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Economy

South Africa has achieved a level of macroeconomic 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, thus laying the foundation for increased investment and growth.

South Africa's economy is stronger than at any time in the past 20 years. It expanded by about 5% in 2005, and continued growth at about 5% a year over the period ahead is anticipated.

Business confidence remains strong, investment and employment creation are gaining momentum, and inflation and interest rates remain moderate.

Accelerated and Shared Growth Initiative for South Africa (AsgiSA)

AsgiSA is a government initiative aimed at ensuring that economic growth is accelerated to on average at least 4,5% in the next five years (2005 – 2009) and to an average of 6% between 2010 and 2014. This acceleration of growth is what is required to achieve government's mandate of halving poverty and unemployment by 2014.

AsgiSA also includes infrastructure development to upgrade and build railway lines, harbours, ports and roads over the next five years.

With South Africa's unemployment rate at 26,7% by February 2006, the infrastructure programme is geared towards creating and sustaining employment.

Overall government expenditure for infrastructure spending will total some R410 billion between 2007 and 2010. Of this, about 40% will be spent by public enterprises, mainly Eskom (R84 billion covering energy generation, transmission and distribution) and Transnet (R47 billion, of which R40 billion will go towards harbours, ports, railway and petroleum pipelines).

Airports Company South Africa will spend R5,2 billion, which includes airport improvement and the Dube Trade Port. Some R19,7 billion will go towards water infrastructure.

South Africa will be hosting the 2010 Soccer World Cup. Existing stadiums will be upgraded and new ones built, and investment will be made in the environment around stadiums and on access to these venues.

There will also be investment in information and communications technology (ICT) to grow South Africa's broadband network rapidly and reduce telephony costs, which will benefit the call-centre sector that represented some 5 000 jobs by mid-

2006. This sector has the potential to create 100 000 additional jobs, directly or indirectly, by 2009.

AsgiSA responds to binding constraints, such as the:

- relative volatility and level of the currency
- cost, efficiency and capacity of national logistics systems
- shortage of suitably skilled labour, amplified by the cost effects on labour of apartheid spatial patterns
- barriers to entry, limits to competition and limited new investment opportunities
- regulatory environment and the burden on small and medium businesses
- deficiencies in state organisation, capacity and leadership.

AsgiSA has also identified particular sectors of the economy for accelerated growth, building on the work already done within the context of the existing Micro-Economic Programme, which includes the following sectors:

- chemicals
- metals beneficiation, including the capital-goods sector
- creative industries (crafts, film, content and music)
- clothing and textiles
- durable consumer goods
- wood, pulp and paper.

Joint Initiative for Priority Skills Acquisition (Jipsa)

On 27 March 2006, Deputy President Phumzile Mlambo-Ngcuka launched Jipsa, the skills-empowerment arm of AsgiSA.

AsgiSA has identified the shortage of skilled labour as one of the six factors that constrain economic growth.

It is a two-tier structure comprising a joint task team and technical working group. The former has the task of unblocking the acquisition of targeted skills, overseeing the work of Jipsa, and ensuring that it delivers on its mandate of acquiring scarce and priority skills in the shortest possible time, building partnerships with different institutions and ensuring that Jipsa initiatives are sustainable.

Based on the priorities of AsgiSA, Jipsa's identified work areas are:

- high-level world-class engineering and planning skills for the network industries, and the transport, communications and energy sectors
- city, urban and regional planning and engineering skills desperately needed by South African municipalities
- artisan and technical skills, with those needed for infrastructure development enjoying priority
- management and planning skills in education, health and municipalities
- teacher training for Mathematics, Science, ICT, and language competence in public education

- specific skills needed by priority AsgiSA sectors starting with tourism and business process outsourcing and cross-cutting skills needed by all sectors, especially finance and project managers
- skills relevant to the local economic development needs of municipalities, especially developmental economists.

Jipsa is a support measure for citizens who are trapped in the Second Economy, giving them a chance to participate in the First Economy and in the growing South African economy in general. The work of Jipsa aims to boost empowerment through education.

Economic indicators

Domestic output

Real domestic production responded positively to the growth in real expenditure and registered a growth rate of 4,9% in 2005. This compared favourably with the growth in real gross domestic production of 4,5% recorded in 2004, and was the highest growth rate since 1984.

On a quarterly basis, real economic growth lost some momentum in the second half of 2005 and decelerated from an annualised rate of 4,2% in the third quarter of 2005 to 3,3% in the fourth quarter. The diminished performance in the final quarter, reflecting a decline in the real value added by the primary sector, and slower growth in the real value added by the secondary sector.

Following increases of between 2,3% and 8,7% in the first three quarters of 2005, the real value added by the primary sector declined at an annualised rate of 2,1% in the fourth quarter. This was the net result of a slowdown in the real value added by the agricultural sector, while the real value added by the mining sector declined. However, on an annual basis, the level of real output in the primary sector improved from an increase of 1,5% in 2004 to 3,8% in 2005 as a whole.

For 2005 as a whole, the tertiary sector experienced the strongest growth of all major production sectors. Within the tertiary sector, the finance sector registered the highest rate of increase in real value added, consistent with the increase in the real value added by securities dealers throughout 2005. In the primary sector, agriculture output increased, and the increase in real value added in mining remained at 3% in 2005. Real value added by the secondary sector expanded by roughly 4% during 2005.

Manufacturing output increased more slowly in 2005, partly in response to the stronger Rand.

Following a decline of 1,7% in 2004, the real value added by the agricultural sector increased at a rate of 5,4% in 2005, mainly due to field-crop production, particularly maize. Quarter-to-quarter growth in the real value added by the agricultural sector was at its strongest in the third quarter of 2005. It slowed, however, from an annualised rate

Real gross domestic product

Percentage change at seasonally adjusted and annualised rates

Sector	**2004**					**2005**				
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Primary sector	1,4	1,9	7,4	-1,1	1,5	8,7	3,6	2,3	-2,1	3,8
Agriculture	2,4	3,4	7,0	3,4	-1,7	6,4	2,9	10,2	3,9	5,4
Mining	1,0	1,3	7,6	-2,8	2,8	9,6	3,9	-0,7	-4,5	3,1
Secondary sector	9,2	10,9	10,1	3,2	5,1	-0,5	7,7	5,4	1,7	4,6
Manufacturing	9,0	11,3	11,0	3,0	4,6	-2,3	7,9	5,6	-0,3	4,1
Tertiary sector	4,2	5,3	5,3	5,7	4,7	6,0	4,4	4,3	4,9	5,2
Non-agricultural sector	5,1	6,3	6,6	4,4	4,6	4,7	5,1	4,2	3,4	4,9
Total	5,0	6,5	6,6	4,3	4,5	4,6	5,4	4,2	3,3	4,9

Source: South African Reserve Bank, *Quarterly Review*

of 10,2% to 3,9% in the fourth quarter of 2005. This slowdown was partly due to a decline in horticultural output, while livestock production continued to increase over the period.

The real value added by the mining sector increased in the first half of 2005, but production volumes dropped towards the latter half of the year.

The contraction in real output at an annualised rate of 4,5% in the fourth quarter of 2005 was mainly due to a decline in the real value added by the platinum-mining sector.

The strength of the exchange rate affected profitability as export earnings came under pressure. Despite a gradual deterioration in the quarter-to-quarter rate of growth in the real value added by the mining sector, the increase in real value added was 3,1% in 2005 as a whole, which was comparable with the rate of 2,8% recorded in 2004.

Following an increase of 5,4% in the third quarter of 2005, growth in the real value added by the secondary sector slowed to an annualised rate of 1,7% in the fourth quarter. This could be attributed mainly to a decline in the growth in manufacturing output. Although growth in real value added accelerated in the sector supplying electricity, gas and water, as well as in the construction sector, these increases were not enough to offset the decline in manufacturing production. As a result, the value added slowed on a year-to-year basis, recording a growth rate of 4,6% in 2005 compared with 5,1% in 2004.

Growth in the real value added by the manufacturing sector declined marginally from an annualised rate of 5,6% in the third quarter of 2005 to 0,3% in the fourth quarter. This can be attributed mainly to declines in the real output of several subsectors.

Real output of manufactured food and beverages, petroleum, chemical and plastic products, as well as electrical machinery, contracted. Plant conversions related to the change-over from leaded to unleaded and lead-replacement fuel adversely affected production in the petroleum and chemical products subsector over the period.

However, the real output of manufacturers of basic iron and steel products as well as transport equipment increased over the same period. Quarter-to-quarter growth rates ranging between -2,5% and 8% brought the growth in real manufacturing production for 2005 as a whole to 4,1%, compared with 4,6% growth in 2004.

Real gross domestic expenditure

Percentage change at seasonally adjusted annualised rates

Components	**2004**					**2005**				
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Final consumption expenditure by households	6,7	7,2	7,4	7,7	6,5	6,5	6,7	6,1	6,8	6,9
Final consumption expenditure by general government	5,4	6,0	0,1	12,6	6,9	0,8	5,9	5,5	14,7	5,6
Gross fixed capital formation	11,7	9,9	7,5	9,7	8,8	9,9	4,6	7,0	7,5	8,0
Change in inventories (R billion) at constant 2000 prices	10,9	16,7	17,8	12,7	14,5	12,3	6,0	13,3	2,0	8,6
Gross domestic expenditure	9,7	9,5	4,7	3,8	7,5	7,0	5,9	7,4	3,9	5,9

Source: South African Reserve Bank, *Quarterly Review*

Real gross domestic product (GDP)

Following a decline of 1,7% in the third quarter of 2005, growth in the real value added by the sector supplying electricity, gas and water accelerated to an annualised rate of 3,6% in the fourth quarter. The increased output was mainly evident in electricity production. For the year as a whole, growth in the real value added by the sector supplying electricity, gas and water slowed in 2005, which was characterised by an exceptionally mild winter that affected electricity consumption.

The real value added by the construction sector increased from an annualised rate of 9,5% in the third quarter of 2005 to 12,4% in the fourth quarter. The firm performance reflected the continued buoyancy of residential and non-residential building activity. In addition, provincial governments stepped up the pace of civil construction works.

The real value added by the tertiary sector grew at an annualised rate of 4,7% in the fourth quarter of 2005, which was slightly higher than the growth rate recorded in the second and third quarters. This can be ascribed mainly to lively activity in the commerce, transport, storage and communications sector, as well as in the finance, insurance, real-estate and business-services sector. The relatively robust quarter-to-quarter rates of increase during 2005 lifted the real value added by the tertiary sector by 5,2% for the year as a whole, following an increase of 4,7% in the preceding year.

The growth in the real value added by the commerce sector accelerated from an annualised rate of 6,3% in the third quarter of 2005 to about 9% in the fourth quarter. The brisk performance mainly reflected buoyant activity in the retail and motor trade sectors. Against the backdrop of favourable consumer confidence, real spending on durable consumer goods surged in the fourth quarter of 2005, lifting the real value added of the retail subsector. The sale of new motor vehicles surged in the fourth quarter of 2005 and for the calendar year 2005, new motor vehicles sold totalled 565 000 or 24,4% more than the previous record of 454 000 new motor vehicles sold in 1981.

In August 2006, new vehicle sales increased by 12,5% compared with the same month in 2005. It was the highest monthly tally ever, for new cars in particular.

The real value added by the transport, storage and communications sector increased at brisk annualised rates of 6,1% in the third quarter of 2005 and 6,5% in the fourth quarter. This was broadly in keeping with the sustained high level of domestic demand which led to an increase in the usage of land freight transport across the country. The real value added by the communications subsector was sustained at a high level in the third and fourth quarters of 2005. The strong quarter-to-quarter growth in the transport, storage and communications sector throughout the year culminated in an annual growth rate of 5,6% in 2005 as a whole, compared with the 4,6% increase recorded in 2004.

Following an increase of 4,5% in the third quarter of 2005, growth in the real value added by the finance, insurance, real-estate and business-services sector eased to an annualised rate of 3,7% in the fourth quarter. A slowdown in the real value added by banks was not fully offset by the increased output of other subsectors. Positive sentiment towards equity investment on the Johannesburg Securities Exchange (JSE) Limited lifted the real value added by securities dealers in the fourth quarter. In addition, the real output of the real-estate sector continued to benefit from sustained buoyancy in fixed property transactions. The annual growth in the financial intermediation, insurance, real-estate and business-services sector in 2005 amounted to about 7,7%, which was roughly the same rate as attained in 2004.

Real value added by general government accelerated from an annualised rate of 1,2% and 0,9% in the second and third quarters of 2005 to 1,9% in the fourth quarter.

Growth in real gross national income slowed from 5,5% in 2004 to 5,1% in 2005, mainly due to a sharp increase in net primary income payments made to the rest of the world, which more than neutralised an improvement in South Africa's terms of trade. Accordingly, growth in real gross national income per capita also slowed from a rate of 4% in 2004 to 3,7% in 2005.

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 2005.

Growth in aggregate real gross domestic expenditure slowed considerably from an annualised rate of 7,4% in the third quarter of 2005 to 3,9% in the fourth quarter. A substantial slowdown in the pace of inventory investment more than countered a marked acceleration in real domestic final demand – real final consumption expenditure by households and by general government, and real gross fixed capital formation. The level of real gross domestic expenditure was 3,9% higher in 2005 than in 2004.

Growth in real final consumption expenditure by households accelerated from 6,1% in the third quarter of 2005 to an annualised rate of 6,8% in the fourth quarter. The buoyancy in consumer spending was also reflected in a year-on-year growth rate of 6,9% in 2005, compared with a growth rate of 6,5% recorded in 2004.

Nevertheless, the growth in real household expenditure for 2005 as a whole amounted to 7%, compared with an increase of 6,5% in 2004. This was the highest annual growth rate in real consumption expenditure by households to be registered since 1981.

Factors that underpinned household spending in 2005 included:

- an increase of 6,6% in real household disposable income in 2005, partly due to wage settlements that remained above the contemporaneous inflation rate and income tax rates, which were lowered marginally
- the ratio of debt service payments to disposable income that remained relatively low throughout 2005 at 6,6%
- 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.

Robust discretionary spending boosted the surge in real outlays on durable consumer goods from an annualised growth rate of 8,1% in the third quarter of 2005 to 24,4% in the fourth quarter. Relatively stable prices for new vehicles and interest rates which remained at 25-year low levels contributed to the high level of spending on personal transport equipment, especially on new motor vehicles. Growth in real outlays on furniture, household appliances and medical equipment slowed in the fourth quarter of 2005.

Growth in real final consumption expenditure on semi-durable goods levelled off in the fourth quarter of 2005, decelerating from a growth rate of 19,6% in the third quarter of 2005 to 8,6% in the fourth quarter. Slower growth was evident in all the spending categories of semi-durable goods.

Growth in real household expenditure on non-durable goods and services in the fourth quarter of 2005 continued at the modest pace set in the previous quarters. Growth in real outlays on household fuel and power, medical and pharmaceutical products, as well as some services, accelerated moderately over the period.

A steady increase in real household disposable income underpinned robust household spending. In addition, households also incurred more debt to satisfy their appetite for consumer goods and property acquisition. As a result, household debt as a percentage of household disposable income rose from 63,5% in the third quarter of 2005 to a new record of 65,6% in the fourth quarter. On an annual basis, the ratio increased from 55,9% in 2004 to 62,4% in 2005.

After an annualised increase of 5,5% in the third quarter of 2005, real final consumption expenditure by general government gained further momentum in the fourth quarter of 2005, recording an annualised increase of 14,7%. This was the result of an increase in real expenditure on goods and non-wage services, which included the acquisition of a submarine by the South African Navy as part of the defence procurement programme.

Final consumption expenditure by general government as a percentage of GDP increased from 19,7% in 2004 to 20,2% in 2005. However, year-on-year growth in real final consumption expenditure by general government decelerated from 6,9% in 2004 to 5,6% in 2005.

Growth in real gross fixed capital formation rose at brisk annualised rates of 7% in the third quarter of 2005 and 7,5% in the fourth quarter. The modest acceleration reflected a solid expansion of real capital outlays by private business enterprises and public corporations, whereas real gross fixed capital formation by general government recorded no growth in the fourth quarter of 2005. The year-on-year level of total real gross fixed capital formation rose by 8% in 2005, just short of the 8,8% increase attained in 2004.

Growth in real capital outlays by the private sector picked up from 7,5% in the third quarter of 2005 to 7,9% in the fourth quarter. The manufacturing, construction and commerce sectors stepped up real gross fixed capital formation, which more than offset a contraction in real capital expenditure by the agriculture and mining sectors. Capital investment by the agricultural sector remained low, partly on account of the lustreless performance of key agricultural product prices.

Real fixed investment by manufacturing rose as the automotive and steel manufacturers continued to expand capacity in response to domestic and global demand. Briskly expanding construction activity and the prospect of further projects in the pipeline contributed to higher real capital expenditure in the construction sector. Moreover, the sustained high level of activity in retail and motor trade boosted growth in real gross fixed capital formation in the commerce sector.

Real gross fixed capital formation by public corporations picked up momentum from annualised growth of 12,1% in the third quarter of 2005 to 15,3% in the fourth quarter. Public corporations stepped up spending to upgrade the capacity of the electricity distribution network and to expand ports and harbours to relieve congestion and to accommodate larger container ships, thereby facilitating increased external trade.

Gross fixed capital formation by general government lagged behind that of the other institutional sectors, partly due to capacity constraints. Capital expenditure on key projects to address infrastructure backlogs is to be stepped up in later periods. However, provincial government increased capital investment in the fourth quarter of 2005, mostly geared towards the maintenance of the road network.

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 16,1% in 2004 to 16,8% in 2005. This compares well with an average ratio of 15% from 2000 to 2003.

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 high of 9,2% in 2002; to 5,8% in 2003; 1,4% in 2004; and 3,4% in 2005 – 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 3% to 6% in the 30 consecutive months to February 2006.

During the recent period, price inflation dropped, mainly due to the substantial appreciation in the exchange rate of the Rand since the second half of 2002. Additional factors which helped reduce 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, in line 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 4% in December 2005 to 4,3% in January 2006 and 4,9% in February 2006. Contributors to the latest figure included annual increases in the price indices for transport, food, medical care and health expenses, and housing, excluding the interest rate on mortgage bonds.

The annual rate of increase in food prices stood at 4,7% in February 2006 compared with 4,4% in January 2006.

Year-on-year headline inflation or the consumer price index (CPI) was at 3,9% in February 2006 – down from 4% in January 2006.

Statistics South Africa ascribed the higher rate partly to a rise in the year-on-year CPI for transport from 8,8% in January 2006 to 10,1% in February 2006.

Another factor was an increase in the CPI for food from 4,4% in January 2006 to 4,7% in February 2006.

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 two categories showed year-on-year rates of price increase in excess of the upper limit of the inflation target range by February 2006. 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 11,7% between the end of December 2003 and the end of December 2004, depreciated by 2% between the end of December 2004 and the end of December 2005.

The decline in the external value of the Rand coincided with a widening in the deficit on the current account. The trade weighted exchange rate of the Rand displayed notable fluctuations during 2005, having depreciated by 9% during the first half of the year before recovering nearly all the lost ground during the second half.

The external value of the Rand strengthened by 1,8% and 0,3% in January and February 2006 respectively before depreciating by 1,1% in March. From the end of December 2005 to the end of March 2006, the nominal effective exchange rate of the Rand appreciated by 1%.

The average daily turnover in the domestic market for foreign exchange, which increased to US$13,8 billion in the third quarter of 2005, declined to US$12,0 billion in the fourth quarter. The value of transactions in which non-residents participated decreased from US$10,2 billion per day to US$8,8 billion per day over the same period.

The real effective exchange rate of the Rand declined by only 0,7% from the end of 2004 to the end of 2005 signalling that, on balance, there was little net change to the international competitiveness of South African exporters.

Foreign trade and payments

Strong domestic production and expenditure in 2005 were accompanied by buoyant demand for imports.

For the year as a whole, the volume of merchandise imports rose by 11%. Over the same period, merchandise export volumes expanded by 8,5%, consistent with the solid performance of the world economy. Both the trade deficit and the deficit on the service, income and current transfer account widened in 2005, resulting in a deficit on the current account of the balance of payments amounting to R64,4 billion from R47,5 billion in 2004. As a ratio of GDP, the deficit rose to 4,2% in 2005.

The value of merchandise exports which had increased by 8,7% in 2004, advanced further by 13,8% in 2005. This increase could be partly attributable to higher volumes of exported goods, which amounted to 19,9% of GDP. The increase of 4,7% in Rand prices of merchandise exports following the vigorous surge in international commodity prices also boosted the earnings of South African exporters. The value of mining products, and agricultural and manufactured goods rose by 18,9%, 11,4% and 11,2% respectively. Increases were most noted in the subcategories for mineral products, platinum-group metals, machinery and electrical equipment, vehicle and transport equipment, and chemical products.

The widening of the current account deficit in 2005 was also brought about by a further decrease of 5,8% in the value of net gold exports, from R28,7 billion in 2004 to R27 billion in 2005. The lower value of net gold exports resulted from a decline of 12,5% in the volume of gold exported. This drop was, however, partially offset by an increase in the price of gold. Despite the appreciation of the external value of the Rand in 2005, the average realised Rand price of gold increased by 7,5% after having decreased by 4,5% in 2004. On the London market, the average fixing price of gold rose by 8,7% from US$409 to US$445 over the period.

Notwithstanding the decline in the physical quantity of imported crude oil in 2005, the acquisition of a naval vessel and three aeroplanes lifted the volumes of imported goods by 11,5%. Strong domestic demand for internationally produced goods raised South Africa's import penetration ratio from 22,7% in 2004 to 23,9% in 2005. At the same time, rising output prices in South Africa's main trading-partner countries and higher international prices completely countered an increase in the average effective exchange rate of the Rand. As a result, import prices moved upwards by 3,5% in 2005.

Net services, income and current transfer payments to non-residents increased from R46,2 billion in 2004 to R52,4 billion in 2005. The larger imbalance on the services account mainly reflected higher dividend payments to non-resident investors following the large-scale acquisition of South African equity securities in 2004 and 2005. These payments were only partly offset by an increase in tourism expenditure in the country.

South Africa recorded substantial inflows of capital on the financial account of the balance of payments during 2005. An inflow amounting to R98,4 billion was recorded during the year; the highest annual inflow ever recorded in a calendar year.

Net financial inflows to the value of R51,4 billion were recorded in the first half of 2005, followed by inflows of R47 billion in the second half. These inflows compared with the inflow of R84,6 billion recorded in 2004.

Inward direct investment increased during the year to an amount of R40,7 billion, compared with an inflow of R5,1 billion in 2004. The increase in the inflow occurred mainly as a result of the investment of a United Kingdom (UK)-based banking group in a South African commercial bank. Outward direct investment recorded an outflow of R0,4 billion in 2005, compared with an outflow of R8,8 billion in 2004. For 2005 as a whole, a net inflow of direct investment capital to the value of R40,3 billion was recorded.

Net portfolio investment declined from an inflow of R38,9 billion in 2004 to an inflow of R30,5 billion in 2005.

Other foreign investment into South Africa, consisting mainly of loans, trade finance and bank deposits, increased from an inflow of R10,9 billion in 2004 to an inflow of R22,1 billion in 2005. Over the same period, South African entities increased their other investment assets by R22,8 billion.

The country's net international reserves increased by R34,3 billion during 2005, owing to a strong surplus on the financial account. Total gross gold and foreign exchange reserves increased from R82,9 billion at the end of December 2004 to R130,5 billion at the end of December 2005.

In United States (US) dollar terms, South Africa's total gross international reserves rose from US$14,7 billion at the end of December 2004 to US$20,6 billion at the end of December 2005.

Import cover, which is the value of gross international reserves expressed as a ratio of the value of imports of goods and services, increased from nine weeks at the end of 2004, to 13 weeks at the end of 2005.

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 goals of:

- 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 investment 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 ensuring policy coherence.

In 2005/06, the department implemented 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 of Trade and Industry was expected to finalise the National Industrial Policy Framework in 2006/07, which will include a regional development strategy focusing on strengthening competition regulation.

The policy is expected to focus on unlocking South African industrial development in a sustainable manner by identifying strategic industrial interventions.

Broadening economic participation

Several of the department's programmes aim at bridging the economic divide and broadening economic participation by HDIs.

These programmes include:

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

The capitalisation of the National Empowerment Fund (NEF) commenced with an initial R400 million in 2005/06, 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 enterprises' capabilities 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. It will undertake reviews 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 be 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) in 2003.

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

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 taking 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 is expected to develop and implement a more targeted investment strategy. It will focus 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 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 the Organisation for Economic Co-operation and Development's 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 receive 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 concerning economic policy, as well as to 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, and enhances the support provided for organised business, specifically local business chambers.

Market access

International Trade and Economic Development (ITED)

The 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.

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

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

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

The ITED's global economic strategy considers sustainable growth as its departure point. It is not developed in isolation, but is part of South Africa's broad industrial strategy. It was formulated in light of the country's relations with the Southern African Development Community (SADC), the rest of Africa, Nepad, and economic relations with developed and developing trading partners in the North and the South.

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

Policy and programme developments in international trade development include:

- continued negotiations with Mercosur, a trading bloc consisting of Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay
- upcoming preferential trade negotiations with India and China, which were 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 mandate of the International Trade Administration Commission, which is an independent regulatory agency that has taken over administering the tariff regime from the Board of Tariffs and Trade, and is set to play a central role within the Sacu on tariff and related issues.

African economic development

South Africa's global economic strategy focuses on Africa and a strong development 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.

Addressing development challenges will be mutually beneficial to South Africa and the rest of Africa.

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 also 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
- 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 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 in Egypt, Nigeria, Ghana, Kenya, Ethiopia, Tanzania, Zimbabwe, the United Arab Emirates, Saudi Arabia and Angola. More are expected to be opened.

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.

New Partnership for Africa's Development

The Department of Trade and Industry provides supportive services to Nepad which has a critical role in catalysing trade and economic development on the continent to alleviate poverty. The department aims to lead national government's contribution to Nepad on economic issues.

It contributes to the Nepad agenda by mobilising the necessary support from relevant stakeholders internally and externally, and providing leadership and strategic guidance on trade and economic issues. It also contributes to the national project co-ordinated through the African Renaissance Cluster on the formulation of a national response to Nepad through the Nepad Implementation Strategy of South Africa.

In its role as a policy-making and regulatory body, the department can help create an environment that promotes trade and investment on the continent.

Southern African Development Community

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

Since attaining democracy in 1994, South Africa has put regional integration by SADC member states at the top of its foreign economic agenda so that they can enjoy the economic benefits of closer economic co-operation. Consequently, 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 region, 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. Negotiations on operationalising the protocol have centred on tariff-reduction schedules, rules of origin, dispute-settlement mechanisms, a special trade agreement on sugar, eliminating non-tariff barriers, and harmonising customs and trade documentation. Agreement was generally achieved on all these issues, hence the implementation of the protocol on 1 September 2000. The objective of the protocol is to achieve a free trade area (FTA) by 2008 when at least 85% of intra-SADC trade will be duty free.

By mid-2005, all SADC countries, with the exception of Angola, the DRC and Madagascar, were implementing 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 took place under the protocol's preferences, and assess the rules of origin and any other issues that could impact on regional economic integration.

By mid-2006, substantial progress had been made in harmonising documentation and procedures, and in preparing the Memorandum of Understanding (MoU) on Co-operation and Mutual Assistance among Customs Administrations.

Southern African Customs Union

The 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 to make recommendations on tariff and trade remedies to the council
- a small Sacu secretariat to render administrative and support services to Sacu structures
- a dispute-settlement mechanism similar to the one in place in the SADC.

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

Members agreed to co-operate on agricultural issues to ensure the co-ordinated development of the agricultural sector, to ensure fair competition and to address unfair trade practices.

Two-way trade between South Africa and other SADC member states is characterised by the prevailing trade imbalance in terms of exports versus imports from the region. Within the SADC region, Botswana, Lesotho, Namibia, Swaziland (the BLNS countries) and South Africa have organised themselves into Sacu, which 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.

There was also an increase in the volume of imports from the region, from R4 billion to R6 billion, giving 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.

Over R2 billion in South Africa's African exports go to Zimbabwe, which is the largest importer in the SADC and accounts for over 24,4% of South Africa's exports into the continent.

Mozambique 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 2005, Europe accounted for 38,9% (R116,94 billion) of South Africa's total exports, and 40,3% (R140,448 billion) of its total imports. During the same year, the EU accounted for the bulk of this trade, with exports to the EU reaching R106,465 billion in 2005 (up from R93,426 billion in 2004), and imports reaching R128,360 billion in 2005 (up from R121,064 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 2005, South Africa's imports from Germany totalled R49,197 billion. The UK remains South Africa's largest export destination in Europe with South Africa's exports to the UK amounting to R32,377 billion in 2005.

European Union

The TDCA, which came under provisional implementation on 1 January 2000 and fully into force on 1 May 2004, provides for the establishment of 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. It covers trade and trade-related issues, development and economic co-operation, and political dialogue. It also provides a legal framework for ongoing EU financial assistance on grants and loans for development co-operation, amounting to R900 million per year. Statistics compiled by the South African Revenue Service (Sars) show that the tariff preferences in the agreement are being used increasingly.

The wines and spirits agreements were signed in January 2002 and are under provisional implementation. They 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 August 2005, South Africa and the EU signed the Enlargement Protocol, which provides for South Africa to extend the TDCA preferences to the 10 new member states and vice versa. By August 2006, the TDCA was under review and both parties had exchanged their respective levels of ambitions regarding the review of the TDCA.

The TDCA review clauses provide for the two parties to assess whether they would like to improve the TDCA in areas in which they already have commitments, and whether to extend it to areas that the TDCA covers partially or not at all. South Africa seeks to use the TDCA review processes to correct the anomalies in South Africa's and the SADC's trade policy towards the EU, and to ensure that the ongoing economic partnership agreements between the SADC and the EU are aligned with a revised TDCA. South Africa also negotiated that the EU's Generalised System of Preferences (GSP) be transposed to the TDCA, because products with GSP-status enjoy preference over those under the TDCA.

European Free Trade Area (EFTA)

In August 2005, SACU concluded an FTA with EFTA states, including Liechtenstein, Switzerland, Norway and Iceland. The Sacu's offer to the EFTA was the same as that to the EU in terms of the South Africa-EU TDCA on both agriculture and industrial products with some marginal adjustments (taking into account BLNS countries' sensitivities). EFTA offered Sacu full duty- and quota-free access for industrial products with rules of origin equivalent to or better than those contained in the TDCA. The EFTA's industrial markets in most products are open to Sacu through low tariffs (Most Favoured Nation [MFN] and GSP), but the agreement provides preferential access that is 'locked in' for items such as textiles and clothing. The EFTA has provided limited access to basic agricultural products.

The Americas

North America

The United States of America (USA) is South Africa's number-two trading partner in terms of total trade (the sum of exports and imports) recorded in 2005. Exports to the USA increased marginally in nominal terms from R30 billion in 2004 to R31 billion in 2005. Imports from the USA also recorded an increase in nominal terms from R26 billion to R27 billion from 2004 to 2005. Since 2000, the trade balance has been in South Africa's favour with the trade surplus increasing in nominal terms from R3,5 billion to R4,1 billion between 2000 and 2005.

South Africa is a beneficiary of the USA's GSP, which grants duty-free treatment to over 4 650 products.

South Africa is one of 37 beneficiaries of the Africa Growth and Opportunity Act (AGOA), which was promulgated in May 2000. In terms of the AGOA, 1 783 more 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.

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 R4,7 billion in 2005.

South Africa is a beneficiary of Canada's General Preferential Tariff (GPT). GPT rates range from duty-free to reductions in the MFN rates. Furthermore, South Africa and Canada have an MoU 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-MFN tariff rate. The Trade and Investment Co-operation Arrangement, signed in 1998, enhances bilateral and trade investment.

Latin America

South Africa's major trading partners in Latin America are Brazil, Argentina, Chile, Mexico, Colombia and Peru. Most trade is with Brazil and Argentina, which are members of the Mercusor trade bloc. A framework agreement committing South Africa and Mercusor to an FTA was signed in 2000. However, as a first step towards achieving this goal, the parties signed the Preferential Trade Agreement (PTA) in December 2004. Upon ratification by all signatories, the PTA will offer businesses from both sides preferential access to a broad range of products. Trade between South Africa and Mercusor grew substantially from R2,7 billion in 1994 to R14,5 billion in 2005. South Africa recorded a trade deficit of about R8,5 billion against the bloc for 2005. From 2002 to 2005, about 62,5% of total trade between South Africa and Mercusor was with Brazil.

South Africa and Brazil regard each other as strategic partners, and co-operate in bilateral and fora such as the WTO. Notwithstanding South Africa's strong ties with Mercusor, Chile is becoming an increasingly important partner for South Africa, with South African mining companies heavily involved in mining activities in that country.

Total trade between South Africa and Mexico increased from R1,4 billion in 2000 to R1,9 billion in 2005. The trade balance was in South Africa's favour for a number of years, but became negative for the first time in 2005.

Bilateral trade between South Africa and the Andean Community (Peru, Ecuador, Bolivia, Colombia and Venezuela) has been growing relatively slowly since 1994. The Andean Community, and 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 has been increasing rapidly since 1994. Two-way trade between the two countries reached R14,42 billion in 2005. South Africa and India have enjoyed strong historical ties, which have translated into a firm political commitment. In light of these shared historical links, closer economic ties are being fostered using initiatives such as the Joint Ministerial Commission (JMC) and the India-South Africa Commercial Alliance.

Developments in building economic relations with India are also expanding to include partners in Sacu, as reflected in Sacu's decision to pursue PTA negotiations with India. The proposed preferential negotiations between Sacu and India should accelerate trade flows between the two economies, extend the range of traded goods and services and, more importantly, increase the proportion of trade in higher value-added products. This process could also 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 (IBSA) Forum. IBSA is not only an economic initiative but also an undertaking by countries with shared interests in a multilateral system to address equitably political, social and economic matters.

The economic co-operation is informed by the reality that even though India, Brazil and South Africa can be ranked respectively as the fourth-, ninth- and 21st-largest economies in the world, trade between the three countries is low. More significantly, further analysis reveals that there is considerable scope to increase trade volumes and expand the range of traded products between the three markets. In essence a more fundamental aim than the development of a giant trading bloc, the trade and investment undertakings under IBSA seek to cultivate and unleash the host of missed opportunities that exist.

South Africa and India co-operate in the G20, which is a grouping of developing countries seeking to address development challenges in the global economic system. Bilateral trade with south-east Asia, particularly the Association of South-East Asian Nations (Asean) members, increased rapidly from a low base from 1990. Asean presents South Africa with a potential market in excess of 520 million people. South African total trade with Asean totalled R25,72 billion in 2005, and is set for continued growth. Within Asean, key partners for South Africa include Singapore, Thailand, Indonesia, Malaysia, Vietnam and the Philippines.

North-east Asia

The People's Republic of China (PRC) is a key partner for South Africa in this region. The PRC's influence in the global economy has changed significantly in the last few decades as its share of international trade has increased, with China becoming a pillar of global economic growth. 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 R40,2 billion in 2005.

The two countries engage regularly on economic issues through mechanisms such as the Joint Economic and Trade Committee, which is held under the auspices of the BNC. The possible launch of Sacu-China preferential negotiations was announced in 2004.

A PTA with China could open up the possibility for mutually beneficial economic development through potentially increased value-added trade and investment. 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 among South Africa's largest trading partners in Asia and is among South Africa's largest overall trading partners. Total trade reached R56,9 billion in 2005.

The South Africa-Japan Partnership Forum, led by the Department of Foreign Affairs, is designed to strengthen bilateral ties between the countries. The forum meets regularly and explores new initiatives to expand relations. From March to September 2005, South Africa participated in the World Expo 2005 in Aichi, Japan, which helped showcase South Africa's goods and services, and allowed the country to contribute to the expo theme of poverty alleviation and eco-friendly sustainable development. South Africa was awarded the Silver Award Trophy for its interpretation of this theme.

Australia is another important market for South Africa, with total trade reaching R17,05 billion in 2005.

Multilateral economic relations

The WTO, in partnership with the Bretton-Woods Institutions, the World Bank and the International Monetary Fund, has 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.

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 South Africa's 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 face challenges arising from globalisation and integration into the world economy equitably. This is pursued through research and policy analyses, intergovernmental deliberations, technical co-operation, 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.

Member states gathered in São Paulo, Brazil, in June 2004 for Unctad's 11th Ministerial Conference, which closed with the adoption of the Spirit of São Paulo Declaration and the São Paulo Consensus, which provide more detail on the role of Unctad in a globalising world.

The Spirit of São Paulo Declaration 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
- partnerships 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 that WTO rules provide.

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 shaping 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 late in 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 fifth WTO Ministerial Conference held in Cancun, Mexico, in September 2003, when 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, which succeeded in pushing for significant reforms in agricultural trade which the developed world strongly opposed. 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 highlighted agricultural reform as an important development tool. The group was also 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, focuses on a specific set of issues, namely agriculture, non-agricultural market access, services, trade facilitation and rules. The negotiations were scheduled to conclude in 2006.

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

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 actively participates in discussions to address economic development and globalisation.

The country hosted the WEF on Africa in Cape Town in June 2006. The forum focused on ways of boosting growth on the African continent. The theme for the forum was *Going for Growth*. The forum highlighted improvements on the continent, as many African countries are experiencing positive growth.

The major outcome of the WEF was the establishment of the Investment Climate Facility

(ICF), which is an innovative public-private partnership aimed at making Africa a better place in which to do business. The ICF's goal is to remove obstacles, both real and perceived, to doing business in Africa. The initiative focuses on property rights and contract enforcement, reducing red tape, taxation and customs reform, developing financial markets, infrastructure facilitation, labour-market restructuring, promoting competition, and eliminating corruption and crime.

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 is a division of the Department of Trade and Industry and has a national mandate to develop the South African economy, focusing on facilitating and promoting investment, developing and promoting export, and developing customised sector policy.

Tisa's mission is to provide strategic vision and direction to key growth sectors in the economy, to increase the level of direct investment flow, and to 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 2003/04. One-third of these investments were made in the automotive sector. During the same period, 50 import and export missions took place.

It also hosted several export training and development seminars.

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 and the 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 to enhance their growth and competitiveness. The CSP methodology provides a strong and intellectually vigorous platform for optimal sector development.

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

Export development and promotion

Tisa is responsible for developing and promoting 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 to promote their products by providing non-financial support.

Promoting and facilitating investment

Tisa is responsible for attracting foreign direct investment (FDI), and developing and promoting investment by domestic and foreign investors. It offers:

- information on investing and the business environment in South Africa
- 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 (IIC)

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

The 10th IIC meeting was held in May 2006 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 in relation to strengthening Nepad, were also discussed.

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

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 Manufacturing Development Programme, the Regional Industrial Development Programme and the Simplified Regional Industrial Development Programme, have been replaced with a suite of six incentives, namely the:

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

In 2004/05, the EIDD developed policy proposals to modernise the South African technical infrastructure. These would 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.

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 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 programme consists of 11 local SDIs and four IDZs that were at varying stages of delivery by August 2006. The SDIs are the 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. The IDZs are in Gauteng, Coega/Ngqura, East London, Saldanha and Richards Bay.

The SDI concept focuses on:

- industry by means of the KwaZulu-Natal and Fish River SDIs
- agrotourism, as in the Lubombo and Wild Coast SDIs
- a sectoral mix, for example the Maputo Development Corridor
- IDZs such as those in Coega/Ngqura, Saldanha and East London.

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

By mid-2006, a precious metals precinct was being established at the OR Tambo International Airport (formerly the Johannesburg International Airport) IDZ, to allow for duty-free imports and exports of finished goods with great advantage to the industry.

By mid-August, the construction of the Ngqura and East London IDZs had proceeded well, with the Ngqura port being developed. The East London IDZ acquired new investors in June 2005 in its bid to become a hub for vehicle and agroprocessing manufacturing.

The Enterprise Organisation (TEO)

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

A number of incentives are provided to both large and small businesses to improve their competitiveness. These include incentives under the SMEDP, the Competitiveness Fund, the Sector Partnership Fund and the Black Business Supplier Development Programme (BBSDP).

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 BBSDP 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.

The draft Enterprise Development Bill seeks to create an enabling regulatory framework for developing and administering economic incentives and other measures for supporting enterprise.

SMEDP investment on approved applications totalled R1,4 billion over three years and industrialists would invest R6,8 billion in these projects. These investments represented 1 296 applications and were expected to generate 27 000 jobs.

Workplace Challenge Programme

This supply-side programme of the Department of Trade and Industry (administered by the National Productivity Institute [NPI]) 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 and employing 9 487 people. Three new clusters incorporating 24 companies and 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 to 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, these suppliers 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, ensures that beneficiaries meet their obligations, in terms of both quantity and time scales, without disrupting existing local industrial activity, and strives to encourage labour intensity.

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

Beneficiaries can fulfil their obligations either by investing in approved projects or by promoting exports of South African value-added products, either by buying for their own requirements or by causing foreign companies to buy from South African companies. 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 the case of non-SDP obligations, credit multipliers are used to encourage BEE, investment and exports.

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

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.

The Department of Trade and Industry's main functions regarding the manufacturing sector include:

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

Primary aspects of the IMS involve:

- improving market access for South African products in key markets
- promoting beneficiation and value addition
- 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.

South Africa has a significant small business sector with some two million small businesses representing 98% of all firms.

Collectively, small enterprises employ 55% of the country's labour force and contribute about 43% to the total wage bill. However, 87% of small businesses are survivalist, with the great majority being black-owned and 41% owned by women.

The Company Registration Index shows that the share of business held by small firms is increasing. In the 2006 calendar year to the end of May, the Companies and Intellectual Property Registration Office recorded 19 050 company and 88 086 close corporation registrations. This represented an increase in the past year of 2,7% and 13,7% respectively.

Registrations of co-operatives totalled 4 843, representing an annual increase of 207%.

Overall, most new registrations were in the business services, trade and financial sectors, followed by community and social services and the construction industry.

The automotive sector is the leading manufacturing sector and the third-largest economic sector in South Africa. Growth in this industry can largely be attributed to the Motor Industry Development Programme.

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 by increasing 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 (SMMEs)

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 Ntsika Enterprise Development Agency and the National Manufacturing Advisory Centre to form the integrated Seda on 13 December 2004.

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 usage
- align government's strategy of service delivery in a coherent manner.

At Seda offices, entrepreneurs are able to get help with business plans, technical advice and marketing, as well as information on export support, tenders and incentives.

A call centre provides advice to entrepreneurs wanting to establish their own businesses. The call centre gets over 1 000 calls a month, as well as e-mails and walk-in customers. Seda has also developed an online business-information resource centre that is free to view and carries fact sheets, links, events and news.

The popularity of the site continues to grow, with almost 20 000 unique visitors browsing the site each month. Almost 300 business-support organisations are now affiliated to Seda, and mentor and guide small businesses on a day-to-day basis. The business-support organisations are the vehicle for Seda's information resources to penetrate into communities nationally.

South African Micro-Finance Apex Fund (Samaf)

The Department of Trade and Industry launched Samaf to provide affordable and sustainable access to financial services for the poor. The goal of the fund is to:

- develop sustainable micro-finance institutions that can reach the very poor
- facilitate training for micro entrepreneurs and financial co-operative clients
- provide back-office services through a centralised information platform
- provide mentoring, monitoring and regulating to partner organisations.

The allocations of the fund will increase from R50 million in 2005/06 to R88,1 million in 2008/09. The fund also received donor funding from the EU's sector-wide enterprise, employment and equity programme of R12,5 million in 2005/06.

In September 2006, Atteridgeville, outside Pretoria, was the host of the final provincial launch of Samaf.

The fund disbursed R23 million to 27 partner organisations between May 2006 and 30 September 2006. This was in addition to the R12 million disbursed in 2005/06.

Khula Enterprise Finance

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

Khula Enterprise Finance aims to broaden its reach to ensure that 50% of its loan disbursements benefit women entrepreneurs. Out of almost 3 000 individuals who benefited from the agency's financial support scheme in 2005/06, only 34% were women. The agency's target is to ensure that by 2008, 50% of the agency's beneficiaries are women.

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

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

In 2006/07, the agency requested R650 million in funding from the Department of Trade and Industry to ensure that 50% of its loan disbursements are in poor provinces.

Technology for Women in Business (Twib)

Twib aims to enhance the use of technology by women in business, to promote innovation among women, and to 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 women's access to business resources and information.

Sawen works hard at:

- 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.

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 in 2005/06.

The NEF leverages its funding by setting up strategic alliances with other private-sector financial institutions to further increase 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 has 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 (finance for larger BEE transactions in capital markets, warehousing and strategic projects) and BEE Retail Investment (promoting HDI savings and access to listed equities through new product offerings in the design phase).

South Africa's Small Enterprise Development Agency hosted the first Tri-Nations Summit on Small Business in partnership with its counterparts in Brazil and India in Durban in August 2006.

The summit was a strategic milestone that exposed South Africa's small-enterprise support agencies and small enterprises to international best practice, and provided a platform for meaningful business linkages.

The NEF partners business organisations that focus on serving women. It deploys its resources to optimise the empowerment dividend to government and 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 existing funders' traditional risk aversion.

Industrial Development Corporation (IDC)

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

The Services Sectors Division explores 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 identifies new sectors of strategic importance that need support.

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

The Projects Division affects 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.

Among other achievements, the IDC has established a R50-million fund to help communities 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 to addressing the development needs of South Africa.

Some of the highlights in 2005/06 included the following:

- a record creation of 26 000 jobs through financing activities

- Competitive Financing for Development schemes of R1 billion were introduced
- 69% of the total number of approvals were for SMEs
- R370 million of approvals directly benefited townships, mainly through investments in telecommunications, food-retail industries and tourism
- increased strategic focus on maximising development impact in rural and regional development
- 150 financing approvals took place amounting to R4,2 billion.

Business Partners Limited

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.

In March 2006, Business Partners launched two new specialist investment funds: the Business Partners Empowerment Fund and the Business Partners Tourism Fund. Business Partners will be investing R6,6 billion into the entrepreneurial enterprises over the next five years.

During its first 25 years, Business Partners invested R6,9 billion into the country's SMEs. A further R6,6 billion was invested through Business Partners' three geographical investment funds, as well as through a number of specialist funds, some of which are joint ventures with government bodies and other organisations. These include the Business Partners-Khula Start-Up Fund and the Business Partners Umsobomvu Franchising Fund.

Consumer and corporate regulation

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

The Companies and Intellectual Property Registration Office registers businesses and intellectual property rights, maintains related registries and develops information for disclosure to stakeholders.

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.

With a view to building an equitable, socially efficient and competitive economy, 2006/07 saw government entrenching consumer rights and providing consumers with means to redress.

The drafting of the Consumer Protection Bill was motivated by the need for marginalised people to be given access to redress, as consumers, and for protection against the unscrupulous. The Bill aims to address South Africa's fragmented and inconsistent consumer legislation by giving status and content to various consumer rights, some of which derive from United Nations guidelines on consumer rights. The enforcement of the Bill will be ensured by a dedicated institution called the National Consumer Commission.

The Bill aims to protect consumers from reckless lending and lower the cost of bad debts to the country. The Bill covers all forms of credit provision and provides for the creation of a national credit regulator, which was under way by mid-2006.

Black Economic Empowerment

Broad-Based Black Economic Empowerment Strategy

The BEE strategy was established in collaboration with the South African National Accreditation System to ensure implementation of best standards. By mid-2006, the Department of Trade

> A review by Ernst and Young in April 2006 showed that the combined value of Black Economic Empowerment merger and acquisition deals was R6,3 billion higher in 2005 than in 2004. Although the number of transactions dropped from 243 in 2004 to 238 in 2005, the total value increased from R49,9 billion to R56,2 billion.

and Industry was formulating an IT database to ensure that mechanisms were established for self-assessment, providing BEE information, and facilitating BEE partners and business opportunities. All accredited verification agencies were to be linked to the database to enable anyone in the economy to verify their BEE status or that of a supplier by going onto the department's website.

The BBBEE codes of good practice, drafted by government in consultation with stakeholders, provide guidelines for the implementation of BBBEE.

The second phase of the codes of good practice on BBBEE was released for public comment in December 2005, and by the 31 March 2006 deadline the Department of Trade and Industry had received almost 180 submissions from various sectors.

This process revealed that more extensive research into some elements of the codes of good practice was necessary, which the department embarked upon along with further consultation with stakeholders and practitioners, resulting in the generic and qualifying small enterprises scorecards being refined.

The department was also expected to release the Practitioners Manual and Summary.

To make it easy for small businesses to comply with the codes, the department will create a special dispensation for BEE compliance for small enterprises. Thresholds to determine the size of companies that were to qualify for the special dispensation were reviewed in mid-2006.

The BEE Advisory Council will be established once Cabinet had approved the codes of good practice. The council will report on the status of BEE in the economy on a quarterly basis. Its members will be drawn from the business, labour, local and academic communities and will be representative in terms of gender, race and geographical spread.

Black Business Supplier Development Programme

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

The BBSDP is a 20:80 cost-sharing cash-grant incentive scheme, offering support to black-owned enterprises in South Africa. The scheme provides such enterprises with access to business-development services, assisting them to improve their core competencies, upgrade managerial capabilities and restructure to become more competitive.

It aims to foster links between growing, black-owned enterprises 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.

State-owned enterprises (SoEs)

The Department of Public Enterprises is responsible for overseeing SoEs, to ensure that they:

- facilitate economic growth by locating them in optimal industry structures, ensuring the efficiency of their operations and the economic effectiveness of their investment programmes
- play a leadership role in the economy in terms of corporate governance and the implementation of national policy
- catalyse sector and regional economic development opportunities.

Eskom

Eskom is a critical factor in South Africa's electricity supply and will remain so for a long time to come, although other suppliers are being introduced into the system. Eskom's core business is electricity, including generation, transmission, distribution and retail.

Over the next five years, projected investment requirements to meet national energy needs and supply are estimated at R107 billion. Eskom has to meet massive capital-expansion requirements that will require funding from sources beyond government. Eskom will build 70% of future new capacity, and independent power producers will provide the balance.

Over the next five years, Eskom is expected to invest R97 billion as follows:

- R65 billion in the generation sector
- R10 958 billion in expanding and strengthening the transmission sector
- R15 billion in the distribution sector.

These plans include providing a coal-fired power station that will add 2 100 MW to the amount of power available, and a pump-storage project that will be ready in 2012 and will contribute 1 300 MW of energy.

Pebble Bed Modular Reactor (PBMR)

The PBMR, which the Department of Trade and Industry transferred to the Department of Public Enterprises in March 2006, provides a plausible and cost-effective alternative solution to using very long, expensive transmission systems or establishing the logistical capability to supply coastal power stations with gas or coal to meet coastal towns' and cities' electricity requirements.

PMBRs can be located close to the point of use and consume small quantities of uranium, of which South Africa has abundant deposits. The PMBR design is regarded as the most efficient high-temperature reactor in the world.

The department will assist in the establishment of this entity by introducing a Public Finance Management Act-compliant governance system, supporting the construction of a demonstration power plant and pilot fuel plant and facilitating the timely processing of the environmental impact assessment.

Denel

After facing a funding crisis and questions about its viability in 2005/06, Denel has received R2 billion from government and has shifted its focus from being a systems developer to becoming a systems integrator.

The Department of Public Enterprises closely monitors the implementation of Denel's business strategy and its performance in joint ventures. Together with National Treasury, the department monitors Denel's balance-sheet requirements, and collaborates with the departments of trade and industry and of science and technology to develop a defence-sector strategy and to ensure adherence to policy.

The department will also help to establish the Defence Evaluation and Research Institute that will streamline the activities of national organisations to support the Department of Defence, Denel, Armscor and industry with research and testing services.

Alexkor

Alexkor is a diamond-mining company on the south bank of the Orange River at the river mouth.

Government is engaging the local Richtersveld community in decisions concerning Alexkor which was the subject of a land claim a few years ago, and which is to be recapitalised so that it can implement its short-term turnaround plan and drive its exploration and expansion programme.

The Department of Public Enterprises is transferring community services such as the hospital, school, airport and other non-core services that Alexkor manages to the relevant authorities and has appointed a consultant to support the establishment of a municipality.

In mid-2006, the department was involved in discussions with Alexkor and the Department of Minerals and Energy to ensure that the mine would become the first producer of diamonds to sell its entire yield to the State Diamond Trade (STD) that was to be established in terms of the Diamonds Amendment Act, 2005 (Act 29 of 2005). The Act aims to encourage the local beneficiation of mineral resources mined in South Africa, with the STD facilitating the redistribution of unpolished diamonds to local emerging diamond processors.

Transnet

Transnet is being transformed from a diversified conglomerate into a focused freight transport company, with non-core functions and services being transferred to the Department of Transport, among them Metrorail on 1 May 2006, and Shosholoza Meyl. In May 2006, Transnet put a majority stake in the Victoria and Alfred Waterfront in Cape Town up for sale.

Transnet was expected to complete the transfer of South African Airways (SAA) during 2006. The department's primary undertaking will be to stabilise SAA's financial position and develop a pragmatic airlift strategy.

Growth in container traffic demands the rapid expansion of sea ports, leading to Durban harbour's Pier 1 being redesigned, the entrance being widened and a container terminal being constructed at Ngqura.

By mid-2006, the Department of Public Enterprises was developing a long-term plan for ports that would meet the strategic industrial requirements of different regions in South Africa and ensure greater specialisation between and among ports to optimise the investment in ports infrastructure.

South African Forestry Company (Safcol)

By August 2006, the Department of Public Enterprises, in consultation with other departments, was reviewing the future role of Safcol, the State-owned forest management company and its wholly owned subsidiary Komatiland Forests (KLF).

The Cabinet also approved a recommendation of the Cabinet Economic Cluster Committee to retain forests managed by KLF.

The review aims to ensure that the State-owned forests contribute optimally to government's objectives for the forestry, timber, pulp and paper sector.

Public works programmes

The Department of Public Works aims to provide and manage the accommodation, housing, land and infrastructure needs of national departments; co-ordinate the national Expanded Public Works Programme (EPWP); and optimise growth, employment and transformation in the construction and property industries.

From April 2006, the department devolved its leasing, maintenance, property rates and municipal services budgets to its client departments.

Property rates were also devolved to the provinces in 2006 for all the properties vested in their names. Capital-works budgets were devolved to clients more than three years ago, to increase transparency in the budgeting process and to introduce incentives for more efficient use of resources.

Departments will be required to pay the funds back to the Department of Public Works in the form of an accommodation charge made up of an amount for actual leases and an amount for pre-determined rentals of state-owned property.

The department uses the income to:

- pay leases on behalf of departments
- carry out maintenance and refurbishments on state-owned buildings
- provide funding for capital works, including planned maintenance.

A trading entity was expected to be established in 2006 for the purpose of receiving and spending the accommodation charges.

The four main objectives that the Department of Public Works has identified for the Medium Term Expenditure Framework entail:

- improving the management of the State's portfolio of immovable property
- using accommodation-related programmes such as maintenance contracts to contribute to economic growth
- contributing to job creation and poverty alleviation by further rolling out the EPWP
- providing leadership in the transformation of the construction and property industries.

Expanded Public Works Programme

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

The EPWP aims 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 over the period March 2005 to March 2010 to provide programme-management support to all levels of government. This will ensure that lack of capacity is not an impediment to implementing the EPWP.

By June 2006, the EPWP was on course to deliver on its mandate. It had surpassed its employment-creation targets across four sectors, with more than 301 000 work opportunities created. On average, 52% of beneficiaries were female and 38% were youths. The greatest number of job opportunities were created in KwaZulu-Natal, which had 66 317 beneficiaries, of whom 33% were youths and 0,3% were people with disabilities. The province also had the highest number of female beneficiaries in the country, at 62%, and at R126 million, the highest wage payout.

Of the youths employed by the EPWP, 51% were in Mpumalanga, 48% in the Free State, 46% in Gauteng, 44% in North West and 40% in the Western Cape.

Construction and Property Industry Development Programme

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 of Public Works continued implementing BEE programmes in the construction sector, including the Emerging Contractor Development Programme, EPWP Vuk'uphile and venture learnership programmes, and the Incubator Programme. It was expected to establish similar programmes in the property industry to contribute to its transformation.

In March 2006, the construction and property charters were signed.

The Property Charter proposes a range of targets including transferring 25% of sector assets into black hands in five years' time, and setting aside 10% of private corporations' annual development investments for underdeveloped areas. Through the charter, the property sector has committed to achieving 40% black representation at board level, of which 20% will be women.

Through the Construction Charter, stakeholders in the construction industry have set a black ownership target of 30% and proposed 40% black representation at board level, with 20% of members being women. The charter proposes a procurement target of 70% to ensure that the economic benefits of current and planned infrastructure accrue to all sectors of the community.

Both charters advocate the importance of developing skills through mentorship, learnerships and bursaries.

Construction Industry Development Board (CIDB)

The CIDB was established by the Construction Industry Development Act, 2000 (Act 38 of 2000), as a statutory body (schedule 3A public entity) to provide leadership to stakeholders and stimulate sustainable growth, reform and improvements in the construction sector, and to improve its role in the economy. The CIDB is responsible to the Minister of Public Works, and comprises individuals appointed from the private and public sector.

Aligned with government's supply-chain management forum, the CIBD has developed and rolled out the standard for uniformity in construction procurement. Together with National Treasury and the Department of Public Works, the infrastructure delivery-management system toolkit was being implemented in selected departments across all provinces by mid-2006. The CIDB best practice guidelines, including guidelines on labour-based construction to support job creation and the EPWP, were widely distributed.

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.

Re Kgabisa Tshwane Programme

The Re Kgabisa Tshwane Programme, which was implemented in 2004, is a partnership between the departments of public works and of public service and administration and the City of Tshwane Metropolitan Municipality. It aims to develop a framework for improving the physical working environment at national government departments in the inner city of Pretoria.

The programme will allow government to achieve greater productivity and economies of scale with departments sharing, among other things, auditoria, archives and communication facilities. Investing in the inner city will also stimulate private-sector investment and create opportunities for BBBEE service-providers and entrepreneurs.

Employment and skills development

The Employment and Skills Development Services (ESDS) and HRD Branch of the Department of Labour is responsible for achieving the strategic objectives and equity targets of the National Skills Development Strategy (NSDS) and contributing to the achievement of the objectives of the HRD Strategy.

Legislation

The Department of Labour's Legislation Branch ensures the implementation of the following laws:

- Skills Development Act, 1998 (Act 97 of 1998), as amended.
- Manpower Training Act, 1981 (Act 56 of 1981), of provisions that are still in force.
- Skills Development Levies Act, 1999 (Act 9 of 1999), as amended, and the Income Tax Act, 1994 (Act 21 of 1994). In some aspects, the ESDS works closely with National Treasury and Sars.
- South African Qualifications Authority (Saqa) Act, 1995 (Act 58 of 1995), working closely with the Department of Education.

National Skills Development Strategy

The ESDS and HRD Branch oversees and supports all institutions associated with the Skills Development Act, 1998 and implements and achieves the objectives and targets of the NSDS. The first NSDS 2001 – 2005 ended on 31 March 2005. The Minister of Labour, Mr Membathisi Mdladlana, launched the adjusted NSDS 2005 –

2010 on 3 March 2005. The adjusted strategy has five strategic objectives and 20 success indicators.

By 31 July 2006, the Department of Labour had collated the results of phase one of NSDS 2001 – 2005 and registered 170 926 learners into learnerships and apprenticeships. Of these, 109 674 (64%) were unemployed, and 36 703 were apprentices. Of all the learners, 71% were placed in income-generating projects, employment or further training within three months of completing their training. The department exceeded its target in 2005 of registering at least 50 000 learners in scarce fields, by registering 116 425 learners.

The strategy for 2005 to 2010 seeks to support economic growth for employment creation and poverty eradication, promote productive and equitable citizenship by aligning skills development with national strategies for growth and development, and accelerate BEE. The strategy is critical to realising government's goal of halving South Africa's unemployment by 2014 by providing the skills the economy requires.

Better alignment between the Further Education and Training sector, business and the sector education and training authorities (Setas) has resulted in a more demand-driven strategy. The NSDS' learnership apprenticeships and internship programmes target unemployed youth, because 75% of the unemployed are between 15 and 34 years old.

A special project by the Department of Education aims to meet the challenges of having 800 000 learners in Adult Basic Education and Training (Abet) by March 2010. Abet enhances the basic skills of people beyond their school-going years and tackles long-term unemployment. The NSDS is closely aligned with the EPWP, which targets people with low skills levels and the unemployed, by providing them with work experience and equipping them with skills.

Remote access e-technology and multiskilling training in labour centres and business units aim to improve the quality of and access to the integrated labour services that the Department of Labour offers. The career-information and guidance system was developed and successfully piloted in labour centres in all provinces. The system provides employment services to job seekers and learners who want to access learnerships.

Sector education and training authorities

In 2005, after a review process, Minister Mdladlana re-established 23 Setas and two new merged Setas came into being. The first is the Agricultural Seta, comprising the Primary Agriculture Education and Training Authority and the Seta for Secondary Agriculture. The second is the Safety and Security Seta, which formerly comprised the Diplomacy, Intelligence, Defence and Trade Training Authority and the Police, Private Security, Legal and Correctional Services Seta. Setas receive contributions from an estimated 193 000 employers and 80% of the skills development levies collected. Sometimes government departments contribute an extra amount. Consolidated Seta revenue amounted to R4,5 billion in 2004/05, while expenditure totalled R4,3 billion.

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 workers 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 about implementing skills development
- facilitate the collection of financial skills-development levies, 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 sub-programme.

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.

National Skills Fund (NSF)

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 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 Sars (of which 2% is paid to Sars as collection fees and 2% is allocated for administrative costs).

Projects funded under the NSF include the following:

- Social development funding window

The Directorate: Employment Services of the Service Delivery Branch co-ordinates the implementation of social development projects with the provincial offices and labour centres of the Department of Labour.

The actual amount spent on training programmes conducted under the social development funding window during 2005/06 to the end of December 2005 amounted to R131,7 million.

- Abet (for the unemployed)

The new Abet funding window of the NSF brought about demands to accelerate the pace of providing more literacy programmes among the unemployed. The funding window required development of a new procedural and application framework that resulted in the:

- application framework and policy being developed and approved
- 146 proposals being received and evaluated during February and March 2006
- discussions being held with the Department of Education to explore collaboration on Abet as indicated in the NSDS.

The approval and implementation of the above-mentioned Abet proposals were expected to lead to the launch of the first phase of the project to benefit approximately 18 000 learners nationally.

- Critical skills support

The NSF committed R181 million to develop the skills of 7 330 unemployed learners through various learnerships. An additional R88 million was committed towards 2 300 learnerships that were implemented through employment and skills-development employers.

The NSF also requested proposals in November 2005, inviting Setas to submit projects for learnerships, internships and apprenticeships.

- Bursaries

For the 2005 academic year, R26 million was allocated to the National Research Foundation (NRF) for bursaries to be awarded to postgraduate students in areas of scarce skills. The NRF awarded 621 honours and postdoctoral study bursaries.

The R49 million that was allocated to the National Student Financial Aid Scheme (NSFAS) was for bursaries to undergraduate students in areas of scarce skills. In 2005, the NSFAS awarded 6 320 undergraduate bursaries, mainly to students with disabilities.

- Provisioning support

The Director-General: Labour approved a once-off grant to the amount of R16,8 million for Saqa to facilitate the delivery of standards-setting and quality assurance-related services for Setas. By December 2005, Saqa had used R12,9 million of the available funds.

Saqa facilitated a joint project proposal from the education and training quality assurance bodies during January 2006, to ensure measurable improvements in the quality of services delivered by skills-development institutions.

- Industry Support Programme Funding Window (Workplace Skills Development Support Programme [WSDSP])

This programme is a continuation of the previous NSF Skills Support Programme under NSDS 2001 – 2005, and is aligned to NSDS 2005 – 2010 through the Industry Support Programme Funding Window.

By mid-2006, 155 SMEs had applied for training-incentive grants through the NSF's WSDSP, of which 89 were approved.

By 31 December 2005, more than 3 900 of the new workers had benefited from the WSDSP training grants since their implementation in 2002. The main beneficiaries were blacks (94%) and, more particularly, black women (70%).

- Social Plan Technical Support Facility (SPTSF)

The Director-General: Labour signed a new memorandum of agreement with the NPI to align with NSDS 2005 – 2010 the commitments made at the GDS 2003, namely that the department would support the establishment of the SPTSF under the auspices of the Productivity Advisory Council of the NPI.

The main output of the SPTSF for 2005/06 included:

- creating awareness and correcting misperceptions about the social plan to encourage early notification by companies facing the possibility of retrenchment
- establishing proactive future fora in 'stable' companies to encourage ongoing collaboration between management and workers to prevent job losses
- preventing job losses within distressed companies and clusters of companies facing similar problems
- developing sector studies and turnaround strategies for selected sectors.

The Unemployment Insurance Fund's (UIF) online electronic filing system for domestic employers and small businesses was launched in 2006.

The year 2006 was the third anniversary of domestic workers' inclusion in the UIF.

From 2003 to 2006, the fund paid more than R65 million to some 74 000 beneficiaries as temporary relief to domestic workers during times of unemployment.

From 2003 to 2006, the average payment amount per claim was R882,11.

In the first year that the UIF included domestic workers, the fund received fewer than 5 000 applications, but in the first six months of 2006 it had received more than 17 000 applications.

By mid-2006, 657 000 domestic employers had been captured on the UIF database and over 500 000 domestic workers had been registered.

Unemployment Insurance Fund (UIF)

The main tasks of the UIF are to:

- maintain an employer/employee database
- process claims and pay benefits
- invest excess funds
- reduce opportunities for fraud
- collect contributions.

In 2005/06, the UIF implemented the Siyaya business application. The Siyaya system has ushered in a new era of service delivery, leveraging the benefits of technology, while allowing frontline staff to have full access to service-related information.

The fund also spearheaded a campaign to pay out benefits electronically, and by the end of March 2006, had successfully converted all its payment modes. This eliminates the need for queues at pay points and risks associated with carrying cheques and cash.

The conversion saved the fund over R20 million in bank charges. The fund also successfully implemented a decentralised system of hearing appeals from those claimants whose claims were rejected.

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

The Act deals with the administration of the fund and the payment of benefits. It also provides for the commissioner to maintain a database to pay benefits to beneficiaries. Sars continues to administer the Unemployment Insurance Contributions Act, 2002 (Act 4 of 2002). Sars collects contributions from all employers whose workers pay employees' tax.

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

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 achieved by conducting inspections and investigations, and providing advocacy and statutory services.

Responsibility for OHS and workers' compensation in South Africa 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.

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).

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 the dependants of workers in fatal cases. The fund generates revenue for all its operations from contributions paid by registered employers.

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

Between 2000 and 2006, the fund received 1 084 668 claims. During 2004/05 and 2005/06, the number of finalised compensation claims rose sharply. Of the claims reported from 2000 to 2003, 485 722 claims were finalised, whereas 218 575 of all claims reported from 2004 to 2005 were finalised.

Directorate: Collective Bargaining

The Directorate: Collective Bargaining has to:

- extend the collective bargaining system to cover more vulnerable workers
- ensure that the implementation and impact of the Labour Relations Act (LRA), 1995 (Act 66 of 1995), is optimised
- effectively monitor dispute resolution.

The directorate:

- 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 2005/06, 26 collective agreements of bargaining councils were extended to non-parties covering 643 771 employees. These agreements were mainly collective agreements on wage increases and for issues such as council levies and sick, pension and provident fund benefits.

Of the 52 private-sector councils, 44 (84,6%) reported on the state of applications for exemptions from certain provisions of collective agreements extended to non-parties. Total applications for exemptions were 7 373, while applications from small enterprises totalled 1 380, constituting 59% of all applications.

The number of applications granted amounted to 5 670. Of these, 1 050 were from small enterprises, constituting 60% of all applications granted.

Dispute resolution

The Commission for Conciliation, Mediation and Arbitration (CCMA) is an independent dispute-resolution body created in 1996 in terms of the LRA, 1995. It does not belong to, nor is it controlled by, any political party, trade union or business. Between 1996 and January 2006, the CCMA dealt with 1 043 078 referrals averaging 104 308 per year. It had a settlement rate of 65%. Since the inception of the 2002 amendments to the LRA, 1995, 41% of CCMA cases have been dealt with through consultation or arbitration, and 76% have been finalised within a day. It also dealt with 600 cases of section 189A (facilitation of large-scale retrenchments), which is critical for job retention.

The highest number of referrals came from the retail sector (16%), followed by safety/private security and business/professional service (11% each), domestic sector (9%), building construction (8%) and agriculture/farming and food/beverage (8% respectively).

Registration of labour organisations

The registration of labour organisations continues, in which efforts are made to identify non-genuine labour organisations and to deregister them if necessary.

The Department of Labour's records show that many unions and employer organisations do not adhere to the registration procedures and legal requirements for genuine organisations. By mid-2006, at least 72 of the 328 trade unions, and 26 of 61 employer bodies, were deregistered as they did not meet the legal requirements.

Unions and employer organisations must comply with the provisions of sections 98, 99 and 100 of the LRA, 1995, which stipulate an annual submission of audited financial statements.

The organisation has to function as a genuine establishment as envisaged by section 106(2A) of the LRA, 2005 and the registrar may cancel the registration of a trade union or employers' organisation if it is not regarded as genuine.

During 2005/06, 10 trade unions' registrations were cancelled in terms of section 106 of the LRA, 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.

Labour-market policy

In 2005/06, the Labour-Market Policy Programme repositioned itself to be able to respond, in an integrated manner, to the Department of Labour's research, monitoring and evaluation needs, while similarly ensuring that the department met its international obligations.

> The National Economic Development and Labour Council (Nedlac) aims to build consensus through tripartite participation in decision-making on labour and socio-economic matters.
>
> Nedlac comprises the labour market, trade and industry, public finance and monetary policy, and development chambers, with representatives from organised business, organised labour, community and development organisations, and government.
>
> Nedlac considers all proposed labour legislation and significant changes to social and economic policy before these are presented to Parliament. Nedlac also monitors the progress and implementation of the Growth and Development Summit's agreements. The council's achievements to mid-2006 include the Umzansi account (an outcome of the 2002 Nedlac financial sector summit) that attracted 1,3 million account holders, 56% of which were female; and the Consumer Credit Bill, which aims to regulate the micro-credit sector.

Research, monitoring and evaluation will continue to form the cornerstone of the department's programme for the next five years. By mid-2006, the initial mandate of the programme to form the technical basis for the formulation of labour-market policies in the post-1994 era, which would be more attuned to a dynamic economy being integrated into a global economy, was beginning to take shape. Consequently, the programme had:

- developed a research programme for all the mandated areas of the department as evidenced by the approved five-year research, monitoring and evaluation agenda
- developed a labour-market information system as evidenced by the web-enabled Labour Market Information and Statistics System on the department's Intranet
- published periodic and ad hoc labour-market policy and statistical reports as evidenced by the bi-annual labour market review, annual industrial action reports, and quarterly and annual labour market bulletins.

The programme was also aligning and repositioning itself increasingly to link with key shifts taking place in government, in line with facilitating the harmonisation of labour-market policies and overall government policies. These shifts, as set out in the minister's five-year programme of action, acknowledge that the policy context for South Africa's transformation agenda has been set, and a new set of challenges now faces the country.

The Labour-Market Policy Programme consists of three directorates, namely, Research Policy and Planning (RPP), Labour-Market Information and Statistics (LMIS), and International Relations (IR).

The RPP Directorate is responsible for:

- analysing labour-market information and conditions
- identifying relevant labour-market interventions
- formulating labour-market policies
- researching, monitoring and evaluating policies affecting the labour market.

The LMIS Directorate is responsible for:

- creating and maintaining capacity to monitor, analyse and disseminate labour-market information and statistics pertaining to trends in the labour market and the impact of labour-market policies

- creating and maintaining linkages with other producers and users of labour-market information and statistics with the aim of avoiding duplication and promoting clear use of concepts
- developing the departmental library as an expanded resource centre on labour issues
- assisting other departmental directorates with statistical procedures to develop and monitor departmental activities.

The IR Directorate is responsible for:

- developing strategies that will consolidate South Africa's presence in international fora
- monitoring developments in the African region and southern African subregion
- facilitating the department's participation in bilateral and multilateral organisations in the region
- discharging South Africa's obligations to international organisations of which the country is a member
- developing strategies to encourage conformity with international labour standards in the region.

Research policy and planning

The main tasks during 2005/06 included:

- Identifying new research projects to be undertaken in the area of skills development, especially monitoring the NSDS 2005 – 2010.
- Ensuring effective participation by the department in various fora on labour-market issues. These included intergovernmental structures, and local and international conferences.
- Monitoring the implementation of the GDS agreements.
- Developing and implementing the Research, Monitoring and Evaluation Agenda.

International relations

The IR Directorate is at the coalface of the Department of Labour's interaction with the world, especially international organisations and institutions relevant to the labour market. It monitors, reports and facilitates ratification of international labour conventions. The main tasks of the directorate during the financial year are categorised under three broad areas. These include the International Labour Organisation and Europe, Africa Desk, and Technical Co-operation.

Labour Relations Programme

In 2005/06, the Labour Relations Programme focused on implementing employment-equity issues and amendments to labour legislation introduced during 2002/03, and clarifying the farm workers' sectoral determination with its stakeholders. Employment Standards mainly focused on finalising the Child Labour Programme of Action for noting in Cabinet. This was achieved in October 2005.

To support and accelerate the implementation of the Employment Equity Act, 1998 (Act 55 of 1998), the Directorate: Employment Equity focused mainly on developing an employment-equity system aimed at strengthening the implementation and enforcement mechanisms of the Act. An online employment equity reporting service was developed and implemented from 1 September 2005.

In addition, the Director-General Review System was developed to assess employers' substantive compliance with the Employment Equity Act, 1998. It was due for implementation during 2006/07. The programme continued to support capacity-building in trade union organisations by means of the Strengthening of Civil Society Fund.

Trade unions in South Africa

Year	Registered trade unions	Trade union membership	Registered employer's organisations	Bargaining councils
2001	485	3 939 075	265	73
2002	504	4 069 000	270	62
2003	369	3 277 685	239	56
2004	341	3 134 865	229	58
2005	335	2 935 864	226	58

Source: Department of Labour

Acknowledgements

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Business Map
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Department of Labour
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