

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
	International financial relations advice and development	Develop and 'sell' policy proposals on international financial architecture reform to the G20, IMF, World Bank and other international financial institutions	Proposals developed on HIPC reform, Sovereign debt restructuring mechanism, best practice capital account and exchange rate policy reform (crisis prevention), IMF emergency lending instruments, NEPAD capital flows & debt relief initiatives in 2002/03	Proposals on international financial architecture reform presented to G20, IMF, World Bank and other international financial institutions	SA's proposals international financial architecture reform reflected in the positions of the G20, IMF, World Bank and other international financial institutions on
		Strengthen SA's capital account through financial market development, capital account policies	Develop and implement an exchange control reform strategy in 2003/04	Draft and implement appropriate legislation and regulations for the shift to prudential regulations	Establish monitoring and policy feedback framework for the capital account
		Establish and implement the African Peer Review Mechanism covering economic governance.	African Peer Review Mechanism established in 2003/04	Implementation framework for capital flows initiative set out, including debt and ODA initiatives	Capital flows initiatives implemented. First review of ARPM completed
		Establish rules and procedures for Macroeconomic convergence in SADC	Implementation plan finalised in 2003/04	Convergence programmes established for all SADC countries	
		% of strategic positions filled in the global development policy sector, enhancing capacity to engage BWIs at technical and political levels	25% of positions filled	50% of positions filled	100% of positions filled
		Establish framework to redirect WB activities toward the Millennium Development Goals and financing needs	Set up implementation framework in 2003/04	Increase no. of MDG fast-track initiatives from 1 to 3	Fast-track initiatives in place for each MDG



RESOURCE PLAN

Expenditure estimates

Table 3: Economic Planning and Budget Management

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate			
		2002/03	2003/04	2004/05	2005/06
R thousand					
Management	6 468	15 230	11 578	13 334	
Asset Management	4 721	4 874	5 221	5 719	
Liability Management	7 060	9 245	9 883	10 771	
Financial Operations	5 954	7 959	9 574	9 270	
Strategy and Risk Management	7 410	5 523	5 907	6 465	
Total	31 613	42 831	42 163	45 559	
Change to 2002 Budget Estimate	148	9 700	7 466		
Economic classification					
Current	30 749	42 152	40 365	44 750	
Personnel	16 390	23 808	25 399	27 671	
Transfer payments	–	–	–	–	
Other current	14 359	18 344	14 966	17 079	
Capital	864	679	1 798	809	
Transfer payments	–	–	–	–	
Acquisition of capital assets	864	679	1 798	809	
Total	31 613	42 831	42 163	45 559	
Standard items of expenditure					
Personnel	16 390	23 808	25 399	27 671	
Administrative	4 813	4 316	5 209	6 436	
Inventories	2 063	1 247	1 301	1 374	
Equipment	1 037	1 495	2 651	1 712	
Land and buildings	–	–	–	–	
Professional and special services	7 310	11 965	7 603	8 366	
Transfer payments	–	–	–	–	
Miscellaneous	–	–	–	–	
Total	31 613	42 831	42 163	45 559	

Expenditure trends

Expenditure on *Economic Planning and Budget Management* has increased significantly in 2002/03 to fund the work of the Commission of Inquiry into the Depreciation of the Rand. Over the medium term, growth of only a little over 3 per cent a year is envisaged.

The medium-term expenditure estimates provide for a strong expansion of capacity in the National Treasury's economic and fiscal policy work. Priority areas for further professional development include international financial relations, particularly in support of Napad initiatives, tax policy, financial regulation and oversight, support for municipal budgeting and financial restructuring, public-private partnerships, fiscal and public expenditure analysis and technical support for infrastructure planning and project management.





PROGRAMME 3: ASSETS AND LIABILITY MANAGEMENT

Purpose: *Assets and Liability Management* is responsible for the prudent management of Government's financial assets and liabilities, including the domestic and foreign debt portfolios.

Measurable objective: The programme aims to manage the Government's asset and liability portfolio in a manner that ensures prudent cash management, asset restructuring and financial management, and optimal management of the Government's domestic and foreign debt portfolio.

Programme activities are carried out through five sub-programmes:

- *Management* manages the Office of the Head of the Division.
- *Liability Management* provides for the Government's liquidity needs and ensures prudent management of both domestic and foreign debt by issuing at the lowest possible cost subject to acceptable levels of risk, contributes to the development of domestic capital markets and timeous servicing of debt.
- *Financial Operations* is responsible for the management of the Government's liquidity requirements, ensures that all Government's debt transactions are recorded timeously and reported upon in terms of PFMA and all other multi-lateral institutions reporting requirements. It also provides for the divisional information system requirements.
- *Strategy and Risk Management* develops and maintains a risk management framework and ensures that the strategies adopted by the Asset and Liability Management division are in line with the agreed framework.
- *Asset Management* is committed to enhancing shareholder value through restructured state-owned entities, monitor and enforce compliance with corporate governance for government bodies and Public entities in accordance with the Public Finance Management Act and co-ordinate borrowing activities of public entities in line with Treasury Regulations.

Policy Developments and strategic context

Interest costs and risks associated with funding make a substantial demand on scarce resources available to the country. Prudent management of the Government's total loan debt of approximately R426 billion is therefore critical. The continued shift from strategic to more tactical debt management reflects the need to maintain liquidity and integrity of the capital markets under conditions of limited government debt issuance. The National Treasury will continue to build-up the liquid benchmark bonds in the 3 to 12 and 12 to 30 year maturities.

The introduction of inflation-linked bonds has created scope for Government to diversify borrowing instruments to finance the budget deficit and reduce the interest burden. The development of a full yield curve of inflation linked bonds will be completed during the 2003/04 financial year by the issuance of an ultra long (30 year) inflation linked bond. The growing sophistication and efficiency of the South African bond market will facilitate this.



The maturing floating rate bond will be replaced by the issuance, in 2003, of a new floating rate bond maturing in 2008. Two single maturity (bullet) bonds maturing in 2008 and 2014 will be introduced in the 2003/04 financial year. These measures will ensure Government's continued access to domestic capital markets.

To broaden the current domestic investor base in government bonds as well as to encourage domestic savings, research will be undertaken and completed by December 2003 into the feasibility of introducing a retail bond market in South Africa. If it is found to be feasible, a bond, targeted at individuals, households and small businesses will be introduced in the last quarter of the 2003/04 financial year.

South Africa's participation in the international capital markets as well as defending and marketing the country for possible ratings upgrades remains a key priority in the management of our foreign liabilities. During the 2003/04 financial year an equivalent of USD1 billion will be borrowed in the international capital markets. Proceeds from these loans will be used to reduce the Net Open Forward Position as well as to redeem maturing foreign bonds. The losses sustained on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) will be reduced by R7 billion in the 2003/04 financial year through the issue of zero coupon bonds to the South African Reserve Bank.

The redemption of the R150 bond in February 2004, 2005 and 2006 will increase the Government's funding requirement steadily in the medium term and will also result in higher than normal cash balances. Diversification of investments and the use of the repurchase agreements (repos) will be used to minimise the Government's credit risk. Treasury bills continue to be viewed as a cash management tool and will be increased by R6 billion in the 2003/04 financial year.

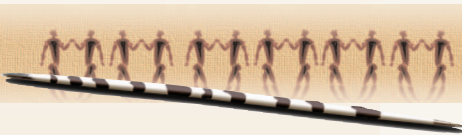
To reduce borrowing costs and enhance the credit risk management across the Government, optimal use of available cash resources of Government will continue to be co-ordinated centrally between the provinces and the National Treasury. This will be done through the implementation of the intergovernmental cash coordination project in terms of which provinces will have a Commission for Public Deposits bank account as part of their provincial revenue accounts.

A new debt recording system the Commonwealth Debt Recording and Management System (CS-DRMS), acquired from the Commonwealth Secretariat, will be introduced in the 2003/04 financial year. The introduction of this system will be a further improvement in the management and recording of our liabilities.

A new credit policy framework will be developed for the National Treasury during the 2003/04 financial year with a view to reviewing the counter-party risk limits currently in place. The market risk management framework will be reviewed to ensure its relevance to the prevailing domestic and international market conditions as it continues to inform the funding and general debt management decisions of the government.

Ongoing support to public enterprises should bolster the state owned enterprises (SOEs) restructuring programme. A proactive mobilisation of the stakeholders will be a key feature of the activities of the *Asset Management* section in ensuring the full realisation of the budgeted proceeds from the restructuring of the SOEs. In addition to anticipated





restructuring receipts, dividend receipts will bolster public coffers as considerable progress has been made to normalise the dividend policies and tax status of all major business public enterprises.

The National Treasury will undertake a comprehensive review of 320 state owned enterprises over the next 18 months. This review will include, but will not be limited to, the following aspects; mandate and strategic objectives, corporate governance, financial performance, treasury operations, human resources and remuneration policy and dividend policy.

A business process review will be undertaken and completed in the 2003/04 financial year with a view to streamlining activities and processes as well as to improve communications and sharing of information and data. This will improve the overall efficiency of the division and release resources to focus on more value-adding activities thus impacting positively on the overall operations.



MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 3 Assets and Liability Management

Measurable objective: To reinforce the pace and quality of provincial infrastructure investment and maintenance of assets, and to promote financial management reform and restructure of service delivery by municipalities					
Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Financial Operations	Intergovernmental cash coordination	Phase 1 – All provinces having accounts with CPD Phase 2 – Full implementation of the project	Phase 1 complete by December 2003	Phase 2 complete by June 2004	Ongoing review and improvements Ongoing review and improvements
	Information systems strategy	Business Processes review	Process review and recommendations by September 2003	Strategy document and implementation plan beginning April 2004	
	Implementation of CS-DRMS	Migration and recording of liabilities in the CSDRMS	Domestic debt module completed by September 2003	Foreign debt module completed by June 2004	
	Sound internal controls and timeous reporting	Quality of controls measured by annual audits and met deadlines	Ongoing and annually	Ongoing and annually	Ongoing and annually
Liability Management	Financing the deficit	Meet government borrowing requirement	Net issue of debt of R2,3 billion	Net positive issuance of R7,4 billion	Net positive issuance of R14,5 billion
	Keep presence in foreign markets	Annual issuance in foreign markets	Issue equivalent of US\$ 1 billion	Issue equivalent of US\$1,5 billion	Issue equivalent of US\$ 1 billion
	Eliminate GFECRA losses within MTEF	Annual reduction of GFECRA losses	Issue R7 billion nil coupon bonds	Issue R7 billion nil coupon bonds	Issue R7 billion nil coupon bonds
	Diversification of borrowing instruments	Introduction of new funding instruments	Ultra long CPI bond and retail market	Full yield curve of CPI bonds and operational retail market	Full yield curve of CPI bonds and operational retail market



Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Strategy and Risk Management	Review the Risk Management Framework	Recommendations on a new benchmark	Implement the benchmark	Continuous review	Continuous Review
	Develop and implement a system that will measure the performance of the actual portfolio versus the benchmark	Fully functioning portfolio performance measurement system	In-house built portfolio measurement system	Finalise specifications and tender process for off-shelf system	Implement system
	Produce a quarterly Debt profile review to monitor risks that arise out of the debt portfolio	Quarterly debt profile review	Continuous market monitoring and active debt management	Continuous market monitoring and active debt management	Continuous market monitoring and active debt management
	Acquire a market risk management system	Real-time system in place	Finalise specifications and tender process	Acquire an off the shelf system	Implementation of new system finalised
	Adoption and signing of ISDA 2002 agreements	Finalise the ISDA agreements	Signed ISDA agreements		
	Development and implementation of Credit risk policy	Approved credit risk policy	Research and produce a first draft policy for comments	Policy approved	
	Ensure that appropriate policies and guidelines to deal with the use of government guarantees for public entities are in place and adhered to.	Approved government guarantee policy	Draft policy circulated to stakeholders for comments	Policy approved	



Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target/ Milestone
Assets Management	Identify, classify and listing of public entities	Quarterly publications and annual report to SCOPA	Publication in the Government Gazette and Treasury Web-site of all listed entities	Ongoing publication on Government Gazette and Treasury web-site	Ongoing review and publish updates
	Compliance with PFMA	S52, S54, S55, S66 of PFMA – Submission of annual reports; Submission of Corporate Plan by Schedule 2 and 3B entities	To ensure that SOE's comply with PFMA and to finalise the framework of the corporate plan for distribution to SOE's	Enforcement of full compliance by all SOE's	Enforcement of full compliance by all SOE's
	Protocol on Corporate Governance	S70 – Issue of Guarantee by Cabinet Minister with concurrence of the Minister of Finance Guideline which read with King II report is applicable on Schedule 2 and 3B and 3D- in particular to disclose the remuneration of directors (both executive and non-executive)	Serve as secretariat to the Guarantee Certification Committee (GCC) every quarter. To regulate adherence to Protocol on Corporate Governance	Serve as secretariat to the Guarantee Certification Committee (GCC) every quarter. To ensure compliance to regulated Protocol on Corporate Governance	Serve as secretariat to the Guarantee Certification Committee (GCC) every quarter. To ensure compliance to regulated Protocol on Corporate Governance



Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
	Post Office	Corporatisation of the Postbank as subsidiary of Post Office	Revisit the dividend policy Enabling legislation of Postbank Separation of Assets and Liabilities	Regulatory Framework for Postbank	Ongoing research of expansion of the mandate of Postbank
	Transport	Concessioning of Ports	DPE, DOC and National Treasury to start the process of inviting bidders for the concession	Closing of the deal	Concessioning of the Cape Town and PE terminals
		Transnet end state	First phase of Impact Study completed Request for proposal to be issued To be finalised by September 2003	Apportionment of the debt Workout of the model for disposal	Cooperation of entities within transnet
	Armcor	Eskom and Transnet Housing Disposal of non-core business activities Establishment of steering committee	Sell the book by August 2003 Disposal of non core assets		





RESOURCE PLAN

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Expenditure trends

The budget for *Asset and Liability Management* increased by approximately 95,6 per cent in 2002/03 due to expansion of its subprogrammes. Prior to 2002/03, the programme contained only two subprogrammes – *Asset Management and Liability Management*. Since then, the division has expanded and incorporates an additional three subprogrammes – *Management, Financial Operations, and Strategy and Risk Management*.

Programme expenditure is projected to rise further over the next three years, amounting to R45,6 million in 2005/06. Additional resources will facilitate the expansion of subprogrammes functions and posts, the implementation of new risk-management approaches, and the establishment of a formal cash management function. This expenditure will, however, help to reduce Government's debt costs significantly.





PROGRAMME 4: FINANCIAL MANAGEMENT AND SYSTEMS

Purpose: *Financial Management and Systems* manages and regulates Government's supply-chain processes, implements and maintains standardised financial systems, and coordinates the implementation of the Public Finance Management Act (1 of 1999) (PFMA) and related capacity-building initiatives.

Measurable objective: The programme aims to regulate and oversee public sector supply-chain management and standardise the financial systems of national and provincial government, while coordinating and implementing the PFMA.

Managed by the *Specialist Function* division, programme activities are carried out under the following subprogrammes:

- *Supply Chain Management* develops policy that regulates the acquisition of goods and services in the public sector; monitors policy outcomes; facilitates and manages transversal term contracts on behalf of Government.
- *PFMA Implementation and Coordination* provides for the National Treasury's role in the implementation of the PFMA and related training initiatives.
- *Financial Systems* provides for the maintenance and enhancement of existing financial management systems, seeking to replace outdated systems with systems that are compliant with both the PFMA and generally recognised accounting practice.

Policy Developments

Government initiated reforms to its procurement policies, systems and processes in 1995. Reforms focus on the promotion of good governance and the introduction of a preference system to address certain socio-economic objectives. These are embedded in section 76(4)(c) of the PFMA and Section 106(1)(d) of the Municipal Finance Management Bill and the Preferential Procurement Policy Framework Act (PPPFA) (5 of 2000).

During 2001, in collaboration with the World Bank, the *Supply Chain Management* unit completed a Joint Country Procurement Assessment Review (CPAR), which assessed procurement practices throughout the public sector. The CPAR identified certain deficiencies in current practices relating to governance aspects and the interpretation and implementation of the PPPFA and its associated Regulations (issued in 2001).

During 2002 and the early part of this year, the team developed a *Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government* in conjunction with provincial treasuries. The policy strategy will support the issuing of a regulatory framework aimed at promoting sound financial management and uniformity in implementation of procurement reform initiatives in all three spheres of government.

Implementation of the strategy will promote uniformity in the different spheres of government in repealing tender-board legislation and give effect to the PFMA intent to devolve responsibility and accountability for procurement-related matters to accounting officers. It will enhance common interpretation and understanding of preferential procurement and related legislation and policies and introduce an integrated supply-chain management function and system for the appointment of consultants.