if the broker places funds on the same day his instructions are received and placed with deposit-taking institutions only.

The placing of aggregated deposits with a DTI to secure wholesale interest rates will also be affected. Separate accounts in the name of each individual depositor are likely to be required.
POOR sales-force productivity costs South African companies millions of rands, says Dr Johan Smuts, director of productivity promotion at the National Productivity Institute in Pretoria.

Information gathered by the NPI shows that South African sales representatives on average spend only 27% of their time with customers and about 29% of their time travelling.

Of the time spent with customers, 69% is spent with low potential customers and 33% of salesmen's time is spent on office tasks not directly related to promoting their products, such as handling inquiries on production, quality, debts and delivery time.

Dr Smuts says low productivity levels, leading to inadequate sales performance, are almost without exception the result of poor quality sales management.

"The NPI is finding that
Why Nafcoc men walked out of Swazi conference

By DERRICK LUTHAYI

A NATIONAL African Federated Chamber of Commerce and Industry (Nafcoc) delegation walked out of a Swazi business conference on Thursday, saying they were not consulted in the conference preparations.

The Africa Sub-Saharan Economy and Trade (Asset) conference was the first in 40 years to bring together business representatives from African countries to meet their South African counterparts.

Nafcoc says it is imperative to hold a "post-mortem" to ensure this type of experience is avoided in the future.

Nafcoc president Dr Sam Motsuenyane said the organisation found it difficult to maintain an association with a conference that had departed from the agreed objective.

The Nafcoc delegation walked out because the organisation was not adequately consulted during the conference preparations and because the agenda was finalised without its involvement.

"As co-sponsors we were not consulted in the formulation of the conference programme. The input we made was not reflected in the final programme, which differed significantly from the draft.

"Our suggestions to the conference organisers to invite representatives of Swaziland business were ignored and the government authorities were not properly and sufficiently consulted," said Motsuenyane.

King Mswati II and Prime Minister Obed Dlamini pulled out of the opening day of the conference because of a major protocol "boob" by the organisers.

Sources in Swaziland say the organisers did not formally inform and invite the Swazi government to attend the meeting and the local business community was ignored.

Sapa reports that the Nafcoc delegation was "upset" primarily because leading members of the Foundation of African Business and Consumer Services (Fabcos) had played a more public role than Nafcoc members.

"We feel there is a conflict of interests between Nafcoc and Fabcos which caused the entire Nafcoc delegation to leave," a source said.

The South African Chamber of Business, which is one of the four listed conference sponsors, "insisted that Nafcoc be included in the sponsorship list," according to the source.

This was reportedly because the three other sponsors – Sabc, the Herbert Quandt Foundation of Germany, and the South African Foreign Trade Organisation (Safco) – are predominantly white business organisations.

Organising committee chairman Francois Marais said he was sorry a conference of such importance was troubled by such "fundamentally trivial" issues.

Marais added that the conference had been "an enormous success with men and women from all over Southern Africa making important contacts, and addressing issues of great regional importance, seriously and positively."

A conference source said the organisers agreed to include Nafcoc as a co-sponsor because of Sabc's insistence, adding that the "only financial sponsor of the conference is the Herbert Quandt Foundation".
Consolidation means bad news for some investors. It generally means that smaller companies may be acquired by larger ones, potentially leading to job cuts and stock price drops for smaller companies. The process is also known as horizontal consolidation, where companies in the same industry merge. 

This can be particularly tough for shareholders of smaller companies, as their stocks may decline in value. It's important for investors to keep an eye on their investments and consider diversifying their portfolios to mitigate risk.

In addition, some shareholders may be upset with the decision, leading to potential legal actions or shareholder lawsuits. It's crucial for companies to communicate effectively with shareholders and provide clear information regarding the consolidation process.

In the end, consolidation can lead to increased efficiency and economies of scale for the merged companies, but it may come at a cost for some investors.
Black business giants may merge

THE National African Federated Chamber of Commerce and the Foundation for African Business and Consumer Services may become one organisation.

Plans are afoot to merge the two major black business organisations for the sake of economic power, income and wealth distribution in the post-apartheid South Africa.

This follows an agreement between the ANC and Fabcos to investigate the possibilities of setting up a multi-lateral forum involving other black business organisations.

The two organisations agreed that regular meetings and consultations would become a feature of the coming period and thus instructed their relevant structures to establish an interim bilateral sub-committee charged with co-ordinating areas of common interest.

The meeting - the second between the two parties - is seen by business experts to be in line with similar conventions, which the ANC held with Nafooc in an attempt to involve all the key players in the economy.

ANC deputy president Mr Nelson Mandela has also held talks with Nafooc president Dr Sam Mosunenye on a variety of issues as a means of allowing the chamber to participate fully in the current debate on the framing of an appropriate economic policy for South Africa.

By JOSHUA RABOROKE

The ANC delegation was led by the internal leader Mr Walter Sisulu and Fabcos by its president, Mr James Ngecoya, vice-president Dr Ellen Khuzwayo and members of the executive committee at the meeting.

Fabcos briefed the ANC on its structures, aims and objectives. The briefing highlighted the difficulties faced by black business in the South African environment.

Fabcos explained that despite all these difficulties, a role was increasingly being worked out for black businesses in the economy.

It became clear in the discussions that a future democratic economic system should try to encourage and support black business ownership of productive assets in manufacturing, construction and finance.

The ANC briefed Fabcos of the process leading up to negotiations and the current state of affairs in that regard.

The approach of negotiations was explained, in particular the question of an interim government and constituent assembly which will draft a new constitution for a democratic South Africa.
as social focus alters
expected to increase
Rate of inflation is
Commercial and industrial property

Survey Business Day

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Ingredients
In the new NZA Marine Scentary?
They are to be received, balding Invincible.

must take those factors and account, it
medium to long term, Our investors.

the property industry will suffer in this
Weakening economy becomes a reality.
If predictions of higher inflation and a
Syndication
a hedge against
inflation.

As an investment medium, property syndication is a relatively new concept. However, Board of Executors' national syndications manager Barry Steinberg says syndication is gaining acceptance as an important element in a balanced portfolio.

The average syndicate combines a degree of capital growth with interest income to give an above average return.

"The investment is secure as it is a stake in a fixed commercial or industrial property which has a net worth on realisation at least equal to the value of the investment."

"One should consider syndications as an inflation hedge. The average syndicate can be expected to yield a combined compound income and capital return of at least 21.5% before tax and about 16.5% after tax, based on a marginal rate of 44%," says Steinberg.

Comprises

Gearing — which is borrowing a percentage of the investment (usually around 80%) — will also see returns of over 20%.

He says return in a syndicate comprises two elements — an income return and a capital return.

The income return is derived from the capitalisation rate, which will be around 10%-12%, depending on the property.

"This will grow with the escalations in the leases which also range from 10%-12% a year.

"Renegotiation of the leases to the property, usually after five-year option periods, can see rental, and thus income to shareholders, jump higher than this if leases are operating at below market rates.

The second element is a capital return, which is the growth in value of the investment. "Property syndications can suit a range of investors' needs — from those who want to maximise income, to those wanting to maximise capital growth."
AVI's performance continues to improve

Liz Roux (80)

ANGLOVAAL Industries share price has staged a remarkable performance since 1986, with new highs reached early in 1991. It is now at R90.

Except for the short period in 1989 the share of the Anglovaal group's industrial arm has outperformed the industrial index and major industrial groups such as Barlows and Maibak.

Improved earnings (although modest) on a relative basis, especially in a climate of slower growth, appear to have been the catalyst for the past year's price performance, says Davis Borkum Fane analyst Pierre Greyvenstein.

At R90, AVI's share earnings multiple (currently 12) has moved into a new high territory, last seen in 1987. A similar pattern has emerged in respect of the dividend chart (current dividend yield is 1.5%).

Since 1989 both the price-to-earnings ratio and the dividend yield relative to the industrial index have shown increasing strength.

The share has become expensive compared with historic yields (in 1988 dividend yield was well over 3.5% and towards the end of 1989 it was above 2.5%).

Greyvenstein expects that the share price may experience some consolidation in the short term. However, the long-term upward trend appears to be well entrenched.

Based on an earnings increase of 5% to 365c a share in the six months to December 1990, June year-end earnings should show a rise of 4.2% to 764c a share from 1990's 735c a share, while 1992 earnings should increase by 4.7% to 878c a share.

The estimated dividend total for 1991 is 146c, up from 1990's 136c, and a total distribution of 160c is expected in 1992.

Looking further ahead, Greyvenstein forecasts an improvement of 13% at the attributable level for fiscal 1992.
Corporate videos gaining popularity

NEW trends in corporate videos have made the medium cheaper, more measurable and more disposable, says Max Katz and Associates director Max Katz.

He said in an interview the use of corporate and industrial videos had become far more specific.

In the past, a company would make a video which was expected to last a few years. (Video 14 of 19)

Now companies wanted to use videos for specific purposes, such as for talking to staff or specific clients, or to try and close a deal.

Videos, which were generally from six to eight minutes long, were used to address management, staff and unions or to sell products.

With videos becoming more specific in their intentions and their targets, the medium was also becoming more measurable, he said.

Now that sanctions were likely to be lifted soon, more and more companies were communicating with overseas audiences through videos.

There had been an increasing number of requests for videos in German, Mandarin and other languages.
Getting down to business

Ken Vermaan reports on a meeting that may herald an African common market

'In the absence of a coherent regional strategy to develop the continent, the present economic situation leaves much to be desired,' a regional official said. The meeting was aimed at exploring ways to strengthen regional economic ties and promote trade among African countries.

The official pointed out that the current economic situation on the continent is characterized by low growth rates, high unemployment, and limited foreign investment. He emphasized the need for a coordinated approach to address these challenges.

The participants discussed the importance of creating a common market that would enable free movement of goods, services, and labor across the continent. They also highlighted the potential benefits of such a market, including increased trade, job creation, and economic development.

Several participants suggested that the first step towards achieving a common market would be to establish a framework for regional integration. They proposed the creation of a regional economic union as a platform for collaboration and the facilitation of trade.

The meeting concluded with a commitment to continue working towards the establishment of a common market. The participants agreed to hold regular meetings to discuss progress and to explore possible strategies for implementing the common market framework.
No secret about the plan for tomorrow

ONE of this country's worst-kept secrets is the confidential Old Mutual and Nedsco scenario plan for SA.

The Cabinet, politicians, businessmen and editors have been briefed, there have been some reports on the plan, and aspects have been publicly criticised by Anglo chairman Julian Ogilvie Thompson.

Yet the plan, which so far has been presented in lecture form only, is still to be completed as a written document. Nedsco sources say they expect it to be released next month, while an Old Mutual source indicates there is no timetable for the publication of the plan.

The major points have already been aired by Ogilvie Thompson, at Jacob's Transvaal regional conference last weekend, by Azapo, and by the Labour Research Service (LRS), a Cape Town-based service used mainly by the trade union movement.

The chief architect of the plan is a Frenchman, Pierre Wack, who has made a name for himself as one the world's foremost scenario planners. Shell and Anglo have used his expertise, the latter study resulting in Clem Sunter's celebrated "winning nation" scenario.

The main difference between the Anglo and Old Mutual/Nedsco scenarios is that the latter details what must be done within the next few years to get on the high road of economic growth. The Anglo scenarios dealt with the same issues, but in general rather than specific terms.

SA's downside potential is an African version of Beirut, according to the Old Mutual/Nedsco scenario. Massive interventions are needed now to prevent this. If successful, the plan would create hundreds of thousands of jobs and boost GDP growth by several percentage points.

The planners believe SA will have its new constitution by 1984/85, but argue that a two-stage solution needs to begin now for the new negotiated order to succeed. The first depends on a kick start to get the economy going, the second involves consolidation to change into higher gear.

Skills

The kick start has four parts:

- The provision of housing on a massive scale. The plan calls for 200,000 houses to be built and 460,000 serviced sites to be provided every year until 1990. Government would spend R2.4bn annually in subsidies, and financial institutions a further R2bn.
- The electrification each year of one million houses with pre-payment meters, at a cost of R2.4bn. The housing and electrification components of the package will add an estimated 3.5% to GDP.
- The restructuring of education to provide state-funded compulsory free primary education and a state/private sector partnership to fund skills-oriented secondary education. Participating companies would get tax breaks to encourage investment in skills training; and
- The creation of a community-based, government-funded jobs corps to provide work for the last generation. Accommodation would be provided, there would be a small wage, and training in building and other skills would be given. The gear change, or phase two, calls for the restructuring of the economy to push manufactured exports.

The Bargaining Monitor of the LRS says the plan depends on social compacts (peace treaties) to succeed. Unions will have to sign these compacts with companies and the state. Strikes need to be reduced, there will have to be wage restraint, and violence will be banned.

Communities must likewise agree not to launch boycotts. Ogilvie Thompson said at the weekend the Old Mutual/Nedsco planning team believed SA could not rely on foreign capital and needed forced saving. Further devolution of the rand was required to encourage exports.

KEVIN DAVEY

OOGILVIE THOMPSON

He said the proposals 'were compatible with the general direction government and business are already taking. Both conclude that much greater social investment has to take place despite a tight economic policy and environment.'

But Ogilvie Thompson said while he broadly supported the proposals, he did have some criticisms.

One was that the analysis tended to regard SA's mineral resources as a burden, as they have retarded potential developments elsewhere.

He said the appropriate mix for SA should be the efficient further development of the minerals sector, including beneficiation where possible, and complementary efforts to develop manufactured exports.

Ogilvie Thompson said problems could arise from stressing the need for forced saving rather than mass consumption, which was needed to achieve a larger domestic base.

Another problem was that currency depreciation and lower interest rates would have inflationary implications: "Social compacts in this scenario may be difficult to achieve."

"A further criticism, made by Ogilvie Thompson is of the suggestion by the planners that there should be a return to prescribed investments, although at market-related rates."
On the frontier of a new South Africa

ALRODE South has emerged as a successful microcosm of the new South Africa, with a mix of black and white industrialists, says Investron MD Allan Goldring.

The township was one of the first white industrial areas to obtain exemption for black ownership under the Group Areas Act.

Consequently, as a mixed society laboratory it is further down the road of evolution than most other industrial towns.

"Black entrepreneurs in black townships face many problems," says Mr Goldring.

"They range from the limited size and availability of premises to the reluctance of white-owned businesses to deliver raw materials into a black township."

Policy

A specialist industrial land salesman in the Investron group, Charles Ntuli, puts the situation into perspective:

"I worked for a large oil company for nearly eight years.

"They had a policy of encouraging business with blacks.

"In keeping with that, I generated business for a township stationery supplier.

"But when I went on leave none of the white employees would venture into the black township, and the project failed."

"And it comes to opening industrial townships to all businessmen, the game is definitely worth the candle."

Major benefits accrue to the black businessman. These include:

- Substantially reduced finance and insurance rates;
- A disruption-free working environment;
- Good transport links;
- Proximity to markets;
- Access to new ideas in technology;
- Ease of marketing.

"The unrest in the black townships has impacted heavily on businessmen based there, despite their efforts to appear politically neutral," says Mr Goldring.

"They are eager to evacuate the townships."

"The publicity surrounding the opening of Alrode South elicited a prompt response, from entrepreneurs ranging from panel beaters to distributors, and from small tool repairers to investors interested in erecting buildings to lease."

Today, investment by black businessmen in the area amounts to about R2.5 million.

"In an effort to make the transition easier, Investron runs seminars aimed at introducing blacks to factory ownership and land-related issues."

"Black businessmen are often very knowledgeable in their own fields," says Mr Goldring.

"But as industrial land has not been available to them on a freehold basis in the past it is necessary to upgrade their knowledge.

"Some prefer a complete package, including fully serviced factory space, bank finance, and so on."

"The micro-industrial parks cater for this market sector."

"They serve as a stepping stone from a semi-subsidised environment such as that provided by the Small Business Development Corporation to one of total independence," he adds.

According to Mr Ntuli, black entrepreneurs are immensely attracted to the concept of ownership.

"They understand the benefits of appreciation in the market value of premises," he says.

And the response of white industrialists in Alrode South has been "surprisingly positive," says Mr Goldring.

"Many saw opportunities to do business, for example by subcontracting work."

"And it's now becoming fashionable for companies to be seen to be doing business with blacks."

"It's good for the corporate image to become part of the changing ideals in the New SA," he says.

Common ground

It is not all white-wash, however — Mr Goldring says he can cite numerous cases of white businessmen assisting their black counterparts, for instance, legal matters and tenders.

"Business offers much more common ground and fewer opportunities for cultural conflict than could arise in a residential area, for instance," he says.

"Entrepreneurs share common goals, regardless of race."
**Standard of stock handling criticised**

By Paula Fray

Consumer Reporter

Consumers ultimately pay the cost of "disgraceful" handling of stock in stores, Grocery Manufacturers Association executive director Jeremy Hele told the distribution and logistics conference in Johannesburg yesterday.

An estimated R150 million a year was wasted by the industry if a conservative return figure of 1 percent was taken, Mr Hele said. This could pay for 1 000 new hospital beds a year or schools for about 30 000 children, he added.

Addressing the South African Production and Inventory Control Society, Mr Hele cited the disgraceful standard of stock handling and the almost criminal lack of any concern for the condition of products in store. He cited entirely on the fact that the manufacturer could be forced to pay for stock returned after it has been delivered and accepted.

Wasting

"This is naturally costly into the price charged to the retailer and ultimately paid by the consumer," Mr Hele said.

"If we take a conservative return figure of 1 percent (many manufacturers average as much as three times that figure), this represents a figure of R150 million a year that the industry is wasting. Stuck, once delivered and accepted in good condition, belongs to the purchaser. If this is accepted, then wastage figures in consolidated distribution are reduced to the almost non-existent figure which chains like Tesco in the United Kingdom report," Mr Hele said.

Demands were made on manufacturers to pay a "swell allowance", which was an amount of anything up to 2 percent of turnover. For this the retailer agreed not to claim for the stock damaged in his store.

"It is no more than a payment for a quantified level of inefficiency," he said.

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**Pharmacists can charge for advice**

Own Correspondent

DURBAN — Pharmacists are to be allowed to charge a professional fee to customers asking for medical advice, Pharmaceutical Council vice-president Don Sutherland has announced.

Speaking at the annual meeting of the Association of Retail Pharmacists, Mr Sutherland said the flexible fee would be added to the cost of any medicine which might be necessary.

Entitled "Pharmacists, being professionals in medicine, will now be able to distinguish themselves from traders in medicine," he said.

The matter has been finalised by the Pharmacy Council. Final documentation will be sent to pharmacists in the near future, but the council believes that a pharmacist is entitled to a just and reasonable remuneration for any professional services rendered.

The practical implications are that the council will no longer, by way of regulation, restrict the pharmacist to a professional fee of R1.30 up to R2.25 (at present built into the cost of prescriptions).

Mr Sutherland said pharmacists could charge for "logical functions, processing of prescriptions and dispensing as well as for advisory and informative functions".

He added that the move "does not mean that getting medicine from the pharmacist will necessarily cost more than before, because what he now charges for a professional fee may be countered by not taking a profit on medicine if he so wishes".

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**Sweeping**

A meeting was held on January 25 between the Pharmaceutical Council, the Minister of Health and the Joint Parliamentary Committee on Health.

At this week's meeting between the Pharmaceutical Council, the Minister and the Joint Parliamentary Committee on Health, sweeping changes could be approved by the Minister.

These may include the granting of legal rights to pharmacists to prescribe more scheduled drugs.

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**R36-m payout for troops on both sides of Namibian war finalised**

WINDHOEK — Finality has been reached on the payout of R36 million by South Africa to former combatants, from both sides, in the Namibian bush war, Dieter Petzsch, spokesman for the South African mission in Windhoek, said yesterday.

Divided

He said an amount of R12 million had been paid into Namibia's Standard Bank — because it had the largest distribution of branches — to be divided evenly among 9 000 former members of the SWA Territory Police and Koevoet paramilitary police unit.

Payment would begin on April 2 to a verified list of beneficiaries.

South Africa's representative in Namibia, Riaan Eksteen, on Monday handed Namibian Foreign Affairs Minister Theob- dur Courirah a cheque for R12 million to be paid out to former members of Plan, Swapo's military wing, Plan and the South African-led SWATF and Koevoet units engaged in a 23-year bush war before Namibia's independence last March.

A third amount of R12 million was being kept in a contingency fund for which the details were still being worked out, Mr Petzsch said.

The payout affects only former fighters who were demobilised before independence.

He said South Africa had planned, before independence, to make a payment to SWATF and Koevoet servicemen.

"At independence President Sam Nujema asked President de Klerk quite specifically if Plan members could also be accommodated," Mr Petzsch said.

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**Pledged**

The R36 million includes the R25 million pledged by South Africa to assist Namibia at an international donors conference held in New York in June as well as the amount earmarked for former Koevoet and SWATF members. — Sapa.
Lower tax on companies reflects growth policy

ROBERT GENTLE

The company tax rate was reduced from 50% to 48% in line with government policy of creating a suitable climate for investment, growth and job creation.

The 2% cut, which Finance Minister Barend du Plessis called the first step towards a goal of a company tax rate of 40%, will result in an estimated revenue loss of R380m.

The Budget also saw the tax rate applicable to long-term assurers fall from 65% to 45% — in line with the top marginal rate for individuals.

The estimated loss of revenue that will result is R100m.

However, Du Plessis cautioned that the effective tax rate of companies would rise because of phasing out tax concessions related to the LIPO (Last In First Out) reserve and other areas.

The tax cut was welcomed across the board, although it emerged that the expected effect varied from company to company.

Evert Groeneweg, financial director of industrial group Barlow Rand, said: "It will help in terms of cash flow. But the real effect will only be felt next year when we pay in the tax." Granite exporter Marin’s financial director Ian MacMillan said it would not have that great an impact as Marin’s tax bill was already quite low because of tax concessions related to exports.

Leisure group Interleisure’s financial director Rob Smithyman called it “very good news” and said it was particularly well-timed.

This was because the group would soon be paying a lot of tax after years of tax concessions related to film productions.

“It could make a difference of R1m to our bottom line,” he said.

Asked whether 2% was enough to stimulate investment and job creation, Smithyman said: “It is an added incentive — a nice start.”

A statement by the Steel & Engineering Industries Federation of SA (Seifsa) said the measures would have a definitional effect and help manufacturers more competitive both locally and internationally.

Most tax experts welcomed the move.

However, they doubted whether 2% was enough to stimulate growth and investment right away, and said even the targeted 40% rate was higher than that of most Western competitor nations.

Arthur Andersen tax manager Peter Todd said: “In the UK, for example, it will be 33% — about the same level as in the US.”

Deloitte & Touche tax partner Andre Pape said the 2% reduction had narrowed the differential between company tax and individual income tax rates — which companies could exploit at the expense of the exchequer — from 6% to 5%.

“This is a step in the right direction,” she said.

Life Offices Association (LOA) chairman Mike Levett said the industry was disappointed the Budget had made little progress towards the full implementation of the trustees principle that was agreed to by government in 1989.

He said the industry was particularly disappointed that tax on dividends received by life offices had not been scrapped.

Anglovaal Insurance Holdings group CEO Brian Benfield said he welcomed the government’s decision to reduce the rate of tax for life offices by two percentage points to 43%.

However, he expressed concern that the authorities had not made any move to let life offices deduct full expenses before taxation.

The industry is currently allowed to deduct 35% of expenses.
**Hayden, star of Aids move wins**

Hayden is the protagonist in the movie Aids, which has been nominated for several awards, including Best Actor. The film explores the challenges faced by individuals affected by the disease, highlighting the importance of empathy, understanding, and support in their journeys. Hayden's performance has been widely praised, earning him a significant boost in his career and cementing his status as one of the leading actors of his generation.

**Namemakers please survey shows**

The survey shows that the number of people interested in participating in name-making events has dropped significantly. This trend is concerning, as name-making events are crucial for building a strong network and promoting one's brand. The organizers are working to understand the reasons behind this decline and are considering implementing changes to attract more participants.

**Pending move on UN**

The negotiations for a move of the UN headquarters from New York to a new location are still ongoing. The decision to relocate is complex and involves many factors, including cost, security, and administrative considerations. The representatives of the UN member states are meeting regularly to discuss the potential sites and the implications of the move. The goal is to find a solution that will ensure the effective operation of the UN while also meeting the needs of the host country.
Blacks happy about opening of new areas

By ALI MPHAKI

There is great excitement among black entrepreneurs now that they can acquire industrial land anywhere in South Africa.

Few have had the opportunity to own their own factory - unless they were fortunate enough to obtain a permit under the Group Areas Act in a limited number of townships.

Many black entrepreneurs had until now had no option but to rent, often premises that were too small, far from markets and transport, without adequate electricity and security.

Alrode South, near Alberton, already has several black industrialists who have established their factories in the area.

This area was opened to purchase by black industrialists in March last year. However, just what does ownership of a factory involve financially? The Investron Group has provided Soweto with the following example.

Land (in Alrode South) costs R80,000.
Building 500 square metres including two offices, one ablution block, one staff toilet, one tea kitchen and roller shutter door would cost about R312,000.
Expenditure so far is R402,000.
The deposit for this amount is R100,000 and the bond at 21 percent R302,500.
The monthly repayments for the bond would be R5,378.

Additional expenses would be: transfer and bond costs (R8,000), municipal connections (R18,000), plans and submission fees (R5,000), a total of R31,000.

Various tax advantages are available to the purchaser, especially if the building is used for manufacturing.
THE shrinking of the economy in 1990 was now estimated at slightly less than one percent, with the value of goods produced by each worker falling by about three percent in 1990 after being unchanged in 1989, the Minister of Finance, Mr Barend du Plessis, said in his Budget review tabled yesterday.

He said agricultural production had fallen continuously since the third quarter of 1989 as a result of poor weather. This had led to a fall in the wheat harvest in the fourth quarter of 1989, followed by a fall in maize production. The wheat production once more fell in the fourth quarter of 1990.

"The upshot was that agricultural production in the fourth quarter of 1990 was about 23 percent lower than the high point in the third quarter of 1989."

Although real mining production did not fall to the same extent as in agriculture, a sharp downward trend was discernible since the fourth quarter of 1989. The real value added by the mining sector fell 1.5 percent in 1990.

**Reason**

"An important reason for this poor performance was a conjuncture of factors that adversely affected the gold mining industry."

"These factors included sporadic labour unrest, a fall in the average gold content of the ore crushed, a long-term problem of rising production costs and the recent more stable exchange rate of the rand."

"There were also declines in the production of most other mining sectors, with the exception of coal, iron ore, manganese and other non-metallic products, which rose as a result of firm overseas demand."

The total real value added in the manufacturing sector fell by 1.5 percent in 1990. This could be ascribed mainly to a decline in manufacturing production, which was related to a planned reduction in inventories by local enterprises.

"Manufacturers also had to grapple with strikes, stay-aways, the intimidation of workers and labour unrest."

**Capacity use in manufacturing had fallen noticeably from a high of slightly over 85 percent in the second quarter of 1989 to 81.5 percent in the third quarter of 1990."

- Sapa
Proposed lending limits mean corporates can bypass banks

Robert Gentle

The Reserve Bank, in a major concession, has proposed allowing SA corporates to borrow directly from and lend short-term money to each other through the issue of tradeable commercial paper, without having to go through banks.

This process, known as disintermediation, will pave the way for a corporate debt market estimated at billions of rands and result in more competition for banks in the short-term lending market.

These developments emerge in the Reserve Bank’s draft discussion paper released this week to the financial community for comment and eventual approval.

Corporates will be able to issue debt, including promissory notes, for three to 12 months, and debentures for periods exceeding 12 months.

However, the very short end of the debt market — 0-90 days — will still remain the exclusive preserve of the banks because of Pretoria’s stated desire to offer them protection.

“We do not want to see the 90-day BA market destroyed,” said Registrar of Banks Hennie van Greuning.

The new three-month lower limit was widely acknowledged in the market to have been a substantial improvement over the initial two-year limit proposed in the initial position paper released last December.

At that time, corporates such as blue chip industrials and parastatals protested vigorously, saying their greatest funding needs were precisely in that two-year window from which they were being excluded.

“We welcome the three-month limit,” said Zokom GM, finance, Nick Davis, adding that the electricity giant already rolled over about Rbhn every three months in the money markets.

Although disintermediation would deprive banks of a portion of the lending business they do with corporates, initial reaction yesterday suggested that would not necessarily mean reduced income.

“What we lost on the lending side we would make up on the servicing side,” said First National Bank assistant treasurer Mike Law, explaining that corporates would need banks anyway to act as issuing and placing agents.

Similarly, Allied Bank chief manager Tony Andrew said: “We don’t see it as eroding our income, but rather changing the way it is earned.”

Tom Makinson, chairman of the Association of Corporate Treasurers of SA welcomed the progress made to date, but said improvements were necessary.
Top companies invited to conference on exiles

THE MDs of 250 top SA companies have been invited to a meeting next month to discuss the training and employment of exiles.

Perm MD Bob Tucker initiated the meeting, according to the latest issue of Finance Week.

It will take place on April 25 at the Perm's head office, the financial magazine reports.

The meeting will examine ways to assist exiles and company representatives will have an opportunity to discuss the issue with the heads of political organisations' repatriation departments as well as the National Co-ordinating Committee of the Repatriation of SA Exiles (NCCR).

Companies invited reportedly include Volkswagen, Liberty Life, BMW, the PG Group, Nampak and Anglo American.

Anglo American spokesmen are on record as having expressed support for efforts to find exiles jobs on their return, but have also raised doubts about their ability to do so.

Skilled people would be placed if they met employment specifications, an Anglo spokesman said.

The Consultative Business Movement (CBM) is involved in the meeting.

Invitations would be sent to the movement's 80 members, a CBM spokesman said last night.

Separate to the meeting, the CBM was trying to raise funds to pay the salaries of two full-time organisers, who would assist with the repatriation process under the auspices of the NCCR.

The two organisers, who would be employed for six months, would try to find exiles jobs and establish training facilities, the CBM spokesman said.
For Foreign Firms
Lays Down the Rules
Open Mozambique
NEW GUISE FOR GREY MARKET

The tiny commercial paper and debenture market is expected to burgeon as it absorbs a large proportion of the grey market in intercompany lending, now outlawed by the new Deposit-Taking Institutions Act. “Until now, the paper market has been confined to short-term instruments issued and then held by banks,” says Securities Portfolio Managers’ Pierre Faure.

This has been changed by the Act, which came into effect last month. Deposits by subsidiaries with holding companies do not fall within its ambit, but deposits by associates and other non-subordinates do (excluding mining houses which have been exempted in the case of investment in mining ventures).

This brings those companies accepting the deposits within the definition of deposit-takers, making them illegal operators subject to prosecution.

The Reserve Bank is offering companies the option of continuing these funding transactions through commercial paper and debentures, a form of borrowing which will be exempt from the Act. The second draft of a discussion paper on this topic has been circulated for comment.

Proposed changes aim, firstly, to eliminate a “laxuna” in the Act, created by the treatment of debentures, which results in “circumvention of the Act.”

In addition, says deputy Registrar of Deposit-Taking Institutions Christo Wilsie: “The Bank has proposed guidelines under which debentures and commercial paper can be issued, which allow for specific exemptions from the Act.”

If the proposals are implemented, corporates will be allowed to issue short-term paper and longer-term debentures, subject to certain provisions:

☐ That the paper is issued by a listed company with net asset value (NAV) of R100m (excluding intangible assets and taking into account off-balance sheet liabilities);

☐ Alternatively, that it is issued by an unlisted company with an NAV of R200m, complying with certain disclosure requirements relating to the issue of debentures; and

☐ Units have a minimum value of R5m.

Issues are also permitted by a subsidiary of a company which complies with these requirements and which binds itself “in writing, jointly and severally, in favour of the investors in such subsidiary.”

Receipts of the issue must be earmarked for a specific project and not used directly or indirectly to finance credit extension. Paper is to be issued with a fixed term (three to 12 months) and at a fixed interest rate.

No restriction is to be placed on the identity of investors but only one investor may have a beneficial interest in “any one commercial paper at any single point in time.”

The paper may be traded and the issuers will be allowed to make a market in it.

Faure says: “Markets in private sector commercial paper are massive in many industrialised countries.”

He cites several reasons why the market has been inhibited here:

☐ Potential investors have been discouraged by the lack of rules and structures;

☐ There are comparatively few large companies capable of issuing and dealing in their own paper; and

☐ Lack of a ratings agency.

“Now that the authorities are creating the framework for the commercial paper market and we have a ratings agency (see “Perspective risk”), it has become a viable proposition,” says Faure.

Tom Makinson, chairman of the technical committee of the Association of Corporate Treasurers of SA, points to inhibiting factors still in place.

“My initial response is that the second draft is a substantial improvement on the original proposals, which restricted paper to periods of not less than two years. But there is still a need in the 30–90 day area.

“Moreover, the Bank is prescribing who the triple A players should be by laying down minimum NAVs. There can’t be many unlisted companies with NAV over R200m.”

He points out that there are companies the rating agency may consider triple A, which will fall outside the parameters set by the Bank. “Why should they be excluded?”

INCOME TAX

PHASING-OUT

In practice note 13, just released, Inland Revenue sets out the terms of phasing out the timing concession for finance charges, previously allowed under section 24 of the Income Tax Act. The new rules apply to suspensive sale agreements predating March 1.

For category A agreements (where the original amount does not exceed R300 000) the amount subject to phasing-out must be limited to taxable income (with a choice of years) after adding back the person’s next year’s S74 allowance and deducting the unearned finance charge element for that year.

This amount must be phased out over 48 months, starting on March 1 1991, on a straight-line basis.

Category B agreements are those where the original loan capital exceeds R300 000. For category B1 contracts, under which the term at February 28 1991 is five years or fewer, the allowance will still be on the earlier basis, allowing finance charges, for a further four years, provided:

☐ No extension to the original period of contract will be recognised; and

FUTURES CONTEST HOTS UP

The leader board in the second week of the Saffa Futures Risk Management competition shifted dramatically. By March 17 Markel Brink dropped from first to 10th place while John Cutten moved into the top spot to vie for the R50 000 prize sponsored by Rand Merchant Bank (RMB).

With the JSE taking a breath, growth in the underlying portfolio is unchanged at 0,9% (27,4% annualised). But all top 10 contestants are easily outperforming the market.

Both Cutten (of Hayden Cutten) and Johnny Solms (Michel du Toit) have maintained long positions in Industrial index futures. In doing so they outperformed those who tried to outperform those who tried to outperform more frequently on intra-day positions.

HOW THEY RUN

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<th>Absolute</th>
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<td>10 Markel Brink, Gerber Investments</td>
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Top contender for the FM Top Trading Desk trophy is now Standard Merchant Bank.

Its best two portfolios have an annualised return of 61,1%. RMB is second, Finansbank third.

FINANCIAL MAIL • MARCH • 22 • 1991 • 39
Business scores

Another R758 million saving for businesses will flow from the lowering of import surcharges on capital and intermediate goods.

The Governor of the Reserve Bank, Dr Chris Stals, described the concessions to the corporate sector as "most probably the major incentive for enhanced economic growth incorporated in this Budget."

The cost of replacing plant, machinery and other capital goods will be slashed by 13 percent. Businesses have had to pay 15 percent GST on their purchases but they will now get a refund of any VAT paid.

The concession will cut costs dramatically and help exporters and could help to lower inflation.

"This is a major concession and it will save millions and millions over a year," said Cape Town tax consultant Franco Vignaria at KPMG Aiken Peat. "It will reduce the cost of goods produced and encourage businesses to invest again."

The VAT zero rating of exports would make South African produced goods and services more competitive internationally.

By Tom Hood

More than R5 billion was given to companies in this year's Budget in a pump-priming bid to get the economy going and create more jobs.

Business will derive huge benefits from the introduction of VAT because VAT on capital and intermediate goods will be rebated fully, a saving estimated at R4 billion in a full year.

The 2 percent cut in company tax from 30 to 48 percent will cost the revenue R388 million.
SABS boasts increased income

PRETORIA — The SA Bureau of Standards increased income last year by 18.4%, from R36.8m to R39.1m, according to the latest annual report.

Self-generated income increased 21% to R39m while the bureau’s state grant was only 8.7% up to R31.9m.

Investigations, tests and services, including listing scheme, assessment services, consignment inspections, levies on compulsory specifications and permit fees paid were the main sources of self-generated income.

SABS director Jean du Plessis said the bureau had assisted industry to better exploit export opportunities created by the changing political climate.

Its greatest assistance to industry was the creation of internationally recognised quality systems.

And industry’s acceptance of the systems was reflected in the growth of the SABS code of practice for quality management.

More than 200 companies were on the bureau’s listing scheme in the first eight years while 318 had joined over the past two years, Du Plessis said.

Du Plessis said the removal of international trade barriers in Europe next year would present SA exporters with a strong challenge to compete in European markets.

Successful competition however would be possible only if quality was guaranteed.
COMPANIES will not be entitled to claim an input tax credit on their company cars, although Finance Minister Barend du Plessis is allowing such credits on all other capital goods.

The decision is contrary to the recommendation by Vatcom, and tax experts expect the final legislation on company cars to be similar to the initial draft legislation.

Ernst & Young senior tax consultant Brendan Dardis said: "It is widely held that this incongruous treatment, compared with other capital goods, is a political move in sympathy with low income earners."

"The political argument is that if most basic foodstuffs are subject to VAT, it is surely inequitable for the labourer to be subject to VAT on suitable foodstuffs while the MD may claim an input-tax credit on his company Mercedes-Benz."

The company making taxable supplies will, however, be able to claim an input tax credit on the running cost of the vehicle.

Dardis noted that the provision of a company car to an employee would constitute a fringe benefit, which is subject to VAT. The company would effectively have to tax itself on the value of the benefit (which is determined according to an as yet unpublished table).

"Whether the company chooses to recover the VAT from the employee is an internal decision," he added.

For businesses providing exempt services — such as banks and long-term insurers — no input tax credit may be claimed by the company on both the capital and running cost of the vehicle, but no VAT is payable on the value for fringe benefits either.

Whether the "executive" bakkie will remain eligible for an input tax credit will only be determined on the release of the final legislation.

For companies which prefer awarding travel allowances, such provisions are not subject to VAT.
Quality controls will be good for SABS

By Paula Fray

The South African Bureau of Standards (SABS) greatest assistance to industry was the creation of internationally recognised quality systems, SABS director-general Dr Jean du Plessis said last week.

Commenting on the Bureau's annual review, Dr du Plessis said local industry was clearly beginning to realise that the introduction of quality systems could make a large contribution to profitability.

Dr du Plessis said the Bureau's assistance in many areas enabled industry to exploit "export opportunities created by the changing political climate".

Thus their greatest help to industry was the creation of internationally recognised quality systems.

"The removal of internal trade boundaries in Europe in 1992 will present South African exporters with strong challenges to compete on the European market.

Successful competition would be possible only if quality was guaranteed," Dr du Plessis said.

Industry's acceptance of the role of quality systems as a guarantee of quality was reflected by the growth of the SABS code of practice for quality management.

"A total of 200 companies were listed over the first eight years and 318 over the past two years, 161 during 1990 alone," Dr du Plessis said.

Reviewing SABS activities for 1990, Dr du Plessis said the SABS had concluded a reciprocal recognition agreement with the German Association for the Certification of Quality Systems, a first step towards recognition of its listing scheme in Europe.

Dr du Plessis said industry's improved acceptance of quality systems, as well as the Bureau's greater market orientation and the expansion of its services, were reflected by the improved SABS financial statements for the year ended 31 March 1990.

The SABS's total income increased by 18.4 percent from R76.5 million to R91 million.

Self-generated income increased by 21 percent from R47 million to R59 million, while the parliamentary grant was only 8.7 percent more at R31.9 million (R29.4 million).

Investigations, tests and services, the listing scheme, assessment services, consignment inspections, levies on compulsory specifications and permit fees paid on a production basis were the SABS's main sources of self-generated income.
Quality controls will be good for trade

By Paula Fray

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Corporate savings dip the first in six years

CORPORATE savings dropped for the first time in six years in 1990, reflecting a soaring tax bill and sluggish profit growth.

Government's strategy to plug tax loopholes saw companies pay 31.5% more tax last year than in 1989, according to figures published in the latest Reserve Bank Quarterly Bulletin.

By contrast, profits grew a pedestrian 5% for the corporate sector as a whole.

Figures in the latest Reserve Bank Quarterly Bulletin show 1990 was a dramatic turnaround from 1989 when profit growth by far outstripped growth in companies' tax bills.

The effective tax on operating profits rose to 43% last year from 34.4% the previous year.

Loopholes plugged during the year included the phasing out of the "last in, first out" valuation of stocks, the inclusion of consumable stores in stock valuations and tightening of depreciation allowances.

GRETA STEYN

Corporate savings, or retained profits, dropped to R9.8bn from R12.8bn.

By contrast, there was a dramatic turnaround in the savings performance of general government. After six years of being in the red, government notched up its first year of savings in 1990 (R1.7bn).

The savings performance of the personal sector improved in the fourth quarter last year. The ratio of personal savings to personal disposable income rose to its highest level since the first quarter of 1989 (3%).

At the same time, there was a dramatic improvement in personal disposable incomes in the last quarter of 1990.

In the face of a decline in GNP, disposable incomes grew by 1.3% (almost double the growth in 1989). The fourth quarter saw a major acceleration to an annualised quarterly growth rate of 6.7% from 1.1% in the third quarter.
MARC HASENFUSSE

MALBAK's solid interim performance, which saw a 6% increase in earnings as well as a reduction in borrowings, would not be enough to stave off the small drop in year-end earnings expected for parent company Gencor, analysts said.

Analysts said Malbak contributed about 8% to Gencor's earnings, and would therefore not offset the predicted profit declines from larger contributors like Sappi, Sumcors and Gengold.

Malbak's earnings lifted 6% to R118m (R111m) on the back of a 5% increase in turnover to R4,3bn (R4bn). The interim dividend was maintained at 32,6c a share, covered 4,8 times.

Malbak executive chairman Grant Thomas said yesterday all Malbak divisions performed well in difficult circumstances, and the results reflected the success of disciplined management.

Thomas stressed the improvement in the six months to end-February 1991 was achieved without the benefit of major acquisitions or other substantial changes.

The interest bill was reduced to R89m (R91m), but a 2,6% increase in the tax rate following the utilisation of assessed losses in Darling & Hodgson (D & H), and additional tax on Ellerines, saw an 18% tax rise to R56m (R48m).

With the number of shares in issue increasing by almost 10-million as a result of debenture conversions, earnings a share showed a slender increase to 5c (45,5c).

Malbak's gearing decreased to 49,5% from 61,7% at the previous interim period.

Branded consumer goods, incorporating Tedex and Ellerines, remained the largest single contributor to Malbak's earnings, adding R58m (R51m).

Other major contributors were paper and packaging division Holdins, which added R25m (R20m) to earnings after a particularly strong performance from Carlton Paper.

To Page 2

Malbak

Thomas expected Sunvest, acquired during the period under review, to make a significant contribution for the full year.

Engineering and mining suppliers Standard Engineering and Haggis increased their contribution to R28m (R23m) while Kanlym, Malbak's food division, made a lower contribution of R15m (R17m).

The contribution by the construction supplies division D & H was down 20% to R18m (R18m). Cash-rich D & H was knocked by an increased tax rate and reduced demand for pipe as widespread unrest halted township development projects.

From Page 1

Thomas said there was little sign of relief from the lingering recession, which would continue to have an adverse effect on all the group's operations.

He said the recent reduction in the interest rate was welcome, but too small to have a material impact on the economy as a whole.

Thomas expected earnings for the full year to show a modest increase on last year, over and above the company tax benefits announced in the Budget.

Malbak shares held firm at their 822c high yesterday. The shares slumped to 459c in October last year.
Tollgate trounced in restructuring

CAPE TOWN — Substantial losses and a decline in permanent capital reported by Tollgate Holdings (TGH) for the year to December 1990 are indications that the group, which has since returned to profitability, took the punishment of restructuring on the nose.

This was the explanation TGH chairman Julian Akin gave shareholders when asked to comment on the results yesterday.

The difference in reporting periods and the transformation of the group during the year under review make it virtually impossible to compare the results.

Operating income plummeted from R67.4m in the 18 months to December 1989 to R25.6m in the 12 months to December 1990 on a decline in turnover from R1,136m to R592.9m.

An interest bill, which declined by R10m during the year but remained high at R52.8m and abnormal items of R7.9m related to non-recurring costs of the restructuring, resulted in a pre-tax loss of R34.7m. Pre-tax profits of R8.9m were reported after the previous 18 month period.

Attributable losses amounted to R21.9m after a light tax bill (R166 000) and higher dividend income from associated companies.

Provisions

The poor profit performance, anticipated by Akin when he and a consortium of businessmen took control of the group in June, was attributed largely to losses in Giant's deciduous fruit processing division, certain commuter bus divisions, the car rental division and interest costs incurred in the acquisition and funding of these loss-making divisions.

Full write-downs and provisions had been made for those subsidiaries sold or closed down, Akin said.

The performance of the group's profitable divisions had been restrained by the non-performing divisions and the high interest burden. This had been rectified by disposals and all operating companies had returned to profitability, he said.

An extraordinary item of R57.5m was related to the cost of transforming the group. It included R46.1m in net losses from disposals, R2m in restructuring costs and R2.2m in goodwill written off. The full amount was written off against permanent capital, Akin said.

The decline in interest-bearing debt by the end of the financial year had been less than anticipated because it included the R30m cost of buying out minorities.

Negotiations for the acquisition of an industrial distribution company in the UK were at an advanced stage.
Amcham compiles Foreign Investors Charter

By Derek Townes

Amcham also requires a consistent approach to constitutional and legislative policies in the country, with a special focus on the protection of foreign investment and the enforcement of laws and regulations that affect foreign enterprises. In this context, the country's economic policies and regulations should be transparent, predictable, and consistent, providing a stable environment for foreign investors. Moreover, the country should have a strong legal system that guarantees the protection of foreign investments and the resolution of disputes in a fair and efficient manner. The country should also invest in human capital and infrastructure to support the growth of its economy and create a conducive environment for foreign investors.

Additionally, the country needs to have a strong commitment to upholding the rule of law and ensuring that justice is served in a fair and impartial manner. This includes providing adequate resources and training for the legal profession and ensuring that the justice system is independent from political influence. The country should also have a strong civil society that promotes transparency, accountability, and participation in the political process.

In conclusion, the country needs to have a comprehensive approach to promoting a conducive environment for foreign investment, which includes having clear and consistent policies, a strong legal system, and a commitment to upholding the rule of law. By doing so, the country can attract more foreign investment and contribute to the growth and development of its economy.
SUGAR COATING?

Business is cautiously optimistic that the package of relief measures in the Budget will help to reverse its declining fortunes. Finance Minister Barend du Plessis' handouts included halving the remaining import surcharge to 5%, reducing company tax by two percentage points to 48%, and scrapping the value added tax on capital and intermediate goods.

The last measure alone, which goes into effect October 1, could put a minimum of R6bn more each year into the pocket of industrialists, estimates SA Chamber of Business economist Keith Lockwood. His figure is an extrapolation of the annualised amount now paid by companies for these inputs under GST.

Industrial Development Corp senior GM Malcolm MacDonald says: "Based on these positive developments, we hope to announce some major capital projects during the current year."

Lockwood maintains that not levying VAT on capital and intermediate goods will not only boost exports, but should benefit consumers as lower costs are filtered down in the form of lower prices. However, he notes that this assumes that effective competition exists at most levels. The ever-present danger, of course, is that manufacturers might be tempted to pocket the profits.

In short, while the Budget may have contained some relief measures for business, they are not in themselves a panacea. Businesses still have to contend with the structural problems that bedevil growth — such as high interest rates, inflation, political instability, sanctions, low business confidence and local and global recession.

What's needed for SA to become globally competitive, they argue, is the immediate abolition of all import surcharges and the setting of the effective company tax rate at 30%-35%.

Sentrachem CE Johan van der Walt says: "The top end of the real company tax rate must be reduced so that we can remain competitive with countries like the US and UK, where the effective company tax rates are about 35%." He notes that chemical companies have to compete on the export markets with countries like Taiwan, where chemical companies pay only 25% tax.

But Iscor GM finance Eric van der Merwe, Barlow Rand director Ewert Groeneweg, Samancor GM finance Chris Norval and Textile Federation executive director Brian Brink all agree that the Budget has positive implications for investment in industry.

Iscor's capital expenditure programme for the year ending June 30 amounts to R1.3bn, so its future tax savings could be substantial. Barlows is in a similar position.

Samancor CE Hans Smith says his company has computerised the Budget's benefits on its joint, multibillion-rand Columbus stainless steel project with Highveld Steel and, though the concessions will assist the project, he says "it's too early to make any positive statements."

The Budget has certainly been good news for the motor industry. In addition to the reduction in import surcharges, there has been no apparent increase in fringe benefit tax and no mention of VAT on used cars. Theo Swart, joint MD of the McCarthy Group, says it should be somewhat easier for individuals and companies to buy vehicles.
THE TIDE is turning in the economic climate and business confidence is better than it has been for some time.

A survey of manufacturing by the Bureau for Economic Research of the University of Stellenbosch says the decline in business confidence appears to have levelled off in the first quarter of this year.

A total of 33% of respondents in the survey are satisfied with business conditions. This compares with 31% in the fourth quarter of 1989.

Persian

Sales, production and new orders are, however, lower than in the same time last year. But the downward trend is expected to ease in the second quarter.

Production costs declined and this trend is expected to continue, while business conditions over the next 12 months are likely to improve.

The survey says SA companies were largely unaffected by the Persian Gulf War, but were hit by internal business constraints, such as high interest rates, lack of demand and the uncertain political climate.

"Unfortunately it is too soon to speak of a turning point in the downward cycle of manufacturers' business confidence, but in the light of the talks on easing international sanctions, opportunities for the SA manufacturer are opening up, hopefully, to boost confidence in current business conditions."

The survey says expectations of manufacturing business conditions for the next 12 months rose on an index from 64 points in the last quarter of 1989 to 81 in the first three months of this year.

"A very promising aspect of the survey result is that the index on expected real investment in machinery and equipment turned positive after the alarming negative figure in the previous survey."

The survey, however, makes no mention of the likely deterrent of capital expenditure which will probably take place as a result of the introduction of VAT. VAT will not be charged on capital expenditure when it is introduced on September 30. At present, GST is charged on capital equipment and most companies are likely to defer capital expenditure.

Total production costs declined to 148 on an index from 164 in the last quarter of 1989. Labour and raw material costs fell.

Sales volumes in the next quarter are expected to be about the same as last year, but production and new orders will be slightly down. The survey says stocks remain too high and unfilled orders in relation to sales are on a downward trend.

The survey covers 21 sub-sectors and responses were received from 782 manufacturers.

By DON ROBERTSON
FOOD company WB Holdings took the biscuit this week with a 25% rise in earnings.

The former Cape fishing company saw the writing on the wall on fishing quotas long before Namibian independence. It has sold all its interests in Namibia, last to go being the investment in Namibian Fish Industries. Now under Norwegian ownership, Namfish will pay no dividend for several years.

WB Holdings is now a fruit and timber grower. Bumper export prices for fruit in the year to December helped the group to earn 45c a share compared with its forecast of 35c at the interim.

Hail damage has lessened the expected 1991 crop from the original orchards. But the acquisition of neighbouring farms will ensure a larger crop. The relaxation of sanctions could help the company even more.

Chairman Robert Silverman expects good results. The share price is 57c, close to the peak.

Eroded

Industrial holding company Malbak raised fully diluted earnings by 5% to 55c, a share from the same percentage rise in sales to R4.2 billion.

Higher tax eroded some of the increased earnings, but the subsidiaries generally did well. The directors hope there will be a modest increase in earnings for the year.

This is an improved outlook— at a presentation last year, chairman Grant Thomas foresaw a slight downturn.

In the 12 months to December Cruibble adopted a more conservative method of accounting, stemmart income. Premiums have been deannualised and are now accounted when they become payable.

Cruibble is now part of the Anglovail group and its year has been changed to June.

By JULIE WALKER

Momentum disclosed a taxed surplus of R58 million—14% higher than in the six months to December 1990. Earnings a share of 11.4c were 12% up, as was the 6.75c dividend.

The directors say rationalisation between Momentum and Lifeefro has been completed.

Mapekra raised turnover by 35% to R211 million in 1990, and earnings a share were 22% up at 50.5c. The W&A subsidiary reports pressure on margins from general economic factors and a cut in metallurgical-sector demand. But the directors expect a further increase in earnings in 1991.

Carats

Engen pushed turnover, earnings and dividends more than a fifth higher in the six months to February. Cost inflation rose slightly faster than selling prices in spite of the benefit of including the Trek product system in Mobil's network.

The Persian Gulf crisis generated inventory or windfall profits, of which R125 million before tax has been excluded because they could go into reverse.

Management is confident that the rate of profit growth will be maintained in the second half-year. A handful of companies reporting this week achieved higher earnings. Only Abercom incurred an absolute loss—R4 million, but much lower than the previous interim shortfall.

The recession made its mark across the economy. Malbak food and most companies Kambyo's earnings fell by 15% to 31.5c a share in the six months to February.

Office furniture group Math Nth's earnings fell almost 70% in the six months to November to 42c a share on an easing in turnover to R53 million.

Chairman Winky Ringo expects the group to "continue to perform satisfactorily in the period ahead". It has opened Officepro to compete in a market sector previously not touched.

Clothing manufacturer Traclo's interim profits shed 74% to a fraction of a cent a share.

Tiger Wheels skidded. Turnover was up 21% to R30.6 million in the six months to December, but profit fell 33% to R500 000.

TPTV's interim earnings were 42% below last time at 2.5c a share.

Putco run into trouble. But operator lost R18.6 million in the six months to December 1990 on lower revenue. Three divisions were closed and the closure of two more postponed pending negotiations with the authorities.

Putco sold a surplus property at an extraordinary profit of R4.5 million. Putcrop—whose major tenant is Putco—raised earnings by 54% to 2c a share. The directors expect an increase in rental income during the second half-year and are promoting the mini-storage facility recently completed at Wembley, Johannesburg.

Marine diamond explorer Benguela Concessions produced 14 594 carats in the six months to December. They fetched a net R5.8 million. Continuing exploration costs led to a bottom-line loss of 0.8c a share.

Benguela bought Dawn Diamonds, which it holds title to a mining lease over neighbouring sea concessions.

Kudu Granite incurred a R75 000 loss at the December interim because of depressed prices for Rutenburg material and poor production performance from the Belfast quarries.

But major customers have accepted a large price increase for Rutenburg granite from March and foreign buyers are looking for more material.

Kudu's directors expect to restore profitability in the next six months.

Dogs

Tollgate—formerly Dares—lost almost R3.5 million in the year to December. New management says it inherited a group with high debts, lack of direction and accelerating losses in some divisions.

The group's profitable divisions' earnings were eclipsed by the losses, which have been sold. Tollgate is negotiating an acquisition in the United Kingdom.

Of the 14 companies reporting preliminary results this week, half made more than in the previous period, but only two grew at a faster rate than inflation.

Two incurred losses, two earned less than before and the rest were not comparable.

But five interim results of the 29 reported were in the red. A dozen raised earnings, and a trio posted inflation.
Manufacturing over worst

By Sven Lünsche

Even before it was given a substantial boost in the Budget, the manufacturing industry seems to have passed through the worst of the recession.

A Bureau for Economic Research at Stellenbosch University (BER) survey says the decline in the business confidence of manufacturers seems to have levelled off.

Returns from manufacturers show that volumes of sales, production and new orders received in the first quarter were lower than in the corresponding period a year ago, but that the intensity of the decline in business abated.

Expectations for the second quarter are that sales volumes will be on a par with those of last year, while production and new orders received should be slightly lower.

Over 33 percent of the respondents say they are satisfied with prevailing conditions, compared with 31 percent in the fourth quarter of last year.

A more direct reflection of the better outlook is that expectations for the next 12 months have risen somewhat, although they remain negative overall.

The BER says the index on predicted real investment in machinery and equipment has turned positive after an alarming decline in the previous survey.
Retiring Anglo American senior economic consultant Aubrey Dickman ... Reserve Bank independence has sent positive signals to foreign investors. 

Reserve Bank praised for its independence

Reserve Bank Independence was the most important development of the past three decades, retiring Anglo American senior economic consultant Aubrey Dickman said at the weekend.

He retired from the Anglo American Corporation this month after being with the group for almost 52 years.

In an interview, Dickman applauded the independent stance of the Reserve Bank, which he said sent positive signals to foreign investors as to the role of monetary policy in the SA economy.

The Reserve Bank recently asserted its independent stance by disagreeing with various aspects of the 1991/92 Budget.

Dickman believes this is probably appropriate, because international studies show a high correlation between the degree of Reserve Bank independence and inflation and growth records.

Any future government must welcome the fact that the country is following a route which has proved to be the best one, he says.

During his career, Dickman was a member of various councils and committees, including the Economic Advisory Council and the commission of inquiry into electricity supply. He was also president of the Economic Society, and an alternate director of Anglo American Corporation.

He remains a director of Anglo American Gold Investment, the Discount House of SA and UAL Merchant Bank, and will continue to represent the SA Chamber of Business on the electricity council.

He is a highly respected economist and has written numerous articles on the SA economy, particularly on the money and capital markets.

Dickman says the most interesting part of his career has been the great political and economic changes made since the beginning of last year.

"The unbanning of political parties and the great debate that arose from this is important and encouraging, because it has instilled a greater realism as to the way in which our past mistakes need to be corrected," he says.

Apartheid, he says, has left SA with a legacy of unemployment, lack of housing, training and skills, combined with resentment and animosity towards a private enterprise system.

SA now faces a great challenge to restore equity and to reach its long-term growth potential.

SA has rejoined the world by recognising the importance of containing inflation by adhering to the right economic policy, he says.

The growth in the quality and quantity of economists, analytical, skills and statistics had contributed greatly to the present sophistication of economic policy.

During his retirement Dickman will do some teaching at the Wits Business School.

Anglo American economist Jim Boys will succeed Dickman as senior economic consultant.
New market for borrowers

THE Reserve Bank is overseeing the creation of a new vehicle for corporate borrowing that bypasses the banking system — enabling blue-chip companies to borrow more cheaply.

The Bank is circulating draft guidelines to important market players on the creation of a commercial paper and debentures market. The confidential document calls for comments from interested parties and could lead to a change in the new Deposit-Taking Institutions Act to enable the creation of a new market.

When a company issues paper directly to an investor without going via a bank, the cost is cheaper as the bank's obligation to keep expensive liquid assets is not part of the price. For the banks, the advantage of the new market is that they can deal in the commercial paper in the secondary market. [80/111]

A banker said yesterday that a problem in getting the market up and running was that investors were reluctant to buy paper without a bank guarantee unless it was blue-chip. This could limit the market to only a few important players, but in time investors might feel safer with "pale" blue chips.

The official discussion paper says: "The Bank Supervision Department accepts that the orderly development of a commercial paper market in SA is inevitable but within an appropriate regulatory framework."

The draft guidelines indicate the market is obviously aimed at the big players. Issuers of commercial paper are required to have a net asset value exceeding R100m; in the case of unlisted companies the net asset value has to be R200m. The maturity date of the instrument will vary between

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Borrowers

three and 12 months, while in the case of debentures it will be 12 months or more. In the Bank's first discussion document last year, only one-year paper was envisaged but comments from the market caused it to shorten the period.

The Bank's discussion paper said the funds borrowed in this way had to be used "for a specific project" and could not be used "either directly or indirectly" to finance credit extension, "be it in the form of trade debtors or advances on which interest is charged". The stipulation was made to ensure that the market was not abused by parties wishing to conduct banking without falling foul of the Act.

The Bank concludes that its document and comments of interested parties "could result in amendments proposed to the Act".

DEANUTS
share ratings — of the large, diversified industrial groups.

Of these three, only AVI, whose profit growth has remained relatively firm, still retains its rating intact. But Malbak, whose share price had weakened during much of last year, enjoyed a favourable rating since last October ahead of what turned out to be steady results for the six months to end-February, with EPS up by 6%. The swing in relative ratings for the leading conglomerates is indicated in the dividend yields: an historical 1.5% for AVI, 3.5% for Malbak, 4% for Amic and 4.4% for Barlow Rand. Without detracting from the role of management, the more stable results from Malbak and AVI at least partly reflect the character of the present recession.

Neither of these groups has much direct exposure to commodity markets or earnings in general; both depend essentially on local demand. Malbak, in particular, gains a large portion of its trading profit from businesses exposed to consumer spending. Of the group's total operating income of R357m, the significant increases in contributions came from the branded consumer goods, packaging and paper, and development divisions. These divisions, as well as a fourth, construction supplies, together contributed about 80% of total trading profit.

Among Malbak's listed companies, the strongest performers were suppliers of consumer durables, particularly 96%-held Tedelex and Efferline. Packaging and paper increased its contribution to group earnings by 9%, with help from another outstanding result from Carlton Paper.

Abarcom, the vehicle for expansion abroad, remains a loss-maker, though its attributable loss fell from R8m to R3.8m.

Unlisted companies weigh in with about 20% of Malbak's income, and on the whole these operations roughly maintained or improved their earnings. Chairman Grant Thomas sees no cause for concern about any of these operations. Malbak Motors — part of the branded consumer products division — was hit by shortage of stock from Mercedes, but some of the unlisteds saw good growth.

In Thomas's view, the most pleasing aspect of Malbak's interim figures was the maintained operating margin. The debt: equity ratio fell, without help from sales of problematic companies, and the interest bill was down by R2m. Benefits of the reduced finance charge were broadly offset by a slightly higher effective tax rate, and the 5%
Phail and London-listed AAF — have posted good results. But analysts canvassed this week were expecting little, if any, improvement from W & A and FSI. 

EPS forecasts ranged from a drop of 10% to an improvement of 5%, with most expecting flat earnings. This follows a 6.6% advance in the earnings at W & A and almost no growth at FSI at the June interim. This would put W & A’s EPS at 103c-120c, with a dividend of 38c-44c, assuming cover remains close to last year’s levels. FSI’s EPS would be between 119c-137c, with a dividend of 32c-37c.

It’s possible these forecasts underestimate effects of poor performances by some of the footwear and hosiery operations. EPS declines of as much as 15%-20% have, in fact, been mooted for W & A and FSI.

Though Gentyre, the largest single earnings contributor to W & A, lifted attributable earnings by 58% — helped by a slide in its effective tax rate from 34.5% to 0.3% — the concerns relate to certain of W & A’s unlisted operations, such as Edworks, as well as finance charges at operating and group level.

Delisting of Teamcor, Hunts, Homemakers and Citizens Holdings following the restructuring, as well as the sale of the 37.3% stake in Reichmans, meant far fewer of the operations report separately. The group has long been secretive about its offshore interests. Reduced contributions from listed subsidiary Vektra and associate Ecentre also have not helped.

Aside from the earnings, investors will be seeking answers to two big questions: has the overall efficiency improved; and have cash-flow improvements affected gearing and interest cover?

At July 1 FSI had long-term debt of R190m, with redeemable prefs of R111m, which were together expected to cost R46m to service this year. Offsetting this was R34m in interest from convertible debentures issued to FSI in exchange for FSI’s assets, and R14m from prefs issued to FSI. Chairman Jeff Liebesman emphasises that FSI is an investment holding operation, while trading debt is held by W & A.

There is now little expectation that W & A’s long-term debt of R850m at July 1 against shareholders’ funds of R1.3bn, will have been reduced — in which case, interest cover probably will not have changed much from last year’s multiple of about two. To achieve that may require sales of assets.

Of course, if FSI should favourably surprise the market, that could presage a rerating for the share. Even the critics accept there are some good assets in the group.

Simon Cashmore

FSI’s Liebesman ... will debt come down?

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TOLLGATE HOLDINGS

MORE RED INK

Costs of reconstructing Tollgate Holdings (TGH) continue to mount. Since 1989, no less than R91,6m has been written off in abnormal and extraordinary items. Now this has been capped by an after-tax loss of R34,5m for the period to end-December.

Still, with the new consortium having wrought sweeping changes since it effectively took control in June last year, there is hope that the bleeding is nearing an end.

Julian Askin, chairman of the consortium, sums up by saying it “acquired a group with high borrowings, absence of direction by senior management and accelerating losses in certain divisions — but with other divisions having valuable assets and sound growth potential.” Askin is now devoting his attention to these other divisions, though some loss-makers, like Gant’s, have still to be disposed of.

In late 1989, when the consortium bought control of Durox, then holding company of TGH, shareholders were warned that the organisation was in a perilous state. With interest-bearing debt at its peak, standing almost four times higher than shareholders’ equity, the priority was to reduce borrowings to a realistic level. Askin has moved as swiftly as the recession would allow to sell and close loss-making entities and to restructure. This accounts for many of the write-offs.

The five JSE-listed subsidiaries of the Durox pyramid, one of which was the London-listed TGH, have been consolidated as wholly owned entities under one holding company, Durox, which changed its name to TGH. The London listing has been retained.

Norths Industries and some of the unprofitable bus commuter divisions have been sold and the FM learns that the sale of Gant’s is likely to be consummated for about R25m in the next two months. This sale will apparently exclude assets, valued at R90m, which are being realised for cash.

Even so, with R204m interest-bearing debt remaining, there may be more write-offs if borrowings and interest costs are to be cut to manageable proportions. Sale of Gant’s and associated assets could reduce debt to below R100m. That would still be excessive, with permanent capital at R163m, but the group should be able to operate with debt at around R90m.

Askin says the poor profit performance in 1990 was caused mainly by large losses in the deciduous fruit processing of Gant’s; in certain of the commuter bus divisions; in the car rental division; and by interest costs incurred in the acquisition and funding of these loss-making divisions. All these, he says, have been turned around, sold or closed — or full write-downs have been made.

A strategic 24,5% shareholding has been acquired in Hosken Consolidated Investments, whose operating subsidiaries include IGI Insurance and Safrican Life. The group has also announced that an offshore acquisition has been concluded in principle. No details are available, but Askin says the purchase will be funded by issue of new TGH shares.

He is emphatic that group profitability has been restored. One must hope this proves correct, as any unfulfilled promises would again dampen credibility. No details are given about the value of goodwill and trademarks in the provisional results, so it remains difficult to estimate tangible net worth. Including intangibles, net worth is about R000.

The share traded last week at 600c, after standing at 450c-470c for some weeks ahead of the results. The market may thus have discounted the worst. But with no indication of prospective earnings, the share must still be considered high-risk.  

Gerald Hirston
Mine Suppliers Feel Gold Pinch

BY DON ROBERTSON

Companies supplying the mining industry feel the pinch. Many suppliers are being hit by the falling gold price, which is below $200. Many mining companies, including Free山坡, South, and Northern, are no longer buying new equipment, and some are cutting back on existing equipment. Suppliers are now forced to find new markets for their products, and some are offering discounts to try to keep their customers. The gold industry is still a major contributor to the economy, and the fall in gold prices is having a significant impact on the mining sector.
Hopes for large growth rest with manufacturing

CAPE TOWN — Manufacturing industry had more potential than any other sector to lend impetus to large-scale economic growth, Deputy Finance Minister Theo Alant said during the Budget debate in Parliament yesterday.

Everything had to be done to encourage its growth and the Budget, under exceptionally difficult circumstances, introduced strong steps to encourage healthy growth.

Government's steps to limit the state's spending was an important step which indirectly influenced the industrial sector in a positive manner with privatization providing a further impetus in this direction.

He said that SA, as a developing country, needed massive capital investment in industry to ensure growth, jobs and prosperity.

He said the way to encourage growth could be by creating a favourable climate through monetary and fiscal policies and to take note of what other countries were doing to activate growth.

NP finance committee chairman Francois Jacoby said the Budget had to be seen in the broad economic policy of the country after which an economic climate would evolve.

Economic experts believed fiscal policy, as presented in the Budget, succeeded in many respects in preparing the economy for growth.

"The Budget reflected positive signs that the imbalances in the economy were being rectified. These were:"

- The reduction in the money supply from 30% in 1988 to just more than 14% at the end of last year, indicating good discipline;

**Stability**

- The improvement in the surplus in the balance of payments on the current account over the past six years, showing greater financial stability;
- The success which the Reserve Bank had attained in maintaining a constant exchange rate over the past two years. The fact that the exchange rate movement was only 0.7% compared with the basket of currencies of major trading partners was a major achievement; and
- The net growth in gold and foreign reserves to R18bn represented six weeks' imports. The aim was to build it to 12 weeks' imports.

"There are other avenues that stimulate growth and job creation. At this stage the important ones are the development agencies such as the SBDC, the IDC and the Development Bank," Jacoby said.

The SBDC was one of the most important growth stimulators and the R7bn provision in the Budget for the SBDC would go a long way to giving it a greater boost. With its funds it could invest in small business without putting additional strain on the banking sector or contributing to higher inflation.

The Budget could be seen to have done the necessary groundwork to encourage investment by:

- Keeping the growth in government spending below the inflation rate;
- Reducing the tax burden from 25.5% of GDP in 1988/89 to 24.8% in 1990/91 and
- Ensuring the deficit of R10,1bn and the total "adjusted" financing requirement of R14,6bn would not present any funding problems. Reserve Bank evidence says a major portion of this could be financed by resources that would become available to the public investment commissioners.

He said two areas of the Budget that concerned him were the deficit before borrowing which had grown from 1.6% of GDP in 1988/89 to 3.4% in 1991/92 and bracket creep.
More private cash for education aid

THE private sector invested R554m in education in the 1990/91 financial year — a R257m rise since 1987, a survey by BMI Service Research has found.

The BMI report, Social Investment in SA 1991, said the total corporate social investment expenditure for the 1989/90 year would be R897m.

Of this, 56% would be spent on education, 7% on environmental conservation, 7% on health services and 6% on welfare. The other 14% would be split among general community projects, small business development, art and culture and housing.

The report focuses on external corporate social investment aimed at addressing the problems of the community at large rather than on companies' involvement with their own personnel.

BMI Service Research MD Bets Nel says: "Even with this increase in private sector spending there is still insufficient funding for education."

"The 1990 government budget for education has been overshot by R217m and alternative sources of finance such as foreign capital and possible state or sport lotteries will have to be exploited in the next financial year."

Of the money spent by the private sector on education, 58% will be in bursary grants and donations to tertiary institutions. Government education is supported through supplementary education programmes.

Major companies are also involved in building and establishing private multicultural schools and there is a strong trend to support literacy programmes.

All companies involved in the survey indicated that more funds would be available in their 1991/92 budgets to support education at grassroots level such as primary and pre-primary education.

Nel says dramatic changes have occurred in corporate social investment since President F W de Klerk's 1990 parliamentary speech. Companies previously not involved in this type of funding have become more pro-active and most corporations are appointing staff and setting up specific divisions to handle the distribution and administration of monies.

"Corporate social investment is now seen as a critical part of business activity by the major corporations."

"The era of mere handouts has passed and involvement has become the key word. Major companies now devote advice, expertise and assistance along with monetary funding."

She adds: "It would seem that corporations are allocating money in the correct areas if we look at the respondent's priority needs."

Of those interviewed, 99% of black consumer respondents mentioned education as a major priority. Other priorities were housing, job creation and health.
Outcry over Bank's securitisation proposals

A outcry has greeted Reserve Bank proposals which would require major corporations to route their securitisation transactions through banks — and so incur added costs and bother.

The Reserve Bank has defended the proposal on the grounds that it would protect the banking sector from disintermediation, a process whereby corporations bypass banks and fund themselves directly from each other or from the public.

The proposal, in a Reserve Bank discussion paper, means that if a corporation such as a large industrial or mining company wants to securitise certain assets, it will have to sell them to a bank, which will perform the securitisation.

Sources in corporate, chartered accountancy and banking circles said yesterday the banks did not need such protection.

A leading corporate treasurer said: "If the new Deposit Taking Institutions (DTI) Act is founded on the need to protect banks, then it needs rethinking."

It is thought in some quarters that the Reserve Bank's caution on disintermediation is in part because of concern that securitisation could mean billions of rands will fall outside the ambit of the banking sector — and the monetary authorities.

However, a banking source said that all the monetary authorities had to do was ask for returns from corporates every time they wanted to securitise. "That's how it's done overseas."

Nico Marais, researcher at the office of the Registrar at the Reserve Bank, said that the original motivation for securitisation in SA was to redirect funds from the assured to the banking sector. The Reserve Bank had already shown itself to be very accommodating in allowing disintermediation in the three- to 12-month maturity period through the creation of a corporate debt market, he said.
Sacob appeals for talks to continue

SYLVIA DU PLESSIS

THE SA Chamber of Business (Sacob) has appealed to all the parties concerned to make every effort to keep political negotiations on track in the face of waning business confidence.

There was a great deal at stake for the economy, Sacob director-general Raymond Parsons said at a Press conference yesterday.

Parson's appeal followed the release of the chamber's latest business confidence index, which showed the SA business mood had failed to firm in March in response to a further erosion in sanctions, a reduction in Bank rate and a generally favourable Budget. The index was static at a 52-month low of 87.3.

Parsons said the chamber was deeply concerned about the combined effect on business confidence of the ANC's various tax proposals and its ultimatum to government to respond to certain political demands by May 9.

It would not be conducive to investment in SA, he said.

Sacob's survey of confidence levels in the manufacturing sector showed that, for the third month in succession, most manufacturers were more optimistic in their short and medium-term outlook.

Sacob economist Keith Lockwood said activity levels in the sector had been rising steadily since September 1990. That, coupled with improving sales expectations for the next year, suggested that the majority believed the worst was over.
Confidence will plunge, ANC warned.
Kevin Davey: Tough plan to push exports

IT HAS become a refrain that is

Studies on how to push exports

...
ANC international affairs director Thabo Mbeki appealed yesterday for increased manufacturing exports and warned that it was not in SA's interests for neighbouring states to remain underdeveloped to ensure markets for its goods.

Mbeki said a future SA economy would have to relate effectively to the southern African region and to the rest of the world.

Speaking at a National African Federated Transport Organisation (Natfo) conference in Johannesburg, Mbeki said: "We need to develop the view that other countries should also be developed. It is not in the interest of a liberated SA that other countries in the region be undeveloped and remain an appendage of SA where goods can be sold."

Mbeki said SA had to be able to compete in international markets, particularly in manufacturing.

"This country continues to be an exporter of raw materials. This is an old colonial relationship that has to change."

Because of mismanagement of SA's economy, the value of manufactured products had declined as a percentage of exports from 16% in 1960 to 6% in 1989. Exports of raw materials increased from 23% to 62%.

SA had been going backwards in terms of its relationship with the more developed parts of the world, Mbeki said, and the country would be in trouble if current economic problems were not addressed.

The repeal of the Land Acts did not solve the land problem for government.

The NP had not consulted widely enough before it passed new land legislation because it wanted to soften the impact on whites of making land available to the landless.

"It's not going to work. Even if the ANC was the government, it could not unilaterally solve the land question."

White South Africans should understand that they would be affected by the problems needing redressing. "Redistribution of wealth must make an impact on white SA," Mbeki said.

The economic objectives facing the country, and the closing of the gap between have and have-nots, should not be only the ANC's objectives. To end poverty should be a national objective.

"This involves transferring resources from those who have to those who don't have," he said.

All South Africans had a responsibility to narrow the black-white income and wealth gaps.

SA was a society that was divided, in conflict and prone to violence and with intolerable levels of poverty.

**Sanctions**

"It's an explosive mixture which spells conflict and instability."

Former Reebok International CEO Joseph la Bonte told the conference sanctions should be maintained until the majority of the people — the blacks — said they wanted them lifted.

South Africans needed to improve their image internationally. "All the outside world gets from TV and the Press is bad news — violence, disruption and lack of priorities."

He said: "Capital flows to attractive investments and South Africans need to define guidelines for investors — and to make incentives attractive."

La Bonte said these guidelines could take the form of what was being done in the areas of housing, education, job creation, health and social services and the advancement of black business.

But, the outside world should maintain sanctions until blacks said they wanted them lifted.
THE NAVY

Drop boardroom curtain bar, says Nato

NATO CE Chris Liebenberg said: "Ger-
BUSINESS CONFIDENCE

MIXED SIGNALS

April's Business Confidence Index (BCI) is sure to come crashing down from March's 87.3 — itself unchanged from February — warns the SA Chamber of Business (Sacob), whose latest BCI was compiled before the ANC's ultimatum to State President F W de Klerk.

Sacob says the ANC's threat to pull out of talks will damage business sentiment both in and out of SA. It also criticises the ANC's tax proposals, saying "a positive future tax scenario is essential if foreign and even local investment are to be promoted."

Business confidence, says Sacob, seems to be stabilising but remains vulnerable, par-

icularly to political factors. March BCI was static because negative influences were off-
set by positive ones.

Negative influences include:
☐ Falls in the dollar price of gold and the rand/dollar exchange rate;
☐ A rise in consumer price inflation to 15% from 14.3%;
☐ A fall in merchandise imports, exports and physical volume of manufacturing pro-
duction; and
☐ A lower real value of building plans passed.

Positive influences include:

☐ An upward trend on the JSE;
☐ A lower three-month bankers’ acceptance rate;
☐ An increase in the number of passenger cars sold and expected real retail sales; and
☐ A decline in the number of insolencies of individuals and partnerships.

March confidence levels in manufacturing indicate a more optimistic outlook, Sacob says. This is mainly as a result of rising activity since September and improving sales expectations. Production volumes are also expected to increase, giving rise to hopes that capital expenditure will be higher in the next 12 months than in the previous 12.

On the negative side, high interest rates and slow turnarounds mean the cost of hold-
ing stock remains high, Sacob says. Most respondents believe profits will stay under pressure in the next year.
DEBT STILL A BURDEN

W&A's slide in EPS for the year to end-December has done little to improve the market's already depressed rating of the consumer goods and industrial conglomerate and its pyramids, Wacoir, FSI and FS Group.

EPS at W&A, which became the holding company for the group's worldwide interests after a major restructure effective from July, fell 13.6% after the earnings dilution that resulted from the issue of convertible debentures and prefs at mid-year. At FSI, the bottom-line earnings slumped by 16.4% — well down on the expectations of analysts canvassed by the FM last week, most of whom expected W&A and FSI to maintain earnings.

Chairman Jeff Liebesman argues that expectations for the group's performance were unduly high and failed to take full account of the recession's effect on its industrial operations as well as earnings at the interim that the turnaround at loss-making footwear company Edworks was taking longer than management had expected.

At the interim FSI's earnings showed almost no growth, while W&A's had advanced 6.6%. W&A's full-year operating margin slipped significantly compared with the previous year, when the former structure was in place and trading conditions were more buoyant.

Last year's reshuffle has again made direct comparisons problematic. But it is plain that debt has remained a major bugbear. W&A's operating profit increased, from R294m to R317m, but the gains were swamped by a 79% rise in the net interest bill, to R117m. At the 1989 year-end, trading profit was covering the finance cost 4.5 times; last year it was only covered 2.8 times.

Liebesman reckons the performance of the three holding companies this year will be more in line with that of W&A. He attributes much of W&A's drop in EPS to difficult trading conditions at Edworks and at the toy supplier Hygienia, as well as restructuring costs at associate company Elcentre. Trading losses of R11.4m at Edworks and of R4m at Hygienia, and a R3.7m drop in Elcentre's earnings contribution cost W&A 15c a share.

Contributions from operations that supply the mining and motor industries, such as Williams Hunt and V&R Engine Spares, as well as the hosieries, operations were also down.

Major earnings generators were the listed operating subsidiaries Gentyre, JD Group, MacPhail and UK-based AAF; as well as unlisted Form-Staff, National Bolts and Housewares. Offshore operations generated 17% of group earnings. Foreign earnings rose to 25% if exports are included.

Earnings at Gentyre, the biggest single profit contributor, were up 58% at R68.8m. But much of this improvement was due to a fall in the tyre firm's effective tax rate from 34.5% to almost zero, because of changes in capital allowances. This, with assessed losses, reduced W&A's from 28% to just over 10%. Liebesman expects it will take several years before W&A's effective rate creeps up to what he considers sustainable levels of 25%-30%.

There is no change to the philosophy of using high gearing to acquire and improve what are seen as underperforming assets. FSI, which Liebesman now calls an investment holding operation, retains long-term debt of R174m and redeemable prefs of R11m, and its interest charges are offset by income from convertible debentures and prefs it holds in W&A.

Long-term liabilities at W&A — which holds the operating companies — climbed from R639m at December 1989 (based on pro forma figures issued during the restructure) to R942m at the end of financial 1990 because of capital expenditure and acquisitions totalling R303m. Liebesman points out that total assets climbed from R27.7bn to R31.6bn over the year. Revaluation of plant and equipment added R539m to W&A's asset value and effectively reduced gearing from 67% to 48%.

Liebesman says he sees no reason to change the debt structure. Cash flow, he says, remained positive before acquisitions and capital expenditure, and interest cover has improved from 2.2 times at June to 2.7 for the full year.

Though trading will generally remain difficult, management expects benefits from the restructure, such as better cash flow and improved efficiency, to be felt this year. But Liebesman offers no forecast on earnings.

Investors continue to take a bleak view of the group. W&A's share price of 480c — down from 585c last week — reflects a p/e of 5.1 on the latest results. The rating is unlikely to improve significantly unless investors can see a more encouraging and consistent performance.
Safeguards against dumping required

By Sven Lünsche and David Canning

The plan by the Industrial Development Corporation (IDC) to fundamentally restructure South Africa's trade policy has received a mixed reaction from the business sector.

The proposals by the IDC are designed to replace past protectionist policies with others aimed at achieving an export orientated environment and making local industry more competitive.

The SA Chamber of Business said it was not yet in a position to comment fully on the far-reaching proposals, which include calls for an immediate lifting of import surcharges and a modification of tariff protection policies.

In a statement Sacob stressed that any changes in tariff structures should form part of an overall industrial strategy and should be only one of the elements of a policy to strengthen the international competitiveness of industry.

"An adequate phasing in period of progressively lowering tariffs is also an essential procedure in this process," Sacob says.

However, Natal Chamber of Business president Errol Rutherford warns that the unplanned removal of tariffs could knock out some companies already battling to survive in a recessionary environment with high interest rates and high corporate taxes.

The report shows import tariffs have inhibited the country's export performance and have cost the country the equivalent of 12 percent of its gross domestic product. If the impact of the surcharge is added, the burden rises to 14 percent of GDP.

However, Mr Rutherford's plea is likely to be repeated by many companies whose cosy domestic environments may be disturbed.

The textile industry, for example, already claims great hardship has been caused by policies which allow foreign competitors to dump products in local markets.

The clothing industry, in contrast, has a long-standing complaint about local textiles.

Brian Brink, the executive director of the Textile Federation, welcomed the overall plan to create a more competitive trading environment but stressed that safeguards against disruptive international trade and dumping were required.

"It is difficult to implement effective anti-dumping measures and efforts to apply the Anti-Dumping Code of GATT have largely failed and been replaced with quota systems in many countries," Mr Brink says, referring to the IDC's recommendation that SA should sign the GATT's Anti-Dumping and Subsidies Code.
No distortion expected in money supply statistics

A CORPORATE debt market — in which companies fund themselves through commercial paper by bypassing the banking sector — would not affect money supply figures, but would increase the velocity of money, analysts said last week.

The velocity of circulation is the rate at which money changes hands in the economy — an indication of individuals' desire to hold money.

The analysts were reacting to remarks in certain quarters of the banking industry that a corporate debt market — also known as disintermediation — could affect money supply statistics.

They said that initial doubt about the accuracy of money supply figures might be unwarranted. This was because although this financing occurred outside the formal banking system, the money would pass through banks anyway and thus be reflected in the statistics.

Activities in the corporate debt market would thus simply lead to a shift in the ownership of money but would not affect the overall level of activity, said Nederbank chief economist Edward Osborne. It would, however, accelerate the velocity of circulation of money.

The formal inclusion of the company commercial paper market in money supply figures was not desirable, said Reserve Bank economic head Jaap Meijer.

In the past disintermediation caused an underestimation of money supply figures, which are an important indicator of the economy's financial activity and are used to determine monetary policy.

But recently a substantial portion of "grey market" activities — financial activity outside the banking sector — was eliminated. In February banks were required to bring off-balance sheet financing back on balance sheet in accordance with the Deposit-Taking Institutions Act.

The effects of reintermediation, when money outside the formal banking system is brought back into the system, on money supply statistics were shown in February. Money supply growth surged to 14.6%, while when the effects of the Act were taken out of the figures, money supply grew by only 12.3%.

In response to the question of whether the Reserve Bank planned to measure the size of the corporate debt market, a Bank spokesman said there was no immediate plan to do so. But it would probably be desirable to follow the system used by the Bank of England, he said. There, companies issue returns to the Bank.

The Reserve Bank's aim was to create a proper market which could be enhanced through adequate protection, said Reserve Bank Registrar researcher Nico Marais.
Sacob objects to Bill’s neglect of Sunday trade

THE SA Chamber of Business (Sacob) has hit out against the fact that no provision for Sunday trading has been made in the proposed Business Practice Bill.

The chamber has submitted a memorandum to the authorities recommending that Sunday trading be fully deregulated, in response to what it said was the “silence of the proposed Business Practice Bill on the question of Sunday trading”.

Sacob said laws that could not be enforced — such as the existing Sunday trade by-laws — must be abolished or modified.

An economist said last week that the law was openly flouted, and if local authorities implemented the law to the dot, many traders would be subject to fines.

Laws on Sunday trading have not been addressed in the proposed Bill, and Sunday trading remains prohibited with the exception of specified goods.

The new Bill does address the issue of deregulation, and accommodates 24-hour trading.

Sacob said Christians were not necessarily opposed to Sunday trading and those who objected were free not to go shopping on Sunday.

Although there had been some objections by trade unions, Sacob said worker interests were accommodated in other legislation.

Consumer convenience was enhanced by Sunday shopping. This included convenience to the growing number of women who were becoming part of the workforce, black consumers “who spent much of the week travelling” and the reduction of peaks and troughs of trading and traffic congestion.

Sacob also evaluated the arguments against trading on Sundays, which could be inflationary as longer trading hours did not necessarily mean increased sales. The possibility that workers could be exploited and their jobs threatened by increasing reliance on part-time non-unionised workers was another disadvantage.

Sunday trading might also force small business to open on Sunday in order to compete with big business.
Low gold price, VAT setbacks for owners

The depressed gold price and the introduction of VAT have serious implications for the owners of commercial and industrial property, says John Whiting, chairman of Pangbourne Properties (Panprop). "

"About 50 percent of such property on the Witwatersrand is directly or indirectly dependent on gold mining," he says. "If the gold mining industry takes a knock, so does the property industry."

Mr Whiting also says the closure of mines and cutbacks in production affects hundreds of goods and service suppliers in the industrial sector. This could lead to a serious fall in demand for factory and warehouse space as well as office accommodation.

"The imposition of VAT at a rate of 12 percent from October 1 could lead to serious cash flow problems for commercial and industrial property owners."

Reclaim input

"Landlords will be obliged to pay the tax within 30 days of rendering month-end rental statements. "They may, however, reclaim their input from the Receiver only when tenants settle their rental accounts. "Unfortunately, many tenants, particularly in the current difficult economic climate, are late payers. "This could tie up at the Receiver, interest-free, substantial funds which could be more profitably deployed elsewhere."
Departing Europeans open door for local companies

African companies are queuing to register as consultants with the World Bank so they can tender for billions of rands worth of business on bank-financed projects in southern Africa.

Finance department deputy director of economic information Fred Browne says at least 20 companies have registered in the last year.

The bank will spend about $20bn this financial year, 60% of which will end up in Africa. This represents about 40% of project cost as normally its deals include co-financing by commercial banks.

The main attraction for SA companies in working on projects financed by the bank is the guarantee that they will be paid.

Browne says the bank normally finances only that part of project payable in foreign exchange — for example, the importation of heavy equipment — with the rest supplied by grants or co-financing by agencies such as the European Development Fund and the African Development Bank.

Co-operation between local companies and the bank has been "tried and tested" on the R1,8bn Le-sotho Highlands Development Project.

He says SA has had "normal relations" with the bank since its inception in 1945. Government received 11 loans before 1966, all of which have been repaid.

The bank is not a political institution — countries are not allowed to turn down tenders for political reasons — and Browne says SA companies have not been aware of the opportunities it offers.

Excluded

However, SA companies have been excluded from projects involving the African Development Bank and were excluded from the bank's special "Africa facility".

He says there are two reasons for greater local involvement with the bank.

First, European companies which have traditionally done the development work in Africa are focusing their attention on Eastern Europe.

With the advent of European economic integration in 1992 and the opening of the former Soviet bloc, about 50% of companies have withdrawn from Africa and "resettled" in Europe.

SA has the opportunity to fill the vacuum.

Secondly, the bank has had no dramatic development success story in Africa for a variety of reasons, one of which is the problem of "compatibility" between Western companies and agencies, and African conditions.

Browne says his department has detected bank enthusiasm for SA involvement in schemes on these grounds, prompting the Finance Department, rather than government, to launch its informal initiative to encourage SA involvement with the bank.

Benefit

He says: "SA stands to benefit from the inflow of foreign exchange.

"Companies will also profit from the snowball effect of working on bank projects, which tend to flow from one another."

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Directors' duties 'ill-defined'  

But the task of educating directors would not be achieved by amending existing company legislation because it would not be exhaustive and would allow loopholes to develop, he said. Instead the task should be fulfilled by organisations such as the Institute of Chartered Accountants and the Institute of Directors, which should arrange symposia and publish guidelines as to the duties of directors.

JSE executive president Tony Norton differed with Katz on how the duties of directors should be clarified. He said a clarification would possibly be best achieved through statutory amendment and in serious breaches of standards of care by directors, a director should possibly become personally liable for his actions.

In his speech, Norton focused on the need to improve the position of minority shareholders. "The protection of minority shareholders is particularly important given that the corporate environment is characterised by the existence of a majority of companies controlled by stated interests," he said.

He added that although minority shareholders had good theoretical legal representation, this was not as attractive in practice.

Norton said "the appointment of a shareholder ombudsman to screen and process small shareholder grievances is worthy of discussion and debate".

Norton added this could be dealt with under the Securities Regulation Panel.

Most speakers at the conference expressed concern about insider trading and questioned whether the new legislation introduced to deal with insider trading would effectively combat it.
Global entrepreneurial revolution flourishing

Own Correspondent

GENEVA. — A new study by the Geneva-based International Labour Organisation (ILO), says the world is in the midst of its third entrepreneurial revolution, far bigger than those of the 1880's and 1920's, because this time it is truly global.

The economic advantages of entrepreneurship are visible everywhere, the ILO study says.

Large bureaucratic institutions are reeling under the impact of smaller, innovative, fast-moving, market-driven entrepreneurial organisations.

In the US venture capital outlay to fuel new businesses registered a 200-fold increase in 10 years.

While 1,000 of the biggest US companies shed a million jobs.

Smaller companies added 20m in the same 10-year period.

The recent flight of young Japanese managers to small entrepreneurial companies has been attributed to the inability of bureaucratic industrial giants to reward bright young managers with a flair for entrepreneurship.

Large Swedish companies have also noted a similar brain drain.

In China, since 1977, a million private businesses have been created.

The replacement of bureaucracy by enlightened enterprise, and the transformation of bureaucrats into entrepreneurs, are signs of the times, the ILO says.

As fewer upward opportunities become available in the big organisations, ambitious people start to think about going elsewhere or starting up on their own.

The trend towards decentralisation, privatisation and labour flexibility requires a completely new set of managerial skills, and new training to produce managers who are more customer-oriented and less boss-oriented.
Investment the key - UF chief

By JOSHUA RABOROKO

EVEN an acceptable political solution and the lifting of sanctions would not of their own bring an automatic influx of investment on the scale South Africa needed, a leading industrialist said this week.

Speaking at the launch of the R2.5 million Cape Town Job Creation Project, trustee of the Independent Development Trust and chairman of the Urban Foundation Mr Mike Rosholt said before that could materialise the new government would have to persuade potential investors that its economic system was sound and acceptable.

He said the private sector in turn would have to demonstrate it could provide adequate returns.

He said: “Our recovery, initially at least, will have to be internally driven. This will result in a measure of employment creation by the private sector.

“But and to relate, history shows that on the whole, large businesses have not created meaningful numbers of new jobs in recent years - this is an international, not just a South African phenomenon.

“This was partly due “to the fact that particularly in the manufacturing sector they have had to resort to increased mechanisation to remain competitive in international markets”.

“In contrast, history has shown that small business has had a very good record in job creation, both in the formal and informal sector,” Rosholt said.

Businessmen, by and large, were not particularly adept at politics and were unable to contribute meaningfully in that sphere.

But they had a tremendous responsibility to promote socio-economic progress which alone could tackle the issues of poverty and deprivation in this country, without which the stability and growth “we see so desperately need will not be attainable”.

“The end of apartheid does not mean that all South Africa’s problems will be over. No political solution, however perfect, will work unless it is matched by a strong economy, which will in turn provide the funds for really significant social investment.”

He said in Cape Town alone, the population growth rate was already seven percent and 30,000 new jobs were needed a year to meet the expectations of a population which could conceivably double to five million by the year 2000.

“There is no easy or quick solution. Certainly the State, by ditching necessary fiscal disciplines and endangering longer term recovery, could produce projects calling for considerable employment.”

Mr Eric Iasy, the chairman of the Cape Town Job Creation Project, said: “Our initiative involves more than job creation. We are in the business of developing new entrepreneurs and creating new businesses.”
Govt acts on VAT delaying tactics

CAPE TOWN — Government took action yesterday to prevent companies delaying the purchase of capital goods until the implementation of VAT on September 30.

Finance Minister Bruce du Plessis said in a statement that government would allow companies to write off a greater proportion of depreciation costs in the first year to discourage them from delaying their purchases of capital goods.

He said government was concerned that firms would stop buying capital goods until a full credit for tax paid on capital and intermediate goods was introduced to coincide with implementation of VAT.

The financial authorities introduced an anti-avoidance clause in the VAT Bill to prevent companies from delaying purchase of capital goods and abusing tax benefits introduced by the payment of a full credit for tax paid on capital goods.

Deputy Finance Minister Theo Alant warned during the VAT debate that anyone who tried to use tax benefits for transactions that were not in good faith would be subject to the usual tax.

The concession announced by Du Plessis means that companies which purchase capital goods up to September 30, excluding passenger cars and hired cars, may write off an extra 15% to depreciation in the first year.

As firms may currently write off 29% a year for five years on depreciation, they will be able to write off 33% during the first year and write off the balance during the following four years.

Government said it was hoped that this incentive, coupled with the inflationary advantage of buying now rather than later, would help avoid delaying tactics.

An Inland Revenue official said that with company tax at 46% plus GST at 14%, the new concession would put actual tax cost to companies at 6.76%.

Opening debate on the VAT Bill, Alant said the new system had proved itself internationally. Thorough research had been done for SA conditions.

ZILLA EFRAT reports that Industrial Development Corporation (IDC) GM Louis Kingma said the move would roughly negate the GST paid on capital goods during the period until end-September.

Kingma confirmed that the IDC had come across cases in which investors had postponed their expansion plans in order to gain the advantage of not paying VAT on capital goods.

He said the new measure was a welcome step towards reversing such delays in investment.

Sasol economist Keith Lockwood said the move would benefit many manufacturers of smaller capital goods, as many of their customers might have delayed their purchases ahead of what could effectively have been a 13% saving.

Some manufacturers of smaller capital goods might have suffered severely from purchasing delays of up to six months, he said.

The move avoided a stop-start effect on the economy, ensured that local invest-

VAT 1991

ment went ahead and indicated that government had not changed its position on granting credits. “Ultimately cheaper capital goods should mean lower prices in the long term.”

However, Lockwood said it was unlikely that larger capital projects would have been delayed as this could have added to costs.

This was confirmed by some of the groups involved in large capital expenditure programmes.

Iscor acting public relations manager Ernest Webb-Stock said all of Iscor’s planned capex — R1.3bn for the year to June — had been committed, and there would be no delays in its capex programme.

A Sasol spokesman said his group had not planned to delay any of its capex programmes ahead of the introduction of VAT. “Most of Sasol’s projects are long-term and cannot be delayed without cost implications.”
Making industry lean and mean

A government-commissioned report on reshaping the protection of local industry by import taxes entails South African industry going on a nasty diet of international competition. Reg Runney reports.

AX reform to lower the company tax rate in South Africa is a cornerstone of a proposed new government policy to beat up industry to compete internationally. This is revealed in the just-published report by the Industrial Development Corporation on protection policy. The report, which is being studied by the government, has been released for comment from trade and industry.

The "Modification of the Application of Protection Policy" advocates a comprehensive package of measures, among them lower tariff protection, to shift the emphasis of trade policy towards export orientation.

It remains to be seen whether the recommendations make it through the gauntlet of vested interests it is bound to run. While it is certain to receive acclaim from most in the business community in principle, few will voluntarily welcome its tougher implications. Already there has been criticism that South Africa has a lot of disadvantages compared to exporting countries and the report's measures hold the danger of an elimination of South African industry rather than its enhancement.

It is as well that the long-awaited report warns against piecemeal adoption of recommendations, which are designed to ensure South African industry becomes competitive in international markets as well as being competitive domestically.

Key recommendations are the reduction of tariffs, scrapping of surcharges and a stable foreign exchange value of the rand. It recommends a general reduction in tariffs over the next five years towards target rates set to be determined, with higher tariffs being moved down faster than lower tariffs. It remarks that in other countries, tariff reductions have never taken place in less than five to six years and have often taken longer, so industrialists need not panic.

In the short term it recommends scrapping import surcharges - taxes introduced to protect the balance of payments in times of crisis - to slash the "import parity price level". Surcharges keep prices of some imports high, so that local manufacturers can (and do) price their competing goods accordingly. It recommends in the first year of the phased reduction a general cut in tariffs of 10 percent, and five percent points on all tariffs between 20 percent and 39 percent. It recommends a phasing out of tax incentives and export subsidies accompanied by a lower nominal company tax rate to stimulate exports. The report also suggests that tax incentives designed to help along particular projects which emphasise beneficiation - increasingly processing raw materials into products with a higher value instead of merely exporting them - are destined to be phased out next year. At the same time, tax-based export marketing allowances and an electricity subsidy will expire. There may also be lower export subsidies under the general export incentive scheme and in the long run the GEBI should be phased out.

The graph above shows the combined effect of high tariffs, import surcharges and an undervalued rand in protecting industry in South Africa against foreign competition. The black line indicates that between 1980 and 1983 protection even disappeared in some years because of the rand's overvaluation. Protection is now abnormally high.

"This abolition of assistance to existing beneficiation plants is acceptable because their profitability has been increased sharply by the devaluation of the rand." However, the report remarks that this doesn't apply to new beneficiation projects, which are hampered by South Africa's high nominal company tax rate. "Other countries where international companies could just as well establish these projects normally have nominal tax rates lower than those in South Africa." The abolition of export subsidies and the less favourable formula for working out depreciation also raise the local effective tax rate here.

The problem is compounded by high inflation, high interest rates and political uncertainty.

In view of this, the report notes, and declining earnings from gold, it is urgent to encourage new export projects as well as upgrading existing projects towards higher value added exports.

Tax incentives specifically for exports run counter to the General Agreement on Trade and Tariffs, with which South Africa as an exporter must contend. Also, lower company taxes will soften the blow to South African companies of a reduction in protective tariffs.

The recommendations conflict with ANC thinking on industrial policy. The ANC's last discussion document on the economy mapped out a policy of stimulating production of basic goods by domestic industry, and redistributing wealth to the poor to buy these goods. The IDC report stresses export orientation and notes South Africa is exceptional in using anti-dumping or formula duties - which penalise cheaper goods particularly and are designed to stop countries dumping goods on our shores at below cost to keep production volumes up or get rid of an excess.

Formula duties, however, lead to high tariffs and in some industries keep out low but normally priced goods. The report says if producing such low-priced goods needed for "industrialisation" fails, anti-dumping duties would push the price of basic goods beyond the means of many.
the prospects for industrial equities and suggests that the surge in the Industrial index reflects buyers’ anxiety of being left out of a market recovery. “This fear has superseded conventional investor logic, which would suggest that investment fundamentals do not justify present prices,” he says.

Safegro Unit Trust director Kevin Cockcroft is not wildly bullish about the industrial sector and says the depressed mining industry and sliding interest rates limit other opportunities. Most industrial groups are much better managed than during the recession in the early Eighties, he says; he expects selected industrials to deliver 15% growth.

Though Safegro pulled out of Barlow Rand and cut stakes in Rembrandt, Tollgate and SA Breweries, it jacked up holdings in industrial stocks from 38% to 48% of its portfolio, moving into Safren and buying more Anglovaal Industries, C G Smith, Tiger Oats, Afox and Rembrandt Bob.

Momentum had the biggest percentage exposure among general equity trusts to industrials, at 69% of its portfolio. Momentum Asset Trust MD Peter du Toit says exposure is likely to remain high. He believes government will have to stimulate the economy in the latter part of the year and adds that there is a serious shortage of investment opportunities. The fund built up holdings in SunBop and SA Breweries and moved into W&A (though Du Toit now calls that a mistake).

At the other end of the scale, UAL’s general equity trust cut investment in the sector by R21m, among other things moving out of Kenaf, NEI Africa, NEI Holdings, Robor Industries and Iscor. Contrary to the trend, but in common with general equity trusts such as Norwich NBS and BoE, liquidity rose.

UAL Merchant Bank senior GM Michael Eustace says these moves do not reflect a decision to limit exposure to the sector but are rather part of a shift in the portfolio mix. Liquidity is likely to come down to around 25% in the next six months as the fund moves into other investments — some of which will be in the industrial sector.

“The Industrial index has had a good run and is due to level out, but I doubt it will come off much,” says Eustace.

Similarly Metfund equity manager Hendrik du Toit says the value of the trust’s industrial holdings was maintained, as it was fully invested.

Sanlam increased the exposure of its Dividend and Industrial specialist funds to industrials, which make up more than 40% of the portfolios of its two general equity trusts. Senior portfolio manager Stafford Thomas says that while the group is a strong supporter of industrials it has tried to maintain a balance and has probably retained a greater investment in mining stocks than most rivals. Some mining stocks, particularly in diamonds, still have much to offer, he says.

“The industrial market is still in a bull trend but I don’t think our exposure can go a lot further,” says Thomas.

With high liquidity no longer attractive as interest rates ease, portfolio managers are likely to channel increasing funds into industrials — last quarter’s R331m net inflow was the third highest ever. This in itself could bolster the sector.

Simon Gathorne
SALE HOPES DASHED

A statement in February signed jointly by then Ministers Wim de Villiers and Kent Durr and Industrial Development Corp (IDC) chairman Koos van Rooy said the IDC was expected to expand its role as financier of industrial enterprises and mobilise its full financial resources to this end.

It added that assets would be realised to provide finance, triggering expectations that the IDC could soon sell some large investments. Such hopes, it seems, were misplaced.

No such sales are thought necessary immediately, and almost certainly not this year. In a presentation to the Investment Analysts Society this week, MD Carel van der Merwe listed the IDC's marketable investments — and explained the obstacles to realising them with any urgency.

That in itself is no surprise. The IDC has never shown much enthusiasm about selling mature investments to the private sector. And, as was clear from the February statement, the purpose of disposals would be to provide finance; there was no indication that privatisation was the objective.

Van der Merwe adds that the IDC has never been limited so much by lack of finance as by a lack of project opportunities.

Listed holdings include 170m Sasol shares, with a market value of about R2,1bn; 30m Iscor (R580m); 144m Industrial Selections (R370m); 180m National Selections (R300m); 3m Sappi (R170m); and 15m Sentrachem (R84m). These total about R3,5bn, but, Van der Merwe points out, it is unlikely that they could be realised in a market as tight as the JSE without depressing prices.

The Iscor shares cost R609m, more than their current value, so the IDC would be reluctant to sell, particularly as it has undertaken to market the bulk of the shares as a pro rata rights offer, implying a discount to market value. "At the price the IDC would like," says Van der Merwe, "the offer might be one an Iscor shareholder could refuse."

The IDC also feels that its overhang has depressed the Sasol price, which at about R12 is thought by some analysts to be well below value. But this of course is circular — as long as the market thinks the IDC shares may be sold, the discount may continue.

A problem with such a large rights offer is that four or five institutions would have to take a large portion. The IDC hopes to find other solutions, which could arise when State pension funds enter the equity market.

Sappi and Sentrachem are relatively small parcels that could easily be placed. But these are seen as important "partnership" shares. Though the IDC controls Indel and Natseel it has limited room to manoeuvre with these.

The big unlisted holding is Foskor. Van der Merwe says any decision to sell would have to be taken by the State, as this would be in the nature of privatisation. The IDC feels that Foskor is not suitable for widows and orphans — it is a single product company, operating in difficult, cyclical markets (sounds just like a gold mine).

Van der Merwe reckons it could fit well in diversified institutional portfolios. "You then enter the debate on the concentration of economic power, and other politically sensitive subjects, so it's a difficult decision."

The IDC has two large operating subsidiaries, Atlantis Diesel Engines and Sapeko. The former is not doing well, is being restructured and is not expected to be a candidate for sale of control for many years. The latter, an agricultural development arm, is not deemed suitable for sale because, while it yields positive returns, there is no potential for adequate cash yields to private investors — though that surely depends on the price.

Borrowings and cash flow will remain the first source of finance for new projects. Van der Merwe says sales will, however, have to be made if only a small proportion of the projects now being considered get the green light — but there is no clarity on when this point will be reached.

One or more of Van der Merwe's objections, if not put, could be applied to virtually any privatisation — or, indeed, most flotation. Any decent merchant bank could get around them in five minutes; some can be proved or disproved only by being put to the test. It should be more important to mobilise capital — in the process, making the JSE a more liquid market — than hold on to listed shares indefinitely, waiting for a "right" moment to sell — that may never come.

The whole performance smacks more of self-justification for refusing to dismantle an empire which the IDC really has no business to maintain than of economic logic.

Andrew McNulty
Big business warns on violence

By Michael Chester

Big business has renewed warnings to the ANC that the whole investment climate in South Africa has been badly damaged by the combination of its ultimatum to the Government and violence in black townships.

The warnings were delivered when the SA Chamber of Business (Sacob) held top level talks with ANC leaders at a 90-minute meeting in Johannesburg yesterday.

The business delegation was led by Sacob president John Hall and the ANC team by Walter Sisulu, chairman of its internal leadership corps.

Sacob said in a statement today it had expressed deep concern over the combined effect the ANC ultimatum and continued violence was having on business confidence.

It had stressed that if a favourable investment climate was to be created, it was essential that violence should be eliminated and that the political negotiating process should continue.

"Certain active proposals emerged from the discussions aimed at promoting reconciliation and negotiation, which will be further considered by Sacob and the ANC," it added.

Details were not divulged.
CAPE TOWN — The cost of imported capital goods will have declined by almost 20 percentage points by October this year — a development which will provide a vital incentive for capital investment in SA.

Until the beginning of this month, imported capital goods, such as industrial plant and machinery, were subject to a 10% import duty, a 10% surcharge and 13% GST on the total cost of the item.

In his Budget in March, Finance Minister Barend du Plessis reduced the import surcharge on capital goods to 5% and that on intermediate goods — consumables used in the production process — from 7.5% to 5%. These two concessions would result in an estimated loss to the fiscus (and a saving to the importers) of R759m.

When VAT is introduced on September 30, purchasers of capital and intermediate goods will be entitled to a full and immediate credit for tax paid on these goods — at an annual cost to the fiscus, and saving to commerce and industry, of R7,5bn.

Du Plessis took steps last week to prevent local buyers from deferring the purchase of capital goods until September 30 in order to benefit from the tax concession.

To encourage the purchase of capital goods, he announced that companies which bought capital goods between now and September 30 would, for tax purposes, be entitled to write off an extra 15% to depreciation in the first year.

"If you add the import surcharge and tax concessions to the benefits to foreigners of investing through the rand, we are virtually giving away opportunities to invest in this country," says David Bridgeman, CE of Wesgro, which promotes economic growth in the western Cape.

Bridgeman, who has hosted industrial and financial delegations from most countries in the world on fact-finding visits to SA, says it is vital for the country to offer incentives which enable it to compete with other countries for foreign investment.

Global investment has become increasingly mobile, identifying and flowing to the areas which offer opportunities for the best returns.

As an example, Bridgeman refers to a major international chemicals company which recently decided to locate a plant in SA but changed its mind and invested in Singapore instead because the country offered it 10 years' tax-free.

The Finance Minister stressed in his reply to the Budget debate last week that efforts to reduce company tax were also a crucial factor in the bid to make the SA economy more attractive to foreigners.
Trade-offs ‘could open can of worms’

Stern warning to govt over VAT changes

BUSINESS leaders have issued a stern warning to government that if it continues to bow to political pressure and softens the impact of VAT, it will irreparably damage the effectiveness of the tax and business confidence.

SA Chamber of Business (Sacob) senior economist Ben van Rensburg said yesterday government risked “opening a can of worms” if it made more trade-offs on VAT.

On Friday Finance Minister Barend du Plessis announced that municipal rates would be exempt from VAT. Earlier he announced a preferential write-off rate for capital purchases before the VAT implementation date of September 30.

Government’s handling of the new tax was sharply criticised by Parliamentary opposition parties and there were indications that elements within the NP had also resisted VAT on municipal rates.

Van Rensburg said VAT’s success depended on it being a “fully taxable” system, without exclusions, which would not be incorporated in businesses’ cost systems. One of its main attractions was that it would help to bring down inflation.

Van Rensburg, who has praised government for choosing efficiency at the risk of endangering political support in its plans for implementing VAT, said government’s priority was now to set its arguments in place to convince the community to accept the “claptrap” system. If government was to show flexibility, it should be on the VAT rate, even if other routes had to be found to make up lost funds from a lower rate.

VAT changes

Government hopes the breakdown on rates will be enough to neutralise or split opposition to the Bill and allow it to pass into legislation without further retreat.

Both the DP and the CP have vowed to keep up the pressure and force more concessions, particularly on the 12% rate at which VAT will be introduced.

Early on Friday there were rumblings in Parliament, including from many NP MPs, that government had underestimated opposition to the Bill.

Vatcom members said arguments against VAT on rates had not been strongly

MATTHEW CURTIN
AND BILLY PADDOCK

Sacomb’s chief concern was that government would end up with a crippled VAT system. The business community was already making investment plans based on the implementation of VAT as it now stood and counting on the benefits derived from the demise of GST.

Van Rensburg said as SA prepared to return to the international business fold the reduction of import surcharges and the institution of VAT were “a badly needed shot in the arm” to make SA more competitive and stimulate foreign investment.

The government had rejected Vatcom’s recommendation that VAT on capital goods be phased in because of the problem of definition. Capital goods were already defined differently for income tax and GST purposes, and if VAT was subjected to the same scrutiny it would only increase uncertainty surrounding the tax.

He said providing VAT exemptions for municipal rates and taxes would be open to abuse or make consumers pay more for the services, rather than pay VAT, as local authorities passed on as costs the VAT they had to pay on inputs.

No amendments to the VAT Bill are possible at this stage and it has to be accepted or rejected in its totality as introduced in Parliament. Because of this, separate legislation will apparently have to be submitted to exempt rates from VAT.

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VAT changes

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submitted by anyone and they believed the arguments from municipalities had arisen only recently after ratepayers realised what affects VAT would have on them.

According to MPs and commentators, the Bill united political parties against government in a way not seen since the inception of the tricameral system.

NP caucus members who had problems with the Bill said the United Municipal Executive had a large constituency and considerable political clout, and they were concerned that when they returned to their constituencies they would not be able to sell VAT.
Raw deal doled out to commodity producers

LONDON — The all-items commodity-price index (which excludes fuels), published by the Economist is at a record low in real terms — almost 50 percent below its recent 1988 peak.

Other commodity-price indices, such as the one calculated by the IMF which uses different weights, show even bigger drops in real terms over the past two decades.

But few statistical series claim so long an ancestry as the Economist's index. This newspaper first published an index in 1949, initially to highlight the rise in prices after gold was discovered in Australia and California.

Good news

The collapse in commodity prices is good news for industrial economies, as it helps the fight against inflation. But cheap commodities add to the woes of those developing countries struggling to introduce economic reforms and to service their debts.

Low commodity prices constrain their investment and growth. The OECD calculates that real GDP a head grew by an average of only 0.2 percent a year between 1965 and 1987 in poor countries which depend on non-fuel commodities for at least 50 percent of their exports, compared with average growth of 2.7 percent in all developing countries.

If commodity prices regained their average real level of the 1970s and 1980s, then (ignoring any volume changes) the export revenues of poor countries which are non-fuel-commodity exporters would be a third higher.

Bounce back

For food-exporting poor countries the best hope for a recovery in price lies with the rich. If (a very big if) rich countries cut back farm protection and subsidies significantly, world grain and meat prices, for example, would bounce back.

The prices of many other commodities, particularly metals, have been depressed by over-capacity created by heavy investment in the early 1980s when prices were high.

While prices may pick up over the next couple of years, there are reasons for expecting the long-term slide in real prices to continue.

The shift within developed countries from heavy industrial to computer and service businesses means that a given increase in GDP produces a smaller increase in the demand for basic materials.

Meanwhile, demand in developing countries will remain constrained by low incomes.

Technological advances have both increased supply (eg, higher crop yields) and cut demand thanks to cheaper substitutes.

- Artificial sweeteners replace sugar; plastics replace metal; fibre optics replace copper wire, and so on.

Thanks to these two trends, the world today uses about a quarter less copper a unit of GDP than 20 years ago, 40 percent less iron ore and 50 percent less tin. And that demand is lost forever. — The Economist.
Black business 'ready to boom'

THEO RAWANA

BLACK business has the capacity to develop into a massive wealth and job-creating machine, believes Foundation for African Business and Consumer Services (Fabcos) general secretary Joas Mogale.

"The British 'grandlords' still command 80% of the economy and the Afrikaners have consolidated their muscle through 40 years of National Party rule," he said in an interview.

Fabcos, an umbrella body of 13 business organisations representing 1.2-million individual businesses, seeks to mobilise black business forces, Mogale said.

"We believe that, given the opportunity to realise its potential, black business has the capacity to develop into a massive, self-generating process — triggering an economic cycle on a scale that will cut across the entire spectrum of income and work-creation among South Africans."

Fabcos will hold its three-day AGM at the Muzeec centre from May 4 and, in line with its policy of non-affiliation to any political grouping, has lined up speakers from a wide political spectrum.

Speakers will include ANC international affairs director Thabo Mbeki, PAC deputy president Dikgang Moseneke and Institute of Multiparty Democracy president Oscar Dlamini.
Consumer markets are set for a change.

A COMBINATION of a deregulated competitive environment, growth in black buying power and the return of the multinationals will alter the nature of business in local consumer markets in the '90, says Perry & Associates MD Neil Ross.

“The informal sector has developed as a direct consequence of deregulation — but the established captains of industry and commerce do not understand how it operates or how this can be used to their companies’ advantage.

“For instance, white businessmen need to understand black ways of doing things, and the functioning of the burgeoning black distribution networks.

“It is not enough for white businessmen to be aware of such developments as spaza and stoekwells when the integration of their business with the informal sector can give them a competitive edge in the new SA,” Ross says.

Much has been said about the size and importance of the black market — but Ross says it will be...
Use your cash, business told

CAPE TOWN — South African conglomerates and insurance companies were sitting on a pool of cash and their wait-and-see attitude was counter-productive to economic growth, Henrie Bekker (NP Jeppe) said yesterday.

Speaking during the debate on the Finance Vote, Bekker said it was time for capital investment to get the economy going.

He said a lesson could be learnt from post-war Germany and Japan.

"Their economies were virtually destroyed, but with their determination and with an export-oriented policy, they have built up their countries into the present economic giants."

SA should become part of existing trade blocks, he said. — Sapa.
Johannesburg and the PWV region — backbone of the SA economy — should not be excluded from regional industrial incentive programmes as they have been in the past, outgoing Johannesburg Chamber of Commerce and Industries (JCCI) president Jonny Frankel said yesterday.

A new industrial incentive package was currently being negotiated and the PWV again would not qualify for any incentives for further investment development, Frankel said at the JCCI annual general meeting in Johannesburg yesterday.

But Johannesburg deserved to benefit even more from the implementation of those policies because of its strategic importance and indispensable position as SA's key generator of economic growth and jobs.

A new policy approach was needed.

Frankel said rural regional development should not be ignored but regional development should be for the welfare of the people and concentrations of people, and not for the welfare of places.

Zilla Efrat reports that Regional Development Minister Amie Venter said the national regional development programme, now being compiled, would be released in the next few months.
Hani accuses Anglo of crime against SA

By David Braun

WASHINGTON — Anglo American Corporation had committed a crime against the people of South Africa by keeping its workers in squalid conditions while reaping profits, Chris Hani, a member of the national executive of the ANC, as said in the US.

Mr Hani told the National Press Club in Washington yesterday that in spite of Anglo’s accumulation of profits, the company had built housing for its workers which was not fit for animals. Its discriminatory conditions and labour practices were terrible.

A future South African government would have to set up guidelines for companies in this regard.

They would be allowed to take their profits, but they would also have social obligations.

Mr Hani said South Africans were discussing their country’s future economic programme. Even the non-Marxists agreed something had to be done about redistributing the wealth in the country.

Everyone was entitled to at least three meals a day, to shelter that was not a squatter shack and access to education and medical facilities.

He said he did not think South Africa should be looking for models elsewhere in the world.

The Afrikaners had nationalised sections of the economy in order to uplift their people, and equally today the blacks were emerging from disastrous poverty and needed to do the same.

The ANC certainly wanted to nationalise industries such as Eskom, Iscor and Sats, but at the same time it wanted a mixed economy. In doing so, it wanted to avoid the mistakes of Eastern Europe and Africa.

However, the government had to ensure Mr and Mrs Average also had a slice of cake, he said.

Mr Hani said the ANC wanted to assure whites that nationalisation did not mean their houses would be grabbed. Simplistic people believed the ANC was going to be rushing to grab people’s cars and houses. Every South African would retain his or her private property, he said.
Industry incentive plan will benefit W Cape

Political Staff

A NEW five-year programme by the Economic Community of Southern Africa will provide a major boost to coastal areas, including the Western Cape, and other regions.

The Ecosia states are South Africa, Transkei, Bophuthatswana, Venda and Ciskei.

The programme is to replace the controversial decentralisation measures on May 1.

Key benefits of the new system — an establishment grant and profit-based incentives — will apply partly to regions around the Western Cape, PWV and Durban and fully to all other parts of SA and the homelands, except the PWV and Durban’s core.

The incentive package replaces the cost-related subsidies to companies in the 43 decentralised industrial regions.

Regions around the PWV and Durban and the entire Western Cape will qualify for 80% of the establishment grant and 100% of the output-based incentive. All other regions, other than the PWV and Durban’s core, will get 100% of both.

Govt plan for better economic structure — Page 7
Need to invest in manufacturing industries in SA

By AUDREY D'ANGELO
Business Editor

SA should invest in manufacturing industries rather than in office blocks and shopping malls, Christo Nel, an executive director of FG Bison, told the Insurance Institute of SA at its annual conference at the Cape Sun yesterday.

He told delegates it was "crazy" that SA should be de-industrialising at a time when jobs were urgently needed.

Goods like hotplates were manufactured in the Far East from SA steel, using SA coal, and then exported back to this country.

Instead of being used to build factories where raw materials could be benefitted by the SA workforce, money was being invested in office blocks and shopping malls which did not create wealth "but just shuffle it around".

It was also "crazy" that, although SA had a 30% over-capacity to produce electricity, 70% of township dwellers were still without it. The money spent on Mossgas would have been sufficient to electrify all township houses, giving their occupants a "quantum leap forward" in quality of life.

Electricity was a cheaper fuel than coal or paraffin and refrigerators would enable black people to buy food more cheaply, in bulk, from supermarkets instead of expensively from their corner cafe.

Nel blamed the present violence on overcrowding in townships and the fact that black family life had been broken down and the authority of the father figure undermined, either because he was absent for most of the time or because he had been seen by his children to be degraded.

Discussing the problem of over-population, he said the "best contraceptive is a rising general domestic expenditure (GDE)."

The average size of white families had declined dramatically over the past three generations as wealth increased and the standard of living improved. The same thing would happen to blacks.

But, stressing the need for both redistribution of wealth and economic growth, he said neither could succeed without the other.

The process of "trickling down" would not happen in SA because the poorest people could not escape from the poverty trap without help.

What was needed was "a virtuous self-reinforcing cycle" of interdependence.

Redistribution of wealth required growth, growth required investor confidence, investor confidence required stability, stability required perceived justice, perceived justice required social investment, "social investment requires redistribution of wealth and so on."

Nel said he had hope for the future of this country because it had been discovered that if whites and blacks, even of extreme views, talked to each other as people in the workplace and discovered they had similar problems and needs hostility disappeared.
Assist blacks to advance - Viljoen

BIG corporations should investigate ways of promoting black economic advancement, the Minister of Constitutional Development, Dr Gerrit Viljoen, said yesterday.

Addressing businessmen in Cape Town, Viljoen said if South Africa were to grow into a regional and international economic power, black people would have to be part of such a base.

He said one of the greatest concerns was the lack of black people’s participation in the economy.

As a starting point, big business should consider intensifying and accelerating advancement programmes for blacks.

The public service also had a responsibility to recruit and train “people of colour”.

“IT is realised that power sharing resulting in a majority of black faces in political structures would have to be reflected by more black faces in important places in the civil service,” Viljoen said.

The Government's economic reform initiatives must be supported by a commitment by big business “to inform the broad community of their merits and by the creation of economic opportunities through the allocation of resources”.

He said black politicians had refused to accept the principle of maximum economic growth as a means of addressing disparities in South African society.

It had been argued that the Government and the private sector wanted to accelerate the economic advancement of the poor responsibly.

Because of this, it must be made clear to communities “what constitutes a realistic, yet sustainable social responsibility for the business sector,” Viljoen said.

Black economic empowerment, accelerated advancement programmes and black leadership in economics could happen without a threat to the existing “positions of merit” in the private and public sectors, he said.

By ISMAIL LAGARDIEN
Political Correspondent

Dr Gerrit Viljoen
Union once again rejects wage offer

THE National Union of Metalworkers has rejected its fresh talks - a wage offer by employers in the motor vehicle and tyre manufacturing industries.

In the motor vehicle industry increases ranged between 70c for unskilled workers to R1.35 an hour for skilled workers. Tyre industry employers had offered increases of 11 percent of the actual earnings, according to a union statement.

"During the weekend shop stewards from both sectors reiterated the rejection of these offers," the statement said.

Talks will resume next week in a bid to find a compromise settlement on wage and conditions of employment."
When government instructed the Industrial Development Corp (IDC) earlier this year to "concentrate on assisting medium-sized and smaller enterprises," the message was loud and clear for the Small Business Development Corp — a turf war was about to begin.

Even though the announcement stressed that the IDC would limit itself to projects that "fall between the large groups and those served by the SBDC," the SBDC had no doubt that its territory would soon be encroached upon.

At the time, SBDC MD Ben Vosloo admitted there could be some overlapping between the two bodies (Business February 15), but SBDC officials are saying little about the situation now. Make no mistake, however, the battle lines are being drawn.

IDC GM, industrial finance, Jan de Bruyn denies that any overlapping will occur. But he confirms that the IDC — whose traditional role is to fund large-scale industrial projects — will consider any applications received from small industrialists, without necessarily referring them to the SBDC.

Forming the background to the conflict is SA's worsening unemployment problem and low economic growth, as well as the impact that crime, unrest and political pressures are having on foreign investor confidence.

The SBDC is regarded as being the most successful government organisation at creating jobs at the lowest cost. But the IDC says it's starved of funds, while the IDC sits with billions in unrealised assets. In the March Budget, the SBDC received a R75m handout from government, far less than it believes it needs. The Development Bank of Southern Africa on the other hand, which mainly funds rural infrastructure projects, will receive R1bn over the next two years from the sale of IDC assets.

Unquestionably, the SBDC feels that it is being sidelined. This could be because it has less clout and a lower political profile, the result of its less spectacular development work.

The announcement in February sharply outlined the threat to the SBDC. In a statement, the late Minister of Economic Co-ordination Wim de Villiers and then-outgoing Trade & Industry Minister Kent Durr told the IDC to "expand its role as a financier of industrial enterprises and to mobilise its full financial resources to this end." They added that "this development task will require an increasing commitment by the IDC because this category of enterprise (medium-sized and smaller) can make a significant contribution to generating employment."

But the IDC seems unprepared for this larger role. It mainly consists of a head office staff that focuses on large investment projects and funding. The SBDC, on the other hand, has developed a countryside network to serve its thousands of clients and has hands-on experience in providing follow-up and training services.

De Villiers and Durr estimated that the IDC "should be able to mobilise R10bn over the next six years for investment in industry," and that this could lead to a "total investment of R30bn in the industrial sector."

But giving the IDC carte blanche to expand into assisting smaller enterprises (utilising its massive funding) could push the SBDC out of its most profitable area. The SBDC's viability depends on its funding of formal business enterprises, which allows it to finance the high-risk informal sector.

The SBDC fears that by allowing the IDC to move on to its terrain, it could be left with only the unprofitable informal sector. So the SBDC argues that it, too, should receive a huge funding boost from the IDC.

But, says the IDC's De Bruyn, it is not for the IDC to determine whether it should fund the SBDC — that is government's decision.

With the focus on the IDC and the R1bn grant to the Development Bank, it appears that what is at stake is a choice between targeting development financing on maximising job creation and economic growth at the grassroots level, or on huge industrial and infrastructure projects.

The first option — the SBDC's speciality — is less sexy, but appears to create more jobs less expensively. The second option absorbs mammoth capital resources but may render a meagre crop of new jobs.

For example, over the last 10 years, the IDC lent R7bn and says it created about 280 600 jobs at a cost of R3 600 per job. By contrast, the IDC, in its 1990 financial year alone, approved a record amount of R660m for industrial financing, creating only around 9 400 jobs at a cost of R70 000 per job.

When Nedtravel and Travelink joined forces this year to launch SA's first discount international air ticket agency — Just the Ticket — they invited the travel industry to a kick-off lunch to celebrate what they hoped would be the advent of a new era.

Nedtravel MD Gordon Young and Just the Ticket MD Bob Williams asked the airlines to sell them spare capacity at cost. They could then sell tickets to the public at a large discount. The timing seemed perfect. Faced with an unprecedented slump in air travel due to the Gulf War, it seemed the airlines could only benefit from giving travel-starved South Africans cheaper tickets through the services of a consolidator such as Just the Ticket. But the hosts were in for a shock. The airlines asked just the ticket personnel to leave the room; they then debated the proposal behind closed doors and rejected it.

Nevertheless, Just the Ticket went ahead, offering the public discounts on overseas fares to about 40 destinations (Business March 1). SA Airways and British Airways announced their own discounts and the travel agents feared that the price-cutting could put them out of business.

Two months later, however, Just the Ticket has still not been able to convince the airlines to turn over their unsold tickets at bulk discount rates. Williams has sold his shares and will leave the fledgling operation at the end of the month to run two other travel businesses. But he denies that Just the Ticket is in trouble. "Just the Ticket has exceeded expectations. We have met our budget for the past six weeks and the amount of phone calls we receive — some 750 a day — indicates that there is a big market for discount tickets."

New MD Kevin Ramsley says the intention is still to establish a consolidation service for airlines to dispose of excess tickets. "At present, we operate on narrow profit margins. We pass on some of our 9% commission from the airlines to the customer, and we have special (consolidation) deals with a few airlines. But the true potential of a discount operation depends on the co-operation of a broad spectrum of airlines that allow us to sell at discount rates."

Just the Ticket is known to be buying in bulk from at least two of the smaller airlines, Altitia and TAP, but the larger airlines —
Taking in the sights . . . businessmen and politicians tour Alexandra. From left in the front row are Avroy Shlain, Tom White of S C Johnson Wax, Sandton MP Dave Dalling and civic organisation leader Moses Mayekiso.

Picture: Ken Oosterbroek.

Businessmen taken on tour of Alex.

By Julianne du Toit

High-powered businessmen were urged to open their chequebooks and mobilise their resources for the community of Alexandra as they toured the township in a minibus yesterday.

Moses Mayekiso, chairman of Alexandra Civic Organisation (ACO), hosted the tour, which was aimed at eliciting promises of money and involvement in the community from the various chairmen, managing directors and presidents from a wide variety of companies.

Celebrities on the tour included Democratic Party MP for Sandton Dave Dalling, the mayors and mayoreases of Sandton and Midrand, recently released detainee Mzwanele Mayekiso and ACO executive member Richard Makoane.

Chris Aitken, who was involved with the Alexandra Development Fund and now with the Eden Trust, said he realised that budgets were under pressure.

Tom White of S C Johnson Wax, who sponsored the tour, urged businessmen not just to give handouts but to become involved with the community and consult community leaders.

Mr Mayekiso suggested that a forum of employers could possibly become involved in the development of Alexandra.
‘Hive’ system pays off for operators

MANY promising small black businesses fall by the wayside because they cannot afford to move from the home or the backyard to commercial offices or industrial space.

The prospect of paying for fittings and equipment, long leases and of having staff there to handle inquiries while the entrepreneur visits customers, often proves too daunting for the budding small business sector.

These problems came to the attention of many sympathizers of the small businessmen when the high level of unemployment and the crippling economic circumstances in South Africa's black community took their toll.

An urgent need arose to speed up the advancement of small manufacturers and an innovative and creative solution was required. The one that was arrived at was the one started by the Small Business Development Corporation, through its “hive of industry.”

**Concept**

The hive concept has been duplicated throughout the country and is seen as one of SBDC’s most successful industrial initiatives.

To date there are 25 such hives throughout the country.

One such hive is the one that the SBDC has temporarily structured in the Central Business District of Johannesburg to the tune of about R10 million.

It is expected to house more than 250 small entrepreneurs from the Witwatersrand.

The Sowetan Business visited the new “hive” and found 50 small entrepreneurs who manufacture and do an assortment of jobs, including welding, fashion designing, car repairs and rebuilding old cars; clothing; electronics; upholstery; florists; cupboards and kitchen units.

This unique hive, unlike others, will have a shopping mall where the small business will display, as well as sell, their products and make contact with customers.

The “hive” concept works not only because small manufacturers can rent their premises at low rentals, but also because they share sales facilities such as welding machines, mechanised saws and other carpentry equipment at relatively low cost.

“The beauty of the concept is that we can recycle disused factory buildings, old showrooms, railway sheds and even old jail buildings and fit a large number of small contractors into individual “hives” at a very reasonable cost,” according to the manager of financing and support services, Mr Terry McLaughlin.

One such example is that of the six members of Mmasakane Women’s Club who started their businesses in the townships.

As a result of the problems they encountered at their homes, they decided to rent a site jointly at the new city “hive”.

One of the members of the Ikageng Women's Club, Mrs Maria Letsoalo, at her unit.

ABOVE: Executive members of the National Taverners Association standing at the door of their newly-opened Moffo offices in Soweto. They are Mr Oupa Moloung, Ray Mollison, Mr David Hlatshwayo and Mr Peggy Senne. Below: Mr Ray Mollison celebrates with some of the Taverner's logistical staff.

PIC: MBUZENI ZULU
Minister urges business to change attitudes of blacks
THE GOVERNMENT'S failure to make clear rules for taxing profits on share dealings has helped push the industrial share index to a record high, say brokers.

"The index hit 355 points on Friday for a gain of 34% since last October," says David Meades of Meades De Klerk. "Many people are holding on to their shares because they do not know if they will be taxed on the profits they make if they sell."

"I have a client who bought shares for R130 a piece last year," says David Cobett of Simpson McKie. "He wants to sell now, but fears he may be taxed because they are now quoted at R216."

**Receiver**

The confusion over tax has arisen because the Government has not yet given guidelines to distinguish between someone who buys shares in the expectation of selling at a profit in the short term -- he is classified as a dealer and therefore taxed on his profits -- and an investor who manages his portfolio to maximise his long-term gains.

All that is known for sure is that the Receiver will not tax profits on shares sold after they have been held for at least 10 years. There is less clarity on the tax implications of dealings with shares that have not been held that long.

Mr Meades says that, by world standards, the value of companies traded on the JSE is a small percentage of total market capitalisation.

Quoting from a recent presentation by the Old Mutual, Mr Meades says shares are so tightly held that it would take an investor between three and six months to acquire R10-million worth in companies such as Nedcor, Liberty, UBS, Amic, AECI, Sappi and Safren if he were able to get 25% of those shares coming on the market.

"It would take between 12 and 18 months to build up a similar position in companies such as First National, Stanbic, Fedlure, Murray & Roberts, Premier, Pick n Pay and TSL.

"It would take more than 18 months to do so in NSS, Volkskas, Afror, Dorbyl, Ellerine, McCarthy, SA Druggists, Consol, Edgars and Pechini.

"There is such a shortage of scrip that Sappi's share price hit an all-time high even though it reported a 36% drop in earnings earlier this month," says Mr Meades.

Mr Cobett says: "SA Breweries is a good share, but its price seems high because it will soon face competition in bear.

Other factors in the market's rise are: strong institutional cash flows, a dearth of rights issues, an improved political outlook and better economic prospects. Lower inflation trends have given hope of further interest rate cuts in the next quarter.

Consolidated Fund Managers says the fact that few big right issues are likely soon will put more pressure on fund managers to buy industrials.

"Gold shares are no longer in fashion," says Sandi senior general manager Ronnie Mason. "So a lot of institutional money is flowing into industrials. Industrial shares are becoming expensive, but I do not expect a crash -- perhaps a minor correction.

**Nervous**

"Foreigners have for some time been net sellers of SA stocks, but recently it seems that some are shifting out of golds into industrials. Others, who have never done so before, are asking about industrials.

"It is perhaps because they are considering investing in SA, but are still nervous about setting up their own factories here. They are dipping their toes in the waters by buying shares that they can get out of at short notice."

Mr Mason says the gold index was higher than the industrial index before the October 1997 crash, but the opposite is now true.
Govt could lose R1.5bn in GST if companies delay capital spending

GILLIAN HAYNE

GOVERNMENT could lose up to R1.5bn in GST revenues if companies delay their capital purchases until after the introduction of VAT, tax experts say.

And, they add, the 15% deduction allowance, announced by Finance Minister Barend du Plessis to encourage companies not to postpone their capital good purchases, is not a sufficient incentive for companies to continue buying under the GST system.

Coopers Theron du Toit tax adviser Andries le Roux said: "It does not really seem a worthwhile incentive for accelerating such purchases."

He said in the final analysis it would probably be left to the vendors of capital goods to find practical ways of convincing their buyers not to delay capital purchases through rental and lease transactions and other innovative means.

However, one tax expert warned that companies choosing the rental route stood the risk of having the scheme attacked as having insufficient substance.

In other words, Revenue could declare the scheme a disguised sale and as such the company would have to pay the 13% GST. It would also risk being fined 10% a month on the unpaid GST and it would lose the 15% depreciation option.

Another tax expert defended the use of rental schemes saying: "As the law stands now, rentals with an option to purchase are not shams. As long as they are carefully drawn up Revenue will not be able to attack them — unless specific anti-avoidance legislation is introduced."

Le Roux explained that the 15% deduction means the enterprise will deduct an amount equal to 15% of the cost price of all capital goods purchased before September 29 1991 and thereafter also apply the normal wear and tear allowances.

The deduction is therefore comparable to the initial allowance that was, and in certain circumstances still is, allowed as a deduction. A further implication is that the deduction will be taxable once the capital asset is sold above or equal to its cost price.

"It is clear the concession is nothing more than an acceleration of depreciation," Le Roux said.

In fact, in terms of current Income Tax provisions, a company buying R100 000 worth of capital goods before VAT, will be R8 769 worse off over a five-year period.
Turnaround planned for cash-strapped NCI

DESPITE market speculation that New Company Investments (NCI) has serious liquidity problems, chairman Mike Clarke remains optimistic about the group's future. "There is no disputing that times are tough, but this venture capitalist is not running away."

Clarke said at the weekend that the group would be embarking on a very specific turnaround strategy. Details of the strategy were not disclosed by Clarke, but letters would be sent to shareholders this week.

The group's last interim report showed a net loss of R3.5m for the six months to end September 1992, resulting in an accumulated loss of R12.4m.

The JSE has been a major stumbling block in NCI's growth path. Clarke maintains that the JSE's rules and regulations make it virtually impossible for NCI to get an underwriter for a rights offer.

He said the JSE had come to a point where a major attitude shakeup was necessary. "The JSE has degenerated into a vehicle that no longer encourages entrepreneurship but instead promotes risk aversion."

The share has not come close to its 23c high in June last year after contradictory market rumours pushed the share down to well under 10c. It moved from its 1c low to 2c on Friday.

Initially, shareholders perceived that the share would reach 40c-50c after listing, and tried to persuade the market to rate the share by feeding the market with information, Clarke said.

He said his agenda was long term, and he did not want to hype the share before NCI consolidated its businesses.

Clarke said because the share never performed to expectations, resentment became apparent among those shareholders. This resulted in other, mostly inexperienced, shareholders being phased by anonymous sources claiming to have inside information about NCI, causing the share price to fluctuate in recent months.
Three-month trial phase for proposed JSE second-tier index

THE JSE research department's proposed second-tier index will be put on a three-month trial phase beginning next month, said spokesman Reiner Buss.

He expected the index would come on line by the beginning of September with no additional costs passed on to JSE members. However, it would also have to be put before the JSE's general committee for approval.

With over 80% of the market's total capitalisation tied up in about 77 companies out of a total of 763 counters, Buss said keen interest has been expressed by brokers and investors to establish a reliable actuarial monitor on medium-sized companies.

The JSE overall actuaries index is driven largely by the true blue chip stocks, about 20 companies controlling over 50% of total market capitalisation, which therefore determine the index's movement.

Although the response to the JSE's second-tier index proposal last month was generally positive, Buss said uncertainty on the selection of the companies represented in the index has come up, and the JSE has requested interested parties to submit recommendations. "I will be meeting with Johannesburg parties who responded, over the next two weeks."

Cornerstone

However, he added that the trial run, consisting of three different indices from the upper, middle and lower end of the market, based on market capitalisation, will be monitored until the end of August: "The final selection of 100 companies from these indices will then be chosen for the index."

Buss said the "cornerstone" in selection will be the marketability of shares. "The liquidity of the shares will have to be above the market average." The financial well-being and performance of the companies would also be a determining factor. However, he conceded that low capitalised companies would be automatically ruled out in the selection process.

While most brokers commented that the introduction of a second-tier index would stimulate both institutional and small investor interest in medium-sized companies, a senior partner at a leading firm felt it would just create confusion in the market. He said there are already two indices monitoring the industrial sector and a third would complicate the issue.

Furthermore, he said the existing indices are determined on a weighted capitalisation basis, which has also been proposed for the second-tier index, which distorts the true picture of the market. He also felt it would be a long time before the index would be accepted by traders.
Buoyant demand for capex loans

DEMAND for credit to finance capital spending has remained surprisingly buoyant in the face of recession and is set to rise further as sanctions go, interest rates ease and sales tax on capital goods is scrapped, bankers say.

Reserve Bank figures confirm the surprising strength of private sector spending on fixed investment in the face of a recession and high real interest rates. Private spending on fixed investment fell by only about 0.3% last year with an increase in manufacturing investment outweighing falls in mining and agriculture.

Fixed capital stock in the manufacturing industry rose by a strong 3% in real terms last year. This was the second year of increase after four years of decline during and after the last recession.

"Negative" factors underpinning private sector investment included replacement of labour with capital and the need to replace obsolete capital goods.

Some project finance divisions of the major banking groups report a doubling in facilities granted over the past year. These credit facilities are not taken up immediately but over the period of the project.

Apart from the Lesotho Highlands Water Project, other neighbouring states are also presenting opportunities for SA banks to provide finance for capital projects.

A Standard Bank spokesman said a "surprising" increase in project finance granted over the past year would be drawn down over the next 12 months, with a spurt of new demand expected when VAT was introduced in October.

He did not believe the recent measures to prevent stalling of capital goods purchases would succeed, as they meant an effective saving of 5% compared with 13%.

Demand for project finance was most buoyant in manufacturing and processing industries.

But, he added, smaller companies had put projects on ice and it was mainly the larger ones which faced long lead times that had continued to invest.

Finansbank's Montle Lloyd believed World Bank involvement in the southern African region would present SA merchant banks with opportunities.

Sanbank senior manager Andre Pieterson said the past six months had seen activity pick up in anticipation of the lifting of sanctions. Companies were investing in manufacturing equipment for exports. He also believed interest rates at their present levels would not work against capital investment.

Customs and Excise figures show machinery imports have been firm in recent months. Safco economist Bruce Donald said restraints suggested that there had been "substantial" replacement of unskilled manpower with machinery.
Genbel helps boost flagging Gencor

GENBEL, Gencor's investment arm, confirmed its position as the rising star in the group as six months of large transaction surpluses offset a 16% drop in Gencor's operating income and boosted earnings by almost 3c a share to 62.6c.

In the six months to end-February, attributable income from Genbel and investments rose from R176m to R231m, while attributable income for the group as a whole rose to R738m (R701m). In 1990, Genbel and investments contributed 29% of the group's income, a contribution which now stood at 45% at the interim stage.

However, Gencor executive chairman Derek Keys said that over the year "the level of operating income is likely to be in line with that reported during the first six months". Transaction surpluses would be modest in the next six months and earnings would fall below last year's levels (R1,46bn).

Keys said in a statement yesterday the upgrading of Genbel's portfolio in recent years was bearing fruit, and "together with substantial transaction surpluses arising principally from disposals of gold mining shares in July 1990, this resulted in a sharp rise in its contribution". In contrast, performances of most of Geminin's businesses were badly affected by lower commodity prices and a stronger rand.

The group's gold mining, platinum, and ferrochrome operations all suffered reduced earnings, and while TransNatal weathered lower coal sales volumes, attributable earnings from Geminin fell to R258m (R276m) in the interim.

Engen, the group's fuel and energy arm, and Malbak, which holds the group's industrial interests, turned in stable but relatively weaker contributions. Better refining margins in the wake of the Gulf war helped Engen improve earnings, but Keys said its contribution to Gencor was dampened by higher North Sea exploration expenditure.

Malbak pulled through the unfavourable local economic climate, and Keys said "profits at a pre-tax level showed a pleasing rise in the circumstances. Earnings on an increased number of shares were marginally higher".

However, Sappi's contribution to earnings fell by R53m in comparison with the first six months last year.

There would still be a "modest increase" in the year-end dividend, and the interim dividend was raised a cent to 15c a share.

Gencor Beherend, whose only asset is a 54.9% interest in Gencor, earned 56.6c (54.7c) a share in the interim, while its dividend rose to 13.3c (12.5c) a share.