



CEO's comment

It's heartening to note that Government is taking steps to assist distressed industries such as the automotive and textile industry during what continues to be tough times. We trust that Government will continue with this support.

However, no business can simply rely on external support. The key to long term survival is for business to position itself to take advantage of the upswing when it comes, as it inevitably must, and to stay focused on opportunities that are aligned with its core business. We also believe it is vital to invest time in strengthening existing client and strategic relationships and actively pursuing new ones.



Trevor Hayter, CEO
IQuad Group Limited

Business Rescue

The new Companies Act signed into law by the President in April 2009 is set to provide challenges to all providers of credit to the corporate sector.

Although the new Act will not become operational until a date is set in the Gazette (unlikely to be before April 2010) credit managers would be well advised to acquaint themselves with the new Act, in particular with Chapter Six relating to business rescue.

The Business Rescue provisions set out in the Act are designed to replace the previous regime of Judicial Management and are similar to business rescue legislation in other countries. Key components include:

- Self administration under independent supervision but subject to court intervention for financially distressed companies
- The interests of all stakeholders are recognised including shareholders, employees and creditors. Provision is also made for them to be involved in the development and adoption of the business plan.
- There is a temporary moratorium on the rights of claimants against a company.
- Business rescue proceedings are initiated by a simple board resolution or an application to court.

In many quarters this legislation is viewed as debtor friendly because although under the supervision of an independent supervisor, the day to day management will be in the hands of the very same people who allowed the business to get into difficulty in the first place. Both the secure and unsecured creditors will enjoy equal voting rights according to the value of their claims. This may well see the emergence of voting blocks to the detriment of some creditors.

In addition, there is no provision in the Act for how long a business rescue will be allowed to proceed, although there is requirement that the independent supervisor must undertake regular reviews of the business rescue plan and provide feedback to all stakeholders. By virtue of the time value of money the cost of the business rescue is carried by creditors.

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The rights of the supervisor to unilaterally cancel, suspend or alter any contract which is in force at the commencement of the business rescue proceedings, is seen in some quarters as an attack on the sanctity of contract. Consequently an element of uncertainty is introduced into commercial contracts which will undoubtedly find its way into pricing and credit assessment.

However, given the cost difficulties and impracticality of the Judicial Management process the provisions of Chapter Six may well see the long term survival of many businesses

that would never have prospered and this can only be good for the economy, employment and business generally.

Company directors and officers who have steered away from insuring their debtors, would now be well advised to ponder the role that credit insurance could play in their businesses. Credit insuring against the possibility of non-payment is likely to be a distinct strategic advantage for the future of many companies. [©](#)

John Thornton, Snr Manager: Research and Development, Credit Guarantee

Industrial Policy Projects could save you millions

New industrial projects could soon claim as much as R900m back in tax allowances, while expansion projects could claim up to R550m.

The Department of Trade and Industry are in the final stages of developing a new tax based incentive programme which will see qualifying Industrial Policy Projects benefit from a tax based incentive which represents additional manufacturing allowances.

Similar to the Strategic Investment Project incentive programme, the new programme will be aimed at large manufacturing based investments. New investments (greenfields), together with expansions of existing operations or upgrades to existing operations (brownfields), may qualify for the incentive benefits. New investments require a minimum total capital investment of over R200 million, while expanding existing operations or upgrades to existing operations require a minimum R30 million investment, subject to additional criteria, in order to qualify.

A qualifying investment project may secure either a “preferred” status or “qualifying” status depending on how many points the project scores in terms of a number of key measurement areas. The point scoring criteria range from employing innovative processes, improving energy efficiency to general business linkages, procurement, and SMME utilisation. Direct employment creation and skills development are also taken into account.

In addition, new industrial projects can also score if they are located in an industrial development zone. According to the point system, an Industrial Policy Project would achieve



“qualifying” status if it achieves a minimum of five out of 10 points and a “preferred” status if it achieve at least eight out of a total of 10 points. Training costs incurred for an approved project will qualify for an additional training allowance of up to R36 000 per employee which could be deducted from taxable income with the total training allowance being dependent on the status of the project. In the case of a “qualifying” project this allowance is R20 million, and in the case of one with “preferred” status, it is a total of R30m for the project.

Approved investment projects will have four years in which to capitalise the approved investment, where the additional manufacturing allowance is claimed in the year the investment is brought into use. The total allowance for projects with “preferred” status is R900 million, and R550 million where approved with “qualifying” status. Expanding operations may receive maximum allowances of R350 million to R550 million dependent upon the approval status of the project. The Industrial Policy Project incentive programme is expected to be launched towards the end of 2009. [©](#)

Gregory Billson, IQuad Investment Incentives (Pty) Ltd

Inflation challenges growth



Will the South African Reserve Bank meet the challenge of containing inflation risk without hampering the growth required for economic recovery?


Monetary Policy Committee (MPC) decisions have been reasonably predictable for some time with the committee generally choosing to prioritise growth above inflation. Against the backdrop of ongoing weakness in the global and indeed domestic economy, it was felt that there was scope for a little more monetary easing to help the household and business sectors de-leverage at a slightly quicker pace.

The reality however is that growth is not the primary concern of the MPC and this was highlighted in the latest MPC statement which alluded to the inflation risks that persist and which have gradually become a thorn in the

offset at a consumer level by robust wage settlements, administered prices and services inflation which has shown a reluctance to moderate.

Ultimately, it is difficult to ignore the fact that should inflation only re-enter the target band in the second quarter of 2010, it will have been outside the inflation target band for longer than it has been within the target band since the introduction of inflation targeting. This is hardly a track record to be proud of and to some extent is likely to render the SARB more sensitive to maintaining credibility or face the consequences of a population which does not consider the SARB's efforts as productive or successful.

Moreover, real interest rates are negative, the current account deficit has not narrowed as anticipated and the second round effects to administered price increases will be significant. Most econometric models including that of the SARB have inflation only dipping into the target band around Q2 2010 and stabilising around the 5.0% mark or higher. This is hardly a comfortable scenario and does require some attention.

The risk is that the SARB has underestimated the outlook for the global economy and that weak international economic conditions will ensure that disinflationary pressures eventually help domestic inflation subside to levels softer than the forecasts. In this scenario one could argue that the SARB hampered the economic recovery unnecessarily, however, the future is unknown and the MPC would be gambling with its credibility. Instead, the MPC is likely to wait for convincing signs that inflation will moderate more than current projections reflect before easing monetary policy any further. Pending fresh information and indicators, projections must now favour the SARB to put rates on hold for a period of 9 to 12 months, although the risk would still be in favour of further monetary easing if one holds a pessimistic view of the current global economy. 

...the decline in prices at producer levels will be largely offset at a consumer level by robust wage settlements...

side of the MPC. It is difficult to criticise the MPC for their decision against the backdrop of an inflation rate which has remained stubbornly buoyant and which faces more headwinds through months ahead. What would have been particularly disturbing for the South African Reserve Bank (SARB) would have been the deterioration in inflation expectations as produced by the Bureau for Economic Research. That they deteriorated to the extent that they did suggests that the risks to longer term inflation are intensifying rather than abating and that the decline in prices at producer levels will be largely

What is unfortunate is that the failure to contain inflation actually had little to do with the SARB's efforts and more to do with global trends in inflation and the behaviour of the ZAR. Correlation studies show that these two influences have a considerable bearing on the longer term inflation trajectory and that the SARB's influence would have been limited, even if they had acted differently. This is however a game of perceptions and the perception is that inflation will remain buoyant. Whilst this remains the case, the SARB will be able to justify adopting a more cautious stance.



George Glynos, MD
Econometrix Treasury
Management (Pty) Ltd

TOP GEAR

Can the APDP gear the automotive industry up to meet the global competitive challenge?

Strong linkages with industries across multiple economic sectors including raw-material suppliers, financial service providers, motor retailers and advertising make the automotive industry without doubt the largest player in the manufacturing sector in South Africa and of strategic significance for the local economy.

While the Motor Industry Development Programme, (MIDP) undoubtedly contributed significantly to the growth of the automotive industry in South Africa during its tenure, there is a view in many quarters that the programme did not succeed in taking the industry to a globally competitive level. This, at a time when competitors in the world market have been moving incredibly fast.

But when the current MIDP terminates at end of 2009 (with policy commitment to 2012) it will be replaced by the approved but yet to be launched Automotive Production and Development Programme, (APDP) which will run from 2013 until 2020. The APDP has been designed to help the South African automotive industry become globally competitive and to expand its manufacturing capability within South Africa with ambitious targets for annual vehicle production of 1, 2 million units by 2020.

The new programme is also intended to go some way towards providing the automotive industry with longer-term certainty about the investment environment while being consistent with World Trade Organisation rules.

The APDP will include four main components:

- Stable and moderate import tariffs from 2012 of 25% for completely built-up vehicles and 20% for components used in vehicle assembly
- A local assembly allowance enabling vehicle manufacturers producing more than 50 000 vehicles a year to import 20% of its components duty free, reducing to 18% over three years
- A production incentive in the form of a tradable duty credit of 55% on the value-added element of a component, measured from the selling price less the raw-material input. This would reduce to 50% over five years with an additional 5% being available for vulnerable sub-sectors
- An automotive investment allowance taking the form of a direct grant to the value of 20% of the project over three years, to be used to support investment into new plant and machinery. An additional 10% is available to assist with relocation costs, training and research and development expenses subject to attaining certain key criteria.



Under the APDP, vehicle manufacturers and component suppliers will be encouraged to step up in terms of their technical know how and cost efficiencies in order to close the gap that currently exists. With its target of assembling 1.2 million vehicles per annum by 2020, the APDP is a support programme that focusses on volume rather than exports. Given current market conditions some manufacturers believe that government should consider reducing the production volumes required to qualify for support under the APDP.

According to Dr Johan van Zyl, past president of NAAMSA. "There is no doubt that the new programme will stimulate production of motor vehicles and automotive components and encourage further investment in the industry and assist the process of stabilising and creating employment over time. At the same time, however, it should be recognised that the industry faces ever increasing competition – domestically and internationally".

Allan Corbett, IQuad Global Trade Solutions (Pty) Ltd

THE AUTOMOTIVE PRODUCTION AND DEVELOPMENT PROGRAMME (APDP) IS INTENDED TO:

- Stimulate the expansion of automotive vehicle production
- Provide appropriate levels of support for the ambitious targets
- Achieve a better balance between domestic and export sales to supply growing domestic demand
- Provide a stable transition from the MIDP
- Ensure consistency with World Trade Organisation rules
- Make a large positive contribution to the balance of payments
- Allow import tariffs of 25% for Completely Built Up Vehicles (CBU)
- Allow import tariffs of 20% for components used by vehicle assemblers

Venture Capital: A tax deduction

SME owners stand to benefit substantially from capital injection




Barry Wiseman, MD
IQuad Finance Solutions (Pty) Ltd

The Revenue Laws Amendment Act 60 promulgated into law earlier this year, promises to stimulate access to equity finance by small and medium business enterprises and will in turn encourage investments into these businesses.

In future, investment funds from both individuals and listed companies can be pooled into vehicles known as Venture Capital Companies (VCC). All parties investing into a VCC will be eligible for a 100% tax deduction subject to certain criteria and restrictions.

In order to qualify for this deductible investment status, the VCC must invest in a portfolio of small business company shares. The minimum VCC fund size will be R30m with 80% of the investments directed at companies with book value assets not exceeding R10m after the investment.

The tax deduction came into effect on 1 July 2009. SME owners stand to benefit substantially because a capital injection can make the vital difference to growth or expansion. In addition, a well capitalised business has a greater ability to borrow and invest in fixed assets as well in operational and strategic activities

To take full advantage of potential opportunities, SME owners are well advised to be 'investor ready' and to prepare their businesses for part sale in anticipation of a possible approach by a VCC. 

Treasury Solutions acquires stake in FX-Pro

“We believe it to be a first for smaller companies to have access to an affordable forex solution...”




Lyle Pretorius, MD, FX-Pro
Software Solutions (Pty) Ltd

IQuad Treasury Solutions (Pty) Ltd recently acquired a 50% stake in forex start-up FX-Pro Software Solutions (Pty) Ltd which provides companies involved in international trade with unique web-based systems to help them manage their currency risk and hedging requirements.

FX-Pro services a wide range of clients from diverse industries with three main product offerings. Companies involved in global trade have the option of using either FX-Pro Premium which provides both currency risk and accounting solutions, FX-Pro Standard which deals only with currency risk, or FX-Pro Live which deals with currency risk but is aimed at smaller to medium sized companies.

“We believe it to be a first for smaller companies to have access to an affordable forex solution which historically would have entailed an expensive outlay and probably been out of their reach” says entrepreneur, Lyle Pretorius, the brain behind the FX-Pro systems. “Our clients know that dealing in the forex market is not for the fainthearted. There are so many factors beyond their control that can impact on their bottom line. With FX-Pro they find that they can make decisions faster and stay focused on their core business.”

IQuad Treasury Solutions MD, Rory McCance-Price, explains further, “The acquisition of FX-Pro gives us the opportunity to service clients with a wider product range and service. Although IQuad Treasury already offers specialised foreign currency risk management and treasury services to companies, our focus traditionally has been on the outsourcing of companies’ treasury functions. Strategically, FX-Pro is a natural fit with our outsourcing business because it enables us to offer companies in-house solutions to manage their own currency risk if that is what best suits their needs.” 

Contact Lyle on +27 11 781 200 or lyle@fx-pro.co.za or visit www.fxprolive.co.za and www.fxpro.co.za.

ITRISA and IQuad join forces

A joint venture between ITRISA and IQuad Global Trade Solutions (Pty) Ltd will result in the establishment of ITRISA Training (Pty) Ltd. The new company will provide short training courses and workshops covering a variety of export and import related topics ranging from Import and Export Administration and Documentation to Customs Issues and International

Risk Management. Jeanique van der Mescht, who takes up the reigns as managing director of ITRISA Training says “We will also be providing customised in-house training. After performing needs analyses of our client companies’ import or export departments we will design tailor-made training programmes to cater to their specific requirements.”



Jeanique van der Mescht, MD ITRISA Training, has served on the Eastern Cape Exporters Club committee since 2006.

Making the world their oyster

When Rose Blatch and Ali Parry were tasked in the mid-1980s by the Chief Executive Officer of the South African Foreign Trade Organisation (SAFTO) to conceptualise and develop an Institute of Export for South Africa, little did either imagine that 20 years later they would be at the helm not only of the International Trade Institute of Southern Africa (ITRISA), but also of the global accreditation and certification system serving the world’s international trade education and training providers.

Ten years after the launch of the South African Institute of Export, ITRISA opened its doors as a higher education distance learning college, a provider of short training courses to the local business community and an international trade consultancy.

It was not long before the organisation attracted students from other African countries; while recipients of its consulting services have been even more widespread, stretching to countries as far afield as Sweden and New Zealand.

ITRISA’s distance learning programme covers 16 subjects leading to three different qualifications: the one-year Certificate in International Trade, the two-year Advanced Certificate in International Trade (Exports or Imports)



Rose Blatch (third left) and Ali Parry (right) flanked by international trade students at North West University.

and the Diploma in International Trade Management (Exports or Imports).

The organisation is also heavily involved in tailored in-house training, counting amongst its clients entities such as Nampak, Samancor, ESKOM, the South African Post Office, the Swedish Trade Council, the Mpumalanga Provincial Government and SACCI.

ITRISA took over the chairmanship of the International Association of Trade Training Organisations (IATTO) from 1998–2004, and today serves as both the Association’s Treasurer and the nerve centre of its Accreditation and Certification System. It is thus

not surprising that ITRISA is both an IATTO-accredited education and training provider, and IATTO’s only agent on the continent of Africa.

ITRISA enjoys strong ties with many other trade education providers, including North West University which offers B Com degrees incorporating much of ITRISA’s training material under a licensing agreement. It also benefits from strategic alliances with industry bodies such as SAAFF, and most recently a joint venture with IQuad Group Limited.

Rose Blatch, International Trade Institute of Southern Africa (ITRISA)

The debate about managing risk continues...

The role of audit committees with respect to risk as proposed in the Companies Act, due to come into effect in 2010, will have far-reaching implications for governance in corporate South Africa.

While there is disagreement whether the statutory requirement should be read literally, there is concern over how companies will meet the compliance requirements. The Companies Act of 2008 states that audit committees will be involved in the “development and implementation of a policy and plan for a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes within the company.”

To develop an effective risk policy and plan, a company will first need to define the focus of risk management in their organisation. Such a definition will hinge on their board’s definition of the company’s risk appetite or tolerance. This places the onus on the board to define this more clearly than they may previously have done and raises the question whether an annual risk review will be enough.

In addition the trend has been to look at risk on an operational level, and less frequently at a strategic level. Given recent global developments and the speed of their impact on various economies, it might be useful to consider the impact external sectoral and macro-economic factors might have on a company’s business model. Gathering risk data from top-down and bottom-up perspectives before formulating a risk management policy would also allow for a broader view of operational and strategic risks.

Depending on their size and complexity, some businesses have a separate risk committee, with cross membership from the audit committee, while others choose to add risk as a function of the audit committee. Irrespective of the model chosen the reporting line to the board remains the same.

A number of questions fuel the ongoing debate about the role of the audit committee in managing risk:


Is it the task of the audit committee is to manage risk per se or to raise awkward questions that keep the board alive to risk? Do risk committees and audit committees require two completely different skill-sets (operational versus financial, respectively)? Do larger organisations require different arrangements to smaller ones? Should risk committees or



subcommittees within audit committees, factor in the nature of the business and include technical staff or people with probing attitudes? Are different business process owners in an organisation best positioned to monitor the risks in their areas and be tasked with informing the risk committee? Is risk an executive function rather than a separate function in an organisation, and should risk committees comprise executive or non-executive directors or both?

While different businesses advocate different models, the specific requirements of a business should ultimately determine the model adopted. A broad consensus is emerging, that the overall responsibility for risk management lies with the executive management of an entity, with the audit committee playing an overseeing role, but ultimate responsibility will remain with the board.

In addition to these questions, the costs associated with compliance are themselves a problematic issue. While it is self evident that costs are best managed by avoiding foreseeable risk in the first place, in straitened times, the temptation might be to reduce capital allocated to disaster recovery. Board members may in fact, have a poor understanding of how to determine such allocations and may be hampered by insufficient documentation to make assessments. Moreover reputational damage is not easily quantifiable. Recourse is also a problematic issue. What if risks are identified by an audit/risk committee but not acted upon by a board?


While it is clearly impossible to identify every risk an organisation faces, the risk management process is a critical one. And to remove all risk is in itself inimical to the rationale of business. A subtle balancing act is required in assessing risk appetite and risk exposure to realise risk reward. 



Thingle Pather
Director of Professional Practice, KPMG

Risk and the global trader

While the globalisation of the world economy facilitates access to foreign markets, it also means operating in a tougher competitive environment with a number of potential risks that are not present in local trade. Foreign trade requires knowledge of the intricacies of foreign practices such as overcoming language and culture barriers, understanding different legal systems, dealing with complex customs requirements, foreign

currencies, transport and logistics. Importers and exporters alike risk loss in international transactions, partly due to the potential behaviour of the other contracting party and partly due to potential political and / or economic factors. 

Allan Corbett, IQuad Global Trade Solutions (Pty) Ltd

This table illustrates the forms of risk that could appear in International Trade and the potential for loss:

TYPE OF RISK	FOR THE EXPORTER	FOR THE IMPORTER
Credit Risk	Buyer unable / unwilling to pay	Exporter unable or unwilling to refund advance payments
Manufacturing / Performance Risk	Importer cancels or modifies the order	Exporter unable to execute the contract for technical or financial reasons or exporter unwilling to perform
Political Risk	Importer prevented by political events or official actions from carrying out his side of the contract	Exporter prevented by political events or official actions from carrying out his side of the contract
Transfer Risk	Governments or other public sector entities refuse or are unable to make payment in agreed currency	Guarantee payments or refunds of advance payments rendered impossible
Exchange Risk	Contract currency appreciates against exporter's currency	Contract currency depreciates against importer's currency

Moving places

The registered office of the IQuad Group Limited recently moved to its newly furnished premises at IQuad Place, 56 Mangold Street, Port Elizabeth. The new building is a strategic base for many of the core companies within the IQuad Group.



▲ IQuad Place is the registered office for the Group



◀ Reception area, from left:
 Madelein Fourie, Operations Manager, IQuad Investment Incentives
 Sharon de Kock, Receptionist
 Brenden Adriaanzen, Consultant, IQuad Investment Incentives

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