3

Fiscal policy and the budget framework

Since 2001, an expansionary fiscal stance has contributed towards economic growth, rising investment expenditure and progressive improvements in public service delivery. Over the next three years, sound fiscal management and reinforcement of key spending priorities will give further impetus to economic growth and social development.

Successful fiscal reforms of the past decade allow for strong growth in spending, with a rising share going towards infrastructure and economic and social services while maintaining a broadly stable tax burden. The 2004 Budget contains these key features:

- *Real growth in non-interest spending of 6,5 per cent in 2004/05, averaging 4,8 per cent a year over the MTEF period*
- *Main budget deficit of 3,1 per cent of GDP in 2004/05, falling to 3,0 per cent in 2005/06 and to 2,8 per cent in 2006/07*
- *Broadly stable tax burden below 25 per cent of GDP*
- *Debt service costs declining from 3,9 per cent of GDP in 2003/04 to 3,6 per cent by the end of the forecast period*
- *Rising real investment expenditure by general government, complemented by several capital investment initiatives by public corporations*
- *Provision for additional spending on services of R44,5 billion over the next three years over the 2003 Budget baseline estimates.*

Overview of fiscal policy since 1994

South Africa's fiscal policy and management of the public finances has seen dramatic changes over the past decade. In the early 1990s, the reconstruction and development priorities of the democratic Government had to be incorporated into policies and spending programmes, against the background of economic decline and an unsustainable fiscal position. By the end of the decade, steady economic growth and a consolidation of the public finances had been achieved, laying the foundations for stronger growth and development.

Over the last ten years, three phases in public finance reform can be outlined:

- During 1994 to 1996, economic recovery began, Government's Reconstruction and Development Programme was phased into departmental plans and budgets, and a comprehensive reprioritisation of public expenditure was undertaken. The new Constitutional order and its fiscal and financial institutions took shape. The average budget deficit stood at an 4,7 per cent and government debt was approaching 50 per cent of GDP.
- A period of fiscal consolidation from 1997 to 2000 saw the introduction of medium term expenditure planning, the Public Finance Management Act, a strong focus on improved management of the public finances, increasing transparency and accountability, and substantial investment in tax reform and revenue administration capacity. The budget deficit declined to 2,5 per cent of GDP, public debt began to fall relative to GDP and average borrowing costs fell sharply. Fiscal and monetary policies converged to reduce and stabilise inflation.
- From 2001, a more expansionary fiscal stance has been adopted. Against the background of much improved fiscal management and the declining relative burden of debt service costs, both tax relief and an acceleration in public expenditure have contributed to strengthening the momentum of economic growth.

Fiscal policy successes allow for response to economic cycle

Successful fiscal consolidation, improved debt management and enhanced public sector spending capacity all contribute to the current growth-oriented fiscal stance, in part offsetting the impact of a disappointing international environment on the economy. The widening of the deficit in the past two years at a time when global demand was weak has cushioned the economy and contributed to sustaining domestic demand and rising investment.

Deficit of 3,1 per cent in 2004/05, narrowing to 2,8 per cent in 2006/07

The 2004 Budget framework provides for strong real growth in public spending, averaging 4,8 per cent a year over the next three years, a stable tax burden and declining debt service costs. The main budget deficit is projected to be 3,1 per cent of GDP in 2004/05, declining to 2,8 per cent by 2006/07.

Fiscal policy: goals, trends and targets

Government's fiscal record is reflected in lower public borrowing and debt, lower interest payments, a stable tax burden, a decline in government dissavings, a moderation in consumption expenditure and a recovery in fixed investment spending, all relative to GDP.

Gross fixed capital formation is set to grow by 6 per cent up to 2006

Capital spending by both general government and public enterprises declined between 1998 and 2001. In 2002 and 2003, growth in gross fixed capital formation by both general government and public enterprises signals a welcome turnaround. This is expected to continue as infrastructure budgets rise and capacity to deliver on projects improve. Investment spending by both general government and public corporations is estimated to grow by 6 per cent in real terms up to 2006.

Table 3.1 Fiscal trends and projections

	1998	1999	2000	2001	2002	20031 Actual	2006 Target
Gross fixed capital formation (percentage real growth)							
general government	-4,4	-9,6	-6,2	-0,7	2,0	4,0	6,0
public corporations	52,8	-29,1	-19,9	-4,0	8,1	15,3	6,1
Percentage of GDP							
Government consumption expenditure	19,0	18,7	18,7	18,9	18,7	19,0	19,2
wages	*14,0*	*13,6*	*13,1*	*12,7*	*11,9*	*11,9*	*11,4*
non-wage	*5,0*	*5,1*	*5,7*	*6,2*	*6,7*	*7,1*	*7,8*
General government savings	-2,8	-1,9	-2,0	-0,6	-0,4	-0,9	-0,3
General goverment tax revenue	26,9	27,1	26,3	27,3	26,8	26,9	26,5
Interest on public debt	6,4	6,2	5,8	5,4	4,9	4,7	4,2
	1998/99	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2006/07**
Public sector borrowing requirement	3,5	0,9	1,8	0,9	0,6	2,8	2,7
National government							
Main budget deficit	2,3	2,0	2,0	1,4	1,1	2,6	2,8
Total net loan debt	47,6	45,7	43,4	42,1	36,3	36,8	39,0

1. Based on actual data for first nine months of 2003.

The calendar year fiscal indicators reported above are accrual-based national accounts estimates and take into account the full general government sector, including extra-budgetary agencies and municipalities. This accounts for differences with the cash-based budget estimates set out elsewhere in the Budget Review.

Government consumption spending remains below 20 per cent

Government consumption expenditure as a percentage of GDP averaged 19,2 per cent between 1992 and 2003. Government's wage bill peaked at 14,1 per cent in 1997, falling below 12 per cent from 2002. Non-wage expenditure peaked at 7,3 per cent in 1992, falling to 5 per cent in 1998, before recovering to 7,1 per cent in the first nine months of 2003. Wages and non-wage expenditure are forecast to be 11,4 per cent and 7,8 per cent of GDP in 2006.

Government dissaving reaches 0,4 per cent in 2002

General government dissaving, which measures the extent to which government channels domestic savings to finance its recurrent expenditure, improved markedly from 7,3 per cent of GDP in 1992 to 0,4 per cent in 2002. In 2003, Government's dissaving rose to 0,9 per cent of GDP as the revenue performance weakened. This is expected to reverse once the budget deficit declines and infrastructure spending improves. Government aims to eliminate dissaving in the period ahead.

The overall tax burden on the economy, or *the general government tax-to-GDP* ratio increased from 23,3 per cent of GDP in 1992 to 27,3 per cent in 2001. This was a result of base-broadening effects of tax policy and greater efficiency in collection rather than increases in income tax rates. Robust tax performance has made large reductions in personal income tax since 2001 possible.

Net loan debt 36,7 per cent of GDP in 2003/04

After a rapid increase in *net loan debt* from 36,8 per cent of GDP in 1992/93 to 48,1 per cent of GDP in 1996/97, it has steadily declined to 36,8 per cent of GDP in 2003/04. This represents a significant and improved overall fiscal position and has contributed to lower interest rates in the South African capital market.

As a result of lower debt levels, interest on total public debt has fallen from its peak of 6,4 per cent of GDP in 1998 to 4,7 per cent of GDP in 2003, releasing resources for expenditure on public services.

The budget framework

The *Budget Framework* presents Government revenue and expenditure at various levels of aggregation (after netting out intergovernmental transfers), each providing different insights into the nature of fiscal spending.

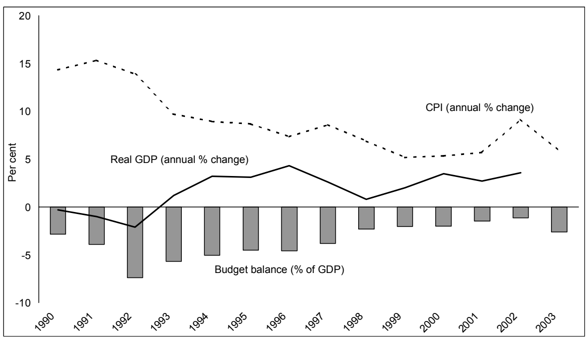
- The *main budget*, set out in table 3.2, consists of the receipts of the National Revenue Fund, and expenditure either voted by Parliament or allocated by statutory appropriation. South Africa's 'budget deficit' is the difference between revenue and expenditure on the main budget.
- The *consolidated national budget*, set out in table 3.5, represents the extent of expenditure that falls within the national sphere. It adds receipts and expenditure of the RDP Fund, those generated through foreign technical cooperation (table 3.6), and social security funds (table 3.7) to the main budget.

Fiscal reform and the budget deficit

Following a steep rise in the budget deficit in the early 1990s, in a period of fragmentation in the public finances, South Africa has undertaken a comprehensive programme of budget reform. Consolidation of budgets and creation of a transparent intergovernmental fiscal system contributed to coherence in the expenditure planning process. Through major legislative and regulatory reforms, the tax system was overhauled. Measures to boost efficiency were taken as expenditure was redirected towards productive spending. Increased accountability and transparency were enhanced through the Public Finance Management Act. In the longer term, the benefits of these reforms are to be found in better quality of spending plans and management of services. Declines in the budget deficit, particularly after 1996, have also brought wider economic benefits:

- Lower inflation as a result of improved monetary and fiscal policy coordination (see figure below)
- Lower interest rates, reducing the costs of borrowing and encouraging business investment
- Lower debt service costs for Government, freeing up resources for spending on services
- Capital market deepening, reflected in the increased issuance of bonds by public and private sector corporations
- In recognition of macroeconomic stability, improved international credit ratings.

In South Africa's case, high deficits and the unsustainability of the public debt trend held back economic growth in the early 1990s. The growth performance has improved over the past decade, and the turnaround in the overall fiscal position has allowed a more expansionary fiscal stance to be adopted since 2001. Following 10 years of decline in the national budget deficit, the present MTEF period will see a moderate increase, contributing to strengthening economic performance and broadening public service delivery despite the slowdown in revenue associated with sluggish output growth in 2003.



- The *consolidated expenditure of the national and provincial governments* (table 3.8) adds provincial expenditure and own revenue.
- The *consolidated general government account* (table 3.9) represents the full extent of the revenue and expenditure of all levels of government. This is done by aggregating the revenue and expenditure of the main budget, the social security funds, the provinces, extra-budgetary institutions (including universities and technikons) and local authorities.
- The *public sector borrowing requirement (PSBR)*, set out in table 3.10, represents the amount of public sector spending that must be financed through the national savings pool. It is derived by balancing the expenditure and revenue of the consolidated general government, non-financial public enterprises (such as Eskom and Transnet), extraordinary expenditure items, and proceeds from the restructuring of state owned enterprises.

The main budget

The projected revenue of the National Revenue Fund and the allocation of available resources are summarised in table 3.2 below.

Transfers to SACU partners revised upwards

The total revenue of the National Revenue Fund is derived from taxes and other receipts, less payments to Namibia, Botswana, Swaziland, and Lesotho in terms of the Southern African Customs Union (SACU) Agreement.

Table 3.2 Main budget framework, 2000/01 – 2006/07

R million	2000/01	2001/02 Outcome	2002/03	2003/04 Revised estimate	2004/05	2005/06 Medium-term estimates	2006/07
Revenue (National Revenue Fund)							
Tax revenue (gross)	220 334	252 298	282 210	303 318	333 694	364 449	398 608
Departmental & other receipts and repayments	3 654	4 169	4 558	6 704	6 590	7 023	7 342
Less: SACU payments	-8 396	-8 205	-8 259	-9 723	-13 328	-11 206	-11 948
Total revenue	**215 592**	**248 262**	**278 508**	**300 300**	**326 956**	**360 266**	**394 002**
Percentage of GDP	*23,6%*	*24,6%*	*24,2%*	*24,6%*	*24,6%*	*24,7%*	*24,7%*
Expenditure							
State debt cost	46 321	47 581	46 808	47 326	50 432	53 986	57 945
Percentage of GDP	*5,1%*	*4,7%*	*4,1%*	*3,9%*	*3,8%*	*3,7%*	*3,6%*
Current payments[1]	41 066	47 464	52 601	58 224	64 519	68 922	74 171
Transfers and subsidies	144 061	163 876	188 059	221 685	246 179	271 527	291 969
Payments for capital assets[1]	2 486	3 983	4 061	4 451	5 274	6 219	6 973
Contingency reserve	–	–	–	–	2 500	4 000	8 000
Total expenditure	**233 934**	**262 905**	**291 529**	**331 685**	**368 904**	**404 654**	**439 058**
Percentage of GDP	*25,6%*	*26,0%*	*25,4%*	*27,1%*	*27,7%*	*27,8%*	*27,6%*
Deficit	**-18 342**	**-14 642**	**-13 021**	**-31 385**	**-41 948**	**-44 388**	**-45 056**
Percentage of GDP	*-2,0%*	*-1,4%*	*-1,1%*	*-2,6%*	*-3,1%*	*-3,0%*	*-2,8%*
Gross domestic product	*914 634*	*1 010 921*	*1 149 890*	*1 223 198*	*1 331 796*	*1 455 626*	*1 592 571*

1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.

South Africa's fiscal evolution, 1990-2003

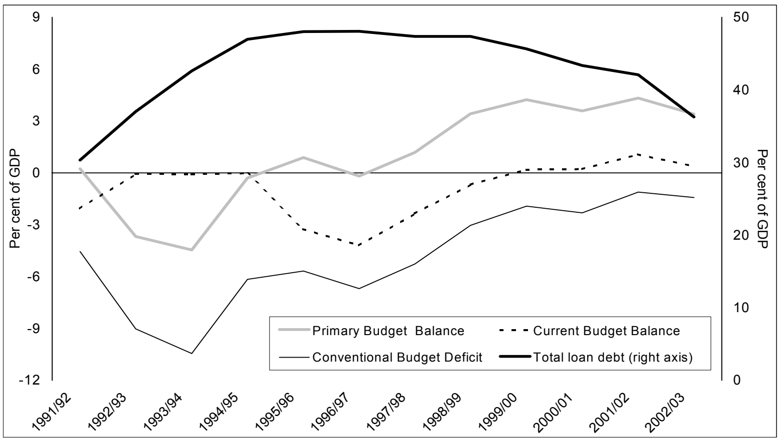
South Africa' national budget reflects a healthy fiscal position, following a comprehensive consolidation of the public finances over the last decade. Key reforms have included phasing down of the budget deficit, improved control of off-budget liabilities, modernization of debt management, introduction of a medium term expenditure framework and improved coordination of intergovernmental finances. Sound fiscal and monetary policies form the backdrop to a more expansionary fiscal policy stance since 2001.

The figure below shows a steady decline in national government debt as a percentage of GDP since the mid-1990s, helping to reduce South Africa's vulnerability to capital market instability, and allowing for the redirection of expenditure from debt service costs to meeting the country's social, economic and developmental needs.

The conventional budget deficit—total revenue less total expenditure— fell steadily from 4,6 per cent of GDP in 1996/97 to a low of 1,4 per cent of GDP in 2001/02. It is expected to rise to 2,6 per cent of GDP in 2003/04.

The current budget balance, which measures current revenue less current expenditure, is lower than the conventional deficit. This implies that part of the deficit was incurred by expenditure on capital goods and services.

The primary balance is calculated as the difference between revenue and non-interest expenditure. The consolidation process that began in 1996/97 succeeded in reversing a period of fiscal imbalances as reflected in primary fiscal deficits. Since 1996/97, the national budget has recorded primary surpluses, reinforcing the overall fiscal position and contributing to a healthy platform for future growth and development.



Tax receipts are revised down this year

Gross tax revenue for 2003/04 and the years going forward is expected to be moderately lower than was published in the 2003 Budget. This is a result of suppressed economic conditions resulting mainly from the unfavourable international economic environment and the stronger currency. As a result, company taxes are lower, and, while the interest rate reductions have stimulated demand, increases in revenue from VAT have been insufficient to make up for the shortfall.

Increased allocations to SACU members

Transfers to our Southern African Customs Union partners rise sharply in 2004/05 to R13,3 billion or one per cent of GDP. However, due to the introduction of a new formula in 2005/06, these payments are expected to decline to R11,9 billion or 0,8 per cent of GDP in 2006/07.

Total revenue of 24,7 per cent of GDP

This results in total revenue for the National Revenue Fund of approximately R327 billion in 2004/05, rising to R394 billion in the outer year. Total revenue is expected to remain stable over the course of the MTEF, at approximately 24,7 per cent of GDP.

Contingency reserve of R2,5 billion in 2004/05

Included in the main budget expenditure is a contingency reserve that allows for in-year allocations of funds towards unforeseen and unavoidable expenditure without altering the structure of the budget framework. The reserve also serves to cushion the fiscus against unanticipated events such as economic shocks or natural disasters. In preparing future budgets, part of the contingency reserve may be drawn down to accommodate new spending priorities.

Non-interest expenditure to grow by 4,8 per cent a year over the MTEF…

The 2004 Budget provides for strong real growth in non-interest expenditure of 4,8 per cent per year over the MTEF period (including the contingency reserve). Given the effect of the current economic conditions on tax revenue, the increased expenditure will partly be financed through higher borrowing. The deficit increases to 3,1 per cent of GDP in 2004/05, declining over the medium term to 2,8 per cent of GDP by 2006/07.

Within the main budget MTEF, the following trends are evident:

- Revenue as a percentage of GDP is broadly stable, indicating that the tax burden placed on the economy is not increasing
- Debt service costs continue to decline as a percentage of GDP, resulting in increased resources for non-interest expenditure programmes
- Non-interest expenditure continues to grow in real terms, providing a rising envelope of resources to meet the spending pressures facing the various spheres of government.

…to meet spending pressures of various spheres of Government

Revisions to 2002/03 and 2003/04 main budget estimates

Table 3.3 summarises the main budget outcome for 2002/03 and the revised estimates for 2003/04. These outcomes are discussed in more detail in chapters 4 and 6. Annexure B provides details of main revenue, expenditure and financing for these and earlier years.

Table 3.3 shows that robust revenue growth contributed to a reduction of the deficit in 2002/03. As the slowing global economy impacted on the profitability of resource-based exporters and revenue weakened, Government was able to maintain strong spending increases through higher borrowings and savings on debt service costs.

Total revenue lower by R4,2 billion in 2004 Budget than estimated in 2003 Budget

Total revenue for 2002/03 was R2,8 billion higher than was estimated in the 2003 Budget and R13,3 billion higher than the original 2002 Budget estimate, mainly a result of growth in company tax payments by commodity exporters following the depreciation of the rand. With the appreciation of the rand and, more importantly, poor global demand for South Africa's exports, this situation reversed in 2003/04 and projections indicate that total revenue will be R4,2 billion lower than was published in the 2003 Budget Review.

Table 3.3 Revised estimates of main budget revenue and expenditure, 2002/03 and 2003/04

R million	2002/03 Budget estimate	2002/03 Outcome	2002/03 *Deviation*	2003/04 Budget estimate	2003/04 Revised estimate	2003/04 *Deviation*	% change 2002/03–2003/04
Revenue							
Direct taxes	159 175	168 801	*9 626*	182 039	176 410	*-5 629*	4,5%
Indirect taxes	109 331	113 408	*4 077*	127 986	126 908	*-1 078*	11,9%
Other revenue	4 970	4 558	*-412*	4 156	6 704	*2 548*	47,1%
Less: SACU payments	-8 259	-8 259	–	-9 723	-9 723	–	17,7%
Total revenue	**265 217**	**278 508**	***13 291***	**304 459**	**300 300**	***-4 159***	**7,8%**
State debt cost	47 503	46 808	*-695*	50 986	47 326	*-3 660*	1,1%
Current payments[1]	51 134	52 601	*1 467*	57 380	58 224	*844*	10,7%
Transfers and subsidies	182 400	188 059	*5 659*	218 431	221 685	*3 254*	17,9%
Payments for capital assets[1]	3 572	4 061	*490*	4 169	4 451	*281*	9,6%
Contingency reserve	3 300	–	*-3 300*	3 000	–	*-3 000*	0,0%
Total expenditure	**287 909**	**291 529**	***3 620***	**333 965**	**331 685**	***-2 280***	**13,8%**
Increase in non-interest allocated expenditure			*7 615*			*4 380*	
Deficit	**-22 692**	**-13 021**	***9 671***	**-29 506**	**-31 385**	***-1 879***	

1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.

Non-interest spending R4,4 billion higher in 2003/04

Expenditure outturns for 2002/03 and 2003/04 were less than in the 2003 Budget Review estimates mainly due to lower debt service costs as a result of lower interest rates. Despite total expenditure coming in lower than previously estimated, non-interest expenditure is expected to be R4,4 billion higher in 2003/04 than the original allocations, accommodated in part by the budgeted contingency reserve of R3 billion. The deficit for 2002/03 is revised downwards and now represents 1,1 per cent of GDP, rising to 2,6 per cent of GDP in 2003/04.

Changes to main budget estimates since the 2003 Budget

The 2004 Budget updates estimates for 2004/05 and 2005/06 from the 2003 Budget, and adds projections for 2006/07, taking into account changes to the medium term macroeconomic outlook since the 2003 Budget, as set out in Chapter 2.

The main changes to the 2004/05 and 2005/06 estimates from the 2003 Budget are set out in table 3.4 and summarised below:

- Revenue estimates are reduced in keeping with lower economic growth
- Debt service costs are reduced, mainly because of lower interest rates and the stronger currency
- Drawing in part on the contingency reserve, allocated non-interest spending increases by R44,5 billion over the MTEF period
- The deficit rises to 3,1 per cent of GDP in 2004/05, before declining to 2,8 per cent of GDP in 2006/07.

Table 3.4 Main budget medium-term estimates, 2004/05 – 2006/07

R million	2004/05 2003 Forward Estimate	2004/05 2004 Budget	2004/05 *Change to baseline*	2005/06 2003 Forward Estimate	2005/06 2004 Budget	2005/06 *Change to baseline*	2006/07 2004 Budget
Revenue							
Direct taxes	200 557	193 968	*-6 589*	220 980	214 501	*-6 479*	231 984
Indirect taxes	137 489	139 725	*2 236*	147 740	149 948	*2 208*	166 624
Other revenue	4 494	6 590	*2 096*	4 850	7 023	*2 173*	7 342
Less: SACU payments	-11 585	-13 328	*-1 743*	-12 361	-11 206	*1 155*	-11 948
Total revenue	**330 955**	**326 956**	***-3 999***	**361 209**	**360 266**	***-943***	**394 002**
Percentage of GDP	*24,6%*	*24,6%*		*24,6%*	*24,7%*		*24,7%*
State debt cost	53 079	50 432	*-2 647*	55 070	53 986	*-1 084*	57 945
Current payments[1]	63 058	64 519	*1 461*	66 694	68 922	*2 228*	74 171
Transfers and subsidies	238 422	246 179	*7 757*	260 367	271 527	*11 160*	291 969
Payments for capital assets[1]	4 787	5 274	*487*	5 476	6 219	*743*	6 973
Contingency reserve	4 000	2 500	*-1 500*	8 000	4 000	*-4 000*	8 000
Total expenditure	**363 345**	**368 904**	***5 559***	**395 606**	**404 654**	***9 047***	**439 058**
Percentage of GDP	*27,0%*	*27,7%*		*27,0%*	*27,8%*		*27,6%*
Deficit	**-32 390**	**-41 948**	***-9 558***	**-34 397**	**-44 388**	***-9 991***	**-45 056**

1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.

The consolidated national government budget

The consolidated national budget supplements the finances of the National Revenue Fund, set out above, with receipts and expenditure of the RDP Fund and those generated by foreign technical cooperation agreements, and the receipts and expenditure of the social security funds. The consolidated national budget is set out in table 3.5 below.

Deficit of consolidated national government budget to remain below 3 per cent

Due to the significant surpluses on the Unemployment Insurance Fund and Compensation Funds, the deficits of the consolidated national government budget are lower than those in the main budget, rising from 2,2 per cent of GDP in 2003/04, to 2,9 per cent in 2004/05, falling thereafter to 2,6 per cent in 2006/07. Further breakdowns of revenue and expenditure generated through international development cooperation agreements and the social security funds are set out in tables 3.6 and 3.7 respectively.

Foreign grants and technical assistance (or grants-in-kind) since 1994 total about R7 billion. At present, some 30 international framework co-operation agreements exist, estimated to have contributed R1,6 billion in 2003/04. Annual flows of about R1,5 billion are projected in support of various Government projects over the MTEF period. In addition to direct contributions, foreign support of the non-governmental development community has been substantial. Foreign technical assistance remains an important part of the Government's and the non-governmental development community's efforts to address the various social and developmental challenges facing South Africa.

Table 3.5 Consolidated national budget framework, 2002/03 – 2006/07

R million	2002/03 Outcome	2003/04 Budget	2003/04 Revised	2004/05	2005/06	2006/07
				Medium-term estimates		
National Revenue Fund (main budget)						
Revenue	**278 508**	**304 459**	**300 300**	**326 956**	**360 266**	**394 002**
Expenditure						
State debt cost	46 808	50 986	47 326	50 432	53 986	57 945
Percentage of GDP	*4,1%*	*4,1%*	*3,9%*	*3,8%*	*3,7%*	*3,6%*
Contingency reserve	–	3 000	–	2 500	4 000	8 000
Allocated expenditure[1]	244 721	279 979	284 359	315 972	346 668	373 113
Total expenditure	**291 529**	**333 965**	**331 685**	**368 904**	**404 654**	**439 058**
Percentage increase	*10,9%*	*14,4%*	*13,8%*	*11,2%*	*9,7%*	*8,5%*
Deficit	**-13 021**	**-29 506**	**-31 385**	**-41 948**	**-44 388**	**-45 056**
Percentage of GDP	*-1,1%*	*-2,4%*	*-2,6%*	*-3,1%*	*-3,0%*	*-2,8%*
RDP Fund and foreign technical co-operation						
Receipts and technical co-operation	1 743	1 500	1 584	1 500	1 500	1 500
Expenditure	1 906	1 300	1 012	1 300	1 300	1 300
Social security funds						
Revenue	10 589	11 721	12 600	13 916	15 327	16 756
Expenditure	8 454	10 434	8 925	11 092	12 166	13 211
Consolidated national budget[2]						
Revenue	**290 504**	**317 414**	**314 468**	**342 356**	**377 076**	**412 240**
Expenditure	**301 553**	**345 433**	**341 606**	**381 280**	**418 102**	**453 551**
Percentage of GDP	*26,2%*	*28,0%*	*27,9%*	*28,6%*	*28,7%*	*28,5%*
Percentage increase	*11,2%*	*14,6%*	*13,3%*	*11,6%*	*9,7%*	*8,5%*
Deficit	**-11 049**	**-28 019**	**-27 138**	**-38 923**	**-41 027**	**-41 310**
Percentage of GDP	*-1,0%*	*-2,3%*	*-2,2%*	*-2,9%*	*-2,8%*	*-2,6%*
Gross domestic product	*1 149 890*	*1 234 600*	*1 223 198*	*1 331 796*	*1 455 626*	*1 592 571*

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 Policy Framework and Guidelines for the management of ODA is approved

In 2003, Cabinet approved a Policy Framework and Guidelines for the management of Official Development Assistance (ODA). This clarifies the policies, legislative provisions and relevant procedures, allowing departments to manage ODA within a coherent and well-documented framework. In addition to the Policy Framework, the Development Co-operation Information System, which is an internet based information system, has been developed to improve transparency, accountability, reporting and monitoring of ODA projects and strategies.

Table 3.6 RDP Fund grants and foreign technical co-operation, 2000/01 – 2006/07

R million	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
		Estimate				Medium-term estimates	
RDP Fund							
Receipts	641	923	1 143	984	900	900	900
Disbursements	504	726	1 306	412	700	700	700
Technical co-operation (in kind)	400	500	600	600	600	600	600
Total foreign assistance	**1 041**	**1 423**	**1 743**	**1 584**	**1 500**	**1 500**	**1 500**

Social security funds

Contributory social security funds comprise of UIF, RAF and Compensations Funds

South Africa's primary social security benefits comprise the old age pension grants, the disability grants and the family-related and child support grants. These are financed through the equitable share to all the provinces. The extension of the child support grant is financed through a conditional grant to the provinces. Complementing these programmes are four social security funds, namely, the Unemployment Insurance Fund (UIF), Workman's Compensation Fund, Mines and Works Compensation Fund and the Road Accident Fund. These are financed through mandatory levies and taxes.

Table 3.7 Social security funds, 2000/01 – 2006/07

R million	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
		Outcome		Revised estimate		Medium-term estimates	
Unemployment Insurance Fund							
Revenue	2 852	3 457	4 905	5 802	6 234	6 623	6 993
Expenditure	3 071	2 868	2 416	2 220	2 926	3 427	3 653
Compensation funds							
Revenue	1 920	2 122	2 420	3 012	3 342	3 514	3 693
Expenditure	1 385	1 619	2 462	2 148	2 573	2 689	2 838
Road Accident Fund							
Revenue	2 358	2 821	3 264	3 786	4 340	5 190	6 070
Expenditure	2 704	3 164	3 575	4 556	5 593	6 050	6 720
Total: social security funds							
Tax revenue	6 431	7 135	9 657	11 773	12 891	14 040	15 273
Non-tax revenue	681	642	596	811	1 009	1 269	1 465
Grants received	19	623	336	16	16	17	18
Total revenue	**7 131**	**8 400**	**10 589**	**12 600**	**13 916**	**15 327**	**16 756**
Total expenditure	**7 160**	**7 652**	**8 454**	**8 925**	**11 092**	**12 166**	**13 211**
Surplus (+) / deficit (-)	**- 29**	**748**	**2 135**	**3 675**	**2 824**	**3 161**	**3 545**

A combined surplus of R3,7 billion is expected for the 2003/04 financial year, mainly attributed to the large surplus position of the UIF.

Significant turnaround in UIF finances

The UIF provides short-term income support, resulting from unemployment, short-term illness, maternity or adoption of a child. Prior to 2002, the UIF experienced large deficits. To address this problem, in 2001/02, R1,3 billion was allocated to the Fund over a four-year period, conditional on a turnaround strategy being implemented. This led to the revision of the Unemployment Insurance Act and the promulgation of the Unemployment Insurance Contributions Act. Part of the success can be attributed to a widening of the revenue base, improved systems and more efficient collections by South African Revenue Service. The UIF is expected to accumulate surpluses of over R3 billion per annum over the medium term. These have allowed the budgeted amount of R250 million for the UIF in 2003/04 and R150 million in 2004/05 to be suspended for the present. The UIF's actuaries recommend that a balance of R7,4 billion should be accumulated over four years to ensure the Fund's continued financial independence and sufficient reserves to respond to unemployment cycles in the future.

National Occupational Health and Safety Authority to be established to oversee compensation funds

The Workman's Compensation Fund and the Mines and Works Compensation Fund compensate employees for injuries, disease or death incurred at the workplace. The two funds are financed through levies on companies and administered by the Departments of Labour and Minerals and Energy, respectively. The Compensation Funds showed a deficit of R42 million in 2002/03 due to backlogs in claims being addressed, increasing medical costs and a decrease in the government grant to the Mine and Works Compensation Fund. For 2003/04, total surpluses are expected to increase to R864 million. Cabinet has approved the integration of the compensation funds administered by the Departments of Labour, Health and Minerals and Energy, resulting in the establishment of a National Occupational Health and Safety Authority coupled with the development of an overarching policy. Historically, only the government grant relating to the Mines and Works Compensation Fund has been included in the Social Security Funds. Due to Cabinet's decision, the full income and expenditure component has been included in the medium term projections.

The Road Accident Fund (RAF), funded out of the fuel levy, provides benefits to victims of road accidents caused by third parties. The Road Accident Fund Amendment Act was promulgated in July 2001 authorising contributions to road safety projects, including the *Arrive Alive* campaign. The RAF has been experiencing escalating deficits, estimated at R771 million in 2003/04 and projected to rise to R1,3 billion in 2004/05. The Parliamentary Portfolio Committee for Transport is currently considering an Amendment Bill dealing with some of the recommendations of the Commission of Inquiry into the Fund. The fuel levy contribution to the Fund will increase by 5 cents, to 26,5 cents a litre, on the 7 April 2004. Further reforms are required if the Fund's business is to be put on a sound financial footing.

Consolidated government accounts and the PSBR

National and provincial consolidated expenditure

Table 3.8 summarises the consolidated national and provincial budget framework, with expenditure set out in the newly introduced economic classification. This provides insights into the contribution of government to household income, demand for goods and services and capital formation. A functional classification is set out in Chapter 6.

Table 3.8 illustrates the following trends:

- Real non-interest expenditure grows by 4,2 per cent over the 2004 MTEF period
- Capital expenditure grows by 6,1 per cent in real terms over the 2004 MTEF, illustrating government's prioritisation of investment in general, and infrastructure expenditure in particular
- Transfers to households grow at 7,6 per cent a year in real terms over the 2004 MTEF, illustrating Government's increasing contribution to income security of the poor

- Transfers and subsidies increase from 34,7 per cent of consolidated non-interest expenditure in 2000/01 to 39,9 per cent in 2006/07, indicative of the continuing decentralisation of expenditure to spheres outside of provincial and national departments.

Table 3.8 Consolidated national and provincial expenditure, 2000/01 – 2006/07

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
		Outcome		Revised		Medium-term estimates	
R million				estimate			
Current payments							
Compensation of employees	93 170	100 141	109 774	120 901	131 744	139 995	147 905
Goods and services	28 157	34 143	40 351	46 754	52 266	57 702	63 160
Interest and rent on land	46 413	47 696	46 983	47 507	50 604	54 170	58 137
State debt cost	*46 321*	*47 581*	*46 808*	*47 326*	*50 432*	*53 986*	*57 945*
Financial transactions in assets and liabilities	77	129	109	78	14	16	18
Total current payments	**167 818**	**182 109**	**197 217**	**215 240**	**234 628**	**251 883**	**269 221**
Real growth [1]		*1,8%*	*-1,4%*	*3,5%*	*3,6%*	*1,8%*	*1,9%*
Transfers and subsidies[2]							
Municipalities	7 235	8 625	11 416	16 422	18 271	20 203	21 903
Departmental agencies and accounts	17 668	20 968	26 509	29 497	30 943	34 079	34 699
Universities and technikons	6 670	7 145	7 573	8 449	9 371	9 991	10 576
Public corporations and private enterprises	5 096	6 834	7 970	9 363	9 483	10 200	10 995
Foreign governments and international organisations	479	412	799	942	793	853	909
Non-profit institutions	2 298	2 776	3 148	3 864	4 253	4 623	4 864
Households	28 930	32 495	42 295	52 218	58 439	67 671	75 682
Total transfers and subsidies	**68 375**	**79 255**	**99 711**	**120 756**	**131 552**	**147 620**	**159 628**
Real growth [1]		*8,7%*	*14,5%*	*14,9%*	*3,6%*	*6,4%*	*3,1%*
Payments for capital assets							
Buildings and other fixed structures	4 334	7 190	8 406	10 008	11 528	13 303	14 716
Machinery and equipment	2 480	3 579	4 283	4 428	5 034	5 418	5 573
Cultivated assets	1	0	6	18	14	18	16
Software and other intangible assets	43	40	30	40	197	254	218
Land and subsoil assets	113	256	714	976	809	891	972
Total payments for capital assets	**6 971**	**11 065**	**13 439**	**15 470**	**17 582**	**19 884**	**21 495**
Real growth [1]		*48,9%*	*10,6%*	*9,2%*	*8,1%*	*7,2%*	*3,1%*
Unallocated	**–**	**–**	**–**	**–**	**2 500**	**4 000**	**8 000**
Consolidated expenditure	**243 164**	**272 429**	**310 366**	**351 466**	**386 263**	**423 387**	**458 344**
Consolidated non-interest expenditure[3]	**196 843**	**224 849**	**263 558**	**304 140**	**335 831**	**369 401**	**400 399**
Percentage of GDP	*21,5%*	*22,2%*	*22,9%*	*24,9%*	*25,2%*	*25,4%*	*25,1%*
Real growth [1]		*7,1%*	*6,7%*	*9,5%*	*5,0%*	*4,3%*	*3,4%*

1. Deflated using the CPIX deflator to constant 2001 prices.
2. Including capital transfers.
3. Including national contingency reserve.

A review of infrastructure delivery since 1994

One of the main objectives of the Reconstruction and Development Programme has been to increase investment in social and economic infrastructure. Government has been successful in making major inroads in addressing historical imbalances in social infrastructure in housing and household services, schools and clinics, while maintaining and investing in new economic infrastructure.

Social and household infrastructure and government buildings

Since 1994, an estimated 1,6 million subsidised houses have been built. The Department of Education indicates that about 56 000 new classrooms and 38 000 school toilets have been built, about 2 700 more schools now receive potable water and about 4 000 more schools have the use of electricity.

Health services have reached new areas, with the construction of over 700 new clinics, the upgrading of an additional 212 clinics and the purchase of 215 mobile clinics. In addition, 2 298 clinics have been re-equipped. Three new modern tertiary hospitals with over 2 000 beds have been constructed. Under the Hospital Rehabilitation and Reconstruction Programme, R1,6 billion has been spent on 492 projects at 141 hospitals. Currently, renovations of 27 of the highest priority hospitals are in progress, three in each province.

In the water sector, Government has provided a basic water supply to over 9 million people and access to basic sanitation to 6,4 million people. The three main Lesotho Highland dams and three local dams have been completed since 1994. Future dams include Nandoni Dam in Limpopo and the Berg River Dam in Western Cape.

Since 1994, over 4 million electricity connections have been made, of which Eskom made 2,5 million. Eskom also spent over R44 billion on capital spending on generation, transmission and distribution. According to the 2001 Census, the number of households electrified increased from 50 per cent in 1996 to 70 per cent in 2001, with the proportion of rural homes electrified rising from 21 per cent to 50 per cent. Due to the growing need for new power generation and the expansion of the electricity grid, Eskom will spend a further R40 billion over the next three years on expanding and strengthening networks, the recommissioning of mothballed plants, and increasing generation capacity.

In the fight against crime, about R1,2 billion has been spent on 3 000 projects improving or providing new police stations, holding cells and other facilities. R2 billion has been spent on the construction of prison accommodation for 15 000 inmates and 33 prisons have been renovated. Over the MTEF, four new major 3 000-bed prisons will be constructed to alleviate overcrowding. Court services received a boost with the construction, renovation and extension of 129 court buildings. Nine integrated Justice centres have been built, bringing together at a single location the services of the police, courts, prisons and social services. Over the next two years, seven new court buildings costing over R500 million will be built in townships and rural areas including Madadeni, Motherwell, Ntuzuma, and Tsakane. The new R68 million Constitutional Court is close to completion.

Economic infrastructure

Government has spent R5 billion since 1994 on the maintenance and rehabilitation of over 6 000 km of national roads. About 15 000 km of provincial roads have been constructed, upgraded and/or repaired. Major projects of the SA National Roads Agency include the N4 Maputo corridor, the N3 Toll Road, and the N4 Platinum Toll Road; resulting in private sector investment of R10 billion. Over the MTEF, 2 070 km of provincial roads will be incorporated into the national road system and brought up to similar high standards.

About 2,2 million rail trips are taken daily in South Africa. In the last ten years, close to R1 billion has been spent on major remodelling and refurbishment of 150 of the main commuter stations with 7 new stations built. About R550 million has been invested in the repair and replacement of signalling and power infrastructure, and R1 billion in improving the existing fleet of engines and rebuilding coaches. The first 264 of these are now in operation. The rebuilding programme receives about R400 million a year from the national budget.

Transnet spent over R38 billion on capital investment over the decade on freight rail infrastructure and rolling stock, and ports, and plans to accelerate capital expenditure over the next 5 years to over R41 billion. Over R8,6 billion was invested in port infrastructure in Richards Bay, Saldanha, Cape Town, and Durban, and a further R2 billion on equipping harbours with cranes and other capital equipment. Large port projects currently under construction include the R921 million conversion of Durban Pier 1 to a container terminal, R920 million expansion and refurbishment of the iron ore terminal at Saldanha, expansion of the Richards Bay coal terminal, and the new R3,2 billion Port of Ngqura which is expected to be completed in 2005/06.

Over R7,3 billion has been spent on rolling stock, including 130 new electric and diesel locomotives, and the upgrade of 3 000 general freight wagons. Current freight rolling stock projects include the R1,7 billion Locomotive Upgrade programme targeting 276 locomotives, as well as the R4,9 billion Wagon Renewal and Replating programmes, which together target 24 000 freight wagons. About R1,2 billion will be spent on capacity for the Coalink and Orex lines. Over R800 million has been spent on the expansion and upgrading of our oil pipeline infrastructure, including tele-control, leak detection, and augmentation projects to increase throughput. With regards to aviation infrastructure, the decade has seen a new airport for Mpumalanga and the refurbishment of international airports at Johannesburg, Durban and Cape Town. Over the next few years, SAA will replace leased Boeings with the purchase of 41 Airbus aircraft at a cost of US$3,5 billion.

The consolidated general government account

The consolidated general government account for 2002/03 set out in table 3.9 summarises the full extent of the revenue and expenditure of government, not only at national and provincial levels, but also at local level and through the activities of its extra-budgetary agencies and accounts. Flows between funds are netted out.

Table 3.9 Consolidated accounts of general government, 2002/03[1]

R million	Main budget	Social security funds	Provinces	Extra-budgetary institutions[2]	Local authorities[3]	Consolidated general government
Tax receipts (net of SACU)	273 921	9 657	2 677	121	14 618	300 995
Non-tax receipts	4 221	596	2 970	7 013	38 253	53 053
Total current receipts	278 142	10 253	5 647	7 134	52 872	354 048
Sales of capital assets	366	–	55	572	40	1 033
Total own account receipts	**278 508**	**10 253**	**5 702**	**7 706**	**52 912**	**355 081**
Percentage of total	*78,4%*	*2,9%*	*1,6%*	*2,2%*	*14,9%*	*100,0%*
Transfers received[4]	1 743	336	136 967	33 416	11 807	1 743
Total receipts	**280 251**	**10 589**	**142 670**	**41 122**	**64 720**	**356 824**
Compensation of employees	*35 345*	*516*	*73 913*	*12 856*	*16 993*	*139 623*
Goods and services	*18 079*	*778*	*21 461*	*17 585*	*38 549*	*96 451*
Interest	*46 836*	*3*	*37*	*343*	*1 793*	*49 012*
Other current payments	*102*	–	*147*	*1 068*	*1 875*	*3 192*
Current payments	100 362	1 297	95 558	31 852	59 209	288 278
Transfers and subsidies[5]	188 059	7 078	41 834	3 896	–	58 340
Payments for capital assets	5 014	78	8 346	2 854	6 148	22 441
Total payments	**293 435**	**8 454**	**145 738**	**38 602**	**65 357**	**369 059**
Percentage of total	*79,5%*	*2,3%*	*39,5%*	*10,5%*	*17,7%*	*100,0%*
Surplus / (Deficit)	**-13 184**	**2 135**	**-3 068**	**2 520**	**- 637**	**-12 235**
Extraordinary payments	-7 971	–	–	–	–	-7 971
Extraordinary receipts	8 169	–	–	–	–	8 169
Financing requirement (-)	**-12 987**	**2 135**	**-3 068**	**2 520**	**- 637**	**-12 037**
Percentage of GDP	*-1,1%*	*0,2%*	*-0,3%*	*0,2%*	*-0,1%*	*-1,0%*

1. Due to classification differences and other adjustments, these estimates do not correspond fully to the government finance accounts published by the South African Reserve Bank.
2. Including universities and technikons.
3. Including the net result of local government enterprises.
4. RDP Fund grants are included in the main budget. Grants received by other spheres are transfers from the main budget or from provinces to local authorities.
5. Including transfers and subsidies to other spheres of government.

General government revenue of R356,8 billion…

In 2002/03, general government had resources of R356,8 billion, or 31 per cent of GDP, at its disposal. Of this, 78,4 per cent was collected as tax revenue by national government.

…and expenditure of R369 billion…

General government expenditure in 2002/03 totalled R369,1 billion in 2002/03, representing 32,1 per cent of GDP. Decentralisation of spending continued with rising expenditure on goods and services taking place at provincial level. The consolidated national government accounts for just over a quarter of total general government spending, and the remainder is shared among provinces, local governments and extra-budgetary institutions.

...taking overall deficit to 1,1 per cent of GDP in 2002/03

The consolidated general government deficit is the sum of the deficits of all the spheres and extra-budgetary institutions and accounts. In 2002/03 it was the same as the main budget deficit, at 1,1 per cent of GDP, with the combined surpluses and deficits of provincial governments, social security funds, extra-budgetary institutions and local governments, off-setting one another.

The public sector borrowing requirement

The public sector borrowing requirement (PSBR), set out in table 3.10, is comprised of the consolidated general government deficit and the financing requirements of the non-financial public enterprises, taking into account extraordinary expenditure and proceeds from the restructuring of state owned enterprises.

Table 3.10 Public sector borrowing requirement[1], 2000/01 – 2006/07

R million	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
		Outcome		Revised estimate		Medium-term estimates	
Main budget							
Main budget deficit	18 342	14 642	13 021	31 385	41 948	44 388	45 056
Extraordinary payments	2 299	2 078	7 971	7 443	7 000	7 000	–
Extraordinary receipts	-2 984	-4 159	-8 169	- 889	-2 742	-2 567	- 121
Financing requirement	**17 657**	**12 561**	**12 824**	**37 939**	**46 206**	**48 821**	**44 935**
RDP Fund	- 137	- 197	163	- 572	- 200	- 200	- 200
Social security funds	29	- 748	-2 135	-3 675	-2 824	-3 161	-3 545
Provinces	-3 347	-3 672	3 068	3 874	- 380	- 548	-1 426
Extra-budgetary institutions	-2 719	- 955	-2 520	-1 630	-1 596	-1 453	-1 206
Local authorities and local government enterprises	6 023	4 583	637	2 030	2 080	2 653	3 154
General government deficit	**17 506**	**11 572**	**12 036**	**37 967**	**43 285**	**46 112**	**41 712**
Percentage of GDP	*1,9%*	*1,1%*	*1,0%*	*3,1%*	*3,3%*	*3,2%*	*2,6%*
Non-financial public enterprises[2]	- 819	-2 555	-4 977	-3 950	-1 235	- 380	1 630
Public sector borrowing requirement	**16 687**	**9 017**	**7 059**	**34 017**	**42 050**	**45 732**	**43 342**
Percentage of GDP	*1,8%*	*0,9%*	*0,6%*	*2,8%*	*3,2%*	*3,1%*	*2,7%*
Gross domestic product	*914 634*	*1 010 921*	*1 149 890*	*1 223 198*	*1 331 796*	*1 455 626*	*1 592 571*

1. Due to classification and timing differences, these estimates do not correspond fully with the South African Reserve Bank's estimates of the public sector borrowing requirement.
2. Public corporations and central government enterprises.

Since the mid-1990s, the PSBR has seen a sharp decline, from 5 per cent of GDP in 1996/97 to 0,6 per cent in 2002/03. This was a result of reductions in the main budget deficit, and was supported by extraordinary receipts from the restructuring of state-owned enterprises. Since 1999/00, non-financial public enterprises have run net surpluses, also contributing to a reduction in the PSBR.

Compared with the 2003 Budget, the most substantial change is in the extraordinary receipts from the restructuring of state-owned enterprises. The 2003 Budget Review projected extraordinary receipts totaling R17,2 billion from 2003/04 to 2005/06, however, the 2004 Budget Review estimates inflows of R6,2 billion for the same period. On the payments side, government's commitments to the settlement of the Reserve Bank's Gold and Foreign Exchange Contingency Account will come to an end in 2005/06, resulting in expected extraordinary payments falling to zero in 2006/07.

Lower proceeds from state asset restructuring are projected

Table 3.10 also reflects revised projections for non-financial public enterprises. Capital spending is expected to increase more moderately than assumed in the 2003 Budget, leading to a net borrowing requirement only in 2006/07.

Revised capital spending plans of parastatals

After the consolidation period in the 1990s, the PSBR is expected to increase from 0,6 per cent of GDP in 2002/03 to 3,2 per cent in 2004/05, after which it is expected to decline to 2,7 per cent in 2006/07. The increase is mainly the result of increases in the main budget deficit, and declining surpluses of the non-financial public enterprises.

PSBR expected to increase to 3,2 per cent of GDP in 2004/05

Procurement reform and Black economic empowerment

Supply chain management

Far-reaching reforms to rid government procurement processes of inefficiency and waste have been ongoing for the last few years. In August 2001, the National Treasury issued the Preferential Procurement Regulations aimed at standardising procurement processes across Government. The National Treasury, in conjunction with the World Bank, followed this with an extensive Joint Country Procurement Assessment Review, covering the status of procurement across national, provincial and local governments.

Procurement reforms aim to reduce wastage and inefficiency

Following the review, Government introduced the concept of Supply Chain Management in regulations issued in terms of the Public Finance Management Act on 5 December 2003. These empower departments to procure goods outside of the State Tender Board process, as part of the broader devolution of powers to accounting officers who will ultimately accept responsibility and accountability for all expenditures incurred in their departments. It is envisaged that the State Tender Board system will fall away in due course.

The Broad Based Black Economic Empowerment Act and its accompanying Strategy Document have highlighted several deficiencies in the Preferential Procurement Policy Framework Act in relation to Government's empowerment objectives. The National Treasury, in consultation with the Department of Trade and Industry, is in the process of reviewing the regulations, with a view to introducing changes to the system that should become effective during the first quarter of the new financial year and will assist towards achieving and monitoring progress in black empowerment.

BEE advanced through procurement reforms

Black economic empowerment in Public Private Partnerships

PPP framework changed to facilitate BEE

In January 2004, Government unveiled a draft Code of Good Practice for Black Economic Empowerment in Public Private Partnerships (PPPs), making BEE a key component of South African PPP projects. The Code contains Government's policy on BEE in PPPs, gives direction on how to apply BEE policy in a PPP agreement and at each phase of the PPP life-cycle, and summarises these in a Balanced Scorecard. The Code also provides the broad criteria which will underlie proactive government support for BEE in PPPs in future.

With respect to the private party and/or sub-contractors, the code seeks to enable black people, black women and black-owned enterprises to:

- Achieve a direct ownership of substantial equity interests in PPP agreements
- Achieve effective participation in management control
- Obtain a substantive proportion of the private party's sub-contracting and procurement
- Acquire effective employment equity and skills development
- Promote positive local socio-economic impact from the project to the benefit of small and medium enterprises, the disabled, the youth, and non-government organisations within a targeted area of project operations
- Be part of financial, legal and technical advisors representing government institutions in all PPP transactions.

Funding for BEE projects

As part of the commitment to fund Black Economic Empowerment directly on budget, the 2004 Budget allocates R1 billion for this purpose in 2004/05 and a total of R6 billion over the forthcoming MTEF period. The Broad Based Black Economic Empowerment Act provides a framework for Government's intervention to spur broader ownership. The funds set aside will be used within the framework of this Act to finance medium-sized transactions where ownership is being broadened and value is being added. BEE programmes of public sector institutions such as the National Empowerment Fund, specific PPP initiatives and private sector support for empowerment transactions will be reviewed for possible funding assistance.

Financial services charter facilitates BEE drive

In addition, the financial services charter provides a framework for the financial sector to work with Government to expand the base of ownership in the economy. The human resource development aspects of this charter will broaden the management pool, providing further impetus to Black Economic Empowerment.