

FROM THE STARTING BLOC:

A Decade of Black Economic Empowerment

THE PROGRESS OF ECONOMIC EMPOWERMENT FROM 1992 TO 2002



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Glossary of Terms & Abbreviations

BEE	Black Economic Empowerment
BEE Controlling Shareholder	A BEE shareholder having a controlling stake in a company. Control is defined as the ability to drive the operational and financial decisions of an entity.
BEE Non-Controlling Shareholder	A BEE shareholder having a non-controlling stake in a company.
Black people	African, Coloured, Indians South African residents as defined in the Broad-based BEE Bill (2003).
Direct BEE Shareholding	Shareholding held directly by black people or by companies owned and controlled by black people.
Historically Disadvantaged Individual (HDI)	African, Coloured, Indian individuals including White females who were discriminated against in the past.
Indirect BEE Shareholding	The indirect shareholding comprises largely of equity stake held by the public sector pension funds that have defined benefits guaranteed by government.
ICT	Information, Communication and Technology sector
Previously Disadvantaged Individuals	African, Coloured, Indian individuals who, prior to 1994, were eligible for voting but could not do so in the House of National Assembly.
PIC	Public Investment Commissioners
StatSA	Statistics South Africa
SAIRR	South African Institute of Race Relations

Executive Summary

This paper examines the progress of black economic empowerment utilizing Empowerdex's Sustainable Economic Empowerment Model. This model identifies four socio-economic categories, i.e. below poverty line, economic survival, economically ready and economically empowered, into which the South African population falls. There are basic economic and socio-economic drivers identified that can be used to graduate people from the different categories – for example, to move people from below the poverty line through the economic survival stage up to the economically ready and empowered stage. These drivers include job creation measures, skills development and business opportunities.

This paper explores progress in the four socio-economic categories by assessing the effect of the underlying drivers affecting each category. The drivers that are explored are as follows:

- Basic Income Levels
- Access to housing, electricity, water and sanitation, food and health
- Education levels
 - High School level
 - Higher Education Level
- Black Economic Empowerment indicators
 - Ownership
 - Management and Control
 - Employment Equity
 - Skills Development
 - Affirmative Procurement
 - Enterprise Development
 - Residual Factor
 - Social Development

Basic Income Levels

The income level of Africans has increased substantially in percentage terms but is marginal in absolute terms (from average expenditure per person of R3 789 in 1995 to approximately R5 800 in 2000). The income gap between Africans and whites is still wide in 2000 compared to 1995. The average expenditure per African is R5 800 and approximately R47 000 for each white. Africans and Coloureds still make up the majority of the lower-income group, while whites still dominate the higher-income groups. Decrease in the taxes payable enabled the lower-income groups to increase their expenditure on other areas.

Using the Stats SA data on income levels it was found that the percentage of households in the lowest two expenditure groups (R 6 867 and the R6 868 - R12 659 p.a. levels) has decreased, meaning that more households are moving to higher expenditure groups. This is evident throughout all four population groups. The rate of movement from one income group into the next is different for each population group, however. African households, although moving into higher income groups, are advancing at a slower rate. The Coloured population group still has 70% of its households spending less than R52 800 per annum, and the African population group still has 87% of its households spending less than R52 800 per annum.

Basic Services

The provision of housing improved, with more low-cost houses being built for the lower-income groups. There has been progress in the subsidies granted to the lower-income groups to enable them to afford to purchase their homes. The health expenditures increased, with particular focus being paid to HIV/Aids. The considerable efforts and spending has resulted in the increase of access to clean water by the poor. Electrification still remains a concern; however, a budget has been reserved to accelerate the electrification process for the rural areas. Hunger is still an area of concern for the government to tackle.

High School Education

The Matric exam average pass rate for Africans was 43% over the period of 1992 to 1994. Amongst the Coloureds the Matric pass rate has remained constant in 1992 and 1993 at approximately 86% but a slight increase of two percentage points (overall 88%) occurred in 1994. On average, Coloureds had an 87% pass rate during this three-year period. Indians had the second-highest average pass rate of 93% from 1992 to 1994 while whites had the highest average pass rate of 97% over the three-year period. African pupils' Matric exemption rates were low with an average of 10%. Indians had the highest average exemption rate of 60% with the highest average of 78% in 1994. Whites had the second-highest exemption rate of 46%, followed by Coloureds with 21%. Subsequent to 1994 the Department of Education has not released the pass-rate statistics according to race.

Higher Education

The percentage of African students enrolling at universities increased from 38% in 1992 to 52% in 1999. On average, Coloureds had a 5% enrolment rate from 1992 to 2000, while Indians had a 7% enrolment rate. Technikon enrolments for Africans have increased from 25% (1992) to 68% (2000). This is a significantly higher increase in enrolment as compared to university enrolment rates for Africans. With regard to graduation levels, the general trend is that there is an increasing rate in the number of African graduates from universities and technikons. The highest increase is recorded in the education field where there has been an increase from 64% (1992) to 83% (1998), followed by the social sciences field. The majority of the white graduates are from the engineering, commerce and law fields. These are the fields in which African representation is low.

Overall BEE Indicators

Ownership

The overall BEE ownership of the Johannesburg Securities Exchange (JSE) top 100 companies is estimated to be 3.86% for 1997 and 9.37% for 2002. A large proportion of this ownership is represented by the indirect ownership by Public Investment

Commissioners (PIC) and other public-sector pension funds. In 2002 the sectors where there was more direct BEE shareholding, by black individuals or through black-owned companies, were the resources sector and to a lesser extent the financial services sector. This is correlated with the transformation charters in place or currently contemplated in the sectors.

Management

The level of black representation in the governance and top management structures of the top 100 companies increased from 1.2% in 1992 to 13% in 2002. The executive involvement of black directors improved from 0.2% in 1992 to 5.2% in 2002, while the involvement of black women in the top 100 boardrooms stood at 0.4% in 1997 and 1.3% in 2002. In 1992 there were only 11 companies out of the top 100 which had black directors on their boards; this figure increased to 71 companies in 2002.

Employment Equity

From the Employment Equity Commission Report there is a clear trend of increases in the black population groups' representation at every level of employment and occupational category. However, there is still low representation of blacks and women in the management structures of companies that submitted their employment equity reports. There was a high representation of black people at the lower skill levels.

Other indicators

There were increasing levels of disclosures pertaining to skills development initiatives, except for details on how much, as a percentage of payroll, companies spent on skills development initiatives. Only 8% of the companies disclosed their spending on skills development over and above the 1% required by law. In 1992 there were no policies on affirmative procurement within the top 100 companies. By 2002, there had been an increase in companies engaging in affirmative procurement. However, not many companies disclose how much they spend on affirmative procurement as this is still a new area for them. Enterprise and social development initiatives have on the top 100

companies' radar screens for most of the ten-year period and there have been some contributions made in these areas.

Section 1: Introduction

Black Economic Empowerment (BEE) is defined as an integrated and coherent socio-economic process located within the context of the country's national transformation programme, namely the Reconstruction and Development Program (RDP), which is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens. Furthermore, it seeks to ensure broader and more meaningful participation in the economy by black people to achieve sustainable development and prosperity (BEECom, 2001).

The BEE process has been triggered by the past economic inequalities that were systematically created by the apartheid regime to exclude blacks from the mainstream economy. This resulted in the creation of two economies, an emerging economy comprising the majority black population and the mainstream economy consisting of the minority white population (Mbeki, 2003). The BEE Commission (2001) stresses the importance of the government dealing with the marginalisation of the black majority in economic terms if there is going to be any economic progress in South Africa. This is the challenge that is facing the new political dispensation as the issue of BEE will have long-term implications for the sustainability of the South African economy. The World Bank considers BEE to be one of the main factors that has to be taken into account when looking at the future economic growth of South Africa (Riley, 1993).

The South African government has implemented certain measures to reverse the economic legacies of the past. Measures in the areas of procurement, licensing and financing have been put in place in order to accelerate the BEE process. However, in the absence of a comprehensive framework to implement these measures across all organs of State, the effectiveness of the measures is hampered. The government has recognised these limitations and has taken the recommendations of the BEECom into account in the drafting of its Integrated BEE Strategy.

Section 2: Methodology

The starting point of this paper was to look at the basic economic survival of black people (Africans, Indians and Coloureds – BBBEE Bill, 2003) and track any progress made using certain socio-economic indicators. The key indicators that were used to measure economic survival were as follows:

- 1) Income differentials between the different population groups;
- 2) Access to housing, electricity, water and sanitation, food and health.

The rationale for looking at income differentials was to enable the measurement of any improvement or decline in the income levels of black people. Secondly, measuring the income differentials over the ten-year period would highlight any income gaps between the different population groups. Access to housing, electricity, water and sanitation gives an indication of the basic living conditions of the different population groups.

Economic empowerment measures

The economic empowerment progress on the JSE was measured by looking at the different indicators considered by the government to be important in driving economic empowerment (DTI, 2003). The key indicators are as follows:

- Ownership
- Management and Control
- Employment Equity
- Skills Development
- Affirmative Procurement
- Enterprise Development
- Residual Factor
 - Social Development

These key indicators were utilized to measure economic empowerment progress made by companies in South Africa. The top 100 companies by market capitalization listed on the Johannesburg Securities Exchange (JSE) were measured against these indicators. The

reason for looking at the JSE is that it is a useful proxy of the economy. The top 100 companies account for the majority of the value and trading activity of the JSE.

Each of the above BEE indicators were used to measure the progress made between 1992 and 2002. The defining years that were used as anchor years in the study were 1992, 1997 and 2002. Most of the data supporting the indicators was gathered utilizing the annual financial statements of the companies. The key factors taken into account for most of the indicators were:

- the existence of the policy supporting the BEE indicator;
- the types of programmes supporting the indicator; and
- the implementation of the policy behind the indicators as demonstrated by the financial or quantitative data from the financial statements.

Ownership

The ownership indicator was determined utilizing data from the McGregors BFA shareholder service. The shareholder registers of all the companies under consideration were scrutinized to identify direct black shareholdings and public-sector pension funds holdings which comprise BEE ownership for the purposes of this research. On average the shareholding assessed accounted for approximately 98% of the total shareholding of the company.

Management

The boards of directors for the top 100 companies for the years 1992, 1997 and 2002 were examined to determine the representation of black directors on the JSE. A distinction between executive and non-executive directors was made for the years examined, which enables one to determine the operational contribution made by the black directors in their respective companies.

Employment Equity

The employment equity profiles of companies were not disclosed by most companies because of the absence of concrete legislation in 1992 and 1997. It was only in 1998 that the Employment Equity Act was passed and became applicable as soon as practicable for the qualifying companies. Therefore it was not possible to make any meaningful comparison between 1992, 1997 and 2002. However, the Employment Equity Report released by the Department of Labour in 2003 was used to measure the progress made in Employment Equity. This report measured employment equity for 2000 and 2001.

Skills Development

This research focused on the disclosures made by the companies as a measure of their implementation of the skills development initiatives. The skills development initiatives were assessed by identifying the following:

- existence of the skills development policy within the company;
- disclosure of the types of skills development programs implemented within the company;
- amount spent on skills development;
- existence of learnerships.

The limitation to the details behind skills development spending analysis is that one cannot track the funds spent on previously disadvantaged individuals.

Affirmative Procurement

The assessment of affirmative procurement involved extracting from the financial statements of the top 100 the following:

- the existence of an affirmative procurement policy in the relevant years;
- the areas in the company's supply value chain where it spent its affirmative procurement budgets, such as in support services, core operations of the company, etc.;
- amounts spent on affirmative procurement.

Enterprise Development

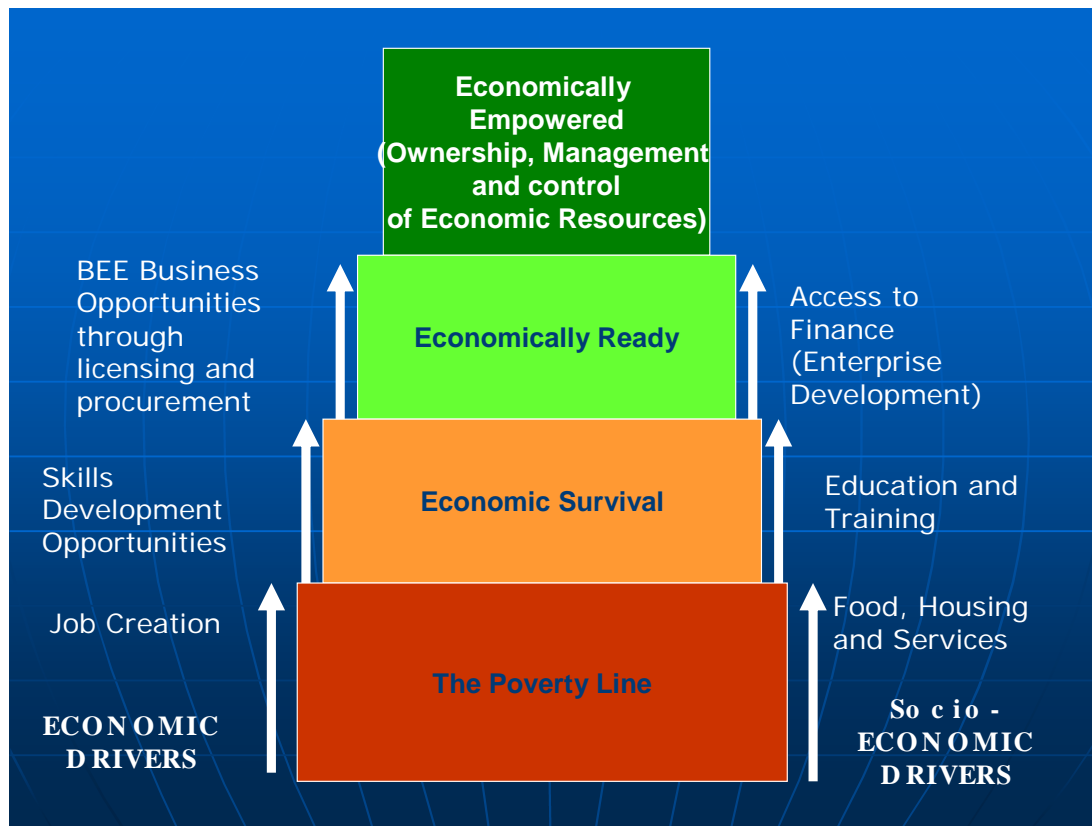
In quantifying the progress made relating to enterprise development the following factors were taken into account in the analysis:

- existence of an enterprise development;
- disclosure on how much was spent on enterprise development initiatives;
- disclosure on the specific enterprise development project;
- BEE transactions concluded at terms and conditions favourable to the black partners.

Social Development

This indicator was assessed by looking at the Corporate Social Investment initiatives undertaken. The types of social development areas the companies supported and the amounts invested in those areas were taken into account in the analysis.

Section 3: Sustainable Model of Economic Empowerment



(Source: Empowerdex, 2002)

The sustainable model of economic empowerment explores and promotes the broad-based inclusive approach of economic empowerment (Empowerdex, 2003). The model classifies the population into four socio-economic categories, i.e. below poverty line, economic survival, economically ready and economically empowered. To counter the resistance and ceilings at each level, the government and the private sector need to implement both economic and socio-economic drivers to promote the graduation of PDIs into the different stages of economic growth and development.

Furthermore, the model also explains the effect of various broad economic empowerment factors on the inclusion of PDIs into the mainstream economy. The following sections provide a brief explanation of each stage of the model and the economic and socio-economic drivers required for their promotion and graduation.

3.1 The stages of economic development and identifiable drivers of progress

The poverty line: This represents the population living on the fringes of the economy, who struggle to acquire sufficient resources to ensure physical or economic survival. Possible drivers that can be used to support the population in this group include job creation, the provision of food, housing and basic services. Without the security of these basic needs, it is difficult for individuals in this category to acquire the new skills required for advancement and almost impossible for them to make use of business opportunities provided through procurement, licensing or enterprise development. The economic contributions made by people in this category are insignificant.

Economic Survival: Individuals found in this category have stable jobs and income streams but will require training opportunities to develop additional skills for further advancement. The acquisition of business knowledge and skills through formal and informal education systems may also contribute to their further advancement. The economic empowerment contribution of this group is limited.

Economically Ready: These individuals possess the prerequisite skills and intellectual resources to develop and expand their ownership and control over economic resources, but may lack the right business opportunities, sufficient resources or business networks to establish or expand their economic influence. Access to finance, together with the creation of business opportunities through preferential procurement, licensing and enterprise development, will provide the environment for these individuals to become fully economically empowered. The economic contributions made by these individuals can be fairly substantial.

Economically empowered: These include individuals who exercise ownership, management and control over economic resources and are fully integrated into the mainstream economy. The expansion of the proportion represented by PDIs in the economically empowered category remains one of the primary objectives of the economic empowerment process. The economic contributions made by these individuals are significant.

3.2 The risks presented by the narrow-form economic empowerment process

The economic empowerment process has often focused entirely on the redistribution of ownership, management and control of economic resources, i.e. the last level of promotion from economically ready individuals to economically empowered individuals. For this reason, the emphasis of the economic empowerment initiatives has often been placed on the provision of business opportunities and finance. However, there are two risks associated with this focus:

- Selective enrichment risk
- Fronting risk

3.2.1 Selective enrichment risk

These initiatives benefit only those in the designated groups who are economically ready. Designated individuals in the economic survival and poverty stage cannot and do not benefit from the initiatives due to the lack of knowledge, skills and resources. A narrowly defined economic empowerment process may result in enrichment and the creation of a class of the super-rich individuals in the designated group. This may further skew the differential between the haves and the have-nots in the economy.

3.2.2 Fronting risk

These initiatives also increase the possibility of fronting. The creation of business opportunities targeted specifically at the designated group may be hijacked by those in the non-designated groups. Insufficient skills and resources amongst the designated group provide an opportunity for the use of fronting, window-dressing and opportunistic mechanisms by non-designated individuals to take advantage of the opportunities. This will result in the inability of the initiatives to achieve sustainable economic empowerment in the long run.

3.3 The broad-based, inclusive approach of economic empowerment

The broad-based, inclusive approach of economic empowerment allows the government to align both public and private initiatives to expand the different economic empowerment drivers. This will ensure that the economic empowerment initiatives and benefits are channelled to individuals at all stages of economic development.

The enhanced economic and socio-economic drivers will ensure the development of designated individuals from the poverty line all the way through to the captains of industries. The approach will reduce fronting, limit individual enrichment and also ensure that the economic empowerment process results in sustainable economic growth.

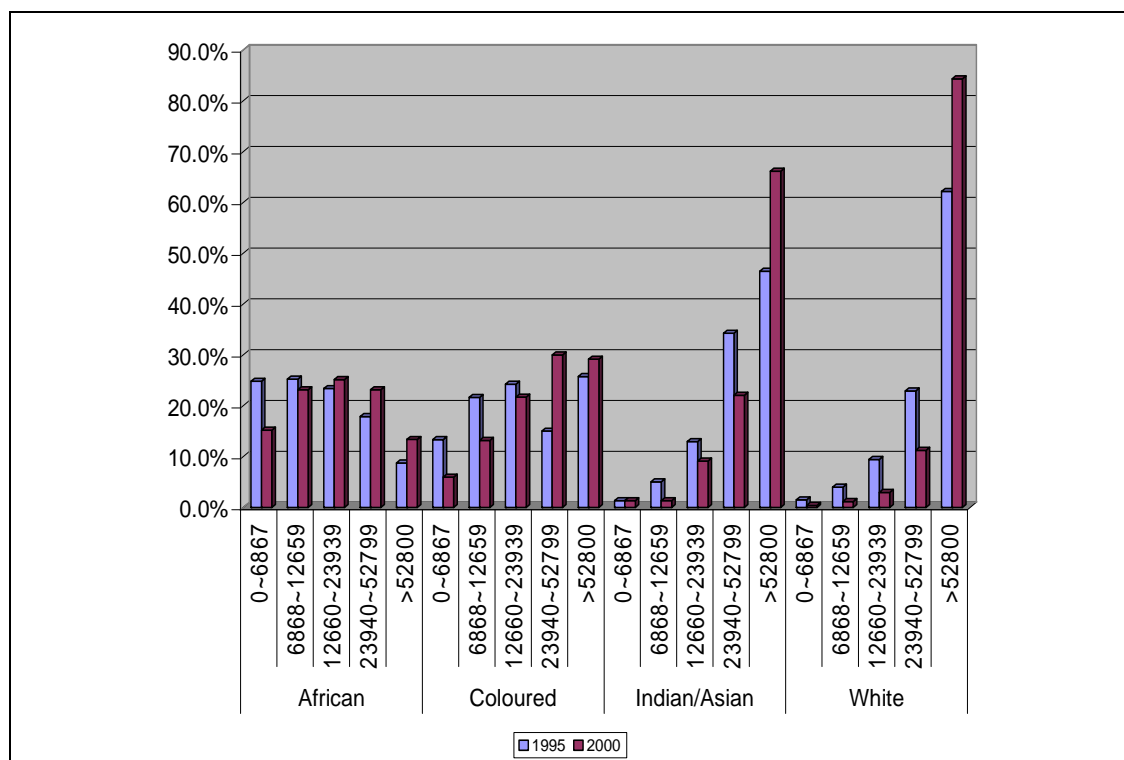
Section 4: Economic Survival

4.1 Income Levels

The analysis of the economic well-being of the people of South Africa in the year 2000 in comparison to 1995 uses information extracted from the Income and Expenditure of Households Statistical Release from Statistics South Africa (Release number P0111), for the years 1995 and 2000. The statistical release uses the 1995 constant price, and assumes the annual earnings to be greater than or equal to the annual spending. Therefore the expenditure data is used to determine the average income and the spending capacity (standard of living) of South African people, and the changes in spending pattern; while the household numbers are used as a fair representation of the South African population demographics.

4.1.1 Spread of South African population groups across different income levels

Chart 4.1 The Percentage of Households in Different Expenditure Groups

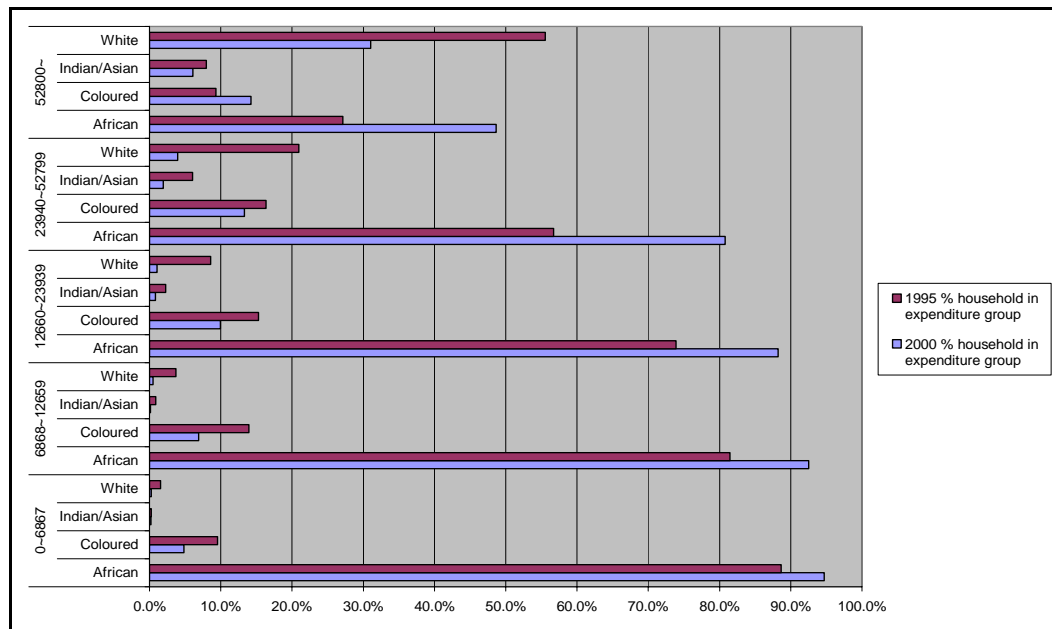


(Data Source: StatSA)

Chart 4.1 illustrates the distribution of the different population groups across the different income levels in year 1995 and year 2000. The percentage of households in the lowest two expenditure group has decreased, meaning that more households are moving to higher expenditure groups. This is evident throughout all four population groups. The rate of movement from one income group into the next, however, is different for each population group. From Chart 1.2 it is evident that African households, although moving into higher income group, are advancing at a slower rate. The composition of the lowest expenditure group has increased from 88.7% African households in 1995 to 94.7% in 2000, and the composition of the second-lowest expenditure group increased from 81.5% African households in 1995 to 92.5% in 2000.

All population groups have moved more households into the expenditure group that spends over R52 800 per annum, but the white and Indian households increased the most, increasing from 62% to 84% and 46% to 66% respectively. Even after the increase, the Coloured population group still has 70% of its households spending less than R52 800 per annum, and the African population group still has 87% of its households spending less than R52 800 per annum.

Chart 4.2 The Percentage of Each Population Group in Different Expenditure Groups



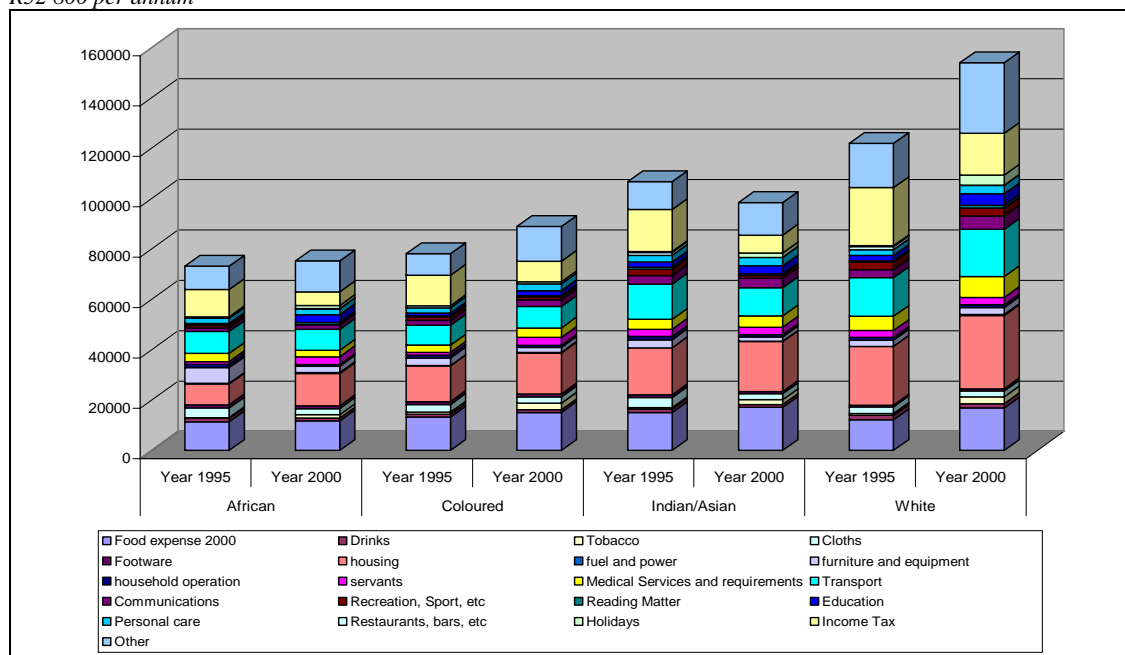
(Data Source: StatSA)

Chart 4.2 illustrates the composition of each expenditure group in terms of the different population group households. The table indicates that there are more African households in every expenditure group in 2000, whereas in 1995 there are more white households in the highest expenditure group than all other population groups. Although there are more African households in every expenditure group, they only represent 48.6% of the households spending over R52 800 a year, while representing over 80% of each of the other lower expenditure groups.

4.1.2 Highest income level analysis (income > R52 800)

In the expenditure group that spends more than R52 800 per annum, the average African household spending is approximately 70% of the average white household spending in 1995, while in 2000 the average African household spending is only 49% of the average white household spending. The African household spending in 1995 and 2000 is approximately the same; therefore it can be concluded that white households have increased their spending substantially over the years. A change in the spending pattern of this expenditure group may be attributable to individuals paying less income tax in 2000 than in 1995.

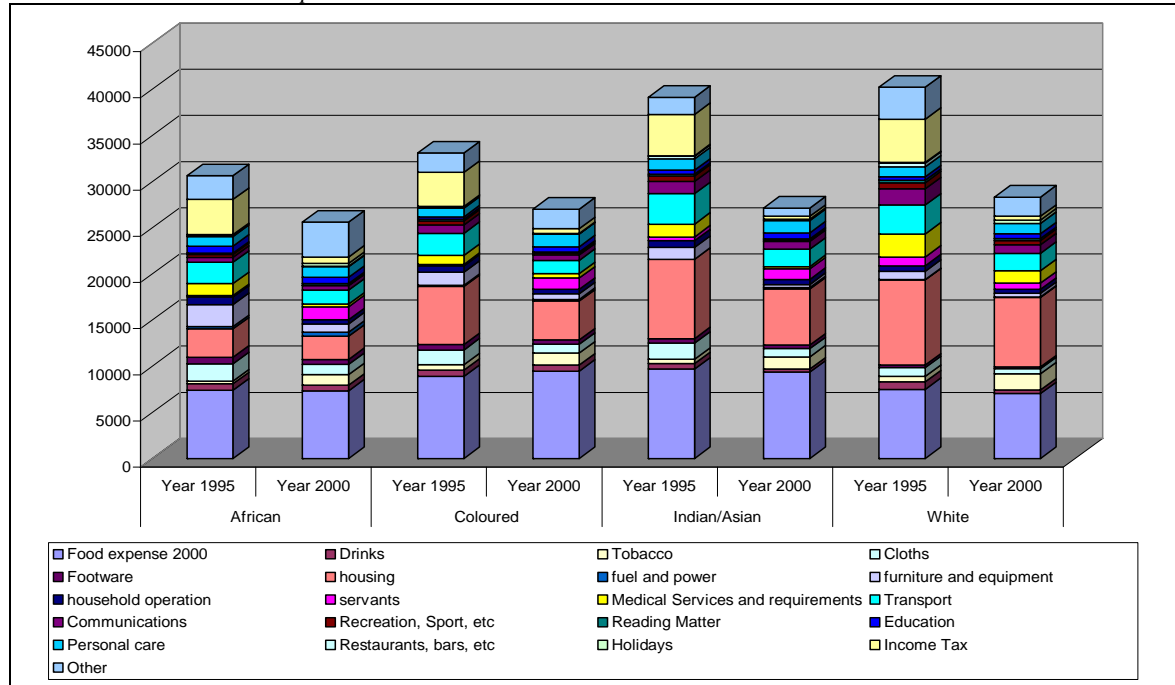
Chart 4.3 Annual Expenditure comparison between the year 1995 and 2000 for the expenditure group spending over R52 800 per annum



(Data Source: StatSA)

4.1.3 Other income levels analysis

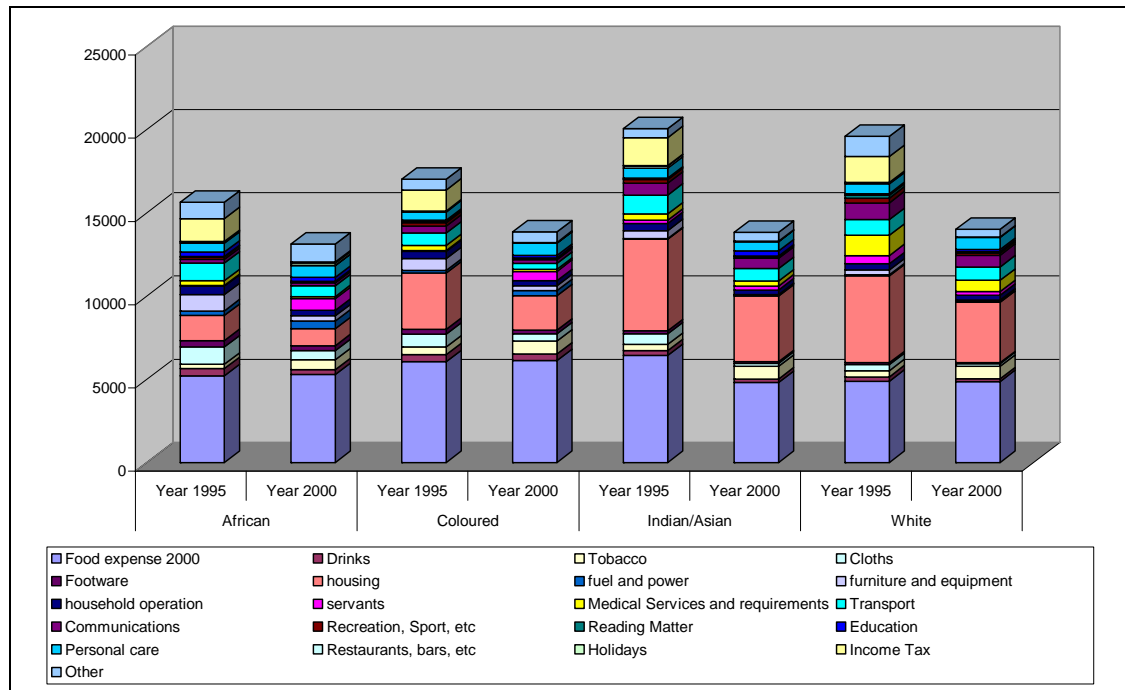
Chart 4.4 The Annual Expenditure comparison between the year 1995 and 2000 for the expenditure group spending between R23 940 and R52 799 per annum



(Data Source: StatSA)

The income tax changes are more visible in the lower-income groups, as shown in Chart 4.4 and Chart 4.5, which is the comparison of annual expenditure of households spending between R23 940 and R52 799 and between R12 660 and R23 939 respectively. The households in these expenditure groups are spending less money per annum, but without compromising their standard of living. The most significant reductions in their annual expenditure are the income tax expenditure, medical services, and housing expenditure. The other change in spending pattern is that Previously Disadvantaged Individuals (PDIs) are now able to spend on servants even in the lower-income groups, whereas in 1995 there was minimal, or no spending on servants by PDIs.

Chart 4.5 The Annual Expenditure comparison between the year 1995 and 2000 for the expenditure group spending between R12,660 and R23,939 per annum



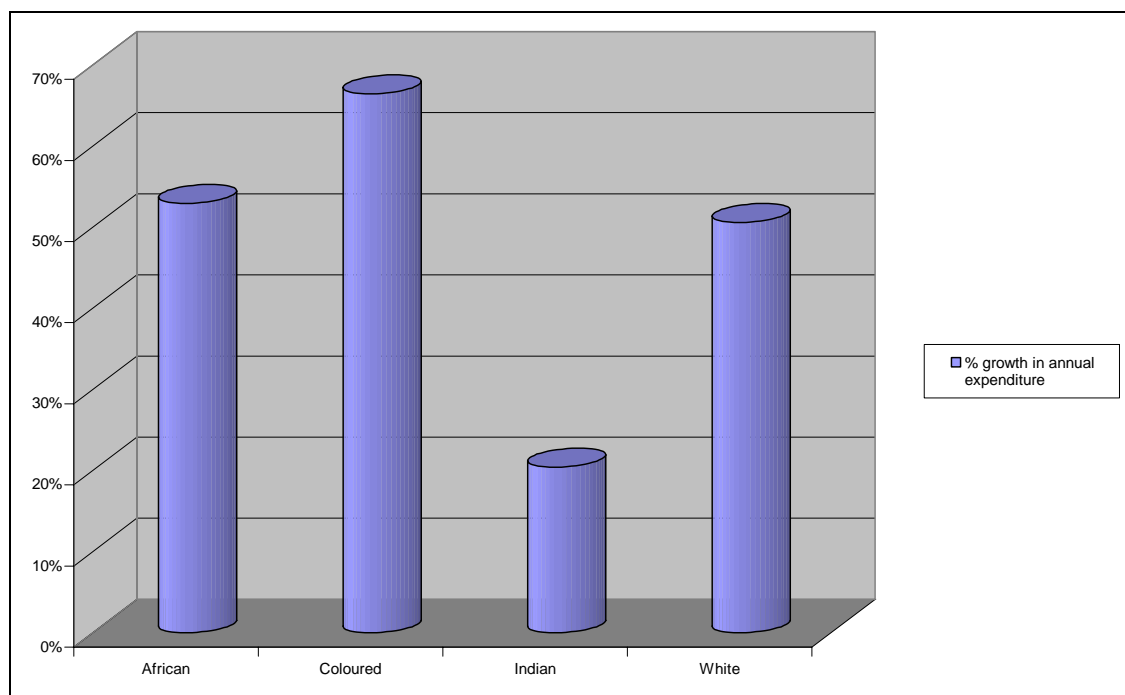
(Data Source: StatSA)

The lowest two expenditure groups show a decrease in average annual expenditure for all four population groups. This is mainly due to decreased housing expenditure and decreased food expenditure, which is over 50% of their annual expenditure. In the expenditure groups spending less than R52 800 per annum, the household expenditure has either stagnated or decreased, with the tax and housing expense effect excluded, while the households spending over R52 800 per annum have increased their annual spending. One explanation of this phenomenon is that as the households in lower expenditure groups progress to the next expenditure group this results in the remaining households spending much less, which in turn leads to a decreased average annual spending in the lower expenditure groups. The other explanation is that the rich are getting richer, and therefore spending more, and the poor are getting poorer, and therefore spending less. The situation between 1995 and 2000 in South Africa is a mixture of both.

4.1.4 Average Expenditure per Person

The average expenditure per person measures the average individual spending capacity, and therefore the standard of living for each population group. The calculation is based on the number of people in a household multiplied by the number of households to get an estimate of the number of people in the sample. The total expenditure for each population group is then divided by the number of people to derive an estimate of the average expenditure per person.

Chart 4.6 Comparison of the growth rate of annual expenditure per person

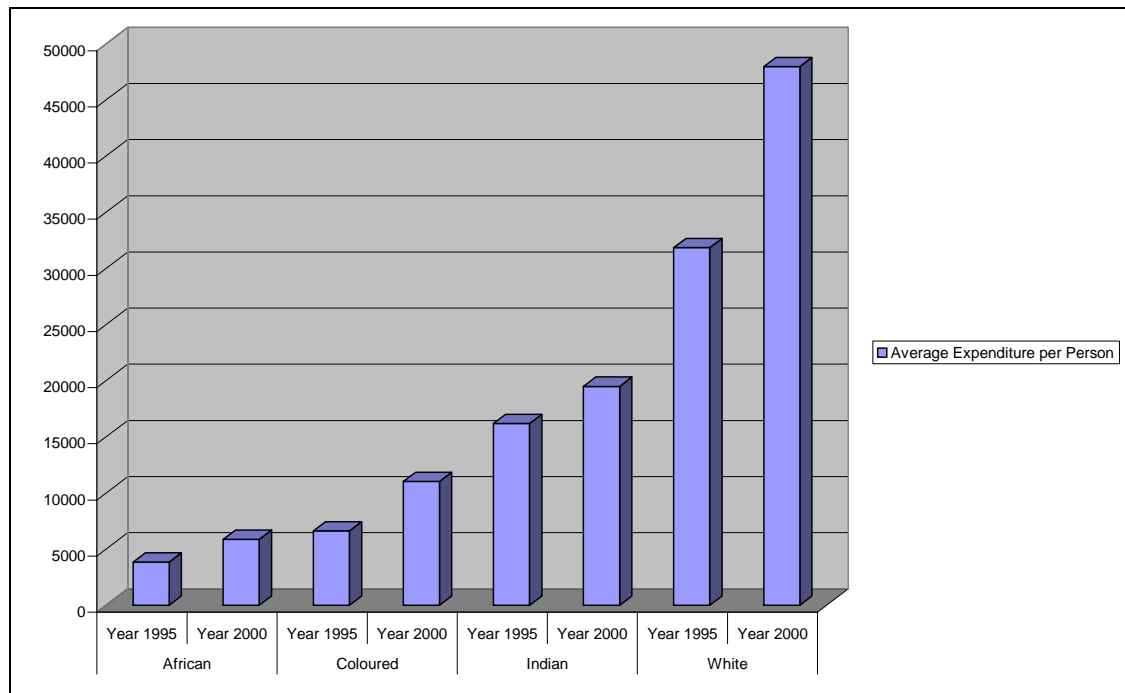


(Data Source: StatSA)

Chart 4.6 shows the growth of the average annual expenditure over the five-year period. African and Coloured individuals showed a 53% and 66% increase over five years respectively, while Indians only increased their annual average expenditure by 20% over the five years. Among black people, Coloured individuals are narrowing the gap between their average annual spending and that of the Indians, which is the highest-spending black population group.

Although the African annual expenditure per person increased by 53% over five years, in absolute terms it is only a little more than R2 000 p.a., while the 51% increase of white annual expenditure per person represents a R16 000 increase. This, as illustrated in Chart 4.7, even though blacks improved their standard of living over the five years, the wealth gap between blacks and whites has widened.

Chart 4.7 Comparison of average annual expenditure per person



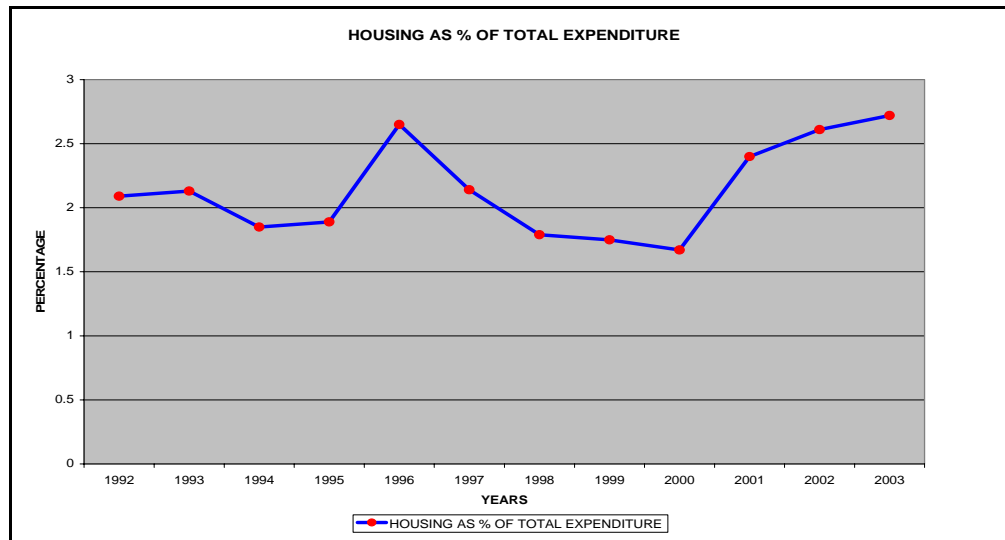
(Data Source: StatSA)

Chart 4.7 also shows that the average annual spending by a white individuals exceeded R47 000 in the year 2000, while the average annual spending of African individuals in the year 2000 was only R5 800. This converts to an average monthly spending of just below R4 000 for a typical white individual, and just below R500 for a typical African individual. This would be the standard-of-living gap between the two population groups in the year 2000. When this is compared to the 1995 figures, which show an approximately R320 spending per month for an average individual in the black population group and approximately R2 700 per month for an average individual in the white population group, the monthly gap has increased by more than R1 000.

4.2 Housing

4.2.1 Government spending on housing

Chart 4.8 Housing as a Percentage of Total Expenditure



(Source: Annual Budget Speeches, 1992-2003)

Prior to 1994, expenditure on housing steadily increased from R2.2 billion to R2.4 billion, which was approximately 2.1% of total government expenditure (Annual Budget Speeches, 1992-2003). The level of spending on housing showed that government was trying to initiate growth in housing, but that this was not sufficient to sustain growth amongst previously disadvantaged individuals.

4.2.2 Government's efforts towards the provision of housing

Once the Government of National Unity had taken over in 1994, there was an increase from R2.4 billion to R4.6 billion (in 1996) in housing expenditure. This illustrated the government's commitment to empowering PDI's by providing basic housing. The increase in expenditure would provide the infrastructure for successful housing development schemes for the poor. Even though government increased its contribution toward housing, the quick delivery of the houses was still a challenge. By late February 1995, 878 houses were built versus the target of 1 million houses by 1999. In 1996, renewed and determined efforts were made by government to break through the low-cost housing barriers (RDP Monitors, 1995-2003).

4.2.3 Reasons for decline in housing spending

The significant decline in expenditure in the graph from 1996 to 1998 may be attributed, inter alia, to the bond boycotts which resulted in the SA Housing Trust incurring a loss of R165 million. The other possible reasons for the decline are:

- the time-consuming process of waiting for land to be available for building;
- local government structures not functioning as effectively; and
- the registration of title deeds taking a longer time to effect.

4.2.4 Housing subsidies and delivery of houses

During the period 1998 to 2003, government expenditure on housing increased from R3.6 billion to R9.1 billion. The housing subsidy scheme which was launched in 1994 had contributed to the building of 629 449 houses and approximately 936 754 subsidies have been approved since 1994 of which 40% were registered to women. In 2002 a total of 1 323 200 subsidies were awarded to low-income earners. Towards the end of 1997, approximately 700 000 housing subsidies were approved for low-income earners and 190 000 more houses were built. In 1998, 152 000 housing units were completed for the low-cost housing market. Overall, between 1994 and 2000 the government spent R14.8 billion in delivering a total of 1 129 612 homes.

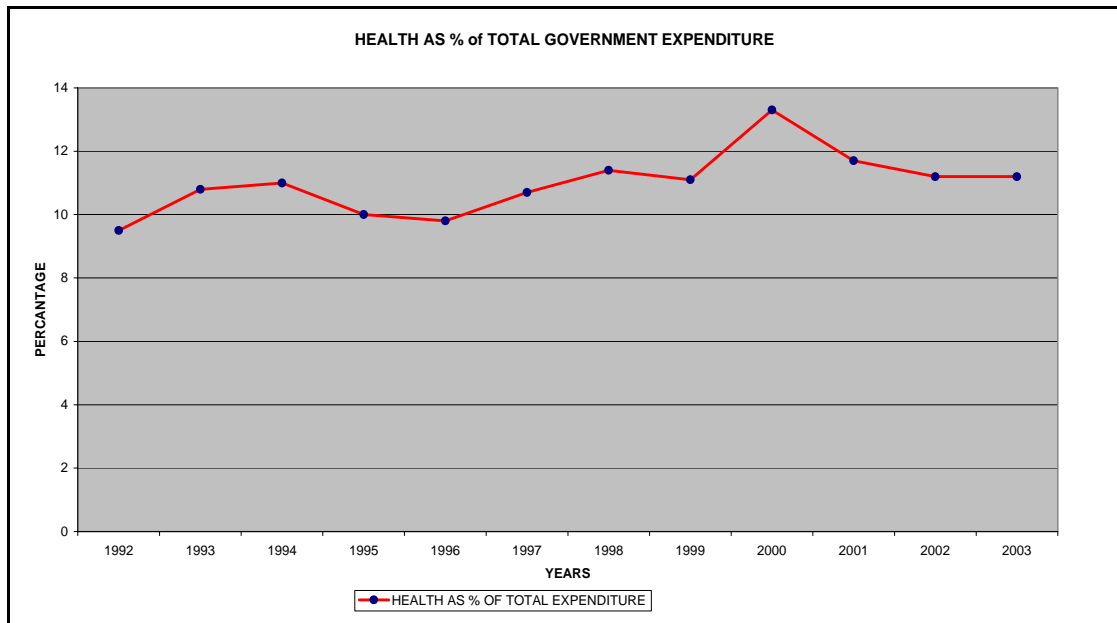
4.2.5 International comparisons

In comparison to other countries South Africa holds the record for the provision of low-cost housing: the country built over 1 million houses in the five years after 1994. Sweden built 250 000 houses in five years (since the ruling party has been in power) and 1 million houses in ten years. Cuba built 85 000 houses in the first five years after the revolution, and 5 million houses in twenty-five years. Singapore built 55 430 houses in the first five years of independence and 585 000 houses in ten years. This is an achievement for South Africa: the percentage of government spending allocated to housing in comparison to other countries is very favourable. For example, housing expenditure in Sweden accounts for approximately 20% of the government's annual budget, whereas in South Africa the average is 2.14 % (21.4%?). However, the quality of houses differs in each country and this has to be taken into account in the comparative analysis.

4.3 Health

4.3.1 Overview of health performance in South Africa

Chart 4.9 Health Expenditure as % of Total Government Expenditure



(Source: Annual Budget Speeches, 1992-2003)

The total expenditure on health was approximately R267 billion from 1992 to 2003, which on average represents 10.9% of total government expenditure. In a survey done by the SAIRR, South Africa's overall health system performance was rated 175th out of the 191 member states in the World Health Organisation's *World Health Report 2000* (SAIRR, 2001/02).

During 1996 102 new clinics were built, whereas, by the end of 1998, 500 new clinics had been built. Free health care was also introduced for pregnant women and children under the age of five. By the end of 1998, 638 clinics had been built. In 1997, the focus on health was concentrated on the campaigns against polio, measles, HIV and tuberculosis.

4.3.2 Increased government focus on HIV/Aids

The focus on HIV/Aids increased when government supplied more funds to combat the epidemic. The funding increased from R75 million in 1998/1999 to R211 million in 2001/2002. During the period 2000 to 2002 a special allocation made by government to fight Aids amounted to over R500 million. This money was spent on children and youth, as they are the most affected individuals by this killer disease.

4.4 Water, Electricity and Sanitation

4.4.1 Water Projects

In 1995 President Nelson Mandela launched the first of 12 presidential projects to supply clean water to one million rural people. Known as the R5.7-million Moretela Water Project, it is situated north of Pretoria and was completed in 1996. A similar launch took place in Port Elizabeth, which was the first city to get RDP projects under way.

In the five years from 1995 to 1999, there was a gradual increase in the proportion of households that had access to clean water (piped water inside the dwelling or on site, communal tap or public tanker). In 1995, 78.5% of households had access to clean water, rising to 83.4% in 1999. At the same time there was a decrease in the proportion of households using water from boreholes and rain-water tanks – from 10% in 1995 to 4.7% in 1999. The proportion of those households obtaining water from rivers, streams and dams has remained roughly constant over time (11.4% in 1995, and 11.8% in 1999), possibly indicating that improved access to clean water had not significantly affected previously disadvantaged households in deep rural areas (StatSA OHS 1999, 2001).

4.4.2 Government spending on water initiatives

During the period 1996-1998 government contributed approximately R 650 million to water and electricity. In 1997 government committed R1.6 billion to capital expenditure on water schemes. Water supply has been a huge success for the government, with 1.5 million connections in 1998 since 1994 at a ground cost of R2 billion. The target was a further 6.5 million connections by the turn of the century in order to decrease the estimated 12 million people with no access to clean, safe drinking water (RDP Monitor, 1998).

The issue that emerged from the above initiatives was the sustainability of such services, including electrification initiatives. In 2001, the government contributed R580 million to water supply and sanitation projects.

4.4.3 Electrification

According to the StatSA October Household Survey 1999, there was a gradual increase in the use of electricity for lighting, from 63.5% in 1995 to 69.8% in 1999, and a gradual decrease in the use of paraffin and candles. While more than half of households in South Africa (55.4% in 1995 and 53.0% in 1999) relied mainly on electricity for cooking from 1995 to 1999; this proportion remained more or less constant between 1995 and 1999. This may be due, in part, to costs of electricity and appliances. Proportionally fewer households were using wood to cook in 1999 than in 1995. On the other hand, the proportion of households using mainly paraffin for cooking actually increased during the period. As with cooking, electricity was the most common energy source used for heating purposes by South African households. However, an overall decrease occurred in the proportion of households using electricity for heating purposes, from 53.8% in 1995 to 48.0% in 1999, probably partly due to costs. The use of wood for heating also showed a downward trend during this time period, but the use of paraffin and other sources such as coal and dung increased over time.

In 2002, government via the Department of Minerals and Energy spent R 950 million to electrify rural areas. Many of these areas were electrified through non-grid alternative energy technologies to supply power. Approximately 3.78 million households have been electrified since 1994, with the backlog at 3.99 million (RDP Development Monitor, 2002).

4.4.4 Sanitation and Refuse Removal

Between October 1995 and October 1999, there was a possible slight decrease in the proportion of households with access to flush or chemical toilets, from 56.9% in October 1995 to 55.8% in October 1999. At the same time there was a possible slight increase in the proportion of households with informal facilities such as a river, stream or bush, from 8.3% in 1995 to 10.6% in 1999. Throughout the five years from 1995 to 1999, there was not a marked change in the proportions of households (approximately 55%) who have access to formal refuse removal services.

4.5 Food

In 1992, a further R440 million was contributed towards the Nutritional Development Fund which was established in 1991. This fund was established to tackle poverty and specially targeted aid schemes. By 1999 this project had reached approximately 5 million children in poor communities. This food would contribute towards their nourishment and also increase their learning capacities to create many employment opportunities. In 1997, many organisations representing women in the rural areas were awarded funding in the budget to sustain their endeavours regarding food and food provision in rural areas.

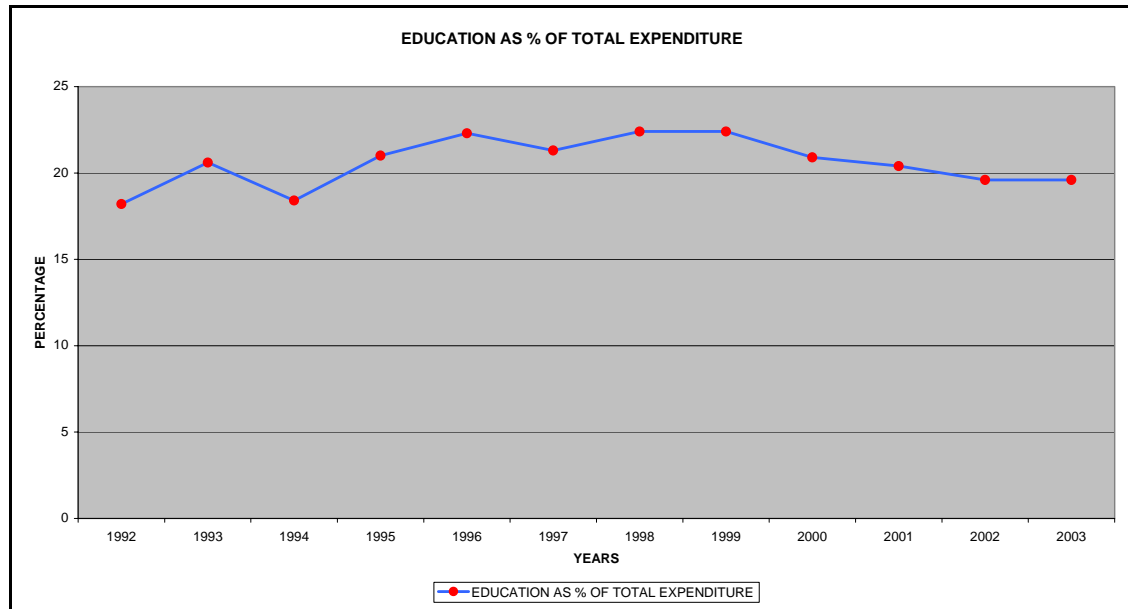
In 1999 a national food consumption survey was conducted by the Department of Health. The findings were that 52% of South African households experienced hunger, 23% were at risk of hunger and only 25% appeared to be food-secure. Some 62% of houses in rural areas, compared with 42% in urban areas, experienced hunger (SAIRR,2000/01).

Section 5: Economic Readiness

5.1 Government Education Initiatives

5.1.1 Government education expenditure

Chart 5.1 Education Expenditure



(Source: Annual Budget Speeches, 1992-2003)

The funding of education has increased from R19.05 billion in 1992, to R 65.5 billion in 2003. From 1992 to 1997 education expenditure from the budget increased to 108.4% from the 1992 baseline, whereas from 1997 to 2003 education expenditure increased by 65% on the 1997 baseline. On average over the 12 years, government's education spending has been approximately 20% of the government spending budget. From 1992 to 2003 government has spent a total of approximately R429 billion on education.

5.1.2 Problems experienced within the education system

However, in 2000 an audit report by the Auditor-General revealed that there were severe shortages of resources, poor administration and problems in implementing programmes in the education system. According to a survey done by the South African Institute of Race Relations (SAIRR) in 2001/2002, some 93% of schools had no library, 94% had no science laboratories, 25% had no toilets and 206 schools were declared unfit for education. More money was spent on personnel rather than basic services in schools, even though teachers were not complying with official school hours. There was also a

significant decline in maths and science teachers largely due to their accepting positions overseas, especially in Britain.

5.1.3 Educational initiatives to improve the standard of education

From 1994 to 1997 the following initiatives were successful in providing educational resources to underprivileged people:

- The Culture of Learning Project built 1 162 schools and spent R34.8 million.
- An amount of R24 million was spent on a Pilot Youth College in Johannesburg, which is currently in operation, in order to improve educational resources.

Expenditure on adult education doubled in 1997 from an average of R6.5 million per year to R13.1 million, thereby cementing government's efforts to educate illiterate adults to enable them to contribute towards the economy. By the end of 1998 school attendance was up by 10% from 1994. An amount of R5 million was also spent on supplying underprivileged children with free meals at schools.

South Africa has one of the highest enrolment rates of children of school-going age in comparison to other developing countries, according to the SAIRR. Over 12 million pupils were at school and this represented more than 90% of all children between the ages of seven and twelve. However, nearly 90% of children entering grade one in 2000 had no basic awareness of the working of numbers and letters.

In order to combat some of the problems faced by the education department, government has persuaded retired science and maths teachers to return to teaching and some 50 Cuban teacher-trainers in science and maths were recruited and then deployed to rural and urban areas. The Gauteng Department of Education also aims to connect 2 200 schools in the province to the internet and to provide every teacher and pupil with an e-mail address by 2004.

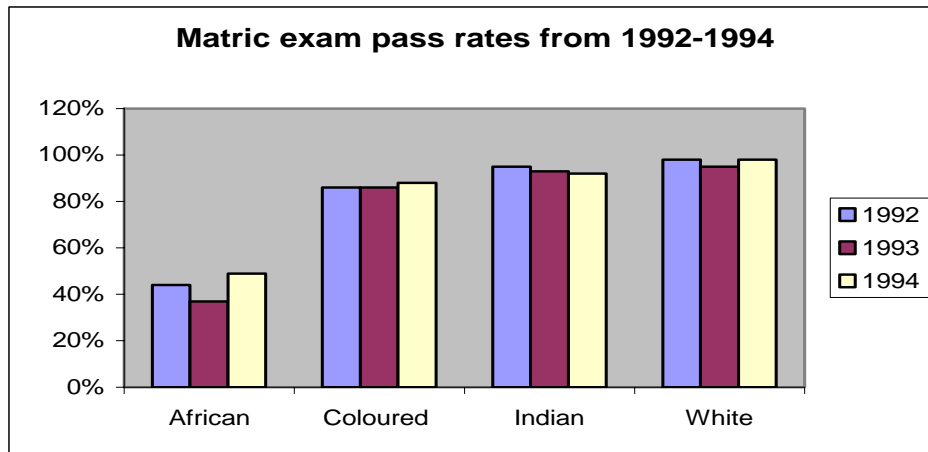
5.1.4 Educational Infrastructure Achievements since 1994

According to the National Schools Register of Needs Survey tabled before Parliament in May 2001, fewer schools were 'unfit for education' in 2000 than in 1996. Some 1.9 million learners were without toilets, down from 6.6 million in 1996, but 155 toilets were not working in 2000. The proportion of schools without telephones had been reduced from 59% to 34% and those without running water from 40% to 34%. Over 70% of schools lacked a computer in 2000, but the number of computers increased by 189% from 2 241 in 1996 to 6 481 in 2000 while some 37% of schools lacked sports facilities.

5.2 Matriculation Analysis

5.2.1 Matric Pass rates per population groups

Chart 5.2

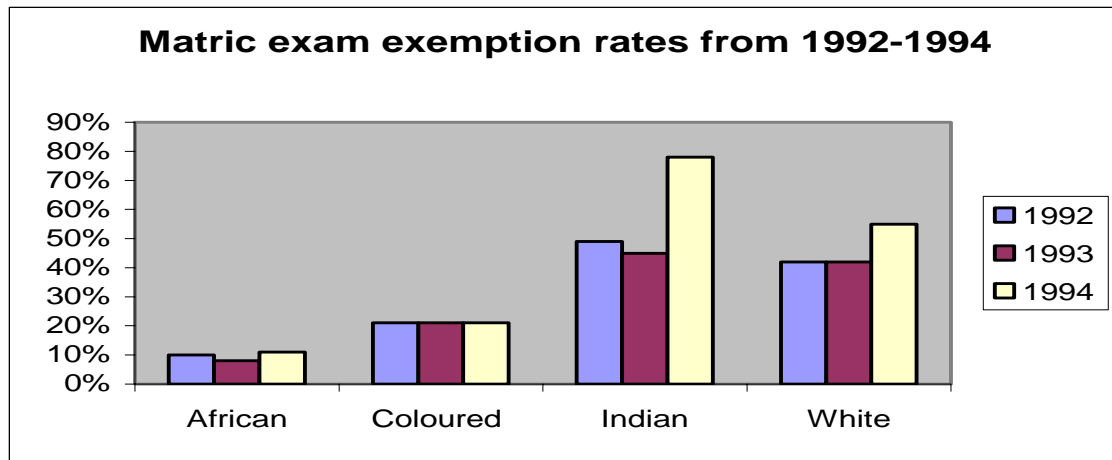


(Source: South African Institute of Race Relations)

Chart 5.2 shows a decrease in the Matric pass rates amongst Africans between 1992 and 1993 from 44% to 37%. However, there is an increase from 37% (1993) to 49% (1994) in the number of Africans passing their Matric exams. The average pass rate of Africans is 43% over the period. Amongst Coloureds, the Matric pass rate remained constant in 1992 and 1993 at approximately 86% but a slight increase of 2% occurred in 1994 (overall 88%). On average, Coloureds had an 87% pass rate during this three-year period. Indians had the second-highest average pass rate of 93% from 1992 to 1994 whilst whites had the highest average pass rate of 97% over the three-year period. This clearly illustrates the effect of the different education systems of the apartheid era. The Government of National Unity's response to the above was to integrate all population groups into one educational system to ensure that there were no inequalities in the quality of education provided to all South Africans.

5.2.2 Matric exemption rates

Chart 5.3

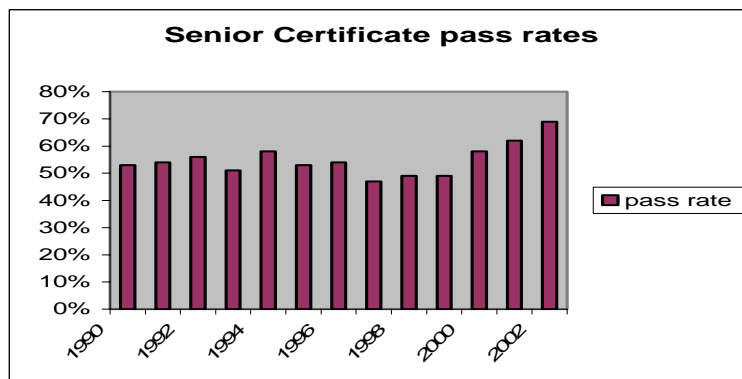


(Source: South African Institute of Race Relations)

The Africans pupils' Matric exemption rates were low, with an average of 10%. Indians had the highest average exemption rate of 60%, with the highest average of 78% in 1994. Whites had the second-highest exemption rate of 46%, followed by Coloureds with 21%.

5.2.3 Overall Senior Certificate pass rates from 1990 to 2002

Chart 5.4

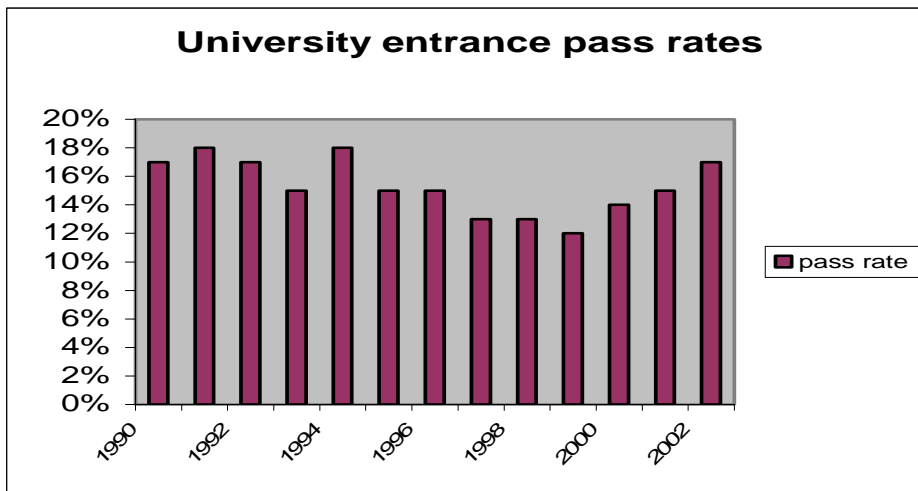


(Source: South African Institute of Race Relations)

There was an increasing trend of passes in the entire population from 1990 to 2002 with the lowest pass rate of 47% being achieved in 1997. From 1997 to 2002 it can be clearly seen that a greater number of students are making it through the system. Data stratifying the above pass rates per race has not been made available by the Department of Education since 1995.

5.2.4 University entrance pass rates

Chart 5.5



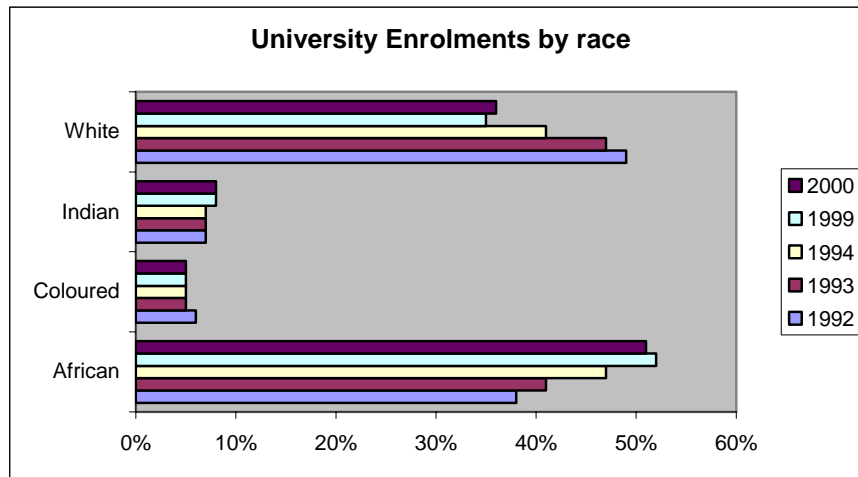
(Source: South African Institute of Race Relations)

Prior to 1994, university entrance pass rates were on the decline. They had decreased from 18% in 1991 to 15% in 1993. This signifies that the larger percentage of the population, which is African, were not able to obtain the appropriate minimum university entrance pass rates to enter universities. The university entrance pass rates peaked in 1994. Post-1994, the rates decreased from 18% in 1994 to 12% in 1999. This indicates that although the Government of National Unity was addressing inequalities in the education system, the process was a slow one and would take some time to be implemented. From 1999 to 2002 an increasing trend is noted, with a high of 17% in 2002. This shows a steady improvement, with more pupils passing university entrance exams to obtain further education.

5.3 Higher Education

5.3.1 University enrolments by race

Chart 5.6



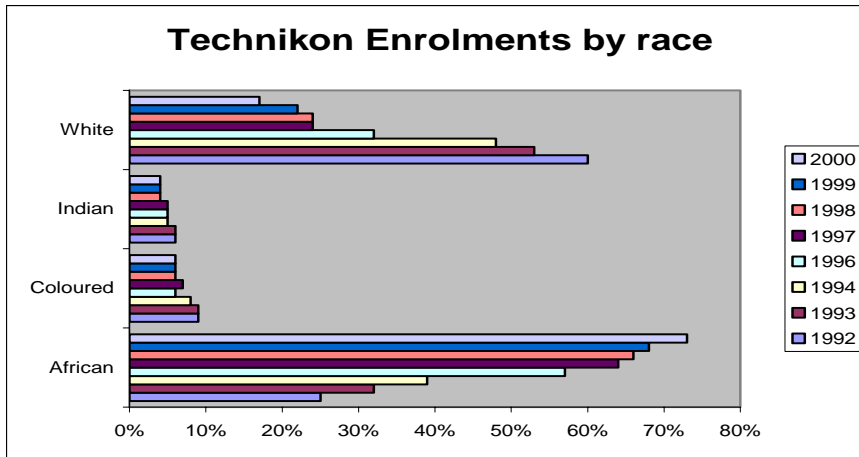
(Source: South African Institute of Race Relations)

The percentage of African students enrolling at universities increased from 38% in 1992 to 52% in 1999. From an earlier analysis of income levels, spending on education by Africans has increased. The increased spending is correlated to the increases in the university enrolment rates. In 2000, the percentage of African students' university enrolment decreased to 51%. An interesting trend seen in the graph is that the percentage of white students decreased from 49% in 1992 to 35% in 1999. This is due to the increasing actual number of Africans enrolling, which is greater than the number of white enrolments in absolute terms. Therefore the number of white enrolments may be seen to be decreasing in relative terms, whereas the actual numbers have increased in absolute terms. On average, Coloureds had a 5% enrolment rate from 1992 to 2000 whilst Indians had a 7% enrolment rate.

5.3.2 Technikon enrolments by race

Technikon enrolments for Africans have increased from 25% (1992) to 68% (2000). This is a significantly higher increase in enrolment as compared to university enrolment rates for Africans. One of the reasons for this might be the lower tuition fees in technikons as compared to universities.

Chart 5.7

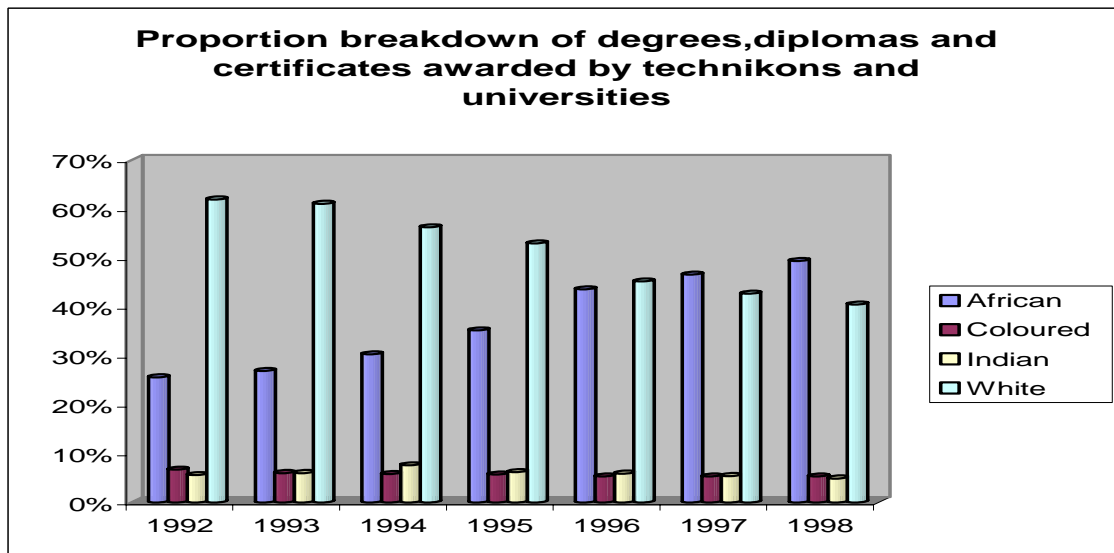


(Source: South African Institute of Race Relations)

The above chart shows a decrease in the white, Indian and Coloured enrolments from 1992 to 2002. On average, Coloured enrolment during this period was 7%, while Indian enrolment was 5% on average. This is the inverse of Coloured and Indian university enrolment.

5.3.3 Awarding of degrees by Technikons and Universities

Chart 5.8



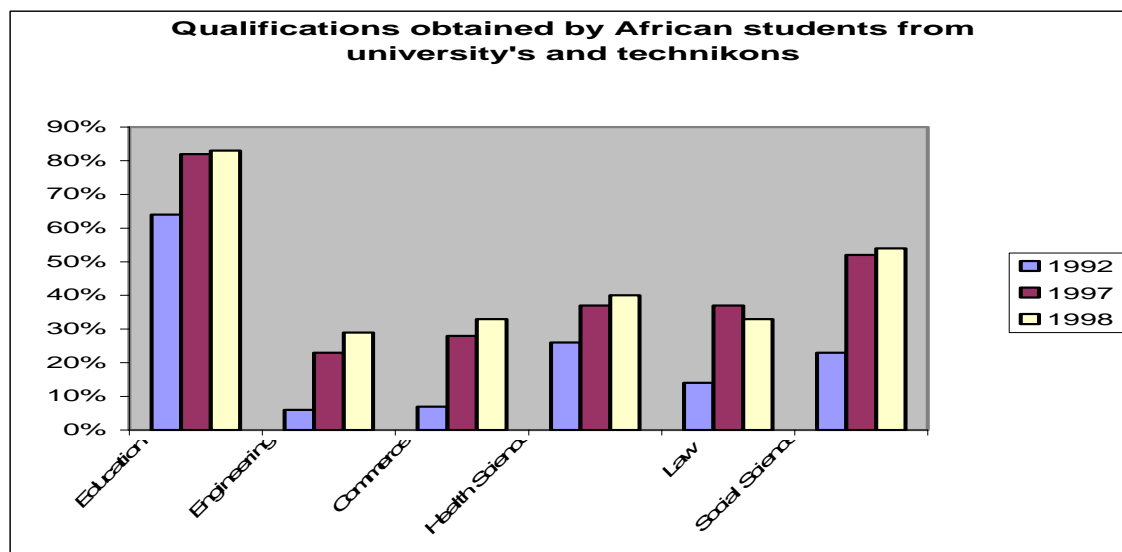
(Source: South African Institute of Race Relations)

Chart 5 shows an increase in the percentage of degrees, diplomas and certificates awarded by technikons and universities to African students. This highlights an increase from 1992 of 25.6% to 49.4% in 1998. The percentage of white students graduating from universities and technikons decreased from 62% in 1992 to 40.5% in 1998 due to the increased number of Africans who are being awarded their degrees, diplomas, etc. There is an equilibrium point between 1996 and 1997, where both whites and Africans have approximately similar graduation rates. After this point the graduation rates of Africans increase further while those of whites decrease. The graduation rates of Indians and Coloureds remain fairly constant on an average of 6% over this seven-year period.

5.3.4 Fields of Qualification by the different population groups

African students

Chart 5.9



(Source: South African Institute of Race Relations)

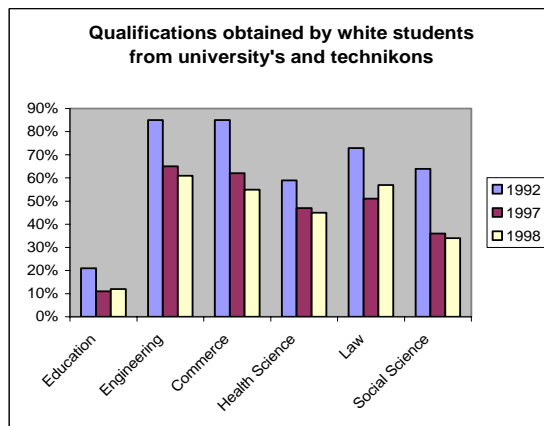
Note: 'universities' misspelled above

The general trend is that there is an increasing number of African graduates from universities and technikons. The highest increase was recorded in the education field where there has been an increase from 64% (1992) to 83% (1998), followed by the social sciences field. This trend may be attributable, among other factors, to the lack of proper career guidance in schools, which then limits the career options of scholars. However, in order for African people to make a significant impact on the economy, they need to enter

fields such as engineering, commerce and the health sciences. The number of law degrees awarded to blacks decreased slightly from 37% in 1997 to 33% in 1998.

White students

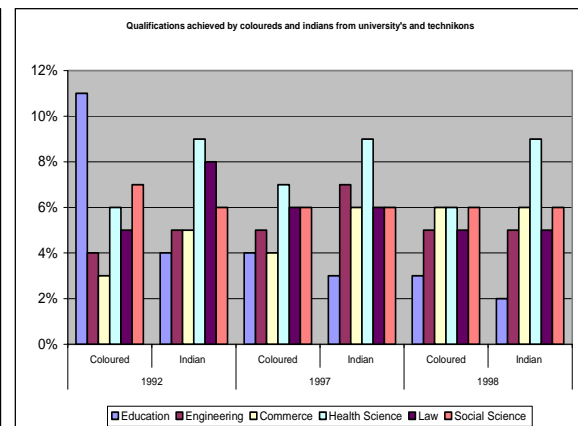
Chart 5.10



(Source: South African Institute of Race Relations)

[‘universities’ above, twice]

Chart 5.11



The trend shows that qualifications obtained by white students from universities and technikons have declined in 1992, 1997 and 1998 in relative terms due to the increasing numbers of blacks who are entering into the different fields. The majority of the white graduates are from the engineering, commerce and law fields. These are the fields in which African representation is low.

Coloured and Indian

Chart 5.11 shows that Indians have maintained a constant qualification rate in the health sciences. This was an average of 9% in 1992, 1997 and 1998. The greatest number of Coloured graduates in the three-year period occurs in education in 1992. However, their qualification rates decreased in both 1997 and 1998.

5.4 Adult Basic Education and Training (ABET)

In order to combat adult illiteracy in the country, ABET classes were provided by many agencies, including government departments, private businesses and non-governmental organisations. This allows adults to become educated and play a role in the upliftment of the economy. ABET centres are situated in all nine provinces.

According to the 1996 census results, approximately 2.1 million people were enrolled in ABET classes out of a potential 13 million ABET learners. In 1998 more than 154 000 learners were trained in ABET centres. These centres were run by the Department of Education. Only 1% of provincial education spending went to ABET projects at this time.

In 1999 only 6% of people needing adult education were enrolled in public adult learning centres – i.e. 387 000 enrolments out of more than 6 million South Africans over the age of 16. The people enrolling had not had any formal education and were functionally illiterate.

In 2000 a National Literacy Agency was established by Prof. Kader Asmal. This agency was responsible for implementing the South African National Literacy initiative. This was aimed at reducing illiteracy in rural areas and informal settlements. In 2002 the Adult Basic Education and Training Bill was published. This bill regulated adult basic education and training centres and tried to ensure their viability.

Section 6: Economic Empowerment indicators

6.1 Ownership on the JSE top 100 company in 1997 and 2002

Direct empowerment includes the ownership of business entities in the South African economy, and control of these business entities. Direct PDI ownership is when the PDI or BEE company registers the company share under their name, and they are the beneficiary of the share of economic benefit from the company. Indirect ownership is when the ultimate beneficiaries of the economic benefits are not registered on the share certificate, but will receive the economic benefit collectively as members of the BEE group. The analysis of direct empowerment through ownership takes both direct and indirect ownership into account.

The progress of direct empowerment through ownership during the period September 1997 to September 2002 is assessed. BEE ownership status of the top 100 companies on the JSE, according to their respective market capitalization, will be analyzed for both 1997 and 2002. The top 100 companies are used in the analysis for they will give a fair representation of the market. Comparisons will be made between the BEE wealth invested in 1997 and 2002 in each of the following sectors of the top 100 companies: resources, industrial, financial, services, consumer goods, and the ICT sectors.

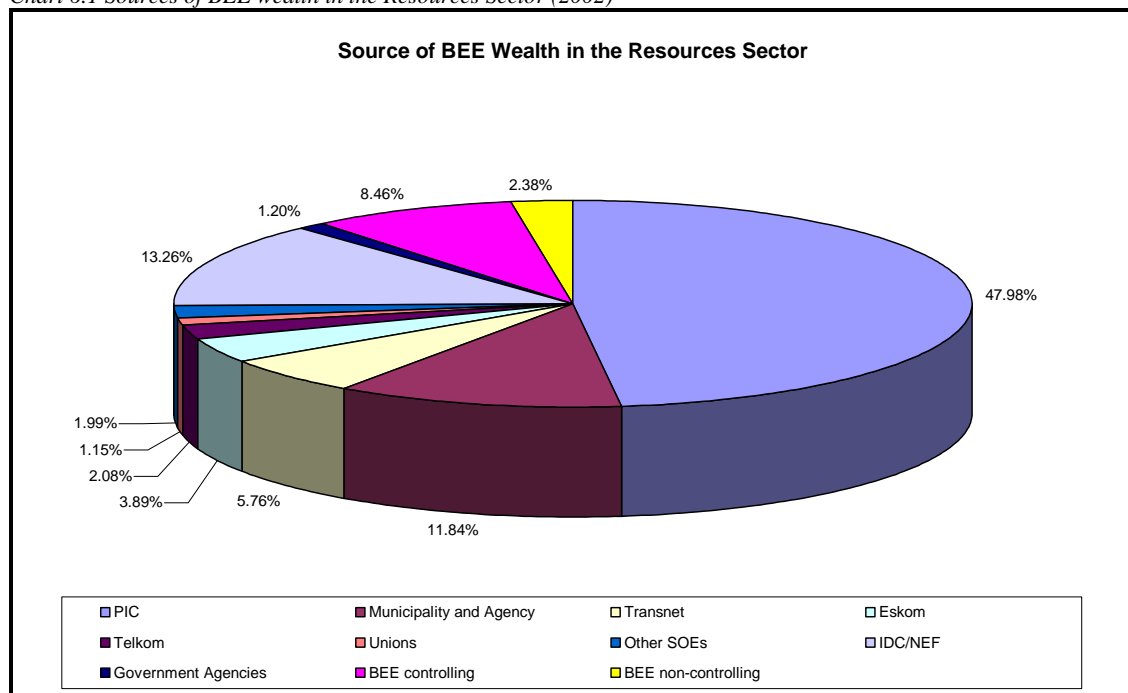
The overall ownership estimated to be 3.86% for 1997 and 9.37% for 2002. These estimates are made after scrutinizing the shareholder registers of all the companies in the sample and identifying the PDI/BEE shareholders on the basis of the name of individual or prior knowledge of the BEE company. Companies bearing black names were excluded unless there was corroborating confirmation of their BEE status. Therefore the above estimates err on the conservative side, effectively stating that the above amounts would give an indication of the minimum BEE shareholding in 1997 and 2002.

Sector Empowerment Assessment

6.1.1 Resources

The resources sector accounted for over 50% of the total market capitalization of the JSE in 2002, and was a recipient of 41% of the BEE wealth invested in the equity market. In the resources sector, the BEE wealth invested in 1997 was not easily identifiable, due to the fact that most of the public-sector shareholdings were held through nominee companies, and therefore their BEE status could not be directly identified. In 2002, however, they accounted for 3.67% of the total market capitalisation of the sector. The PIC represents 47.98% of all the BEE wealth invested in this sector. The other major BEE investors in the resources sector are the Industrial Development Corporation (IDC), with 13.26% of the total BEE wealth invested in this sector; the Municipalities' Pension and Provident Funds, which represent 12% of the BEE wealth invested in this sector; and private-sector BEE investors, with 8.46% representation in the BEE wealth in the sector.

Chart 6.1 Sources of BEE wealth in the Resources Sector (2002)

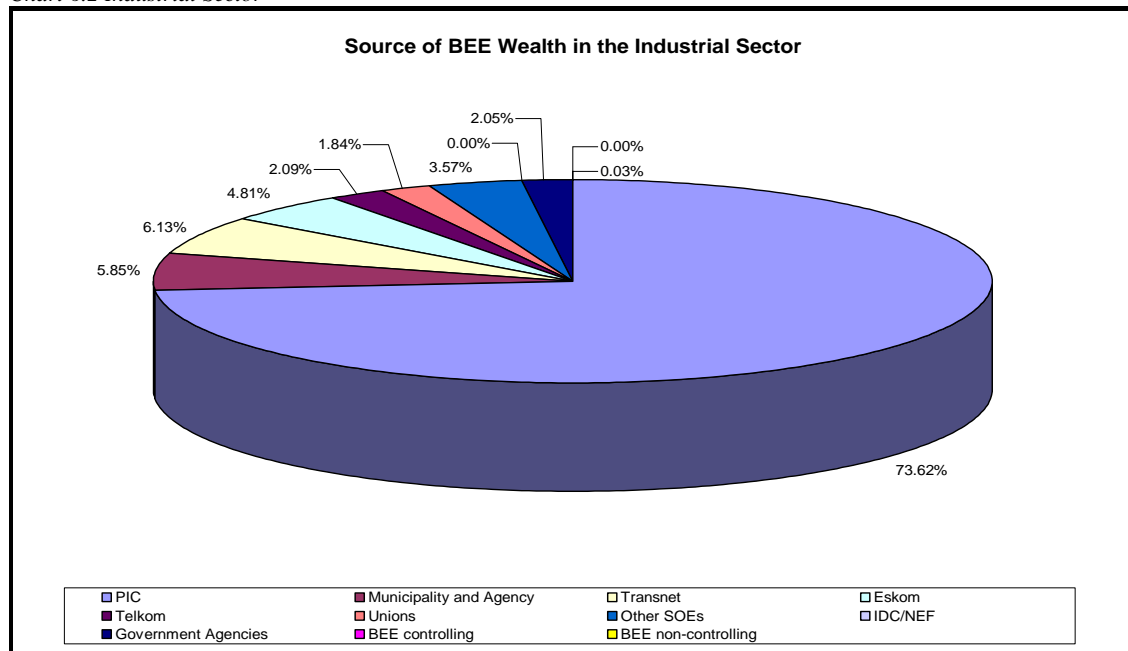


(Source: Empowerdex, 2003)

6.1.2 Industrial

The industrial sector accounted for approximately 6% of the total JSE market capitalization in 2002. It appears from the data that not many BEE investors, except the PIC, are interested in this sector, as they represent 73.62% of the BEE investment in this sector. The PIC's investment in this sector represents 9.26% of the sector's market capitalization, and the BEE investment in this sector represents over 8% of the total BEE wealth in the overall market, while the sector's market capitalization represents only 6% of the total market capitalization. The differences between the BEE investment in this sector in 1997 and 2002 are changes in the source of BEE wealth. In 1997 the IDC and Eskom pension funds had investment in this sector comparable to that of the PIC, but in 2002 their investments became insignificant. There is minimal private-sector BEE investment, which presents opportunities for BEE transactions in the near future. Although there is much less attention paid by the public sector in this sector, this is the second most empowered sector, due to its low total market capitalization and high investment by the PIC.

Chart 6.2 Industrial Sector

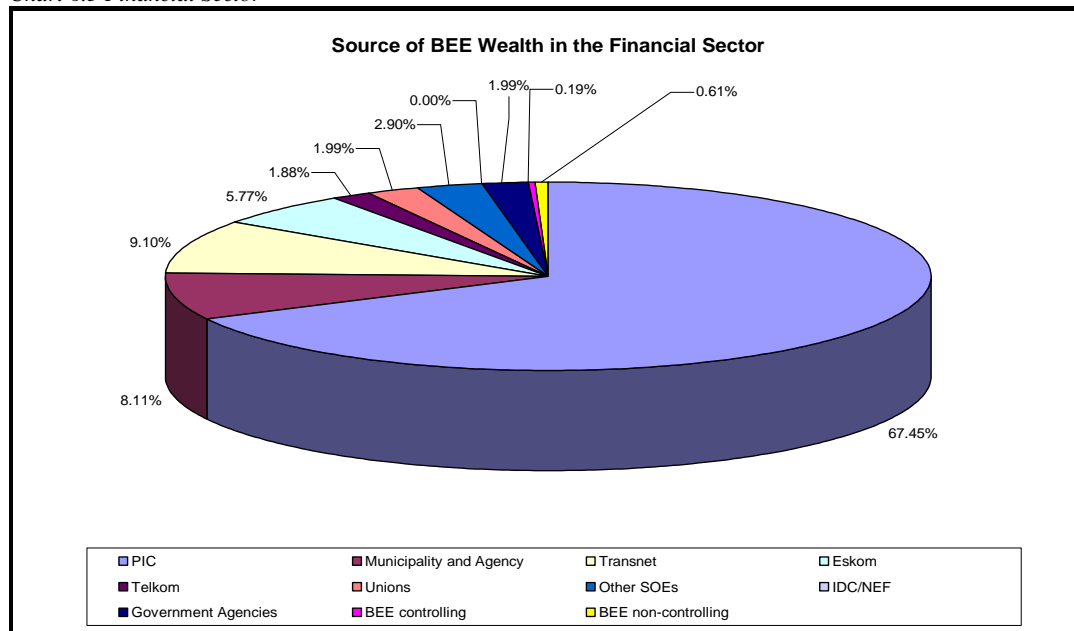


(Source: Empowerdex, 2003)

6.1.3 Financial

The financial sector is the second-largest sector on the JSE, representing almost 22% of the total market capitalization. Most public-sector funds invest a significant portion of their portfolio in this sector, ranging from 24% of their portfolio to 35% of their portfolio. The PIC invested almost the same amount that it invested in the resources sector, representing 33.71% of their portfolio. As the financial sector is smaller than 50% of the resources sector, in terms of market capitalization, PIC has doubled its influence in the sector by investing the same amount that it invested in the resources sector. PIC alone holds 7.94% of the sector's total market capitalization, which represents 67.45% of the BEE wealth in this sector, and Transnet Pension and Provident Funds investments represent another 1% of the sector's total market capitalization, which also represents 9.1% of the total BEE wealth in this sector. The Municipalities' Pension and Provident Funds also have a significant stake of 8.11% of the total BEE wealth in this sector. In monetary terms the sector is the second-largest investment by the BEE investors, representing 27.61% of all the BEE wealth in the market.

Chart 6.3 Financial Sector



(Source: Empowerdex, 2003)

6.1.4 Services

This sector represents 11.5% of the listed companies on the JSE, but is not a focal point for BEE investors in terms of direct ownership. The BEE investors invest on average 9–10% of their portfolio in this sector, and the BEE wealth in this sector only represents 9.48% of the total BEE wealth. The total BEE investment in this sector represents 7.72% of the sector’s total market capitalization. PIC’s investments represent 61.32% of all the BEE wealth invested in this sector, while Transnet Pension and Provident Funds and the Municipalities’ Pension and Provident Funds represent 13.52% and 8.93% respectively.

Chart 6.4 Services Sector

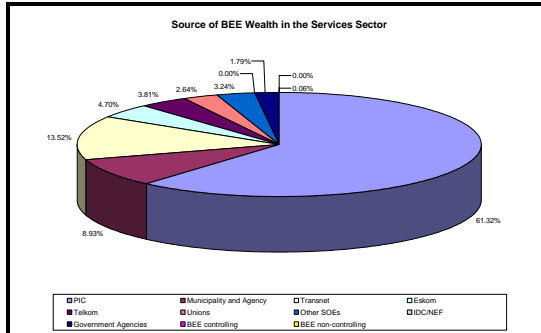
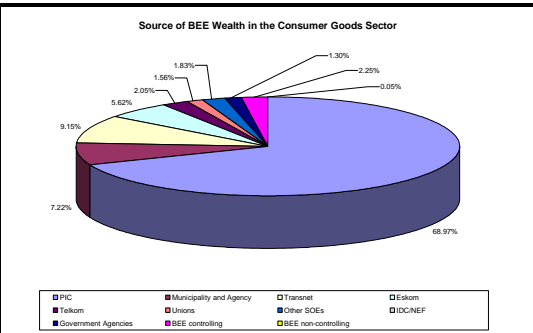


Chart 6.5 Consumer Goods Sector



(Source: Empowerdex, 2003)

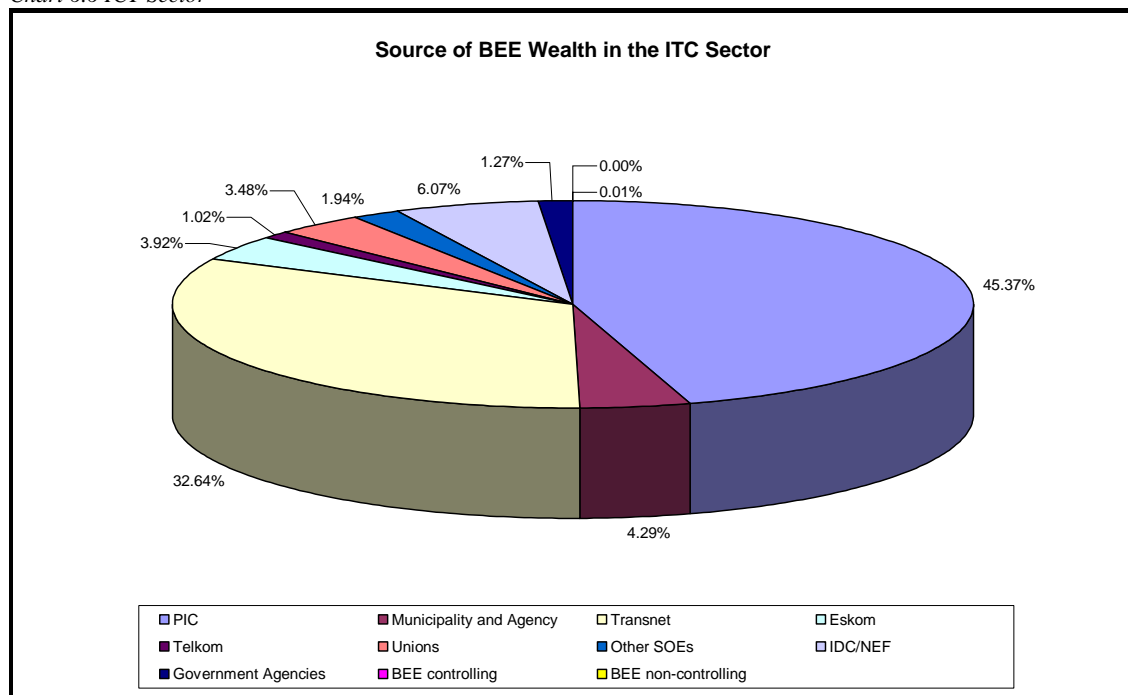
6.1.5 Consumer goods

This sector represents 7.83% of the total market capitalization of the JSE. The BEE investors invest on average 8% of their portfolio in this sector, and the BEE wealth in this sector represents 10.44% of the total BEE wealth. The total BEE investment in this sector represents 12.49% of the sector’s total market capitalization. PIC’s investments represent 68.97% of all the BEE Wealth invested in this sector, while Transnet Pension and Provident Funds and Municipalities’ Pension and Provident Funds represent 9.15% and 7.22% respectively.

6.1.6 ICT

The ICT sector is the smallest sector on the JSE, representing only 2% of the total market capitalization. Due to the small size of the sector, the proportion of the portfolios of BEE investors invested in this sector is also limited, averaging 2% of their portfolio. The BEE wealth invested in this sector represents only 2.98% of the total BEE Wealth. This is however the most empowered sector on the JSE, where the BEE wealth invested in this sector represents 14% of the sector's total market capitalization. Of this 14%, PIC and Transnet Pension and Provident Funds' investment represent over 10% collectively. As shown in Chart 6, the BEE wealth in this sector is mainly invested by Transnet Pension and Provident Funds, as the source of 32.64% of the sector's BEE wealth, and PIC, representing 45.37% of the BEE wealth in the sector.

Chart 6.6 ICT Sector



(Source: Empowerdex, 2003)

6.1.7 Overall JSE

The composition of the total market capitalization in terms of different sectors is shown in Chart 6.7. The chart shows that over 50% of the total market capitalization is represented by the resources sector, and approximately 22% of the market is represented by the financial sector. The two sectors represent over 70% of the market collective, and are the recipients of the bulk of BEE wealth invested in the JSE.

Chart 6.7

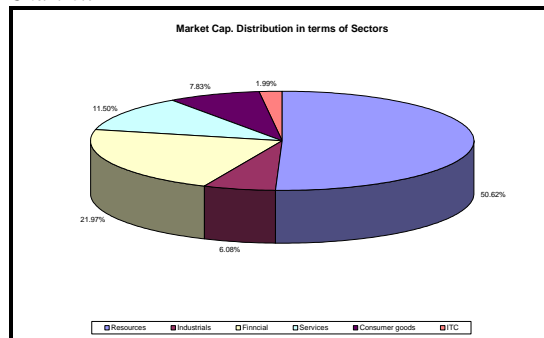
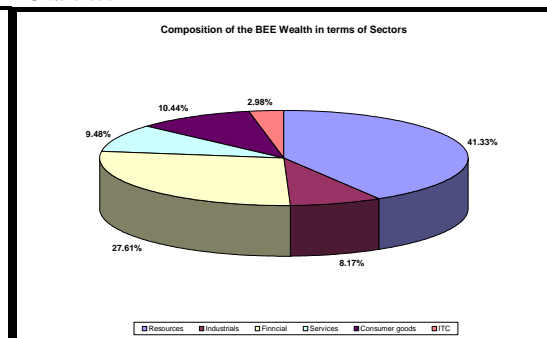


Chart 6.8



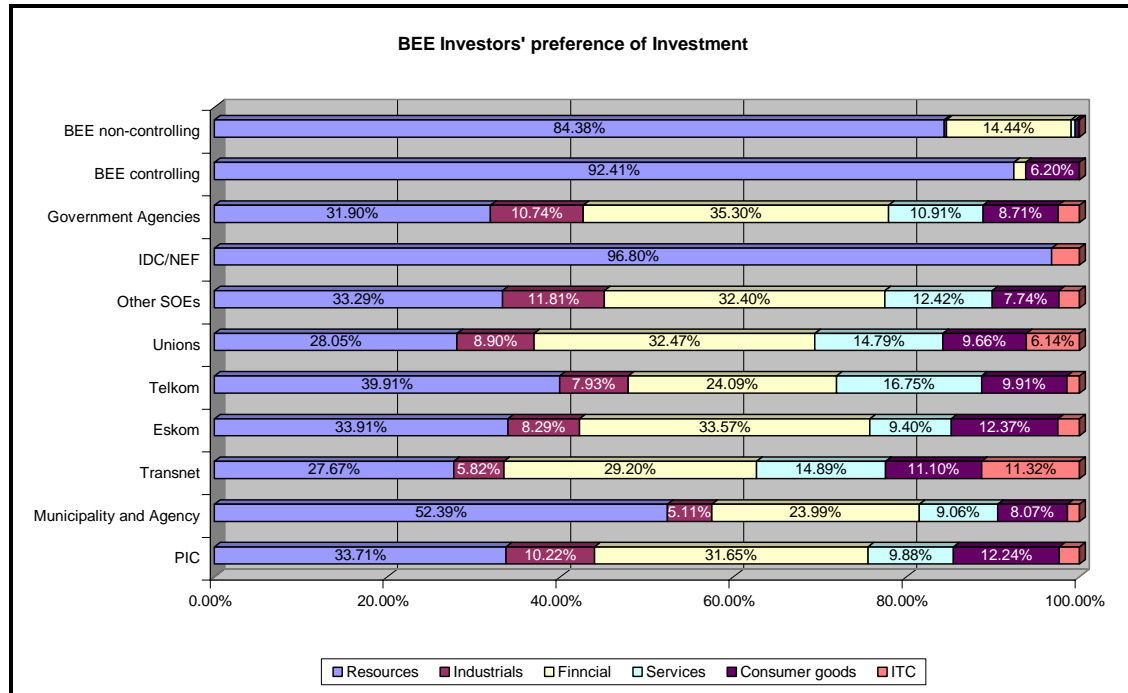
(Source: Empowerdex, 2003)

The distribution of the investments by BEE investors is shown in Chart 6.8. The resources and financial sector is the recipient of 68.94% of the BEE investment in the JSE, while the investment in the ICT sector represents only 2.98% of the total BEE wealth. From the two charts it can be seen that the BEE investors invest a portion of their funds in different sectors, and the overall trend is to allocate funds according to the sectors' weighting in the market. The total BEE wealth represents 9.37% of the total market capitalization, of which approximately 5.5% – 6% is invested by the PIC.

Chart 6.9 shows the investment preferences of the different BEE investors. The common trend of the investors is that they all invest heavily in the resources and the financial sector. There are no significant private-sector BEE investors except in the resources, industrial and financial sectors, and over 80% of private-sector BEE investors invest in the resources sector. Transnet Pension and Provident Fund is the investor that has a more evenly spread asset distribution. It is also the only BEE investor that invests over 10% of its assets in the ICT sector, making it the second-largest BEE investor in the sector. There are also institutions that focus on the resources sector: these include the Municipalities'

Pension and Provident Funds, and the IDC investments, with 52.39% and 92.41% of their funds invested in the resources sector.

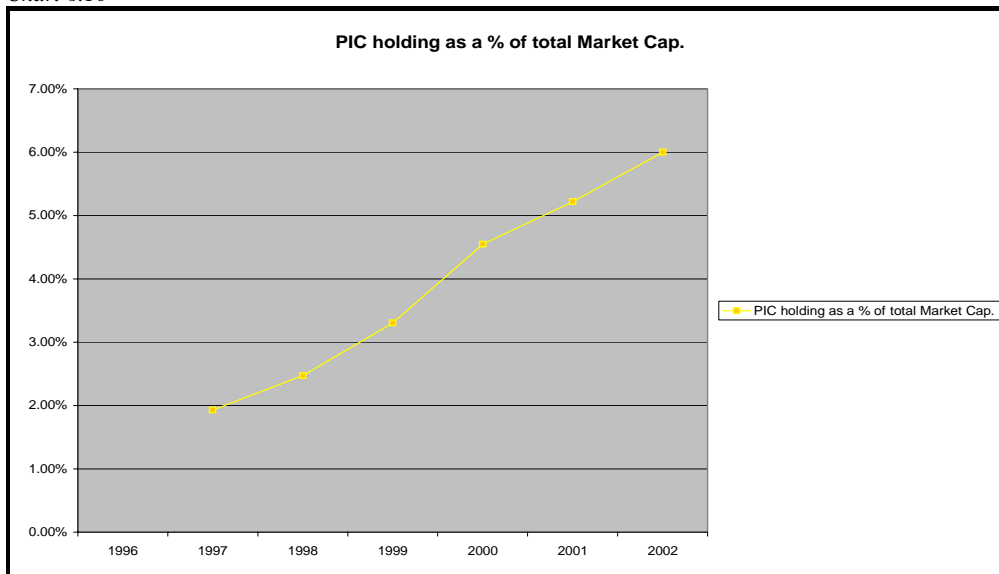
Chart 6.9



(Source: Empowerdex, 2003)

The PIC alone represents approximately 6% of the total JSE market capitalization, and almost 60% of the total BEE wealth invested in the JSE. The PIC only started to invest in the equity market after the 1992 amendment to the PIC Act. In at the end of 1996 it had approximately R5.7 billion invested in the equity market, and began to increase its investment in the equity market in 1997, which has built the R90 billion total investment in the equity market today. The rate of increase of the PIC investment in the equity market exceeds the rate of increase of the market, and therefore, as shown in Chart 6.10, the PIC representation in the market has increased over the years.

Chart 6.10



6.1.8 Legislation and initiatives encouraging the increase in PDI ownership

In 1998 the National Empowerment Fund Act was passed to establish a trust for the promotion and facilitation of ownership of income-generating assets by historically disadvantaged individuals (HDIs). This trust would hold equity stakes in state-owned enterprises on behalf of HDIs. The NEF Corporation was tasked to manage the trust in order to:

- Provide HDIs with the opportunity to directly and indirectly buy shares;
- Encourage savings, investments and meaningful economic participation by HDIs;
- Promote and support business ventures pioneered and run by HDIs.

In 1998 the Competition Act was enacted. The core objective of the Competition Act was to increase the number of HDIs with an ownership stake in the economy. It specifically addresses the excessive concentration of ownership and control of the economy due to the restrictions placed on the participation of black people in the economy arising from the apartheid era. The Act promotes the ability of black-owned and controlled enterprises to become competitive.

6.1.9 Conclusion

The fact that most institutional shareholdings were held through nominee companies in 1997 made the analysis of the BEE shareholding in 1997 difficult, as the beneficiaries of those nominee companies cannot be identified. Therefore reasonable estimates were made to quantify the BEE shareholding in 1997. Over 90% of the BEE wealth in the market is held indirectly through institutions, and 58.83% of that is represented by PIC.

The market is only 9% owned by BEE, and, according to the BEE Commissioner's Report Definitions, the market is only a black-influenced market if there is sufficient BEE control. This means that there is a market for BEE transactions involving mergers and acquisitions within the private sector, especially in the services and consumer goods sector, where the private-sector BEE investment is low.

6.2 Management and Control

6.2.1 Overall Analysis

Table 6.2 Management demographics in 1992, 1997, 2002

<i>Details</i>	1992	1997	2002
<i>Total Directors</i>	1167	1155	1196
<i>PDI Directors</i>	14	89	156
<i>%PDI Directors</i>	1.2%	7.7%	13.0%
<i>Total Executive Directors</i>	656	637	462
<i>PDI Executive Directors</i>	1	29	24
<i>%PDI Directors</i>	0.2%	4.6%	5.2%
<i>PDI Women</i>	Data Not Available	5	15
<i>%PDI Women Directors (out of all total directors)</i>	<i>N/A</i>	0.4%	1.3%
<i>No. of Companies with PDI Representation on their Boards</i>	11	44	71

(Source: Empowerdex, 2003)

The average total number of directors over the ten-year period on the boards of the top 100 is 1 173. The number of PDI director positions in the boardrooms of the top 100 companies amounted to 14 (1.2% of total directors) in 1992. This situation improved quite considerably in 1997 with an increase in the PDI director positions to 89 from 14 (535% increase). In 1997 the total number of directors decreased to 1 155 from 1 167 (in 1992). The number of PDI director positions has increased considerably between 1997 and 2002 by slightly over 75%.

6.2.2 Executive Directors Analysis

In 1992 the ratio of PDI executives to non-executive directors was high, with only one PDI executive director out of 14 PDI directors, compared to the non-PDI ratio of one executive to 1.8 non-executive directors. The ratio of PDI executives to PDI non-executive directors improved to 1:3 in 1997 (1:14 in 1992), while the non-PDI executive director ratio remained the same. In 2002, the number of executive directors in the top 100 companies decreased overall from 637 in 1997 to 462 in 2002, representing a 27% decrease. The number of PDI executive directors decreased from 29 (1997) to 24 (2002), representing a 21% decrease. Therefore the decrease in the number of PDI executive directors is in line with the overall decrease within the top 100 companies.

However, the PDI executive to non-executive director ratio amounted to 1:6.5 in 2002, while the non-PDI ratio was 1:2.3. There are numerous reasons for the decrease in the positions of executive directors, some of which are:

- The market crash of 1998, which could have resulted in some companies being de-listed;
- The restructuring and rationalization of the conglomerates within the top 100, resulting in much leaner operational structures.

The King Report on Corporate Governance has recommended that there should be more non-executive and independent directors as good practice in corporate governance. These recommendations were released in 2001, and their effect is yet to be seen in practice within the top 100.

6.2.3 PDI Female Representation

The analysis of women directors focused only on PDI women, due to the difficulty of discerning the gender of non-PDIs from the information on the annual financial statements. The representation of PDI women directors in the top 100 is much poorer compared to the overall PDI representation. It was not possible to determine the gender of the PDI directors in 1992, due to the format of the data provided. However in 1997, PDI women had a 0.4% overall representation on the boards of the top 100 companies. This representation increased in 2003 to 1.3%.

6.3 Employment Equity

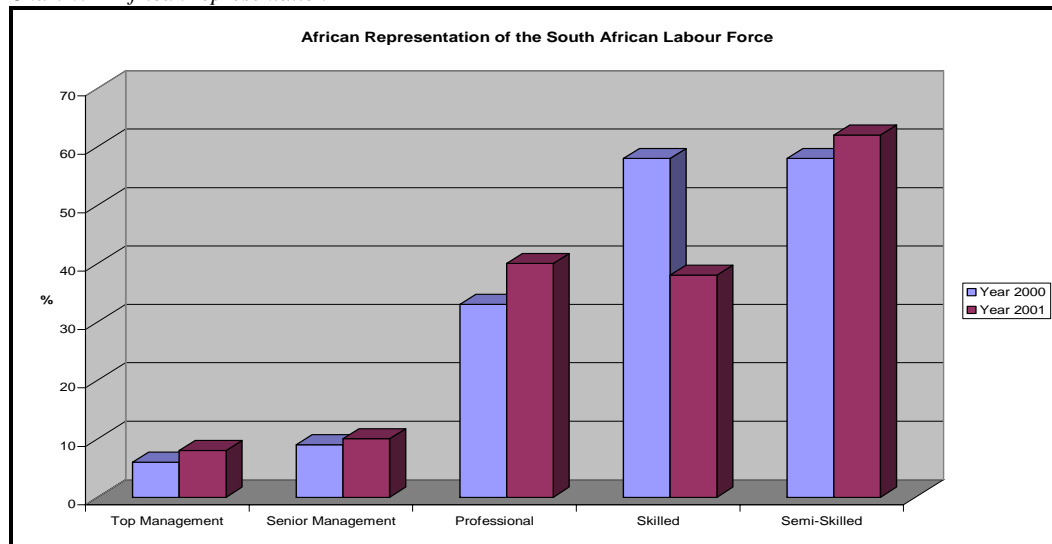
The Employment Equity Act of 1998 aims to reverse the imbalance in the employment demographic profile of the country's economy. The results of the Act were reported by the Commission for Employment Equity for their 1999/2000 findings and 2001 findings. This analysis compares the data extracted from the two reports in an assessment of the progress of employment equity in the country up until 2001.

6.3.1 *Representation of Different Population Groups at Different Skills Levels*

African representation

The chart below (Chart 6.11) shows the average percentage representation of the African population in different levels of employment. Over the two years there has been an increase in African representation at the management and professional levels and a 20% decrease at the skilled labour level. This may be due to a combination of terminations and promotions into a higher employment level.

Chart 6.11 African representation

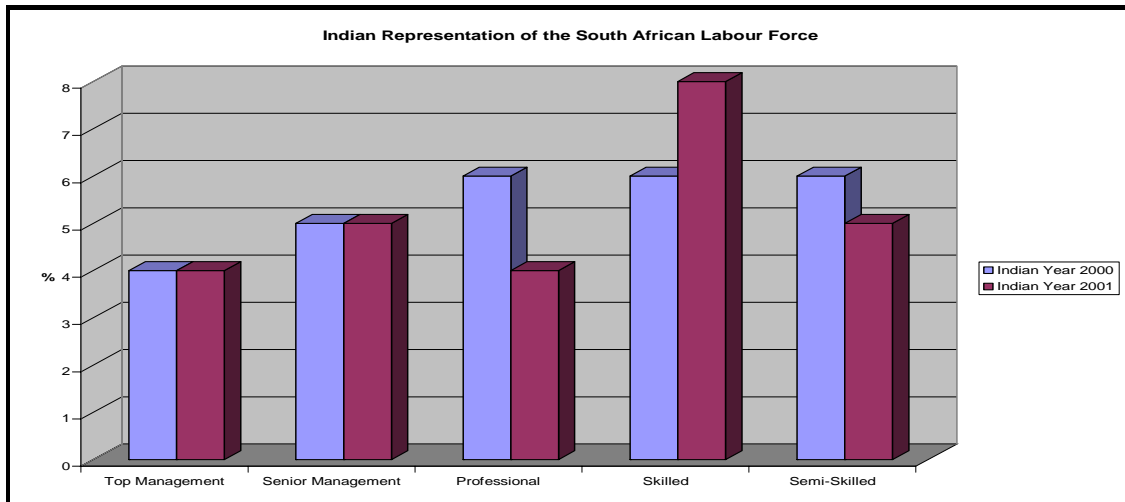


(Data Source: Department of Labour)

Indian representation

The Indian representation at the management level has remained the same, with a decrease in the professional level as shown in Chart 6.12. The other major change in representation is at the skilled staff level, which increased by 2 percentage points over the year.

Chart 6.12 Indian representation

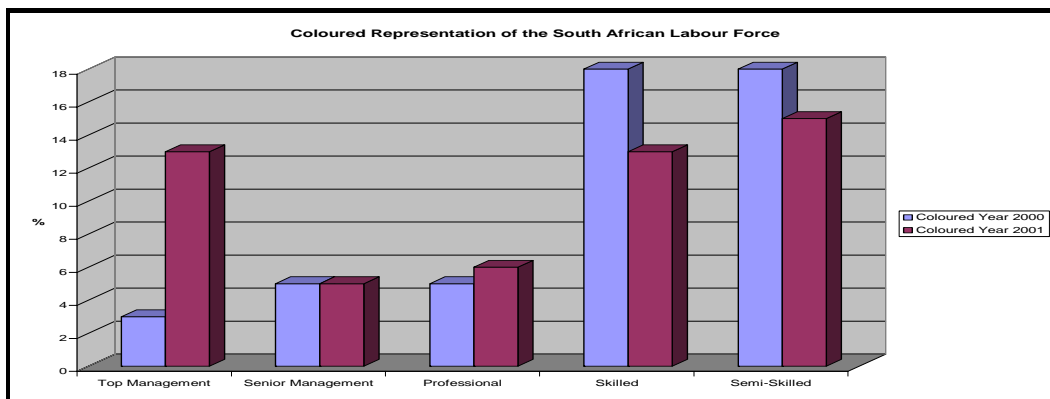


(Data Source: Department of Labour)

Coloured representation

The major change in the Coloured representation is their representation at the top management level, which increased by 10% in a year to 13%. The representation of the Coloured population group in the other employment levels has remained the same for the year, with a slight decrease in the skilled and semi-skilled staff representation.

Chart 6.13 Coloured representation

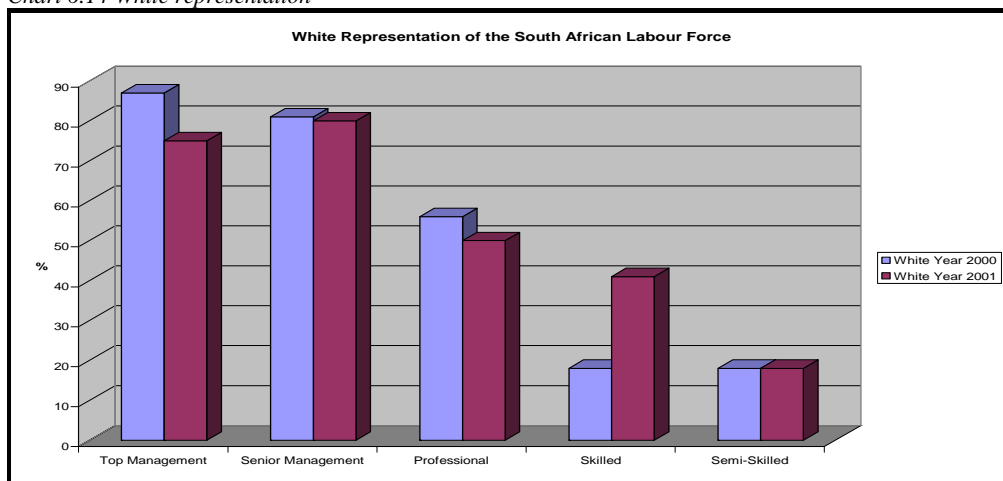


(Data Source: Department of Labour)

White representation

The white population group is another group with great changes in their representation in the different employment levels. The first noticeable trend is the decrease in their representation at the management and professional staff level. This is a direct result of the increase in the African representation in these levels of employment. The sharp increase in the skilled staff level is a result of the sharp decrease of the African representation at this employment level, not through recruiting or promotion of semi-skilled staff.

Chart 6.14 White representation

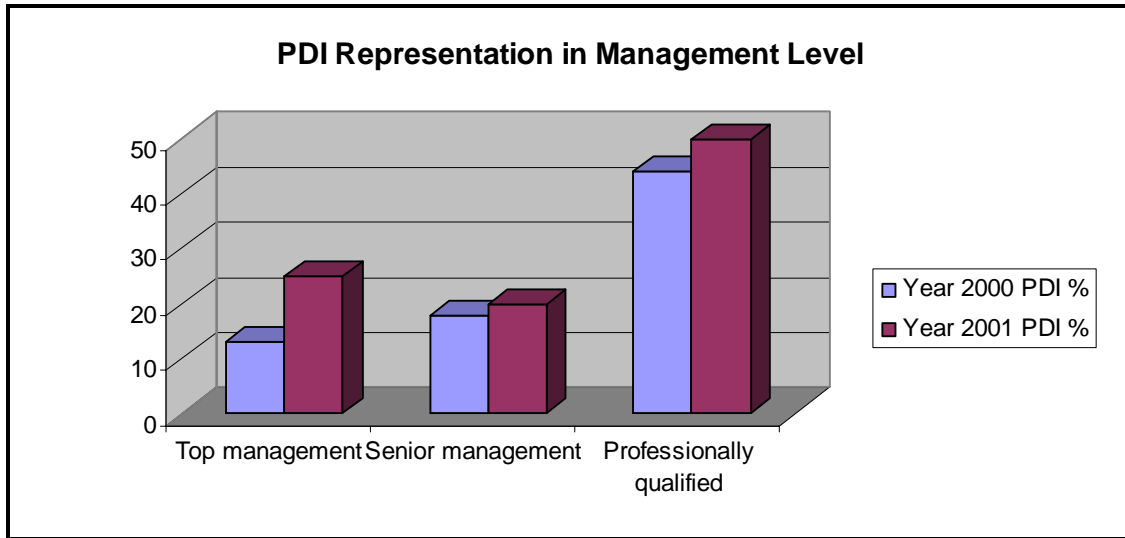


(Data Source: Department of Labour)

Overall PDI representation

The progress of empowerment in terms of employment equity is mainly measured through the representation of Previously Disadvantaged Individuals (PDIs) and the Designated Groups at the management and professional employment levels, and the total representation of the labour force. Looking at the PDI representation at the top management level, there is a total increase of 12% in PDI representation, which is good progress for one year. As shown in Chart 6.15, the 2001 PDI representation at the top management level is 25%; it is 20% at the senior management level, and 50% at the professional staff level.

Chart 6.15

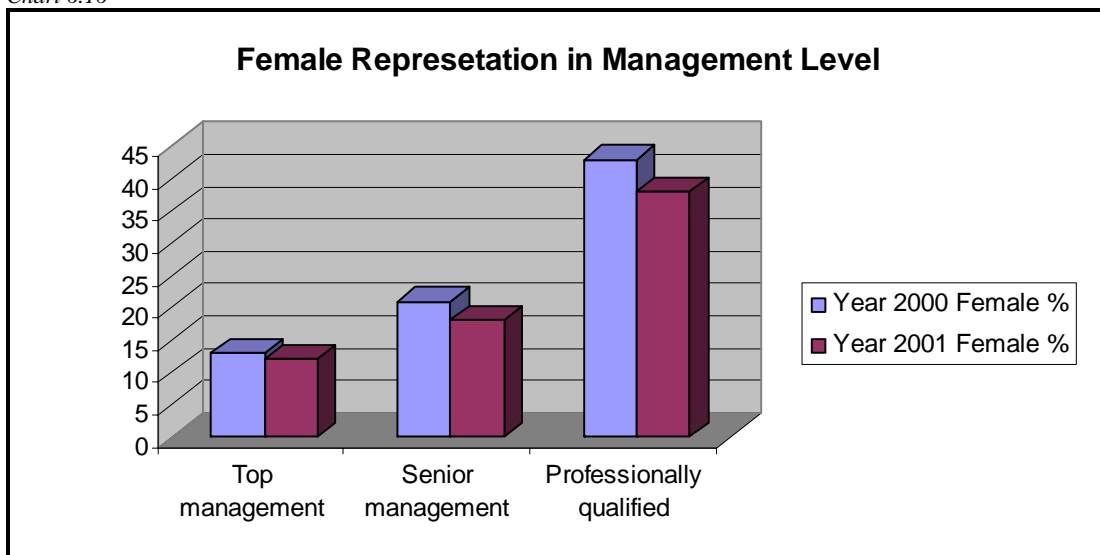


(Data Source: Department of Labour)

[‘Representation at . . .’ is probably better]

Although the PDI representation has increased, the female representation in the management and professional staff level decreased in 2001. Chart 6.16 shows that the female representation at the top management level decreased by 1%, representation at the senior management level by 3%, and representation at the professional qualified staff level by 5%.

Chart 6.16

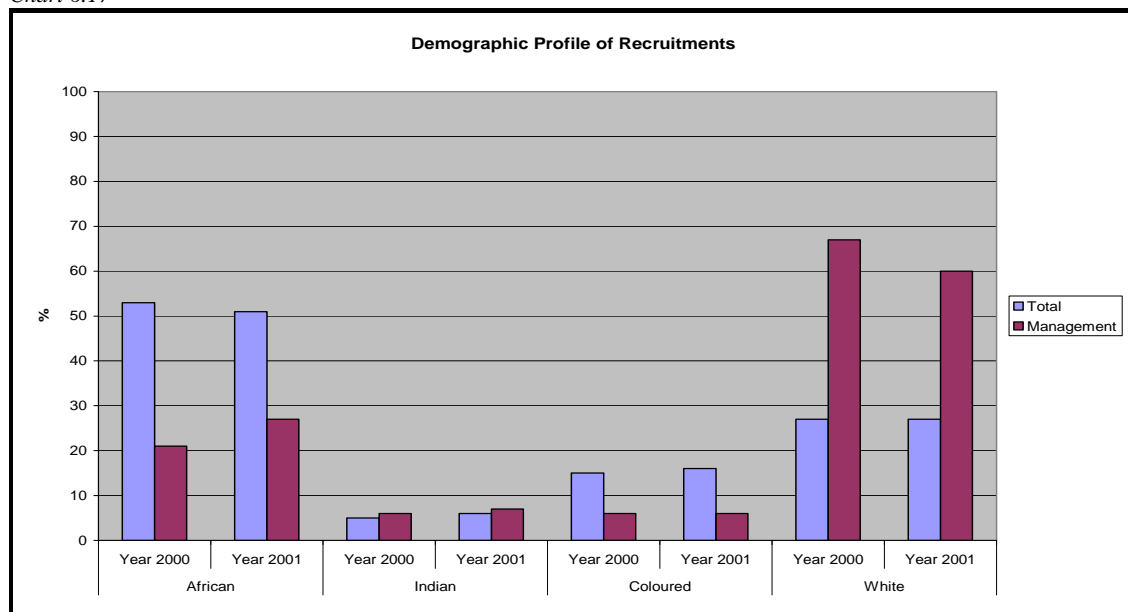


(Data Source: Department of Labour)

6.3.2 The Demographic Profile of All Employees Recruited, Promoted, and Terminated

Changes in the employment equity status are initiated through recruitments, promotions, and terminations. The chart below shows the total recruitments' demographic profile, and the management recruitments' demographic profile. As regards population group movements, the total African recruitment has decreased by 2%, while their management recruitment has increased by 6%; Indian recruitment has increased by 1% in both the total recruitment and management recruitment; the Coloured management recruitment ratio has been constant at 6%, and the total recruitment ratio increased by 1% to 16%; and the white total recruitment have been the same as 2000, while the management recruitment ratio has decreased by 60%.

Chart 6.17

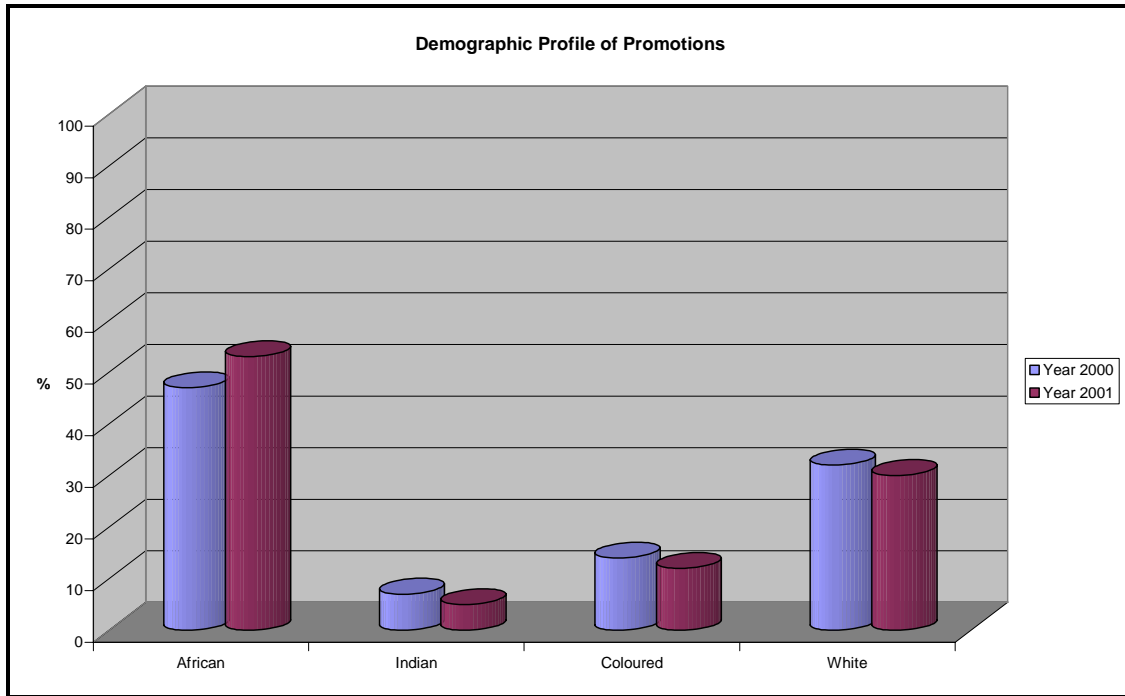


(Data Source: Department of Labour)

Chart 6.18 shows the demographic profile of all the promotions in the organisations that are required to submit employment equity plans to the Department of Labour. The chart indicates that the majority of the promotions in both 2000 and 2001 are from the African population group, and there is a further 6% increase in 2001 from 2000. The white population group occupies 32% and 30% of the total promotions in 2000 and 2001 respectively. The only population group that increased its promotion ratio is the African

population group; all other population groups have shown a decrease in their promotion ratio.

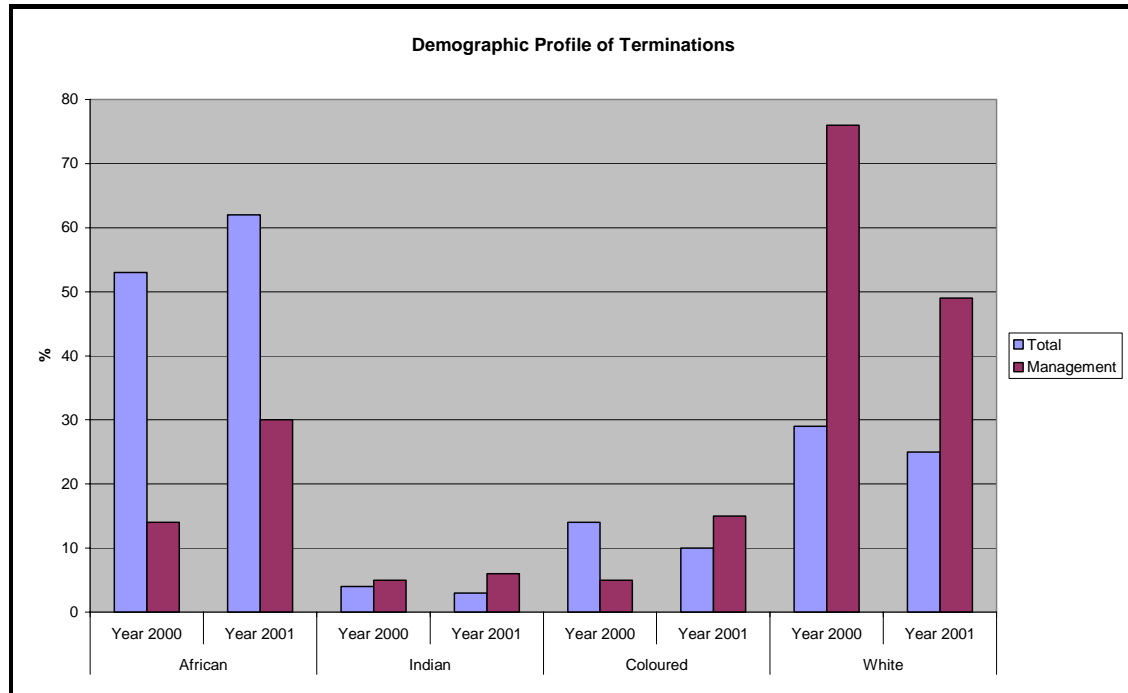
Chart 6.18



(Data Source: Department of Labour)

Chart 6.19 illustrates the demographic profile of the termination of employments in 2000 and 2001. The most significant changes are the decrease of 4% and 27% in the total white termination and white management termination respectively; and the 9% and 16% increase in the total African termination and the African management termination respectively. The increased African termination is the main barrier to a better employment equity status in 2001.

Chart 6.19



(Data Source: Department of Labour)

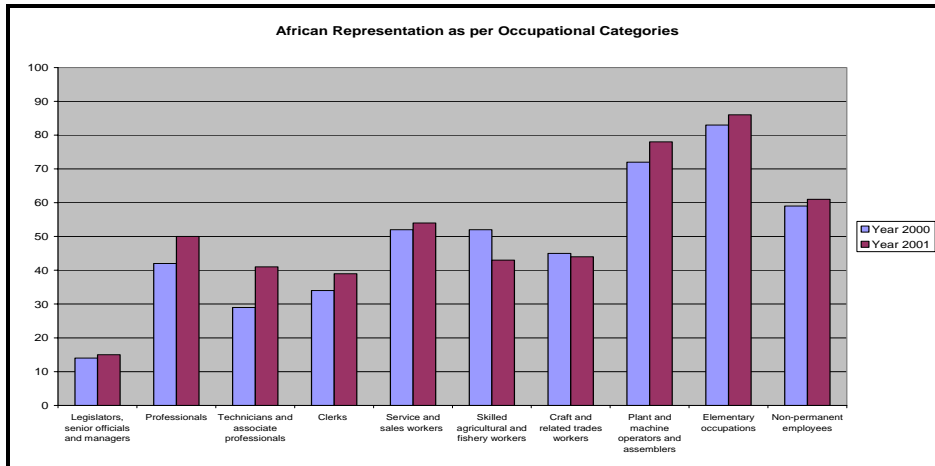
6.3.3 Representation of Different Population Groups at Different Occupational Categories

Occupational categories held by Africans

The representation of the African population group in each occupational category in 2000 and 2001 is shown in Chart 3.1. The chart indicates a general increase in the African population representation in all occupational categories except the skilled agricultural and fishery workers and the slight decrease in the craft and related trade workers. The major increase in their representation is in the professional and the technicians and associate professionals category, with an 8% and 12% increase respectively. This not only shows the progress in the implementation of the Employment Equity Act, but could also indicate the progress of the educational level of PDIs. The professional and the technicians and associate professional categories include human resources with high academic qualifications. Some examples of the occupations in the professional category are accountants, lawyers, architects, and engineers, and some examples of the occupations in

the technician and associate professional category are computer programmers, nurses, musicians, and writers and editors.

Chart 6.20

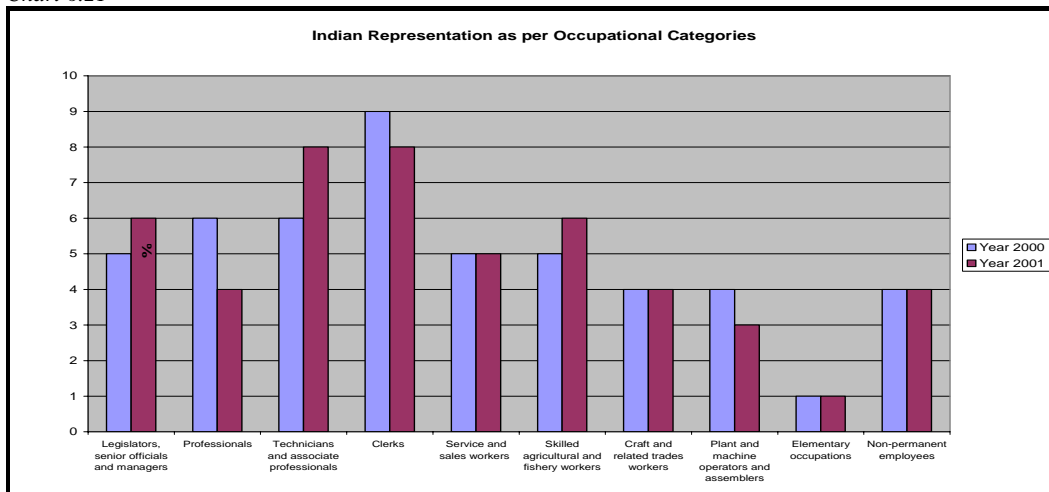


(Data Source: Department of Labour)

Occupational categories held by Indians

The movement in the Indian representation in the different occupational categories is not significant compared to the other four population groups. There was a 2 percentage point decrease in the professional category and the 2 percentage point increase in the technicians and associate professional category.

Chart 6.21

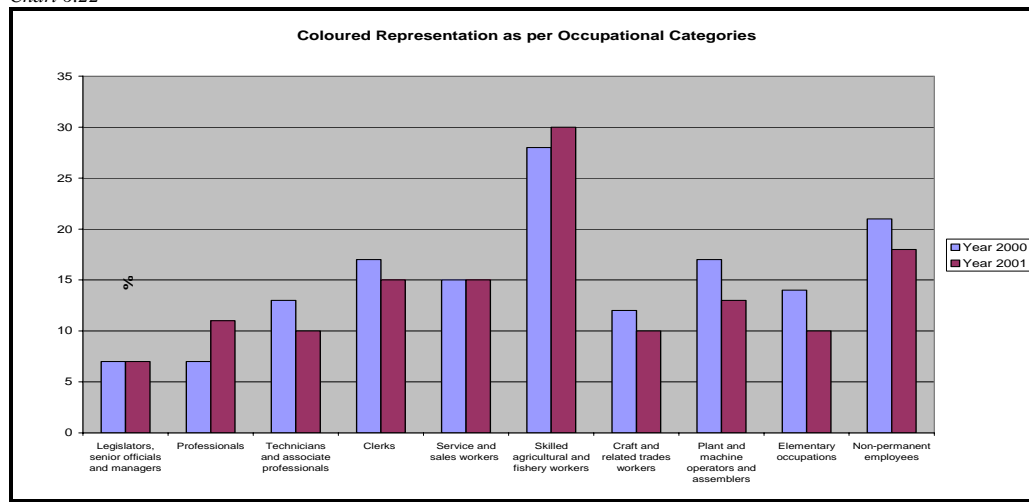


(Data Source: Department of Labour)

Occupational categories held by Coloureds

Representations among the Coloured population group in the different occupational categories have decreased over the year, except in the professional category and the skilled agricultural and fishery worker category, where they experienced a 4 percentage point and a 2 percentage point increase respectively.

Chart 6.22

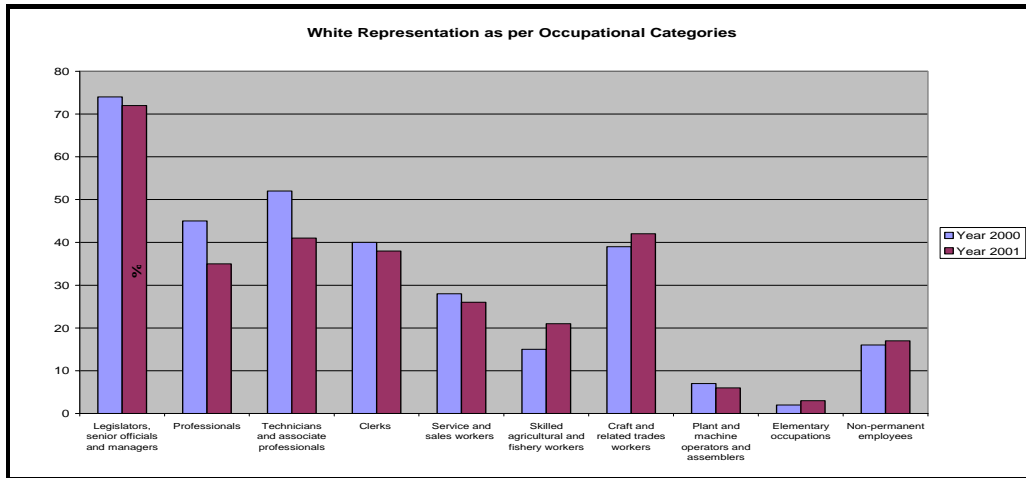


(Data Source: Department of Labour)

Occupational categories held by whites

Representations of the white population group in different occupational categories have indicated that they have decreased their representation in all the categories except in the skilled agricultural and fishery workers, the craft and related trade workers, the elementary workers category, and the non-permanent workers category. The most significant movement is the 10 percentage point decrease in the professional category and the 11 percentage point decrease in the technician and associate professional category.

Chart 6.23

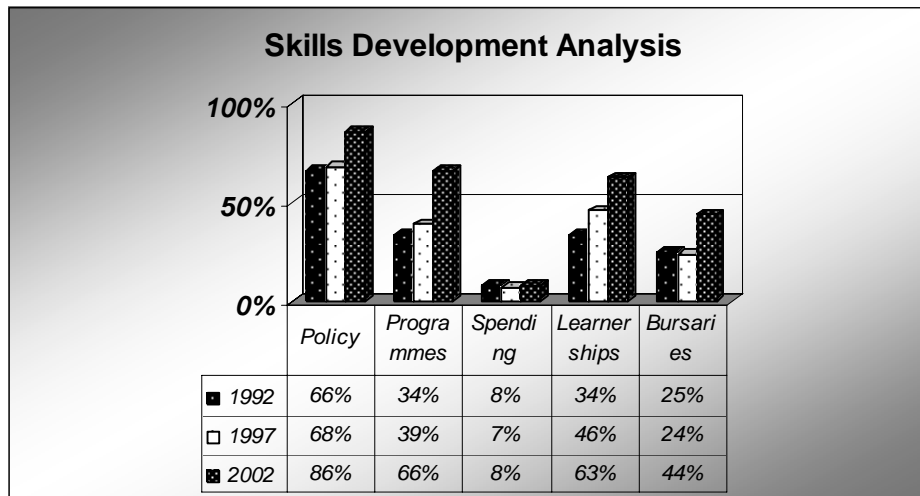


(Data Source: Department of Labour)

There is a clear trend of increases in the black population group's representation in every level of employment and occupational categories, and a decrease in the white population group representation at the different employment levels and occupational categories. The main reason is that there may be more increases in the absolute numbers of blacks relative to the whites and this may result in the relative decrease in white representation at the different employment levels.

6.4 Skills Development

Chart 6.24



(Source: Empowerdex, 2003)

6.4.1 Key Trends

The analysis of the top 100 companies shows that there has been an increase in the disclosures of skills development initiatives. The policy was identified from the publicly available information provided by the companies – mainly through their annual financial statements and other specially prepared documentation such as Social Responsibility/Sustainability Reports. It is interesting to note that skills development policy has always been an important aspect of companies; however, there was an increase in the disclosure of the policy once legislation (Skills Development Act of 1998) was in place. With the introduction of the Skills Development Act there was an increase in the disclosure of the types of skills development programmes undertaken by the companies. The disclosure of learnership contracts undertaken by the companies has increased, with 63% of the companies showing details pertaining to learnerships.

The area that most companies seem reluctant to disclose is the financial implications of the skills development. Companies are required by law to contribute to the skills development levy of 1% of the payroll, which can be claimed back from the Sector Education and Training Authorities (SETA). Only 8% of the companies disclosed their spending on skills development over and above the 1% required by law.

6.4.2 Legislation relating to Skills Development

The objective of the Skills Development Act of 1998 was to provide an institutional framework to devise and implement national, sector and workplace strategies to develop and improve the skills of the South African workforce. It was to provide for education that leads to recognized occupational qualifications. The financing of the skills development was to be made possible by means of a levy-grant scheme and a National Skills Fund.

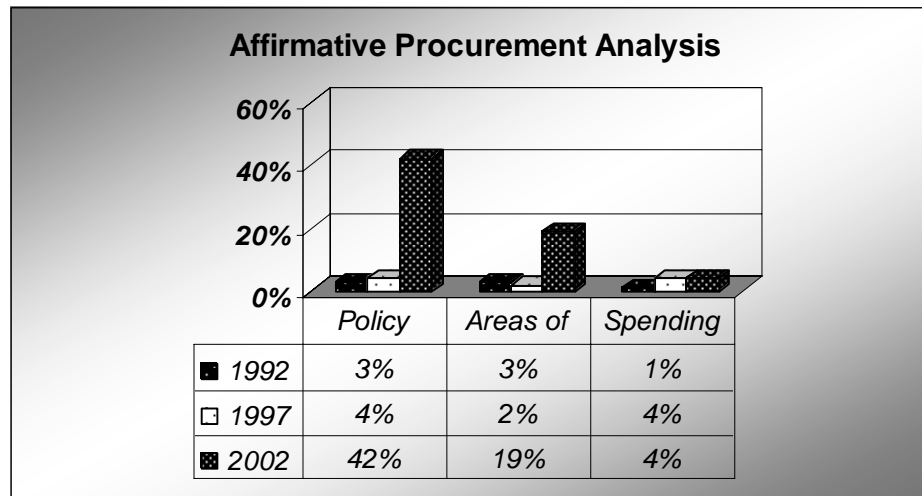
The National Skills Fund was based on the National Student Financial Aid Scheme Act of 1999, which gave rise to the National Student Financial Aid Scheme (NSFAS). The aim of the Scheme was to provide for the granting of loans and bursaries to eligible students at public higher education institutions for tertiary education. The financial scheme would result in more school-leavers being able to attain tertiary education.

The Skills Development Levies Act of 1999 provided for the imposition of a skills development levy to be paid by all employers. This levy would result in more employees being trained and this would ultimately lead to the development of a skilled nation.

The Adult Basic Education and Training Act of 2000 regulates adult basic education and training. The Act facilitates the establishment, governance and funding of public adult learning centers and redresses past discrimination to ensure representivity and equal access for people who have been marginalized in the past. The programmes established through the Act aim to provide optimal opportunities for adult learning and literacy, and to develop all skills necessary for the work place. It is to complement the Skills Development Strategy in co-operation with the Department of Labour.

6.5 Affirmative Procurement

Chart 6.25



(Source: Empowerdex, 2003)

6.5.1 Key Trends

Affirmative procurement is a policy that is applied to encourage more sourcing of goods and services from businesses owned and managed by previously disadvantaged individuals. Most companies did not focus on affirmative procurement in 1992 and 1997. The change came about around 2001, when the Black Economic Empowerment Commission (BEECom) Report on Black Economic Empowerment was released. The report emphasized the importance of affirmative procurement as a key driver of economic empowerment. It is evident from the results of the affirmative procurement disclosures by the companies that more have a policy in 2002 as compared to 1992 and 1997. This indicates the increased importance that companies might put on affirmative procurement. The disclosure of the areas within the companies where affirmative procurement can be applied has increased to about 19% of the companies. However, this indicates that some companies may not be sure which areas in their value chain may be useful in driving affirmative procurement.

6.5.2 Affirmative procurement spending

In 2002 only 4% of the top 100 companies disclosed their spending on affirmative procurement, showing virtually no change from 1997 and a marginal increase from 1% in 1992. This may indicate that companies are not making any progress with the implementation of their affirmative procurement initiatives. The question of what constitutes a black company that would qualify for affirmative procurement purposes is raised frequently along with the issue of fronting, where black companies are used to win contracts for traditionally white-owned and -managed companies.

6.5.3 Legislation and initiatives affecting the implementation of affirmative procurement

The first policy document to deal with affirmative procurement was the Reconstruction and Development Program (RDP), in April 1994. The RDP policy decentralized business ownership and control completely through focused policies of economic empowerment. Capital acquisition by black enterprises was facilitated, and the tender procedure was introduced along with training and upgrading real participation in ownership. This led to an increase in black business participation per sector.

In June 1996 the Constitution of South Africa Act 108 of 1996 was issued. The constitution stated that procurement must be considered in accordance with a system that is fair, equitable, transparent, competitive and cost-effective. It also stated that State organizations may implement procurement policies providing for the allocation of contracts to previously disadvantaged individuals.

In 1997, the Department of Public Works issued a green paper on public-sector procurement reform. The policy was given legislative force with the enactment of the Preferential Procurement Act in 2000. The policy recognized that government, as the largest buyer of goods and services in the economy, has the responsibility to use its purchasing power to support the economic policy objectives of black economic empowerment and small enterprise development. The policy has attempted to make the tendering process more accessible to black people by introducing a point system to award

tenders on the basis of the combination of price and preference for targeted groups. It has also “unbundled” tenders into smaller tenders in order to allow for smaller enterprises to tender for work.

The State Information Technology Agency Act 1 of 1999 was established as a procurement agency in respect of IT requirements; this has led to the increased participation of black business in the IT sector.

The Public Finance Management Act 1 of 1999 stated that National Treasury could make regulations or issue instructions concerning the determination for an appropriate procurement and provisioning system. This would ensure that a procurement and provisioning system is set up to implement the constitution.

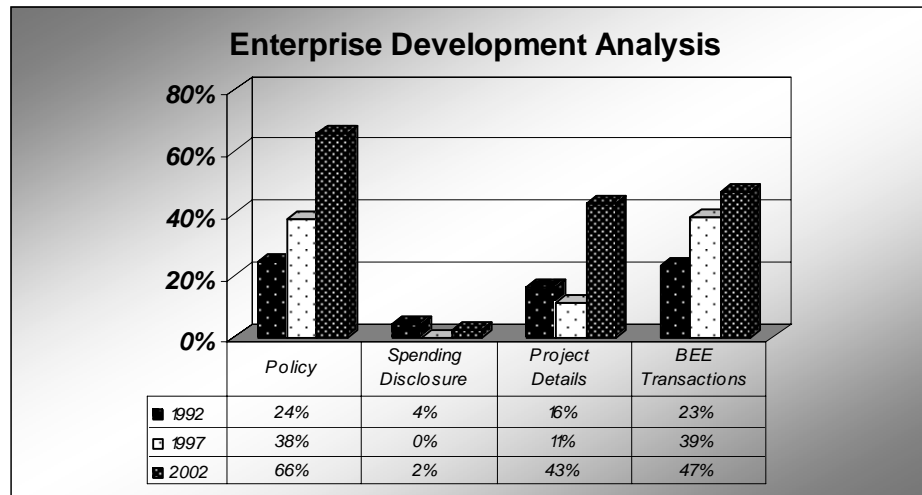
In 2000 the Construction Industry Development Board Act 38 was passed. This Board was to establish the BEE suppliers and promote procurement of construction services from BEE suppliers.

The Local Government: Municipal Systems Act also came into effect in 2000. This Act was to establish procurement procedures in local government and municipalities. This has increased the supply of BEE suppliers to the local government and municipalities.

In August 2001 the Preferential Procurement Policy Regulations set out the 80/20 and 90/10 measurement frameworks. This has led to an increase in the percentage of public-sector procurement from PDIs and has also resulted in initiatives to increase procurement from PDIs. All the legislation and various policies passed have resulted in an increase in the country’s procurement from PDIs; however, progress is going to have to be carefully monitored in order to ensure that all the quotas and requirements have been adhered to.

6.6 Enterprise Development

Chart 6.26



(Source: Empowerdex, 2003)

6.6.1 Key Trends

There has been a focus by companies on Small, Medium and Micro Enterprise (SMME) Development since 1992. The terminology has evolved over the years; however, the focus is the same, i.e. the development of black-owned and -managed SMMEs. The policy pertaining to enterprise development, as it is now commonly called, was disclosed by 66% of the top 100 companies, representing approximately 74% growth from the 1997 policy disclosures. There has also been an increase in the companies disclosing the details of the enterprise development initiatives they are undertaking. In 2002 only 43% of the companies analysed disclosed details of their initiatives, compared to 11% in 1997. There is still some reluctance on the part of companies to disclose their spending on such activities. Some of the enterprise development activities involve the provision of advice and other intangible assistance to the SMMEs, which is difficult to quantify in monetary terms. Notwithstanding the above, companies are finding it difficult to disclose their monetary contributions to enterprise development initiatives, either because the amounts are not material enough in relation to the profits or total assets of the company or due to no monetary contribution being made at all.

6.6.2 Involvement in BEE transactions

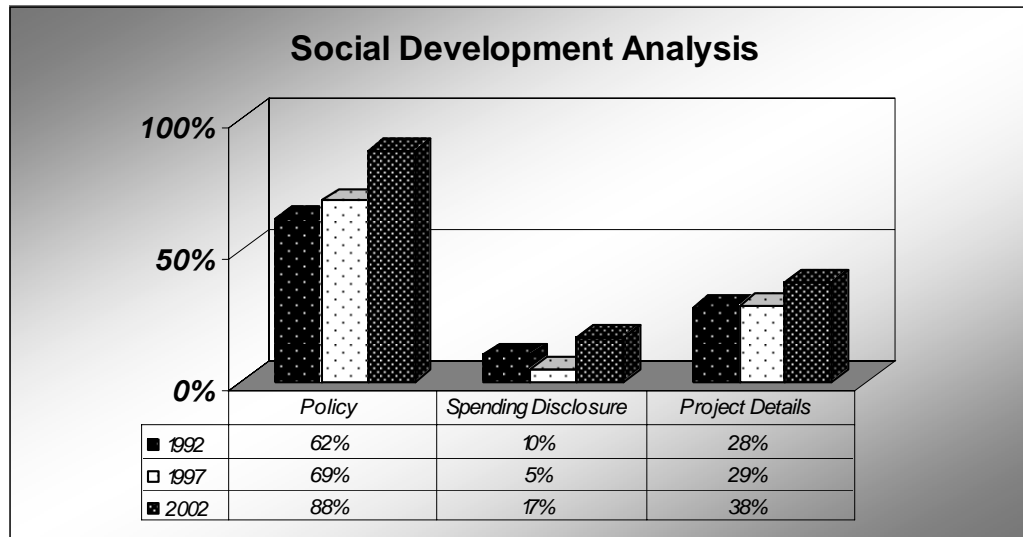
The other indicator used in assessing companies' commitment to enterprise development is companies' involvement in BEE transactions. In 1992 only 23% of the top 100 companies participated in BEE transactions, increasing to 33% in 1997 and to 47% in 2002. The disclosure of the transactions by the companies increased between 1997 and 2002, despite the stock market fall of 1998 which resulted in the fall of the Special Purpose Vehicles (SPV) set up for BEE purposes. The focus of the current BEE transactions is on operational involvement and assuming the appropriate risk by the PDI partners in the transaction.

6.6.3 Legislation and initiatives affecting the implementation of enterprise development

On the 20 March 1995 a White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa was issued. This was transformed into legislation in 1996 via the Small Business Act. The purpose of the Act was to provide for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency. It was also to provide guidelines for organs of state in order to promote small business in the Republic.

6.7 Social Development

Chart 6.27



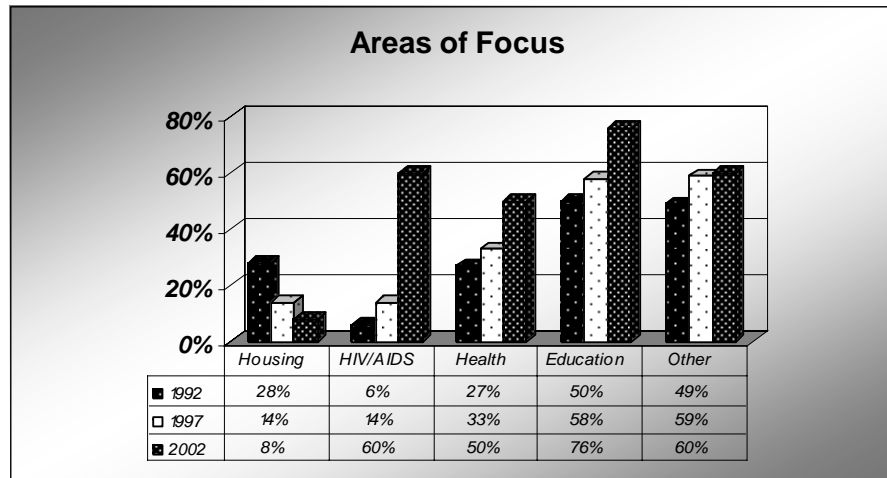
(Source: Empowerdex, 2003)

6.7.1 Key trends

Most of the companies had social development initiatives and the disclosure of the policies and details of such initiatives has increased. In 2002, 88% of the top 100 companies disclosed their policies and 38% disclosed the details of their social development projects. This shows overall improvement in the companies' disclosure of the details of their initiatives. The factor that could improve this disclosure could be the encouragement of the second King Report on Corporate Governance in South Africa, which stresses the triple bottom line reporting. The triple bottom line reporting focuses on the disclosure of performance affecting the shareholders, internal stakeholders and external stakeholders. Once again only 17% of the companies have disclosed their monetary contribution towards social development. The majority of the companies have mainly disclosed the policy and the project details without showing the financial implication of those initiatives, which would shed light on the implementation of the social development initiatives.

6.7.2 Areas of social development focus

Chart 6.28



(Source: Empowerdex, 2003)

Over the ten-year period under review the focus on housing by companies has decreased, in light of the increased government commitment to deliver housing to the low-income groups. The prominence of HIV/Aids in South African has seen companies increasing their efforts to educate and raise awareness of the disease internally within their companies and externally. There is also an increased focus on health issues other than HIV/Aids. Education has also come into the spotlight in relation to the skills shortages faced by South Africa. Other activities comprise sports, youth development initiatives and environmental activities.

6.7.3 Legislation and initiatives affecting the implementation of social development

Much of the legislation that has been passed specifically focuses on Social Development, this is due to the fact the PDIs were most destitute in this respect. The legislation for social development can be broken down into a number of categories.

1. Land and Housing

On the 25 November 1994 the Restitution of Land Rights Act was enforced. It restored land to any person or community that had land taken away due to any racially discriminating law. A commission on the Restitution of Land Rights and Land Claims was established.

In 1995 the Development Facilitation Act was introduced to facilitate and speed up the implementation of the Reconstruction and Development Programmes and projects in relation to land. In so doing it lay down general principles governing land development throughout the Republic.

The Land Reform (Labour Tenants) Act of 1996 was to provide security of tenure for labour tenants and those persons occupying or using the land, so that the labour tenants are not further prejudiced.

The Land Restitution and Reform Laws Amendment Act of 1996 ensured that no person shall be entitled to enforce restitution of a right in land if it had already been paid for.

2. Education

The South African Schools Act of 1996 was to provide for a uniform system for the organisation, governance and funding of schools. It was to amend and repeal certain laws relating to schools from the previous regime. The government has not enacted any other legislation directly pertaining to the school system.

3. Human Factors

The National Youth Commission Act was passed in 1996. The purpose of the Act was to provide for the establishment, constitution, objects and functions of a National Youth Commission. It is important that the youth of South Africa should promote national reconciliation and unity, build a new patriotism and foster peace, justice and a human rights culture.

In 1996 the Commission on Gender Equality Act was passed. A Commission on Gender Equality would be formed to promote gender equality and to advise and to make recommendations to Parliament or any other legislature with regard to any laws or proposed legislation which affects gender equality and the status of women. This Act gave women the power that they did not previously have, and made the courts recognize their equality.

The Promotion of Equality and Prevention of Unfair Discrimination Act was passed in 2000. The aim of the Act is to prevent and prohibit unfair discrimination and harassment; to promote equality, and eliminate unfair discrimination; to prevent and prohibit hate speech. There are still problems within our society and this Act sees the solution in the constitution. It upholds the values of human dignity, equality, freedom and social justice in a united, non-racial and non-sexist society.

South Africa also has international obligations under binding treaties and customary international law in the field of human rights, which promote equality and prohibit unfair discrimination. Among these obligations are those specified in the Convention on the Elimination of All Forms of Discrimination Against Women and the Convention on the Elimination of All Forms of Racial Discrimination.

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