

Schedule 5

BUSINESS TRUST

MANAGEMENT REPORT
26 OCTOBER 2001

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Introduction

- This report** This report updates the progress report to 30 June tabled at the September meeting and distributed to funders, trustees and other interested parties. It:
- i. Assess the impact of recent world events on the Trust.
 - ii. Reports progress on the implementation of the agreed strategy.
 - iii. Describes the strategic opportunities that have been presented to the Trust since the last meeting.

Recent World Events and the Business Trust

Issues and response

- Key questions** The key areas of concern for the Business Trust, arising from recent world events are concerned with: the safety of our investments, the security of the funders commitments to the Trust; and the impact on the Trusts programmes.
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- Investments** The Business Trust investments are structured so as not to expose the Trust to capital risk. The financial advisors were asked to report on the security of our investments and report as follows:
- “The Business Trust is predominantly invested in cash with some short-term bond exposure. In hindsight, given the incident in the USA on the 11 September 2001, the asset structure was possibly the best position to be in. The resultant interest rate cut by the South African Reserve Bank would have served to reduce the return on the cash segment of the portfolio. This would have been offset by the increased returns on bonds resulting from the decline in yields.
- Because the Business Trust is not invested in equities, its funds did not suffer the volatility and initial fall in market values that was experienced by investors in equities. The return on the funds was, however, impacted on the macro-economic events (such as the interest rate cut) that followed the incident in the USA.
- The portfolio manager managed the portfolios around the incident bearing in mind their long-term views on the markets. The performances for September have been in line with the benchmarks, showing positive returns with no capital loss.”
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Contributions The funding partners of the Business Trust have demonstrated serious commitment over the first two years. 100% of the companies electing to pay their contributions over a number of years honoured those undertakings for the second year.

While the JSE has shown a decline in value over the last year, the total market capitalization remains higher than it was on 30 November 1998, which was the original date for the calculation of contributions to the Business Trust. This is the case even after 11 September 01.

At the start of the third year of operation one of the contributors to the Trust (FEDSURE) indicated it would be unable to meet its outstanding commitments because of the break up of the company. This is not related to September 11 events.

On balance, the September 11 events have not themselves had a direct impact on the confidence with which we are forecasting future contributions to the Trust. However, these events together with continuing market volatility and especially corporate restructuring indicate a need for careful monitoring. A process has been initiated to analyse each individual company to identify particular cases where a substantial drop in value may place the contribution to the Trust at risk.

Projects The tourism-marketing project is most directly affected by recent events. A reduction in tourist numbers, duration or spend could also have knock-on effects on the training and enterprise support programmes.

Tourism Marketing analysis SA Tourism moved quickly to respond to events in the USA. They have:

- **Assessed the global situation** and noted fears of war, large scale retrenchment in the airline and tour operator sectors; and widespread cancellation of travel to USA and the middle East
- **Analysed the response of competitors** and noted that both Australia and Britain have strategies to promote themselves as safe haven or secure destinations
- **Monitored the media** and noted reduction in the travel sections in newspapers and a shift to covering local travel by trade publications. The TIMES reported " Travel to SA is expected to increase"
- **Analysed airline capacity** and noted that prior to September 11 airlines had begun to curtail operations globally. This intensified after September 11. But, notes SA tourism capacity to SA was increased after that date.

SA Tourism Response

SA Tourism's response to the changed circumstances focuses on adjustments to the strategy in the USA, France, and Germany. It includes the following:

- Reduced tactical advertising in The USA and Germany.
 - Increased below the line focus with an emphasis on core messages about the safety and value of SA.
 - Focus on Key account management and optimize joint marketing arrangements.
 - Encourage airlines to increase capacity to South Africa.
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Conclusion

- The investments of the Trust are secure.
- Corporate contributions have not been directly affected by recent world events. However, market volatility and continuing corporate restructuring requires on-going monitoring.
- Prior to September 11, the slow down in the world economy had moved out the international arrival targets by two years. No further adjustment has been made to those targets. The situation will be monitored with SA Tourism.

Strategy Implementation

Introduction

Strategy

The strategy approved by the Board in June 2001 was designed to:

1. Maintain the strategic framework and implement the approved programmes portfolio.
 2. Enhance the Trust's contribution to job creation through increased policy and strategy support.
 3. Improve the sustainability of the Trust's programmes through improved information management and institutional development.
 4. Widen participation in the Trust to demonstrate increased commitment and the value of the partnership
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Maintaining the strategic framework and implementing the approved programme portfolio

Framework

The strategic framework is being maintained and the programmes portfolio is being implemented. The core elements of the framework are:

- **A clear focus** on tourism and schooling underpinned by support for crime reduction and malaria control because of their impact on jobs in tourism.
 - **Targeted strategies** in each of the focus area.
 - A limited number of programmes.
 - **Strategic partners** for programme implementation.
 - **Cooperative implementation** with key government departments.
 - **Joint Business / Government** oversight through the board of the Trust.
 - **Equitable funding** from corporate funding partners.
 - **Co-Funding** from government and other sources.
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Results

The results achieved in the first twenty four months (as summarized in the latest quarterly report) include the following:

- R888-million of the targeted R1-billion has been secured.
- 100% of the funds pledged for payment in the second year had been received by the end of the year.
- Business plans worth R1.6-billion have been approved for implementation with co-funding mainly from government.
- A set of schooling programmes incorporating over a million pupils, 15000 teachers and 1500 schools in all nine provinces has been launched. These will improve reading ability by 2 years and writing ability by 4 years for a million primary school pupils and produce a 10% improvement in Mathematics and Science results for 400 000 high school pupils.
- A tourism marketing campaign has been launched in the USA and Europe, which in its first year was seen by 60 million people. This is backed by a training programme that will improve the skills of 15000 people in the tourism sector and an enterprise support programme, which in its first year assisted 100 small firms and supported 1877 jobs. Over 1000 firms will benefit by the end of the programme.
- A programme to support the integration of the justice system has been supported which has demonstrated, among other things, a 40% reduction in waiting trial time for prisoners.
- A malaria control programme has been initiated and has seen a 20% reduction in Malaria infections within 2-year of spraying.

The President's Big Business Working Group has met on a number of occasions and agreed on a framework for the encouragement of fixed investment and held high-level discussions on issues such as Zimbabwe and Land Reform.

Enhancing the Trust's contribution to job creation.

Approach

Board direction	While agreeing to explore opportunities for an enhanced contribution to job creation the board directed that this should maintain its action orientation and avoid being drawn into ideologically charged debates about different theoretical approaches to job creation.
Process to date	To date the management has monitored developments in South Africa's attempt to improve the rate of job creation; explored the possibility of improving the quality of information on job creation available to business decision makers and has received a number of proposals that present opportunities to supplement the Trusts programmes.
Opportunities	A number of opportunities have arisen for the Trust to support strategic initiatives since the last meeting. In particular these include a proposal that the Trust should support the International Marketing Council; a proposal that the Trust should support Proudly South African; and a proposal that the Trust should support a study into an approach used in Peru and elsewhere to empower the poor.

Opportunity One: The International Marketing Council (IMC)

Aim	The IMC was established by President Mbeki to create a coherent and consistent South African brand. It aims to do that by coordinating and integrating the brand messages sent by government departments, parastatals and the private sector. This aims to enhance the image of South Africa internally and externally and thereby improve its performance in key areas.
Focus	The areas targeted for improved performance are: <ul style="list-style-type: none">• Foreign direct investment;• Exports; and• Tourism.
Role	The role of the IMC is to create a framework within which the key stakeholders can act in a concerted manner. It does not aim to create more messages about South Africa, but to make the brand message coherent and consistent. The stake holders include: the Presidency, DTI, SA Tourism Foreign Affairs, GCIS etc.

Projects

The IMC will operate by undertaking projects. Each project will have a clear vision, timeline, budget and specific outcomes. Key elements of the projects are shown below:

Project	Details	Status / approach
Brand SA	This project aims to create the single message that will be integrated across government departments, parastatals and the private sector. The project is due for completion in September 2002.	A 12-person project team has been formed. Unilever has provided access to their "brand key" process.
PR framework and newsroom	This project aims to ensure i.a.: <ul style="list-style-type: none"> • Effective communication of the brand message by all stakeholders. • Proactive communication with local and world media. • Up to date info is available to all personnel dealing with SA. • Coordinated responses are provided to negative news. 	A crisis communication protocol will be established by December 2001 and links established with the worlds leading crisis management experts. A news room headed by a top media person will be operational by February 2002.
SA. Info	This project aims to create a web site for South Africa which will be search engine linked so as to capture all internet searches about SA, bring them to the site, provide information about SA and link to other sites like SA tourism.	
The SA academy of performing arts	The aim of this project is to link a group of highly talented young South African performing artists to the SA brand by securing the name "The South African Academy of performing arts" through a R5-million per year sponsorship that will help to train 60 to 100 previously disadvantaged young artists.	Auditions have been held. First performances have been held in London to critical acclaim. Lloyd Webber, Tim Rice, Richard Attenborough etc. have expressed a desire to be part of the group's future. Tour offers have been received from around the world.

Celebrate South Africa	The aim of this project is to replicate the "Celebrate SA" festival launched in London in SA's primary target markets around the world. And thereby showcase SA, entertain opinion makers and attract investors.	
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Funding

The government has committed R50-million pa to the IMC.

The contribution of the Business Trust

It has been proposed that the Business Trust provide R3,9-million over three years to support the operating costs of the IMC and in particular to allow the IMC to appoint a high level chief executive drawn from the private sector.

Relation to the Trusts strategy

The focus of the IMC on FDI, Tourism and exports all intersect with the Trusts Job creation aims. FDI is the primary focus of the Presidents Big Business Working group. Tourism is the corner stone of the trusts job creation strategy.

Assessment

Support for the IMC could provide a logical extension of the trusts job creation strategy and may assist in the alignment of the work of the IMC and SAT. The conceptual connections between the IMC, the Trust, its work in tourism and its commitment to job creation are clear. The idea of a coherent message is also clear.

The practicality of implementing such a programme in SA at this time and manner in which the results are to be measured, require further exploration.

More detailed information is also required on budgets and on how budgeted expenditure is to be financed.

Opportunity two: Proudly South African**The campaign**

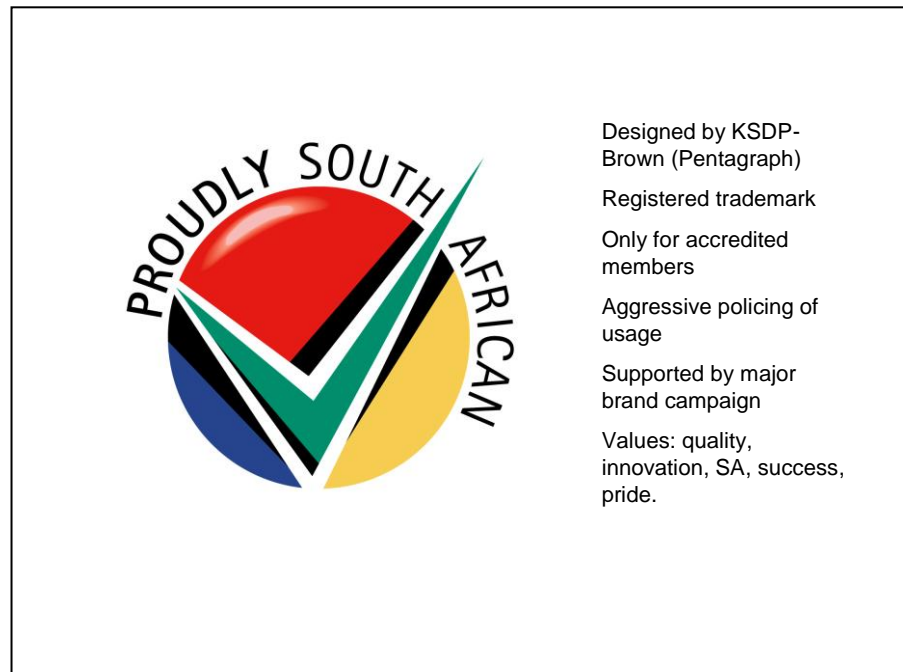
Proudly South African is a project designed to promote South African made products and services through a quality orientated consumer awareness campaign.

Aim The campaign aims to enable companies to differentiate their products in a way that will appeal to consumer patriotism and stimulate the demand for South African goods and services and thereby protect existing jobs and create new ones.

Criteria The campaign is targeted at firms of all sizes as well as industry associations, NGOs, municipalities, sporting bodies etc. To participate the organizations must meet the qualifying criteria of:

- Local content.
- Quality.
- Labour practice.
- Environmental impact.

The Logo The Proudly South African logo will identify companies meeting the criteria.



Framework The framework is built on brand positioning. A media and communication campaign and perception management.

Results A similar project in Australia has shown that 95% of consumers recognize the Australian made campaign brand and 92% say it influences their buying behaviour.

Financing The campaign is designed to be self-financing with companies paying 0,1% of related sales p.a. to identify goods and services with the brand. With a minimum of R500 and a maximum of R500,000. Escom, Telkom, Old Mutual and SAA have agreed to be founding sponsors to support, mainly, events. DTI have contributed R7-million for the first year and are likely to renew for the second year at between R7-million - R14-million. The target is to get 60-100 paying members within the first year.

Business Trust contribution The Business Trust has been asked to contribute to the start up costs at the level of some R6-million over two years from January.

The value added to the Trust The Trust's programmes are designed to create the conditions for enhanced job creation by stimulating demand in the tourism sector, building capacity through schooling and helping to improve operating conditions through work on crime and malaria control.

Proudly South African focuses directly on companies and seeks to improve productivity and competitiveness with direct job creation potential. For every R1m increased demand for goods and services between 9 and 22 jobs can be created depending on the industry according to estimates made for Proudly South African.

Proudly South African with full backing from labour, business, community and government would add an important dimension to the Trust if the Trust decided to move outside the tourism focus. It would involve businesses directly in the job creation process through the promotion of the proudly South African brand.

In addition to that strategic value, the Trust would also be profiled with the other major sponsors of proudly South African and secure an additional avenue for promoting the commitment of business and the value of the Business Government partnership.

Proudly South African may also be open to a reduction in member fees for those Business Trust companies that meet their criteria.

Opportunity three: Investigation into Capital formation

Dead capital The poor are unable to use their assets (informal dwellings, small businesses, basic know how) as capital to generate wealth because they live outside the legal system that protects their property and facilitates its exchange.

Large numbers are excluded from the formal economy Even in the developed world, some portion of the population live outside the formal economy. In developing countries such as Peru and Egypt it is estimated that the assets of eight out of ten people are excluded from the formal economy.

The value of unused capital is substantial The Institute for liberty and democracy in Lima, Peru estimates the value of this extra legal property is massive. (In Egypt it is worth 55 times as much as all investment ever recorded-including the Suez canal and Aswan dam). In the developing world real estate held but not legally owned is estimated to be worth 20 times as much as all foreign direct investment over the last 10 years and 46 times as much as all IMF and World bank loans.

Increasing informal activity in SA In South Africa, an increasing portion of economic activity is classified as informal.

Proposed South African investigation Following a visit to South Africa by the head of the Peruvian institute for liberty and Democracy, a number of Business Trust Trustees suggested that an investigation into the extent of dead capital in this country and the potential for its release should be funded by the Trust.

The project The ILD from Peru is currently working with the Governments in 6 developing countries on the extent of dead capital and how to release it. Researchers calculate the number of people living outside the legal framework; value their property and identify the procedures that inhibit reform.

Process Following a visit to SA and meetings with a range of organizations working in the areas of housing and land reform, the head of the ILD, Hernando de Soto indicated a willingness to undertake a preliminary analysis in South Africa.
On the basis of that analysis recommendations would be prepared for the government. If accepted the ILD would assist in raising international funding for implementation.

Business Trust contribution It has been suggested that the Business Trust fund the preliminary study at a cost of some R330,000.

Contribution to the trust The project would take the Trust outside the strategy of focusing on tourism and schooling. It would diversify the Trusts approach to job creation.
If this opportunity was pursued, further information on the full costs and timing of the project that might follow the preliminary investigation would be required.

Opportunity four: Training tourism journalists

Policy The white paper on tourism suggested that the media can help to foster a culture of tourism in South Africa by running special campaigns, promoting domestic tourism by effective reporting and forging a link to the public relations drive in overseas markets.

Programme The department of journalism at Rhodes university has established a tourism communications unit to create a link between training in journalism and training in tourism to train tourism journalists. They aim to provide:

- A one year post graduate diploma (issuing 45 diplomas in the first three years).
- Added value courses for journalism students (Exposing 500 journalism students to tourism coverage).
- Short courses for tourism professionals (for 90 people).
- Short courses for working journalists (for 120 people).

There will be an emphasis on speakers of indigenous languages and previously disadvantaged individuals.

They will also undertake research.

Proposal The project aims to be sustainable on student fees after 5 years. It is seeking R3,9-million between 2002 and 2006 to establish and run the initial courses. The Business Trust has been asked to provide the initial funding. Their proposal is supported by the minister of Environmental affairs and tourism, the DEAT and the Tourism Business Council.

Responding to the opportunities

Funding required

The funding required by the three projects described above is reflected below:

	Jun-02	Jun-03	Jun-04	Total
IMC	1,200,000	1,300,000	1,400,000	3,900,000
PSA	1,000,000	2,000,000	3,000,000	6,000,000
ILD	330,000			330,000
Journalism	1,093,078	853,635	715,749	2,662,462
Total	3,623,078	4,153,635	5,115,749	12,892,462

Business Trust funding scenario

The summary five year forecast for Business Trust funding is set out below:

FORECAST INCOME	3 Yr total	5 Yr total
Funds Received	494,956,544	
Total received, due & interest	647,741,673	888,073,234
FORECAST DISBURSEMENT		
Education	240,931,338	401,385,149
Tourism	218,551,692	341,753,753
Crime	19,528,503	37,180,498
Other	14,654,851	31,121,271
Management	14,664,675	25,931,650
Total	508,331,059	837,372,321
Projected funds available	139,410,614	50,700,913

Funds under consideration	In addition to the committed funds, the Trust has noted two major programmes for consideration: an extension of the Malaria control programme implemented by the Medical Research Council (R13,5-million) and possible funding for the Land Reform Credit Facility (R50-million).
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Reserve required	The current reserve of R50-million constitutes 6% of committed funds. In view of market volatility and continuing corporate restructuring, that level of reserve should be maintained.
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Assessment	<p>In reviewing the opportunities in the light of limited free funding, it is concluded that:</p> <ul style="list-style-type: none">• The IMC and Proudly South African are both related to the attempt to market South African tourism and create jobs. There would be symbolic significance in a link between the activities of those organizations and the Business Trust and an advantage to aligning their strategies. The Business Trust funding will however be small in relation to the overall needs of those organizations and support should depend on the Trust being able to make a significant contribution with real strategic significance.• Support for the capital formation programme would be support for an exploratory exercise outside the strategy of the Trust.• The journalism programme is most closely aligned to the marketing of South Africa and should be referred to SA Tourism to determine whether it could be supported in the context of the marketing programme funded by the Trust, DEAT and TBCSA.
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Recommendation	<p>It is recommended that:</p> <ol style="list-style-type: none">1. Support for the IMC and Proudly South African be deferred to June 2002 pending a review of the funds available and further discussion on the strategic significance of the Trusts contribution.2. The support for the Capital formation programme be referred to the big Business Working Group and if determined to be a priority for that group funding be provided from the funds allocated to support the BBWG.3. The journalism programme be referred to SA Tourism for consideration in consultation with THETA as part of the marketing programme.
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