Republic of South Africa

Department of Finance

Annual Report 1999

Republic of South Africa

Annual Report of the Director-General of Finance

for the period
1st January to 31st December 1999

RP 56/2000

ISBN 0-621-29994-4

Published by the Department of Finance
Private Bag X 1115
Pretoria
0001

Tel: 27+12-315-5463

www.finance.gov.za

Editorial: local_content
Printed and bound: Formeset
Design: Shahn Irwin

RP 56/2000

ISBN 0-621-29994-4

Contents

Introduction 7

Budget Office 15

Financial Planning 18
Macroeconomic Policy 22
Intergovernmental Relations 26
Taxation Policy 30

Asset and Liability Management 35

Asset Management 36
Liability Management 40

Financial Management 45

International Development Finance 47
International Development Co-operation 52
Corporate Services 57
Public Investment Commissioners secretariat 61
Pensions Administration 63

Transformation and Human Resources 69

Annexures 77

Legislation 77
Institutions associated with the Department 77

Audited financial statements 79

Department of Finance Annual Report 1999

Department of Finance Annual Report 1999

Annual Report 1999

Mr T Manuel
Minister of Finance

Report of the Director-General of Finance for the period 1st January to 31st December 1999

I have the honour to submit the Annual Report of the Department.

Maria Ramos

M Ramos
Director-General: Finance

Introduction

For the second time the Department of Finance is issuing an Annual Report as part of its fundamental commitment to bringing transparency and accountability to the budget process. The central contribution made to the annual budget process and to ensuring sound economic policies are deservedly seen as key functions of the Department of Finance. But the Department is responsible for a great deal more.

This annual report aims to present the full range of Departmental activities during 1999. It should be read in conjunction with other regular publications and key documents produced by the Department. These include:

- The annual Budget Review
- The annual Medium-Term Budget Policy Statement
- The National Expenditure Survey
- The Intergovernmental Fiscal Review.

The Department is divided organisationally into three branches, each of which is headed by a Deputy Director-General. These branches are:

- **The Budget Office** – headed, for the period under review, by Andre Roux and responsible for promoting efficient and equitable service delivery consistent with macro-economic and developmental goals.
- **Asset and Liability Management** – headed by Coen Kruger and responsible for the effective management of government debt and improving the financial reporting and accountability of the hundreds of public entities which exist.
- **Financial Management** – headed by Francois le Roux and responsible for a range of functions including the management and transformation of a number of substantial pension funds, international development aid, and South Africa's involvement with global institutions such as the IMF.

Introduction

The soundness of our underlying economic fundamentals enabled us to weather the global financial crisis of 1998 far better than most other developing countries

Transformation

The Department has changed fundamentally over the past few years. This process continued during 1999. What are the key components of this transformation?

Firstly, we have dramatically changed the face of the Department. A few years ago all layers of the Department, and especially the upper layers, were totally unrepresentative in both their race and gender composition. This is no longer the case although, of course, there is still a long way to go. Today the Department is made up of a team of qualified men and women drawn from the entire spectrum of society. This is elaborated on in the chapter on Transformation and Human Resources in this report.

Secondly, we have introduced transparency into economic policy making. The budget is now drafted on the basis of announced and broadly anticipated policies. The medium-term expenditure plans of government are made explicit and cover a three-year cycle. Government's intentions in relation to matters as diverse as growth strategies, taxation, exchange controls, the deficit, and so on, are known, publicised and debated.

Thirdly, we now pursue sound and sustainable economic policies. We have enabled South Africa to move away from the isolation of the apartheid era and enter the global economy, without neglecting to protect our national interests. The soundness of our underlying economic fundamentals enabled us to weather the global financial crisis of 1998 far better than most other developing countries, and allowed growth to resume in 1999.

Fourthly, we have made co-operative governance a meaningful reality. While much still remains to be done, the financial and policy relationship between national and provincial government is working well. The principles for distributing an ‘equitable share’ between the various tiers of government have been put in place. The management of finances has improved. Local government finances have been receiving attention. We have facilitated coordination between key departments and sectors. And we are now working with the hundreds of public enterprises to ensure the financial management of these state assets is done in a coordinated fashion.

Fifthly, and most importantly, we have focussed our attention on redistribution. Apartheid created deep inequalities which must be addressed – by better education, more housing, decent healthcare, potable water, electricity, more job opportunities, and so on. We have ensured that funds are redirected to the priority needs of our people. Further, policies and programmes are now assessed not simply by what they spend, but by what they achieve and whether they help reduce inequality. In our planning process we stress the need to ensure that the resources needed for development are available. At the international level we have stressed the need for new institutions and approaches that will assist developing countries to weather the vagaries of the global economy.

South Africa is the only African participant in the newly formed G-20

Sixthly, we try to conduct our work to the highest standards of professionalism. This applies whether we are dealing with macro-economic policy or trying to improve the administration and management of the various funds and institutions for which we are responsible. We have nurtured and built a professional team, comparable with any in the world, which operates to the highest international standards.

Seventh, accountability and participation are central. Wherever possible we have engaged with stakeholders in the formulation and implementation of policy. This has helped enrich and inform the policies we pursue. Obviously we are not always able to be popular; often hard choices must be made, and scarce resources allocated. But the involvement of the public and their elected representatives, and of community, labour, business and other organisations has helped improve the quality of the policies we have adopted.

Highlights

This report covers the main activities and key highlights of 1999. Some of the highlights during the year have been:

- Promoting the reform of provincial finances through the publication of the Intergovernmental Fiscal Review which allows for detailed inter-provincial expenditure comparisons which are crucial to aligning budgets and policy priorities.
- Continuing our drive towards budget reform by developing clear service delivery indicators to allow for comparisons between stated policy objectives and achievements, and widening the fiscal framework for budgeting to cover the finance of the whole public sector.
- Seeing the passage into law of the Public Finance Management Act which will radically overhaul the way in which finances are managed. This comes into effect from April 2000.
- Maintaining a high level of financial regulation to help ensure that the system is not prone to major vulnerabilities that could endanger macroeconomic stability.

- Developing inflation targeting as part of a new approach to monetary policy and price stabilisation aiming to reduce inflation expectations.
- With the improved management of government debt, the focus of debt management has turned to the development of the South African securities market. As the South African bond market has matured considerably, opportunities have been created for more active management of the debt portfolio to reduce risks and debt servicing costs.
- Improved cash management techniques have achieved considerable savings through reducing government's liquidity buffer – the cash on hand to meet expenditure needs. Improvements now allow for real-time retrieval of account information through the development of IT links between the Department and banks with whom government holds tax and loan accounts, resulting in major savings to the fiscus.
- Improving the governance of public enterprises through a protocol on corporate governance that provides a point of departure for normalising the financial accounts and tax and dividend policies of major state-owned enterprises.
- The revamping of the SASRIA fund generated substantial funds to the fiscus by way of a special restructuring dividend for the reduction of state debt.
- Amendments to the Public Investment Commissioners' (PIC) Act have effectively removed all restrictions on PIC investments, promoting the PIC's transformation from a passive administrative organ of government to an institution increasingly akin to private sector pension funds and asset management companies.
- On-going reforms and transformation of the Government Employees' Pension Fund have contributed to an improvement in the percentage funded and a reduction in the unfunded liability. Improvements include changes in the administration and financial management of the GEPF aimed at greater compliance with GAAP; further strengthening of the IT capacity and control environment; restructuring and improvement of the GEPF's benefit structure; and improved communication with members through a dedicated communication campaign.
- The Department of Finance achieved increased stature in international financial forums. Its views are taken seriously on matters ranging from the IMF gold sales to the Enhanced Framework for the Heavily Indebted Poor Countries (HIPC) Initiative. South Africa is the only African participant in the newly formed G-20, and its involvement is a reflection of the achievements in managing the economy through the 1998 Asian financial crisis.
- There was a marked increase in the intensity and pace of the sectoral work programme addressed by the Southern African Development Community's (SADC) Finance and Investment Sector Co-ordinating Unit (FISCU). The primary aim is to speed up progress in the development and implementation of the SADC Finance and Investment Protocol.
- The National Development Agency (NDA) was established to act as a conduit for funding development work to be carried out by Civil Society Organisations (CSOs) and to create a platform for interaction between Government and CSOs in matters relating to development policy and practice. It will serve as South Africa's key funding agency for addressing poverty and contributing towards the creation of a healthy, economically vibrant and stable civil society.
- By June 1999 all mission critical systems in the Department were ready for the rollover to the new year. The event passed without incident as a result of the work of the Y2K team, and provided security to millions of South Africans, especially

given the need to safeguard state pensions as well as assets under management by the PIC.

As Director-General I am privileged to be supported by a hard-working, diligent and committed team of people. They are the ones who deserve credit for our achievements. I thank them.

We are also fortunate to be part of a family of Departments and institutions involved in economic and fiscal matters. These include our most immediate colleagues – in the Department of State Expenditure, the SA Revenue Service, and SA Statistics – who, with ourselves, report to a single Minister and Deputy Minister. But they also include independent institutions such as the Reserve Bank with which we engage regularly, the other economic Departments, and indeed all government Departments, with which we work.

Finally the personal efforts, guidance and hands-on involvement by both the Minister and Deputy Minister has made it possible to tackle transformation in a thoroughgoing and substantial manner. It has been a privilege and a pleasure to work with them.

Maria Ramos
Director-General: Finance

Director-General
Maria Ramos

Deputy Director-General: Financial Management
Frans le Roux

Chief Director: International Development Finance
Mxolisi Lindie

Chief Director: Corporate Services
Simoné le Hane

Chief Director: International Development Co-ordination
Shaheed Rajie

Chief Director: Public Investment Commissioners
(vacant)

Chief Director: Pensions Administration
Peet Maritz

Deputy Director-General: Asset and Liability Management
Coen Kruger

Chief Director: Liability Management
Lesetja Kganyago

Chief Director: Asset Management
Brian Molefe

Deputy Director-General: Budget Office
André Roux

Chief Director: Intergovernmental Relations
Ismail Momoniat

Chief Director: Financial Planning
Andrew Donaldson

Chief Director: Taxation Policy
Martin Grote

Chief Director: Macro-Policy
Richard Ketley

The Ministry

The Department as a whole operates under the guidance of and reports to the Minister of Finance and the Deputy Minister. While the Director-General is the accounting officer and reports directly to the Minister, there is also a small staffing unit that provides direct backup to the Minister and his Deputy. Absolute discretion is required when handling information.

Trevor Manuel, Minister

The work of the Ministry mainly involves:

- Co-ordinating and scheduling appointments;
- Liaising with the various departments which report to the Minister;
- Liaising with Cabinet and various Ministries;
- Liaising more broadly with government departments and officials in so far as the financial implications of their work or projects is concerned;
- Ensuring documentation and preparations are complete prior to Cabinet and other meetings;
- Handling media and parliamentary liaison;
- Running offices in both Pretoria and Cape Town;
- Dealing with problems as they arise;
- Establishing and running short term projects on behalf of the Minister.

The Minister and his Deputy are responsible for four government Departments – Finance, State Expenditure, SA Revenue Service and Statistics SA. In terms of statute, the last two operate with a high degree of autonomy. The Ministry must therefore ensure adequate liaison with all four Departments.

A significant number of Bills were prepared by the Department and tabled in Parliament by the Minister. These are listed in an Annexure to this Annual Report.

The aftermath of the global financial crisis dominated much of the economic debate during 1998 and last year. Dealing with this crisis and the problems caused by the rapid flows of substantial quantities of capital remains a challenge for economic policymakers everywhere. The Minister of Finance and the Department played a key role in global debates on the crisis, especially at the International Monetary Fund, World Bank and Commonwealth Finance Ministers meetings. During 1999 the Minister was involved in a number of official visits.

Official visits abroad carried out by the Minister in 1999

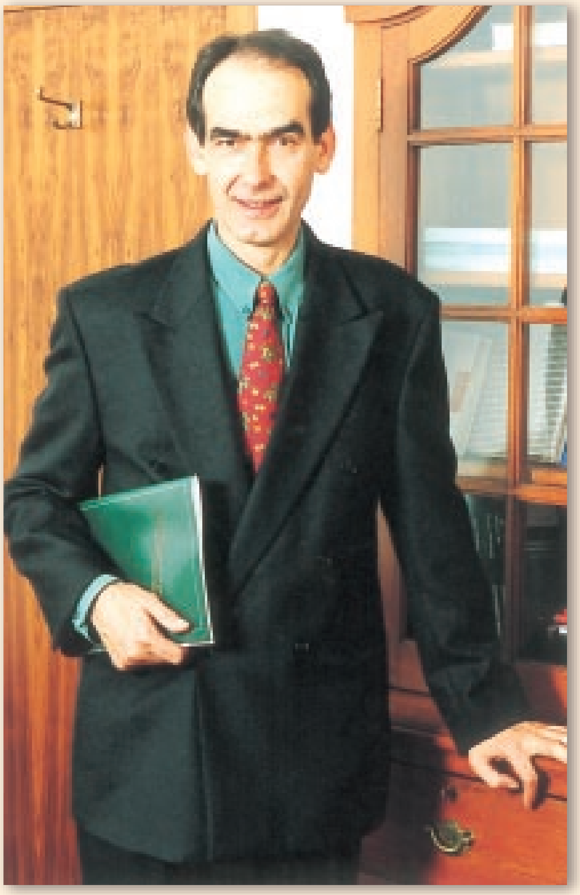
22 – 23 April	Maputo for an official visit.
24 April – 1 May	Washington for the spring meetings of the IMF and World Bank
7 – 8 July	Maseru for SADC Finance Ministers' meeting

17 – 21 July	Dakar for a Ministerial meeting of the Follow-up Committee to Kampala and Dakar Summit meetings London for a meeting with the Chancellor of the Exchequer
12 – 14 August	Maputo for SADC meeting
29 – 31 August	Nairobi for a Seminar on solutions to Africa's debt problem
20 September – 1 October	New York for US-SA Business and Finance Forum Washington for annual meetings of the IMF and World Bank
15 – 17 December	Berlin for a G-20 Ministers meeting and an IMF/World Bank Joint Committee on Remuneration meeting

Mandisi Mpahlwa
Deputy Minister

Budget Office

This branch of the Department was headed by André Roux, who previously taught economics at the University of the Western Cape and worked at the Development Bank of Southern Africa. The branch consists of four sections, each headed by a Chief Director. In addition this branch includes a number of external professionals employed on a contract basis as senior managers. After serving in the post of Deputy Director-General for the last four years, Dr. Roux left the Department of Finance at the end of 1999.



André Roux

The basic task of the branch is to promote efficient and equitable service delivery consistent with macroeconomic and developmental goals. This is a massive and responsible task embracing a wide range of functions and requiring interaction across all tiers and departments in government. In short, all other government Departments and all tiers of government are clients.

The branch employs relatively few people. A heavy emphasis is placed on the timeous delivery of professional, high-standard work comparable with global standards of excellence. The branch is typified by a non-bureaucratic ethos with a work ethic involving long hours, hard work and tight deadlines. To a significant extent this branch is the most public face of the Department since it is centrally involved with financial planning and the budget-making process.

The four sections in this branch are:

- **Financial Planning**, headed by Andrew Donaldson, which is responsible for developing and coordinating medium-term expenditure planning, including the integration of personnel planning in the budget process. It also facilitates financial planning for various clusters of government operations, and coordinates financial reform, training and research.
- **Macroeconomic Policy**, headed by Richard Ketley, handles the critical function of coordinating and managing macroeconomic policy. This entails monitoring and evaluating monetary and fiscal policy and developments in the real economy, as well as supervision of financial markets.
- **Intergovernmental Relations**, headed by Ismail Momoniat, deals with the multifaceted relationship between the three tiers of government and is responsible for designing a fiscal and financial framework for provincial and local government. It also monitors the budgets and borrowing of local governments and plays a major role in capacity building.
- **Taxation Policy**, headed by Martin Grote, handles coordination and policy formulation in respect of direct and indirect taxation, and the overall structure of taxation.

All sections within the Budget Office must work closely with a range of organisations outside the Department. 'Co-operative governance' is the watchword here. There are close working relations with other Departments within the finance 'family' – especially the Department of State Expenditure which prepares the expenditure side of the national budget, and the South African Revenue Service (SARS) which is responsible for collecting taxes. Interaction with independent bodies – such as the Reserve Bank and Statistics South Africa – is frequent. There is also regular working contact with all government Departments and provincial administrations – including through the Budget Council and regular meetings with provincial Finance MECs.

A key function of all components in the Budget Office is the analysis, on behalf of the Minister, of the many Cabinet Memoranda (emanating from a range of Departments) with financial and budgetary implications.

Transformation is central to the work of this branch. The Budget Office, along with the Department as a whole, is committed to:

- ensuring a sound and sustainable economic framework, with expenditure reoriented to meet the reconstruction and developmental goals of the new South Africa;
- moving away from the past culture of secrecy to a set of economic policies which are transparent, predictable, well-motivated and clearly presented;
- insisting that all expenditure is justified in terms of national developmental priorities, forms part of longer-term planning, and achieves clear and measurable outcomes;
- ensuring that our work is always rigorous, professional, timely and of the highest standard, and increasing capacity to do this at all tiers of government.

Government tabled the most far-reaching tax reform proposals in the country's history in the 2000 budget

A great deal of this transformation is reflected in a number of publications which emanate from the Budget Office. These include:

- the annual Budget Review – which provides a broad overview of macroeconomic and fiscal policy, medium-term expenditure trends, tax policy, and similar developments;
- a National Expenditure Survey – which surveys outputs from spending as well as spending plans for delivery of future public services, and draws on medium-term reviews of departmental spending and policies;
- a Medium-Term Budget Policy Statement – tabled by the Minister in October and setting out the broad policy framework for the following year's budget;
- a 'People's Budget' document – presenting the key features of the annual budget in simple and accessible terms, a document which is also reprinted in a range of newspapers;
- an Intergovernmental Fiscal Review, completed for the first time in 1999, which surveys fiscal and financial developments in provincial and local government.

Much of the policy approach and work of this branch is reported on in detail in these documents and is not repeated here.

Highlights

The following are some of the major highlights and policy challenges in the Budget Office during 1999:

Tax reform has been a major focus of the Department this year. We held an international symposium on tax reform in mid-1999. Drawing on these consultations, along with the work since 1994 of the Katz Commission and a substantial research program of the Tax Policy Chief Directorate, the Government tabled the most far-reaching tax reform proposals in the country's history in the 2000 budget.

Reform of provincial finances was boosted by the publication of the Intergovernmental Fiscal Review (IGFR). For the first time government possesses detailed information on actual provincial expenditure. The IGFR allows for detailed interprovincial expenditure comparisons and thereby assists government in its efforts to align budgets and policy priorities, contributing to increased transparency and accountability. Progress has also been made reforming the budget process and modernising the monitoring of local government budgets.

Budget reform was advanced through a series of consultative workshops with other departments as part of the preparation of the 2000 budget. The reforms envisioned in the proposed Budget Reform White Paper widen the fiscal framework for budgeting to cover the finance of the whole public sector. They encourage the development of clear service delivery indicators to allow for comparisons between stated policy objectives and achievements.

The reform of financing arrangements remains an important focus of the branch's work. It supported the Department of Public Service and Administration in its negotiations in the Public Service Co-ordinating Bargaining Council, assisted in negotiating the terms of financing options around the new defense procurement package programme, and completed a framework policy on Public-Private Partnerships.

The branch's macro-policy capacity involves monitoring, analysing, and evaluating developments across the spectrum of economic policy to keep the Minister informed of the state of the economy on a continuous basis. During 1999 a number of reviews were completed, including investigations into the economic impact of privatisation; employment and labour market developments; the impact of foreign listings and the redomicile of SA companies; and a review of the scope for further reforms to exchange controls.

Financial regulation in South Africa was acknowledged to be in line with international best practice. In a Financial Sustainability and Stability Assessment the IMF and the World Bank concluded that the financial system is robust and generally well-regulated. Maintaining first-rate regulatory structures is especially important given global economic problems linked to the financial sphere.

Inflation targeting was agreed between the government and the Reserve Bank as part of a new approach to monetary policy and price stabilisation. The aim is to reduce inflationary expectations of consumers, producers, employers and workers. The target price index is CPIX, or the current headline inflation excluding mortgage interest rates. The agreed target is a 3% – 6% range for CPIX to be achieved by 2002.

Financial Planning

Andrew Donaldson

The Financial Planning programme is headed by Andrew Donaldson, who previously taught economics at Rhodes University and the University of Transkei.

The Chief Directorate deals with the co-ordination of the national budget and public finances. This involves the medium term expenditure planning process as well as providing advice on fiscal and financial aspects of social and economic policies and development programmes.

There are seven directorates, covering the full range of government services and functions. The Financial Planning team liaises with other national departments on budgetary and financial matters. The management team includes several experienced Directors and senior managers, namely Retha du Randt (until December 1999), John Kruger, Irene Tlhase and Roland White. Kuben Naidoo, Lawrence Phiri, Shirley Robinson, Omega Shelembe and Hennie Swanepoel were all appointed to the management team during 1999. Andrew Wren, seconded to the Department from the UK Treasury, has overseen the budget reform programme over the past year.

The main focus of this Chief Directorate is promoting effective and efficient public service delivery through sound financial planning and budgeting. The goal is to ensure value for money in achieving developmental goals, while promoting Government's macroeconomic and fiscal objectives. This means ensuring that budget reprioritisation reflects the reconstruction and development commitments of the nation, within a sustainable expenditure framework.

The goal is to ensure value for money in achieving developmental goals, while promoting Government's macroeconomic and fiscal objectives

Directorates

- **Medium Term Expenditure Planning** which coordinates the three-year expenditure planning process, provides technical support to the Ministers' Committee on the Budget, and liaises with the budget section of the Department of State Expenditure.
- **Economic Services** which liaises with the Departments of Public Enterprises, Transport, Communication, Minerals and Energy, and Water Affairs & Forestry. It also participates in public enterprise restructuring and represents the Department on various boards and oversight bodies.
- **Social Services** which liaises with the relevant Departments (Education, Health, Welfare, Arts, Culture, Science & Technology, Sport and Recreation and Labour). It also supports provincial treasuries in relation to social service spending and policy, ensures the sustainability and effectiveness of social service programmes, and advises on social security, redistribution, gender issues and poverty relief.
- **Justice and Security** works together with the relevant Departments (Defence,

Justice, Police and Correctional Services) as well as with Foreign Affairs. It supports the crime prevention strategy and integrated justice cluster, and participates in arms procurement negotiations.

- **Economic Development** liaises with the Departments of Public Works, Housing, Environmental Affairs and Tourism, Agriculture and Land Affairs. It also participates in spatial development and infrastructure investment initiatives, and provides support for tourism promotion.
- **Human Resource Analysis** focuses on personnel planning and public service remuneration issues, and monitors trends in the public service wage bill. It is involved with the Department of Public Service and Administration and the bargaining councils and chambers in the public service.
- **Public Finance and Statistics** was established in 1999 and is responsible for the production of the national and provincial statistics presented in the Intergovernmental Fiscal Review and the Budget Review.

Some members of the Financial Planning management (left to right): Kuben Naidoo, Andrew Donaldson, Hennie Swanepoel, Lawrence Phiri, John Kruger.

Key activities

- **Budget Documentation** – the Chief Directorate prepared the annual Budget Review, and produced a National Expenditure Survey for the first time. Much of the work focuses on the role of the budget process in Government's broader transformation and development commitments. The aim is to encourage clear links between budgeting and service delivery and to improve the quality and use-

Budget Reform White Paper

Budgets are not just about numbers. In essence, they are about the difference government can make to people's lives. The Budget Reform White Paper aims to achieve better service delivery by incorporating clear service delivery indicators into the budgetary process and documentation. These include:

- Levels of service provided to a programme's customers;
- Equitable delivery of services to historically disadvantaged people;
- Volume of a programme's output;
- Efficiency of a service;
- Outcomes in terms of a programme's ultimate aim;
- Milestones in achieving policy development and implementation goals.

A department will develop objectives that state how it intends achieving government's overall aims. The indicators will allow comparison between stated objectives and achievements. In leading to greater emphasis on the attainment of outputs this central reform thus promotes better use of public money.

To achieve this end the reforms widen the fiscal framework for budgeting to cover the finances of the whole public sector. In the past the essential totals in the budget excluded social security funds and some sources of finance for provincial and local expenditures, as well as the finances of the public entities which provide many public services. This reform will improve transparency, planning, service delivery and finance across the public sector, including local government and public entities.

The National Expenditure Survey provides an accessible account of government spending programmes and activities

fulness of the budget process and budget documentation. The Financial Planning team works closely with the Department of State Expenditure in revising the format of the expenditure estimates and bringing service delivery and output trends into the budget documentation. A major emphasis has been placed on allowing more explicit policy consideration at an earlier stage of the budgeting process, including cabinet-level discussion of budget priorities and policy considerations.

An important development in 1999 concerned the introduction of service delivery indicators into budget documentation, in line with the Public Finance Management Act's reference to "measurable objectives" in budgeting. The Chief Directorate began discussions with departments about developing objectives, and will continue to support this reform process.

- **Sectoral Reviews and Medium-Term Planning** – the Financial Planning team convenes several sectoral reviews each year as part of the budget process. These have focused on key spending areas and on promoting inter-departmental co-operation. For example, by bringing national and provincial treasury officials together with representatives of the education, health and welfare departments, policy options and spending implications have been reviewed and proposals have been taken to the relevant MINMEC forums.

As a result of the fundamental transformation of the budget process the Department now regularly produces a suite of documents to increase transparency and

Strategic Framework for Public-Private Partnerships

A public-private partnership (PPP) is a contractual arrangement whereby a private party performs part of a government department's service delivery or administrative functions. It also assumes the associated risks in return for a fee according to pre-defined performance criteria.

When correctly structured PPPs are a useful service delivery option both operationally and strategically, but only if benefits accrue to all stakeholders: departments, service users, society, and the private parties that undertake them. At present the legislative and regulatory environment is not conducive to the development of PPPs. If these problems are not addressed, PPPs can adversely affect public financial management.

A strategic framework for PPPs includes:

- A legislative framework that:
  - clarifies the legal capacity and jurisdiction of spheres of government to create binding commitments on the state;
  - prescribes minimum contractual provisions;
  - clarifies consultative processes with labour;
  - addresses implications for environmental legislation.
- Promulgation of treasury regulations to address:
  - the implications for environmental legislation.
  - the need for a precise definition of a PPP;
  - affordability and value for money as criteria for the the approval of a PPP;
  - provision of guarantees;
  - incorporating PPPs into the MTEF framework.
- A sound procurement process:
  - PPPs involve delegation of a departmental function. The risks to the department and service provider are much higher and a sophisticated approach to procurement is required.
- An institutional framework to support and streamline PPPs which:
  - does not add administrative or procedural burdens;
  - complies with the emphasis on fiscal accountability;
  - cuts across line departments but respects their spheres of accountability;
  - avoids conflicts of interest.
- The Department proposes to establish a Public-Private Partnership Unit to promote PPPs and ensure that these principals are followed in designing PPP projects.

accountabilty in budget decision-making. In 1999 the Chief Directorate was responsible for the preparation of the MTEF, the Medium Term Budget Policy Statement, and the Budget Review. In 1999 it added a new publication, the National Expenditure Survey, which for the first time provides an accessible account of government spending programmes and activities.

Irene Tlhase, director of Economic Development, oversaw a substantial statistical study of infrastructure investment and a review of medium term infrastructure spending issues and Roland White convened a review of the integrated justice cluster. Reviews of education, health and welfare spending issues were co-ordinated by John Kruger as part of the work programmes of the inter-departmental commitees on these functions.

- **Supporting financing and policy reform** – a crucial area of work involves support for other departments in the reform of financing arrangements or evaluation of policy alternatives.

  In 1999 the Chief Directorate worked closely with the Department of Public Service and Administration preparing for negotiations in the Public Service Coordinating Bargaining Council. It has helped establish a permanent forum with DPSA and provincial treasuries on personnel management and remuneration issues.

  Roland White represented the Department in the team that completed negotiations around the new defence procurement package programme, and was intensively involved in negotiating the terms of financing options for these projects.

  The Chief Directorate completed a framework policy on Public-Private Partnerships to ensure that asset procurement and other partnerships are both encouraged and sensibly structured. Cabinet approved the strategic framework for PPPs late in the year. (See box)

  The Chief Directorate worked closely with the relevant departments with respect to electrification, public enterprise restructuring, and forestry restructuring.

- **Budget Reform** – the Chief Directorate completed the draft of the Budget Reform White Paper and continued to work closely with the Department of State Expenditure in the critical area of budget reform and expenditure.

4x4s: Consultative Structures for Government Transformation

The Department has facilitated a number of 4x4s to promote more effective liaison between Treasury and line departments in a number of critical areas. The 4x4s enable all sides to sound out and gain familiarity with issues, and have been successful in removing blockages to policy implementation. They are destined to become more important decision-making forums in future.

The health sector provides an example of a successful 4x4 process. For many years government has been committed to reforming the financing of hospitals to allow revenue retention at the institutional level. However this has not been achieved in practice, in part because Treasury regulations in fact prevent the desired practices, and for many years officials in Treasury and the health departments have been talking past each other. Through the Health 4x4 both sides could face up to the issue and make progress. The Western Cape will be piloting reforms in this area, which include putting hospitals on trading accounts which allow revenue to be retained and separated institution by institution, and which should ensure better overall financial accounting.

■ **Improved coordination between provincial and national government** – a number of key national government Departments have regular meetings between Treasury officials and their counterparts in the provinces. The Department of Finance convenes these technical committees, known as "4x4s", and assisted in the financial planning process in Welfare, Health and Education.

The 4x4 in Transport has helped implementation and co-ordination of the Land Transport Management Act which promotes reform of taxi regulation, bus subsidisation, and more effective collection of fines. A similar development in Public Works promotes changes in government property management, including better maintenance, service to tenants, and improvements in infrastructure.

Macro-policy

This Chief Directorate is led by Richard Ketley and contains five directorates: Macroeconomic Analysis, Real Sector Analysis, Financial Regulation, Microeconomic Analysis and Fiscal Analysis.

The Real Sector Analysis directorate is headed by Elias Masilela. Rejoice Simelane heads Microeconomic Analysis. In 1999 Chris Malan was appointed to head Financial Regulation, and Theo van Rensburg was made director of the Macro Modelling Unit, which is now fully staffed. The director position for Fiscal Analysis is currently vacant.

The Chief Directorate's purpose is the coordination and management of macroeconomic policy. It must ensure that stable and competitive economic and financial conditions prevail so that economic growth is promoted and jobs are generated. This requires extensive interactions with other Departments and economic institutions, key policymakers locally and internationally, and with other components of the Department of Finance.

Some members of the Macro-policy management team. Left to right: Elias Masilela, Richard Ketley, Rejoice Simelane and Chris Malan

Macroeconomic policies aim to reduce poverty and inequality through policies that contribute to a sustained increase in the economy's growth rate and in the distribution of income and opportunities. The Macro-policy programme is essentially involved in monitoring, analysing and evaluating developments across the spectrum of economic policy. It plays an important role keeping the Minister informed of the state of the economy and the financial system so that he can fulfill his responsibilities to Parliament, and his role representing South Africa in international institutions, such as the meetings of the IMF and SADC.

Economic growth depends on rising levels of investment, and an efficient financial system to channel savings into those investment opportunities with the greatest potential. Rising levels of investment require growing levels of savings. Government policies seek to increase both the level of available savings and the efficiency with which savings are converted into investment. Responsible fiscal policies play a central role in determining the level of domestic savings. Maintaining spending at levels that the country can afford also creates a stable environment that can attract foreign investment.

Appropriate monetary policy complements fiscal policy in the management of aggregate demand, and in the achievement of price stability. In recent years Government has also emphasised expanding the economy's productive capacity through reforms to the trade regime, the restructuring of parastatal enterprises and labour market reform.

Government policies seek to increase both the level of available savings and the efficiency with which savings are converted into investment.

Key activities

Advising on macroeconomic trends, including making appropriate forecasts regarding changes to GDP, inflation and other matters, using the Department of Finance's econometric models. Forecasts are produced quarterly and these feed into the budget planning process and the fiscal framework, and are used in the annual Budget Review. Specific modeling exercises are conducted as needed. In 1999 research was completed on the impact of defence procurement and on the accelerated restructuring of state owned enterprises.

Macroeconomic Policy and Financial Oversight. The soundness of our banking system is internationally recognised. This section is responsible for ensuring that our system of financial regulation and supervision is up to date and efficient. The key institutions established to oversee the financial service industry are the Financial Services Board and the Banks Supervision Department of the Reserve Bank. The Minister of Finance is responsible for the regulation of the financial service sector, through the appointment of the Chief Executive Officer of the FSB and the Registrar of Banks. Although bank supervision is housed within the Reserve Bank, the Registrar of Banks is appointed by and reports to the Minister of Finance. The Financial Services Board is an independent, statutory body, which supervises the non-banking financial services sector under the policy direction of the Ministry of Finance. (Details of the activities of both these agencies are contained in their annual reports). Policy determinations with respect to exchange controls are also the responsibility of this Chief Directorate. The Chief Directorate devotes considerable attention to these responsibilities.

During the year under review the Chief Directorate:

- conducted a review of the regulatory framework in South Africa. This review was necessitated by the increasingly integrated nature of the financial service industry. Various foreign experts were invited to participate in the review and to comment on an initial report from the FSB. The review resulted in the in-principle decision to create a single regulatory agency in South Africa.
- conducted a review of the impact of the foreign listing and redomicile of SA companies on the SA economy. This review concluded that the balance of payments impact was positive, although the initial move had created a bad impression. Only very large companies, which already had substantial foreign earnings, would benefit from redomicile/establishing a foreign primary listing.
- reviewed the scope for further reforms to exchange controls. This resulted in the changes announced during the budget speech.
- worked with the Department of Trade and Industry on Government's approach to

the World Trade Organisation on financial services.

- developed (also with DTI) a framework for regulation of the micro-lending industry.
- prepared a study on the role SA should play as the financial centre for Africa.

Under an inflation targeting framework, the level of future inflation that the central bank will tolerate is clear, thereby increasing consistency in price setting

Inflation targeting. The Chief Directorate has developed a framework for inflation targeting, which will be implemented in 2000. A technical report on monetary policy and inflation targeting options was prepared under the auspices of the Macroeconomic Policy Unit. International experts from the Bank of England, the IMF and Spain were invited to inform the Ministry and Governor of the Reserve Bank of their experiences of inflation targets and perspectives on its suitability for South Africa. Current work includes the development of several small-scale models of the inflationary process in South Africa.

Monitoring utility pricing and developments in the real economy. This includes monitoring changes in the pricing of services provided by public monopolies, such as electricity and transport costs or harbour surcharges.

Real sector analysis. Changes in the real economy are especially important and key indicators (such as GDP, Balance of Payments, wage-setting trends and inflation) are monitored and analysed on a continuous basis, to ensure that the Minister is at all times informed of the state of economy. The Chief Directorate's work in this area included a report on South Africa's international cost competitiveness; measuring unemployment and employment; and measuring wage elasticities, all of which provide data on key structural and behavioral relationships in the economy. It is also making assessments of the economic impact of AIDS; the revenue impact of the European Union and SADC free trade agreements and the impact on employment of trade reform; and the macroeconomic affects of privatisation. It has completed a

Inflation targeting

Government and the Reserve Bank have agreed to set an inflation target as part of a new approach to monetary policy and price stabilisation. The aim is to reduce inflation expectations of consumers, producers, employers and workers. This will result from increased transparency in the monetary policy intentions of the Reserve Bank and its forecast of future inflation.

Other countries implementing inflation targets show that the framework functions by:

- Providing an anchor for future inflation expectations;
- Making the goals and methods of monetary policy transparent, and improving the accountability of the monetary authorities;
- Increasing stability in nominal interest rates;
- Providing stability in the value of money, which enhances growth prospects.

Inflationary pressures arise from a variety of sources, including the labour market, the pricing of public services, developments in the cost and mark-up structures of industry and external price changes. Under an inflation targeting framework, the level of future inflation that the central bank will tolerate is clear, thereby increasing consistency in price setting. Inconsistencies in price developments can result in upward inflation spirals and lower economic growth.

Inflation targeting frameworks do not require significant changes in monetary policy, but aim to increase public understanding of the cost of inflation and how the Reserve Bank will act to reduce future inflation.

The targeting framework has the following elements:

- The target price index is CPIX, or the current headline inflation excluding mortgage interest costs.
- The target is expressed as a range of between 3 and 6% of CPIX by 2002, measured as an annual average.

study on the determinants of capital flows, and is continually refining the long-term structural model of economy.

Monitoring fiscal developments. The chief directorate devotes considerable work on monitoring the trend in expenditure, revenue and borrowing on the main budget. This is used to assess the performance of the budget during the year, to make

Financial stability maintained

The Department of Finance remains an active participant in the international bodies that have been established to study financial developments to identify means of making the global financial system more stable. Attention is currently focused on:

- efforts to increase the provision of financial support to countries in difficulties;
- improved surveillance and reporting requirements in international capital markets;
- appropriate exchange rate policies for emerging markets;
- improving bank supervision;
- sovereign asset and liability management;
- improved bankruptcy laws;
- global accounting standards.

One of the first outcomes of the new architecture has been a new focus on assessing the financial stability of countries. During 1999 South Africa became one of four middle income countries to volunteer for a Financial Sustainability and Stability Assessment (FSSA) conducted by a joint team from the IMF and the World Bank. The FSSA report concluded that the financial system in SA is robust and generally well-regulated and not prone to major vulnerabilities that could endanger macroeconomic stability. The mission's overall views were as follows:

Legal framework. The quality and scope of the financial sector's legal framework are most impressive. The laws are well drafted and comprehensive in their coverage. They are kept up to date through regular amendments and periodically new laws have consolidated the various amendments.

The Banking Supervision Department. The mission's conclusion is that the supervisory system is basically sound. It found that the SARB, as a result of its own evaluation of the extent to which SA had complied with the Core Principles, had been able to identify the major weaknesses, and had in most cases already put in place the necessary improvements.

The Financial Services Board. The FSB has been an effective regulator and supervisor and has a good record in rulemaking.

The SA banks seem reasonably well capitalized with a mean Basle ratio of 11% for the entire system and 9.5% for the largest four banks.

A number of stress tests to evaluate bank risks were performed and the results indicate that under the worst probabilistic scenarios, SA banks seem to be well prepared to face large shocks and potential losses.

Insurance companies and retirement funds. The life insurance companies have large capital bases that exceed their policy liabilities by a wide margin, while most retirement funds operate with substantial surpluses. Under existing prudential rules both retirement funds and long-term insurance companies require triennial actuarial certification that they are properly funded and capitalised.

The liquidity management framework and payment system. Both the liquidity management framework and payments systems are sound and not vulnerable to systematic risks. The SARB's decision-making framework is very efficient and the transmission mechanism works well.

Compliance with international standards. The mission conducted an assessment to determine whether the financial system complied with other recognized best practices. SA has made substantial efforts to ensure transparency in its objectives and implementation of monetary policy as well as in the area of supervision. The mission concludes that, with a few exceptions, South African practices are in line with best international practices as set out in the relevant principles.

(Source: Financial System Stability Assessment, Vol I: Main Report by the IMF, December 1999)

projections for future years, and to assess the overall impact of Government in the economy. A monthly statement on fiscal trends is published in the Government Gazette.

NEDLAC has been particularly important in the programme's 1999 schedule. The Department is centrally involved in NEDLAC's Monetary and Fiscal Chamber and played a key role in preparations for the Job Summit held in November 1998.

Money-laundering project. A task team was established in 1998 to investigate legislation and institutions that would be most effective in combating this serious problem. In 1999 the task team finalised legislation, which is on track to be implemented in 2000.

Regional Financial Integration. The Chief Directorate continues to participate in the Macroeconomic sub-committee of the SADC. Greater regional integration, against a backdrop of divergent macroeconomic and political management policies, makes this initiative important. Attention is currently focused on improving financial intermediation across the region.

Key institutional links

The Chief Directorate has a leading responsibility for liaising between the Department and the Reserve Bank on matters related to the conduct of monetary policy and bank supervision. In addition the Minister of Finance, assisted by the Chief Directorate's Financial Regulations directorate, is responsible for the implementation of exchange controls, though administration is delegated to the Reserve Bank.

The Minister is also represented by the Department:

- on the Policy Board for the Regulation and Supervision of the financial services, which is a body set up to oversee the financial services industry;
- on the Financial Markets Advisory Board which is responsible for oversight of policy issues that affect the financial markets;
- in various discussion forums of international institutions, such as the G-20, OECD, and the IMF.

Intergovernmental Relations

Intergovernmental Relations is headed by Ismail Momoniat who joined the Department having previously worked in the Department of Economic Planning at the ANC's head office, and before that as a lecturer in Mathematics at the University of the Witwatersrand.

This is the largest programme within the Budget Office, and it contains seven directorates. Three of these relate to local government (Fiscal Policy, Budget Monitoring, Municipal Infrastructure) and four relate to provincial government (three Budget

Analysis directorates and Provincial Fiscal Policy). The management team comprises Jan Hattingh, Malijeng Ngqaleni, Lungisa Fuzile, Joel Friedman, 'TV' Pillay and David Savage.

The Chief Directorate is responsible for developing and monitoring intergovernmental financial relations, and to do so in line with both overall macroeconomic policy and the provisions of the Constitution. In addition to implementing the provisions of Chapter 13 of the Constitution, this programme aims to promote co-operative governance in the budget-making process, hence giving effect to section 41 of the Constitution.

The Intergovernmental Relations team.

Underlying the co-operative governance approach is the Intergovernmental Fiscal Relations Act of 1997, which set up the Budget Council and Budget Forum to promote consultation and co-operation with provinces and organised local government respectively. The Chief Directorate is responsible for organising and facilitating the work of these forums, as well as supporting the technical committees. There is also regular interaction with various MINMECs of departments like Welfare, Health and Education. In 1999 this was expanded to include Transport and Public Works. A provincial database was developed that monitors expenditure figures since the beginning of the democratic dispensation.

This Chief Directorate has been instrumental in developing the cooperative spirit, and constructive working relationship, which guides the regular interactions of 'Team Finance' – the Minister and his nine provincial counterparts.

The seven directorates within the programme handle a range of related functions:

- Designing a fiscal and financial framework for provincial and local government;
- Analysing and assisting with provincial budgeting;

How allocations are made

The formulae for the allocation of the provincial and local government shares is largely redistributive, and favours provinces and municipalities with the greatest backlogs and poorest households. The formulae take into account the different functions that each of these spheres perform. Provinces are largely responsible for functions like school education, health, welfare and provincial roads. Municipalities are responsible for municipal infrastructure and the provision of basic services like water, sanitation, electricity and refuse removal.

Both the provincial and local formulae take into account the demand for these social services and infrastucture, as well as their revenue raising capacity. Population size and backlogs in provision are, therefore, key factors.

Provinces raise about 4% of their own revenue, and hence received the largest share from national revenue – totalling R106 billion in the 2000/01 financial year.

Municipalities are largely self-funded, and raise about 94% of their own revenue through property taxes, regional levies and user charges. As a result they receive only a small share – about R6 billion from national revenue.

- Supervising the budgets and borrowing of local governments;
- Setting up a database on provincial and local government budgets;
- Facilitating financial reporting, capacity building and supporting asset restructuring.

The key area of work is in the design and development of the intergovernmental system. The research directorates oversee various research projects on both the provincial and municipal intergovernmental system, including the revenue, borrowing, expenditure and oversight policies and powers that should apply to these spheres of government. Section 214 of the Constitution requires that nationally-raised revenue be divided equitably between the three spheres of government. This programme is responsible for advising on the criteria and formulae underlying this decision, after taking into account any recommendations of the Financial and Fiscal Commission (FFC). Such a division of revenue also includes other conditional and unconditional grants to provinces and local government.

Key activities

Intergovernmental Fiscal Review. The IGFR is an important milestone in the on-going process of budget reform. As a result of work co-ordinated by the Chief Directorate, government for the first time possesses detailed information on actual provincial expenditure, allowing for greater transparency and accountability. Moreover the IGFR enables government to make accurate inter-provincial expenditure comparisons, a necessary element in policy-making. The IGFR process assisted the government in its effort to stabilise provincial budgets, which improved from a R5 billion deficit in 1997-98 to a R1billion surplus in 1999.

Development of a fiscal framework for provinces. The Chief Directorate continued to work to deepen the budget process by seeing to it that provinces developed more consultative budget processes. This meant refining and improving multiyear budgeting and ensuring that provincial financial statements were completed earlier. These goals were largely accomplished by the end of June.

Continued stabilisation and improvement in finances. To ensure effective political oversight over provincial budgeting it is necessary to set strategic priorities with the provinces which will then inform budget decisions. While much of the budget is fixed in advance, these discussions can nonetheless bring about dramatic shifts. Moreover, the discussions can ensure that provincial budgets work within the Medium Term Expenditure Framework, helping to ensure alignment of policies and budgeting.

Political oversight is brought about through strategic workshops of the political executive within the province, and between provinces and the national government through the Budget Council. Policy co-ordination is achieved through joint MINMECs, such as that which brings together the Minister and MECs of a line function (eg health) and the Minister and MECs of Finance. Underlying these essential meetings are the 4x4's, crucial discussion forums that include the national and provincial treasuries, as well as the appropriate line function departments.

Reforming local government finances is a considerably more difficult task than provincial reform. Not only are there 843 local authorities, but they are more autonomous as they have their own sources of revenue. Moreover, the current

Intergovernmental Fiscal Review

As provinces are responsible for more than 60% of non-interest government spending, their expenditure decisions directly affect the lives of all citizens. The influence of these provincial decisions is even more pronounced given that more than 80% of their budgets are spent delivering social services. Yet in the past information on actual provincial spending was sparse, fragmented, and difficult to obtain. The provinces had different formats for their budgets, different classification systems, and different combinations of departments. Not only did this state of affairs make it difficult to ascertain whether provinces were in fact meeting their budgets, but it rendered inter-provincial comparisons virtually impossible. For these reasons the Chief Directorate spent considerable effort developing an Intergovernmental Fiscal Review to introduce for the first time transparency and accountability in provincial budgeting to enable government to determine whether it is in fact meeting service delivery and other priorities. It is a valuable tool to help improve budget planning and decision-making, and has become an essential resource for Members of Parliament and the provincial legislatures, for national and provincial government departments, for researchers and for civil society. The Review represents significant progress in improving access to user-friendly information on the plans and performance of the provincial sphere of government.

For the first time, the IGFR presents, in a single document actual expenditure and revenues for all nine provinces from 1995/96 to 1998/99 and budgeted projections to 2001/02. The Review provides analysis of fiscal and financial trends across provinces and within sectors as well as highlights historical and demographic circumstances that impact on individual provinces. A data appendix provides detailed expenditure and revenue information for each province, presented in consistent and uniform classifications. Over time it will be expanded to present financial data for local government and to include information on service delivery to facilitate the benchmarking of performance.

demarcation process has introduced additional uncertainty, complicating the process of transformation.

Not only do managers lack information for proper budgeting, but many are locked into old approaches: one-year and line-item rather than multi-year budgeting with a managerial approach. The current approach reduces the budget to a 'bean-counting' exercise with little buy-in from stakeholders.

Notwithstanding difficulties, progress has been made focusing on reforming the budget process and modernising the monitoring of local government budgets. The Department has begun to pilot various budget reforms to stabilise finances, starting with Johannesburg. These efforts will be extended to a few large metropolitan authorities in the year 2000, and to more municipalities for their 2001 budgets. Given the new demarcation process the Department is reviewing the current grant system and is close to finalising the borrowing framework.

A Bill on local government financial management will be tabled in 2000. Like the Public Finance Management Act, this bill will attempt to modernise the system of financial management, budgeting and procurement in the local sphere of government in line with best practice internationally. The bill will also address the fiscal borrowing framework for local government. Further policy work is being undertaken to reform the local government property tax, regional levy and local government revenue sources.

Budget consultations. The Chief Directorate assists a number of consultations that form part of the budget process. The Budget Council is a forum of the Minister and MECs of Finance that deals with provincial financial matters. The Budget Forum includes the above participants, as well as members of the South African Local Government Association. Other forums include the Technical Committee on Finance with provinces, the Joint Committee on Municipal Finance with provinces and local government and various sectoral 4x4s.

Taxation Policy

The Taxation Policy Chief Directorate is primarily responsible for advising the Minister of Finance on tax policy issues. The programme is responsible for dealing with tax policy, while the SA Revenue Service (SARS) is responsible for tax collection and administration. Cooperation between policy and administration is, however, of the utmost importance and a good relationship exists between the Department and SARS.

The Taxation Policy programme aims to coordinate and formulate policy on taxation to secure equitable and effective revenue consistent with national macroeconomic and developmental goals. This embraces both direct taxation (such as income tax) and indirect taxation (such as VAT). A number of policy goals are pursued. These include:

- Ensuring that government raises sufficient revenue to meet its spending requirements;
- Reducing the overall burden of tax on the economy;
- Avoiding, as far as possible, tax distortions such as inappropriate tax holidays, incentives and off-budget levies;
- Promoting the principles of efficiency, equity, neutrality, simplicity and certainty in the tax system.

Martin Grote

In short, the Chief Directorate is responsible for advancing a tax system that raises sufficient revenue for Government, is simple to administer, imposes a limited compliance cost on taxpayers, ensures an equitable distribution of that tax burden and does not interfere unduly on the economy.

The Taxation Policy Chief Directorate is headed by Martin Grote, previously an attaché to South Africa's mission to the IMF and World Bank. In September 1998 the Tax Policy function graduated from being a Directorate to being a Chief Directorate. Though the section employs 12 people, two director-level posts in the programme are still vacant. To enhance its ability to deliver both quantitative and qualitative advice to the Minister of Finance, the Chief Directorate has extended its capacity by appointing a number of high-calibre staff members and securing the assistance of international experts to improve its revenue estimation and policy modelling capabilities.

Over the past year particulary valued contributions have been made in the fields of international tax and income tax reform, excise tax and SADC tax co-ordination by experienced senior consultants funded by the US Treasury Foreign Assistance Programme and The UK Department for International Development, respectively.

The Chief Directorate interacts extensively with other components within the Department, especially those dealing with Intergovernmental Relations (in relation to provincial taxation levies, incentive systems, and off-budget agencies) and Macro-Policy (in relation to macro-economic and fiscal stabilisation policies).

Key activities

International tax symposium and preparation for far-reaching tax reforms. In July 1999 the Chief Directorate hosted an international tax symposium to review the nine interim reports of the Katz Tax Commission and assist Government in responding appropriately to its recommendations. The rigorous debate at the tax symposium informed the far-reaching structural proposals in the 2000 Budget, as well as initiatives that will guide future tax reforms. Tax reforms depend on robust quantitative analyses and for that purpose the Chief Directorate has begun to establish a revenue estimation capacity. The symposium was funded by USAID. It attracted 10 international tax experts and 65 local participants from law and auditing firms, universities, SARS and other government agencies. A special effort was made to ensure participation by previously disadvantaged individuals in the discipline to learn the latest international developments. The symposium featured 23 discussion papers, and led to a wide-ranging review of tax reform strategy options for consideration by the Minister of Finance.

The annual tax proposals. Each year the department works with SARS on a range of tax policy options, and the proposals accepted by the Minister are summarised and presented to Parliament. Details of changes during the past year are contained in the Budget Review and Budget Speech and other documents and are not elaborated on here.

Making tax policy

The Chief Directorate advises the Minister and the Department, in close cooperation with SARS, on the broad spectrum of tax issues that arise at all three levels of government. The aim is to ensure an efficient, effective, equitable and internationally competitive revenue-raising system for Government.

Government must ensure that all tax instruments can optimally fulfil their revenue-raising function, achieve economic and allocative functions and fulfil their redistributive and social policy functions. And this must be done in a manner which creates a basis for the general political acceptability of the selected tax instruments.

There is no single best tax structure for any given country. In formulating tax policy there is a need to match the generally-accepted principles for a good tax system with the current macroeconomic and fiscal policy objectives of Government. The policy advice must achieve an acceptable trade-off between competing fiscal and economic policy objectives.

Advice must also be based on sound research and, wherever possible, such information should be available to the public. There is close cooperation with SARS to ensure that tax research underpins tax administration and collection. Short-term tax analysis and the design of tax policies is enriched by daily interaction with the corporate sector and the general tax-paying public, especially where such inputs fit within government's over-arching structural framework and are consistent with general tax policy directions.

Interacting with a range of other bodies. There is regular interaction with provincial treasuries, business organisations, the tax-paying public and major audit firms. In addition, the programme:

- works closely with the Tax Advisory Committee, a standing committee which reviews tax-technical matters and suggests amendments to legislation;
- represents the Minister and the Department on the SA Diamond Board – ensuring that the country's diamond resources are developed optimally and in the national interest;
- works with the Department of Minerals and Energy on matters such as mining tax, mineral rights and the difficult issue of ensuring an appropriate depreciation regime for oil and gas transmission and distribution pipelines;
- participates with four government Departments (Finance, SARS, Transport, and Minerals and Energy) and the industry association (the SA Petroleum Industry Association) – examining indirect taxation of liquid fuels, the development of appropriate fuel policies and the tax issues pertaining to the re-capitalisation of the South African taxi industry;
- chairs an interdepartmental task group which engages with manufacturers of excisable products, such as the tobacco, alcoholic beverage and soft drinks industries;
- supports the Department's Intergovernmental Relations Chief Directorate's effort to review tax options for provincial and local governments with the aim of improving accountability and efficient financial resource utilisation;
- co-ordinates and chairs a tax working group on SADC's macro-economic subcommittee responsible for reviewing the 14 member states' tax systems, with an aim of coordinating tax policies and structures to make the region a more attractive destination for FDI and reviewing training needs;
- engages with the Department of Environmental Affairs and Tourism in relation to calls for the introduction of environmental taxes;
- reviews closely, with the SARS and the Department of Minerals and Energy, tax policy and revenue collection issues with regard to the diamond industry.

Tax policy-making. The Chief Directorate has developed credible capacity in both quantitative and qualitative tax analyses to serve the Minister with respect to tax policy-making.

Revenue estimation capacity. The Department currently is in the process of developing credible capacity in revenue estimation and the distributional analysis of tax instruments. To this end, the programme launched USAID co-financed projects with regard to more accurate revenue estimation and the assessment of the economic effects of tax policy choices. It engaged three international experts on tax revenue estimation. The project aided in the development of revenue estimation models for the major tax instruments (personal income, interest income exemptions, VAT, excise taxes, and fuel levies), which also allow for a refined understanding of the distributional impact on different groups of various tax policy choices.

Provincial taxation. The programme developed a framework paper on provincial taxation presented at the Budget Council lekgotla in August, which proposed a gradual approach towards extending tax powers of provinces in the format of an allowed list of tax instruments that sub-national spheres of government may wish to implement.

Katz Tax Commission and Parliamentary hearings. The Chief Directorate prepared presentations for parliamentary hearings on the 7th interim report of the Katz Commission on provincial taxation, the 8th interim report on land tax, and the 9th interim report on tax matters affecting the non-profit sector. The Chief Directorate contributed with research to these inquiries and was responsible for editing each of the reports. The Chief Directorate is awaiting the final two reports from the Katz Commission – on mining and an overall summary – which are now due in 2000.

E-commerce and taxation. Together with the Department of Communication the Chief Directorate contributes to the review of public policies on e-commerce, with special reference to taxation. The programme is also carefully tracking international practices in this regard.

Developing fiscal policy on off-budget financing. The programme provides advice, from time to time, on off-budget agency financing, levies, surcharges and fees earmarked for special purpose funds. General policy guidelines have been developed aimed at avoiding fragmentation of the tax base and ensuring appropriate governance of extra-budgetary agencies and oversight of all revenue instruments.

Staff training. All staff members in the programme have benefited from an intensive one-month training course led by foreign tax experts on the microeconomic analysis of taxation. The course was held at the University of Pretoria, and was sponsored by USAID. Moreover, all staff members participated in the international tax programmes of several multilateral institutions and other international tax seminars.

Asset and Liability Management

Coen Kruger

This branch of the Department is headed by Coen Kruger. He joined the Department after working in the private sector and for the Economic Development Corporation (the precursor to the Development Bank). He has been responsible for the Asset and Liability branch for the past four years and oversees and guides the operations of two sections, each headed by a Chief Director.

The two sections in this branch are:

- **Asset Management**, headed by Brian Molefe, who is responsible for cash management and plays a role in the restructuring and financial management of state assets, especially the government business enterprises. This includes ensuring that borrowing by public enterprises is monitored, obtained on the best terms and harmonised with overall government borrowing.
- **Liability Management**, headed by Lesetja Kganyago, who is responsible for managing all aspects of government's domestic debt portfolio, ensuring that risk is minimised, repayments are made as they fall due and that the most favourable terms are obtained.

Much of the work of this branch is reported on in detail in the Department's annual Budget Review. The following are some of the major highlights of the branch's activities during 1999 and the policy challenges that will face it in the new year.

Improving the management of government debt. Since the appointment of a panel of primary dealers on 1 April 1998, the focus of debt management has turned to the development of the South African securities market. The South African bond market has matured considerably, creating opportunities for more active management of the debt portfolio to reduce risks and debt servicing costs. In early 2000 Moody's raised South Africa's rating outlook to positive while Standard and Poor's upgraded the rating on South Africa to investment grade.

Achieving savings through improved cash management. Government's liquidity buffer, which is the cash on hand to meet expenditure needs, has been greatly reduced. The branch has achieved improvements in cash management that allow for real-time retrieval of account information through the development of IT links between the department and banks with whom government holds tax and loan accounts. The improvements have resulted in major savings to the fiscus.

Improving the governance of public enterprises through a protocol on corporate governance that provides a point of departure for normalising the financial accounts and tax and dividend policies of major state-owned enterprises. The principles in the protocol will be incorporated into regulations to be issued in terms of the Public Finance Management Act of 1999.

Finalising proposed changes to the SASRIA Fund, and introducing the necessary legislation. The revamping of this fund generated substantial funds to the fiscus by way of a special restructuring dividend for the reduction of state debt. The challenge for the new year is the privatisation of the restructured SASRIA.

Asset and Liability Management

Asset Management

The Chief Directorate is headed by Brian Molefe, who previously worked in the Intergovernmental Relations section. This Chief Directorate comprises of two sections, namely Asset Management and Cash Management. He is assisted by two directors, Johan Redelinghuys (Cash Management) and Higgo du Toit (Asset Management).

The cash management component is responsible for ensuring government has the cash it needs to meet its day-to-day obligations to pay personnel and other creditors, while avoiding too much liquidity, since this would be costly in terms of unnecessary interest costs being incurred.

The component responsible for managing 'other assets' is responsible for creating and maintaining a risk management framework in respect of all government bodies and public enterprises, as contained in the Protocol on Corporate Governance.

The Chief Directorate has a number of activities including:

Brian Molefe

Improving financial aspects in public enterprises. In support of the Reporting by Public Entities Act 1992, the Asset Management Section and the Ministry for Public Enterprises developed a Protocol on Corporate Governance for the wider public sector, including decentralised government agencies which were not subject to Treasury control. In terms of the Protocol public enterprises are required to provide information to the Department of Finance on financial performance and risk. The Protocol also includes guidelines on:

- the composition and management of boards;
- the contents of annual reports;
- audit arrangements;
- information requirements which the entity must provide to government as shareholder, including investment plans, internal financing requirements, medium term financial targets, rate of return and financial risk;
- tax and dividend policies; and
- business plans.

There are currently about 800 public entities and agencies ranging from large, well-known operations like Eskom and SAA, to smaller operations and institutions. These corporations have a range of developmental objectives but must achieve these in a cost-effective manner. They are generally accountable to a Board appointed by an

Proceeds of the restructuring of state enterprises

	Date of transaction	Stake sold	Proceeds from sale of assets (R million)	Proceeds paid to exchequer to reduce debt (R million)
Sun Air	November 1997	100%	42,1	21,1
Telkom	May 1997	30%	5630,5	1165,4
SABC Radio Stations	March 1997	100%	510,4	510,4
Airports Company	June 1998	25%	1035,3	1035,1
South African Airways	July 1999	20%	1400,0	610,5
Connex	August 1999	100%	15,0	-
Sasria	February 2000	Special dividend	-	6 171,4
Total			**8 633,3**	**9 513,9**

appropriate Minister. But they can also be seen as state assets in which government, as shareholder, has an interest.

Restructuring state assets. The restructuring of state assets is co-ordinated by the Ministry of Public Enterprises and is undertaken within the context of the National Framework Agreement. This agreement affords high priority to the reduction of state debt, the recapitalisation of public enterprises and the broadening of economic participation.

The Asset Management section is represented on the Oversight Committee which provides support to the Inter-Ministerial Coordinating Committee responsible for the restructuring of state assets. Since 1997 restructuring proceeds amounting to more than R9,5 billion were received and paid into the Exchequer to reduce state debt. (see box)

Restructuring of State Assets

At the Strategic Inter-Ministerial Cabinet Committee (IMCC) lekgotla, held in December, Government recommitted itself to the process of restructuring of state assets. Priority will be afforded to the larger public utilities.

- *Airports Company:* A 20 per cent equity stake in the Airports Company was sold for R819 million to Aeroporti di Roma (ADR), which also has an option to acquire a further 10 per cent stake on the public listing of the company. A 10 per cent share has been reserved for black economic empowerment, of which 4,2 per cent has been taken up for an amount of R173 million. Of the 9 per cent set aside for sale to management and employees, only 1,2 per cent equity, valued at R43,8 million was sold in October.
- *South African Airways (SAA):* The sale of a 20 per cent stake in SAA to Swissair for R1,4 billion has been finalised. Government has also agreed to the disposal of a further 10 per cent equity stake to economic empowerment groups, the National Empowerment Fund and employees. The principle of burden sharing in respect of the obligations of the Transnet Pension Fund shortfall has been accepted and Government will take over R1,3 billion of the debt attributable to SAA.

Current initiatives

Preparations are in progress for further equity partnerships or outright sales of public enterprises. An amount of R6,9 billion has been provided in the Budget for the reduction of state debt from the proceeds of the restructuring of state assets during the 1999/00 financial year. In addition, about R800 million was earned in Secondary Tax on Companies through the special restructuring dividend payment by SASRIA.

An amount of R6,9 billion has been provided in the Budget for the reduction of state debt from the proceeds of the restructuring of state assets during the 1999/00 financial year

- *Aventura:* Government has appointed the Protea Group as a Strategic Management Partner (SMP) to manage and restructure the company.
- *South African Forestry Corporation and Department of Water Affairs and Forestry:* Government approved preferred bidders for the forestry packages comprising of the Southern Cape, Eastern Cape South, Eastern Cape North and Kwazulu-Natal packages. These transactions aim to achieve greater competition in the forestry and saw-milling industry, and black economic empowerment groups are expected

to become significant players. Negotiations on final pricing and conditions are being finalised. The Mpumalanga and Northern Province packages will be re-offered on a stand-alone basis through an accelerated sales process. The government is continuing to explore options for the Western Cape and an announcement will be made in due course. In addition to the proceeds of these transactions, government will receive an annual income from the lease of the land and significant savings will be achieved in respect of forests managed by the Department of Water Affairs and Forestry.

- *Alexcor:* With a view to putting Government's diamond mining concern on a sound footing, a 2-year strategic management contract has been awarded to Nabera. The management agreement entails the transfer of operational responsibility of Alexcor's diamond mining operations. A loan facility to the company to the value of R70 million has been approved, as has the withdrawal of Mmakau Mining from the Nabera consortium.
- *Eskom:* The Eskom Amendment Act (No. 126 of 1998) constitutes an important step in the restructuring of Eskom. The Act vests ownership of the equity in the State and establishes the legal basis for revoking Eskom's tax-exempt status and for the payment of dividends. Eskom is currently restructuring into separate generation, transmission and distribution corporate entities.
- *South African Special Risks Insurance Association (SASRIA):* The Conversion of SASRIA Act (No. 134 of 1998) provides for SASRIA's conversion into a public company owned by the government. In terms of the Act the Government appointed an independent actuary to advise on the portion of the reserves, which were in excess of R10 billion, that the converted SASRIA would require to continue its business. Based on the actuarial report, a special dividend of R6,2 billion was declared from the excess reserves and applied to reduce public debt. The Act further provides for the full privatisation of SASRIA by the Minister of Finance, after consultation with the short-term insurance industry. The IMCC approved the commencement of the privatisation of SASRIA.

A special dividend of R6,2 billion was declared from SASRIA's excess reserves and applied to reduce public debt.

- *Telkom:* Government approved that 5% of Telkom's equity worth an estimated R970 million be sold to empowerment groups, employees and the National Empowerment Fund. Black economic empowerment groups were invited to submit applications for a 3 per cent stake and it is expected that the transaction will be concluded in due course. The process has started for a 20% initial public offering (IPO) by 2001.
- *Transnet:* The corporatisation, restructuring and sale of Transnet's non-core business units have been approved. The sale of Connex Travel for R15 million has been completed. The process to dispose of Autonet, Protekon, Air Chefs, Apron Service, Production House and Chemical Services is underway. Transwerk has been corporatised into four entities: Transwerk Rollstock, Transwerk Traction, Transwerk Foundries and Transwerk Perway. Work is progressing on outstanding issues, including contractual commitments, the funding of pension obligations and medical scheme arrangements. Structural options and restructuring strategies for core businesses Portnet, Petronet and Spoornet are currently being discussed with due regard to the role of these entities within the broader transport sector.
- *Arms Industry Restructuring:* Government is reviewing options to restructure the arms industry. The sale of Denel's non-core activities has been approved, as has the purchase of a 50 per cent shareholding in Debis IT Services. Government has approved the merger and consolidation into a single corporate entity of the infor-

mation technology service providers within Denel (Ariel Technologies), Eskom and Transnet (Datavia). Work on the merger has commenced.

- *Telecommunications consolidation:* Government has approved the merger and corporatisation of the telecommunications divisions of Transnet and Eskom. A steering committee comprising of representatives from these entities and Government has been convened to commence with data collection.
- *Sentech:* The Inter-Ministerial Cabinet Committee has approved the sale of a minority stake in signal distributor Sentech to a strategic equity partner to access capital, technology and expertise. Terms of reference have been drawn up for the appointment of a transaction adviser.
- *SABC:* Government has approved the appointment of advisers on the restructuring of the South African Broadcasting Corporation. The restructuring is aimed at corporatising the SABC, achieving a separation of public broadcasting and commercial services, and implementing transparent mechanisms for cross-subsidisation of these services.
- *South African Post Office:* The South African Post Office and the New Zealand Post International signed an agreement in September to seal the latter's appointment as a strategic management partner.

It remains Government's policy to normalise the financial environment of Government business enterprises

Asset Management Policy Framework

Protocol on Corporate Governance: This important protocol was developed in close consultation with the Department of Public Enterprises and approved by Cabinet. The protocol provides a framework for financial performance, including tax and dividend policies, and a code of corporate practice and conduct. The protocol's principles will be incorporated into regulations issued in terms of the Public Finance Management Act (No. 1 of 1999).

Tax and dividend policy: It remains Government's policy to normalise the financial environment of Government business enterprises. To ensure transparency, the integrity of the budget, and prudence in the management of public entities, any subsidisation of government business enterprises that may be warranted should be done through the budget allocation process and not through the retention of tax and dividends. This normalisation of tax and dividend payments is in line with international best practice. Dividend payments received by Government in the 1998/99 fiscal year amounts to R475,8 million and for 1999/00 amounted to R610,2 million excluding the special restructuring dividend from SASRIA.

The following progress has been made with the normalisation of tax and dividend payments:

- *Central Energy Fund:* Consolidation of the group accounts and payment of a first dividend of R180 million.
- *SASRIA:* As noted above, SASRIA yielded a special dividend of R6,2 billion. In subsequent financial years SASRIA will pay normal dividends to Government, based on its profit levels.
- *Eskom:* In terms of the Taxation Laws Amendment Act, Eskom became tax liable from 1 January 2000. In addition, as from the 2000/01 financial year Eskom will also pay dividends to Government.
- *Development Bank of Southern Africa (DBSA):* The Board of Directors of DBSA

accepted the principle of becoming a tax and dividend-paying entity. Negotiations currently focus on appropriate mechanisms to implement the policy while protecting the capital base of this development finance institution.

Advising government on the management of working capital

The goal is to reduce government's average liquidity buffer. A buffer is needed to cater for mismatches between flows of payments and receipts. The lower the average buffer, the lower the debt servicing costs.

With regard to cash management the following advances were made in 1999:

- The Chief Directorate undertook projects to improve cash management that allow for real-time retrieval of account information. The projects will develop IT links between the department and banks with whom government holds tax and loans accounts. The development will take due regard of the need for security firewalls to ensure that information is secure.
- Designing a cash management framework within the terms of the Public Finance Management Act. The framework is essential to reform cash management throughout central and provincial government. The framework will generate new regulations, especially with regard to government departments.

Interest earned on Tax and Loans Accounts

1999/00	500*
1998/99	750
1997/98	452
1996/97	943
1995/96	779
1994/95	309

*Projected figure

Liability Management

This Chief Directorate is headed by Lesetja Kganyago, who joined the Department after a spell at the Reserve Bank and, prior to that, a number of years working in the trade union movement. He is assisted by three directors, Mmakgoshi Phetla (International Commercial Financing), Phakamani Hadebe (Domestic Debt Management), and Johan Redelinghuys (Operations), and a team of thirty people.

The Chief Directorate is responsible for the management of all aspects of government's debt portfolio, both domestic and foreign. At the operational level this involves monitoring and reporting on the debt situation, and ensuring the payment of both interest and debt falling due. Of greater strategic importance, the Chief Directorate aims to bring down the cost of servicing state debt and maintain government's reputation as a trustworthy and competitive issuer of debt. The Chief Directorate is in the process of acquiring a risk management system to manage the government's debt portfolio. The system would enable the risk management team to incorporate a system of performance measurement and hedge most identifiable and quantifiable risks.

Given the decline in Government's borrowing requirements as a consequence of its successful deficit reduction strategy, the Chief Directorate has increasingly focused on the management of outstanding debt. The South African bond market has matured considerably, creating opportunities for more active management of the debt portfolio to reduce risks and debt servicing costs.

For example, the cost of debt servicing in fiscal year 1998/99 was based on interest rate assumption of 14%. Though rates increased to 21% at one stage, the Chief Directorate still managed to effect savings in debt servicing costs, because of improved cash management; and the introduction of new funding instruments such as floating rate bonds (originally 21% but when rates came down, government had to pay lower servicing costs).

Lesetja Kganyago

Key activities

The Chief Directorate develops an **annual borrowing strategy** - advising government on appropriate policies for the management of debt, including its structure (from where and over what repayment periods), and how such debt should be financed (the types of funding instruments which should be used).

Net finance raised through domestic bond issues in 1999/00 is projected to be R5,0 billion, which is R9,8 billion lower than the budgeted amount. Less finance was raised in the domestic market because foreign loan financing and asset restructuring proceeds were higher than envisaged. At present the following domestic instruments exist:

- A floating-rate bond (R193) maturing in March 2003 has been issued to replace the R192 bond redeeming in March 2000.
- An inflation-linked bond will be issued during the first quarter of 2000, its indexing based on headline CPI with a 3-month lag. The issuance of CPI-linked bonds will become a feature of Government's overall funding strategy.

The Department of Finance issued three loans in international capital markets. The loans were:

- A seven year 6.75% E500 million. This bond was issued at a spread of 3.28% over comparable German government bonds. Institutional investors took 76% of this bond issue, banks 18% and retail investors 15%. The bond issue was distributed across Europe and enabled the government to diversify the investor base beyond

Government bonds issued (in R millions) FY1999/00 (as at 31 January 2000)

	Bond issues	Finance raised	Discount	Average yield (%)
Medium-term				
R193 (floating; 2003)	500	495	5	11,39
R175 (9.0%; 2003)	3 484	3 036	449	14,05
R150 (12,0%; 2005/06/07)	4 296	3 962	335	14,07
Long-term				
R153 (13,0%; 2010/11/12)	1 859	1 714	145	14,44
R157 (13,5%; 2015/16/17)	1 947	1780	168	14,91
R186 (10,5%; 2025/26/27)	4 201	3 085	1 116	14,42

Bond auctions were well supported during 1999 which resulted in government being able to borrow money at market related rates

retail investors. This bond issue was a resounding success and was declared the EEMEA (Emerging Europe, Middle East and Africa) Bond Deal of the Year for 1999 by the prestigious magazine International Financing Review.

The award noted that

'The deal tapped the substantial pent-up demand for South African risk. A lot of emerging market investors saw the republic as a relatively safe haven among its EEMEA peers. The bond also tapped the growing pool of credit-hungry investors in the Euro market. With an ever-improving credit story, South Africa was in pole position to tap into the growing number of mainstream investors taking on risk to boost returns'.

- A ten year 9.125% $500 million. This bond was issued at a spread of 3.70% over comparable United States Treasury Notes. Institutional investors took 82.7% of this bond issue, banks 11.8% and retail investors 5.5%. The bond issue was distributed evenly across Europe and the United States. This enabled the government to diversify the investor base beyond Europe.
- In 1998 government established a Euro Medium Term Note Programme (EMTN), for the government's foreign funding needs. The programme provided South Africa with a flexible range of funding options, allowing the government to take advantage of opportunities created by the swap markets or, to meet their funding requirements at an optimal cost. The first loan under the EMTN programme was issued in 1999, a 5-year 'Euro Euro' bond. The bond issue was for an amount of E300 million and it was issued at a coupon of 7%. The spread over German government bonds was 2.5%. The bond was distributed mainly into Italy, Switzerland, Germany and the United Kingdom.

The Chief Directorate prepares an annual **estimate of the cost of servicing** Government's debt portfolio. The appropriate figures are contained in the Department's annual Budget Review.

The Chief Directorate **actively manages the issuing of domestic debt**. A panel of primary dealers was appointed in 1998 to handle the marketing of Government's domestic capital market debt instruments.

The change meant that the system of marketing debt switched from a tap system (with instruments issued only when the Reserve Bank decided there was a need). A predictable weekly auction is conducted every Tuesday, with the amounts and the instruments to be issued being publicised in the previous week. A set of rules has been issued to guide the conduct of the panel of primary dealers and to ensure the highest standards of ethics. The transition to the new system has been smooth and bond auctions were well supported during 1999 which resulted in government being able to borrow money at market-related rates, even in adverse market conditions. The change has also meant the separation of the Reserve Bank's monetary policy operations from government's funding activities.

The panel of primary dealers currently comprises the following institutions, all of which met the qualifying criteria:

- ABN-AMRO Bank
- Barclays Bank of South Africa
- Deutsche Morgan Grenfell
- First Rand
- Genbel Securities Bank

- Investec Bank
- JP Morgan
- Merrill Lynch
- Nedcor Investment Bank
- Standard Bank of South Africa
- Societe Generale

Two institutions previously on the panel of primary dealers have merged. First National Bank and Rand Merchant Bank are now operating as First Rand. The domestic debt section within this programme liaises regularly with the panel members.

Credit rating agencies assess various countries and advise their clients (mainly institutional investors) regarding credit risk. South Africa's credit rating, like that of other emerging market sovereigns, was affected during the financial volatility of 1998. Moody's and Duff and Phelps adjusted their outlook on South Africa's credit rating from stable to negative. Both Moody's and Duff and Phelps subsequently re-adjusted their outlook from negative to stable and reconfirmed their investment grade rating status for South Africa.

On 7 February 2000 Moody's again raised South Africa's rating outlook to positive. On 25 February 2000 Standard and Poor's also upgraded South Africa's credit rating to investment grade. These changes indicate that rating agencies are willing to acknowledge the positive developments on the economic front.

The current status of South Africa's credit rating is reflected below.

South Africa's credit rating

	Foreign currency denominated debt	Rand-denominated debt
Duff and Phelps International	BBB (Investment grade)	A (Investment grade)
Moody's Investors Services	Baa3 (Investment grade)	Baa1 (Investment grade)
Japan Rating and Investment	BBB (Investment grade)	
Standard and Poors	BBB- (Investment grade)	A- (Investment grade)

Financial Management

Financial Management

This branch of the Department is headed by Francois le Roux. Dr le Roux is an economist and former academic. In addition to being part of the financial planning section in the Department, he has been a member of the budget team for many years, and has headed the Secretariats of both the Tax Advisory Committee of the Minister of Finance and the Unit for Fiscal Analysis. He spent three years in Washington as South Africa's resident representative to the World Bank and IMF. He is responsible for overseeing and guiding the smooth operation of five sections, each headed by appointees at Chief Director level.

Francois le Roux

The five sections in this branch are:

- **International Development Finance**, headed by Mxolisi Lindie, is responsible for managing the relationship with multilateral institutions (such as the World Bank) and supporting SADC initiatives towards co-operation and convergence on financial matters between the countries of the region.
- **International Development Co-operation**, headed by Shaheed Rajie, is responsible for the macro-management of all Overseas Development Assistance (ODA) to South Africa, provided by other countries in the form of grants, technical assistance and concessionary finance.
- **Corporate Services**, headed by Simone le Hane, addresses human resources, financial administration and related support functions for the Department as a whole.
- **Public Investment Commissioners secretariat**, headed on an acting basis by Francois le Roux, ensures that the necessary technical and administrative support is provided to the Public Investment Commissioners (PIC) and that their decisions and policies are implemented.
- **Pensions Administration**, headed by Peet Maritz, is responsible for the smooth administration of the Government Employees Pension Fund (GEPF), military and special pensions and a number of similar funds.

Financial Management

Major issues and policy directions

Amendments to the PIC Act. Historically the PIC was legally obliged to hold a large portion of its assets in loans to government. With the 1999 amendments to the Act all restrictions on PIC investments have now effectively been removed, promoting the PIC's transformation from a passive administrative organ of Government to an institution increasingly akin to private sector pension funds and asset management companies. In this context the PIC for the first time published a consolidated report incorporating the Annual Report to Parliament and the Auditor-General's Report. This step brings the PIC on par with accepted practise in the private sector. The PIC also achieved full GAAP compliance, one year ahead of schedule and received an unqualified audit report – an endorsement without reservations of its financial statements – which testifies to the high levels of efficiency attained by the PIC.

Public servants' pension reforms/transformation. Upon the last actuarial valuation (31 March 1998) the actuary reported the fund to be 96.5% funded which shows a significant improvement from the 72% reported previously. The unfunded liability amounted to only R5,26 billion. 1999 also saw continued improvements in the administration and financial management aimed at greater processing compliance with GAAP, further strenghtening of the IT capacity and control environment, restructuring and improvement of the GEPF's benefit structure and improved communication with members through a dedicated communication campaign. The GEPF also received an unqualified audit report from its extenal auditors. For these and other reasons the GEPF was given the prestigious Golden Arrow award by Professional Management Review magazine.

1999 marked an increase in the intensity and pace of the sectoral work programme addressed by the Finance and Investment Sector Co-ordinating Unit (FISCU)

Increased stature in international financial forums. The Department of Finance is increasingly playing a central role in various international organisations where the country has attained a high profile. Its views are taken seriously on matters ranging from the IMF gold sales to the Enhanced Framework for the Heavily Indebted Poor Countries Initiative. South Africa is the only African participant in the newly formed G-20, and its involvement is a reflection of the achievements in managing the economy through the 1998 global financial crisis. South Africa's involvement affords participating countries an opportunity to learn from the experiences of emerging economies in Africa.

1999 marked an increase in the intensity and pace of the sectoral work programme addressed by the Southern African Development Community's (SADC) Finance and Investment Sector Coordinating Unit (FISCU). Ministers led the way by convening three meetings during 1999 and by agreeing to quarterly meetings in future. The primary aim is to speed up progress in the development and implementation of the SADC Finance and Investment Protocol.

Progress in Overseas Development Assistance (ODA). The National Development Agency (NDA) was established in 1999 to act as a conduit for funding development work to be carried out by Civil Society Organisations (CSOs) and to create a platform for interaction between Government and CSOs in matters relating to development policy and practice. It will serve as South Africa's key funding agency for addressing poverty and contributing towards the creation of a healthy, economically vibrant and stable civil society. The NDA board has been put in place, its principles have been formulated, and the appointment of a CEO is expected in early 2000.

In 1999, following the amendment to the Reconstruction and Development Programme Trust Act, most policy issues relating to the management of ODA were resolved. A comprehensive set of policy and procedural guidelines has been prepared for dissemination to all stakeholders early in the new financial year. The guidelines will contribute to the effective and efficient management of ODA in all spheres of government.

Human resources and financial administration in the Department of Finance. The Department implemented the new public service regulations regarding human resources, and is in the process of drafting new policies for the Department in adherence with the goals of transforming the public service. The Department developed a new code of conduct, disciplinary procedures and methods of job evaluation for public servants in the Department of Finance. In the year under review the Department invested heavily in upgrading its financial systems. The Department of Finance's relocation to a complex of two national monument buildings is on track. The project will provide the Department with a state-of-the-art building while contributing to the historical preservation and rehabilitation of the inner city of Pretoria.

Y2K compliance. By June 1999 all mission critical systems in the Department were ready for the rollover to the new year. The event passed without incident as a result of the work of the Y2K team. This branch's efforts provided security to millions of South Africans, especially given the need to safeguard state pensions as well as assets under management by the PIC.

International Development Finance

This programme has two core responsibilities. It is concerned with the promotion of regional integration in finance and investment to contribute to the development of a stable macroeconomic environment in southern Africa. The chief directorate is also responsible for the management of South Africa's relations with multilateral financial institutions, such as the International Monetary Fund, to utilise the resources available for development and to participate in international financial debates.

The Chief Directorate has a staff of 18, and is headed by Mxolisi Lindie, who previously worked in local government structures in Johannesburg. His colleagues in this Chief Directorate are Anthony Julies, a Director responsible for Multilateral Development Finance and Logan Wort, who joined during July 1999 as Director in charge of the Finance and Investment Co-ordinating Unit (FISCU), which is responsible for finance and investment matters relating to the Southern African Development Community (SADC).

The activities of this programme are not directly governed by legislation. However, a range of treaties, bilateral and multilateral agreements, and protocols are relevant.

Key activities

Finance and Investment Protocol – The Chief Directorate developed a revised framework for a SADC finance and investment protocol, which encompasses the co-ordination of sectoral work on macro-economic convergence, investment and development finance.

Multilateral Financial Institutions – The Chief Directorate has secured firm commitments by South Africa to contribute to concessional funds that provide finan-

cial resources to the poorest African countries for development purposes. The approval of assistance strategies between the South African government and multilateral financial institutions will result in the country being able to access technical assistance, grant funding and, where necessary, loan finance at competitive prices that also include a component of technical co-operation. In the context of the Southern African Customs Union (SACU) the Chief Directorate also aims to ensure the implementation of an acceptable revenue sharing formula for a cost-effective equitable share of customs and excise revenue under a new SACU dispensation.

The IDF management team. Clockwise from above: Mxolisi Lindie, Anthony Julies and Logan Wort

Multilateral Development Finance (MDF)

This section within the programme deals with relations with a range of multilateral organisations in which South Africa is either a member or has observer status. These include:

- the International Monetary Fund (IMF);
- the World Bank, and its various associated institutions such as the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA);
- the African Development Bank and its associated institution, the African Development Fund (ADF);
- the Southern African Development Community (SADC);
- the Southern African Customs Union (SACU) – where the section works in conjunction with the Department of Trade and Industry;
- the G-20 group of nations;
- the meeting of Commonwealth Finance Ministers;
- the G-24 group of developing nations;
- a range of organisations such as the Organisation of African Unity (OAU) and the Non-Aligned Movement (NAM) – insofar as aspects of their work touch on structural adjustment, debt and similar global economic concerns.

The Department works closely with other government departments, such as Foreign Affairs and Trade and Industry, in its relations with the multilateral institutions.

Work in the MDF section is guided by three strategic goals. Firstly, to ensure that South Africa makes optimal use of the resources available from the multilateral institutions. Secondly, to promote South Africa's (and the region's) interests in such bodies. Thirdly, to push for appropriate policy changes at the global level to deal with the challenges facing the developing world, especially those related to the restructuring of the international financial architecture.

The Minister of Finance was appointed as Chairperson of the Boards of the IMF and World Bank

Key activities of the MDF

Successful participation in the Annual Meetings of the World Bank and the IMF – the Chief Directorate participated actively in these meetings and sent high-level delegations to accompany the Minister to Washington in April and October. This entailed thorough preparation for the meetings, including clear statements on debt relief and a detailed report to Parliament.

The SA delegation to the meetings included the Minister of Finance (as a Governor of the World Bank), who was also appointed as Chairperson of the Boards of the IMF and World Bank, and will thus chair the Annual Meetings in Prague during the year 2000. The Minister also chairs the committee that examines remuneration of World Bank and IMF Executive Directors. Minister Manuel remains the representative of the Africa 1 constituency (of English-speaking African countries) and will hold the chair in the International Monetary and Financial Committee of the IMF.

The delegation in 1999 also included the Deputy Minister of Finance (as alternate Governor to the World Bank); the Director-General of Finance (as alternate Governor to the IMF); and the Governor of the Reserve Bank (as Governor to the IMF).

The most important issue at the meetings was the enhanced HIPC initiative and – of particular relevance to South Africa – the IMF's proposal that HIPC be financed through the sale of the Fund's gold reserves.

Participation in the G-20 – In 1999 South Africa participated in the G-20, a forum that promotes discussion and study and reviews policy issues among industrialised and emerging countries with a view to promoting international financial stability. Both the Minister and Director-General of Finance participated in the G-20's first meeting in Germany during December. South Africa is the only African participant, and its involvement is a reflection of the achievements in managing the economy through the 1998 Asian financial crisis. South Africa's involvement affords participating countries an opportunity to learn from the experiences of emerging economies in Africa.

The African Development Bank (ADB) – During the May 1998 Annual Meetings of the ADB, South Africa was accepted as the first African country to participate as a full member in the replenishment of the Bank's concessional window, the African Development Fund. This assists the poorest countries in Africa with financial resources for development. In 1999 South Africa made a pledge and a contribution to the 8th replenishment of the ADF,

Gold sales and debt relief

The gold market has been in flux in recent years, and its volatility was exacerbated by the UK Treasury's announcement in 1999 of its intention to sell more than half its gold reserves. Uncertainty was heightened by the debate on the possible size, nature and timing of IMF gold disposals. These sales were seen by many as detrimental to poor African gold-producing countries who are eligible for HIPC assistance, to South Africa, and to the SADC countries whose migrants work on the mines. The Minister of Finance, in his capacity as chair of the SADC Ministers of Finance, lobbied the Fund and indicated that SADC does not support the IMF's approach to gold sales. Interactions with the US Treasury and European treasuries followed. The IMF eventually adopted a different approach to disposing of its reserves, namely off-market sales that would not have a negative impact on the world gold price.

amounting to R20 million. South Africa is still seeking an increase in its shareholding in the ADB from 1% to some 6%. The increase will provide the ADB with additional resources required for its operations and will strengthen South Africa's commitment to the economic renewal of the continent.

The first Country Strategy Paper (CSP) for South Africa. This was prepared in 1996. The CSP has been a collaborative effort between the Bank and the South African authorities. Its implementation has significantly intensified the ADB's operational programme in South Africa. To ensure its continued relevance to improving the quality of life for ordinary South Africans, a process to review the current CSP was initiated in 1999 and will be finalised during the course of 2000.

The Bank is currently engaged in discussing a second line of credit for R500 million for financing infrastructure projects. Over 45 infrastructure sub-projects will be financed under the first line of credit (R750 million) which is expected to benefit close to one million people. Currently the DBSA is the main recipient of ADB resources,

Enhanced framework for the Heavily Indebted Poor Countries (HIPC) Initiative

Given the inability of the initial HIPC initiative to produce adequate debt relief to highly indebted countries, enhancements to the framework were endorsed during the 1999 Annual Meetings of the Fund and the World Bank. The key feature of the enhanced framework is the lowering of debt sustainability targets, i.e., debt to exports and debt to revenues.

The new framework also emphasises the link between debt relief and poverty reduction in a more transparent manner. The purpose is to assist beneficiary countries in adopting poverty reduction strategies and to ensure that resources freed by debt relief are used for social development that benefit the poor. Out of the nine countries earmarked for relief, only Bolivia, Guyana, Uganda and Mozambique have qualified fully for HIPC assistance.

Though the enhanced HIPC initiative provides broader, faster and deeper debt relief, South Africa is concerned that the initiative does not go far enough. The required track record of reform of up to six years is still too long and continues to be a concern. For instance, out of the forty-one HIPC countries, only ten have been reviewed for eligibility to receive assistance, while only three of these have reached completion points.

As a sign of their commitment, South Africa, Botswana, Swaziland, Zimbabwe and Nigeria have demonstrated support for the initiative by pledging contributions to the HIPC Trust Fund based on their quota share in the Fund. South Africa's contribution equals SDR 21 million (R100 million) while the collective contributions by African countries are in excess of SDR 40 million.

Although the link between debt relief and poverty alleviation is supported, precautionary measures must be taken to ensure that it does not add to existing conditionalities being imposed on HIPC countries. As a practical step, South Africa has announced its willingness to assist SADC member states in developing medium-term expenditure frameworks as required under the enhanced HIPC initiative.

The South African government is of the view that the initiative falls short of the expectations of many HIPC countries in a number of respects, namely:

- The period of time required for establishing a good track record of policy implementation still remains at up to six years. This is despite very wide consensus among developing countries that the period should be reduced, to a maximum of three years;
- Although there is a focus on debt stock reduction, it does not improve HIPC country debt servicing to any large extent;
- The fiscal thresholds have not been sufficiently relaxed and many countries would indeed take far too long to comply with this threshold; and
- The link with social parameters and poverty reduction is likely to introduce another layer of conditionalities that may reduce the eligibility of countries from qualifying.

while the Bank is also engaged in discussions with government departments and other parastatals, such as the IDC and the Land Bank.

The Minister of Finance is a Governor of the ADB while Anthony Julies serves as an alternate Executive Director on the ADB Board.

Preparation of a Country Assistance Strategy for South Africa. This key document (a collaborative effort between the South African government and the World Bank) informs the World Bank's strategy to achieve a country's development objectives. The document is a precondition for a lending operation, and it was adopted by Cabinet in late 1998, and approved by the World Bank Board in March 1999. In consultation with Government, the World Bank identified the following three broad areas for its involvement in South Africa:

- promoting growth and higher employment;
- social and environmental sustainability; and
- regional development.

As part of the implementation of the country strategy, various South African parastatals have been identified and mandated by Cabinet to implement regional projects.

Finance and Investment Sector Coordinating Unit (FISCU)

South Africa was given the responsibility of coordinating the Finance and Investment Sector of SADC. FISCU was established in July 1995 to coordinate the economic integration of the region. FISCU convenes meetings of the SADC Ministers of Finance and senior treasury officials where these harmonisation strategies are mapped out. FISCU also participates in the work of the regional central bankers through its co-operation with the SADC Committee of Central Bank Governors.

At the outset, the SADC Ministers of Finance agreed on a number of objectives, which may be summarised as follows:

- to improve regional cooperation in relation to financial regulation;
- to establish a sound investment environment for the region;
- to promote prudent fiscal and monetary policies regionally; and
- to assess the impact of structural adjustment programmes.

In simple terms the aim is to work towards harmonisation and convergence of the economic policies and the regulatory environments of member states.

The sector is structured to include three annual ministerial-level meetings, three meetings of senior treasury officials, and three meetings of central bank governors.

Key activities of FISCU

Regional convergence. FISCU further consolidated the regional harmonisation work programme in the realm of finance and investment. Central to this was the work undertaken by subcommittees responsible for macroeconomic convergence, investment promotion, and development finance. FISCU also co-ordinated the drafting of a discussion paper on regional economic convergence.

The aim of the paper is to determine whether macroeconomic convergence is on track and to examine a request arising out of the Abuja Treaty for a common currency. The paper is intended for consideration by Ministers of Finance, senior Treasury officials and central bank Governors, and will be presented at the Finance Ministers' meeting during July 2000.

Tax policies. FISCU established a regional working group on harmonisation of tax policies, and co-ordinated workshops and plans by a regional auditing and accounting committee.

It is hard to overestimate the extent of international support for South Africa's transition to democracy.

Information. The unit produced the third edition of its investment promotion publication for the World Economic Forum's Southern African Economic Summit in July. The unit also produces the FISCU Quarterly Newsletter, which covers its work and economic developments in the region.

Participation in the SADC Council of Ministers meeting. The unit participated in the meeting, held in Mozambique during August, by briefing senior officials and ministers and submitting an annual sectoral report. The report included a section on the impact of the IMF gold sales on the region as well as the provisions of the revised HIPC initiative.

Capacity building in SADC. The unit has identified debt management as a key area of regional co-ordination and plans have been made to hold two workshops on this issue during 2000. FISCU will also hold two workshops on multi-year budgeting to train treasury officials in this key area. These efforts respond to the enhanced HIPC initiative, which requires multi-year budgeting and the development of poverty reduction strategy papers.

Finance and investment protocol. FISCU commenced the development of the SADC Finance and Investment Protocol, a key activity that will continue during 2000. The protocol will be made up of a guiding framework and a series of multilateral memoranda of understanding in all areas of convergence which will culminate in a final protocol during 2004. FISCU will appoint a program management unit by September 2000. The unit will be responsible for writing the final protocol. Funding for the unit will be sourced from the European Commission (EU).

International Development Cooperation (IDC)

This section of the Department is headed by Shaheed Rajie and a dedicated team of seven people. Their task is the effective management of Overseas Development Assistance (ODA) to government. They are responsible for mobilising all available ODA resources, ensuring these are used efficiently, and directing ODA towards government's reconstruction and development objectives.

It is hard to overestimate the extent of international support for South Africa's transition to democracy. This arises from the enormous goodwill and public support that the anti-apartheid movement generated globally. Current ODA support comes from other governments, multilateral institutions and agencies. This section deals with all such support (on behalf of government as a whole) other than support emanating from the Bretton Woods institutions and the African Development Bank.

The support received takes four forms:

- **Grants** – financial transfers under mutually agreed terms to achieve the aims of the relevant projects;
- **Technical cooperation** – skill transfers, secondments and similar assistance for specific projects;
- **Concessional loans** – loans on terms more favourable than those available commercially (such as through the European Investment Bank);
- **Official assistance to the private sector** – credit and export guarantees (mainly organised through the Department of Trade and Industry).

Shaheed Rajie

During 1999 39 foreign governments, multilateral institutions and agencies were financing approximately 985 programmes and projects. Some of these were ongoing multi-year programmes/projects. 85 new projects/programmes were finalised during 1999.

The IDC facilitates the negotiation and signing of international assistance agreements. It negotiates framework agreements within which assistance is given to various government departments, provinces and local governments while potential donors are informed of South Africa's development priorities. The IDC is South Africa's window to the development assistance world, and this community's window on South Africa.

Priorities are set by specific departments but must form part of national reconstruction and development priorities, the Medium Term Expenditure Framework, and our commitment to:

- meeting the basic needs of the people;
- accelerating the basis for sustained economic growth, development and job creation;
- development of our human resources;
- ensuring the safety and security of citizens and the state; and
- transforming the organs of government to reflect the developmental and people-centred nature of our democratic state.

While ODA can bring benefits, there are a number of negative consequences that could arise from poorly planned assistance. Many of these problems have arisen in other developing countries and we have attempted to learn from the comparative global experience. The following four principles therefore form a cornerstone of the approach used by the Department:

- ODA is not accepted unless the recurrent costs of the programme have been budgeted for – in short it must be sustainable domestically in the longer-term;
- Loan financing assistance must similarly be integrated into (and not additional to) the budget, and must fit the country's overall borrowing strategy and loan repayment profile;
- Technology choices must be respected – with technology used being appropriate, sustainable and affordable for the country;

- Technical assistance must respect national policy choices – it must support domestically determined policy decisions.

To maximise the benefits of ODA, the IDC plays an important role in brokering, implementing, overseeing, and auditing projects by chairing and coordinating annual negotiations and mid-term reviews of donor assistance. The Chief Directorate assists provinces and local government with accessing support for capacity building to enable them to work effectively with overseas development agencies.

Major activities

1999 marked the beginning of a new phase of assistance to the post-apartheid government.

Annual negotiations and mid-term reviews – these were held with a number of countries, and assistance agencies, namely:

- Canada
- Commonwealth
- Denmark
- European Union / European Investment Bank
- France
- Germany
- Ireland
- Japan
- Netherlands
- Norway
- Sweden
- Switzerland
- United Kingdom
- USAID

The Development Cooperation Report – With initial assistance from the UNDP, the process of compiling a DCR began at the end of 1998. The objectives of the DCR are:

- To recommend measures for optimal alignment of ODA to South Africa's development priorities;
- To design effective monitoring and evaluation systems for ODA supported projects/programs;
- Amend institutional and structural changes to improve ODA management.

1999 marked the beginning of a new phase of assistance to the post-apartheid government. From 1994 – 1998 assistance focussed to a great extent on the development of policy, and was largely offered on an ad hoc basis. From 1999 the focus shifted towards consolidating democracy and on implementation and delivery. With the

The National Development Agency

The National Development Agency (NDA) is South Africa's key funding agency for addressing poverty and contributing towards the creation of a healthy, economically vibrant and stable civil society.

The NDA is a statutory funding agency whose primary focus is to contribute towards the eradication of poverty and its causes, and strengthens the capacity of civil society organisations in combating poverty.

The NDA's key strategic thrusts for 3 years will be:

- To fund projects and programmes geared towards poverty reduction and alleviation;
- To fund capacity building that would increase organisational and leadership capability and assist organisations accessing NDA funds;
- To establish an institution with the leadership, technical expertise, management and resource capability to deliver on the NDA mandate;
- To conduct policy dialogue and intervention, and form strategic alliances to advance the NDA mission;
- To conduct research on development CSOs, poverty and development policy, and models of best practice.

government stabilized in office, the MTEF and policy White Papers in place, departments and provinces can systematically develop more value-added programs and connect these to the strengths of a particular donor. Thus for the first time government has begun developing a strategic orientation to ODA defined by its own development priorities.

It was decided to extend the DCR exercise into Phase II in order to include an assessment of ODA on certain sectors, thematic areas and regions. The report will explore key horizontal themes such as gender, capacity building and environment as well as the sectors of water and sanitation, infrastructure investment, democracy and governance, SMME development, education and land reform. These qualitative assessments together with a comprehensive set of ODA data collected from all donors will serve to inform and guide the next phase of development assistance.

A second draft of the report will be presented at a workshop in the first half of 2000 with all donors, departments, and provinces in attendance.

Establishment of the National Development Agency (NDA). The IDC took responsibility for establishing the NDA, which was achieved in 1999. The NDA is a statutory body, established under the National Development Agency Act (no 108 of 1998) to promote an appropriate and sustainable partnership between Government and Civil Society Organizations (CSOs) in the implementation of programmes to address reconstruction and development.

The NDA will act as a conduit for funding of development work to be carried out by CSOs and to create a platform for interaction between Government and CSOs in

Case Study: Grants and Technical Assistance for Water Supply and Education Infrastructure Development

The provision of water and improved education infrastructure are two critical areas for grants and technical assistance.

With respect to water supply and sanitation, two Government-executed projects have been funded via this facility. In the first an amount of about R90 million was allocated for water supply and sanitation infrastructure development and capacity building in the Eastern Cape. About 200,000 people are targeted to have access to water supply within a 200 meter radius of their houses by mid-2000. The programme is designed in such a way that the beneficiary communities have been consulted and participated in training sessions during the inception and course of implementation of the projects.

The second project is the Community Water Supply and Sanitation Sector Supply Programme in Northern Province for which about R230 million has been allocated. The programme will be implemented within two years, and is envisaged to serve close to 240,000. It includes institutional and beneficiary community capacity building components. And, as a 'sector support programme' incorporated into the overall provincial water supply and sanitation plan of action, the Government procedures for implementation would be strictly adhered to and monitored.

In the area of education, about R60 million has been allocated for rehabilitation and construction of schools in the poorest rural areas of the Eastern Cape. This programme will be implemented over one-and-a-half years and will provide 500 classrooms giving full service by the first quarter of 2000. As a result of this initiative, nearly 20,000 primary and secondary learners will benefit from better school facilities. Local contractors were recruited through Government tendering procedures, and were given properly designed mentoring and training programmes on financial and construction management. Evaluation of the programme confirmed that the contractors' capacity to manage construction works was elevated and their efficiency in delivery enhanced.

matters relating to development policy and practice. The NDA's board has been put in place and its principles have been established. The CEO position has been advertised, and an appointment is expected in early 2000.

RDP Fund Amendment Act (no 79 of 1998). Amendments to the RDP Fund Act were passed late in 1998 and implemented in April 1999. The amendments resulted in significant changes to the flow of donor funding to spending agencies via the RDP Fund. Previously, funding could only be disbursed to the spending agencies at the end of each financial year via the National Revenue Fund. As a result of the amendments funds are now disbursed to the spending agencies as expeditiously as possible so that projects and programmes are implemented without any delays. In another significant amendment to the RDP Fund Act, the accounting officer of a spending agency – such as the Director-General of the relevant department or provincial administration – is identified as the official accountable for all donor funds allocated to the agency.

European Union Regional Indicative Programme for SADC (RIP). The Chief Directorate participates in SADC's Regional Development Programme. It was part of the South African negotiating team that concluded the Trade Development Cooperation Agreement, and is responsible for two sections dealing with development and financial cooperation.

Development coooperation on-line. In 1999 the chief directorate developed an on-line data base providing access to all development and cooperation programmes in South Africa. The database will be operational in 2000.

Case study: Concessionary Loan Facilities

In the last five years the Government of South Africa had the opportunity to familiarise itself with the terms and conditions of alternative sources of soft loan facilities. It is also better organised in soliciting and accessing funds from concessionary loan providing institutions. It has been agreed that some of the loan repayments will be Rand denominated. As a result, a number of infrastructure development projects were initiated and agreements were finalised in 1999. These are mainly in the fields of energy, power transmission lines, telecommunication, water and sanitation, and toll road infrastructure developments. Concessionary loan agreements amounting to about R1.5 billion had been concluded in these areas in 1999.

About R280 million in industrial projects was funded through concessionary loan facilities in 1999 alone. These are mainly in the fields of fertilizer expansion and heavy mineral development. Moreover, in 1999 not less than R300 million in on-lending facilities was secured through the Industrial Development Corporation for SMME-related initiatives and through the Development Bank of South Africa.

Corporate Services

This Chief Directorate is responsible for ensuring the smooth running of the internal machinery of the Department of Finance.

The Chief Directorate is headed by Simone le Hane who joined the Department having previously worked in the private sector. It includes six directorates though some posts remain to be filled and are not yet fully functional. The Chief Directorate's responsibilities range from the all-important human resource function to financial administration, information technology, communication, legal services and parliamentary services. Corporate Services is a function which is low profile but essential to the smooth running of the Department. The less visible it is, the more it can be said to be performing effectively.

During 1999 the Department operated from two sites in Pretoria and one in Cape Town. In addition, the Pensions Administration operates from a number of additional sites.

In 1999 the Chief Directorate made impressive progress facilitating the Department's move to the old Reserve Bank building on Church Square, which is on schedule for mid-2000.

Simoné le Hane

Human Resources

During most of 1999 this crucial function was headed by an interim manager while we tried to appoint an HR Director in a permanent capacity. There are 14 staff working in the Directorate.

The Department employs relatively few people and has 323 posts (including PIC but excluding Pensions Administration) on its establishment. 225 of these posts were filled as at end December. The Pensions Administration programme has 464 posts on its establishment. It has a large clerical and administrative component, and a staff structure similar to that found in other service-delivery departments. The other Departmental functions involve relatively small staff numbers, and include a substantial core of experienced and qualified economists and other professionals. A number of highly-skilled individuals work with the Department as secondees from other governments or institutions, or as senior managers on fixed-term contracts.

The directorate performs the range of functions typically associated with human resource operations. These include appointments, promotions and termination of service, salary and benefits administration, training, employee relations, job descriptions, business analysis, assessments of staff, and other policy matters. As at end December 1999 100% of staff in pensions administration and 89% of staff in the rest of the Department were members of a trade union.

The Department has not created a bargaining council for employees, as a result of a moratorium on establishing such bodies issued by the Department of Public Service and Administration.

In 1999 the Department implemented the new public service regulations regarding human resources, and is in the process of drafting new policies. It implemented a new code of conduct for public servants, disciplinary procedures, and methods of job evaluation. In particular, the Department introduced the 'balanced scorecard' system: a 4-dimensional tool for measuring the performance of senior management.

In 1999 the Department established a 'destitute fund' to provide loans to employees to assist during unforeseen personal crises. The fund was generated from the sale of refreshments sold to staff.

For the first time in 1999 the Department established an internal staff newsletter.

Human Resources management is also facilitating the transformation process of the department in line with government regulations. A more detailed analysis of staff composition and developments is included in the Transformation and Human Resources chapter of this report.

The recruitment, placement and retention of high calibre employees in this professional environment is of paramount importance. We do, however, experience difficulties in attracting and retaining experienced employees and therefore pursue other avenues like contracting out and making use of consultancies on a limited and needs-related basis.

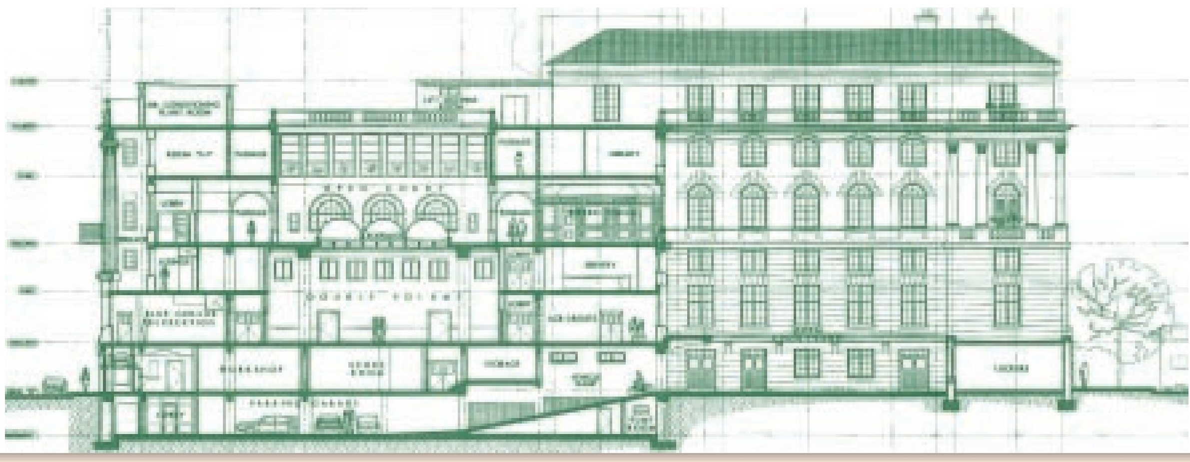
Move to new building

In 2000 the Department of Finance will move to new premises in the Old Reserve Bank building in Church Square. The complex consists of two national monument buildings, designed by Gordon Leith and Herbert Baker. The buildings are owned by the South African Reserve Bank, which will lease them to the Department.

90% of the offices will be open-plan, facilitating communication among staff, while allowing greater utilisation of space than under current office allocation guidelines. Moreover the move allows the Department to develop advanced information technology, including document imaging, electronic archiving, and new filing systems that promote a paperless environment.

The new building will be accessible to the disabled, as a result of close consultation between the Department and the National Environmental Access Programme. The new Children's Room will make the building child-friendly by accommodating the needs of civil servants with families; it was designed in consultation with the Department's Parents' Committee, and will be funded entirely through donations. The building's on-site Budget Council meeting room will allow important meetings to take place on-premises, ending the current practice of hiring expensive outside venues. Video-conferencing facilities will generate savings by cutting down on expensive departmental trips between Cape Town and Pretoria.

The building will better accommodate employees in a modern IT environment while saving money and contributing to the rehabilitation of Church Square. According to the project's mission statement, 'Members of the Department wish to be accommodated in pleasing, comfortable conditions and simultaneously, to maintain the historical integrity of these two fine buildings…The buildings are to offer appropriately modern accommodation to those who will use them'. Indeed, they provide a state-of-the-art building for the Finance Department.



Financial services

This directorate is headed by Wynnona 'Noekie' Steyn and is responsible for managing the Budget Vote, the Department's internal budget, the Department's expenditure as well as for provisioning and auxiliary services. It is staffed by 34 employees and has 12 vacant positions.

During the year employees attended courses in their respective field of responsibilities which included salary administration, provisioning administration and the implementation of the new Public Finance Management Act. Motivational and team building workshops, as well as a diversity workshops were attended by all.

The directorate is in the process of upgrading the budgetary and financial reporting systems of the department, and in 1999 processes and procedures were implemented and refined to ensure effective delivery of financial and provisioning administration services while ensuring compliance with regulations and instructions.

Two systems were implemented to assist with the operational demands of the directorate, namely:

LOGIS

The Directorate: Financial Software Support III of the Department of State Expenditure is in the process of implementing the Logistical Information System (LOGIS) at the Department of Finance. LOGIS is a government application supporting Accounting Officers to execute their responsibilities. This includes controlling stock (consumables) and inventory (moveable assets) within the Department as stipulated by the Treasury Instructions. An implementation readiness assessment was carried out in the Department during May 1999. A preparation plan has been compiled. The target date to go live on the system is the end of March 2000.

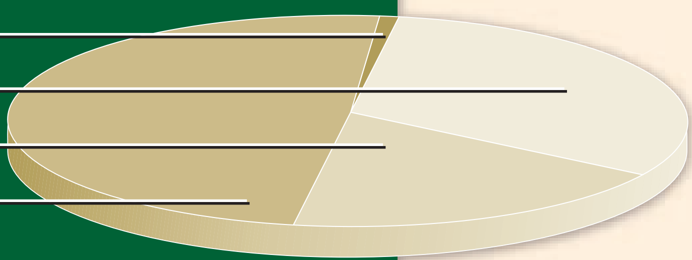
Management Information System

The Department has invested in a software system that will enable management to have departmental budget, FMS and PERSAL information, as well as a dedicated budgeting tool available at their desktops. The system has a drill down and analysis facility on the information imported from the PERSAL and FMS systems.

The system will also be used to compile the Department's budget; prepare the Medium Term Expenditure Framework budget and reporting schedules; and the

Budget Allocation FY1999/00
How the Department's Budget is spent

Operating budget	1%
Fiscal transfers	32%
Pensions and contributions	18%
Provincial transfers	49%



Appropriation Account. The system will not only facilitate the consolidation process of priority budgeting, but Budget Managers of the Department will have better access to information, enhanced reporting capabilities, simplified budgeting and greater monitoring of, and control over expenditure.

Financial control measures have been tightened to ensure compliance with Treasury Instructions and financial regulations. Staff members in the directorate endeavour to meet all deadlines and to uphold a high level of accuracy in all financial transactions. It also renders the above services to Pensions Administration and the Public Investment Commissioners secretariat.

This directorate is currently responsible for the Department's R8.2 billion budget vote, the overwhelming majority of which goes out in the form of transfers. Of the total budget only R91.4 million goes to the internal operation of the Department. The directorate is responsible for administering the transfer of funds to the provinces, the Financial and Fiscal Commission, the South African Revenue Service, the National Development Agency and the African Development Bank.

Other functions

Four other directorates operate within the Corporate Services programme – Information Technology, Communications, Legal Services, and Parliamentary Services.

The Legal Services directorate employs only one person, Des Ketani, and contracts-in specialist services, the Office of the State Attorney and the State Law Advisor when needed for functions like legislative drafting and similar.

IT and communication staff members developed and now maintain the Department's website – www.finance.gov.za – and ensures that all documents, speeches, reports from the Ministry and from the department are loaded on immediately and made available to the public.

All Y2K mission critical systems were ready for the rollover to the new year.

The Information Technology directorate is supported by consultants from various contract houses and are also providing in-house training to students in the IT field. While desktop and network support is provided by the Department, wide area network connections and Internet access is provided by the State Information Technology Agency (SITA). The Department of State Expenditure also provides access to the PERSAL, FMS and LOGIS systems used by the department.

This directorate currently provides network services to 230 users, located at two sites in Pretoria and one in Cape Town.

Corporate Services embarked on a Y2K remediation project in April 1998. By June 1999, all the mission critical systems were ready for the rollover to the new year. This event went by without incident. The Department's Y2K efforts were critical, given the need to safeguard state pensions, and the asset and liability management funds.

The Department also acquired and installed state-of-the-art networking and server equipment in 1999, thereby improving security, access speed and availability from existing levels. This directorate is also actively involved in the design and implementation of the networking infrastructure for the new premises. Finally, a tender for the installation of a Document Management and Imaging system has recently been awarded.

Public Investment Commissioners Secretariat

PIC staff at work.

The PIC secretariat operates within the Department of Finance, but with a high degree of autonomy. It is a statutory body within the Department and is governed by the Public Investment Commissioners Act, No 45 of 1984.

The Department is responsible for the human resource component of PIC; the Minister for appointing the Board; and the Board for oversight of the activities of the secretariat and its investment portfolio. The PIC is effectively self-funded and produces its own annual report which is tabled in Parliament. Its employees, for example, are appointed in terms of Departmental procedures, but the PIC pays for the salaries of employees on the payroll. For these reasons the Department's annual report will only briefly cover PIC-related activities during 1999.

The secretariat provides support for the Public Investment Commissioners, who are responsible for investing surplus public and other funds. These belong mainly to the Government Employees Pension Fund (GEPF). The PIC is also responsible for the investment of some 120 other funds including the Unemployment Insurance Fund, the Workmens' Compensation Fund and various guardian funds emanating from the Master of the Court. The secretariat is responsible for interpreting, coordinating and acting on the investment and trading strategies laid down by the Commissioners.

At last estimate, as at 31 December 1999:

- The value of the funds being managed was over R187 billion. This would make it, in effect, the third largest asset management organisation in the country;
- Most of the assets (52%) are in fixed interest investments, approximately 26% in equity, 13% in the money market, and 1% in property;
- The fund is responsible for net cash flows of between R18 and R20 billion per annum;
- The Isibaya Fund arose from the need for the PIC to invest part of its assets in social projects and acts as a separate fund of the PIC. This diversifies the PIC's asset portfolios and extend the scope of investments into social responsibility and infrastructure projects. The value of the Isibaya Fund is currently R540 million.

Twenty-four people are employed by the Department to work in the secretariat, six of whom are on contract. In addition there are eight external managers dealing with equity portfolio management and property management.

The first step in the transformation of the PIC was to reconstitute the Board of Commissioners by increasing its size. The commissioners are:

- Minister T A Manuel (ex officio)
- Deputy Minister M Mpahlwa (Chairperson)
- Director-General M Ramos
- Mr Z J Sithole
- Ms N Mtoba
- Mr I Sehoole
- Mr V Ntombela
- Mr J Strydom
- Mr C Turner
- Mr Y Waja

The Commissioners, since their appointment in July 1998, have assisted in taking the restructuring process forward. The Board now plays a more active role in overseeing the PIC's activities:

- Initially it focussed on governance issues and policy documents, formalising the relationship between the Board and its Executive Committee, as well as the delegation of powers.
- The Board also adopted terms of reference for the Audit Committee and the Audit Steering Committee, as well as a procurement policy.
- The Board sanctioned the establishment of an Investment Subcommittee and its terms of reference.
- The Board outsourced the internal audit function.

The Executive Committee members are:

- Dr F le Roux (Chairperson)
- Ms S le Hane
- Mr V Symmington
- Mr P Maritz
- Mr T Magwaza
- Mr R Ketley
- Mr E Masilela

The Audit Committee members are:

- Mr Z J Sithole (Chairperson)
- Mr J Strydom
- Mr I Sehoole
- Mr Y Waja

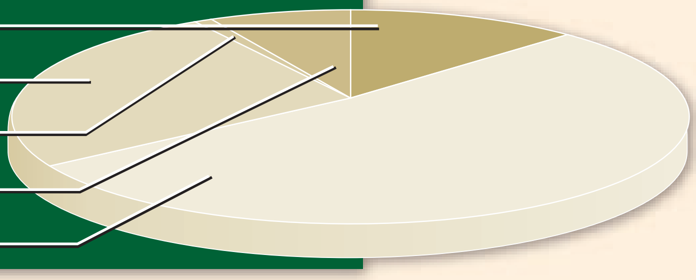
The Investment Committee members are:

- Mr C Turner (Chairperson)
- Ms N Mtoba
- Mr J Strydom
- Ms M Ramos

Although the PIC appears on the Department's budget it is essential, for sound governance and because of the size of its investments, to maintain a clear separation at policy and operational level. The PIC is housed in separate offices.

PIC asset allocation – 31 December 1999
(1998 figures in brackets)

Cash/Money Markets	13%	(13%)
Equity	26%	(22%)
Property	1%	(1%)
Other	8%	(8%)
Fixed Interest Investments	52%	(56%)



Major PIC activities

Amendments to the PIC Act. Uncertainty over the interpretation of certain sections of the PIC Act were clarified through a number of amendments. Historically the major portion of funds went towards financing central government deficits and the PIC was legally obliged to hold a large portion of its assets in loans to central government as well as to local authorities. The 1999 amendments provided for the PIC to invest in all asset classes that the Government Employees Pension Fund (GEPF) law allows for, and the freedom to invest in socially responsible projects. In addition the PIC now has a far greater degree of flexibility in terms of permitted investments.

Internal administration – For the first time the PIC published a consolidated report incorporating the annual report to Parliament and the Auditor-General's report. This step brings the PIC on par with accepted practice in the private sector.

The PIC has become fully GAAP- (or Generally Accepted Accounting Practice) compliant one year ahead of schedule. The PIC achieved Y2K compliance for its own systems and those of its vendors. These and other changes culminated in an unqualified audit report – an endorsement of the PIC's financial statements without reservations, which testifies to the high levels of efficiency attained by the PIC.

PIC sponsored a further six students during 2000, providing a valuable additional source of recruitment not only for the PIC, but for other asset managers.

Training – The training initiative undertaken in collaboration with Momentum Insurance and Investment College and the PIC's external portfolio managers is presently in its third year and has begun yielding results. The programme involves training for graduates from previously disadvantaged communities, over a ten-month period. The PIC and its five equity portfolio managers are funding some of the students at the College. Three students, upon completing the Momentum course in 1998, joined the PIC on a contract basis in 1999 to undergo in-house training on a mentorship basis. They have since been appointed permanently. Five trainees are currently undergoing further training under contract at the PIC. This is an ongoing training initiative and the PIC sponsored a further six students during 2000, providing a valuable additional source of recruitment not only for the PIC, but for other asset managers.

Internally, PIC staff are encouraged to enroll for further studies and funds are made available for this purpose. The PIC also makes use of seminars and training courses presented by local and overseas organisations as these impact on the PIC's field of activity.

Pensions Administration

Pensions Administration, as its name suggests, focuses on the smooth management and administration of a range of pension and benefit schemes, mainly those related to government employees. It operates mainly in terms of rules established by legislation and regulation, as well as agreements reached during collective bargaining between the state and unions representing state employees. Its main goal is to ensure that claims are lodged and benefits paid efficiently and effectively. The investment of funds is dealt with by the Public Investment Commissioners (PIC). In addition the Chief Directorate provides policy advice on various retirement issues on a regular basis to the Minister of Finance and his Deputy.

The Chief Directorate is led by a four-person team headed by Peet Maritz who has been with the Department since 1989. He is assisted by Morontshi Matsobane, Director of Schemes Development and Human Resources, and Thokozani Magwaza, Director of Operations. Both joined the Department two years ago and bring a wealth of private sector and NGO experience to the job. In 1999 Iemrahn Hassen, a chartered accountant, was appointed as Director of Financial Administration.

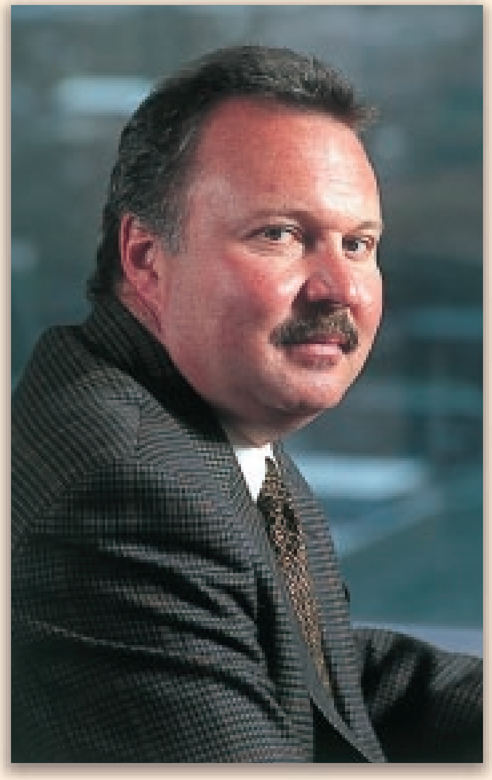
Functions

Pensions Administration performs a number of functions including:

- management of the Government Employees Pension Fund (GEPF) – one of the largest pension funds in the country;
- management of a range of benefit and pension schemes, including military and special pensions;
- management of the Bophutatswana National Provident Fund (BNPF);
- management of two closed funds with remaining members to service;
- policy advice to the Minister of Finance regarding the retirement arrangements of public servants and the industry in general.

Each of these will be dealt with in turn.

Clockwise from below: Peet Maritz, Morontshi Matsobane, Thokozani Magwaza



Pensions Administration runs from offices in Pretoria and also has regional offices in Pietersburg, Umtata and Mmabatho. There are plans to expand to other Provinces to provide a professional service to members and pensioners. Pensions Administration focuses on service delivery to members of the public, a function which is, in many respects, different to those performed by the rest of the Department.

The relevant legislation governing its various activities is:

- Government Employees Pension Law, 1996 (Proclamation No.21 of 1996)
- General Pensions Act, 1979 (Act No. 29 of 1979)
- Temporary Employees Pension Fund Act, 1979 (Act No. 75 of 1979)
- Associated Institutions Pension Fund Act, 1963 (Act No. 41 of 1963)
- Special Pensions Act, 1996 (Act No.69 of 1996)
- Military Pensions Act, 1976 (Act No. 84 of 1976)
- Members of Statutory Bodies Pension Act, 1969 (Act No. 94 of 1969)

In addition a number of laws are applied in administering various pensions. These include:

- Pension Funds Act, 1956 (Act No. 24 of 1956)
- Labour Relations Act, 1995 (Act No.66 of 1995)
- Public Service Act, 1994 (Proclamation No. 103 of 1994)
- Divorce Act, 1979 (Act No. 70 of 1979)
- Administration of Estates Act, 1956 (Act No. 66 of 1965)
- Prescription Act, 1969 (Act No. 68 of 1969)
- Prescribed Rate of Interest Act, 1975 (Act No. 55 of 1975)

Government Employees Pension Fund (GEPF)

Management of the GEPF is the major activity of the Chief Directorate. It formed as the result of the amalgamation of several funds previously under their own administration, as government wanted one fund with a homogeneous benefit structure for the entire public service. The fund is one of the largest in the country and provides a range of benefits to government employees. These benefits include:

- **Retirement** benefits, providing a pension for those reaching retirement age or leaving on early retirement
- **Ill-health** retirement benefits for employees leaving service prematurely for medical reasons
- **Death** benefits for employees or their spouses, with differing benefits dependent on whether death is before or after retirement
- **Early withdrawal** payments for members who leave for reasons ranging from resignation to dismissal to retrenchment

The fund receives contributions from:

- Members – equivalent to 7,5% of pensionable salary and 7% of annual bonus
- The Employer – equivalent to 15% of pensionable salary and 21% of annual bonus

A trustees report is prepared and published annually. Latest available figures indicate that the fund:

- has, at last actuarial evaluation, almost 1 108 million contributing members, and 225 000 pensioner members, with approximately 78% being past members and the balance being spouses.
- received R14,8 billion in contributions during the last financial year
- has accumulated assets with a market valued estimated to be worth close to R162 billion as at end-March 1999.

Benefits paid for the last financial year (to end-March 1999) amounted to almost R12,5 billion. This included gratuity payments amounting to R4,8 billion, which should be seen in relation to an amount of R8,3 billion for the preceding financial year. The huge decrease relates to the granting of voluntary severance packages and the benefits associated with these in the previous year. Normal annuities paid amounted to R5,3 billion with the remainder of benefits being paid to spouses, dependants and estates of deceased members.

The actuary upon the last actuarial valuation (31 March 1998) reported the fund to be 96.5% funded which shows a significant improvement from the 72% reported previously. The unfunded liability amounted to only R5,26 billion.

Contributions – During 1996/97 the Department started with electronic reconciliation of contributions per employer which allowed for differences between employer/employee totals and actual payments to be followed up with the employer and recovered. In 1998, deductions via ACB based on Persal salary information were instituted. This meant that the total contributions after each salary run on Persal were automatically deducted from the employer's bank account. The total amount outstanding for the year under review amounts to only R92 million. In January 1999 we implemented an electronic reconciliation process where data from Persal is matched with membership records (our database) and all new admissions are now done electronically. Since this date, there is a monthly contribution record (cash flow), for all types of payments received, per individual member. At this stage, less than 2% of contributing members do not have an active pension number and we are in the process of following up on these cases. Monthly reports on contributions are compiled detailing all relevant statistics in terms of membership numbers and amounts per type of payment, for each employer.

Bophuthatswana National Provident Fund

Pensions Administration is responsible for managing this provident fund, a remnant of the former Bophuthatswana 'homeland'. The BNPF had assets of approximately R361 million as at end-March 1999. At this date the fund consisted of 3 500 active members and 220 000 dormant members.

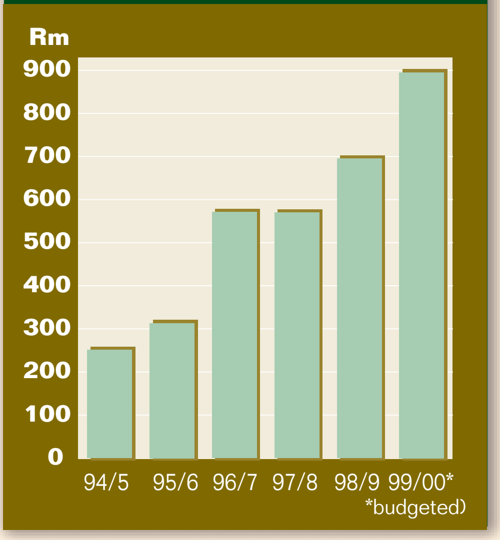
During 1999 the administration of the Fund was outsourced to NBC Actuaries and Consultants. The Minister of Finance is currently awaiting a formal report into the viability of the fund following which the Bophuthatswana National Provident Fund Act is to be repealed. The Fund is to be registered as a privately administered provident fund in terms of the provisions of the Pension Fund Act, 1956 and the Income Tax Act, 1962.

Various other benefit and pension schemes

The administration is also responsible for the smooth running of various other pension schemes. These include:

Military Pensions. The Military Pensions Act (No. 84 of 1976) makes provision for pensions to be paid to former serving members of the National Defence Force or their dependants, as well as ex-soldiers in compensation for death or permanent disability sustained in active service. As at 31 January 2000 there were 8 300 people on the pensioner roll. The Special Pensions Amendment Bill provides for the inclusion of members of the former non-statutory forces (such as those who served in Umkhonto we Sizwe). Military pensions are paid for by the fiscus. During FY 98/99 an amount of R138 million was paid and an amount of R148 million was allocated for FY 99/00.

The escalating costs of medical aid subsidies



Medical Aid subsidy payments

Pensions Administration also manages medical aid subsidy payments in respect of retired civil servants. It is a condition of service that retired government employees who received a medical aid subsidy, continue to get subsidised medical aid membership after retirement or termination of service, subject to certain conditions.

At present about 97 600 active retirees benefit from this arrangement. The cost is borne directly by the fiscus and is in addition to provision for retirement benefits contained within the GEPF. An amount of R695 million has been paid in the year under review and projected expenditure for FY 99/00 amounts to R895 million. The escalating cost of medical care affects the expenditure. The attached chart outlines the escalation since the establishment of formal management of this benefit in 1994.

Closed funds

The programme continues to manage two closed funds – the Temporary Employees Pension Fund (TEPF) and the Associated Institutions Pension Fund (AIPF). These funds must still provide benefits but no longer accept new members, and are to all intents and purposes, closed funds. Their membership mainly consists of employees and former employees of associated institutions such as statutory and scientific boards, universities, technikons, museums and similar institutions.

The escalating cost of medical assistance is a source of concern.

Temporary Employees Pension Fund. Membership of this fund totals 2 218 (1,994 active members and 224 pensioners). The market value of accumulated assets as at 31 March 1999 totalled R2 127 million.

Contributions received for the year ending 31 March 1999 amounted to R4 million whilst benefit payments totalled R6,4 million. The negative cash flow should be seen in the context of the fund being for all practical reasons, closed. As at the last interim actuarial valuation, 30 April 1996, the actuary reported the fund to be 61,1% funded.

Associated Institutions Pension Fund. Membership of the AIPF totals approximately 15 618 members – 3 861 active and 11 757 pensioners. The market value of accumulated assets as at 31 March 1999 totalled R6 527 million.

The high pensioner dependency ratio of the fund mainly results from the option afforded to all associated institutions (with effect from end-March 1994) to establish their own pension funds and afford their employees the option to transfer to the aforementioned funds in terms of the provisions of Regulation No. R.8.21 dated 22 April 1994. Some 88% of contributing members and 16% of pensioners exercised the option to transfer from the AIPF to the newly established funds of their employer.

Contributions received for the financial year ending 31 March 1999 amounted to R61 million whilst benefit payments amounted to R423 million. The negative cash flow of the fund should be seen in the context of the fund's high pensioner dependency ratio. As at the last interim actuarial valuation, 31 March 1995, the actuary reported the fund to be 84,3% funded.

Activities

Major activities by the Department's Pension Fund Administration during 1999 included:

Building effective communication – Pensions Administration developed a number of initiatives with all clients of the government pension funds and benefits schemes. These included:

- Development of a training manual for employer departments. A GEPF team conducted training sessions and roadshows to inform employer departments on the GEPF Law and Rules, and addressed concerns regarding the completion of withdrawal information and changes in the applicable tax legislation.
- The GEPF also conducted various information sessions with some employer organisations on the financial status of the GEPF.
- Development of a new user-friendly pensioner card for all civil pensioners.
- Creation of a newsletter to keep the 1.2 million members of the GEPF informed of developments in the fund.

For these and other efforts the GEPF was awarded the Golden Arrow award as the best group pension fund after a survey of more than 60 departments was conducted by Professional Management Review magazine.

Improving pension payouts. The Chief Directorate successfully addressed the backlog of pension benefits payments caused by administrative constraints. As at 31 January 2000 the total number of exit documents with the GEPF administration was 9 940 compared to 19 202 at 31 January 1999.

Policy advice and inputs to the Minister. The Chief Directorate produced for the first time a report to the Minister on the post-retirement medical assistance liability of the state as employer. The report and recommendations were accepted and form the basis for the renegotiation of medical service benefits for civil servants, under the auspices of the DPSA.

The Chief Directorate successfully addressed the backlog of pension benefits payments caused by administrative constraints.

New pension fund. A pension fund for political office bearers was developed and registered with the Financial Services Board. Investment managers mandated according to the Fund rules were appointed.

Information technology. The chief directorate successfully outsourced its IT systems to a private sector IT company. The programme developed a Y2K project to ensure the compliance of all information systems and prevent breakdowns in this critical area of government service. No problems were experienced as a result of the roll-over to the new year.

Internal audit section. The internal audit section of the GEPF became operational in 1999. Various reports have been submitted and recommendations are currently being implemented.

Training and development. The chief directorate has undertaken an extensive training programme, ensuring that staff development is taken seriously. These include sessions on job descriptions and on the new public service regulations, courses on client service, information sessions on skills audits, and a range of computer skills courses arranged with outside institutions.

Transformation and Human Resources

Transformation involves changing all aspects of the Department's work. It entails re-orienting the Department externally towards achieving the post-apartheid national objectives of growth, development and redistribution. At the same time it involves internal transformation by focussing on transparency, professionalism and a representative staff complement. This chapter focuses on the internal changes within the Department, especially the human dimension. It is guided by the reporting requirements outlined in the Public Service regulations.

The Finance Department covers two very different functions. There is a core Department performing the normal regulatory and policy functions associated with treasuries worldwide; and a Pensions Administration section with specific administrative duties. To assist in analysis these are presented separately for much of this chapter.

Staff profile

Size of establishment

At year-end the Department employed 635 people. The Finance section employed 225 people, all based in Pretoria, apart from a small Parliamentary Office in Cape Town. The Pensions Administration section employed 410 people working in offices in Pretoria, Pietersburg, Umtata and Mmabatho.

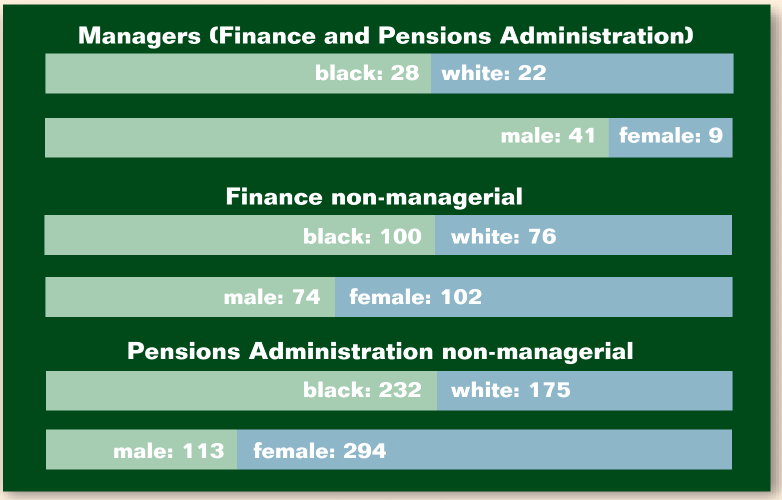
Staff working for the Public Investment Commissioners office are included on the

Staff establishment as at end-December '99

		FINANCE			PENSIONS ADMINISTRATION		
Typical jobs	**Post level**	**Approved posts**	**Filled**	**Vacant**	**Approved posts**	**Filled**	**Vacant**
Support staff	1	5	1	4	10	2	8
	2	27	14	13	34	27	7
Clerks	3	9	5	4	23	18	5
	4	13	5	8	83	75	8
	5	33	18	15	91	88	3
	6	28	18	10	73	67	6
Officers	7	25	21	4	71	65	6
	8	24	21	3	42	37	5
Assistant Director	9	32	25	7	18	15	3
Economists	10	6	2	4	6	5	1
Deputy Director	11	45	36	9	5	5	0
	12	17	10	7	3	3	0
Director	13	41	32	9	4	2	2
Chief Director	14	11	11	0	1	1	0
Deputy-DG	15	4	3	1			
Director-General	16	1	1	0			
Ministry	16+	2	2	0			
		323	**225**	**98**	**464**	**410**	**54**

(Source: Persal report 7.6.8 -- 01 + 02) establishment. However, the PIC reimburses the Department for the personnel expenditure associated with these employees.

At the end of the year, 98 positions at Finance and 54 positions at Pensions Administration were vacant. This is a vacancy rate of 30% and 12% respectively -- and 24% overall. A moratorium on new recruitment was put in place in October while the possibility of combining the Departments of Finance and State Expenditure was being explored.



Representivity

The table alongside provides a breakdown of the number of employees by race, gender and post level. They are analysed below excluding the Minister and Deputy Minister.

Gender profile

Key observations include:

- at year-end the Department was 36% male and 64% female. This compares to 66% female as at end-1998.
- the under-representation of men occurs substantially in non-managerial posts in the Pensions Administration section where the posts are largely administrative: women comprise 72% of these posts compared to 73% at end 1998. In the

Representivity profile as at end December '99

	Finance								
Post level	Filled	African		Coloured		Indian		White	
		M	F	M	F	M	F	M	F
16 +	2	1		1					
16	1								1
15	3							3	
14	11	4			1	2		4	
13	32	8	5	3		3		11	2
12	10	4						6	
11	36	11	5	4			1	9	6
10	2							2	
9	25	9	5			1		2	8
8	21	5	5		3			3	5
7	21	2	3		3		1	3	9
6	18		5		1				12
5	18		9		2		1	1	5
4	5		1		2			1	1
3	5	2	1		1				1
2	14	4	6	2				2	
1	1			1					
	225	**50**	**45**	**11**	**13**	**6**	**3**	**47**	**50**
		95		**24**		**9**		**97**	

	Pensions Administration								
Post level	Filled	African		Coloured		Indian		White	
		M	F	M	F	M	F	M	F
16 +									
16									
15									
14	1							1	
13	2	2							
12	3	1						1	1
11	5		1					2	2
10	5	2				1			2
9	15	3	2		1	3		1	5
8	37	7	6					5	19
7	65	15	19	1			1	4	25
6	67	4	18	3	4		4	2	32
5	88	9	21	2	8	2	2	9	35
4	75	11	19	2	10	1	3	1	28
3	18	11	6						1
2	27	10	17						
1	2		2						
	410	**75**	**111**	**8**	**23**	**7**	**10**	**26**	**150**
		186		**31**		**17**		**176**	

(Source: Persal report: 7.6.8 -- 01 + 02)

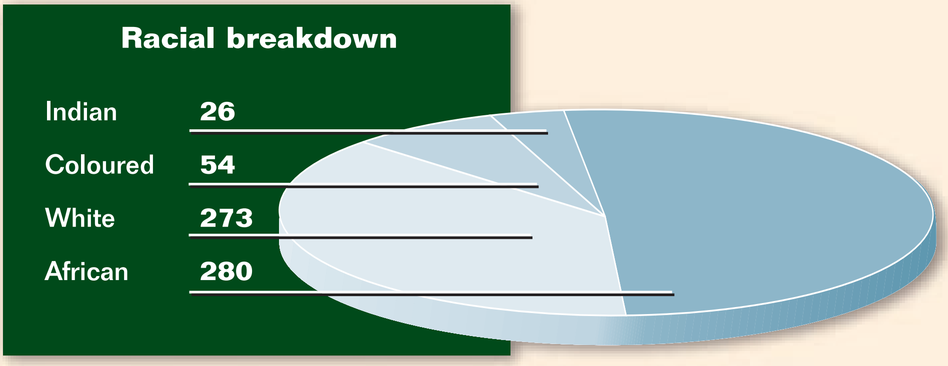
Finance section women comprise a more acceptable 58%, the same proportion as the previous year.

- only 18% of the managerial posts are filled by women, compared to 26% the previous year. There is clearly a need for further work to address this under-representation and to attract and retain suitably qualified women.

Racial profile

Key observations include:

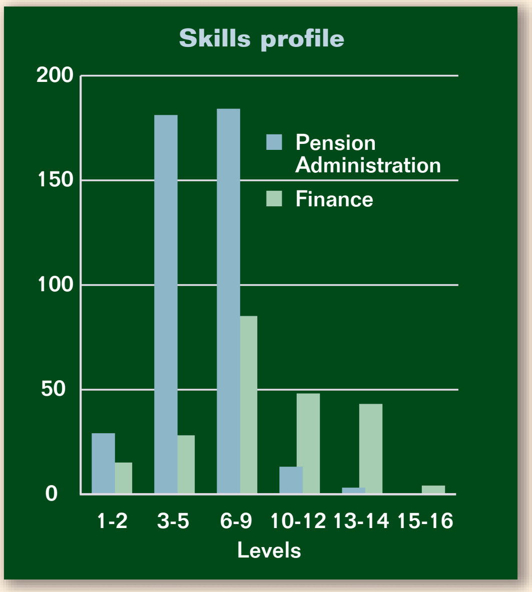
- at year-end the Department was 57% black and 43% white, an improvement over 1998 when 54% of the staff were black;
- the attached piechart illustrates the racial breakdown;
- although there has been an improvement compared to a year ago, there remains some way to go before broadly representative staff complements are achieved;
- 56% of the managerial posts are filled by black incumbents, compared to just under 56% a year earlier. There is clearly a need for further progress in this regard. There are difficulties in attracting and retaining skilled personnel in senior posts within the Department.



Skills profile

The chart alongside gives an idea of the skills profile of the Department by section. It uses the broad-banding system common in government. The statistics indicate that:

- women are well-represented in the Department, but this proportion drops sharply from Director level upwards;
- the Department's structure focusses on clerical and administrative skills in the Pension Administration section and professional and other higher-level skills in the Finance section.



Disability

The Department currently employs six disabled persons. Facilities at the Department's new building should make it easier to employ more disabled people.

Foreign appointees

No non-South African citizens were employed during 1999. The Department is, however, fortunate to be able to use the services and experience of a number of specialists seconded to the Department in terms of agreements with other countries and institutions.

Affirmative action programme

The Department's Affirmative Action policy provides that vacancies on the establishment (due to normal mobility) should be utilised to achieve representivity targets.

The Department is committed to the targets set out in the White Paper on the Transformation of the Public Service, which aims at having black managers comprise at least 50% of the total by end 1999, and at having women managers comprise at least 30%. The former target has been reached, but difficulties in attracting and retaining suitable candidates mean the latter goal must still be attained. The Department has made progress in reaching the disability target of 2% by year 2005.

Personnel expenditure

The Department's budget allocation for the current financial year (FY99/00) is analysed from a personnel perspective in the attached table.

Budget Allocation

Total budget	R 8 234 167 404
Minus: Inventories, equipment, transfer payments, land and buildings, miscellaneous expenditure	R 8 128 710 653
Subtotal of which:	**R 105 456 751**
Personnel expenditure =	R 48 953 736
Administrative expenditure =	R 12 851 740
Professional and Special Services =	R 43 651 275

(Source: White Book FY 99/00)

Key features:

- the bulk of the budget comprises transfer payments and payments to beneficiaries. For FY 1999/2000 transfer payments totalled R6,76 billion;
- personnel expenditure comprised 46,4% of the subtotal budget;
- administrative expenditure includes some smaller personnel items such as bursaries and training expenditure;
- professional and special services includes some consultancy fees.

Actual expenditure (not yet audited) during the calendar year 1999 indicates:

Actual Personnel Expenditure

Total personnel expenditure	R26 600 712	
of which: overtime, benefits and allowances	R 5 701 681	21,4%

(Source: BAS report)

Training and development

Since 1997, the Department has advanced considerably in its approach towards education, training and development of its human resources. A Training Co-ordinator was appointed in May 1999. The Department wants its employees to be professional, competent and productive and capable of delivering quality services. An Education, Training and Development policy has been developed, but is not yet finalised.

During the 1999/2000 financial year, the training and development budget has been set at just under R1,19 million, or 2,4% of the total personnel budget.

Establishment of sector training authority

The Department has been involved in the Financial and Accounting Services Sector Education and Training Authority (FASSETA), and is represented on its management board. This SETA will come into effect from 1 April 2000 in accordance with the Skills Development Act. It is envisaged that FASSETA will address the learning needs of around 70,000 employees in the formal sector, of which Government comprises the largest part.

Bursaries and training assistance

The Department awarded 29 bursaries at a total cost of R370 609 for studies towards formal qualifications in 1999.

The Department awarded 29 bursaries at a total cost of R370 609 for studies towards formal qualifications in 1999.

Training courses

The Department sent employees on a range of training courses. These ranged from basic computer courses attended by up to 400 employees each, to orientation training for new employees. In addition staff members attended a range of public service courses offered by the South African Management Development Institute and a number of slightly longer courses offered by the London School of Economics, Harvard University and the World Bank. One staff member won a Mandela Scholarship for two years' study abroad.

Other matters

Health and safety

In respect of incidents of injury, illness and death occurring in the course of official duty or in the work environment during 1999:

- three employees in Finance reported non-serious accidents/injuries;
- eleven employees in Pensions Administration reported non-serious, non-permanent injuries.

Job evaluation

The Department is in the process of implementing the EQUATE job-evaluation system as prescribed in the new Public Service Regulations. The aim is to ensure that work of equal value is remunerated equally. Three Department employees have been trained as job analysts and this process should reach fruition in 2000.

AIDS/HIV awareness programme

The Department has established an AIDS/HIV committee charged with developing programmes for employees. These focus on education and awareness. The committee was launched on 1 December, International AIDS day. Speakers at the launch included HIV-positive Sowetan journalist Lucky Mazibuko, and AIDS expert Professor Whiteside. The launch was opened by the Deputy Minister.

Labour relations and collective agreements

There is no bargaining council in the Department. Public Service Co-ordinating Bargaining Council agreements are implemented. The current trade union representation in the Department is:

- The Public Servants Association (representing approximately 41% of employees);
- The National Education Health and Allied Workers Union (representing approximately 52% of employees);
- Others represent approximately 2%.

It should be noted that some employees belong to more than one trade union, while others are not union members. All employees at Pensions Administration are union members, and approximately 89% of the Finance section. During 1999 no collective agreements were concluded.

Sick leave

Figures for sick leave for 1999 are summarised in the table below.

In analysing the above statistics:

- there is a different incidence in the use of sick leave between the Department's two sections.
- the higher cost per day lost in Finance reflects the higher salary/skill structure of that section.

Sick leave

	Finance	Pensions Admin	Total
# employees	225	410	635
# sick days	1054	5187	6243
Average days per employee	4.7	12.7	9.8
Estimated cost	R239,462	R921,630	R1,161,092
# employees taking more than 15 days sick leave	13	44	57
Percentage of total # employees	5,8%	10,7%	9,0%

(Source: Persal report 7.11.4)

Staff turnover

During 1999, 90 employees left the Department. The reasons for leaving are listed in the attached table.

In analysing the statistics:

- there were 3 dismissals and no retrenchments;
- the total of 90 employees who left during 1999 represent 14,2% of the total staff complement at year end, and ranges from 23,5% for Finance down to 7,3% for Pensions Administration;
- there are difficulties in retaining skilled staff, especially within the core Finance Department, as indicated by the turnover rates.

Staff turnover

	Finance	Pensions Admin	Total
Dismissed	0	3	3
Resigned	30	2	32
Retired	0	21	21
Contract expired	21	0	21
Voluntary Severance Package (VSP)	9	0	9
Death	0	3	3
Retrenched	0	0	0
Medically unfit	0	1	1
TOTAL	**60**	**30**	**90**

(Source: Persal report 4.8)

Annexure 1

Legislation 1999

Legislation introduced by the Minister of Finance and passed by the National Assembly during 1999:

- Public Finance Management Act (Act 1 of 1999)
- Public Investment Commissioners Amendment Act (Act 7 of 1999)
- Skills Development Levies Act (Act 9 of 1999) - prepared by Department of Labour, tabled by Minister of Finance
- Public Finance Management Amendment Act (Act 29 of 1999)
- Division of Revenue Act (Act 30 of 1999)
- Financial Markets Control Amendment Act (Act 40 of 1999)
- Closed Pension Fund Amendment Act (Act 41 of 1999)
- Mutual Banks Amendment Act (Act 54 of 1999)

Annexure 2

Institutions associated with the Department

The Department works closely with a number of public institutions. They have operational and institutional independence and, in some instances, constitutionally-guaranteed autonomy. They produce their own annual reports.

Coin Liabilities SA Reserve Bank subsidiary

Corporation for Public Deposits
Corporation for Public Deposits Act (#46, 1984)

Development Bank of Southern Africa
Development Bank of Southern Africa Act (#13, 1997)

Financial & Fiscal Commission
Financial & Fiscal Commission Act (#99, 1997)

Financial Services Board Financial Services Board Act (#97, 1990)
The following report to it:
- Pension Fund
- Financial Markets Advisory Board
- Pensions Funds Advisory Board

Unit Trusts Advisory Advisory Committee on short term Insurance

Independent Development Trust

Annexures

Public Accounts and Auditors Board	
Policy Board for Financial Services and Regulation	Policy Board for Financial Services and Regulation Act, 1993 (# 141, 1993)
Public Investment Commissioners	Public Investments Commissioners Act (#45, 1984)
SA Banknote Company	SA Reserve Bank subsidiary
SA Mint Company	SA Reserve Bank subsidiary
South African Reserve Bank	SA Reserve Bank Act (#90, 1989)
South African Revenue Service	SA Revenue Services Act (#34, 1997)
South African Special Risks Insurance Association (SASRIA)	Conversion of SASRIA Act (#134, 1988)
Special Pensions Board	
Special Pension Advisory Board	
State Tender Board	
Statistical Council	Statistics Act (#66, 1976) Tax Advisory Committee
Tax (Katz) Commission	
Registrar of Banks	Reports to SA Reserve Bank

REPORT

OF THE

AUDITOR-GENERAL

ON THE

FINANCIAL STATEMENTS OF VOTE 14 — FINANCE

FOR

THE YEAR ENDED 31 MARCH 1999

PUBLISHED BY AUTHORITY

RP 137/1999

ISBN 0-621-29403-9

Obtainable from the Government Printer, Bosman Street. Private Bag X85, Pretoria 0001. Tel: (012) 334 4507 / 4510

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF VOTE 14 — FINANCE FOR THE YEAR ENDED 31 MARCH 1999

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 84 to 93, for the year ended 31 March 1999, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on the financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT

2.1 NATURE AND SCOPE

2.1.1 Financial audit

The audit was conducted in accordance with generally accepted government auditing standards which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

2.1.2 Compliance audit

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations applicable to financial matters. I believe that the audit provides a reasonable basis for my opinion.

2.2 QUALIFICATION: COMPLIANCE AUDIT

2.2.1 Unauthorised expenditure

In terms of section 33(1)(d) of the Exchequer Act, 1975 (Act No. 66 of 1975), the following instances of expenditure totalling R97 253 are regarded as unauthorised and are reported as such:

(a) The department incurred printing costs of R64 980 without prior approval or exemption by the State Tender Board. *Ex post facto* approval was not granted.

(b) The department paid the accommodation costs of newly appointed employees amounting to R32 273 in contravention of the Public Service Regulations.

As this unauthorised expenditure is not material and is due to technical contraventions of the regulations, it will only be listed in terms of the proviso contained in section 5(d) of the Auditor-General Act, 1995 (Act No. 12 of 1995).

2.2.2 Income recovered not paid to Revenue

Amounts totalling R554 348 owed by staff and recovered from their severance packages were not accounted for as income and paid to the Receiver of Revenue as required by Treasury instruction. The effect is that personnel expenditure and departmental income are both understated by this amount.

2.3 AUDIT OPINION

2.3.1 Unqualified opinion: Financial audit

In my opinion, the financial statements fairly present, in all material respects, the results of the operations of the department for the year ended 31 March 1999, in accordance with prescribed accounting practice.

2.3.2 Qualified opinion: Compliance audit

Except for the matters referred to in paragraph 2.2, the transactions of the department that I have examined during the course of the audit were in my opinion, in all material respects, made in accordance with the relevant laws and regulations, applicable to financial matters.

3. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

3.1 INTERNAL AUDIT

Although efforts were made, no internal audit function and audit committee were established by the department as required by the financial regulations.

3.2 ININCO INVESTMENT CORPORATION

As reported in paragraph 2.3(4) on page 13-3 of the 1996-97 report, the Standing Committee on Public Accounts decided that the Department of Finance should manage the transfer of the Ininco Investment Corporation's shares and should ensure that no losses were suffered by the state. In spite of various initiatives by the department (some of which were reported on to the Standing Committee on Public Accounts during 1998) no progress had been made. The probability of recouping this investment seems remote both from a legal and financial perspective.

3.3 CLOSED PENSION FUND

The Closed Pension Fund Amendment Act, 1999 (Act No. 41 of 1999), promulgated on 1 October 1999, came retrospectively into effect from 5 January 1994, and thereby authorised all the interest payments to the Closed Pension Fund which were previously reported as unauthorised.

3.4 INTERNAL CONTROL

Certain internal control matters were brought to the attention of the department, which relate mainly to procurement of goods and services; recruitment, appointment and compensation of employees; calculation and allocation of expenditure; government transport; control over entertainment allowances and journals.

3.5 FOLLOW-UP COMPUTER AUDIT OF THE GENERAL CONTROLS WITHIN THE STOCK SYSTEM — STATE DEBT

The above-mentioned audit was completed during September 1999 and the findings were brought to the attention of the accounting officer.

The following key findings arising from the audit indicate that adequate general control measures with regard to the information technology environment, in order to ensure the effective and continuous operation of the data processing function, were still awaiting implementation:

(1) Several shortcomings were identified with regard to organisational structure and operating procedures. For example, a master system plan and network policy did not exist, a formal service level agreement with the State Information Technology Agency (former Central Computer Service) could not be submitted and an undertaking to comply with the security policy was not signed by all the relevant parties.

(2) Segregation of duties between the critical job functions of database administrator and NATURAL security administrator as well as job descriptions in this regard, did not exist.

(3) The program source code was installed in the development environment, which had the effect that programmers could make unauthorised changes to it. Furthermore, program change logs were not reviewed.

(4) System logs, violation reports and the report used to monitor the activities of the SURROGATE user identification were not reviewed. Change request forms, as prescribed in the security policy, could also not be submitted.

(5) Various shortcomings were identified in respect of the disaster recovery plan. The backup and recovery procedures, off-site backup storage and backup register for the Personal Computer System were inadequate.

The comments of the accounting officer were received on 9 March 2000 and will be evaluated in due course.

3.6 COMPUTER AUDIT OF THE APPLICATION CONTROLS WITHIN THE GOVERNMENT STOCK SYSTEM

The above-mentioned audit was completed during June 1999 and the findings were brought to the attention of the accounting officer.

Although the audit indicated that strong controls existed to ensure the validity, completeness and accuracy of input, processing and output, the following key findings indicate that controls could be further improved:

(1) Evidence did not exist that manual reviews had been performed to ensure the accuracy of input, issuing and splitting of stock, maintenance of stock certificates and issuing of additional stock.
(2) Changes made to standing data, were not reviewed.

In her comments, the accounting officer referred to various corrective steps taken. The effectiveness of these steps will be evaluated by audit in due course.

4. APPRECIATION

The assistance rendered by the staff of the department during the audit is sincerely appreciated.

S A FAKIE,
Auditor-General.

Pretoria,
10/03/2000.

Vote 14 — FINANCE
APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31 MARCH 1999

Programmes	Original estimate (RP 2 & 4)	Vote 19: Improvement of Conditions of Service	Adjustments estimate (RP 5)	Amount voted		Notes	Expenditure		Saving (Excess)		Notes
	1998-99	**1998-99**	**1998-99**	**1998-99**	1997-98		**1998-99**	1997-98	**1998-99**	**1998-99**	
	R'000	**R'000**	**R'000**	**R'000**	R'000		**R'000**	R'000	**R'000**	**%**	
1. Administration	**23 788**	**860**	**502**	**25 150**	15 046	1	**18 759**	11 035	**6 391**	**25,41**	3
2. Financial and economic measures	**33 419**	**923**	**2 098**	**36 440**	26 794	1	**27 051**	25 071	**9 389**	**25,77**	3
3. Exchequer financing	**11 644**	**358**	**1 212**	**13 214**	4 261	1	**8 092**	6 261	**5 122**	**38,76**	3
4. Fiscal transfers	**1 913 353**	**34 537**	**198 284**	**2 146 174**	1 347 806	1	**2 154 097**	1 245 466	**(7 923)**	**(0,37)**	
5. Civil pensions and contributions to funds	**1 057 311**	**—**	**197 593**	**1 254 904**	1 190 128	1	**942 240**	1 001 038	**312 664**	**24,92**	3
6. Military pensions and other benefits	**135 793**	**—**	**—**	**135 793**	127 555	1	**127 494**	114 943	**8 299**	**6,11**	3
7. Provincial transfers	**2 800 000**	**—**	**1 207 567**	**4 007 567**	82 531 083	1,2	**4 001 168**	82 398 030	**6 399**	**0,16**	
8. Associated services	**7 772**	**—**	**(3 600)**	**4 172**	3 477	1	**2 982**	175	**1 190**	**28,52**	3
Authorised programmes	**5 983 080**	**36 678**	**1 603 656**	**7 623 414**	85 246 150		**7 281 883**	84 802 019	**341 531**		
Plus:											
Authorised losses	**—**	**—**	**—**	**—**	—		**184**	485	**(184)**		4
Totals	**5 983 080**	**36 678**	**1 603 656**	**7 623 414**	85 246 150		**7 282 067**	84 802 504	**341 347**		5
								% of amount voted	**4,48%**		

Department of Finance,
Pretoria, 27/01/2000.

F LE ROUX,
Acting Director-General: Finance,
Acting Accounting Officer.

Note: During the adjustments estimate, virement was applied to the original estimate amounts. At the end of the financial year a further R8,8 million was approved by the accounting officer for shifting of funds (virement). This amount is not included in the adjustments estimate column. These funds were shifted from Programme 5: Civil pensions and contributions to funds to Programme 4: Fiscal transfers. An additional R200 million was approved by the Minister of Finance in terms of section 7(1)(b)(i) of the Exchequer Act for the Free State Province. Expenses were allocated to Programme 7: Provincial transfers.

FIXED STATUTORY AMOUNTS
Amounts forming a direct charge on the National Revenue Fund

Service	Expenditure
	R'000
Commitments in respect of State Debt (section 20 of the Exchequer Act, 1975 (Act No. 66 of 1975)):	
Interest	42 663 481
Management charges	659 016
Cost of loans	6 198 288
	49 520 785
Less:	
Discount on loans	6 193 804
Total in respect of state debt	43 326 981 *
Provinces (Section 213 of the Constitution, 1996 (Act No. 108 of 1996))	79 117 435
Total	122 444 416

* Total amount voted: R43 712 931 000

F LE ROUX,
Acting Director-General: Finance,
Acting Accounting Officer.

Department of Finance,
Pretoria, 27/01/2000.

ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE APPROPRIATION ACCOUNT

1. Accounting policy

The appropriation account reflects the vote per programme and the actual expenditure relating thereto.

The appropriation account is, unless otherwise indicated, drawn up on the historical cost basis in accordance with the undermentioned policies, which have been applied consistently in all material respects.

1.1 Underlying assumption

The appropriation account is prepared on the cash basis (date of payment is date of charge), except where stated otherwise.

1.2 Revenue

Revenue of the state and/or departmental receipts are paid over to the principal receivers of revenue and are not accounted for against expenditure incurred, unless indicated otherwise.

1.3 Assets (Stores and livestock, Equipment and Land and buildings)

For the purpose of the appropriation account, assets are written off in full when they are paid for and brought to account as expenditure.

1.4 Foreign exchange transactions

Foreign exchange transactions are translated at the spot rate ruling at the date of the transaction. At balance sheet date, promissory notes are translated at rates then ruling.

2. Explanatory notes

2.1 Original estimate

This refers to the estimate of expenditure to be defrayed from the provincial revenue account, which sets out the original estimate as approved by Parliament.

2.2 Vote 19: Improvement of Conditions of Service

Where funds are provided from the vote for the revision or improvement of the conditions of service, provision is made for the full part of the expected expenditure carried over to the relevant vote for this purpose.

2.3 Adjustments estimate

The adjustments estimate facilitates necessary adjustments to the original estimate.

2.4 Transfer payments

Transfer payments relate to amounts which are not disbursed directly on goods and services by the department on whose vote they appear, but are paid to other bodies.

2.5 Disclosure of additional programme information

If expenditure on a programme amounts to more than ten per cent of the total actual expenditure on a vote, it is explained separately in a note. No analysis is necessarily provided in respect of administrative and personnel expenditure.

2.6 Explanations of variations between expenditure and amounts voted

Variations of more than two per cent are explained.

2.7 Virement

In terms of section 6(1) of the Exchequer Act, 1975 (Act No. 66 of 1975), and unless the Treasury directs otherwise, the accounting officer may give approval for a saving under a main division or a subdivision of a main division of a vote to be applied towards the defrayment of excess expenditure under another main division, or a subdivision of a main division, or of expenditure under a new main division or subdivision of the same vote.

NOTES TO THE APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31 MARCH 1999

1. Analysis of expenditure

Programmes	Personnel	Administration	Stores and livestock	Equipment	Land and buildings	Professional services	Transfer payments	Miscellaneous	Expenditure	
	1998-99 R'000	1998-99 R'000	1998-99 R'000	1998-99 R'000	1998-99 R'000	1998-99 R'000	1998-99 R'000	1998-99 R'000	1998-99 R'000	1997-98 R'000
1. Administration	12 556	3 613	445	868	—	1 145	—	132	18 759	11 035
2. Financial and economic measures	14 015	3 178	1 181	3 067	—	1 669	3 800	141	27 051	25 071
3. Exchequer financing	5 460	936	249	751	—	621	—	75	8 092	6 261
4. Fiscal transfers	—	—	—	—	—	—	2 154 097	—	2 154 097	1 245 466
5. Civil pensions and contributions to funds	—	—	—	—	—	7 069	39 838	895 333	942 240	1 001 038
6. Military pensions and other benefits	—	—	—	—	—	12 616	114 878	—	127 494	114 943
7. Provincial transfers	—	—	—	—	—	—	4 001 168	—	4 001 168	82 398 030
8. Associated services	—	—	—	—	—	2 982	—	—	2 982	175
Authorised programmes	32 031	7 727	1 875	4 686	—	26 102	6 313 781	895 681	7 281 883	84 802 019
Plus:										
Authorised losses	—	—	—	—	—	—	—	—	184	485
Totals	32 031	7 727	1 875	4 686	—	26 102	6 313 781	895 681	7 282 067	84 802 504
% of expenditure 1998-99	0,44%	0,11%	0,03%	0,06%	0,00%	0,36%	86,70%	12,30%	91,41%	Decrease
% of expenditure 1997-98	0,03%	0,48%	0,00%	0,01%	0,00%	0,04%	98,84%	0,60%		

Economic classification		1998-99 R'000		1997-98 R'000
Capital	0,06%	4 239	0,01%	4 437
Current	13,24%	964 048	1,15%	977 439
Capital transfers	4,47%	325 498	7,75%	6 569 021
Current transfers	82,23%	5 988 282	91,09%	77 251 607
		7 282 067		84 802 504

Note: Changes were made to the standard items to reflect the correct expenditure.

NOTES (continued)

2. Additional programme information

	Voted	**Expenditure**	Voted	Expenditure
	1998-99		1997-98	
	R'000	**R'000**	R'000	R'000
Programme 4: Fiscal transfers	**2 146 174**	**2 154 097**	1 347 806	1 245 466
Lesotho and Namibia	**123 453**	**130 054**	130 976	102 191
Independent Broadcasting Authority	—	—	35 000	35 000
Post & Telecom: Channel Africa	—	—	—	24 131
Post & Telecom: SABC	—	—	—	297 092
SA Post Office	—	—	583 044	186 146
African Development Bank	**38 851**	**40 175**	9 500	11 622
SA Revenue Service	**1 933 868**	**1 933 868**	589 284	589 284
World Bank Group	**1**	—	1	—
Development Bank of Southern Africa	**1**	—	1	—
National Development Agency	**50 000**	**50 000**	—	—
Programme 5: Civil pensions	**1 254 904**	**942 240**	1 190 128	1 001 038
PFAI	**81**	**481**	81	277
Parliamentary awards	**116**	**158**	116	58
Addition to pensionable service	**750**	**750**	750	750
Shortfalls in transfer liabilities	**40 516**	**1 361**	35 000	60
Other beneficiaries	**39 104**	**37 673**	39 104	36 435
Discharge or death as a result of injury on duty	**61 854**	**67 994**	47 709	67 642
Government contributions to medical schemes	**543 521**	**685 973**	543 521	660 884
United Kingdom Tax: Locally recruited staff	**1 320**	**1 574**	1 320	1 674
Pensions recoverable	—	—	—	(1 737)
Special pensions	**491 200**	**101 423**	450 001	151 722
Administrative auxiliary services	**9 412**	**7 069**	5 496	16 241
Cape Teachers Pension Fund	—	—	—	3
Augmentation of civil pensions	**1**	—	1	—
Contribution to Closed Pension Fund	**67 029**	**37 784**	67 029	67 029

NOTES (continued)

	Voted	**Expenditure**	Voted	Expenditure
	1998-99		1997-98	
	R'000	**R'000**	R'000	R'000
Programme 7:				
Provincial subsidies	**4 007 567**	**4 001 168**	82 531 083	82 398 030
Eastern Cape	**686 719**	**680 320**	14 478 485	14 478 485
Northern Cape	**88 410**	**88 410**	1 982 212	1 982 212
Western Cape	**371 186**	**371 186**	8 804 271	8 804 271
KwaZulu-Natal	**757 360**	**757 360**	16 659 389	16 641 243
Free State	**458 858**	**458 858**	5 556 843	5 518 652
Mpumalanga	**257 370**	**257 370**	4 853 293	4 853 293
Northern Province	**509 245**	**509 245**	10 428 706	10 428 706
North West	**322 078**	**322 078**	6 797 610	6 720 894
Gauteng	**556 341**	**556 341**	12 970 274	12 970 274

3. Explanation of variations in excess of two per cent between expenditure and amount voted

Programme 1: Administration
The saving is due mainly to the fact that vacant posts were not filled and the expansion of functions within the programme was not completed as anticipated during the 1998-99 financial year.

Programme 2: Financial and economic measures
The saving is due mainly to the facts that vacant posts were not filled, spending on consultant fees and equipment was lower than anticipated and the Financial and Fiscal Commission requested less funds than were budgeted for.

Programme 3: Exchequer financing
The saving is due mainly to vacant posts that were not filled and to the expansion of functions within the programme (including consultant fees and equipment for the development of a Cash Management System, a Risk Management System and the computerisation of the accounting section) which did not realise as anticipated.

Programme 5: Civil pensions and contributions to funds
The saving is due mainly to provision made for special pensions and shortfalls in transfer liabilities. Administrative difficulties were experienced and thus less applications than requested were processed during the 1998-99 financial year.

Programme 6: Military pensions and other benefits
The saving is due mainly to provision which was made for ex-servicemen, SA Citizen Force and other benefits for which fewer payments were made than anticipated.

Programme 8: Associated services
The saving is due mainly to the fact that provision was made for information technology and other professional services rendered to the department, for which less than anticipated expenses realised in the 1998-99 financial year.

NOTES (continued)

		1998-99 R'000	1997-98 R'000
4.	**Authorised losses**	**184**	485
	Irrecoverable debt: fraud	—	172
	Other irrecoverable debt	**184**	313
5.	**Surplus to be surrendered**		
	Suspended	—	133 053
	Surplus to be surrendered	**341 347**	310 593
		341 347	443 646
	The surplus of the previous year has been surrendered.		
6.	**Vote 19: Improvement of Conditions of Service**		
	Actual expenditure	**36 678**	2 395
7.	**Auditors' remuneration**	**1 509**	1 185
	The increase is mainly due to additional computer audit costs relating to state debt.		
8.	**Unauthorised expenditure**		
	Programme 5: Civil pensions and contributions to funds	**24 371**	29 245
	Exceeding of programme 3	—	85
		24 371	29 330

ADDITIONAL FINANCIAL INFORMATION AS AT 31 MARCH 1999

		1998-99 R'000	1997-98 R'000
1.	**Departmental income**		
	Revenue generated by the department	**3 064 875**	1 630 258
	Revenue paid to Inland Revenue	**3 063 069**	1 344 152
	Due to Inland Revenue	**1 806**	286 106
2.	**Suspense accounts**		
	Amount in suspense accounts in terms of section 14(3)(d) of the Exchequer Act, 1975 (Act No. 66 of 1975)	**72**	2
3.	**Liabilities**		
3.1	**Suspense accounts in credit**		
	Salaries and deductions	**690**	931
	Age analysis -		
	less than one year	**690**	931
	one to two years	**—**	—
	more than two years	**—**	—
3.2	**Creditors**	**414 704**	1 850 122
	Funds 81 and 90*#	**4 064**	6 423
	Recoverable revenue	**58**	23
	Uncashed warrant vouchers	**383 167**	6 375
	Uncashed warrant vouchers (Funds 81 and 90*)#	**813**	3 273
	Uncashed Post Office vouchers (Funds 81 and 90*)#	**105**	743
	Other	**26 497**	1 833 285
3.3	**Other liabilities**	**1 218 015**	2 315
	Overdrawn PMG balance (Funds 81 and 90*)#	**16 579**	—
	Claims payable	**240**	1 432
	Incorrect PMG credits	**165**	583
	Funds 81 and 90*#	**731**	—
	Balance iro statutory payments	**1 200 300**	300
	Total	**1 633 409**	1 853 368

ADDITIONAL FINANCIAL INFORMATION *(continued)*

		1998-99 R'000	1997-98 R'000
4.	**Financially related assets**		
4.1	**Suspense accounts in debit**		
	Uncleared expenditure in suspense	**298 724**	388 282
	Age analysis -		
	less than one year	**24 889**	384 323
	one to two years	**273 835**	3 864
	more than two years	—	95
4.2	**Debtors**	**1 154 561**	1 270 532
	Funds 81 and 90*	**4 312**	5 596
	Incorrect PMG debits (Funds 81 and 90*)	—	518
	Incorrect PMG debits	**957**	265
	Personnel debtors	**459**	419
	Outstanding deposits	**110 793**	9 609
	Outstanding deposits (Funds 81 and 90*)#	**18 041**	—
	Allocation accounts of the vote	**864 477**	1 188 931
	Other	**155 522**	65 194
4.3	**Investments**		
	Shares owned by the government	**11 613 061**	9 466 352
4.4	**Balances on hand**		
	PMG balance (vote)	**180 183**	219 473
	PMG balance (Funds 81 and 90*)#	—	5 257
		180 183	224 730
	Total	**13 246 529**	11 349 896
5.	**Contingent liabilities**		
	Promissory notes (Miga)	**6 324**	5 137
	Housing guarantees	**1 083**	640
	Financial guarantees	**45 722 321**	30 071 273
	Motor vehicle finance scheme	—	270
		45 729 728	30 077 320

6. **Comparative figures**

#Comparative figures have been restated to correspond with the current year's presentation.

*Funds 81 and 90: suspense accounts in respect of pensions.