3

Fiscal policy and the budget framework

The emphasis in fiscal policy has shifted to improving the efficiency of spending, increasing capital expenditure and ongoing tax reform, while maintaining the stability achieved in recent years. As outlined in the Medium Term Budget Policy Statement tabled in October 2000, over the next three years:

- *Interest rates and inflation should continue to fall in response to the moderation of the public sector borrowing requirement and the declining share of debt service costs in the budget.*
- *The burden of income tax on the economy will be eased, accompanied by further broadening of the tax base and improvements in revenue administration.*
- *Non-interest expenditure on public services is projected to grow strongly in real terms.*

Overview

Growth-oriented fiscal stance

The improved outlook for the economy described in Chapter 2 provides a firm foundation for the decidedly growth-oriented fiscal policy stance of the 2001 Budget.

This chapter summarises both the national budget framework and developments in the broader public finances.

Increased spending on public services

The revised economic outlook allows Government to increase allocated spending on public services by R10,2 billion in 2001/02 and R16,0 billion in 2002/03 above the levels projected in the 2000 Budget forward estimates. These adjustments compensate for somewhat higher anticipated inflation and raise real non-interest expenditure growth to 3,8 per cent a year over the next three years. The revised MTEF includes R7,8 billion to supplement investment in infrastructure and rehabilitation of flood-damaged facilities over the next three years.

Declining debt costs as % of GDP

Debt service costs on the main budget are projected to fall from 5,5 per cent of GDP in 1999/00 to 4,4 per cent in 2003/04, thereby releasing some R10 billion for spending on services. The downward trend in debt costs relative to GDP follows the steady reduction in the budget deficit since 1992/93, lower interest rates in recent years and an increase in the anticipated proceeds from state asset restructuring.

Lower tax burden

Following several years of buoyant revenue growth, the substantial personal income tax relief announced in the 2000 Budget has led to an easing of the ratio of national revenue to GDP. Chapter 4 details Government's tax proposals for the 2001 year, which include further relief to personal income taxpayers, incentives for industrial development, several measures to address loopholes in the corporate income tax, VAT relief on illuminating paraffin and a diesel fuel levy rebate for primary sector producers.

Revised spending and revenue plans are set out in this chapter, and in greater detail in chapters 4, 6 and 7, the *2001 Estimates of National Expenditure* and the *Estimate of Revenue for the financial year ending 31 March 2002*.

Fiscal policy considerations

Balance between different objectives

Economic growth and employment creation, improved public services and an equitable distribution of income are the underlying goals of fiscal policy.

In pursuing these aims, the budget framework seeks to balance several broad objectives:

- Providing for social and developmental expenditure to overcome poverty and provide safety and security.
- Raising investment in infrastructure and maintenance of government's capital stock.
- Reducing the overall burden of tax, so as to lower the costs of investment and job creation while releasing household spending power.
- Stabilising the level of debt and reducing the budget deficit to contribute to lower interest rates and fiscal sustainability.

Structural transfor-mation of the economy

Fiscal policy – together with industrial restructuring, trade reform and financial liberalisation – has played a vital role in the structural transformation of the South African economy over the past decade.

A sweeping overhaul of public services has diverted resources to housing and infrastructure in disadvantaged communities, redistributed public health and education spending in favour of the poor and reinforced the capacity of the justice system and protection services.

Emphasis on expanding the economy

While these transformation initiatives will continue, the emphasis in fiscal policy now shifts to expanding the economy and broadening opportunities.

This brings several further structural challenges. These include microeconomic reforms focussed on trade performance, industrial competitiveness and labour market adaptability; reforms to stimulate fixed capital formation, such as infrastructure development, and more effective skills creation, especially those related to SMME development; and reforms to improve the efficiency of asset use, such as restructuring of public enterprises and land reform.

Role of the budget

The role of the budget in promoting this process includes several notable elements:

- Accelerated spending on infrastructure investment and maintenance
- Strong growth in allocations for local government and basic household services
- Tax incentives in support of small businesses and non-governmental public benefit organisations
- Refocusing of health and welfare spending in response to HIV/Aids and poverty-related needs
- A further increase in funding for skills development
- Targeted interventions aimed at improving the efficiency of the criminal justice system, and
- A progressive tax structure, which contributes to the redistribution of income and wealth.

Chapters 4 and 6 of this review describe developments in tax policy and Government's expenditure programmes respectively.

The key aims of fiscal management, as set out in the 2000 *Medium Term Budget Policy Statement,* are summarised in Table 3.1. These indicators relate to the wider general government and public sector accounts, of which the national budget is the main part.

Fiscal policy is supported by ongoing implementation of the Public Finance Management Act, a strategic framework relating to the restructuring of State-owned enterprises, promotion of public-private partnerships and several further public finance reforms. These are discussed briefly in the concluding section of this Chapter.

Table 3.1 Key fiscal indicators – 1994-2003

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 public debt[1]	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	1,1	2,0
	1994–1999	**1999–2003**	
Gross fixed capital formation by general government (average annual real growth)	2,5	5,0	

Including amortisation of discount.

Consolidated national budget

Extended framework includes social security funds

As in the 2000 *Budget Review*, the overall framework for the national budget includes the revenue and expenditure of social security funds and estimates of foreign grants and technical assistance to government agencies.

Table 3.2 National budget framework, 1999/00–2003/04

R million	1999/00 Outcome	2000/01 Budget	2000/01 Revised	2001/02	2002/03	2003/04
				Medium-term estimates		
National Revenue Fund						
Revenue	**198 578**	**210 400**	**213 386**	**233 438**	**252 851**	**273 122**
Expenditure						
Interest on debt	44 290	46 490	46 186	48 138	49 651	51 022
Percentage of GDP	*5,5%*	*5,3%*	*5,1%*	*4,9%*	*4,6%*	*4,4%*
Contingency reserve	–	2 000	–	2 000	4 000	8 000
Allocated expenditure[1]	170 460	184 962	188 863	208 180	223 672	238 502
Total	**214 750**	**233 452**	**235 048**	**258 318**	**277 323**	**297 524**
Percentage increase	*6,6%*	*8,7%*	*9,5%*	*9,9%*	*7,4%*	*7,3%*
Surplus (+)/deficit (-)	**-16 172**	**-23 052**	**-21 663**	**-24 880**	**-24 472**	**-24 402**
Percentage of GDP	*-2,0%*	*-2,6%*	*-2,4%*	*-2,5%*	*-2,3%*	*-2,1%*
RDP Fund & foreign technical cooperation						
Receipts & technical cooperation	861	800	978	800	800	800
Disbursements	737	800	750	750	750	750
Social security funds						
Revenue	7 758	8 638	7 804	8 404	8 811	9 204
Expenditure	7 174	7 368	7 977	8 017	8 433	8 803
Consolidated national budget[2]						
Revenue	**207 181**	**219 818**	**222 150**	**242 615**	**262 443**	**283 106**
Expenditure	**222 645**	**241 601**	**243 758**	**267 058**	**286 487**	**307 057**
Percentage of GDP	*27,4%*	*27,3%*	*27,1%*	*27,1%*	*26,8%*	*26,6%*
Percentage increase	*7,4%*	*8,5%*	*9,5%*	*9,6%*	*7,3%*	*7,2%*
Surplus (+) or deficit (-)	**-15 464**	**-21 783**	**-21 608**	**-24 443**	**-24 044**	**-23 951**
Percentage of GDP	*-1,9%*	*-2,5%*	*-2,4%*	*-2,5%*	*-2,2%*	*-2,1%*
Gross domestic product	*811 884*	*885 200*	*897 900*	*987 200*	*1 069 300*	*1 154 900*

1. *Includes transfers to provinces and local government, the National Skills Fund and sectoral skills development funds.*
2. *Flows between funds are netted out.*

The consolidated national budget is summarised in Table 3.2.

Main budget deficit of 2,5% of GDP in 2001/02

The main budget provides for expenditure of R258,3 billion in 2001/02, increasing to R297,5 billion in 2003/04. Revenue increases from R233,4 billion to R273,0 billion over the same period, while the budget deficit falls from 2,5 per cent of GDP to 2,1 per cent in 2003/04.

Foreign grants and technical assistance

Foreign technical cooperation agreements and grants to the RDP Fund account for about R800 million a year.

Social security funds collect over R8 billion

Social security funds – the Unemployment Insurance Fund, the Compensation Funds and the Road Accident Fund – are expected to collect R8,4 billion in 2001/02 (about 0,9 per cent of GDP) and to disburse benefits amounting to R8,0 billion.

Consolidated national expenditure growth of 9,6% in 2001/02

Consolidated expenditure of R267,1 billion is projected in 2001/02, which is 27,1 per cent of GDP and 9,6 per cent more than the revised 2000/01 estimate. The consolidated national deficit is expected to be 2,5 per cent of GDP in 2001/02.

Public sector borrowing requirement of 1,0% of GDP

Taking into account the expected proceeds from the restructuring of state assets, the financing requirements of extra-budgetary institutions, provinces and local authorities and the expected borrowing of public corporations and government enterprises, the overall public sector borrowing requirement is expected to be about R9,6 billion in 2001/02, or 1,0 per cent of GDP.

The main budget

National Revenue Fund estimates, 1997/98 to 2003/04

The projected revenue of the National Revenue Fund and the division of available resources are summarised in Table 3.3. These estimates include foreign grants received through the RDP Fund up to 1998/99.

Table 3.3 Main budget framework, 1997/98–2003/04

R million	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Outcome	Outcome	Outcome	Revised estimate	Medium-term estimates		
Revenue (National Revenue Fund)							
Tax revenue (gross)	165 256	185 027	200 959	216 786	236 808	256 959	279 092
Other receipts & repayments	3 303	3 966	4 817	4 996	4 835	5 019	5 195
RDP Fund grants[1]	169	456	–	–	–	–	–
Less: SACU transfers	-5 237	-5 122	-7 197	-8 396	-8 205	-9 127	-11 165
Total revenue	**163 491**	**184 328**	**198 578**	**213 386**	**233 438**	**252 851**	**273 122**
Percentage of GDP	*23,4%*	*24,6%*	*24,5%*	*23,8%*	*23,6%*	*23,6%*	*23,6%*
Percentage increase	*11,6%*	*12,7%*	*7,7%*	*7,5%*	*9,4%*	*8,3%*	*8,0%*
Statutory appropriations							
State debt cost	38 820	42 669	44 290	46 186	48 138	49 651	51 022
Provincial equitable share	–	81 542	86 595	96 186	104 136	112 560	120 215
Skills development funds	–	–	–	970	2 800	3 000	3 200
Other[2,3]	274	286	1 179	347	603	382	389
Appropriated by vote							
Current expenditure[4]	140 125	67 768	73 526	78 655	84 867	88 911	93 459
Capital expenditure	10 729	10 309	9 160	12 704	15 774	18 820	21 240
Contingency reserve	–	–	–	–	2 000	4 000	8 000
Total expenditure[5]	**189 947**	**201 416**	**214 750**	**235 048**	**258 318**	**277 323**	**297 524**
Percentage of GDP	*27,2%*	*26,9%*	*26,5%*	*26,2%*	*26,2%*	*25,9%*	*25,8%*
Percentage increase	*8,2%*	*6,0%*	*6,6%*	*9,5%*	*9,9%*	*7,4%*	*7,3%*
Deficit(-)	**-26 457**	**-17 089**	**-16 172**	**-21 663**	**-24 880**	**-24 472**	**-24 402**
Percentage of GDP	*-3,8%*	*-2,3%*	*-2,0%*	*-2,4%*	*-2,5%*	*-2,3%*	*-2,1%*
Gross domestic product	*698 128*	*748 988*	*811 884*	*897 900*	*987 200*	*1 069 300*	*1 154 900*

1. *From 1999/00, foreign grants received in the RDP Fund do not flow through the National Revenue Fund.*
2. *Salaries of Members of Parliament, salaries of judges and standing appropriations (claims on guarantees and subscriptions to funds of the World Bank, African Development Bank and International Monetary Fund).*
3. *Includes a transfer to the Umsobomvu Fund of R855 million in 1999/00.*
4. *Includes conditional grants to provinces and local government. (Prior to the introduction of the provincial equitable share in 1998/99, voted amounts included the full transfers to provinces.)*
5. *A recovery from pension funds of R1 158 million in 1998/99 in lieu of the negotiated reduction in the employer's contribution is deducted from total expenditure.*

Main budget revenue increase of 9,4%

Total revenue, after setting aside payments to Namibia, Botswana, Swaziland and Lesotho in terms of the South African Customs Union Agreement, is projected to increase by 9,4 per cent from R213,4 billion in 2000/01 to R233,4 billion in 2001/02. After increasing sharply to 24,6 per cent of GDP in 1998/99, National Revenue Fund receipts are projected to stabilise at about 23,6 per cent of GDP over the next three years.

Expenditure growth of 8,2% a year to 2003/04

Expenditure is projected to increase from R235,0 billion in 2000/01 to R258,3 billion in 2001/02, or 26,2 per cent of GDP. Following an increase of 7,4 per cent a year since 1997/98, growth of total expenditure is expected to average 8,2 per cent a year over the period to 2003/04.

Provision for statutory and standing appropriations

The MTEF makes provision for several statutory or non-discretionary appropriations:

- State debt costs – mainly interest payments on domestic and foreign debt obligations
- Provincial equitable share transfers, governed by section 213 of the Constitution and the annual Division of Revenue Act
- Transfers of skills development levy receipts to the National Skills Fund and sectoral education and training authorities
- Salaries of members of Parliament and judges, and
- Standing appropriations in terms of specific agreements, including claims on guarantees and subscription payments to certain international organisations.

Appropriations by vote

Other expenditure from the National Revenue Fund is subject to appropriation by Parliamentary vote. Table 3.3 indicates the estimated breakdown between current and capital expenditure to be voted. These allocations include conditional grants to provinces and local government and transfer payments to various government agencies and non-governmental organisations.

Increase of 7,7% a year in provincial equitable share

Chapter 7 and Annexure E explain the principles behind the provincial equitable share allocations, which increase by 7,7 per cent a year over the next three years.

Strong growth in capital spending allocations

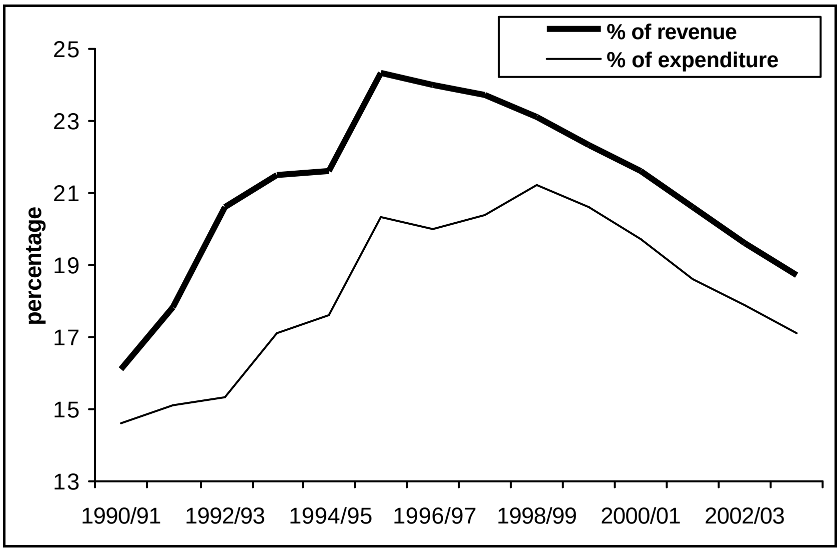
The budget framework provides for growth of current expenditure to be voted, including conditional transfers to provinces and local government, of 5,9 per cent a year over the next three years, while capital expenditure is projected to increase by an average of 18,7 per cent a year. An unallocated contingency reserve is set aside over the MTEF period within the overall projected expenditure envelope.

Main budget deficit of 2,5% of GDP in 2001/02

The revised estimates indicate a budget deficit of R21,7 billion in 2000/01, which is 2,4 per cent of GDP. A deficit of R24,9 billion is projected on the main budget in 2001/02, or 2,5 per cent of GDP, falling to 2,1 per cent of GDP in 2003/04.

Debt management and the assumptions underlying projected state debt costs are discussed in Chapter 5. Figure 3.1 illustrates the turnaround that has been achieved in the burden that debt service costs impose on the budget.

Figure 3.1 Interest on debt as percentage of national revenue and expenditure, 1990/91–2003/04



After rising steeply between 1990/91 and 1997/98, the ratio of interest payments to tax revenues declines from 23,7 per cent to a projected 18,7 per cent in 2003/04, freeing up resources for other priorities.

Declining burden of interest on debt

Revised estimates, 1999/00 and 2000/01

Table 3.4 summarises the main budget outcome for the 1999/00 year and revised estimates for 2000/01. These are discussed further in Chapters 4 and 6. Annexure B provides more detailed breakdowns of main budget revenue, expenditure and financing for these and earlier years.

Revenue exceeded the budget estimate by R7,7 billion in 1999/00 and is expected to exceed the 2000 Budget projections by R3,0 billion. The buoyancy of personal income tax collections remains a significant source of additional revenue. The past two years have also seen stronger than anticipated revenue from the secondary tax on companies and value-added tax. The revised revenue estimate for 2000/01 is 7,5 per cent more than 1999/00 receipts.

Higher than budgeted revenue

Expenditure exceeded the budget estimate by R830 million in 1999/00, after taking account of an R855 million transfer to the Umsobomvu Fund from the proceeds of the demutualisation charge. In 2000/01, after taking account of Adjustments Estimate allocations and projected underspending on national votes, expenditure is projected to exceed the main budget estimate by R1,6 billion. Expenditure increased by 9,5 per cent from R214,8 billion in 1999/00 to an estimated R235,0 billion in 2000/01.

Increase in expenditure

The revised estimates of revenue in 2000/01 include skills development levy receipts of R1,3 billion, compared with the main budget estimate of R1,4 billion. It is estimated that some R970 million will be transferred to the National Skills Fund and sectoral education and training authorities during the 2000/01 year.

Table 3.4 Revised estimates of main budget revenue and expenditure, 1999/00–2000/01

R million	1999/00 Budget estimate	1999/00 Outcome	1999/00 *Deviation*	2000/01 Budget estimate	2000/01 Revised estimate	2000/01 *Deviation*	% change 99/00–00/01
Revenue							
Direct taxes	111 959	116 824	*4 865*	123 041	124 729	*1 688*	*6,8%*
Indirect taxes	81 927	84 135	*2 208*	90 648	92 057	*1 409*	*9,4%*
Other revenue[1]	4 211	4 816	*605*	5 107	4 995	*-112*	*3,7%*
Less: SACU transfers	-7 197	-7 197	–	-8 396	-8 396	–	*16,7%*
Total	**190 900**	**198 578**	***7 678***	**210 400**	**213 386**	***2 986***	***7,5%***
Statutory appropriations							
State debt cost	46 112	44 290	*-1 822*	46 490	46 186	*-304*	*4,3%*
Provincial equitable share	86 302	86 595	*293*	94 408	96 186	*1 778*	*11,1%*
Skills development funds	–	–	–	1 400	970	*-430*	–
Other[2,3]	297	1 179	*882*	347	347	–	–
Appropriated by vote							
Current expenditure[4]	69 297	73 526	*4 229*	79 918	78 655	*1 737*	7,0%
Capital expenditure[4]	10 812	9 160	*-1 652*	11 890	12 704	*814*	38,7%
Contingency reserve	1 100	–	*-1 100*	2 000	–	*-2 000*	–
Total expenditure	**213 920**	**214 750**	***830***	**233 453**	**235 048**	***1 595***	***9,5%***
Deficit(-)	**-23 020**	**-16 172**	***6 848***	**-23 053**	**-21 663**	***1 390***	
Increase in non-interest allocated expenditure			*3 752*			*3 900*	

1. The 1999/00 preliminary outcome includes receipt of the Old Mutual demutualisation charge amounting to R577 million, which was not included in the budget estimates.
2. Salaries of Members of Parliament, salaries of judges and standing appropriations (claims on guarantees and subscriptions to funds of the World Bank, African Development Bank and International Monetary Fund).
3. Includes transfer to Umsobomvu Fund of R855 million in the 1999/00 outcome.
4. Includes conditional grants to provinces and local government.

Changes to the medium-term framework, 2001/02 to 2003/04

Changes to the medium-term macroeconomic outlook since the 2000 Budget estimates are set out in Chapter 2. These revised projections are taken into account in adjusting the budget framework.

Changes to fiscal projections

A proposed framework for the 2001 Budget was set out in the October 2000 *Medium Term Budget Policy Statement.* Since then, further adjustments have been made to take account of somewhat higher growth and inflation projections. In brief:

- Projected revenue increases by R6,0 billion in 2001/02 and R9,3 billion in 2002/03, mainly as a result of higher nominal GDP estimates.
- Interest on debt is expected to be about R1,4 billion a year lower than projected in the 2000 Budget.
- Total expenditure increases by R6,8 billion in 2001/02 and R10,6 billion in 2002/03 over the 2000 Budget forward estimates.

Contingency reserve to provide for future uncertainties

The revised budget framework includes a contingency reserve of R2,0 billion in 2001/02 increasing to R4,0 billion in 2002/03 and R8,0 billion in 2003/04. This allows for allocations by the Treasury Committee in 2001/02 to meet unforeseen and unavoidable expenses, and provides a reserve in subsequent years to accommodate macroeconomic uncertainty and any new spending priorities.

Social, economic and development spending commitments

In revising the expenditure framework, Government has considered both fiscal policy requirements and its wide range of social, economic and developmental responsibilities. The 2001 Budget MTEF is set out in Table 3.5, which details the adjustments to provincial equitable shares, projected skills development funds, other statutory and standing appropriations as well as current and capital expenditure to be appropriated by vote.

The estimates include provision for R7,8 billion in supplementary infrastructure investment and maintenance and rehabilitation of flood-damaged facilities over the next three years, not yet included in provincial grants or the departmental allocations set out in the *Estimates of National Expenditure*. Non-interest spending allocations rise by R10,2 billion over the 2000 Budget forward estimate for 2001/02 and R16,0 billion for 2002/03.

Chapter 6 outlines the medium-term expenditure allocations by vote and discusses trends in the functional and economic breakdown of national and provincial spending.

Table 3.5 Main budget medium-term estimates, 2001/02–2003/04

R million	2001/02			2002/03			2003/04
	2000 Forward Estimate	2001 Budget	*Change to baseline*	2000 Forward Estimate	2001 Budget	*Change to baseline*	2001 Budget
Revenue							
Direct taxes	133 673	134 871	*1 198*	143 643	147 174	*3 531*	161 383
Indirect taxes	97 208	101 937	*4 729*	103 973	109 786	*5 813*	117 708
Other revenue	5 153	4 835	*-318*	5 195	5 018	*-177*	5 195
Less: SACU transfers	-8 633	-8 205	*428*	-9 338	-9 127	*211*	-11 165
Total	**227 400**	**233 438**	***6 038***	**243 600**	**252 851**	***9 251***	**273 122**
Statutory appropriations							
State debt cost	49 531	48 138	*-1 393*	50 997	49 651	*-1 346*	51 022
Provincial equitable share	100 167	104 136	*3 969*	105 158	112 560	*7 402*	120 215
Skills development funds	3 000	2 800	*-200*	3 200	3 000	*-200*	3 200
Other[1]	643	603	*-40*	430	382	*-48*	389
Appropriated by vote							
Current expenditure[2]	81 150	84 867	3 717	84 563	88 911	4 348	93 459
Capital expenditure[2]	12 987	15 774	2 787	14 323	18 820	4 497	21 240
Contingency reserve	4 000	2 000	*-2 000*	8 000	4 000	*-4 000*	8 000
Total expenditure	**251 478**	**258 318**	***6 840***	**266 671**	**277 323**	***10 652***	**297 524**
Deficit	**-24 078**	**-24 880**	***-802***	**-23 071**	**-24 472**	***-1 401***	**-24 402**
Increase in non-interest allocated expenditure			*10 233*			*15 998*	

1 *Salaries of Members of Parliament, salaries of judges and standing appropriations (claims on guarantees and subscriptions to funds of the World Bank, African Development Bank and International Monetary Fund).*

2 *Includes conditional grants to provinces and local government.*

Other national funds and accounts

Umsobomvu Fund

Fund to invest in young people

The Umsobomvu Fund was created by Government to contribute towards the solution of the unemployment problem by investing in the country's young people, developing their skills and invigorating job creation. The Fund was officially registered in December 1999. Seven board members have been appointed, comprising a Chief Executive Officer and six non-executive members nominated from four government departments, the National Youth Commission and the private sector. A Chief Executive Officer was appointed with effect from January 2001.

The Board, in consultation with the Minister of Finance, embarked on very broad consultations with relevant stakeholders in order to craft a strategic role for the Fund. The Board met during the last week of January 2001 to work towards finalising a framework to be presented to the Minister for approval. The Fund will seek to promote "active economic participation of the South African youth", which refers to the creation of opportunities in employment, including self-employment, skills and enterprise development.

Investment of the Fund's assets

The Fund's capital amounting to R916 million in January 2001 is invested with the Corporation for Public Deposits and earns market-related interest.

Skills development funding

Skills levy increases to 1,0% of payroll

The skills development levy, which is collected by SARS from employers other than national and provincial government, increases from 0,5 per cent of payroll in 2000/01 to 1,0 per cent in 2001/02. It is expected to yield R2,8 billion in 2001/02, increasing to R3,2 billion in 2003/04. Eighty per cent of receipts accrue to sectoral education and training authorities (SETAs) and 20 per cent go to the National Skills Fund to support special training needs and opportunities for the unemployed. Estimates for the next three years are set out in Table 3.6.

Progress in establishing training authorities

By the end of 2000, 25 SETAs had been established, representing all economic sectors and employers in both the public and private sectors. Of the R1,3 billion expected to be collected in skills levies in 2000/01, about R970 million will be transferred to SETAs and the National Skills Fund by the end of the year. Regulations prescribing the use of funds for administrative purposes, preparation of skills plans and implementation of training programmes have been promulgated by the Department of Labour.

Prescribed training expenditure by government departments

Government departments and other public sector entities mainly financed by Government are not liable to pay the skills levy. However, their expenditure on education and employee training has to be at least 0,5 per cent of payroll in 2000/01 and 1,0 per cent in 2001/02 and beyond.

Table 3.6 Expenditure on skills development, 2000/01–2003/04

R million	2000/01 Budget	2001/02 Medium-term estimates	2002/03	2003/04
Department of Labour				
Human resource development programme[1]	212	121	117	117
Skills development levy programme				
SETAs funds	1 040	2 240	2 400	2 560
National Skills Fund	260	560	600	640
Government training expenditure				
National departments[2]	456	553	580	609
Provinces[3]	319	677	718	756
Total	**2 287**	**4 151**	**4 415**	**4 682**

1. *Including the National Skills Authority and employment counselling and placement services.*
2. *Departmental estimates of budgeted training expenditure.*
3. *Expenditure of 0,5 per cent of personnel spending in 2000/01 and 1,0 per cent thereafter.*

International development cooperation

Foreign assistance of R800 million a year

Since 1994, South Africa has benefited from an increasing flow of foreign grants and technical cooperation. These now include some 30 international cooperation agreements and account for annual flows of about R800 million in assistance to Government. In addition, foreign support of the non-governmental development community and emerging businesses is substantial.

RDP Fund grants and in-kind technical support

Foreign assistance comprises both grants to finance government projects, channelled through the Reconstruction and Development Programme (RDP) Fund, and in-kind technical or project assistance, directly financed by foreign aid offices.

Table 3.7 summarises current and projected foreign grants and technical cooperation spending.

Table 3.7 RDP Fund grants and foreign technical cooperation, 1997/98–2003/04

R million	1997/98	1998/99	1999/00	2000/01	2001/02 Medium-term estimates	2002/03	2003/04
RDP Fund							
Receipts	243	531	451	578	500	500	500
Disbursements	169	456	327	350	450	450	450
Technical cooperation							
Estimated expenditure	340	420	410	400	300	300	300
Total foreign assistance	**583**	**951**	**861**	**978**	**800**	**800**	**800**

RDP Fund grants excluded from main budget

Between 1994/95 and 1998/99, foreign assistance provided to government departments through the RDP Fund was subject to exchequer regulations. Following extensive consultation with cooperation partners, the RDP Fund Amendment Act of 1998 provided for management of projects in terms of technical cooperation agreements, rather than the regulations governing state revenue. With effect from 1999/00, RDP Fund transfers to departments are managed in separate accounts and do not flow through the National Revenue Fund.

Wide range of development projects supported

International project funding supports a range of development programmes, including labour market skills training, housing development, rural schools electrification, the working for water project and water supply schemes, education curriculum workshops, support for Mozambican refugees, assistance to the Truth and Reconciliation Commission and the Human Rights Commission, trade and investment, rural heritage settlements, small business advice, public service capacity building and promotion of good governance.

Social security funds

South Africa's principal social security benefits – means-tested old age grants, disability payments and family and child maintenance grants – are financed out of general revenue appropriated for these programmes in the annual provincial Welfare votes. These expenditure obligations are taken into account in determining the provincial equitable shares.

Social security funds provide welfare benefits financed by mandatory contributions

Several other social programmes rely on mandatory levies or taxes. Social security funds provide prescribed income maintenance or welfare benefits and are financed by earmarked levies or compulsory contributions by employees or employers. South Africa's four social security funds provide relief or compensation in the event of unemployment, work-related injuries or death, and injuries or death as a result of road accidents.

The social security funds are summarised in Table 3.8.

Table 3.8 Social security funds, 1997/98–2003/04

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
R million	Outcome	Outcome	Outcome	Revised estimate	Medium-term estimates		
Unemployment Insurance Fund							
Revenue	2 773	2 569	2 789	2 975	3 181	3 340	3 490
Expenditure	2 773	3 249	3 601	3 604	3 814	4 005	4 167
Compensation funds							
Revenue	1 991	2 151	2 571	2 310	2 419	2 527	2 635
Expenditure	1 237	1 145	1 271	1 603	1 713	1 815	1 905
Road Accident Fund							
Revenue	1 917	2 291	2 398	2 520	2 803	2 943	3 078
Expenditure	1 552	1 981	2 302	2 770	2 490	2 613	2 731
Total: social security funds							
Tax revenue	5 665	6 182	7 007	6 727	7 183	7 528	7 863
Non-tax revenue	1 017	828	750	1 077	1 221	1 283	1 341
Total revenue	**6 682**	**7 011**	**7 758**	**7 804**	**8 404**	**8 811**	**9 204**
Total expenditure	**5 562**	**6 375**	**7 174**	**7 977**	**8 017**	**8 433**	**8 803**
Surplus(+)/deficit(-)	**1 119**	**636**	**584**	**-173**	**387**	**378**	**401**

Unemployment Insurance Fund

The Unemployment Insurance Act of 1966 provides for mandatory contributions by employers and employees to fund short-term income replacement in the event of unemployment, short-term sickness, death, maternity or adoption of a child.

The financial position of the Fund has weakened in recent years, reflecting the persistent unemployment problem in the economy and sluggish growth in contribution flows.

The Comprehensive Labour Market Commission established in 1995 found that the Unemployment Insurance Fund (UIF) provided inadequate relief and suffered from administrative shortcomings. Negotiations have since been conducted at NEDLAC on the restructuring of unemployment insurance, leading to the following conclusions:

- The level of contributions should remain unchanged (1 per cent paid by the employer and 1 per cent by the employee)
- Coverage should extend to all earners in the private sector, with contributions and benefits subject to agreed ceilings
- SARS should in due course take over the collection of unemployment insurance contributions on an agency basis
- A detailed contributor-specific database should be developed as part of an overhaul of management information systems
- The Fund should undertake a full actuarial valuation.

These reforms should place the Fund on a healthier footing in future. The threshold above which employees are not covered or liable for contributions has been raised by 4,1 per cent to R97 118 a year with effect from 1 January 2001.

Compensation funds

Compensation for injuries, disease or death in the course of employment is currently governed by three Acts falling under the responsibility of the Ministers of Labour, Minerals and Energy, and Health respectively. Government proposes to replace these with a single occupational health and safety statute, under the Minister of Labour's charge.

The compensation funds are financed through assessed contributions by employers and provide cover for medical and hospital costs, compensation for disablement as a result of occupational injuries or disease and survivor benefits in the event of death.

Road Accident Fund

Compensation of "third party" victims of motor vehicle accidents has been mandated by statute since 1942. The Road Accident Fund is a single statutory agency financed through a levy on petrol and diesel fuel. The Fund pays compensation for wrongful loss or damage through road accidents caused by other persons.

A marked increase in cash outlays of the Road Accident Fund over the past year reflects a concerted effort to reduce the claims backlog. Proposed adjustments to the levies on petrol and diesel through which the Road Accident Fund is financed are outlined in Chapter 4. A Commission of Inquiry is currently underway to investigate the structure and operation of the Fund.

Instruments of social and income security policy

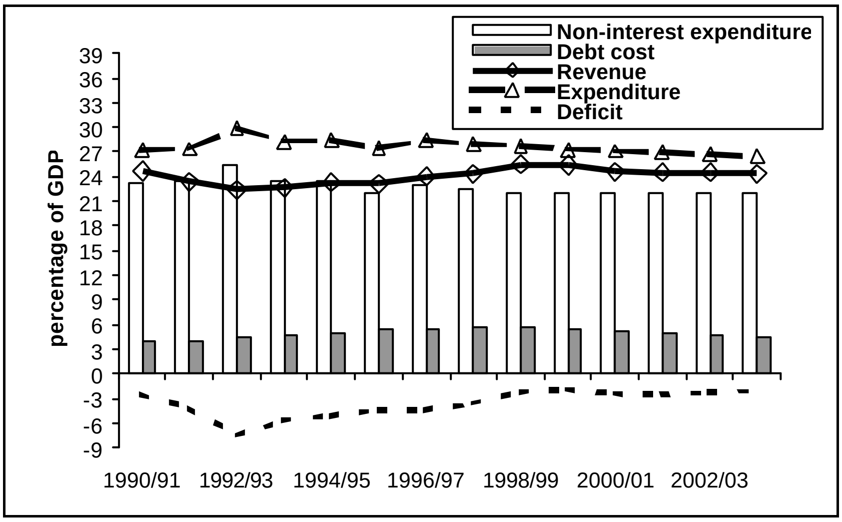
These programmes are by design self-funding, with both their revenue flows and spending appropriated by separate statutes or regulations, and not in the annual budget votes. The financial flows are nonetheless part of the wider public finances and are important instruments of Government's social and income security policies.

Consolidated general government accounts

Trends in the consolidated national budget

Trends in consolidated national revenue and expenditure relative to GDP since 1990/91 are illustrated in Figure 3.2. Also shown is the decline since 1992/93 in the deficit and the gradual easing in debt service costs in recent years. These aggregates include the main budget, foreign grants and technical cooperation and the statutory social security funds.

Figure 3.2 National revenue, expenditure and deficit, 1990/91–2003/04 (% of GDP)



Stabilisation of national revenue and expenditure as % of GDP

Against the background of an economic recession in the early 1990s, revenue fell to 22,4 per cent of GDP in 1992/93 and the national deficit widened to 7,5 per cent of GDP. Expenditure has since stabilised relative to GDP, while revenue strengthened steadily, bringing the budget deficit down to a more moderate share of national income.

Primary surplus on national budget

The national budget now reflects a primary surplus (the difference between revenue and non-interest expenditure) of about 2,5 per cent of GDP.

Decline in governnment dissaving to 2,4% of GDP

For national accounts purposes, saving by the consolidated general government is defined as current income minus current expenditure, including the surplus/deficit of general government business enterprises, consumption of fixed capital and inventory valuation adjustments. For 1999/00, general government dissaving amounted to R19,3 billion, or 2,4 per cent of GDP, compared with 3,0 per cent in 1998/99.

Consolidated national and provincial expenditure

The Medium - Term Expenditure Framework outlined in Chapter 6 comprises consolidated national spending and the expenditure plans of the nine provinces. Provincial expenditure is financed by the provincial equitable share of national revenue, several conditional grants from the national budget and provincial own revenue. Details are provided in Chapter 7.

Table 3.9 summarises the consolidated national and provincial budget framework and provides estimates of the trend in real non-interest expenditure.

Projected growth in real non-interest spending

After increasing strongly in 1996/97, consolidated real non-interest expenditure declined in 1998/99 as personnel numbers were reduced in several departments and provinces and capital spending growth eased. Real spending on services is projected to grow by an average of 3,8 per cent a year over the next three years.

Table 3.9 Consolidated national and provincial expenditure, 1997/98–2003/04

R million	1997/98 Outcome	1998/99 Outcome	1999/00 Outcome	2000/01 Revised estimate	2001/02 Medium-term estimates	2002/03	2003/04
Revenue							
National and provincial	**173 951**	**194 725**	**211 174**	**225 893**	**246 573**	**266 705**	**287 706**
Expenditure							
National expenditure	195 490	207 318	222 645	243 758	267 058	286 487	307 057
Less: State debt cost	38 820	42 669	44 290	46 186	48 138	49 651	51 022
Less: Transfers to provinces	86 538	93 257	99 032	108 736	117 387	126 564	135 221
Non-interest spending[1,2]	70 133	71 392	79 323	88 836	101 533	110 272	120 814
Provincial expenditure	95 454	96 148	99 987	110 582	120 701	129 972	138 471
Consolidated expenditure[3]	**204 407**	**210 209**	**223 599**	**245 603**	**270 372**	**289 896**	**310 307**
Percentage of GDP	*29,3%*	*28,1%*	*27,5%*	*27,4%*	*27,4%*	*27,1%*	*26,9%*
Consolidated non-interest[3] expenditure	**165 587**	**167 540**	**179 310**	**199 417**	**222 234**	**240 245**	**259 285**
Percentage of GDP	*23,7%*	*22,4%*	*22,1%*	*22,2%*	*22,5%*	*22,5%*	*22,5%*
Percentage increase	*8,2%*	*1,2%*	*7,0%*	*11,2%*	*11,4%*	*8,1%*	*7,9%*
Real non- interest expenditure[4]	**153 501**	**145 617**	**147 041**	**152 449**	**160 240**	**165 524**	**170 860**
Percentage increase	*0,3%*	*-5,1%*	*1,0%*	*3,7%*	*5,1%*	*3,3%*	*3,2%*
Consolidated deficit	**-30 456**	**-15 484**	**-12 425**	**-19 710**	**-23 799**	**-23 191**	**-22 601**
Percentage of GDP	*-4,4%*	*-2,1%*	*-1,5%*	*-2,2%*	*-2,4%*	*-2,2%*	*-2,0%*
Gross domestic product	*698 128*	*748 988*	*811 884*	*897 900*	*987 200*	*1 069 300*	*1 154 900*

1. *Including transfers to local government and extra-budgetary institutions.*
2. *Including transfer of R855 million to Umsobomvu Fund in 1999/00.*
3. *Including national contingency reserve and provincial finance reserves.*
4. *Deflated using the GDP deflator to constant 1996/97 prices.*

Consolidated deficit of between 2% and 2,4% of GDP

The consolidated national and provincial deficit fell to 1,5 per cent of GDP in 1999/00 and is projected to range between 2,0 per cent and 2,4 per cent of GDP over the next three years.

Public sector borrowing requirement

Sustainable fiscal stance

Government has substantially reduced the overall public sector borrowing requirement (PSBR) since 1996/97. This contributed to lower inflation, a stronger balance of payments and lower borrowing costs for government, the private sector and households.

Consolidated borrowing requirement

The PSBR refers to the consolidated general government deficit (including extra-budgetary agencies, funds and accounts, universities and technikons and local government) and the financing requirements of non-financial public enterprises. It takes into account extraordinary expenditure items and the proceeds from the restructuring of state enterprises.

Table 3.10 summarises these balances since 1997/98 and provides projections to 2003/04.

Extraordinary payments and receipts

Extraordinary receipts of the National Revenue Fund in 2000/01 amount to R2,8 billion, while additional debt of R2,3 billion has been taken over from the SA Rail Commuter Corporation. Details are provided in Chapter 5.

After R18 billion in projected receipts from the restructuring of state assets, the net borrowing requirement of the main budget is expected to amount to R7,5 billion in 2001/02, or 0,8 per cent of GDP.

Table 3.10 Public sector borrowing requirement[1], 1997/98–2003/04

R million	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Outcome	Outcome	Outcome	Revised estimate	Medium-term estimates		
Main budget							
Main budget deficit	26 457	17 089	16 172	21 663	24 880	24 472	24 402
Extraordinary payments	–	936	1 485	2 281	571	–	–
Extraordinary receipts	-2 947	-2 722	-7 145	-2 831	-18 000	-5 000	-5 000
Financing requirement	**23 510**	**15 303**	**10 512**	**21 113**	**7 451**	**19 472**	**19 402**
Social security funds	-1 119	-636	-584	173	-387	-378	-401
Provinces	5 458	-549	-3 039	-1 897	-643	-853	-1 350
Extra-budgetary institutions	1 613	2 213	2 559	1 500	1 000	750	500
Local authorities & local government enterprises	801	988	980	1 000	2 000	2 500	3 000
General government deficit	**30 263**	**17 319**	**10 428**	**21 889**	**9 421**	**21 492**	**21 151**
Percentage of GDP	*4,3%*	*2,3%*	*1,3%*	*2,4%*	*1,0%*	*2,0%*	*1,8%*
Non-financial public enterprises[2]	1 132	8 775	2 364	2 000	3 000	4 000	5 000
Public sector borrowing requirement	**31 395**	**26 094**	**12 792**	**23 889**	**12 421**	**25 492**	**26 151**
Percentage of GDP	*4,5%*	*3,5%*	*1,6%*	*2,7%*	*1,3%*	*2,4%*	*2,3%*
Gross domestic product	*698 128*	*748 988*	*811 884*	*897 900*	*987 200*	*1 069 300*	*1 154 900*

1. Due to classification and timing differences, these estimates do not correspond fully with the Reserve Bank's estimates of the public sector borrowing requirement.

2. Public corporations and central government enterprises.

Increased borrowing by public enterprises

In 1999/00 public corporations and central government enterprises – including Eskom, Telkom and the Transnet group – recorded a deficit of an estimated R2,4 billion to cover both operating losses and investment requirements. The financing requirement of public enterprises is expected to be about R2,0 billion in 2000/01, and to increase to between R3,0 billion and R5,0 billion a year in 2001/02 and beyond.

Restructuring of state assets contributes to reducing the net borrowing requirement of the public sector both through the contribution of proceeds to financing the budget deficit and through the injection of equity capital into the public enterprise sector. Following the marked decline to R10,4 billion in 1999/00, the PSBR is expected to be about R23,9 billion, or 2,7 per cent of GDP in 2000/01, and to fall to 1,3 per cent of GDP in 2001/02.

PSBR of 2,3% of GDP in 2000/01 and 1,1% in 2001/02

Transforming public finances

Structural transformation of the public finances

Since 1994, several major reforms have been undertaken in the structure and organisation of South Africa's public finances:

- The introduction of a 3-year medium term expenditure framework has brought greater certainty to the budget process and strengthened the links between policy priorities and Government's longer term spending plans.
- Budgetary and financial cooperation between the national, provincial and local spheres is now overseen by the statutory Budget Council, the Budget Forum and several supporting technical committees. The Financial and Fiscal Commission plays an important independent role in reviewing and advising on intergovernmental financial relations.
- Following the creation of the SA Revenue Service as an autonomous agency, tax administration has been overhauled, information systems modernised and both audit and debt recovery capacity reinforced.
- A unit has been established in the National Treasury to support national and provincial public-private partnerships, complemented by a municipal partnership initiative of the Department of Provincial and Local Government.
- Public enterprises have benefited from new leadership, focused service delivery commitments and renewed investment. The restructuring of state assets will gain momentum over the medium term, involving both improved corporate governance and further private investment.
- Debt management has been put on a sounder footing, including the introduction of auction marketing arrangements for government securities and several successful foreign bond issues. A framework for the evaluation of project lending proposals has been agreed.
- International fiscal and financial relations have been strengthened, both through participation in the major multilateral forums and through SADC regional initiatives.
- The Public Finance Management Act was passed by Parliament in 1999, laying a new foundation for financial accountability in the public sector.

Over the next decade and beyond, South Africa's public finances will change shape as these initiatives take effect and as Government responds to new challenges. Some aspects of this transformation are outlined below.

Implementation of the Public Finance Management Act

Introduction of a new legislative framework for public finances

The Public Finance Management Act (PFMA) came into effect on 1 April 2000 for all departments, constitutional institutions and public entities, except for certain sections exempted or delayed by the Minister of Finance.

The PFMA represents a fundamental change in Government's approach to the handling of public finances, as it shifts the emphasis away from a highly centralised system of expenditure control by the treasuries. It holds the heads of departments accountable for the use of resources to deliver services to communities It will also, in time, change the accounting base from cash to accrual.

The Act emphasises:

- regular financial reporting
- healthy internal controls of expenditure
- independent audit and supervision of control systems
- improved accounting standards and training of financial managers
- greater emphasis on outputs and performance, and
- increased accountability at all levels.

Implementation of the PFMA

Flowing from the approval of a broad implementation strategy in March 2000, a detailed PFMA Implementation Plan was approved by Cabinet on 20 September 2000. The first phase focuses on critical improvements in departmental financial management and ensuring compliance with the new legislation and its regulations. The second phase is aimed at long-term qualitative improvements including the full implementation of generally recognised accounting practices.

Departmental implementation plans

Accounting officers prepared departmental implementation plans and submitted these to Treasury during 2000. Plans had to address the immediate priorities facing accounting officers, including:

- effectiveness of existing internal controls, based on an assessment of the risks facing the department
- the extent to which systems and processes can ensure the efficient and effective management of revenue, expenditure, assets and liabilities
- arrangements for in-year management monitoring and reporting
- the extent to which the internal audit and the audit committee are appropriately capacitated and functional
- delegation of responsibilities to relevant officials
- preparations to recruit a suitable Chief Financial Officer, and
- mechanisms to ensure suitable oversight of any public entities the department controls.

Improved expenditure documentation

This Budget takes a significant step forward in the implementation of financial reforms required in terms of the Public Finance Management Act. The *2001 Estimates of National Expenditure* enhance the scope and quality of budget documentation in several ways. In particular, descriptions of policy developments, legislation and other trends affecting expenditure provide a rich explanatory background to departmental spending plans. Details of service delivery indicators and output or performance measures represent further progress towards tabling "measurable objectives" for each expenditure programme, which will be a formal requirement for the 2003 Budget.

New Treasury Regulations

With effect from 1 June 2000, regulations in terms of the Public Finance Management Act have replaced the former Treasury Instructions. They provide for increased flexibility and place greater responsibility for decisions in the hands of departmental accounting officers. Although less prescriptive than the Exchequer Act Instructions, certain sections of the Regulations still contain considerable detail, to address any potential temporary legislative and capacity gaps. This allows accounting officers to prepare their departments for full compliance with the new Act. As further financial management reforms are introduced, the Regulations will be revised.

Guidelines for Accounting Officers

The National Treasury recognises that implementation of the new Act and its Regulations will place considerable demands on accounting officers and departmental managers. A *Guide for Accounting Officers* was published in October 2000, providing an accessible account of the Act's requirements. It is supplemented by several other Treasury publications, including the annual guidelines to Departments on preparing budget submissions.

Human resource capacity building

The National Treasury, in collaboration with the South African Management Development Institute and the Institute for Public Finance and Auditing, is developing a new approach to financial management training. This is a long-term initiative involving detailed human resource development planning, course design and accreditation and building of relevant education and training capacity to meet diverse training needs.

Public-private partnerships (PPPs)

Policy framework for PPPs

In early 2000, Government released a *Strategic Framework for Delivering Public Services through Public-Private Partnerships*, setting out policy and regulatory principles for PPPs. In the Framework document, a PPP is defined as: *"a contractual arrangement between a public and private sector entity from which flows a provision of a service or the performance of a departmental function in accordance with an output-based specification for a specified, significant period of time. It furthermore involves a substantial transfer of project life cycle risk to the private sector. The public sector retains a significant role in the partnership either as the main purchaser of the services provided or as the main enabler of the project".*

Mobilisation of private finance

PPP project revenues are obtained from Government and/or fees charged to the users of the service. In some projects the private sector provider also pays concession fees to Government, in return for the use of Government's assets and/or the rights to provide the service, which is often a monopoly. In toll roads and ports projects, for example, the concession fee is based on the use of the service or the net income. Many, but not all, PPP projects involve the mobilisation of private finance on a limited recourse basis. In these projects, the private party undertakes the financing and construction of a given infrastructure facility, as well as its operation and maintenance, for a specified period of time.

Benefits of PPPs lie in improved management of resources

While a PPP may shift a financing requirement from the public to the private sector, or may defer the costs incurred on budget, or may replace a tax burden with a stream of user charge payments, it does not increase the quantum of services that the economy can afford. The benefits of PPPs are thus not necessarily in the increase of funds, but in the improved management and use of resources. But even these advantages of public-private partnerships are not automatic outcomes of the PPP procurement process. They have to be earned by tough performance agreements, appropriate pricing rules and accounting principles, competitive tender procedures, and an appropriate assignment of risks and rewards.

Treasury regulations

For these reasons, Treasury regulations were published last year that govern these partnerships, in terms of the Public Finance Management Act. More recently, National Treasury set up a dedicated PPP Unit to oversee compliance with the Treasury regulations and to provide the technical support needed by departments to embark on PPP ventures. Potential PPP projects are evaluated against three simple evaluation criteria. Before approving a proposed PPP, Treasury thus has to be satisfied that the project:

- is affordable
- provides good value for money, and
- transfers appropriate technical, operational and financial risk to the private party.

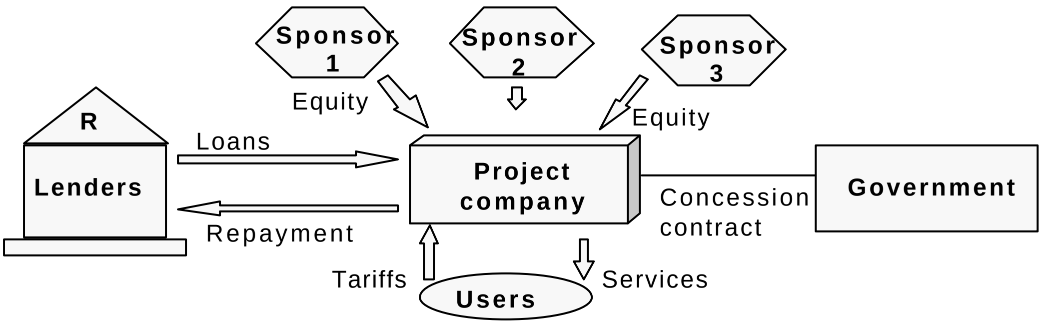
Progress with project development

While South African PPP project implementation is in its infancy, considerable progress has been made. Municipal PPPs have been successfully concluded in the last year for Nelspruit's water services; for Dolphin Coast's water services; and by the Greater Johannesburg Metropolitan Council. Through the establishment of a National Roads Agency, there now are a number of national toll roads under concession agreements and several further projects under review.

At national government level, two maximum-security prison concessions pioneered the way last year, bringing with them a number of instructive lessons for future deals. The South African National Parks Board has set key standards for the involvement of private investment in game reserve tourism concessions. Successful bidders for camp development have recently been announced.

Typical financing structure of a PPP infrastructure project

- A team or consortium of private firms establish a new project company to build, own and operate a specific infrastructure project. The new project company is capitalised with equity contributions from each of the sponsors.
- The project company borrows funds from lenders. *The lenders look to the projected future revenue stream generated by the project and the project company's assets to repay all loans.*
- The government does not provide a financial guarantee to lenders; sponsoring firms provide limited guarantees.



38 projects under review

On the books of the Treasury's PPP Unit, there are currently 38 potential PPP projects in national and provincial departments, all at various stages of investigation and planning. These projects involve:

- Outsourcing – management of existing government buildings, vehicle fleet management and harbour management.
- Support services – upgrading information systems, process re-engineering.
- Government accommodation – building of prisons, office accommodation and schools.
- Eco-tourism – game parks; nature conservation areas; conference centres.
- Large infrastructure – rail networks, provincial toll roads.
- Health services – hospital construction and operation, recapitalisation of the state's vaccine institutes and equipment supplies.

The total value of the projects that have moved beyond conceptual stage and are at draft feasibility stage or further is about R9 billion in present value terms.

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. Government has adopted a framework for consideration of project lending from international institutions, alongside the knowledge-based cooperation, technical expertise and grant-funded programmes currently in place. 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 borrowing.
- Financial terms and conditions of a loan must be acceptable, taking into account Government's broader borrowing strategy.

Projects under consideration in health and local government sectors

The Department of Health is currently in discussion with the World Bank on support for 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 allow 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 in 2000/01, 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 provided for in the Defence medium term expenditure estimates.

South Africa's contribution to debt relief

South Africa contributes in several ways to international efforts to address the challenge of unsustainable debt.

Contributions to the HIPC Trust Fund

South Africa has contributed an amount of R7,5 million and a R44,2 million first instalment of a total commitment of SDR 20 million (approximately R200 million) to the Heavily Indebted Poor Countries (HIPC) Trust Fund for the Poverty Reduction and Growth Facility of the IMF.

Cancellation of bilateral debt with Mozambique

As part of the country's commitment under the HIPC initiative to grant debt relief to bilateral debtors, the South African government has approved the total cancellation of bilateral official debt owed to South Africa by Mozambique amounting to R48,5 million.

Contributions to multilateral development finance

In addition to its contribution to the HIPC initiative, South Africa has made regular contributions to the International Development Association (IDA) of the World Bank and the Development Fund of the African Development Bank. These resources are used in support of poverty-reducing development initiatives in the poorest countries of the world.