



MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 6: Provincial and Local Government Transfers

Measurable objective: To reinforce the pace and quality of provincial infrastructure investment and maintenance of assets, and to promote financial management reform and restructuring of service delivery by municipalities					
Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target/ Milestone
Provincial Infrastructure Grant	<p>Framework for the grant</p> <p>Reports on provincial capital expenditure (with separate reporting for PPPs)</p>	<p>Clearly defined purpose, outputs and conditions of the grant, as well as a schedule for payments</p> <p>Accurate reports on actual expenditure for the relevant period</p> <p>Clearly defined purpose, outputs and conditions of the grant, as well as a schedule for payments</p>	<p>A complete framework in full compliance with the requirements of the Division of Revenue Act, and all payments made on schedule</p> <p>Quarterly reports to be published as part of Section 32 reports in terms of the timeframes prescribed in the PFMA and the Division of Revenue Act</p>	<p>A complete framework in full compliance with the requirements of the Division of Revenue Act, and all payments made on schedule</p> <p>Quarterly reports to be published as part of Section 32 reports in terms of the timeframes prescribed in the PFMA and the Division of Revenue Act</p>	<p>A complete framework in full compliance with the requirements of the Division of Revenue Act, and all payments made on schedule</p> <p>Quarterly reports to be published as part of Section 32 reports in terms of the timeframes prescribed in the PFMA and the Division of Revenue Act</p>
Local Government Financial Management and Restructuring Grant	<p>Assistance to restructure and modernise delivery of services and successful implementation of budget and financial management reforms in municipalities</p>		<p>Grant framework and all payments made in terms of the requirements of the Division of Revenue Act</p>	<p>Grant framework and all payments made in terms of the requirements of the Division of Revenue Act</p>	<p>Grant framework and all payments made in terms of the requirements of the Division of Revenue Act</p>



RESOURCE PLAN

Expenditure estimates

Table 7: Provincial and Local Government Transfers

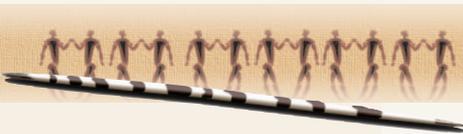
Subprogramme	Adjusted appropriation	Medium-term expenditure estimate			
		2002/03	2003/04	2004/05	2005/06
R thousand					
Provincial Infrastructure Grant	1 950 000	2 534 488	2 876 362	3 055 773	
Local Government Financial Management and Restructuring Grant	530 000	526 915	542 149	571 678	
Total	2 480 000	3 061 403	3 418 511	3 627 451	
Change to 2002 Budget Estimate	75 000	69 403	72 271		
Economic classification					
Current	530 000	526 915	542 149	571 678	
Personnel	–	–	–	–	
Social contributions	–	–	–	–	
Transfer payments	529 230	525 830	540 898	570 412	
Other current	770	1 085	1 251	1 266	
Capital	1 950 000	2 534 488	2 876 362	3 055 773	
Transfer payments	1 950 000	2 534 488	2 876 362	3 055 773	
Acquisition of capital assets	–	–	–	–	
Total	2 480 000	3 061 403	3 418 511	3 627 451	
Standard items of expenditure					
Personnel	–	–	–	–	
Administrative	–	–	–	–	
Inventories	–	–	–	–	
Equipment	–	–	–	–	
Land and buildings	–	–	–	–	
Professional and special services	770	1 085	1 251	1 266	
Transfer payments	2 479 230	3 060 318	3 417 260	3 626 185	
Miscellaneous	–	–	–	–	
Total	2 480 000	3 061 403	3 418 511	3 627 451	



R thousand	Adjusted appropriation	Medium-term expenditure estimate		
		2003/04	2004/05	2005/06
Transfer payments per subprogramme				
Provincial Infrastructure Grant				
Provincial Infrastructure	1 550 000	2 334 488	2 876 362	3 055 773
Flood Rehabilitation	400 000	200 000	-	-
Supplementary allocation	-	-	-	-
Mpumalanga (sec 100(1)(a) of the Constitution)	-	-	-	-
Northern Cape Legislature	-	-	-	-
Adjustments Estimate (accumulated debt)	-	-	-	-
Local Government Financial Management and Restructuring Grant				
Local Government Restructuring	375 000	315 000	342 900	363 474
Financial Management: Municipalities	111 000	151 000	129 000	133 740
Financial Management: Development Bank of Southern Africa	43 230	59 830	68 998	73 198
Total	2 479 230	3 060 318	3 417 260	3 626 185

Expenditure trends

The *Provincial Infrastructure Grant* rises from R2,5 billion in 2002/03 to R3 billion in 2003/04, increasing to R3,6 billion at the end of the MTEF. The *Local Government Financial and Restructuring Grant* increases from R526 million in 2003/04 to R572 million in the outer year.



PROGRAMME 7: CIVIL AND MILITARY PENSIONS, CONTRIBUTIONS TO FUNDS AND OTHER BENEFITS

Purpose: The *Civil and Military Pensions, Contributions to Funds and Other Benefits* programme provides for pension and post-retirement medical-benefit obligations to former employees of state departments and bodies, and for similar benefits for retired members of the military.

Measurable objective: The programme aims to ensure the payment of benefits and awards to beneficiaries of departments, state-aided bodies and other specified bodies in terms of various statutes, collective-bargaining agreements and other commitments.

There are two subprogrammes:

- *Civil Pensions and Contributions to Medical Schemes* provides for the payment of benefits out of pension and other funds to the beneficiaries of various public sector bodies in terms of various statutes, collective-bargaining agreements and other commitments. The subprogramme also provides for the payment of special pensions to persons who have made sacrifices or served the public interest in the establishment of a democratic constitutional order.
- *Military Pensions and Other Benefits*, which provide for the payment of military pension benefits and medical claims arising from treatment for disability, medical assistive devices, and other related expenses, in keeping with statutory requirements and commitments.

Policy Developments

Pensions Administration – the operational arm of the Government Employees Pension Fund (GEPF) – administers a range of benefit and pension schemes for Government on an agency basis. The GEPF is self-funded and produces its own strategic plan and annual report.

Civil Pensions and Contributions to Funds ensures the timely payment of government contributions to medical-aid schemes in respect of civil pensioners, surviving spouses, dependants and civil pensioners who were not members of medical schemes during their period of service (by special concession). It also ensures payment to medical schemes in respect of pensioners and widows of the former Development Boards and the National Film Board.

Following an in-depth investigation, the method of payment of contributions to medical schemes is being restructured, enhancing the reconciliation process to ensure timeous and correct payment. *Pensions Administration* also aims to implement a new medical-scheme fee structure to ensure compliance with industry standards. Part of this process will include the appointment of a health risk manager to manage the business relationship between the participating entities and has implemented an appropriate risk model to facilitate adequate actuarial modeling and costing of payments.

The programme is also responsible for payment of compensation benefits to government employees in respect of temporary, total or partial disablement or as a result of injuries



sustained on duty and, in cases of death, to dependants of such beneficiaries in accordance with the Compensation for Occupational Injuries and Diseases Act (130 of 1993).

The payment of special pensions to persons who have made sacrifices or served the public interest in the establishment of a democratic constitutional order also forms part of the subprogramme. This includes members of any armed or military force not established by or under any law and which is under the authority and control of, or associated with and promotes the objectives of political organisations or dependants of such persons in terms of the Special Pensions Act (69 of 1996).

The Act gives effect to Section 189 of the Interim Constitution regarding the prescription of rules for determining the persons who are entitled to receive special pensions and to provide for the establishment of structures to implement the Act – that is, the Special Pensions Board and the Special Pensions Review Board.

The number of applications received since 1996 totals 32 204. Of these, 99 per cent had been processed by 31 January 2003. The Special Pensions Boards is still processing the remaining 1 per cent and a further batch of 2 438 late applications.

Of those applications that were processed, 33 per cent were approved and 67 per cent were rejected. Of those that were rejected, 35 per cent (67 899) were in respect of applicants who do not qualify because of the age restriction (that is, those that were under the age of 35 years at the commencement date of the Act, 1 December 1996).

Since full implementation of the Act in 1997, the Special Pensions Review Board has received 4 404 appeals. Of these, 53 per cent had been processed by 31 January 2003. Of these, 7 per cent were approved and 93 per cent rejected.

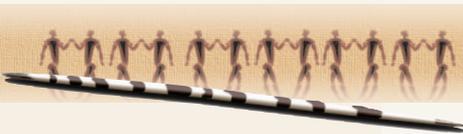
In addition to amendments to the Act currently under consideration by the Parliamentary Committee on Finance, the special pensions process will be reviewed over the next year. The review will examine the special pensions benefit structure and the required legislative amendments to facilitate implementation.

Military Pensions and Other Benefits ensures the timeous payment of military pensions to ex-soldiers who were involved in the pre-1914 Wars, the First and Second World Wars, the Korean War, and post-1960 Wars, national servicemen, South African Citizen Force members who participated in the Border War, and members from the former non-statutory forces or their dependants in accordance with the Military Pensions Act (84 of 1976).

Other benefits expended include payments to ex-service personnel for medical claims for disability, medical appliances and subsistence and travelling allowances in terms of the Military Pensions Act; and payment of an administration grant to the South African Legion to attend to the socio-economic needs of war veterans. The Legion's involvement includes facilitating communication, through the publication of policy changes, as well as acting as a mediator between the Treasury and pensioners for purposes of addressing queries and applications for pensions.

The appointment of a health risk manager will ensure the pursuit of best practice managed health care practices, contributing to affordability and sustainability over the MTEF





period.



MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 7 Civil and Military Pensions, Contributions to Funds and Other Benefits

Measurable objective: To ensure the payment of benefits and awards to beneficiaries of departments, state-aided bodies and other specified bodies in terms of various statutes, collective-bargaining agreements and other commitments.						
Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target/ Milestone	
Civil Pensions and Contribution to Funds	Payment of pension benefits and contributions to funds (including Special Pensions)	17 614 beneficiaries paid monthly	Payment to be made on the first working day of each month	Payment to be made on the first working day of each month	Payment to be made on the first working day of each month	
	Payment of contributions to medical-aid schemes	82 256 members paid monthly	Payment to be made by the end of the month following the month in which the expenses were incurred	Payment to be made by the end of the month following the month in which the expenses were incurred	Payment to be made by the end of the month following the month in which the expenses were incurred	
Military Pensions and Other Benefits	Payment of risk and administration fees to the Political Office Bearers' Pension Fund	Payment of risk and administration fees i.r.o. 959 members monthly	Payment to be made by the 7 th working day of each month	Payment to be made by the 7 th working day of each month	Payment to be made by the 7 th working day of each month	
	Payment of military pension benefits	7 667 beneficiaries paid monthly	Payment to be made on the 1 st working day of each month	Payment to be made on the 1 st working day of each month	Payment to be made on the 1 st working day of each month	
	Payment to service providers for medical expenses	4 944 beneficiaries paid monthly	Payment of claims on receipt of claims from service providers	Payment of claims on receipt of claims from service providers	Payment of claims on receipt of claims from service providers	



RESOURCE PLAN

Expenditure estimates

Table 8: Civil and Military Pensions, Contributions to Funds and Other Benefits

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate			
		2002/03	2003/04	2004/05	2005/06
R thousand					
Civil Pensions and Contributions to Funds	1 780 358	1 904 569	2 038 966	2 161 304	
Military Pensions and Other Benefits	135 277	125 000	125 000	132 500	
Total	1 915 635	2 029 569	2 163 966	2 293 804	
Change to 2002 Budget Estimate	–	–	–	–	
Economic classification					
Current	1 915 635	2 029 567	2 163 964	2 293 802	
Personnel	–	–	–	–	
Social contributions	1 777 038	1 890 359	2 023 904	2 145 339	
Transfer payments	116 572	116 642	116 740	123 744	
Other current	22 025	22 566	23 320	24 719	
Capital	–	2	2	2	
Transfer payments	–	2	2	2	
Acquisition of capital assets	–	–	–	–	
Total	1 915 635	2 029 569	2 163 966	2 293 804	
Standard items of expenditure					
Personnel	–	–	–	–	
Administrative	–	–	–	–	
Inventories	–	–	–	–	
Equipment	–	–	–	–	
Land and buildings	–	–	–	–	
Professional and special services	22 025	22 566	23 320	24 719	
Transfer payments	116 572	116 644	116 742	123 746	
Miscellaneous	1 777 038	1 890 359	2 023 904	2 145 339	
Total	1 915 635	2 029 569	2 163 966	2 293 804	
Transfer payments per subprogramme					
Civil Pensions and Contributions to Funds					
Provident Funds for Associated Institutions	696	727	771	817	
United Kingdom Tax	2 624	2 742	2 906	3 080	
Contribution to Closed Pension Fund	–	–	–	–	
Military Pensions and Other Benefits					
Military Pensions: Ex-Servicemen	45 158	44 090	42 175	44 706	
SA Citizen Force	68 042	69 031	70 833	75 083	
SA Legion	50	52	55	58	
Civil protection	2	2	2	2	
Total	116 572	116 644	116 742	123 746	

Expenditure trends

Government is contribution to medical schemes for retired civil servants carries the largest expenditure burden in this programme, growing from R1,3 billion in 2002/03 to R1,5 billion in 2005/06. Because of the accelerated adjudication of applications as a result of the appointment of a full time Special Pensions Board and a Special Pensions Review Board by the Minister of Finance, Special Pension payments increased after 2001/02. This is expected to slow down over the 2003 MTEF period as the payment process is completed.



PROGRAMME 8: FISCAL TRANSFERS

Purpose: The *Fiscal Transfers programme* make funds available to public authorities and other institutions in terms of the legal provisions governing the financial relations between Government and the particular authority or institution, including international development institutions of which Government is a member.

Measurable objective: The programme aims to meet certain international and other statutory financial obligations, to meet the costs of effectively and efficiently raising revenue for the purposes of the state, and to finance intelligence gathering and other secret services in the national interest.

Domestic transfers are made to:

- The *Development Fund* of the Development Bank of Southern Africa.
- The *South African Revenue Service*, which is responsible for collection of revenue in terms of the South African Revenue Service Act (34 of 1997).
- The *Financial and Fiscal Commission*, a constitutional body charged with making recommendations about the equitable division of revenue.
- The *Secret Services Account*, used to finance the activities of the National Intelligence Agency, the South African Secret Service, and certain activities of the Detective Service of the South African Police Service.
- The *Financial Intelligence Centre*, which is charged with assisting in combating money laundering and strengthening financial regulation capacity.

Foreign transfer payments, made in terms of the relevant international obligations of Government are made to:

- *Lesotho* and *Namibia* in terms of the Multilateral Monetary Agreement.
- The *World Bank Group*.
- The *Highly Indebted Poor Countries Initiative* (HIPC) of the International Monetary Fund.
- The *African Development Fund*.
- The *African Development Bank*.

Policy Developments

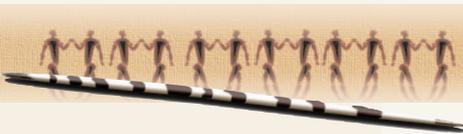
Domestic transfers

South African Revenue Service

The South African Revenue Service (SARS) has continued to make significant progress in enhancing its administrative capacity in order to become a world-class tax and customs administrator, capable of effectively responding to the challenges of globalisation. Tax collections have consistently surpassed budget targets. In 2002/03, total tax revenue collected amounted to R281,6 billion, exceeding the original target by R1,5 billion.

In 2001, SARS launched Siyakha, its most expansive transformation programme to date. The programme aims to overhaul the organisation's operational infrastructure through business process re-engineering. SARS has also made significant progress orientating its culture towards customer service and improved service delivery, embodied in the





principles of Batho Pele. The organisation continues to make progress in building its enforcement capability and tackling willful non-compliance through the performance of integrated audits, collaboration with industries and professional bodies, as well as implementing risk-based techniques in managing its activities.

During 2003/04, SARS will focus on developing and implementing a comprehensive compliance strategy that provides an integrated response to taxpayer behaviour. The strategy includes simplifying administrative processes, improving service levels, and strengthening targeted enforcement initiatives.

Over the medium term, SARS will continue to seek ways of increasing revenue collections while holding down collection costs and becoming more accessible and transparent. To this end, it will focus on:

- Enhancing core processes in order to eliminate backlogs, improving the quality of assessment and processing in particular;
- Implementing the Siyakha programme in the outlying offices of the Western Cape and Gauteng;
- Implementing a comprehensive risk-management programme to improve corporate governance and internal control;
- Continuing to build on the strengths of its organisational structure, culture and technology, while transforming those elements that remain sub-optimal; and
- Improving taxpayer service, communication and education.



Table 9: Summary of revenue and expenditure for the South African Revenue Service

R thousand	Revenue/Expenditure outcome	Medium-term estimate		
	Estimated outcome			
	2002/03	2003/04	2004/05	2005/06
Revenue				
Tax revenue	-	-	-	-
Non-tax revenue	151 540	95 958	102 674	109 860
Sale of capital assets	-	-	-	-
Transfers received	3 501 950	3 792 007	4 602 509	4 748 312
Total Revenue	3 653 490	3 887 965	4 705 183	4 858 172
Expenditure				
Current expenditure	3 586 237	4 055 218	4 399 977	4 511 822
Compensation of employees	1 867 097	2 347 557	2 537 090	2 817 684
Goods and services	1 719 140	1 707 661	1 862 887	1 694 138
Transfer payments and subsidies	-	-	-	-
Other expenditure	-	-	-	-
Capital expenditure	282 673	511 112	498 334	386 320
Transfer payments	-	-	-	-
Fixed assets	282 673	511 112	498 334	386 320
Land and subsoil assets	-	-	-	-
Total Expenditure	3 868 910	4 566 330	4 898 311	4 898 142
Surplus/(Deficit)	(215 420)	(678 365)	(193 128)	(39 970)

Data provided by the South African Revenue Service

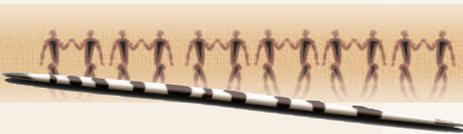
The Financial and Fiscal Commission

The Financial and Fiscal Commission (FFC) was established in terms of Section 220 of the Constitution, and of the Financial and Fiscal Commission Act (99 of 1997). The Commission does not generate funds and is financed by way of a transfer payment from the National Treasury.

Section 214 of the Constitution and Section 9 of the Intergovernmental Fiscal Relations Act (97 of 1997) require the FFC to make recommendations on the division of revenue. Under the Act, the FFC submits its recommendations to the Minister of Finance, Parliament and provincial legislatures 10 months ahead of the financial year, or later as may be agreed between the Minister of Finance and the FFC. The Financial and Fiscal Commission Act (99 of 1997), read together with the provisions in other relevant legislation, require the FFC to respond to requests from organs of state on various financial and fiscal issues.

The FFC tabled proposals for this year in Parliament on 30 April 2002 in *Financial and Fiscal Commission Submission: Division of Revenue 2003-2004*. The provincial proposals were presented to the Budget Council meeting of 17 May by the FFC, and discussed at the Budget Council meetings of the 19 July, 22-24 August and 3 October.





The local government proposals were discussed at the joint Finance and Local Government MinMEC of 12 August 2002 and the Budget Forum of 3 October 2002. The extended Cabinet meeting of 16 October also considered national Government's response.

The FFC presented 12 proposals: four proposals on provincial government, five proposals on local government, and three proposals on crosscutting equitable share issues. Most of these do not have immediate implications for the 2003 Budget, as they are either of a general nature or require more research or time to investigate or implement. Some of the proposals are summaries of, and work in progress arising from, proposals made to Parliament during 2001/02.

Provincial government proposals comprise the FFC's recommendations on:

- Provincial Own Revenue Sources;
- Provincial Tax Regulation Process Bill (2001);
- Early childhood development funding;
- Implications of HIV/Aids for the health, education and social development sectors;
- Primary health care; and
- Framework for Comprehensive Social Security Reform.

Local government proposals refer to those on:

- Division of powers and functions between district and local municipalities (July 2001);
- Restructuring of the electricity distribution industry;
- Municipal borrowing and municipal finance markets;
- Municipal Finance Management Bill;
- Remuneration of municipal councillors (July 2001); and
- Measurement of revenue raising capacity.

Government's full response to the Commission's proposals is set out in Annexure E of the *2003 Budget Review*.

The Financial Intelligence Centre

The Financial Intelligence Centre Act (38 of 2001) provides for the formation of the Financial Intelligence Centre (FIC), the aim of which is to track irregular financial practices, especially the laundering of the proceeds of crime.

Considerable progress continues to be made in implementing the Financial Intelligence Centre Act, which envisages the development of an anti-money laundering environment in South Africa largely in accordance with international standards set by the Financial Action Task Force. The Act creates two institutions – the Money Laundering Advisory Council (MLAC), which is intended to provide the Minister with legislative advice, and the FIC, which is intended to track irregular financial practices, especially the proceeds of crime. The FIC is to receive reports from accountable institutions, store and analyse the information, and thereafter make reports available to law enforcement agencies for investigation or share information with similar bodies internationally.

The Regulations to the Act were approved by Parliament in December 2002 after consideration by the MLAC. These introduced reporting obligations that required



accountable institutions to report suspicious transaction reports (STRs) and which came into effect from 3 February 2003. Nearly 1 000 reports were received and processed by the FIC between then and the end of 2002/03 financial year. It has been difficult to estimate the number of STRs the FIC will receive during its first full year. It is anticipated that the rate at which the reports are sent will gradually drop before stabilising. However, this will be offset by the improved quality of reporting. As a result the FIC estimates that it will receive 2 500 STRs during the financial year. It is also estimated that after processing and analysis, the FIC will distribute approximately 120 reports to law-enforcement authorities for investigation during the year.

Compliance measures are being introduced in stages. The majority of businesses in the financial-services industry were compliant at the end of the 2002/03 financial year – having appointed compliance officers; run staff-training programmes; and having had mechanisms in place to report suspicious transactions (STRs) to the FIC. These measures are to be enforced across all accountable institutions during 2003/2004. In addition, regulations regarding customer identification and record-keeping become effective from July 2003.

The FIC is taking active steps to create awareness and provide guidance to accountable institutions, supervisory bodies and law-enforcement authorities. For example, the FIC and, in particular, its Compliance and Prevention division, will continue to participate in conferences and workshop programmes. It will also participate through relevant Setas, such as those for the banking, insurance and other sectors.

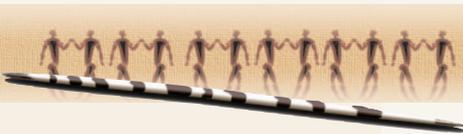
The FIC will also run a course for financial investigators from law enforcement authorities and financial institutions on five occasions.

An information technology system has been developed and implemented to enable the receipt and storage of reports by the FIC and will be further refined during the first quarter of the financial year. This system enables the analysis of data and provides facilities to access a variety of databases, although it remains temporary until the future and long-term requirements of the FIC have been fully scoped and implemented, based on international best practice.

A project has been initiated to scope the long-term information technology systems requirements of the FIC. It will set out the necessary development steps, software and hardware requirements; and the resources required and cost details of implementation. Plans have been made for this project to be supported by technical assistance from the World Bank and the financial intelligence units from Canada and Australia.

During the year, the FIC will continue to employ relevant, highly skilled staff in its four divisions – Compliance and Prevention, Monitoring and Analysis, Strategic Research and Administrative Support Services. At present a staff of 20, mainly seconded from different government departments, will be expanded to a full-time staff of about 45 by year end. It is planned that the FIC should have a staff of 76 by the end of next year. A concerted effort will be made to train and equip such staff and expose them to the knowledge and practice of other financial intelligence units. The FIC was established by, and has operated as,





a project from within National Treasury. It is anticipated that the FIC will become an autonomous and self-functioning government agency reporting to the Minister of Finance by the end of the second quarter of this financial year.

South Africa has been attending sessions of the Financial Action Task Force (FATF) and its relevant working groups, helping to redefine international anti-money laundering standards and set standards regarding terrorist financing. South Africa has recently had its legislation, systems for coordination and enforcement and the extent of compliance assessed by the FATF. It is anticipated that during the year South Africa will be invited to become the first African country to become a fully-fledged and active member of the organisation. The membership subscription fees are still to be determined, but will be based on a percentage of South Africa's GDP. South Africa was accepted as a member of the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) last year and will actively participate in its programmes during the year. Subscription fees for ESAAMLG membership amount to US\$20 000 per annum. In addition, the Egmont Group of Financial Intelligence Units has done an assessment of the FIC and has invited the FIC to become a member of the group, thereby enabling the FIC to share information and expertise with other financial intelligence units.

Foreign transfers

Lesotho and Namibia

Botswana, Lesotho, Swaziland and South Africa concluded negotiations on the new Southern Africa Customs Union (SACU) dispensation in October 2001. The countries agreed to a new institutional arrangement and a new revenue-sharing formula for the common customs area. The re-negotiated SACU agreement is expected to come into effect in 2004/05.

The Common Monetary Area (CMA) countries meet annually to discuss economic developments in their countries (Lesotho, Namibia, Swaziland and South Africa) and adjustments to foreign-exchange regulations. In 2002 and 2003, the CMA has and will discuss deposit insurance systems and the role of the CMA in macroeconomic convergence in the region.

The HIPC initiative

At the 2000 Annual Meeting of the World Bank and the International Monetary Fund (IMF), Government pledged to contribute SDR20 million (R250 million) to the Highly Indebted Poor Country (HIPC) initiative – payable in five equal annual installments of SDR4 million each commencing in May 2000. (The rand amount of each installment is determined by the rand-SDR exchange rate on the date of payment). South Africa is still due to pay SDR4 million (R50 million) in 2003/04 and in 2004/05.

In addition in 1999, Government contributed R7,5 million as a grant to the HIPC Trust Fund for the Poverty Reduction and Growth Facility of the IMF. The payment represented South Africa's balance in the Second Special Contingent Account (SCA-2). The SCA-2 balance was generated through additional interest paid on a R2,7 billion loan from the IMF.



The loan was made in 1993 and has since been fully repaid. Government has also approved the total cancellation of bilateral official debt owed by HIPC eligible countries as part of the country's commitment under the initiative to grant debt relief to bilateral debtors.

The African Development Bank and African Development Fund

During 2001, Government actively participated in the negotiations regarding additions to the funding available from the World Bank and the African Development Bank at below world market rates. South Africa participates in replenishing International Development Association (IDA) and African Development Fund (ADF) resources. Both IDA 13 and ADF 9 have recently been concluded. South Africa's contribution to IDA 13 amounts to R83 million, which will be encashed over a nine-year period from June 2001 to June 2009, and represents a total annual payment of R9,23 million. South Africa will also contribute R24,7 million to ADF, to be paid in three equal installments of R8,2 million each.

In August 2001, Government increased its shareholding in the African Development Bank from 1,0 per cent to 4,1 per cent, making it the fifth-largest shareholder. South Africa currently represents Lesotho, Malawi, Mauritius, Swaziland and Zambia on the Board of Directors. This position will be occupied until June 2003 after which one of the other constituency member countries will nominate a candidate to serve as Executive Director.

The African Development Bank's (ADB) lending strategy in South Africa was revised during 2002. The Bank's medium-term strategy will support Government's objective of adapting the economy to successful globalisation with accelerated growth and democratisation of the ownership of the means of production. Bank lending will be directed mainly towards parastatals and development finance institutions with and without Government guarantee. The ADB's non-lending activities will involve institutional building projects as well as economic and sector work. The Bank will also co-finance private-sector projects with parastatal institutions and extend lines of credit to private financial institutions. Government will monitor progress in the ADB regarding the provision of loans to parastatals on the basis of the strength of their balance sheets and without the backing of a sovereign guarantee.



