

# ANNUAL REPORT



trade and industrial policy  
strategies



indigenous growth



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# ANNUAL REPORT | 2008

trade and industrial policy strategies



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## ACKNOWLEDGMENT & THANKS



Stephen Hanival left TIPS near the end of 2008 to focus his energies on Commark which had been one of his responsibilities as TIPS executive director for several years. On behalf of the directors of TIPS, I thank Stephen for his excellent work as a leader over an important period of TIPS's development. Stephen introduced several valuable and exciting innovations into TIPS, brought in top quality staff, and moved TIPS to its attractive location in Government Avenue. We wish Stephen every success in his future endeavours.

I would also like to thank Ximena Gonzalez-Nunez for stepping into the gap left by Stephen at short notice and for doing outstanding work to begin to rebuild TIPS and to retain the commitment of its staff in uncertain times.



**Alan Hirsch – Chairperson of the TIPS Board**

*August 2009*

## EXECUTIVE DIRECTOR'S OVERVIEW



*In a year where financial turmoil marked the entry into a new year, TIPS continued to support the formulation of policy with a progressive focus on issues key to the advancement of economic development. An important milestone was achieved within the auspices of the the Second Economy Strategy Project and its associated pilot programme, the Community Work Programme.*

This Programme, which is an initiative of the Second Economy Strategy Project and is run in partnership with the Department for Social Development, has piloted a methodology for introducing a form of minimum employment guarantee as part of public employment in South Africa. On the basis of this pilot, the South African Government has formally included the Community Work Programme in Phase Two of its Expanded Public Works Programme (EPWP). This will be funded 'on budget' by the South African Government from April 2009, which marks a significant step towards addressing the need for employment safety nets in a country challenged by severe levels of unemployment.

On the trade front, a traditional area of policy influence for TIPS, we have continued to support and actively contribute to the Trade Policy Review process, being driven by the dti under the guardianship of the Honourable Minister of Trade and Industry, Mr Rob Davies. We have been pleased to see the process approach its culmination and look forward to the presentation of the document to Cabinet for its approval in 2009. The underlying emphasis on this key policy framework has been its underpinnings with respect to its links with South Africa's Industrial Policy context, as well as the need to ensure that South Africa's development context is an integral driver for any trade policy related issues from analysis to negotiations. In our work in the SADC region under the auspices of the IDRC funded Southern African Development Research Network (SADRN), we have followed a similar approach of focus. Whilst the research capacity already existing in the region is limited, 2008 saw two of the three planned thematic working groups up and running. TIPS is hosting the theme of Industrial Policy and in 2008 advanced the research agenda in the region in this respect through drawing on its extensive network of experts and policymakers. We hope to continue this valuable work in 2009. The SADRN thematic working group on Trade and Pro-poor Growth has also been mobilised in 2008 and we look forward to the one on Trade in Services being operational in 2009.

TIPS has also been making valuable contributions to the debate around economic regulation and competition, having conducted work for the Presidency and the Organisation for Economic Co-operation and Development (OECD). Work will continue in these areas focussing on, for example, how the welfare effects from reforms of public utilities can be realised.

A wealth of research was generated and commissioned in 2008 with a number of papers coming out of "The Review of the Government's Second Economy Programmes", as well as the TIPS Annual Forum, which covered a plethora of topics from land reform, through to infrastructure investment and inflation targeting. Our capacity building efforts have



also been moving from strength to strength as we hosted another CGE workshop, continued our internship and small grants programme, as well as the provision of trade-related capacity building initiatives under the AusAud-funded “Southern African Trade Development” Programme. We look forward to upscaling these efforts in 2009.

Whilst TIPS has continued to make significant contributions within its traditional areas of focus, namely trade and industrial policy, recently this has been extended to other areas such as economic regulation and competition, as mentioned previously. With the departure of our then Executive Director, Stephen Hanival, the TIPS members and the board elected to commission a review of TIPS in order to inform the direction of the organisation for the months ahead. Whilst the review confirmed the relevance of TIPS’ areas of focus, it concluded that the context within which TIPS was now operating was different to the environment that had characterised the organisation’s inception. Today, there are a number of organisations that focus on policy oriented research, which was not the case years back. This said, the review team reiterated the important role that TIPS has to play as a policy think tank. The organisation’s strong link to policymakers was emphasised, as was the donors’ continued willingness to support TIPS’ work.

Going forward TIPS will be informed by this review process and the strategic guidance of the TIPS Board and Members. We saw some changes in the composition thereof, including the resignation of Professor Merle Holden from the Audit Committee in 2008. TIPS is grateful to Professor Holden for her constant support and invaluable contribution to the organisation. We are glad that she will remain as a TIPS member for the foreseeable future. The organisation also welcomed Ms Fundi Tshazibana, Chief Director: Regulatory Impact Analysis within the National Treasury and Mr Nimrod Zalk, Deputy Director-General: Industrial Development Division within **the dti** as new TIPS members. Furthermore, Mr Zalk replaced Mr Tshediso Matona as a Director on the TIPS Board as Mr Matona was no longer able to attend the regular Directors’ meeting due to other pressing commitments.

We at TIPS look forward to many more exciting changes and policy challenges in the coming year, particularly as conventional ideologies give way to new thinking as the financial crisis forces us to look at the world through new lenses. I would like to say thank you to the staff at TIPS for their passionate commitment to the work we do, as well as to the donors, TIPS members and directors for their unwavering support.



Ximena Gonzalez-Nuñez  
Acting Executive Director



## PROFILE

TIPS is an independent, non-profit economic research institution active in South Africa and the Southern African region in pursuit of viable economic policy solutions to developing country needs.

### Tips vision

To be a source of independent economic policy and research leadership to government and civil society in South Africa and the region.

### Tips mission

Develop an internal critical mass of intellectual capacity to undertake and disseminate leading-edge and relevant economic research.

Stimulate debate between policy practitioners and the wider research community to generate viable policy options.

Building on our links with key international policy-relevant institutions to draw the quality of our research efforts ever closer to international best practice.

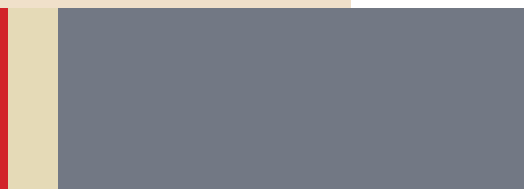
### Objectives

We are active in both the South African and Southern African economic policy arenas and co-ordinate a wide network of established researchers. Our aim is to remain responsive to the local policy environment, government and other clients' research and information needs; to deliver high-quality, policy-relevant research; and to maintain an overt and strong interest in public policy in the areas associated with developing country economic policy.

### Areas of activity

TIPS undertakes research for a broad range of government departments, non-profit organisations and regional bodies:

- ◆ The Presidency
- ◆ Department of Trade and Industry
- ◆ The Mpumalanga Provincial Government
- ◆ The SADC Secretariat
- ◆ The Department of Transport
- ◆ The Department of Public Enterprises.



## Partner organisations

TIPS engages with key local, regional and international policy-relevant research and academic institutions to produce and disseminate world-class research and influence economic policy in a constructive manner, including:

- ◆ Botswana Institute of Development and Policy Analysis (BIDPA)
- ◆ Centre for Economic Policy Research (CEPR)
- ◆ Centre for Research on the Economics of Institutions, University of Rome
- ◆ Institute for Global Dialogue (IGD)
- ◆ Organisation for Economic Co-operation and Development (OECD)
- ◆ The British High Commission
- ◆ The ComMark Trust
- ◆ The Competitiveness Institute (TCI)
- ◆ The Development Policy Research Unit (DPRU)
- ◆ The European Commission
- ◆ The Institute of Development Studies (IDS), University of Sussex
- ◆ The International Monetary Fund (IMF)
- ◆ The International Trade Centre (ITC)
- ◆ The Southern African Global Competitiveness Hub
- ◆ The South African Institute of International Affairs (SAIIA)
- ◆ The Trade Law Centre for Southern Africa (Tralac)
- ◆ The World Bank
- ◆ United Nations Economic Commission for Africa (UNECA)
- ◆ Universidad Nacional de General Sarmiento, Argentina
- ◆ Universities of the Witwatersrand, Cape Town, Pretoria, KwaZulu-Natal and Stellenbosch
- ◆ University of Mauritius
- ◆ University of Tanzania
- ◆ University of Zambia
- ◆ Western Cape Department of Economic Development and Tourism



## ORGANISATIONAL STRUCTURE

TIPS has grown into an organisation of 11 full-time staff members, one long-term consultant and two part-time senior staff members including an accountant and agricultural specialist. Of the 11 staff members:

- ◆ Six are economists;
- ◆ One is a technical staff member – the Financial Manager; and
- ◆ Four are administrative support staff.

This is a significantly different structure to that of TIPS in 2004 when only two of the then eight full-time staff members were researchers. Much of the additional capacity is thus research-oriented, reflecting the growing need for in-house economists to work on both contract research and programme research such as the AusAID-funded Southern African Trade Development Programme. By 2008, TIPS had two deputy Executive Directors, both experienced trade economists, to manage our significantly expanded research activities. We have also re-established our economic regulation research programme with a senior economist who engages actively with the Department of Minerals and Energy, the National Energy Regulator and other policy-making bodies and individuals at the helm. Furthermore, with the inclusion of an agricultural specialist TIPS is much better positioned to begin tackling the fundamental gaps that currently exist with respect to industrial policy in relation to issues such as agro-processing and related issues of food security.

In addition, development specialist Dr Kate Philip (previously at the UK's Department for International Development, or DFID) has been contracted by TIPS to manage the Second Economy Strategy Project, reporting into the AsgiSA High Level Task Team in the Presidency. TIPS manages the implementation of the project, while the Presidency provides policy oversight for the project. The purpose of this project is to sharpen government strategies targeting the most economically marginalised, as part of the AsgiSA target of halving poverty and unemployment in South Africa by 2014.

TIPS continues to provide public good-related services. The support staff complement assists in managing TIPS' public-good activities, such as training courses and workshops, as well as our continued focus on regular, policy-oriented publications and the provision of a substantial website with access to a range of economic data and our online research paper archives. In 2008, in line with its capacity building mandate, TIPS also hosted two interns. One of the interns was focused on land reform issues and related policy solutions and undertook a project in co-operation with an NGO based in Mpumalanga, TRAC, and with support from Standard Bank. A second intern was deployed to support the Industrial Policy Thematic Working Group of the Southern African Development Research Network (SADRN) and independently produced a research piece on the theme of China's investments in the banking sector in Southern Africa.

## Staff Members



## Audit Committee

The audit committee is a committee of the Board of Directors. Its primary function is to assist the Board in fulfilling its oversight responsibilities by overseeing the accounting, internal control and financial reporting processes, and the audit process of the company. In 2008 Professor Merle Holden resigned from the Audit Committee due to other commitments, but elected to remain as a Member.

### Members

Rob Lewis (Chair)	Independent external chartered accountant
Alan Hirsch	The Presidency

## Tips Board of Directors and Members

TIPS' activities are directed by a Board of Directors and Members who are drawn from government, academia, civil society and the private sector to provide strategic oversight of its activities. The Directors meet every quarter to review the financial performance of the organisation. They also assess the financial resources available to the organisation in relation to TIPS' strategic priorities and may recommend realignment of activities to suit the resources available or vice versa.

During the course of 2008 Ms. Shirley Robinson was elected as Chairperson of the Board of Members, whilst Mr. Alan Hirsch was re-appointed as the Chairperson of the Board of Directors. TIPS also welcomed two new members, Ms Fundi Tshazibana, Chief Director: Regulatory Impact Analysis within the National Treasury and Mr Nimrod Zalk, Deputy Director-General: Industrial Development Division within **the dti**. Mr Zalk replaced Mr Tshediso Matona as a Director on the TIPS Board as Mr Matona was no longer able to attend the regular Directors' meeting due to other pressing commitments.

### Directors

Alan Hirsch (Chair)	The Presidency
Stephen Hanival	TIPS
Nimrod Zalk	the dti (Department of Trade and Industry)
Jorge Maia	Industrial Development Corporation

### Members

Shirley Robinson (Chair)	Private Consultant
Alan Hirsch	The Presidency
Fundi Tshazibana	National Treasury
Jorge Maia	Industrial Development Corporation
Lael Bethlehem	Johannesburg Development Agency
Leslie Maasdorp	Goldman Sachs International
Merle Holden	University of KwaZulu-Natal
Rashad Cassim	University of the Witwatersrand
Nimrod Zalk	the dti (Department of Trade and Industry)
Ravindra Naidoo	Development Bank of Southern Africa
Stephen Yeo	Centre for Economic Policy Research
Tshediso Matona	the dti (Department of Trade and Industry)

## Research Programmes in 2008

In **the** course of reviewing the impact of our activities, we have considered the possibility that our focus on programmes of work may have led TIPS to think about its research in terms of somewhat isolated themes rather than as dynamic means to an end. As a result, TIPS decided to broaden its thematic areas in a functional sense and introduced some cross-cutting activities which we believe are assisting us in integrating the work of TIPS more effectively. Our research themes in the medium term therefore include:

- ◆ Trade analysis (tariff and trade analysis, trade promotion, trade in services, trade and poverty, and Southern African trade development);
- ◆ Sector analysis (sector strategy development, including service sectors, and industrial policy); and
- ◆ Economic regulation of public sector reform.
- ◆ TIPS' cross-cutting themes in the medium term involve capacity-building, including economic modelling and academic data access.

We believe these areas are of direct relevance to other developing countries in the region and we would want our increased activity in the region to flow from a substantial and stable research base in South Africa. Our projects are a healthy mix of applied and 'over the horizon' proactive strategic research, implemented in close partnership with key stakeholders to ensure buy-in and capacity-building, and include the following services:

- ◆ Conceptualisation and design of projects;
- ◆ Management and implementation of projects and programmes;
- ◆ Economic research and analysis;
- ◆ Training and capacity development; and
- ◆ Dissemination of findings via online data hosting, interactive web reports, and print and online publications.

## Trade Analysis Research

This programme has been the core focus of TIPS since its inception. Trade analysis at TIPS has evolved from ad hoc pieces of research into an effective support mechanism for **the dti's** current bilateral, multilateral and tariff reform deliberations. Activities are generally undertaken exclusively for **the dti**, though since 2007 have also been undertaken at the request of the Presidency, with the understanding that components of the analysis can be shared as a public good via the TIPS website.

Throughout the course of 2008, TIPS responded to a number of requests for assistance with respect to trade analysis and associated policy recommendations made by the Presidency and **the dti**. Specifically, TIPS was responsible for the contributions with respect to trade in terms of the Presidency's 15-year review of the Economy. TIPS has also been asked to sit on **the dti's** Trade Policy Reference Group (TPRG), which is chaired by the Honourable Minister of Trade and Industry, Mr. Rob Davies. The TPRG is responsible for providing strategic guidance to **the dti** with respect to trade policy and trade reform. TIPS was also intimately involved in the process of formulating the Trade Policy Framework document, which was guided by the TPRG. TIPS worked together with the International Trade Ad-

ministration Commission of South Africa (ITAC) in doing all the necessary trade and tariff analysis to inform the document and make some key policy recommendations. The document is in its final draft stages and will be finalised in 2009.

TIPS also continues to respond to smaller, ad hoc requests from policymakers for trade analysis assistance. The Presidency, for example, requested an informed approach to assessing the costs and benefits of a free trade agreement between South Africa and China.

## Trade and Tariff Analysis

This component of support is focused on continuing to assist **the dti** to assess the impact of new and existing trade preference agreements, including free trade agreements (FTAs), bilateral trade agreements and unilateral trade liberalisation/tariff simplification. A key component of TIPS' research in this field has been the application of the latest methodologies to South African data for household economic impact assessments. During 2005 and 2006, one of TIPS' long-standing research associates, James Thurlow, developed a Computerised General Equilibrium (CGE) model which will allow bi- and multilateral trade agreements to be assessed for their poverty impact at household level. As with much of the work TIPS co-ordinates, the development of the model was funded as a 'public good' and was partially made available on the TIPS website, allowing other researchers to draw on the organisation's work and extend the analysis and methodological innovations even further. Numerous requests for this CGE model from researchers from as far as Iran prompted us to make available a full working version of the model towards the end of 2007.

TIPS is also addressing a number of other research questions in the field of trade analysis. Up to now, South Africa's bilateral, multilateral and unilateral trade reform deliberations have been largely premised on the grounds that trade liberalisation is an essential requirement for improved economic growth. However, a significant body of evidence is accumulating which suggests that trade liberalisation is not guaranteed to enhance growth. Nor is trade liberalisation necessarily poverty reducing. Be that as it may, for a relatively small developing country such as South Africa, trade policy is an important tool in our policymakers' arsenal. In the first place, South Africa is prone to balance of payments imbalances and secondly, the economy has limited employment creation (low skill) potential except for manufacturing.

TIPS is therefore investigating the processes and institutional structures which have led other countries to produce successful trade policy; whether there is 'space' for South Africa to produce labour-intensive goods given China and India's recent rise in global markets, which goods South Africa should be targeting, and why South Africa has performed so poorly in the production of labour-intensive goods. Further research areas involve an investigation of the barriers to exporting within South Africa, whether South Africa's host of trans-national corporations can be a tool in development and innovation, and what role the SADC market for goods and services could play in preparing local companies for exporting to industrialised countries. In 2008, much of the focus was around economic regulation and the issue of sequencing of liberalisation, as well as the appropriate mode of opening up to competition.





## Southern African Trade Development

As one of AusAID's local, South Africa-based partners for its African Governance Facility Programme, TIPS in 2008 carried out a number of research projects on trade reform and liberalisation in Southern Africa, and undertook various research capacity-building activities in the region. A substantial portion of TIPS' activities for this programme is focused on developing research infrastructure. In this regard, the Southern African Trade Database project has been extremely successful. TIPS has established and maintains an online, readily accessible trade database populated with trade and tariff data which TIPS collects on an ongoing basis from the SADC Member States. The database can be accessed by any interested researcher and is underpinned by analytical templates, developed by TIPS to enable researchers to calculate key trade policy-related ratios and coefficients automatically by simply pushing a button. Therefore, relatively inexperienced researchers who are unsure which calculations to carry out and how to perform them now have the ability to do research using the data compiled into the relevant templates. Linked to this issue, to address the relatively low levels of analytical capacity in countries in the region, TIPS hosted an advanced trade analysis capacity-building workshop and data training course in Madagascar during 2008, eliciting extremely positive responses from the region. There was also a seminar on Economic Partnership Agreements (EPAs) related to the Trade Database. Updated trade data remain available from the Southern African Trade Database which can be accessed at [www.sadctrade.org](http://www.sadctrade.org).

A 2008 Review undertaken by the Overseas Development Initiative (ODI) revealed that the SADC Trade Database has helped to fill a serious gap that exists in the region. Informed understanding and comment on the details that determine the impact of trade policy change is still weak in the SADC region though not as weak as in the past. The availability of the regional trade database to a wide range of researchers and the process of training potential users on how the database can be applied to trade analysis, has, itself, influenced trade data knowledge in the region. TIPS has played an important role in this change and has, moreover, influenced the very quality of the data produced for UN Comtrade, which is viewed as a foremost source of trade data worldwide. The ODI review revealed that the SADC Trade Database was and still is widely used and highly valued. This position is the result not only of the contents of the Database but also of the large training input provided by TIPS to complement provision of the Database itself.

In addition, so as to contribute to regional policy analysis and strategy development, TIPS also publishes an Intra-SADC Trade Performance Review. This document highlights the intra-SADC structure and patterns of trade for Member States. Work in 2008 was for the 2007 Review. Based on the SADC trade data collected by TIPS, analytical techniques are available to researchers involved in compiling these 'reference books' that have not been applied to SADC previously – partly because the data have not been suitably 'structured' before.

A further project under this programme umbrella has been the Regional Trade Information Service, which provides policy-makers and the private sector with export intelligence regarding the potential of SADC's current export 'basket' as well as the region's potential export basket of goods and services in the form of electronic and hardcopy Trade Information Briefs (TIB). Sixteen TIBs were published between 2005 and 2008 focussing on prod-

ucts such as aquaculture and soya beans. In 2008 a summary TIB report was published for leather, organics, honey, furniture, fibre and essential oils. Interest in the publications has grown steadily and a continued interest for the TIBs was expressed by regional policy-makers (as well as researchers).

## Trade in Services

During 2006, TIPS organised a number of workshops with researchers and the business community to discuss both the methodological and policy issues arising from South Africa's GATS Offer. Flowing from these workshops, a substantial regulatory review of the South African services sector was commissioned. A British High Commission-funded survey was constructed to serve as the first phase of a longitudinal study and was also used as a pilot to assist us in assessing the potential pitfalls to expanding the study to include manufacturing sectors. Five priority service sectors were analysed – distribution services, communication services, health services, financial services and transport services – to better understand their potential role in alleviating poverty and supporting economic growth in South Africa. Further workshops on the survey's outcomes – to ensure the study's output is peer reviewed and disseminated to key stakeholders – were held in 2007 and early 2008. Miscellaneous donors have requested the reports in 2008 for the purpose of drawing a future work agenda in services.

## Economic Regulation

Economic regulation is rising in importance as an issue of concern to government policy-makers, with prominence being given by policy makers to effective State-Owned Enterprise (SOE) restructuring through managed liberalisation and stronger regulation in the application of competition policy. In this regard new legislation has been passed in the last few years to establish independent regulators in some instances in order to encourage competition by creating an enabling regulatory environment for private investors while simultaneously protecting consumers. Also, international experience around the performance of restructured industries in developed and developing economies has reinforced the importance of concurrent development of economic regulation and competition to generate the outcomes policy-makers aim to achieve when embarking on major reforms of public utilities in order to attract private investment into industries that is dominated by incumbent state-owned utilities. In particular, competition and regulation are critical to generate the welfare effects of these reforms because of the market failure characteristics of some components of these industries and the essential nature of these services (energy, telecommunications, transport and water) as an input into the economy.

TIPS' core research theme in the area of economic regulation has focussed on public transport, with particular reference to freight rail restructuring and public rail reform initiatives. This research programme gained increased momentum in 2007 with the appointment of a specialist in this field and mainly addresses utility regulation (energy, telecoms, gas and water). In particular, research is carried out to establish the nature and consequences of economic regulation at national, local (provincial and municipal) and international levels. During 2007 work in the area of economic regulation revolved around the development of a concept note highlighting research issues and commentaries on relevant regulatory occurrences. Some project related work was also conducted in 2007. For instance,

research was carried out on behalf of the Organisation for Economic Co-operation and Development (OECD) regarding regulatory frameworks in network utilities (specifically telecommunications, transport and energy) and issues around the developments in and performance of these industries and of the relevant economic regulators for South Africa. The OECD research also considered the challenges for competition in these network utilities under the current regulatory regimes.

During 2008 regulatory work involved support to a project commissioned by the Presidency. This particular project investigated the responsibility and jurisdiction of economic regulators in South Africa. The research's main focus was to develop a coherent framework for economic regulators (transport, water, energy and telecommunications) – i.e. one that focussed on clear responsibilities, clarity on jurisdictions and unambiguous policy objectives.

Other work pursued in 2008 included a project that was commissioned by ComMark regarding the air transport industry in Mozambique. The main focus of the work was to consider liberalisation of the air transport industry as an option for Mozambique to grow its air transport market. Growth of the air transport market is seen as critical in order to capture spin-offs such as an increase in tourism and the subsequent advantages that come with such an increase. This research considered issues such as the concepts of deregulation and liberalization and state protection; some case studies with regard to developing countries; the case for and the case against liberalization; different options that exist with regard to the airline industry; issues around the Yamoussoukro decision (that in essence relates to a quasi "open skies" policy for Africa) and finally the air transport situation in Mozambique.

Economic regulation is playing a noticeable role in utilities in South Africa and economic regulators are still being created in some areas (e.g. newly established Ports regulator) as well as being considered in others (e.g. the rail regulator and the water regulator). There are many areas of concern still on the economic regulation theme that relates for example to the efficiency and effectiveness of regulators, the cost of having many regulators versus the advantages of such an approach, the differences in regulatory structures and governance and capacity issues. SOE restructuring is happening much more slowly than was anticipated at first, mainly because of a perceived "rethink" by policy makers as to whether liberalisation is the right way to go. Seemingly inconsistent views and statements by policy-makers have complicated the application of economic regulation since regulators need a clear policy framework in order to conduct their work effectively and efficiently. This situation of policy incoherence and the fact that players in the industries are still relatively few, dominant and mostly state-owned, have not made the situation any easier.

International experience with the performance of restructured industries in developed and developing economies has led to scepticism as to the success of the model (of private investment and competition in non-natural monopoly segments of network utilities) of economic regulation. Some pertinent issues that come to mind here relate to regulatory governance and to the principles (e.g. rule of law, independence, accountability, predictability) of regulation that must be adhered to so as to ensure that regulation does not fail.

## Capacity Building & Training

### Development Dialogue Seminar Series

One of the weaknesses in the industrial policy/sector strategy arena is the lack of convergence of government thinking, and policy consistency between national government departments. An additional weakness is in terms of the limited extent of government's engagement with various development organisations and agencies.

The Development Dialogue Seminar series is hosted by TIPS and ComMark on a monthly basis and offers a platform to share views and ideas on a wide range of development issues and alternative policy strategies. The themes covered by the series span the informal economy, specific trade negotiation challenges, and a number of other diverse areas. The seminar series also attempts to offer perspectives from other countries in the region and beyond.

A total of ten seminars were held in the course of 2008, four of which involved presenters from outside South Africa. International experts - such as Victor Tokman in the field of informal work and Carlo Pietrobelli from the Research Center on the Economics of Institutions at Rome in industrial policy - presented in 2008. High calibre presenters, such as Robert Z. Lawrence from Harvard University, will continue to be involved in the 2009 seminars.

### Industrial Policy

An abiding concern of both policy-makers and the broader research community has been the lack of, or constrained, access to industrial policy-related research and literature. TIPS has addressed this by developing an online, searchable library of industrial policy-related research papers and publications, accessible on our website at [www.tips.org.za](http://www.tips.org.za). To comply with copyright legislation, the bibliography itself and an abstract for each paper are readily accessible; however, access to the full papers are restricted to registered users who can contact TIPS to request a printed or electronic copy of particular papers of interest.

In addition, TIPS was requested to draft a report on the successes and failures of South Africa's industrial policy framework over the last 15 years. This report was presented to a workshop organised by the South African Presidency in early 2008 and is referenced in the SA Presidency's final report to Parliament – *Towards a 15-Year Review* synthesis report in October 2008. TIPS co-authored the Industrial Policy report with Dr. Zavareh Rustomjee, the former Director-General of **the dti**.

### Economic Modelling

Economic modelling is an important tool for economists and policy-makers to assess the likely impact of a broad range of social and economic events on an economy. Its real power is in its predictive value when developing 'what if' scenarios. The quantitative nature of economic modelling also makes it possible to compare the likely impact of one policy intervention in relation to the impact of an alternative intervention. Economic modelling is therefore a particularly useful tool for policy-makers faced with complex policy trade-off decisions.

However, for a number of reasons, economic modelling, although a useful tool to both economists and policy-makers, is seldom used in South Africa. Firstly, economic modelling is a laborious undertaking. It is simply impossible to undertake 'quick and dirty' modelling exercises without severely damaging the credibility of the results. On average, a credible modelling effort requires at least three to six months. Partly as a result of this, modelling efforts tend to be supply driven, as consumers of such exercises (policy-makers) may not always have the luxury of being able to wait six months before results are available.

Secondly, economic modelling requires relatively large volumes of data and at a high degree of disaggregation to provide reliable results. Thirdly, economic modelling technicians are in relatively short supply in South Africa. A few commercial entities supply this service but they are generally very small and are geared towards answering fairly straightforward research questions. Policy research inevitably involves much more complex questions and the trade-offs between policies may be much more subtle, requiring very careful specification of the model to ensure the reliability of its results.

Fourthly, the demography of the people currently involved in the CGE modelling field makes it clear that South Africa's black economics graduates do not see a viable career path in economic modelling. Finally, the benefits of using economic models and the cautionary announcements that should accompany their results are generally poorly understood in South Africa. Whilst the latter may not be a binding concern at present, it would be important to ensure that the capacity of both the economists using the models and the policy-makers using the results is strengthened.

TIPS is undertaking one main activity to alleviate the above: to supply hands-on training. Training was offered in 2007 and 2008 and is pursued again for 2009 with the view to increase the size of the pool of economists who can undertake modelling exercises and to alter the demographics, both in terms of gender and race. Training takes the form of a number of focused training courses on economy-wide modelling and CGE modelling.



### Small Research Grants

Access to data and training does little for capacity-building if individuals do not have the opportunity to apply their new knowledge in a practical manner. TIPS has therefore budgeted to provide a number of small research grants to encourage post-graduate students to undertake their dissertations in areas that are relevant to TIPS and the policy community in general. This small grants scheme seeks to increase the supply of policy-relevant research and ensure that graduates are exposed to the research questions that vex policy-makers.

TIPS believes that the combination of these three factors and the shift in focus to younger researchers who will likely be policy-makers in the next decade present the highest potential for ensuring that the TIPS network is sustained, and perhaps more importantly, infused with new research capacity. Small research grants have also been used to promote small specialist research pieces and research partnerships. Three University students were small grant recipients in 2008, with research work covering areas such as macro-economic policy, trade, investment and infrastructure, among others. Two additional specialist research pieces were also sponsored under this scheme.



## Southern African Development Research Network

The Southern African Development Research Network (SADRN), funded by the International Development Research Centre (IDRC), was initiated to support the production of policy-relevant research in conjunction with individual and institutional capacity-building that will contribute to the development agenda of the SADC region. The project was launched in August 2007 and is implemented through thematic working groups as per a “hub and spokes” approach. The hub refers to the managing institution, which is Trade and Industrial Policy Strategies (TIPS) and spokes are host institutions which take responsibility for implementing specific research themes over the period. The host institutions were required to have capacity, expertise and experience in the chosen theme in order for capacity to be built around a particular theme through the network.

The “hub and spokes” approach was deemed suitable for a network trying to cover an area of about 10 million square kilometres with an estimated population of 250 million. The decision to have thematic working groups and spread them around the region makes the network more easily accessible. The approach as can be seen in Figure 1 also helps disseminate responsibility to other institutions and allows institutions to take leadership and initiative on regional development and related research aspects. The model is also preferred because it has the ability to reach stakeholders which are dispersed throughout the region and to reduce the concentration of resources in one country.

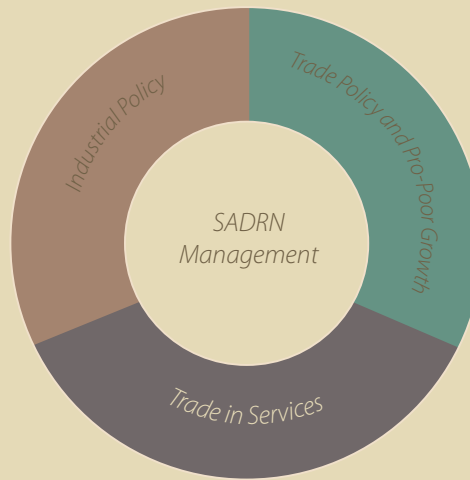
Three themes were selected after comprehensive discussions at the SADRN Launch workshop, which was attended by a number of regional institutions. These were selected on the basis of their relevance to the regional integration agenda and alignment with multi-lateral trade negotiations of the World Trade Organisation (WTO). Specifically, the chosen themes are Industrial Policy, Trade and Pro-poor Growth as well as Service Sector Development. The host for the first two themes are TIPS and the Botswana Institute for Development and Policy Analysis (BIDPA), respectively. TIPS was elected to host the theme on Industrial Policy, as per the recommendation by the Programme’s Steering Committee, given the capacity challenges in the region around this area of work. The host for the third theme, namely Service Sector Development was being considered by the end of 2008.







**Figure 1:** SADRN Implementation Approach of Hub and Spokes



Researchers based in SADC region have been important beneficiaries of the SADRN project as they were assisted in participating in activities related to the themes of relevance to the project. This support has been important with respect to advancing key objectives of the SADRN project, including knowledge creation, capacity building and information sharing. Support provided has been based on a selection process. This process has emphasised particular aspects, including the action's potential to build or strengthen the network with the researcher involved or the institution represented, as well as the ability to increase engagement with SADRN research or other activities and sharing of lessons learned with the entire SADRN network through one of the thematic working groups.

Strengthening of the Network has also taken place through increased exposure and visibility of SADRN in various events which took place in 2008. A paper produced under SADRN was presented at "The first international conference on regional integration issues and SADC Law" which was held in Maputo, Mozambique in April 2008. This was a high profile event, as the SADC Executive Secretary, Dr Tomaz Augusto Salomao was a guest at the event. Another paper under SADRN was presented at an international conference that was held in Cape Town, South Africa organised by The Competitiveness Institute (TCI) and TIPS. Additional presentations and contributions were made at other regional events on topics related trade, agriculture, services and poverty.

Much of the focus of work under SADRN in 2008 concentrated on trying to get the Thematic Working Groups up and running. Potential Host Institutions were invited to submit proposals during the period, and these were assessed by an independent external expert. The process starkly revealed the limited institutional capacity available in the region as a whole to host the Thematic Working Groups. Despite this, by the end of 2008, two of the Thematic Working Groups has been established, and the third, namely around Trade in Services, will be ready by early 2009.

Overall, due to the ambitious nature of the project, implementation thereof has been slow. Whilst the project was meant to be completed within two years, due to the work load and other challenges related to the project, an extension to the project was requested and granted by the IDRC. The project has been extended by 18 months and therefore is due to end in the middle of 2010.



Going forward, SADRN will continue to support, expand and strengthen activities mentioned earlier. The full implementation of the project with all thematic working areas being fully functional is an urgent priority in 2009. SADRN will continue to encourage and support events such as workshops, conferences and seminars which provide opportunities for researchers to discuss, share and present their work as well as to engage policy makers in those sessions. Some of the research to be funded will be conducted by policy makers themselves. Other activities include the continuous updating of the SADRN database of institutions, researchers and areas of work. There will also be continuous sharing of information and focus on strengthening of capacity in the region across all themes.

## Second Economy Strategy Project and the Community Work Programme

The term 'second economy' entered policy debate following its use in a 'Letter from the President' by Thabo Mbeki in August 2003, in which it was used to describe some of the features of inequality and structural poverty that characterise South Africa. While the concept attracted its share of criticism, it has served its purpose in drawing attention to the policy challenge of continued inequality, persistent poverty and the marginalisation of sectors of the poor. The debate that followed has helped to deepen analysis of the complex set of continuities and discontinuities, connections and disconnections, dependencies and interdependencies that link wealth and poverty together in South Africa's economy, and how these are also influenced by their interaction with wider global dynamics. Such analysis is key to developing and strengthening the policy instruments and programmes that government is able to use to address these complex challenges.

The Second Economy Strategy Project has been developed by Trade & Industrial Policy Strategies at the request of the Presidency. TIPS project manages the implementation of the project, while the Presidency provides policy oversight for the project. The purpose of this project is to contribute to reducing poverty and inequality in South Africa by supporting the government to develop a Strategy for the Second Economy, as part of its Accelerated Shared Growth Initiative of South Africa (Asgi-SA), located in the Presidency. Asgi-SA's target is to halve poverty and unemployment in SA by 2014. However, the Asgi-SA March 2007 Annual Report raises concern that without a more concerted focus on employment creation, the South African economy may still fall short of between one and two million



jobs on current trends – even if growth targets are met. Halving poverty also requires an increased focus on sustainable livelihoods for the chronically poor. The strategy for the second economy is tasked with finding ways to enhance existing policy and programmes, as well as identifying, developing and designing additional initiatives to ensure these targets are met.

A substantial Review of Second Economy Programmes in South Africa was prepared in late 2007 and presented to Asgi-SA as well as to the Economic Cluster in Government in January 2008. A wide range of research was then commissioned, *inter alia* on inequality, sector strategies and value chains, including work on smallholder development, forestry, coastal livelihoods, and craft; on the employment creation potential of environmental services targeting energy, water, and waste; youth employment, public employment, the informal/micro sector, and on the spatial dimensions of economic marginalization, in urban areas and the link to urban and land-use planning.

A 'Work in Progress' Workshop was held with researchers and government officials in March 2008 to guide the research process. A workshop to develop a framework for 'A Second Economy Strategy for the Forestry Sector' was held with stakeholders, attended by *inter alia* the Department of Water and Forestry, **the dti**, the Parliamentary portfolio Committee and the Department of Land Affairs; and a conference to present the overall research outcomes and strategy proposals was held from 29 September to 1 October, 2008 entitled 'Second Economy Strategy: Addressing Inequality and Economic Marginalization.'

The Community Work Programme – project managed by the Second Economy Strategy Project – is implemented in partnership with the Department for Social Development (DSD). It is a pilot programme that has tested a methodology to adapt the concept of a minimum employment guarantee in the SA context. It aims to provide an employment safety net (not an employment solution) that guarantees a minimum level of regular work for those least able to find alternatives. It targets spatial poverty traps – mainly rural areas and informal settlements – with a multi-sectoral programme of 'useful work' identified in ward committees and implemented by implementing agencies contracted by TIPS. Three out of the four pilots offered one day of work per week to 1,000 participants per site (the 4<sup>th</sup> pilot operated at a smaller scale). The Community Work Programme has been included as part of Phase 2 of the SA Government's Expanded Public Works Programme (EPWP 2), due to be implemented from April 2009, where it forms of part of the 'Non-state' component of EPWP 2, where it will be piloted at an expanded scale.

## RESEARCH FUNCTIONS & OUTPUTS

Within each of the research programmes mentioned above, a focus on regional issues is implicit but varies in degree from Programme to Programme. Furthermore, each research programme comprises a set of activities, detailed below. Selecting the appropriate activities for each research programme ensures TIPS' outputs are carefully planned and evaluated for relevance in the local and regional context before implementation.

### Data

- ◆ Collection, structuring and on-line dissemination; and
- ◆ Development of new sources and series.

### Tools and Methods

- ◆ Development of new tools or methodologies to answer specific research questions but with a focus on simplicity for the purpose of policy making;
- ◆ Application and customising of best-practice tools available in the rest of world to South African data/research; and
- ◆ Impact assessment tools and techniques.

### Research

- ◆ Strategic 'over the horizon' public-good research for which there may be little immediate explicit demand;
- ◆ Practitioner-focused practical research; and
- ◆ Substantive research focused on immediate needs.

### Advocacy

- ◆ Documents for government and civil society; and
- ◆ Maintenance of a media presence.

### Capacity Building

- ◆ Training courses;
- ◆ Seminars and workshops; and
- ◆ Grants for students.

### Dissemination

- ◆ Policy-focused Annual Forum;
- ◆ Small, highly focused workshops;
- ◆ Quarterly Trade & Industry Monitor.

TIPS' reputation for quality research which is not only academically sound but also policy-relevant remains our key competitive advantage in South Africa and the region. With the exception of contract research, most of our programme research is presented at conferences or seminars. This ensures an implicit element of quality control. In addition, feedback and assessment are regularly sought from independent external experts. Where the comments are substantial, researchers are requested to make appropriate improvements to their projects.

The South Africa research environment has evolved significantly over the last number of years. When TIPS was established, one of its key objectives was to inform and align the research community much more closely with the research and policy needs of Government. This has to a large extent been achieved: much University research is now directly contracted to Government departments. In addition, many individual researchers are now contracted directly by Government in their personal capacities. TIPS' role in sustaining such a research network has necessarily evolved in response to these changes. We now see a role for TIPS mainly in larger, longer term research projects where the capacity to co-ordinate and manage multiple researchers and research phases is important. Projects which, moreover, require substantial data manipulation, database development, the institutionalising of the research results and the development of online Resource Pages for subsequent additional research are niche requirements where TIPS is able to support the research community.

We believe that TIPS has been successful in strengthening research capacity in tertiary educational institutions, leading to an increase in both the quality and quantity of policy-relevant research emanating from South African universities. The issuing of small research grants illustrates continuous efforts by TIPS to support policy work and thinking by students.

## Internal publications

### Trade & Industry Monitor 2008

In 2006, TIPS relaunched its flagship publication, the Trade & Industry Monitor. The Monitor was first produced by the Development Policy Research Unit (DPRU) at the University of Cape Town, and since April 1997 in-house at TIPS. Its main objective was to disseminate policy-relevant trade and industrial policy research in an accessible format to policy-makers and analysts. The 'new' Monitor retained this as its core objective, but incorporated the fact that the absorptive capacity of government has grown to such an extent that publishing full-length journal articles without the need for extensive editing and shortening prior to publication is preferred.

Furthermore, the breadth and depth of economic policy debate occurring in South African policy circles necessitated a broadening of the thematic areas which TIPS focuses on. The modernised and expanded version of the Monitor therefore covers the full spectrum of economic research, from macroeconomic policy to competition and regulation policy,



'development' issues in general, as well as sub-national economic policy issues. The Monitor is published and distributed by TIPS to almost 500 subscribers locally, in the region and internationally.

### Trade & Industry Monitor Volume 39, August 2008

#### ◆ Trade Policy

- Why OECD countries should reform Rules of Origin; Olivier Cadot, University of Lausanne, CERDI, CEPR and Jaime de Melo, University of Geneva, CERDI, CEPR
- Global Trade Models and Economic Policy Analyses: Relevance, Risks and Repercussions for Africa; Hakim Ben Hammouda and Patrick N. Osakwe

#### ◆ Industrial Policy

- Industrial Policy in South Africa: Targets, Constraints and Challenges; David Kaplan, Graduate School of Business, University of Cape Town

#### ◆ Environmental Policy

- Biofuels, agriculture and poverty reduction; Leo Peskett, ODI, Rachel Slater, ODI, Chris Stevens, ODI and Annie Dufeym, International Institute for Environment and Development
- Commercialisation of biofuel industry in Africa: A review; Bamikole Amigun, Rovani Sigamoney and Harro von Blottnitz, University of Cape Town
- Climate change and carbon dioxide (CO<sub>2</sub>) sequestration: an African perspective; M. Sengul, A.E. Pillay, C.G. Francis and M. Elkadi, The Petroleum Institute, Abu Dhabi, UAE

#### ◆ Food Policy

- Rising food prices: a global crisis - Action needed now to avert poverty and hunger; Steve Wiggins, ODI and Stephanie Levy, ODI
- The World Food Situation: new driving forces and required actions; Joachim von Braun, IFPRI

### Southern African Trade Development Project (Tips/Ausaid)

The three-year SADC Trade Development Programme encompasses a number of research projects on trade reform in Southern Africa, including the development of an online trade database, Social Accounting Matrices to determine the links between trade and poverty, and capacity-building activities to address the relatively low levels of analytical capacity of countries in the region.

One key success areas, as identified in the review of our Southern African Trade Database Project conducted by the ODI, was in terms of the effectiveness of the capacity-building activities at TIPS in this area. Trade data courses have had a positive impact in that they have revealed extensive demand for the training across the region. Some agencies have even proposed to cover the full costs of such courses in a bid to secure training.





One Trade Data Analysis course was offered in March 2008. The course was held in Madagascar in association with the World Bank's International Finance Corporation.

In a bid to develop the absorptive capacity of policy-makers in the region, TIPS in 2008 produced a number of accessible research publications:

The **Intra-SADC Trade Performance Review 2007** was completed in 2008 and highlights selected intra-SADC trade flows and patterns of trade for Member States and aims to improve the analytical grounding of policy analyses. Reviews were conducted for Tanzania, Zambia and Mauritius. A special focus of the Trade Policy Review was the inclusion of thematic chapters dealing with Economic Partnership Agreements (EPA) and non-tariff barriers.

**Electronic and hardcopy Trade Information Briefs** provide policy-makers and the private sector with export intelligence regarding the potential of SADC's current as well as potential export basket of goods and services. A summary report was produced for some key sectors in 2008 but the existing Briefs remain popular with visitors to the SADC Trade Development website.

### The Second Economy Strategy Project (TIPS/DFID)

Under this project a number of research pieces were commissioned and produced. These included "The Review of the Government's Second Economy Programmes January 2008" and a "Summary Overview: Review of Second Economy Programmes" by Kate Philip and Ebrahim Hassen Khalil. The following is a list of the specific research papers commissioned to inform the process:

#### Commissioned Research:

- ◆ Atkinson, D.; Promoting the Second Economy in Small and Medium-sized Towns
- ◆ Boulle, J.; Hands-On Fish Farmers Cooperative Ltd: A Case Study
- ◆ Charlton, S.; Land Use Management and the Second Economy
- ◆ CSIR & Urban LandMark; Urban Services and the Second Economy Strategy
- ◆ Feike - Natural Resource Management Advisors; Report on Second Economy Strategy Projects Part I: Potential for a South African aquaculture industry on the Northern Cape's Namaqualand coast
- ◆ Feike - Natural Resource Management Advisors; Report on Second Economy Strategy Projects Part II: Fisheries
- ◆ Harrison, K.; Business Health Check: Western Cape Bus Operators' Transport Co-operative Ltd (Siyakhula)
- ◆ Lowitt, S.; Linking Small and Marginalised Producers to External Markets: New Ideas



for Demand-side Measures using Value Chain Analysis

- ♦ Mammon, N. & Ewing, K.; Urban Challenges of Inclusive Cities: Towards a Spatial Realm for All
- ♦ Marais, L.; Missing the Target: Business Support to the Second Economy
- ♦ Misselhorn, M.; Position Paper on Informal Settlements Upgrading
- ♦ Misselhorn, M. & Zack, T.; Draft Framework for the Implementation of Informal Settlement Emergency Relief and Associated Urban Economy Interventions
- ♦ Mokonyama, M.; Development of an Urban Development Component of a Second Economy Strategy for Office of the Presidency: Transport Sector Paper
- ♦ Overstrand Municipality; Local Labour Placement Project: Overstrand Municipality
- ♦ Narsoo, M.; Governance and Governability: What are the Governance Challenges for an Inclusive City?
- ♦ Nbideas; Strategies for Change & Indego Consulting; Employment Intermediation for Unskilled and Low-skilled Work Seekers Part I: Overview
- ♦ Nbideas; Strategies for Change & Indego Consulting; Employment Intermediation Review Part II: Case Studies
- ♦ Robbins, G.; Reorienting the Urban Impact of Governmental Economic Development Programmes (National and Local) towards Greater Poverty Reduction Outcomes in South Africa: An Examination of Issues, Experiences and Opportunities





## DONORS

TIPS operated as a project within the IDRC's Johannesburg Office from 1996 until it became a not-for-profit company in 2001. The organisation continues to receive and actively seek support from a number of donors operating in SA and the region to be able to diversify our funding sources and, more importantly, allow us to expand our public-good activities in areas of relevance to policy-makers in the region.

TIPS is immensely grateful for its donors' generous support. Continued donor assistance highlights the organisation's success in becoming a mature research leader that is increasingly responsive to the local policy environment while maintaining an overt and strong interest in public policy in the areas associated with developing country economic policy.

TIPS has built long-term relationships with a number of academic institutions and other research organisations in South Africa and as such has been able to draw readily on researchers to undertake specific research projects, either funded through another donor or, increasingly, funded directly by government. In the field of trade, TIPS accounts for a substantial portion of **the dti's** research needs, and of course we remain a key dissemination channel for researchers wishing to place their research in policy-makers' view. TIPS hopes to have **the dti** as a core funder in 2009 following on initial interest to this effect demonstrated late in 2008.

TIPS' donors in 2008 were:



Since 2001, the **IDRC** has supported TIPS to fulfil the following objectives:

### **Strengthen capacity outside of government to increase the quality of policy-applied research**

A key activity under this Programme is the development of analytical courses targeted at both researchers and mid-level policy analysts. In addition, TIPS convenes a range of research seminars around specific issues which have resulted in significantly better flows of information about international research methods than previously. Overall, we believe that local research capacity is significantly stronger than before.

### **Create absorptive capacity in government for applied research**

TIPS strives to ensure that training courses are attended by a mix of both researchers and policy analysts. Further, TIPS convenes various seminars and policy briefings where the target audience is specifically government officials. We believe that through these two channels, we have achieved our objective of developing a group of increasingly discerning research users within **the dti** and government as a whole. The project has a significant impact through its policy dialogue function by ensuring greater integration between policy and research.

### **Create and support research infrastructure**

Consistent with our research network approach, and by leveraging additional funding, TIPS focuses on developing infrastructure for research, such as new databases and making them accessible online, thereby significantly improving researchers and policy-makers' access to policy-relevant economic data. Through this, the policy relevance of research has undoubtedly increased dramatically. In addition, to strengthen the delivery of policy-relevant research in the southern and eastern African region, as well as the provision of

related technical support to policymakers, TIPS hosts the IDRC-funded Southern African Development Research Network. In the short to medium term, research efforts are focussed on industrial policy and sector development at the regional level, service sector development and the impact on poverty, and trade policy and its linkages to pro-poor growth. Implementation of these research themes provides an opportunity to bring the regional and relevant global research communities together to engage in an ongoing policy debate and development process. This process also involves institutional capacity building and institutional strengthening in the region.

As part of **DFID** South Africa's support to help the South African government achieve the priorities set out in its Programme of Action, it is funding two initiatives of the Presidency, hosted at TIPS.

### Second Economy Strategy Project

The purpose of this project is to contribute to reducing poverty and inequality in South Africa by supporting the government to develop a Strategy for the Second Economy, as part of Asgi-SA, located

in the Presidency. Asgi-SA's target is to halve poverty and unemployment in South Africa by 2014; however, concerns have been raised that without a more concerted focus on employment creation, the South African economy may still fall short of between one and two million jobs on current trends – even if growth targets are met. Halving poverty also requires an increased focus on sustainable livelihoods for the chronically poor.

The strategy for the second economy is tasked with finding ways to enhance existing policy and programmes, as well as identifying, developing and designing additional initiatives to ensure these targets are met. TIPS project manages the implementation of the project, while the Presidency provides policy oversight.

### Community Work Programme

The Community Work Programme is a partnership between the Special Projects Unit of the Expanded Public Works Programme (EPWP), the Integrated Development Directorate of the Department for Social Development and the Youth Desk in the Presidency to explore innovation in public employment. These partners are tasked with contributing to 'scaling-up' forms of public works, special employment programmes or publicly funded employment, and came together to explore approaches to this in the social sector.

The Community Work Programme approach is being tested at four pilot sites to investigate whether there are advantages to developing a minimum-employment guarantee based on weekly or predictable, regular work; how such an approach might be operationalised in the South African context and in ways that complement the community development and community-driven approaches being explored by the Department of Social Development; and the scope to integrate social tasks into the 'work' allocated, such as providing support to child-headed households.

The Community Work Programme is project managed by the Second Economy Strategy Project, located at TIPS.



**AusAID** has supported TIPS since 2005 to implement a regional programme on trade-related policy research in 10 Southern African countries. Capacity-building is a core focus of the programme and so far, almost 400 policy analysts and researchers in Southern Africa have been trained in trade data manipulation and advanced trade analysis.

## Southern African Trade Database

Since 2005, TIPS researchers have travelled to SADC Member States to collect trade (and since 2007 also tariff) data and build capacity through a number of training sessions. These have particularly been aimed at empowering local researchers and policy-makers to effectively use the Southern African trade database, developed by TIPS. The database is structured using sophisticated database software, Beyond 20/20, which allows for maximum functionality and flexibility, resulting in a very powerful tool for trade analysts and policymakers in the region. The response has been highly positive and participants have expressed a strong interest in seeing the database maintained.

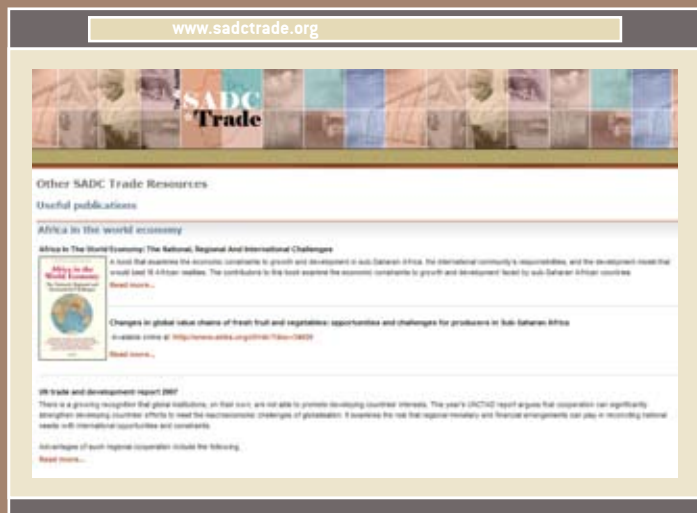
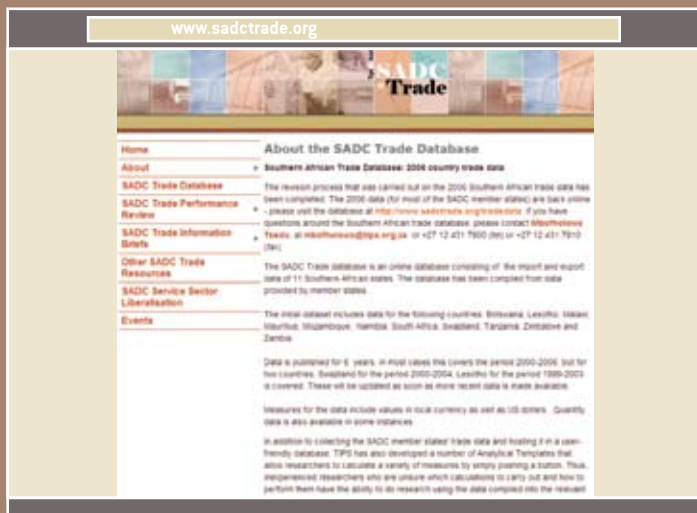


## SADC Export Market Intelligence

Information on the export performance and potential of many developing countries remains incomplete. TIPS' Trade Information Service series of market briefs aims to contribute to bridging this information gap for existing producers in SADC who may not have the financial resources to generate a fully fledged market research process. The briefs, covering product clusters of particular interest to SADC members, are basic first-cut analyses of export prospects to allow enterprises to decide whether to initiate further market research.

## Intra-SADC Trade Performance Review

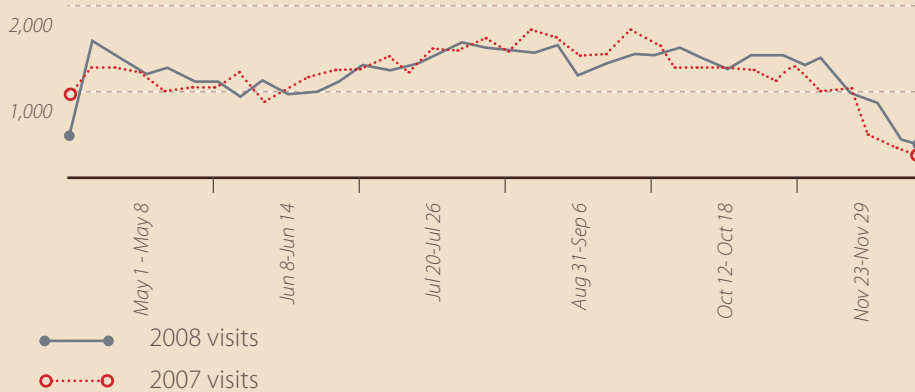
In-country researchers in 2007 compiled the third intra-SADC trade performance review, which analyses member states' trade performance across a range of dimensions. A special focus of this review was three thematic chapters, which analyse cross-cutting trade issues in the region, including non-tariff barriers (NTBs) and Economic Partnership Agreements (EPAs). The country analyses distinguish between trade with South Africa, the rest of SADC and the rest of the world to offer stakeholders insight into how trade within the region has evolved and could be facilitated further. The ultimate aim of the project is to identify the products SADC member states import but could source from within SADC.



## WEBSITE AND DATA

The TIPS website plays a key role in disseminating the research output of the organisation as well as of the broader TIPS research community. An outstanding feature of the website is our ability to populate it consistently with important research and data generated within TIPS and procured from the outside. The online, searchable research database contains approximately 700 papers, focusing on, inter-alia, trade, industry and regulatory issues, and includes both reviewed working papers and shorter policy-orientated papers. The 2008 Annual Forum has generated an additional 37 research papers and 33 presentations that are available to the public for downloading which will continue to increase public interest to the TIPS' website.

**Figure 2:** TIPS website traffic: site usage comparison - May 2007 to December 2007 and May 2008 to December 2008 (No. of site visits):



**Table 1:** TIPS site usage statistics - May-December 2007 compared to May-December 2008

Site Usage			
Year	2007	2008	% Change
Visits	39,360	42,881	+8.95
Bounce Rate	53.85%	63.69%	-18.24 <sup>1</sup>
Page views	134,566	110,187	-18.12
Avg. Time on Site (mins)	2:49	2:13	-21.32
Pages/Visit	3.42	2.57	-24.84
% New Visits	66.6%	75.16%	+12.81

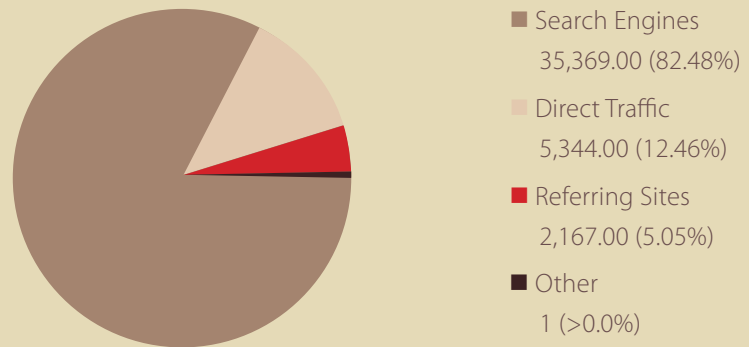
**Source:** Google Analytics, 2009. ([www.google.co.za/analytics](http://www.google.co.za/analytics))

In 2007 we fundamentally redeveloped TIPS' website and extended the 'SADC Trade' website, which is part of our regional trade development and capacity-building programme with AusAID. Aesthetically, the TIPS website now has a more modern 'feel' with new features such as full search, subscription and user tracking. However, the underlying structure has also been altered radically to make it easier to search for information, to provide for more frequent updates and to allow greater control over content and updating within the organisation. Moreover, the provision of 'resource pages' such as the Southern Africa Trade & Poverty Programme webpage allows for researchers working in a particular field to access in-house and external literature, news briefs, methodological tools, useful links and data effortlessly. The industrial policy bibliography online facility contributed to the increase to the TIPS' website traffic. With 190 industrial policy related papers from all over the world, the facility has received over 320 requests for papers since May 2007. To evalu-

<sup>1</sup> The "Bounce Rate" refers to the percentage of single-page visits or visits in which the person left your site from the entrance (landing) page and a negative change signals an increase in the bounce rate.

ate the website's effectiveness and user-friendliness, we compared user statistics for two eight-month periods – one during May 2007 to December 2007 and a four-month period during May 2008 and December 2008. The data show a steady increase in website visits, paper downloads and general usage. For example, site usage went up from 39,360 to 42,881 visits – an increase of about 9%. However more extensive work will need to be done to increase the time spent by our users on the website. Plans for 2009 incorporate the inclusion of more updated resources on the programme pages which should increase page views.

**Figure 3:** TIPS Traffic Sources Overview



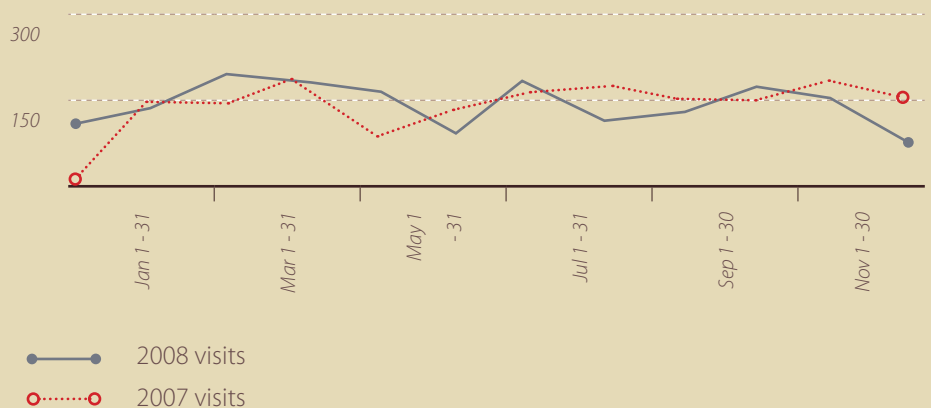
**Source:** Google Analytics, 2009.([www.google.co.za/analytics](http://www.google.co.za/analytics))

### SADC Trade Website

TIPS' website for its Southern African Trade Development Programme ([www.sadctrade.org](http://www.sadctrade.org)) attracted positive interest during 2008. In 2007 and 2008 some development and extensions were enacted on the website. In particular, the addition of data links, more regular updating of resources and SADC news stories and the addition of tariff data have added value to the utility of the site.

Figure 4 below highlights SADC website traffic comparisons for the periods - January 2007 to December 2007 and January 2008 to December 2008 and it reveals that the number of (unique) visitors and the number of pages viewed decreased slightly over the year.

**Figure 4:** Site Visits 2007 and 2008 (No. of site visits)



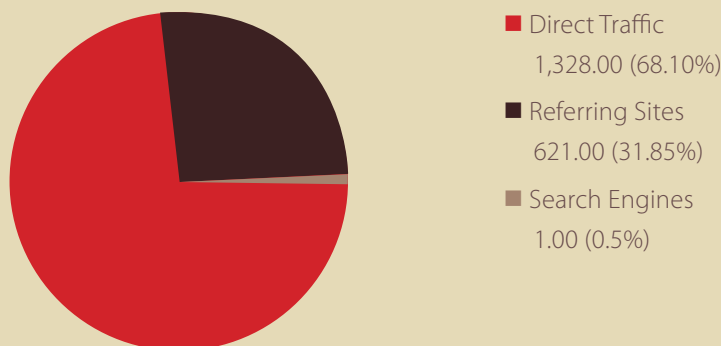
As evidenced in the Table 2 below, the number of site visits decreased by 1.86% from 1987 visits to 1950 in 2008, also, the average pages per visit and the number of page views decreased by 7% and 8% respectively. This reveals a trend of lower browsing, either caused by lack of relevance or because users know exactly what resources they seek and its location. However, the percentage of new visits increased by nearly 15% to over 50% of visits during the year. Also, the average time spent on the site increased slightly (users spent on average 5 seconds more on the site than in 2007).

**Table 2:** Site Usage Statistics

Site Usage			
Year	2007	2008	% Change
Visits	1987	1950	-1.86
Bounce Rate <sup>2</sup>	12.06%	11.74%	+2.77
Page views	30270	27749	-8.33
Avg. Time on Site (mins)	12:37	12:42	+0.68
Pages/Visit	15.23	14.23	-6.59
% New Visits	45.95%	52.72%	+14.73

Source: Google Analytics, 2009. ([www.google.co.za/analytics](http://www.google.co.za/analytics))

**Figure 5:** SADC Trade Web Traffic Sources



Source: Google Analytics, 2009. ([www.google.co.za/analytics](http://www.google.co.za/analytics))

According to Figure 5, although site traffic is down, direct traffic to the site has increased by 2.8%, revealing a more established user base which logs directly to the site and database. As direct traffic has increased, we have witnessed a slight decrease (3.7%) in referrals from other sites, and a dramatic decrease (93%) in search engine traffic (only one user used a search engine to access the SADC website, reinforcing the preference for direct access).

In terms of content (i.e. purpose of visit), the Southern African Trade Database has proven to be one of the website's most attractive tools (as further supported by the ODI Review). According to analytical data from the website up to 83% of page views related to the SADC Trade Database. This is highly positive given that the trade data is only updated to 2006 for most countries. This critically highlights the demand for historic SADC trade data amongst users, but could also relate to the lack of viable (free) alternative sources of data. To note is that although the majority (48%) of users were South African based, UK, Germany and USA

<sup>2</sup> The "Bounce Rate" refers to the percentage of single-page visits or visits in which the person left your site from the entrance (landing) page and a positive change signals a reduction in the bounce rate.



provided the next largest segment of users. However, growth has been witnessed in the number of SADC based users especially in Namibia, Malawi and Zambia.

While activities around the Southern African trade database were initially focused on the technical aspects of collecting, cleaning and updating the trade data from SADC Member states, during 2008 the focus was on improving its functionality and reliability, as well as strengthening TIPS' relationships with policy-makers and researchers in SADC countries so as to ensure its full use by relevant policy bodies.

## ACTIVITIES



TIPS plays an important role in disseminating its own research and that conducted within the TIPS network. This is confirmed by the extent to which TIPS is the first organisation approached by many policy analysts for advice, support or simply information.

This view is supported by the fact that TIPS events are attended and TIPS is invited for briefings by various Ministers, Directors-General and senior government officials. We believe TIPS' impact on the policy community to be significant. We are seen as an independent source of analytical information, little constrained by dogma, and our policy analyses are generally seen as thoughtful. Our activities have the most impact in the trade arena where we have great confidence that our research is translated into policy.

TIPS each year hosts several conferences, symposia and seminars on issues related to Southern African trade and industrial policy, which serve as a platform for researchers, policy-makers and other stakeholders to discuss ongoing research and enter into dialogue on policy-relevant issues resulting from research.

### **Annual Forum 2008 - South Africa's Economic Miracle – Has the Emperor Lost His Clothes?**

Forum 2008 was held in partnership with the Western Cape Department of Economic Development and Tourism and The Competitiveness Institute (TCI).

After a number of years of strong economic growth and relative macroeconomic stability, the South African economy now seems to be facing an especially uncertain outlook. The catalyst for the uncertain outlook may have been international developments, but domestic policy failures appear to have played no small part in guiding the South African economy to the brink of a substantial slowdown, with a significant risk of stagflation in the future.

Some commentators have argued that the positive international environment has allowed the domestic economy to grow rapidly but without many of the structural impediments to growth being addressed. In some senses, economic policy has been a victim of the economy's success, as difficult economic policy decisions and trade-offs could be postponed – in specific cases almost indefinitely.

However, some of the structural flaws are now becoming visible:

- ◆ Largely unchanged trading patterns, with strong capital good imports and resource-intensive exports.
- ◆ Balance of payments constraints, especially a dependence on portfolio capital inflows.
- ◆ Macroeconomic policy with a heavy focus on cyclical fiscal policy and blunt monetary policy instruments to deal with rising consumer spending and inflation.
- ◆ Uncompetitive and still highly concentrated manufacturing sectors with limited export and employment potential.
- ◆ Misalignment of factor markets such as the skills, technology, land and capital markets.
- ◆ Key failures in utility industries such as telecoms, water and energy.

With national elections set to take place in 2009 and a new Administration to take office thereafter, it is timely to open the debate on what South Africa's overarching economic policy may look like over the next decade. Predictably, wholesale changes are said to be unlikely but clearly a change in emphasis to the Left is being envisaged. Whether such a shift materialises, the extent of the shift and its likely impact, however, remain open questions. The opening salvo of what is likely to be a robust national debate has already been fired, with South Africa's National Treasury releasing the findings of the Harvard Panel.

The TIPS Forum 2008 sought to catalyse debate on what the policy focus, balance of emphasis and programmes of a new phase of economic policy could comprise. Key themes were:

- ◆ South Africa's overarching economic policy direction – successes and failures
- ◆ Macroeconomic policy
- ◆ Trade and industrial policy
- ◆ A National Anti-Poverty Strategy – form, content and objectives
- ◆ Agricultural policy and land reform
- ◆ Spatial planning for industrial policy
- ◆ The 'Second Economy' and policy responses
- ◆ Infrastructure investment-led growth – implications thereof
- ◆ HIV/AIDS – implications for the labour market and impact on poverty levels
- ◆ Poverty and inequality
- ◆ Xenophobia – root causes, labour market impact, implications for regional economic relations and the effect on social fabric.

As had become the norm, the TIPS Forum 2008 provided the setting for policy and research communities to debate these key issues in an unfettered and robust manner. The following papers were presented at Forum 2008.

- ◆ Fourie, J.; The Development and Importance of Travel Service Exports from South Africa

- ◆ Hart, T.; Reviewing 15 years of resource-poor small-scale agriculture in South Africa: is there any way forward?
- ◆ Anseeuw, W. and Mathebula, N.; Evaluating land reform's contribution to South Africa's pro-poor growth pattern
- ◆ Blignaut, J. and van Heerden, J.; Is water shedding next?
- ◆ N. Baiphethi, M. , Manona, S. , Viljoen, M. and Kundhlande, G.; Quasi-formalisation of informal land markets in communal areas to facilitate increased arable production: a case study of Thaba Nchu
- ◆ Royston, L.; How tenure security can increase access to economic opportunities for the poor
- ◆ Takala, L.; The role of industrial policy and the minerals-energy complex in the decline of South African textiles and clothing
- ◆ ul Islam, F.; Impact of clustering on innovation, entrepreneurship and organization of SMEs in transition economies
- ◆ Wilson, J.; Territorial competitiveness and development policy
- ◆ Redford, S.; The effect of exchange rate volatility on the volume of South African exports
- ◆ Schaling, E.; Reducing exchange rate volatility and supporting competitiveness
- ◆ Marinkov, M. and Burger, P.; Inflation targeting and inflation performance in South Africa
- ◆ Kularatne, C. and Haveman, R.; Why are some exchange rates more volatile than others? evidence from transition economies
- ◆ Rangasamy, L. and Jakoet, J.; Estimating the relationship between commodity prices and the real exchange rate of the rand
- ◆ Jafta, R. and Boshoff, W.; Achieving Asgi-SA's aspirations: the role of the national system of innovation
- ◆ Booysen, F.; Trends and transitions in labour market outcomes among adults enrolled in the Free State's public sector ARV treatment programme
- ◆ John Lee, G. and Dobрева, R.; Work allocation forms: substitution between full-time, part-time and contracted labour in the creative industries
- ◆ Kirsten, M. and Davies, G.; Infrastructure investment-led policy scenarios for South Africa
- ◆ Makoni, E.; Rethinking scales? possible future(s) for regional-scale planning in South Africa
- ◆ Schwank, O. and Wild, M.; Testing for linkages in sectoral development an SVAR approach to South Africa
- ◆ Tang, V.; Zoning in on South Africa's Industrial Development Zones
- ◆ Flatters, F. and Stern, M.; Trade and industrial policy in South Africa
- ◆ Carlos Neri Guzmán, J.; A proposal of regional development in Mexico through industrial clusters

- ◆ Kohler, M.; The sustainability of South Africa's energy resources: the impact of international trade
- ◆ Dalton-Greyling, T.; Refugees and forced migrants in South Africa's urban areas: definitions, rights, levels of wellbeing and policy
- ◆ Geldenhuys, J.; Poverty and government transfers in South Africa
- ◆ Philip, K.; Strategies for the second economy: a conceptual framework
- ◆ Pool, A.; Inter-generational transfer of poverty: fact or fiction (1993-2004)
- ◆ Ndedi, A.; Rethinking economic growth: the South African perspective
- ◆ Robbins, G.; Reflecting on South Africa's post-apartheid experience with spatially informed economic development programmes
- ◆ Kalaba, M.; The extent of SADC trade protection and its effects on the least developing members of the region
- ◆ Blackmur, D.; Regulatory principles for South Africa
- ◆ Van Basten, C.; Economic regulation of network industries
- ◆ Raputsoane, L.; Exchange rate volatility spillovers and the South African currency
- ◆ Royston, L.; How tenure security can increase access to economic opportunities for the poor Draft position paper for the second economy strategy project: an initiative of the presidency
- ◆ Wild, Oliver Schwank, M.; Testing for linkages in sectoral development: An SVAR-approach to South Africa
- ◆ Williams, C. and Niel van Zyl, C.; Capital- and Market-access constraints in Land Reform projects; Three case studies from Mpumalanga

## Development Dialogue

2008 saw the full launch of TIPS' Development Dialogue seminar series. Participation at these monthly events has improved steadily and increasing numbers of senior policymakers and academics are attending. The following seminars were held as part of the seminar series:

- ◆ January 2008: Multiple Crops and Local Distribution Models for Poverty Alleviation - Feasibility and Recommendations
- ◆ February 2008: The New EPAs - Comparative Analysis of Contents & Challenges of 2008
- ◆ March 2008: A Review of South Africa's Industrial Policy
- ◆ April 2008: FDI, Firms and Domestic Linkages - Reflecting on SADC through Case Studies
- ◆ May 2008: Reducing Exchange Rate Volatility and Supporting Competitiveness
- ◆ June 2008: Informality in Latin America: What is it all about and what can we do?
- ◆ July 2008: Breaking The Cycle Of Second Economy Poverty: Strategic Options To Link

Marginalized Small Producers To First Economy Value Chains

- ◆ August 2008: Economic Prospects for Post-Crisis Zimbabwe
- ◆ September 2008: Climate & Energy – Options for South Africa
- ◆ December 2008: The Logic & the Method of Industrial Policy: Concepts & Practices

## Second Economy Strategy Workshop: Addressing Inequality and Economic Marginalisation

This workshop was held from 29 September 2008 to 01 October 2008. Sessions included:

- ◆ A Framework for Second Economy Strategy: Addressing Inequality and Economic Marginalization, Kate Philip
- ◆ Inequality Trends and Policy Options, Neva Makgetla
- ◆ Asset and Opportunity-Based Strategies, Ebrahim Khalil Hassen
- ◆ Inequality and Unemployment, Fiona Tregenna and Mfanafuthi Tsela
- ◆ Income and Non-Income Inequality: Drivers and Policy Levers, Carlene van der Westhuizen and Toughedah Jacobs
- ◆ Innovation in Public Employment: Overview of the Expanded Public Works Programme (EPWP) Phase 2, Ismail Akhalwaya
- ◆ The Community Work Programme, Sidwell Mokgothu
- ◆ Review of the Community Work Programme Pilots, Mfanafuthi Khanyile
- ◆ Alignment with New LED Framework: Empowering Ward Committees, Alistair Wray
- ◆ Micro Enterprise and Market Access: Setting up Projects - Lessons from DSD Review of Poverty Relief Programme Projects, Khanya-aicdd
- ◆ Priority Interventions for Street Traders, Caroline Skinner
- ◆ From Maker to Market: Lessons from the Cape Craft and Design Institute, Erica Elk
- ◆ Sector Strategies for Employment Creation and Decent Work, Neva Makgetla
- ◆ The Structure of the Economy and its Impacts in Key Value Chains, Maphato Rakhudu
- ◆ Access to Value Chains, Access to Markets: Exploring Instruments to Change the Terms on which Small Producers Gain Entry, Sandy Lowitt
- ◆ Support to Smallholder Development: Overview of Critical Success Factors, Michael Aliber
- ◆ Review of Siyakhula/Massive Crop Production Programme, Norma Tregurtha
- ◆ The Role of Organized Smallholders, Musa Ntsuntsha
- ◆ Environmental Services: Developing New Markets and New Opportunities for Rural Employment, James Blignaut
- ◆ Access to Finance and Financial Services, Judi Hudson
- ◆ Housing and Saving, Rob Rusconi
- ◆ From Success to Significance: The Kuyasa Fund, Olivia Van Rooyen







- ◆ Urban Development and Second Economy Strategy: With a focus on Transforming Informal Settlements, Tanya Zack
- ◆ Transport and Urban Strategy for the Second Economy, Mathetha Mokonyama
- ◆ Informal Settlements and Urban Development Strategy, Seana Nkhahele
- ◆ The Interface with Local Economic Development, Sinazo Sibisi
- ◆ Tenure and Marginalization: Alternatives for Informal Settlements, Lauren Royston
- ◆ Local Government and Informal Settlement Upgrading, Edgar Pieterse
- ◆ Youth Employability: Strategies to Overcome Barriers to Access, Miriam Altman and Carmel Marock
- ◆ Linking Unskilled Workers to Opportunities: Best Practice and New Approaches to Labour Market Intermediation, Jacqui Boule.



### SADRN Events

Under SADRN TIPS organised two workshops in 2008, both under the Industrial Policy theme. The first workshop aimed at sharing ideas and experiences on industrial policy-making across the region, as well as seeking to establish the position and status of industrial policy activities within the region. Participants at the workshop were drawn from across the region and included representatives from government, research organisations and academic institutions. Eight of the fourteen SADC member countries were represented and the workshops were also attended by a representative from the SADC Secretariat, Industrial Policy Unit.



The second training workshop, held later in the year, built on the previous one, but focused specifically on topical issues such as market failures, cluster development policies and the promotion of entrepreneurship and Small and Medium Enterprises policies. These topics were also deemed to be in line with regional challenges, but most importantly could guide research that is undertaken under this theme. The workshops were facilitated by two internationally renowned industrial policy experts, Carlo Pietrobelli, Professor of International Economics at the University of Rome 3, and Hugo Kantor, Professor at the Universidad Nacional de General Sarmiento, Argentina.



Apart from the direct benefits of these training workshops, there were also additional benefits of building and strengthening the SADRN network. One of the observed weak points in the region is that information sharing seldom takes place among regional institutions. So at these workshops there was particular emphasis on collecting information and placing it in a central place. In addition, given the low regional skills capacity, SADRN has used these workshops to utilise capacity from outside the region and from international institutions and make them available and accessible to participants beyond the workshops.

## Introductory Course on CGE Modelling

12-20 March 2008

TIPS hosted a short course on CGE modelling at its offices in Pretoria in March 2007. The course was available to a limited number of participants and was facilitated by Rob Davies, Dirk Van Seventer, James Thurlow and Channing Arndt. A total of 26 persons participated representing a wide range of countries including Ghana, Mozambique, Malawi, Zambia and South Africa. Representatives were from Ministries of Agriculture and Finance, as well as from the private sector and academia.

The IT revolution has allowed techniques that were once the preserve of a handful of leading theoreticians to become part of the practical economist's everyday toolkit. CGE modelling is one of a number of approaches to economy-wide analysis that have become accessible and practicable as data- and computer-based techniques have developed. An increasing number of economists use this framework to analyse real-world issues that were previously approached through less appropriate partial equilibrium methods. As part of our commitment to ensure that Southern Africa benefits from these developments, TIPS has (co-)presented a series of related short courses over the past five years. The March 2008 course was part of this ongoing programme. The course integrated theory, real world data, hands-on computer work and real-world applications, and participants were

- ♦ introduced to the micro, macro and trade theories that underlie typical CGE models
- ♦ provided with an overview and practical examples of Social Accounting Matrices (SAMs) and of parameter and elasticity estimation methods which typically provide the data on which CGEs are built
- ♦ taught GAMS, a programming language widely used in economy-wide policy modelling
- ♦ exposed to issues involved in using models for specific applications, such as the analysis of trade, public finance, regulation and environmental economics. Some of these topics were presented by special instructors, who brought a wide range of practical experiences to the learning process.

These components of the modeller's tool-kit were taught in an integrated and cumulative way. The theory was developed alongside the practical applications, which moved from introductory exercises through to more advanced applications. The applications used materials developed by the International Food Policy Research Institute (IFPRI) and adapted by the course instructors to suit Southern African economies. Participants applied what they learnt to a mini-project, which was presented to the class at the end of the course. The course was targeted at those who wish to develop professional expertise in the area, as well as those who need to understand the potential and limitations of the use of these approaches without themselves becoming modellers. Many of the special instructors were alumni of past courses. An intended by-product of the course was the development of a community of builders and users of economy-wide models in Southern Africa.





# Annual Financial Statements for the year ended 31 December 2008

Trade and Industrial Policy Strategies  
(Association incorporated in terms of  
Section 21)

(Registration number 2001/012247/08)

## GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Trade and Industrial Policy Strategies (TIPS) is a non-profit public-benefit organisation that is engaged in generating and sustaining a capacity for policy development and research in the sphere of economic policy, with particular emphasis on trade and industry, within and outside of government in South Africa. The company receives grants from international aid organisations and applies these funds against specific projects, administration of these projects and support infrastructure.
Directors	A Hirsch JHDC Maia
Registered office	826 Government Avenue Arcadia Pretoria 0083
Business address	826 Government Avenue Arcadia Pretoria 0083
Postal address	PO Box 11214 Hatfield Pretoria 0028
Auditors	Grant Thornton Chartered Accountants (S.A.) Registered Auditors South African member of Grant Thornton International
Company registration number	2001/012247/08

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57	DETAILED INCOME STATEMENT
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## To the Members of Trade and Industrial Policy Strategies (Association Incorporated in Terms Of Section 21)

We have audited the accompanying annual financial statements of Trade and Industrial Policy Strategies (Association incorporated in terms of Section 21), which comprise the directors' report, the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 15.

## Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with the South African Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities, and in the manner required by the Companies Act of South Africa as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' Responsibility

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with the South African Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities, and in the manner required by the Companies Act of South Africa as amended.

## Supplementary Information

We draw your attention to the fact that the supplementary information set out on page 16 does not form part of the annual financial statements and is presented as additional information. We have not audited this information and accordingly do not express an opinion thereon.



Grant Thornton  
Chartered Accountants (S.A.)  
Registered Auditors

Per: N C Kyriacou  
Chartered Accountant (S.A.)  
Registered Auditors

## DIRECTORS' RESPONSIBILITIES & APPROVAL

The directors are required by the Companies Act of South Africa as amended, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with the South African Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the South African Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

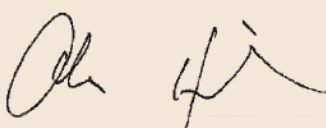
The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 December 2009 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on page 3.

The annual financial statements set out on pages 5 to 16, which have been prepared on the going concern basis, were approved by the board of directors on 21 July 2009 and were signed on its behalf by:



Director  
Pretoria  
21 July 2009



Director

## DIRECTORS' REPORT

The directors submit their report for the year ended 31 December 2008.

### 1. Review of Activities

Main business and operations

Trade and Industrial Policy Strategies (TIPS) is a non-profit public-benefit organisation that is engaged in generating and sustaining a capacity for policy development and research in the sphere of economic policy, with particular emphasis on trade and industry, within and outside of government in South Africa. The company receives grants from international aid organisations and applies these funds against specific projects, administration of these projects and support infrastructure. The company operates principally in South Africa.

The operating results and state of affairs of the company are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the company was R 1 339 973 (2007: deficit R 1 058 708).

### 2. Post Balance Sheet Events

The directors are not aware of any matter or circumstance arising since the end of the financial year.

### 3. Directors

The directors of the company during the year and to the date of this report are as follows:

A Hirsch	
T Matona	Not re-elected at AGM held on 02 October 2008
MG Holden	Not re-elected at AGM held on 02 October 2008
S Hanival	Resigned 17 December 2008
JHDC Maia	

### 4. Secretary

The secretary of the company is Mr I Juszkiewicz.

### 5. Auditors

Grant Thornton will continue in office in accordance with section 270(2) of the Companies Act.

## BALANCE SHEET

	Notes	2008 R	2007 R
<b>Assets</b>			
Non-Current Assets			
Property, plant and equipment	2	189 537	247 229
Current Assets			
Trade and other receivables	3	493 854	632 861
Cash and cash equivalents	4	5 849 027	11 262 735
		<b>6 342 881</b>	<b>11 895 596</b>
<b>Total Assets</b>		<b>6 532 418</b>	<b>12 142 825</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Fixed asset fund		189 537	247 228
Accumulated funds		1 086 358	2 368 640
		<b>1 275 895</b>	<b>2 615 868</b>
<b>Liabilities</b>			
Current Liabilities			
Operating lease liability		120 612	26 522
Trade and other payables		2 156 956	650 578
Deferred revenue	5	2 978 955	8 849 857
		5 256 523	9 526 957
<b>Total Equity and Liabilities</b>		<b>6 532 418</b>	<b>12 142 825</b>

## INCOME STATEMENT

	Notes	2008 R	2007 R
Grant income	6	24 399 580	7 125 355
Contracts		824 527	351 846
Sundry income		1 560 350	759 917
Project expenditure		(24 850 337)	(7 304 931)
Administration expenditure		(3 504 231)	(2 486 880)
<b>Operating deficit</b>	7	<b>(1 570 111)</b>	<b>(1 554 693)</b>
Investment revenue	8	230 138	495 985
<b>Deficit for the year</b>		<b>(1 339 973)</b>	<b>(1 058 708)</b>

## STATEMENT OF CHANGES IN EQUITY

		Fixed asset fund R	Accumulated funds R	Total equity R
<b>Balance at 01 January 2007</b>	-	<b>152 378</b>	<b>3 522 198</b>	<b>3 674 576</b>
Changes in equity				
Deficit for the year		-	(1 058 708)	(1 058 708)
Transfer to fixed asset fund		94 850	(94 850)	-
Total changes		94 850	(1 153 558)	(1 058 708)
<b>Balance at 01 January 2008</b>	-	<b>247 228</b>	<b>2 368 640</b>	<b>2 615 868</b>
Changes in equity				
Deficit for the year		-	(1 339 973)	(1 339 973)
Transfer from fixed asset fund		(57 691)	57 691	-
Total changes		(57 691)	(1 282 282)	(1 339 973)
<b>Balance at 31 December 2008</b>	-	<b>189 537</b>	<b>1 086 358</b>	<b>1 275 895</b>



## CASH FLOW STATEMENT

	Notes	2008 R	2007 R
<b>Cash flows from operating activities</b>			
Cash (used in) generated from operations	11	(5 586 683)	6 593 505
Interest income		230 138	495 985
<b>Net cash from operating activities</b>		<b>(5 356 545)</b>	<b>7 089 490</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(57 163)	(187 861)
Sale of property, plant and equipment	2	-	2 193
<b>Net cash from investing activities</b>		<b>(57 163)</b>	<b>(185 668)</b>
<b>Total cash movement for the year</b>		<b>(5 413 708)</b>	<b>6 903 822</b>
Cash at the beginning of the year		11 262 735	4 358 913
<b>Total cash at end of the year</b>	4	<b>5 849 027</b>	<b>11 262 735</b>

## ACCOUNTING POLICIES

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the South African Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities, and the Companies Act of South Africa as amended. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period, except for the changes set out in note 14 First-time adoption of the South African Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities.

#### 1.1 Property, plant and equipment

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Depreciation is provided using the straight-line method to write down the cost, less estimated residual value over the useful life of the property, plant and equipment, which is as follows:

Item	Average Useful Life
Furniture and fixtures	6 years
IT equipment	3 years
Computer software	2 years

The residual value, depreciation method and the useful life of each asset are reviewed at each financial period-end.

#### 1.2 Financial instruments

##### Financial Instruments at Amortised Cost

Financial instruments may be designated to be measured at amortised cost less any impairment using the effective interest method. These include trade and other receivables and trade and other payables. At the end of each reporting period, the carrying amounts of assets held in this category are reviewed to determine whether there is any objective evidence of impairment. If so, an impairment loss is recognised.

### 1.3 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### Operating Leases – Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability. This liability is not discounted.

### 1.4 Employee benefits

#### Short-Term Employee Benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

### 1.5 Revenue

Revenue comprises mainly of grants, contract fees and course fees. Grants are recognised at fair value, excluding VAT, at the earlier of when funding is paid to the company or the right to receive payment is established within the financial period.

Contract and course fees comprise net invoiced fees excluding VAT.

Expenditure incurred directly by funders in pursuit of the activities of the company is not reflected as contributions to or expenditure by the company.

### 1.6 Deferred revenue

Income received in advance is deferred and recognised over the period of the relevant project.

### 1.7 Fixed asset fund

In order that unexpended funds reflect only the funds available to fund the future operations of projects, those funds that relate to the residual value of fixed assets are separated and reflected within a fixed asset fund. In order to give effect to give to this policy, an amount equal to the cost of fixed assets acquired, adjusted by depreciation and profits or losses on disposal, is transferred each year from unexpended funds to the fixed assets fund. Proceeds on the disposal of assets are transferred to the unexpended funds.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 2. Property, Plant and Equipment

	2008			2007		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Furniture and fixtures	155 022	(66 850)	88 172	126 760	(42 933)	83 827
IT equipment	366 323	(283 242)	83 081	356 953	(211 122)	145 831
Computer software	155 922	(137 638)	18 284	136 390	(118 819)	17 571
<b>Total</b>	<b>677 267</b>	<b>(487 730)</b>	<b>189 537</b>	<b>620 103</b>	<b>(372 874)</b>	<b>247 229</b>

#### Reconciliation of property, plant and equipment - 2008

	Opening Balance	Additions	Depreciation	Total
Furniture and fixtures	83 827	28 261	(23 916)	88 172
IT equipment	145 831	9 370	(72 120)	83 081
Computer software	17 571	19 532	(18 819)	18 284
	<b>247 229</b>	<b>57 163</b>	<b>(114 855)</b>	<b>189 537</b>

#### Reconciliation of property, plant and equipment - 2007

	Opening Balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	78 647	25 244	(2 415)	(17 649)	83 827
IT equipment	62 253	142 812	-	(59 234)	145 831
Computer software	11 477	19 805	-	(13 711)	17 571
	<b>152 377</b>	<b>187 861</b>	<b>(2 415)</b>	<b>(90 594)</b>	<b>247 229</b>

### 3. Trade and Other Receivables

Trade receivables	297 475	335 116
Prepayments	53 026	129 097
VAT	142 175	151 491
Other receivables	1 178	17 157
	<b>493 854</b>	<b>632 861</b>

### 4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

Cash on hand	1 165	987
Bank balances	5 847 862	11 261 748
	<b>5 849 027</b>	<b>11 262 735</b>

## 5. Deferred Revenue

The deferred revenue is for the following projects:

The AusAID	337 872	1 001 775
The British High Commission	145 649	159 235
The IDRC Core Programme	8 458	13 342
The IDRC SANDRN	1 031 192	2 097 907
The DFID Second Economy	1 422 258	4 671 909
The DFID Right to Work	33 526	905 689
	<b>2 978 955</b>	<b>8 849 857</b>

## 6. Grant Income

<b>Grants Received</b>	18 542 265	14 796 134
Deferred revenue		
The AusAID: prior year	1 001 775	1 190 093
The AusAID: current year	(337 872)	(1 001 775)
The IDRC Core Programme: prior year	13 342	-
The IDRC Core Programme: current year	(8 458)	(13 342)
The IDRC SANDRN prior year	2 097 907	-
The IDRC SANDRN current year	(1 031 192)	(2 097 907)
The DFID Second Economy: prior year	4 671 909	-
The DFID Second Economy: current year	(1 422 258)	(4 671 909)
The DFID Right to Work: prior year	905 688	-
The DFID Right to Work: current year	(33 526)	(905 688)
<b>Accrued income</b>		
IDRC: prior year	-	(170 251)
	<b>24 399 580</b>	<b>7 125 355</b>

## 7. Operating Deficit

Operating deficit for the year is stated after accounting for the following:

### Operating lease charges

Premises		
♦ Contractual amounts	656 001	295 441
Equipment		
♦ Contractual amounts	75 944	75 988
	<b>731 945</b>	<b>371 429</b>
Loss on sale of property, plant and equipment	-	(222)
Depreciation on property, plant and equipment	114 855	90 594
Employee costs	4 528 638	3 335 129

## 8. Investment Revenue

Interest revenue		
Bank	<b>230 138</b>	<b>495 985</b>

## 9. Taxation

No provision has been made for 2008 tax as the company is exempt from taxation in terms of Section 10(1)(cN) of the Income Tax Act.

## 10. Auditors' Remuneration

Fees	<b>72 000</b>	<b>61 019</b>
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## 11. Cash (Used in) Generated From Operations

Deficit before taxation	(1 339 973)	(1 058 708)
Adjustments for:		
Depreciation	114 855	90 594
Loss on sale of property, plant and equipment	-	222
Interest received	(230 138)	(495 985)
Movements in operating lease accruals	94 090	26 522
Changes in working capital:		
Trade and other receivables	139 006	15 517
Trade and other payables	1 506 378	450 260
Deferred revenue	(5 870 901)	7 565 083
	<b>(5 586 683)</b>	<b>6 593 505</b>



## 12. Commitments

### Operating leases – as lessee (expense)

Minimum lease payments due

♦ within one year	570 877	567 598
♦ in second to fifth year inclusive	1 601 556	2 330 693
	<b>2 172 433</b>	<b>2 898 291</b>

Operating lease payments represent rentals payable by the company for certain of its office property as well as certain of its office equipment.

## 13. Contingencies

Guarantee issued by the company's bankers to the company's landlord	40 000	40 000
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## 14. First-time adoption of the Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities

The company has applied the South African Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities, for the first time for the 2008 year end. On principle this standard has been applied retrospectively.

The date of transition was 01 January 2007 and the effect of the transition was as follows:

The change from International Financial Reporting Standards to the South African Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities did not have any effect on the financial position of the company, the results of its operations and its cash flows for the year ended 31 December 2008 and no restatement was required as the changes were not relevant to the company.

## 15. Related Parties

### Relationships

Director	S Hanival
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## 16. Directors' Emoluments

### Executive

2008	Emoluments	Total
For services as directors	<b>762 430</b>	<b>762 430</b>
	<hr/>	
2007	Emoluments	Total
For services as directors	<b>572 559</b>	<b>572 559</b>
	<hr/>	








## DETAILED INCOME STATEMENT






	2008 R	2007 R
<b>Funding</b>	<b>27 014 595</b>	<b>8 733 103</b>
Contracts	824 527	351 846
Cost recoveries	564 747	177 217
Course fees	225 040	170 300
Data subscriptions	-	12 000
Grants	24 399 580	7 125 355
Interest received	230 138	495 985
Management fees	470 563	400 400
Sundry income	300 000	-
<b>Expenditure</b>	<b>28 354 568</b>	<b>9 791 811</b>
<b>Projects</b>	<b>24 850 336</b>	<b>7 304 931</b>
Bank charges	6 889	3 849
Consulting fees	4 811 777	1 920 155
Data subscription and hosting	16 488	3 605
Employment costs	3 076 272	2 391 293
Equipment	8 071	-
Grants	14 183 727	1 500 000
Office supplies and expenses	16 455	36 319
Printing and publication	818 920	761 989
Seminars, meetings and conferences	1 085 284	281 633
Telephone	197	619
Travel	826 256	405 469
<b>Administration</b>	<b>3 504 231</b>	<b>2 486 880</b>
Audit fees	72 000	61 019
Bank charges	14 806	10 595
Computer maintenance	12 328	23 133
Consulting fees	485 350	265 550
Data communications	165 441	134 037
Depreciation	114 855	90 594
Employment costs	1 452 366	1 035 905
Equipment	81 670	86 684
Insurance	31 168	26 280
Loss on disposal of assets	-	222
Office rental, security and maintenance	732 485	322 841
Office relocation	-	114 140
Office supplies and expenses	45 249	54 173
Periodicals and subscriptions	4 868	4 149
Printing and publications	97 673	100 772
Property maintenance	15 820	13 875
Seminar, meetings and conferences	1 044	4 708
Telephone	107 536	62 055
Training	6 589	52 997
Travel	62 983	23 151
<b>Deficit for the year</b>	<b>(1 339 973)</b>	<b>(1 058 708)</b>

## INCOME STATEMENT BY SOURCE

For the Year Ended 31 December 2007

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	GRANT-FUNDED PROJECTS						
	IDRC	IDRC	DFID	DFID	AUSAID	BHC	
	International Development Research Centre	International Development Research Centre	Department for International Development	Department for International Development	Australian Agency for International Development	Commission	
							
<b>Project</b>	Core and Core Programme	SADRN	Second Economy	Right to Work	African Governance Facility	BHC - Services Project	Working Capital
<b>Income</b>	2,392,546	1,066,715	7,944,157	11,280,780	1,737,651	13,586	1,243,180
Grants	2,387,662		4,743,200	10,421,806	989,597		
Contract fees							564,747
Cost recoveries							
Course fees							
Management fees							470,563
Interest			-48,694	-13,188	84,151		207,869
Add: Prior year deferred income	13,342	2,097,907	4,671,909	905,688	1,001,775	159,235	
Less: Current year deferred income	-8,458	-1,031,192	-1,422,258	-33,526	-337,872	-145,649	
Other Income							
<b>Expenditure</b>	2,392,545	1,066,715	7,931,452	11,280,780	1,737,651	13,586	2,481,003
Direct	2,392,545	565,021	7,033,923	10,744,436	1,266,154	10,616	5,556,685
Allocated		501,695	897,529	536,344	471,497	2,970	-3,075,682
<b>Equipment</b>			12,705				44,459
<b>Surplus/Deficit(-)</b>							
<b>End of the year</b>	0	-0	-0	-0	0	-0	1,086,358
For the year	0	-0	-0	-0	0	-0	-1,282,282
At the beginning of the year							2,368,640

WORKING CAPITAL (COMPRISING UNRESTRICTED FUNDING FOR SMALL PROJECTS, CONTRACT FEES AND OTHER INCOME AND EXPENDITURE)							TOTAL WORKING CAPITAL	CONSOLIDATED
								
OECD	ComMark Trust	CGE Course March 2008	Economic Regulation of Air Transport	PGDS Mpumalanga	FABCOS	NEVA		
51,642	300,000	225,040	76,360	437,105	180,000	65,834	2,579,161	27,014,595
51,642			76,360	437,105	180,000	65,834	-	18,542,265
							810,941	810,941
							564,74	564,747
		225,040					225,040	225,040
							470,563	470,563
							207,869	230,138
								8,849,856
							-	-2,978,955
	300,000						300,000	300,000
51,642	300,000	225,040	76,360	437,105	180,000	65,834	3,816,984	28,239,714
47,365	300,000	104,873	-	194,772	23,323	-	6,227,018	28,239,714
4,277		120,166	76,360	242,333	156,677	65,834	-2,410,034	-0
							44,459	57,136
0	-	0	-	0	-	-	1,086,358	1,086,358
0	-	0	-	0	-	-	-1,282,282	-1,282,282
							2,368,640	2,368,640

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