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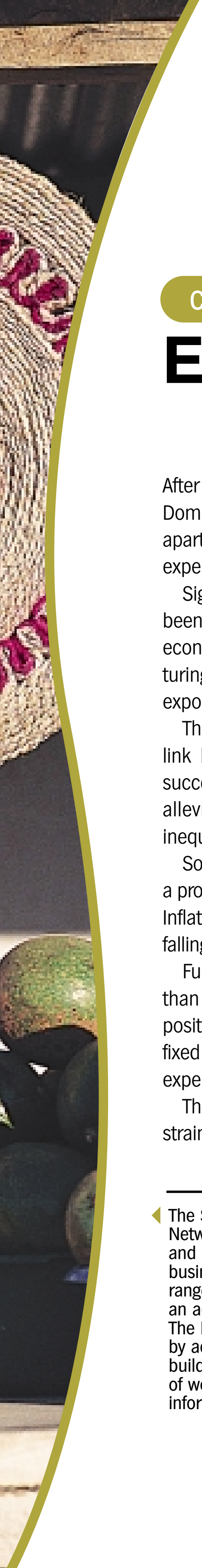

chapter 7

Economy

After the steady decline in annual Gross Domestic Product (GDP) growth during the apartheid years, the country has begun to experience economic growth since 1994.

Significant economic achievements have been recorded since 1994, including macro-economic stabilisation, a profound restructuring of the real economy, and substantial export success.

The critical challenge of strengthening the link between economic growth and export success with employment creation, poverty alleviation, and a marked reduction in inequalities, remains.

South Africa will have growth rates rising to a projected 4% by 2005, with Consumer Price Inflation excluding mortgage rates (CPIX) falling to around 5% per annum by 2005.

Furthermore, for the first time in more than a decade, GDP is benefiting from positive input from all components – gross fixed investment, household consumption expenditure and government expenditure.

The easing of Balance of Payments constraints, supported by a strong trade balance and a positive domestic economic outlook, helps the latter. Among emerging markets, South Africa increasingly stands out as a success story.

Supporting this is one of the lesser-known achievements of the South African economy – a dramatic rise in productivity levels since 1994, after two decades of stagnant or declining productivity preceding the first democratic election. This extends to fixed-capital productivity, while labour productivity and unit labour costs are converging. This is further reinforced by the almost complete disappearance of illegal strikes and plant stoppages.

In 2002, manufacturing grew by 5,4%, which was the fastest growth rate since 1995. The decline in employment in manufacturing has eased and there are encouraging signs of possible employment growth in this sector. Although the weak global conditions, compounded by the crisis in the Middle East, were expected to lead to softer conditions in manufacturing in 2003, this should be viewed against the impressive growth rate in 2002. A lowering inflation rate, cuts in interest rates, and reductions in personal income tax, will support significant increases in domestic consumer expenditure, thus increasing domestic demand.

Forecasts by the Bureau for Economic Research, based on surveys of manufacturing enterprises, predict continued strong growth in manufacturing output over the next four years. In terms of manufacturing

The South African Women Entrepreneurs Network was established to assist aspiring and existing women entrepreneurs in the small business sector to find solutions to the wide range of gender-related obstacles that have an adverse impact on their businesses. The Network addresses these constraints by advocating appropriate policy changes, building capacity and facilitating the access of women to business resources and information.

Real Gross Domestic Product

Percentage change at seasonally adjusted and annualised rates

Sector	2001					2002				
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Primary sectors	-3,8	-0,8	-2,0	-2,2	-1,6	3,6	4,7	2,7	0,1	1,4
Agriculture	-6,8	-2,2	-0,8	0,5	-1,7	7,6	8,8	4,9	0,3	4,0
Mining	-1,4	0,2	-2,9	-4,3	-1,5	0,6	1,6	1,1	-0,1	-0,6
Secondary sectors	2,1	2,2	0,1	5,4	3,5	3,3	5,0	3,0	2,2	3,4
Manufacturing	1,7	1,9	-0,1	6,9	3,6	3,8	5,8	3,6	1,6	4,0
Tertiary sectors	3,8	3,4	3,3	3,3	3,4	2,7	3,4	2,9	2,8	3,1
Non-agricultural sectors	3,0	2,9	2,1	3,4	3,1	2,7	3,7	2,8	2,5	3,0
Total	**2,3**	**2,6**	**1,8**	**3,2**	**2,8**	**3,0**	**3,8**	**2,9**	**2,4**	**3,0**

Source: South African Reserve Bank *Quarterly Bulletin*, March 2003

output, the sector is expected to be 40% bigger in 2007 than it was in 1995.

Ranked against other economies, South Africa's global competitiveness has consistently improved over the last few years, whether measured in terms of business efficiency, government efficiency, infrastructure or economic performance. Mirroring this is a steady rise in manufacturing production, while the quality of that production, measured in terms of defects per unit, is steadily rising.

Manufacturing for export has replaced commodities as the centrepiece of the South African economy, far exceeding mining in importance. A prime example of this is the automotive industry which, since 1996, has taken off to remarkable heights, growing tenfold by 2002, in terms of vehicles and components. At the end of August 2002, annual growth in manufacturing exports was 8,7%, according to the Bureau for Economic Research.

Investment grew by 6,3% and is expected to continue to grow around 6% a year from 2003 to 2006. According to the Bureau for Economic Research, the net majority of firms reported an increase in total fixed investment, from 11% to 29%. These investment plans will drive the growth in manufacturing output over the next four years. The primary sector expanded by 3,7%, driven by solid growth in the platinum-group metal and agricultural sectors. Buoyed by investment in the manufacturing sector, and the strong growth in construction spending, the secondary sector expanded steadily in the first three quarters of 2002, helping to create new employment opportunities.

Domestic output

The South African economy grew by 3% in 2002 as a whole, a growth rate that was marginally higher than the 2,8% attained in 2001. Even though the economy lost some growth momentum in the second half of 2002, economic growth still outpaced the rate of expansion in many parts of the world.

After South Africa's real GDP increased at quarter-to-quarter seasonally adjusted and annualised growth rates of 3,0%, 3,8% and 2,9% in the first three quarters of 2002, the economy grew at a rate of 2,4% in the last quarter of 2002. This slowdown in growth can be attributed mainly to slower growth in the real value added by the secondary sectors of the economy.

Growth in real value added by the primary sectors improved from a decline of 1,6% in 2001 to 1,4% in 2002. This was due to the

Real gross domestic expenditure

Percentage change at seasonally adjusted and annualised rates

Components	2001					2002				
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Final consumption expenditure by households	3,3	2,5	2,8	3,5	3,1	3,4	3,5	2,9	2,3	3,1
Final consumption expenditure by general government	3,5	3,6	3,7	3,8	3,3	3,5	3,5	3,7	4,2	3,7
Gross fixed capital formation	3,9	3,1	2,2	5,5	3,2	6,9	7,8	8,7	11,5	6,5
Domestic final demand	3,5	2,8	2,8	3,9	3,2	4,0	4,2	4,0	4,2	3,8
Change in inventories (R billion)	0,4	-2,3	4,0	4,7	1,7	6,4	0,4	4,5	6,2	4,4
Gross domestic expenditure	3,1	1,7	5,9	4,9	2,3	5,4	-0,6	7,4	5,0	4,2

Source: South African Reserve Bank *Quarterly Bulletin*, March 2003

agricultural sector improving from a decline of 1,7% in 2001 to 4% in 2002. Increased field-crop production contributed generously to this performance. The mining sector declined by 0,6%. Subdued global demand for metals and minerals and the dampening effect of the stronger Rand on export earnings towards the last part of 2002 might also have constrained mining production somewhat.

Despite the slowdown in manufacturing output in the second half of 2002, this sector was the major contributor to growth in the secondary sectors in 2001 and 2002. Quarter-to-quarter growth rates ranging between 1,6% and 5,8% lifted the growth in real manufacturing value added, for 2002 as a whole, to 4%, a slight acceleration from the 3,6% growth in 2001. This was due to the improved price competitiveness which South African producers enjoyed in export markets, as a result of the lower exchange value of the Rand for the greater part of 2002.

The year-on-year growth in the real value added by the tertiary sectors slowed down slightly from 3,4% in 2001 to 3,1% in 2002. Sturdy quarter-to-quarter growth rates ranging between 2,7% and 3,4% were recorded during 2002.

Domestic expenditure

Growth in real expenditure for 2002 as a whole amounted to 4,2%, compared with growth of 2,3% in 2001. Heightened investment activity contributed substantially to the acceleration of expenditure growth in 2002. In contrast with GDP, the growth in gross domestic expenditure was stronger during the second half of 2002.

Final domestic demand also accelerated growth in 2002, from 3,2% in 2001 to 3,8% in 2002.

The growth in real final consumption expenditure by households remained at 3,1% for both 2001 and 2002.

Similarly, the quarter-to-quarter growth recorded in this aggregate during 2002 resembled that of 2001. The quarterly growth rates in real final consumption expenditure by households slowed down somewhat during the second half of 2002.

Despite this development, final consumption expenditure by households as a ratio to gross domestic expenditure increased marginally from 64,2% in 2001 to 64,3% in 2002. Expenditure on non-durable goods weakened noticeably towards the second part of 2002. This could be attributed to a

Financial account of the balance of payments (R million), 1996 – 2002

	1996	1997	1998	1999	2000	2001	2002
Financial account							
Direct investment							
Liabilities	3 515	17 587	3 104	9 184	6 158	58 404	7 929
Assets	-4 485	-10 831	-9 841	-9 659	-1 878	27 357	4 216
Net direct investment	-970	6 756	-6 737	-475	4 280	85 763	12 145
Portfolio investment							
Liabilities	17 983	51 563	50 452	83 883	11 793	-24 000	5 348
Assets	-8 407	-20 983	-30 077	-31 537	-25 628	-43 626	-9 619
Net portfolio investment	9 576	30 580	20 375	52 346	-13 835	-67 626	-4 271
Other investment							
Liabilities	7 492	-1 330	6 534	-9 322	10 828	-10 226	-1 162
Assets	-2 704	-8 957	-2 872	-10 034	947	-12 324	12 016
Net other investment	4 788	-10 287	3 662	-19 356	11 775	-22 550	10 854
Balance on financial account	13 394	27 049	17 300	32 513	2 220	-4 413	18 728

Source: South African Reserve Bank

slowdown in the growth of real outlays on food and beverages, and a decline in real outlays on petroleum products. Households economised on their petrol consumption as a result of several price increases during the year.

The high food price increases in 2002 also affected the demand for these products.

Real final consumption expenditure by general government accelerated slightly from 3,3% in 2001 to 3,7% in 2002. This was the net result of a marked increase in expenditure on goods and services other than labour services.

Final consumption expenditure by general government to GDP effectively maintained the level of about 19% for both 2001 and 2002.

The third component of real final domestic demand, i.e. fixed capital formation, accelerated from 3,2% in 2001 to 6,5% in 2002.

Stronger growth rates were registered towards the end of 2002.

Public corporations in particular fuelled these growth rates. The ongoing expansion of the Coega Harbour Project in the Eastern Cape contributed amply to real capital outlays. General government as well as private business enterprises also accelerated their outlays on capital expenditure for 2002 as a whole. The upward momentum in real gross fixed capital formation since the fourth quarter of 1999 accelerated during 2002, thereby propelling gross domestic expenditure.

Quarterly growth rates of capital expenditure during 2002 accelerated from 6,9% in the first quarter to 11,5% in the fourth quarter – sharing the highest quarterly growth rate since the second quarter of 1996.

Real inventory investment occurred at a faster rate during 2002 than in 2001. This took place against the background of strong domestic demand. The ratio of industrial and commercial inventories to GDP outside of agriculture increased accordingly from 15% in 2001 to 15,7% in 2002.

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

Production and consumer price indices, 1995 – 2001

	Production prices of goods for domestic use (Production prices 2000 = 100)			Consumer prices (2000 = 100)			
				Goods			
Period	Goods produced in South Africa	Imported goods	All goods	Food	All goods	Services	All items
1996	79,4	75,0	78,1	76,1	76,2	79,6	77,7
1997	85,5	78,7	83,6	83,3	82,4	86,9	84,4
1998	88,6	81,1	86,6	88,4	87,3	93,8	90,2
1999	93,2	87,4	91,6	92,7	97,7	94,9	94,9
2000	100,0	100,0	100,0	100,0	100,0	100,0	100,0
2001	107,8	110,0	108,4	105,4	105,6	105,6	105,7
2002	122,4	127,1	123,8	122,0	116,4	113,9	115,4

Source: South African Reserve Bank

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. According to Reserve Bank models, there was a 60% chance that CPIX would fall below 6% in the final quarter of 2003 and remain at this level in 2004.

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 United States (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. Slowing domestically produced goods inflation in mid-2003 was not only reliant on lower food prices, but extended to lower prices for all goods except transport equipment, metal products, petroleum products, coal, rubber and plastics.

Exchange rates

The weighted exchange rate of the Rand, which declined by 34,4% between the end of December 2000 and the end of December 2001, bounced back by 26% between the end of December 2001 and the end of December 2002. The strengthening of the external value of the Rand coincided with surpluses on the current account and financial accounts of the Balance of Payments of the country.

The improvement of the external value of the Rand occurred mainly in the fourth quarter of 2002 when, on balance, the nominal effective exchange rate of the Rand strengthened by 17,8% – the largest movement in any single quarter since the first quarter of 1986. Factors that probably supported the improvement in the country's international reserves and the strengthening of the external value of the Rand during 2002 and early 2003 were:

- the sound macro-economic policies of the South African monetary and fiscal authorities
- positive statements about South Africa's credit outlook by international credit-rating agencies and the International Monetary Fund (IMF)
- the interest rate differential between South Africa and other economies, which widened significantly during 2002 and invited capital flows into South Africa
- a general reduction in risk aversion towards emerging-market asset classes
- uncertainty about the health of the US economy and the associated weaker trend in the value of the US Dollar
- an improvement in South Africa's terms of trade
- speculation against currency risk, which probably aided the strength of the Rand (e.g. importers might have been induced not to cover forward their expected foreign exchange purchases and/or to sell back existing forward cover)
- perceptions regarding South Africa's status as a safe haven improved during 2002 following increased geopolitical tensions.

The external value of the Rand weakened somewhat on a trade-weighted basis during January 2003, despite the announcement of the date for the privatisation of the State-owned telecommunications company Telkom.

Heightened risk aversion among international investors in anticipation of a war in Iraq, and a widespread decline in the value of financial asset prices, caused non-resident investors to reduce their holdings of domestic fixed-interest and equity securities during January 2003.

The weighted exchange rate of the Rand declined by 1,0% from the end of December 2002 to the end of January 2003. However, in February 2003 the Rand strengthened again, taking the overall increase of its nominal effective value to 7,1% from the end of December 2002 to the end of February 2003.

The net average daily turnover in the domestic market for foreign exchange, which had declined to US$7,3 billion in the third quarter of 2002, rose to US$8,2 billion in the fourth quarter of 2002 – its highest level since the fourth quarter of 2001. The value of transactions involving non-residents increased from US$4,4 billion per day to US$5,0 billion per day during the same period. Participation by resident parties increased from US$2,9 billion per day in the third quarter of 2002 to US$3,3 billion per day in the fourth quarter.

Foreign trade and payments

The South African economy weathered the turbulent global economic conditions well in 2002/03. This was evident from the improvement in the Balance of Payments on current account, which reverted from a deficit of R2,9 billion in 2001 to a surplus of R3,3 billion in 2002. This was the first time since 1994 that a surplus was recorded for a full calendar year. The improvement mainly occurred as a result of an increase in total export earnings, which was only partly offset by the higher value of merchandise imports.

Consequently, the trade balance recorded a surplus of R46,2 billion for 2002 compared with a surplus of R41,0 billion in 2001. Expressed as a ratio to GDP, the current account balance amounted to a surplus of 0,3% in 2002 from a deficit of 0,3% in 2001.

In the first half of 2002 the value of merchandise exports rose sharply, but levelled off in the second half. For the 2002 calendar year as a whole, the nominal value of merchandise exports rose by 21,0% to R283,0 billion, from R233,2 billion in 2001.

An analysis of changes in the value of exports by product category indicates that sizeable increases were registered across all the major categories, especially manufactured goods. The Rand prices of exported goods increased on average by 26,2% in 2002, mainly due to a decline in the weighted exchange rate of the Rand.

The strengthening of commodity prices over the same period further supported this increase.

Weaker global economic conditions dampened the demand for locally produced goods, causing the physical quantity of exports to fall by 4,0%. However, this decline was fully offset by the increase in the domestic unit price of exported goods.

The reversal of the current account deficit in 2002 was also brought about by the increase, of 44,7%, in the value of net gold exports from R29,2 billion in 2001 to R42,6 billion in 2002.

This resulted from an increase in the average realised price of gold, which rose by 38,7% from R2 338 per fine ounce to R3 242 per fine ounce over this period. Despite the uncertainties in global financial markets and concerns about the possibility of a war against Iraq, the average fixing price on the London market rose from US$271 per fine ounce in 2001 to US$310 per fine ounce in 2002.

The seasonally adjusted and annualised value of merchandise imports remained fairly stable during the first three quarters of 2002. In the last quarter of 2002, the nominal value of merchandise imports advanced due to domestic demand. For the whole of 2002, the value of merchandise imports increased by 26,3% compared with an increase of 16,55% in 2001.

The physical quantity of goods from abroad remained muted in the first three quarters of 2002 and accounted on average for about 18,8% of gross domestic expenditure. In the fourth quarter of 2002, foreign suppliers satisfied about 20% of aggregate domestic demand. In 2002, the volume of imported goods increased by only 3,6%, whereas the Rand price rose by 21,9%, owing mainly to the weakening of the external value of the Rand.

Net service, income and transfer payments, which declined from R51,93 billion in the second quarter of 2002 to R44,5 billion in the third quarter, receded further to R38,7 billion in the fourth quarter. The improvement services in the balance on the account resulted from a sharp decline in dividends declared on foreign direct investment (FDI) in the economy, which caused a contraction in the net investment-income payments to non-residents.

Investors dividend paid on foreign portfolio investment also declined in 2002, following non-residents' disinvestment from shares listed on the JSE Securities Exchange (JSE). For 2002 as a whole, the shortfall on the services and income account amounted to R42,9 billion compared with a deficit of R43,9 billion in 2001.

Strong capital inflows into the economy during the first half of 2002 were curtailed in the second half of the year owing to negative investor sentiment.

Net financial inflows to the value of R33,1 billion were recorded in the first half of 2002. These flows, however, almost completely fell away in the second half of the year.

A deficit of R0,2 billion and a small surplus of R0,6 billion in the third and fourth quarters of 2002 respectively, were recorded on the financial account of the Balance of Payments.

For 2002 as a whole, the financial account registered a surplus of R33,5 billion, compared with a surplus of R10,3 billion in 2001.

FDI flows into South Africa, which were positive in the first three quarters of 2002, turned negative to the value of R0,7 billion in the fourth quarter. Direct outward investment recorded an inflow (i.e. a reduction in foreign investment assets) of R4,2 billion in 2002, compared with an inflow of R27,4 billion in 2001. For 2002 as a whole, a net inflow of direct investment capital to the value of R12,1 billion was requested.

The net outward movement of portfolio capital declined from R67,1 billion in 2001 to R4,3 billion in 2002. The substantial net outflows in 2001 were related mainly to the restructuring of Anglo-American/De Beers.

Other foreign investment in South Africa, consisting mainly of loans, trade finance and bank deposits, declined from an outflow of R10,2 billion in 2001 to an outflow of R1,2 billion in 2002. Over the same period, South African entities reduced their other foreign investment assets by R12,0 billion.

The country's net international reserves increased by R36,6 billion during 2002, due mainly to a healthy surplus on the financial account during the first half of 2002, and to a lesser extent, the improvement on the current account of the Balance of Payments. Total gross gold and foreign exchange reserves decreased from R152,8 billion at the end of December 2001 to R132,6 billion at the end of December 2002.

In US dollar terms, South Africa's total gross international reserves rose from US$12,6 billion to US$15,4 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, declined from 23,5 weeks at the end of 2001 to 17,5 weeks at the end of 2002.

The nominal effective exchange rate of the Rand appreciated by 26,0% from the end of 2001 to the end of 2002. This strengthening in the external value of the Rand coincided with surpluses on the current and financial accounts of the Balance of Payments.

The Department of Trade and Industry's train, the Business Express, travels to small towns and villages throughout South Africa as part of the Department's awareness drive to reach small and medium enterprises in all corners of the country.

The function of the Business Express is to explain what government is doing to support small businesses.

Department of Trade and Industry

The key objectives of the Department of Trade and Industry are to:
- grow investments and exports
- grow markets for South African products abroad
- grow small, micro and medium enterprises (SMMEs)
- grow women-owned enterprises
- redress inequities in the economy by bringing the previously disadvantaged into the mainstream
- grow the Southern African Development Community (SADC) region and assist with the New Partnership for Africa's Development (NEPAD)
- reduce geographic/spatial development inequalities by spreading investment over the provinces
- create a fair and efficient marketplace for business and consumers alike.

Two critical policy developments occurred in 2002/03. In April 2002, the Department released the Integrated Manufacturing Strategy (IMS) for discussion, and a new Marketing Division for the Department was introduced.

The IMS provides a platform for the Department's programmes and projects as contained in the Medium Term Strategy Framework. Institutional arrangements have been introduced to promote the strategic and operational alignment of the various divisions of the Department, and the public entities comprising the Department of Trade and Industry, with the objectives of the IMS. Version 2 of the IMS is under way.

The Marketing Division was introduced to develop and implement a marketing strategy that gives effect to the Department's commitment to becoming a customer-orientated and responsive organisation.

International trade and economic development

The International Trade and Economic Development (ITED) Division of the Department has as its central brief increasing South Africa's access to markets worldwide by negotiating international trade agreements, where possible on preferential terms. The ITED also seeks to ensure that the country's commitments are honoured in the multilateral, rules-based trading system underpinned by the World Trade Organisation (WTO).

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 SADC, the rest of Africa, 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. 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.

As with all other economies, South Africa's success is intimately tied to that of the region and the continent of which it is part. ITED is committed to the pursuit of market access for South Africa, more effective efforts at sub-regional 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:

- Continuing negotiations with India, Brazil and Nigeria. A 25% rise in South African exports to India has already been achieved.
- Continuing negotiations with Mercosur, a trading bloc 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 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.
- Ongoing analysis of trade threats and opportunities.
- Replacing the Board of Tariffs and Trade (BTT) with the new Commission for International Trade Administration (CITA), an independent regulatory agency. CITA will take over BTT's function of administering the tariff regime and is set to play a central role within SACU on tariff and related issues.

Trade relations

Africa

Africa forms the focus of South Africa's global economic strategy. 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 2002, approximately 16% of South Africa's exports were destined for the continent. Unfortunately, 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 communications technology (ICT)
- water and waste management
- transport
- construction
- oil and gas infrastructure
- agribusiness
- mining
- human resource development.

The Department, through Trade and Investment South Africa (TISA), has established trade and investment promotion offices on the continent for the purpose of facilitating trade and investment flows.

The Department is providing supportive services to NEPAD, which is playing 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 effectively with multilateral international institutions and agreements, from the WTO to the African-Caribbean-Pacific (ACP) Declaration.

The Department of Trade and Industry (dti), through its Consumer and Corporate Regulation Division, hosts the Annual dti Awards for Consumer Champions. The Awards recognise the contribution of individuals and organisations in protecting consumer rights and ensuring that quality goods are provided, and that high standards of service are established and maintained.

Individual consumer advocates, journalists, non-governmental and community-based organisations as well as industry associations are eligible for the Awards.

Southern African Development Community

The centrepiece of South Africa's foreign economic policy is the SADC, constituted by Angola, Botswana, the Democratic Republic of the Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

Two-way trade between South Africa and the SADC member states is characterised by the prevailing trade imbalance in terms of exports *vis-a-vis* imports from the region. Within the SADC, a smaller group of countries, South Africa, Botswana, Lesotho, Namibia and Swaziland (BLNS countries), have organised themselves into SACU.

The SACU shares a common tariff regime without any internal barriers. Customs revenues are shared according to an agreed formula.

A sizeable share of South Africa's exports (currently estimated at over R15 billion) are destined for SACU and other SADC countries. Trade with SADC countries has increased significantly, from R16 billion to approximately R32 billion during the period 1998 to 2002. However, in 2002, there was a significant increase in the amount of imports from the region, to approximately 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.

Mozambique has become the main destination for South Africa's exports into Africa, absorbing well over R6 billion of South Africa's exports. Mozambique now accounts for 18% of South African exports into Africa, in comparison with Zimbabwe at 16%.

South Africa's imports from the region are focused on a few countries, with the top 10 countries accounting for between 80% and 90% of total imports from Africa. Zimbabwe is South Africa's top supplier in Africa, followed by Mozambique, Malawi, Zambia and Angola.

Strong links guide South Africa's interests and objectives in the southern African region between the domestic and regional economy. As the market for a large proportion of South Africa's high value-added exports, the growth of these domestic industries is inextricably linked to the growth of the region's economies. Growth in South African manufactured exports to SADC countries in 2001/02 grew by 13,9%, despite regional setbacks.

SADC Free Trade Agreement

Tremendous progress has been achieved in negotiations, including the implementation phase of the SADC Protocol on Trade on 1 September 2000 which encompasses the establishment of a SADC Free Trade Area (FTA) by 2008.

A Trade Implementation Unit was set up at the SADC Secretariat to co-ordinate the day-to-day implementation of the Protocol. Furthermore, the Cut, Make and Trim Unit (relating to agreements in clothing and textiles) reiterated its decision to eliminate core non-tariff barriers that have led to cumbersome procedures, and that have, in turn, tended to impede intra-SADC trade. These developments are expected to enhance the SADC's capacity to participate in regional and international trade.

South African Customs Union

The new SACU agreement is in place and further opens the door to a SACU FTA. New institutional features include the Council of Ministers, responsible for taking decisions on all matters pertaining to the SACU agreement; a SACU tariff body, 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.

Trade with Europe

Europe is the largest source of investment for South Africa and accounts for almost half of South Africa's total foreign trade. Seven of South Africa's top 10 trading partners are European countries. In 2001/02, South African manufactured exports to Europe grew by 19,8%.

Both bilateral development co-operation and multilateral development programmes through the European Union (EU) form a substantial element of South Africa's reconstruction and development. Relations with Europe, with the EU as the pivot, are crucial economically.

The United Kingdom (UK), with its historic links with South Africa, is South Africa's third-largest trading partner and the largest foreign investor in South Africa. Germany is South Africa's second-largest trading partner and an influential member of the EU. The Germany-South Africa BNC intends expanding the strong commercial links that already exist between the two countries.

South Africa is the Netherlands' main trading partner in Africa, with exports totalling R740 million in 2002. Likewise, the Netherlands is one of South Africa's top 10 trading partners and offers prospects of increased involvement in the EU, especially in light of the Trade, Development and Co-operation Agreement (TDCA) signed with the EU.

Between 1999 and 2002, Spain invested R2,02 billion in South Africa, making it the fourth-largest new investor in South Africa in 2002.

The Netherlands is the fifth-largest destination for South African exports (R12,6 billion in 2002) and the fifth-largest investor in South Africa (R17,4 billion in 2000).

European Union

The historic TDCA, which was provisionally implemented on 1 January 2000, established an FTA between South Africa and the EU. South Africa will 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.

The Agreement is a key component of South Africa's trade policy since the EU is the country's largest trade and investment partner, accounting for about 40% of South Africa's total world trade. The expected impact on trade and investment flows between South Africa and the 15 EU member states will contribute towards the restructuring of the South African economy and its long-term economic growth potential.

The Agreement covers trade and related issues, and co-operation in the economic, social and political fields. It also provides a legal framework for ongoing EU financial assistance in grants and loans for development co-operation, which amounts to some R900 million per annum.

Statistics compiled by the South African Revenue Service show that increasing use is being made of the tariff preferences in the Agreement and more so on the export side. South African exports under the FTA exceed imports from the EU.

The wine and spirits agreements between South Africa and the European Community were signed in February 2002, concluding the TDCA and firmly establishing South African wines and spirits exports in its major market.

At the same time, the negotiators achieved precedent-setting agreements on extremely contested areas relating to geographical indicators, intellectual property and trademark protection.

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 2002 and the first six months of 2003. Exports to the USA rose in nominal terms from R30 billion in 2001 to R35 billion in 2002. Imports from the USA increased in nominal terms from R25 billion to R31 billion from 2001 to 2002.

Since 2000, trade has been in South Africa's favour with trade surplus increasing in nominal terms from R3,4 billion to R7,6 billion between 2000 and 2002.

The USA tends to export higher value-added products to South Africa while South African exports to the USA consist largely of unprocessed and semi-processed material.

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 October 2000. In terms of AGOA, an additional 1 783 products were added to the existing GSP products, but only until September 2008. 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 AGOA, including Swaziland, Ivory Coast, the DRC and Gambia.

South Africa signed the Trade and Investment Framework Arrangement (TIFA) with the USA in 1999. The TIFA Council took over the role of the Trade and Investment Committee, which was to address private-sector concerns requiring government intervention.

The South African-USA Bilateral Co-operation Forum replaced the BNC between the two countries. A sign of the healthy relationship between South Africa and the USA was South Africa's exemption from new US steel tariffs imposed in 2002.

Canada is South Africa's second-largest trading partner in North America. Since the lifting of sanctions in 1994, bilateral trade between the two countries has been on the increase, from R903 million in 1993 to R4,2 billion in 2002.

Canada extended a quota on clothing and textile products from South Africa to enter its market at a better than 'Most Favoured Nation' tariff rates. The Trade and 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 a Memorandum of Understanding (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, Chile, Mexico and Peru. South Africa and Mercusor signed a Framework Agreement in December 2000 in Brazil. It commits both parties to negotiate and conclude an FTA. However, as the first step towards achieving this goal, the parties agreed to exchange preferences in certain sectors in the early stages of the negotiation process.

Trade between South Africa and Mercusor grew substantially from R2,7 billion in 1994 to R6 billion in 2000. Both South Africa and Brazil regard each other as strategic partners with co-operation taking place in multilateral forums such as the WTO. Notwithstanding South Africa's strong ties with Mercusor, 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 grew from R922 million in 1999 to R1,4 billion in 2000. 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

South Africa is a member of the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC), a project-based regional economic grouping of 19 countries washed by the Indian Ocean.

This group covers the eastern coastline of Africa, the Arabian peninsula, southern Asia and Singapore, Indonesia and Australia.

South Africa's participation in the IOR-ARC is guided by the framework of its global economic strategy, which envisages the strengthening of strategic partnerships and economic ties between developing and less-developed countries. The ultimate objective is to advance the economic interests of the South in a global economic system characterised by increasing marginalisation of the poor and advancement in the developed North.

Between 1995 and 2002, the IOR-ARC accounted for a small, but significant, average of a 14% share of South Africa's global trade.

Total trade with India has been increasing rapidly since 1994. According to the latest figures, total two-way trade between the two countries stands at over US$2 billion, with the trade balance in South Africa's favour.

South Africa's objective is to strengthen and deepen economic links through strong business and governmental co-operation between the two countries. The Joint Ministerial Commission (JMC) provides an institutional mechanism for Ministerial consultations on political and economic matters, and has facilitated several initiatives including a trade agreement, co-operation on defence issues, science and technology co-operation programmes, capacity-building through the India Technical Co-operation Programme, MoUs on Telecommunications, co-operation on small and medium enterprise (SME) development, and sector co-operation through the India-South Africa Commercial Alliance.

The bilateral relationship between South Africa and India has led to negotiations for an FTA between India and SACU.

Relations with Australia have also been cemented via the JMC. Total trade with Australia amounted to R12,8 billion in 2002. South African manufactured exports to Australia grew by 17,3% in 2001/02.

Bilateral trade with south-east Asia increased rapidly off a low base from 1990. This trade is more or less evenly spread between Singapore, Malaysia, Indonesia and Thailand. The percentage of total south-east Asian trade of any single country ranges between 19% and 28%.

South Africa has built its strongest ties in south-east Asia with Malaysia, which is the second-largest investor in South Africa since 1994. Malaysian investments, on a cumulative basis, total approximately R6,67 billion and are concentrated in telecommunications, energy and oil, and property. Thailand is increasingly coming into focus as a key partner for South Africa.

North-east Asia

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 2002. At the end of 2002, total trade between the two countries stood at R43,9 billion. The Partnership Forum, designed to strengthen bilateral ties between Japan and South Africa, meets regularly.

South Korea is a large trading partner for South Africa in Asia. Total bilateral trade in 2002 amounted to R10,04 billion.

By September 2003, investment from South Korea totalled around US$55 million.

Economic and trade relations between South Africa and the People's Republic of China have grown rapidly since the formal establishment of diplomatic relations. The two countries engage regularly on economic issues through the JMC, and relations are at the point where an FTA is being explored. Total trade with China amounted to R19,08 billion in 2002. This represented an increase of over 40% in the Rand value of trade in 2001. South African exports to Taiwan amounted to R5,12 billion in 2000, while imports amounted to R5,42 billion in the same period.

Multilateral economic relations

The WTO, in partnership with the Bretton Woods Institutions, the World Bank and the IMF, has been setting the parameters for and directing the economic 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. This is best done by participating actively and effectively in all multilateral forums, to ensure that its particular economic interests and developmental objectives, as well as those of the African continent, are taken into account.

United Nations Conference on Trade and Development (UNCTAD)

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

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

This is pursued through research and policy analysis, intergovernmental deliberations, technical co-operation, and interaction with civil society and the business sector. UNCTAD is focusing much of its energy on assisting developing countries to prepare for mandated and possible future negotiations in the WTO.

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 into the global trading system.

South Africa's efforts to build an alliance of developing countries within the WTO, based on a common approach and consensus on key issues, bore fruit in late 2001, when an agreement was reached to launch a new round of trade negotiations, this time with a developmental agenda.

Following the collapse of negotiations at the fifth Ministerial Conference of the WTO in Cancun, Mexico, in September 2003, South Africa's Minister of Trade and Industry, Mr Alec Erwin, said that the Group of 20+, which includes Brazil, Argentina, South Africa, India, China and Nigeria, were able to present a balanced proposal on the way forward. The Group indicated in these negotiations that there was a possibility of achieving meaningful outcomes for developing countries in the areas of market access, domestic support and export competition in agriculture, while understanding the concerns of food security and rural development, and those of least-developed countries.

Regarding the critical and complex issues of agriculture, some important advances have been made in the areas of domestic support, market access and export subsidies.

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.

In June 2003, the South African Government hosted the Growth and Development Summit, 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 major commitments and agreements reached included the following:

- All social partners made commitments to work towards creating more and better jobs and decent work for all, through public-investment initiatives in partnership with the private sector.
- Business committed to investing R145 billion over the next five years in the automotive, chemical, mining and oil sectors.
- All social partners committed to addressing the investment challenge through encouraging investors to invest 5% of their investible income in appropriate financial instruments that are to be developed. They agreed that the share of low-income housing financed by private-sector bonds should increase.
- All social partners committed to advancing equity, developing skills, creating opportunities for all and extending services through government's Broad-Based Black Economic Empowerment initiative with a R10-billion pledge by government over the next five years. Business also undertook to contribute resources to the joint Employment Equity Campaign. A commitment was also made with business and the Public Service to register at least 72 000 unemployed learners for learnerships by May 2004.
- All social partners made commitments to engage in local action and implementation for development – government undertook to expand the number of Multi-Purpose Community Centres from 37 to 60 over the next 18 months and intensify the *Imbizo* and *Letsema* Campaigns while strengthening local government structures and Integrated Development Plans. Labour, through the Job Creation Trust, will support small-scale projects that contribute to employment and skills development. Business entities at local level will work with the Department of Trade and Industry to provide services to emerging businesses.

World Economic Forum (WEF)

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.

Export and investment promotion

A central task of the Department of Trade and Industry is to promote value-added exports and to 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).

The Department is continuing to shift its focus from demand-driven to supply-side driven measures, and to increase its focus on SMME development. The emphasis is also on customer-defined assistance. The new suite of incentives also relies on private-sector interventions, and affects a wider range of sectors such as tourism, agribusiness, biotechnology, cultural industries, and other priorities identified by government.

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, are being replaced with a suite of six incentives, some of which are still being finalised. The components of the suite are:

- Small Medium Manufacturing Enterprise Development Programme
- Skills Support Programme
- Critical Infrastructure Facility
- Industrial Development Zones (IDZs)
- Foreign Investment Grant
- Strategic Investment Programme.

More attention will be paid to the neglected and hard to reach, but numerically significant, micro-enterprise sector. A Micro Investor Programme is under way, as well as the South African Women Entrepreneurs' Network, (SAWEN) which caters more broadly for women in business in all sectors, alongside the Technology for Women in Business (TWIB) Programme.

The Competitiveness Fund allocates 48% of its spending to SMME projects, while the revised Export Marketing and Investment Assistance (EMIA) Programme also focuses on SMMEs, with 68% of its funds going to this sector.

Trade and Investment South Africa

The core business of TISA, a division of the Department of Trade and Industry, is developing South Africa's industries. In 2002, a decision was taken to change TISA's status as a Section 21 company to a fully fledged division of the Department.

This change in status supported a department-wide restructuring and integration process for maximum efficiency and an unswerving customer focus. After going through a significant transformation process, including the development of a new mission and organisational structure, TISA is now ready to deliver on the demands of sector development. The latter is geared towards promoting growth, employment and equity, and TISA's core functions include co-ordination, developing and promoting exports and investment, and creating and changing policy.

TISA houses all the sector business units, sector support services, Export Marketing and Investment Assistance (EMIA), foreign operations and foreign service management.

In May 2002, the Cabinet approved the Micro-Economic Reform Strategy (MRS), which proposes micro-economic improvement in priority sectors in the South African economy. The Department's contribution to the MRS, the IMS, gives priority to the develoment of these sectors. As such, TISA's mandate has been broadened from investment and export promotion to an all-encompassing agenda of sector development. These priority sectors have been selected on the basis of their potential to contribute to economic growth, employment and equity. They also cover a wide spectrum of the economy, ranging from agroprocessing to ICTs.

TISA is also aggressively targeting new high-growth, knowledge-intensive sectors, while refining its existing target markets, sector strategies and internal performance measurements. At the same time, TISA will restructure its overseas representation, prioritising these on the basis of opportunity and demand. Another priority will be the broadening of the involvement of emerging entrepreneurs in international trading and investment activities, particularly those from historically disadvantaged communities.

From March 2003, TISA was responsible for developing the following set of priority sectors:

- agroprocessing
- chemical and allied industries
- clothing, textiles, leather and footwear
- cultural industries
- exportable services (business process outsourcing)
- ICTs and electronics
- metals and mineral-based industries
- tourism
- transport industries (automotive, aerospace, marine and rail).

The Export Credit Finance Guarantee Scheme for SMEs has been introduced. The Scheme facilitates finance for SMEs that lack working capital to procure material and services for the execution of an export order, and/or financing export trade debtors for a period of up to 180 days. Pre- and post-shipment finance can be obtained for export orders. Finance is provided by banks and can constitute up to 90% of export orders.

Guarantees are issued by the Credit Guarantee Insurance Corporation (CGIC) and are reinsured by the Department. The exporter has to be an independently owned business whose total assets do not exceed R5 million, or whose labour force does not exceed 200 employees. The loan application should not exceed R1 million and not be less than R50 000.

The Export Finance Scheme for Capital Projects is becoming more popular among financial institutions and contractors. Through this Scheme, exporters of capital projects are able to compete internationally by offering prospective overseas buyers competitive repayment rates denominated in US Dollars. Such credit facilities are available over a maximum repayment period of 10 years.

Africa, and southern Africa in particular, has proved to be a popular market for South African exporters of capital projects. There has also been an increase in insurance cover extended to South African short-term exports.

Export credit insurance provides an exporter with insurance protection against financial loss owing to non-receipt of payment of a legally enforceable debt, due and payable by a non-South African importer to the exporter for goods and services delivered. Insurance is available through the CGIC with reinsurance provided by the Department.

Businesses wishing to import or export goods that are subject to control may obtain permits from the Director of Imports and Exports, Private Bag X192, Pretoria, 0001, or phone 0861 843 384. Permits must be renewed annually. Registration with the local Controller of Customs and Excise is required of all factories subject to excise duties, as well as all enterprises that import on a regular basis.

Information regarding specifications for existing or new products, and guidance on quality control, is available from the South African Bureau of Standards (SABS). Excise duty is levied on certain locally produced goods, of which potable spirits, beer, cigarettes, tobacco, motor vehicles and certain petroleum products yield the highest revenue.

International Investment Council

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

The focus of discussions at a meeting near Kleinmond in the Western Cape in March 2003 was on how South Africa could further increase the rate of economic growth and employment creation.

The Council provided advice on how the new Black Economic Empowerment (BEE) Policy announcements could be communicated effectively to the international community.

It met again in September 2003 in Port Elizabeth, in the Eastern Cape.

Enterprise and industry development

Enterprise development remains an important area of co-operation across all three spheres of government. In order for South Africa's economy to grow in a manner that will create decent work for entrants into the labour market, it is necessary that new enterprises be created and that existing enterprises become more competitive.

The Department's Enterprise and Industry Development Division (EIDD) has, as its particular concern, moving trade and industrial policy in South Africa towards an internationally competitive status, capitalising on the country's competitive and comparative advantages. The emphasis is also on the worldwide trend towards knowledge-intensive economies, and on creating an environment for vigorous enterprise development through the development of suitable policies and strategies. Special attention is also given, as in the case of exports and investment, to BEE and regional growth within the SADC.

Considerable policy and advocacy work has been done by the EIDD, specifically in the areas of logistics and infrastructure, human resource development, technical infrastructure and technology and innovation.

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, which include:

- a market-related and competitive exchange rate
- no restrictions on the type or extent of foreign investments
- strengthening the competition policy
- abolishing exchange control for non-residents and substantial reduction in that applicable to residents
- a significant reduction in tariff barriers, ahead of the WTO timetable, resulting in the lowest (trade-weighted) average rate of protection in the SADC region
- a proactive strategy to attract foreign strategic equity partners into the process of restructuring State assets
- the availability of attractive investment incentives to enhance international competitiveness and technology transfer with the means to facilitate FDI.

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 investments and maximising synergies between various types of investments.

The South African Government, in collaboration with the Commonwealth Business Council (CBC) and the New Partnership for Africa's Development Secretariat, hosted the Africa Investment Forum in Johannesburg in April 2003.

The Forum built on the success of the Commonwealth-Africa Investment Forum held in Abuja, Nigeria in April 2002.

The sessions focused on key investment issues such as infrastructure development and finance, expanding regional markets, information and communications technology, and agriculture.

It also focused on developing the CBC's pioneering work on the themes of corporate governance and accounting standards, as well as confronted the issue of how business tackles HIV, AIDS, malaria and tuberculosis. Sector coverage included power, transport, water and sanitation, telecommunications, and oil and gas.

The Forum is designed to create opportunities for partnerships between the public and private sectors.

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

- 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 Coast-2-Coast Corridor.
- IDZs: Gauteng, Coega, East London, Saldanha and Richards Bay.

The SDI concept may have 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 greenfield's 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.

In 2001, work started on the Coega Deep Water Harbour and industrial development near Port Elizabeth. It is expected that 10 000 jobs will be created during the construction phase of the Harbour and industrial zone. In January 2002, the Minister of Trade and Industry awarded a provisional operator's licence to the Coega Development Corporation (CDC), enabling it to operate the Coega IDZ.

By the end of March 2003, the CDC had awarded contracts worth more than R500 million for various projects at the IDZ.

Investments committed for the Coega Project – both the IDZ and the deep water port of Ngqura – amount to R800 million for infrastructure developed by the IDZ, R2,4 million for the port, and R1,8 billion for the upgrading of electrical lines to the Nelson Mandela Metro by power utility Eskom.

The French aluminium group Pechiney selected Coega over other sites in Canada and Australia for the first of a new generation of smelters.

The US$600-million contract to build and manage the smelter has been awarded to the South African project facilitation group, Bateman, and French oilfield services and construction group, Technip-Coflexip, in a 50-50 partnership.

By mid-2003, the Coega Village, a R40-million construction village to house Coega workers, was being built. The 520-unit village will accommodate the skilled core staff of construction companies from outside the Nelson Mandela Metro.

A R7,6-million business centre is also being built in the Village. Work began in November 2002 and is expected to be completed by May 2004.

The Enterprise Organisation

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

The programme has four subprogrammes, namely:

- Investment incentives that promote higher rates of domestic and FDI in targeted sectors of the economy, through tax incentives and cash grants for investment.
- Infrastructure investment incentives that promote investment in critical economic infrastructure by leveraging private-sector investment through public-private partnerships to provide world-class infrastructure.
- IMS support measures that promote the competitiveness of enterprises by supporting the diffusion of world-class management practices and technology; beneficiation and value-added regional production; equity and economic participation; knowledge intensity and services integration; and the support of integrated value matrices.
- Empowerment support measures that promote the growth of enterprises owned and managed by women and black people. During 2002, eight strategic investment projects were approved. The total expected investment value is R2,4 billion. The projects were awarded a tax allowance of R1,7 billion. They are expected to create 1 458 direct and some 8 085 indirect jobs.

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) with the aim of providing early-stage capital, and to a lesser extent, expansion capital, for technology-based SMMEs, and management support for investee companies.

Technology Transfer Centre (TTC)

The TTC is to be established by the CSIR as an agent to provide the following services to in dustry in South Africa:

- 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.

The Department directly funds four incubators, namely the Furniture Technology Centre (Furntech) in George, Western Cape, specialising in training, demonstration and incubation in furniture technologies; the National Fibre Centre in Port Elizabeth, specialising in research and development and incubation in natural fibres; the Downstream Aluminium Centre for Technology in Richards Bay, KwaZulu-Natal, specialising in training and incubation in the beneficiation of aluminium; and the Mpumalanga Stainless Steel Initiative in Middelburg, Mpumalanga, specialising in incubation in the beneficiation of stainless steel.

Godisa is an initiative of the Department of Trade and Industry, the Department of Science and Technology and the EU to fund and support incubators. The EU supports three pilot projects, namely the Innovation Support Centre situated in Cato Manor, Durban, 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*.)

Skills research

A project to identify skills needs in all the priority sectors is currently under way in partnership with respective Sector Education and Training Authorities (SETAs). The aim is to guide human-capital investment decisions made by enterprises, individuals and communities.

Workplace Challenge Programme

This supply-side Programme of the Department (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 workplace practices, and disseminating best practices.

The focus of the Programme has been on the manufacturing and processing sectors.

National Industrial Participation Programme (NIPP)

A number of large government contracts may be awarded to foreign suppliers on the basis of competitiveness and appropriate technology, which could act as a drain on foreign reserves, with a reduction in local industrial and commercial activities. The NIPP of the Department is designed to address these issues. In terms of the Industrial Participation (IP) Policy and Guidelines, all State and parastatal purchase and lease contracts (goods and services) signed after 1997, and exceeding a certain level of imported content, are subject to an IP obligation. No contract can be awarded to a tenderer if the latter has not satisfied the IP requirements.

The IP obligation is benchmarked on the imported content of the contract. Any contract with an imported content equal to or exceeding US$10 million has an IP obligation. The obligation amounts to 30% of the imported content. IP arrangements to satisfy the obligation include investments, subcontracting, export promotion, licensor production, supply arrangements, and research and development collaboration. These economic activities have to be generated in seven years.

The NIPP has been very successful in boosting direct investment in South Africa's economy. By April 2003, approximately R2 billion worth of investment had created new jobs and generated R7 billion in exports and domestic sales. Some 155 projects had been financed through the NIPP.

Manufacturing

South Africa's manufacturing sector growth has averaged 4% per annum every year since 1994 in terms of production volumes. By late 2001, it was growing at over 5%.

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.

In order to provide direction to the economy and to provide the Council of Trade and Industry Institutions with a framework in which to operate, the Department released its IMS in 2002.

Some of the key aspects of the 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 also 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.

BEE, small business development, increased use of ICT, job creation, and a more equitable geographic spread of investment and economic activities, will be addressed in the implementation of the IMS.

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

From 11 500 vehicles worth R750 million 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 annum.

Competition policy

The Competition Act, 1998 (Act 89 of 1998), which came into effect on 1 September 1999, is aimed at anti-competition practices, elimi-

The Strategic Investment Programme (SIP) of the Department of Trade and Industry is a significant incentive for investments.

The SIP aims to increase private-sector investment in innovative, profitable and wealth-creating business enterprises in South Africa, while simultaneously creating job opportunities within the industrial sector. Some 10 projects have been approved, attracting about R2,97 billion in investments. The provinces with SIP projects include Gauteng, KwaZulu-Natal, Mpumalanga, Western Cape and Eastern Cape.

The Programme is working towards developing and growing priority sectors in the provinces, which include agroprocessing in Mpumalanga and Limpopo, clothing and textiles in KwaZulu-Natal, and call centres in Gauteng.

nating abuse of dominant positions and the strengthening of merger control. The Act provides for the establishment of a Competition Commission, Competition Tribunal and Competition Appeal Court to replace the former Competition Board. The Act aims to outlaw 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), included 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 has been raised from R50 million for combined annual turnover/asset value to R200 million, while the value of the primary target firm/asset value has been raised from R5 million to R30 million. Furthermore, the fees for merger notification have been 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

The Enterprise, Commerce and Industry Development Division of the Department of Trade and Industry is responsible for policy and strategy development; programme development, monitoring and evaluation; consultation; and relationship-building in the areas of BEE and enterprise development, SMMEs, co-operatives, business regulation, consumer protection and sector development. The central focus is on the Department's approach to the issues of BEE, gender equity (women-owned enterprises), and an emerging focus on co-operatives as an alternative mechanism for addressing the need for emerging entrepreneurs to pool resources to compete effectively. The Department has new ventures in each of these areas, including TWIB, attention to legislative and regulatory reform, and a new BEE strategy cross-cutting all the Department's programmes.

Small business development is critical to the development of South Africa's economy, the levels of equity and as a mechanism for the creation of jobs in the country.

The key objectives of government's National Strategy for Small Business are to:

- create an enabling environment for small enterprise
- level the playing fields between big and small businesses, as well as between rural and urban businesses
- facilitate greater equalisation of income, wealth and earning opportunities, and address the legacy of apartheid-based disempowerment of black business
- support the advancement of women in all business sectors
- create long-term jobs

- stimulate sector-focused economic growth
- strengthen cohesion between small enterprises
- prepare small business to meet the challenges of an internationally competitive economy.

The National Small Business Amendment Bill, which is to amend the National Small Business Act, 1996 (Act 102 of 1996), provides for the following:

- Creating a voice for small business: Due to the closure and liquidation of the National Small Business Council, it is necessary that the Council be removed from the legislation.
- Ensuring that the mandate of the Ntsika Enterprise Promotion Agency is more focused and that some of the functions provided by the institution, which overlap with the functions of others, be removed. Ntsika has already embarked on a process to rectify the situation.
- Extending the due date for the tabling of the Annual Small Business Review in Parliament, streamlining the process of appointing directors for Ntsika, and enhancing information on the schedule of the Act with regard to the definition of small business.

These changes are necessary to ensure that a legitimate voice is created to articulate the needs of SMMEs. The purpose of this body would be to advise government on critical issues such as:

- the impact of current and new legislation on small business
- the identification of areas of market failure for small businesses so that appropriate support and intervention can be provided
- the constraints, needs and communication mechanisms to interface with small businesses
- formulating methods to monitor support services to the small business sector.

Other initiatives to support small business include the consolidation of existing successful programmes such as Ntsika's Mentorship Programme, assistance with entering export markets and the expansion of local infrastructure, and support for the provision of business development services.

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. This is achieved through initiatives in the areas of management and entrepreneurship development, marketing and business linkages, research and business development services, and targeted assistance. The achievements of Ntsika can be categorised into capacity-building of the retail distribution network and direct services to SMMEs through these retailers.

Ntsika has established a network of 170 Local Business Service Centres across the country, which offer business counselling, advice, training and information to SMMEs. Ntsika also offers a Tender Advice Centre Programme that has helped various SMMEs win tenders to the value of R87 million.

The Trade and Investment Development Programme is a three-track programme that assists potential exporters to become competitive and fully fledged exporters. Ntsika also has an active Small Exporter Development Programme in place.

Transfers to Ntsika will increase from R40 million in 2002/03 to R42,4 million in 2005/06.

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 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.

Khula is expanding the Network to enhance access to business advice and mentoring. Eight offices have been opened since the Network started operating in 2001, with two more to open in Kimberley and Polokwane.

By March 2003, Khula had assisted approximately 190 000 South Africans through its network of retail finance intermediaries and micro-credit outlets, 72% of whom were women.

From April to December 2002, Khula facilitated the creation of some 126 764 jobs.

During 2002, Khula provided 800 enterprises with R145 million worth of credit guarantees on their loans. It also provided wholesale loan finance to the value of R77 million to SMME lending agencies. Khula also implemented a rural micro enterprise lending programme which assisted more than 26 000 micro enterprises.

National Co-ordinating Office of the Manufacturing Advisory Office (NAMAC)

The NAMAC's role is to supply high-quality advisory and information services to new and existing SMMEs to ensure improvement in their quality, competitiveness and productivity.

The Department of Trade and Industry proposed during its 2003/04 budget vote that NAMAC's allocation be increased from R45 million to R80 million for the 2003/04 financial year.

The additional funding saw the expansion of NAMAC offices to all provinces in South Africa, the extension of its Business Referral and Information Network to 415 locations, increased support in the provision of franchise information and the establishment of one-stop shops for business support services. Some of NAMAC's achievements include providing support to 1 400 enterprises, the creation of 1 800 new jobs in those enterprises, and ensuring that more than 15 000 jobs were sustained through the interventions of the Manufacturing Advisory Centres.

Technology for Women in Business

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.

The Department hosted a TWIB conference with the theme *Technology Access – Linkages and Opportunities* in Nelspruit in August 2003. More than 600 female entrepreneurs from across the country attended.

One of the key issues discussed during the conference was how female entrepreneurs can access the products and services offered by the Department.

An entrepreneur from KwaZulu-Natal, Tholakele Hadebe, won the 2003 TWIB Award, which is awarded annually to honour women who have successfully exploited technology to grow their business or enterprise.

Hadebe is the owner of Tholubonge Pottery, which manufactures dinner sets and coffee mugs for the local and overseas markets.

South African Women Entrepreneurs Network

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.

SAWEN signed a MoU with the 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.

National Empowerment Fund (NEF) Trust

The NEF Trust was established to facilitate the redressing of economic inequality from past unfair discrimination against historically disadvantaged individuals (HDIs). The NEF Trust is primarily capitalised through receiving shares of State-owned enterprises (SOEs) undergoing restructuring. It is envisaged that the Trust will promote BEE through the following: an investment trust that will market investment units to HDIs; a portfolio trust that will warehouse the shares of SOEs, which will thereafter be sold to HDIs; and an equity management fund to provide venture capital among HDIs. The Fund buys shares in privatisation utilities from government, at a discount of up to 20%, to resell to previously disadvantaged people.

One of the NEF's functions is investor education to ensure awareness of the economic environment and basic economic literacy. The Fund operates at three levels, initially targeting low-income individual earners, and progressing towards savings clubs and equity finance agreements for SMMEs.

Industrial Development Corporation (IDC)

The IDC plays an increasingly important role in both supporting and assisting with venture capital in the formation of new SMEs. Tourism is just one of the latest sectors targeted.

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 annum in export earnings.

The IDC also facilitated investments of more than R21 billion into South Africa, and made significant progress in the support of BEE through 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.

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.

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, property management, consulting and mentorship.

Business Partners announced a R500-million investment budget for 2003/04. R200 million of the total was allocated to entrepreneurs from previously disadvantaged communities, and R162,5 million was allocated for investment in businesses owned and run by women.

Manufacturing remains the country's single largest economic sector. This is reflected in the fact that R104 million has been earmarked for investment in this sector.

Another industry sector that is showing important growth is the business and personal-services sector, which is reflected in the new budget with a R91-million allocation. Entrepreneurs in this sector include health professionals in private practice and companies offering various other business and professional services, including legal services.

Business Partners' property portfolio, which provides for the premises needs of entrepreneurs, consists of 320 properties across South Africa.

These premises are occupied by 3 600 tenants employing a staff complement of 27 000 people. The group's dedicated mentorship division also provides value-added services, including counselling, specialist management consulting, and turnaround and sectoral assistance.

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.

A new Franchise Fund was launched in conjunction with the Umsobomvu Youth Fund. This Fund will extend the group's capacity to facilitate new job creation for HDIs.

The group is easily accessible, operating through 22 offices nationwide. It offers free initial consultations to existing or potential entrepreneurs with a viable business plan. 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 has been tasked with 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 Department manages and directs the restructuring of SOEs in such a way that they:

- perform optimally in a globally competitive market
- maximise the distribution of wealth across South Africa
- facilitate investment in underdeveloped areas
- promote equity for black people in skills, assets and income.

The Department of Trade and Industry's Competitiveness Fund was launched in Durban, KwaZulu-Natal in September 2003.

The Fund is a cost-sharing grant that provides financial support to entrepreneurs for up to 50% of their eligible costs.

All registered South African private-sector companies qualify for assistance. However, companies must have a clearly stated objective to support competitiveness.

The Fund committed more than R200 million to more than 1 300 companies during its first phase of operation.

The Department's Restructuring Programme has been designed around a multiple array of strategies or mixes of options, to foster the maximisation of shareholder interest, defined in multidimensional terms. Restructuring therefore refers to the matrix of options that includes:

- redesign of business management principles within enterprises
- attraction of strategic equity partners or concessionaires
- the divestment of equity in whole or in part, as appropriate
- employment of various turnaround strategies.

At the enterprise and sector level, restructuring involves:

- improving the efficiency and effectiveness of the entity
- accessing globally competitive technologies
- mobilising private-sector capital and expertise
- creating effective market structures in sectors.

At the macro-economic level, restructuring aims to:

- attract foreign investment
- reduce public borrowing requirements
- assist in the development of an economic context that promotes industrial competitiveness and fuels economic growth.

Progress of restructuring process

During 2002, government carried out 11 transactions, bringing the number of transactions concluded since 1997 to 27.

These included outright disposals, equity sales, participation of BEE groups, dividend payments, proceeds from the rationalisation of interests across SOEs, and the Telkom Initial Public Offering (IPO). By mid-2003, total proceeds amounted to R35,5 million, with the National Revenue Fund absorbing just under R22,5 billion. Income for 2002 was R8,126 billion.

The 2002/03 financial year yielded R7,4 billion in proceeds. The bulk of this amount was made up of R4,1 billion from Telkom's IPO and R1,1 billion from the MTN management buy-out.

In addition, the disposal of 51% of Apron Services yielded R117 million, and the Turbomeca/Denel Aerospace joint venture resulted in R50 million accruing to the fiscus.

Eskom declared a dividend of R549 million and PetroSA (formerly the Central Energy Fund), a dividend of R1,5 billion.

Telkom listing

Amidst turbulent equity markets, the South African Government finalised the listing of the country's dominant telecommunications company, Telkom. Primary listing on the JSE occurred on 4 March 2003 and was followed by a secondary listing on the New York Stock Exchange.

A total of 154 199 467 ordinary shares were offered to the public at a listing price of R28 per share. A total of R4,3 billion was raised through the offering. To date, this was the largest global IPO and the largest telecommunications IPO in Europe, the Middle East and Africa since the listing of Burberry in July 2002.

Government believes that the Telkom IPO is the flagship of BEE. During mid-2003, the share price on the JSE was R31,11, representing a 39% rise in value since listing. Telkom's ordinary shares have outperformed both the FTSE/JSE Top 40 and the European Benchmark Index.

Accessing more than 125 000 individuals was a significant achievement in developing a new equity-investment culture in South Africa. More than R720 million of demand was generated from retail investors in South Africa and the USA.

The South African retail offer represented 12 012 992 shares or 8% of the IPO, which was at the top end of the initially anticipated 5% to 10% range. More than 100 000 applications were new participants in the equity market.

More than 80 000 applications were received under the Khulisa offer, including *stokvels* that received full allocations. Approximately 56% of Khulisa applications were from HDIs.

A total of 168 institutional investors from South Africa, the USA and Europe participated in the offering.

Forestry

Progress in restructuring the commercial forestry assets of the State in 2002/03 centered around three significant forestry assets, namely Komatiland Forests (Pty) Ltd, Mountain to Oceans (MTO) (Pty) Ltd and Amatola Forestry (Pty) Ltd. It was anticipated that in 2003/04 all three forestry assets would be completed and the assets transferred to the successful bidders.

During 2002/03, two forestry packages were sold to successful bidders, namely Singisi Forests (Eastern Cape) and SiyaQhubeka (KwaZulu-Natal).

The second phase of the restructuring of Komatiland Forests was started in February 2003. More than 30 companies expressed interest in the package. The Bid Evaluation Committee recommended six bidders for short-listing. The Cabinet approved these bidders in March 2003.

The Cabinet was expected to announce the preferred bidder by the end of 2003, with negotiations completed before 31 March 2004.

After the implementation of this transaction, 75% of the equity in Komatiland will be disposed of. Employees will hold 9%, a community trust will hold 10%, and government will hold a residual 6%.

By September 2003, negotiations with CTR, the preferred bidder of the MTO package in the Western Cape, were at a final stage. Negotiations were also at a final stage with Rance, the preferred bidder for the Amatola package in the Eastern Cape.

The South African Forestry Company Limited (Safcol)-Cape conversion is a long-term process that will achieve government's aim of making significant land available to previously disadvantaged individuals and communities in both the western and southern Cape. Areas have been identified and the following land-uses proposed: conservation, agriculture, housing and forestry.

The Singisi consortium (Safcol-Singisi), which purchased the Singisi assets, included 168 communities surrounding the forest areas. This process directly influenced the lives of 11 600 people and increased the employment in the Company to 2 300 people.

SiyaQhubeka Forests (SQF) recorded its intention, subject to prevailing market conditions, to sell into the local market and limit the export of unbeneficiated products.

SQF undertook to ensure that within five years of the effective date, at least 50% of the management would be from historically disadvantaged groups.

SQF further undertook to provide appropriate assistance and support to facilitate the growth and development of SMMEs, and to afford employees first option to take up contracts.

Hospitality industry

At the beginning of 2002/03, 12 of the original 15 Aventura resorts remained State assets.

Bloemfontein, Aldam and Christiana were sold for R23 million in 2001. The sale proceeds were used to reduce the company's overdraft. The proceeds from the sale in 2002 of the next four resorts, namely Eiland, Heidelbergkloof, Kareekloof and Roodeplaat, which were sold individually for a sum of R32 million, were also used to settle the overdraft.

The packaged sale of the last eight resorts, namely Loskopdam, Blydepoort, Tshipise, Gariep, Plettenberg, Warmbaths, Badplaas and Swadini, followed a public process which attracted more than 30 proposals that were narrowed down to two short-listed candidates.

The Cabinet approved the choice of the Forever Siyonwaba Consortium as the preferred bidder in May 2003.

In accordance with comprehensive negotiations, the Consortium will retain all employees for a minimum period of three years, and pay a gross purchase price of R200 million. Government has allowed the deduction of R58 million to cover Club Privé debenture liabilities, the price for future holiday accommodation for Club Privé members until 2010, and certain other liabilities. Government will receive a net amount of R101 million.

Government Printing Works (GPW)

During 2002/03, government decided to incorporate GPW as a fully fledged public enterprise. To this end, processes were commenced to establish the necessary legal framework. Work has commenced on developing a business plan for the entity. This was expected to be finalised in 2003/04.

Denel

It was announced in April 2003 that government had decided to terminate discussions with British Aerospace (BAE) Systems surrounding a 30% disposal of Denel, the State-owned high-technology engineering and defence industrial undertaking.

BAE Systems had been selected as the preferred bidder for Denel in 2000. A thorough and complex series of negotiations ensued. Despite recording significant progress, agreement could not be reached on a number of commercial and contractual arrangements to the satisfaction of government.

Since 2000, government has successfully concluded the formation of Turbomeca Africa, a new aerospace engine and maintenance facility, comprising 51% of Turbomeca, France and 49% of Denel Airmotive. Denel itself also shed some of its loss-making, non-core entities during this period.

Denel improved its order book from less than R1 billion in 1998 to more than R10 billion in 2003. Denel continues to generate technology transfers into the company, through its participation in the Strategic

Defence Package acquisition by the South African National Defence Force.

Denel and BAE Systems will continue to participate in joint production ventures and programmes where possible, and the relationship between the two companies remains amicable and healthy, particularly in relation to the offset packages of the Hawk and Gripen programmes.

Government will continue to seek international partners for Denel as the company continues to grow and develop its product and technology ranges. (See Chapter 17: *Safety, security and defence*.)

Energy sector

Based on the *White Paper on Energy Policy 1998*, the Cabinet approved proposals for electricity generation and transmission sector reforms in April 2001. The managed liberalisation approach outlined by the Cabinet has driven restructuring in this sector. Cabinet policy on energy sector restructuring outlined the following objectives, namely to:

- introduce competition into generation
- divest 30% of generation capacity, with a minimum of 10% to BEE groups
- establish a multimarket model for wholesale electricity trading
- create a separate national transmission company.

As a result, two separate restructuring processes were established, namely the electricity distribution industry (EDI) restructuring project under the leadership of the Department of Minerals and Energy, and the Electricity Supply Industry (ESI) restructuring project under the leadership of the Department of Public Enterprises.

In terms of the Eskom Conversion Act, 2001 (Act 13 of 2001), Eskom was incorporated as a company with effect from 1 July 2002. A Board of Directors has been appointed for Eskom Holdings Limited.

The EDI restructuring process gained momentum during 2002 after the approval of the EDI Blueprint by government in September 2001. The Blueprint outlines the process whereby the electricity distribution function of Eskom will become separate from Eskom and merge with municipal electricity undertakings to form six Regional Electricity Distributors.

Government has also indicated its intention to restructure the generation and transmission sectors of the ESI in order to introduce competition into the generation sector, to facilitate BEE and to encourage private-sector participation.

In the medium term, government will establish a separate State-owned transmission company that will be independent of the generation and retail business, with ring-fenced transmission system operation and market operation functions. Initially, this transmission company will be a subsidiary of Eskom, and will eventually be established as a separate State-owned transmission company before any investments are made in current or new generation capacity. (See chapter 16: *Minerals and energy*)

Spoornet

Spoornet, the largest division of Transnet, is responsible for the entire State rail freight transport and long-distance passenger services. It also operates the Blue Train, a luxury train service that is in the process of being concessioned to a hospitality sector operator.

Spoornet's major challenge for 2002/03 was its recapitalisation needs and resulting capacity problems. In this period, some critical upgrades and refurbishment were completed to maintain current capacity levels, with expansion in certain areas critical to the economy and clients. However, the bulk of the recapitalisation programme was expected to commence in the 2003/04 financial year.

The deteriorating position of light and low-density lines are in the process of being addressed by an agreement between national and provincial government, Spoornet management and organised labour.

The proposal to establish a separate division that will concentrate on these lines was expected to be completed in 2003/04. This intervention will focus on management, capital expenditure and operations on aligning rail operations with the development strategies and initiatives of provincial government. This will increase traffic on these lines, reduce the degradation of provincial secondary roads and act as a stimulus and support to local and regional economic development. (See Chapter 22: *Transport*.)

Ports restructuring

The *White Paper on National Commercial Ports Policy, 2001* seeks to ensure that there is an affordable, internationally competitive, efficient and safe port service for national and inter-national shippers and receivers. Guided by the policy objective to improve the competitiveness of commercial ports, the Department focuses on preparing for the transfer of port operations to private-sector operators via leases or concessions.

Central to the new Ports Policy is the establishment of a National Ports Authority to perform a landlord role responsible for infrastructure provision and management of the publicly owned port estate. The new entity was launched at the end of August 2003.

Severe congestion problems experienced with container handling in the port of Durban in the latter part of 2002 drew attention to the damaging implications of bottlenecks in the transport system for the economy and job creation.

The Cabinet announced at the end of July 2003 that the transaction for the Durban Container Terminal would be expedited, additional resources would be mobilised to ease congestion at the Durban, Cape Town and Port Elizabeth terminals and special measures would be put in place to improve efficiency. (See Chapter 22: *Transport*.)

South African Airways (SAA)

During 2002/03, the SAA Restructuring Task Team concentrated its efforts on the structural alignment of SAA operations with government's objectives for SOEs. It was expected that the final SAA restructuring model would be completed in 2003/04 and would have to take into account the weakness in global aviation and volatility that had impacted negatively on SAA's revenues, as well as the requirements of the Fleet Upgrade Programme. It will also support the focus on developing air services in Africa to lend support for NEPAD.

The developmental role of State-owned enterprises

SOEs are critically important to the economy of South Africa, as the restructuring of these enterprises has released financial resources to be utilised for socio-economic programmes throughout the country.

Government considers the strategic employment of SOE procurement budgets as instruments of BEE that complement ongoing transformation. During 2002, Eskom, Transnet and Denel had a combined discretionary procurement budget of just under R34 billion, of which just more than R9 billion was BEE-centred. Transnet committed 54,6% of its procurement-spend to BEE, followed by Eskom with 21,2% and Denel with 15%.

Eskom and Transnet spread their BEE procurement across manufacturing, production, resource and professional services. Eskom's BEE-spend also included a significant 33,7% of coal purchases. Denel plans to increase the supply of local-content products and services from black suppliers to 40% of manufacturing, including marine freight services, engineering services, electrical components and raw material.

Progress continues with employment equity and SOEs' contribution towards education, training and skills development aimed at scholars and students. Safcol, Eskom, Transnet and Denel are very active in this area.

Consumer and corporate regulation

The Consumer and Corporate Regulation Division within 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. 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 is 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 the 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 CIPRO.

Public works programmes

The National Public Works Programme (NPWP) is a framework through which public works programmes can be aligned with the social and economic development of the country, including rural poverty-alleviation and transformation of the construction industry.

The Community-Based Public Works Programme (CBPWP) and the Construction Industry Development Programme constitute the NPWP.

Community-Based Public Works Programme

The CBPWP is an essential component of the Government's Integrated Sustainable Rural Development Programme (ISRDP). The Programme is geared to achieve poverty relief and infrastructure investment by:

- targeting identified poverty pockets in rural areas
- capacity-building within local communities and local governments
- maximising job creation
- targeting rural women, in particular female-headed households with dependants
- incorporating operation and maintenance to ensure sustainability of assets
- constructing useful infrastructure to improve access to trade opportunities
- skills training appropriate to project requirements.

A total of 560 CBPWP projects were implemented in the 2002/03 financial year, employing some 13 982 workers.

In 2001/02, the Department of Public Works allocated R10 million for the establishment of Multi-Purpose Community Centres (MPCCs) as part of government's roll-out strategy to build at least one MPCC in each of the country's 61 district councils by the end of 2003/04.

By June 2003, the Department had assisted with the establishment of 14 MPCCs.

When it comes to social-cohesion-related projects, MPCCs play a crucial role in addressing the needs of the people, together with Community Production Centres (CPCs), which are established with the Department of Agriculture to promote sustainable, commercially driven and market-orientated communal agricultural ventures.

About 15 Centres have been established in most of the nine provinces.

The very first CPC, the Lambasi CPC in the Eastern Cape, produces an average of 2 500 tons (t) of maize every year on approximately 500 hectares (ha). Sales of mealies (1 300 t) have on average realised R2,6 million per annum, while the 80 000 chickens sold during the 2002/03 financial year netted R1,3 million.

At the Ncora CPC in the Eastern Cape, cabbage sales from 10 ha over a month totalled R40 000.

At the Umzimkhulu Highlands CPC in the Eastern Cape, some 100 ha of the total 640 ha has been planted with maize.

Partnerships with the Department of Agriculture's Mass Food Production Programme will extend benefits to about 400 households.

The Keiskammahoek CPC in the Eastern Cape entered into a community private partnership between smallholding farmers and dairy producer, Clover.

At the Elandskraal CPC in Limpopo, the community is benefitting from the rehabilitation of irrigation infrastructure, while approximately 290 small farmers are engaged in reaping the winter wheat crop.

The Upper Arabie CPC in Limpopo covers approximately 540 ha and is supported by some 400 small-scale farmers. The community will benefit from the rehabilitation of irrigation infrastructure.

The Cairn Lemon CPC in Mpumalanga has a management partnership agreement with a commercial farmer. The community is benefitting from the rehabilitation of bulk water supply, the development of a lemon orchard, and the rehabilitation of irrigation infrastructure. The CPC has secured a market with Coca-Cola.

In KwaZulu-Natal, the Ndaya CPC comprises approximately 18 ha and is managed by a group of 18 local women and five men. The CPC produces a variety of crops. Profits are shared between members, and dividends are based on the members' contribution to the crop production. The CPC has a nursery that provides the seedlings for cropping.

At the Makhathini Flats CPC in KwaZulu-Natal, the Department of Public Works has completed the infrastructure provision. The provincial Department of Agriculture is busy with production and development.

The Schmidtsdrift CPC in the Northern Cape serves 770 households who farm with goats and sheep. The provisioning of fencing and the rehabilitation of the water supply will enable them to graduate from subsistence to commercial farming.

Between 1999 and 2003, the CBPWP and other construction initiatives of the Department of Public Works had:

- created a total of 106 000 temporary jobs
- employed a total of 39 125 women
- employed 41 323 youths
- employed 2 249 people with disabilities.

Expanded Public Works Programme (EPWP)

Following the announcement of the establishment of the EPWP in February 2003, the Department of Public Works has been taking concrete steps to ensure that the concept of an EPWP is fully understood and supported within and outside government.

The proposed EPWP is a key intervention by government based on the recognition that infrastructure development is one of the primary drivers of growth, employment and development.

The aim of the EPWP will be 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
- human resource development through the training of participants.

The key focus areas in which the Department of Public Works is in a position to optimise contributions include:

- labour-based methods: optimal use of labour while ensuring cost-effectiveness and safeguarding quality, primarily within the construction industry
- emerging contractor support programme: SMME development and support to have resources circulate within communities and create capacity for maintenance
- procurement policy: ensures policy responsiveness, uniformity and adjustment in all spheres of government
- monitoring and evaluation: ensure mechanisms to track development and focus on objectives and targets.

The Programme will realign current governmental infrastructure and maintenance investments, targeting initiatives such as:

- national, provincial and local government infrastructure investment and service delivery
- SOE infrastructure, and community and poverty-alleviation programmes.

All public-sector departments and SOEs will be expected to formally respond to the EPWP, indicating which of the overall targets they will contribute to.

The alignment and co-ordination of programmes within the ISRDP and the Urban Renewal Strategy have been identified as of upmost importance.

Construction industry

To promote the construction industry as an asset to the country and attract young students to the industry, the Department of Public Works will be driving a campaign to establish a Construction Industry Development Week.

Another initiative will be the Incubator Programme which aims to provide sustainable work opportunities, training and access to finance for black construction enterprises of significant size, and to develop them to achieve the status of established construction enterprises.

Projects between R2 million and R25 million will be identified exclusively for these enterprises over a period of time.

Construction Industry Development Board (CIDB)

The Board's mandate is to:

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

Projects that are being prioritised and developed include:

- Roll-out of procurement and public-sector delivery best practice to address improved spending of the infrastructure budget.
- The *Know Your Rights and Responsibilities* Campaign.
- The Register of Projects and Register of Contractors are being developed to promote improved demand- and supply-side performance. The Construction Registration Service constitutes a licensing vehicle to drive the principal objectives of industry development – improved performance, delivery, sustainable growth and transformation. It is expected that this service will be ready for roll-out by April 2004.
- Establishing a body of knowledge and a website as a resource to the industry.
- Developing CIDB governance procedures.
- Taking forward important work flowing from the Department's commissioned reports on the *Status Quo of the Industry, Investment Review* and *Construction Industry Indicators*..

According to the Construction Industry Development Board Act, 2000 (Act 38 of 2000), the CIDB must constitute a construction industry stakeholder forum. The forum's main objective is to inform the CIDB on matters that affect the development of the industry.

Council for the Built Environment (CBE)

The CBE was launched in April 2002. It ensures proper co-ordination between government and the built environment professions, and proper application of policies by the respective councils. The CBE also promotes a range of new priorities and acts as an appeal body for affected professionals and members of the public.

Built environment professions

The decline in the quantity and quality of built environment professionals is of serious concern. The average age of built environment professionals is 50 and is increasing annually. In order to address this, the Department of Public Works is engaging with the public and and private sectors to develop a strategy and implementation plan to deal with this issue, as it is critical to the development of the industry.

Emerging Contractor Development Programme (ECDP)

In 2001/02, the number of contractors registering on the ECDP database continued to rise. The number increased to over 3 257 compared to 2 153 in the previous year. As these are emerging contractors, it is a challenge to access them, validate their credentials and manage their development and growth. The ECDP is exploring a practical development strategy to incubate targeted emerging contractors for a set period, which will ensure a sustainable award of contracts and provision of capacity-building interventions.

Access to finance

Access to finance remains the single major problem facing black contractors, but efforts to promote access to finance 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 to 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.

Women in construction

Since the launch of the Strategic Empowerment Programme for Women in Construction in August 2001, some R188 million worth of construction-related work involving more than 79 projects have been awarded to women-owned enterprises.

Projects in 2003 included work by 400 workers on the R19-million Repair and Maintenance Project at the Leeuwkop Prison, north of Johannesburg. The R16-million repair phase was completed in March 2003.

Strategic asset management

The Department of Public Works is faced with the challenge of managing government's property portfolio in order to maximise returns and reduce costs. The Department employed a Strategic Asset Management Partner, made up of a consortium of six local and international companies, to fulfil the Asset Management function. The Strategic Asset Management Framework will guide the whole of government on the management of State properties.

The Strategic Asset Management Partner is busy with a detailed analysis of the portfolios of the various government departments.

During 2002/03, the Department disposed of 835 properties totalling 63 544 ha, with an estimated market value of R55,2 million.

Of these:

- 803 properties (63 140 ha) were for land-reform purposes

- 19 properties (359 ha) were for low-cost housing and related infrastructure
- 13 properties (45 ha) with a market value of R24,7 million were for commercial purposes.

In addition, two properties valued at R983 000 were acquired in exchange for State land.

The Department's maintenance budget of R557 million was fully utilised.

Since its implementation, the Repair and Maintenance Programme has grown to 654 contracts to the value of R2,8 billion.

Black Economic Empowerment

The Department of Trade and Industry, in partnership with several non-profit industry organisations, namely the Black Information Technology (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 1 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

Government launched its Broad-Based BEE Strategy on 24 March 2003.

The BEE Strategy aims to address human resource development, 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 which included the BEE Commission, the Department of Trade and Industry, the National Economic Development and Labour Council (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 of enterprises.

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.

Government introduced a Broad-Based BEE Bill in Parliament in August 2003 to establish an enabling framework for the promotion of BEE in South Africa.

In particular, the legislation will allow the Minister to issue guidelines and codes of good practice on BEE, as well as establish a BEE Advisory Council to advise the President on the implementation of BEE and related matters.

Government will utilise various regulatory means to achieve its BEE objectives, including using a balance scorecard to measure progress made in achieving BEE by enterprises and sectors. 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
- human resource development and employment equity
- indirect empowerment through preferential procurement and enterprise development.

The scorecard will be issued as a Code of Good Practice. The Code will allow for a measure of flexibility so that it can be adapted to the particular circumstances of specific sectors or enterprises, while at the same time bringing a measure of standardisation to the definition and measurement of BEE.

In particular, government will apply BEE criteria, as set out in the scorecard, whenever it:

- grants a licence to engage in a specific regulated economic activity, e.g. gambling or mining
- grants a concession to a private enterprise to operate an asset or enterprise on behalf of the State
- sells an asset or an SOE
- enters into a public-private partnership
- engages in any economic activity.

A total of R2,2 billion was allocated to fund BEE initiatives in the 2002/03 financial year.

The Isibaya Fund contributed an amount of R321 million and the Umsobomvu Fund, R461 million.

Over the past five years, to December 2002, there was an increase of 39% in empowerment funding from 14% of the total number in 1998 (R56,4 milion). This figure increased to R1,2 billion in the first six months of 2002/03.

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.

Enterprises with a maximum annual turnover of R12 million also qualify.

The maximum grant that a single enterprise can qualify for is limited to R100 000.

Employment and skills development

Employment and skills development continue to be high on the Government's agenda.

In June 2003, at the Growth and Development Summit (GDS), government, business, trade unions and community leaders agreed on a range of programmes and initiatives designated to create jobs, reduce unemployment and further boost skills development. It was agreed to promote and expand the leadership programme, an innovative approach to training that combines practical and theoretical learning, and which, together with more traditional apprenticeships, should provide substantial new training opportunities, particularly for young, unemployed people. The GDS also saw a renewed commitment by employers and trade unions to strengthen the 25 Sector Education and Training Authorities (SETAs). These tripartite organisations were established in March 2000 to identify and meet skills needs in each sector of the economy.

The Department of Labour is reviewing the Skills Development Act, 1998 (Act 97 of 1998).

The proposed changes will strengthen the Minister of Labour's powers to regulate and monitor the work of the SETAs and align their reporting with the Public Finance Management Act (PFMA), 1999 (Act 1 of 1999).

The new measures will include the following:

- it will be mandatory for SETAs to enter into an annual service level agreement with the Department of Labour
- regulation of SETA administration: the Minister's current discretionary powers to set the limit on the funds SETAs can utilise for

administrative purposes will be extended to include determining staff salaries and allowances paid to Board members
- equity considerations: it will be obligatory for each SETA to address the question of equity for its governing body and staff composition
- employment and skills development agencies: small firms and non-governmental organisations will be able to take on the administrative functions associated with learnerships
- private employment agencies: the changes will give the Department the power to deregister unscrupulous private employment agencies and compel them to close down.

Other changes include empowering the Minister to effect changes to the scope of a SETA's coverage or the merger of SETAs. The Bill also clarifies the Minister's position regarding the takeover of the administration of a SETA.

The number of registered learnership programmes had more than doubled between 2001/02 and 2002/03 to 478.

This was in line with the targets set in the National Skills Development Strategy (NSDS). The number of learners enrolled for learnerships was almost seven times greater in March 2003 compared with the same period in 2002.

The National Skills Fund (NSF) funded 577 scolarships and about 2 700 undergraduate bursaries in areas of scarce skills.

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

During 2002, the Department of Labour allocated R1,3 billion for SETAs, to be used over three years for strategic skills-development projects.

According to the Department of Labour, the involvement of small enterprises in learnership programmes remained low. To address this, the Department announced changes in the skills-grants regulations, designed to reduce the demands on smaller companies.

The Department has also embarked on a *Learnership* Campaign.

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 Campaign has three phases. Phase one is 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 Department has appointed various task teams to develop plans with regard to:
- an outline of learnership implementation education and training provision and related matters that require urgent attention, obstacles and proposed solutions, etc.
- the marketing and communication of the Campaign
- the funding that will be necessary to sustain the Campaign and the effective utilisation of current resources available to SETAs.

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 National Skills Development Strategy targets and reporting requirements. Twenty-four SETAs concluded an MoU with the Department of Labour for the 2002/03 financial year.

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 (NSA)

The NSA, made up of employer, worker, community, government, and education- and training-provider representatives, was established in 1999 to advise the Minister of Labour on all aspects of skills development. The Authority completed its first three-year period of office and was reconstituted during 2002.

The NSA has set itself key priorities and an action plan. It has advised 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. During 2003, the NSA started consultations on the NSDS, which will be reviewed and launched in its revised form at the National Skills Conference towards the end of 2004.

National Skills Fund

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

The principal funding windows deal with strategic projects, social development initiatives, innovation and research, and a bursary programme to support students to study in areas of scarce skills.

Nineteen strategic projects to the value of R1,3 billion have been approved over a three-and-a-half-year period. In May 2002, the Minister of Labour, Mr Membathisi Mdladlana, launched the strategic projects.

The strategic grants have been made to SETAs to meet specific sector priorities, including the design and development of learnerships, small business development, the promotion of strategic occupations, Adult Basic Education and Training (ABET), and dealing with the labour market effects of HIV and AIDS.

Some 14 innovation and research projects were approved, most of which are concerned with research methodologies in relation to skills development. During 2002, some 577 postgraduate bursaries were awarded and 2 688 undergraduates received financial support from the NSF.

In addition to this, the NSF supports the Department of Trade and Industry's SME Development Programme and Strategic Industrial Programme through the provision of funds to support training.

Key highlights of the strategic projects during 2002 included:

- a total of 1 069 shop stewards received training on HIV/AIDS
- a total of 810 mathematics and accounting teachers benefitted from street finance projects
- some 3 200 and 2 900 learners respectively completed ABET programmes and SMME support training and bridging courses as part of the Learnerships and Skills Programme
- some 219 bursaries were awarded to learners
- 320 assessors completed training.

The Social Development Funding Window (SDFW) of the NSF was used to train unemployed people to become self-employed, employers or employees.

In 2002, a total of R152 million was spent on training 37 491 unemployed people. More than 26 300 of them were placed in income-generating opportunities, representing a 70% placement rate compared with 36% in 2001.

The SDFW allocated R77 million to poverty-alleviation projects which benefitted about 23 670 people, mainly rural women and youth.

An example of these partnerships is the Working for Water project, where the Department handles the skills development aspect. Another example at local level is the partnership with the O.R. Tambo District Municipality in the Eastern Cape, where R8 million was allocated for skills development.

Unemployment Insurance Fund (UIF)

The Unemployment Insurance Amendment Bill was tabled in the National Assembly on 17 September 2003. The proposed amendments are 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 already resulted in an increase in the UIF's income from R2,1 billion in 2001 to R3,8 billion in 2002/03.

The Fund also continued to provide benefits to unemployed workers. Despite the fact that 2002/03 saw a decline in unemployment and illness benefits, the UIF experienced an increase in benefits paid to workers on maternity leave and dependants of deceased contributors. By February 2003, the UIF had received more than 608 000 claims and made 470 000 payments with a total benefit value of R2,2 billion.

The Fund has a surplus of R1,4 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.

Part of the new policy framework is an annual actuarial evaluation. In the 2002/03 evaluation, the actuary concluded that the Fund was in a sound financial state on a cash-flow basis. In line with sound financial practice, the Fund implemented a reserve policy in the 2002/03 financial year.

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.

The first payments to the UIF had to be made by 7 May 2003. Failure to pay by the seventh day of every month can result in an employer having to pay interest on the outstanding amount. A penalty of 10% will also be incurred.

By June 2003, more than 530 000 employers had registered their employees with the UIF, while the number of employer declarations stood at 413 111, with a total of R8,2 million received in contributions. This translates to more than 67% of employers having registered.

By September 2003, more than 560 000 domestic workers were registered.

The Unemployment Insurance Amendment Bill also regularises the status of domestic, seasonal and other workers.

One of the proposed amendments to be made to the Unemployment Insurance Act, 2001 (Act 63 of 2001), includes an amendment to Section 63 that workers with more than one employer will be entitled to unemployment benefits should they lose their jobs.

Occupational health and safety (OHS)

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

Ensuring compliance with legislation is the responsibility of the Department's Inspection and Enforcement Service Business Units. This is accomplished by conducting inspections and investigations and providing information, advice and statutory services.

The Department of Labour embarked on a vigorous OHS campaign, focusing on OHS awareness, capacity-building for inspectors and backlog reduction.

Proactive, reactive and blitz inspections were conducted, with an emphasis on education and law enforcement.

The number of inspections increased from 51 751 to 87 815 in the 2002/03 financial year.

To contain the problem of the OHS backlog, which had accumulated over many years, the Department developed a backlog reduction strategy, which reduced the backlog at an average of 21% per month. It was expected that the outstanding OHS backlog would be completed before March 2004.

Training

During 2002/03, the Department of Labour developed and implemented a major OHS training initiative for labour inspectors. The training was aimed at enhancing inspectors' knowledge and enforcement of the OHS Act, 1993 and its regulations and general health and safety foundations. During 2002, some 284 inspectors received safety training.

Labour relations

Two main areas of focus in 2002/03 were the amendments to the Labour Relations Act, 1995 (Act 66 of 1995), and the Basic Conditions of Employment Act, 1997 (Act 75 of 1997), as well as the historical introduction of minimum wages and setting of working conditions for domestic and agricultural workers.

The labour-law amendments that were promulgated during 2002 sought to enable the Registrar of Labour Relations to act against bogus unions and employer organisations.

On 28 January 2003, the Minister of Labour announced steps to be taken by the Department of Labour to identify and weed out trade unions and employer organisations that are not genuine. Some 18 trade unions and 11 employer organisations were named.

The names of 158 trade unions and 41 employers' organisations who had failed to meet the requirement of the Labour Relations Act, 1995 to annually submit audited financial statements, were also made public. Legal notices to this effect were published in the *Government Gazette* on 30 January 2003.

This gave an opportunity for interested parties to make representations on possible cancellations.

By mid-2003, there were 362 trade unions and 240 registered employer organisations operating in South Africa. This compared well with the 282 trade unions and 192 employers' organisations that were registered on 11 November 1996 when the Labour Relations Act, 1995 came into effect.

The Department of Labour has launched an education campaign called *Sizakala* (get help), which is aimed at informing workers on the procedures they need to follow when claiming from the Compensation Fund in the event of getting injured at work.

The campaign also informs workers about occupational health and safety issues in the workplace.

Legislation

The amendments to the Labour Relations Act, 1995 and the Basic Conditions of Employment Act, 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.

Code of Good Practice

The Code of Good Practice on Key Aspects of Disability was finalised and published on 19 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/AIDS in the workplace have also been finalised.

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)

During 2002, the governing body of the CCMA approved amendments to fee tariffs and new rules for the conduct of proceedings before the CCMA, which were published as part of the Labour Relations Act, 1995.

Since the implementation of the amendments in August 2002, the following cases have been recorded:

- five pre-dismissal arbitrations in terms of Section 188A
- 10 applications for facilitation by the CCMA in large-scale retrenchments in terms of Section 189A
- referrals where the provisions of Section 191 were utilised.

Some 605 applications were also made to certify enforcement of awards as an order of the Labour Court in accordance with Section 143.

Conflict was reduced through attempting to resolve protest actions referred to NEDLAC in terms of Section 77 of the Act.

Directorate: Employment Equity

The Directorate monitors enforcement and provides support and advice on the implementation and enforcement of the Employment Equity Act, 1998 (Act 55 of 1998).

According to a survey conducted by the Department of Labour from 2001 to 2002, the number of industrial actions (strikes) in South Africa had declined by 43%.

The number of workdays lost through strikes decreased from 953 610 in 2001 to 615 723 in 2002.

Other findings of the survey included a decline in the number of workers taking part in industrial actions between 2001 (90 392) and 2002 (66 250), and that 68,1% of the reported industrial actions were resolved through negotiations between employers and employees.

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

This exercise enabled inspectors to focus on employment-equity inspections, and the Directorate to assess the training and skills needs of inspectors.

The Directorate facilitated employment-equity enforcement training for 355 labour inspectors and trainers in all provincial offices.

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

A key aspect of this legislation is the collection of data on progress being made by designated employers. The deadline for the submission of employment-equity reports by employers who employ more than 150 workers was 1 October 2003.

Figures produced by the Commission of Employment Equity earlier in 2003 reflected progress of 1% in relation to new black entrants into top management positions.

Employment Conditions Commission (ECC)

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

Challenges for 2003/04 included:

- Implementing sectoral determinations for workers in the minibus taxi, welfare and hospitality sectors.
- Completing and implementing the National Programme of Action on the Eradication of Child Labour in South Africa.
- Continuing to work with the Child Labour Intersectoral Group, which is made up of other government departments, trade

unions, NGOs and employer representatives. This includes raising awareness, monitoring and enforcing child labour cases.
- Raising awareness on the promulgation of new sectoral determinations through launches and other campaigns, and maintaining visibility in the domestic worker and agricultural sectors.
- Ensuring the effective implementation of a permit system for children working in the performing arts.

Employment Equity Registry

The Directorate: Employment Equity captures and maintains employment equity reports submitted by designated employers. This makes it possible to measure the extent of employment equity in the workplace. This includes designated employers with 50 or more workers.

A Public Register is maintained in terms of Section 41 of the Employment Equity Act, 1998.

The list is regularly updated and periodically published in the *Government Gazette*.

International co-operation

During 2002, the US Agency for International Development provided donor funding for work on the following projects:

- research to determine employment equity best practices
- development of a Code of Good Practice on the Employment of People with Disabilities
- development of technical assistance guidelines for the Code of Good Practice on the Employment of People with Disabilities.

Donor funding from the International Labour Organisation (ILO) was used to prepare technical assistance guidelines for the Code of Good Practice Key Aspects of HIV/AIDS and Employ-ment. The US Department of Labour made funding available for research to determine the extent of compliance with the Employment Equity Act, 1998 in the private sector.

A Labour Force Survey released by Statistics South Africa in March 2003 revealed that in September 2002, there were an estimated 28,0 million people aged between 15 and 65 years in the country.

The official unemployment rate at the time was estimated to be 30,5%.

Among these people some 15,9 million were economically active, 11,0 million of whom were employed, and 4,8 million unemployed. In addition, 12,1 million were not economically active, of whom:
- 4,9 million were full-time scholars
- 1,1 million were full-time homemakers
- 1,2 million were disabled or chronically ill, hence unable to work
- 0,9 million were either too young or too old to work
- 0,2 million were retired.

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.

Sectoral determinations

The most important sectoral determinations recently established include the following:
- **Agricultural sector**
  The sectoral determination for the agricultural sector was published on 2 December 2002, setting minimum wages and conditions of employment for the sector.
  Since 1 March 2003, every farmer in South Africa is legally obliged to pay a minimum wage to their employees.
- **Domestic workers**
  The sectoral determination for the domestic worker sector was published on 15 August 2002, setting mimimum wages and conditions of employment.
  The Minister of Labour announced in August 2003 that the minimum wage for domestic workers would increase by at least

8% on 1 November 2003, pending the year-on-year Consumer Price Inflation (CPI) rate.

In predominantly urban areas, the wage was initially set at R4,51 per hour for domestic workers working an ordinary 27 hours or less per week – from November 2003 it will be at least R4,87 per hour – and a minimum of R4,10 for those working more than 27 hours will be adjusted to at least R4,42. In the rural areas, workers working 27 hours or less per week will receive an increase to a minimum salary of R3,95 per hour, while the remainder will increase to R3,59.

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.

- **Wholesale and retail sector**
  Minimum wages and basic employment conditions were determined for workers in the wholesale and retail sector in December 2002.

  The determinations, 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, 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 reaching the same levels as the wages 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 a 8,8% increase per annum in the second and third years.

  The determinations allow for commission-based payment of salespersons and allow employees a 40-hour week, on condition that they work at least three Sundays a month, taking other days of the week off to rest.
- **Private security sector**
  The Sectoral Determination for the private security sector, which sets out basic employment standards and minimum wages for security guards, was published in the *Government Gazette* on 13 July 2003.

  The sectoral agreement, which came into effect on 16 June 2003 and is in line with international best practice, is set for a period of three years.

  The determination sets minimum wages at levels ranging from R911 in rural areas to R2 533 in urban areas. The wages represent an overall increase for entry levels in excess of 7% every year for three years.

  In a shift from earlier security wage determinations, wages are no longer set on an hourly basis, but on a monthly basis. This not only fixes the wages of security officers, but can also be regarded as an upgrading of the profession.

  Other conditions of employment include the stipulation of night shift allowances and improvements to maternity benefits over the next three years.

Eradication of child labour

During 2002, the Department of Labour:

- developed training material on child labour and conducted training sessions in all the provinces
- made a presentation on child labour to the Parliamentary Portfolio Committee
- received the MoU on the ILO's International Programme on the Elimination of Child Labour and forwarded it to the ILO for scrutiny and approval
- published reports on the Survey of Activities of Young People
- implemented an enforcement policy for child labour contraventions arising out of the results of the survey and which is in line with the Basic Conditions of Employment Act, 1997
- commenced provincial and sectoral workshops on the development of a National

Programme of Action to eradicate child labour.

The Basic Conditions of Employment Act, 1997 prohibits the employment of children under 15 years or those who are minimum school-leaving age. The Act protects children between 15 and 18, 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.

Acknowledgements

Business Partners Ltd
Department of Labour
Department of Public Works
Department of Trade and Industry
Estimates of National Expenditure 2003, published by the National Treasury
Office for Public Enterprises
South African Reserve Bank
SouthAfrica.info
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