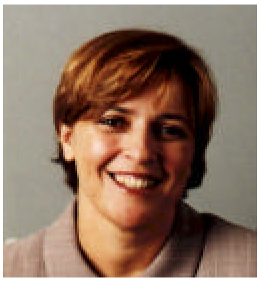
INTRODUCTION



Maria Ramos

This is the first time the Department of Finance has issued an Annual Report. In the past the focus has been on the important work done around fiscal planning and macro-economic management. The central contribution made by the Department to the annual Budget process and to ensuring sound economic policies are deservedly seen as key functions. But the Department is responsible for a great deal more.

This annual report aims to present the full range of Departmental activities during 1998. 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 important document issued in April 1998 entitled "The introduction of an equitable share of nationally raised revenue for local government".

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

- The Budget Office – headed by Andre Roux and responsible for promoting efficient and equitable service delivery consistent with macro-economic and developmental goals.
- Asset & 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 Frans 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.

The Department has changed fundamentally over the past few years. This process continued during 1998. 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 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 interest rates, 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 has meant that we have weathered the global financial crisis of 1998 far better that most other developing countries. Largely because of this we can expect meaningful 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 beginning to work 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.

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, and 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.

This report covers the main activities and key highlights of 1998. Some of the highlights during the year have been:

- Assisting in the stabilisation of provincial finances – in cooperation with provincial governments we have jointly achieved a dramatic improvement in systems and a reduction in over-expenditure by as much as R5 billion;
- Continuing our drive towards budget reform – the publication of our Medium-Term expenditure review and the annual Budget Review, and the development of improved governance guidelines (in the important Treasury Control Bill) will all lead to more transparent budgeting processes and a clearer link between resources and outcomes;
- Improved capacity to monitor macroeconomic policy – which has resulted in high quality interventions, especially in the internationally turbulent and sensitive area of financial regulation;
- Assisting in the development public-private partnerships – which will improve efficiency in the delivery of services and unlock more resources for infrastructural investment;
- Developing a formula for an equitable share of revenue for local government – which is a basis for improved cooperation with and assistance to the third tier of government;
- Separation of the SA Revenue Services into an autonomous institution – with consequent improvements in the efficiency of tax collection;
- Improved management of government debt as well as improved cash management – this has meant major savings to the fiscus;
- Restructuring the SASRIA fund – which is expected to reduce state debt by billions of rands;
- Improved monitoring of the financial and risk management of public enterprises – which will improve governance and reduce state exposure to debt;
- Transformation of the Public Investment Commission – which will involve managing over R165 billion of surplus public and pension funds in a more diversified, competitive and socially-responsible manner;
- Initiating reform of the Pensions Administration – which involves a review of key aspects of the massive public servants pension fund (GEPF), as well as improved management of the special pensions dispensation;
- Establishing a National Development Agency – which will promote improved partnership for development between government and NGOs;
- Introducing a Corporate Services programme – to improve human resource and financial and other support management within the Department.

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 Services, 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 thorough-going and substantial manner. It has been a privilege and a pleasure to work with them.

Maria Ramos

Director-General: Finance

THE MINISTRY

The Office of the Minister comprises a small support staff of five posts, one of which is vacant. A similar arrangement exists in respect of the Deputy Minister. Staff in the Ministry are expected to travel when needed and to adapt their schedules to the needs of the Minister and his Deputy.

Trevor Manuel
Minister

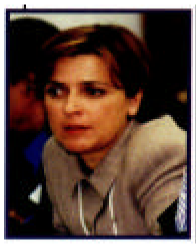
The work of the Ministry mainly involves:

- Coordinating and scheduling appointments
- Liaising with the various departments which report to the Minister
- Liaising with Cabinet and various Ministries
- 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

Gill Marcus
Deputy-Minister

The Minister and his Deputy are responsible for four government Departments – Finance, State Expenditure, SA Revenue Services 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. During 1998 emphasis was placed on improving the quantity and quality of media liaison.

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.



Maria Ramos
Director-General

The global financial crisis dominated much of the economic debate during 1998. 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. The Ministry was involved in organising, together with the Department, a number of official visits by the Minister during 1998. These included:

- Davos for World Economic Forum (WEF) – 29 Jan-2 Feb
- New York/Washington for World Bank Spring meetings and G24 meeting – 11-19 Apr
- Italy for the Institute for International Finance (IIF) Ditchley Conference – 6-8 May
- Windhoek for SADC WEF Southern Africa Summit – 17-19May
- various European countries for Euro Roadshow – 30 May-6 Jun
- Hamburg for Europe-SA annual conference; New York for Worldwide Infrastructure Partnerships focus conference – 21-28 Jun
- Swakopmund for SADC Finance Ministers' meeting – 14-15 Jul
- Canada accompanying President Mandela on state visit; and to attend Commonwealth Finance Ministers' meeting; and to Washington for IMF/World Bank annual meetings and G24 meeting – 22 Sept-8 Oct
- Gaberone for SACU meeting – 19 Oct
- Russia accompanying Executive Deputy President Mbeki – 21-24 Oct

- Europe for various meetings – London to meet with Chancellor of the Exchequer and Trade & Industry Minister; Berlin for IMF Seminar; Bonn for meetings with representatives of new German Government – 28 Nov-5 Dec

- Harare with Deputy President Mbeki and Minister Erwin for a bilateral meeting with President Mugabe and Ministers of Finance and Trade & Industry – 13 Dec

BUDGET OFFICE

André Roux

This branch of the Department is headed by André Roux, who previously taught economics at the University of the Western Cape and worked at the Development Bank of Southern Africa. He oversees and guides the operations 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.

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 spheres and departments in government. In short, all other government Departments and all spheres 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 spheres 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. 'Cooperative 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 Services (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.

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 an overview of macroeconomic and fiscal policy, medium-term expenditure framework, tax policy, and detailed analysis of public finances.
- a National Expenditure Survey - included in the Budget Review in 1998, but to be a separate publication from 1999, and which surveys outputs from spending as well as spending plans for delivery of future public services.
- Medium-Term Budget Policy Statement - which sets out the macroeconomic context, fiscal policy goals and the budget framework. It outlines the division of revenue between the three spheres of government for the next three years and sets out broad medium term expenditure projections.
- 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.

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

The following are some of the major highlights and policy challenges in the Budget Office during 1998:

Helping stabilise provincial finances was a major achievement during 1998. There has been a dramatic turnaround in most of the provinces with over-expenditure, which stood at about R6 billion in 1997, expected to be eliminated by the end of the 98/99 financial year. Of course, much remains to be done and the various finance teams as well as the impending Public Financial Management Bill will play a major role in the coming year.

Budget Reform has continued with the Budget Reform White Paper drafted, thePublic Finance Management Bill tabled, and the medium-term expenditure process emerging as a regular feature. For the first time there has been significant progress in bringing policy issues and outputs and performance monitoring into the budgeting process.

Macro-policy capacity has been strengthened, improving our ability to maintain an effective economic model, interact effectively with a range of departments and to advise on macroeconomic trends, develop analysis of real sector activity; microeconomic analysis and fiscal policy analysis.

Financial regulation received a great deal of attention during the year. Maintaining first-rate regulatory structures is especially important given global economic problems linked to the financial sphere.

A cross-cutting issue within the branch is public-private partnerships. Cabinet authorised the establishment of an interdepartmental task team responsible for developing guidelines.

Andrew Donaldson

BUDGET OFFICE - FINANCIAL PLANNING

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 coordination 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 six 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 comprises a number of Directors and senior managers, namely Retha du Randt, Irene Tlhase, John Kruger, Leslie Maasdorp, Roland White and Owen Barder. 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 six Directorates are:

- ***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 theDepartment 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 the Labour Department). 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 & 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.

Leslie Maasdorp
Human Resource
Development

Key activities during 1998 included:

Budget Documentation - the Chief Directorate prepares the annual Budget Review, and (from 1999) the National Expenditure Survey. 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 usefulness of the budget process and budget documentation.

Over the past three years the emphasis has been on introducing three-year budgeting in national and provincial government, assessing policy in relation to broader social and economic goals, and promoting transparency of the budget process and the public finances. 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 great deal of effort goes into ensuring that all the numbers add up. The budget framework and the specific tax and expenditure proposals must be carefully reconciled and modeled to ensure accuracy. The team working on the Budget has been widely complimented for producing comprehensive, accurate, accessible and transparent documentation. All documentation is available on the Department's website. As regards the quality of work produced, the team is a global leader.

Budget Reform

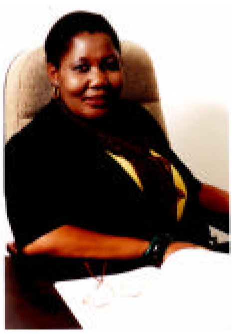
The budget is not just about what government spends, but also about what government does. The budget reform programme seeks to ensure that the resources available to the state are efficiently allocated to reconstruction and development purposes.

The Medium Term Expenditure Framework sets out spending plans for the next three years at the time of the Budget. This means that departments can plan their programmes within an agreed spending envelope. It also means that Parliament and the public know what the spending implications of Government policies and programmes are. This is a significant step forward in democratic accountability and broadening understanding of the nation's budget.

During the course of 1999 it is anticipated that, with the release of the Budget Reform White Paper, details will be published of the next steps in the budget reform process.

Retha du Randt

John Kruger



Irene Tlase

- ***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 cooperation. 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.
- In 1998 a review of the integrated justice cluster (justice, police and prisons) helped create synergies between departments and identify priorities for improving the efficiency of the justice system. A review of infrastructure spending was also conducted providing a broad assessment of South Africa's infrastructure needs in international perspective and noting the importance of strengthening maintenance and rehabilitation of existing assets. Other Medium Term Expenditure reviews examined education, health, welfare, and personnel spending. The budget process has been fundamentally transformed. It now includes a suite of documentation which includes the MTEF, the Medium Term Budget Policy Statement, the Budget Review and from 1999 the National Expenditure Survey.
- ***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. Over the past year assistance was provided to the Department of Labour in developing the new skills development levy-grant scheme. Advice is provided to the Minister on levies and other money bill proposals. The Department provides representatives to serve on various boards of public enterprises and other government agencies. The Budget Office participates in the coordination of the Regional Industrial Development Programme, the Industrial Participation programme and several public enterprise restructuring initiatives. By promoting inter-departmental coordination, the Department aims to improve the balance and coherence of government policies and programmes and enhance the integrity of the budget process.
- ***Budget Reform*** - during 1998 the Chief Directorate was centrally involved in the preparation of a draft Budget Reform White Paper.
- ***Improved coordination between provincial and national government*** -a number of key national government Departments have regular meetings between the Minister and senior officials, and their counterparts in the

provinces. The Department of Finance has been involved in such meetings, known as "4x4s", and assisted in the financial planning process in Welfare, Health and Education.

Scope of the Budget

The annual Budget presented in Parliament highlights the appropriation by the legislature of funds for national departments, state debt costs and transfers to provinces and local government, which are the main parts of the national Budget.

For financial planning purposes, there are various other flows of government revenue and expenditure to consider. These include the Unemployment Insurance Fund, the Road Accident Fund and other social insurance arrangements, and various regulatory or special purpose agencies funded through levies or charges. The broader general government also includes research organisations, museums, universities and technikons, and developments agencies partially financed on budget. Information on the finances of extra-budgetary bodies is collected by the Financial Planning office for monitoring and planning purposes.

The Public Financial Management Bill (formerly the Treasury Control Bill) aims to ensure that all government bodies are subject to appropriate financial oversight and reporting requirements.

BUDGET OFFICE - MACRO-ECONOMIC POLICY

Richard Ketley

Elias Masilela

This programme 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, while Rejoice Simelane heads Microeconomic Analysis. The heads of the other three directorates were either vacant or filled on an acting basis.

The programme's purpose is the coordination and management of macroeconomic policy. It must ensure stable and competitive economic conditions prevail so that economic growth and sustainable social development 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.

Macroeconomic policies aim to overcome 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.

Economic growth depends on rising levels of investment, and investment in sectors of the economy with the greatest growth 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 canafford also creates a stable environment which 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.

Key activities during 1998 were:

- **Advising on macroeconomic trends**, including making appropriate forecasts regarding changes to GDP, inflation and so on. This is done on the basis of the Department of Finance's econometric model. Forecasts are produced quarterly and these feed into the planning process and the fiscal framework, and are used in the annual Budget Review. Specific modeling exercises are conducted as needed; for example an assessment of the likely impact of demutualisation on the economy.
- **Presidential Jobs Summit**, was a major focus during 1998. Staff were actively involved in the development of government's position and proposals to the Jobs Summit. The implimentation of the Jobs Summit proposals will be an important part of the work programme.
- **Demutualisation** was an important focus during 1998. The decision of Sanlam and Old Mutual to convert from mutuals to ordinary companies was one with important ramifications for the economy as a whole. A large portion of the nation's savings would, in future, be managed differently. And the holders of policies with the mutuals would, overnight, receive shares worth approximately R50 billion.
- **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 Department commissioned and

received several reports on the characteristics of unemployment based on the October Household Survey data. Understanding trends in the labour market plays a crucial role in macroeconomic policy making.

Understanding Unemployment

Stephan Klasen and Ingrid Woolard evaluated the accuracy of official and unofficial sources of employment and unemployment statistics. Comparison of a wide variety of sources - including the October Household Surveys (OHS), the Standardized Employment Series, the Manpower surveys and SALDRU surveys, among others - enabled the authors to critically analyze employment and unemployment figures. Broadly, the authors found that the OHS provided the most accurate picture of the level and trends in employment in South Africa; but delays in the release of these survey results limits their usefulness to policy-makers.

The study made recommendations on how data on employment and unemployment could be improved. OHS surveys were found to be the best source, but should be conducted on a quarterly basis with quick release of data. Mining employment figures from the Chamber of Mines should be substituted for OHS mining numbers. A survey of establishments should also be performed on a quarterly basis. All employment figures need to be based on full-time equivalence (to accurately capture seasonal, casual and part-time employment). Finally, a transition strategy from the old surveys to the new surveys should be implemented to smooth the inevitable breaks in the series that will result. These recommendations were communicated to Statistics South Africa.

- **Monitoring fiscal developments**, especially the trend in expenditure, revenue and borrowing on the Budget. This is used to assess the performance of the Budget during the year, to make 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 National Government Gazette.
- **NEDLAC** has been particularly important in the programme's 1998 schedule. The Department is centrally involved in NEDLAC's Monetary & Fiscal Chamber and played a key role in preparations for the Job Summit held in November 1998.
- **Money-laundering project** - Government is committed to controlling money-laundering in South Africa and to prevent our country from becoming a conduit for money-laundering by international crime syndicates. During 1998 a task team was established to investigate the form of legislation and institutions that would be most effective in combating money-laundering.
- **Regional Financial Integration** - the programme has continued 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 achieving a common set of financial regulations across the region.
- **A review of the framework for financial regulation** is an ongoing activity which has been of crucial importance during 1998, given the global financial crisis and the challenge of demutualisation at home. A wide range of new legislation was introduced. This aspect is covered in detail in the annual Budget Review. Although the soundness of our banking system is internationally recognised, there is a continuous review and update of our financial regulation and supervision system to ensure that it remains world class. Much has been done to improve investor protection through improved legislation. This includes working with the Financial Services Policy Board and the Financial Services Board to conduct a far-ranging review of our approach to financial regulation in South Africa.

Key Institutional Links

This programme has a leading responsibility for liaising between the Department and the Reserve Bank on matters related to the conduct of monetary policy.

The Minister of Finance is responsible for the administration of the financial services sector. 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 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 its activities are contained in the annual Budget Review.

In addition the Minister of Finance, assisted by the programme's Financial Regulations directorate, is responsible for exchange control policy. Administration, however, 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;
the Financial Markets Advisory Board which is responsible for oversight of policy issues that affect the financial markets.

South Africa and the global financial crisis

International capital flows have increased sharply in the past decade. These contributed to high growth rates in many economies, but also to a rapid extension of financial intermediation in places where banking supervision was underdeveloped. Many poor investments were made, fuelled in part by speculative finance and spiraling asset prices.

The East Asian crisis countries were vulnerable to sudden swings in international capital market sentiment because of the scale of short term foreign currency debt incurred by the private sector. Incentives for foreign borrowing arose from the fixed exchange rate policies adopted by most of these countries as well as from the structure of the financial system and weaknesses in financial regulation. Poor governance structures in the corporate sector also contributed to excessive corporate leveraging, which, together with a deterioration in returns, rendered firms highly vulnerable to interest and exchange rate shocks.

The Asian crisis has effect South Africa through both the current and capital account. Commodity prices are low and growth in export volumes has slowed. Banking failures in Asian economies impact both on fiscal balances in these countries and on international capital flows. Losses made by several prominent investment funds in emerging markets have raised awareness of financial risks and sharply reversed sentiment towards investment in middle-income economies. This prompted the wide scale sale of Government bonds and the resulting decline in the value of the rand during 1998.

The Asian financial crisis and weakening of stock markets worldwide have increased international concern regarding the transparency of financial markets and the potentially destabilising impact of unchecked financial flows. The Department of Finance remains an active participant in the international bodies that have been established to study these issues and 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 bankrupcy laws;
- global accounting standards.

During the crisis it became clear that despite the pressure on the currency South Africa’s fundamentals remain sound. We have a modest external financing requirement, reflecting the prudency of Governments debt strategy. Our external debt obligations (both private and public) are lower relative to GDP than in most developing countries. We attract foreign investment into rand-denominated instruments, which reduces the risk to the economy of adverse exchange rate movements. Our banking system is sound and well-regulated and has a low level of non-performing loans. Well-developed financial markets permit participants to hedge currency exposures and other risks effectively. Company balance sheets are strong and do not show excessive gearing. Finally, South Africa has maintained a floating exchange rate, with the result that banks and companies have not built up large unhedged foreign exchange exposure.

BUDGET OFFICE - INTERGOVERNMENTAL RELATIONS

Ismail Momoniat

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 Department, other than Pensions Administration. It contains seven directorates - Local Government Budgets, Local Government Finance Policy, Provincial Budget Analysis (A), Provincial Budget Analysis (B), Provincial Finance Policy, Financial Development, and Infrastructure Investment. The management team comprises TV Pillay, Mandla Maleka, Jan Hattingh, Malijeng Ngqaleni and Joel Friedman.

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 cooperative governance in the budget-making process, hence giving effect to section 41 of the Constitution.

Underlying the cooperative governance approach is the Intergovernmental Fiscal Relations Act of 1997, which set up the Budget Council and BudgetForums to promote consultation and cooperation with provinces and organisedlocal 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. A provincial database was developed that monitors expenditure figures since the beginning of the democratic dispensation.

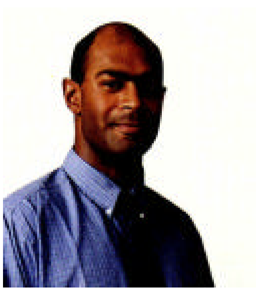
This Chief Directorate has been instrumental in developing the cooperative spirit, and constructive working relationship, which guides the regular interactions of 'Team Finance' - the Minister and his nine provincial counterparts.

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

- Designing a fiscal and financial framework for provincial and local government
- Analysing and assisting with provincial budgeting
- 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 in the programme 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 Finance & Fiscal Commission (FFC). Such a division of revenue also includes other conditional and unconditional grants to provinces and local government. The Division of Revenue tabled with the Budget sets out the division of Revenue between the three spheres of government.

TV Pillay



Kuben Naidoo

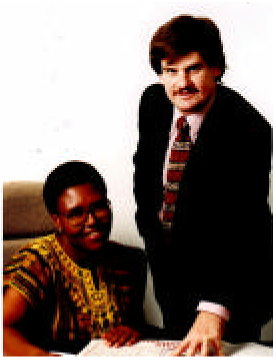
Joël Friedman

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 only raise about 5% of their own revenue, and hence received the largest share from national revenue - totalling R95 billion in the 1999/00 financial year. Municipalities are largely self-funded, and raise about 92% of their own revenue through property taxes, regional levies and user charges. As a result they receive only a small share - about R4.5 billion from national revenue.


Malijeng Ngqaleni
Jan Hattingh

Key activities during 1998 were:

- **Provincial budgeting processes** saw very significant achievements with major improvements in the management of provincial finances during 1998. The Department took a hands-on approach in helping provinces to draw up credible budgets in 1998/99, and placed great emphasis on ensuring that provinces stuck to these budgets. In short the Department assisted with budget-preparation in the provinces and, together with the Department of State Expenditure, monitored the implementation of budgets. This approach, together with the use of section 100(1)(a) of the Constitution (allowing for intervention where a Province cannot or does not fulfil an executive obligation), in the case of two provinces ensured that many of the problems being experienced in provincial budgets were overcome. The achievements regarding provincial budgeting and finances have been reported on in detail in the Budget Review and other publications. The Chief Directorate works closely with the Department of State Expenditure, whose early-warning system monitors actual expenditure fifteen days after month-end, and this is used to analyse developments.

- **Improved monitoring of local government finances** was initiated. The Chief Directorate developed a detailed policy statement entitled "The Introduction of an Equitable Share of Revenue for Local Government". After extensive consultations with organised local government this document was released by the Minister in April 1998. The Chief Directorate is responsible for monitoring over 800 municipal budgets to assess whether they remain within targets and whether they harmonise with national macroeconomic policy. In the coming year, the Department will develop and table legislation on financial management in local government, as well as legislation on municipal borrowing.

- **Developing various legislation** related to the intergovernmental system, including the annual Division of Revenue Bill. Of particular importance has been the development, after extensive consultations, of theTreasury Control Bill (now called the Public Finance Management Bill) – see box.

Improving Public Financial Management

Public Finance Management Bill, (formerly the TCB) aims at modernising and improving financial management in the public sector. It gives effect to section 216 of the Constitution, which requires the establishment of a national treasury, as well as greater transparency and expenditure control. The Bill replaces the rules-bound approach of the old Exchequer Act by focusing on a more performance-oriented approach to management. It promotes greater accountability by clarifying the responsibilities between accounting officers and their political heads. It establishes national and provincial treasuries, and outlines their responsibilities in ensuring that government sticks to its fiscal targets.

The Bill makes accounting officers responsible for the spending of their departmental budget. It promotes greater transparency by introducing strict reporting requirements, including the submission of financial statements to the Auditor-general two months after the end of the financial year. It requires accounting officers to submit monthly financial reports that will better enable treasuries to manage their budgets during the year. Accounting officers who neglect or mismanage financially face being disciplined for misconduct, and in more serious cases, prosecution. The Bill also defines similar responsibilities for the boards of all public entities, and replaces the Reporting of Public Entities Act.

The Bill enables the national government to determine budget formats, and to report more regularly on the course of actual spending during the year. It establishes an independent Accounting Standards Board to set generally recognisable accounting standards, as required by the Constitution.

BUDGET OFFICE - TAXATION POLICY


Martin Grote

The Taxation Policy chief directorate is a small but crucial one within the Department. It is headed by Martin Grote, previously an attaché to South Africa's mission to the IMF and World Bank. In September 1998 the Taxation Policy function graduated from being a Directorate to being a Chief Directorate. Three director-level posts in the programme are vacant. This reflects the difficulty in attracting suitable personnel with expertise in the taxation field. Two skilled people, seconded in terms of aid agreements, will assist in the work of this programme in the coming year, especially in building its analytical and policy design capacity.

The programme is responsible for dealing with tax policy, and must be clearly distinguished from SA Revenue Services (SARS) which is responsible for tax collection. Cooperation between policy and collection is, however, critical and a close 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;
- A gradual reduction in the overall tax burden to 25% of GDP. The current level is between 26% and 27%;
- Avoiding, as far as possible, tax distortions in the form of tax holidays, incentives and off-budget levies;
- Promoting the principles of efficiency, equity, neutrality, simplicity and certainty.

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

Key activities during 1998 were:

- **The Annual tax proposals** - each year the programme works with SARS on this and the proposals made, if agreed by the Minister, are summarised and presented to Parliament. Details of changes during the past year are contained in the Budget speech and Budget Review and are not elaborated on here.
- **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 pipelines;
    - drives an analytical and design process involving 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 and the development of appropriate fuel policies;
    - chairs an inter-departmental task group which engages with manufacturers of excisable products, such as the tobacco, alcohol and beverage industries;
    - engages with the Department of Environmental Affairs and Tourism in relation to calls for the introduction of environmental taxes.
- **Assisting the work of the Katz Commission** - the Commission of Inquiry into certain aspects of the Tax structure of South Africa (commonly known as the Katz Commission) was appointed in June 1994. The Commission, whose members operate part-time, is carrying out a broad review of tax policy. The programme assists the commission with research, writing up documents and generally by acting as a secretariat. Over the years a number of reports have been issued by the Commission. Two reports were issued during 1998. The 7th interim report covering Provincial Taxation was released in July 1998. It was accompanied by a research report.

The 8th interim report, on the Possible Implications of Introducing a Land Tax in South Africa, was released in September.

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.

In doing this we 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 objects 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 overarching structural framework and are consistent with general tax policy directions.

Katz Commision

Two reports were issued during 1998:

- *The 7th interim report covered Provincial Taxation* and was released in July. It was accompanied by a research report. Entitled "A Synthesis of Policy Recommendations with regard to Provincial Taxation" - it concluded that Government should proceed with caution in respect of the introduction of expanded provincial tax powers, particularly with regard to surcharges on personal income tax and the fuel levy. The Commission recommended, instead, that efforts should be made to ensure that current own-revenues are efficiently collected. The Financial and Fiscal Commission has consistently called for the introduction of the surcharge on personal income tax as the only viable revenue source for sub-national levels of government. In this connection, the Commission raised the following caveat: " . . . The contention is sometimes advanced that tax devolution prompts sub-national structures towards more fiscally responsible conduct and accountability. It is, however, important to bear in mind that a contrary view is that accountability begins on the expenditure side. On the basis of this latter view, the necessity to implement tax devolution in haste is diminished."

- *The 8th interim report, on the Possible Implications of Introducing a Land Tax in South Africa,* was released in September. It deals with the possible practical implications of extending the current urban rating system to all rural areas and suggests a low rate land tax to be introduced on all agricultural land. The resulting revenues will be used to defray expenditure outlays on infrastructural projects in favour of rural areas. The report deals in a detailed fashion with necessary national framework prescriptions that would ensure that the rural rating system would be introduced on an equitable basis throughout South Africa.

Two further reports are in the pipeline - on Fiscal Matters that Affect Non-Profit Organisations, and on Mining and Mineral Rights Taxation. The Katz Commission is expected to complete its work in 1999.

ASSET AND LIABILITY MANAGEMENT


Brian Molefe


Coen Kruger


Lesetja Kganyago

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

The two sections in this branch are:

- ***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.
- ***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.

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 and policy challenges facing the branch during 1998.

Improving the management of government debt. Significant improvements were recorded including revamping the marketing of domestic debt, appointing a panel of primary dealers, and developing an integrated approach for domestic and foreign debt.

Achieving savings through improved cash management. Government's liquidity buffer, which is the cash on hand to meet expenditure needs, has been slashed by two-thirds and now averages about R1billion. This has resulted in major savings to the fiscus.

Improving the governance of public enterprises by monitoring their financial and risk management more closely, introducing a protocol on corporate governance, and revamping the guidelines for issuing loan guarantees.

Finalising proposed changes to the SASRIA Fund, and introducing the necessary legislation. The revamping of this fund could generate substantial funds to the fiscus for the reduction of state debt.

Liability Management

This Chief Directorate is headed by Chief Director 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 a Director, Johan Redelinghuys, and a team of 30 people. The programme 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 programme aims to bring down the cost of servicing state debt and maintain government's reputation as a trustworthy and competitive issuer of debt.

The programme has a number of activities:

- It 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). At present the following funding instruments exist:
    - Domestic Bonds
    - Treasury Bills
    - Foreign Bonds

  New funding instruments introduced during 1998 were:

    - a 28 year bond – at 10,5 per cent, maturing in equal tranches over a period of three years (2025/26/27); and
    - floating rate bonds maturing in March 2000.

- It 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.

- It ***actively manages the issuing of domestic debt.*** Until end-March 1998 the marketing of government debt was handled by the Reserve Bank. In March a panel of primary dealers was appointed to handle the marketing of government's domestic capital market debt instruments. This panel commenced operating from 1st April.

  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, in consultation with the Reserve Bank, 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 1998 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 National Bank
    - Genbel Securities Bank
    - Investec Bank
    - JP Morgan
    - Merrill Lynch
    - Nedcor Investment Bank
    - Rand Merchant Bank
    - Standard Bank of South Africa
    - Societe Generale

  As a result of the merger between First National Bank and Rand Merchant Bank the panel has been reduced to 11 members. 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. During 1998, Duff and Phelps and Moody's Investors Service reconfirmed their 1997 ratings to the government as follows:

- Foreign currency denominated debt:

    - Duff and Phelps International BBB (Investment grade)
    - Moody's Investors ServiceBaa3 (Investment grade)

- Long-term Rand denominated debt:
    - Duff and Phelps InternationalA
    - Moody's Investors ServiceBaa1 (Investment grade)

Moody's Investors Service confirmed South Africa's credit ratings, both of which had been placed on review for possible downgrade in July 1998. Numerous other developing countries, and even some developed countries, were downgraded during 1998. The confirmation of South Africa's ratings followed a review which concluded that the current rating appropriately reflected the more disciplined and coordinated macroeconomic policy framework and, ultimately, the low risk of default on rated instruments given a low debt and debt service burden. Standard and Poor's and the Japan Rating and Investment Information, still have to announce the outcome of their due diligence process.

Government is currently in the process of setting up a Euro Medium Term Note Programme (EMTN), for the government's foreign funding needs. The Euro MTN program gives South Africa 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.

Government has appointed Deutsche Morgan Grenfell as its arranger to set up the Euro MTN programme. Government will shelf an equivalent of US$2 billion on the programme. Bonds may be issued through a range of different currencies, and different maturities. Given the recent volatility arising as a result of events experienced in international financial markets, the ability for South Africa to move quickly in response to better market conditions will be crucial in securing the optimal outcome for a new bond issue.

The debate on debt

1998 saw a vigorous public debate around the issue of South Africa's debt. A coalition of NGOs charged that South Africa's debt was excessive and called for apartheid debt to be written off. These calls formed part of a global campaign, Jubilee 2000, focussing on the problems for developing countries of massive debt repayment obligations.

It is now widely accepted that the debt burden is indeed a major global problem. A group of developing countries (the so-called HIPCs – Highly-Indebted Poor Countries) are caught in a debt trap where the burden of their repayments, often of the interest alone, exerts such pressures on the fiscus that development and service delivery become virtually impossible. Most of this debt is foreign-denominated and owed to institutions such as the World Bank and the IMF.

South Africa has played a leading role in calling for a greatly improved system of writing-off or reducing such debt and for a more speedy process to be applied in respect of the HIPCs. Minister Trevor Manuel has been especially active in this regard and this was a focus of South Africa's interventions at the annual Washington meetings in 1998. Indeed steps are in process to improve South Africa's own record as a lender, in respect of the debt owed by Mozambique. (see section on International Development Cooperation in this report)

However, in relation to South Africa's debt, not all the same arguments apply and the Jubilee 2000 local campaign has frequently been based on misunderstandings. What are the basic facts?

South Africa does have a large debt burden – as at 31 March 1999 government debt is projected to be about R378 billion. Repayment of this debt places a burden on the fiscus – 21,4 % of the 98/99 budget went towards meeting debt repayment obligations, the largest single expenditure item after education. Government is committed to reducing this burden. Indeed, for every R1 billion less that we owe, between R130 million and R160 million (depending on prevailing interest rates) is saved permanently. It is hoped, for example, that the proceeds of the SASRIA changes could be used to reduce the debt by a significant amount.

But this does not mean South Africa is in a 'debt trap'. Debt currently stands at 57,5 % of GDP, which is still below the commonly-cited limit of 60%. South Africa's debt problem is not so much the extent of the debt but the costs of servicing it. The real debt trap comes when a country has to borrow simply to pay the interest of debts falling due. Most of our debt currently matures over an average of just under ten years. And about 60% of our debt must be refinanced over the next five years. We need to avoid doing this in a high interest rate environment, hence the importance of appropriate monetary and fiscal discipline. We need to ensure that real growth in debt servicing costs is lower than the real economic growth rate.

Approximately 95,8% of the debt is domestic debt, denominated in rands. This means that we have been less vulnerable to the fall in the value of the rand, than many other developing countries which have massive amounts of foreign-denominated debt. However when it comes to repayments we have still been affected by the prevailing high interest rates. Of the 4,2% of debt (about R16 billion) which is foreign, 98% was either incurred after 1994 or agreed on a multi-partite basis during the CODESA talks, or re-negotiated with those who lent during the apartheid era.

In short, our problem is overwhelmingly a problem of domestic debt. Any meaningful call to write-off apartheid debt effectively amounts to a call to write-off domestic debt. Who holds this debt? Foreign citizens/institutions hold a small amount of rand-denominated debt. About 40% is held by the Public Investment Commissioners – mainly the assets of the public servants' pension fund (GEPF). The balance is held by banks, insurance companies and private pension schemes. There is certainly an argument for reform of the public service pension arrangement, and an investigation along these lines has emerged out of the Jobs Summit. But it is hard to see how government could or should unilaterally remove or diminish workers' pensions under the guise of writing off apartheid debt.

It has been argued that in addition to government debt, a great deal of foreign debt has been incurred by public enterprises and that government is ultimately responsible for the repayment of these. Most of this debt is tied into fixed assets of parastatals, such as Eskom power plants or SAA aircraft.

The Department has taken steps to tighten the guarantee process. Government guarantees are managed within a set of guidelines approved by Cabinet. In accordance with these guidelines, guarantees were largely restricted during 1998/99 to concessionary loans to public enterprises; project-related finance linked to bilateral resource development projects such as the Lesotho Highlands Water Project; and, in exceptional cases, to allow public enterprises to restructure.

During 1998/99 the average maturity of foreign loans for which government guarantees were issued came to 15,17 years. Improved access to the Eurorand market and various sources of concessionary finance contributed to the success that was achieved in this area. Guarantee fees were increased by 0,5 percent during the 1998/99 financial year and currently amount to 1,5 percent per year on the nominal value of a loan. Guarantee fees amounting to R4,291 million are projected to be received by government during the 1998/99 financial year.

In summary, the national debt is too high and we are working to reduce it. The debt is overwhelmingly domestic, not foreign. Most of the foreign apartheid debt has in fact been re-negotiated and repaid. The small remaining portion of foreign debt incurred under apartheid is too small to make an issue of and risk our excellent reputation as a trustworthy and competitive issuer of debt. We have actively promoted in global forums the need for debt relief for developing countries.

Asset Management

The Chief Directorate is headed by Brian Molefe, who was transferred from the Intergovernmental Relations Section in November 1998. 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). Both sections are new and supporting personnel have been identified and assumed their positions at the beginning of December 1998 and January 1999. Mr Redelinghuys currently manages the Cash Management Section.

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 not having too much liquidity.

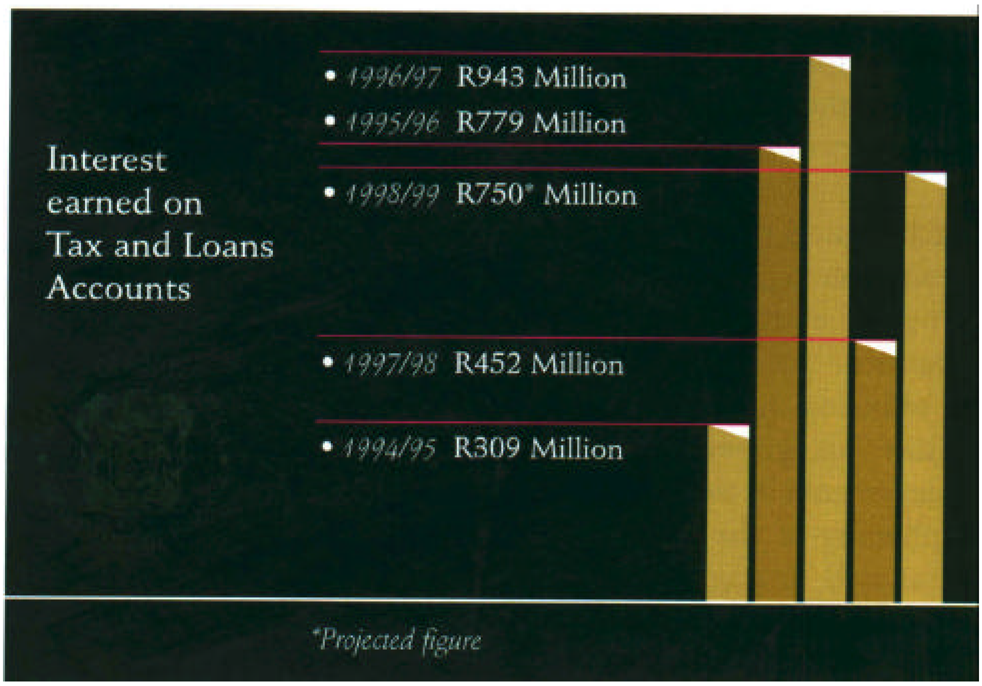
The component responsible for managing "other assets" is responsible for creating and maintaining a risk management framework in respect of all government bodies and public enterprises, as contained in the Protocol on Corporate Governance. The Protocol was drawn up as a joint effort between the Department of Finance and the Department of Public Enterprises.

The Chief Directorate has a number of activities including:

- ***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 major improvements were noted during 1998:

- Improved efficiency in cash-flow management in government is largely a function of timeous and reliable cash-flow forecasts. To improve the ability of national departments to provide timeous and reliable cash-flow forecasts a task team comprising the Departments of Finance and State Expenditure and the Reserve Bank was establised to consider the restructuring of the banking services provided to national departments. The task team's report will be presented to the Minister of Finance in course of 1999.
- Through the cooperation of national departments, provinces, the South African Revenue Services and the South African Reserve Bank, the Department of Finance was able to further improve the forecasting of revenue and expenditure flows. This made it possible to reduce the minimum liquidity buffer, which is needed to cater for mismatches in flows between payments and receipts, to about R1 billion, resulting in lower debt servicing costs.
- In a further effort to enhance electronic payments by Departments, cheque payments of more than R10 000 will not be allowed from 1 April 1999. This arrangement will further improve projected expenditure flows and thereby further reduce the required liquidity buffer.
- Weekly transfer payments of about R1,6 billion to all provinces on the first working day of every week resulted in high cash requirements on these payment dates. As from 1 April 1998 transfers to provinces were spread over all weekdays resulting in more evenly distributed daily cash requirements for national government.
- The system of Tax and Loans Accounts in terms of which tax and loan receipts and surplus cash are deposited in investment accounts at the four major clearing banks was implemented on 1 February 1994. The system has not only resulted in interest being earned on government's surplus cash but also contributed to the easing of the management of the money market shortage by the Reserve Bank.



- ***Improving financial aspects in public enterprises*** – 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 appropriate Minister. But they can also be seen as state assets in which government, as shareholder, has an interest.

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.

During 1998 the Department of Finance started with the development of a database based on the information submitted to it by the public entities. The data will further be enhanced for purposes of analysing the financial performance and risk profiles of the public entities.

To date, good progress has been made in coordinating financial market access by public entities, the lengthening of maturities, the setting of benchmarks and reducing the dependence of public entities on government guarantees. Achievements in this regard include the lengthening of the average maturity of guaranteed foreign loans to public enterprises from between 15 to 17 years. To assist with the management and coordination of the consolidated debt, a consolidated debt maturity profile of domestic and foreign debt of both national government and government entities was compiled in 1998.

The Asset Management Section is represented on the Oversight Committee which provides support to the Interministerial Coordinating Committee responsible for the restructuring of state assets. During 1998 restructuring proceeds amounting to R2,7 billion were received and paid into the Exchequer to reduce state debt.

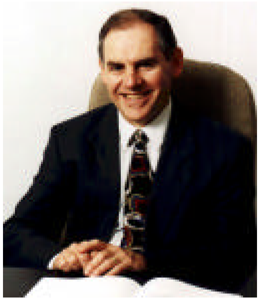
- ***Converting SASRIA into a public company*** – the SA Special Risks Association (SASRIA) was established in 1979 as a Section 21 company. It aimed to provide insurance cover against riot and civil disturbance. At the time "unrest" was on the increase and resistance to apartheid was growing. Government accepted the full re-insurance risk. Over the years SASRIA has accumulated substantial reserves. As at 31 July 1998 total accumulated reserves amounted to R10,1 billion. These reserves comprise investments in blue-chip equity, government and semi-government bonds.

  SASRIA reserves are substantially larger than prudential requirements and as an Article 21 Company SASRIA could not pay out these reserves. Government therefore decided to convert SASRIA into a public company, with the total shareholding held by Government. An independent actuary will be appointed to determine the portion of reserves that the converted SASRIA will require to continue its business. The surplus assets will, as determined in the Conversion of SASRIA Act, 1998 be used to reduce state debt.

  During 1998 the following progress was made:

  - The Conversion of SASRIA Act was tabled and adopted by the legislature. In terms of this SASRIA will be converted into a public company with government as the sole shareholder;
  - During 1999 an actuary will be appointed to determine the excess reserves;
  - The excess reserves will be paid to government in the form of a special dividend;
  - In terms of the Act government is compelled to sell SASRIA after consultation with the insurance industry. During 1998 the groundwork for this restructuring was laid and phased implementation will commence in 1999.

FINANCIAL MANAGEMENT



Francois le Roux

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 was a member of the budget team for many years, headed the Secretariat of the Tax Advisory Committee of the Minister of Finance as well as 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 someone at Chief Director level.

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 cooperation 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 official 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, handles human resources, financial administration and related support functions for the Department as a whole.
- ***Public Investment Commissioners secretariat***, headed on an acting basis by Robbie Burton, ensures that the necessary technical and administrative support is provided to the Public Investment Commissioners 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.The work of this branch embraces a diverse range of activities which are reported on in the remainder of this chapter. It is nevertheless worth highlighting some of the major issues and policy directions of the branch during 1998.

Ongoing transformation of the Public Investment Commission. The PIC has a statutory obligation to manage the investment of over R165 billion worth of surplus public and pension funds, mainly those belonging to the GEPF. The restructuring process aims to develop the PIC into an organisation comparable to a private asset management company – with more freedom to spread investments and more responsibility to clients and government to ensure competitive rates of return on investments and investment in greenfield and developmental initiatives. A major reassessment has been conducted and changes to the composition of the board, the enabling legislation, staff structures and policies have either happened or are in the pipeline.

Growing influence in the handling of the global financial crisis. The Minister and Director-General have played a significant and growing role around a range of global financial matters. The Minister represents Anglophone Africa on the IMF's policy formulating structures, while the latter participates in G-22 deliberations. In doing so they are providing a voice for South Africa, Africa and developing countries generally. Issues under the spotlight have included the handling of the current Asian financial crisis, the options for improving financial regulation at a global level, and the handling of debt relief especially in relation to the Highly-Indebted Poor Countries. These issues, while they may appear to be distant concerns, are in fact crucial to the successful development of South Africa and our region, especially at the current time.

Public servants' pensions reform. A process has been initiated of reforming the massive GEPF – the contributory retirement fund covering state employees. The general strategic goal is to ensure that the fund is run along lines more similar to private retirement funds, to contain government liabilities and to explore the possibilities of a new pension 'deal' for public servants. Steps which are either underway or in the pipeline include more professional and efficient management of claims, new internal structures and changes to the governance structures to involve employee representatives. Following the Jobs Summit a task team is exploring pension fund reform. There is also a growing focus on socially responsible investments.

Special pensions reform. Aspects of the management of these pensions – paid to veterans of the anti-apartheid struggle – have been less than satisfactory. This is described in the relevant section of this report. Steps were taken during 1998, and are continuing, to put the administration of special pensions onto a sounder footing.

The establishment of a National Development Agency. During 1998 Parliament approved the establishment of the NDA to promote a partnership between government and civil society, aimed at eradicating poverty and its causes. The NDA will assist, mainly through NGOs, a number of projects which have until now been underfunded. Steps are under way to establish the structures and systems envisaged by the Act. R50million has been earmarked for the NDA during the current (98/9) financial year, rising in future years.

A Corporate Services section was establishment to take over the functions of human resources and financial administration from SARS and to establish an information technology, legal services and communications capacity in the Department where none existed.

FINANCIAL MANAGEMENT - INTERNATIONAL DEVELOPMENT FINANCE

Mxolise Lindie

This programme focuses on two broad areas:

- the management of South Africa's relations with multilateral financial institutions (such as the International Monetary Fund); and
- supporting SADC moves towards financial integration and convergence within the region.

The chief directorate is led by a three-person team. It is headed by Mxolisi Lindie, who previously worked in local government structures in Johannesburg. He is assisted by a Director responsible for Multilateral Development Finance, Anthony Julies, and a Director in charge of the Finance and Investment Coordinating Unit (FISCU), responsible for SADC matters. The latter post was occupied for most of the year by Bongi Kunene, until her departure on secondment to the World Bank in mid-November.

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

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 we work in conjunction with the Department of Trade & Industry
- the G-24 group of developing nations
- a range of organisations such as the Organisation of African Unity (OAU), the Non-Aligned Movement (NAM), and the Commonwealth – insofar as aspects of their work touch on structural adjustment, debt and similar global economic concerns.

Anthony Julies

The Department works closely with other government departments, such as Foreign Affairs and Trade & 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 current financial crisis.

Developments in the global economy impact heavily on both the South African and Southern African economies. The Asian economic crisis deepened and spread during 1998 with negative consequences for short-term growth prospects. The depressed state of Asian markets has reduced demand for a number of commodity exports and put pressure on the growth rate, terms of trade and balance of payments.

Three major concerns have been raised by the Minister of Finance and by our representatives to various meetings. These concerns include the need for a review of financial regulation at a global level, especially in relation to short-term capital flows. The magnitude and volatility of these flows have placed heavy pressures on all emerging markets, even those with sound economic fundamentals. We have, together with other developing countries, been vocal on the need for reform of the international monetary systems. We have also been concerned about declining aid flows to Africa, and that ‘bailout’ packages to Asia may be limiting transfers to and investment in African states. Finally, we have expressed concern at the slow implementation of debt relief for Highly-Indebted Developing Countries, including a number of African states. We have called for a review of the process so as to ensure that there is meaningful relief for HIPC

Key activities during 1998 include:

Attending the Spring and Annual Meetings of the World Bank and IMF – we participated actively in these meetings and sent high-level delegations to accompany the Minister to Washington in April and October.

The SA delegation to the Meetings comprised the Minister of Finance (as Governor to the World Bank), the Director-General (as alternate Governor to the IMF), the Governor of the Reserve Bank (as Governor to the IMF) and a Deputy-Governor of the Reserve Bank (as temporary alternate Governor to the IMF). The meetings were dominated by the impact of the Asian financial crisis on the international monetary system. At the meetings, Minister Manuel was elected as the representative of the Africa 1 constituency (English-speaking African countries) and will hold the chair in the Interim Commitee of the IMF until 2000.

During the meetings, South Africa supported calls for the fundamental reform of the international economic and financial system to minimise the adverse effects of the global financial crisis on developing countries. For Africa, the crisis has resulted in a sharp decline in commodity prices, a reversal in net income flows and a deterioration in the terms of trade. South Africa gave support for growth-oriented strategies and poverty alleviation, increased resource flows to the continent and the substantial reduction of the debt burden faced by many African countries.

Finally, South Africa also appointed an alternate Executive Director Mr Cyrus Rustomjee, to represent the Africa 1 constituency in the IMF and an Advisor, Ms Bongi Kunene, to strengthen the constituency in the World Bank. These appointments should improve South Africa’s attempts to effectively contribute to the broader debate on the restructuring of the Bretton Woods institutions so that they can appropriately serve members of the African constituency.

Participating in the G-22 – this group of developed and developing countries is still in its infancy. During 1998 the Director-General participated in a number of G-22 working groups. These included:

- The Working Group on Transparency and Accountability considered the contributions that transparency and accountability can make to improvements in economic performance, as well as the nature of information needed for effective transparency and accountability.
- The Working Group on Strengthening Financial Systems sought consensus on principles and policies that foster the development of a stable and efficient financial system.
- The Working Group on International Financial Crises examined policies that could help to prevent international financial crises and facilitate the orderly and cooperative resolution of crises that may occur in the future.

Strengthening our role within 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 helps the poorest countries in Africa with financial resources for development. South Africa also made an offer to increase its shareholding in the ADB from 1% to 6%. This amounts to shares worth R472 million, and to R7.4 billion in callable capital. 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 Minister is a Governor of the ADB.

Preparation of a Country Assistance Strategy for South Africa – this key document presents the World Bank’s strategy to achieve a country’s development objectives. It is prepared by the Bank in collaboration with the country’s government and is a precondition for a lending operation. The areas identified by the South African government for World Bank assistance are the following: i) increasing growth and employment creation; ii) land reform; iii) growth and human development; iv) infrastructure development; v) public sector restructuring; and vi) regional co-operation.

The Bank’s involvement in these areas will be in the form of i) economic and social sector work; ii) capacity building through skills transfer at national, provincial and local level and iii) technical assistance. In a regional context, the knowledge bank concept will similarly facilitate regional growth and development in a similar form, in those sectors of mutual concern for the region, such as finance, transport, energy and water.

Heavily Indebted Poor Countries (HIPC)

The HIPC is an initiative by major creditor countries and institutions to provide debt relief for heavily indebted poor countries. Debt and debt servicing is crippling the efforts of many developing countries and making any economic turnaround more difficult. The HIPC initiative is important. But it has not yet been as successful as is needed. Out of the nine countries qualifying for consideration for relief, only Bolivia and Uganda have reached their completion points with proposed debt relief of US$750m and US$ 650m respectively. Mozambique has also qualified.

South Africa is concerned that no concerted effort has been made to ensure that more countries benefit from the HIPC initiative. For instance, only ten of the forty countries involved have been reviewed for eligibility to receive assistance. And only two have reached completion points a full two years since the start of the initiative.

The HIPC initiative is a welcome attempt to provide debt relief. However South Africa believes a number of changes are needed, including:

- lowering of current threshold ranges, and making more countries eligible for relief;
- giving more importance to the fiscal burden of debt, and changing the fiscal criteria applied;
- introducing human development in the debt sustainability analysis and speeding up the implementation;
- including domestic debt in the calculation of the debt service burden; and
- periodically reviewing the eligibility criteria.

The initiative is important within the region. Mozambique has been given a debt relief package of 89% Net Present Value (NPV) reduction of eligible debt by non-Paris club creditors. The South African government has granted loans to Mozambique of approximately R48.5m. We are in discussions with Mozambique to write-off this debt.

Finance and Investment Sector Coordinating Unit (FISCU)

This section of the programme arises from South Africa being given responsibility to coordinate the Finance and Investment sector of SADC. FISCU was established in July 1995 and the Department acts as a secretariat to the committee of Ministers and to the various committees associated with the sector.

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

- to improve regional co-operation in relation to financial regulation
- to establish a sound investment environment for the region
- to promote prudent fiscal and monetary policies regionally
- 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 environment of member states. 1998 saw a particular focus on improved convergence in relation to financial regulation. Most projects are funded off-budget and development assistance is obtained from various foreign donors.

The sector is structured to include an Annual Meeting of Ministers, a range of committees involving senior treasury officials, and an autonomous committee bringing together the central bank governors and various private sector players involved in financial regulation.

FISCU prepared a detailed report for the annual Ministers meeting which was held in Swakopmund, Namibia in July 1998. In addition FISCU publishes a quarterly newsletter covering developments in the region and moves towards integration. These are freely available either in printed form or on the Department’s website.

FINANCIAL MANAGEMENT - 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). 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 which 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.

Shaheed Rajie (left) attending a meeting of the African Development Bank in Abidjan

The support received takes four forms:

- ***Grants*** – financial transfers under agreed terms to achieve an agreed project;
- ***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 guarantees and similar (mainly organised through the Department of Trade & Industry).

During 1998 25 foreign governments, multilateral institutions and agencies were financing approximately 900 programmes and projects. Some of these were ongoing multi-year programmes/projects. 80 new projects/programmes were finalised during 1998.

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. Potential donors are informed of South Africa's development priorities. Priorities are set by specific Departments but must form part of national Reconstruction and Development priorities 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.

Apart from the benefits which ODA can bring, there are a number of dangers which 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 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.

In October 1998 the legislature approved an amendment to the RDP Fund Act. This will change the previous requirement that all agreements must get Presidential approval before being signed. The new process is more streamlined and should expedite delivery by making it simpler and faster to finalise agreements, get financial flows moving, and initiate tenders.

Major activities by the Department's IDC programme during 1998 included:

- ***Annual Negotiations and Mid-term Reviews* –** these were held with a number of countries, and assistance agencies, namely:

  - Canada
  - Denmark
  - Germany
  - European Union / European Investment Bank
  - Finland
  - Norway
  - Sweden
  - United Kingdom
  - Ireland
  - USAID
  - Japan

  In addition, new Development Cooperation strategies for the next 3 – 5 years were finalised with the above, aligning our partners closer to our Medium Term Expenditure Policy.

- ***A medium-term review of Development Cooperation* –** 1998 saw the end of the first phase of assistance to the post-apartheid government drawing to a close. In the first phase assistance focussed to a great extent on the development of policy. In the coming phase, associated with the 1999-2004 period, the focus will shift towards consolidating democracy, entrenching the transition away from apartheid inequalities, and on implementation and delivery.

  A Development Cooperation Report for the period 1994-1998 has been initiated. This will review the overall activities for that period and give strategic direction for future cooperation. The review will be:

  - by sector (Education/Health/Water, etc)
  - by institutional arrangement (Government/Parastatal/NGO)
  - by province
  - by instrument (Grant/Technical assistance/Concessionary loans etc.)

- ***Establishment of the National Development Agency (NDA)* –** this section of the Department has also taken responsibility for the NDA establishment process. The NDA is a statutory body, established 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 primary function of the NDA will be to 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 matters relating to development policy and practice.

Grants and Technical Assistance – Primary Health Care

Through the Reconstruction and Development Programme, the Government has targeted various priority areas for socio-economic reform and development in order to raise the quality of life for all our people.

The Health sector was one of the identified priority areas, and although services are relatively well funded, insufficient resources were available to address all primary health needs. Services were inaccessible to a large number of poor people, due to distance, inappropriate facilities and, until recently, the cost of obtaining adequate facilities.

The Finance Department's International Development Cooperation section facilitated the signing of various grant and technical assistance agreements with bilateral agencies specifically designed to assist with the upgrading and broadening of health services throughout South Africa. The assistance obtained from donor grants amounts to 40% of the long term cost of providing better health services, which has allowed the provinces to reprioritise their spending in regard to the health sector as a whole. One of the areas targeted in the health sector was primary health care, which included the building of clinics and cooperation between the providers of primary health care services and providers of other social services at local level.

The focus of the clinic building programme has been centred mainly on the remote rural areas where access to medical services has been inadequate due to either the lack of facilities and the distances that had to be travelled to obtain medical services.

To date, hudreds clinics have been built and upgraded throughout South Africa. The Eastern Province, Mpumalanga and KwaZulu-Natal have benefited the most from the programme. The clinics are able to provided services such as immunisation, ante-natal and reproductive health services, advice on nutrition and early child care (achieving a reduction of infant mortality due to diarrhoeal disease and respiratory infections), and the treatment of other common illnesses.

The building of the additional clinics throughout South Africa has enabled the health sector to reach a much larger proportion of the population and, at the same time, has provided them with an improved preventative as well as a curative health service which has already resulted in a drop of admissions of young children to hospitals. There has also been a drastic reduction in measles between 90-95% due to the immunisation facilities available at the clinics.

The extent of the improvements would have been less without the welcome assistance received from the international community.

Loan Financing – Municipal Infrastructure

It is estimated that in South Africa at present there are approximately four million people with no access to treated and reticulated water. Eight million people have access only to minimal sanitation.

The financial requirements for providing the necessary service infrastructure in South Africa are immense and cannot be met from government funds alone. Various intermediaries are crucial in mobilising the private sector finance to assist the channeling of subsidised and grant financing to the more needy communities where cost-recovery is more difficult to achieve from services charges.

Loan financing from the various multilateral financing institutions, is seen as a viable proposition particulary if the cost of finance is lower than that of other sources of funds.

The provision of long term funding through the use of loan financing, specifically with regard to infrastructure development (the sectors of water supply and sanitation) will have a positive effect on not only the economy as a whole but will also ensure the improvement of the environment either locally or on a wider scale. A number of IDC-facilitated agreements enable effective access to and use of loan financing.

FINANCIAL MANAGEMENT - CORPORATE SERVICES

Simone le Hane

This programme is responsible for ensuring the smooth running of the internal machinery of the Department. Corporate Services is newly-established. Until the end of March 1998 the key functions were performed by SA Revenue Services (SARS), now a separate entity.

The programme is headed by Simone le Hane who joined the Department as Chief Director having previously worked in the private sector. The programme includes six directorates but a number of posts remain to be filled and are not yet fully functional. The programme's responsibilities range from the all important human resource function to financial administration, information technology, communication, legal services and parliamentary services.

During 1998 the Department operated from three sites in Pretoria and one in Cape Town. In addition, the Pensions Administration operates from a number of additional sites. The Department is planning to move to new premises in Pretoria. This will enable more integrated and effective operations and will bring together the Department's currently dispersed functions. It should also make the Department more physically accessible to disabled people and visitors generally.

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.

Simoné le Hane and the Corporate Services Management Team

Human Resources

This crucial function is headed by Lehlohonolo Montjane-Malete. She has 14 staff working in the Directorate. The personnel functions within human resources were previously carried out by SARS.

The Department employs relatively few people and has 307 posts (including PIC but excluding the Ministry and Pensions Administration) on its establishment. 188 of these posts were filled as at end December. The Pensions Administration programme 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 (formerly 'work study'), assessments of staff, and other policy matters. As at end December 88% of staff in pensions administration and 87% of staff in the rest of the Department were members of a trade union.

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 chapter of this report.

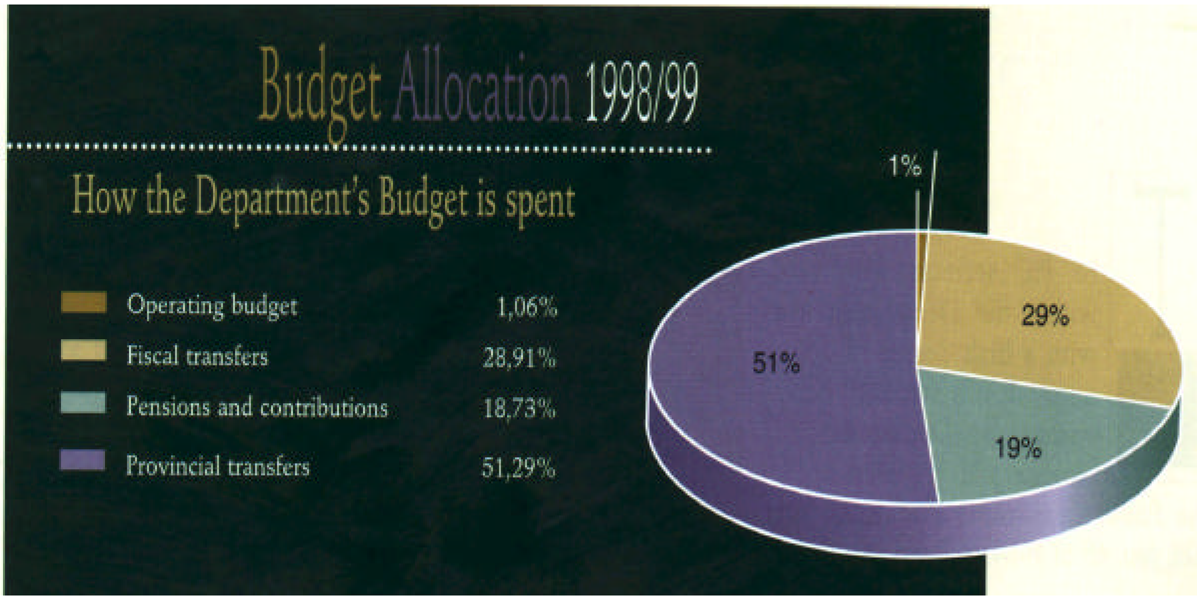
Financial services

This directorate is headed by Wynnona 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 10 vacant positions.

Implementation of the Financial and Provisioning Administration directorate commenced on 1 April 1998 with the take-over of functions from SARS. The directorate is in the process of upgrading the budgetary and financial reporting systems of the Department. A Departmental Tender Committee was instituted to facilitate the tender process for the procurement of goods and services. Recently the establishment of the Departmental Control Committee was approved to oversee the purchase of goods and services whereby requests are evaluated according to certain criteria to ensure cost effective 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. An internal audit function is being planned and will report directly to the Director-General.

This directorate is currently responsible for the Department's R7,423 billion budget vote, the overwhelming majority of which goes out in the form of transfers. Only a very small proportion 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 Services, 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.

A communications framework for the department was developed during 1998. A strategic plan will be developed and implemented once the Communications Director joins the Department in the first quarter of 1999. It is hoped that the rest of the posts in the Communications Directorate will be also be filled during 1999. 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. An internal newsletter is in the planning stage.

Parliamentary Services employed three people to provide a service in Cape Town to the staff in the Finance Department. This directorate, currently headed by Logan Wort, is responsible for ensuring effective links between the Department and the legislature.

The Information Technology directorate is currently being supported by consultants. Corporate Services is in the process of appointing an IT Director who will be charged with the responsibility of developing and implementing an IT strategy, policy, standards and procedures for the department. The department migrated from the SARS network to the State Expenditure network during 1998 and IT linked up the two sites in Pretoria to the one in Cape Town. Central Computer Services provides the network support. This directorate services the needs of about 200 users. The number of users grew from under 100 to 200. IT has also replaced the telephone system with a modern state of the art telecommunication system, and provided e-mail and Internet access for all staff. IT is also in the process of completing the testing and remediation for Y2K. We plan to be Y2K compliant by June 1999.

FINANCIAL MANAGEMENT - PUBLIC INVESTMENT COMMISSIONERS SERCRETARIAT

The PIC secretariat operates within the Department but with a high degree of autonomy. It is a statutory body within the Department of Finance 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, therefore, 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 1998.

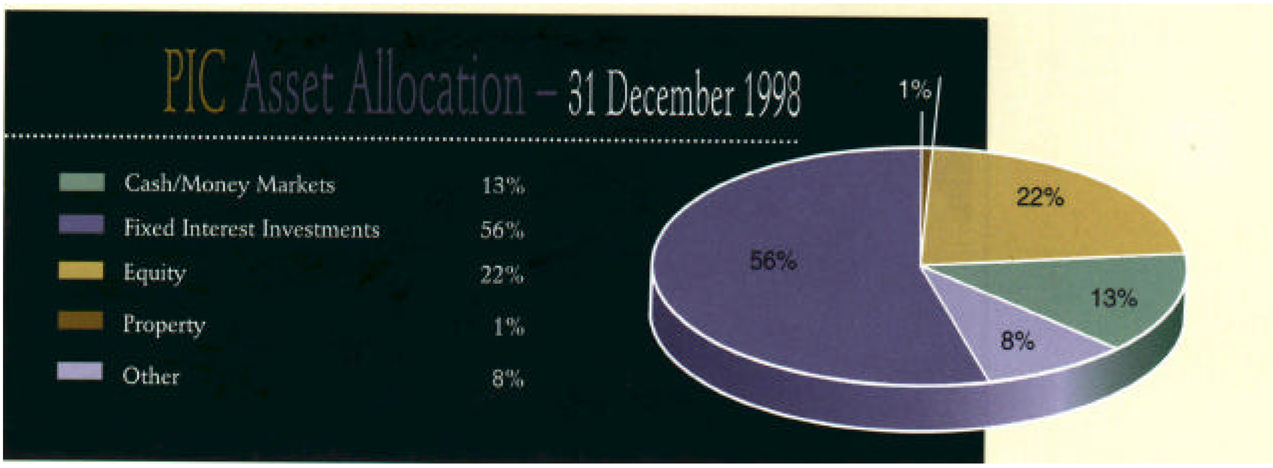
The secretariat provides support for the Public Investment Commissioners. The Commissioners are responsible for investing surplus public and other funds. These belong mainly to the Government Employees Pension Fund (GEPF). The PIC is also responsible for the investment of some 120 other funds including 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 1998:

- the value of the funds being managed was over R166 billion. This would make it, in effect, the third largest asset management organisation in the country;
- Most of the assets (56%) are in fixed interest investments, approximately 22% 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 would create a greater diversification of the PIC's asset portfolios and extend the scope of investments into socially responsibility and infrastructure projects. The value of the Isibaya Fund was R500 million at inception and has grown th R3 billion.

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

The Board appointed KPMG Financial Services Group to investigate and document the critical strategic and operational information and issues as at 31 January 1998. Following on the KPMG status report, an expanded organisational structure was proposed and critical functions to be outsourced were identified. Staffing of the new organisation and the acquisition of suitable capability for the functions to be outsourced is currently in progress.



The first step of the transformation was to reconstitute the PIC by increasing the number of Commissioners. The Commissioners are:

- Minister T A Manuel (Chairperson)
- Deputy Minister G Marcus
- 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 Executive Committee members are: Dr F le Roux (Chairperson), Dr R W Burton, Ms S le Hane, Mr J Hanssen, Mr P Maritz, Mr T Magwasa, Mr R Ketley, and Mr E Masilela.

Likewise the Audit Committee was expanded by the appointment of three further members all of whom are Chartered Accountants. The Audit Committee members are: Mr Z J Sithole (Chairperson), Mr J Strydom, Mr I Sehoole, and Mr Y Waja.

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.

FINANCIAL MANAGEMENT - PENSIONS ADMINISTRATION

Thokozani Mawaza

Peet Maritz

Morontshi Matsobane

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 Corporation (PIC). In addition policy advice on various retirement issues is provided by the programme on a regular basis to the Minister of Finance and the Deputy Minister.

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 an acting Director of Financial Administration, a Director of Schemes Development and Human Resources, and a Director of Operations. The two Directors, Morontshi Matsobane and Thokozani Magwaza respectively, both joined the Department two years ago and bring a wealth of private sector and NGO experience to the job.

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.

Pensions Administration runs from offices in Pretoria and also has regional offices in Pietersburg, Umtata and Mafikeng. 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:

1. Government Employees Pension Law, 1996 (Proclamation No.21 of 1996)
2. General Pensions Act, 1979 (Act No. 29 of 1979)
3. Temporary Employees Pension Fund Act, 1979 (Act No. 75 of 1979)
4. Associated Institutions Pension Fund Act, 1963 (Act No. 41 of 1963)
5. Special Pensions Act, 1996 (Act No.69 of 1996)
6. Military Pensions Act, 1976 (Act No. 84 of 1976)
7. 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)

During 1998 two pieces of legislation were introduced in Parliament. These were:

- the Special Pensions Amendment Act – dealing with changes to special pensions. It provides for a new benefit structure for people older than 35, or suffering from terminal diseases, or holding office in legislatures. It also regulates the appointment of the Special Pensions Board and Review Board and the Minister's authority to make regulations.
- the Pensions (Supplementary) Act – the purpose of this Act is to provide for the payment of pensions to persons who petitioned Parliament successfully.

Government Employees Pension Fund (GEPF)

Management of the GEPF is the major activity of the Chief Directorate. 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 withdrawa***l 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 17% 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 959 000 contributing members and 230 000 pensioner members, with approximately 70% being past members and the balance being spouses
- received over R13 billion per annum in contributions during the last financial year
- has accumulated assets with a market valued estimated to be worth over R153 billion as at end-March 1998

Benefits paid for the last financial year (to end-March 1998) amounted to almost R14,8 billion. This included gratuity payments amounting to R8 billion, which should be seen in relation to an amount of only R3,2 billion for the preceding financial year. The huge increase is mainly related to the granting of voluntary severance packages and the pension benefits associated with these. Normal annuities paid amounted to R4,899 billion with the remainder of benefits being paid to spouses, dependants and estates of deceased members.

The actuary upon the last actuarial valuation (1st May 1996) reported the fund to be 72,3% funded. The unfunded liability amounted to R46 billion. Another actuarial evaluation is being conducted as at 31 March 1998 and the results will be available during 1999.

The rules of the GEPF were amended subsequent to negotiations and agreements concluded in the National Coordinating Bargaining Council. Changes to the legislation and rules now make provision for a representative board of trustees comprising equal numbers of employer and member representatives. This major change will bring the fund into line with the general practice governing such funds in the private sector. The joint-trustee provision has not yet been put into operation. In the interim the Minister of Finance is acting in a caretaker capacity as the GEPF trustee.

During 1998 restructuring of the GEPF continued to be the subject of public debate. The matter was also discussed at the Jobs Summit. Issues raised included the possibility of changing from a fixed benefit to a fixed contribution system, the possibility of moving to a pay-as-you-go design, and the level of state contributions to the fund. The Department is committed to ensuring continuity and security in the operations of the fund, while at the same time reviewing the design of the fund together with key stakeholders. A task team has been appointed to take the process forward. Its deliberations will feed into the post-Job Summit processes. Debate on the issues can be expected to continue during 1999.

Bophutatswana National Provident Fund

Pensions Administration is responsible for managing this provident fund. A remnant of the former Bophuthatswana 'homeland', the BNPF has assets of approximately R400 million as at end-March 1997. At this date the fund consisted of 6000 active members and 260 000 dormant members. Following intense negotiation between the Department and all interested parties the BNPF will be registered as a private sector fund during 1999 and will function independently from Government.

Handling pensions enquiries

Various other benefit and pension schemes

The programme is also responsible for the smooth running of various other funds. 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 30 November 1998 there were 9083 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 FY98/99 an amount of R126 million has been allocated for this purpose.

After extensive consultations a new benefit structure was introduced increasing the basic pension for fully-disabled beneficiaries to R26 279-04 per annum, from the previous amount of R20 940-04 p.a. All those receiving pensions less than this amount were increased to the new minimum. The new benefit structure is applied without consideration of the beneficiary's age or educational qualification as was the case previously. 76% of the total pensioner roll, with below Matric qualifications, who were previously disadvantaged have received significant increases from the implementation of the new benefit structure. The remaining beneficiaries with Matric or higher qualifications were not placed in a worse-off position than before.

Special Pensions – the Special Pensions Act of 1996 provides for pensions to be paid to ex-combatants and activists of the anti-apartheid liberation struggle. The aim was to provide some compensation to those who fought against apartheid, and who were unable to make adequate pension provision. An amount of R500 million has been allocated by the fiscus for special pensions during the FY 1998/99.

Special Pensions operates from Pretoria and also has offices in Cape Town, Port Elizabeth, Bisho, Umtata, Durban and Pietermaritzburg.

As was perhaps to be expected with this initiative for which no precedent exists, administrative and management problems were experienced during 1998. Corrective measures were taken, including fresh registration and the appointment of a new Board to ratify eligibility and adjudicate claims. With these changes Pensions Administration is confident that the problems have now been ironed out.

A new board began operating from 1st December 1998. The Board comprises four members and is chaired by Mr I Makopo.

To date 29 813 applications have been received of which 3 145 are regarded as late applications. Most applications are for members between the age of 35 to 45, with the oldest applicant being 98 years old. Most of the applications are for living members (22 599) that apply on their own behalf. 979 disability applications have been received, as well as 6 235 applications made by dependants of deceased anti-apartheid activists. Most of the applications are from members belonging to the ANC and PAC. Applications were received from all provinces, but the Eastern Cape and Gauteng had by far the biggest number of applicants. From March 1997 to December 1998 a total of just under R230,3 million was paid in respect of 2 196 members.

Who benefits from special pensions?

Mr Ntsholo (not his real name) was born in 1935 according to his South-African ID. However his baptism certificate and Transkeian ID indicates a birth date in 1931. He spent 29 years working for the ANC and in the Liberation Struggle. He started his political activities in 1953 when he joined the ANC. Following the Sharpeville massacre and the banning of the liberation movements, Mr Ntsholo was handed a banning order. He left South Africa illegally in 1961, crossing the border to join the ANC's external mission in Dar-Es-Salaam.

In 1963 he joined Umkhonto we Sizwe, and travelled to Odessa in the former-USSR where he trained with other well-known figures. He participated in one of the earliest military missions, when a group of MK soldiers entered what was then Rhodesia in an attempt to transit to South Africa. In combat with soldiers of the illegal UDI regime, a number of the MK group were killed and others were captured, including Mr Ntsholo. From 1968 to 1980 he was imprisoned in Rhodesia and was only released after the end of minority rule and the birth of Zimbabwe. He continued his anti-apartheid activities thereafter.

Mr Ntsholo received 3 medals for each of the decades in which he served the Liberation Movement. During the years that he sacrificed, he was unable to take up normal employment or make any provision for his old age. The previous Special Pension Board adjudicated his file on March 1997 and he was paid a special pension based on 29 years of service.

How the Special Pensions system works

Special pensions were introduced following an agreement reached during the transition to democracy. Contained in the Interim Constitution it stated that provision should be made for pensions for those involved in establishing a democratic order in South Africa.

The Special Pensions Act covers:

- those involved in the struggle, or their dependants or survivors; and
- who are at least 35 years of age; and
- who could not make pension provision for at least five years because they were either full-time officials or imprisoned for political activities or banned.

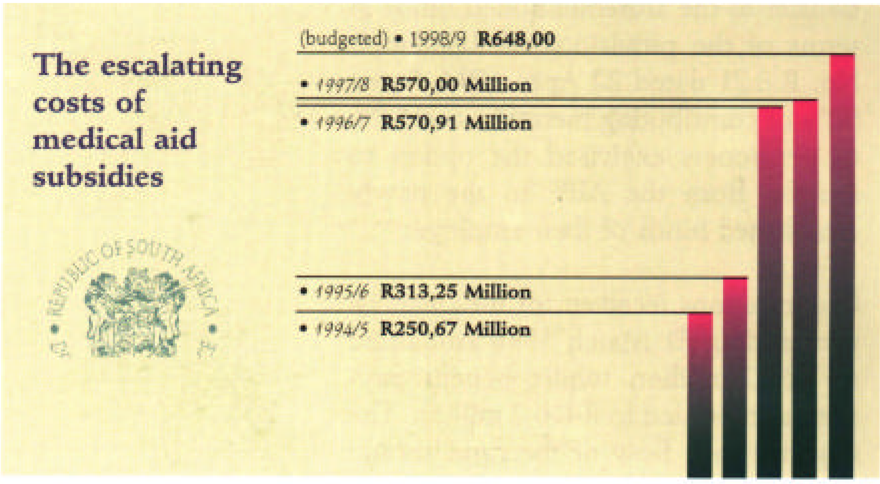
In practice the scheme benefits those (or the surviving dependants of those) who took up arms against apartheid, or were imprisoned for anti-apartheid activities or who were detained or killed in detention, or were banned or house-arrested or banished, or who sacrificed their careers to work full-time for banned political organisations.

The benefit structure contains three age categories (at the time of applying) and provides for a pension based on years of eligible 'service'. In summary, those aged between 35 and 50 years receive an annual pension of R6000. Those aged between 51 and 65 years receive R12,000 per annum and those older than 65 receive R24,000 per annum. Individuals in the two older age categories, those above 50 years of age, also receive an additional amount for more than five years of 'service'.

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.

At present about 78 000 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 R648 million has been allocated for FY 1998/99. The escalating cost of medical care affects the expenditure. The attached figure 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.

Temporary Employees Pension Fund – membership of this fund totals approximately 2119 – 1817 active members and 302 pensioners. Accumulated assets as at 31 March 1998 amounted to R170 million.

Contributions received for the year ending 31 March 1998 amounted to R3,8 million whilst benefit payments totalled R7,5 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 15 446 members – 3931 active and 11 515 pensioners. Accumulated assets as at 31 March 1998 amounted to almost R5,5 billion.

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 1998 amounted to R62,7 million whilst benefit payments amounted to R416,2 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.

Key challenges

Pensions Administration faces a range of challenges. These include:

Providing a more professional service – improving the quality of service to members by building a culture of timely and efficient client service among staff, by training those responsible for personnel matters in various government departments and institutions, by improving understanding of the rules of the various funds. The aim is to develop a mode of operation commensurate with the size of the funds managed. Improved communication with fund members is paramount. Some steps have been taken in this direction during 1998. There is now a bi-monthly newsletter aimed at staff in Pensions Administration. New user-friendly cards have been issued to pensioners. All provinces have been visited. An active communication policy using radio is being developed.

***Managing changes to the funds* –** a range of changes may emerge from current talks around the design of the funds, especially the GEPF. Pensions Administration will need to maintain and build capacity to manage any changes which are agreed upon. In addition the changes brought about by the amendments will require a more dynamic relationship with trustees and members.

***Continuing moves towards greater conformity to GAAP* –** in order to improve auditing and accounting controls a range of steps are being taken to move towards full compliance to Generally Agreed Accounting Practices (GAAP).

TRANSFORMATION

Transformation involves changing all aspects of the Department's work and re-orienting it externally towards achieving the post-apartheid national objectives of growth, development and redistribution; and internally towards transforming the Department by focussing on transparency, professionalism and a representative staff complement. The focus of this chapter is on the internal, especially the human dimension of the changes within the Department. The general approach being adopted is in line with government's objective of transforming the civil service, particularly its Batho Pele ('People First') initiative aimed at improving the quality of service delivery.

Departmental Transformation Workshop

A great deal has changed in the culture, composition and approach of the Department since 1994. During 1998 we made further progress in achieving organisational transformation. A number of challenges still remain to be tackled in future years if we are to meet our target of creating an efficient, effective, accountable and representative public service.

The Department employs relatively few people – at year-end there were 188 people in the core of the Department and a further 409 in the section dealing with Pensions Administration. These two components perform very different functions, are operationally distinct, and are dealt with separately in this report.

The Department of Finance focuses on a range of high-level tasks related to the efficient management of the nation's finances. Our biggest asset is our people. The Department's ranks include numerous highly professional, well-educated, and technically proficient people, mainly with a background in economics. Its operations are based in Pretoria, although a small parliamentary office is also maintained in Cape Town. In addition to the 188 employees, a further 119 posts on the establishment are vacant. In some instances it is not necessary to fill vacancies at this stage, while in other cases the Department is still searching for suitable candidates.

The Pensions Administration component performs both administrative and policy tasks. Its major activity is the administration of the various pension schemes for government employees, ex-combatants and similar. As a result it employs a significant proportion of administrative staff. It conducts operations from offices in Pretoria, Pietersburg, Umtata and Mafikeng. In addition to the 409 people currently employed, a further 55 posts on the establishment are vacant. It is intended to fill these vacancies as the need arises. Pensions Administration has also embarked on a transformation process the first phase of which was facilitated by Masibambane Consortium.

Staff profile

The attached charts list the racial and gender breakdown of staff employed in the core Department and the Pensions Administration. In summary:

Gender profile

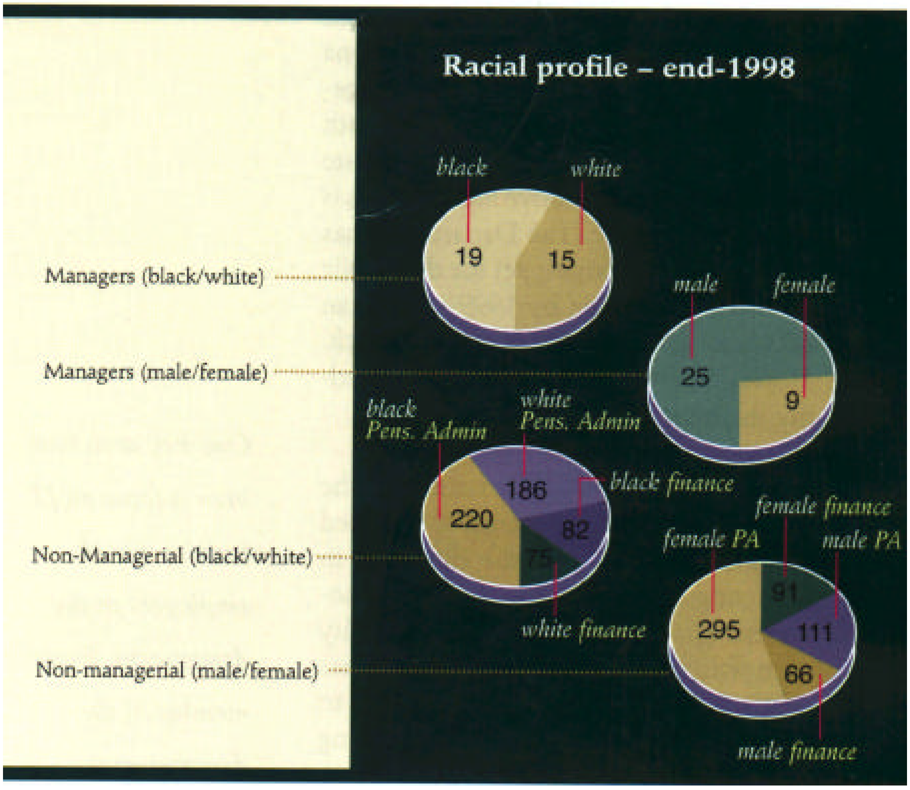
- At year-end 47% of the Department's staff (excluding Pensions Admin) were male and 53% were female. This compares to 55% and 45% respectively at the beginning of

1998. These proportions are satisfactory and reflect an approximate balance between men and women on the staff.

- At year-end in Pensions Administration 28% of employees were male and 72% female, compared to 26% and 74% at the beginning of the year.
- The overall percentages of men and women are broadly satisfactory.
- Of the 34 managers (Director level upwards) employed in the Department (including Pensions Administration) at year-end, only 9 were women – or just over 26%. This is a marked improvement on the beginning of the year (21%) but still leaves room for further progress in professional and managerial positions. The overall public service target is 30% for 1999.

Racial profile

- At year-end 53% of the Department's staff (excluding Pensions Admin) were black and 47% white. At the beginning of the year only 47% of staff were black, and significantly fewer when the transformation process commenced in 1994. There is still some way to go to achieve a representative staff profile;
- In Pensions administration 54% of staff are black, compared to 52% at the beginning of the year;
- The overall percentages continue to reflect an under-representation of black people, despite improvements being recorded;
- In the management echelon (Director level upwards) 56% of posts are filled by black incumbents compared to 54% at the beginning of the year. When the transformation process began the entire management echelon, with one exception, was white. While there has been dramatic improvement in the middle and upper echelons since 1994 there remains an under-representation of black people. The overall public service target for 1999 is 50%.



Disability

With regard to the employment of people with disabilities, the department has not met targets. With our relocation to new accommodation (planned for the year 2000) facilities for the disabled have been planned.

Qualifications and Professional assistance

The Department employs an impressively qualified staff complement. Of the 34 people employed in management positions, two have doctorates, 13 have completed master's degrees and 14 have other university qualifications. In addition they bring a wealth of work experience to the Department ranging from experience working with the previous government, the corporate sector, financial institutions here and abroad, academia, the union movement and development organisations.

The Department has been fortunate in gaining the services and experience of a number of local and international specialists. At year-end four such people were employed on contract in the Department as senior managers. During 1998 the following experts worked in the Department on a full-time basis. These were Joel Friedman (assisting mainly in the area of provincial finances); Owen Barder (working mainly on the Budget Review and in the area of Medium-Term Expenditure Planning); Leslie Maasdorp (assisting mainly in the area of public service personnel expenditure); and Roland White (assisting mainly in the areas of Municipal Finances and sectoral planning).

Many of these specialists have been made available to the Department in terms of support and secondment agreements with the local private sector or other countries and institutions. Their assistance and commitment has proven invaluable in making the transition to a democratic post-apartheid South Africa.

Affirmative action

The Department, in common with the whole public service, is committed to affirmative action. This includes the need for a diverse and representative workforce. Enormous strides have been made since the first democratic elections in 1994. At the time all senior management positions in the Department, with a single exception, were filled by white men. As the figures above indicate, this is no longer the case. The Department has already met the targets set for the public service, namely that by 1999 more than 50% of senior staff must be black. However, we are committed to exceeding these targets.

One of the biggest constraints for the Department is the shortage of qualified black economists and the difficulty in attracting and retaining black economists. The Department has difficulty competing effectively with the salaries offered by the private sector. We try to overcome this obstacle by offering employees bursaries to study locally or abroad (donor funded), as well as short programmes locally and overseas also funded by donors.

We actively search for suitable graduates to join the Department and assist in the task of transforming our country. We offer extremely demanding and challenging work as well as an opportunity for public service and societal transformation.

Personnel costs

Transfer payments and payments to beneficiaries take up the lion’s share of the Department’s budget. The operating budget in the current financial year (FY98/9) makes up just over 1% of the total budget. Personnel costs make up nearly 54% of this operating budget for the financial year in progress. The overtime budget amounts to only 0,4% of the operating budget. Training took up slightly more than 1%.

The overtime payments were mainly to staff in the lower structures and only paid in limited circumstances. In reality the Department’s staff frequently put in long hours and are well-known for working late into the night to meet deadlines.

Training and development is a key component of our transformation vision. One key area has been a focus on IT training for all employees in the department. Every member of the department is computer literate and has access to a computer.

Many others, especially the economists, were sent to courses or programmes at Harvard University, the International Monetary Fund, the World Bank and to a number of Commonwealth countries.

Turnover

Staff turnover is an important indicator of staff conditions and motivation. The staff complement (excluding Pensions Administration) increased from 87 at the beginning of the year, to 188 on the payroll at end December. During the year:

- 16 staff members resigned
- 4 took Voluntary Severance Packages
- 4 retired
- 1 died

The comparable figures for Pensions Administration are:

- a staff complement at year-end of 409
- 25 resignations
- 2 Voluntary Severance Packages

PIC

A number of the Department's employees work in the Public Investment Commissioners (PIC) secretariat. The PIC reports separately on its activities and operates to some extent autonomously. The PIC's activities are governed by statute and this stipulates that it is autonomous and accountable to the board. However, the Act states that the Director General: Finance is responsible for the Human Resources component. The PIC refunds the Department the cost of its staff salaries. Of the 29 posts on the PIC establishment, at year-end 10 were filled, another 7 were filled by contract employees, and the remaining 12 posts were vacant.

Personnel policies

As at end December around 90% of the Department's employees were members of a union. The Department is bound by the agreements reached in the Public Service Coordinating Bargaining Council. There is no separate bargaining forum for the Department. Up till March 1998, the department was part of South African Revenue Services' (SARS) Bargaining Council. This changed when SARS operations were hived off and the Department no longer shares the Corporate Services function with them. We are currently in the process of establishing our own Bargaining Council.

A number of personnel policies have been developed, taking the new public service regulations into account, but these have yet to be finalised.

Transformation steering committee

A transformation steering committee was established in May 1998. Its role is to drive the transformation process within the department. Its key focus for the period under review has been dealing with managing diversity, developing a mission and vision for the department and a new Departmental logo.

A lekgotla for senior managers was held during August 1998 to facilitate the development of a new mission and vision. This was followed with a series of workshops for all members of staff. The feedback from most employees was very positive and played an important role in building morale in the department.

ANNEXURE

LEGISLATION 1998

Legislation introduced by the Minister of Finance during 1998

- Companies Second Amendment Bill
- Conversion of SASRIA Bill
- Demutualisation Levy Bill
- Division of Revenue Bill
- Financial Markets Control Amendment Bill
- Insider Trading Bill
- Inspection of Financial Institutions Bill
- Insurance Amendment Bill
- Insurance Second Amendment Bill
- Interim Appropriation Bill
- Long Term Insurance Bill
- National Development Agency Bill
- National Payment System Bill
- RDP Fund Amendment Bill
- Safe Deposit of Securities Amendment Bill
- Short-Term Insurance Bill
- Special Pensions Amendment Bill
- Stock Exchange Control Amendment Bill
- Unit Trusts Control Amendment Bill

ANNEXURE

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	*Independent Development Trust T669/91*
Public Accounts and Auditors Board	*Public Accounts and Auditors Act, (Act #80 of 1991)*
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 Pensions Act, 1996 (Act#69 of 1996)*
State Tender Board	*Act of the State Tender Board, 1968 (Act#86 of 1968)*
Statistical Council	*Statistics Act (#66, 1976)*
Tax (Katz) Commission	*The Commision Act, 1974 (Act#8 of 1947)*
Registrar of Banks	*Reports to SA Reserve Bank*

ANNEXURE

International agreements – 1998

The following international agreements were processed and signed during 1998:

CANADA	
State Expenditure	*Exchange of Letters – Programme Management System – financial assistance for the developing of a comprehensive information management programme.*
Trade and Industry	*Memorandum of Understanding for IT Industry Strategy – aimed at the establishment of a strong South African information technology industry.*
Trade and Industry	*Exchange of Letters – Training in Competitive Intelligence(CI) – provision of CI expert to train DTI officials and to transfer the training methodology to a South African expert.*
EUROPEAN INVESTMENT BANK	
Finance	*Framework Agreement – concessional loans for the financing of productive investment projects and South Africa's economic infrastructure.*
EUROPEAN UNION	
Agriculture – Free State	*Financing Agreement concerning Community Projects Fund Support Programme in the Free State – aimed at providing capital funding for economically viable and sustainable food and income generating activities.*
Departments of Agriculture - KZN and Northern Prov.	*Financing Agreement – MWIRNET – aimed at the increase of productivity of smallholder maize and wheat farming systems.*
Education	*Financing Agreement concerning the Education Sectoral Support Programme – main areas of support are capacity building, financial support to tertiary education, and upgrading of primary education facilities in the Eastern Cape.*
Finance	*Financing Agreement concerning the EPRD Information and Communication Programme – aimed at raising public awareness in South Africa of the co-operation between the European Union and South Africa.*
Finance	*Financing Agreement concerning the Conference, Workshop and Cultural Initiatives Fund (CWCI) – provides funding for activities designed to promote an increased awareness of development issues.*
Health	*Financing Agreement concerning the Public Health Sectoral Support Programme – will contribute to projects in health capacity building, primary health care, HIV/AIDS and health infrastructure projects.*
Finance	*Amendment to Technical Assistance Consultancy Support Programme (aimed at funding studies and technical assistance for formulation and preparation of programmes) - extension of time frame of the programme.*
Health	*Amendment 4 to HIV/AIDS Programme (Sex education of children and youth in relation to HIV/AID) – extension of time frame of the programme.*
Health	*Amendment 4 to Health Technical Support Programme (development of national and provincial strategies for district health systems) – extension of time frame of the programme.*
Health	*Amendment 3 to District Health Systems Programme (development of a national health information system) – extension of time frame of the programme.*
Health	*Amendment 1 to Public Health Sectoral Support (financial assistance for*

	projects in health capacity building, primary health care, HIV/AIDS and health infrastructure projects) - extension of time frame of the programme.
Constitutional Development	*Financing Agreement concerning the Strengthening of Local Governments in Mpumalanga and the Northern Province – makes provision for financial assistance for capacity building in the two provinces, and implementation of service infrastructures in the areas of municipal responsibility.*
Labour	*Financing Agreement concerning Trade and Industry Policy Support Programme – main areas of support are policy research and study initiatives focused on institutional organisational development and staffing within DTI.*
Water Affairs and Forestry	*Amendment 2 to Community Water Supply and Sanitation (main areas of focus are provincial and regional organisational development, environmental conservation consultancy, and development of a community water supply and sanitation infrastructure) – extension of time frame of the programme.*
ITALY	
Health	*Agreement regulating Technical Assistance.*
JAPAN	
Development Bank of SA	*Exchange of Notes – provision of a loan for the implementation of the Rural Social Infrastructure Programme.*
NETHERLANDS	
Agriculture Education Labour Land Affairs Public Service and Administration Welfare	*Grant Agreement – Sectoral Budget Support Programme provides additional funding for the various sectors to be utilised in addition with other sources funding (domestic and /or external).*
PEOPLES REPUBLIC OF CHINA	
Housing	*Exchange of Notes – Funding of Edenvale/Modderfontein low-cost Housing.*
SWEDEN	
Education	*Specific Agreement – support to the National Department of Education with the focus on improved and increased capacity in policy, planning, management and delivery of quality education.*
Education Northern Cape	*Specific Agreement – support to the Education Department of the Northern Cape programme aimed at Teacher Training, Special Needs in Education (specifically the provision of special and specialised education and Adult Basic Education and Training).*
Finance	*Grant Agreement – Development Cooperation covering the areas of democratic governance, education, urban development economic co-operation and research and university cooperation.*
Provincial Administration of the Eastern Cape	*Specific Agreement – support to the Provincial Administration of the Eastern Cape provides financial assistance for administrative and financial reform in the provincial administration.*
Finance	*Specific Agreement – the Establishment of a Bridging Fund will provide contributions for activities in the education, public administration, democracy, human rights, housing and business development.*
Office of the Deputy President	*Specific Agreement – Support to the Office on Disabled Persons provides funding for the development of policies, guidelines and standards regarding disability issues.*
UNITED KINGDOM	
Finance	*Exchange of Notes – economic reform, provides financial assistance to strengthen the capacity of the Budget Office to monitor macroeconomic trends and to advise the Government on necessary budgetary reforms.*

SA Revenue Serv.	*Exchange of Notes – Customs Transformation Project.*
USAID	
Constitutional Development	*Amendment 2 to Municipal Infrastructure Investment Framework provides additional funding for the project.*
Constitutional Development	*Grant Agreement - Local Governance Support Programme is aimed at making local government more effective and democratic in responding to citizen-identified needs.*
Education	*Amendment 3 to the Primary Education Results Package provides additional funding for the project.*
Education	*Amendment 3 to the Tertiary Education Linkages Package provides additional funding for the project.*
Environmental Affairs and Tourism	*Grant Agreement – South African Global Climate Change Support Programme will provide financial assistance for the development of policy and/or a legislative framework for environmental issues, and to enhance public awareness regarding environmental issues.*
Health	*Amendment 5 to the Equity Integrated Health Care Project provides additional funding for the project.*
Housing	*Amendment 2 to Shelter and Urban Development Support Programme provides additional funding for the project.*
Justice	*Amendment 4 to the Administration of Justice provides additional funding for the project.*
Office for Public Enterprises	*Amendment 1 the Black Private Enterprise Development Project provides additional funding for the project.*
Office of the Deputy President Finance Trade and Industry	*Amendment 2 to the Support for Economic Growth and Analysis Project provides additional funding for the project.*
Water Affairs and Forestry	*Amendment 2 to the Community–Based Water Board Development provides additional funding for the project.*