Progress Report to the President of the Republic of South Africa on the Implementation of the Framework For South Africa's Response To The International Economic Crisis

AS AT DECEMBER 2009

SECTION 1: INTRODUCTION

1. The recession has been the biggest contraction in the South African economy since the advent of democracy. The recession has been marked by a sharp drop in employment, sales, exports and capacity utilisation in industry. According to StatsSA, a total of 959,000 jobs have been lost since January this year. The economy is projected to contract by 1,9% during 2009.

2. In December 2008 the social partners that comprise the Presidential Economic Joint Working Group, namely organised Labour, Business and Government, met to consider how South Africans should respond collectively to the more difficult economic conditions we face, largely as a result of the international economic crisis. Following discussion between the social partners and government, the 'Framework for South Africa's Response to the International Economic Crisis' was tabled and endorsed at a special Presidential Economic Joint Working Group meeting, which included Community representatives, held on 18 February 2009 at Tuynhuys in Cape Town.

3. Social partners acknowledged that all countries across the world were affected by the deepest and most serious economic crisis since the Great Depression, characterised by significant asset depreciation, closures of companies, rising unemployment and a sharp slowing down of economic growth, with most highly industrialised countries in a recession.

4. Like other developing countries which are strongly integrated into the world economy and significantly dependent on it for its good health, South Africa has been affected by the sharp fall in demand for its export products and the fall in prices of key export commodities. In addition, the international credit crisis has meant that funds have become scarce and expensive and that portfolio investors are wary of emerging markets, including South Africa. The impact of these developments has been significant on the local economy.

5. Though the recession has ended, technically, growth will be lower than growth projections a year ago, at least for 2009, and 2010. This has potential implications for employment, investment, incomes, and on social programmes partly through the economic slowdown's effect on government tax revenues.

6. Social partners agreed that the country needs social solidarity between all South Africans to ensure that the crisis does not damage the fabric of our society. It was further agreed that it is social partners' collective responsibility to work together to withstand the crisis. and ensure that the poor and the most vulnerable are protected as far as possible from its impact

7. The broad principles governing the response include avoiding the risk of unfairly placing the burden of the downturn on the poor and vulnerable; ensuring that all our activities are aimed at strengthening the capacity of the economy to grow and create decent jobs during and beyond the crisis; maintaining the planned high levels of investment in public sector infrastructure and to encourage the private sector to maintain and improve wherever possible their levels of fixed direct investment and continue with Corporate Social Investment (CSI) programmes and adoption of targeted, tailored and timely interventions to address the impact of the crisis.

8. In line with the principles outlined above, parties agreed on the need for a bold intervention in the form of a broad stimulus package, as signalled in the 2009/10 budget, incorporating economic and social components.

9. Government and the social partners have responded with a range of separate and joint measures to deal with the impact of the recession on sectors, workers, companies and communities. Without these measures, the impact of the recession would have been more severe.

10. The Leadership Team entrusted with coordinating and overseeing implementation of the “Framework for South Africa’s Response to the International Economic Crisis” is able to report on key developments, impacts and challenges in this document.

SECTION 2: IMPLEMENTATION REPORT

1. MONETARY AND FISCAL STANCE

Extract from the Framework, paragraph 2.1 and 2.2

> *"Against the background of the Budget introduced into Parliament by the Minister of Finance, parties agree that fiscal and monetary measures are necessary and should be used aggressively where required to address the crisis. They should be used in combination and be aligned to each other in order to have the required impact. Significant resources should be provided for industrial policy interventions together with strong, robust use of accepted trade measures, to ensure that the crisis does not cause job losses in the real economy".*
>
> *"It is agreed that appropriate counter-cyclical measures should be used to stave off a recession and job losses and that the specific fiscal measures to do so should so far as possible coordinated with the other measures set out in this framework and be sustainable over the longer-term".*

Measures undertaken

a) Government has maintained a strong counter-cyclical fiscal and monetary policy stance and there has been a clear alignment between the two policy areas.

b) Since the start of the recession, government spending levels have been maintained in spite of a large drop in tax revenues. This has resulted in a sharp rise in deficit spending, in order to maintain liquidity in the economy. In addition, government has committed in the MTBPS to maintain and expand the real level of government spending over the next three year period.

c) Monetary policy has been the subject of public debate. During the period since the Framework was concluded, the Reserve Bank has held seven meetings of its Monetary Policy Committee. Interest rates were reduced on four occasions by a total of 350 basis points, through the following cuts to the repo rate:

   i. 100 basis points on 25 March 2009 bringing the repo rate to 9.5%

   ii. 100 basis points on 30 April 2009 bringing the repo rate to 8.5%

   iii. 100 basis points on 28 May 2009 bringing the repo rate to 7.5%

   iv. 50 basis points on 14 August 2009 bringing the repo rate to 7%.

2. INFRASTRUCTURE INVESTMENT PROGRAMME

Extract from the Framework, paragraph 1.1 and 1.2

> *"The public investment programme will include expanding and improving the road and rail networks, public transport, and port operations, dams, water and sanitation infrastructure, housing construction including low-income housing and publicly owned rental stock, information and communication technology and energy generation capacity as well as education and health infrastructure, and in the process create additional decent work opportunities whilst*

meeting the basic needs of society..."

"SA has announced a major public investments programme of approximately R787bn over the three financial years to March 2012. We believe that this programme much be maintained even in the midst of the current challenges, and that it should be implemented on an expedited basis where possible."

Measures undertaken

a) In February 2009 government announced a R787bn infrastructure programme. The social partners recognised that significant levels of public investment in infrastructure are a key means of responding to the downturn in the economy.

b) The infrastructure programme has entailed expansion of public energy, transport and social infrastructure. For example, the Medupi power station construction currently employs many thousands of workers. The stadium construction programmes have been a significant stimulus in 5 localities with total spending of R14,6bn. The improvement in public transport, include the rapid bus transport system has also contributed positively to employment. There is increasing local procurement and supplier development by SOEs associated with the infrastructure programme.

c) A number of challenges need to be addressed to increase the positive impact on the economy and employment from this program. Some of the challenges are discussed below and in certain cases substantial progress has been made:

   I. *Funding models:* It is agreed that an important challenge is to ensure that adequate funding is available to finance the infrastructure spending. A number of funding options exist.

The parties are engaged in discussions on a range of options including a possible development bond to be issued as an additional measure with the specific objective to mobilise resources for the infrastructure programme. Discussions are now taking place to explore these options further.

II. *Design issues:* Design of projects plays a key role in maximising employment and positive economic impact of a project. Feasibility studies can play a positive role in ensuring that the project in fact delivers on the desired impacts.

III. *Procurement practices:* Flowing from the design of the project, the procurement program and tendering practices can have a key impact on both the ultimate cost of the project and the desired outcomes. It is important to ensure that tendering is aligned with the project plan to achieve synchronisation of delivery.

d) *Competition issues:* collusive practices in key supply sectors to the infrastructure program contributed to high prices in some areas and to reducing the economic impact. The Competition Commission is pursuing investigations in parts of the construction supply chain comprising:

- Construction materials and infrastructure including cement, reinforcing steel, concrete pipes & culverts, plastic pipes, long steel, wire and wire products, wire rods, reinforcing mesh, mining roof bolts, clay stock brick and cement brick, hoses and water meters;
- Scrap metals;
- Contracts for infrastructure and of tenders for specific projects.

e) *Corruption:* Government has recognised that corruption reduces the impact of public programmes, contributes to higher than necessary costs and may also result in poor quality work which requires construction to be redone. All parties are committed to rooting out corruption.

3. TRAINING LAYOFF SCHEME

Extract from the Framework, paragraph 4.8 and 4.9

> *"Training and skills development need to be prioritised, quality improved and the learnership programmes enhanced. In addition to other measures to avoid retrenchment, one further option that the parties will consider is training layoffs, financed by the NSF and Sector Education and Training Authorities (SETAs), for workers whose employers would ordinarily retrench them and which can be introduced on terms that would keep them in employment during the economic downturn but re-skill them as an investment for the future economic recovery."*
>
> *"SETAs that are connected to the same supply-chain will be encouraged to work together and where feasible, to merge, to ensure that funds are utilised in the most labour-absorbing parts of a supply-chain and to reduce administration costs."*

Measures undertaken

a) South Africa has introduced its first-ever training scheme aimed at providing companies with an alternative to retrenching workers during a period of industrial slack caused by a recession. The scheme has been put together in record time – design, budgeting and the allocation of funding is complete.

b) A total of R2,9 billion has been mobilised, made up of R2,4 billion for training allowances to be paid to workers and about R500 million has been ring-fenced by SETAs for training costs. The scheme is now in its pilot phase of implementation which will run for 3 months. The rules provide for the training layoff to be applicable to employees who earn below R180 000 per annum. The Fund will be used to pay a training allowance to workers, pegged at 50% of the basic wage or salary, to a maximum of R6 239 a month. Participating employers will continue to carry the basic social benefit costs of employees during this period, which includes the costs of funeral, death and disability cover.

c) The training layoff can be accessed through the offices of the CCMA or through participating SETAs. Wholesale and retail, clothing and textile, chemicals, mining, metals and engineering Setas have held meetings with their stakeholders to disseminate information on the scheme.

d) The Training Lay-offs were incorporated into the CCMA's strategy and operations, 200 Commissioners were briefed on the training layoff and 37 of the most experienced Commissioners were trained across South Africa to facilitate training layoff applications and the scheme has been actively promoted as an alternative to retrenchments. The CCMA incorporated the Training Lay-offs into a holistic approach to preventing job loss. The Presidency, SETAS, the Department of Labour and other national departments, CCMA and members of organised labour and business have participated in many processes to publicise and promote access to the training layoff Scheme. A brochure has been produced by the CCMA to set out the rules of the scheme.

4. EXPANDED PUBLIC WORKS PROGRAMME

Extract from the Framework, paragraph 4.7

> *"The expanded public works programme (EPWP) is an important part of government's capacity to provide employment to those who are not absorbed into the labour market. Included in the commitments made were the acceleration of the EPWP Phase II and the role of NGOs, trade unions and CBOs in offering advice on priorities and in administering resources for and in running them will be promoted through Community Work Programmes."*

Measures undertaken

a) The Expanded Public Works programme is being rolled out and as at the end of the second quarter 223 568 verified number of work opportunities have been created.

b) As at the end of October 2009 the Department of Public Works reported to Parliament that a number of additional work opportunities have been created after the second quarter.

c) Included in the commitments made were the acceleration of the EPWP Phase II and the role of NGOs, trade unions and CBOs in offering advice on priorities and in administering resources for and in running them through Community Works Programmes. The Community and Labour constituencies are working with the Department of Public Works in this regard. The CWP was recently allocated a further R58.5 million in the October 27th adjustment budget.

d) It was agreed to review the wages paid to workers on public works programmes since the sectoral determination had not been adjusted for a number of years. The Employment Conditions Commission considered the matter. A recommendation for an adjustment of wages has been made by the ECC and will be forwarded to the Minister of Labour consideration.

5. SUPPORT FOR COMPANIES IN DISTRESS

Extract from the Framework, paragraph 3.5 (b;) 3.4 and 3.5(a)

> *"Government will convene urgent meetings with representatives of business and labour in distressed sectors to develop appropriate support measures, drawing on resources in the National Jobs Initiative as well as in the IDC."*
>
> *"That the IDC will – where possible – increase the level of its equity exposure in distressed sectors and will make increased working capital available to firms in large, labour intensive sectors."*

Measures undertaken

a) The IDC committed to raising the level of its equity exposure in vulnerable sectors where possible and making working capital available to firms in large, labour-intensive sectors.

b) The IDC established a R6,1 billion fund to assist companies in distress as a result of the recession.

c) Applications have been received from a number of companies and have been considered by the IDC. In a number of cases, the applications have been finalised and monies allocated to firms. Details of these are set out later in the Report.

6. SUPPORT FOR SECTORS IN DISTRESS

Extract from the Framework, paragraph 3.1 and 3.2

> *"A significant part of the national response to the global economic slowdown should be to rebuild local industrial capacity and avoid de-industrialisation during the period ahead. Crucial to such a strategy is the need to improve the competitiveness and performance of key local industries, particularly vulnerable sectors and of small businesses.*
>
> *Vulnerable sectors are those sectors with significant employment and labour intensity and where there are currently large planned or actual job losses and company closures...Sector specific strategies to address vulnerable sectors such as clothing, textiles and footwear, mining and the auto and capital equipment sectors, will be set up, with the urgent and focussed use of a combination of trade, industrial and social policy measures…to promote employment creation. "*

To date, sector packages have been developed for the auto and clothing & textile sectors. A sector package is being developed in the capital equipment, transport equipment and metal fabrication sectors. Details of these are as follows:

Automotive sector

i. A meeting of Nedlac's Automotive Sector Task Team and the Minister of Trade and Industry, which was held on 20 July 2009, resulted in an agreement dealing with a number of key issues. They recognised that there needs to be a substantial and rapid response to limit the loss of strategic industrial capacity and employment in the automotive sector in South Africa and reached agreement in relation to conditionalities for accessing state support. In particular, the parties agreed that all firms receiving state support should provide –

§ Reasonable sustainability strategies;
§ Commitments to do everything possible to save jobs;
§ Commitments to promote affordability of motor vehicles relative to other developing countries;
§ Commitments to environmental protection; and
§ A commitment to maintaining modest executive remuneration and shareholder returns.

ii. In particular, companies receiving crisis-related assistance "must commit to a moratorium on retrenchments for the duration of the assistance period": The rescue package for the auto sector provides, inter alia, as follows:

In the event of retrenchments being necessary for firm survival at the commencement of assistance, an agreement must be struck between management and labour at the specific firm on the level of such retrenchments. In order to facilitate such agreement, firms proposing such retrenchments, must provide independently verifiable financial and other relevant information …. Similarly in the event of a material change in conditions during the *assistance period where retrenchments become necessary for firm survival, an agreement between management and labour in a specific firm must be reached. (Automotive Industry Agreement on the Response to the Crisis, 23 July 2009)*

iii. In addition, the dti has agreed in-principle to include certain locally manufactured heavy industrial vehicles – which are both relatively labour intensive and generate high levels of local value addition – in the Motor Industry Development Programme (MIDP) and the Automotive Production and Development Programme (APDP). The scope of eligible products as well as the exact nature of their re-inclusion in the incentive is still to be determined.

<u>Clothing and textiles</u>

i. Business and labour stakeholders drawn from Bargaining Council representatives and the dti reached agreement on 25 March 2009 on the broad terms of an industry and trade rescue package for clothing and textiles that covers 12 proposals. Some of these areas – such as customs fraud and local procurement – are the subject of other processes of the Framework Agreement.

ii. *On trade*: Labour and Business from the clothing sub-sector submitted an application to the International Trade Administration Commission (ITAC) on 19 May 2009 to increase tariffs to the bound level on 35 articles of clothing. ITAC dealt with the application expeditiously, approving the increase in tariffs to the bound rate of 45%. A joint labour/business submission to decrease tariffs on three articles of textiles through a duty rebate was submitted to ITAC. ITAC introduced seven fabric duty rebates.

iii. *On industrial support*: a proposal on a production-based incentive has been developed by the dti and submitted to the social partners for their comment. It is intended that the proposed scheme address the need to improve competitiveness and performance in the clothing and textiles sector. The processes to finalise the issues are intended to be completed by end February 2010.

Capital equipment, transport equipment and metal fabrication

i. The *dti has agreed in pri*nciple to set aside at least R37.5m and R150m from its 2009/10 and 2010/11 budget allocations respectively as a dedicated incentive to promote the manufacturing of capital equipment, transport equipment and fabricated metal products linked to South Africa's infrastructure development programme. This fund, once operational, will be administered on behalf of the dti by the IDC.

SMMEs

i. SMMEs have been particularly badly affected by the crisis. In addition to the normal work undertaken by government support agencies, government has committed to ensuring payment to SMMEs within 30 days of invoice. On 23 July 2009, President Zuma committed to measures to ensure implementation of this commitment. One means has been to utilise the hotline.

- Since the launch on 21 September 2009, the Hotline has assisted 11909 callers with queries.

- 1821 of these queries were for non-payment incidents for government departments or public sector institutions and were logged with the Public Sector SMME Payment Assistance Hotline.
- 1627 of the incidents logged are currently being followed up on a regular basis with the relevant departments and public sector institutions.
- 34 non-payment incidents have been escalated to **the dti** and Seda due to a lack of cooperation from the departments or public sector institutions.

ii. The private sector is also investigating mechanisms to improve the payment cycle to SMMEs by larger companies

iii. The National Empowerment Fund has implemented a debt restructuring programme on its SMME portfolio of R400 million.

iv. The work on access to credit has resulted in a draft agreement to establish a technical assistance fund to facilitate access to SMMEs, new commitments by Khula towards small businesses and more flexible and supportive measures on repayment periods for small businesses. These commitments are now the subject of a mandating process and details are contained in this report.

7. CONDITIONALITIES FOR STATE SUPPORT

Extract from the Framework, paragraph 3.2, 4.2, 3.7, 4.11

"..Government will develop proposals together with Labour and Business in these sectors within four weeks to provide a rescue package to the affected industries. Such packages will include reciprocal commitments by companies of what they will contribute to turnaround strategies."…

"Organised business and its affiliates undertake to urge and encourage CEOs of companies to do everything in their power to avoid retrenchments as a result of the global economic crisis, and to instead invest in their people and modernise their productive capacity in order to avoid job losses and in anticipation of the opportunities that will emerge after the global economic recovery. At the same time we expect show that policies on the executive remuneration will show appropriate restraint."…

"All the social partners, including parastatals, will encourage local procurement of supplies, services and other requirements wherever possible in order to maintain and increase local output and employment levels. This applies particularly to the large procurement programmes attached to major public and private investment projects where cooperation amongst social partners can be employed to promote local suppliers. This will also include procurement of pharmaceuticals and medical supplies, clothing and textile products, food and perishables, stationary, computers, office equipment and consumables, automobiles and transport services, consulting services and printing. The review of preferential procurement legislation should be undertaken with urgency."…

"We agree to ensure full respect for and observance of fair labour

standards and national legislation, in responding to the economic crisis.

We have taken note of the concern by organised labour that there is an increasing trend in the use of outsourcing and labour brokers and a rise in non-compliant practices in labour broking and agree that Nedlac should on an expedited basis, discuss outsourcing and labour broking with a view to addressing labour's concerns."

Measures undertaken

Agreement was reached on conditionalities applicable to firms receiving state support. Conditionalities cover the following areas:

a) **Executive pay:** Companies receiving crisis-related assistance must commit to ensuring appropriate restraint in executive remuneration during the assistance period. This commitment will be elaborated in further discussions.

b) **Employment:** A moratorium on retrenchments for the duration of the assistance period will be maintained and application of the training lay off scheme will be considered, unless retrenchments are essential for firm survival, in which case an agreement must be struck between management and Labour at firm-level, pertaining to the level of such retrenchments. The same process will apply, as regards material changes in conditions during the assistance period.

c) **Local procurement:** Firms must commit to local procurement where possible on the understanding that there may be areas where extension of the local value chain through local production may be possible. In such cases relevant opportunities should be identified.

d) **Social dialogue:** Where distressed firms wish to make use of the public funded rescue packages, there should be engagement with labour at firm level on the issues referred to above and the firm's commitment to compliance with labour standards should be reaffirmed.

8. FINANCE AND INVESTMENT

Extract from the Framework, paragraph 3.14

> *"The parties agree that the availability and flow of credit are vital to the functioning of a modern economy. To this end they agree that Nedlac should urgently engage with the financial sector to discuss ways to promote a continued flow of investment finance to the real economy."*

Measures undertaken

a) The Leadership Team met the chief executive officers of the four major banks in South Africa to discuss what can be done to promote continued availability and flow of credit to the real economy and households. Constituents set out their concerns regarding the impact of credit reduction on people and companies. The banks reported on their initiatives to date to address these concerns including increasing bridging loans, debt rescheduling, debt factoring, converting debt to equity, inter-bank lending guarantees and national debt mediation

b) Amongst these initiatives is the establishment of the National Debt Mediation Association, a business initiative to assist indebted consumers by providing rules, standards and processes to address debt restructuring. Amongst other things, they address issues such as term extension, reduction of interest rates and payment holidays. Whilst the credit industry is still to provide a full report to Nedlac constituencies, it has indicated that its pilot project has achieved a 57% success rate.

c) All parties agreed that the continued flow of investment finance and credit is vital to the recovery and that special care should be taken to avoid damage to the country's productive capacity. The banking sector noted that it was in their interest to attempt to avoid foreclosures. Concerns were expressed whether new business and new venture credit had been restricted and whether small businesses were unduly affected by credit restrictions

d) Areas were identified for engagement:

- Increasing bridging loans, debt rescheduling, debt factoring, write downs in collaboration with government, deposit guarantees, term lending guarantees, converting debt to equity, and interbank lending guarantees;
- Risk sharing between commercial banks and development finance institutions (DFIs) to maintain levels of credit;
- Possible fund with a job creation and job preservation mandate and large labour intensity focus;
- Special arrangements and facilities for participants in the training layoff scheme, including measures such as debt rescheduling;
- Consideration of the situation of workers who are retrenched;

- Consideration of a national communications programme to raise awareness of the special arrangements that banks have put in place to assist companies and households in distress;
- Data on credit flows, based on information supplied by the banks, and broken down by sector, size of business and geographic area.

e) The social partners agreed to launch a National Awareness Campaign which will provide consumers in distress with relevant information to assist them to take informed decisions. A Steering Committee was established to facilitate and work out the modalities for the campaign. The National Credit Regulator (NCR) agreed to employ a person to project-manage the campaign.

f) The NCR is in discussion with the banking representatives on the scope of developing measures that would enable protection of primary residences. A Special Committee between the NCR and the Banking Association has been formed to explore the scope for policy instruments in this regard and to report back to the Finance and Investment Task Team.

g) A task team comprising of the commercial banks, DFI's the dti and National Treasury has been meeting regularly to develop practical measures to provide financial assistance to firms in distress. The team has drafted agreements, which are still to be approved by their respective principals, regarding joint cooperative action in relation to corporate lending clients of banks or joint DFI or bank funded companies as well as SMME's. The proposals for consideration are:

- In relation to corporate lending, banks and the DFI's have developed guidelines to regulate their joint funding interactions and to facilitate information sharing in relation to firms in distress. The guidelines are intended to enable structured and productive joint cooperation between the banks and DFI's, faster turnaround times and to extend the range of financing options available for firms in distress. The guidelines will result in the following actions, among others, being taken jointly by both DFI's and Banks. The guidelines will also include direct and specific respective senior executive points of contact to be used in order to give effect to specific cases going forward.

- In a company where both banks and DFI's are involved, develop a watch-list of firms experiencing early signs of distress, by sharing information on a quarterly or monthly basis, so as to enable appropriate and timely interventions should the need arise.
- While adhering to all regulatory requirements, the banks will share information with DFI's on distressed companies to allow DFI's to fast track their due diligence processes.
- If DFI's are providing equity into a company where they previously had no exposure, banks will remain invested alongside the DFI's so that there is risk sharing. Risk sharing arrangements will give due regard to each other's security position and debt structures.
- Banks will inform the IDC of any rescue package which fit the IDC's rescue criteria.
- Both banks and the DFI's will maintain at the banking council, a database containing the list, of people from both the banks and the DFI's, that will facilitate implementation of the guidelines agreed to regarding interactions around firms in distress.

- With regard to SMME's the DFI's and Banks have agreed to a definition of what constitutes a distressed SMME. Banks have identified distressed SMME's on their books that fit the definition and the measures have been agreed to in relation to working jointly to ensure the sustainability of these distressed firms. These measures included extended repayment periods, increasing the level of indemnity support from Khula and the establishment of a technical assistance fund.
- Banks and DFI's will develop new rules regarding processes to be followed when engaging with SMME's in distress. Rules will include among others measures such as providing for extended repayment periods on outstanding loans, avoiding premature legal action in cases of defaulting clients, etc.
- Khula will lift the indemnity provided to Banks from R3 to R5 million where distressed firms are involved.
- Khula will amend the frequency of the recovery of indemnity fees from Banks.
- The DFI's together with the dti will establish a technical assistance fund which will facilitate access to SMME's of technical expertise for product and process and/or any other aspects affecting the competitiveness of an individual SMME's. Banks and affected clients will cost share with the technical assistance fund the cost of acquiring the technical expertise,

9. LOCAL PROCUREMENT

Extract from the Framework, paragraph 3.7

"All the social partners, including parastatals, will encourage local procurement of supplies, services and other requirements wherever possible in order to maintain and increase local output and employment levels. This applies particularly to the large procurement programmes attached to major public and private investment projects where cooperation amongst social partners can be employed to promote local suppliers. This will also include procurement of pharmaceuticals and medical supplies, clothing and textile products, food and perishables, stationary, computers, office equipment and consumables, automobiles and transport services, consulting services and printing. The review of preferential procurement legislation should be undertaken with urgency."

Measures undertaken

a) Agreement was reached at the Leadership Team level that Government local procurement will allocate 90% of the discretionary points in the tender rules are allocated for local procurement.

b) The Leadership Team has considered concerns in the pharmaceutical sector on local procurement and a high-level meeting has been held between the stakeholders and government to receive proposals regarding the future procurement strategy. Discussions will continue early in 2010.

c) A statement of commitment by the private sector to procure locally manufactured goods and services where possible has been finalised. (See copy attached marked Annex A)

10. TRADE REMEDIES

Extract from the Framework, paragraph 3.10

> "*Trade measures will be used to address import surges, dumping and to address the short-term crisis of vulnerable sectors. These will include fast-tracking of investigations and recommendations by ITAC, and that ITAC initiates more investigations.*"

Measures undertaken

a) An application to ITAC by the clothing sector filed to increase tariffs on 35 products to their bound rate of 45%, has been approved and finalised.

b) Business and Labour in the capital equipment, transport and Metal Products have finalised the list of products that can be targeted for tariff reviews by ITAC. An application for tariff review in capital equipment has been submitted to ITAC.

c) Agreement has been reached on the inclusion of a number of standard setting and enforcement activities to prevent the import of substandard goods on a number of sectors, into the revised Industrial Policy Action Plan.

11. CUSTOMS FRAUD

Extract from the Framework, paragraph 3.9

> "*The parties acknowledge the problem of customs fraud and illegal imports and are concerned that as a result of the global economic crisis,*

the level of illegal imports may increase. They recognise the progress made in building an effective enforcement mechanism. They agree that urgent attention should be given and additional capacity be devoted to official enforcement capacity, including SARS, to further improve their effectiveness and impact. To this end, it is agreed to strengthen risk management and invoice-analysis systems, set up dedicated units for vulnerable sectors (commencing with the clothing sector) and support high-profile arrests and prosecutions of offenders to combat lawlessness within the import regime."

Measures undertaken

a) Government has set up a dedicated capacity to focus on illegal imports, with particular attention initially on the clothing sector as provided for in the Framework. SARS has undertaken a number of raids and increased its inspections of suspect containers, details of which are contained later in this document.

b) The social partners at Nedlac have reached agreement on a number of issues. These include:

   i. As a matter of standard operating procedure, SARS has agreed that offenders will in future be prosecuted without the option of a fine under certain circumstances, including repeated offences, the modalities of this is being finalized.

   ii. SARS has agreed to build a reference pricing system into its customs modernisation project to aid customs officials in identifying undervalued imports.

   iii. Seized goods will be disposed in a manner that does not undermine local industry.

iv. It has been agreed to initiate a short study to look into the possibilities available under s6 of the ITA Act to introduce a specific registration system for importers in the textile, clothing and footwear sectors. Once this study is completed, it will be considered in Nedlac.

v. Constituencies agreed that, as part of the upcoming review of the Customs Act at Nedlac, the issue of increasing fines for customs fraud would be investigated and the necessary amendments to the Act be made.

vi. Strict implementation of the "Rules of Origin" of regional trade agreements was needed to close loopholes which allowed neighbouring countries to be used as conduits for imports emanating from other parts of the world to come into South Africa, thus by-passing trade. Bilateral engagements have been initiated with customs administrations in neighbouring countries.

vii. SARS would provide constituencies with banner information on SARS's progress and achievements in its clothing and textile campaign, including number of raids and prosecutions, rate of containers inspected and volume and value of goods seized with stakeholder.

c) SARS has been allocated an additional R20 million to give effect to paragraph 3.9 of the Framework Agreement. A strengthened inspection system has been put into place and steps are being taken to address concerns regarding illegal imports emanating from neighbouring countries.

12. SOCIAL PLAN

Extract from the Framework, paragraph 5.1

> "*We recognise the need to scale up the social interventions to address the jobs challenge. One means of doing so is through developing effective social plans at industry and company level in order to ensure that job losses are avoided, workers are retrained and communities are cushioned from the effects of the economic crisis. This requires additional resources as well as other mechanisms to improve the development and utilisation of social plans. These issues are currently the subject of a review of the social plan policy framework and the parties will finalise their proposals through NEDLAC on an expedited basis."*

Measures undertaken

a) The parties have agreed a framework for social plans to address possible retrenchments.

b) A set of proposals involving: compulsory notification for large scale retrenchments; intervention by the Department of Labour to facilitate social plans to firms / employees in distress has been developed in the Nedlac Labour Market Chamber.

c) Additional resources have been made available to Productivity South Africa in order scale up its activities on turn-around work through the Work Place Challenge initiatives.

13. UNEMPLOYMENT INSURANCE FUND

Extract from the Framework, paragraph 5.2

> "*The parties commit to improving benefits through the Unemployment Insurance Fund, subject to regular review and annual actuarial valuation of the fund, and will review its policies to ensure that it is providing an effective response to the prevailing conditions."*

Measures undertaken

a) The UIF Board approved a sum of R2 billion to be invested with the Industrial Development Corporation to be used as part of the capital available to assist sectors in distress.

b) The UIF Board had commissioned an investigation on how the UIF benefits can be improved.

14. SOCIAL RELIEF OF DISTRESS FUND

Extract from the Framework, paragraph 5.3

> "*The Parties agree to a targeted Emergency Food Relief Programme that will enhance food accessibility and affordability to the poorest communities experiencing difficulty as a result of the economic crisis, targeting families in distress. The programme will be underpinned by a food distribution strategy. The programme will be supported through partnership with the private sector, NGO's and community based organisations. It will be aligned to existing initiatives such as Social Relief of Distress Fund and other food security strategies."*

Measures undertaken

a) It has been agreed that a portion of the unutilised funds from certain social grant programmes will be made available to the Fund for Social Relief of Distress Fund, which is intended to help people in distress.

15. SOCIAL GRANTS

Extract from the Framework, paragraph 5.8

> "*In spite of fiscal pressures currently faced because of lower than expected revenues, Government will maintain social transfers and other key social expenditures, including increasing access to free basic services such as water and electricity, to the poor. Government will also progressively and steadily, starting in 2009, extend the Child Support Grant to age 18 and reduce the men's age requirement for the social old age pension to 60 years.*"

Measures undertaken

a) The Child Support Grant has been extended so that children under the age of 16 will qualify to access Child Support Grants from January 2010. This was implemented on an expedited basis in response inter alia to the economic crisis.

b) Equalisation of the old age pensionable year is on track.

16. FOOD PRICES AND ACCESS TO FOOD

Extract from the Framework, paragraph 5.3, 5.4, 5.5, and 5.6

"The Parties agree to a targeted Emergency Food Relief Programme that will enhance food accessibility and affordability to the poorest communities experiencing difficulty as a result of the economic crisis, targeting families in distress. The programme will be underpinned by a food distribution strategy. The programme will be supported through partnership with the private sector, NGO's and community based organisations. It will be aligned to existing initiatives such as Social Relief of Distress Fund and other food security strategies."

"The parties agree on the need for special measures to ensure that the global economic crisis does not lead to increases in the level of hunger in SA. It is agreed to work on an implementation plan, including timeframes and institutional arrangements, for a Food For All programme to procure and distribute basic foods at affordable prices to poor households and communities."

"The Parties agree to investigate the cost drivers in the food value chain in order to develop measures that will be taken to improve the logistics of food distribution such as transportation, warehousing, and procurement in order to reduce food prices in the long term."

"Strengthened enforcement of competition measures will be used to act against food cartels and collusion, which inflate food prices. It is agreed that government will encourage and support food production schemes in rural and peri-urban areas for households to grow their own food and that support in the form of seeds, fertilizers and pesticides will be provided."

Measures undertaken

a) The Competition Commission is investigating ten parts of the food supply chain. These include staple foods such as bread, mealie meal, wheat flour, dairy, poultry and cooking oil. There are also investigations into key inputs, namely fertilizer, grain silos and tinplate, and into supermarkets.

b) Government is providing Agricultural Starter Packs to households. Each Province branded their programmes as deemed fit; e.g. the "one home one garden" programme in KZN.

c) The Land Bank has committed to maintaining and expanding support grants such as: MAFISA, LRAD, AgriBEE and Drought Relief programme.

d) On food procurement and distribution for the Food For All Programme, there is an in principle agreement on the formation of an agency that would procure food from farmers and to distribute to poor households and communities at affordable prices.

17. PUBLIC SECTOR EMPLOYMENT

Extract from the Framework, paragraph 4.5 and 4.6

> *"Public sector employment: it is agreed there is scope for improving the employment intake by the public sector in the process of strengthening the education, health and social work sectors and criminal-justice system in SA and filling departmental vacancies at national, provincial and municipal levels."*
>
> *"In addition, there are opportunities to create stable employment through the public service employing people for certain tasks that are currently outsourced or casual. Government will do a review of its outsourcing practice to improve the conditions of work."*

Measures undertaken

a) Government recognises the importance of expeditiously filling vacancies for funded posts in the public sector. To this end, measures are being put in place to fill vacancies. Government will report to the social partners on progress made by February 2010 and will provide regular updates thereafter.

b) Following the announcement of the Budget by the Minister of Finance in February 2010, government departments in key areas will be requested to provide figures on the numbers of new jobs that will be created in the next financial year.

c) The Department of Public Service and Administration will lead a government delegation to meet with constituencies on quality of employment issues in outsourced or casual tasks affecting the public sector, to give effect to the commitments in the Framework. This meeting will be scheduled for January 2010.

18. GREEN JOBS

Extract from the Framework, paragraph 3.6

> *"The parties recognise the opportunities in industries that combat the negative effects of climate change and believe that South Africa should develop strong capacity in these green technologies and industries. Accordingly it is agreed to develop incentives for investment in a programme to create large numbers of 'green jobs', namely employment in industries and facilities that are designed to mitigate the effects of climate change. Government will be asked to develop a proposal for consideration by the parties. This proposal will, where*

appropriate, build on current initiatives of greening existing manufacturing and service activities."

Measures undertaken

a) Government is developing a green jobs strategy to identify 'green jobs' opportunities in energy, manufacturing and services and have incorporated a green jobs component into the revised Industrial Policy Action Plan.

b) Government has committed to the roll-out of one million solar water heating panels to households, with opportunities to create jobs in the manufacture and installation of the units. Implementation of this objective requires the development of an action plan with clearly identified roles and responsibilities and funding sources.

c) In order to improve long-term energy conservation as well as to create demand for jobs in production and installation, building regulations have been revised to require the installation of energy efficiency equipment like solar water heaters and efficiency lighting in new buildings. The draft revised regulations will be published for public comment in 2010.

d) An energy efficiency measurement standard is being developed to support the tax rebate for energy efficiency recently incorporated into the Income Tax Act.

SECTION 3: KEY IMPACT AND CHALLENGES

1. The impact of the range of measures undertaken by the social partners identified in section 2 above is identified below.

2. The stimulus measures have been vital in reducing the impact of the global economic crisis on the local economy. Though South Africa has been severely affected by the recession, with three consecutive quarters of economic contraction, the results of the third quarter of 2009 registered a positive quarter-on-quarter growth of 0,9% in the Gross Domestic Product (GDP).

3. The Training Layoff Scheme was launched on the 21 September 2009 through the CCMA and is currently in its pilot phase. The Merseta has launched its Retrenchment Action Plan as part of the training layoff scheme. A total of 7 000 workers have enrolled in this one scheme to date. These are workers who would have ordinarily been retrenched.

4. In addition to the training lay-off, other CCMA interventions are also directed at avoiding or reducing retrenchments. Through proactive intervention to prevent job loss at the CCMA, 4 482 jobs have been saved from March to September 2009.

5. The infrastructure investment programme has resulted in the employment of thousands of workers at the construction sites of Medupi, the five stadia and the rapid bus transport system.

6. The Department of Public Works reports that through the EPWP projects, 223,568 work opportunities have been created by September 2009. Of those that have benefited 55% have been women, 38% for youth and 2% for people with disabilities. Additional jobs have been created since the second quarter and will be announced by the Minister of Public Works.

7. The IDC approved about R500 million to end October 2009 to be invested in 15 different companies in distress. Funding is structured according to the specific company's needs and can take the form of loans or equity and can be applied for working capital or upgrading of equipment. This year's approvals up to end October are estimated to have saved over 5,700 jobs. The pipeline of projects currently has 33 applications with a potential value of around R2 053 million.

8. The IDC has also extended non-investment support to other companies troubled by the recent economic crisis. This current financial year, 16 existing clients were assisted and repayments restructured to increase their resilience to short term constraints.

9. The sectors which received the most attention from the IDC's crisis intervention are mining and beneficiation, followed by metals, the auto sector, machinery, wood, paper and others and then textiles and clothing. The IDC also has a considerable pipeline of projects coming through from distressed sectors, led by the automotive industry (car assembly and components), and followed by mining.

10. The announcement of support for the auto sector boosted investor confidence during a particularly difficult period. Major new car production plans were announced by two large car companies during the past two months.

11. The increase in the tariffs on the 35 items in the clothing and textile sector is expected to increase the price competitiveness of local producers.

12. SARS has seized 750 tons of clothing and textile products that have been smuggled into the country from raids on 88 premises conducted in a nationwide enforcement initiative The value of seized goods is estimated at over R90 million.

i. Of the premises raided in Durban, 24 remain closed and are under investigation for charges including valuation, classification, and merchandize labelling fraud as well tax evasion. The Cape Town raids on importers warehouses uncovered World Cup-related customs fraud to the value of R520 000 including soccer jerseys and socks.

ii. One major retailer is under investigation for customs fraud as a result of these enforcement initiatives.

iii. The effect of this heightened action against illegality is expected to offer support to local producers and an estimated 1400 jobs have been saved as a result of the actions.

13. The Competition Commission investigations in the food supply chain have resulted in a number of cases being referred to the Competition Tribunal including iro of bread, diary products, poultry and silo. Penalties of approximately R394m have been paid to date. The Commission is conducting further investigations to assess whether cartels are continuing in other forms. The importance of supporting new entrants and smaller firms in food processing has been highlighted, together with the possible need for stronger intervention in agricultural inputs

14. The extensive Competition Commission into collusive behaviour in the construction supply-chain has resulted in a number of admissions by companies and applications for leniency. It is expected that this will positively influence the remaining infrastructure development programme.

15. Small businesses are being supported through a range of measures, from the 30 day deadline for government payments to small suppliers to debt restructuring by the National Empowerment Fund.

16. The government programme of Agricultural Starter Packs to households has been rolled out. R76 million has been spent in 2009 to date in various provinces.

17. It is anticipated that extension of the Child Support Grant from children of 15 years to 18 years will bring the number of South Africans with access to social grants to 13 million.
18. The equalisation of the Old age pension will affect 450 000 old age pensioners
19. The impact of a number of areas of new agreement (e.g. green jobs, procurement, capital equipment support) will be clear in the period ahead.
20. The work of the various task teams and the Leadership Team has laid the basis for stronger partnership, a theme explored in the Conclusion.

SECTION 4: CONCLUSION

The economy, notwithstanding the 0,9% GDP growth on a quarter-to-quarter basis registered for the latest three months, is still facing considerable challenges.

Retail sales remain down, the number of job losses in the first nine-months of this year is substantial and industrial output has not yet fully recovered. The measures set out in the Report however, have made a difference and has shown the value of constituencies working together.

This is the first recession that the social partners have sought to address together. We have learnt a great deal that can assist both in the response to the cyclical economic crisis as well as in addressing structural challenges that need to be addressed in achieving large-scale decent work outcomes.

We recognise that the Framework sets out a comprehensive set of commitments to address the crisis. Some areas have been strongly implemented while other areas have not been concluded with the necessary urgency.

We believe that the work that has been done to date however does lay a solid basis for social partnership during 2010.

The constituencies will meet early in the new year to identify ways to strengthen implementation of the Framework

ANNEX A

PRIVATE SECTOR STATEMENT OF COMMITMENT TO PROMOTE LOCAL PROCUREMENT

The current global economic crisis has affected all sectors of the economy, resulting in most businesses facing short-term financial challenges. The impact of this crisis has been severe on small and medium enterprises. Furthermore, the collapse in demand in our traditional export markets has exposed the vulnerability of our manufacturing sectors, with significant implications for South Africa's economic growth.

It is recognised that private sector procurement makes a significant contribution to enterprise development in South Africa. Further, it is accepted that private sector procurement can promote a number of national imperatives like local production, SMME development and BBBEE all of which in their turn contribute to economic growth and employment creation.

It is with this recognition that BUSA commits to encourage its affiliates to:

3.1 Promote local procurement in all sizes of business and sectors, where possible Support buy-local campaigns including continued support for Proudly South African.
3.2 Support initiatives that facilitate relationships between SMMEs and BBBEE enterprises and established businesses.
3.3 Provide mentorship to emerging enterprises to improve efficiency and competitiveness
3.4 Investigate methods to improve the payment cycle to SMMEs,
3.5 In cases where raw materials or intermediate products are imported explore the potential for local production
3.6 Invest in research and development to develop local production capacity.

Signed on ……………………………………………….

…………………………………………………………..

PRESIDENT

BUSINESS UNITY SOUTH AFRICA