7 Economy

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

By February 2005, the economy was stronger than at any time in the past 20 years.

Economic indicators

Domestic output

Real domestic production responded positively to the growth in real expenditure and registered a growth rate of 3,7% in 2004. This compares favourably with the growth in real gross domestic production of 2,8%, which was recorded in 2003.

The enhanced performance was particularly evident in the middle quarters of 2004 when quarter-to-quarter growth accelerated from an annualised rate of 4% in the first quarter, to 4% and 5% in the second and third quarters, respectively. Growth decelerated somewhat to 4% in the final quarter of 2004, mainly due to the weaker performance of the mining and manufacturing sectors. Up to and including the fourth quarter of 2004, growth in total real gross domestic product (GDP) increased for the 25th successive quarter since the third quarter of 1998.

For 2004 as a whole, the tertiary sector experienced the strongest growth among the major production sectors. Within the tertiary sector, the commerce sector registered the highest rate of increase in real value added, consistent with the brisk pace of expenditure in the economy. In the primary sector, agricultural output recovered somewhat in 2004, following a contraction in 2003. Real value added in mining rose significantly in 2004 in the wake of strong world demand for commodities. Real value added by the secondary sector recorded the slowest rate of increase among the major output sectors in 2004, but still expanded by roughly 3% during the year.

Manufacturing output increased significantly, partly in response to the strong domestic expenditure growth and the strong international demand for certain types of manufactured goods in the global upswing.

The growth in the real value added by the primary sector, which accelerated unabatedly in the first three quarters of 2004, slowed down markedly in the fourth quarter. This slowdown was visible in the real output of both the agricultural and mining sectors. For 2004 as a whole, the level of real output in the primary sector rose by 3% compared with an increase of only 1% in 2003. This was mainly a result of the recovery in the real value added by the agricultural sector following its substantial contraction in 2003.

Following a decline of 6% in 2003, the real value added by the agricultural sector increased by 1% in 2004, mainly on account of higher field crop production, particularly of maize. The output of livestock farmers also increased. Quarter-to-quarter growth in real value added was at its strongest in the middle quarters of 2004. It slowed down, however, from an annualised rate of 11% in the third quarter to 4% in the fourth quarter. Although livestock and horticultural production held up fairly well, the real output in other subsectors of the agricultural sector was weak in the fourth quarter.

The real value added by the mining sector increased for 11 consecutive quarters, but production volumes shrank in the fourth quarter of 2004. The contraction in real output at an annualised rate of 1% in the fourth quarter of 2004, was mainly due to a decline in the real value added by the gold- and platinum-mining sectors, following exceptionally strong output growth in the third quarter.

The strength of the exchange rate left its mark on profitability as export earnings came under pressure. Although coal-mining production increased on account of favourable world demand conditions, this could not offset the decline in the real value added by the other mining subsectors in the fourth quarter. For 2004 as a whole, growth in the real value added by the mining sector was 4%, which is comparable with the rate of 4% recorded in 2003.

Following an increase of 6% in the third quarter of 2004, growth in the real value added by the secondary sector slowed down to an annualised rate of 3% in the fourth quarter. All three subsectors of the secondary sector recorded slower growth. Nonetheless, their real value added performed sturdily on a year-to-year basis, recording a growth rate of 3% in 2004 against stagnant real output in 2003.

Growth in the real value added by the manufacturing sector slowed down from an annualised rate of 6% in the third quarter of 2004, to 2% in the fourth quarter. This can mainly be attributed to declines in the real output of several subsectors, including food and beverages, petroleum, chemical, rubber and plastic products, and glass and non-metallic mineral products.

However, solid performances were recorded by several other subsectors of the manufacturing sector, which counteracted these declines to some extent. Firm growth in real output was recorded by the subsectors textiles, clothing and leather, wood and wood products, as well as basic iron and steel.

Manufacturing output volumes contracted by 1% in 2003 as a whole, but subsequently rebounded strongly and increased by 2% in 2004. Factors contributing to the improvement included:

- the continued strength of domestic demand
- local manufacturers' proximity to and flexibility in

Real gross domestic product

Percentage change at seasonally adjusted and annualised rates

Sector	**2003**					**2004**				
	1st qr	**2nd qr**	**3rd qr**	**4th qr**	**Year**	**1st qr**	**2nd qr**	**3rd qr**	**4th qr**	**Year**
Primary sector	- 0	-2	-2	0	1	5	7	9,5	0,5	3,5
Agriculture	-6,5	-19,5	-21	-5,5	-6	8,5	17,5	11,5	4	1
Mining	3,5	6,5	7	2	4,5	3,5	3	9	-1	4
Secondary sector	-2	-3	-1	0	0	5	6	6,5	3	3
Manufacturing	-3	-4	-2	-1	-1	5	6	6,5	2,5	2,5
Tertiary sector	4	4	4	4,5	4	3,5	4	5	5	4
Non-agricultural sector	2,5	2,5	3	3	3	4	4	5,4	4	4
Total	**2**	**2**	**2,5**	**3**	**3**	**4**	**4,5**	**5,4**	**4**	**3,5**

Source: South African Reserve Bank, *Quarterly Review*

dealing with the domestic market
- well-contained and even declining input costs in certain sectors
- strong international demand for certain types of manufactured goods in the current global upswing.

Under these circumstances, capacity utilisation in manufacturing increased considerably, while business confidence reached its highest level in more than two decades in 2004.

The real value added by the sector supplying electricity, gas and water slowed down from an annualised rate of 3% in the third quarter of 2004 to 3% in the fourth quarter. This modest slowdown was mainly evident in the growth in real value added by the electricity subsector. Higher volumes of electricity exported in 2004 boosted growth in the real value added by the sector supplying electricity, gas and water. The real value added by the construction sector increased further in the fourth quarter of 2004, albeit at a marginally slower pace than in the third quarter. The firm performance was underpinned by robust activity in the residential building sector.

Relatively low interest rates and rising household incomes provided impetus to the demand for new residential buildings. Building conditions in the non-residential sector also showed a substantial improvement, particularly as the demand for retail and entertainment space increased.

By contrast, building activity in the civil engineering sector remained unimpressive. Annual growth in real construction output accelerated from 5% in 2003 to 6% in 2004 – the highest annual growth rate since 1989.

The services sector continued its sterling performance. Growth in the real value added by the tertiary sector was sustained at an annualised rate of 5% in the third and fourth quarters of 2004. This can mainly be ascribed to lively activity in the commerce, transport, storage and communications sectors as well as the finance, insurance, real-estate and business services sectors.

For 2004 as a whole, the real value added by the tertiary sector grew by 4% – the same rate attained in 2003. The growth in the real value added by the commerce sector accelerated from an annualised rate of 5% in the third quarter of 2004, to about 7% in the fourth quarter. The buoyant levels of domestic demand enhanced activity in the wholesale and retail trade subsectors in the fourth quarter of 2004.

Retailers, in particular, benefited from lively consumption demand, especially for durable goods. Prices remained well-contained and even came down in the case of certain items with a high import content, providing a stimulus for consumer demand.

The real value added by the motor trade subsector also rose further in the fourth quarter of 2004. Compared with the other sectors of the economy,

Real gross domestic expenditure

Percentage change at seasonally adjusted annualised rates

Components	2003					2004				
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Final consumption expenditure by households	3	3,5	5,5	6	3,5	6	6,5	6,5	7	6
Final consumption expenditure by general government	6	6,5	6,5	14	6,5	6	6	0	13	7
Gross fixed capital formation	8	4 ,5	7	10	9	11,5	10	7,5	9	9 ,5
Change in inventories (R billion) at constant 2000 prices	7,6	10,5	9,2	9,2	9,2	9,6	14,9	13,6	7,6	11,4
Gross domestic expenditure	7	5,5	6	8,5	5,5	5,5	9	2,5	4,5	6,5

Source: South African Reserve Bank, *Quarterly Review* the commerce sector registered the highest annual growth rate in 2003 and 2004.

The ongoing expansion of the communications subsector, specifically that of cellular telephone and Internet activity, boosted the quarter-to-quarter growth in the real value added by the transport, storage and communications sector to an annualised rate of about 7% in the fourth quarter of 2004. This was slightly higher than the rate of 6% recorded in the third quarter.

In addition, the increased volume of imports and exports boosted the real value added by land transport. Growth in the real value added by the transport, storage and communications sector accelerated from 5,2% in 2003 to 5,5% in 2004.

Following an increase of 5% in the third quarter of 2004, growth in the real value added by the financial intermediation, insurance, real-estate and business services sector accelerated to an annualised rate of 6% during the fourth quarter of 2004. This could be ascribed mainly to higher trading volumes on the JSE Limited (formerly the JSE Securities Exchange) and robust growth recorded in the real-estate subsector. Banks' real output remained high as the demand for financial services continued to increase. The annual growth in the financial intermediation, insurance, real-estate and business services sector in 2004 amounted to about 4%, roughly the same rate as attained in 2003.

Real value added by the general Government increased at an annualised rate of 1% in the fourth quarter of 2004 – similar to the growth in the first three quarters of the year. This stable rate of output growth was largely due to continued moderate increases in general government employment.

The improvement in South Africa's international terms of trade and the lower net primary income payments to the rest of the world, particularly dividend payments, strengthened the level of real gross national income in 2004. As a result, growth in real gross national income accelerated from 3% in 2003 to 5% in 2004. This translated into increases in gross national income per capita of 1% in 2003 and 3% in 2004.

Domestic expenditure

Within an environment characterised by rising income and the lowest inflation and nominal interest rate levels encountered in more than 20 years, all the major components of real domestic final demand rose strongly in 2004. This impacted on the accelerated growth in real gross domestic expenditure for 2004 as a whole.

Growth in aggregate real gross domestic expenditure accelerated from an annualised rate of 2% in the third quarter of 2004 to 4% in the fourth quarter. This acceleration was observed in all three components of domestic final demand – real final consumption expenditure by households and by general government, and real gross fixed capital formation. The slowdown in real inventory investment in the fourth quarter was more than neutralised by the robust increase in the other major spending categories. The level of real gross domestic expenditure was 6% higher in 2004 than in 2003.

Growth in real final consumption expenditure by households accelerated from 6% in the third quarter of 2004 to an annualised rate of 7% in the fourth quarter. The buoyancy in consumer spending was also reflected in a year-on-year growth rate of 6% in 2004 compared with a growth rate of 3% recorded in 2003.

The strong household spending in 2004 was underpinned by several factors, including:

- An increase of 5% in real household disposable income in 2004, partly due to wage settlements that remained above the contemporaneous inflation rate and income tax rates, which were lowered marginally.
- The steady decline in bank lending rates in 2003 and 2004 culminated in the lowest nominal short-term interest rates since 1980. This reduced the debt servicing cost of households as a percentage of disposable income from 8% in 2003 to 6% in 2004.
- The high levels of consumer confidence recorded in 2004, previously observed in 1997.
- The wealth effects arising from the exceptional increase in property and other asset prices.

In the fourth quarter of 2004, most major categories of household spending participated in the spending boom. Annualised growth in real spending on durable goods accelerated from 19% in the third quarter of 2004 to 25% in the fourth quarter. This was mainly a result of households stepping up real outlays on furniture, household appliances and motor cars. Purchases of recreational and entertainment goods also gathered momentum in the fourth quarter.

Growth in real outlays on semi-durable goods accelerated in the fourth quarter of 2004 as spending on household textiles and furnishings and on clothing and footwear picked up substantially. By contrast, real outlays on non-durable goods lost some momentum as households curtailed their purchases of petroleum products in response to the steep rise in petrol and diesel prices during the fourth quarter. Spending on services increased at the same pace as in the third quarter of 2004.

Households financed part of their expenditure by incurring more debt. Household debt as percentage of disposable income accordingly increased from 55% in the third quarter of 2004 to 57% in the fourth quarter. On an annual basis, the ratio increased from 51% in 2003 to 54% in 2004.

After stagnating in the third quarter of 2004, growth in real final consumption expenditure by general government accelerated to 13% in the fourth quarter of 2004.

Real government consumption expenditure on other non-wage goods and services increased at a steady pace from the third to the fourth quarter of 2004. Growth in real compensation of employees was also maintained at the same pace as in the third quarter. The higher level of government expenditure in the fourth quarter lifted the ratio of final consumption expenditure by general government to GDP to 20%, approximating levels previously observed during the period 1992 to 1994.

Growth in real gross fixed capital formation picked up from an annualised rate of 7% in the third quarter of 2004 to 9% in the fourth quarter. The quarter-to-quarter increases throughout 2004 resulted in an annual growth rate of 9,4%, higher than the 9% growth rate recorded in 2003. Firm annual growth in real capital outlays by the private business enterprises in 2004 offset slower growth in spending by public corporations and general government.

During the fourth quarter of 2004, growth in real capital outlays by the private sector faltered somewhat, while that of public corporations and general government picked up substantially. Growth in real gross fixed capital formation by the private sector slowed down from an annualised rate of 20% in the third quarter of 2004 to 4% in the fourth quarter as enterprises in agriculture and mining reduced their capital outlays.

The agricultural sector's investment expenditure was adversely affected by a decline in the Rand prices of key agricultural products. Platinum mines, whose endeavours have formed the mainstay of mining investment in recent years, postponed several projects given the lustreless Rand prices of their key products. The decline in gross fixed capital formation in the primary sector of the economy was countered by ongoing investment in retail and entertainment space, which benefited from strong consumer spending.

Public corporations stepped up spending considerably in the fourth quarter. The addition of network equipment strengthened investment by the communications sector. In addition, public utilities supplying electricity, gas and water stepped up their capital investment. Real outlays on road infrastructure and urban renewal projects contributed to growth in real gross fixed capital formation by general government.

Business confidence was close to its highest level in July 2005. The South African Chamber of Business' (SACOB) Business Confidence Index (BCI) for July 2005 was 129, just 1,9 points below the record level of 130,9 achieved in September 2004.

According to SACOB, it was not only the highest level of 2005, but a continuation of the renewed rising trend from January 2005 after business confidence slowed during the last few months of 2004.

July's BCI was mainly due to the volume of merchandise exports, share prices and unexpected lower inflation.

An analysis of annual growth rates in capital spending by type of asset confirms that the growth rate of capital outlays on residential buildings not only exceeded that of the other asset types during 2004, but that the growth of investment spending on residential buildings was at its highest since the mid-1960s. The ratio of gross fixed capital formation to GDP improved from 16% in 2003 to 16,5% in 2004. This compares well with an average ratio of 15% from 2000 to 2003.

As may be expected with consistently rising economic activity and sales volumes, real inventory levels rose further throughout 2004. Following a strong build-up in the first three quarters of 2004, inventory accumulation slowed down in the fourth quarter.

Most sectors of the economy reported smaller net additions to inventories – possibly unplanned, as final demand increased strongly in the fourth quarter. In the mining sector, particularly in the gold-mining sector, inventories were actually reduced. Higher sales of gold were probably encouraged by the stronger performance of the gold price while production continued its secular decline. The slowdown in inventory accumulation compressed real expenditure growth by about two percentage points in the fourth quarter of 2004.

As a percentage of non-agricultural GDP, the level of industrial and commercial inventories decreased from 15,7% in the third quarter to 15,5% in the fourth quarter of 2004. On an annual basis, this ratio edged down from almost 16% in 2003 to about 15% in 2004.

The economy grew by 4,8% in the second quarter of 2005.

According to Statistics SA, this was up on a gross domestic product (GDP) figure of 3,5% measured in the first quarter.

The manufacturing industry contributed most to the growth with 1,2 of a percentage point.

GDP for the first six months of the year increased by 4,4% compared with the first six months of 2004.

Price inflation

During recent years, remarkable progress has been made in lowering South Africa's inflation rate to levels more consistent with those of its main trading partners.

Overall consumer price inflation decelerated markedly from a most recent high of 9,2% in 2002 to 5,8% in 2003 and 1,4% in 2004 – the lowest rate of increase since 1962. Also, the year-on-year rate of increase in the consumer price index for metropolitan and other urban areas, less mortgage interest cost (CPIX) decelerated to within the inflation target range of between 3% to 6% in the 21 consecutive months to May 2005.

The waning in price inflation during the recent period resulted mainly from the substantial appreciation in the exchange rate of the Rand since the second half of 2002. Additional factors which contributed to the reduction in inflationary pressures were:

- the consistent application of prudent fiscal and monetary policies
- low increases in food prices over an extended period
- a progressive deceleration in inflation expectations.

A further moderation in price inflation in South Africa was prevented recently. This was consistent with mounting concerns in the international community over the inflationary effects of the increase in commodity prices, particularly crude oil. Year-on-year CPIX inflation rose from a low of 3,1% in February 2005 to 3,9% in May 2005. This acceleration in inflation was almost entirely due to the increase in the domestic price of petrol, which resulted from the higher price of imported crude oil.

The price for mining and quarrying products imported into South Africa, mainly comprising crude oil, increased by as much as 52% in the 17 months to May 2005.

CPIX inflation remained comfortably within the inflation target range and only four categories showed year-on-year rates of price increase in excess of the upper limit of the inflation target range by May 2005. However, some factors were still of concern, necessitating continued vigilance in the application of anti-inflationary policy. These included:

- high and volatile international crude oil prices
- uncertainty concerning exchange-rate developments
- some salary and wage settlements significantly in excess of the inflation target range
- possible second-round effects of the abovementioned factors
- fairly high rates of money supply growth alongside continued buoyancy in domestic demand conditions
- increases in certain administered prices in excess of the inflation target range.

Exchange rates

The weighted average of the Rand, which appreciated by 16,2% between the end of December 2002 and the end of December 2003, improved further by 11,7% between the end of December 2003 and the end of December 2004.

The strengthening in the external value of the Rand coincided with a large surplus on the financial account, which more than made up for the deficit on the current account. The improvement in the external value of the Rand occurred mainly in the fourth quarter of 2004, when, on balance, the nominal effective exchange rate of the Rand strengthened by 6,6%. Factors that probably supported the improvement in the external value of the Rand were:

- the continued weakness of the United States (US) Dollar
- continued prudent economic policies
- improvement in the Reserve Bank's foreign reserve position
- expectations of significant future foreign direct investment (FDI) inflows
- improved international credit ratings
- strong foreign currency prices of South Africa's export commodities
- the positive, although shrinking, interest rate differential between South Africa and its main trading partners.

The external value of the Rand weakened by 3,3% on a trade-weighted basis during January 2005, but strengthened again by 2,2% during February 2005. From the end of December 2004 to the end of March 2005, the nominal effective exchange rate of the Rand appreciated by 4%.

The net average daily turnover in the domestic market for foreign exchange, which decreased to US$10,8 billion in the third quarter of 2004, rose to US$12,4 billion in the fourth quarter of 2004 – its highest level to date.

The value of transactions in which non-residents participated, increased from US$7,4 billion a day to US$9,2 billion a day over the same period. Participation by resident parties decreased from US$3,4 billion a day in the third quarter of 2004, to US$3,2 billion in the fourth quarter.

The average monthly real effective exchange rate of the Rand increased by 4,3% from December 2003 to December 2004.

Foreign trade and payments

The deficit on the current account of the balance of payments widened considerably from R18,9 billion

In August 2005, Fitch Ratings became the third major international agency to upgrade South Africa's sovereign credit ratings in 2005, following upgrades by Moody's and Standard & Poor's.

A better economic growth performance, a stronger external balance sheet, entrenched macro-economic stability, increased public investment and a transparent political system were among the reasons cited by the agencies for their upgrades.

Fitch raised South Africa's long-term foreign currency rating from BBB to BBB+, its short-term rating from F3 to F2, and its country ceiling from BBB+ to A-.

Earlier in August, Standard & Poor's upgraded South Africa's long-term foreign currency rating from BBB to BBB+ and its local currency rating from A to A+.

In January 2005, Moody's lifted South Africa's country ceilings for foreign currency debt and bank deposits from Baa2 to Baa1, with a stable outlook. Ratings on foreign currency-denominated bonds and notes was also raised to Baa1, with a stable outlook.

in 2003 to R44,4 billion in 2004. As a ratio of GDP, the deficit rose to 3,2%.

The significant widening of the deficit on the current account in 2004, resulted mainly from the sustained high level of real economic activity and concomitant strong increase in merchandise imports.

Robust domestic demand and the strengthening of the exchange rate of the Rand were reflected in the physical quantity of imported goods, which advanced by no less than 16,5% over the period.

As could be expected against the background of a vigorous upturn in economic activity, South Africa's trade balance with the rest of the world deteriorated considerably from a surplus of R25,6 billion recorded in 2003 to a deficit of R0,2 billion in 2004.

The value of merchandise exports increased throughout 2004. For the year as a whole, export values were 8,8% higher at R278,9 billion from R256,3 billion in 2003. In particular, mining export values increased by no less than 13,5% in 2004, while manufactured goods increased by only 3% over the period.

The Rand prices of goods exported from South Africa in 2004 increased by about 3%, while the Rand prices of commodity exports increased by about 5%.

A stronger world economy and buoyant demand for commodities contributed to the physical quantity of exported goods rising by almost 5,5% in 2004.

The further widening of the current account deficit in 2004 was also brought about by a further decrease of 4% in the value of net gold exports from R34,2 billion in 2003 to R32,8 billion in 2004.

Although the average US$ price of gold on the London gold market increased by 12,6% from US$364 per fine ounce in 2003, to US$409 per fine ounce in 2004, the Rand price of gold decreased by 3,8% over the period from R2 740 per ounce to R2 637 per fine ounce.

The decline in the Rand price of gold was mainly the result of an appreciation of 14,7% of the exchange rate of the Rand against the Dollar over this period.

This had a negative impact on the Rand earnings of gold exporters and their operations in terms of operational cost.

Having remained fairly flat in the first nine months of 2003, the value of merchandise imports rose almost unabatedly for five consecutive quarters up to the end of 2004. The Rand value of imported goods in the fourth quarter of 2004 was no less than 24% higher than in the corresponding quarter of 2003.

All the main categories of imports registered increases of more than 10% from 2003 to 2004.

South Africa's import penetration ratio (i.e. the ratio of real merchandise imports to real gross domestic expenditure) rose from 21,7% in the first quarter of 2004 to 23,9% in the fourth quarter.

For the year as a whole, the volume of merchandise imports rose by 16,5%. The strong rise in the import penetration ratio probably partly reflected the substitution of imported goods for domestically produced goods in response to the decline in the relative prices of imported goods. The average price of imported goods in rands increased by 1,5% in the fourth quarter of 2004 and rose by only half a percent in 2004 as a whole. Increases in the international price of crude oil were offset by the increase in the weighted effective exchange rate of the Rand over the period.

The deficit on the net services, income and current transfer account of the balance of payments widened from R43,4 billion in the third quarter of 2004 to R48,6 billion in the fourth quarter.

This weakening was mainly due to an increase in net income payments, which rose from R26,2 billion in the third quarter of 2004 to R30,6 billion in the fourth quarter as dividend receipts from non-residents decreased.

For 2004 as a whole, the deficit on the net services, income and current transfer account remained virtually unchanged at R44,2 billion compared with 2003.

South Africa recorded substantial inflows of capital on the financial account of the balance of payments during 2004. An inflow amounting to R96,1 billion was recorded during the year; the highest annual inflow ever recorded in a calendar year.

Net financial inflows to the value of R42,2 billion were recorded in the first half of 2004, followed by inflows of R53,9 billion in the second half. These inflows were substantially higher than the inflow of R70,4 billion recorded in 2003.

Inward direct investment decreased during the year to R3,8 billion, compared with an inflow of R5,4 billion in 2003. Outward direct investment recorded an outflow of R10,4 billion in 2004, compared with an outflow of R4,4 billion in 2003. For 2004 as a whole, a net flow of direct investment to the value of R6,6 billion was recorded.

Net portfolio investment increased substantially from an inflow of R6,9 billion in 2003 to an inflow of R38,9 billion in 2004. The inflow in net portfolio investment in 2004 was the highest amount recorded since 1999.

Other foreign investment in South Africa, consisting mainly of loans, trade finance and bank deposits, increased from an inflow of R8,9 billion in 2003 to an inflow of R13,5 billion in 2004. Over the same period, South African entities reduced their other investment assets by R18,1 billion.

The country's net international reserves increased by R52,1 billion during 2004, owing to a strong surplus on the financial account. Total gross gold and foreign exchange reserves increased from R165,5 billion at the end of December 2003 to R184,5 billion at the end of December 2004.

In US dollar terms, South Africa's total gross international reserves rose from US$24,9 billion to US$32,8 billion over the same period.

Import cover, i.e. the value of gross international reserves expressed as a ratio of the imports of goods and services, decreased from 22,5 weeks at the end of 2003 to 21,5 weeks at the end of 2004.

Department of Trade and Industry

The Department of Trade and Industry guides and facilitates access to sustainable economic activity by attracting high levels of investment, increasing access of South African goods and services to international markets, and creating a fair and conducive environment for domestic and international businesses and customers.

The department is working towards a transformed and adaptive economy that generates employment and equity.

To contribute to greater shared growth in the country, the department is pursuing the following goals:

- significantly progressing Broad-Based Black Economic Empowerment (BBBEE)
- increasing the contribution of small enterprises to the economy
- contributing towards providing accessible, transparent and efficient access to redress
- contributing towards building skills, technology and infrastructure platforms from which enterprises can benefit
- increasing market access opportunities for, and export of, South African goods and services
- increasing the overall level of direct investment, as well as in priority sectors
- repositioning the economy in higher value-added segments of value matrices in knowledge-driven manufacturing and services
- contributing towards the economic growth and development of the African continent within the New Partnership for Africa's Development (NEPAD) framework
- building an efficient, effective and accessible organisation to achieve these outcomes.

These strategic objectives will be achieved through the collective effort of the department's divisions and agencies that generate public value for economic citizens and deliver products and services for clients and stakeholders.

These products and services include policy, legislation and regulation, finance and incentives, information and advice, and partnerships. The department also achieves these objectives by pursuing a more targeted investment strategy, improved competitiveness of the economy, broadening the economic participation of historically disadvantaged individuals (HDIs) in the mainstream economy, and policy coherence.

In 2005/06, impetus was added to the achievement of the department's strategic objectives by implementing a number of flagship projects. An average annual budget of R3 billion and about

1 000 employees will be devoted to the implementation of this strategy over the next three years. The department will track its progress through a systematic reporting and measurement system and regular reviews.

Broadening economic participation

Several programmes are aimed at bridging the economic divide and broadening economic participation by HDIs.

These programmes include the Apex Fund that provides micro-finance to micro enterprises; the introduction of the Small Enterprise Development Agency (SEDA) to provide small enterprises around South Africa with a one-stop non-financial support service; the implementation of new policy and legislation to promote the development of co-operative enterprises; the continued implementation of the BBBEE Strategy; and the introduction of a specific strategy to empower women.

The capitalisation of the National Empowerment fund (NEF) commenced with an initial R400 million in the 2005/06 financial year, which allowed the fund to expand the products and services launched in 2004.

The intention is to increase the number of enterprises in the South African economy by creating an enabling environment, reducing regulatory costs for small enterprises and unleashing South Africa's entrepreneurial spirit.

Competitiveness and competition

The competitiveness of many enterprises in the economy continues to be based on the traditional factors of cost and access to raw material rather than on new drivers of competitive advantage. Not enough enterprises have moved into more value-added niche markets.

Furthermore, downstream value-adding beneficiation of raw material is often constrained by high input costs arising from the anti-competitive pricing practices of monopolistic enterprises. An example is the practice of import parity pricing in the steel and chemicals sectors.

The need to strengthen the capabilities of enterprises to compete on factors other than price will be a focus of the Department of Trade and Industry's work in the next three to five years. In this regard, it will undertake reviews of all of its enterprise support measures and incentives for relevance, efficacy and competitiveness compared with those offered by South Africa's competitors.

In addition, an industrial policy framework that extends the work done on the Integrated Manufacturing Strategy (IMS) to include primary sectors and services, will be developed and implemented. A critical element will include the development of policy instruments to address import parity pricing as part of an agreement concluded with government's social partners at the Growth and Development Summit (GDS).

Addressing anti-competitive behaviour and practices will be a focus area over the next three years.

A more targeted investment strategy

Investment levels in the economy remain below the 25% of GDP benchmark required for a sustained acceleration in economic growth rates.

Not only does the level and rate of investment in the economy need to increase, but the type of investment that takes place also needs to be more labour-absorbing if significant numbers of new jobs are to be created.

Over the next three years, the Department of Trade and Industry is expected to develop and implement a more targeted investment strategy. It focuses on identifying and promoting specific investment opportunities in particular sectors, regions, and products, rather than a generic approach of marketing South Africa as an attractive investment destination.

This will require a more co-ordinated approach to investment promotion by national, provincial and local government. Achieving this will be a priority in the first year of the Medium Term Expenditure Framework (MTEF) period. The investment strategy will be informed by the results of the World Bank's Investment Climate Survey of over 500 enterprises, as well as an Organisation for Economic Co-operation and Development review of South Africa's investment policy environment.

The department's work to develop and implement customised sector programmes to unlock the potential of government's priority sectors will be given a higher priority. New growth sectors, including aerospace and paper and pulp, will be added.

Policy coherence and alignment

The Department of Trade and Industry continues to strengthen the Economic and Employment Cluster and promote co-operative governance around economic policy, as well as ensure the strategic alignment and performance of its agencies. The department strengthens the working relationship with social partners through the National Economic Development and Labour Council (Nedlac) and enhances the support provided for organised business, specifically local business chambers.

Market access

International trade and economic development

The International Trade and Economic Development (ITED) Division of the Department of Trade and Industry aims to increase South Africa's access to markets worldwide by negotiating international trade agreements, where possible, on preferential terms.

At the same time, ITED seeks to ensure that the country's commitments are honoured in the multilateral, rules-based trading system underpinned by the World Trade Organisation (WTO).

Internationally, open economies with an export base fare much better in terms of economic growth than closed economies. Production is more and more globally integrated, and South Africa forms a vital part of international supply chains.

Therefore, dismantling barriers to trade, especially those barriers faced by South African exporters, is a critical component of any economic strategy that promotes sustainable growth.

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 the light of the country's relations with the Southern African Development Community (SADC), the rest of Africa, NEPAD, and economic relations with developed and developing trading partners in the North and the South.

ITED is committed to the pursuit of market access for South Africa, more effective efforts at subregional and continental integration, and the strategic and positive engagement of the region and the continent in the WTO.

Policy and programme developments in international trade development include:

- Continued negotiations with MERCOSUR, a trading bloc consisting of six Latin American countries, namely Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay.
- Upcoming preferential trade negotiations with India and China, which are expected to gain momentum in 2006.
- Administrating various binational commissions (BNCs) with other governments.
- Implementing the new Southern African Customs Union (SACU) Agreement, concluded in September 2001, in which the ITED played a pivotal role.
- Strengthening the trade capacity of the SADC.
- Preparing for and participating in a new trade round under the auspices of the WTO.
- Ongoing analyses of trade threats and opportunities.
- Facilitating the new International Trade Administration Commission's (ITAC) mandate, an independent regulatory agency. The ITAC has taken over the Board of Tariffs and Trade's function of administering the tariff regime and is set to play a central role within the SACU on tariff and related issues.

In the first half of 2004/05, 13 620 permit applications were adjudicated, 7 869 import control permits issued, 1 923 export control permits issued, 12 enforcement investigations launched, 160 unscheduled enforcement inspections undertaken, and 391 container inspections carried out.

In relation to anti-dumping and counter-veiling investigations and reviews, 14 sunset reviews (where something is reviewed after a set period with a view to removing it automatically) and 15 new cases were undertaken. ITAC dispensed 884 duty credit certificates, 1 732 import rebate credit certificates, 466 eligible export certificates, eight rebates of customs tariffs, 14 reductions in customs tariffs and six increases in customs tariffs.

African economic development

Africa forms the focus of South Africa's global economic strategy, within which government pursues a strong developmental agenda. Partnerships with countries on the continent are therefore considered vital and strategic. South Africa's economy is inextricably connected to that of the southern African region, and its success is linked to the economic recovery of the continent through NEPAD.

The developmental challenges must be viewed in light of the mutually beneficial economic and developmental impact on South Africa and Africa's self-enforcing and economic existence.

Africa is an important market for South African exports. In 2003, about 23% of South Africa's exports were destined for the continent. There was a huge increase in imports from the continent. In 2003, only 4% of total imports came from Africa. However, this increased to 40% in 2004.

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 forging bilateral trade and economic relations, the Department of Trade and Industry is committed to increasing South Africa's involvement in large capital projects on the continent. The following areas have been prioritised:

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

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

The department, through Trade and Investment South Africa (TISA), has established trade and investment promotion offices on the continent to facilitate trade and investment flows. The offices are located in Egypt, Nigeria, Ghana, Kenya, Ethiopia, Tanzania, Zimbabwe, the United Arab Emirates, Saudi Arabia and Angola. New foreign offices were expected to be opened in Zambia, Senegal, Algeria and Angola.

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 with multilateral international institutions and agreements – from the WTO to the African-Caribbean-Pacific Declaration.

Southern African Development Community

The SADC is constituted by Angola, Botswana, the Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zim-babwe. Madagascar submitted an application for membership during the SADC Heads of State Summit, held in Mauritius during August 2004, and was granted permanent membership in August 2005.

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

Implementation of the Southern African Development Community Protocol on Trade

The SADC Protocol on Trade was signed in 1996 in Maseru, Lesotho, and came into force on 25 January 2000.

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

By mid-2005, all SADC countries, with the exception of Angola, the DRC and Madagascar, were implementing the protocol. Angola has committed itself to the protocol by signing and acceding to it, and is preparing its tariff-reduction offers that are critical in the implementation of the protocol.

By June 2005, the SADC Secretariat was finalising the mid-term review on the implementation of the protocol. The findings of this review will indicate the levels of trade that have taken place under the protocol's preferences, to assess the rules of origin and any other issues that may impact on regional economic integration.

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

Southern African Customs Union

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

SACU members agreed on the establishment of national bodies responsible for receiving tariff applications from each member state. Consensus was also reached on a new revenue-sharing formula. The new SACU Agreement also provides for member states to develop common policies and strategies with respect to industrial development.

Agreement was reached to co-operate on agricultural issues to ensure the co-ordinated development of the agricultural sector. Member states will also co-operate to ensure fair competition and address unfair trade practices.

Two-way trade between South Africa and the other SADC member states is characterised by the prevailing trade imbalance in terms of exports versus imports from the region. Within the SADC, a smaller group of countries, Botswana, Lesotho, Namibia, Swaziland (the BLNS countries) and South Africa have organised themselves into the SACU. SACU thus 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 (estimated at over R38,8 billion at the end of 2004) is destined for SACU and other SADC countries. South African trade with this region increased significantly between 2002 and 2004, from R15 billion to R38,8 billion. Trade with SADC countries also increased from R32 billion to about R38 billion between 2002 and 2004.

This increase was again experienced in the amount of imports from the region, from R4 billion to R6 billion. This gives an overall export:import ratio of 6:1. There is a definite need to reverse this trend and close the trade imbalance between South Africa and its SADC partners.

Zimbabwe is the main destination for South Africa's exports into Africa, absorbing well over R6 billion of South Africa's exports. It is the largest importer within the SADC region, importing over 24,4% of South Africa's exports into Africa.

Mozambique's position is improving. The country is importing more than it did in 2002 (from 16,4% to 19,5%), absorbing over R5 billion of South Africa's exports.

Trade with Europe

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

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

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

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

European Union

The TDCA, which came under provisional implementation on 1 January 2000, has established an FTA between South Africa and the EU. The TDCA commits South Africa to grant duty-free access to 86% of EU imports over a period of 12 years, while the EU will liberalise 95% of South Africa's imports over a 10-year period.

This agreement is expected to contribute towards the restructuring of the South African economy and its long-term economic growth. The agreement covers trade and related issues, and co-operation in economic, social and political fields. It also provides a legal framework for ongoing EU financial assistance on grants and loans for development co-operation, which amounts to R900 million per year.

Statistics compiled by the South African Revenue Service (SARS) show that increasing use is being made of the tariff preferences in the agreement.

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

In 2004, there were two major developments in the relations between South Africa and the EU. The first was the expansion of the EU when 10 more European countries became members of the EU. After 1 May 2004, the enlarged EU became a larger internal market, accounting for 450 million citizens (increasing from 374 million). The second event was the ratification of the TDCA by all EU member countries. The TDCA will now come under full implementation and will elevate South Africa's relations with the EU.

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 2004. Exports to the USA increased marginally in nominal terms from R29 billion in 2003 to R30 billion in 2004. Imports from the USA also recorded a paltry increase in nominal terms from R25 billion to R26 billion from 2003 to 2004.

Since 2000, the trade balance has been in South Africa's favour with the trade surplus increasing marginally in nominal terms from R3,5 billion to R4 billion between 2000 and 2004.

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

South Africa is also a beneficiary of the Africa Growth and Opportunity Act (AGOA), which was promulgated in May 2000. In terms of the AGOA, an additional 1 783 products were added to the existing GSP products. Although the AGOA was initially due to lapse in 2008, the US Government consented to requests by African countries and extended the measure to 2015 under what is called the AGOA III amendments. The AGOA also allows duty-free entry of clothing and selected textiles into the USA subject to certain criteria and policy reforms. By 2005, about 37 countries had qualified under the AGOA, with Burkina Faso becoming eligible from 10 December 2004. Ivory Coast was removed from the list of AGOA eligible countries with effect from 1 January 2005.

Canada is South Africa's second-largest trading partner in North America. Since the lifting of sanctions in 1994, bilateral trade between South Africa and Canada increased from R904 million in 1993 to R4 billion in 2004.

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. Furthermore, South Africa has an MoU with Canada relating to the export of clothing and textile products to that country.

The MoU allows a certain amount of clothing and textile products from South Africa to enter the Canadian market at a better than Most Favoured Nation tariff rate. The Trade and Investment Co-operation Arrangement, signed in 1998, sought to enhance bilateral and trade investment.

Latin America

South Africa's major trading partners in Latin America are Brazil, Argentina, Colombia, Chile, Mexico and Peru. Most trade is with Brazil and Argentina, which are members of the MERCOSUR trade bloc. A framework agreement committing South Africa and MERCOSUR to an FTA was signed in 2000. However, as a first step towards achieving this goal, the parties signed a preferential trade agreement (PTA) in December 2004.

Upon ratification by all signatories, the PTA will offer businesses from both sides preferential access on a broad range of product lines.

Trade between South Africa and MERCOSUR grew substantially from R2,7 billion in 1994 to R12,7 billion in 2004. South Africa recorded a trade deficit of about R7,8 billion against the bloc for 2004. About 62,5% of total trade between South Africa and MERCOSUR is with Brazil. Both South Africa and Brazil regard each other as strategic partners, with co-operation taking place in bilateral fora as well as in multilateral fora such as the WTO. Notwithstanding South Africa's strong ties with MERCOSUR, Chile is becoming an increasingly important partner for South Africa. South African mining companies are heavily involved in mining activities in Chile.

After a decline in total trade between South Africa and Mexico from R1,4 billion in 2000 to R1,2 billion in 2003, positive growth was witnessed in 2004. Total trade between the two countries increased to R1,5 billion in 2004. The balance of trade has been in South Africa's favour for a number of years.

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

Asia

South and south-east Asia and Australasia

India is a key partner for South Africa in South Asia and total trade with that country has been increasing rapidly since 1994. According to the latest figures, total two-way trade between the two countries reached R8,26 billion in 2004.

South Africa and India have enjoyed strong historical ties, which have translated into a firm political commitment. In the light of these shared historical links, closer economic ties are being fostered.

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

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

An FTA between SACU and India will accelerate trade flow between economies, extend the range of traded goods and services and, more importantly, increase the proportion of trade in higher value-added products. This process should stimulate investment, joint ventures and strategic partnerships between South African firms across a range of sectors.

South Africa also co-operates with India in areas of common interest in the WTO and other fora, and works closely in the India-Brazil-South Africa Forum. Furthermore, the two countries co-operate in the G20, a grouping of developing countries that seeks to address developmental challenges in the global economic system.

Bilateral trade with south-east Asia, particularly the Association of South-East Asian Nations (ASEAN) members, increased rapidly off a low base from 1990. The ASEAN presents South Africa with a potential market in excess of 520 million people. Within the ASEAN, partners for South Africa include countries such as Singapore, Thailand, Indonesia, Malaysia, Vietnam and the Philippines. Initiatives are underway to develop and strengthen relations with these economies. South African total trade with the ASEAN region totalled R1,64 billion in 2004, and is set for continued growth.

North-east Asia

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

Economic and trade relations between South Africa and the PRC have grown rapidly since the formal establishment of diplomatic relations, with total trade growing from R5,3 billion in 1998 to R29,6 billion in 2004.

The two countries engage regularly on economic issues through the Joint Economic and Trade Committee, which is held under the auspices of the BNC. The launching of SACU-China FTA negotiations were recently announced. An FTA with China opens up the possibility, through the subsequent deepening of trade investment relations, for mutually beneficial economic development, greater horizontal and vertical integration, and an environment for strategic partnerships, joint ventures, a greater range of imports and exports, and an increase in the trade of value-added products.

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

Japan is another important country. It is South Africa's largest trading partner in Asia and is among South Africa's largest overall trading partners. It was South Africa's third-largest export destination during 2004, with total trade between the two countries reaching R47,5 billion.

The Partnership Forum, designed to strengthen bilateral ties between Japan and South Africa, meets regularly and new initiatives are being explored to expand relations.

From March to September 2005, South Africa participated in the World Expo 2005 in Aichi, Japan. The expo not only assisted in showcasing South Africa's goods and services, but also reinforced the vision of pro-poor and ecofriendly sustainable development. South Africa was awarded the Silver Award Trophy for its recognition of poverty and war as a threat to the environment, and for its efforts to create a sustainable economy through ecotourism.

Multilateral economic relations

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

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

United Nations Conference on Trade and Development (UNCTAD)

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

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

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

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

UNCTAD holds a conference every four years to set its priorities and guidelines, and to provide an opportunity to debate key economic and development issues.

UNCTAD member states gathered in São Paulo, Brazil, in June 2004 for its 11th Ministerial Conference. The conference closed with the adoption of a declaration entitled the Spirit of São Paulo, as well as the São Paulo Consensus, which provides more detail on the role of UNCTAD in a globalising world.

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

The São Paulo Consensus focuses on:

- development strategies in a globalising world
- building productive capacities and international competitiveness
- assuring development gains from the international trading system and trade negotiations
- partnership for development.

World Trade Organisation

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

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

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.

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

A positive outcome of the Cancun meeting was the formation of a grouping of developing countries known as the G20. The group succeeded in pushing for significant reforms in agricultural trade, a move that was strongly opposed by the developed world. The failure to reach agreement in Cancun showed that developing countries are now participating more effectively in the WTO to ensure they also benefit from the rule-based trading system and globalisation. The G20 has become an important player in the Doha Development Agenda to ensure that the needs and concerns of the developing world are addressed.

After the failure of Cancun to agree on a work programme for continued Doha development agenda negotiations, the G20 proceeded with its work to highlight agricultural reform as an important development tool. The group was also engaged in trying to narrow the differences between developed and developing countries to put the Doha negotiations back on track.

In July 2004, the WTO General Council adopted a work programme to accelerate progress in the negotiations. This programme, known as the July Package, is focused on a specific set of issues, namely agriculture, non-agricultural market access, services, trade facilitation and rules. The negotiations are scheduled to conclude in 2006.

The G20 consists of Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Venezuela and Zimbabwe.

Cairns Group

The Cairns Group is an association of countries exporting agricultural products with the objective of free and fair trade in the global agricultural market. It participates as a group in WTO agricultural negotiations. The group consists of Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay. The Cairns Group and the G20 worked together in the WTO agriculture negotiations to ensure agricultural reform that would benefit developing countries.

World Economic Forum

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

The country hosted the Africa Economic Summit of the WEF in Cape Town in June 2005. The summit focused on the *Commission for Africa Report*, which calls on the G8 to boost African efforts to improve governance and institution-building by doubling aid.

Export and investment promotion

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

Trade and Investment South Africa (TISA)

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

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

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

Several export training and development seminars were hosted.

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

Customised Sector Programme (CSP)

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

TISA's aim is to develop strategies for all priority sectors and enhance their growth and competitiveness. The CSP Methodology, which provides a strong and intellectually vigorous platform for optimal sector development, was finalised.

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

Export development and promotion

TISA is responsible for the development and promotion of South African goods and services. It contributes directly towards the objectives of the Department of Trade and Industry by:

- identifying, researching and promoting market-access opportunities for South African exporters
- facilitating exports by matching potential exporters with foreign buyers
- developing and helping South African exporters promote their products through the provision of non-financial support.

Investment

Investment promotion and facilitation

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

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

International Investment Council

The council meets twice a year to advise the President on investment promotion and other economic issues.

The 8th International Investment Council meeting was held in March 2005 in Cape Town.

Topics discussed included government's programme of action, the investment climate in South Africa, the investment plans of key public enterprises such as Transnet and Eskom, and international perceptions of South Africa. G7 and EU initiatives regarding Africa and their relation to the strengthening of NEPAD were also discussed.

The meeting also addressed the challenge of integrating the Second Economy into the industrial economy.

The Micro-Economic Reform Strategy (MERS), originally announced by President Thabo Mbeki in 2001 as government's integrated economic action plan, is a coherent framework for action by departments to accelerate growth, equity and employment, and to generate a climate conducive to investment. MERS provides practical actions to exploit strategic domestic and global development opportunities and to remove impediments to growth.

The strategy encompasses the following key elements:

- improving the efficiency of, and expanding access to, services in four input sectors – transport, energy, telecommunications and water
- investing in economic fundamentals that underpin sustainable economic growth
- promoting shared growth through Broad-Based Black Economic Empowerment, women empowerment, small business development, employment and geographic spread
- developing the growth, employment and equity potential of selected priority sectors.

Enterprise and industry development

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

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

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

In 2004/05, EIDD developed policy proposals to modernise the South African technical infrastructure. These will culminate in new legislation on the different elements constituting the technical infrastructure, namely:

- strengthening government's recognition of the South African National Accreditation System as the national accreditation authority
- modernising the South African metrology infrastructure and standardising in South Africa
- establishing a new technical regulatory body for the country.

The EIDD established the National Committee on Chemical Safety and Management in 2004/05, which aims to bring all relevant stakeholders together and develop a national position to take to the relevant meetings.

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

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

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

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

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

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

- industrial – KwaZulu-Natal and Fish River SDIs
- agrotourism – Lubombo and Wild Coast SDIs
- sectoral mix – Maputo Development Corridor
- IDZs – Coega/Ngqura, Saldanha and East London.

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

A precious metals precinct is being established at the Johannesburg International Airport IDZ. The IDZ will allow for duty-free imports and exports of finished goods with great advantage to the industry.

By February 2005, the construction of Ngqura and East London IDZs had proceeded well. The Ngqura development project deep-water sea port was launched. During the first phase of construction, the East London IDZ created 726 jobs, benefiting many people from disadvantaged communities.

The East London IDZ acquired new investors in June 2005 in its bid to become a hub for vehicle and agroprocessing manufacturing. By mid-2005, the Coega/Ngqura IDZ had secured its first investor.

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 (HRD), integrated manufacturing and related activities, small business development, specific regions, and technology and innovation.

A number of incentives are being provided to both large and small businesses to improve their competitiveness. This includes incentives under the SMEDP, the Competitiveness Fund, the Sector Partnership Fund and the Black Business Supplier Development Programme.

By mid-2005, more than 12 000 enterprises had benefited from the SMEDP. The Competitiveness Fund had supported more than 1 200 enterprises, the Sector Partnership Fund had assisted over 85 successful partnerships consisting of over 600 individual enterprises, and the Black Business Supplier Development Programme had assisted over 600 small, black-owned enterprises to improve systems, quality, skills and marketability.

The department launched an incentive scheme for the film industry in June 2004, which was to be implemented in 2005/06.

By the end of 2004, the strategic industrial projects incentive scheme had attracted R2,2 billion worth of investments, which will result in 20 107 new direct jobs. More than R100 million will be spent on infrastructure and R122 million on support for small, medium and micro enterprises (SMME).

The draft Enterprise Development Bill was expected to be presented to Cabinet before the end of 2005/06. The Bill is intended to create an enabling regulatory framework for developing and administering economic incentives and other measures for supporting enterprise.

SMEDP investment on approved applications totals R1,4 billion over three years and industrialists will invest R6,8 billion in these projects. These investments represent 1 296 applications and it is estimated that they will generate 27 000 jobs.

Workplace Challenge Programme

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

The programme, which was allocated R7 million in 2004/05, focuses on the manufacturing and processing sectors.

The programme assisted eight new clusters, incorporating 57 companies employing 9 487 people. Three new clusters, incorporating 24 companies employing 4 899 people started the orientation phase in May 2004.

National Industrial Participation Programme (NIPP)

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

This encourages a better geographic spread of investment to create job opportunities and to support value-added manufacturing in strategic sectors of the economy that may not otherwise occur.

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

When the South African Government enters into sizeable contracts with foreign suppliers, they are obliged to participate in economic activities in the country that are designed to increase fixed investment and/or promote international market access for South African value-added goods and services.

The Industrial Participation Secretariat, a business unit within the EIDD of the Department of Trade and Industry, ensures that obligors meet their obligations, in terms of both quantity and time scales, without disrupting the existing local industrial activity, and striving to encourage labour intensity.

Strategic partnership agreements are pro-active arrangements to encourage international companies to identify business opportunities in South Africa.

Obligors can fulfil their obligations either through investment in approved projects or through promoting exports of South African value-added products, by either buying for their own requirements or causing foreign companies to buy from South African companies. In case of investment, Strategic Defence Procurement (SDP) obligors are entitled to sale (exports and local sales) credits arising from those investments in addition to credits for that investment and any technology transfers that may arise.

SDP obligors should fulfil about a third of the obligation from investment and technology transfer credits, and two-thirds from sales. Other obligors, in addition to investment, technology transfer and sales credits, are also entitled to credits arising from job creation, training and skills development, research and development expenses and subcontracting to small and medium enterprises (SMEs). In case of non-SDP obligations, credit multipliers are used to encourage BEE, investment and exports.

These obligations need to be discharged over a period of seven years, with the exception of the BAE/SAAB obligation, which must be discharged over 11 years due to its size.

Manufacturing

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

Key functions of the Department of Trade and Industry include:

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

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

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

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

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

The automotive sector is the leading manufacturing sector and the third-largest economic sector in South Africa. The sector's contribution to GDP in 2003 amounted to 6,4%. Growth in this industry can largely be attributed to the Motor Industry Development Programme (MIDP).

Recommendations on any adjustments to the existing MIDP take account of South Africa's international trade obligations, government's strategic objectives and the simplification of administration procedures. Stakeholders from labour, government and business represented in the MIDP participate actively in this review.

Competition policy

The Competition Act, 1998 (Act 89 of 1998), promotes competition in South Africa to:

- enhance the efficiency, adaptability and development of the economy

- provide consumers with competitive prices and product choices
- promote employment and advance the social and economic welfare of South Africans
- expand opportunities for South African participation in world markets and recognise the role of foreign competition in the country
- ensure that SMEs have an equitable opportunity to participate in the economy
- promote a greater spread of ownership, in particular to increase the ownership stakes of HDIs.

The functions of the Competition Commission include investigating anti-competitive conduct in contravention of the Act, assessing the impact of mergers and acquisitions on competition and taking appropriate action, monitoring competition levels and market transparency in the economy, identifying impediments to competition, and playing an advocacy role in addressing them.

The Competition Commission is independent but its decisions may be appealed to the Competition Tribunal and the Competition Appeal Court.

Small, medium and micro enterprises

Institutional support framework

Small Enterprise Development Agency

In 2004, the National Small Business Act, 1996 (Act 102 of 1996), was amended to provide for the merging of the Ntsika Enterprise Development Agency and the National Manufacturing Advisory Centre and the birth of the integrated, single SEDA on 13 December 2004. The Integrated Enterprise Strategy was also expected to be rolled out during 2005.

SEDA aims to:

- improve geographic outreach
- achieve the desired impact on small enterprises
- provide a single access point for small enterprises
- be inclusive of all relevant stakeholders
- leverage resources in service delivery
- optimise resource utilisation
- align government's strategy of service delivery in a coherent manner.

South African Micro-Finance Apex Fund (SAMAF)

The Department of Trade and Industry launched SAMAF in April 2005. The fund will provide loans of up to R10 000. During the first 18 months, lending is undertaken through various retail channels such as micro-credit organisations, financial services co-ops and the Postbank. The fund aims to introduce a delivery model that is appropriate and applicable to the unique conditions of the South African economy.

Khula Enterprise Finance

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

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

Furthermore, Khula Enterprise Finance is engaged in a process of repacking its financing activities. It introduced a new strategic direction that is premised on maximising access to finance by increasing its growth in disbursements by 20% a year. Khula will also improve its impact and outreach by introducing new delivery channels such as SEDA access points, as well as by forging new corporate partnerships that have better outreach across the country.

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

Technology for Women in Business (TWIB)

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

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

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

South African Women Entrepreneurs Network (SAWEN)

SAWEN assists aspiring and existing business women with their business enterprises. The network advocates policy changes, builds capacity and facilitates the access of women to business resources and information.

SAWEN has been:

- organising networking fora at regional, national and international level
- lobbying and advocating for enabling and supportive policies
- gathering and updating a database of women-owned enterprises and the services rendered by these companies
- facilitating access to pertinent business information
- facilitating capacity-building and training
- providing business mentorship and counselling
- facilitating access to decision-makers.

The majority of South African women entrepreneurs live in cities since economic resources are located mainly in the urban areas. The average company turnover of a South African woman owning a small to medium enterprise is estimated at R1,5 million a year. Women own enterprises in sectors including services, arts and crafts, manufacturing, agriculture, and clothing and textiles. Their advancement has also led them to enter sectors previously dominated by men.

According to a Southern African Development Community survey on small, medium and micro enterprises conducted by Business Map in 2003, representation and participation of women in different sectors included: agriculture (4%), construction (12%), communications (3%), manufacturing (36%), retail (9%), wholesale (7%), services (42%) and transport (20%). Others accounted for 11%.

National Empowerment Fund

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

The fund received R150 million during 2004/05 and a further R400 million for 2005/06.

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

It also operates at several different levels, providing finance and business support to rural women and fledgling entrepreneurs, and large-scale financial support to BEE groups.

The fund also introduced new products and services such as the Group Entrepreneurial Schemes Division (loans and equity finance to BEE SMEs from R250 000 to R10 million), Market Making (larger BEE transactions finance in capital markets, warehousing and strategic projects) and BEE Retail Investment (promoting HDI savings and access to listed equities through new product offerings in design phase).

The NEF partners with key business organisations that are focused on serving women. It deploys its resources to optimise the empowerment dividend to government. The NEF also provides pre- and post-investment management assistance.

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

Industrial Development Corporation (IDC)

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

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

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

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

In 2004/05, the IDC approved projects worth R6,2 billion, which represented a growth of 26% from the previous financial year. More than 17 000 job opportunities were created by IDC financing.

The IDC established a R50-million fund aimed to assist communities to obtain shareholding in IDC projects, and ultimately, to facilitate socio-economic development related to projects.

IDC collaboration with the EU and the European Investment Bank on the Risk Capital Facility enabled it to reach more black-empowered SMEs. This facility was used in 15% of IDC deals.

Through its financing activities, the IDC made a noteworthy contribution towards addressing the development needs of South Africa.

In the first six months of 2005, the IDC assisted with the creation of 23 211 new job opportunities and generated an estimated R5,7 billion additional export earnings a year.

Business Partners Ltd

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

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

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

In 2004/05, Business Partners boasted an investment portfolio of R1,066 billion, with equity-based investments amounting to 42% of the portfolio. A total of 538 investments valued at R660,5 million were approved in 2004/05. Of these, 213 investments to the value of R265,9 million were approved for historically disadvantaged entrepreneurs, and 159 investments amounting to R154,4 million were approved for women entrepreneurs.

Business Partners also facilitated 7 589 employment opportunities in 2004/05.

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

During 2004/05, investments amounting to more than R40 million were approved on behalf of the fund.

Business Partners has 22 offices nationwide. It offers free initial consultations to existing or potential entrepreneurs who have viable business plans.

More than 430 mentors are available to assist entrepreneurs with advice, consulting and mentoring.

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

State-owned enterprises (SoEs)

In May 2004, President Thabo Mbeki announced during the joint sitting of the third democratic Parliament, that government would unveil five-year investment plans and projects, accompanied by a financing strategy, that will contribute towards economic growth and development.

In this regard, the Department of Public Enterprises has adopted a broader mandate to achieve the overarching objective of faster economic growth and development.

The department's vision is to ensure that SoEs:

- facilitate economic growth through locating them in an optimal industry structure and ensure the efficiency of their operations and the economic effectiveness of their investment programmes
- play a leadership role within the economy in the areas of corporate governance and national policy implementation
- catalyse sector and regional economic development opportunities.

To support this vision, the department has undergone internal restructuring. Four new programmes have been established to fulfil the department's vision, mission and mandate.

These are Analysis and Risk Management, Corporate Strategy and Structure, Secretariat Legal and Governance, and Corporate Finance and Transactions.

The SoEs have embarked on major investment drives that seek to alleviate poverty and unemployment, especially in the Second Economy.

Eskom

Over the next five years, projected investment requirements to meet national energy needs and supply are estimated at R107 billion. This requires R76,9 billion in generation, R10,4 billion in transmission and R13,6 billion in distribution.

Eskom's investment plans are in line with the National Integrated Resource Plan for increased electricity supply. The capital expenditure of the energy utility is estimated at R84 billion if it delivers 70% of the required additional capacity. Due to high electricity demands, Eskom is rehabilitating three mothballed power stations in Camden, Grootvlei and Komati. (See chapter 16: *Minerals, energy and geology*.)

The programme is expected to create over 63 000 direct and indirect jobs. The other initiative is the construction of two peaking plants, while Eskom will be responsible for the construction of one peaking plant, which will translate into R15 billion in investment.

Transnet

The transportation utility has developed a five-year investment plan for its key business subsidiaries such as rail, ports and pipelines. The plan requires total capital expenditure of R37 billion over the next five years.

Refurbishment of the Phelophepha train, which provides mobile quality healthcare services, is expected to be completed in 2006. The utility is also set to build another health train that will commence operations in 2007.

Eskom and Transnet will embark on a joint venture to locate a modern call-centre operation in a rural area. Dimension Data subsidiary merchants will provide call-centre expertise. This pilot project was expected to start operations by September 2005.

Eskom will dispose of 14 non-core enterprises and assets with a combined asset value of R200 million. Transnet will dispose of 13 non-core entities with an estimated combined asset value of R7,7 billion. It was envisaged that the majority of transactions will be completed in 2005/06. The transactions constitute a major boost to BBBEE.

South African Airways (SAA)

By mid-2005, government was in the process of moving SAA off the Transnet balance sheet to become a stand-alone enterprise that will report to the Ministry of Public Enterprises.

South African Forestry Company (Ltd) (SAFCOL)

By mid-2005, the disposal of forest assets was nearing completion. The remaining key transaction within SAFCOL was the sale of Komatiland Forests, which was expected to go before the Competition Tribunal.

The sale of 9% shareholding interest from SAFCOL to employees was expected to be concluded by the end of 2005.

Consumer and corporate regulation

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

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

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

During 2004/05, three policies were finalised and published for comment. These relate to consumer credit, corporate law reform and consumer protection. The National Credit Bill, which delineates institutional responsibility for consumer-credit education, was drafted. The Liquor Act, 2003 (Act 59 of 2003), and the Gambling Act, 2004 (Act 7 of 2004), were promulgated in 2004. By the end of 2004, the consumer helpline, which became operational in October 2004, had received 472 new cases and resolved 344, while 56 were referred to other institutions. The volume of walk-in complaints continues to increase.

The National Liquor Authority was set up and received about 2 000 applications to convert liquor licences to comply with the Liquor Act, 2003.

CIPRO became a trading entity in July 2002 and has registered over 100 000 close corporations in the past three financial years.

Black Economic Empowerment

Broad-Based Black Economic Empowerment Strategy

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

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

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

The BBBEE Act, 2003 (Act 53 of 2003), was signed into law in 2004.

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

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

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

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

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

The Department of Trade and Industry released the draft codes of good practice in BEE for public comment in December 2004.

The first phase of the codes of practice dealt mainly with the ownership and management control elements of the BBBEE scorecard.

By June 2005, the process of drafting the second phase of the BEE codes of good practice was started. It will deal with employment equity, skills development, enterprise development, preferential procurement and the residual factor. This phase will also give specific attention to the SMME sector. It will deal with the issue of multinationals and the measurement of SoEs for the purpose of BEE. This phase will also go through a public commentary process.

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.

Public works programmes

The Department of Public Works plays an important enabling role in service delivery. It acts as the custodian of workplace-related immovable assets on behalf of the State, puts in place policies to govern the management of the physical work environment of the Public Service and facilitates the transformation and development of the construction and property industries.

The department is also responsible for putting in place a range of public works programmes to alleviate poverty and unemployment.

The department spent about R3 billion on various capital works projects in 2004/05 regarding its function of providing for the accommodation needs of national government departments.

The department has produced the Government-wide Immovable Asset Management Policy and was drafting a Bill in June 2005 to be tabled in the next session of Parliament. The Bill aims to establish uniformity and ensure the application of minimum norms and standards in the management of immovable assets across all spheres of government.

Between April 1994 and January 2005, the department made great strides in the improvement of public-service delivery, contributing to economic growth and poverty alleviation. In the same period, the department implemented 7 692 construction-related projects worth R10 billion as part of its core function to provide physical accommodation and other essential infrastructure to government.

The department is also implementing the Service-Delivery Improvement Programme as part of its strategic drive to improve customer service and offer value for money to clients.

This programme includes setting service-delivery standards, introducing more business-like management methods and entering into service level agreements with client departments. Problems of capacity are also receiving attention through the recruitment of learners, interns and young professionals onto mentorship programmes in the department.

Expanded Public Works Programme (EPWP)

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

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

The Business Trust of South Africa has committed R100 million to provide programme management support to all levels of government to ensure that lack of capacity is not an impediment to implementing the EPWP.

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

The EPWP is on course to reach its target of one million job opportunities in five years. By September 2005, some 223 400 gross work opportunities had been created from 3 400 EPWP projects nationwide in the first year of the EPWP, yielding at least R823 million in total wages paid. Of those who benefited from these projects in the first year of the programme, 38% were women, 41% youth and 0,5% disabled.

Construction and Property Industry Development Programme (CPIDP)

Both industries have been identified as indispensable to economic growth and social development. Government's socio-economic objectives such as BEE, entrepreneurship and HRD can be further advanced by the transformed industries in line with the reconstruction and development agenda.

The department carried out reviews of some of its existing programmes, including the Repair and Maintenance Programme and the Emerging Contractor Development Programme to assess their contribution to BEE. One of the improvements resulting from these reviews is the department's Contractor Incubator Programme, under which a group of more than 50 medium-sized black contractors have been selected for mentoring and training to develop their management expertise and provide them with the opportunity to become successful large contractors.

The Minister of Public Works, Ms Stella Sigcau, has also launched the Women in Property Project to encourage the participation of women at all levels of the property industry and its associated disciplines. She also launched the Association of Women in Property in August 2005 to champion the cause of women in the sector.

Construction Industry Development Board (CIDB)

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

The board's mandate is to:

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

Council for the Built Environment (CBE)

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

Improving public-service work environment

The departments of public works and of public service and administration are required to develop a framework to improve the physical work environment. Some of the elements of this framework are already being put into place, including the Immovable Asset Management Policy, the Infrastructure Delivery Improvement Programme and the department's Service-Delivery Improvement Programme.

The department will also issue revised space and planning norms for workplace-related accommodation in the Public Service. The revised norms will establish common standards for accommodation, aimed at modernising the workplace. Open-plan offices and building designs that allow for flexible space planning, which make better use of renewable energy, will be promoted.

Together with the Demand-Side Management unit of Eskom, the department will also implement an energy-saving programme at various government facilities such as prisons, magistrate's courts, police stations and office buildings.

Employment and skills development

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

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

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

Legislation

Skills Development Act, 1998, as amended

The following regulations were gazetted during 2004/05:

- Sector education and training authorities' (SETAs) grant regulations were amended in accordance with the Skills Development Amendment Act, 2003 (Act 31 of 2003), and the requirements of the National Skills Development Strategy (NSDS) 2005 – 2010
- new Department of Labour/SETA service level agreement regulations were introduced
- a guideline on the National Skills Fund (NSF) allocations and a procedure manual were developed
- regulations regarding private employment agencies were reviewed
- a learnership sectoral determination issued under the Basic Conditions of Employment Act, 1997 (Act 75 of 1997), is available.

Skills Development Levies Act, 1999

The Skills Development Levies Act, 1999 is used to collect levies from employers to sustain and implement the skills-development initiatives under the NSDS. Eighty percent of the levies collected are transferred to SETAs, based on their scope of coverage. They, in turn, put 10% towards their administration, 60% towards grants to employers, and 10% plus all funds not claimed by a certain date determined by a SETA, towards discretionary projects aimed at benefiting the economic sector in which the SETA is active. Twenty percent is allocated towards the NSF. They, in turn, pay up to 2% of the total levies collected to the SARS, and use 2% of the total NSF allocation towards the administration of the NSF programme.

South African Qualifications Authority Act, 1995

The Minister of Labour jointly administers the Act with the Minister of Education, through whose department funds for the authority are disbursed. Both ministers appointed new members of SAQA during 2004/05 to oversee the development and implementation of an integrated national framework of quality-assured learning achievement, that would:

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

Both ministers are considering a final policy statement regarding the future of SAQA. This follows the National Qualifications Framework (NQF) review that commenced in 2001, the publication of the NQF review document, and the subsequent report, *An Interdependent National Qualifications Framework Consultative Document,* produced in July 2003.

National Skills Development Strategy

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

The strategy managed to achieve, and in some instances exceed, its targets:

- By March 2005, 3 041 753 workers, which is more than the target of 1 398 033, completed their programmes satisfactorily.
- By March 2005, 53% of firms employing between 50 and 150 workers received skills development grants, against the target of 40%.
- Thirty seven percent of new and existing registered small businesses were supported and benefited from skills-development initiatives against the target of 20%.
- Some 666 new learnerships were registered with the Department of Labour by March 2005. Of these, 619 were learnerships registered on the NQF Level 5 and below, and 47 were learnerships above NQF Level 6. A total of 19 414 learners were engaged in NQF Level 4, followed by 13 826 learners in NQF Level 7 learnerships.
- Eighty one percent of the social development training money allocated under the NSF was already spent by March 2004. A placement rate of 71% was achieved and equity targets met.
- Some 69 000 learners below the age of 35 were registered in learnerships and apprenticeship programmes by the end of March 2004. This number increased to 85 753 by October 2004 against the target of 80 000.

The 2005 – 2010 NSDS was launched at the National Skills Conference in March 2005. Some R21,9 billion was allocated to the strategy over five years.

The new NSDS is expected to play a key role in realising government's goal of halving the country's unemployment by 2014.

The equity targets require that 84% of all beneficiaries of the NSDS be black, 54% female and 4% people with disabilities.

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

- NSF
- 25 SETAs.

Between 2002 and 2005, the NSF disbursed more than R2,3 billion (75%) of its total income of R3,12 billion to fund various projects in provinces and within SETAs. Some R1 billion was allocated towards strategic projects. This represents the single biggest investment in skills development funded under the NSF. By March 2005, the following were achieved under the NSF:

- R883 million (74%) of the total R1 billion for strategic projects had been spent
- 44 838 learners benefited from Adult Basic Education and Training or other programmes at NQF Level 1
- 35 943 people completed structured learning programmes
- 21 107 SMMEs benefited from skills and various other interventions, including mentoring
- 9 332 learners benefited from learnerships funded through strategic projects.

Under the NSF Social Development Funding Window, R700 million was spent between 1999 and 2004 to train about 400 000 unemployed people on skills-development projects.

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.

Sector Education and Training Authority Co-ordination Programme

The SETA Co-ordination Programme is responsible for the implementation of the NSDS at sectoral level. It aims to:

- ensure alignment with the SAQA framework and other education and training policies
- oversee and co-ordinate activities of the Department of Labour's Chief Directorate: SETA Co-ordination

- design and implement systems and processes to monitor the use of skills development levy grants, and evaluate the impact and contribution of skills development in enhancing productivity and employment and the number of skilled people in South Africa
- oversee SETA contributions towards the objectives and targets of the NSDS and the HRD Strategy
- facilitate the working relationship between SETAs, Indlela, a subprogramme of the Department of Labour, and provincial offices
- provide relevant analysis to enable the National Skills Authority (NSA), the director-general and the minister to make strategic policy decisions regarding skills development implementation
- facilitate financial skills development levies collection, transfers to SETAs, disbursements to employers and accountability of all stakeholders in the use of funds
- ensure increased access to and relevance of work-based learning and qualifications
- provide support and moderation to learning and assessment initiatives and delivery of training services by the restructured Indlela subprogramme.

Sector Eduction and Training Authority Performance Management

In 2004/05, SETA Performance Management:

- Ensured that all SETAs concluded MoUs with the Department of Labour for the 2004/05 financial year.
- Developed and implemented a formal performance assessment system that produced interim results for each SETA.
- Secured R2 million under the NSF for the capacity development of SETA board members through a formal structured programme on finances and corporate governance matters. A bid was closed on 11 March 2005.
- Adressed historical reporting inaccuracies by SETAs and the capturing of data within the department. This resulted in considerable improvement in SETA performance.

National Skills Authority

The NSA is an advisory body established in terms of the Skills Development Act, 1998 to advise the Minister on the NSDS, its implementation and other relevant matters. Its membership consists of organised business, labour and community organisations, government departments, and representatives from the education and training-provider community.

During 2004/05, the NSA focused and advised the minister on the following:

- the implementation review of the NSDS 2001–2005 during its first three years of implementation through constituency workshops
- the adjusted NSDS 2005 – 2010
- a review of the SETA landscape
- draft regulations relating to the proposed amendments to SETA establishment regulations, proposed amendments to learnership regulations, proposed SETA grants regulations aligned to the Skills Development Amendment Act, 2003, the NSDS 2005 – 2010 and proposed SETA service level agreement regulations
- a draft guide on the NSF funding windows for the NSDS 2005 – 2010, including target beneficiaries, organisations that may apply and access criteria.

The NSA played an important role in the planning, organisation and chairing of the National Skills Conference held in Midrand in March 2005.

National Skills Fund

The NSF, a statutory advisory body to the Minister of Labour on the NSDS, was established in 1999, as legislated by the Skills Development Act, 1998. The Minister of Labour, on advice received from the NSA, allocates subsidies from the NSF. The Director-General of Labour is the accounting officer of the fund.

The NSF is funded by 20% of the skills development levies collected by the South African Revenue Sevice (SARS) (of which 2% is paid to SARS as collection fees and 2% is allocated for administrative costs).

The NSF has funded 66 481 beneficiaries who have completed or are receiving training. Other achievements include:

- From 2002 to the end of December 2004, the NSF awarded 22 955 undergraduate bursaries, to the value of R166,1 million, and 2 286 postgraduate bursaries, to the value of R66,8 million.
- From 2000 to the end of December 2004, 421 710 unemployed people were trained on social development projects – 62% were young black people and 57% were women. The total amount spent on training was R722 million.
- During 2004, 9 513 unemployed people were trained to be accommodated on EPWP projects, of which 6 089 were young black people and at least 5 002 were women.
- Funding of the eight innovation and research projects amounted to R2,1 million. Future plans include funding the NSDS and ensuring the alignment of the newly identified social development funding windows with the objectives and targets of the strategy.

Unemployment Insurance Fund (UIF)

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

This Act deals with the administration of the fund and the payment of benefits. It also makes provision for the commissioner to maintain a database used to pay benefits to beneficiaries. SARS continues to administer the Unemployment Insurance Contributions Act, 2002 (Act 4 of 2002). SARS collects contributions from all those employers who have workers who pay employees' tax.

The collection of contributions from all other employers is delegated to the Unemployment Insurance Commissioner.

The main tasks of the UIF are to:
- maintain an employer/employee database
- process claims and pay benefits
- invest excess funds
- reduce fraud opportunities
- collect contributions.

Achievements during 2004/05 include:
- By the end of January 2005, the fund had collected R5,1 billion in contributions and paid R2,1 billion to 465 580 beneficiaries.
- The fund's technical reserves at the end of January 2005 totalled R8,455 billion.
- By the end of January 2005, 27 000 domestic workers had received benefits totalling R6 million.
- There were 490 000 domestic workers and 6,1 million commercial workers on the fund's database.
- The regional appeals committees were established.
- The Teba A-Card was successfully piloted in Limpopo and the Free State. A total of 2 913 people received benefits through the A-Card worth R8,7 million.

Occupational Health and Safety (OHS)

The OHS legislative framework consists of the OHS Act, 1993 (Act 85 of 1993), and 20 sets of regulations. Compliance is accomplished by conducting inspections and investigations, providing advocacy and statutory services.

Responsibility for OHS, and workers' compensation in South Africa currently resides in three government departments.

The Department of Labour is responsible for workers' compensation in terms of the Compensation for Occupational Injuries and Diseases Act, 1993 (Act 130 of 1993), and for OHS in terms of the OHS Act, 1993 (Act 85 of 1993).

The Department of Minerals and Energy is responsible for OHS in mines and mining areas in terms of the Mine Health and Safety Act, 1996 (Act 29 of 1996).

The Department of Health is responsible for the compensation of mineworkers in terms of the Occupational Diseases in Mines and Works Act, 1993 (Act 208 of 1993).

These three departments have developed and finalised the Draft National OHS Policy and the National OHS Bill.

Elimination of silicosis

The National Programme for the Elimination of Silicosis was launched in June 2004.

Twenty OHS-focused inspectors were trained at the University of Cape Town on the recognition, identification, evaluation and control of silica dust in the workplace.

Compensation Fund

The Compensation Fund is a public entity of the Department of Labour. The fund's main objective is to compensate workers for occupational injuries sustained and diseases contracted in the course of, and as a result of, their employment, and to compensate dependants in fatal cases. The fund generates revenue for all its operations from the assessments paid by registered employers.

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

The number of employers registered with the Compensation Fund has increased. On 31 February 2005, 283 732 employers were registered with the fund, compared with 271 237 in 2004.

The fund had more than R14 billion in assets of which R11,5 billion was invested. The accumulated funds consist of more than R6 billion in the Pension Account and R4 billion in the Statutory Reserve Fund.

The fund has developed, published and implemented policies for the compensation of occupational diseases, in consultation with other government departments and medical experts appointed by the Compensation Board. The purpose was to ensure a uniform approach to the handling of occupational diseases in relation to compensation.

The following policies were completed in 2004/05:

- Work Aggravated Asthma
- Upper Airways Disorders.

Between April 2004 and February 2005:

- compensation to beneficiaries amounted to R736 million
- the cost of medical aid totalled R939 million
- pensions amounted to R377 million.

The total claims expenditure amounted to R2 billion.

According to the Labour Force Survey, 2005, released by Statistics South Africa in March 2005, the number of employed persons rose from 11,4 million in March 2004 to 11,6 million in September 2004 and 11,9 million in March 2005. The industries that registered the largest increase in employment growth over the period September 2004 to March 2005 were agriculture (up by 107 000 jobs) and trade, up by a similar number. The mining sector posted modest gains – up by 21 000 jobs – from 405 000 in September 2004 to 426 000 in March 2005.

Labour relations

The Labour Relations Programme's area of work relates to the setting of employment conditions for vulnerable workers, including children, ensuring equity in the workplace, and promoting and monitoring collective bargaining.

The programme continues to administer activities and developments regarding the Labour Relations Act, 1995 (Act 66 of 1995), the Basic Conditions of Employment Act, 1997 and the Employment Equity Act, 1998.

Directorate: Employment Standards

The Directorate: Employment Standards of the Department of Labour focuses mainly on the assessment and completion of applications for variations of minimum wages and conditions of employment received from employers within the agricultural sector. In 2004/05, some 797 applications were assessed, of which 457 were personally verified during provincial visits.

The directorate finalised the Code of Good Practice for the Employment of Children in the Performance of Advertising, Artistic or Cultural Activities.

Employers active within the performing arts are required to apply for permits before they employ children younger than 15 years. The directorate made considerable progress in ensuring that employers and other role-players are aware of this new requirement contained in the Sectoral Determination for the Employment of Children in the Performance of Advertising, Artistic or Cultural

Activities. Between August 2004 and mid-2005, 639 applications for permits were granted.

Sectoral determinations and amendments to sectoral determinations

The Sectoral Determination 1: Contract Cleaning Sector was amended.

Investigations into the following sectoral determinations were completed:

- the Minister of Labour approved the publication of the Sectoral Determination for the Taxi Sector
- the Director-General's report on the forestry sector was submitted to the Employment Conditions Commission for consideration and recommendation.

Investigations into minimum wages and conditions of employment in the welfare sector was announced.

Other highlights on sectoral determinations include:

- minimum wages and conditions of employment for farmworkers are under review
- research has been commissioned to investigate minimum wages and conditions of employment in the hospitality sector
- the investigation into the sheltered employment sector continues.

Child labour

The National Child Labour Action Programme (CLAP) was provisionally adopted in September 2003, with the support of a wide range of government departments and institutions.

Subsequent to the adoption of the CLAP, the department facilitated the formulation in 2004 of the Programme Towards the Elimination of the Worst Forms of Child Labour (TECL) to assist in implementing the key action steps of the CLAP. The TECL is essentially an executing agency for key elements of the CLAP, as partner to relevant government departments. The lead department is the Department of Labour. It is funded through the International Labour Organisation.

Among the flagship projects of the TECL are the running of pilot programmes to devise and test methodologies. Some pilots address the most intolerable forms of child labour, the commercial sexual exploitation of children, child trafficking and children used by adults to commit illegal activities.

Another set of pilots facilitates the prioritisation of water services to households far from the sources of safe water to relieve excessive pressure on children and women (and households generally) carrying water over long distances. The latter project forms part of government's programme to deliver water to all households. Work on all these projects has commenced and the bulk of the initial rapid assessments has been completed.

Bargaining Employment-Equity Registry

During the October 2004 reporting period, the directorate received employment-equity reports detailing workforce profiles and qualitative data from 9 364 employers. This was a significant increase from the 6 990 reports received in October 2002, when both large and small designated employers were required to report.

This improvement may largely be attributed to the co-operation of the social partners at Nedlac, i.e. organised business, organised labour, community and government, who jointly campaigned throughout the country in 2004 to raise the level of awareness of the Employment Equity Act, 1998.

Commission for Employment Equity (CEE)

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

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

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

Employment-Equity Awards System

The CEE has developed the Employment-Equity Awards System. The purpose of this system is to identify employers who excel in implementing the Employment Equity Act, 1998. The system was expected to be implemented in the 2005/06 financial year.

Code on the Integration of Employment Equity into Human Resource Policies and Practices

The CEE completed the draft Code on the Integration of Employment Equity into Human Resource Policies and Practices in March 2005. The draft code aims to provide guidelines on the elimination of unfair discrimination and the implementation of affirmative action measures in the context of key human resource areas, as provided for in the Employment Equity Act, 1998. The guidelines in the draft code will enable employers to ensure that their human resource policies, procedures and practices reflect employment-equity principles.

Directorate: Collective Bargaining

The directorate:

- administers the Labour Relations Act, 1995
- registers trade unions, employers' organisations and bargaining and statutory councils
- publishes bargaining council agreements for the extension thereof to non-parties
- promotes and monitors collective bargaining.

Collective agreements

During 2004/05, 92 collective agreements of bargaining councils were extended to non-parties covering 620 298 workers. These agreements were mainly collective agreements on wage increases and issues such as council levies and medical aid, pension and provident fund benefits.

Of the 52 private-sector councils, 44 (84,6%) reported on the state of applications for exemption from certain provisions of collective agreements extended to non-parties. The majority of applications were from small enterprises. Furthermore, the majority of councils indicated that small enterprises had seats on the council, as well as the independent body to hear appeals.

Dispute resolution

The directorate monitors the Commission for Conciliation, Mediation and Arbitration's (CCMA) activities, ensuring effective and efficient dispute-resolution systems. During 2004/05, the CCMA received R173 million for all its programmes and activities. Between April 2003 and February 2004, the CCMA adjudicated over 115 894 cases; an average of 553 cases a day.

Between April 2004 and February 2005, the CCMA was involved in 169 cases of section 189A (large retrenchments) facilitation. The settlement rate of these cases stood at 60%. The CCMA was also involved in 82 cases of section 188A predismissal arbitration. A total of 43 674 conciliation/arbitration cases and 476 applications for enforcement of arbitration awards as orders of court were handled.

Registration of labour organisations

The registration of labour organisations continues. Efforts are made to identify non-genuine labour organisations and to deregister them if necessary.

In 2004/05, a total of 29 trade unions' registrations were cancelled in terms of Section 106 of the Labour Relations Act, 1995, for reasons ranging from not submitting audited financial statements over a number of years, to not being a genuine union as envisaged by the Act. By mid-2005, there were 341 registered trade unions.

Eight registrations from employers' organisations were cancelled in terms of Section 106 of the Labour Relations Act, 1995. The cancellations were based on similar reasons as for the trade unions. By mid-2005, there were 229 registered employers' organisations.

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