3

Fiscal policy and the 2001 Budget

Against the background of robust revenue performance and the reduction in the budget deficit achieved since 1995, Government's fiscal policy stance is now decidedly growth-oriented. Over the next three years:

- *Interest rates and inflation should continue to fall in response to the moderation of the public sector borrowing requirement*
- *The burden of income tax on the economy will be reduced, accompanied by further broadening of the tax base and improvements in revenue administration*
- *Non-interest expenditure on public services is expected to grow by more than 3 per cent a year in real terms.*

Introduction

Fiscal policy creates platform for growth

Sound fiscal policies have successfully lowered the budget deficit and reversed the rising trend in interest costs relative to GDP. This creates a platform for both sustainable real growth and for quality improvements in service delivery by the state.

Key fiscal trends are outlined in this chapter, together with a summary of the proposed framework for the 2001 Budget.

Benefits of lower budget deficit

By reducing its borrowing requirement, Government has contributed to lowering the cost of capital. The reduction of the budget deficit from over 5 per cent in 1995/96 to 2 per cent in 1999/00 is one of the main factors driving the reduction of real interest rates. Over time, the reduced budget deficit has lead to lower interest on debt and accordingly to the expanded capacity of the fiscus to sustain real growth in expenditure on goods and services.

Robust spending growth

As a result of the healthier fiscal position and a projected recovery in economic growth, Government is able to increase the estimate of spending on public services by R7,8 billion in 2001/02 and R13,2 billion in 2002/03 above the level anticipated in the 2000 Budget forward estimates. Infrastructure spending will be a key focus of Government's budgetary priorities over the 2001 MTEF.

Lower tax burden

Government's tax policy aims to broaden the revenue base and improve collection efficiency, thereby creating room for lower tax rates and reducing the economic distortions associated with the tax structure. Reductions in both personal and corporate tax rates will lower the costs of investment and job creation, and release household spending power.

Renewed emphasis on spending responsibilities

The overarching objective of fiscal policy is to contribute to long-term growth, employment creation and an equitable distribution of income, in the context of an affordable and sustainable budget framework. In reviewing options for the 2001 Budget, Government has been mindful of the considerable progress made in consolidating revenue and reducing the budget deficit. This allows the emphasis to shift more strongly towards providing for the social, developmental and infrastructural expenditure responsibilities of the state.

Government's fiscal record

Fiscal policy, growth and investment

Table 3.1 summarises Government's fiscal performance over the last five years. It shows:

- A reversal of the upward trend in consumption expenditure
- Growth in capital spending up to 1998
- A decline in government dissaving and interest on debt, and
- A rising trend in the tax to GDP ratio.

The table shows a breakdown of government current expenditure between interest on debt, subsidies and transfers, individual services (such as education and health) and collective services (such as justice, defence and trade promotion).

Table 3.1: Key fiscal trends (national accounts estimates)

	1995	1996	1997	1998	1999	2000[1]
Government consumption expenditure (% of GDP)	18,3%	19,4%	19,8%	19,8%	19,2%	18,5%
Gross fixed capital formation (real growth)						
General government	6,0%	5,3%	4,4%	2,5%	-5,4%	-0,9%
Public corporations	15,8%	10,6%	9,7%	51,4%	-17,2%	-19,9%
General government saving (% of GDP)	-4,2%	-4,9%	-4,9%	-3,9%	-2,6%	-1,8%
Interest on public debt of general government (% of GDP)	5,9%	6,4%	6,1%	6,3%	6,1%	5,6%
Yield on long-term government stock at period end	14,6%	16,2%	14,1%	16,4%	14,0%	13,9%
General government tax revenue (% of GDP)	24,1%	24,7%	24,9%	26,0%	26,3%	26,0%
Distribution of general government expenditure (% of current expenditure):						
Interest on public debt	20,0%	20,5%	19,7%	20,3%	20,2%	
Subsidies and transfers	18,2%	17,2%	16,3%	15,5%	14,9%	
Final consumption expenditure						
Individual services	27,9%	26,5%	30,0%	30,1%	29,1%	
Collective services	33,8%	35,9%	34,0%	34,7%	34,8%	

1. 2000 figures based on data to end June; yield on long-term debt at end July 2000.

Reduction in government consumption expenditure as share of GDP

Between 1995 and 1997 final consumption expenditure by government increased relative to GDP, partly reflecting the impact of public service remuneration trends since 1996. This trend has now been reversed as a result of more effective efforts to align salary increases with inflation.

Strong capital spending

Over the past five years, gross fixed capital expenditure by general government and public corporations grew by an annual average rate of 6,1 per cent. 1998 saw a peak in fixed capital expenditure growth by public corporations of 51,4 per cent in real terms, with substantial investment by Telkom and SAA. The decline in 1999 and 2000 must be seen against the background of the large increase in 1998.

The contribution of the public sector to capital formation is projected to improve in 2000/01 and over the MTEF period, due to increased government investment in infrastructure and higher investment by public corporations as a result of the restructuring of state assets.

Declining government dissaving

Government dissaving – which is calculated after taking into account government consumption of fixed capital (depreciation) – has fallen from 5,9 per cent of GDP in 1994 to 2,6 per cent in 1999. This has been brought about largely by the reduction in the national budget deficit. As Government increases efforts to shift the balance of spending towards capital expenditure, government dissaving is projected to decline to zero by 2002.

Interest on debt to decline by over1 per cent of GDP

The reduction of the budget deficit has meant that for the first time in over twenty years, debt service costs as a percentage of GDP are declining. Had the deficit remained at the same levels as in 1995/96, South Africans would be paying at least R5 billion a year more in debt service costs. By the end of this MTEF period, debt service costs on the main budget will have declined from 5,6 per cent in 1998/99 to 4,5 per cent, thus releasing over 1 per cent of GDP a year for additional spending, or for tax cuts.

Tax to GDP ratio to decline

Tax revenue reflected in table 3.1 includes taxes collected by the South African Revenue Service as part of the national budget, provincial and local government taxes, unemployment insurance contributions and South African tax revenue diverted to other countries in terms of the Southern African Customs Union agreement. While general government tax revenue has increased from 24,4 per cent of GDP in 1994 to 26 per cent in 1998, it is projected to decline somewhat as a share of GDP over the next three years.

Distribution of government spending

The distribution of general government current expenditure shows a stable level of interest on public debt since 1995 and a fall in the level of subsidies and transfers (partly as a result of the phasing out of the general export incentive scheme and early retirement and voluntary severance offers). Over the next three years, interest on debt will take up a decreasing share, allowing expenditure on public services to rise.

Government's key fiscal policy aims are set out in table 3.2.

Table 3.2: Key fiscal policy aims

Percentage of GDP	1994	1999	2003
Government consumption expenditure	20,0	19,2	18,5
General government saving	-5,9	-2,6	0,0
Interest on general government public debt	5,5	6,1	5,4
General government tax revenue	24,4	26,3	25,0
	1994/95	**1999/00**	**2003/04**
Public sector borrowing requirement	5,7	1,3	2,0
	1994–1999		**1999–2003**
Gross fixed capital formation by general government (average annual real growth)	2,5%		5,0%

1999/00 Budget outcome

Strong growth in revenue

The preliminary outcome for revenue collected in 1999/00 is R198,2 billion. National budget revenue has increased by an annual average of 10,6 per cent between 1996/97 and 1999/00, while total expenditure has grown by 7,0 per cent a year

Table 3.3: National budget outcome: 1996/97 – 1999/00

R billion	1996/97	1997/98	1998/99	1999/00 2000 Budget estimate	1999/00 Preliminary outcome
Total revenue	**146,5**	**163,5**	**184,3**	**196,3**	**198,2**
per cent of GDP	*23,2%*	*23,5%*	*24,4%*	*24,0%*	*24,3%*
per cent increase	*16,2%*	*11,6%*	*12,7%*	*6,5%*	*7,5%*
Total expenditure	**175,3**	**189,9**	**201,5**	**216,0**	**214,6**
per cent increase	*15,5%*	*8,3%*	*6,1%*	*7,2%*	*6,5%*
Budget deficit (-)	**-28,8**	**-26,5**	**-17,2**	**-19,7**	**-16,4**
per cent of GDP (-)	*-4,6%*	*-3,8%*	*-2,3%*	*-2,4%*	*-2,0%*

Preliminary expenditure outcome

Estimated actual expenditure in 1999/00 was R214,6 billion. This is 6,5 per cent more than in 1998/99 and R1,4 billion less than the February 2000 estimate. Preliminary indications are that some underspending occurred in new conditional grants and poverty relief programmes, in which spending has been slow to gather momentum.

Current budget deficit 2 per cent of GDP

The budget deficit in 1999/00 is estimated at 2,0 per cent of GDP, down from 4,6 per cent in 1996/97, as shown in table 3.3.

Revised framework

Overview

The revised framework for the 2001 National Budget is set out in table 3.4. These estimate take into account the adjustments to the 2000/01 budget tabled in Parliament on 12 October and revised projections for the economy outlined in Chapter 2.

Inflation increases nominal GDP

Higher inflation and real growth over the MTEF period lead to upward adjustments in expected nominal GDP compared with the forward estimate projected in the 2000 Budget. This accounts for higher revenue over the MTEF period and contributes to the upward adjustments in expenditure estimates.

Lower debt service costs

Lower debt service costs – a result of the declining budget deficit and proceeds of state asset restructuring – release further funds for spending on public services. Estimates of the cost of servicing debt have been revised downward by R831 million in 2001/02 and R1 billion in 2002/03.

The revised budget framework provides for real growth in non-interest spending of 3,7 per cent a year over the MTEF period, including provision for contingencies

Table 3.4: Revised national budget framework 2000/01 to 2003/04

R billion	2000/01 2000 Budget	2000/01 Revised	2001/02 2000 Budget	2001/02 Revised	2002/03 2000 Budget	2002/03 Revised	2003/04
Revenue	**210,4**	**212,2**	**227,4**	**232,2**	**243,6**	**251,5**	**271,0**
Per cent of GDP	*23,8%*	*23,8%*	*23,7%*	*23,8%*	*23,5%*	*23,7%*	*23,6%*
Expenditure	**233,5**	**235,3**	**251,5**	**257,1**	**266,7**	**275,5**	**295,4**
Per cent increase	*8,1%*	*8,9%*	*7,7%*	*9,2%*	*6,0%*	*7,2%*	*7,2%*
Interest on debt	46,5	46,3	49,5	48,7	51,0	50,0	51,5
Contingency reserve	2,0	-	4,0	2,0	8,0	4,0	8,0
Non-interest available expenditure	**185,0**	**189,0**	**197,9**	**206,4**	**207,7**	**221,5**	**235,9**
Deficit (-)	**-23,1**	**-23,1**	**-24,1**	**-24,9**	**-23,1**	**-24,0**	**-24,4**
Per cent of GDP (-)	*-2,6%*	*-2,6%*	*-2,5%*	*-2,5%*	*-2,2%*	*-2,3%*	*-2,1%*
GDP	**885,2**	**892,5**	**958,2**	**976,7**	**1 036,7**	**1 063,3**	**1 148,7**

Increased spending allocations

Allocations for spending on public services increase by R7,8 billion in 2001/02 and R13,2 billion in 2002/03 over the baseline estimates published in the 2000 Budget. An additional R18,3 billion has been made available for spending in 2003/04 over and above the baselines budgeted for by departments.

Budget deficit to fall to 2,1 per cent of GDP

Reflecting improved revenue trends, Government's improved expenditure management and the recovery of GDP growth, the national budget deficit is projected to fall from 2,6 per cent of GDP in 2000/01 to 2,1 per cent in 2003/04.

Declining public sector borrowing requirement

After taking into account the projected proceeds from the sale of state assets and a moderate rise in borrowing by public enterprises and local government, the public sector borrowing requirement is projected to reach about 2,0 per cent of GDP over the next three years.

Medium term national budget projections

National budget revenue

Growth in revenue

National budget revenue is projected to grow at an annual average rate of 8,5 per cent over the next three years, an upward revision from the 7,9 per cent rate projected in the 2000 Budget. This growth in revenue is illustrated in figure 3.1, together with projected national revenue as a share of GDP.

Revenue revisions

Table 3.5 sets out the revised revenue estimates alongside those of the 2000 Budget. Further details are provided in Chapter 4.

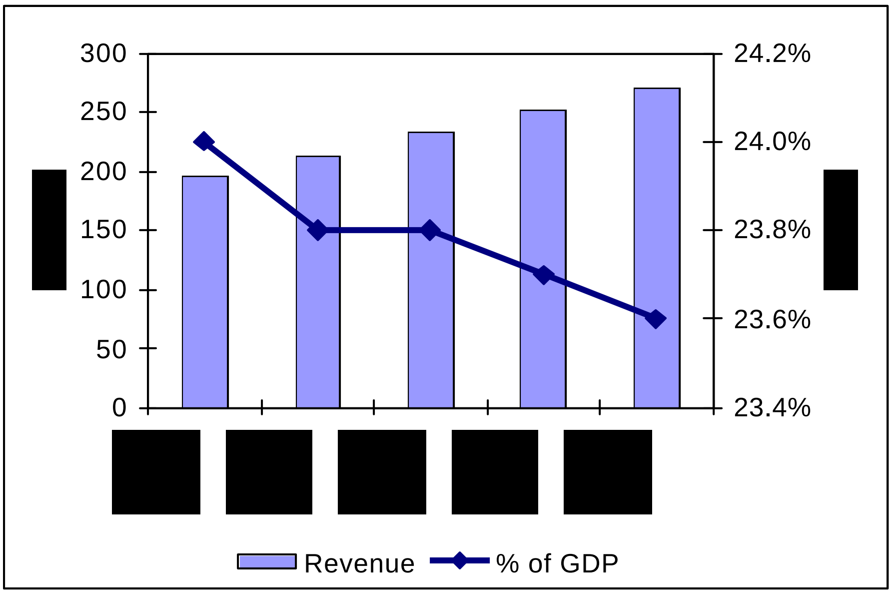
Table 3.5: Medium term revenue projections

R billion	1999/00 Outcome	2000/01 Budget	2000/01 Revised	2001/02	2002/03	2003/04
				Medium term estimates		
National budget revenue	**198,2**	**210,4**	**212,2**	**232,2**	**251,5**	**271,0**
Per cent of GDP	*24,3%*	*23,8%*	*23,8%*	*23,8%*	*23,7%*	*23,6%*
Per cent increase	*7,5%*	*7,2%*	*7,1%*	*9,4%*	*8,3%*	*7,8%*
Real growth	*1,3%*	*0,6%*	*0,5%*	*3,6%*	*3,0%*	*3,0%*
Change from 2000 Budget			**1,8**	**4,8**	**7,9**	

Donor funded expenditure

Receipts of the RDP Fund for 2000/01 are expected to amount to R800 million. The estimates for subsequent years stand at R700 million a year. These receipts and the associated expenditure are not voted by Parliament in the departmental appropriations and are reported separately in the budget documentation.

Figure 3.1: National budget revenue



Skills Development Levy

The national budget includes the continued phasing in of the Skills Development Levy, introduced in the 2000/01 fiscal year, at 0,5 per cent of payroll. The levy will increase to 1 per cent in 2001/02 and beyond. These funds flow directly to Sectoral Education and Training Authorities and the National Skills Fund and are not appropriated by Parliamentary vote.

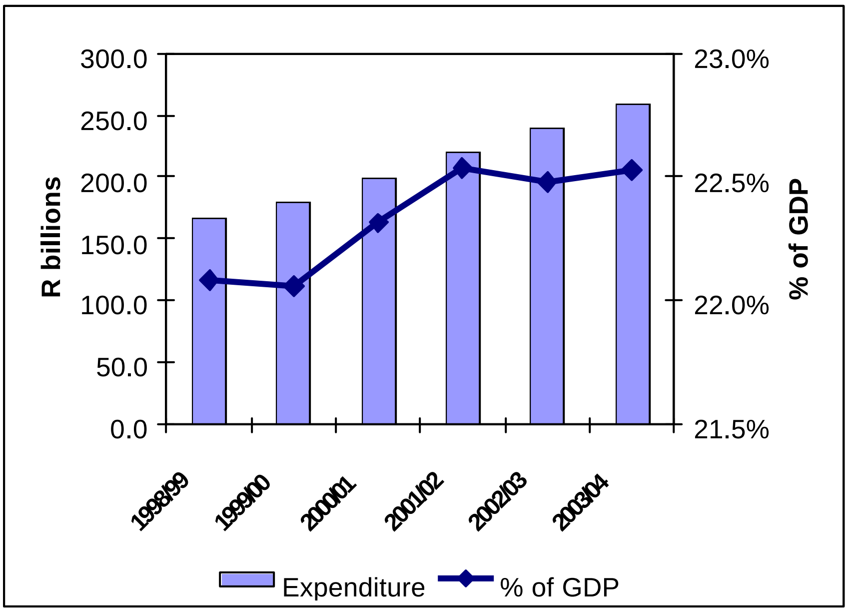
National budget expenditure

Robust expenditure growth

National budget expenditure is expected to grow at an annual rate of 7,9 per cent over the next three years, an upward revision from the 7,4 per cent rate set out in the 2000 Budget. Figure 3.2 illustrates the rising levels of consolidated national and provincial non-interest expenditure over the MTEF period.

In real terms, these increases represent an average annual growth rate of 3,7 per cent in non-interest expenditure – significantly higher than the growth rates of 1998/99 and 1999/00. This faster increase in expenditure reflects both improved fiscal performance and an increased capacity to spend.

Figure 3.2: Consolidated national and provincial non-interest expenditure – medium term projections



Revised expenditure estimates

Table 3.6 sets out the revised expenditure estimates alongside those of the 2000 Budget.

Lower debt service costs

Debt service costs are projected to fall from 5,5 per cent of GDP in 1999/00 to 4,5 per cent in 2003/04, a downward revision of the 2000 Budget estimates. This is shown in figure 3.3. This trend reflects a number of factors, including:

- The lower budget deficit, which has in turn reduced the net borrowing requirement of the past two years
- Lower long-term interest rates, partly as a result of lower government borrowing
- Lower borrowing associated with proceeds from state asset restructuring.

Figure 3.3: Debt service costs – medium term projections

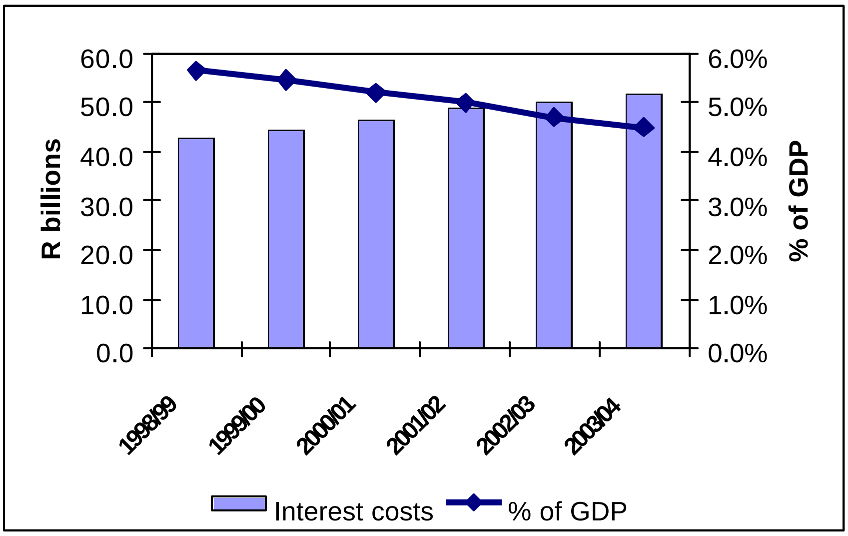


Table 3.6: Medium term national budget expenditure projections

	1999/00	2000/01		2001/02	2002/03	2003/04
R billion	**Outcome**	**Budget**	**Revised**	**Medium term estimates**		
Debt service costs	44,3	46,5	46,3	48,7	50,0	51,5
Contingency reserve		2,0		2,0	4,0	8,0
Non-interest expenditure	169,5	185,0	188,9	206,4	221,5	235,9
Per cent increase	*8,0%*	*7,8%*	*10,1*	*9.3%*	*7.3%*	*6.5%*
Total expenditure[1]	**214,6**	**233,5**	**235,2**	**257,1**	**275,5**	**295,4**
Per cent of GDP	*26,2%*	*26,4%*	*26,4%*	*26,3%*	*25,9%*	*25,7%*
Per cent increase	*6,1%*	*8,1%*	*10,0%*	*9,3%*	*7,2%*	*7,2%*
Real growth (non-interest expenditure)	*1,0%*	*1,5%*	*4,1 %*	*4,5%*	*2,9%*	*3,4%*
Changes from 2000 Budget						
Debt service costs			-0,2	-0,8	-1,0	
Contingency reserve			-2,0	-2,0	-4,0	
Non-interest expenditure			3,9	7,8	13,2	

1. Including transfer of R855 million to Umsobomvu Fund in 1999/00.

Rolling drawdown from the contingency reserve

The budget framework includes a contingency reserve to deal with unforeseen circumstances. This ensures that Government can adjust to adverse macroeconomic developments, or make funds available for natural or other disasters, within the agreed overall expenditure programme. In the revised budget framework, R2 billion is retained as a reserve in 2001/02, increasing to R8,0 billion in 2003/04.

Increase in available expenditure

After debt servicing costs and allocations to the contingency reserve, the revised expenditure estimates provide for increases in non-interest expenditure allocations of R7,8 billion in 2001/02 and R13,2 billion in 2002/03. The projected functional and economic breakdown of expenditure is set out in Chapter 5, and the division of available resources between national, provincial and local government is discussed in Chapter 6.

The budget deficit

Budget deficit declines as a percentage of GDP

The deficit is projected to decline from 2,6 per cent of GDP in 2000/01 to 2,1 per cent by 2003/04.

Decrease in debt as a percentage of GDP

As a result of the rapid reduction in the deficit, lower interest rates and proceeds from privatisation, South Africa's debt to GDP ratio is now falling. National Government's debt to GDP ratio now stands at 45,1 per cent, after rising to 48,0 per cent at the end of March 1999.

National foreign debt has increased from 2,2 per cent to 3,3 per cent of GDP over the same period. As a result of increased international investor confidence, Government has raised its foreign borrowings, thereby increasing foreign inflows of capital and relieving pressure on local interest rates.

Stable interest rates

Healthy fiscal performance has contributed to securing stable interest rates over the past year. Lower debt and real interest rates are now helping to insulate the economy from external shocks. For this reason South Africa is less vulnerable to the renewed, if less severe, global financial market instability than was the case in 1998.

Public sector borrowing requirement

PSBR of 1,3 per cent of GDP in 1999/00

The public sector borrowing requirement (PSBR), which represents the full claim of Government on available savings, has declined from R35,6 billion, or 5,6 per cent of GDP in 1996/97 to an estimated R8,7 billion in 1999/00, or 1,1 per cent of GDP. This reduction has been achieved in part by increased receipts from the proceeds of privatisation.

PSBR target of 2,0 per cent of GDP by 2003/04

Despite a slight increase in the PSBR in 2000/01, Government will continue to moderate the public sector's claim on resources available for borrowing, and aims to bring the overall PSBR to 2 per cent of GDP by 2003/04.

Table 3.7 sets out the borrowing requirements of the various components of the public sector since 1996/97.

Table 3.7: Public sector borrowing requirement: 1996/97-1999/00

R billion *deficit (+) / surplus (-)*	1996/97	1997/98	1998/99	1999/00 2000 Budget estimate	1999/00 Preliminary outcome
Main budget deficit	**29,0**	**26,5**	**17,2**	**19,7**	**16,4**
Extraordinary payments			0,9	1,5	1,5
Extraordinary receipts	-1,6	-2,9	-2,7	-6,9	-7,1
Main budget borrowing requirement[1]	**27,4**	**23,5**	**15,4**	**14,3**	**10,8**
Social security funds	-0,9	-1,1	-1,4	-1,2	-1,1
Provinces	3,0	5,5	-0,5	-1,9	-3,0
Extra-budgetary institutions	1,1	1,4	1,8	1,5	-1,4
Local government	0,8	0,8	1,0	0,8	1,0
General government borrowing	**31,3**	**30,1**	**16,2**	**13,5**	**6,3**
per cent of GDP	*4,9%*	*4,3%*	*2,1%*	*1,7%*	*0,8%*
Plus:					
Non-financial public enterprises	0,5	2,3	8,6	1,2	2,4
Public sector borrowing requirement	**31,8**	**32,4**	**24,8**	**14,7**	**8,7**
per cent of GDP	*5,0%*	*4,6%*	*3,3%*	*1,8%*	*1,1%*

1. Due to classification and timing differences, these estimates do not correspond fully with the SA Reserve Bank government finance statistics.

Significant trends in public sector borrowing include:

- A slowdown in borrowing by public entities, following the steep increase in 1998/99
- A marked reduction in the main budget borrowing requirement since 1996/97
- A consolidated provincial deficit of R5,5 billion in 1997/98, followed by a cash-flow surplus of R0,5 billion in 1998/99 and R3,0 billion in 1999/00, which was used to repay this debt
- A marked improvement in the financial position of extra-budgetary institutions in 1999/00.

Projected stabilisation of public sector borrowing

Table 3.8 outlines the expected trends in the national budget deficit, the general government borrowing requirement and the public sector borrowing requirement over the next three years.

Table 3.8: Public sector borrowing requirement - medium term projections

	1999/00	2000/01		2001/02	2002/03	2003/04
R billion	**Outcome**	**Budget**	**Revised**	**Medium term estimates**		
Main budget deficit	**16,4**	**23,1**	**23,1**	**24,9**	**24,0**	**24,4**
Extraordinary payments	1,5	2,2	2,2	–	–	–
Extraordinary receipts	-7,1	-5,0	-5,0	-6,0	-10,0	-10,0
Main budget borrowing	**10,8**	**20,3**	**20,3**	**18,9**	**14,0**	**14,4**
Other government borrowing[1]	-4,5	0,9	-0,6	1,0	3,1	3,5
General government borrowing	**6,3**	**21,2**	**19,7**	**19,9**	**17,1**	**17,9**
Per cent of GDP	*0,8%*	*2,4%*	*2,3%*	*2,0%*	*1,6%*	*1,6%*
Plus:						
Non-financial public enterprises	2,4	3,0	2,1	3,5	4,0	4,7
Public sector borrowing requirement	**8,7**	**24,2**	**21,8**	**23,4**	**21,1**	**22,6**
Per cent of GDP	*1,1%*	*2,7%*	*2,4%*	*2,4%*	*2,0%*	*2,0%*

1. Social security funds, provinces, extra-budgetary institution and local government.

Forward cover losses

A net profit of R5,2 billion was recorded in 1999/00 on the Gold and Foreign Exchange Contingency Reserve Account as a result of Reserve Bank foreign exchange forward market operations, bringing the accumulated loss on the account to R9,2 billion at 31 March 2000. Although these are liabilities of Government, they are not yet incorporated into government loan debt.

Public sector restructuring and financial reforms

Public enterprise restructuring

Restructuring aims to improve quality of services

The restructuring of state owned enterprises (SOEs) aims to improve the quality, cost-efficiency and distribution of services such as electricity, telecommunications and transport networks.

Enterprise efficiency can be improved through better corporate governance and by putting in place appropriate regulatory frameworks and competitive incentives. Competition and regulation are also important in ensuring that efficiency gains are passed on to the consumer in the form of better and more affordable services.

In addition, restructuring releases resources to be spent on other Government priorities, and allows for a reduction in government debt. Reduction of government debt makes it possible to shift spending from interest expenditure to spending on social and developmental infrastructure.

The restructuring of state owned enterprises

The Department of Public Enterprise's Policy Framework on the Accelerated Restructuring of State Owned Enterprises (SOEs) was launched in August. SOE restructuring will benefit all South Africans in the form of lower prices and better infrastructure services through:

- Increased SOE efficiency as a result of improved corporate governance and competition
- An injection of private sector capital, technology and expertise
- The introduction of transparent funding and measurement of Government's development goals

It is expected that most restructuring activities will be completed by 2004.

Transnet

- Spoornet's different business units will become separate corporate entities. Coallink, Orex, Luxrail and Linkrail will be concessioned. Spoornet's General Freight Business will be commercialised, followed by either an initial offer of shares to the public, or a strategic equity partnership.
- New ports policy and ports regulatory frameworks are being drafted. Portnet will be corporatised to form a port authority entity and a port operations entity. The port operations will then be privatised.
- A public share offer for SAA is proposed.
- Petronet will be corporatised and there will be an assessment of the synergies with other pipeline projects and restructuring options.

Telkom

- Telkom will offer shares to the public in the second half of 2001.
- A policy framework and process will be developed for licensing a second national operator.
- A similar framework and process will be developed for further liberalisation of the telecommunications market, including the allocationof third generation cellular licenses.

Eskom

- Eskom will be split into transmission, distribution and generation operations, each forming a separate corporate entity. Several generating companies will be formed to promote internal competition prior to the introduction of private sector participation. The Department of Minerals and Energy is currently co-ordinating the reorganisation of the electricity distribution industry.

Denel

- Denel will be corporatised and strategic equity partners sought for several of its business units. BAE Systems has been identified as the preferred strategic equity partner for Denel Ordnance and Aerospace. The preferred strategic equity partner for the Airmotive division of Aerospace has been identified as French company, Turbomeca. Both negotiations are scheduled for completion by March 2001.

Other restructuring initiatives

- The airports regulatory framework is being revised. On its completion, and subject to shareholder approval, a public share offer will be made for the Airports Company.
- The sale of certain Safcol forestry assets has been concluded, while other packages have been re-offered or are to be restructured.
- Options for the consolidation of the information technology capabilities of Datavia, Ariel Technology and Eskom are being assessed.
- Strategic management partnerships have been entered into for Alexkor, Aventura and the Post Office. Aventura has been earmarked for subsequent sale.The Department of Communications is investigating a restructuring strategy for Sentech Signal Distribution.

Framework for restructuring

These principles have been captured in Government's policy framework on the restructuring of state owned enterprises, which was released in August 2000.

The framework commits to improving SOE efficiency through performance contracts and shareholder compacts.

Equity sales (full or partial privatisation) have been identified as a means of enhancing efficiency, investment and innovation, notably in the telecommunications sector and electricity generation and transmission sectors.

A critical element of the restructuring strategy is the promotion of competition in key sectors such as electricity generation, telecommunications and rail services. Where competitive markets do not address social needs, the equitable provision of infrastructure will be dealt with directly through subsidies that will be either fully accounted for in the Budget, or made transparent within published price or tariff schedules.

Proceeds of restructuring contribute to reduced public sector borrowing requirement

Budget estimates take into account expected receipts from the restructuring of state assets of R5,0 billion in 2000/01, R6 billion in 2001/02 and R10 billion a year in 2002/03 and 2003/04. These receipts contribute to reducing the PSBR.

Public Private Partnerships

PPPs and service delivery

The use of public private partnerships (PPPs) in public service delivery has become increasingly common throughout the world.

The operational benefits of PPPs include:

- Improved specification of outputs and services
- Economies arising from integration of the design, building, financing and operation of assets
- Increased innovation in the use of assets
- Enhanced managerial expertise
- Improved risk management
- Contractual assurance of service standards and affordability.

Partnership contracts enhance accountability by clarifying responsibilities and focusing on the key service deliverables. Furthermore, managerial efficiency may benefit significantly as existing departmental financial, human and management resources are refocused on strategic functions.

Framework and support mechanisms

In recognition of the possible benefits of PPPs, the National Treasury has established a regulatory environment, and support structures, at the national and provincial level. These consist of:

- A strategic framework endorsed by Cabinet in December 2000
- Treasury regulations promulgated in terms of the Public Finance Management Act, prescribing PPP minimum requirements
- A set of *PPP Guidelines* for accounting officers
- A specialist PPP Unit based in the National Treasury to support departments in the development of PPPs and ensure compliance with treasury regulations.

The Department of Provincial and Local Government has established a similar support structure and regulatory framework for PPPs at the local level.

Projects under review

Government has already negotiated several major partnership projects, including the building and operation of two maximum security prisons and three long-term toll road concessions. Project proposals presently under review include:

- The outsourcing of both facility and fleet management
- The upgrading of information technology and payment systems
- The provision and management of government accomodation including prisons, hospitals, departmental offices and schools
- The concessioning of provincial toll roads, eco-tourism and rail projects.

Project loans

Project loans as part of broader partnership programmes

South Africa maintains valued relations with several multilateral financial institutions, including the African Development Bank, the European Development Bank and the World Bank. Consideration has recently been given to the possibility of project lending from international institutions, alongside the knowledge-based cooperation, technical expertise and grant-funded programmes currently in place. Cabinet has agreed that project loan proposals will be tested against the following criteria:

- A project loan must form part of a broader partnership, including supplementary benefits, such as technical expertise, additional grant funding and capacity building
- Expenditure to be financed through a loan must form part of a department's medium term expenditure plans, and will accordingly not add to total expenditure or Government's overall level of borrowing

- Financial terms and conditions of a loan must be acceptable, taking into account Government's broader borrowing strategy.

Currently the only World Bank loan entered into by South Africa is for the Industrial Competitiveness and Job Creation Project of the Department of Trade Industry. The loan amount is US$24,4 million and the project aims to stimulate the small enterprise sector and improve its competitiveness.

Projects under consideration in health and local government sectors

The Department of Health is currently in discussion with the World Bank on possible funding of its hospital rehabilitation programme. Government has also identified municipal infrastructure and local government development as possible areas of multilateral cooperation and project financing.

Provincial capital projects

Consideration is also being given by the Budget Council to allowing provinces to borrow for capital projects. Such borrowing will fall within targets set for the total PSBR and will encourage the adoption of best-practice project funding, and improved utilisation of private sector capacity for project implementation, monitoring and risk management.

Defence export credit facilities

Beginning this year, Government's foreign borrowing includes the export credit facilities negotiated as part of the arms procurement programme of the Department of Defence. The interest on these loans is included in state debt costs and repayments form part of Government's debt obligations, which are managed by the National Treasury. The expenditure on the arms procurement projects is fully provided for in the Defence medium term expenditure estimates.

Conclusion

South Africa's strong performance in meeting fiscal targets has allowed Government to increase spending, reduce tax rates and reduce the proportion of the budget that goes towards debt service costs. Government's fiscal position has contributed to lower interest rates and the moderation of the inflation trend in the economy.

Government's fiscal policy is supported by the transformation of state owned enterprises, public-private partnerships and the possible use of project loan facilities as part of broader development partnership programmes. These initiatives contribute to strengthening Government's ability to meet pressing social needs within a sustainable fiscal framework and, in doing so, help to create jobs, reduce poverty and foster economic growth.