



ECONOMY

SOUTH AFRICA
YEARBOOK

2010/11

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The global economy continued on its recovery path in the early part of 2010, supported by expansionary monetary and fiscal policy settings. African economies continued to benefit from rising demand for exports and generally buoyant commodity prices, resulting in a notable acceleration in economic activity on the continent.

The South African economy was no exception as its growth rate, which turned positive in the third quarter of 2009, increased further in the first quarter of 2010. The acceleration to a brisk annualised rate of 4,6% was widespread among the major economic sectors, with manufacturing playing a strong role alongside mining and commerce.

Hosting the 2010 FIFA World Cup™ acted as a catalyst for expanding the country's infrastructure base, skills development, employment creation and economic growth. The tournament boosted the country's standing internationally, showcasing its capabilities in delivering world-class infrastructure on time and without imposing a financial burden on the national fiscus.

The South African Government injected some R33 billion into preparations for the World Cup, which was an investment that formed part of a long-term development plan for the country.

Some R846 billion has been committed over the next three years to a public-sector infrastructure programme. More than 45% of these funds has been committed to South Africa's electricity, freight rail and ports sectors.

In July 2010, the Government estimated that the 2010 FIFA World Cup™ had added one percentage point to South Africa's economic growth for 2010/11, when spending on stadiums and infrastructure is taken into account.

Leadership Group of the Framework Response to the Economic Crisis

In December 2008, the social partners that comprise the Presidential Economic Joint Working Group met to consider how South Africans should respond collectively to the difficult economic conditions largely as a result of the international economic crisis.

The Framework for South Africa's Response to the International Economic Crisis was tabled and endorsed at a special Presidential Economic Joint Working Group meeting.

The leadership group responded with a range of measures to deal with the impact of the recession.

In line with the framework agreement, government has maintained a strong countercyclical fiscal and monetary policy stance. Government spending levels have been maintained in spite of a sharp drop in tax revenues.

In February 2009, government announced a R787-billion infrastructure programme. While monetary policy has been the subject of robust debate, interest rates had been reduced by mid-2010 on four occasions by a total of 350 basis points.

Some R11 billion has been set aside for activities designed to address the impact of the recession.

South Africa introduced its first-ever training lay-off scheme, making R2,9 billion available for its implementation. The scheme is aimed at providing companies with an alternative to retrenching workers during a period of industrial slack caused by the recession, thereby providing employees with continued income, employment security and skills acquisition.

The Commission for Conciliation, Mediation and Arbitration (CCMA) incorporated the training lay-offs into a holistic approach to prevent job losses. Through these proactive interventions by the CCMA, 4 482 jobs were saved from March to September 2009.

By mid-2010, the Retrenchment Action Plan, launched by the Manufacturing, Engineering and Related Services Sector Education and Training Authority, accommodated about 7 000 workers in a programme based on the training lay-off model.

Other initiatives include the R6,1 billion set aside by the Industrial Development

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In October 2010, Cabinet endorsed a proposed new growth path for South Africa that will place employment at the centre of government's economic policy. The new growth path is a broad framework that sets out a vision and identifies key areas where jobs can be created.

The new growth path is intended to address unemployment, inequality and poverty in a strategy that is principally reliant on creating a significant increase in the number of new jobs in the economy, mainly in the private sector.

The new growth path sets a target of creating five million jobs in the next 10 years. This target is projected to reduce unemployment from 25% to 15%. Critically, this employment target can only be achieved if the social partners and government work together to address key structural challenges in the economy.

Corporation (IDC) as special loans for firms in distress, and R2 billion allocated by the Unemployment Insurance Fund (UIF) to the IDC to be loaned to firms in difficulty.

Commercial banks and the development finance institutions (DFIs) have been developing an agreement that would allow them to help firms in distress by sharing relevant information and sharing risks.

Sector packages have been developed by the National Economic Development and Labour Council (Nedlac) for industries in distress in the automobile, clothing and textiles, capital equipment, transport equipment and metal fabrication sectors. These interventions include, for example, trade remedies, skills funding for employees, industrial support and improved access to finance for capital support.

The task team agreed on strict conditions for businesses that use state funding to prevent abuse. The conditions include restraint in relation to executive pay, restrictions on retrenchment, commitment to local procurement and social dialogue between labour and business in the workplace.

As part of its response to the economic crisis, government committed to a 30-day payment period for small businesses and launched a special hotline in September 2009 to address complaints about slow government payments to small enterprises. Nearly R3,7 million had been conveyed to small business by June 2010 as a result of the hotline. The private sector is also investigating mechanisms to improve the payment cycle to small, medium and micro-enterprises (SMMEs).

Business also committed to encourage its members to procure locally manufactured goods.

An application to the International Trade Administration Commission (ITAC) by the clothing and textile sector to increase 35 tariffs to their bound rate of 45% was approved and finalised. The ITAC has also approved a decrease in tariffs through a rebate scheme for several textile items to encourage clothing manufacturing. Additional applications have been made to ITAC in capital equipment, transport and metal products to effectively use legal trade measures to address the short-term crisis in vulnerable sectors.

The task team tackled customs fraud and illegal imports. Government set up a special team for this, initially focusing on the clothing sector.

By December 2009, the South African Revenue Service (Sars) had seized

750 tons of clothing and textile products that had been smuggled into the country from raids on 88 premises conducted in a nationwide enforcement initiative.

The effect of this heightened action against illegality is expected to offer support to local producers, and an estimated 1 400 jobs have been saved as a result of these actions.

The Child Support Grant was extended from 16- to 18-year-olds on an expedited basis, partly as a response to the crisis.

Food banks, as proposed in the framework agreement, have also been established.

The Framework Response is a unique response package, receiving favourable comment for being a product of social dialogue with responsibilities assumed by all parties.

Economic indicators Domestic output

According to the South African Reserve Bank's (SARB) *Quarterly Bulletin*, released in September 2010, economic growth in the South African economy moderated in the second quarter of 2010. Real gross domestic production (GDP) increased at an annualised rate of 3,2% in the second quarter of 2010, following an increase of 4,6% in the first quarter. The moderation in economic growth in the second quarter of 2010 could mainly be attributed to a noticeable decline in production volumes in the primary sector and a slower rate of increase in output growth of the secondary sector.

By contrast, growth in the tertiary sector accelerated over the period. Subsequent to an increase at an annualised rate of 11,8% in the first quarter of 2010, the real value added by the primary sector contracted at a rate of 12,5% in the second quarter. The decline could mainly be attributed to an exceptionally sharp contradiction in the real output of the mining sector.

The real value added by the agricultural sector, which contracted by 3,2% in 2009, increased at annualised rates of 3% and 11,6% in the first and second quarters of 2010, respectively. The firm increase in the second quarter could be attributed mainly to higher field crop and horticultural production alongside an increase in the output of livestock farming.

Having increased at an annualised rate of 15,4% in the first quarter of 2010, real value added by the mining sector contracted at a rate of 20,8% in the second quarter.

The notable decline in total mining production resulted primarily from lower production in the platinum and coal-mining sectors. Platinum production was adversely affected by scheduled maintenance work performed on smelters, while the slump in the volume of coal production was caused mainly by industrial action by Transnet workers during May 2010. However, the real value added by the gold-mining subsector increased marginally from the first to the second quarter of 2010. After increasing at an annualised rate of 7% in the first quarter of 2010, growth in real value added by the secondary sector decelerated to 5,3% in the second quarter. The moderation in growth was evident in all subsectors of the secondary sector.

Growth in the real value added by the manufacturing sector decelerated from an annualised rate of 8,4% in the first quarter of 2010 to 6,9% in the second quarter. Although higher manufacturing production levels were reported by eight of the subsectors, declines were recorded in the basic iron and steel, furniture and other manufacturing subsectors, partly related to reduced exports.

The Purchasing Managers' Index (PMI) receded to below the neutral 50 index point level in June 2010, after slowing since March. Nevertheless, the utilisation of production capacity in the manufacturing sector increased further from 79,6% in the first quarter of 2010, to 80,6% in the second quarter as demand conditions improved.

The real value added by the sector that supplies electricity, gas and water reversed from an annualised growth rate of 4,9% in the first quarter of 2010 to a rate of contraction of 0,2% in the second quarter. This decline reflected a slower rate of increase in industrial demand for electricity and lower exports to neighbouring countries.

Fairly mild winter temperatures in the second quarter and higher electricity prices also contributed to the lower demand for electricity by households.

Growth in real value added by the construction sector moderated in the second quarter of 2010, as building activity remained in a firm downward spiral. Growth in the real value added by the construction sector decelerated to an annualised rate of 1,5% in the second quarter of 2010, compared to an increase of 2,1% in the first. The demand for non-residential buildings increased moderately, while civil construction activity slowed further. A deceleration in government infrastructure expenditure alongside the completion of projects related

to the 2010 FIFA World Cup™ contributed to the lower growth in the civil construction sector.

The real value added by the tertiary sector increased at an annualised rate of 4% in the second quarter of 2010, compared to an increase of 2,7% in the preceding quarter.

The improved performance in the second quarter was underpinned by solid growth in all subsectors of the tertiary sector benefiting in part from the World Cup.

The real output of the commerce sector increased at an annualised rate of 5,8% in the second quarter of 2010, compared to an increase of 3,3% in the preceding quarter. This improved performance could be attributed to growth in the accommodation and wholesale trade sectors along with more moderate growth by the retail and motor-trade subsectors. The catering and accommodation subsector, in particular, benefited noticeably from increased consumer demand during the hosting of the 2010 FIFA World Cup™.

Growth in the real value added by the finance, insurance, real estate and business services sector accelerated from an annualised rate of 2,5% in the first quarter of 2010, to 3% in the second quarter. Increased trading activity in the domestic security markets and in the business services subsectors was partly offset by lower activity in the real-estate subsector, where real rentals in the industrial property market and activity in the residential market decelerated.

The growth in the real value added by the transport, storage and communications sector accelerated from an annualised rate of 2,4% in the first quarter of 2010, to 4,5% in the second quarter.

Growth in the subsector for land freight transport accelerated, consistent with higher volumes of goods imported and exported. In addition, growth in the real value added by the passenger transport and telecommunications subsectors accelerated considerably during the World Cup, which boosted the sector's activity levels and revenue.

Real production of general government services increased at an annualised rate of 3,6% in the second quarter of 2010, compared to growth of 2,8% recorded in the first quarter. This could mainly be ascribed to an increase in employment by government.

Domestic expenditure

Growth in aggregate real gross domestic expenditure slowed from an annualised rate of 12,1% in the first quarter of 2010, to

2,3% in the second quarter. The slowdown in real gross domestic expenditure resulted primarily from slower growth in real final consumption expenditure by households. Growth in final consumption expenditure by households slowed to an annualised rate of 4,8% in the second quarter of 2010, compared with an increase of 5,7% in the preceding quarter. The moderation in growth resulted from a further contraction in expenditure on services alongside subdued spending on semi-durable goods, together accounting for more than 50% of total household spending. The moderation in spending in these categories more than neutralised increased spending on durable and non-durable goods.

Growth in real household expenditure on durable goods, which accounts for about 7% of total spending by consumers, accelerated from an annualised rate of 16,8% in the first quarter of 2010, to 37,8% in the second quarter. The exuberant spending on durable goods was mainly evident in the categories for personal transport equipment; furniture and household appliances; and durable recreational goods.

In addition to stable new vehicle prices, the faster pace of spending on personal transport equipment reflected the low base of expenditure on these items in 2009. Concurrent with the 2010 FIFA World Cup™, spending on recreational and entertainment goods such as television sets remained brisk in the second quarter of 2010.

Having increased at an annualised rate of 28,4% in first quarter of 2010, real household expenditure on semi-durable goods slowed to an annualised rate of 10,6% in the second quarter.

The moderation in growth was especially evident in the categories for clothing and footwear; motor-car tyres, parts and accessories; and semi-durable recreational and entertainment goods. Following a rebound in real outlays on non-durable goods by households from the fourth quarter of 2009 to the first quarter of 2010, expenditure increases advanced from a rate of 9,5% in the first quarter of 2010 to 10,9% in the second quarter.

Increased expenditure in the second quarter of 2010 was noticeable in the categories for household fuel and power, consumer goods, and medical and pharmaceutical products. Households' real expenditure on services contracted further and declined at an annualised rate of 7,7% in the second quarter of 2010.

The decline in spending on services was the net result of real expenditure on travel and accommodation services, indicative of foreign tourists' spending in South Africa, which exceeded expenditure by South African residents temporarily travelling abroad during the period. Real disposable income of households registered brisk annualised rates of increase of 5,1% in the first quarter of 2010, and 4,8% in the second quarter, as wage increases continued to exceed inflation alongside the creation of some temporary jobs to support the 2010 FIFA World Cup™. Consistent with the slow pace of credit extended to households, the ratio of household debt to disposable income edged lower from 78,7% in the first quarter of 2010, to 78,2% in the subsequent quarter. The ratio of debt-service cost to disposable income receded from 8,2% in the first quarter of 2010 to 8% in the second quarter.

After increasing at a rate of 7,3% in the first quarter of 2010, real final consumption expenditure by government increased at a rate of 7,2% in the second quarter. This increase reflected, among other factors, the acquisition of four military aircraft, higher salaries and wages, as well as spending on goods and services, in part related to the hosting of the World Cup.

Excluding spending on armaments, growth in consumption expenditure by government decelerated from an annualised rate of 5% in the first quarter of 2010, to 4,7% in the second quarter.

Real gross fixed capital formation was higher at annualised rates of 0,2% in the first quarter of 2010, and 0,8% in the second quarter. The increase in investment activity could be ascribed to higher levels of capital expenditure by private business enterprises and public corporations, and a slower pace of decline in capital spending by government.

Following five quarters of uninterrupted contraction, real fixed capital outlays by private business enterprises increased at an annualised rate of 0,4% in the second quarter of 2010. With the exception of the agricultural sector, real capital investment increased in all subsectors of the private sector. Subsequent to four successive quarters of decline, real capital expenditure by the mining sector increased marginally in the second quarter of 2010. The rebound in capital spending by the mining industry could be attributed mainly to the expansion of coal mines due to increased demand for coal from the power utility Eskom.

Despite the completion of certain construction works in time for the 2010 FIFA World Cup™, the bulk of capital expansion projects by construction companies continued to be driven by infrastructure-related investment.

Owing to the expansion of broadband capacity in South Africa to keep pace with the growth in mobile data traffic, real capital expenditure by the communications subsector increased further in the second quarter of 2010. Real fixed capital expenditure by public corporations slowed marginally to an annualised growth rate of 6,5% in the second quarter of 2010, following an increase at a rate of 7,4% recorded in the first quarter. Some projects related to the preparation for the World Cup came to an end, such as major upgrading activity by the Airports Company South Africa, which was completed before the end of June 2010. Capital expenditure on the multiproduct petroleum pipeline from Durban to Gauteng supported momentum in the second quarter.

Growth was further supported by the continuous upgrading and expansion of about 561 km of freeway.

Real gross fixed capital formation by government declined at a slightly slower pace in the second quarter of 2010. Activity contracted at an annualised rate of 8% in the first quarter of 2010 and 7,2% in the second quarter. The contraction in real spending by government reflected reduced capital outlays by all levels of government.

Inventory levels continued to decline in the second quarter of 2010, registering a contraction of R7,2 billion. This is an improvement when compared to a decline of R8,7 billion recorded in the first quarter. The slower depletion in inventories in the second quarter of 2010, added 0,3 percentage points to the growth in real gross domestic expenditure during this period.

The de-accumulation of inventories in the second quarter of 2010 reflected decreased inventory levels in the manufacturing, trade and transport sectors. The run-down in aggregate inventory levels was accompanied by slower growth in real value added in the second quarter of 2010; the ratio of industrial and commercial inventories to non-agricultural GDP declined from 12,5% in the first quarter of 2010 to 12,3% in the second quarter.

Factor income

Growth over four quarters in total nominal factor income improved from 8,2% in the

first quarter of 2010 to 9,8% in the second quarter. This reflected increased momentum in the gross operating surpluses of business enterprises in the second quarter of the year. The year-on-year growth in total gross operating surpluses accelerated from 7,4% in the first quarter of 2010 to 10,9% in the second quarter. Accordingly, the share of the gross operating surplus in total factor income edged higher from 50,1% in the first quarter of 2010, to 50,6% in the second quarter. Solid growth was evident in all sectors of the economy, except for the construction and finance, insurance, real-estate and business services sectors. The profits in the construction sector remained under pressure as insufficient demand for buildings and construction works, and increased tendering competition continued to hamper their business operations.

Measured over one year, an increase of 8,7% was recorded in total compensation of employees in the second quarter of 2010, lower than the rate of 9,1% attained in the first quarter. Increases in total salaries and wages moderated from the first to the second quarter of 2010, as inflation slowed, while pressure on turnover and margins in some businesses persisted, contributing to corporate retrenchments. Measured over one year, employment in the economy decreased in the second quarter of 2010. The average level of wage settlements receded to 8,2% in the first half of 2010 compared with a rate of 9,3% in 2009. The ratio of compensation of employees to total factor income decreased from 49,9% in the first quarter of 2010 to 49,4% in the second quarter.

Gross saving

The national savings ratio, or gross saving as a percentage of GDP, increased from 16% in the first quarter of 2010, to 16,9% in the second quarter. The improvement in the saving performance can be attributed to a reduction in the dissaving by government.

The hosting of the World Cup provided a boost to otherwise difficult economic conditions, thereby contributing to the improved savings ratio.

Gross saving by the corporate sector as a percentage of GDP amounted to 16,1% in both the first and second quarters of 2010. An improvement in the gross operating surplus was offset by higher tax collections from corporate business enterprises.

The gross savings rate of the household sector remained unchanged from the first

quarter of 2010 to the second quarter at 1,6%. The savings ratio improved from the first quarter of 2008, when a ratio of 0,8% was recorded, until the fourth quarter of 2009 when a ratio of 1,7% was achieved.

Gross dissaving by government improved from 1,6% of GDP in the first quarter of 2010, to 0,7% in the second quarter. Rising tax revenues alongside lower levels of current expenditure by government had a positive effect on the level of saving.

Employment

Job losses continued during the first quarter of 2010, despite the accelerating momentum of the recovery in economic activity that had commenced in the third quarter of 2009. The reduction in job opportunities in the first quarter of 2010 was the sixth consecutive quarterly decrease in employment.

According to the *Quarterly Employment Statistics Survey* by Statistics South Africa (Stats SA), formal non-agricultural employment contracted further at a seasonally adjusted and annualised rate of 1,2% in the first quarter of 2010. Employment numbers in the private sector contracted by 1,9% in the first quarter of 2010, while public-sector employment increased by 1,2%. About 24 900 jobs were lost in the first quarter of 2010, compared to 127 100 in the corresponding period of 2009.

During the first quarter of 2010, sectors affected by job losses were the finance, insurance, real-estate and business services sector; the transport, storage and communications sector; the construction sector; the community, social and personal services sector; and the electricity sector. The public sector expanded its staff complement by about 5 600 during the first quarter of 2010, with all tiers except at national government department level adding to the job register. In the year to the first quarter of 2010, there was a loss of about 244 300 jobs in the formal non-agricultural sector. The private sector cut some 270 400 jobs during the period, which were countered by an increase in employment in the public sector. Job shedding in the private sector occurred in all subsectors, particularly in the construction, electricity, finance, insurance, real-estate and business services sectors.

The community, social and personal services sector has consistently added to its job complement during the past two years. On a quarter-to-quarter, seasonally adjusted and annualised basis, employment levels in the manufacturing sector decreased by 5,2% in the fourth quarter of 2009. This trend was

reversed during the first quarter of 2010, when employment levels increased at an annualised rate of 2,1%. The Kagiso PMI increased to a level of 60,4 index points in February 2010, before receding to 48,4 index points in June, whereafter it increased to 50,3 in August.

In April 2010, the seasonally adjusted employment sub-index improved to its highest level in more than two years, before decreasing to below 50 in the four months to August, suggesting a possible deterioration in employment conditions in the manufacturing sector in the short to medium term. By contrast, capacity utilisation in manufacturing rose in both the first and second quarters of 2010.

Construction activity was largely supported by infrastructure-related work programmes during 2009, as the residential building sector experienced a recession and activity in the non-residential building sector stalled. Employment in the construction sector decreased at an annualised rate of 6,5% in the first quarter of 2010.

The *First National Bank (FNB) Building Confidence Index*, which reflects overall business confidence in the building industry, rebounded during the third quarter of 2010. Notwithstanding the slight improvement, the industry remained firmly entrenched in a recession.

The civil construction business confidence improved in the second quarter of 2010, attributable to easing tender competition. Despite this improvement, two-thirds of respondents remained discontented with current business conditions in a sector that is largely dependent on government for projects.

The non-gold mining sector, which was responsible for the bulk of jobs created in the mining sector during the commodity price boom, cut jobs during most of 2009. The sector regained its job-creating capacity during the final quarter of 2009, continuing in the first quarter of 2010. Following the increase in commodity prices from the beginning of 2009, employment growth in the non-gold mining and gold-mining sectors amounted to 4,7% and 5,6% respectively in the first quarter of 2010.

Consistent with rising final consumption expenditure by households, employment in the trade, catering and accommodation services sector grew at a seasonally adjusted and annualised rate of 0,7% in the first quarter of 2010 following eight consecutive quarters of contraction. Over the year to the first quarter of 2010, employment,

on balance, continued to decline by 56 400 or 3,3%. Consumer confidence declined marginally but remained high in the second quarter of 2010, after two quarters of increase.

Following four quarters of decline, employment in the finance, insurance, real-estate and business services sector increased momentarily at an annualised rate of 1,9% in the final quarter of 2009, before decreasing again at a rate of 7,2% in the first quarter of 2010. Employment in the private transport, storage and communications sector contracted in the first quarter of 2010 after registering an annualised increase of 26% in the previous quarter.

Employment growth in the public sector remained robust throughout the economic downturn as roughly 82 500 jobs had been created since overall employment started contracting in the third quarter of 2008. Acting in a contra-cyclical manner, public-sector employment expanded and rose at an annualised rate of 1,2% in the first quarter of 2010. New employment opportunities were created in the public enterprises and public transport, storage and communications sector, as well as at all tiers of government except at national level. Public-sector employment increased by 26 000 persons or 1,4% in the year to the first quarter of 2010. According to the *Quarterly Labour Force Survey* by Stats SA, the total number of people employed amounted to 12,7 million in the second quarter of 2010, one million less than in the third quarter of 2008. The official unemployment rate remained unchanged at a high 25,3% in the second quarter of 2010. Formal non-agricultural employment decreased by 511 000 in the year to the second quarter of 2010, while a marginal increase in informal-sector employment was recorded, possibly related to work associated with the staging of the 2010 FIFA World Cup™.

However, the number of discouraged work-seekers increased by 390 000 in the year to the second quarter of 2010.

Price inflation

While producer price inflation picked up significantly from negative 12-month rates in most of 2009 to positive rates by mid-2010, consumer price inflation had trended lower since August 2008 and remained within the target range in the six months to July 2010, falling below 4% in September.

A combination of economic factors influenced price developments in the domestic economy, with producer prices strongly

influenced by a resurgence in international commodity prices since the beginning of 2009 and high electricity price increases, only partly countered by an appreciation in the external value of the Rand.

Consumer prices responded favourably to the counterinflationary forces emanating from low inflation in trading-partner countries, the appreciation in the exchange rate of the Rand, substantial surplus capacity in the economy and the resulting intensified competition for business. Deflation in the producer prices of domestic output reverted to inflation in December 2009, accelerating in the following months to July 2010. These price changes were largely due to base effects, higher commodity prices as well as the ongoing elevated electricity price increases announced by Eskom.

After being in negative territory in the preceding 12 months, producer price changes of manufactured output reverted to inflation from April 2010, accelerating to a year-on-year rate of 3,4% in July. Price increases of products of petroleum and coal drove manufactured producer price inflation higher, reinforced by higher price inflation of tobacco products, footwear, basic metals, non-metallic mineral products and other manufactured goods. Producer price inflation for electricity more than doubled from a year-on-year rate of increase of 17,4% in March 2010 to 39,5% in June, before moderating to 25,8% in July.

Producer prices of imported commodities decreased throughout 2009, but increased from January 2010, reaching a year-on-year rate of increase of 6,5% in May before decelerating to 2% in July. Changes in imported producer prices were driven by inflation in the mining and quarrying category, particularly the price of crude petroleum. The producer prices of imported manufactured commodities were subdued.

The producer prices of food continued to decrease in the year to June 2010. When measured over 12-month periods, producer price changes of food at both the agricultural and manufacturing levels persisted in deflation. The deflation at the level of producers eventually contributed to the considerable waning in consumer food price inflation.

The moderation in headline consumer price inflation resulted from lower rates of increase in the price of consumer goods from the third quarter of 2009. Services price inflation remained at an elevated level and in July it edged into the inflation target range after 18 months.

In 2010, year-on-year consumer goods price inflation was moderate. Being more sensitive to the exchange rate, consumer price changes of durable goods registered negative rates in the five months to July, while semi-durable goods price changes was close to nil. The prices of non-durable goods increased at rates in excess of 6% until June 2010 and in July the 12-month rate receded to 4,6%.

Headline consumer services price inflation decelerated from August 2009, remaining above the upper limit of the inflation target range. In the year to July 2010, services price inflation amounted to 5,4%. Price increases in excess of the upper limit of the inflation target range were recorded by services items such as housing utilities (water supply, refuse and sewerage collection, flats), health, education, railway travel, hotel accommodation and insurance.

Based on the classification of individual consumption by purpose categories in July 2010, 12-month rates of price increase in excess of the upper limit of the inflation target range were registered in six categories with a combined weight of 48,18% in the total index. When the impact of food, non-alcoholic beverages, petrol and electricity prices is excluded from the headline consumer price index, this measure of underlying inflation has decelerated continuously since January 2010 and amounted to 3,6% in the year to July 2010.

Year-on-year administered goods and services price inflation accelerated significantly to 14,5% in January 2010, whereafter it moderated to 8,6% in July. With the exception of the communications and transport categories, all the other categories within the administered price basket registered above 6% inflation rates in the year to July 2010. When the effect of petrol and electricity prices is excluded from administered prices, this year-on-year rate of increase moderated to 6,9% in July 2010. Omitting the main drivers of administered price inflation, namely petrol and electricity, from the calculation, this inflation measure still recorded double-digit rates of increase, well above the upper limit of the inflation target range.

The Bureau for Economic Research *Inflation Expectations Survey* conducted in the second quarter of 2010 showed an increase in inflation expectations in the three years to 2012. Inflation was expected to accelerate from 6,3% in 2010 to 6,8% in 2012.

Exchange rates

The nominal effective exchange rate of the Rand decreased marginally by 0,8% from the end of March 2010 to the end of June, following an increase of 3,9% during the first quarter. The decline in the exchange rate of the Rand during the second quarter of 2010 may be attributed partly to international economic developments, especially the sovereign debt crisis in Europe. The Rand performed admirably against the Euro during the second quarter of 2010 while it depreciated considerably against the Japanese Yen.

The weighted average exchange rate of the Rand increased by 1,2% from the end of June 2010 to the end of August partly as a result of United States (US) dollar weakness, an unchanged monetary policy stance as announced by the SARB in July 2010, and a further decline in the domestic inflation rate.

The nominal effective exchange rate of the Rand showed much less volatility during the first half of 2010 than in the second half of 2009. During the months of January, February, April, June and August 2010, the trade weighted exchange rate of the Rand did not deviate by more than 2% from the mean, while a deviation of more than 2% was observed in all the months during the second half of 2009. The real effective exchange rate of the Rand increased by 11% during the 12 months up to June 2010. While the increase in the real effective exchange rate of the Rand resulted in a deterioration in the competitiveness of South African exporters, the decline in the volatility of the Rand exchange rate provided some stability to business operations and outcomes. The average net daily turnover in the domestic market for foreign exchange, which decreased to US\$14,9 billion in the first quarter of 2010, increased to US\$15,3 billion in the second quarter. The increase in the average daily turnover in the domestic market for foreign exchange can be attributed to an increase in resident participation in the foreign-exchange market.

Foreign trade and payments International economic developments

After contracting for two consecutive quarters, global economic growth turned positive in the second quarter of 2009. The global growth momentum accelerated further in the second half of 2009 and remained strong in the first quarter of 2010, aided by sub-

stantial monetary and fiscal policy support measures in most countries. Financial-market turmoil increased from mid-April 2010, following the downgrading of Greece, Ireland, Portugal and Spain by rating agencies due to vulnerable public finances. Data suggested that global output growth moderated from rates in excess of 5% in the fourth quarter of 2009 and the first quarter of 2010 to around 4,5% in the second quarter of 2010.

Economic activity in the USA continued to increase in the second quarter of 2010, reflecting positive contributions from non-residential fixed investment, private consumption expenditure, exports, federal government spending and the restocking of private inventories. The rate of increase was lower due to an acceleration in imports and a deceleration in private inventory investment. The pace of increase in output and employment slowed further.

Economic growth in the Euro area improved in the second quarter of 2010, increasing to 3,9% compared with 1,3% in the first quarter. This enhanced performance was supported by export growth, especially in Germany, fuelled by the depreciation of the exchange rate. Financial markets responded positively to the outcome of the European Union (EU) wide-bank stress tests. The Committee of European Banking Supervisors confirmed that most European banks were resilient to severe economic and financial shocks, with only seven of the 91 banks failing to meet the capital requirements.

Following growth during the first quarter of 2010, Japan's output growth slowed during the second quarter due to the weakening of domestic demand and export growth in response to a slowdown in the restocking of inventories in the Organisation for Economic Cooperation and Development (OECD) and a moderation in the economic growth in China.

Among emerging-market economies, the deceleration of aggregate growth was caused by slower growth in Asian emerging markets.

Chinese output growth slowed to 7,2% in the second quarter of 2010. This moderation came as fixed investment growth slowed as a result of tightening measures aimed at the housing sector and fiscal spending cuts on local government investment projects. The slowdown was also due to inventory adjustment, while retail sales and the export sector continued to expand. The growth

momentum and contribution to global growth from the Latin American region improved significantly in the second quarter of 2010. Growth turned positive in Mexico, Chile and Venezuela, and was expected to remain strong in Argentina and Colombia. It moderated in Brazil during the second quarter.

Growth in emerging Europe accelerated in the second quarter of 2010, as a result of the strong performance in Russia and Poland.

The International Monetary Fund (IMF) revised its global growth outlook to 4,6% in 2010, but left its projections for 2011 at 4,3% in its *World Economic Outlook Update (July 2010)*. These projections reflected the stronger-than-expected economic activity in the first half of 2010 and bleaker prospects for 2011 due to the increasing downside risks following renewed financial instability in Europe. Steady economic recovery in advanced economies and strong growth in many emerging-market and developing economies was envisaged for 2011. Growth in advanced economies was revised to 2,6% in 2010 and 2,4% in 2011, while growth in emerging-market and developing economies was revised to 6,8% in 2010 and 6,4% in 2011.

Brent crude oil prices declined from almost US\$90 per barrel at the beginning of May 2010, to around US\$70 per barrel towards mid-May 2010, amid increased concerns over the European sovereign debt crisis and the sustainability of the global recovery. Crude oil prices increased to between US\$75 and US\$77 per barrel towards the end of June 2010, supported by growing consumption from China. Oil prices briefly declined below US\$72 per barrel at the beginning of July 2010, but rebounded to levels above US\$80 per barrel at the beginning of August 2010 and declined to around US\$76 per barrel in early September 2010. Futures prices predicted Brent crude oil prices of around US\$80 per barrel in the first quarter of 2011.

Weak private consumption expenditure, excess capacity and the continued high unemployment rate helped to contain global inflationary pressures in the second quarter of 2010. Headline consumer price inflation in the OECD countries decelerated from 2% in May 2010 to 1,6% in July. Core consumer price inflation (excluding food and energy) decelerated to 1,2% in July 2010, from 1,3% recorded in the first quarter. The IMF projections for inflation in advanced economies were revised downwards to 1,4% in 2010

and 1,3% per in 2011. Inflationary pressures were expected to remain subdued in advanced economies due to the low level of capacity utilisation and well-anchored inflation expectations. Inflation in emerging-market and developing economies were projected to average 6,3% in 2010 and 5% in 2011.

Excluding food and energy, core consumer price inflation in the USA and the Euro area remained subdued in the second quarter of 2010. The moderation in prices was broad-based across a range of goods and services, consistent with downward pressure on prices from excess capacity.

During the second quarter of 2010, headline inflation also gradually slowed in the USA and in the Euro area, but edged up in July 2010 to 1,2% and 1,7% respectively. Owing to sluggish labour-market developments, unit labour cost and real wages were expected to exert limited upward pressure on inflation.

Deflation in Japan moderated in the second quarter of 2010, but was likely to continue to weigh on consumer spending. Core consumer prices (excluding fresh food) in Japan fell by 1,1% and headline consumer prices by 0,9% in July 2010.

Consumer price inflation was subdued in most major emerging-market economies. Inflationary pressures continued to ease in emerging Europe since mid-2008, but started to increase at the beginning of 2010 in Latin America before stabilising in the second quarter of 2010.

Emerging Asia experienced an acceleration in consumer prices in the second half of 2009, but stabilised in the first half of 2010. Food prices rose from mid-2009 across emerging-market economies due to tight supplies, changing weather patterns

and rising demand, pointing to a long-term structural change.

A number of central banks tightened monetary policy during the second quarter of 2010 on inflation concerns as the recovery in output strengthened.

Current account

Although the increase in economic activity appeared to be fragile in a number of economies in the second quarter of 2010, the underlying global economic recovery proved to be well underway and only marginally affected by the fallout of the sovereign debt crisis in the Greece, Italy, Portugal and Spain economies. Over and above the austerity measures introduced to constrain the spillover effects from the crisis in Greece, the crisis had a marginal bearing on the South African economy due to limited trade with these economies.

Trade between South Africa and trading-partner countries, including China, India and certain economies in the Euro area, continued to benefit South African exporters. At the same time, the volume of imported goods regained momentum as the private sector raised its expenditure on manufactured goods. The deficit on the trade account in the first quarter of 2010 reverted to a surplus of R13,2 billion in the second quarter.

The improved performance of the trade account was supplemented by a narrowing of the deficit on the services, income and current transfer account, with the rest of the world following higher tourist expenses by non-resident visitors attending the 2010 World Cup. As a result, the deficit on the current account of the balance of payments, which had deteriorated to 4,6% of GDP in the first quarter of 2010, contracted to 2,5% in the second quarter.

Having contracted by 3,3% in the first quarter of 2010, the volume of merchandise exports advanced by about 1% in the second quarter of 2010. The rebound was brought about by an increase in demand for South African-produced mining products. Particularly large increases occurred in the volume of base metals exported to the European region alongside a considerable increase in mineral exports to China, raising the overall volume of mining exports by about 5% in the second quarter of 2010.

The resurgence in private consumption expenditure in a number of South Africa's main trading-partner countries raised the demand for domestically manufactured motor vehicles and transport equipment, causing the volume of exported manufac-



According to the findings of the report, *South Africa: Second Investment Climate Assessment – Improving the Business Environment for Job Creation and Growth*, South Africa's business environment compares favourably with that of its peer group of upper- to middle-income economies globally.

The findings call for greater efforts to raise the market share of efficient, high-performing enterprises, enhanced productivity, and increase export competitiveness for job-led, sustainable economic growth. The report, which was prepared by the World Bank in collaboration with the South African Department of Trade and Industry, presented the results of a 2008 survey of 1 056 manufacturing industries, 68% of which are located in Johannesburg, 14% in Cape Town, 12% in Durban, and 6% in Port Elizabeth. Of these, 231 businesses were revisits from an earlier 2003 survey.

ured goods to edge higher by 0,5%. Fruit exports, mainly seasonal citrus fruit, picked up in the latter part of the second quarter of 2010.

Over and above the increase in the volume of merchandise exports in the second quarter of 2010, the Rand price of exports rose by 5,5% as a result of higher international commodity prices. The combined result of price and volume increases raised the proceeds of domestic exporters to R552 billion or by 6,4% in the second quarter of 2010, following a decline of 1,9% in the preceding quarter.

Large-scale uncertainty about the potential spill-over effects from the sovereign debt crisis in Greece and the subsequent expectation of increased volatility in global financial markets persuaded international investors to adjust their portfolios to preserve wealth. The higher demand for commodity-based assets, supplied mainly by emerging-market economies, including South Africa, consequently raised the prices of international commodities by 9,8% in the second quarter of 2010; in the preceding quarter prices rose by 7,2%. Increases of 4,4% and 7,7% were recorded in the prices of platinum and gold respectively during the second quarter of 2010. The fixing price of gold on the London market advanced by 4,8% in May 2010 and by 2,4% in June, raising the quarterly average from US\$1 110 per fine ounce in the first quarter of 2010 to US\$1 195 per fine ounce in the second quarter. The realised price of gold in Rand terms rose by 9,2% over the period.

The volume of net gold exports increased by 9,2% in the second quarter of 2010, attributable to increased demand for physical gold as an investment asset and the demand for jewellery from Asia. The combined effect of increases in both the price and volume of gold exports was a 19,3% increase in the proceeds from net gold exports, from R49,5 billion in the first quarter of 2010 to R59 billion in the second quarter.

The value of merchandise imports advanced by 2,9% in the second quarter of 2010 after increasing by 3,2% in the first quarter. The higher value of imports in the second quarter of 2010 can be attributed to the demand for foreign-produced goods. The Rand price of merchandise imports declined by 0,2%, weighed down by the increase in the international price of crude oil, the strength in the external value of the Rand, and low and well-contained inflation in most of South Africa's important trading-partner countries. The volume of merchandise

imports increased for the third consecutive quarter, rising by 3,1% from the first to the second quarter of 2010. The expansion in import volumes in the second quarter reflected increases in the categories for vehicles and transport equipment, including four military aircraft, as well as machinery and electrical equipment. In total, manufactured import volumes increased by about 5% in the second quarter of 2010. The volume of imported mining products moved broadly sideways, partly constrained by a decline in the volume of imported crude oil.

Net service, income and current transfer payments to non-residents narrowed substantially from R103,2 billion in the first quarter of 2010 to R80,1 billion in the second quarter. The improvement in the deficit on this account was attributed to lower net payments to non-residents in most of the main categories of the account.

Measured as a ratio of GDP, the imbalance shrank from 4,1% in the first quarter of 2010 to 3% in the second quarter – a ratio previously recorded in the third quarter of 2005.

Net service payments to non-residents contracted in the second quarter of 2010, largely as a result of the World Cup, which affected mainly travel receipts during the period.

In addition, spending by South African residents temporarily travelling abroad moved broadly sideways during the second quarter of 2010, in part attributable to the attraction of the major sport event leading to the postponement of foreign visits by residents. Gross payments in the category "other services" remained relatively high as a result of payments made for technical services related to infrastructure projects, including the completion of the first phase of the Gautrain project and the finalisation of assignments related to the World Cup.

Following an increase in the first quarter of 2010, gross dividend payments contracted in the second quarter of 2010. Net interest payments to foreign creditors and investors



The 11th Fortune/Time/CNN Global Forum was hosted by Time Warner Inc. and the Department of Trade and Industry in Cape Town in June 2010. The event provided an opportunity for South African, regional and international organisations to forge relationships and form business linkages with key players and decision-makers in the various sectors globally. A diverse group of leaders which went beyond government and business and included science and technology, entertainment and culture, sports, and non-government organisations, attended.

increased marginally during the second quarter. The improvement in the deficit on the overall account was further supplemented by a contraction in net current transfer payments to members of the Southern African Customs Union (Sacu), consistent with the decline in trade volumes.

South Africa's terms of trade improved further in the second quarter of 2010 as the Rand price of exported goods and services increased further, while that of imported goods and services declined marginally. The relatively higher Rand price of merchandise exports further supported the improvement in the current-account balance during the second quarter.

Department of Economic Development

The Department of Economic Development, which was established in 2009, assumed responsibility for coordinating government's work on the Framework for South Africa's Response to the International Economic Crisis. The department is also responsible for developing economic policy with broad, cross-cutting focus so that macro- and micro-economic policies reinforce each other and are both aligned to the electoral mandate.

The department is responsible for economic development planning, and works with other departments to ensure co-ordination around a programme that places decent work at the centre of government's economic policies to secure better employment outcomes. The department's budget of R418 million for 2010/11 is allocated as follows:

- R18,2 million for policy development
- R25,8 million for economic planning and coordination
- R11,2 million for economic development and dialogue
- R44,8 million for administration, the ministry and capital expenditure
- R152 million for small business funding, through transfers to Khula Enterprise Finance Limited (Ltd) and the South African Micro-Finance Apex Fund (Samaf)
- R102 million for the competition authorities to strengthen their work
- R64 million for trade administration and to the ITAC.

A sum of R318 million will be transferred directly to agencies reporting to the department.

Policy development

The department has identified a number of areas with the potential for new jobs. They are:

- infrastructure development
- the green economy
- the manufacturing sector
- knowledge-economy activities
- the rural, agriculture and agroprocessing sector
- tourism and business process services
- the social economy, which includes co-operatives
- public sector growth
- the continental and regional economy.

An important policy focus for the department will be the creation of sustainable livelihoods and addressing the challenges of enterprises in the Second Economy.

The department will establish the Ministerial Advisory Panel, which will serve as an ideas forum. The department planned to have the core of the Economic Development Institute in place by the end of 2010 and aimed to produce 10 policy documents on growth and employment issues by March 2011.

Economic planning and coordination

The Department of Economic Development's work on sector policy aims to support the Industrial Policy Action Plan (IPAP II) announced in February 2010, as well as rural economic development initiatives.

From April 2010, the department guided the work of three economic regulatory bodies, the Competition Commission, the Competition Tribunal and the ITAC; and three DFIs namely Khula; Samaf; and the IDC. The department also set a target to generate R2 billion worth of financing for small businesses, targeted growth sectors and companies in distress.

The competition authorities will be strongly supported in their efforts to combat price-fixing, collusion and tender-rigging. Between May 2009 and May 2010, the tribunal issued fines of close to half a billion rand for anti-competitive conduct.

Social dialogue

The Department of Economic Development created a programme to promote social dialogue to foster economic development. The department planned to set up a series of knowledge networks by the end of 2010, and host the first Annual Economic Devel-

opment Conference before the end of the 2010/11 financial year.

The department promotes workplace productivity agreements and fosters entrepreneurial endeavours in the economy, particularly those of black entrepreneurs.

Green economy

South Africa's transition to a low-carbon economy and the potential for job creation was a key focus of the Green Economy Summit held in May 2010, where delegates advised government on how it could contribute towards the development of the country's economy without endangering the environment.

In 2009, President Jacob Zuma announced that South Africa would slow its growth in greenhouse gas emissions by 34% by 2020, and by 42% by 2025.

The Green Economy Summit:

- came in the wake of the Copenhagen Conference on Climate Change where South Africa and many other nations pledged to reduce carbon emissions
- came at the start of a recovery from the recession in which a significant part of government's response had been through a massive infrastructure-build programme
- was well timed to inform the new growth path being developed in government.

In South Africa, the period prior to the recent recession saw significant and robust economic growth. There are big challenges in creating enough jobs for South Africans willing and able to work, in combating poverty and inequality, and in ensuring sustainable development.

This has led government to work on a new growth path that seeks to be more labour-absorbing, less carbon-intensive and that connects the significant scientific and technological capacities of the society with the challenges of jobs and economic growth.

One of the most important elements of the new growth path is a green economy and the enormous potential that it holds for creating decent work opportunities and boosting economic growth.

The jobs potential for the green economy is significant. The country's opportunities lie in many new areas, ranging from the development of new energy-efficient material; to large solar- and wind-energy plants; to green manufacturing operations, including car manufacturing, ecotourism and waste management.

A greener economy will improve the competitiveness of the export economy, as green

concerns increasingly influence standard-setting and access to export markets.

Spatial-development goals will be furthered through carefully considered solar and wind farms.

The Department of Economic Development is working closely with the IDC to help it become the "green industrialising" engine for the economy.

The IDC budgeted R11,7 billion for investment over the next five years in green industries.

By mid-2010, the IDC had committed R33 million for feasibility studies for several wind farms as well as solar thermal and photo-voltaic electricity generation. Some R800 million had been approved for bio-ethanol production, with the potential to increase the amount to R3 billion.

A R5-million investment was made in a project that captures methane gas from livestock manure and converts it to electricity.

In manufacturing, the IDC supported companies in the green export market and in the assembling of photo-voltaic cells.

In waste management, the IDC approved several recycling projects across the country, as well as funding for projects manufacturing biomass pellets from wood for the export market.

In addition to its work with the IDC, the Department of Economic Development is involved in efforts to strengthen the spatial economic development impact of green investment, promote competition and trade policies that support growth in the green sectors, and identify ways to support small business funding in the green economy.

One of the key challenges is the research and development (R&D) of carbon capture and carbon-reduction technologies.

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 small and medium-sized enterprises (SMEs) have an equitable opportunity to participate in the economy

- promote a greater spread of ownership, in particular by increasing the ownership stakes of historically disadvantaged individuals.

The Competition Amendment Act, 2009 (Act 1 of 2009), provides for:

- concurrent jurisdiction between the Competition Commission and other regulatory authorities
- provisions to address other practices that tend to prevent or distort competition in the market for any particular goods or services
- more guidance in relation to conducting market enquiries as a tool to identify and make recommendations with respect to conditions that tend to prevent, distort or restrict competition in the market for any particular goods or services
- provisions to hold personally accountable those individuals who cause firms to engage in cartel conduct
- authority to the Competition Commission to excuse a respondent to a complaint if the respondent has assisted the competition authorities in the detection and investigation of cartel conduct.

From 1 April 2010, the Department of Economic Development is guiding the work of the Competition Commission and the Competition Tribunal.

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

The Competition Tribunal adjudicates competition matters in accordance with the Competition Act, 1998. The tribunal is subject to the Constitution and the law, and acts independently. The tribunal may hear matters relating to mergers and acquisitions, complaints regarding cartels and other anti-competitive business practices, and may impose remedies, including the ordering of fines to be paid by transgressors.

Department of Trade and Industry

The Department of Trade and Industry aims to lead and facilitate access to sustainable economic activity and employment for all South Africans. South Africa has trading relationships with over 200 countries and territories.

The department also aims to catalyse economic transformation and development, and to provide a predictable, competitive, equitable and socially responsible environment for investment, enterprise and trade for economic citizens. In this way,

the department contributes to achieving government's vision of an adaptive and restructured economy, characterised by accelerated economic growth, employment creation and greater equity by 2014.

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 the 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.

In 2009/10, the Department of Trade and Industry:

- gave access to 32 companies in the clothing and textile sector to a R434-million facility for two programmes to the value of R29 million
- issued rebate certificates in the automotive sector with a deemed value of just over R5 billion for qualifying products
- allocated funds for the film, tourism and business process outsourcing (BPO) subsectors, ensuring that 5 693 jobs were created in the BPO subsector between April and September 2009
- completed and issued amended guidelines for the Enterprise Investment Programme (EIP), simplifying rules and setting realistic requirements in line with commercial realities
- developed the Automotive Investment Scheme (AIS) guidelines to support the motor industry with a budget of R2,7 billion over the next three years by extending the programme to include investment in the component sector

- developed tax incentive regulations and appointed an adjudication committee
- supported private-sector investment in targeted sectors through the funding of 871 enterprises in the manufacturing, tourism, film, television, BPO and off-shoring (BPO&O) sectors
- supported 795 projects, which will create 16 760 jobs, leveraging an R8,4 billion investment under the EIP
- paid 3 811 Small and Medium Enterprise Development Programme (SMEDP) claims worth R1,35 billion
- approved 11 BPO&O projects worth R620 million, creating 11 852 jobs
- improved the competitiveness of small, black-owned enterprises by supporting more than 4 000 enterprises in acquiring business-development services
- revised the Black Business Supplier Development Programme (BBSDP) guidelines
- improved the viability and competitiveness of 246 emerging cooperatives through funding of R34,5 million
- completed the consultation process on modernising South Africa's Technical Infrastructure Strategy.

South Africa's global positioning and integration International Trade and Economic Development (ITED)

The ITED's purpose is to build an equitable global trading system that facilitates development, by strengthening trade and investment links with key economies, and by fostering African development through regional and continental integration and development coordination in line with Nepad.

The ITED's objectives include:

- expanding market access for South Africa's exports and strengthening trade and investment links through aiming to conclude six bilateral trade and investment agreements and/or memoranda of understanding (MoUs) per year over the Medium Term Expenditure Framework (MTEF) period
- developing and implementing a work programme for enhanced South-South cooperation
- developing and implementing a cooperative trilateral work programme for Angola, Namibia and South Africa, focusing on spatial development initiatives (SDIs)
- advancing South Africa's position on a trilateral free-trade agreement (FTA) encompassing the Southern African

Development Community (SADC)-East African Community-Common Market for Eastern and Southern Africa (Comesa)

- consolidating the SADC FTA through focused work on improving rules of origin, trade facilitation measures, and establishing a mechanism to address non-tariff barriers
- developing a clear programme of work to guide participation in the Sacu
- updating negotiating positions for a developmental outcome in the Doha negotiations
- concluding tariff negotiations with the EU under the Trade, Development and Co-operation Agreement/Economic Partnership Agreement (TDCA/EPA) alignment
- concluding the Sacu-India Preferential Trade Agreement (PTA)
- ensuring compliance with international non-proliferation treaties by monitoring production and trade in relevant industries.

African integration

South Africa is deeply committed to development integration in southern Africa which combines trade integration with infrastructural development and sectoral policy coordination.

The ITED has a strong developmental focus in its engagement with Africa. Partnerships with key countries on the continent are of strategic importance. South Africa's economy is inextricably connected to the southern African region, and the region's economic prospects are linked to the economic recovery of the continent. South Africa's development can only be sustainable if there is cooperation for mutual benefit with all the neighbouring countries. Nepad is the internationally agreed framework for the socio-economic development of the continent.

Driven by regional economic development and integration imperatives, the South African Government continues to display its commitment to its neighbours and other members of the SADC and regional blocs such as Comesa through the SDI Programme.

The SDI Programme is intended to promote trade and investment-led economic growth and development. The programme methodology allows for the creation of a critical mass of integrated private-sector and infrastructure development necessary to kick-start a sustainable economic development process. It is focused on unlocking inherent economic potential in specific

southern African locations, often along existing transport or development corridors. The SDI methodology emphasises the enhancement of the attractiveness of an area for investment by simultaneously advocating the removal of bureaucratic, administrative and institutional impediments to trade and investment.

South Africa continues to be an important source of investment in Africa.

The following areas have been prioritised:

- infrastructure and logistics (roads, ports, etc.)
- energy
- information and communications technology (ICT)
- water and waste management
- transport
- construction
- oil and gas infrastructure
- agribusiness
- mining
- human-resource development (HRD).

The regional agenda responds to the EPAs between the EU and SADC countries. As the EPAs establish a series of different and sometimes incompatible trade regimes between the EU and members of the SADC, it is likely to undermine deeper integration in southern Africa. Member states of the SADC and Sacu will need to respond collectively to this new challenge to the region's integration and development strategy.

Relations with the North

South Africa continues to consolidate its economic and trade relations with the major economies in the north, as they remain important markets for goods, services investment and technology. Trade relations with Europe, particularly with the EU, are pivotal to South Africa's economic development. The TDCA with the EU forms a substantial element of South Africa's reconstruction and development.

The United Kingdom (UK), Germany, the Netherlands and Switzerland are among South Africa's top-10 export destinations. Germany, the UK and France 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, showing annual growth of 18,5% between 2007 and 2008. In 2009, Germany was overtaken by China which became the largest source of imports.

In May 2010, the Department of Trade and Industry and the Swedish Trade Council signed a transformation initiative MoU. The initiative is expected to develop a co-ordinated and collective approach for Swedish companies to comply with the BBBEE codes of good practice.

South-South trade

In pursuing relations with the South, it will be necessary to ensure an approach to trade that will strengthen South Africa and Africa's efforts to develop an industrial base rather than support the continuation of the current pattern of trade where exports of raw material are exchanged for manufactured goods.

Bilateral engagements

The department has learned important lessons that will inform future bilateral engagements. Firstly, as compared to FTAs, more focused PTAs allow for a more strategic integration process among developing countries. Secondly, it is increasingly apparent that tariffs are not always the most important barrier faced in foreign markets and hence negotiating outcomes must deal more effectively with non-tariff barriers. Thirdly, the department will need to give attention to forging sectoral cooperation agreements to support South Africa's industrial development objectives.

Multilateral engagements

South Africa is a strong proponent of multilateralism. The country has seen multilateralism as the necessary intergovernmental response to the challenges of globalisation

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In June 2010, the Minister of Trade and Industry, Dr Rob Davies, approved the guidelines of the Automotive Investment Scheme (AIS), which is aimed at growing and developing the sector. The AIS is part of the Automotive Production and Development Programme intended to replace the Motor Industry Development Programme (MIDP) in 2012. The scheme replaces the Productive Assets Allowance Scheme of the MIDP, which elapsed in December 2009.

The AIS is intended to grow and develop the automotive sector through investment in new and replacement models as well as the manufacturing of automotive components. The scheme will provide qualifying firms with a taxable cash grant of 20% of the value of qualifying investment in productive assets.

A budget allocation of R2,69 billion has been made available for the next three financial years, starting in 2010/11.

and deepening interdependence among economies and societies around the world.

Established as an outcome of the Uruguay Round of multilateral trade negotiations in 1994, the World Trade Organisation (WTO), having established extensive multilateral rules over global trade, has moved to the centre of an evolving system of multilateral institutions charged with global economic governance.

While multilateral disciplines in the WTO reduce the scope for unilateral action by powerful nations, existing rules exhibit imbalances and inequities that prejudice the trade and development interests of developing countries.

South Africa's support for the launch of the Doha Round was premised on an assessment that negotiations opened up a possibility to rebalance the global trading system in favour of developing countries. South Africa's negotiating objectives aim to:

- enhance market access for products of export interest to developing countries
- eliminate industrial country subsidies and support to inefficient producers, particularly in agriculture
- renegotiate rules that perpetuate imbalances in international trade
- ensure policy space for developing countries to pursue developmental objectives through meaningful implementation of the principle of special and differential treatment.

Over the course of the Doha Round negotiations, the country has witnessed an erosion of the developmental mandate. This has manifested in the gradual lowering of the ambition of developed countries to substantially reform agriculture trade, alongside growing pressure on emerging developing countries to open their markets for industrial products and services.

Trade and Investment South Africa (Tisa)

Tisa contributes to the Department of Trade and Industry's strategic objectives by:

- increasing the quality and quantum of foreign and domestic direct investment by undertaking effective investment recruitment campaigns, and providing an efficient facilitation and information service to retain and expand investment into South Africa and into Africa
- developing new and existing South African exporters' capabilities to grow exports globally by providing appropriate information, financial support and practi-

cal assistance to sustain organic growth in traditional markets and to penetrate new high-growth markets

- effectively managing and administering the foreign office network.

Customised sector programmes

The department develops and implements high-impact sector strategies focused on manufacturing and other value-added sectors, to create decent jobs and increase value-addition and competitiveness in domestic and export markets, as set out in the annual three-year rolling IPAP. Provision is made for the following transfers and subsidies:

- the Council for Scientific and Industrial Research's (CSIR) Aerospace Industry Programme, which promotes an industry supplier base that is integrated into global supply chains
- the CSIR's National Cleaner Production Centre, which undertakes specific cleaner production projects in the chemicals, agroprocessing, clothing, textiles and automotive sectors
- the National Foundry Technology Network, which aims to contribute to the resuscitation of the foundry industry by providing training to existing personnel and new trainees, promoting foundry SMEs, providing technical foundry support and conducting R&D and technology transfers
- the Intsimbi National Tooling Initiative, which is a turnaround intervention, aimed at the rehabilitation and growth of the tool, die and mould manufacturing industry
- the United Nations Industrial Development Organisation's Automotive Component Supplier Development Programme, which aims to improve the competitiveness of SME suppliers in the automotive component industry and enables them to participate in the local and international supply chains, through plant-level efficiencies.

Enterprise and industry development

The Department of Trade and Industry provides leadership in the development of policies and strategies that create an enabling environment for competitiveness, equity and enterprise development.

The Enterprise and Industry Development Division (EIDD) contributes to realising the department's strategic objectives by:

- creating an enabling environment for all enterprise forms, including cooperatives, to prosper
- providing a framework to enable participation of women and previously disadvantaged people in the economic mainstream
- identifying new geographic areas for greater economic stimulation
- providing a framework for industry norms and standards, including sustainable production methods
- influencing policy developments in skills-building, technology and infrastructure
- providing policy direction in emerging sectors and also the repositioning of the economy in higher-value segments to achieve competitiveness.

Industrial Policy Action Plan

In February 2010, Cabinet approved the implementation of the second 2010/11 – 2012/13 IPAP, which will help alter the structure of the economy to support decent work and sustainable livelihoods.

The IPAP II expands the first plan with more focus on scaling up the industrial policy interventions to alter the structure of the economy that supports decent work and sustainable livelihood.

The plan will be reviewed annually to ensure that its objectives are met. Progress reports on the implementation of IPAP II will be submitted to Cabinet every six months.

The plan will focus on unlocking South African industrial development in a sustainable manner by identifying strategic industrial interventions.

It fast-tracks development in the four lead sectors of the South African economy, namely capital/transport equipment and metals; automotives and components;

chemicals, plastic fabrication and pharmaceuticals; and forestry, pulp and paper, and furniture.

Government aims to create about 2,5 million jobs by 2020 with the launch of the IPAP II, which came into effect in April 2010, and will focus on four key areas to boost industrial capacity. The areas include looking at ways of strengthening the IDC, revising procurement legislation, deploying trade policies more strategically, and targeting anti-competitive practices.

The IPAP will also help the country to leverage more local procurement to raise domestic production by overhauling the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000), and assigning points in the tender process to those firms that procure locally.

Added to this, more planning and strategising will go into the procuring of goods and services. Through the release of long-term procurement plans, investors will be better informed as to what goods are in demand by government and this will in turn help promote jobs at home.

The Proudly South African Campaign, which aims to boost job creation and promote South African companies and their “homegrown” products and services, is to be revived.

Eight to 10 products, such as railway equipment, will be identified to form part of the long-term procurement plan.

The IPAP also aims to boost sectors such as metals fabrication, capital and transport equipment, green- and energy-saving industries, and agroprocessing linked to food security.

The Enterprise Organisation (TEO)

The Department of Trade and Industry’s TEO aims to stimulate and facilitate the development of enterprises, by providing incentive measures that support investment, job creation and regional economic development, such as the:

- IDZs
- Critical Infrastructure Programme
- EIP
- Foreign Investment Grant
- SMEDP
- BPO&O Programme
- Automotive Production and Development Programme
- BBSDP
- Cooperative Incentive Scheme

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The Coega Industrial Development Zone (IDZ) was designed in 2002 and is a key project for the Department of Trade and Industry and the Eastern Cape Provincial Government.

By July 2010, R2,8 billion of government funding had been spent. About 90% of the funding was spent on infrastructure programmes such as road construction, earthworks, electricity, water and sewers, factory buildings and offices. The Coega IDZ is designed to attract private-sector investment in export-orientated industries. It aims to create jobs within the IDZ, promote the use of domestic industries outside Coega and boost growth through increased exports, technology transfer and increased employment.

A number of private investments had been secured by mid-2010: 24 private commitments of R49 billion had been finalised and eight investors with R480 million invested were operational.

- Export Marketing and Investment Assistance Scheme
- Film and Television Production Incentive Scheme
- Staple Food Fortification Programme
- New Incentive Development Programme
- Business Development and After-Care Programme.

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.

Small, medium and micro-enterprises

The sum total of the estimated 2,8 SMMEs contribute between 52% and 57% to the GDP. It is also estimated that SMMEs contribute nearly 61% to employment.

The Enterprise Development Subprogramme seeks to grow and develop SMMEs and cooperatives. Provision is made for the roll-out of transfer payments and incentives aimed at supporting cooperatives and SMMEs, so as to withstand the challenges of a contracting economy. The delivery and upscaling of support, particularly to black-owned, rural and township SMMEs, as well as cooperative programmes, will be accelerated. These initiatives include entrepreneurship development, and financial and non-financial support programmes. Monitoring the business environment and undertaking regulatory reviews to ensure sustainable SMME development are also a key focus of the department's work. The department also works with other spheres of government and the private sector to ensure the effective coordination of SMME support services,

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In June 2010, the G20 Leaders Summit was held in Toronto, Canada. The South African delegation was led by President Jacob Zuma. Leaders of the world's largest economies pledged to halve budget deficits by 2013 and stabilise or reduce government debt by 2016.

including the establishment of effective networks of SMME support services.

Provision is made for the following transfer payments and subsidies:

- the Small Enterprise Development Agency (Seda), which provides non-financial business development and support services to small enterprises
- the United Nations Industrial Development Organisation, which channels the South African contribution towards achieving sustainable global industrial development, particularly among small-scale industries.

In 2009/10, highlights in this sector included:

- the Technology and Human Resources for Industry Programme (THRIP) leveraged R227 million from the private sector for new technology development and supported 298 enterprises (64% of which were SMMEs), 2 187 students and 685 researchers
- the *National SMME Directory* was finalised, incorporating SMME support programmes from the public, private sector and donor-funded programmes
- the formulation of the Cooperative Strategy aimed at developing cooperatives through the provision and upscaling of the relevant support programmes was finalised and approved by Nedlac
- the targeted procurement for small enterprises, through the 10 Product Procurement Policy Framework aimed at increasing access to markets for SMMEs through government procurement was finalised and the SMME payment hotline was successfully launched in September 2009.

Institutional support framework National Small Business Advisory Council (NSBAC)

The NSBAC advises on issues affecting owner-managed businesses.

The 15-member council comprises business owners, academics and international entrepreneurial experts.

Small Enterprise Development Agency

Seda's mandate is to design and implement a standard national delivery network that must uniformly apply throughout the country. Its role includes the support and promotion of co-operative enterprises, particularly those located in rural areas.

The work of Seda is carried out in line with the Department of Trade and Industry's Integrated Small Enterprise Development Strategy, which aims to:

- strengthen support for SMMEs' access to finance
- create an enabling regulatory environment
- expand market opportunities for specific categories of small enterprises
- localise small business support through a grid of Seda-coordinated information and advice access points
- initiate a national entrepreneurship drive and expand education and training for small business
- co-fund minimum business infrastructure facilities in local authority areas across the country

In 2009/10, the Seda Technology Programme supported 29 incubators and 66 projects to the value of R98 million, creating 6 778 jobs, and 243 new SMMEs. It supported 675 SMMEs with quality and standards activities.

Through Seda offices, entrepreneurs receive services such as the development of business plans, technical advice and marketing, information on export support, tenders and incentives.

Seda offices are operational in all nine provinces.

South African Micro-Finance Apex Fund

Samaf's work is guided by the Department of Economic Development.

Samaf is a wholesale funding institution formally established in April 2006. It is a trading entity and is governed by the Public Finance Management Act, 1999 (Act 1 of 1999). Samaf is tasked to facilitate the provision of affordable access to finance by micro, small and survivalist businesses for the purpose of growing their income and asset base. Samaf aims to reduce poverty and unemployment and extend financial services to reach deeper into the rural and peri-urban areas. It also aims to build a network of self-sufficient and sustainable micro-finance institutions.

Khula Enterprise Finance Limited

Khula's work is guided by the Department of Economic Development.

Established in 1996, Khula is dedicated to the development and sustainability of small business enterprises in South Africa.

The company is a wholesale finance institution, which operates across the public and private sectors, through a network of channels, to supply much-needed funding to small business. Khula's channels include South Africa's leading commercial banks, retail financial institutions, specialist funds and joint ventures in which Khula itself is a participant. Its primary aim is to bridge the "funding gap" in the SME market not addressed by commercial financial institutions.

By mid-2010, the development of a business plan for the roll-out of the Khula direct model was progressing well. Its aim is to provide direct lending to SMMEs.

Business Partners Limited

Business Partners Ltd is a specialist risk-finance company for SMEs in South Africa and selected African countries.

It is an unlisted public company whose major shareholders include Remgro Ltd, Khula, major South African banks, insurance companies, mining houses and others.

The company actively supports entrepreneurial growth by providing specialist risk finance for SMEs, specialist sectoral knowledge and added-value services to viable small and medium businesses. Business Partners invests in start-ups, expansions, buy-outs and buy-ins, primarily on the basis of business viability and entrepreneurial skill.

Added-value services include property-broking, property-management and consulting, and mentorship services.

During 2009/10, Business Partners concluded a total of 369 investments and financed deals to the value of R713,6 million. This included 128 investments to the value of R248,8 million to advance black entrepreneurs, and 134 investments amounting to R225 million to female entrepreneurs. The total number of investments was down 18,3% in 2009.

Over the past few years, Business Partners' reach was extended into Africa, with country-specific pilot SME investment funds providing scalable risk-finance solutions in Kenya and Madagascar. The establishment of SME risk-finance funds in Mozambique and Rwanda were finalised in 2010. Groundwork was also undertaken in

2010 to establish a southern African SME risk-finance fund covering Namibia, Malawi, Zambia and Zimbabwe.

National Empowerment Fund (NEF)

The NEF facilitates funding for BBBEE transactions by providing innovative investment solutions for previously disadvantaged people. The amounts payable are based on the approved business plans of the entity and supporting MoUs.

In May 2010, a seminar billed as the NEF BBBEE Vision 2010 was held to review the performance of BBBEE and chart a new set of aspirations for every sector of the economy.

As a driver of the codes of good practice for BBBEE, the NEF has developed finance products ranging from R250 000 up to R75 million for previously disadvantaged entrepreneurs.

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.

Isivande Women's Fund (IWF)

The IWF aims to accelerate women's economic empowerment by providing affordable, usable and responsive finance.

It renders financial support for deals requiring start-up funding, involving business expansion, rehabilitation, turnaround and franchising. It provides loans that range from R30 000 to R2 million per business, with a maximum loan-repayment period of five years.

Industrial Development Corporation

The IDC is a self-financing South African state-owned DFI that provides funding to entrepreneurs engaged in competitive industries.

By September 2010, the IDC had committed R3,1 billion to distressed businesses in 53 transactions.

The IDC's work is guided by the Department of Economic Development.

Technology support

The Department of Trade and Industry implements programmes on skills development, economic infrastructure, innovation and technology, to support priority sectoral and regional industrial development plans.

Some of the key programmes include THRIP, the Support Programme for Industrial Innovation (SPII), and the Centre for Entrepreneurship and Technology Programme.

Provision is also made for the following transfer payments and subsidies:

- the Seda's Technology Programme, which is managed by Seda to finance and support early, seed and start-up technology-based ventures
- THRIP, which is managed by the National Research Foundation to support research and technology development
- the SPII, which is managed by the IDC, to support a wide group of enterprises that promote technological development through financial assistance
- the Workplace Challenge Programme, which finances and supports world-class manufacturing and value-chain efficiency improvements in South African companies.

Consumer and corporate regulation

The Consumer and Corporate Regulation Division of the Department of Trade and Industry aims to develop and implement coherent, predictable and transparent regulatory solutions that provide access to redress for inventors and consumers, and renders policy coherence and certainty, and efficient regulatory services for business.

The Consumer Protection Act, 2008 (Act 68 of 2008), was signed into law by the President in April 2009. The Act aims to enhance consumer confidence in the South African market and businesses. The objective is to ensure fair, competitive and responsible markets that work well for consumers and promote ethical business practices. The Act further seeks to act as a legal framework for:

- maintaining a fair, accessible and efficient marketplace for consumers
- reducing the disadvantages experienced in accessing goods or services by vulnerable consumers
- encouraging responsible consumer behaviour
- promoting consumer empowerment and providing an efficient system of redress for consumers.

The Act will be implemented in 2011.

Black Economic Empowerment

Addressing the challenges faced by black and female entrepreneurs is another key area of focus for the Department of Trade and Industry in broadening economic inclu-

sion and promoting transformation in the economy. The department aims to ensure the integration and alignment of the BBBEE Policy with the industrial policy framework.

The BBBEE Policy will be implemented in an effective and sustainable manner to unlock meaningful participation in the South African economy by the majority of its citizens.

As part of this process, the draft preferential procurement regulations have been published in partnership with National Treasury. The regulations seek to align the Preferential Procurement Policy Framework Act, 2000 with the BBBEE Act, 2003 (Act 53 of 2003). The department will further strengthen the BBBEE legislation by creating a punitive dispensation to prevent circumvention of BBBEE while, on the other hand, developing incentives to promote compliance with BBBEE Policy.

The launch of the BBBEE Advisory Council in December 2009 signified an important milestone in fulfilling the transformation agenda. One of the key functions of the council will be to monitor the implementation of BBBEE by all organs of state, public entities, government departments, sector charter councils and the general public at large. Other tasks of the advisory council include:

- policy refinement and amendment of legislation to address identified gaps
- finalising the alignment of the Preferential Procurement Policy Framework Act, 2000, to BBBEE Codes of Good Practice
- increasing BEE verification capacity and refinement of the accreditation process.

The department aims to integrate gender equity measures into more of its programmes. A strategy on gender and women economic empowerment was expected to be finalised in 2010, focusing on integrated solutions for women in various areas, including directly tackling the barriers hindering their participation in the economy.

In February 2010, Deputy President Kgalema Motlanthe addressed the inaugural meeting of the BBBEE Council in Pretoria.

The Codes of Good Practice for BBBEE assist and advise both the public and private sectors on their implementation of the objectives of the BBBEE Act, 2003.

The codes provide definitions, interpretation and principles of BBBEE; different categories of BEE entities; and qualification criteria for preferential procurement purposes and other economic activities.

The Codes of Good Practice also provide the weightings, indicators, targets and guidelines for stakeholders in the relevant sectors of the economy to draw up transformation charters for their sectors.

Black Business Supplier Development Programme

The BBSDP is a 90:10 cost-sharing grant, which offers support to black-owned enterprises in South Africa, whereby the Department of Trade and Industry contributes 90% of the cost of a project and the approved applicant 10%. The scheme provides such companies with access to business-development services that assist them to improve their core competencies, upgrade managerial capabilities and restructure their processes to become more competitive.

In May 2010, the Minister of Trade and Industry, Dr Rob Davies, approved the revised guidelines for the BBSDP.

The revised programme was launched in July 2010 and applications from qualifying SMMEs were accepted from 1 September 2010.

To enable access to the revised programme, the Department of Trade and Industry introduced revised network facilitators' guidelines, which entail a structured training programme that will enable network facilitators to use a diagnostic tool for the identification of business needs, and appropriate interventions that will contribute towards the competitiveness of enterprises.

Eligible network facilitators applied and initially only 50 network facilitators were selected for training. The selection criteria took into account, among other things, their experience with the BBSDP, experience in SMME consulting and the success rate of applications they have previously submitted to the Department of Trade and Industry.

The training of network facilitators will cover the following modules: the use of the company diagnostic tool, picking sound companies, business-writing skills, ethics in consulting, basic understanding of company accounts and clients, assignment management as well as training on the revised BBSDP guidelines.

Business process outsourcing and offshoring

BPO&O is a major global trend, with a significant positive impact on developing countries possessing the required skills, cost advantage and infrastructure.

Over the next few years, the global BPO&O industry is forecast to grow at about 50% per year and, as a result, a window of opportunity exists for South Africa to realise significant value by developing this sector.

Budget funds have been allocated for the film, tourism and BPO subsectors. This played a significant role in ensuring that more than 5 600 jobs were created in the BPO subsector between April and September 2009.

State-owned enterprises (SOEs)

As the shareholder representative for government, the Department of Public Enterprises has the responsibility of overseeing nine SOEs, namely Alexkor, Broadband Infraco, Denel, Eskom, the Pebble-Bed Modular Reactor (PBMR), South African Airways (SAA), South African Express Airways (SAX), South African Forestry Company (Safcol) and Transnet. The role of the department is to ensure that SOEs provide economic growth and give South Africa an advantage in the development of key infrastructure and manufacturing capacity.

It monitors performance with regard to:

- infrastructure investment and delivery
- operational and industry efficiency
- financial and commercial viability
- governance and regulatory compliance.

Optimal excellence and quality service delivery demand that public entities share the same vision of the department, and are responsive to the developmental agenda.

The Medium Term Strategic Framework (MTSF) for 2009/14 states the need to review the SOEs as part of the economic transformation agenda.

The MTSF also states the need for government to integrate SOEs into its planning processes and improve the monitoring and evaluation of their performance.

In 2010, President Jacob Zuma appointed the Presidential Review Committee to conduct a review of SOEs and, among other things, determine how government can strengthen alignment between its development objectives and the strategic role to be played by SOEs in the economy.

Alexkor

The core business of Alexkor is the mining of diamonds on land, along rivers, on beaches and in the sea along the north-west coast of South Africa. These activities are complemented by geology, exploration, ore reserve planning, rehabilitation and environmental

management. The company is used by the State to increase diamond-mining capacity.

It is a mining company with two divisions, namely Alexander Bay Mining (ABM) and Non-Core Operations. The ABM Division is the core business of the company, exploiting a large land-based diamond resource and extensive diamondiferous marine deposits. The operations of ABM decreased during 2009/10 with the curtailment of its land-mining activities. By mid-2010, all mining activities were performed by contractors.

Alexkor also plays a role in various community and investment projects, such as the Alexkor Development Foundation, which contributes to the socio-economic development of Namaqualand.

Alexkor experienced a number of business constraints, including a land claim instituted by the Richtersveld community. These constraints have resulted in decreasing diamond recoveries and declining revenue and profitability over the years.

The successful land claim by the Richtersveld Community has considerably changed the landscape of Alexkor and the Namaqualand region. In terms of the Deed of Settlement, the land-mining rights will be transferred to the community, while Alexkor is to retain its marine mining rights. Alexkor and the Richtersveld Mining Company will form a pooling and sharing joint venture, which is an unincorporated joint venture that will oversee all the mining activities going forward.

Broadband Infraco

Broadband Infraco operates within specific focus areas of the telecommunications sector in South Africa.

The focus is characterised by limited competition and significant barriers to entry because of the rights of way and high capital expenditure considerations.

Broadband Infraco's intent is to improve market efficiency by increasing available capacity and lowering the cost of those parts of the network infrastructure that impede private-sector development and innovation in telecommunications services and content offerings.

Broadband Infraco was awarded an Individual Electronic Communications Network Service Licence by the Independent Communications Authority of South Africa, allowing it to provide other electronic communications network services.

Denel

Denel (Pty) Ltd is the largest manufacturer of defence equipment in South Africa and operates in the military aerospace and landward defence environment. Incorporated as a private company in 1992 in terms of the South African Companies Act, 1973 (Act 62 of 1973), Denel's sole shareholder is the South African Government.

The Minister of Public Enterprises appoints an independent board of directors that oversees the executive management team, which is responsible for the day-to-day management of the company.

The role of the board is to provide leadership, strategic oversight and effective control over the affairs of the group, as well as an oversight role over its executive team responsible for the day-to-day management of the group.

Denel is an important defence contractor in the domestic market and a key supplier to the South African National Defence Force (SANDF), both as original equipment manufacturer and for the overhaul, maintenance, repair, refurbishment and upgrade of equipment in the SANDF's arsenal.

Eskom

Eskom, wholly owned by the South African Government, generates approximately 95% of the electricity used in South Africa and approximately 45% of the electricity used in Africa. Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. The majority of sales are in South Africa. Other countries of southern Africa account for a small percentage of sales.

Eskom is the world's 11th-largest power utility in terms of generating capacity, ranks ninth in terms of sales, and boasts the world's largest dry-cooling power station. Eskom sells power directly to some 6 000 industrial, 18 000 commercial, 70 000 agricultural and three million residential customers. It owns and operates a number of coal-fired, gas-fired, hydro and pumped storage power stations, as well as one nuclear power station.

Eskom buys electricity from and sells electricity to SADC. The future involvement in African markets outside South Africa (that is the SADC countries connected to the South African grid and the rest of Africa) is currently limited to those projects that have a direct impact on ensuring a secure supply of electricity for South Africa.

Pebble-Bed Modular Reactor

The PBMR was established in 1999 with the intention of developing and marketing small-scale, high-temperature reactors both locally and internationally. The PBMR's government funding allocation came to an end on 31 March 2010.

By August 2010, the PBMR had not yet been able to secure either an investor or a customer, resulting in a drastic staff reduction.

The intention, however, is still to retain critical skills, capabilities and intellectual property as there is no uncertainty about the soundness of the technology. However, alternative funding mechanisms are being sought for this programme as government can no longer fund it on the scale and length of time required.

From September 2010, the PBMR was placed in a "care and maintenance mode" to protect the intellectual property and assets in the PBMR.

South African Airways

SAA is one of the world's longest-established airlines. It was formed on 1 February 1934, when the South African Government acquired the assets and liabilities of a private airline, Union Airways, to create a new national airline, SAA.

This was the aviation arm of the State-controlled South African Railways and Harbours. On 1 April 1999, SAA ceased to be a division of what had by then become Transnet and was incorporated as a company in its own right, South African Airways (Pty) Ltd.

State ownership of the airline allows for greater control in advancing national objectives such as promoting air links with South Africa's main trading partners, contributing to the growth of the tourism industry and strengthening air-transport capacity on the continent.

SAA is in the process of implementing a comprehensive and fundamental restructuring plan – an aggressive campaign to bring the airline back into profitability following significant losses in recent years. The support that government is giving to the recapitalisation of SAA is contingent on its turnaround strategy being successfully implemented.

It made a modest profit in the 2009/10 financial year.

South African Express

SAX is a domestic and regional passenger and cargo carrier established in April 1994.

In April 2007, Cabinet approved the transfer of SAX from Transnet to the State, with the Minister of Public Enterprises as the shareholder representative.

SAX has since become one of the fastest growing regional airlines in Africa. With route networks covering major local and regional cities, SAX plays a significant role in the country's hospitality, travel and tourism industry and is a vital contributor to the country's socio-economic development.

SAX has a growing fleet of aircraft and implements self-technical maintenance for all its fleet types at OR Tambo International Airport in Johannesburg, where it also has its head office.

South African Forestry Company

Safcol is the Government's forestry company, conducting timber harvesting, timber processing and related activities both domestically and internationally.

Safcol has been restructured to achieve privatisation objectives. The financial performance of Safcol has been good over the years, due to a strong demand and an increased selling price in timber products. Due to land claim submissions on Komati-land Forests, the disposal process, which was expected to be concluded by the end of March 2009, has been delayed.

Transnet

Transnet is a public company wholly owned by government. It is the largest and most crucial part of the freight logistics chain that delivers goods to each and every South African. Transnet delivers thousands of tons of goods daily around South Africa, through its pipelines and to and from its ports. The goal of the company is to be a focused freight transport organisation, delivering integrated, efficient, safe, reliable and cost-effective services to promote economic growth in South Africa.

Transnet also combines forces with other businesses to expand transport operations across Africa and into the rest of the world. In this way, Transnet helps to create valuable business opportunities that extend beyond the country's shorelines and borders.

The company operates as a corporate entity aimed at both supporting and contributing to the country's freight logistics network. It aims at developing South African industry, reducing the cost of doing business, while at the same time operating efficiently and profitably.

Public works programmes

The Department of Public Works provides and manages the accommodation, housing, land and infrastructure needs of national departments; coordinates the national Expanded Public Works Programme (EPWP); and optimises growth, employment and transformation in the construction and property industries.

Expanded Public Works Programme

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 EPWP is a government-wide intervention to create both short-term and ongoing work opportunities.

The EPWP continues to be a strategic intervention to alleviate poverty and unemployment through the creation of labour-intensive work opportunities. By April 2010, 604 000 work opportunities had been created. The target for 2010/11 was set at 642 000.

The EPWP is characterised by, among other things, caring for the elderly and sick, educating pre-school children, rehabilitating and cleaning up the environment, as well as upgrading and maintaining crucial infrastructure such as roads, bridges, water and sanitation.

The Leadership Group of the Framework Response to the Economic Crisis accelerated the development of regulatory measures to provide guidance on improved terms and conditions of employment for EPWP employees, thereby furthering the objectives of decent work.

The EPWP Phase Two is committed to increasing its target to create four million work opportunities for the unemployed by 2014.

A monitoring and evaluation element was added to the system to ensure the responsiveness of the Department of Public Works.

To facilitate implementation of the programme, protocol agreements with clear targets for each province and municipality, clarifying their contributions towards the creation of the four million work opportunities, were signed with all premiers and mayors.

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In March 2010, because of the recession, unemployment benefit pay-outs by the Unemployment Insurance Fund rose to 51% from R3,5 billion in the first 11 months of the 2009/10 financial year to R5,7 billion for the same period in 2010/11. According to the fund, 97% of the 746 352 claims received were approved, compared with 523 292 received in the previous year's first 11 months, resulting in 42% more claims being received.

Construction and Property Industry Development Programme

Construction industry growth cannot be seen in isolation of the pressing need to transform the industry into one that performs better in terms of quality, employment, skills safety, health and the environment.

The Department of Public Works seeks to support and empower women-owned construction enterprises through its existing contractor-development programmes. Since the inception of the procurement reform process in 1995, the department has been actively involved in conceptualising and implementing programmes to promote emerging contractors in the built environment. These programmes included Targeted Procurement and the Emerging Contractor Development Programme.

The National Contractor Development Programme is jointly managed by the Department of Public Works and its entity, the Construction Industry Development Board (CIDB). It entails registering and empowering contractors through various developmental interventions.

Construction Industry Development Board

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

Council for the Built Environment (CBE)

The CBE is a statutory body established under the CBE Act, 2000 (Act 43 of 2000). It is an overarching body that coordinates the six built-environment professional councils (architecture, engineering, landscape architecture, project and construction man-

agement, property valuation and quantity surveying) for promoting good conduct within the professions, transforming the professions, and advising government on built environment-related issues. The council meets at least four times a year.

Labour programmes

The Department of Labour plays a significant role in reducing unemployment, poverty and inequality through policies and programmes developed in consultation with social partners, which are aimed at:

- improved economic efficiency and productivity
- skills development and employment creation
- sound labour relations
- eliminating inequality and discrimination in the workplace
- alleviating poverty in employment
- enhancing occupational health and safety (OHS) awareness and compliance in the workplace
- nurturing the culture that worker rights are human rights.

The department has prioritised the following areas:

- The Decent Work Country Programme focuses on strengthening support for existing skills development and employment services programmes in specific areas and on formulating new initiatives to deal with labour-market challenges, especially in relation to creating employment and alleviating poverty.
- Both the draft National OHS Bill and policy were developed, and the Act was expected to be legislated and implemented by March 2011. The main objective of the policy is to reduce the number of work-related accidents and diseases by promoting a culture of prevention.
- The Employment Services of South Africa (ESSA) is a strategic intervention to integrate active labour-market measures inclusive of job-placement services, job searches, training, career guidance and skills development. When the ESSA is fully implemented, it will have links with the Unemployment Insurance Fund (UIF), the Compensation Fund and the public works programmes. By April 2010, 47 career councillors had been deployed in some of the labour centres and a total of 41 210 people had benefited from their guidance services and career information. The ESSA information technology system

has been rolled out to all 125 labour centres. By the end of 2009, a total of 470 006 work seekers and 21 074 job opportunities had been registered on the ESSA system. Using the job-matching services of ESSA, the first 6 845 job opportunities were filled.

Unemployment Insurance Fund

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.

The Unemployment Insurance Amendment Act, 2003 (Act 32 of 2003), 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.

By March 2010, there were 173 000 more contributors on the database of the UIF than at the end of March 2009.

The UIF paid benefits to more than 800 000 beneficiaries amounting to a total of R5,7 billion in 2009, which is a 71% increase in unemployment benefit payments compared with 2008.

Working together with social partners through Nedlac, the department has put a training lay-off scheme in place. The training lay-off was launched in September 2009, jointly with the Commission for Conciliation Mediation and Arbitration (CCMA). The UIF and the National Skills Fund jointly committed R2,4 billion to the scheme. The UIF alone contributed more than R670 million for the training of the unemployed – R40 million of which was allocated for the 2009/10 period, R200 million for 2010/11, R210 million for 2011/12 and R219 million for 2012/13.

By March 2010, the department had concluded four training-layoff agreements covering 2 100 workers in the engineering, auto and mining sectors.

The UIF has also allocated R2 billion to the IDC to enable it to help companies in distress.

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The Training of the Unemployed Project was launched in March 2010. The project seeks to train and re-skill South African workers who were retrenched as a result of the global economic recession. The project trains electricians, boiler-makers, welders and mechanics to find work and to start their own businesses. By May 2010, more than 750 trainees had registered for the project. The aim is to train as many South Africans as possible.

The qualifications the trainees obtain at the end of their course meet qualification requirements of the Manufacturing, Engineering and Related Services Education and Training Authority. By May 2010, the Unemployment Insurance Fund and other government entities had contributed almost R50 million towards training the candidates. Participants are paid a stipend of R2 100 a month. The project is due to be completed on 31 July 2011.

Occupational Health and Safety

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 Mineral Resources 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 compensating mineworkers in terms of the Occupational Diseases in Mines and Works Act, 1993 (Act 208 of 1993).

Compensation Fund

The Compensation Fund administers the Compensation for Occupational Injuries and Diseases Act, 1993, as amended. The fund financially supports workers who have become injured or ill as a result of injuries or accidents at work. In 2009, the fund paid out R973 million in outstanding claims as well as R10 billion in outstanding pension claims.

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), are 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.

Dispute resolution

The 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.

In 2009/10, government worked with the CCMA to strengthen efforts to avoid retrenchments.

Labour-market policy

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 Directorate: RPP 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 Directorate: LMIS 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 Directorate: IR is responsible for:

- developing strategies to consolidate South Africa's presence in international forums
- 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.

Employment equity

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. The programme continued to support capacity-building in trade-union organisations by means of the Strengthening of Civil Society Fund.

Acknowledgements

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