7

Economy

South Africa has achieved a level of macro-economic stability not seen in the country for 40 years. These advances create opportunities for real increases in expenditure on social services, and reduce the costs and risks for all investors, laying the foundation for increased investment and growth.

The budget deficit decreased from 9,5% of Gross Domestic Product (GDP) (including the deficits of the former Bantustans) in 1993, to fractionally over 1% in 2002/03. Total public-sector debt fell from over 60% of GDP in 1994 to barely 50% of GDP in 2002/03.

The net open forward position of the Reserve Bank decreased from US$25 billion in 1994 and $22,5 billion in 1998 (the highest level since 1994) to zero in 2003. Foreign reserves rose from one month's import cover to two and half months' import cover.

Domestic output

According to figures released by Statistics South Africa (Stats SA) in February 2004, South Africa's economy grew by 1,9% in 2003 compared with an economic growth rate of 3,6% in 2002.

The slowdown in overall growth for 2003 as a whole can mainly be attributed to a contraction in growth in the agricultural and manufacturing sectors. The real value added by the non-agricultural sector in 2003 increased by 2,2% compared with 2002.

According to Stats SA, the real quarterly GDP increased by 1,3% in the fourth quarter, following an increase of 1,1% in the third quarter of 2003.

The unadjusted real GDP at market prices increased by 2,5%; 1,9%; 1,6%; and 1,5% during the first, second, third and fourth quarters of 2003 as compared with the first, second, third and fourth quarters of 2002 respectively.

According to the South African Reserve Bank's *Quarterly Review* released in March 2004, global economic activity picked up noticeably during the second half of 2003. The cumulative effect of the sustained application of expansionary monetary and fiscal policies in a number of key economies, and in the United States of America (USA) in particular, contributed to the welcome acceleration in economic activity, as did the strong economic growth in China and India, the solid revenues befalling oil-exporting countries, and, more generally, the relatively high prices received by commodity exporters. Inflationary pressures, however, were kept at bay in most parts of the world.

In South Africa, output growth fell significantly behind growth in real domestic expenditure during the course of 2003. Despite the acceleration in global economic activity, South African export volumes remained subdued. This was partly a result of the usual time delay before stronger global activity spills over into higher domestic exports.

Furthermore, in some of South Africa's important export markets on the European continent, the stagnation in income and production continued throughout 2003. The significant recovery of the exchange rate of the Rand in 2002 and 2003 also reduced South Africa's price competitiveness in the world market, dampening exports and boosting imports.

Under these circumstances, the goods-producing sector in South Africa performed poorly, with production volumes in manufacturing contracting during all four quarters of 2003. Real value added in agriculture also declined, suppressed by adverse climatic conditions and lower product prices. In mining, real production rose somewhat in 2003, while the services sector, and especially communications services, recorded firm growth. In 2003 as a whole, real GDP rose by roughly 2%, while on a quarter-to-quarter basis, the lowest annualised growth rate recorded was 0,5% in the second quarter, picking up to 1% in the third quarter and 1,5% in the final quarter of 2003.

Production in the primary sector contracted further in the fourth quarter of 2003, albeit at a more restrained pace than in the third quarter. The quarter-to-quarter decline moderated from an annualised rate of 6,5% in the third quarter of 2003, to 4% in the fourth quarter. This was mainly owing to a significantly lower rate of contraction in the real value added by the agricultural sector. After increasing at a rate of 3% in 2002, the real value added by the primary sector declined by 1% in 2003.

The real value added by the secondary sector also contracted further in the fourth quarter of 2003. Following a modest contraction at an annualised rate of 0,5% in the third quarter, the negative rate of growth worsened to 1,5% in the fourth quarter. This can be attributed to a further contraction in the real value added by the manufacturing sector, which more than offset solid growth by the construction sector and the sector that supplies electricity, gas and water. Virtually no growth was recorded for 2003 in the secondary sector.

The real value added by the tertiary sector recorded its sixth consecutive quarter of growth at an annualised rate of 3% in the fourth quarter, raising the real output level in this sector in 2003 by 3% more than that of the previous year. The fourth-quarter performance was mainly underpinned by solid growth in real output by the commerce, finance, insurance, real-estate and business-service sectors.

Despite a contraction in the primary sector and no growth in the secondary sector for 2003 as a whole, growth in total real production increased for the 21st successive quarter since the third quarter of 1998.

Domestic expenditure

Compared with real GDP, real domestic expenditure rose considerably in 2003. For the year as a whole, real expenditure advanced by around 4%, while in the fourth quarter of 2003 its annualised growth

Real Gross Domestic Product

Percentage change at seasonally adjusted and annualised rates

Sector	2002					2003				
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Primary sectors	7	7,5	5,5	3	3	-2,5	-6,5	-6,5	-4	-1
Agriculture	13,5	14	9,5	5,5	6,5	-5,5	-19,5	-22	-9,5	-6
Mining	2	3	2,5	1,5	0,5	0,5	5	6	0	2,5
Secondary sectors	4,5	8,5	6	1,5	4,5	-3	-3	-0,5	-1,5	0
Manufacturing	5	10	7,5	0	5,5	-4,5	-4,5	-1,5	-3,5	-1
Tertiary sectors	3	3,5	3	3	3,5	3	3	3	3	3
Non-agricultural sectors	3,5	5	4	2,5	3,5	1	1,5	2	1,5	2
Total	**4**	**5**	**4**	**2,5**	**3,5**	**1**	**0,5**	**1**	**1,5**	**2**

Source: South African Reserve Bank

rate amounted to 7%. If the effect of the surge in real expenditure on account of the delivery of a new vessel, the *SAS Amatola*, to the South African Navy is excluded from the final quarter's expenditure total, the annualised rate of growth in the remaining real expenditure total amounted to 6%.

Growth in real gross domestic expenditure for 2003 was just below the rate of 4,5% attained in 2002.

The growth in real final consumption expenditure by households remained firm for 2003 as a whole, similar to that attained in 2002. All expenditure categories recorded solid expansions but spending on durable goods and services actually witnessed accelerated growth compared with 2002.

Growth in final consumption expenditure by households accelerated towards the final quarters of 2003.

The firm expansion in this aggregate was generally underpinned by high consumer confidence resulting from a number of factors, including:

- the declining prices of some consumer items, especially those with a high import content
- the decline in interest rates during 2003
- generally high wage settlements relative to the inflation rate.

Real final consumption expenditure by general government increased by about 4,5% for 2003, representing a slight acceleration of the growth of about 3,5% for 2002. The sturdy increase in real outlays by the general Government was inclusive of the delivery of the *SAS Amatola*.

Meanwhile, general government continued to contain the growth in its wage bill. As a result of these developments, the ratio of final consumption expenditure by general government to GDP increased to 19% compared with 18,5% in 2002.

Real gross fixed capital formation expanded in an accelerated fashion for four consecutive years.

For 2003 as a whole, a growth rate of about 8,5% was recorded, following an already high growth rate of 6% in 2002.

From an institutional point of view, public corporations and private business enterprises showed accelerated growth compared with already high growth levels in 2002.

Growth rates of about 17,5% and 7% were realised for public corporations and private business enterprises respectively for 2003.

General government also recorded a sturdy growth rate of 9,5% in 2003.

The acquisition of aircraft by South African Airways (SAA) during 2003, together with the continued expansion of the Coega development project, boosted real gross fixed capital formation by public corporations.

Real gross domestic expenditure

Percentage change at seasonally adjusted and annualised rates

Components	2002					2003				
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Final consumption expenditure by households	3,5	3,5	3	2,5	3	2,5	3	4	4	3
Final consumption expenditure by general government	3,5	3,5	4	4	3,5	4	4,5	4,5	13	4,5
Gross fixed capital formation	6	9	13,5	16	6	5	3	7,5	8,5	8,5
Domestic final demand	4	4,5	4,5	5	4	3,5	3	4,5	6,5	4
Change in inventories (R billion)	8,8	0,2	7,3	6,6	5,7	6,3	9,2	7,9	7,9	7,8
Gross domestic expenditure	7,5	1	7	5	4,5	2,5	3,5	4,5	7	4

Source: South African Reserve Bank

Local government also continued to increase real capital expenditure to improve and maintain infrastructure. Against the background of these developments, gross fixed capital formation relative to GDP improved from 15% in 2002 to 15,5% in 2003.

Inventory accumulation in 2003 as a whole amounted to R7,8 billion at 1995 prices, compared with R5,7 billion in 2002, thus contributing a 0,5 percentage point to real economic growth. The continued build-up in inventories during 2003 took place against the backdrop of an environment of comparatively lower prices, particularly of imports, as well as lower holding costs of inventories due to lower interest rates.

The ratio of industrial and commercial inventories to GDP, excluding agriculture, rose accordingly from about 15,5% in 2002 to 16% in 2003.

Price inflation

Consumer Price Inflation (CPI) fell from 15,3% in 1991 to 5,4% in 2000, rising to 5,7% in 2001 and 10,1% in 2002. The steady decline of CPI during the 1990s was the result of sound monetary and fiscal policies and the opening of the economy to international trade and capital flows. In more recent years, movements in the CPI have been determined mainly by changes in mortgage interest costs, petrol and food prices, and import and export parity pricing, which generally lift price inflation.

CPIX accelerated from 6,6% in 2001 to 10,0% in 2002, reaching 11,2% in March 2003.

Independent surveys and the yield differential between conventional 10-year government bonds and inflation-linked debt show that inflation expectations are falling. Lower oil and food prices and a slowdown in the US economy, coupled with a marked appreciation in the exchange rate of the Rand, are helping to reduce external pressure on domestic inflation.

Production price inflation has risen sharply in recent years. The annual increase in the all-goods production price index accelerated from 3,5% in 1998 to 5,8% in 1999; 9,2% in 2000; 8,4% in 2001; and 14,2% in 2002.

Factors underlying the acceleration during 2002 included the rise in the prices of energy and food, the depreciation of the Rand against a basket of currencies in the closing months of 2001, and the somewhat faster increases than before in the production prices of South Africa's major trading partners.

Changes in production prices have fallen considerably from a year-on-year inflation rate of 15,4% in September 2002, to 5,1% in March 2003. Lower rates of increase in the prices of imported and domestically produced goods assisted the slowdown in production price inflation in the opening months of 2003. The two main drivers slowing production price inflation were the substantial appreciation in the exchange rate of the Rand, and moderating food price inflation at both the agricultural and manufacturing level. The easing in food price inflation resulted from good crops and the strengthening of the Rand, which has a direct influence on the determination of domestic food prices.

Exchange rates

The weighted average of the Rand, which appreciated by 24,2% between the end of December 2001 and the end of December 2002, improved further by 16,2% between the end of December 2002 and the end of December 2003.

The strengthening in the external value of the Rand coincided with a large surplus on the financial account, which more than made up for the deficit on the current account. The improvement in the external value of the Rand occurred mainly in the first quarter of 2003, when, on balance, the nominal effective exchange rate of the Rand strengthened by 7,5%. Factors that probably supported the improvement in the external value of the Rand during 2003 were:

- the continued weakness of the US Dollar
- the upgrading by Standard & Poor's and Fitch Ratings of South Africa's foreign and local currency sovereign debt ratings in May 2003
- the closing out of the Reserve Bank's net oversold international liquidity position, formerly referred to as the net open foreign currency position

- rising foreign currency prices of South Africa's export commodities
- the positive, although shrinking, interest rate differential between South Africa and its main trading partners
- the continued commitment of national government and the Reserve Bank to prudent fiscal and monetary policies.

The external value of the Rand weakened by 5,9% on a trade-weighted basis during January 2004, but strengthened again by 6,9% and 5,1% respectively during February and March 2004. From the end of December 2003 to the end of March 2004, the nominal effective exchange rate of the Rand appreciated by 5,7%.

The net average daily turnover in the domestic market for foreign exchange, which increased to US$10,6 billion in the third quarter of 2003, rose further to US$11,3 billion in the fourth quarter of 2003 – its highest level to date.

The value of transactions in which non-residents participated, increased from US$7,2 billion per day to US$7,6 billion per day over the same period. Participation by resident parties increased from US$3,4 billion per day in the third quarter of 2003, to US$3,6 billion in the fourth quarter.

The average monthly real effective exchange rate of the Rand increased by 19% from December 2002 to December 2003. In December 2003, the real effective exchange rate reached its highest level since May 1998.

Foreign trade and payments

The South African economy has weathered the turbulent global economic conditions well in recent years.

While the current account of the balance on payments reverted from a surplus of R6,7 bilion in 2002 to a deficit of R10,1 billion in 2003, it was still well within the boundaries of sustainability, being equal to 0,3% of GDP. The deterioration in the current account of the balance of payments was due to a decline in the value of merchandise and gold exports, which outstripped the decline in the value of merchandise imports.

Consequently, the trade balance recorded a surplus of R28,5 billion in 2003, compared with a surplus of R48,9 billion in 2002. The value of merchandise exports declined throughout 2003 and for the year as a whole, the nominal value of merchandise exports declined by 10,6% to R256 billion from R286,4 billion in 2002.

An analysis of changes in the value of exports by product category indicates that all the major categories registered declines of more than 10% from 2002 to 2003. The Rand prices of exported goods decreased on average by 11,7% in 2003, mainly due to a decline in the weighted exchange rate of the Rand.

However, the strengthening of commodity prices and a pick-up in global economic growth, which supported the demand for locally produced goods, caused the physical quantity of exports to increase by 1,2%, slightly cushioning the decline in the value of merchandise exports.

The reversal of the current account surplus in 2003 was also brought about by a decrease of 18,1% in the value of net gold exports, from R43,1 billion in 2002 to R35,3 billion in 2003.

This resulted from a decrease in the average realised price of gold, which fell by 15,8%, from R3 242 per fine ounce to R2 740 per fine ounce over this period. As a result of the war in Iraq and a broad increase in the demand for precious and non-precious metals, the average fixing price on the London market rose from US$310 per fine ounce in 2002 to US$364 per fine ounce in 2003.

The seasonally and annualised value of merchandise imports remained fairly stable during the first three quarters of 2003. In the last quarter of 2003, the nominal value of merchandise imports advanced mainly owing to the imports of aircraft and the *SAS Amatola*. For the whole of 2003, the value of merchandise imports declined by 6,4%, compared with an increase of 26,9% in 2002.

Real merchandise imports as a percentage of gross domestic expenditure increased gradually throughout 2003, to where foreign suppliers satisfied about 20,7% of aggregate domestic demand in the fourth quarter of 2003. In 2003, the volume of imported goods increased by 8,4%, whereas the Rand price declined by 13,5%, owing mainly to the strengthening of the external value of the Rand.

Net service, income and transfer payments, which increased in the second and third quarters of 2003, receded to R36,3 billion in the fourth quarter.

The improvement in the balance on this account resulted mainly from higher expenditure by foreign tourists in South Africa. The improvement was also assisted by non-residents' net sales of shares and bonds listed on South African exchanges, and a decline in dividends declared on foreign direct investment (FDI), which caused a decline in investment income payments. For 2003 as a whole, the shortfall on the services and income account amounted to R38,6 billion, compared with a deficit of R42,2 billion in 2003.

Following an outflow of capital in the first quarter of 2003, substantial inflows were recorded during the remainder of the year.

Net financial inflows to the value of R18,5 billion were recorded in the first half of 2003. These inflows increased substantially during the second half of the year when an amount of R44,9 billion was recorded.

For 2003 as a whole, the financial account registered a surplus of R63,4 billion, compared with a surplus of R30,6 billion in 2002.

FDI flows into South Africa increased during the year, which resulted in an inflow of R5,8 billion for 2003 as a whole. Direct outward investment recorded an outflow of R5,4 billion in 2003, compared with an inflow (i.e. a reduction in foreign investment assets) of R4,2 billion in 2002. For 2003 as a whole, a net inflow of direct investment capital to the value of R0,3 billion was recorded.

Net portfolio investment changed from an outflow of R4,3 billion in 2002 to an inflow of R6,9 billion in 2003. The inflow recorded in 2003 was mainly as a result of substantial inflow of capital in the second quarter of 2003.

Other foreign investment in South Africa, consisting mainly of loans, trade finance and bank deposits, increased substantially from an inflow of R0,3 billion in 2002 to an inflow of R13,6 billion in 2003. Over the same period, South African entities reduced their other foreign investment assets by R23,4 billion.

The country's net international reserves increased by R53,3 billion during 2003, owing to a strong surplus on the financial account. Total gross gold and foreign exchange reserves increased from R132,6 billion at the end of December 2002 to R165,3 billion at the end of December 2003.

In US Dollar terms, South Africa's total gross international reserves rose from US$15,4 billion to US$24,9 billion over the same period.

Import cover, i.e. the value of gross international reserves expressed as a ratio of the value of imports of goods and services, increased from 17,5 weeks at the end of 2002, to 23,5 weeks at the end of 2003.

Department of Trade and Industry

The Department of Trade and Industry believes that a modern, well-functioning economy requires that the State plays an active leadership role. Therefore, the State should ensure that there is policy certainty and stability, and that regulatory services are efficient and transparent.

In addition, the State should promote functioning markets for goods and services, provide incentives to overcome market failures, encourage efficient platforms for competitiveness, and promote greater levels of equity in access to information and opportunities for all citizens.

In pursuing these aims, there are a number of critical policy challenges confronting the Department over the medium term, including targeting support towards the Second Economy (emerging enterprises and the informal sector).

It should also continue to promote the alignment of economic role-players in the different spheres of government, in agencies and parastatals, and in the private sector, in line with government's Vision 2014. This Vision is targeted towards an adaptive economy, characterised by growth, employment and equity, and is built on the full potential of all persons, communities and geographic areas.

The Department will be focusing on seven key objectives between 2004/05 and 2006/07:
- to increase the contribution of small enterprises, in particular, to the economy
- to promote Broad-Based Black Economic Empowerment (BEE)
- to increase the level of direct investment in the manufacturing and service sectors
- to increase market access opportunities for, and the export of, South African goods and services
- to contribute towards building skills, technology and infrastructure platforms from which enterprises can benefit
- to reposition the economy in the higher value-added segments of manufacturing and services
- to contribute towards providing accessible, transparent and efficient access to redress for economic citizens such as consumers.

To develop enterprises, the Department of Trade and Industry will focus on promoting entrepreneurship and small business development, and developing sector-specific support programmes for small and medium-sized enterprises (SMEs).

Targeting support towards the Second Economy will involve the establishment of the microcredit Apex Fund, the development of a comprehensive co-operative support programme and programmes aimed at the economic empowerment of women.

International trade and economic development

The mission of the International Trade and Economic Development (ITED) Division of the Department of Trade and Industry is to increase South Africa's access to markets worldwide, by negotiating international trade agreements, where possible, on preferential terms. At the same time, the ITED seeks to ensure that the country's commitments are honoured in the multilateral, rules-based trading system underpinned by the World Trade Organisation (WTO).

Internationally, open economies with an export base fare much better in terms of economic growth than closed economies. Production is more and more globally integrated, and South Africa forms a vital part of international supply chains. Therefore, dismantling barriers to trade, especially those barriers faced by South African exporters, is a critical component of any economic strategy that promotes sustainable growth. The ITED's global economic strategy considers sustainable growth as its departure point. It is not developed in isolation but is part of South Africa's broad industrial strategy. It was formulated in light of the country's relations with the Southern African Development Community (SADC), the rest of Africa, the New Partnership for Africa’s Development (NEPAD), and economic relations with developed and developing trading partners in the North and the South.

Since 1994, the (Rand) value of both South Africa's exports and imports in manufactured goods has grown steadily. Even accounting for inflation and the depreciation in the Rand since 1994, exports, and, importantly, exports in manufactured goods, have exhibited strong upward trends. South Africa's export base is diversifying rapidly with success having been achieved most notably in processed agricultural goods, automobiles, and a number of categories of industrial machinery.

South Africa is situated on the southern tip of a continent whose exports as a percentage of world imports constituted just 2,1% in 1998. Moreover, Africa's export base is limited, and attempts to expand it too quickly will be thwarted by what may be termed, in a number of cases, severe supply-side constraints. The ITED is committed to the pursuit of market access for South Africa, more effective efforts at subregional and continental integration, and the strategic and positive engagement of the region and the continent in the WTO.

Policy and programme developments in international trade development include:
- Continued negotiations with India, Brazil, and Nigeria. In the case of India, this has already been successful, with a 25% rise in South Africa's exports to that country.
- Continued negotiations with MERCOSUR, a trading bloc consisting of six Latin American countries, namely Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay.
- The administration of various binational commissions (BNCs) with other governments.

- The implementation of the new Southern African Customs Union (SACU) Agreement, concluded in September 2001, in which the ITED played a pivotal role.
- Strengthening the trade capacity of the SADC.
- Preparing for and participating in a new trade round under the auspices of the WTO. A breakthrough was the agreement on a new development round achieved at Doha, Qatar, in late 2001, to which the ITED, led by the Minister of Trade and Industry at the time, Mr Alec Erwin, made a vital contribution.
- Ongoing analyses of trade threats and opportunities.
- Replacing the Board of Tariffs and Trade (BTT) with the new International Trade Administration Commission (ITAC), an independent regulatory agency. The ITAC will take over BTT's function of administering the tariff regime and is set to play a central role within the SACU on tariff and related issues.

In 2004/05, the ITED undertook further policy development work regarding the implications of the European Union's (EU) eastward expansion, as well as the promotion of intra-African trade within the NEPAD framework. This also involved the streamlining of international trade administration in South Africa, including the finalisation of work towards the simplification of South Africa's customs tariff.

Top 10 countries investing in South Africa, 1994 – 2003

Rank	Country	R million	US$ million
1	United Kingdom	65 640	8 984
2	United States of America	41 892	6 989
3	Japan	14 959	2 089
4	Germany	13 507	2 088
5	Malaysia	9 934	2 027
6	Switzerland	10 023	1 640
7	Australia	8 216	839
8	Canada	5 676	761
9	Italy	4 980	759
10	Saudi Arabia	5 300	680

Source: *Business Map*

Furthermore, the ITED continued to participate in interdepartmental processes, promoting greater co-ordination of activities and policies under the Cluster system in government, in particular in the International Relations, Peace and Security Cluster.

Trade relations

Africa

Africa forms the focus of South Africa's global economic strategy, within which government pursues a strong developmental agenda. Partnerships with countries on the continent are therefore considered vital and strategic. South Africa's economy is inextricably linked to that of the southern African region, and its own success is linked to the economic recovery of the continent through NEPAD. The developmental challenges must be viewed in light of the mutually beneficial economic and developmental impact on South Africa and Africa's self-enforcing and economic existence.

Africa is an important market for South African exports. In 2003, about 18% of South Africa's exports were destined for the continent. Unfor-tunately, this was not mirrored by imports from the continent, which accounted for only 4% of South Africa's total imports.

This trade imbalance has largely been offset by South Africa's investment on the continent, aimed at infrastructural projects designed to enhance the productive capacities of African economies. In addition to bilateral trade relations and the normal aspects involved in forging economic relationships, the Department of Trade and Industry is committed to increasing South Africa's involvement in large capital projects on the continent. The following areas have been prioritised:

- infrastructure and logistics (roads, ports, etc.)
- energy and Information and Communications Technology (ICT)
- water and waste management
- transport
- construction
- oil and gas infrastructure
- agri-business
- mining
- human resource development (HRD).

During meetings of the World Economic Forum (WEF) for southern Africa, the formation of a business forum for southern Africa was announced (a joint initiative between the Department and the private sector), established to take advantage of investment opportunities in the region.

The Department, through Trade and Investment South Africa (TISA), has established trade and investment promotion offices on the continent to facilitate trade and investment flows.

The Department provides supportive services to the NEPAD Secretariat, which plays a critical role in catalysing trade and economic development on the continent. In southern Africa, South Africa seeks to restructure regional arrangements promoting industrialisation. The Department supports a process whereby integrated manufacturing platforms form the basis for an integrated regional industrial strategy. This entails using southern Africa as an integral part of supply chains for globally competitive manufacturing processes.

Through a combination of sectoral co-operation, policy co-ordination and trade integration, South Africa's regional policy aims to achieve a dynamic regional economy capable of competing effectively in the global economy. For instance, South Africa works closely with its neighbours in engaging with multilateral international institutions and agreements – from the WTO to the African-Caribbean-Pacific (ACP) Declaration adopted in 2003.

Southern African Development Community

The SADC is constituted by Angola, Botswana, the Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Madagascar submitted an application for membership during the SADC Heads of State Summit, held in Mauritius during August 2004, and was granted conditional membership for a year, allowing it time to prepare a plan on how it will meet its obligations and implement the various SADC legal instruments.

Since attaining democracy in 1994, South Africa has put regional integration by SADC member states on the top of its foreign economic agenda. This approach comes from the belief in the economic benefits that can be brought to all member states by closer economic co-operation in the region. To support this approach, South Africa has reviewed its trade relationship with other SADC members, adopted the SADC Trade Protocol, promoted investment by South African firms in the SADC, and helped to facilitate greater volumes of trade by South Africa and other SADC members.

Implementation of the Southern African Development Community Protocol on Trade

The SADC is in the fourth year of the implementation of the SADC Protocol on Trade, which was signed in 1996 in Maseru, Lesotho, and came into force on 25 January 2000.

Since then, negotiations on the operationalisation of the Protocol centred on tariff-reduction schedules, rules of origin, dispute-settlement mechanisms, a special trade agreement on sugar, elimination of non-tariff barriers, and harmonisation of customs and trade documentation. Agreement was generally achieved on all these issues, hence the launch of the Free Trade Area (FTA) on 1 September 2000.

All SADC countries, with the exception of Angola, the DRC and Madagascar, have been implementing the Protocol. Angola has committed itself to the Protocol by signing and acceding to it, and is preparing its tariff-reduction offers that are critical in the implementation of the Protocol.

By August 2004, the SADC Secretariat was finalising the mid-term review on the implementation of the Protocol. The findings of the this review will indicate the levels of trade that have taken place under the Protocol preferences, to assess the rules of origin and any other issues that may impact on regional economic integration.

Substantial progress has been made towards customs co-operation with respect to the harmonisation of documentation and procedures, and in preparation for a Memorandum of Understanding (MoU) on Co-operation and Mutual Assistance among Customs Administrations.

Southern African Customs Union

The new SACU Agreement came into force on 15 July 2004. New institutional features include the Council of Ministers, which is the highest decision-making body on all matters pertaining to the SACU Agreement; a SACU Tariff Board, responsible for making recommendations on tariff and trade remedies to the Council; a small SACU Secretariat, responsible for rendering administrative and support services to SACU structures; and a dispute-settlement mechanism similar to the one in place in the SADC.

SACU members agreed on the establishment of national bodies responsible for receiving tariff applications from each member state. Consensus was also reached on a new revenue-sharing formula. The new SACU Agreement also provides for member states to develop common policies and strategies with respect to industrial development. Agreement has also been reached to co-operate on agricultural issues to ensure the co-ordinated development of the agricultural sector. Member states will also co-operate to ensure fair competition and address unfair trade practices.

A sizeable share of South Africa's exports (estimated at over R15 billion) is destined for SACU and other SADC countries. Trade with SADC countries has increased significantly, from R16 billion to about R32 billion between 1998 and 2002. However, in 2002, there was a significant increase in the amount of imports from the region, to about R4,2 billion. This gives an overall export:import ratio of 8:1. There is a definite need to reverse this trend and close the trade imbalance between South Africa and its SADC partners.

A disaggregation of South Africa's exports to SADC by country reveals that Zimbabwe has become the main destination for South Africa's exports into Africa, absorbing well over R7 billion of exports.

Trade with Europe

Trade relations with Europe, particularly with the EU, are pivotal to South Africa's economic development. The Trade Development and Co-operation Agreement (TDCA) with the EU forms a substantial element of South Africa's reconstruction and development.

Europe remains South Africa's largest trading region and source of investment. In 2003, Europe accounted for 40% (R92 billion) of South Africa's total exports, and 45,8% (R116,59 billion) of its total imports. During the same year, the EU accounted for the bulk of this trade, with exports to the EU reaching R84,95 billion in 2003 (down from R98,25 billion in 2002), and imports reaching R109 billion in 2003 (down from R115 billion in 2002).

Six European countries are among South Africa's top 10 export destinations and four European countries are among the top 10 countries from which South Africa's imports originate. Since 2001, Germany has been South Africa's largest source of imports. In 2001, South Africa's imports from Germany totalled R32,35 billion. It reached R43 billion in 2002, and fell to R38,45 billion in 2003.

The United Kingdom (UK) remains South Africa's largest export destination in Europe and the second-largest in the world (after the USA). South Africa's exports to the UK amounted to R24,17 billion in 2003.

European Union

The TDCA, which came under provisional implementation on 1 January 2000, has established an FTA between South Africa and the EU. The TDCA commits South Africa to grant duty-free access to 86% of EU imports over a period of 12 years, while the EU will liberalise 95% of South Africa's imports over a 10-year period. This Agreement is expected to contribute towards the restructuring of the South African economy and its long-term economic growth. The Agreement covers trade and related issues, and co-operation in economic, social and political fields. It also provides a legal framework for ongoing EU financial assistance on grants and loans for development co-operation.

The wines and spirits agreements were signed in January 2002 and are under provisional implementation. The agreements are part of the framework of agreements under the TDCA and established the basis for trade in wines and spirits between South Africa and the EU. Negotiations on areas related to geographical indications, intellectual property and trademark protection are ongoing.

In 2004, there were two major developments in the relations between South Africa and the EU. Ten more European countries became members of the EU. After 1 May 2004, the enlarged EU became a larger internal market, accounting for 450 million citizens (increasing from 374 million). The second event was the ratification of the TDCA by all EU member countries. The implication of this full ratification is that the TDCA will now be fully implemented, elevating South Africa's relations with the EU.

Cotonou Agreement

South Africa is a member state of the ACP Group, but a qualified member of the Cotonou Agreement (signed on 23 June 2000 in Cotonou, Benin), in the sense that, in the case of trade and development co-operation, the TDCA takes precedence over the Cotonou Agreement. The Cotonou Agreement is a trade and aid framework between the EU and 77 members of the ACP countries. Its main aim is to reverse the economic and technological marginalisation of ACP countries in the global trade and investment arena.

The Agreement states that future EU-ACP relations will be characterised by the following:

- a stronger political partnership between the EU and the ACP
- decentralised co-operation, which involves the active participation of civil society and the private sector in the planning of national development strategies
- reformed financial co-operation programmes of the European Development Fund's financial resources amounting to 24 billion Euro
- WTO-compatible regional economic partnership agreements, essentially covering all trade, and implemented over 10 to 12 years as of 1 January 2008.

The Americas

North America

The USA is South Africa's number one trading partner in terms of total trade (the sum of exports and imports) recorded in 2003. Exports to the USA dropped in nominal terms from R30 billion in 2001 to R29 billion in 2003. Imports from the USA also declined in nominal terms from R26 billion to R25 billion from 2001 to 2003. Since 2000, trade has been in South Africa's favour with the trade surplus increasing marginally in nominal terms from R3,4 billion to R3,8 billion between 2000 and 2003.

South Africa is a beneficiary of the USA's Generalised System of Preferences (GSP), which grants duty-free treatment for more than 4 650 products.

South Africa is also a beneficiary of the Africa Growth and Opportunity Act (AGOA), which was promulgated in May 2000. In terms of the AGOA, an additional 1 783 products were added to the existing GSP products. Although the AGOA was initially due to lapse in 2008, the US Government consented in 2004 to requests by African countries to extend the measure to 2015 under what is called the AGOA III amendments. The AGOA also allows duty-free entry of clothing and selected textiles into the USA subject to certain criteria and policy reforms. By 2003, about 38 countries had qualified under the AGOA, including Swaziland, Ivory Coast, the DRC and The Gambia.

Since the lifting of sanctions in 1994, bilateral trade between South Africa and Canada has been on the increase, from R903 million in 1993 to R4 billion in 2003.

Canada extended a quota on clothing and textile products from South Africa to enter its market at a better rate than Most Favoured Nation tariff rates. The Trade and Investment Co-operation Arrangement, signed in 1998, sought to enhance bilateral trade and investment.

South Africa is a beneficiary of Canada's General Preferential Tariff (GPT). GPT rates range from duty-free, to reductions in the Most Favoured Nation rates. South Africa has an MoU with Canada relating to the export of clothing and textile products to that country.

Latin America

South Africa's major trading partners in Latin America are Brazil, Argentina, Colombia, Chile, Mexico and Peru. Most trade is with Brazil and Argentina, which are members of the MERCOSUR trade bloc. As a result, a framework agreement committing South Africa and MERCOSUR to an FTA was signed in 2000. However, as a first step towards achieving this goal, the parties agreed to exchange preferences in certain sectors in the early stages of the negotiation process.

By August 2004, negotiations towards an FTA in consultation with other stakeholders had reached an advanced stage.

Trade between South Africa and MERCOSUR grew substantially from R2,7 billion in 1994 to R10 billion in 2003. Both South Africa and Brazil regard each other as strategic partners, with co-operation taking place in bilateral fora as well as in multilateral fora such as the WTO. Notwithstanding South Africa's strong ties with MERCOSUR, Chile is becoming an increasingly important partner for South Africa. South African mining companies are heavily involved in mining activities in Chile.

Trade between South Africa and Mexico declined from R1,4 billion in 2000 to R1,2 billion in 2003. The balance of trade has been in South Africa's favour for a number of years.

Bilateral trade between South Africa and the Andean Community (Peru, Ecuador, Bolivia, Colombia and Venezuela) has been growing at a relatively slow pace since 1994. The Andean Community, more specifically Colombia and Peru, offers great potential for South African companies participating in the mining industry.

Asia

South and south-east Asia and Australasia

India is a key partner for South Africa in South Asia and total trade with that country has been increasing rapidly since 1994. Total two-way trade between the two countries reached R6,5 billion in 2003. South Africa and India have enjoyed strong historical ties, which have translated into a firm political commitment. The shared historical links between the two countries have led to closer economic ties.

South Africa and India are strengthening bilateral economic links through mutual strong business and governmental co-operation. The Joint Ministerial Commission (JMC) provides an institutional mechanism for Ministerial consultations on political and economic matters, and has facilitated several initiatives including the conclusion of a general trade agreement, sector co-operation through the India-South Africa Commercial Alliance, and India's pledge of US$200 million for NEPAD.

Developments in building economic relations with India are also expanding to include partners in the SACU, as reflected in the recent SACU decision to pursue FTA negotiations with India.

South Africa also co-operates with India in areas of common interest in the WTO and other fora, and works closely in the India-Brazil-South Africa Forum. The two countries furthermore co-operate in the G-20+, a grouping of developing countries that seeks to address developmental challenges in the global economic system.

Bilateral trade with south-east Asia, particularly the Association of South-East Asian Nations (ASEAN) members, increased rapidly off a low base from 1990. The ASEAN presents South Africa with a potential market in excess of 520 million people. Within the ASEAN, partners for South Africa include countries such as Singapore, Thailand, Indonesia, Malaysia, Vietnam and the Philippines. Initiatives are underway to develop and strengthen relations with these economies. South African exports to the region totalled R7,4 billion in 2003, and are set for continued growth.

North-east Asia

The People's Republic of China (PRC) is a key partner for South Africa. The PRC's influence in the global economy has significantly changed in the last few decades as its share of international trade has increased and it is becoming a pillar of economic growth in the global economy.

Economic and trade relations between South Africa and the PRC have grown rapidly since the formal establishment of diplomatic relations, with China becoming South Africa's fifth-largest import trading partner in 2003, and seventh-largest export partner. Total trade grew from R5,3 billion in 1998 to R23,4 billion in 2003.

The two countries engage regularly on economic issues through the Joint Economic and Trade Committee, which is held under the auspices of the BNC. The launching of SACU-China FTA negotiations were recently announced.

Beyond bilateral and regional initiatives, South Africa and the PRC also co-operate in multilateral fora, including the WTO, based on shared developmental perspectives.

Japan is South Africa's largest trading partner in Asia and its fourth- largest overall trading partner. It also became South Africa's third-largest export destination during 2003.

At the end of 2003, trade between the two countries totalled R43,4 billion. The Partnership Forum, designed to strengthen bilateral ties between Japan and South Africa, meets regularly. New initiatives are being explored to expand relations.

Multilateral economic relations

The WTO, in partnership with the Bretton Woods Institutions, the World Bank and the IMF, have been setting the parameters for and directing the economic development policies of governments around the world.

This has had serious implications for the content, evolution and trajectory of economic development strategies being pursued by developing countries, including South Africa. As the process of globalisation is being questioned, it is imperative for South Africa to influence and shape the configurations of the emerging system of global governance to address the needs and concerns of the developing world. This is best done by participating actively and effectively in all multilateral fora, to ensure that its particular economic interests and developmental goals and objectives, as well as those of the African continent, are taken into account.

United Nations Conference on Trade and Development (UNCTAD)

The UNCTAD is an important resource organisation for South Africa and the African continent. The main goals of the organisation are to:

- maximise the trade, investment and development opportunities of developing countries
- help developing countries to face challenges arising from globalisation and integration into the world economy on an equitable basis.

This is pursued through research and policy analyses, intergovernmental deliberations, technical co-operation, and interaction with civil society and the business sector.

The UNCTAD is focusing much of its energy on assisting developing countries to prepare for mandated and possible future negotiations in the WTO.

The UNCTAD member states gathered in São Paulo, Brazil, from 13 to 18 June 2004 for its 11th Ministerial Conference. South Africa participated constructively and contributed valuable input at the UNCTAD XI, which focused on enhancing the coherence between national development strategies and global economic processes towards economic growth and development, particularly for developing countries. The Conference closed with the adoption of a declaration entitled the *Spirit of São Paulo*, as well as the *São Paulo Consensus*, which provides more detail on the role of the UNCTAD in a globalising world.

The *Spirit of São Paulo* recognises that most developing countries, especially African and other least-developed countries, have remained on the margins of the globalisation process, and that there is a need to focus on the ability of international trade to contribute to poverty alleviation.

During the negotiations, delegates also vigorously debated the role of the UNCTAD and the implications of the ongoing UN reform programme. Developing countries, including South Africa, pressed for a stronger role for the UNCTAD, including targeted policy research and analysis of global issues.

World Trade Organisation

South Africa regards its membership of the WTO as very important because of the enhanced security and certainty in the multilateral trading system provided by WTO rules.

The country is an active participant and contributor towards a strengthened multilateral trading system, whose benefits are equitably distributed across the world community. South Africa wants to participate in the shaping of global governance to ensure beneficial and full integration of its economy, as well as those of other developing nations, into the global trading system.

The WTO Doha Development Agenda continued to set the work programme of the WTO in 2003/04. However, the work slowed down considerably after the 5th WTO Ministerial Conference held in Cancun, Mexico, during September 2003. At the Conference, WTO members failed to reach agreement on key developmental issues, as a result of divergent positions between developed and developing countries.

The positive outcome of the Cancun meeting was the formation of a grouping of developing countries known as the G-20+. The Group succeeded in pushing for significant reforms in agricultural trade which were strongly opposed by the developed world. The failure to reach agreement in Cancun showed that developing countries are participating more effectively in the WTO to ensure they also benefit from the rule-based trading system and globalisation. The G-20+ has become an important player in the Doha Development Agenda to ensure that the needs and concerns of the developing world are addressed.

The G-20+ consists of Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Venezuela and Zimbabwe.

Cairns Group

The Cairns Group is an association of countries exporting agricultural products with the objective of free and fair trade in the global agricultural market. It participates as a group in WTO agricultural negotiations. The Group consists of Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay. The Cairns Group and the G-20 worked together in the WTO agriculture negotiations to ensure agricultural reform that would benefit developing countries.

World Economic Forum

The WEF, an annual meeting of world economic leaders, held in Davos, Switzerland, has become the world's global business summit. South Africa is well represented at the Forum, and is actively participating in discussions to address economic development and globalisation.

Export and investment promotion

A central task of the Department of Trade and Industry is to promote value-added exports and attract investment. The vision is one of a restructured and adaptive South African economy, characterised by growth, employment and equity (regional, spatial, gender and racial).

Old manufacturing support schemes, such as the Tax Holiday Scheme, the Small Medium Manufacturing Development Programme, the Regional Industrial Development Programme, and the Simplified Regional Industrial Development Programme, have been replaced with a suite of six incentives, namely the:

- Small Medium Enterprise Development Programme (SMEDP)
- Skills Support Programme
- Critical Infrastructure Programme (CIP)
- Industrial Development Zones (IDZs)
- Foreign Investment Grant (FIG)
- Strategic Investment Programme (SIP).

Trade and Investment South Africa

TISA is a division of the Department of Trade and Industry and has a national mandate to develop the South African economy, focusing on investment facilitation and promotion, export development and promotion, and customised sector policy development.

TISA's mission is to provide strategic vision and direction to key growth sectors in the economy, increase the level of direct investment flow, and develop South Africa's capacity to export into various targeted markets.

TISA facilitated investments to the value of R3,6 billion in the first half of the 2003/04 financial year. One-third of these investments were made in the automotive sector. Fifty import and export missions took place during the same period.

Several export training and development seminars were hosted.

Almost 1 000 exporters received financial assistance, while more than 2 500 enterprises received non-financial assistance.

Customised Sector Programme (CSP)

Early in 2002/03, TISA was assigned responsibility for priority sector development, which is a crucial part of government's Micro-Economic Reform Strategy (MRS) and the Department of Trade and Industry's Integrated Manufacturing Strategy (IMS). Both strategies centre on the accelerated development of priority sectors selected by government for their potential contribution to South Africa's economy, in terms of growth, equity and employment creation.

TISA's strategy is to develop sector strategies for all priority sectors, with the aim of enhancing their growth and competitiveness. With this in mind, the CSP Methodology, which provides a strong and intellectually vigorous platform for optimal sector development, was finalised.

A key characteristic of the CSP Methodology is that it supports a high level of stakeholder interaction. In addition, the CSP Methodology includes interventions to promote and develop investment and exports, and provide input related to policy development.

Export development and promotion

TISA is responsible for the development and promotion of South African goods and services. The following TISA objectives contribute directly towards the objectives of the Department of Trade and Industry:

- to identify, research and promote market-access opportunities for South African exporters
- to facilitate exports by matching potential exporters with foreign buyers
- to develop and help South African exporters promote their products through the provision of non-financial support.

Investment promotion and facilitation

TISA is responsible for attracting FDI, and developing and promoting investment by domestic and foreign investors. It offers the following services:

- information on investing in South Africa and the business environment
- detailed sector information
- finance to explore investment opportunities in South Africa
- direct government support in the form of investment incentives
- investment facilitation.

International Investment Council

The Council meets twice a year to advise President Thabo Mbeki on investment promotion and other economic issues.

Enterprise and industry development

The Department's Enterprise and Industry Development Division (EIDD) moves trade and industrial policy in South Africa towards an internationally competitive status, capitalising on the country's competitive and comparative advantages.

During 2003/04, considerable policy and advocacy work was carried out by the EIDD, particularly in support of the MRS and the IMS. This included research on the identification of critical skill shortages in the economy, the identification of bottlenecks in the national logistics systems, and interventions to address these.

Government's industrial policy strives to achieve a balance between greater openness and improvement in local competitiveness. South Africa has made great strides in opening the domestic economy to international competition.

One of South Africa's key industrial policies remains its commitment to fostering sustainable industrial development in areas where poverty and unemployment are at their highest. This objective is implemented through the Spatial Development Initiatives (SDIs), which focus high-level support on areas where socio-economic conditions require concentrated government assistance, and where inherent economic potential exists.

The SDI programmes focus government attention on the various national, provincial and local government spheres, with the goal of fast-tracking investment and maximising synergies between various types of investments.

The SDI programme consists of 11 local SDIs and four IDZs at varying stages of delivery. They are:

- SDIs: Maputo Development Corridor; Lubombo SDI; Richards Bay SDI, including the Durban and Pietermaritzburg nodes; Wild Coast SDI; Fish River SDI; West Coast Investment Initiative; Platinum SDI; Phalaborwa SDI; and the Coast-2-Coast Corridor
- IDZs: Gauteng, Coega, East London, Saldanha and Richards Bay.

The SDI concept has a variety of focuses, such as:

- Industrial – KwaZulu-Natal and Fish River SDIs
- Agrotourism – Lubombo and Wild Coast SDIs
- Sectoral mix – Maputo Development Corridor
- IDZs – Coega, Saldanha and East London.

IDZs are located near major transport nodes such as ports or airports. The benefits of IDZs are support to investing companies, especially for greenfields development projects; access to transport for exporting purposes; waiver of import duties for products that are produced for export; and subsidies in the provision of skills training for employees.

Good progress is being made with regard to the Richards Bay IDZ. Eight projects worth R580 million were targeted in 2004/05.

Infrastructure contracts for the East London IDZ worth nearly R200 million were awarded in 2004/05. By June 2004, the East London IDZ had created some 500 direct jobs.

Rigorous BEE targets were exceeded in the procurement of contracts for the Coega IDZ. During 2003/04, participation by local enterprises in the Coega development accounted for nearly 60% of contracts awarded. Sixty-five percent of these were affirmative contracts awarded to small, medium and micro-enterprises (SMMEs). By June 2004, the Coega IDZ had employed more than 9 500 construction workers.

The Enterprise Organisation

The Enterprise Organisation of the Department of Trade and Industry provides incentives to stimulate or catalyse investment in infrastructure, HRD, integrated manufacturing and related activities, small business development, specific regions, and technology and innovation.

During 2003/04, the Organisation administered the following incentive schemes:

- The SIP encourages investment in South Africa from local and foreign investors. Ten projects with an investment value of R3 billion were approved in 2003/04.
- The SMEDP and FIG provide cash grants for qualifying projects in targeted sectors of the economy. During 2003/04, 1 397 SMEDP applications with an investment value of R5 billion were approved, equalling a total incentive value of R1,6 billion. The average incentive per firm is R376 000.
- The CIP aims to leverage private-sector investment by providing grants for the construction of infrastructure. The CIP also provides infrastructure requirements of enterprises located within the IDZs. During 2003, seven CIP projects were approved, amounting to R425 million. The projected total value of infrastructure that will be constructed is R1,6 billion.
- The Black Business Supplier Development Programme is a cost-sharing grant scheme which offers financial support to Black-owned private-sector firms involved in manufacturing and retail services. During 2003/04, a total of 205 grant applications were approved, with a total value of R9,7 million, while 51 entities submitted 73 claims to the value of R2,6 million.
- The Competitiveness Fund is a cost-sharing grant scheme, which is financed with a loan from the World Bank. During 2003/04, 162 grant applications to the value of R33 million were approved, while 131 entities submitted claims to the value of R22 million.
- The Sector Partnership Fund (SPF) provides financial assistance to partnerships of firms in the manufacturing and agro-processing industries, to define and implement collaborative projects related to production and marketing that will enhance their productivity and international competitiveness. The SPF offers partnerships at

65:35 non-refundable cost-sharing grants. A total of 27 grant applications were approved in 2003/04, totalling R16 million. Forty-two partnerships submitted claims totalling R15 million.

Innovation and technology

Venture capital

The Venture Capital Fund is a joint initiative between the Department of Trade and Industry, and the Council for Scientific and Industrial Research (CSIR). It aims to provide early-stage capital; and to a lesser extent, expansion capital, for technology-based SMMEs; and management support for investee companies.

An amount of R10 million was made available to the Fund in 2004/05.

Technology Transfer Centre (TTC)

The TTC is to be established by the CSIR as an agent to provide the following services to South African industries:

- negotiating and drafting assistance agreements related to technology transfers
- technology-transfer training
- technology evaluation, assessment and selection services related to technology transfer
- technology advisory services
- match-making between technology sellers and buyers, and appropriate financial institutions
- if required, direct and/or indirect financial assistance for technology-transfer activities.

Incubators

A technology business incubator is a facility that provides a variety of services under controlled conditions to create an environment favourable for developing, nurturing and accelerating growth of new technology-based companies. The support services provided include physical space, business development and technical services.

Through a partnership between the Department of Trade and Industry, the Department of Science and Technology, and the EU, the Godisa Trust was formed to consolidate technology incubators covering different sectors, e.g. furniture, stainless steel and biotechnology. Since its establishment in 2001, Godisa has assisted in creating more than 3 000 jobs and supporting 400 business enterprises through its centres across South Africa. A venture capital fund in support of the incubators' tenants was being established in 2004/05. Some R48 million was allocated to technology incubators in 2004/05.

The Department directly funds four incubators, namely the Furniture Technology Centre (Furntech) in George, Western Cape; the National Fibre Centre in Port Elizabeth, Eastern Cape; the Downstream Aluminium Centre for Technology in Richards Bay, KwaZulu-Natal; and the Mpumalanga Stainless Steel Initiative in Middelburg, Mpumalanga.

The EU financially supports three pilot projects, namely the Innovation Support Centre situated in Cato Manor, KwaZulu-Natal, which commercialises embedded technologies; the Demonstration Centre situated at Mintek in Randburg, Gauteng, which demonstrates equipment to small-scale miners all over South Africa; and the Technology Incubator, situated at the CSIR in Pretoria, specialising in incubating software for wireless technologies.

Five other incubators have been established, namely the:

- Acorn Incubator at the University of Cape Town, specialising in medical-device technologies
- EgoliBio in Modderfontein, Gauteng, focusing on biotechnologies
- Timbali Incubator in Nelspruit, Mpumalanga, focusing on floriculture technologies
- Chemin Incubator at the Port Elizabeth University of Technology, focusing on fine chemicals technologies
- Brainworks Incubator in Sunninghill, Johannesburg, focusing on information, communications and electronic technologies. (See chapter 18: *Science and technology*.)

Workplace Challenge Programme

This supply-side Programme of the Department of Trade and Industry (administered by the National Productivity Institute), assists enterprises and industries to improve their productivity and competitiveness. The Programme focuses on improving workplace collaboration, adopting world-class manufacturing and practices, and disseminating best practices.

The focus of the Programme, which was allocated R7 million in 2004/05, has been on the manufacturing and processing sectors.

National Industrial Participation Programme (NIPP)

Launched in 1996, the NIPP's principal objective is to raise investment levels and increase exports and market access for South African value-added goods and services, by leveraging off government procurement.

Participation in the NIPP becomes obligatory when the imported content of any public-sector purchase exceeds US$10 million.

When the South African Government makes a sizeable investment in foreign purchase, the suppliers participate in economic activities in the country, designed to increase fixed investment and/or promote international market access for South African value-added goods and services.

In terms of these obligations, they are described as obligors, and the Industrial Participation Secretariat within the EIDD of the Department of Trade and Industry ensures that they meet these obligations, in terms of quantity and time scales, without disrupting existing South African industrial activity, and as far as possible encouraging labour intensity.

The size of obligations being monitored by August 2004 was about US$14 billion, which increased in the preceding year as a result of SAA's acquisition of the Airbus. The majority of the projects only started in 2000 after the strategic defence procurement and the SAA acquisition of Boeing aircraft.

Since 1997, the Programme has facilitated investments and sales credits worth US$2 billion, consisting of investments of US$677 milion, export sales of US$1 billion, and local sales (including technology transfer, BEE and SMME promotion) of US$547 million.

Between April 2003 and March 2004, the Industrial Participation Control Committee approved 125 projects encompassing all economic sectors outlined in the Department of Trade and Industry's IMS.

A significant number of these projects arose from strategic partnership agreements (SPAs), i.e. proactive arrangements that encourage international companies to identify opportunities prior to obligations being incurred, and bank credits for any future obligation that may arise.

These obligations need to be discharged over a period of seven years, with the exception of the BAE/SAAB obligation, which must be discharged over 11 years due to its size (US$7,2 billion worth of credits to be fulfilled in investment and export promotion).

BAE/SAAB has established the South African National Industrial Participation to manage their offset programme.

Other significant obligations have arisen from purchases made by Telkom and SAA, with the rest based on purchases by other government departments and State-Owned Enterprises (SOEs), such as Eskom, Transnet and PetroSA.

At least 60% of sales credits from SPAs must be through exports. Binding agreements for the placement of work and the purchase of locally produced,

The new Liquor Act, 2003 (Act 59 of 2003), came into effect on 13 August 2004.

The Act is aimed at establishing national norms and standards to maintain economic unity within the South African liquor industry. According to a study commissioned by the Department of Trade and Industry, the industry is estimated to be generating a gross revenue of R30 billion per year.

The Act applies to all current and future manufacturers and distributors of liquor or methylated spirits, and sets out the regulation of importable substances in the country.

The Act does not, however, apply to the regulation of the retail sale or micro-manufacturing of liquor. These aspects will continue to be regulated by the provinces.

All liquor manufacturers whose production volume is equal to or exceeds the following thresholds, should convert their current licences and will be regulated by the National Liquor Authority of the Department of Trade and Industry:

- beer manufacturing – 100 million litre (ML) per year
- African traditional beer manufacturing – 50 ML per year
- wine manufacturing – 4 ML per year
- spirits manufacturing – 2 ML per year.

value-added goods have been signed for most projects between obligors and their international partners on the one hand, and domestic firms on the other. These products include electronic components, heavy-duty trucks, communications products, beneficiated minerals, etc.

Manufacturing

South Africa has developed an established and diversified manufacturing base that has demonstrated resilience and the potential to compete in a global economy. The manufacturing sector provides a locus for stimulating the growth of other activities, such as services, and achieving specific outcomes, such as value addition, employment creation and economic empowerment. This platform of manufacturing presents an opportunity to significantly accelerate growth and development.

Key functions of the Department include:

- supporting increased investment in the manufacturing sector
- enhancing the establishment of new manufacturing entities
- supporting new sustainable and profitable manufacturing entities.

Some of the key aspects of the Government's IMS involves the following:

- improving market access for South African products in key markets
- promoting beneficiation and value addition so that value is added to the many natural resources already present in the country
- finding ways to harness the skills and expertise in South Africa so that they can be sold to other countries.

The IMS identifies the need to capture local knowledge. It encourages big corporations and large companies to make greater use of small businesses, as well as promoting greater integration between the different sectors of the economy so that they add value to each other.

The IMS also promotes BEE, small business development, increased use of ICT, job creation, and a more equitable geographic spread of investment and economic activities.

By March 2003, the Motor Industry Development Plan (MIDP) had transformed the South African motor industry into a dynamic export business.

From 11 500 vehicles worth R750 million being exported in 1996, the MIDP resulted in 130 000 cars worth R15 billion being exported in 2002. The number of exported cars is expected to reach 200 000 per year.

Automotive component export statistics for 2003, compiled by the Automotive Directorate of TISA, indicate a 7% decline, from R22,9 billion in 2002 to R21,3 billion in 2003. The decline ended the record-breaking export level cycle that had been experienced for seven consecutive years since the introduction of the MIDP in 1995.

Despite the lower export figure in 2003, automotive component exports have been growing at a compounded annual rate of 26% since 1995.

South Africa exported completely built-up vehicles and components to 117 countries in 2003.

Although the industry's market share of global vehicle production is less than 1%, Japan and the USA – the two biggest and most demanding markets in the world – were again South Africa's top destinations in Rand terms for passenger cars in 2003.

Competition policy

The Competition Act, 1998 (Act 89 of 1998), which came into effect on 1 September 1999, is aimed at eliminating anti-competition practices, eliminating abuse of dominant positions, and strengthening merger control. The Act provides for the establishment of the Competition Commission, Competition Tribunal and Competition Appeal Court to replace the former Competition Board. The Act outlaws the following main areas of business practice:

- Restrictive practices between businesses, or between businesses, their supplier(s) and customers, which hinder competition. These include price-fixing, collusive tendering, and restricting output, investment and market sharing.
- The abuse of a dominant position which, according to the Act, is defined as a market share of 35% or more.

The Competition Second Amendment Act, 2000 (Act 39 of 2000), includes an amendment to provisions which allowed the Minister to change the thresholds in relation to merger control and abuse of dominance only every five years. Section 3(1)(d) was amended to cater for concurrent jurisdiction over competition matters between competition authorities and sector regulators. Furthermore, the Minister can now change the thresholds for merger controls and abuse of dominance whenever the need arises.

In addition to the Act, new rules for proceedings in the Competition Commission and the Competition Tribunal, new thresholds for the notification of mergers and acquisitions, as well as new forms, became effective. In terms of the new regulations, the lower threshold for mergers was raised from R50 million to R200 million for combined annual turnover/asset value, while the value of the primary target firm/asset value was raised from R5 million to R30 million. The fees for merger notification were significantly reduced and simplified.

A single fee for intermediate mergers of R75 000 has been introduced. Prior to the amendments, fees for intermediate mergers ranged from R5 000 to R250 000. The fee for large mergers has been halved from R500 000 to R250 000.

The Competition Commission also has an obligation to evaluate the impact of mergers and acquisition activity on employment.

Small, medium and micro-enterprises

There are an estimated three million small businesses in South Africa (this includes businesses of an informal nature).

The Department of Trade and Industry's Small Business Programme ensures that all sector-development policies incorporate the development, growth and investment measures with regard to maximising small business' contribution to the total economy.

The Programme's initiatives focus on, among others, cross-cutting and sectoral initiatives, the introduction and review of small-business-specific incentives, improved access to finance/capital, improved access to information and advice, and promoting entrepreneurship among the youth and women.

Institutional support framework

Ntsika Enterprise Promotion Agency

Ntsika's mission is to render non-financial support services to the SMME sector through a broad range of intermediaries, and to contribute substantially towards achieving equitable economic growth in South Africa.

During 2003/04, Ntsika implemented a comprehensive range of specialised, non-financial programmes in support of SMMEs, namely business-development support, programme design, research and information, chamber support, export readiness and business linkages.

Between 1996 and 2003, Ntsika supported a network of 1 299 service-providers, and trained 3 028 of their employees. With the Agency's interventions and support programmes, 334 000 SMMEs were trained in business skills, counselled and advised during the same period.

In addition, 156 491 jobs were created and/or sustained owing to interventions extended since its inception. Some 3 142 business linkages were achieved, yielding over R400 million in turnover for the SMMEs, confirmed by orders won with the support of professional Tender Advice Centres and Local Business Service Centres.

Ntsika has assisted numerous organisations, many achieving economic growth in turnover ranging from R4 million to R48 million during the three-year programme lifecycle.

The Department of Trade and Industry tabled legislation amending the National Small Business Act, 1996 (Act 102 of 1996), and under the policy direction of the Department, Ntsika was strategically involved in a restructuring process that has led to a further alignment of its programmes.

The objective of this process is the implementation of support services in accordance with a set target of SMMEs (a minimum of 170 000 SMMEs to be supported between 2004 and 2007). This target will be increased gradually to ensure that the objective of Vision 2014 is achieved.

Transfers to Ntsika totalled R40 million in 2004/05, with an additional R67 million raised from donors and the private sector.

By September 2004, the merger between Ntsika and the National Manufacturing Advisory Centre (NAMAC), which was announced in May 2004, was underway.

Khula Enterprise Finance

Khula is a wholesale agency which provides financial support for small businesses through intermediaries. Its financial products include loans, a national credit-guarantee scheme, grants, institutional capacity-building, equity funds and mentorship schemes. The achievements of Khula can be categorised into providing support to financial intermediaries as retail distribution networks, and direct services to SMMEs.

The Thuso Mentorship Network provides entrepreneurs with pre-loan business plans and post-loan support in the form of technical expertise management.

During 2003/04, Khula provided more than 600 loan guarantees to the value of R180 million, disbursed loans worth R100 million, and allocated R20 million through its equity fund. It also set up three new retail finance institutions.

National Manufacturing Advisory Centre

NAMAC's role is to implement SMME support programmes on behalf of the Department of Trade and Industry, and promote and co-ordinate national and international linkages and value-adding activities.

NAMAC Trust's target sector is intermediary beneficiary organisations delivering services to SMMEs. Products are developed, packaged and channelled through the programmes.

NAMAC develops other relevant products and programmes for SMME support, which it delivers through its existing national networks of Manufacturing Advisory Centre (MAC) and Business Referral and Information Network (BRAIN) outlets.

Additional funding of R80 million saw the establishment of NAMAC offices in all provinces in South Africa; the extension of its BRAIN Network to 415 locations; increased support in the provision of franchise information; and the piloting of Growth Achieved by Integrated Networks, intensive hand-holding, one-stop shops, and the Forestry Industry and the Sector Education and Training Authority (SETA) and Chemical Industry Sector SETA.

Some of NAMAC's achievements include providing support to 7 087 enterprises, the creation of 4 440 new jobs in those enterprises, and ensuring that more than 62 634 jobs were sustained through the interventions of the MACs. By mid-2004, there were 17 MACs countrywide.

The Small Enterprise and Human Development Programme, previously under the UN Overseas Project Services banner, is now incorporated into NAMAC, and is designed to complement the existing national small business development support machinery in South Africa, with the overall objective of localising support and maximising outreach.

Technology for Women in Business (TWIB)

The TWIB aims to enhance the use of technology by women in business, promote innovation among women, and encourage young girls and women to choose careers in science and technology.

By 2004, the TWIB had established itself in a variety of business sectors, including minerals and energy, construction, Information Technology (IT) and ICT, as well as agriculture, arts and culture, and science and technology.

The launch of the Girl Child Initiative is one of the TWIB's most important initiatives. This includes the establishment of Techno-Girls, which encourages young girls to pursue a career in the field of science and technology.

The 2004 TWIB Conference was held in Kimberley in the Northern Cape under the theme *Celebrating a Decade of Innovation and Creativity Through Technology*.

South African Women Entrepreneurs Network (SAWEN)

The SAWEN was established to assist aspiring and existing women in business. The Network advocates policy changes, builds capacity, and facilitates the access of women to business resources and information.

The SAWEN signed an MoU with the Johannesburg Securities Exchange (JSE) in May 2003. In accordance with the MoU, the JSE will train these women entrepreneurs in the workings of stock, commodity and bond markets, the operations of the JSE, and how to engage with these markets and institutions.

The SAWEN, in partnership with the Department of Trade and Industry's Gender and Women's Empowerment Unit and the JSE, hosted a Women's Enterprises Seminar in July 2004.

The Seminar, with the theme *Exploiting the Benefits for Growing Women's Enterprises*, provided women entrepreneurs with a broader understanding of the dealings of the JSE, advised them on how their enterprises can access the benefits of securities exchange investments, and imparted to them the importance and benefits of stock listing on the JSE.

National Empowerment Fund (NEF) Trust

The NEF was established by the NEF Act, 1998 (Act 105 of 1998), to promote and facilitate economic equality and transformation.

The Fund received an initial capital injection of R2 billion from government in 2004/05.

The NEF leverages its funding by setting up strategic alliances with other private-sector financial institutions to further increase the funding for BEE.

It also operates at several different levels, providing finance and business support to rural women and fledgling entrepreneurs, and large-scale financial support to BEE groups. The NEF partners with key business organisations that are focused on serving women. The NEF deploys its resources to optimise the empowerment dividend to government. Only those transactions that advance government's transformation and BEE objectives are supported.

The NEF's funding comprises a hybrid of loans and equity, and is designed to lower the cost of capital for BEE participants. This approach to BEE funding is aimed at overcoming the traditional risk aversion of existing funders.

Industrial Development Corporation (IDC)

The IDC plays an increasingly important role in supporting and assisting with venture capital in the formation of new SMEs. The IDC has three operational and client-oriented divisions, namely Services Sectors, Industrial Sectors and Project Division.

The Services Sectors Division looks at various ways of increasing its development impact on economic growth and job creation, which is increasingly evident in the service sectors. The Division fulfils the IDC's mandate of SMME and BEE development as well as its obligations in line with government's IMS, which identified new sectors of strategic importance that need support.

The Industrial Sectors Division intensifies financing activities in the traditional business areas and concentrates on the development of medium-sized enterprises, focusing on labour-intensive sectors such as agro-industries and entrepreneurial mining.

The Projects Division impacts on the regional economy by utilising its expertise in evaluating project ideas, participating in and co-funding project pre-feasibility and/or feasibility studies, as well as providing project finance for viable new and/or expanded projects.

Over the last five years, the IDC has facilitated the creation of 70 000 jobs, and approved projects responsible for generating more than R20 billion per year in export earnings.

The IDC also facilitated investments of more than R21 billion in South Africa, and made significant progress in the support of BEE by providing loan finance to the value of R1,4 billion to historically disadvantaged businesses. Almost 60% of the IDC projects were in rural and peri-urban areas, and 1 200 SMEs received loan finance.

The Department of Trade and Industry's contribution to the IDC goes to the Fund for Research into Industrial Development, Growth and Equity, which is an initiative of the National Economic Development and Labour Council (NEDLAC), managed by the IDC.

Funds also go the Support Programme for Industrial Innovation, a partnership between government and the private sector, which promotes technology development in manufacturing industries in

South Africa through support for innovation of competitive products and/or processes.

Business Partners Ltd

Business Partners Ltd is a specialist investment group, providing customised and integrated investment, mentorship and property-management services for SMEs in South Africa.

Business Partners is an unlisted public company whose major shareholders include the Department of Trade and Industry (through Khula Enterprise Finance), Remgro, the Business Partners Employee Share Trust, Sanlam, BHP Billiton SA, Amalgamated Banks of South Africa, Nedcor, FirstRand, Old Mutual Nominees, Standard Bank Investment Corporation of South Africa, Anglo American Corporation of South Africa, De Beers Holdings and Standard Bank Nominees.

The group has been investing in entrepreneurs for over 20 years, providing private equity of up to R15 million for viable start-ups, expansions, outright purchases, management buy-outs and buy-ins, franchises, tenders and contracts. It also provides a range of value-added services including property broking and management, consulting and mentorship.

In 2003/04, Business Partners boasted an investment portfolio of R991 million, with equity-based investments amounting to 40% of the portfolio. A total of 513 investments valued at R449 million were approved in 2003/04. Of these, 185 investments to the value of R177,4 million were approved for historically disadvantaged entrepreneurs, and 152 investments amounting to R131,4 million were approved for female entrepreneurs.

Business Partners also facilitated 7 400 employment opportunities in 2003/04.

The Business Partners Umsobomvu Franchising Fund was established in 2003. With an initial investment allocation of R125 million, the Fund aims to make all of the opportunities and benefits of franchising available to the country's new generation of entrepreneurs.

During 2003/04, investments amounting to more than R20 million were approved on behalf of the Fund.

Business Partners has 22 offices nationwide. It offers free initial consultations to existing or potential entrepreneurs with a viable business plan.

More than 340 mentors are available to assist entrepreneurs with advice, consulting and mentoring.

It also offers a user-friendly business planning model on its website at *www.businesspartners.co.za.*

Restructuring of State assets

The Department of Public Enterprises is responsible for redressing the imbalances created by Apartheid, through the accelerated restructuring of SOEs in an integrated and coherent manner, to promote economic growth and socio-economic development.

The policy framework entitled *An Accelerated Agenda towards the Restructuring of State-Owned Enterprises* forms the basis of the Department's restructuring activities.

The Department leads government's overall restructuring programme of SOEs.

The key objectives of the Department's restructuring programme are to:

- co-ordinate, develop and implement restructuring and transaction plans
- promote wider economic participation in the South African economy
- realise proceeds from restructuring transactions
- enhance the global competitiveness of SOEs
- promote long-term sustainable development
- ensure stakeholder support for restructuring plans
- safeguard the integrity and transparency of the restructuring process.

Energy

The *White Paper on Energy Policy,* released in December 1998, lays the foundation for energy-sector reform. Government has opted for a 'managed liberalisation' approach and has multifaceted objectives that need to be balanced with the reform of the energy sector. In South Africa, energy provision must meet the developmental and social objectives of government.

Electricity Supply Industry (ESI)

Two separate restructuring processes, namely the Electricity Distribution Industry under the leadership of the Department of Minerals and Energy, and the ESI under the leadership of the Department of Public Enterprises, are ongoing.

Cabinet policy on ESI restructuring has the following objectives: to introduce competition into electricity generation, divest 30% of generation capacity with a minimum of 10% to BEE groups, create a transmission company as a separate national entity, and establish the Multimarket Model (MMM) for wholesale electricity trading.

One of the key objectives of ESI restructuring is to ensure involvement of BEE within the generation sector of a minimum of 10% of the existing electricity-generating capacity. The Department of Public Enterprises, in consultation with other government departments, is in the process of designing the BEE transaction.

The amount of capacity committed to BEE groups will represent the most significant BEE transaction thus far and is an expression of government's desire to see real economic empowerment, not just in equity but also in management and operation.

The main deliverables for 2003 as defined in the ESI Restructuring Implementation Plan were:

- ringfencing Eskom generation into generation clusters
- ringfencing Eskom Transmission
- establishing the MMM and developing market rules
- establishing the South African Power Exchange.

Eskom Enterprises (EE)

The EE was transformed and repositioned to ensure that the EE vision and strategy is integrated with the broader Eskom Holdings and Eskom Regulated Strategy. This will ultimately enable Eskom Holdings to further its strategic intent to expand into international markets.

The main focus of the EE is on:

- support services for the ESI
- developing a globalisation capability to drive the growth of the EE and Eskom as a whole
- new enterprise development and management.

The rationalisation of the EE includes full disposal of non-core divisions. The partial sale of core divisions is ongoing. (See chapter 16: *Minerals, energy and geology*.)

Telecommunications

To increase productivity and efficiency in the telecommunications sector, government decided to introduce competition in the fixed-line telecommunications market. A Second National Operator (SNO) will be licensed, with the possibility of a Third Licence Operator, following a feasibility study in 2005.

The primary motivation for the SNO licence is the creation of a strong and sustainable competitor for Telkom in the context of a managed liberalisation policy. An equally important motivation is the recognition and maximisation of value of existing State-owned telecommunication assets.

On 17 September 2004, the SNO licence was awarded to the SNO comprising Nexus Connexion (Pty), Transtel, Esitel, WIP Investments Nine (Pty) Ltd trading as CommuniTel, Two Telecom Consortium (Pty) Ltd and a remaining unallocated equity shareholder.

The licence was awarded on the following conditions:

- acceptance of the shareholding and control structure of the SNO
- finalisation of and agreement on the business plan
- finalisation of the shareholders' and subscription agreements. (See chapter 6: *Communications*.)

Spoornet

Progress on the turnaround of Spoornet has been slow, mainly due to the absence of a turnaround strategy that would underpin the turnaround plans. In June 2003, a new Spoornet chief executive officer was appointed and a Spoornet strategy was presented in early 2004. Spoornet has also presented a five-year capex (money spent to acquire or upgrade physical assets such as buildings and machinery) requirement of R14 billion which will be mainly used for infrastructure investment, including signalling and safety improvements.

It is expected that the Department will call for public invitations to bidders in 2005, once all the preparatory work is finalised, including reviews of completed financial and legal due-diligence processes. (See chapter 22: *Transport*.)

Ports restructuring

By June 2004, the National Ports Authority Bill, which makes way for the establishment of a port authority to perform a landlord role and the establishment of an interim ports regulator was in the parliamentary process, and was expected to be finalised by December 2004. It will create an enabling legal environment for concessions to private-sector terminal operators.

In August 2004, the Department was expected to complete the overall port restructuring plan and the concession strategy, and prioritise the concession of the Durban Container Terminal in the latter part of 2004 or early 2005.

A new Transnet Board was appointed in August 2004. A comprehensive financing strategy was to be presented to Cabinet by the end of September 2004. (See chapter 22: *Transport*.)

Forestry

In 1999, government set out to restructure its forest assets to private investors. The packages comprised South African Forestry Company Limited (SAFCOL) forests, combined in some instances with Department of Water Affairs and Forestry forests in the former homeland areas.

The Amatola, Singisi, Siyaqhubeka, and Komatiland forest packages were acquired by the private sector in 2002. The Komatiland forest package, however, was suspended following allegations of irregularities.

After a fresh bidding process, the Komatiland and Mountain to Ocean (Pty) Ltd forest packages were sold to private businesses for a total of R542 million.

The Longmore flower project, which is a non-core asset in the forest packages, has been sold to its employees and SAFCOL will contribute some R1,2 million to the project. (See chapter 23: *Water affairs and forestry*.)

Consumer and corporate regulation

The Consumer and Corporate Regulation Division of the Department of Trade and Industry is responsible for administering the regulation of the liquor, gambling and lottery industries, as well as commercial, competition and consumer-protection policies.

The South African Company Registration Office and the South African Patents and Trademarks Office, funded from this programme, have been merged into the Companies and Intellectual Property Registration Office (CIPRO). The overall objective is to ensure that the market is fair, efficient and transparent.

Corporate and consumer regulation has become a creative endeavour that seeks to serve the interests of both business and consumers, and to create a modern and globally competitive national economy. Running a corporate law-reform project and making amendments to the intellectual property-rights regime are ongoing activities.

The CIPRO was established as a trading entity in 2002 and was expected to become self-sustainable by July 2004.

The CIPRO improved the registration of enterprises by facilitating more than 100 000 close corporations in 2002/03. It also improved the availability of registration forms, simplified procedures, and improved the use of technology in the tracking and management of documents.

The Department is engaged in corporate law-reform processes that are likely to result in new functions for the CIPRO.

Public works programmes

The Department of Public Works is responsible for:

- providing and managing the accommodation, housing, land and infrastructure needs of all government's national departments
- promoting the national Expanded Public Works Programme (EPWP)

- transforming the construction and property industries.

As the custodian of national immovable State assets, the Department provides a comprehensive management framework to maximise the value of the State's property portfolio. This includes finalising the Immovable Asset Management Bill, which was expected to be considered by Parliament before the end of 2004.

The Department's expenditure between 2000/01 and 2003/04 increased by an annual average of 9,2%. This was owing to the upgrading of regional offices, new capital works projects, maintenance of infrastructure, and payment of leases, rates and taxes.

The Department's income is mostly derived from letting property and official quarters, and the sale of land, buildings and structures.

All income received is paid directly into the National Revenue Fund.

Between April 1994 and January 2004, the Department made great strides in the improvement of public service delivery, contributing to economic growth and poverty alleviation. In the same period, the Department implemented 7 692 construction-related projects worth R10 billion as part of its core function to provide physical accommodation and other essential infrastructure to government.

These projects sustained about 15 000 jobs in the construction industry.

National Public Works Programme (NPWP)

The aim of the NPWP is to promote transformation of the construction and property industries, and to contribute to meeting infrastructure needs through labour-based projects. It is divided into two subprogrammes, namely the Construction Industry Development Programme (CIDP) and the EPWP.

The Community-Based Public Works Programme (CBPWP), which used to form part of the NPWP, was discontinued at the beginning of the 2004/05 financial year.

Between 1994 and 2003, the CBPWP invested over R2,5 billion in six provinces. Some 4 047 community-infrastructure projects were implemented, resulting in the creation of more than 167 000 job opportunities, of which 48% was allocated to women and 30% to the youth.

Allocations for poverty relief, which previously formed part of the CBPWP, were amalgamated into the Municipal Infrastructure Grant under the Department of Provincial and Local Government.

Expanded Public Works Programme

The EPWP was launched by President Thabo Mbeki at Giyani in Limpopo in May 2004, followed by launches in other provinces.

The aim of the EPWP is to facilitate and create employment opportunities for the poor and vulnerable, through integrated and co-ordinated labour-intensive approaches to government infrastructure delivery and service provision.

The objectives of the EPWP are:

- job creation
- poverty alleviation
- investment in social and economic infrastructure
- HRD, through the training of participants.

One million work opportunities are expected to be created through:

- Increasing the labour-intensity of government-funded infrastructure projects.
- Creating work opportunities in public environmental programmes (e.g. Working for Water).
- Creating work opportunities in public social programmes.
- Utilising general government expenditure on goods and services, to provide the work experience component of small enterprise learnership/incubation programmes.
- Other possible economic-sector initiatives that include micro-enterprise development. Over the first five years, it is conservatively estimated that the EPWP will, through the:
  - infrastructure sector, create 900 000 jobs
  - environmental and cultural sectors, create 200 000 jobs
  - social sector, create 20 000 jobs
  - economic sector, create 3 000 venture learnerships lasting 18 months and employing 9 000 people.

By September 2004, a fully fledged EPWP Unit had been established in the Department of Public Works to drive the Programme. All the provinces had also committed to setting up their own steering committees for the implementation, review, monitoring and evaluation of the EPWP.

A R20-billion budget has been allocated to take the EPWP into the next five years.

Construction Industry Development Programme

The CIDP, which includes the Property Industry Development Programme, ensures the leadership role of government, an alignment of objectives and programmes, and co-ordination of government representation within the construction and property industries.

The purpose of the CIDP is to promote:

- enhanced industry stability, investment, sustainability, employment and HRD
- improved industry performance, best practice, and value for money
- growth and development of the emerging sectors
- public-sector capacity development
- enhanced delivery, and national, regional and global competitiveness.

The allocation to the CIDP increases by an average of 16,2% annually over the medium term, largely owing to the expansion of regional offices.

Government has identified a number of initiatives to promote the image of the industry and improve its overall performance and growth.

Emerging Contractor Development Programme (ECDP)

The ECDP, a subprogramme of the CIDP, awarded contracts for 1 653 small projects with a total value of R146 million to historically disadvantaged enterprises and individuals in 2003. The majority or these enterprises were SMMEs.

Contracts to the value of R791 million were awarded to emerging contractors under the ECDP in 2003/04, of which R88 million was allocated to women-owned enterprises.

In 1999, the ECDP had a mere 1 200 emerging contractors registered on its database. Of those, only 7% were women, mostly involved in the lesser support side of the industry, primarily providing cleaning, horticultural and catering services.

By 2004, the database had grown to 3 300, with women representing 10% of the registered small enterprises.

Contracts worth R200 million have been awarded to and successfully implemented by women contractors.

Construction Industry Development Board (CIDB)

The CIDB is a Schedule 3A public entity that provides leadership to stakeholders and stimulates sustainable growth, reform and improvement in the construction sector, for effective delivery and the industry's enhanced role in the country's economy. The Board, consisting of private and public-sector individuals, is appointed by the Minister of Public Works on the basis of their individual knowledge and expertise.

The Board's mandate is to:

- drive an integrated industrial development strategy
- provide strategic leadership to construction industry stakeholders to stimulate growth and reform, and improve the construction sector for effective delivery and the industry's enhanced role in the country's economy.

In April 2004, the CIDB launched a comprehensive review of the construction industry and its development. The report provides a review of progress, challenges, and the need for sustainable empowerment to meet anticipated growth in construction demand. It is expected to inform work done on the proposed Construction Industry Charter. The report was expected to be tabled in Parliament during 2004.

The process to develop the Charter was officially launched on 4 October 2004 by the Minister of Public Works, Ms Stella Sigcau.

Council for the Built Environment (CBE)

The CBE promotes the uniform application of policy and improves co-ordination between the building profession and government. It drives the transformation and improved performance of the building profession.

Access to finance

Access to finance remains the single major problem facing Black contractors, but efforts to promote this are beginning to show positive results. Within the Strategic Empowerment Programme, the Department of Public Works has succeeded in mobilising the support of Standard Bank, Khula and the IDC to provide access to bridging finance for working capital, and performance guarantees to all qualifying contractors awarded contracts within the Strategic Projects Initiative Programme. Contractors requiring financing of R1 million and less are referred to Standard Bank and Khula, while those requiring more than R1 million are catered for by the IDC.

The Department is still exploring mechanisms to broaden this finance facility. Further relief for emerging contractors has been brought about by the waiver of guarantees for projects up to R2 million, and by the intensified campaign to shorten payment cycles.

Strategic asset management

The Department of Public Works spent R1,85 billion in 2003/04 on capital works, including R364 million on planned maintenance.

Seventeen new projects were acquired and registered at the Deeds Office at a total cost of R16,77 million.

During 2003/04, the Department disposed of 121 properties in extent of 4 565 hectares with an estimated value of R45 million, for the purpose of land reform, low-cost housing, municipal infrastructure, government-to-government transfers and commercial gain.

A total leasing amount of R1,07 billion was spent, indicating an increasing demand and associated costs for accommodation and space.

Since 1999, the Department has been implementing the Repair and Maintenance Programme and the Programme for Accelerated Capital Expenditure to improve service delivery. By April 2004, 305 repair and maintenance contracts to the value of R1,8 billion had been awarded, 206 of which, with a value of R1,2 billion, were awarded to affirmable business enterprises as part of the Department's BEE efforts.

Black Economic Empowerment

The Department of Trade and Industry, in partnership with several non-profit organisations, namely the Black IT Forum, the Electronic Industries Federation, the Insurance Institute of South Africa, the IT Association, and the South African Electrotechnical Export Council, has developed a database of BEE companies in the IT, telecommunications and electronics sectors.

Phase One of the project was funded by the Department, the South African Electrotechnical Export Council, and the Electronics Industry Federation.

The BEE company database is available on the Department's website, *www.thedti.gov.za*, and lists more than 250 small, medium and large BEE companies.

Broad-Based Black Economic Empowerment Strategy

In March 2003, government launched its Broad-Based BEE Strategy, which aims to address HRD, employment equity, enterprise development, preferential procurement and investment, ownership and control of enterprises, and economic assets. The Strategy is the result of an extensive consultation process by government and private-sector role-players, including the BEE Commission, the Department of Trade and Industry, NEDLAC and the President's Black Business and Big Business working groups.

The successful implementation of the BEE Strategy will be evaluated against the following policy objectives:

- a substantial increase in the number of Black people who have ownership and control of existing and new enterprises
- a significant increase in the number of Black-empowered and Black-engendered enterprises
- a significant increase in the number of Black people in executive and senior management positions.

The Minister of Trade and Industry appointed the BEE Task Team in April 2003 to finalise legislation and devise the guidelines outlined in the Broad-Based BEE Strategy. The Task Team will serve until the Advisory Council on BEE is appointed.

The Broad-Based BEE Act, 2003 (Act 53 of 2003), was signed into law in 2004.

Government will use various regulatory means to achieve its BEE objectives, including a balance scorecard to measure progress made by enterprises and sectors in achieving BEE. The use of a common scorecard by different stakeholders provides a basic framework against which to benchmark the BEE process.

The scorecard will measure three core elements of BEE, namely:

- direct empowerment through ownership and control of enterprises and assets
- HRD and employment equity
- indirect empowerment through preferential procurement and enterprise development.

The Minister of Finance, Mr Trevor Manuel, issued the Code of Good Practice for Black Economic Empowerment in Public Private Partnerships (PPPs) in August 2004.

The Code sets a clear BEE framework for both public and private parties engaging in PPPs, eliminating uncertainty and ensuring a consistent approach.

Black Business Supplier Programme (BBSP)

The Department of Trade and Industry launched the BBSP in April 2003.

The BBSP is a 20:80 cost-sharing cash-grant incentive scheme, which offers support to Black-owned enterprises in South Africa. The scheme provides such firms with access to business-development services that assist them to improve their core competencies, upgrade managerial capabilities, and restructure to become more competitive.

It is aimed at growing Black-owned enterprises by fostering links between Black SMMEs and corporate and public-sector enterprises.

Any enterprise that is majority Black-owned (50 plus one share), has a significant number of Black managers, and has a minimum trading history of one year, qualifies for the Programme.

Employment and skills development

The Employment and Skills Development Strategy (ESDS) and HRD Branch of the Department of Labour has two areas of legislative responsibility.

It is responsible for the implementation of the Skills Development Act, 1998 (Act 97 of 1998), (amended in 2003), and the Skills Development Levies Act, 1999 (Act 9 of 1999), the latter in co-operation with the South African Revenue Service (SARS).

The Branch also manages the Department's responsibilities in relation to the South African Qualifications Authority (SAQA) Act, 1995 (Act 58 of 1995), which is co-managed with the Department of Education.

Skills Development Act, 1998

In 2002/03, a number of implementation challenges were experienced with regard to the management of SETAs. The Minister of Labour therefore resolved to amend the Act to address these issues.

The Act was amended to:

- define certain expressions and amend certain definitions
- extend the functions and change the composition of the National Skills Authority (NSA)
- provide for the obligations of SETAs in respect of their performance management in general, and financial management in particular
- extend the Minister's powers to regulate learnership agreements and private employment agencies
- provide anew for budgeting in respect of training by public entities
- empower the Minister to establish a national standard to promote good practice in skills development.

The President assented to the Skills Development Amendment Act, 2003 (Act 31 of 2003), on 11 November 2003.

South African Qualifications Authority Act, 1995

The SAQA Act, 1995 established the SAQA with a mandate to oversee the development and implementation of an integrated national framework of quality-assured learning achievement that would:

- facilitate access, mobility and progression within education, training and employment
- enhance the quality of education and training
- accelerate redress of educational and job opportunities
- advance personal, social and economic development.

The Minister of Labour jointly administers this Act with the Minister of Education. Funds for the Authority are disbursed through the Department of Education.

National Skills Development Strategy (NSDS)

The NSDS drives the work of the ESDS and HRD Branch.

The Minister of Labour launched the country's first NSDS in February 2001, for the period 2001 to March 2005.

There are two key delivery vehicles for the NSDS, namely the:

- National Skills Fund (NSF)
- 25 SETAs.

The Strategic Management Unit, reporting directly at branch level, straddles the two programmes and ensures that consolidated plans and reports are prepared against the overall NSDS. The Secretariat of the NSA also reports within the Branch.

The implementation of the NSDS, with regular assessments of progress in meeting its objectives and targets, continues.

By mid-2004, work on the next NSDS for the period 2005 – 2009 was underway. The Minister of Labour, Mr Membathisi Mdladlana, was expected to launch the new Strategy in February 2005.

The Department has also embarked on the Learnership Programme.

Workshops have been conducted with stakeholders to develop strategic plans around learnership implementation, funding, marketing and communication, group training for SMMEs, and employment-service functions such as recruitment and the placement of learners.

The Programme has three phases. Phase One was expected to be completed in March 2004, Phase Two will be rolled out from 2005 to 2009, and Phase Three from 2010 to 2014.

The learnership regulations were amended to enable the Department of Labour and SETAs to establish 22 pilot Employment and Skills Development Lead Employers Agencies to assist small enterprises in learnership training.

Sector Education and Training Authorities

The 25 SETAs are responsible for about R2,5 billion each year collected through the skills-levy system. The SETAs make grants available, principally to employers who provide skills plans and report on their implementation.

The SETAs are also responsible for the Learnership Programme and the implementation of strategic sector-skills plans. The SETAs have discretionary funds, drawn from their levy income, that can be used for projects designed to assist in the achievement of sector priorities, including the design and implementation of learnerships.

The Department signs an annual MoU with each SETA. This MoU sets out commitments to contributing to the achievement of the NSDS targets and reporting requirements.

The SETAs' performance improved in 2003/04, with 25 MoUs concluded in the course of 2003.

Employers' compliance level with regard to skills development levies increased by 72%. The projected total levy revenue for 2003/04 was R3,4 billion.

By December 2003, 38% of small firms were receiving skills development grants, and 13 617 enterprises were benefiting from SETA initiatives to support SMEs.

A total of 6 712 SMEs received workplace skills grants to the value of R29 million, 308 SMEs received implementation grants of R7,8 million, and 311 received discretionary grants to the value of R7,6 million.

The SETAs have developed various strategies to assist small enterprises, using both the NSF and their discretionary funds. These strategies include contracting skills development funds by SETAs to assist with the development of their business plans, the establishment of co-operatives to train on their behalf, free information seminars, and the funding of short courses.

Regulations enabling SETAs to simplify forms and even waive certain requirements for SMMEs were published in November 2003.

There are still issues to be resolved to ensure the accurate and timely reporting of the work of SETAs and the appropriate analysis of this data.

The Department and the SETAs are committed to transparency and full accountability to the various stakeholder groups the NSDS seeks to serve.

National Skills Authority

The NSA was established under the Skills Development Act, 1998. Its membership consists of organised business, labour and community organisations, government departments, and representatives from the education and training-provider community.

The NSA advises the Minister of Labour on all aspects of skills development, namely:

- the National Skills Development Policy
- the NSDS
- guidelines on the implementation of the NSDS
- the allocation of subsidies from the NSF.

The NSA has set itself key priorities and an action plan. It advises the Minister on amendments to legislation and on policy issues concerning the NSF. The NSA routinely monitors the implementation of the NSDS and its members are involved in the planning of the annual National Skills Conference.

National Skills Fund

The NSF was established following the promulgation of the Skills Development Act, 1998. Administered by the Department of Labour, it is made up of 20% of the total skills levy paid by employers and is used to address significant national skills priorities.

Funds are allocated through a range of funding windows. The funding windows for 2001 – 2004 were:

- Social development – The Department of Labour's provincial offices are the disbursing agents. During 2003/04, this window spent R171 million on increasing the number of people trained by 45%, to 144 056 trainees. About 79% of these were placed in temporary jobs.
- Strategic projects – The SETAs are the disbursing agents. Allocations go towards training in small business development, strategic occupations and educational skills. Achievements during 2003/04 included supporting 1 957 SMMEs and microlenders in growing their enterprises, while 321 providers benefited from improved assessor and/or provider-upgrading programmes.
- Bursaries – Working closely with the Department of Education, the NSF allocated more than R21 million to the National Research Foundation to fund postgraduate bursaries in fields of scarce skills such as Accounting, Auditing, Bio-informatics, Chemistry, Computer Science, Earth

In June 2003, the South African Government, in partnership with the National Economic Development and Labour Council (NEDLAC), hosted the Growth and Development Summit (GDS). The GDS was aimed at bringing together government and its social partners to take advantage of the conditions for faster growth and development that exist in South Africa. The NEDLAC Executive Council reviewed the GDS agreements in June 2004. Progress made included:

- More jobs, better jobs, and decent work for all:
  - The National Expanded Public Works Programme was launched by President Thabo Mbeki in May 2004.
  - The local procurement *Buy Local* Campaign was gaining momentum.
  - The Labour Job Creation Trust, founded by the Congress of South African Trade Unions, National Council of Trade Unions and Federation of Unions of South Africa continues to create jobs. By June 2004, it had assisted 39 projects with grants, and 29 with interest-free loans, creating more than 6 000 permanent and temporary job opportunities.
- Addressing the investment challenge:
  - The NEDLAC process regarding the Co-operative Bill had been completed.
  - The task team dealing with the 5% investible income was fast-tracking its work.
- Advancing equity, developing skills, creating economic opportunities for all and extending services:
  - A number of initiatives to strengthen Sector Education and Training Authorities were undertaken to ensure delivery on general skills and learnerships targets.
  - The Task Team on Jobs Impact and Monitoring made substantial progress in identifying the mechanisms to monitor trends in the job market.

Sciences, Mathematical Sciences and Microbiology. More than R100 million was allocated to the National Student Financial Aid Scheme of the Department to fund undergraduate bursaries in the fields of Science, Engineering, Computer Science, Information Systems, Tourism Management and Commerce.

- Innovation and research – Nine projects were approved in 2003/04. The total amount committed to these projects amounted to R6,9 million in 2003/04 and R6,2 million in 2004/05.
- Skills Support Programme (SSP) – This is linked to the Department of Trade and Industry's SMEDP and SIP, which are designed to encourage new investment and major expansion. The SSP has three funding elements, namely training, development and capital grants. The training grant incentives are mainly approved for a period of up to three years. Based on SSP claims received from enterprises in 2003/04, 2 316 new workers received training. Of these, 2 200 were Black (95%) and 1 697 were female (73%).
- Learnerships – The objective is to fund the implementation of learnerships for unemployed learners, thereby contributing towards achieving the targets of the Growth and Development Summit. Between 2003 and February 2004, R172 million was spent on training 117 392 unemployed people. A study conducted on placement within this reporting period indicated that 78% of trainees were placed in income-generating opportunities. During 2003/04, the NSF contributed R20 million towards the Literacy Programme of the Department of Education. In the process, the Department provided literacy training to some 230 836 adult learners and used more than 10 000 volunteer educators.

The Department of Labour announced that in 2004/05, it would secure its service level agreement with the SARS and improve the skills-levy compliance rate among employers. It will also encourage SARS to step up its prosecution of those found non-compliant.

The NSA provides advice on each window and the criteria to be used to determine the allocation of funds.

Unemployment Insurance Fund (UIF)

The Unemployment Insurance Amendment Act, 2003 (Act 32 of 2003), is part of the successful turnaround strategy being implemented by the UIF, based on four main pillars. These are legislative reform, IT, human resources and institutional restructuring.

The successful and ongoing implementation of this strategy has resulted in an increase in the UIF's income, from R3,8 billion in 2002/03 to R5,8 billion in 2003/04.

Between 1 April 2003 and 31 March 2004, the UIF received 584 393 claims, approved 499 439 and made payments with a total value of R2,17 billion.

On 30 April 2004, the Fund's reserves stood at R6,2 billion from a previous string of deficits. As part of the turnaround strategy, expenditure was contained in an attempt to return to financial health and create the financial strength needed to bring about lasting change.

From 2003, employers who employ domestic workers (including gardeners), must register with the UIF if the employee works for more than 24 hours a month.

By mid-May 2004, some 600 912 domestic employers and 496 154 domestic workers were registered.

The Act also regularises the status of domestic, seasonal and other workers. Workers with more than one employer are entitled to unemployment benefits should they lose their jobs.

As from 1 January 2004, pensioners in employment are no longer required to contribute to the UIF.

As from 1 April 2004, only those workers legally defined as public servants, certain trainees and those receiving State old-age pensions are legally exempted from contributing to the UIF.

An electronic banking pilot project known as the 'A Card', which will enable UIF beneficiaries to access their benefits through electronic banking, was launched in Limpopo in April 2004.

The new system replaces the old system of paying UIF benefits by means of cheques. Instead, money will be deposited directly into beneficiaries' bank accounts. The debit ATM card provided to beneficiaries' can also be used for buying goods at stores.

Similar projects will be rolled out nationwide in the near future.

Occupational health and safety (OHS)

The OHS legislative framework consists of the OHS Act, 1993 (Act 85 of 1993), and its regulations.

The OHS Programme focus for 2003/04 was on enhancing OHS awareness, promoting stakeholder participation, implementing a preventative strategy, and updating OHS regulations for better service delivery.

OHS awareness rose remarkably during 2003/04. This is closely related to inspector visibility, the education and enforcement campaign, and co-operation between the Department of Labour and its social partners. During 2003/04, 173 987 inspections were conducted in terms of the Inspection and Enforcement Strategy which monitors compliance with legislation. Out of the total 31 031 notices issued to non-compliant employers, some 1 337 were OHS contraventions issued during the weeklong blitz inspections concentrating on the construction industry.

Six new explosives workplaces and six mines were licensed during 2003/04. Many new licences were issued during the year owing to new explosives formulations manufactured and changes to explosives buildings.

A total of 1 038 licences, 100 drawings and 19 special rules were approved and issued in 2003/04. However, the total number of licences was lower than in 2002/03.

During 2003/04, 13 inspections were conducted in explosives workplaces and 84 consultation meetings were held. Nine workshops on explosives safety and legislation were held with role-players.

Only small explosive-related accidents occurred and no workers were injured.

Construction regulations were promulgated in July 2003 and were widely accepted in the industry.

The integration of OHS and compensation competencies nationally remains an urgent and important challenge. Draft policy has been developed and stakeholders were expected to refine it in the course of 2004/05.

The OHS Preventative Strategy is beginning to raise awareness among employers and workers. During 2004/05, the National OHS Stakeholders Forum and provincial labour fora will embark on a campaign to promote the establishment of health and safety committees as well as the appointment of health and safety representatives in the workplace.

Compensation Fund

The Compensation Fund administers the Compensation for Occupational Injuries and Diseases Act, 1993 (Act 130 of 1993), as amended by Act 61 of 1997.

The main objective of the Compensation Fund is to generate and collect funds from employers and use it to compensate workers and in fatal cases, their dependants, for injuries sustained and diseases contracted in the course of and as a result of their employment.

The Act provides for the establishment of medical advisory panels throughout the country that will assist with the general policy on and diagnosis of occupational diseases.

A pilot medical advisory panel was established at the University of Cape Town in 2003/04.

Presiding and medical assessors have been appointed to assist with legal hearings.

This will expedite the processing of all outstanding claims in the legal process, and improve services to clients.

The Fund reviewed its list of occupational diseases (Schedule 3 of the Act) in November 2002 in line with Recommendation 194 adopted by the International Labour Organisation in June 2002. The next revision was planned for November 2004.

During 2003/04, the Fund:

- increased its collections from employers by R300 milion to R2,2 billion
- paid out compensation benefits totalling R493,7 million
- spent about R1,2 billion on medical expenditure
- paid out pension payments totalling R346,2 million
- registered some 220 000 claims

- registered 39 426 new employers
- completed 286 969 assessments.

Labour relations

In 2003/04, the focus was on the implementation of employment equity issues, amendments to labour legislation, and clarifying farm workers' sectoral determination with the stakeholders.

Legislation

The amendments to the Labour Relations Act, 1995 (Act 66 of 1995), and the Basic Conditions of Employment Act, 1997 (Act 75 of 1997), came into effect on 1 August 2002. The objective of these amendments is to address policy imperatives of government to create jobs, promote and develop small business, improve the protection of vulnerable workers, and stimulate investment.

Since the publication of the legal notice in the *Government Gazette* on 30 January 2003, announcing the intentions of the Minister to identify and weed out trade unions and labour organisations that are not genuine, 153 trade unions and 31 employers' organisations have been deregistered in terms of Section 106 of the Labour Relations Act, 1995. By mid-2004, there were 369 trade unions and 239 employers' organisations registered.

The Department continues to administer activities and developments regarding the Labour Relations Act, 1995, the Basic Conditions of Employment Act, 1997 and the Employment Equity Act, 1998 (Act 55 of 1998).

Code of Good Practice

The Code of Good Practice on Key Aspects of Disability was published in August 2002. The Code guides employers on how to treat people with disabilities in the workplace. The Technical Assistance Guidelines of the Code on Managing HIV and AIDS in the Workplace were also finalised.

The Employment Equity Directorate is in the process of developing the Code of Good Practice for Human Resources. Technical assistance guidelines were published in 2003/04 to assist in the implementation of existing codes.

Directorate: Collective Bargaining

The Directorate's role is to:

- administer the Labour Relations Act, 1995
- register trade unions, employer organisations, and bargaining and statutory councils
- publish bargaining council agreements and the extension of agreements to non-parties
- promote and monitor collective bargaining
- achieve appropriate balance between security and flexibility.

Commission for Conciliation, Mediation and Arbitration (CCMA)

Between April 2003 and March 2004, the CCMA adjudicated more than 125 602 cases, an average of 553 cases per day. The settlement rate of these cases was 60%. It was also involved in 87 cases of Section 189A (large retrenchments) and 67 cases of Section 188A (pre-dismissal arbitration).

Directorate: Employment Equity

The Directorate's role is to:

- administer the Employment Equity Act, 1998
- promote employment equity and the elimination of unfair discrimination
- monitor the implementation of employment equity at workplaces, through the collection and analysis of employment-equity reports from employers
- support the Commission for Employment Equity (CEE) to fulfil its statutory obligations.

The Directorate monitors enforcement and provides support and advice on the implementation and enforcement of the Employment Equity Act, 1998.

The Directorate's staff partner with labour inspectors in the provincial offices of the Department and conduct workplace inspections on employment equity. Private-sector employers as well as organs of State throughout the country are targeted for inspection.

Government's priority is to promote diversity in the workplace to ensure that the workforce of business, government and non-governmental organisations is representative of the broader demographics of society. This is being achieved through the implementation of the Employment Equity Act, 1998.

During 2003/04, the Directorate facilitated employment-equity enforcement training for trainers at all its provincial offices, with 107 inspectors receiving training.

Commission for Employment Equity

The CEE meets monthly to assist in the development of policy and to advise the Minister on the implementation of the Employment Equity Act, 1998.

In 2004, the Commission was working on the critical issues contained in the regulations of the Employment Equity Act, 1998 and the proposed Code of Good Practice on Human Resources, Policies and Practice.

The Employment-Equity Registry captures employment-equity reports and maintains a database of these.

This makes it possible to measure the extent of employment equity of designated employers with 50 or more workers.

Some 3 368 employers with 150 or more workers submitted their reports by 1 October 2003. The Minister will release a complete Public Register listing all the employers who reported, and a report on the analysis of data collected during the 2004/05 financial year.

Employment Conditions Commission (ECC)

The ECC meets monthly to discuss matters relating to employment conditions.

The Commission formed part of the investigations into the taxi, sheltered employment and forestry sectors. The Commission was consulted on an *ad hoc* basis on applications for Ministerial determinations. The Minister has requested the Commission to further investigate the farm worker sector. The challenge is to review all the old wage determinations, to either repeal them or make them sectoral determinations.

Directorate: Employment Standards

The Directorate's role is to implement the Basic Conditions of Employment Act, 1997. It also assists the ECC with fulfilling its statutory functions. This includes conducting investigations into working conditions and advising the Minister on the establishment of sectoral determinations.

Regulations and sectoral determinations

The following regulations and amendments to sectoral determinations have been published:

- The Schedule for Remuneration was published in May 2003. It ended much of the uncertainty surrounding the calculation of retrenchment packages and severance pay by clearly setting out what constitutes remuneration.
- The private security sectoral determination was amended in June 2003. The amendments focused on minimum wages (moving away from the hourly rates to monthly rates) and conditions of employment.
- The civil engineering sectoral determination was amended in February 2004. The amendments were made to minimum wages and conditions of employment, paving the way for a collective bargaining process.

The unemployment rate in March 2004 was 27,8% as compared with 28,4% on September 2003. The decrease is not statistically significant but may be indicative that the employment rate is stabilising.

The number of unemployed people, at 4,6 million in March 2004, based on the official definition, was virtually unchanged compared with September 2003.

In March 2004, 11 984 000 persons were employed, compared with 11 652 000 persons in September 2003.

The expanded unemployment rate (which does not require active job search by the unemployed) also remained virtually unchanged over the same period, at 41,2% in March 2003 and 42,0% in September 2003.

In light of these findings, it would appear that rather than employment opportunities being lost, the labour market may be showing initial signs of stability.

- Since 1 March 2003, every farmer in South Africa is legally obliged to pay a minimum wage to their employees. From March 2004 to February 2005, employers were obliged to pay a monthly rate of R871,58 (Area A) and R713,65 (Area B) for farm workers working more than 27 hours per week. All farm workers working 27 hours or less per week, would be paid an hourly rate of R4,47 and R3,66 per hour for Area A and Area B respectively.
- The sectoral determination for the domestic worker sector was published on 15 August 2002, setting mimimum wages and conditions of employment. Minimum wages for domestic workers working more than 27 hours a week are R861,90 per month (Area A) based on an hourly rate of R4,42, and R700,05 (Area B) based on an hourly rate of R3,59. The monthly wages respectively for domestic workers working 27 hours or less per week are R569,79 per month based on an hourly rate of R4,87, and R462,15 per month based on an hourly rate of R3,95. Wages are increased in November each year. Domestic and farm workers have been included in the Unemployment Insurance Contributions Act, 2002 (Act 4 of 2002), which came into effect on 1 April 2002.
- Minimum wages and basic employment conditions were determined for workers in the wholesale and retail sector in December 2002.
  The determination, which came into effect on 1 February 2003, replaced the old wage determination for the commercial distributive trade in certain areas. It furthermore incorporates, for the first time, workers from the former homelands of South Africa.

  In the former Transkei, Bophuthatswana, Venda and Ciskei (TBVC states), concessions have been made to allow for the phasing in of the minimum wage. Initially, employers in these regions will pay 30% less than other areas, with annualised increases aimed at these employers reaching the same wage as for other areas by 1 February 2005.

  The wage levels are set at hourly, weekly or monthly levels. Wages are set for a three-year period, with an 8,8% increase per annum in the second and third years.

  The determinations allow for commission-based payment of salespersons, and allow employees to work a 40-hour week, on condition that they work at least three Sundays a month, taking other days of the week off to rest.

  The Minister of Labour announced in January 2004 that workers in the wholesale and retail sector in the former homelands are entitled to wage increases of up to 20% from the beginning of February 2004. Their counterparts in the rest of the country are entitled to an increase of 8,8%. The rationale behind the difference is that workers in the former TBVC states were earning much lower wages, and increments are an attempt to minimise the wage disparities. These increments are based on job categories ranging from general assistant to assistant manager.
- The Department of Labour hosted public hearings for stakeholders within the forestry sector in March 2004 in five of the country's nine provinces, to determine appropriate conditions of employment and wages for forestry workers. A report was compiled which was forwarded to the ECC for discussion.
- Hearings and investigations into the taxi sector have been finalised. By July 2004, the report was being finalised with recommendations for approval by the ECC before submission to the Minister.
- Public hearings into the sheltered emplyment sector were conducted and completed in all nine provinces. The report was compiled for submission to the ECC. The ECC, in turn, will make recommendations to the Minister.

The Department of Labour services the public through 125 labour centres and 529 satellite offices under the jurisdiction of 10 provincial offices.

As part of enhancing its reach, it was expected to establish three additional labour centres in remote centres by the end of 2004.

These include areas in Limpopo and the Eastern Cape.

- The Minister of Labour launched the sectoral determination for children in performing arts, advertising and artistic and cultural activities in July 2004. Employers will be required to apply for a permit if they wish to employ children younger than 15 years of age. The determination was to seek Cabinet approval in 2004. The Department of Labour will also engage with its social partners to develop a Code of Good Practice for this sector. In this respect, issues such as the role of child minders, the status of dressing rooms, and how education should be offered to these children will be addressed.

Eradication of child labour

The Basic Conditions of Employment Act, 1997 prohibits the employment of children under 15 years or minimum school-leaving age. The Act protects children between 15 and 18 years, establishing whether the employment is appropriate for the age of the child; whether the workplace risks the child's well-being, education, physical or mental health or spiritual, moral or social development; and whether it has been prohibited through regulations.

However, special provision can be made to accommodate the employment of children in the performance of advertising, sport, artistic or cultural activities.

The Department of Labour has developed the first-ever comprehensive Child Labour Action Programme. It contains action steps that the Department and other key government departments such as Social Development, Water Affairs and Forestry, Justice, Provincial and Local Government, Education and the South African Police Service have identified and pledged to implement in order to eradicate child labour.

They have also committed themselves to allocating both human and financial resources.

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