ECONOMY – 1995

JANUARY – ~~MAY~~ DEC.

Civil society must have a hand in economic policy, says Naidoo

(49) BD 6/11/95

GRETA STEYN

ONE of the first priorities of the National Economic, Development and Labour Council (Nedlac) would be to give civil society a say in policy making, the council's newly appointed executive-director Jayendra Naidoo said yesterday.

Government alone could not represent communities' interests as politicians were too "distant", Naidoo said in Norway, where he was on holiday. In a country with massive unemployment and isolated rural communities, a departure from the "golden triangle" of business, labour and government was needed.

Expressing the hope that the council could be an "economic and social Codesa", he said it was essential that communities were involved if urgent issues such as rent and service boycotts were to be addressed. "Payment of services is central to the development question."

A lesson had been learnt from the way in which the council's predecessor, the National Economic Forum, had lost touch with its participants' constituents. "We have to avoid narrow corporatist deals which favour those who are already on board and neglect those who are still drifting in the sea. But finding a way to represent community interests is not the simplest thing."

Preliminary discussions had been held on including rural communities, the civics, women's groups and youth forums. There had also been talk of including non-government organisations on the council, which would replace the forum and National Manpower Commission next month.

A recommendation would be made to Minister without Portfolio Jay Naidoo about which organisations should be represented, with the criteria being the extent to which they had a national mandate.

The council would have four chambers — labour, trade and industry, public finance and monetary policy, and development. Civil society would be represented only on the latter. The other three would have the usual tripartite structure, but with the proviso that the fourth group could join in if its interests were affected.

"The reconstruction and development programme will not succeed unless we bring all the role players together."

Naidoo also regarded as a priority the need to set up the right processes for negotiation. He saw his role as that of facilitator. The specific policy issues on each chamber's agenda had yet to be worked out, but there were some obvious ones such as new labour legislation.

"My concern is that the crises the council has to deal with remain manageable. The forum became so bogged down that it was distracted from reconstruction."

It had also become caught up in technicalities that were not explained to constituents, he said.

Naidoo means business in new job at Nedlac

WM 6-12/1/95 (49)

Drew Forrest

THE National Economic Development and Labour Council (Nedlac) must serve as the economic equivalent of the World Trade Centre negotiations, says Nedlac's newly appointed executive director Jayendra Naidoo.

This means mapping out "far-reaching, society-wide agendas, rather than getting bogged down in ad hoc trade-offs and short-term trouble-shooting".

Speaking from Norway, where he is on leave, Naidoo said Nedlac's other potential stumbling block lay in binding the constituencies of union, business, community and state representatives to agreements reached in the forum.

To be launched in February under legislation enacted last year, Nedlac will carry forward the work of the National Manpower Commission and the National Economic Forum (NEF), bringing together state, capital and labour in separate chambers on the labour market, trade and industry, and public finance.

A fourth chamber — on development policy — breaks new ground and will draw in previously neglected interest groups such as civics, rural organisations and the women's and youth lobbies.

The genial and rotund Naidoo, whose Nedlac appointment was announced this week, is seen as well suited to the post. After cutting his teeth as a flexible and pragmatic negotiator for unions in the commercial sector in the early 1980s, he played a spearhead role in the forging of the National Peace Accord as Cosatu's negotiations co-ordinator.

He has been involved in both the National Housing Forum and the NEF, and contributed to the formulation of the reconstruction and development programme.

Naidoo said he considers Nedlac vital to peaceful transition in South Africa: "If the unions pursue one wage strategy and business another, we're heading for a train smash. The same applies if government goes its own way on trade policy."

The council has a number of matters on its immediate agenda, including the soon-to-be published draft Labour Relations Bill and the implications of trade liberalisation under GATT.

But it will be of far greater benefit to the country if participants came with long-term agendas, Naidoo said.

Govt looks to private sector for funds

(49) BD 7/1/95

JOHN DLUDLU

GOVERNMENT would use funds from the private sector and international donors to finance development of small, micro- and medium-sized enterprises in the country, the Trade and Industry Minister's special adviser on small business Alistair Ruiters said yesterday.

He said from Cape Town he did not expect a substantial increase in funds for small business development this year because of limited government funds.

"I see no substantial increase in government resources for small business in 1995. But there'll be a significant contribution from the RDP fund, which will make a difference for small business in this country."

He declined to say how much government had allocated for small business this year. Details of government expenditure on the programme would be spelt out in the White Paper due for release at a presidential conference on small business in March.

Further funding for the project would be raised from the private sector and international community.

Last week Trade and Industry Department director-general Zavareh Rustomjee said the department faced a 7% cut in its budget this year. A large portion of the budget would go towards financing the general export incentive scheme (GEIS).

Ruiters said the final White Paper would contain financial details.

"We now have a clearer idea on how we're going to use government resources. And the paper will have costing plans.

"I have also submitted a draft budget to the department."

Ruiters said government was opposed to a separate ministry for small business and would instead push for the establishment of an 18-member chief directorate operating within the department.

The final plan would be submitted to Trade and Industry Minister Trevor Manuel within the next two weeks, before being submitted to the Cabinet for approval.

Govt thrashes out economic policy

Star 19/1/95 (49)

BY ESTHER WAUGH
POLITICAL CORRESPONDENT

The Government of National Unity has identified strategies at its two-day bosberaad which would lead to sustainable economic growth and socio-economic transformation.

The session, which was concluded on Tuesday evening at a secret venue outside Pretoria, further considered the reorganisation of the Budget, privatisation and the way the GNU operates.

President Mandela, who did not attend the discussions, was briefed on the developments at yesterday's Cabinet meeting at the Union Buildings.

The director-general of the president's office, Professor Jakes Gerwel, told a press conference that the bosberaad believed that last year's successful political transition and the subsequent political stability had formed the basis for significant socio-economic transformation.

The key areas of such a transformation were identified as urban and rural investment and development, job creation, human resource development, health care and the development of the transport sector.

Research by the Reconstruction and Development Office had indicated that these areas were priorities for the majority of South Africans.

Task group

Ministers were given an opportunity to familiarise themselves with revised procedures for the reorganisation of the Budget.

Such a reorganisation would not be achieved overnight, but clear targets had been set for realising the process, Gerwel said.

The bosberaad further reiterated the belief that the RDP would not be successfully implemented without sustainable economic growth.

A task group of Ministers had been appointed to consider specific strategies for implementing economic growth, he said.

Gerwel said the meeting had also reflected on effective governance and reviewed the restructuring of central government departments.

This discussion, which was continued in yesterday's Cabinet meeting, looked at the functioning of the GNU.

Talks on the privatisation of State assets concluded with the appointment of a task group which was to report back to the Cabinet within six weeks on how these assets are to be reorganised.

A further bosberaad is scheduled for the middle of the year to assess progress made in implementing these strategies.

Govt 'agrees' on economy

JOHANNESBURG. — There was a significant degree of consensus in the government on economic and fiscal policy, Tourism and Environmental Affairs minister Dr Dawie de Villiers told the National Party's federal congress here on Saturday.

(49)

But Dr De Villiers warned that the South African economy faced a "long and difficult path" in raising the economic growth rate.

CT 23/1/95

He said the NP supported the Reconstruction and Development Programme and was pleased the interests of the NP had been accommodated in the RDP White Paper. — Sapa

Parties' agreement on economy applauded

TIM COHEN

TOURISM and Environmental Affairs Minister Dawie de Villiers at the weekend applauded the high level of agreement between the NP and ANC on economic issues. (49)

Speaking at the NP's federal congress, De Villiers said he took his hat off to the ANC for moving so far, particularly on "restructuring state assets" or privatisation. BD 23/1/95

There was agreement between the parties that the deficit before borrowing should be decreased from 6,7% to 4,5% over five years and that consumption expenditure should be reduced from 20% to 17% of the budget over time.

He said they agreed there should be no major tax increases. The demands faced by government rendered the idea of a tax cut "idealistic" at this stage.

Addressing the issue of privatisation, De Villiers said it had been estimated that 50% of South Africans in formal employment worked for state or quasi-state organisations.

This proportion was too high and if government wanted to expand services without increasing taxes, additional funds could only be raised by privatising state-owned enterprises.

He would not be drawn on which enterprises the NP considered appropriate for privatisation, echoing the ANC's policy that a survey of state assets would have to be undertaken.

Asked about perceptions that the NP's antitrust policy was "soft", De Villiers said he did not share the view that monopolies were by definition wrong.

He suggested the small size of SA's economy resulted in some industries being dominant in their sectors.

In a developing country with a small economy, opposing monopolies would be "incorrect".

The NP supported the reconstruction and development programme (RDP) and was pleased that the party's interests had been accommodated in the RDP White Paper.

Norwegian govt explores co-operation

JOHN DLUDLU

THE Norwegian government would undertake an extensive campaign to accelerate economic co-operation with SA, visiting Norwegian Commerce and Shipping Minister Grete Knudsen said yesterday.

Knudsen, who is leading a trade mission to SA, said her visit was aimed at "putting the past behind us". (49)

"We (Norway) have had very little contact with SA because of sanctions, but my party — the Labour Party — and unions have had close contact with the ANC. Now we want to start co-operating with SA."

She said the sanctions era had whittled away Norwegian investments in this country and the challenge was to start catching up. "We have brought our foremost companies in the electricity and housing sectors to look at investment possibilities."

While this week's visit was of an exploratory nature, a more intensive campaign would be undertaken to accelerate bilateral economic co-operation.

Apart from government-level contact, a seminar on business opportunities and ways of increasing co-operation was planned for later this year. BD 26/1/95

Her government was already involved in rural electrification projects, she said.

Opportunities for co-operation existed in hydropower and the technological, traditional fishing and shipping industries.

NEDLAC LIFTING THE WRAPS

(41)

FM 27/1/95

The question of transparency in decision-making is high on the political agenda. But the principle is not necessarily given practical expression by influential statutory bodies which are intended to play an important role in formulating policy.

The organisation which replaces the National Economic Forum is due to be launched on February 18 — the National Economic Development and Labour Council. But it is not clear from legislation, gazetted in December, whether its proceedings will be open to press and public.

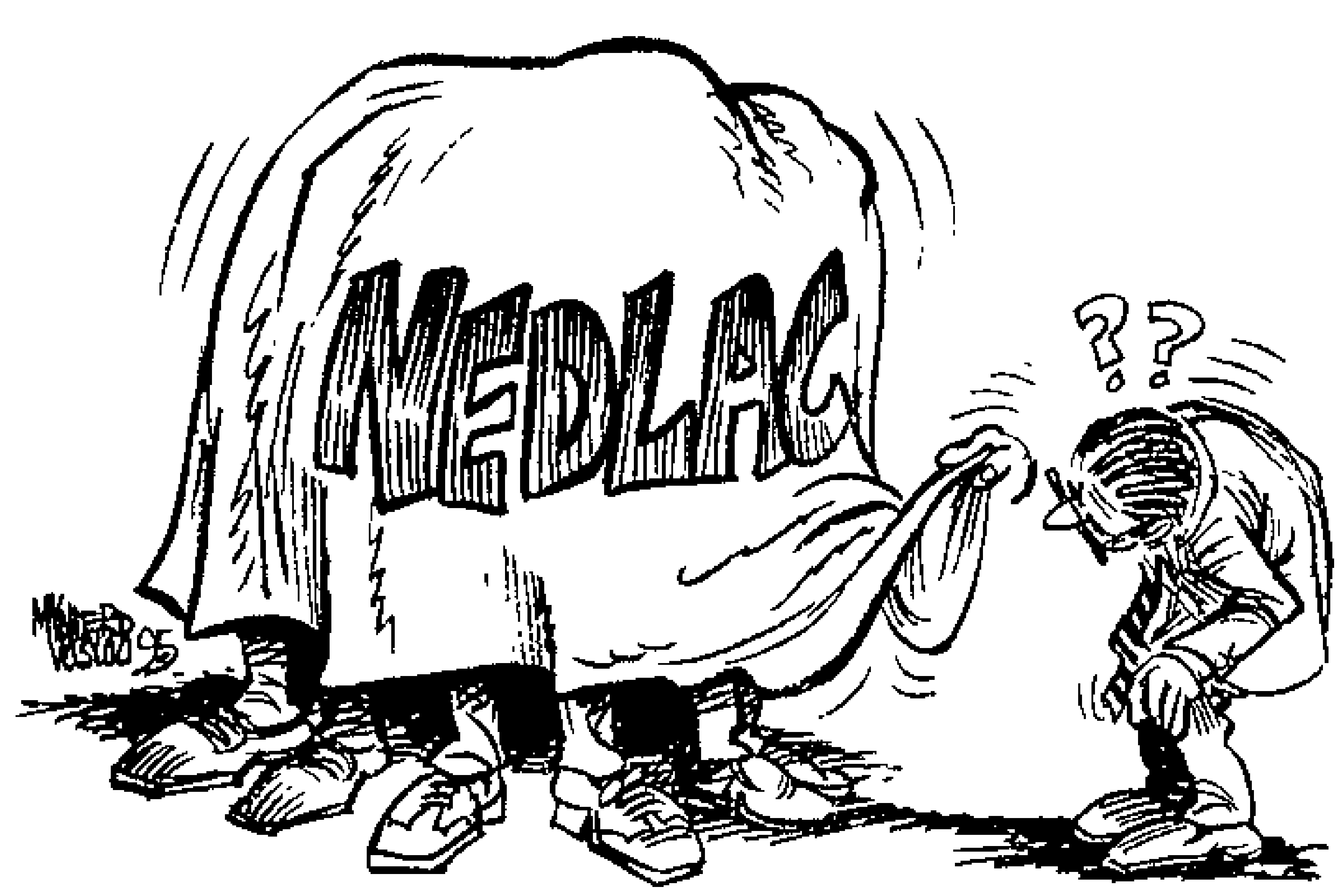
The legislation is concerned largely with the structure of the organisation and leaves its constitution to provide for the conduct of meetings. As the constitution is still in draft form, the issue of transparency remains open. New programme director Debra Marsden says Nedlac is fully committed to transparency — "but how this will translate into practice is an issue that will feature prominently on the Nedlac agenda."

In the past, only NEF plenary sessions, held once a year, were public. Nedlac will continue to hold public plenary sessions — under the chairmanship of the deputy president of the majority party in parliament.

But so far there is no indication meetings of its executive council will be open. It will consist of about 70 members representing the four constituencies — business, labour, government and community organisations.

These will each select six representatives for the four chambers which will deal with: public finance & monetary policy; trade & industry; the labour market; and development. Groundwork will be undertaken by working committees who will refer their findings to the council.

An immediate problem is that of Nafcoc's role. It has withdrawn from Business South Africa, the business lobby.



Nafcoc president Joe Hlongwane was not prepared to discuss reasons but, in an interview last year with *New Nation*, he reportedly said Nafcoc, one of only two organisations representing black business, would resist being marginalised and "bogged down in an insignificant role." The way in which Nafcoc will be represented has also to be decided.

Meanwhile two appointments have been made: Marsden and Jayendra Naidoo who has been appointed executive director.

Homelands' books under scrutiny

TIM COHEN

CAPE TOWN — The auditor-general's office is to launch its own special investigation into the accounts of the former TBVC territories. (49)

The investigations in terms of section 194 of the constitution will be launched because no substantial response has been received from the territories to a request by the parliamentary finance committee in October for reports on their accounts. The committee gave the auditor-general's office a mandate to investigate urgently the accounts of the territories after it became clear no audited reports had been compiled in some of the former homelands for up to five years. BD 31/1/95

Auditor-General Henri Kleuver said his office had written to the finance departments of the territories and they had promised that reports would be submitted. None had been received.

Kleuver said Transkei authorities had promised a report would be submitted on the 1987/88 financial year by November. The 1988/89 report was due in December and the 1998/90 report in January.

The office would inform Parliament soon of its intention to conduct its own investigationsin collaboration with the authorities of the former states. The information would be submitted to Parliament in its annual report, which which was to be published soon.

Private auditing firms might be used under contract to the office.

Allegations of large-scale financial irregularities, in Transkei in particular, would also be investigated.

SA 'needs R35bn' for high economic growth

(49) BD 1/2/95.

CAPE TOWN — About R35bn of net capital inflows would be required to finance projected current account deficits and put SA on a path of high economic growth in 1996/97, says Board of Executors economist Rob Lee.

In his latest Investment Outlook, Lee put forward a scenario in which SA achieved high economic growth in 1996/97, driven primarily by rising investment and good export growth after pedestrian economic growth in 1995.

He said such sustained inflows were plausible only in the context of a radical economic strategy that convinced foreign and local investors that SA would become a fast-growth nation.

Considerably more than

EDWARD WEST

R35bn would be required if an adequate level of foreign reserves was to be built up.

Key requirements for such a strategy were political stability; broad co-operation between business, government and labour; tariff reform; privatisation; macroeconomic discipline; and abolition of the financial rand and relaxation of exchange controls on residents.

"We fear that insufficient progress is being made in a number of these key areas, and that the likely changes in the period ahead will not be radical or far-reaching enough,"he said.

Lee said there was an apparent lack of co-ordination between the Reserve Bank and government. Bank Governor Chris Stals appeared intent on pursuing a policy of stabilising the nominal exchange rate to lower inflation.

This strategy was compatible only within high economic growth if massive capital inflows occurred to support the currency while simultaneously financing growth. If government moved too slowly in creating the environment for high economic growth the capital inflows would not occur, said Lee.

"In that case Dr Stals's exchange rate will require such high real interest rates that the economic recovery could well abort during 1996."

Lee said the next few months would probably decide whether SA would succeed in becoming a high growth economy. The JSE had fallen sharply in 1995 partly due to international influences, but also due to faltering confidence in domestic political and economic prospects, said Lee.

He said although the local economy had technically been in a recovery phase for about two years, the increase in economic activity so far was pedestrian, with per capita GDP still declining and unemployment still rising.

Economic council launched

By ANTHONY JOHNSON
Political Correspondent

THE National Economic Development and Labour Council (Nedlac) will be formally launched next week by President Nelson Mandela. (49)

The new statutory body, consisting of representatives from the government, organised labour, business and the community, will replace the National Economic Forum and the National Manpower Commission.

Nedlac executive director Mr Jay Naidoo said yesterday: "The body will have a key role in seeking co-operation and making agreements between social actors on social and economic policy matters." CT 8/2/95

The council will strive to promote economic growth, improve economic decision-making and social equity. It will also consider changes to social and economic policy before they are introduced into Parliament.

BUSINESS MAIL

BUSINESS AND PROFESSIONAL APPOINTMENTS SECTION TO WEEKLY MAIL & GUARDIAN

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US BUDGET

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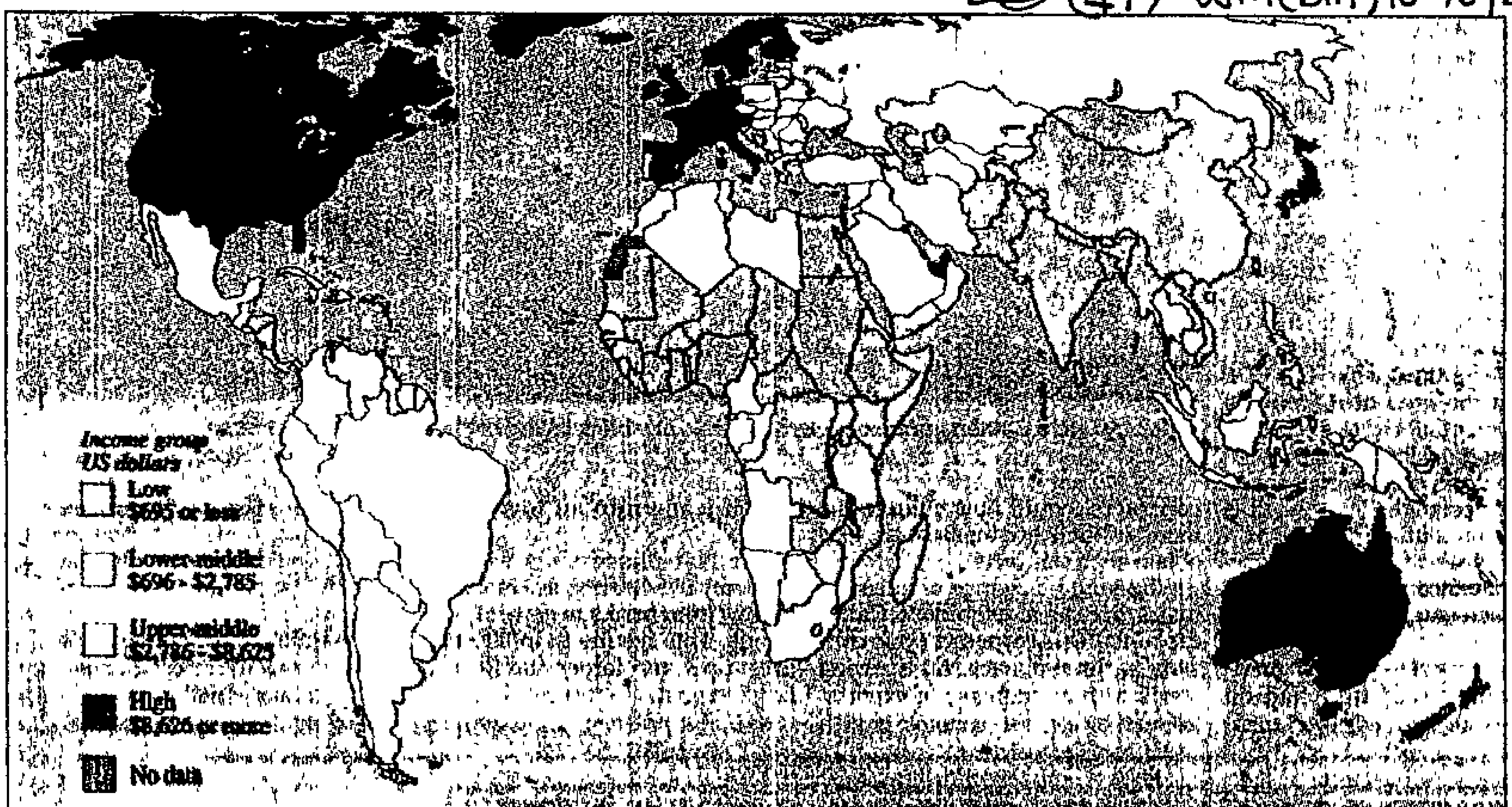
SA's wealth amid poverty

(49) WM(BM)10-16/2/95



The colour of money: To be in the red in the World Bank Atlas is to be fortunate indeed

South Africans are among the richest people in Africa, but figures hide the unequal distribution of wealth, reports **Reg Rumney**

APPROPRIATELY for an economy where gold is still so important, South Africa is coloured yellow in one of the economic maps of the just-published World Bank Atlas.

Yellow denotes an upper-middle-income classification. The only other yellow country in Africa is Libya — and that's a World Bank estimate.

The bank classifies a country as upper-middle-income if its per capita gross national product, the main measure of a country's economic prosperity, is between $2 786 and $8 625. South Africa just scrapes in with a per capita GNP figure of $2 900 for 1993, up only nominally from the 1992 figure.

Since the per capita GNP is calculated by dividing the GNP, the total value of a country's output of all goods and services, by the number of people living in the country, it's not surprising that Libya, an oil-producing nation with a small population, is the only other country to fall into the same bracket as South Africa.

Switzerland's 1993 GNP is roughly double South Africa's at $254 066-million. And Switzerland's GNP is one-twenty-fifth of the giant US economy's $6 387 686-million. Yet it is the richest country in the world, in per capita terms, with a figure of $36 410 for every Swiss citizen. That is almost 13 times the South African figure.

After Sweden, little Luxembourg with a figure of $35 850 is the next richest, followed in order by Japan ($31 450); Denmark ($26 510); Norway ($26 340); Sweden ($24 830); the US ($24 750); Iceland ($23 620); Germany ($23 560); and Kuwait ($23 530).

South Africa far outstrips the rest of Africa in production of goods and services, with a 1993 GNP of $118 057-million. Next-door neighbour Zimbabwe's 1993 GNP is around five percent of that at $5 756-million.

Also next door, impoverished Mozambique's $1 375 GNP is spread so thinly each citizen has a mere $80 share in the country's prosperity or lack of it. Its 1993 per capita GNP figure makes Mozambique the poorest country in the world, even though the 1993 figure is 15 percent higher or $10 more than it was the year before.

Most of the other dirt-poor nations, according to the World Bank Atlas, are in Africa: Ethiopa at $100 per capita GNP; Tanzania $100; Burundi $180; Uganda $190; and Chad and Rwanda with $200 each.

Other poor countries are in Asia. The poorest include Bangladesh with a per capita GNP of $220, India with $290 and Vietnam with $170.

In Latin America, Nicuaragua has a per capita GNP figure of $360, and the figure for Haiti is estimated at under $250.

Such averages by no means tell the whole story. What is not shown in the atlas is the inequality of the way national wealth is distributed For this reason the per capita GNP can be misleading. In South Africa huge inequalities give rise to a distorted picture.

The per capita income may be higher than most African countries, but in areas such as infant mortality and child malnutrition we match several African and Asian countries

World poverty conference will provide forum

Opportunity for SA to prove its worth

Star 10/2/95 (49)

BY ROSS HERBERT

Banks, non-government organisations (NGOs) and a number of developing countries have begun a wave of aggressive lobbying in preparation for a world poverty conference to be held March 6 to 12, a meeting which may significantly affect how South Africa is viewed among emerging markets.

The UN-sponsored World Summit for Social Development, to be held in Copenhagen, promises at a minimum to scrutinise all the world's development and lending institutions with the goal of finding solutions to seemingly intractable poverty in the developing world.

Developing nations hope it will shift the global balance of economic power.

Already there are press conferences, NGO resolutions, conferences and back-room lobbying — all part of a global political campaign.

Two weeks ago, a coalition of 1 000 NGOs presented resolutions to the UN asking for the world body to investigate the impact of structural adjustment programmes on the Third World, arguing that they should be fundamentally revised at the development summit and that all the international finance bodies be revamped.

- Charity representatives from 42 African nations met in Maputo to call for increased donation to Africa.
- South Asian NGOs met to protest being sidelined by world development organisations.
- The Commission on Global Governance chimed in with a 400-page report calling for the replacement of the UN Security Council with an economic security council to address world development needs.
- Another group put forth a UN resolution to forgive $1,4 trillion in developing world debt.

International activists argue that the Third World is being crushed by its debt burden.

In many cases, countries have stopped paying at all.

So, the argument goes, why not acknowledge reality, cut debt entirely and institutionalise a process of redistributing wealth from the industrial to the developing world?

"If debt relief is applied in a very easy manner, such assistance will not be coming any more. That is Japan's position," said Hiroshi Hirabayashi, a Japanese development official who visited South Africa recently.

The debt relief resolution was blocked on January 17 by the US, Japan and the European Union.

However, the fact that a global poverty conference is being held is evidence that all sides agree developing-world problems are so severe they cannot be ignored or treated with the same old approaches.

The capital markets are not as charitable. Economists say the markets have lost their zeal for emerging markets, a trend which could be accelerated by an acrimonious global political atmosphere.

The fear is that, just as Mexico's peso crisis caused an immediate sell-off on the JSE and a rise in the interest premium on SA bonds, the development summit could change how SA is perceived.

"I think the emerging market boom certainly is ending," said Tim Hacker, economist and bond-market analyst for Fergusson Bros. "US interest rates are up and the global economy is growing faster and that means there will be a pull-back from the emerging markets. I don't think 95 will be as good as 94."

As global security trading has expanded and emerging market securities have been marketed to unsophisticated investors, the JSE has been increasingly affected by negative news in other emerging markets.

"Because investors get burned, they make a global judgment," said Nico Czypionka, group economist for Standard Bank.

"Some of the people who own these bonds may be film producers in Hollywood who don't have very much investment knowledge."

At the development summit, SA has the potential to play an influential role, tapping President Nelson Mandela's prestige to temper the developing world demands and, in the process, casting a favourable light on the stability of the SA economy.

Depending on how shrill the development summit gets and how shrewdly SA plays its hand, SA could, in contrast, be viewed as the safe bet among otherwise turbulent emerging markets.

SA's fundamentals are strong, particularly when it comes to lending. Debt is roughly 15 percent of GDP, compared to about 40 percent for Australia.

By bringing out such strengths and taking the high ground as mediator, SA has the opportunity to emerge a notch above its emerging-market peers in the eyes of the capital markets.

Launch of new statutory body

(49)

Weekend Argus Reporter

A NEW statutory negotiating body for social and economic policy is to be launched next weekend

The National Economic Development and Labour Council (Nedlac) will bring together government, organised labour, organised b[illegible] and community leaders

In a statement, Nedlac's executive director Jayendra Naidoo said the body would have a key role in seeking co-operation between the "social actors" on social and economic policy matters.

President Nelson Mandela would deliver the keynote address [illegible] the [illegible]unch, on Sat[illegible] [illegible]ebruary 18, at Gallagher Estate, outside Johannesburg

ARG 11/2/95

'Govt should play an interventionist role'

BD 14/2/95 (49)

JOE HLONGWANE

NOW that the struggle for democracy and majority rule has been won, the biggest challenges confronting the government of national unity are to improve living conditions for historically disadvantaged people and to implement a workable programme of black economic empowerment.

The reconstruction and development programme (RDP) to a large extent addresses the first challenge.

The National African Federated Chamber of Commerce and Industry (Nafcoc), made up of more than 150 000 members within 12 regional and six sectoral chambers, has drafted a business manifesto which addresses many concerns facing the black business community in SA.

Nafcoc believes central and provincial governments should play a limited interventionist role though legislative, administrative and regulatory measures to facilitate implementation of a programme of black business empowerment.

The chamber fully supports the sociopolitical and economic philosphy of the RDP. However, so that discrimination, exclusion and marginalisation of black business can be reversed and the playing fields levelled, Nafcoc proposes that, where appropriate, government requires that at least 40% of equity in companies which take part in RDP projects must be held by blacks.

Also, the provision of goods and services by tender to the Public Works Ministry and other national and government departments should be subject to at least 40% black equity participation.

Futhermore, government should help with compilation and dissemination of information on goods and services for which state and parastatal tenders will be required.

This information and the tender procedures to be followed should be simplified and made accessible to black business.

Concerning state and parastatal institutions, the Independent Development Corporation, Small Business Development Corporation, Independent Development Trust and other government financing agencies should be restructured to meet the needs of black business and address their lack of capital and finance.

In particular, the granting of loans and finance from these and other state financing agencies and the ability of the applicant to provide collateral and other forms of security should not be determinative in granting a loan.

Nafcoc believes there should be substantial black representation on the boards and management of state and parastatal financial institutions.

Nafcoc agrees with the proposal in the small, micro- and medium-sized enterprises discussion paper from the Trade and Industry Ministry that "in order to encourage financial institutions and other organisations to become active in the sphere of financing emergent enterprises, consideration will be given to the appropriateness and feasibility of tax incentives and other indirect measures, including steps to facilitate the interaction between traditional savings and investment schemes and conventional institutions".

Regarding corporate unbundling, government should encourage domestic and multinational companies which unbundle to do so, in the first instance, with mass-based black business organisations like Nafcoc. Unbundling should result in broad black participation and empowerment; not solely in the enrichment of a few black businessmen. The unbundling legislation recently introduced should be appropriately amended to encourage implementation of this policy.

Nafcoc believes that, in line with its proposals on unbundling, privatisation of state and parastatal assets should in the first instance be offered to representative black business organisations like Nafcoc. Agricultural and commercial land held by state and parastatal bodies should also be sold at reasonable prices to people from historically disadvantaged communities.

Where appropriate, Nafcoc believes trading and other business licences should be issued subject to the licensee having meaningful black equity participation.

Nafcoc reaffirms its commitment to its 3-4-5-6 programme for black economic empowerment. The programme sets 2000 as the time by which 30% of seats on boards of companies quoted on the Johannesburg Stock Exchange should be occupied by blacks, 40% of equity should be held by blacks, 50% of inputs should be sourced from black enterprises and 60% of managerial posts should be held by blacks.

Appropriate legal measures should be introduced to break up monopolies and abolish anti-competitive practices. Nafcoc supports the statement in the RDP White Paper that "a credible competition policy is crucial to the proper functioning of the economy".

It is also important that the legislative framework which enables the Competition Board to promote competition be reviewed and strengthened.

Nafcoc believes state training and educational institutions should be restructured to provide appropriate technical, business and entrepreneurial skills.

The chamber therefore recommends that business training programmes intended to develop personnel in parastatals, non-governmental organisations and the private sector be encouraged and funded by the state.

Government should investigate introducing tax and other incentives to encourage foreign investors to form partnerships and do business with blacks. In private and on public platforms, government officials should encourage foreign investors to do business with black business. It is imperative that as part of the establishment of these joint ventures, skills, technology and expertise is transferred.

The dual currency system and exchange control regulation should be relaxed gradually and ultimately, when the appropriate economic environment and level of business confidence prevails in SA, repealed.

A differential tax rate should be encouraged to promote development of small and medium-sized enterprises.Nafcoc has proposed the appointment of a minister, deputy minister or commissioner to promote and develop such enterprises.

The chamber welcomes the view in the the Trade and Industry Ministry's discussion paper that government will "consider steps to motivate the big business sector to expand systematically its links with small enterprises".

Nafcoc is committed to promoting the goals and objectives of the RDP and to contribute to the empowerment and upliftment of all South Africans. However, the development and growth of the economy cannot be maximised if historically disadvantaged people and black business in particular continue to be excluded from the mainstream of the economy.

The empowerment of black business can be achieved only if the national and provincial governments play a limited interventionist role to level the playing fields.

☐ **Hlongwane is president of Nafcoc.**

BUSINESS

Fiscal policy must be tightened up

(49)

BD 15/2/95

MUNGO SOGGOT

SA NEEDED much stricter fiscal and monetary policy to nurture sustainable growth, Finance Minister Chris Liebenberg said yesterday.

"If we want sustainable economic growth we need stricter fiscal and monetary discipline." Attitudes regarding SA's competive situation also had to change, he told the Frankel Pollak Vinderine investment conference.

Although government was likely to come "within spitting distance" of reaching its targets in the Budget, "we still have a long way to go".

SA's lack of competitiveness and its low savings rate were the main obstacles to sustainable economic growth. The easiest way to improve SA's savings rate was to stop government dissaving, which had dragged SA's savings as a percentage of GDP down to 17,5% last year. Households had accounted for 6,2% of the savings rate and the corporate sector 15,6%, while government had dissaved 4,4%.

Tax incentives were not a particularly good way of cutting consumption and encouraging saving. "They don't increase the pool of savings."

The Mexican financial crisis had taught the dangers of having a low domestic savings rate and relying on foreign capital.

He said inflation was the main factor stifling saving so SA needed stricter monetary policy to mop up local liquidity.

SA's poor competitiveness hinged not only on having too high a minimum wage and too low productivity, but also on "wider issues such as ... uncompetitive bureaucracy, education, tax and attitude".

The National Economic Development and Labour Council's (Nedlac's) plan to develop an export strategy for SA was one of the ways to start fixing these structural problems.

He said the lowering of protective trade tariffs would improve SA's competitiveness. Surveys of SA' competitiveness, which invariably put SA close to the bottom of the list, showed that the one competitive sector was the financial services sector. "Why? Because it has no import tariffs or export promotion."

Budget 'to close economic gaps'

(49)

THE 1995/96 Budget was intended to address the huge socio-economic disparity between white and black South Africans, President Nelson Mandela said yesterday. CT 16/2/95

In an interview at Tuynhuys, he said the government had to deal with the basic needs of its constituency — "the poorest of the poor".

"The Budget must address the constituency which put us into power. We are not going to neglect other communities, but the gap between blacks, coloureds and Indians on the one hand and the white minority on the other is too big." — Sapa

Budget to close the wealth gap — Mandela

(49)

CT 10/2/95

PRESIDENT Nelson Mandela said yesterday the March 15 budget would begin to address the wealth gap between the white minority and blacks enfranchised for the first time last April.

"We have been put into power by the poorest of the poor. We have to address their basic needs, and therefore the budget must be geared to address the constituency that put us into power," Mandela said.

He said the 1994/5 budget introduced by his government of national unity last June, following April's elections had been drawn up under apartheid.

Next month's budget, for the fiscal year starting April 1, would be the first to accurately reflect the priorities of democratic rule.

"The gap between Africans, Coloureds and Indians on the one hand and the white minority on the other is too big and it must be closed," he said. — Sapa-Reuter

Path to success

National Economic, Development and Labour Council executive director Jayendra Naidoo talks to **Tyrone August** about plans to change the face of South Africa forever:

(49)

THE GOVERNMENT last year set up a wide range of organisations to assist South Africa's fledgling democracy. Among the latest is the National Economic, Development and Labour Council, which will be launched by President Nelson Mandela on Saturday.

"It is a negotiating body and is made up of Government and civil society in its broadest sense," says Nedlac executive director Mr Jayendra Naidoo.

Its roots go back to 1992, when the National Economic Forum was formed and the National Manpower Commission was restructured.

"But its real basis lies in the commitment of the new Government and the country's democratic forces to replace apartheid with a more democratic form of government," says Naidoo.

"One that's not simply based on parliamentary representation but which has a much more active involvement with civil society."

Nedlac is made up of four constituencies: Government, business, labour and the community.

"Its purpose is to bring about cooperation between these constituencies for the good of the country, to bring about agreements at a national level on economic, labour and social policy."

Naidoo realises there are high expectations of Nedlac. "That's a problem," he says. "There is no way we are going to transform the country overnight.

"But if we get our priorities right, the body has a good chance to deliver something useful, and at the same time make people feel this process of negotiation is producing the goods."

Priorities will be identified in March at the first meeting of Nedlac's chambers, which deal with the labour market, trade and industry, public finance and development.

In terms of what the body should address, there is "an incredible shopping list", Naidoo says.

"We are not going to address this huge list. Each chamber must decide which three or four things we can tackle and complete and which will have a big impact."

He cautions: "This body is not solely responsible for transforming the country. It's not replacing the responsibility of Government and business and labour to do what they have to do.

"But it has the capacity to bring about agreements where the sum total of the agreement will be far more than what each constituency on its own could achieve for its members."

Naidoo concedes there is a danger of Nedlac

Jayendra Naidoo ... looking forward to his new job at Nedlac. PIC: VUSI ZWANE

Sowetan 16/2/95

becoming bogged down in bureaucracy but is optimistic this could be overcome.

"It's the intention of the body to eliminate procedures that are bureaucratic and cumbersome, but the fact of a negotiating process does have some delaying effect," he says.

"Taken as a whole, it may actually assist Government and the other constituencies to achieve things much faster.

"For example, if we get agreement by negotiation, it means the resources of all the constituencies are brought to bear on the implementation of that agreement."

This will avoid running into problems at a later stage because only one constituency was involved initially in decision-making.

"All we've done is change the process," Naidoo explains. "We've brought all the parties into the decision-making stage. It's not left to individual constituencies."

And Naidoo sees his own role as an exciting challenge: "My job is to help manage the negotiating process. But I don't make the decisions; the constituencies make them.

"My objective would also be to make sure we don't try to manage everything at once, or make the council something that takes over the responsibility of any of the constituencies."

Nedlac clearly has very wide powers. "Its agreements are going to be very important for every citizen," says Naidoo.

"Whether it's a new labour bill or a strategy on development or a programme for job creation, it can offer a service and a possibility to make these things happen."

Naidoo's rich and varied background equips him to deal with the challenges posed by Nedlac. A student activist who participated in community organisations in Durban, he joined the trade union movement in 1981.

As Cosatu's representative, he also took part in negotiating the National Peace Accord, and has a wealth of experience in negotiations.

But, he says modestly, the body depends on the constituencies to work.

"I will just try to manage the process as much as possible."

Naidoo looks forward to the challenge: "The big problem South Africa has is that we need so many things and the Government doesn't have enough money to do them.

"By bringing the constituencies together, we have a possibility of bridging that gap. Our task is to make sure we change the face of the country.

"We must be able to provide people with the things they need so that they have jobs and homes, so that we are able to reduce crime and make this a better place."

Naidoo recognises this will not be an easy task. "There is no simple solution," he says. "It's going to require detailed work on a lot of key issues."

In spite of this, he looks forward to his new job: "The possibility now exists to construct a body that is proactive, that is capable of doing things in a far more comprehensive way.

"It replaces a need for several other forums that have now disappeared. I call it a one-stop-shop of social and economic negotiations."

Nedlac is, in many ways, a unique body. No doubt it will be a learning process for all its constituencies, but there seems to be a willingness from all sides to make it work.

Especially from Jayendra Naidoo.

Economic growth depends on vibrant private sector

ARGT 17/2/95 3(49)

Political Staff

THE engine of sustainable and equitable growth in South Africa is the private sector, says Trade and Industry Minister Trevor Manuel in the foreword to his department's White Paper on the development and promotion of small business.

Mr Manuel says small, medium and micro-enterprises, or SMMEs, can help meet the challenges of job creation, economic growth and equity.

"We (the government) are committed to doing all we can to help an environment in which business can get on with its job.

"We believe in the principle of working together with our partners in the private sector."

Mr Manuel says that throughout the world SMMEs play a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways.

"We are of the view that — with the appropriate enabling environment — SMMEs in this country can follow these examples and make an indelible mark on this economy.

The White Paper says the small business sector was neglected during much of the century.

New body to help economy

CT 20/2/95 (49) (133) (173)

JOHANNESBURG. — Labour Minister Mr Tito Mboweni yesterday announced the formation of a Labour Market Commission to develop strategy to improve productivity and job creation.

The 17-member commission is headed by economist Mr Dave Lewis, who is also an adviser to Mr Mboweni, and Gencor labour relations chief Mr Moss Ngoasheng.

Outlining the problems to be tackled by the commission, the labour ministry said in a briefing document that at least 43% of South Africa's economically active population of 13,5 million people, was unemployed.

The labour absorption rate had also declined by more than 30% between 1980 and 1992, the ministry said, which resulted in seven out of 10 entrants to the labour market being unable to find work in the formal sector.

The commission, whose formation was approved last week by the cabinet, will finalise its work by March next year and submit a draft White Paper on labour market policy.

The new commision was launched a day after President Nelson Mandela launched a negotiating forum tasked to transform South Africa's economy and labour market, saying it was a milestone in the country's transition from apartheid.

The new National Economic Development and Labour Council (Nedlac) brings the government, labour and business together with community groups to negotiate policy on the economy and social equity.

Mr Mandela said the launch of Nedlac was "of towering significance".

"Opposing camps have transformed themselves into partners, articulating different and often contradictory interests, but are united in pursuit of common goals," he said

Unrealistic

"Today we are building on the foundations of that emerging national consensus to work together for a better life for South Africans ... It is a point of towering significance."

The launch occurred a day after Mr Mandela moved to douse the unrealistic hopes of disadvantaged blacks for rapid prosperity in post-apartheid South Africa in his address to Parliament. — Sapa-Reuter

Industry to face major shake-up

CT 22/2/95 (49)

By BRUCE CAMERON

COMMERCE and industry face a major shake up this year with government laying plans to open up the economy, breakdown cartels and make the country internationally competitive.

Govt drive to open up economy

The shake up will lay the basis for a number of five-year plans to set the country on the road to sustainable economic growth with the ability to overcome problems from unemployment.

At media briefings in Cape Town, the country's main economic policymakers spelt out that the government was committed to sound and internationally accepted economic principles and would expect other sectors of the economy to play their part.

Although the government expected to achieve its targets mainly through consensus, it will also use the force of law to make business toe the line.

Trade and Industry Minister Trevor Manuel said he was planning to either toughen up existing competitiveness legislation or to introduce anti-trust legislation that will halt cartel arrangements and uncompetitive price fixing.

Reserve Bank governor Chris Stals said conditions now favoured scrapping the financial rand as a first step to scrapping exchange control. The next step would be to allow fund managers, like the life assurance companies to start investing abroad to balance their portfolios.

He expected the lifting of exchange control measures to improve the prospects for foreign investment.

A commitment was made by Finance Minister Chris Liebenberg to clean up corruption in both the private and public sectors. He agreed foreign investors could be driven off by continuing reports of misappropriation of money.

Announcements made by Liebenberg included:

- A revision of corporate tax with the standard tax on companies (STC) possibly facing the axe, because it forced investors to borrow money rather than use equity to start new enterprises, while STC was not included in most double taxation agreements making the tax unpopular with foreign investors.
- A repeated commitment to reduce the government deficit before borrowing to from last year's 6,5% of GDP to 4% within five years. He admitted government dissaving had cut the potential growth in the savings base of the country by more than 4% to 17,5%.
- A targeted average 3% economic growth rate over the five years since the end of the recession, meaning a growth rate that should climb to more than 5% a year. This would mean that growing unemployment could be halted and reversed once economic growth climbed above 3,6%.

Manuel said Deposit Taking Institutions Act needed expansion to permit NGOs to take deposits to spur development.

He also said measures to ensure companies spent more on training needed consideration, he said.

He announced a commitment to take on "vested interests" to break logjams in the process of making the country more competitive.

He intended pressing ahead with a programme based on the recent government policy white paper to stimulated small and medium size businesses.

Manuel harshly criticised industry saying that pricing structures, cartels and the shape of ownership were limiting economic growth.

Business Report

Income windfall saves Govt after overspending R1,6bn

(49) CT. 23/2/95

By BRUCE CAMERON

THE government has overspent by R1,59bn for this fiscal year, but it is on course to cut back on the amount it has to borrow to balance the books thanks to windfall additional income.

The adjustment budget for the 1994/95 year was tabled in Parliament yesterday showing that most of the overspending was a result of the transition from the apartheid years to a democratic government, including the merger of the former liberation movements and the now defunct homeland administrations into a unified country.

Director General of Expenditure Hannes Smit said he was relieved by the fact that additional expenditure came to less than one percent of estimated spending.

In the hey days of the National Party government largesse, overspending often went as high as 10% over initial estimates.

"I thought it would be far worse."

Applications were made during the year by various departments for an additional R4,4bn over their original budget allocations but tough responses from a special Cabinet committee chaired by the Minister of Finance reduced the additional amounts to R1,59bn.

Smit said the guidelines were very strict — additional expenditure had to be "unforeseen, unavoidable and affordable".

Refering to the new government Smith said "these guys are sincere when they say they want to keep down government spending".

Although final expenditure is higher than budgeted, revenue is also expected to be higher at the end of the fiscal year because of the growth in the economy.

Finance Minister Chris Liebenberg is expected to announce in Parliament on Friday when he asks for approval for the adjustments that the anticipated deficit on the original budget of 6,6% before borrowing will be significantly lower.

The government is aiming at reducing the deficit before borrowing to 4% within the next four years.

Paradoxically part of the additional spending was a result of a disbelief by the financial markets that the new Government of National Unity would curtail spending because of the expectations of the new electorate.

(49) CT 23/2/95

Last year long term interest rates were pushed up by almost 6% in aniticpation of a growing government borrowing requirement.

The higher interest rates cost an additional R290m on the total interest bill of R23,3bn on the accumulated debt of more than R200bn.

Other areas where additional spending was incurred included:

- An extra R141m merging the intelligence services of the former liberations movements with the National Intelligence Service and creating external and internal branches of the new service. The costs are to go up even further as the intelligence services of the former TBVC states are also merged into the service(semi)
- An extra R400m equalising salaries paid to civil servants of the former "white" South Africa and the TBVC countries. Most of the money has gone to former Bophuthatswana civil servants who were paid considerably less than their counterparts in other areas.
- More than R266m had to be paid out in additional and unexpected claims for social allowances to individuals. This was on top of an original estimate of about R10bn.
- A bill of R12m to clean up the beaches of the western Cape after the Apollo Sea oil spill. This money will however be recovered.

There were also numerous changes caused by reincorporating the former homelands and adjustments required for creating the new provincial system.

BUSINESS

Govt keeps tight rein on spending

(49)

Star 23/2/95

BY BRUCE CAMERON

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GROSS DOMESTIC PRODUCT

Well established

(49)

FM 24/2/95

Is last year's better than expected 2,1% economic growth — measured in factor incomes terms — sustainable? Probably, mostly because of the expansion in the base of sectors contributing to the recovery.

Whereas the 1993 recovery, when GDP rose 1,3%, was largely led by agriculture, sectors such as manufacturing, in particular, finance & real estate and trade & catering made significant progress in the fourth quarter of last year (see graphs).

Manufacturing — a quarter of GDP — grew an annualised 10,3% on a seasonally adjusted basis in the fourth quarter, compared with 7,4% in the previous quarter. This contributed to annualised overall growth in the fourth quarter of 6,1%.

Nedcor's economic unit says the recovery appears to be concentrated in basic industrial products and beneficiated products, "either for export or as inputs into the construction, mining and agricultural sectors." These include chemical products (mostly petroleum products), nonmetallic mineral products (including cement and bricks), paper & paper products and nonferrous metal products. There was also growth, says Nedcor, in vehicle parts and accessories, which have come off a low base following strikes in the third quarter.

Stronger growth can therefore be expected in 1995, as growth spreads to other sectors such as construction, electricity, gas & water, and transport & communication. Expenditure on reconstruction & development programme projects, subdued in 1994, should also pick up. Improved exports of primary products such as minerals and both base and precious metals should also fuel further growth.

But agriculture is likely to do less well, in spite of strong growth in the past quarter of 27,3% annualised. Most key crops will shrink in the 1994-1995 season, except sugar, which is expected to yield 15,7 Mt (1993-1994: 12,9 Mt). The maize crop is expected to be only 5 Mt (12,1 Mt). ■

Labour movement input 'essential'

(49) BD 27/2/95

RENEE GRAWITZKY

THE danger of the labour movement becoming a "fringe performer" would jeopardise economic restructuring as well as political stability, Glenn Adler of the Sociology of Work Unit at Wits University said at the weekend.

This was one of the initial findings suggested by the unit which was conducting research into trade unions and the transition in SA. It is being sponsored by the Albert Einstein Institute in the US.

Both Adler and Eddie Webster, also of the unit, concurred that prior to transition and in the period leading up to the consolidation of democracy, the labour movement played an integral role in the transformation of society.

Consolidation of democracy resulted in a change in labour's role. "Unions play different roles at different times," Webster said. The role of labour was complicated further by the swift changes to the economy and the demands that were placed upon it by pressure to gear itself towards world class manufacturing.

With these new demands, labour moved more towards a corporatist model so it could be involved in macroeconomic decision-making.

The formation of the National Economic Labour and Development Council (Nedlac), which emanated largely from the efforts of the labour movement, was a clear example of this, Webster said.

Corporatism depended on whether the parties could deliver and it was questionable in the light of a number of problems within organised labour whether it could play a constructive role.

The flip side would be to ignore labour, but this could lead to labour blocking policy decisions.

Initial research showed that:

- ☐ The labour movement developed into an organisation concerned with the interests of and dominated by a few;
- ☐ The labour leadership could be weakened by not always having had the opportunity to involve itself in strategic issues;
- ☐ It was questioned whether shop stewards could move away from the old style of resistance to one of constructive debate over issues such as productivity;
- ☐ The labour movement was no longer seen as central to the alliance; and
- ☐ Concern was raised as to the level of ungovernability on the shopfloor.

Adler said that lack of capacity and representivity undermined union power and effectiveness.

Options open to the labour movement were to revert "back to basics" and concentrate on educating from rank and file upwards; to develop officials and try and create clear career paths within the union movement and to determine whether labour represented an interest group or a movement, Adler said.

To survive it had to develop a "vision beyond its own constituency".

R35bn foreign capital needed for SA growth

(49) ARG 2/3/95

ALIDE DASNOIS
Deputy Business Editor

SOUTH Africa needs a net inflow of foreign capital of R35 billion in the period 1995-1997 to finance high economic growth, according to Board of Executors senior portfolio manager Rob Lee.

In his latest Investment Outlook, he says an additional R10 billion is needed to build up foreign exchange reserves equal to 2,5 months import cover by 1996.

These inflows could finance growth of 5,5 percent a year in gross domestic expenditure and 3,5 percent in gross domestic product.

Reviewing progress in key areas, Mr Lee says the small over-run in government spending (just over 1 percent of the original Budget) in the current fiscal year is "an impressive achievement".

The budget deficit for the current year, thanks to higher-than-expected government revenue, will be less than the targeted 6,6 percent of GDP.

Tougher monetary policy and a better outlook for food prices reinforce predictions that inflation will stay below 10 percent this year, for the fourth year in succession.

Other positive indications are the launch of Nedlac, recent statements by the Minister of Trade and Industry on the need to remove tariff protection and improve competitiveness and the government's committment to the restoration of law and order — though in the longer term high economic growth, job creation and the satisfaction of basic needs will do more to cement stability than the use of security forces, Mr Lee says.

But the government's failure to abolish the financial rand at the end of February is a setback for the economy, he says.

Investors have been subjected to the "Chinese water torture" approach to financial rand abolition and should not have to undergo the same torture over the removal of exchange controls on residents.

On the international economy, Mr Lee says a "dream scenario" could be unfolding for world financial markets, with company profits growing while interest rates and inflation are kept under control.

But the US economy's massive and growing dependence on foreign capital inflows is a threat.

Committees given powers to discuss national budget

(49) ARG 3/3/95

CLIVE SAWYER
Political Correspondent

PARLIAMENTARY committees have been given new powers to debate parts of the national budget which fall under their portfolios.

The joint standing committee on finance, which in the past had a monopoly on hearings and reports about the budget, will concentrate on macro-economic aspects of the budget.

Gill Marcus, the African National Congress MP who chairs the finance committee, disclosed the new procedure at a Press briefing yesterday.

Ms Marcus emphasised that her committee wanted to involve ordinary people in the budget.

This year's budget will be presented on March 15.

The full impact of new involvement of portfolio committees in the budget would take effect only next year, Ms Marcus said.

The dramatic change to committees' powers would have to be taken into account by parliament as it decided its future methods.

Parliament meant more than the national assembly and senate.

"We are saying that committees are parliament sitting in a different form."

The chairman of the national assembly justice committee, ANC MP Johnny de Lange, said consideration should be given to parliament sitting for only three weeks of the month and leaving the fourth week solely for committee work.

Parliament has adjourned for a fortnight to allow committees time to finish work on draft legislation.

All committees have made it clear they will not be rubber stamps to cabinet approval of bills.

This thoroughness has slowed the legislative process.

Mr De Lange said his committee had "just about rewritten everything" of the laws it had had to consider.

But better resources were needed for committees to work better.

While R3 million was to be set aside in the forthcoming budget for committee work, this would not go far among the 40 parliamentary and constitutional assembly committees.

Deadlock on seats for national council

BD 3/3/95

JOHN DLUDLU

BUSINESS SA's (BSA) governors have decided to ask for a mediator after failing to break the deadlock in negotiations with the National African Federated Chamber of Commerce (Nafcoc) over business representation on the National Economic, Development and Labour Council (Nedlac). (49)

The decision was taken this week at a special meeting of governors — the highest decision-making organ of BSA — called in a bid to resolve the wrangle over the 18 seats allocated to business on Nedlac's executive council.

BSA president David Brink said the organisation was "anxious" to find a solution. Governors had agreed "some form of mediation" was needed to break the deadlock.

The governors had turned down Nafcoc's proposal to have seven of the 18 seats. "There's no possible rationale for this if we want to Nedlac to succeed."

Brink would not disclose who BSA had in mind as mediator, but said the organisation would be flexible.

The governors had agreed that "a special dispensation to accommodate emerging business" was required, he said.

Brink was asked last week to work out a proposal to present to Nafcoc, but it was rejected by the governors.

Liebenberg's balancing act

(49) WM(BM) 10-16/3/95

Finance Minister Chris Liebenberg has walked a tax tightrope in compiling next week's Budget.
Reg Rumney reports

EXPECT no boon from the March 15 Budget if you are in the higher income tax bracket. However, on the positive side, expect no rise in value added tax.

Given the political opposition to this tax as being regressive, it would be a brave move for the government to turn to this handy, and arguably underused, source of revenue.

Sanlam's economists foresee lower personal tax for people in lower and middle income groups and an increased marginal rate hitting those in high income brackets.

On the other hand, any lower income tax will be offset by probable increases in taxes on liquor and tobacco — so-called sin taxes — and probably a higher fuel levy.

Liebenberg's hands are tied when it comes to cutting taxes in that:

- He is committed to supporting Reserve Bank governor Chris Stals' monetary discipline, and so can't countenance inflationary tax cuts.
- High government debt, commitments to keep on civil servants from the old regime, as well as a need to practise affirmative action, mean he cannot slash spending.

While certain features of this year's Budget seem likely, there is more uncertainty about tax changes than there has been for years.

The reason is that the parliamentary Standing Committee on Finance last month unexpectedly sent key proposals of the Katz tax committee back for reconsideration.

This immediately presented Finance Minister Chris Liebenberg with a R2-billion to R2,5-billion quandary. Liebenberg's immediate reaction was that the committee had exceeded its mandate, and he was not obliged to obey.

It had seemed that the introduction in the Budget of the Katz Commission of Inquiry's main recommendation, that the sexes, and married and single people finally be treated equally in terms of tax, would be a formality.

Previously the government has accepted the principle but deferred the practice because the unequal treatment has brought in a tidy sum for the fiscus. But the new constitution specifically forbids gender discrimination.

The finance committee rejected the unified tax tables because it would mean taxpayers earning between R10 000 and R20 000 would pay more tax. The committee rejected the recommendation that the tax-deductibility of pension fund contributions should be capped — a move strongly opposed as "ad hoc" by the life assurance industry. This means Liebenberg can equalise taxes for men and women — but not easily make up the revenue lost, estimated at R2-billion to R2,5-billion.

An option mentioned by Liebenberg would be for the equalisation to be phased in. Yet the Commissioner for Inland Revenue has already introduced a single tax as an interim measure for three months from March 1. So the tax table that previously applied to married people with no children is for the moment universal, to avoid unconstitutionality.

Frankel Pollak Vinderine chief economist Mike Brown reckons that the government cannot avoid equalising tax treatment this year.

There are a number of options, big and small for increasing tax revenue. Only one of them is selling off unwanted state assets.

On the company front, STC's effectiveness has been called into question, and has been presented as a discouragement to foreign investors.

Nedcor's Dennis Dykes expects secondary tax on companies to be reduced, and the corporate tax rate may rise to take account of that. Sanlam foresees no change in the corporate tax rate, but some change in STC.

What Liebenberg could and should consider is the long-promised abolition of marketable securities tax, often cited as one reason for the well-known illiquidity of the Johannesburg Stock Exchange.

New Budget, PAGE B2

What Liebenberg can do to balance his budget

Change	Pros	Cons
Raise the top income tax rate on individuals	Raises extra revenue without hitting poor	Can't be raised too much without deterring foreign investment
Raise corporate tax rates	Populist	Will hit foreign and domestic investor confidence
Increase VAT by one percentage point or so	Easy	Too easy. Howls of rage from Cosatu makes this unlikely
Increase sin taxes on tobacco and alcohol	Simple and easily justifiable. Other countries' sin taxes much higher	Opposition from strong lobbies. Inflationary
Cap pension fund contributions' tax deductibility	Relatively simple way of getting more money	Powerful life assurers have cried foul
Phase in promised tax parity	Good compromise	Inland Revenue has already issued a single tax table. Unconstitutional
Rely on "fiscal drag", ie inflation, for revenue	Govt doesn't have to raise a finger	Breaks a promise. Burden on middle class will be unbearable
Slash government spending drastically	The best option	The RDP and popular expectations seem to make this impossible
Borrow more	Not much	Financial markets will freak out
Increase fuel levy	Fuel taxes are still comparatively low	Inflationary and unpopular
Another levy of 3% to 5%	Transitional levy set a precedent	Looks dangerously like a permanent wealth tax
Presumptive tax on companies	Common overseas. Could garner R500m	May be unpopular with investors?
Capital gains tax	Common overseas	Hard to implement. Not big source of revenue
Sell unwanted state assets like land	Immediate revenue boost	Not much
Privatise (similar to above)	Pays off debt, means fewer costly bureaucrats	Unions don't like it. Regulatory problems

SA will not go cap in hand - Naidoo

49 Star 10/3/95

FOR the first time, statistics — now also incorporating the former homelands — reveal the extent and distribution of South Africans' poverty. Political Correspondent Esther Waugh looks at the Government's report to the United Nations Social Development Summit taking place in Copenhagen

The Government, says Minister without Portfolio Jay Naidoo is taking a "hopeful picture" to the summit.

Its report indeed spells out in heartbreaking detail the grim picture of poverty inherited by the democratic Government — but the Government also details its goals to eradicate poverty within a defined timetable.

The Government says its report "is an indication to the world and to the people of South Africa of the Government's commitment to move beyond apartheid and social integration to people-centred, people-driven, sustainable human development".

Naidoo points out that South Africa is part of the developing world, and as such is not asking for charity. Instead, it wants "coherent and co-ordinated" development.

"Given world history, it is clear that the industrialised nations have an obligation to those which are still developing. However, the developing nations cannot simply sit back and expect to be helped," the report states.

This is a principle South Africa has realised, with the Reconstruction and Development Programme being an attempt "to pull ourselves up by our own bootstraps".

Spelling out its vision of social development, the Government says a commitment is required from recipient countries "to democracy, open and transparent government, an end to corruption and nepotism, on-budget funding of all ongoing maintenance, major investment in human resource development, improved efficiency, proper financial systems and avoidance of showpiece projects".

But, South Africa will, on the other hand, caution industrialised countries at the summit not to pressure recipient countries for high cost capital projects or arms puchases.

They should rather ensure skill and technology transfers in all projects and the channelling of aid into programmes determined as priorities by the recipient governments.

Although the report details the most comprehensive statistics ever released by a South African government, Naidoo says more figures were needed for the Government's "attack on poverty".

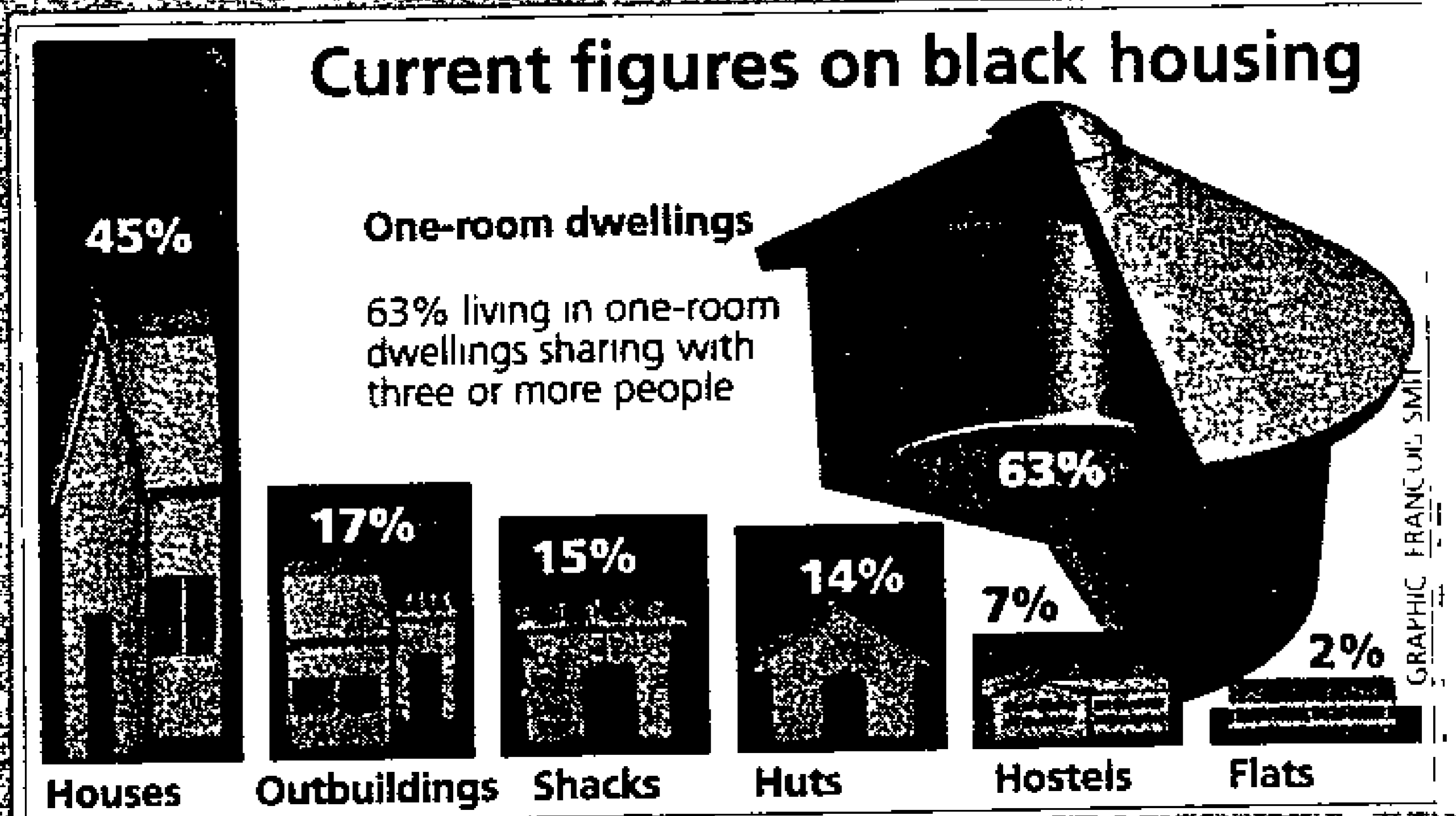
He says the Goverment is committed to obtain the best possible statistics on poverty levels in order to ensure that the correct resources are made available.

These statistics will provide the basis for the division of Government resources and will allow for more systematic planning.

Furthermore, these figures will allow for more accurate monitoring and evaluation of programmes combating poverty.

But, the Government still needs to measure aspects of South Africans' lives which have never been measured before.

Sadly, the real statistics can provide a picture more grim than the one presented in the report, says Naidoo.



From the report:

■ Government consumption expenditure is more than 20 percent of the Gross Domestic Product and interest repayments are more than 17% of the Budget.

■ The population has been estimated between 40-million and 43,5-million. The average population growth rate is at 2,26% per year while the estimated total fertility rate is 3,7%. Children under the age of 15 comprise more than 37% of the population.

■ Although South Africa is working towards the elimination of all forms of racial discrimination, the effects of past policies which advantaged whites above other race groups make it imperative that statistics continue to be collected and comparisons continue to be made along racial lines in order to monitor change and the success of efforts at social integration.

■ An estimated 76,1% of the population is classified as African, 12,8% as White, 8,5% as Coloured and 2,6% as Indian.

■ At least 48% of the population lives in urban areas.

■ The average per capita disposable income for whites is almost R8 000, R3 000 for Indians, R2 000 for Coloureds and R1 000 for Africans. Within all race groups, women-headed households are significantly poorer than the average household.

Figures indicate that the mean total household income for women-headed households was R1 141 a month compared to R2 089 for all households. Only 17% of all woman-headed households are single-person households.

■ The poverty gap — the size of income transfer required to bring the income of those with incomes below the poverty line up to the poverty line — amounted to R18 billion in 1993.

■ The majority of African households in urban households have access to piped water on their property but rural households rely on public taps, boreholes and rivers. Sanitation coverage is unsatisfactory, especially among Africans in semi-urban and rural areas. Sixteen percent have no access to sanitation, 7% to bucket or chemical toilets, 43% to pit latrines and 34% to flush toilets.

■ South Africa produces more than 50% of the electricity in Africa but only about 30% of the population has access to electricity. Wood accounts for more than 75 percent of fuel consumed in rural areas and 40% in peri-urban areas. It is estimated that 10-million tons of fuel wood are used in rural areas.

■ In 1993, 17% of the population was served by only 2% of the country's telephone lines. In general there is less than one telephone line per 100 people among Africans.

■ In 1993, 12,5 million were illiterate.

■ The infant mortality rate in 1991 was 49 per 1 000 live births. The official figure for Africans for 1994 is 52 per 1 000 live births.

The reported rate of teenage pregnancy is 330 per 1 000 women under the age of 19 years.

Forty percent of applications for abortion were successful in 1991 and approximately 71% of all legal abortions were performed on white women. An estimated 200 000 to 300 000 illegal abortions occurred each year.

■ An estimated 2,3-million South Africans suffer from malnutrition and an estimated 40 percent of this number are between six months and five years of age.

■ There is one doctor for every 700 people in metropolitan areas, one for every 1 900 in non-metropolitan areas, and in the former homelands there are between 10 000 and 30 000 people per doctor.

■ In 1993 the labour force numbered 14,8-million. Approximately 45% of the labour force is female.

South Africa's labour force is relatively young and has a low overall skill level. About 50% of the labour force has medium or high-level skills.

Finrand scrapped

ALIDE DASNOIS (49)
Deputy Business Editor

ARG 11/3/95

FINANCE Minister Chris Liebenberg scrapped the financial rand last night in a move to make South Africa more attractive to foreign investors.

This means that when the financial markets open on Monday, South Africa will have a single currency, the rand.

Foreigners will be able to move their money freely into and out of the country.

The value of the rand is likely to fall slightly once the protection of the finrand is removed. But, economists interviewed by Weekend Argus yesterday agreed with Mr Liebenberg that the currency would soon settle down.

Board of Executors economist Rob Lee and Nedcor economist Dennis Dykes predicted the rand ,would hover around R3,70 to the dollar.

Yesterday the commercial rand closed at R3,65 to the dollar and the finrand at R3,74.

A lower value for the rand means imports are more expensive, but it is good news for exporters, because the price of their goods is lower for foreign buyers.

Mr Liebenberg said the abolition of the finrand would remove an obstacle to new foreign investment South Africa.

● See Business Section.

But, other exchange controls, those applicable to South African residents, would not be scrapped yet, he said.

The financial rand was introduced with other exchange controls in September 1985 when the economy was hit by huge outflows of foreign capital.

Foreign banks pulled their money out following the refusal of President P W Botha to introduce political reforms.

Unable to repay debts, the South African authorities introduced a moratorium on debt repayments and slammed controls on the currency. Non-residents were forced to keep money in the country in the form of finrand balances and could only invest in South Africa through the financial rand.

Residents were stopped from sending money out.

But, since the elections, the country's balance sheet with the rest of the world has im-

■ To page 3

No finrand is good news for exporters

(49) ARG 11/3/95

■ From page 1

proved dramatically, debt repayments have been renegociated and money is flowing back into South Africa.

At the same time, the difference between the commercial and the financial rand has narrowed.

Mr Liebenberg said the government and the Reserve Bank had decided that the country's financial situation had improved suficiently to warrant the abolition of the finrand.

The decision will be seen by potential investors from abroad as a vote of confidence by the government in the economic future of South Africa. It is likely to be followed up in Wednesday's Budget by other "investor-friendly" measures designed to boost foreign interest in the country's economy.

A new look for Budget

(49) ST 12/3/95

By EDYTH BULBRING: Political Correspondent

WEDNESDAY'S Budget holds two certainties — a cut in defence spending and the scrapping of discriminatory taxation on married women.

Sources in the Department of Finance said the only significant cut was in the defence budget. The housing, water affairs and forestry budgets would be noticeably increased, while health and education would largely remain the same.

There would also be a negligible increase in real terms in the safety and security budget.

The deficit before borrowing — the difference between the amount government earns from taxes and the amount it spends — would be lower than the 6,6 percent of GDP forecast in last year's Budget, but still above six percent.

Parliamentary joint finance committee chairman Gill Marcus said this week the constraints and obstacles the government has had to face should be considered when the Budget was assessed next week.

She said the Budget could differ substantially in format from previous years. It could contain a national breakdown for each department and then separate allocations under each vote for all nine provinces.

The R5-billion allocated to the Reconstruction and Development Programme, in addition to R1-billion for foreign aid, could also be broken down under the separate departmental votes.

The government had not approached the Budget along the lines of starting from a zero basis and working to justify each item of expenditure. She said this approach would be adopted in next year's Budget and would be welcomed by the joint finance committee.

Next year would also see an attempt to change the way the Budget was dealt with by the parliamentary standing committees, which at present have no power to change it after its presentation.

An overview function for the parliamentary committees to ensure the departments were providing value for money was important and the committees would look at measures this year to ensure this occurred.

It was also critical that the finance committee be able to examine revenue and expenditure thoroughly, she said.

Moves were also in the pipeline to include a member of each portfolio committee on the Budget function committees so they could be involved in the preparation of their departmental budgets.

Ms Marcus said the emphasis on the allocation of funds to the departments was on value for money. There were some departments, such as education, which received a lion's share, but showed dismal results.

Throwing money at education would not help, as the department first had to work out why the amount at its disposal was not producing results.

Democratic Party finance spokesman Ken Andrew said a key element of the Budget would be its adherence to fiscal discipline.

He said the big news of the day would be where the government planned to get the extra money needed to do away with the tax discrimination on married women.

Booming growth saves the Budget

(49)

ST(BT)12/3/95

By SVEN LUNSCHE

FINANCE Minister Chris Liebenberg can rely on the economy to solve his most pressing Budget problem — how to reduce the deficit without resorting to tax hikes that could seriously damage investor confidence.

The economy is showing strong signs of a sustained recovery, and growth this year should be well ahead of last year's 2,3% rise in gross domestic product (see adjacent story).

Markets are awaiting the first Budget of the Government of National Unity with some trepidation. Many economists are concerned that the need to re-prioritise spending could see political considerations outweigh economic common sense.

Such fears are probably unfounded. The government, from President Nelson Mandela downwards, appears strongly committed to fiscal rectitude.

Above all, though, the government is receiving a considerable shot in the arm from an economy which has turned just in time. In the outgoing 1994/5 fiscal year, tax revenues increased by about 16,2% against a budgeted 11,2%. This follows higher tax collections on the back of stronger corporate earnings and improved consumer spending.

Can we expect a repeat performance in 1995/6? The

CHRIS LIEBENBERG

arithmetic is simple: expenditure in the outgoing 1994/5 fiscal year should be about R138,8-billion and revenue R110,7-billion, giving a deficit of R28-billion (equivalent to 6,3% of GDP).

This is welcome news as many economists doubted early in the fiscal year that even the budgeted 6,6% would be attainable.

But it is only the first step. The financial markets are expecting the government to bring down the deficit even further in 1995/6, with 6% regarded as the absolute ceiling. Not only is a low deficit an essential principle of solid economic management, it is also viewed as the final step in enabling the government to scrap the financial rand.

So how does the government set about achieving a deficit of 6%, or perhaps even less?

On the assumption that spending in 1995/6 will increase to R150-billion — just over 10% up on 1994/5 — revenue will have to increase by about R10-billion to R121-billion.

Easy enough — at existing tax rates and assuming economic growth of 3%, revenue will rise by about R12-billion to R123-billion and the deficit should fall to 5,5% of expected GDP.

Unfortunately it is not that simple. Serious question are already being posed about government's ability to hold expenditure growth to 10%. The Reconstruction and Development Fund alone will double to R5-billion.

Add to this the continued integration of homeland bureaucracies at Pretoria salary levels, job security agreements and increased demands on social economic delivery, and the target looks very doubtful.

On the revenue front the government will lose the income from the transition levy and, more importantly, another R2,5-billion to R3-billion will go once all taxpayers are taxed at the same rate.

Mr Liebenberg has hinted that he might introduce nondiscriminatory tax rates gradually, but this is not only undesirable but also unconstitutional, as the Katz commission into taxation concluded.

So suddenly the initial R27-billion deficit has widened significantly and instinctively the government is looking for ways to raise additional taxes. This was part of the brief to Professor Michael Katz, head of the Katz commission, but some of his proposals have met with stiff resistance, particularly higher taxes on lower income earners and capping pension funds.

With time and options running out, Mr Liebenberg should remind himself that the economy is giving him considerable room to manoeuvre.

The SA Chamber of Commerce estimates that if the economy expands by about 3,5% this year it should generate an extra R3,8-billion in taxes. The bulk of this will come from indirect taxes, mainly VAT, which reaches most sectors of the economy.

There are other factors playing into Mr Liebenberg's hands, notably the urgency with which all parties are treating Inland Revenue's restructuring. Professor Katz estimates that an efficient collection system could raise an extra R5-billion a year.

The government also looks set to carry over R3,5-billion of unspent funds into 1995/6.

Finally, while higher corporate and personal tax rates have effectively been ruled out, the government is likely to implement an array of alternative taxes.

These include a higher fuel levy, VAT on financial services, a presumptive tax on corporate assets and increased excise duties, which again could raise somewhere between R2-billion and R3-billion.

Confident SA ditches its financial rand

(49)

ST(BT) 12/3/95

By SVEN LUNSCHE

The Government of National Unity has finally exposed itself to the vagaries of international financial markets.

With effect from tomorrow the country will operate without the protective shield of the financial rand.

It is the most significant economic decision taken by President Nelson Mandela's government so far, but one that illustrates the Government of National Unity's confidence in the economic course it has chosen.

However, the GNU shied away from abolishing all exchange restrictions, particularly those prohibiting South Africans from investing freely overseas.

In his announcement on Friday evening, Finance Minister Chris Liebenberg said the step should be seen "as evidence of our resolve to pursue sound macro-economic policies that will preserve overall financial stability, create a friendly environment for foreign investment and promote sustainable economic growth".

The move also illustrates that the GNU will table a Budget this Wednesday which will meet with the approval of financial markets and foreign investors.

"It means that the deficit before borrowing is likely to be below 6% for 1995/6 and that the Budget generally will reinforce sound fiscal principles and discipline," says Standard Bank economist Nico Czypionka.

"If the government did not believe it could sustain a stable unitary rand it would not have abolished the finrand. They did not want to take any risks," he says.

In a snap survey among foreign exchange dealers soon after the announcement, Reuters found that the unitary rand was expected to open at R3,70 to R3,75 to the US dollar.

This is in line with the R3,75 closing level of the financial rand on Friday but about 10c weaker than the commercial rand's close of R3,64 to the US currency.

In anticipation of the announcement, foreign exchange dealers on Friday drove the discount between the financial and the commerical rand to a record low of 2,55%.

The impact on financial markets is also expected to be limited. "It will have more of a psychological effect than a real effect. The whole thing has been preempted over the past couple of weeks," said David Meades, director of stockbroking firm Meades de Klerk.

Mr Liebenberg said it would not be necessary to close the foreign exchange market or other exchanges tomorrow.

If necessary Reserve Bank Governor Dr Chris Stals would issue a further statement on arrangements for the introduction of a unitary currency, Mr Liebenberg said.

Dr Stals has been widely credited with establishing the enabling framework for the abolition.

Just over a month ago he gave Mr Liebenberg the "monetary go-ahead". He built up the level of the foreign exchange reserves over the past 10 months from R7-billion to R12,4-billion in February.

In addition, said Mr Liebenberg, the government had established foreign credit lines of about R16-billion. About R13-billion was presently unused.

If the unitary rand depreciates markedly, the government can fall back on these credit lines to meet its international obligations.

The Reserve Bank also raised interest rates last month in part to strenthen the reserves in anticipation of the finrand's elimination.

In conjunction with the move, Mr Liebenberg also announced that the debt-for-equity swap facility — applying to the debt rescheduling arrangements with foreign creditors in 1993 — was being suspended.

The financial rand was introduced in September 1985 to stop large capital outflows following P W Botha's Rubicon speech.

Since then its widely fluctuating rate has mirrored foreign investor confidence in the economy and the political environment.

Sweet 'n sour Budget

Sowetan 15/3/95 (49)

By Mzimkulu Malunga

THE BUDGET TO BE TABLED in Parliament today promises to be a concerted effort to break with the past's spending priorities and lay the foundations for future State expenditure.

Finance Minister Chris Liebenberg is faced with the challenge of re-arranging the spending priorities of the Government of National Unity so as to be in line with the Reconstruction and Development Programme.

While the present emphasis of Government is on the re-distribution of resources, the legacy of the past may continue to influence the new Budget simply because planning for it started as far back as the end of 1993.

The Government would be wise with this Budget to begin to address critical issues such as health, education, housing and other areas of social spending while adhering to strict fiscal discipline.

Expenditure is expected to increase by about 10 percent this year. With this nominal increase, the Government has to address the acute shortage of classrooms and teachers; revitalise health services and infrastructure and start delivering on its housing promises.

The RDP fund, which started with R2,5 billion last year from savings made by government departments, is expected to be doubled this year.

Analysts expect that most of the money from the RDP fund will go into housing projects.

It is expected, also, that the funding of provinces will be based on structures and projects started by the previous government. These projects may have to run their course.

The chairman on of the Government's finance standing committee, Ms Gill Marcus, said there has been "tremendous achievement" in laying the foundations for the future.

The critical areas of the Budget, she said, will be finding new sources of revenue, especially since the Government is likely to scrap gender discrimination in personal taxation.

Old Mutual's chief economist Mr Dave Mohr said duties on luxury goods like liquor and cigarettes are likely to be increased substantially to make up for revenue losses.

Apart from smokers and drinkers, another group likely to be hit, to cover the incurred revenue loss, is the high income group. This group's income tax is expected to increase by two percentage points from 43 to 45 [illegible] in line with the Katz Tax Commission's recommendations, said Mohr.

Mohr expects the rate of VAT to remain unchanged. He said the difference between projected revenue and expenditure — commonly known as the fiscal deficit — could decline by half percent to about 5.8 percent of the GDP — how much the country actually produces in any particular year.

The Democratic Party's spokesman on finance, Mr Ken Andrew, said he expects the defence budget to be a cut while housing allocations could almost double. Andrew expected health and education budget allocations to increase by 10 percent.

● See also page 6

Half-a-million jobs lost in the recession but . . .

We've stopped getting poorer

(49) STAR 15/3/95

BY DEREK TOMMEY

The Reserve Bank has good news for South Africans in its latest quarterly bulletin: We have stopped getting poorer.

Last year was the first since 1988 that growth in real gross domestic product exceeded the population growth.

Between 1989 and 1992 South Africa's became 14,5% poorer, the Reserve Bank reports. But real GNP a head rose by 1% last year to reach an average of R6 650 a person. Helping was a 3,5% annualised rise in the fourth quarter which lifted year-end real GNP to around R6 700 a year.

Whether or not South Africans realised they were getting fractionally richer last year, they nonetheless went on a major spending spree financed mainly by credit.

Real private consumption expenditure grew steadily throughout the year. From an annualised rate of 2% in the first quarter, it rose to 3% in the second quarter, 3,5% in the third quarter and accelerated further to 4% in the fourth quarter.

The overall increase in private spending last year was 2,5%.

This exceeded the 1,5% growth in real personal disposable income which meant that the difference had come from bank credit.

The Reserve Bank estimates that household borrowing grew by R17,9 billion or 14,7% last year.

Mortgage advances accounted for the major portion, amounting to R14,5 billion or 18,1% of the total.

Instalment sale credit rose by R1,8 billion or 15,3%, while credit card finance grew by R1,1 billion or 30,1%. "Other loans and advances" rose by R1,9 billion or 25%.

Bank overdrafts to households dropped by R1,5 billion or 20,1%, partly on account of a shift to flexible mortgage finance schemes.

It reports there was a small 0,6% annualised improvement in employment in the second quarter last year which was mainly the result of an increase in public sector workers employed for the election.

The private sector workforce was still contracting in the second quarter of last year — the latst quarter for which figures are available.

The Reserve Bank says the small rise in employment must be viewed against the loss of almost 500 000 jobs during the recession and the current high unemployment in the country.

In fact, the number of registered unemployment is still rising, having edged up to 292 000 in November, last year.

The rate of pay increases declined quite significantly in 1993, but started accelerating again in the first half of last year, boosted by sharp increases in public service remuneration.

The borrowing requirement of the Exchequer before debt repayments, plus the large discount on new government stock issues, led to an increase in government debt last year from R192,1 billion to R239,9 billion.

Some R14,2 billion came from the former TBVC countries and self-government states.

However, as a ratio of gross domestic product, the total government debt has now increased sharply from 37,2% from fical 1990-91 to 48,7% at the end of fiscal 1993-94 to 55,4% at the end of December.

"This is a clear warning signal that the present large deficits on the Exchequer Account are not sustainable and must be reduced as quickly as possible," says the Reserve Bank.

'Prudent, not too liberal'

(49) ARG 15/3/95

CLIVE SAWYER
Political Correspondent

THE budget announced today is based on conservative estimates of economic growth and inflation.

"We decided to be prudent rather than too liberal in our expectations," said finance director-general Estian Calitz.

He said an economic growth rate of about 2,75 percent had been anticipated. Drafters of the budget had based their calculatons on inflation averaging out by the end of year at between nine and 10 percent.

We're getting richer

(49)

☐ From Page 15

CT (BR) 15/3/95

second quarter last year, mainly the result of an increase in public sector workers employed for the election.

The private sector workforce was still contracting in the second quarter of last year – the last quarter for which figures are available.

The Bank says the small rise in employment must be viewed against the loss of almost 500 000 jobs during the recession and the current high rate of unemployment.

The number of registered unemployed is still rising, having edged up to 292 000 in November.

The rate of pay increases declined significantly in 1993, but started accelerating again in the first half of last year, boosted by sharp increases in public service remuneration.

After rising year-on-year by 13,6 percent, 8,8 percent, 9,6 percent and 5,5 percent respectively in the four quarters of 1993, it rose to 8,9 percent in the first quarter of 1994 and 20,5 percent in the second quarter.

This higher second quarter rate was caused by adjustments in public sector remuneration. Annual and special bonuses were paid to certain categories of public service workers and special allowances were paid to some workers in the election period.

Quarterly year-on-year wage increases in the private sector ranged from 10,7 percent to 12,6 percent in 1993 and amounted to 9,4 percent in the first quarter of last year and 10,3 percent in the second quarter.

There was a major swing of around R20 billion in the capital account last year. After a net outflow of R15 billion in 1993, there was a net inflow of R5,2 billion last year. This was after repaying R5,9 billion in foreign long-term loans.

This helped to offset the R2, billion deficit on the current account – the first since 1984.

The deficit was primarily the result of increased imports, but the Bank does not appear particularly concerned about this development.

It says the rise in the marginal propensity to import was not abnormally high and was actually lower than the average ratio for the preceding 10 years.

Although the balance of payments improved, the exchange rate of the rand continued to sink. On a weighted average basis it dropped by 8,5 percent in 1994 after falling by 12,1 percent in 1993. And in the first seven weeks of this year as a result of speculation concerning the ending of the financial rand, it fell a further 3,5 percent.

The sharp depreciation in the rand together with rising oil prices, disruptions in the supply of agricultural produce and a strong domestic demand caused a temporary reversal in the downward movement or producer and consumer price inflation.

However, in the fourth quarter of last year, some of these price-raising forces started to dissipate and the quarter-to-quarter rise in the production and consumer price index declined sharply.

The borrowing requirement of the Exchequer before debt repayments, plus the large discount on new government stock issues, led to an increase in government debt last year from R192,1 billion to R239,9 billion.

Some R14,2 billion came from the former TBVC countries and self-governing states.

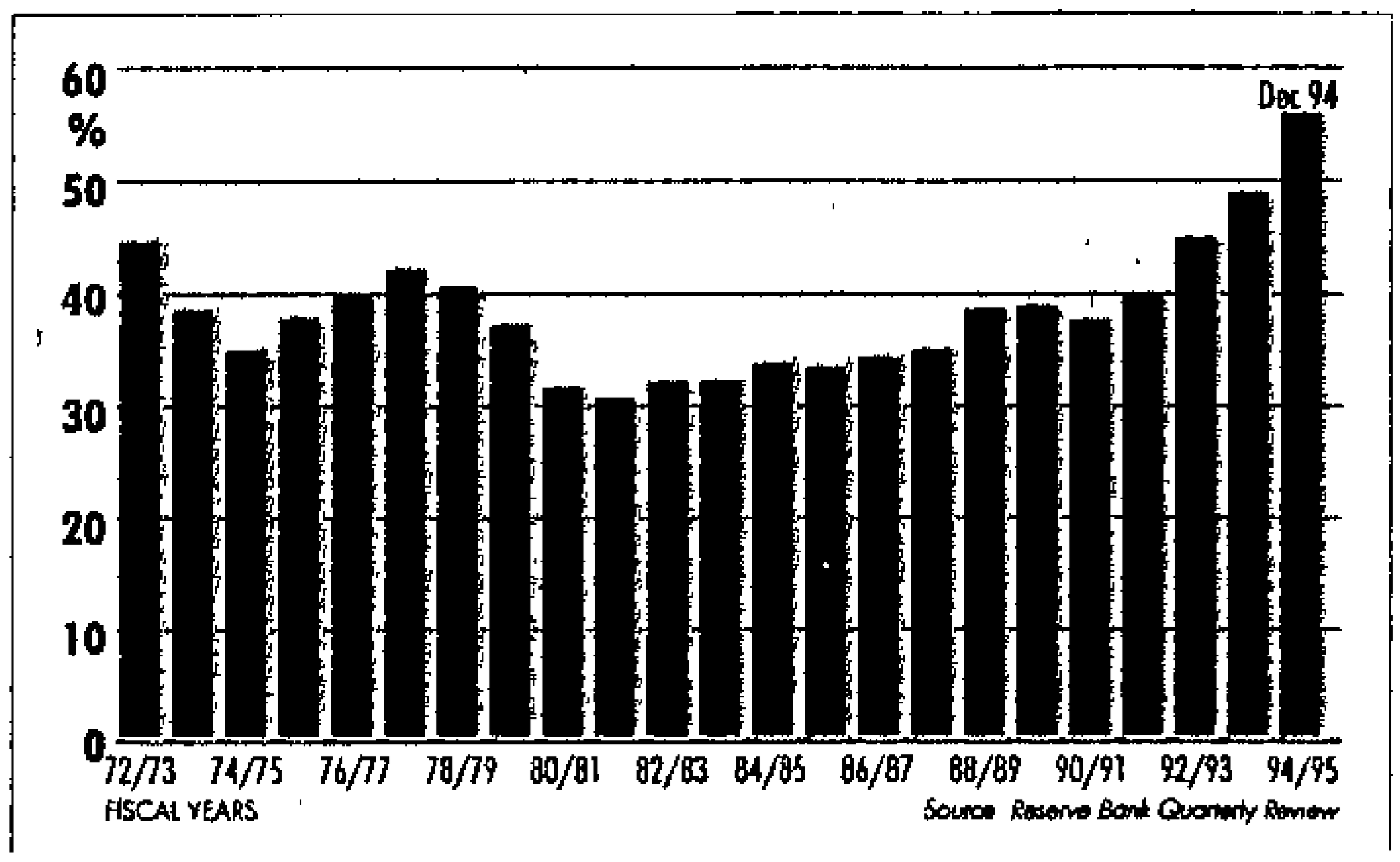
However, as a ratio of gross domestic product, the total government debt has now increased sharply from 37,2 percent from fiscal 1990-91 to 48,7 percent at the end of fiscal 1993–94 to 55,4 percent at the end of last December.

We're getting richer! But don't pop the cork just yet

CT(BR) 15/3/95 (49)

By Derek Tommey

Total government debt as percentage of GDP



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This exceeded the 1,5 percent growth in real personal disposable income which meant that the difference came from bank credit.

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"Other loans and advances" rose by R1,9 billion or 25 percent.

Bank overdrafts to households dropped by R1,5 billion or 20,1 percent, partly on account of a shift to flexible mortgage finance schemes.

The bank reports there was a small (0,6 percent) annualised improvement in employment in the

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Drive-up ATMs a success, says Nedbank

By Charlotte Mathews

Blow for middle-income earners

CT 16/3/95 (49)

AUDREY D'ANGELO
BUSINESS EDITOR

THE Budget will encourage foreign investors and small business, but does nothing to relieve bracket creep and hits middle income taxpayers as well as the rich, tax accountants said yesterday.

They pointed out it would no longer make sense to time marriages for February and divorces and retirements for March to reap the maximum tax advantage. And they expressed disappointment that the 45% marginal rate of tax will start at R80 000 a year.

"This may be rich in comparison with the majority but it does not in fact leave much after deductions, bond repayments and the usual expenses," said Mr Colin Wolfsohn of Kessel Feinstein.

Ms Debbie Tickle of KPMG Aiken & Peat pointed out that in some cases people earning nearly R80 000 a year would be worse off if they accepted a pay increase.

"But the budget does level the playing field for unmarried people and married women."

Mr Walter Scheffler, President of the Afrikaanse Handelsinstituut, welcomed the fiscal discipline underlying the Budget. "We are heartened by the fact that further once-off measures like the transition levy have been avoided."

Ms Jacqui Segal of Roup-Slot attorneys said Mr Liebenberg had sent a clear message that taxpayers must get their house in order before the next Budget. It was essential that they organise their tax, investment and estate planning so that they would not be "open to future attack by the Receiver of Revenue."

MIXED NEWS: Mr Colin Wolfsohn of Kessel Feinstein, Ms Debbie Tickle of KPMG Aiken & Peat and Mr Johan Malherbe of Arthur Andersen discuss the implications of the Budget. *PICTURE BENNY GOOL*

Tax measures to woo investors

BD 16/3/95 (49)

Budget hits deficit target

● LIEBENBERG

CAPE TOWN — Finance Minister Chris Liebenberg yesterday slashed about R2bn off the personal tax bill in a Budget which seemed likely to boost the economy while achieving a slight reduction in the deficit.

Presenting the 1995/96 Budget, he set out to improve SA's investment climate but placed a larger burden on middle- and high-income earners who will have to help finance the revenue shortfalls incurred with the removal of gender discrimination in tax rates.

Liebenberg also announced significant reallocation of expenditure towards social spending at the expense of defence, public service salaries and economic services.

He was able to increase social spending without significantly increasing real government expenditure. Overall spending was budgeted to be R153,2bn — only 9,5% up on the previous fiscal year. With revenue budgeted to rise 11,3% to R124,2bn, the deficit would be R29,1bn or 5,8% of GDP. This was slightly down from the 1994/95 revised figure of 6,4%.

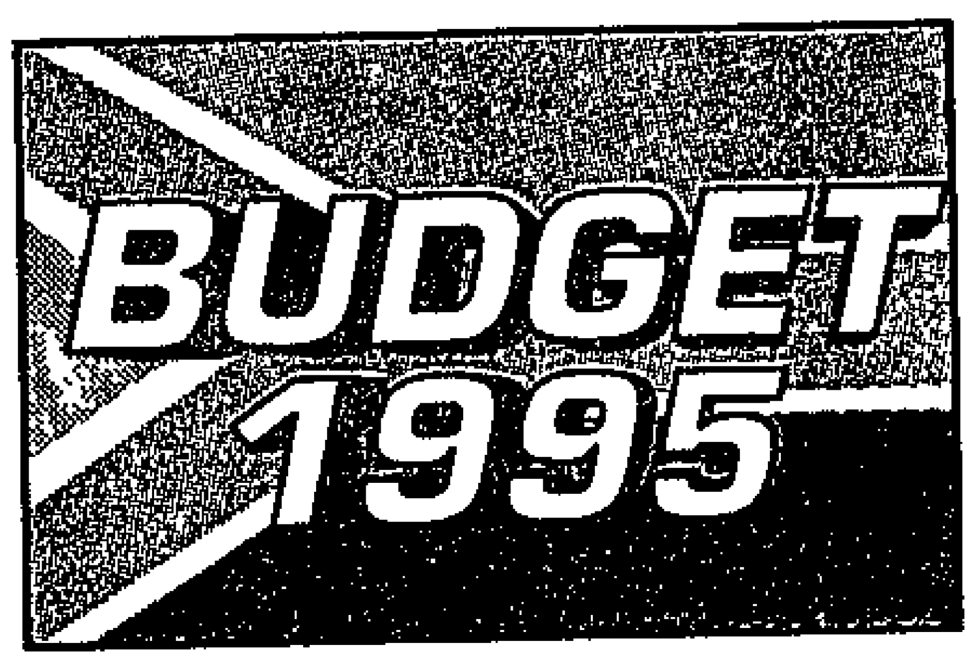
Liebenberg told a news briefing that the Budget had achieved "constitutionality" through the removal of gender discrimination, and restored investor confidence with the scrapping of non-resident shareholders' tax. The abolition of the tax on October 1 would cost the fiscus R235m in revenue.

The move to boost foreign investor confidence followed the scrapping of the financial rand and foreigners had been presented with a "package".

He said confidence and credibility could

TIM COHEN

also be cited as achievements, with a Budget which would not significantly increase inflation and would keep corporate taxes down. The Budget was conservative in its assumptions on inflation and growth, and was based on a 2,75% real increase in GDP for the fiscal year.



The 2c fuel levy increase would not be significantly inflationary and the VAT rate would be held at its existing level.

Liebenberg conceded that it was questionable whether the Budget would boost the level of domestic savings as low-income earners were unlikely to save the extra income from tax relief, but said this would be balanced to some extent by a decrease in government dissaving.

Deputy Finance Minister Alex Erwin said the Budget had achieved a "quite significant reprioritisation on the expenditure side" which had been achieved within existing parameters.

In his Budget speech, Liebenberg said social services such as housing, education and health had continued to receive higher increases in allocations of funds than services such as defence.

In the consolidated budgets of central government and the provinces, social services accounted for 57,4% of projected expenditure, net of interest and expenditure not yet classified. This was a substantial increase on the comparable 1994/95 figure of 52,8%.

The most dramatic increase was in housing and urban upgrading which more than doubled from 1,3% (for housing alone) of the total in 1994/95 to 3,4% for the two categories combined in 1995/96.

He also announced R600m would be spent on capital projects, to be financed from the proceeds of selling oil stockpiles. A further R600m from oil sales would be used to reduce state debt.

Erwin argued that although the Budget increased the tax burden on middle- and high-income earners, they would be the first to benefit from higher economic growth.

Liebenberg said the changes to the tax

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BUDGET

(49) BD 16/3/95

☐ From Page 1

rate structure would result in people who earned less than R30 000 a year benefiting or not being worse off, except for single earners with five or more children. Households with two earners would benefit substantially, irrespective of income or number of children.

The effect of these changes was an estimated revenue loss of R2bn, he said.

As enhanced tax administration translated into improved tax collections, the lowering of personal income tax rates would have the highest priority in terms of any future tax relief, Liebenberg said.

Liebenberg bases juggling act on a growing economy

CT(BR)16/03/95(49)

BY BRUCE CAMERON
POLITICAL EDITOR

Finance Minister Chris Liebenberg is not unhappy that some people view his Budget as expansionary, while others see it as restrictive.

There is no doubt in any quarter that Liebenberg has based his Budget on the premise that the economy is growing — and that he will avoid any measures that could retard that growth.

Announcing the Budget in parliament yesterday, he conservatively predicted an increase in gross domestic product of at least 2,75 percent this year, and was confident the economic upswing was now "fairly well established and broadly based".

"With the exception of the agricultural sector, influenced by adverse climatic conditions, and the gold mining industry, affected by a decline in the average grade of ore mined and other technical difficulties, all other sectors of the economy are on an expansionary route."

Liebenberg said that not only would a tight rein be kept on government spending, limiting overall expenditure to 9,5 percent above last year, but firm monetary policy would also be maintained.

He said relatively restrictive monetary policy was needed to protect the balance of payments and to avoid any escalation in the inflation rate.

Inflation was still relatively high compared to most industrial countries, he said, and discipline was "essential to maintain the overall financial stability needed to support sustainable economic growth in the medium and longer term."

The budget for the next 12 months was presented with evidence that the economy is "in a relatively strong recovery phase".

"Care must be taken, however, not to drain the economy of vital ingredients needed for the continuation of the expansion and in further acceleration of the growth rate in the years to come."

He confirmed the growth rate for the past year was 2,5 percent, and predicted a "faster rate" for this year.

Total gross domestic expenditure rose by 6,4 percent last year with all major demand components contributing.

Liebenberg said a 7 percent investment growth rate was particularly good news.

The R2,1 billion deficit on the current account of the balance of payments should not raise concern given that South Africa did not face economic isolation from global money and capital markets, and given a net capital inflow of R5,2 billion for 1994.

These factors had led to a more stable exchange rate for the rand, which had depreciated in 1994 by 8,4 percent against the basket of currencies of South Africa's main trading partners, Liebenberg added.

The net inflow of capital added to domestic liquidity, making it easier for banks to meet an increased demand for funds, mainly from the private sector.

State assets restructured

BY BRUCE CAMERON

Privatisation is still on the government agenda, but there is no indication of when any sale of state assets could start.

Labelled "restructuring of state assets", Finance Minister Chris Liebenberg dealt briefly with the issue in presenting his Budget. He told parliament the list of state assets had now been completed but he gave no indication of their value.

Indications are the state could now be considering splitting the proceeds from asset sales between reducing tax debt and paying for RDP projects.

Liebenberg announced proceeds from the sale of strategic oil reserves of R1,2 billion would be equally split between the RDP and reducing the debt burden.

Liebenberg said the restructuring of state assets "can unlock resources currently underutilised and should contribute to the empowerment of communities".

"The sale of particular state assets would allow certain state parastatals to be restructured for growth, facilitate the implementation of the RDP and allow for public debt and associated interest costs to be reduced."

Your slice of debt burden

BY BRUCE CAMERON

Every person in the country is in debt to the tune of at least R6 150 — and most of them don't know it.

This is the debt that this and previous governments have incurred on behalf of South Africa's people.

If averaged out, each person pays R715,10 in interest on this debt per year.

However, only some people, namely the taxpayers, are bearing the load. For almost every R5 paid in tax, one rand goes to pay the interest on the debt.

The state owes nearly R250 billion, and total interest payments this year are expected to be R28,6 billion — 18,6 percent of estimated state expenditure.

REACTION IN BRIEF

(49) CT (BR) 16/3/95

Companies hit elsewhere:

Company tax was left unchanged in the Budget, but companies would be affected by other measures such as a harder line on tax avoidance, the treatment of interest on financial instruments, abolition of non-resident shareholders' tax and extension of the date for the third provisional tax payment, company tax experts said yesterday. They expressed some surprise that no changes were made to Secondary Tax on Companies (STC), first introduced two years ago at 15 percent and raised last year to 25 percent.

NAAMSA satisfied: The overall impact of the Budget on the motor industry should prove to be mildly positive, National Association of Automobile Manufactures of South Africa (Naamsa) president John Newbury said yesterday. As expected, there had been no increase in the rate of VAT. The increases in excise duties on a variety of products as well as the 2c a litre increase in the fuel levy — spread over the forthcoming two months — should not have any negative effect on overall demand patterns.

Tobacco industry complains: The tobacco industry described the increased taxes on tobacco products as "excessive and exorbitant", while SA Breweries said the increased taxes on spirits and beer were in line with expectations. The Tobacco Institute of Southern Africa said the tax increase on tobacco products would lead to job losses in rural and urban areas, and ran directly against the government's stated aim of job creation. The Tobacco Board described the tax increases as "extremely discriminatory" It said one third of the country's adults were smokers, who already contributed more than R1,8 billion to the state. Rembrandt SA said because of the multiplying effect of VAT and trade margins, the manufacturers were obliged to absorb a portion of the increase to limit it to 20c per packet of 20 cigarettes in the retail trade.

Homeland tax laws change:

Finance Minister Chris Liebenberg proposed that taxation laws of Ciskei, Transkei and Bophuthatswana be repealed with effect from March 1 this year and new uniform PAYE tables be issued to tax at rates proposed in the Budget. Ernst & Young tax partner Roger Brammel said that under the old rules, a married person with no children earning R85 000 annually would have paid R24 625 in tax. In the tax year to end-February 1996 a person with an annual taxable income of R85 000 after rebates and including the 1,67 percent transition levy, would pay R26 310 in tax — R1 685 more

Pros, cons highlighted by parties

(49) Star 16/3/95

■ BY PATRICK BULGER
POLITICAL CORRESPONDENT

Cape Town — The Government of National Unity had in its first Budget achieved what the previous government could not get right in 40 years, the ANC's secretary-general Cyril Ramaphosa said yesterday.

Reacting to Finance Minister Chris Liebenberg's R153-billion Budget, the ANC said the 1995/96 Budget had achieved a "significant degree of re-prioritisation", the elimination of gender discrimination and a reduction of the Budget deficit.

The Democratic Party said the Budget was "most disappointing". DP finance spokesman Ken Andrew said the Budget deficit remained too high and that the Government continued to borrow money for consumption expenditure. Once again middle-income earners would be "hammered" by the increase to 45% of the top marginal rate for people earning over R80 000.

Freedom Front finance spokesman Piet Gous said it was a "well constructed and disciplined budget" which would engender confidence among foreign investors.

However, the R450-million set aside for drought relief was "too little", while the increase in the fuel levy was inflationary.

National Party finance spokesman Theo Alant said South Africans could look back with pride on the economic achievements of the past year.

However, Alant criticised the increase in the marginal rate of tax to 45%. The NP wanted this rate down to 40%.

Consumption expenditure would be boosted at the cost of personal savings, he said.

Ups and downs of government spending (49)

Cape Town — The Star considers the major shifts in spending from the 1994/95 Budget to the Government of National Unity's 1995/96 offering:

Up:

- Police — from 6,9 to 7,5% of total spending.
- Pre-primary, primary and secondary education — from 18,3 to 18,5%.
- Health services — from 10,5 to 11%.
- Social security and welfare — from 9,2 to 10,8%.
- Housing and related services — from 1,1 to 2,7%.

Down:

- Transport and communication — from 4,5 to 4,1%.
- Agriculture, forestry and fishing — from 2,5 to 1,8%.
- General government services — from 8,9 to 6,9%.
- Defence — from 8,7 to 7,2%.

— Own Correspondent.

6 Star 16/3/95

Erwin defends first Budget

(49)

PRICE stability, affordable user charges and an improvement in the quality of government spending must underpin the economic recovery, Deputy Finance Minister Mr Alec Erwin said yesterday.

Defending the first Budget drafted and presented by President Nelson Mandela's post-apartheid government on Wednesday, Mr Erwin told a parliamentary finance committee it was part of fundamental economic reform.

Mr Erwin, a member of the ANC and SACP, urged parliamentarians disappointed by the cautious shift of resources to impoverished blacks to support a programme of "micro economic reform".

"The macro framework is the enabling framework — if we get that wrong, everything goes wrong.

"But the macro framework depends on the micro reform framework and our strategy is that in trade, basic needs, the labour market and public service restructuring two things must be happening —fiscal discipline and stable prices so that real incomes improve."

Mr Erwin said he had been disappointed by ANC criticism that the R153 billion budget for fiscal 1995/96 lacked a strategy for growth and social recovery.

"Some very important aspects distinguish this strategy from a conventional Thatcherite or IMF formula.

"The major distinction is the thrust for micro reform, he told the committee.

Mr Erwin warned that a strategy allowing the deficit before borrowing to rise from the budgeted 5,8% of gross domestic product towards 7,5% would drive the country into a debt trap, forcing it to borrow to meet its interest commitments.

"Don't be blinded by the current growth, it's cyclical at the moment. If we want to grow at three or four percent for 10 years, fundamental structural changes have to take place in this economy ... we can't finance health care, education, old-age care, child care if we run into the debt trap," he said. — Reuter

US companies welcome Budget

(49)

JOHANNEBURG: The American Chamber of Commerce said US companies operating in South Africa viewed the 1995/6 Budget as positive, especially in the light of the scrapping of the financial rand.

The removal of more impediments to foreign trade and investment was "most welcome", president Mr William Wallory said.

"It is a clear message to the international world of commerce that South Africa means business."

CT 16/3/95

Rising status costs SA more

(49)

POLITICAL STAFF

CT 16/3/95

SOUTH AFRICA's new international status and credibility is costing the South African taxpayer more through the increase of diplomatic missions, affiliation fees for international bodies and the promotion of trade.

This was emphasised in yesterday's budget in the Foreign Affairs Vote when the provision for foreign relations went over R1bn for the first time.

During the 1995/6 financial year R1 038,9m will be spent on promoting foreign relations, compared to R917,2m spent in 1994/5.

Relations with international organisations will cost R131,1m, well up on R49,9m of 1994/5, and includes R34,1m for permanent representatives.

New Budget to cater for RDP

Sowetan 16/3/95 (49)

By Ismail Lagardien
Political Correspondent

THE priorities of the Reconstruction and Development Programme run like a precious thread through the Budget tabled in Parliament yesterday.

While the RDP is only a thread in the new Budget, the ultimate objective is to overhaul the expenditure planning process and to bring policy formulation, programme development, planning, budgeting and monitoring into an integrated system.

This integration is expected to "align Government spending with RDP goals and allow performance in meeting RDP objectives to be measured". This may come to fruition by next year in the 1996-97 Budget.

In the Budget Review, director general of finance Mr Estian Calitz explains that planning and budgetary reforms will eventually be directed towards more effective and efficient spending of public funds by all public authorities.

"The RDP Fund will continue to serve as a channel which guides government spending towards the articulated goals of the Government of National Unity," Calitz says.

In last year's Budget R2,5 billion was allocated to the RDP. This is expected to be increased by the same amount each year to an annual allocation of R12,5 billion by 1999.

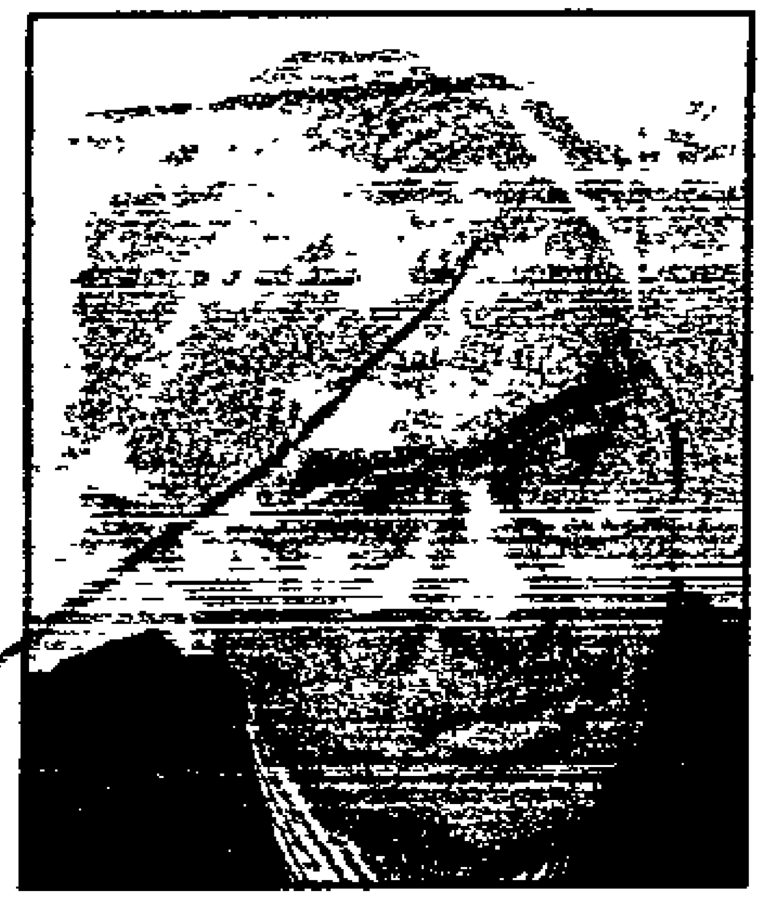
The RDP Fund will finance the Presidential Lead Projects and Departmental endeavours, such as, for example, Water Affairs and Forestry.

Upgrading

Transport is expected to receive R100 million from the RDP fund for the upgrading and maintenance of roads. This is over and above Transport's initial Budget of R3,019 billion.

Among the appropriations in this year's Budget is R30 million that is to be transferred to the Department of Constitutional Development for the Masakhane community development programme.

The newly established National Economic Development and Labour Council has been allocated R3,1 million. Land Affairs has been given R459 million and a further R22 million from the RDP Fund.



Finance Minister Mr Chris Liebenberg presented the 1995-96 Budget yesterday.

What Budget means to you

(49) Sowetan 16/3/95

■ COLD REALITIES Social spending and education given top priority in the Budget:

By Ismail Lagardien
Political Correspondent

THE BUDGET TABLED IN PARLIAMENT yesterday is a cautious and disciplined attempt to build on the economic benefits of the political miracle in South Africa during 1994.

Although still heavily influenced by the inherited structures and processes of the old regime, the Budget for 1995-96, as prepared by Minister of Finance Mr Chris Liebenberg and his men from the ministry, has sunk its teeth into the country's icy cold realities.

And it is the middle class that will feel the bite as the marginal rate of tax on a salaries of more than R80 000 a year has been set at 45 percent. This means that salaries up to R80 000 will be taxed at the normal rate. What people earn above R80 000 will be taxed at 45 percent.

At the same time parity in taxation between men and women has been instituted. The total Budget is R153,3 billion of which social services — housing, education and health — account for 57,4 percent of projected expenditure.

Free health care

Education gets the biggest single part of the appropriations pie, its allocation is a whopping 26 percent of the total budget at R32,2 billion.

Health gets R15,4 billion plus RDP carry-through costs of R680 million for the provision for free health care, R65m for the clinic building programme and R500 million for the primary school feeding scheme.

The concentration on social spending is, perhaps, the greatest indicator of the priorities of the Government of National Unity as it attempts to address the iniquities of the past.

Expected revenue was R124 billion, leaving an expected deficit of R28,9 billion.

Last year's budgeted expenditure was R135,086 billion. This year's figure represents a 9,5 percent increase, meaning that expenditure has been contained within the inflation limit.

In his speech yesterday, Liebenberg cautioned against excessive and unbalanced demands for spending in any particular area.

The Minister also said the country's "copybook transformation" ought to be matched by "equally impressive economic restructuring".

"It is therefore essential that the most be made of these circumstances and that domestic and international confidence and credibility should be established in the management of our economy," he said.

Real economic activity

Reviewing the economy of the past year, Liebenberg commented on "the buoyancy of underlying economic conditions", which he attributed to an acceleration in real economic activity and which was part of the economic recovery that was under way.

Yesterday's Budget, he said, would not have been possible without the revitalised economy.

"At this stage with continued good international economic growth prospects, the economic upswing in South Africa is fairly well established and broadly based.

"With the exception of the agricultural sector, influenced by adverse climatic conditions and the gold mining industry ... all other sectors of the economy are on an expansionary route."

The economic recovery had been steady. The annual rate of growth in real GDP increased from one percent to 2,5 percent in 1994 and there were encouraging developments throughout last year.

After declining by 3,5 percent shortly before the elections last year, real GDP increased by a seasonally adjusted annual rate of two percent in the second quarter of the year, four percent in the third and by 6,5 percent in the fourth quarter.

"This is also the first time since 1989 and only one of three years during the past decade, that the annual growth rate came close to or exceeded the population growth rate," Liebenberg said.

In a briefing yesterday, the minister pronounced the Budget "economically sound" and "politically justifiable".

Radicals criticise budget 'shortcomings'

Political Staff

THE Communist Party as well as extra-parliamentary parties have generally welcomed the budget — but also criticised it for "shortcomings".

While criticising Finance Minister Chris Liebenberg for chopping too little from the defence budget, the Communist Party said the budget had taken the important step of shifting expenditure from security to reconstruction and development programme-related spending.

Spokesman Jeremy Cronin said that with the recent scrapping of the financial rand, the budget still reflected some "naivete" in the government about ways to attract foreign investment.

"These steps are part of a trend that is leaving South Africa vulnerable to the whims of foreign investors," said Mr Cronin.

ARG 16/3/95

Both the Conservative Party and the leftist Workers' List Party attacked the budget for failing to deal with the country's public debt, which was draining almost R30 billion in interest payments every year.

The Workers' List Party said the government should adopt a policy of non-repayment and channel this money into the RDP, while the CP said the RDP was a burden on the taxpayer. (49)

Workers' List Party spokesman Brian Ramadiro also condemned what he said was the low taxation of companies and those in high income brackets.

Burden on higher-income households criticised by NP and DP

(49)

CLIVE SAWYER
Political Correspondent

TAX proposals in Finance Minister Chris Liebenberg's first budget have drawn flak from a range of political parties.

The National Party said the rise in the maximum marginal income tax rate to 45 percent sharply increased the burden on higher-income households, even allowing for separate taxation on husband and wife.

The total tax burden had remained the same, but its incidence had shifted so that there was more emphasis on direct taxes.

This was in conflict with the aim of reforming the country's tax system.

NP finance spokesman Theo Alant said the promise the transitional levy would be temporary had been broken by its incorporation in personal income tax.

"It is clear that this RDP-focused budget is aimed at using not only the expenditure side of the budget, but also its revenue side to effect a redistribution of income and wealth," Dr Alant said.

The budget would boost private consumption spending at the cost of personal savings.

On the positive side, it would stimulate rather than curb existing growth in the economy.

Democratic Party finance spokesman Ken Andrew said the budget had failed to give attention to key issues.

"Hundreds of thousands of middle-income taxpayers are going to be hammered yet again by the government's unwillingness to address fiscal drag."

The top marginal rate of 45 percent at a taxable income of R80 000 was out of line with the R150 000 benchmark recommended by the Katz Commission.

Mr Andrew said the budget deficit was unacceptably high.

"At a time when our economy is growing, there is no justification in continuing to borrow money for consumption expenditure."

The cost of servicing debt would rise as a result to R39 billion, a 44 percent increase.

Mr Andrew hit out at the decrease in real terms in the police budget.

The attempt to save money was misguided in the light of crime being out of control in South Africa.

Dene Smuts, DP spokesman on women's rights, welcomed the abolition of gender discrimination in tax tables.

This was "the first really significant gain in practical terms for women under the new constitution".

Freedom Front senate spokesman on finance Piet Gous said the middle-income group faced an ever-increasing tax burden.

The shift to social spending was too strong, with too little for job creation.

The fuel levy of two cents a litre was inflationary, while too little was done to encourage people to save, Dr Gous said.

Minister of Housing Sankie Mthembi-Nkondo welcomed the budget as a major boost to housing.

The effective 80 percent increase in state allocations for housing sent a highly positive signal to the private sector, communities and individuals who wanted housing, she said.

SA Chamber of Business director-general Raymond Parsons said the budget seemed to have held a realistic balance between the needs of the reconstruction and development programme and the imperative of ongoing fiscal restructuring.

Sacob welcomed measures which would attract investors.

While welcoming a single tax table for individuals, Sacob said it was disappointed that it was necessary to increase the top marginal rate of tax, payable at the same threshold of income.

This would have a negative impact on savings and the willingness to take risks and create jobs.

The new tax dispensation for small business was positive, Mr Parsons said.

(ARG) ARG 16/3/95

AT A GLANCE

- President of the National Automibile Association John Newbury welcomed the Budget's emphasis on the promotion of growth and development and the government's continued monetary and fiscal discipline.
- Consumer Council executive director Jan Cronjé said consumers had been treated fairly. "They are delighted that VAT was not increased and that personal tax will be levied at more realistic levels."
- The National Party welcomed some aspects of the Budget but hit out at the increase in the marginal income tax rate to 45 percent.
- The Democratic Party criticised the failure of the Budget to deal with fiscal drag and said this would "hammer middle income taxpayers yet again".
- The Conservative Party dismissed it as "a purely socialist Budget".
- The Communist Party welcomed the shift from security spending to the Reconstruction and Development Programme.
- Director-general of the South African Chamber of Business Raymond Parsons said the Budget was "a realistic balance between the needs of the RDP and the imperative of ongoing fiscal restructuring"
- Exporters welcomed the Budget's allocation of R2,2 billion for boosting exports as "most welcome".

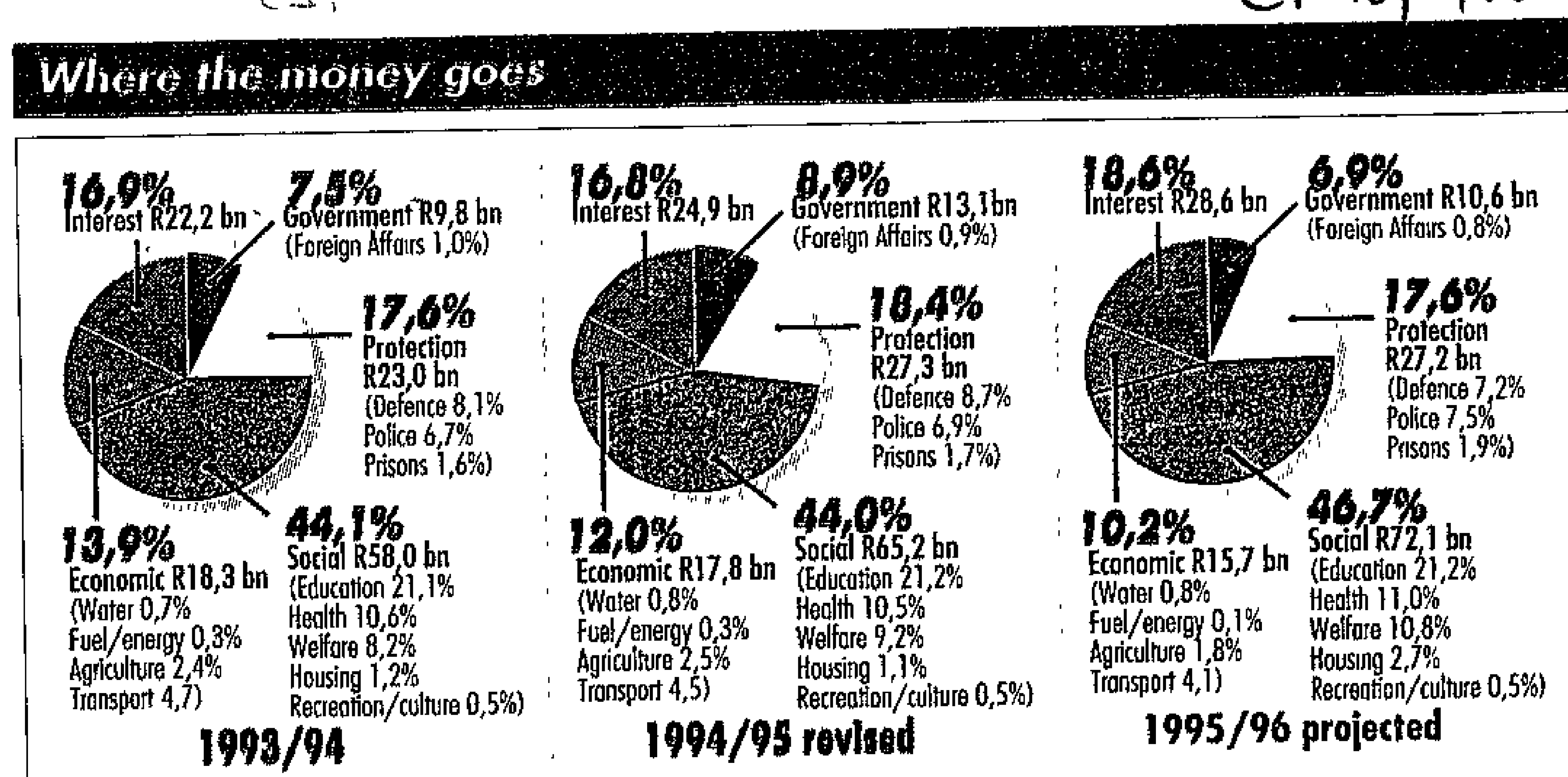
Budget balances RDP needs with growth

(49)

CT 16/3/95

The 1995 budget treads a delicate balancing act between improving the lot of deprived citizens and encouraging growth and investment

By Bruce Cameron
Political Editor



Finance Minister Chris Liebenberg yesterday presented a tightly woven R153 billion Budget designed to speed up social development programmes without undermining the emerging investor-friendly climate.

The cornerstones of the first Budget of the government of national unity are: sustainable growth, an overhaul of government priorities and strict fiscal control.

Liebenberg delivered more than expected for investors, while at the same time breaking the shackles of previous apartheid budgets to improve the lot of deprived citizens.

For some, the worst news was the new tax tables, which get rid of discrimination against married women and single people. Liebenberg wants more from most people earning more than R30 000 a year. He upped the top marginal rate to 45 percent, with the threshold at R80 000, while the previous top rate of 43 percent now kicks in at a lowered threshold of R50 000.

The budget was devised under the tough conditions of a burgeoning state debt, now reaching R250 billion; demands for urgent action to improve the living conditions of the millions of poor; the merging of the previous provinces, the six self-governing territories and four independent homelands — while developing financial arrangements for nine newly created provinces; and the already heavy tax burden on individuals, limiting his sources of revenue.

As a result, the Budget is a web of trade-offs and balancing acts. The growing GDP (up 2,5 percent last year and conservatively estimated at 2,75 percent this year) eased his position, giving him leeway to hold back on tax increases.

The growth in the economy gave him scope to get rid of tax discrimination against married women and single people without having to dig deeply into the pockets of most taxpayers.

The lodestone of the budget was the reduction of the deficit before borrowing to 5,8 percent of GDP, or R29 billion. This was down from the revised estimate for last year of 6,4 percent.

The government, still borrowing to finance current expenditure, has a way to go before it stops eating into the country's savings base.

Even while increasing capital expenditure by 41 percent, Liebenberg has slowed the increase in total expenditure to 9,5 percent, while revenue is expected to increase by 11,2 percent.

He has aimed at creating an investor and trade-friendly Budget, concerned with the welfare of its people, while attempting to remove obstacles from the path of

□ Turn to Page 4

P.T.O

BUSINESS AND THE BUDGET

With HOWARD PREECE

Special Page Inside

Mixed reactions to 'visionary' Budget

(49)

By Thabo Leshilo
Staff Writer

The National Council of Trade Unions (Nactu) and the Foundation for African Business and Consumer Services (Fabcos) have welcomed Wednesday's Budget as "visionary".

However, Nactu criticised the exclusion of the rebate for employees with children.

"We accept that the minister had a very difficult job to do in striking a balance between scarce resources and unlimited demands on the budget," said the general secretary of Nactu, Cunningham Ngcukana.

He praised proposals to improve tax collection, saying these would help make tax evasion more difficult and bring in much-needed revenue.

"The minister of finance has done his job, what remains to be seen is delivery on the ground," said Ngcukana:

"We hope that the government will take steps to ensure that the Budget is not swallowed up by the bureaucracy but is spent on worthwhile projects."

Fabcos secretary general David Moshapalo said the increased allocations for social expenditure, underpinned by a public works programme, would help job creation efforts.

SA Institute of Chartered Accountants chief executive Ken Mockler welcomed the proposal to allow small business enterprises to choose to be taxed on a cash-flow basis.

"But, we see some difficulty because if a company chooses to be taxed on a cash-flow basis, it will have to produce two sets of financial statements — one according to Generally Accepted Accounting Practice and another purely for Inland Revenue," said Mockler.

He said it still needed to be known whether capital expenditure would be treated on a cash flow basis or accruals only on debtors and creditors.

However, African Council of Hawkers and Informal Businesses (Achib) president Lawrence Mavundla, warned that proposals to tax small and micro-businesses could stunt growth in this sector.

"It will also cost the government too much to justify the income likely to be generated," said Mavundla

CT (BR) 17/3/95

Rise may be 'red light' to investors

Liebenberg warns of SA debt trap

(49)

BD 17/3/95

ADRIAN HADLAND

CAPE TOWN — The level of SA's public debt would begin to decline only by 1999, providing that an average 3% growth rate could be achieved and fiscal discipline was maintained, Finance Minister Chris Liebenberg said yesterday.

Addressing a Budget hearing of the parliamentary finance committee, Liebenberg said public debt, currently at R246bn or 55% of GDP, would continue to rise as a result of the Budget deficit until 1999.

While the deficit had been budgeted to decline from 6,4% in 1994/95 to 5,8% in 1995/96, this indicated only a relatively lower rate of increase in total public debt.

As one of the yardsticks for investment was the state of the deficit, any perceived danger of SA slipping into a debt trap would be "amber and red lights" to potential investors, Liebenberg said.

With the achievement of more than 2% growth largely dependent on foreign investment, it was essential SA pushed for further debt reduction to woo new capital. Other "basic ingredients" for attracting foreign investors included competitive investment, tax savings and strong confidence levels.

A 2% growth rate would also not assist the country's high unemployment rate. "The challenge is how to keep the deficit big enough to address short-term issues, and yet small enough to generate foreign interest." The deficit needed to be used to stimulate employment while reducing the debt on a sustainable basis.

Finance director-general Estian Calitz said the debt was financed at an interest rate of about 15% locally and about 9% on the international markets. The possible depreciation of the rand exchange rate needed to be taken into account when assessing the cost of foreign borrowing. The servicing of government debt amounted to 18,6% (R28,6bn) of planned government expenditure in 1995/96 compared to 16,8% (R24,9bn) in 1994/95.

Liebenberg said he was confident, however, that SA would not slip into a debt trap provided growth was enhanced and strict fiscal discipline was maintained.

Deputy Finance Minister Alec Erwin told the committee a draft Bill on provincial government borrowing was being prepared. It would reflect the constitutional requirement that borrowing be allowed only for capital projects and bridging finance for a set period and purpose.

A tension existed between moves towards SA's economic integration and the desire by provincial governments for political autonomy. There was an urgent need for national Ministers to sit down with provincial ministers to discuss this issue.

Reuter reports Liebenberg also told the committee that allocating funds to the provinces had proved more difficult than expected. The way of allocating funds would have to be reviewed. Those who drafted the constitution had not had a clear understanding of how complex financing the various levels of government would be.

The Eastern Cape's case highlighted the fact that some provinces had inherited an uneven playing field in terms of inherited debt and would need special consideration.

● See Pages 4, 5 and 10

Budget

Ordinary ANC members will get more say in drawing up

(49) BD 17/3/95

ADRIAN HADLAND

CAPE TOWN — The ANC's parliamentary representatives decided yesterday that ordinary party members should play a more substantial role in the formulation of future Budgets.

Following a briefing by Deputy Finance Minister Alec Erwin, ANC caucus members expressed dismay that they were being filled in on important aspects of the 1995/96 Budget only after the fact.

MPs from the National Assembly and Senate had indicated "very strongly" that they needed to do "more than that", said ANC Chief Whip Arnold Stofile. This was particularly the case for MPs who were not involved in committees directly engaged in formulating the Budget.

A strategy would be drawn up ensuring fuller participation by party structures "right from the beginning of the process". These structures included branches and ordinary members as well as officials and parliamentary representatives.

Though a new budgetary process had been put in place for the 1996/97 financial year, which envisioned an expanded role for parliamentarians, this still excluded ordinary citizens.

A Finance Department spokesman said, however, that the formulation of the Budget was almost an 18-month process generally beginning in November.

The caucus also agreed yesterday that the parliamentary system of weekly oral questions without notice for President Nelson Mandela would be stopped.

The President, or his deputy Thabo Mbeki, could still be asked questions in writing for oral or written reply, or could debate issues through the mini-debate system called interpellations, Stofile said.

Mandela or Mbeki could not be expected to know the answers to questions at the drop of a hat. "If you want the President to answer a question, he needs time. He can't be expected to know everything on earth."

Stofile said it was "irresponsible for the leader of a country to be subjected to such a speculative situation, facing unguided missiles from whichever direction".

Leader of the House Trevor Manuel attempted to have oral questions to the President scrapped on Wednesday but was rebuffed by the NP on a technicality.

Its referral to the ANC-dominated rules committee ensured the clause's abolition.

Stofile said while Mandela had a slight hearing problem, particularly given the acoustics of the parliamentary chambers, this was not a major handicap or incentive for scrapping oral questions.

Mandela, in any case, was seldom available to answer questions while Mbeki was also sometimes otherwise engaged.

Allowing Deputy President FW De Klerk to take oral questions would give the NP a political opportunity in the run-up to the local elections.

Sowetan 17/3/95 (49)

Vexation over Budget

THE National Professional Teachers Organisation of South Africa yesterday said it was "deeply disappointed" at the way the Budget will affect most teachers.

In terms of the "small sum" allocated for improvement of conditions of service, teachers were being called upon to make a "considerable sacrifice" at a time when their "in-pocket situation was getting worse", Naptosa president Mr Leepile Taunyane said in a statement.

He said it was "very difficult" to conceive how teachers would be able to bridge the following 12 months to the next Budget without a decline in their "already poor financial situation".

Welcoming the introduction of tax parity for women, Taunyane said the new tax rates would, however, be "particularly punitive" for the middle-income group in which most teachers fell.

Chairman of KWV Mr Lourens Jonker yesterday said the "astonishingly" discriminating tax on wine products constituted discrimination against the country's wine farmers and their employees and families, who represented a community of more than 300 000 people. He said it was totally unacceptable to the wine industry that the tax on wine products be increased by about 25 percent, whereas the tax increase on other products amounted to an acceptable 8 to 10 percent.

"The wine industry's ability to contribute its share to the RDP is seriously hampered by this," Jonker said.

The Workers List Party said the Budget "conclusively" showed that the Government of National Unity was ruling in the interests of capitalists and did not provide relief for the jobless and poor.

The Azanian Students Movement said the education budget was insufficient to redress the imbalances of the past. "This also means that the educational struggle will still continue," Azasm deputy president Mr Kgomotso Modiselle said in a statement.

"We further urge the Government to spend a large share of the R27,4 billion on black education." — *Sapa.*

Council's high stakes

Sowetan 17/3/95

By Joshua Raboroko

THE Greater Johannesburg Transitional Metropolitan Council has recommended that its councillors receive allowances of between R3 000 and R13 000 a month.

The recommendations have been submitted for approval to the Gauteng Provincial Legislature, which in turn will forward them, together with those of 18 other Transitional Local Councils, to the Government for ratification.

Gauteng Legislature spokesman Mr Chris Vicks said this week that the provincial government had received memorandums from the various local councils but no decision had been reached as yet.

The [illegible]rt was tabled at the monthly meetin[illegible] of the GJTMC and was submitted to the Gauteng Legislature. Some of the reco[illegible]endations were that:

- The TMC chairman (mayor) and executive committee chairman be paid R12 833 a month;
- Members of the executive committee receive R9 695; and
- Ordinary members be paid R3 208.
- Exco members receive travel allowances and cellular phones

For their metropolitan sub-structures (MSS) counterparts, the GJTMC has recommended that the mayor and the executive committee chairman get R10 238; executive committee members and ordinary councillors R2 559.

News

Shock Govt spending exposed

(49) Sowetan 17/3/95

By Mathatha Tsedu Political Editor

THE NORTHERN TRANSVAAL provincial government is spending on average R320 000 each month on hotel bills to house 80 officials in Pietersburg.

This money, which could amount to about R4 million a year, pays for officials from the former Venda and Gazankulu bantustans who have been temporarily transferred to the new provincial seat of government.

The revelation comes in the wake of confirmed reports a month ago that R473 000 had been spent in entertaining government officials and visitors at restaurants in Pietersburg between May last year and February this year.

Confirmed the figures

Chief government spokesman Mr Jack Mokobi yesterday confirmed the figures and said housing [illegible] was in line with standing rules of the civil service.

The officials include senior management, typists and ordinary clerks.

Accommodation for one person is said to average R5 140 a month, which works out at R411 200 for the 80 officials.

Eighteen officials of the department of health are said to have run up a steady bill of R85 000 each month since June last year. Mokobi, however, said the average monthly figure was R320 000.

"We are faced with the task of merging the four administrations which include Lebowa and the Transvaal Provincial Administration. As a result, we have to bring officials from the former Venda and Gazankulu administrations to Pietersburg," said Mokobi.

"If we do not do that, the new administration would be composed solely of the TPA and Lebowa officials. This would be unacceptable."

Appointed to posts

However, because the officials have not been appointed to posts in Pietersburg, their upkeep remains the responsibility of the government until such time as permanent appointments are made, Mokobi said.

The 80 officials are but a small part of the legion of officials who traverse the province weekly.

Others are housed in government-owned houses in Lebowakgomo and Seshego Hospital, Mokobi said. Yet others travel daily for meetings in Pietersburg.

However, Mokobi said [illegible] costs of travel could not be easily determined.

Not available

He said the government had decided "some time ago" to utilise flats and rented houses but these were not available in the town.

He said housing the officials would only stop when permanent appointments were made.

Various departments were busy with interviews. Only the office of the premier and health had so far appointed their heads of administration, Mokobi said.

State debt should not hit market

ARGT 18/3/95 (49)

ALIDE DASNOIS

Deputy Business Editor

BUDGETED borrowing requirements of R38 billion this year shouldn't put undue pressure on domestic capital markets, say upbeat government spokesmen — but if necessary, foreign borrowings will be increased.

Even after Minister of Finance Chris Liebenberg's feat in bringing down the budget deficit, the government will still have to find R29 billion this year to finance the debt, plus R9 billion in roll-over payments.

A total of R1,5 billion is to be raised on foreign capital markets and the rest on the domestic market.

According to Director-General of Finance Estian Calitz, this should not be a problem.

"The size of the borrowing requirement should be acceptable to the market," Dr Calitz told a Sanlam budget seminar this week.

He said the government would also continue to test the waters in the foreign capital markets, "though unfortunately it's not the season for a developing country to borrow."

Recent ratings from Japan would be followed up "when the time is right" and the government would continue to open up markets and set benchmark rates. In time this should lead to better terms for parastatals and even private companies.

Economists have been arguing this week about whether the budget is expansionary or contractionary, but most agree that it is likely to reduce savings.

This is because of a shift in the tax burden to top earners, with higher saving propensities.

Special adviser to Deputy President De Klerk, Dr Japie Jacobs said in an interview the level of personal saving in the economy would drop but the overall amount of funds available for borrowing should increase.

Estimates were that personal saving would fall from R9,7 billion to R8 billion this year, but corporate saving would increase from nearly R25 billion to R29 billion. Taking into account government dissaving, depreciation and net capital movements, there should be R93 billion available in the economy compared to R78 billion last year.

Much would depend on the continued strength of the rand.

"And the big question is, what will the borrowing powers of the provinces be? Now that 60 percent of income is to go through the provinces, fiscal discipline on a provincial level becomes important."

The Bond Market Association's Graham Lund also raised the question of competition for funds from the provinces — "though they probably won't get their act together for a while".

But in general, he said, the government's borrowing plans looked "reasonably feasible".

"At current rates of 16,5 percent to 18,5 percent, the cash would go to fixed interest markets anyway... The demand doesn't seem unduly large."

The government was likely to issue new stock at higher coupon rates.

But Frankel Pollak bond expert Annelise Peers said the monthly requirement of R3,1 billion — or R2,4 billion without the roll-overs — could be "tough" for the next couple of months.

She said the government might well borrow more from the foreign markets than initially predicted.

Better sovereign credit ratings later this year might make foreign borrowing less expensive, Sanlam bond portfolio manager Kobus Louw said.

The premium on last year's global bond, issued at 195 points above the benchmark US Treasury stock, had shot up to 300 points at one stage after the Mexican crisis. Recent developments in the SA economy had helped bring the premium down — but the stock was still trading at a 290 basis points spread.

"But time is on our side," Mr Louw said. The government had been sending out strong signals to foreign investors and this should show in better credit ratings by mid-year.

Another reason why government spokesmen had been so relaxed about the deficit, he said, might be that revenue had been deliberately underestimated.

The budget was based on a "very conservative" growth rate of 2,7 percent in the fiscal year.

"All the indications from companies are that the underlying growth rate is much stronger," Mr Louw said. This implied revenue collections would be higher, though the government might prefer to issue conservative forecasts to avoid pressure for higher spending.

Robin Hood budget

By RAFIQ ROHAN (49)
Political Correspondent

ROBIN Hood and Finance Minister Chris Liebenberg might have something in common. They both took from the rich and gave to the poor.

Or, as somebody muttered under his breath at parliament when the budget details were announced this week, "they are taking from the whites and giving to the blacks."

One of the remarkable aspects of the budget was its failure to shock, for it was a budget that was widely anticipated.

Lion's share

It is a budget that focuses on the RDP and as expected social services received the lion's share. A substantial chunk of the budget allocation – from 52,8 percent to 57,4 percent – went into its coffers. CP 19/3/95

Education, health services, housing and welfare services all received increases, a clear pointer that the government is determined to hone in on RDP objectives.

The new education budget focuses on upgrading primary and secondary schooling. Education received 26 percent – the largest single recipient of the budget.

And 13,4 percent lands up in the welfare kitty compared to last year's 12,5 percent. The focus will be on primary health care in the rural areas.

One of the most vexing problems in recent times has centred on the crisis in housing.

From now on, 2,3 percent of total government expenditure will be channelled in its direction. This represents a dramatic 80 percent increase.

If this budget fails, so does the ANC. But on the face of it – it looks like it will succeed.

European billion is on the brink

(49)

BY JOHN FRASER
STAR FOREIGN SERVICE

Brussels — European Union Finance Ministers yesterday gave the all-clear for loans to SA worth R1,2-billion

The loans will be granted by the European Investment Bank, and yesterday's decision means they will be guaranteed by the EU. They will be paid out over the next two years.

The loans will go on infrastructure in road, rail, electricity and energy projects.

However, the loans will not come on stream until the European Parliament has given its opinion on the move.

European MPs do not oppose the loans themselves, but want to have more say over monitoring them.

If, as is expected, the European Parliament does express its support next month, the first loans can be made very soon afterwards.

Star 21/3/95

Proposals made for Nedlac representation

BD 22/3/95

49

RENEE GRAWITZKY

THE SA National Civic Organisation, the National Youth Development Forum and the Women's National Coalition should be represented in the National Economic, Development and Labour Council (Nedlac) development chamber, a special selection committee has recommended.

The committee, which is headed by reconstruction and development programme official Howard Gabriels, made the announcement on Monday after considering applications from 60 youth, development, women's, professional, service and labour organisations.

The development chamber is the only one of Nedlac's four chambers in which groups other than business, labour and government are to be represented.

Nedlac executive director Jayendra Naidoo said the National Progressive Primary Network and the SA Congress for Early Childhood Development would also be recommended for representation, subject to clarification of direct membership and mandating capabilites.

Naidoo said that provision would also be made for representation from rural structures and disabled people.

Further dialogue would take place among religious organisations involved in development work.

The selection committee was mandated to consider only those organisations which represented a significant community interest on a national basis, had a direct interest in reconstruction and development, were democratically constituted and could obtain mandates from their membership, Naidoo said.

The committee's recommendations would be forwarded to Minister without Portfolio Jay Naidoo as well as to labour, business and government for comment.

It was expected the Minister would make an announcement within a week on those organisations which would constitute the development chamber and the number of representatives from each organisation to form part of Nedlac's executive council.

The role of two additional categories of organisations, service or nongovernmental organisations and development funders, was debated during the process.

The two groupings played an important role and discussion would take place on ways of accommodating them.

Gabriels said the foundation had been laid for an inclusive approach to the workings of Nedlac.

Budget likely to boost inflation, says Sanlam

(49) CT (BR) 23/3/95

By Claire Gebhardt
Economics Editor

The 1995/96 Budget will have an adverse effect on inflation, raising the rate by 0,5 percentage points, Sanlam's latest economic survey says.

The average rise in the consumer price index is forecast to be about 10 percent this year, compared to 9 percent in 1994.

Sanlam attributes the inflation hike to increased indirect taxation such as higher excise duties on liquor and tobacco and higher fuel prices.

These price rises will also largely coincide with the higher cost of housing ownership due to the recent rise in bond rates.

"Although a reasonably stable inflation rate is foreseen for this year, inflation should again reach double figures because of these factors as well as an expected moderate acceleration in food prices and possible further inreases in bond rates," the survey says.

However, the underlying inflationary pressure in respect of most goods and services will be largely under control this year, Sanlam says.

This is attributed to a slower rise in unit labour costs, where production will rise faster than real labour remuneration, and a fairly strict monetary policy.

It says the effect of the Budget will be restrictive, but will not have a material effect on economic activity, because of the small increase in government expenditure of 9,5 percent the moderate tax relief and the reduced budget deficit, which will amount to an estimated R29,1 billion or 5,8 percent of gross domestic product.

Sanlam says the abolition of the financial rand is unlikely to have a significant effect on the external value of the rand — and therefore on the inflation rate.

A dramatic turnaround in the current account of the balance of payments (BoP) occurred during the past year

"The drastic rise in merchandise imports and services to meet the increased demand far exceeded total exports in recent months and changed the large surplus, a feature of the current account for the past few years, into substantial deficits," the survey says. Total expenditure was forecast to exceed production increasingly and lead to still larger deficits in the current account of the BoP

PUBLIC FINANCE (49 [illegible])

Double take

FM 24/3/95

The 1993 constitution changed the way in which responsibilities were allocated to various tiers of government. This will bring changes in revenue collection and in the way funds are spent.

But it has not been possible to simply make the changeover and adjust the historic figures to make them comparable. The former relationships between central and regional governments have collapsed, with the disappearance of former homelands and restructuring of provinces, but the new fiscal arrangements are not yet in place.

For this interim period, the former State Revenue Account has been renamed the National Revenue Account. When transition is complete it will be replaced by the National Revenue Fund.

In the 1994 *Fiscal Review*, published without a Budget last March, revisions dating back to fiscal 1975, were published on central government revenue. This represents 90% of general government collections and "therefore is a good indication of the direction which tax levels and the tax [illegible]tion of consolidated general gov[illegible] is moving." Similar, but less complete, revisions were made to expenditure figures.

This year the revised presentation has been repeated.

The system of accounts used by the Department of Finance is one proposed by the IMF in 1986. It is called Government Finance Statistics and figures are derived from cash flows to and from government.

However, for analytical purposes national accounts figures are presented according to the system proposed by the UN in 1968, known as the System of National Accounts. This measures transactions "relating to production, income, consumption, saving and capital accumulation on an accrual basis." ■

STATE SPENDING (49)

Ups and downs

FM 24/3/95

The financial allocations to 13 government departments were increased by more than 15% in last week's Budget and those of three were reduced by more than 15%. Of the remaining 18, allocations to seven were cut by between 2,2%-13,5% and to 11 raised by 0,3%-12,3%.

Increases

The most significant increases and the reasons were:

❑ Labour 75,8% to R804m, with the contribution to the Unemployment Insurance Fund up from R18,8m to R268m;

❑ Constitutional Development 75,2% to R1,7bn — transfer payments to provincial authorities up from R895,8m to R1,65bn.

❑ Arts, Culture, Science & Technology 50,4% to R511m, with a new allocation of R121m for performing arts councils, previously funded primarily by the provinces.

❑ Parliament 46,4% to R307m New allocations for the new National Assembly, Senate and Constitutional Assembly total R93m and administrative costs have increased from R46m to R68m to meet the cost of the higher number of elected representatives, additional committee work and related activities;

❑ Public Service Commission 39,3% to R123,8m, including an increase from R12m to R60m for the Public Service Training Institute;

❑ Land Affairs 33,6% to R459m, covering a R168m allocation for the redistribution of land, the cost of the restitution of land rights, up from R39m to R59,6m, and settlement support, up from R27,3m to R46,7m;

❑ Executive Deputy President F W de Klerk 32,6% to R11,2m, including an increase in management costs from R3m to R6,6m to finance the office of the Minister of General Services which falls under De Klerk;

❑ Water Affairs & Forestry 32% to R936m for a new allocation of R360m for community water supply and sanitation as well as a rise in the allocation for water resource development from R155m to R220m;

❑ Public Enterprises 22,7% to R6,2m: a carry-over of R1,3m from last year means this year's increase is calculated on the reduced figure, which accounts for the large percentage increase;

❑ Promoting the RDP 22,2% to R2,5bn Personnel costs are up from R2,8m to R17,8m; administrative expenses from R1,2m to R6,4m; spending on equipment from R338 000 to R3,6m; the cost of professional and special services from R50 000 to R3,8m; and transfer payments to the provinces and other departments for RDP projects jumped from R1,9bn to R2,5bn;

❑ Education 19% to R4,3bn: an increase in administrative costs from R18,8m to R230m includes a new allocation of R200m for transfer payments and a rise for education and training programmes — from R3,5bn to R4bn;

❑ Central Statistical Service 17,2% to R72m: equipment costs up from R792 000 to R3,3m, professional and special services costs up from R772 000 to R2,9m, personnel costs up from R32m to R35,3m; and

❑ Justice 16,4% to R1,5bn, with an increase in legal aid from R68m to R184m;

Decreases

Significant decreases and their reasons are:

❑ Home Affairs 69,5% to R377,5m. The allocation to the electoral commission was cut from R817m to R3,5m;

❑ Health 27,4% to R1,2bn. The allocation for primary health care was reduced from R636,8m to R322,8m because certain functions have been taken over by the provinces; and

❑ Agriculture 16,5% to R800m. Resource allocation declined from R395m to R273,8m. A grant of R63m last year to the agricultural credit account was nonrecurring. ■

Budget given a mixed review by committee

More public debate on defence spending called for

(49) ARG 28/3/95

CLIVE SAWYER
Political Correspondent

PARLIAMENT'S joint finance committee has given the budget a mixed review.

"Significant beginnings were made in this first budget prepared by the government of national unity, but... it remains a transitional budget."

Meanwhile the all-party committee welcomed the removal of gender and marital status tax discrimination in its report, tabled in parliament .

"Submissions to the committee clearly indicated this was generally a good budget for women."

The beginning made to re-prioritisation of state spending should be built on.

The committee hit out at the re-incorporation of R700 million in the defence budget.

There should be more public debate on this, and the rest of the special defence account, it said.

The Public Service Commission, one of the bodies to give evidence to the committee, came in for a tongue-lashing.

"The meeting with the commission was extremely disappointing.

"The commission did not appear to have a strategic perspective or plan of action for the role of the public service in transforming government or for re-prioritisation."

The committee criticised the commission's opposition to autonomy for the commissioner of inland revenue.

This contradicted a recommendation by the Katz Commission and was in spite of "long-standing unresolved problems in that office".

The Public Service Commission had failed to present a convincing alternative.

The committee said it noted with concern the fall in spending on economic services.

This ran counter to the need to increase spending on economic services that could aid small business development, land reform and industrial policy programmes.

The committee said it had heard evidence that queried the basis for the abolition of non-resident shareholders' tax.

An adjustment to secondary tax on companies might have been a better way to attract foreign investors.

The committee said the budget had been prepared against a background of a welcome upturn in the economy.

But it felt the deficit before borrowing remained too high.

"The increasing cost of servicing debt — the fact that one rand in five spent by government is to service debt — is real cause for concern."

The committee said targets for budget deficit reduction should be evaluated in relation to policy aims.

"No succinct argument for the target deficit being reduced to 4,5 percent was presented in the hearings or the budget review."

The committee said it expected economic growth to continue, but would hit obstacles like balance of payments problems and inflation.

The budget had made important changes in the area of housing, creation of primary health care and the phasing out of the General Export Incentive Scheme.

These were welcome signals.

The committee was worried by the budget failing to indicate the exact amount to be given to the Small, Micro and Medium Enterprise programme.

No provision had been made for the national public works programme.

A more concerted effort was needed to get all government departments and parastatals to support employment creation by using cost-effective and labour-intensive production.

Employment targets should be set and constantly monitored by parliament's portfolio committees.

Statistics based on race, gender and income differentials should be used to monitor change, the committee said.

Convincing arguments had been heard for ending the discrepancy between male and female pensionable ages.

"While equalising at 60 may be unaffordable, a more equitable system needs thorough investigation."

The committee strongly backed extending the government feeding scheme for pupils to children under six. The report said Minister without Portfolio Jay Naidoo had committed the Reconstruction and Development Programme funding to a process of integration in the main budget process.

The committee said reorganisation of government departments and reallocation of public resources to reflect RDP priorities were not taking place fast enough.

"The budget needs to reflect a plan and a vision for the state, as well as indicating the setting of RDP targets by each department."

The RDP fund was in danger of becoming an "add-on", allowing existing bureaucracies to fail to adjust to new priorities.

Separate revenue dept backed

(49) BD 29/3/95

TIM COHEN

CAPE TOWN — The parliamentary finance committee yesterday reflected critically on government's 1994/95 Budget, issuing warnings on provincial spending and the high deficit while criticising the Public Service Commission.

The unanimous and wide-ranging report re-endorsed the Katz commission's and the committee's own earlier recommendations for administrative autonomy of the Commission for Inland Revenue. It recommended that an early decision be taken.

While stating that the deficit before borrowing remained too high, the committee said the targets for Budget deficit reduction needed to be evaluated in relation to broader policy objectives.

No succinct argument for the target deficit being reduced to 4,5% was presented in the committee's hearings or in Budget documents. "It is vital that such an argument be forthcoming, lest a mistaken impression arises that this figure has been arbitrarily decided upon," the report said.

It said the Public Service Commission (PSC) did not appear to have a strategic perspective or plan of action regarding the role of the public service in transforming government or for reprioritisation.

The PSC in principle was opposed to administrative autonomy for the Commissioner for Inland Revenue, despite the longstanding unresolved problems in the office. However, it had not presented a convincing alternative.

☐ To Page 2

Revenue

(49) BD 29/3/95

☐ From Page 1

The report recommended that Public Service Minister Zola Skweyiya and the Public Service parliamentary portfolio committee take the matter further as a matter of urgency.

The committee noted complaints from provincial representatives of underfunding. More worrying were indications that at least some of the provinces were budgeting for a deficit without making any provision to fund this deficit.

Since the provinces were prevented from borrowing to fund recurrent expenditure, government could be faced with a choice of allocating additional funds later in the year or dealing with the consequences of abrupt curtailment in services as funds dried up, the report said.

The committee declined to express a view on whether any of the provinces were underfunded, but said the Finance Department and the Financial and Fiscal Commission should remain aware of the issue.

An adjustment budget should, if necessary, be presented in advance rather than after potential crises.

Welcoming the "sterling efforts" of the Presidential School Feeding Scheme, the committee heard a compelling lobby for nutritional help to be extended to children in the one- to five-year age group.

The committee expressed concern that R700m had been reincorporated into the Defence budget and recommended a more transparent public debate on the issue.

The committee did not address the issue of VAT, secondary tax on companies or the increased tax burden on middle and high income earners. Committee chairman Gill Marcus said the report mainly covered issues on which there was agreement.

Meanwhile, the Senate trade and industry committee yesterday ratified the agreement on SA accession to the General Agreement on Tariffs and Trade. This has already been passed by the other parliamentary trade and industry committee and now needs the formality of being passed by Parliament.

Big assembly debate on budget

☐ *Corruption, tax squeeze in spotlight*

(49) ARG 29/3/95

CLIVE SAWYER
Political Correspondent

CORRUPTION, the future constitution and the squeeze on middle-income taxpayers all came into play on the first day of the national assembly debate on the budget.

The four-day debate on the government of national unity's first budget — seen by many as the first to be mainly shaped by the African National Congress — began yesterday.

Deputy Finance Minister Alec Erwin (ANC) opened the debate with an appeal to constitutional negotiators to reconsider financial relations among the three tiers of government.

The complicated formula for these relations, set out in the interim constitution and yet to be refined by the finance and fiscal commission, was unsuited to the efficient operation of a modern economy.

Mr Erwin said the country faced a budget which was characterised by a weak revenue side and facing strong demands for expenditure.

National Party finance spokesman Theo Alant warned of the effect that corruption and the crime rate had on international investment.

Noting the action taken by the government against former ambassador-designate Allan Boesak and axed Deputy-Minister Winnie Mandela, Dr Alant said the country was waiting for similar action against Deputy Environment Minister Bantu Holomisa and national assembly tourism committee chairman Peter Mokaba.

Myburgh Streicher (NP) said the ANC should tell people to scale down their wage demands. There would be no redistribution of wealth without the help of successful and innovative private sector leadership.

Ken Andrew (DP) said individual taxpayers had been hit hard by the budget.

"They are now paying more than double the amount of tax they were paying just five years ago."

Middle-income taxpayers were being squeezed yet again as the government let fiscal drag "do its dirty work for it".

Another soft target in the budget was old-age pensioners, Mr Andrew said. Their rises this year had covered only about half the increase in the cost of living.

Rob Davies (ANC), one of the party's representatives from the Western Cape, said it was nonsense to say the province had been "squeezed".

Parliament told of shortfalls

Homeland audit 'may be impossible'

(49)

Star 30/3/95

Cape Town — The State is still trying to unravel the finances of South Africa's former homelands and a senior official said yesterday it might be impossible to close the books properly.

Assistant Auditor-General Gunther Witthoft told Parliament's standing committee on public accounts it had been impossible so far to accurately register all the assets of the four nominally independent and six self-governing territories.

"Our limited investigations so far indicate that serious shortcomings exist in the management of certain departments in the former states," he said, adding that "an audit may indeed be impossible".

The Auditor General's report to Parliament lists a few of the problems uncovered in the administration of the homelands.

In one case, district offices of a homeland administration spent almost R500 million without raising any paperwork.

Auditor-General Henri Kleuver said clearing up the mess would require resolute action from the Government.

"What happens is that we send a team out to deal with these problems and in some cases they are simply sent away, told: We don't want you here.

"Somebody is going to have to be stepped on to put things right. One option might be a no-work, no-pay policy because at the moment the work is not being done and everybody is getting paid," he said.

WEEKLY MAIL & GUARDIAN March 31 to April 6 1995

Budget takes a beating — from ANC MPs

(49) WM 31/3-6/4/95

Some of the sharpest words about the Budget were said by ANC members in Parliament this week, writes **Gaye Davis**

IT was the first Budget on which the ANC was able to exert its influence — but that didn't stop ANC MPs from handing out brickbats along with bouquets in their assessment of it this week.

The four-day National Assembly debate on the Budget kicked off as auditor-general Henri Kluever released his annual report on state finances. His grim warnings about the dire state of the public service, billions of rands of taxes unpaid because of inefficient collection and doubts about whether the country had the administrative capacity to run a federation with nine provinces matched concerns raised by ANC MPs.

ANC MP Gill Marcus, chair of the Joint Standing Committee on Public Accounts, said the Budget was "a beginning" in turning it into "what it should be — a tool with which to address the urgent social needs crying out for attention". But a strategy had to be found to "match the vision".

"The Department of State Expenditure has expressed dissatisfaction with the level of skill to adequately handle internal departmental financial controls with limited internal audit functions in place and virtually not a single chartered accountant in employ as financial controller, even though departmental Budgets run into billions of rands," she said.

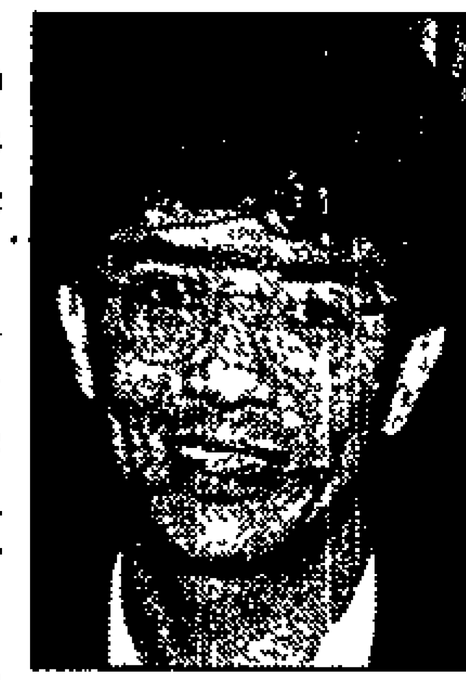
Instead of dealing with structural problems within the Commission for Inland Revenue, it seemed the government was proposing quick-fix solutions. "The Katz Commission recommendations for administrative autonomy need to be taken seriously and acted on without further procrastination," she urged. Vigorous scrutiny to ensure taxpayers' money was well-spent should also address the question of waste and abuse. Yet it was clear the Office for Serious Economic Offences (OSEO) was not taken seriously at all, she said.

"Inadequate staffing, a total budget of R6-million, no computer-linked data-base and no financial analysts are but some of the glaring weaknesses." Given that about 80 percent of crime was white-collar and electronic-based, the office urgently needed high' qualified analysts and ade- nte res urces. Marcus called for a task group tc ermine wh it the OSEO needed and report back to par liament within three months.

ANC MP Marcel Golding warned new pressure would increasingly be put on tax authorities. "We hear of extensive staff losses, outdated computers and R8-billion which is outstanding. More interesting was the Commission for Inland Revenue warning Pretoria drivers to be careful in case they knocked over the man who manages the computer system.

"To crown all this we hear the minister himself say some of the measures pursued by various companies and consultants border on fraud. If this is the case, it seems to me the measures announced are not adequate to address the problem.

"We have to cut through all the petty turf protectionism of departments and the Public Service Commission and get our house in order in respect of revenue administration." This applied also to the Commissioner of Customs and Excise, he said.



Marcel Golding: Staff losses

Warning that further doses of "strong financial medicine" for Transkei might kill off the patient as well as the malady, ANC backbencher Professor Jeff Peires gave a homeboy's account of the impact of finance minister Chris Liebenberg's fiscal discipline.

Umta a was becoming a ghost town since the capital moved to Bisho. The integration of the Eastern Cape, Ciskei and Transkei public services meant many people had "fallen off the organogram", losing their jobs. Cuts in housing subsidies, other perks and increased PAYE meant the Transkei National Building Society was facing bankruptcy as people could not pay their mortgage bonds.

These moves had been accepted because it was understood Transkei had to become an integral part of South Africa once again. "We have accepted all these things even though we have not yet seen a single road, a single house or even a single tap provided by the famous Reconstruction and Development Programme," Peires said. "We have now reached the point where we must say to the minister of finance that this is enough. The cure is becoming worse than the disease."

He appealed that a Budget proposal to harmonise former TBVC states' tax laws be phased in over three, rather than the planned two years — as the loss of tax incentives could lead to industries deserting the region. "Those industries were conceived in sin, we admit that," Peires said. But they employed more than 15 000 people, while the Development Bank of South Africa estimated that every person with a job in Transkei supported between 10 and 15 others.

It was the duty of the Department of Trade and Industry and not Finance to provide tax incentives to keep industrialists in a region with poor infrastructure that was removed from their sources of raw materials and markets, Peires said.

Asking the minister to give "his most attentive consideration" to a pending proposal for a longer phasing-in period of new tax laws, Peires said: "The tax concessions are riding off into the sunset on the back of the Department of Finance but the cavalry from the Department of Trade and Industry shows no sign of coming over the hill."

Marcus expressed concern that R700-million returned to the Defence Budget — which one can only assume will enable the much publicised purchase of the Corvettes" — was granted without any discussion by way of a White Paper on defence policy.

Provinces appeared to be budgeting for deficits, without provision for funding them. This needed the attention of the finance department, the Financial and Fiscal Services Commission and MECs in charge of finance, she said.

The government's "six-pack" plan — aimed at changes in the Public Service Commission, re-organising state assets and achieving viable, stable inter-governmental financial relationships — gave the strategic vision for economic transformation but was not receiving enough attention, she said.

Cosatu slams Budget, PAGE 33

R6 for debt, R1 for RDP

(49)

ARG 1/4/95

Huge burden could be lighter at end of century

CLIVE SAWYER
Political Correspondent

IN a stern warning on the perils of the debt trap, Finance Minister Chris Liebenberg has said South Africa spends R6 on servicing debt for every R1 on the reconstruction and development programme.

South Africa's huge debt burden would begin to recede at the turn of the century, provided the government kept to its policies of fiscal discipline.

He urged a commitment to reducing consumption expenditure and re-prioritising capital spending.

Replying to comments during this week's budget debate in the national assembly, Mr Liebenberg said he was worried that not everyone understood the implications of running a budget with a constant deficit.

Interest would continue to mount and lenders would put up their rates.

The only way to avoid the debt trap was to follow the previously-agreed milestones of economic policy.

"We cannot afford to make an error," Mr Liebenberg said.

Noting that shortages on pension funds and inherited debts of the former TBVC states were funded by borrowing, he said discipline was needed on a broad front.

If creditors chose to reduce the terms of loans from five years to one, "this could bring us back to where we were in 1985".

Responding to criticism of the cut in the budget for economic spending, Mr Liebenberg said this was necessary as a short-term sacrifice.

Critics, including parliament's joint standing committee on finance, said that economic services were crucial to agricultural and land reform policy.

Mr Liebenberg said the state of balance of payments was a major factor inhibiting growth.

A comprehensive strategy to address this was being worked out by the National Economic Development and Labour Advisory Council.

He said South Africa had to become investor-friendly because of the lack of domestic savings.

Growth of at least 3,6 percent was needed before there could be any reduction of unemployment.

Welcoming work by Minister of Trade and Industry Trevor Manuel on developing small, micro and medium enterprises, Mr Liebenberg said these could be the "real engine of growth".

He called for efforts to turn the tourism industry "from a novelty factor to a sustainability factor".

STERN WARNING: Finance Minister Chris Liebenberg warns of perils of the debt trap.

Heat is on for Bantu Holomisa

TYRONE SEALE
Weekend Argus
Political Staff

ARG 1/4/95

THE African National Congress should use its code of conduct to act against Deputy Minister of Environment and Affairs and Tourism Bantu Holomisa, under whose rule corruption and administrative collapse occurred in the former Transkei.

Speaking in the national assembly budget yesterday, Manie Schoeman (NP) said Mr Holomisa had been a reluctant leader of the 1988 coup to eradicate corruption.

Mr Schoeman asked why 50 percent of industry had withdrawn from the Transkei during "the dictator's rule".

"Why was the state pension fund robbed of its assets?" asked Mr Schoeman.

"Maybe the general would explain to the former Glen Frey teachers why their rightful pensions were never paid to them and how he overturned two Supreme Court judgments against the Transkei government by issuing Decree No 14," he said.

Even more disturbing was that the Transkei auditor-general's report did not reflect the total administrative collapse that occurred in the last year of Mr Holomisa's rule.

Mr Holomisa then challenged President Mandela to prove that corruption in the Transkei actually amounted to millions of rand.

The evidence existed, said Dr Schoeman, who asked what the ANC would do about this, given that Mr Holomisa had apparently been the first to sign the ANC code of conduct.

Tax revamp to go ahead

Political Correspondent

RESTRUCTURING of the departments of inland revenue and customs and excise will go ahead, says Minister of Finance Chris Liebenberg.

Speaking at the end of the national assembly debate on the budget, he said the restructuring would be done as soon as possible.

The auditor-general's reports and the report of the Katz Commission on income tax had exposed serious crises in tax administration. These problems had contributed to a R8 billion shortage in revenue, which, if collected, could be a significant boost to the reconstruction and development programme.

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He lashed out at Press reports which had labelled an offer from professional bodies of lawyers and accountants to help in restructuring as setting up "ghost squads".

SA is among the top five debtors to the UN

□ *Debate about paying apartheid's backlog*

ARG 6/4/95 (49)

The Argus Foreign Service

NEW YORK. - South Africa has the unenviable distinction of being among the top five debtor countries to the United Nations after the United States, Russia, Ukraine and Japan.

Contrary to the impression left by earlier UN statements that South Africa's dues accumulated during 20 years in the political wilderness had been forgiven, a total debt of $112 million remains.

Officials said this was the subject of intense negotiations between South Africa and the UN and that the outcome remained uncertain.

President Nelson Mandela and his advisers appear to have differing opinions about South Africa's UN obligations.

Before he took office, Mr Mandela said that if the UN so demanded, South Africa ought to smile and pay up.

But Foreign Minister Alfred Nzo, during a UN visit, took the contrary view that the government was not obliged to pay dues accumulated by the former administration whose representatives were ejected from the general assembly in 1974.

Countering Mr Nzo are those, including South Africans, who emphasise that the republic was never totally excluded from the UN, but retained membership and continued to enjoy all the privileges of membership, including access to confidential documents throughout the two decades that it was barred only from participation in general assembly business.

Confusion about the true state of affairs seems to derive from a decision by the general assembly, on South Africa's return last uear, to waive a rule that would have cost the republic its voting rights.

Under that rule, any state in arrears the equivalent of two years or more loses its vote.

Allowing South Africa to resume voting, regardless of its large debt, was interpreted in some quarters as forgiveness of the obligation

But the latest "status of contributions" report makes fairly plain that this is not the case. At least, not for now.

SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

JIM SMITH
FORUM
WHY COMPETITION SHOULD BE OUR FIRST PRIORITY

HOWARD PREECE
BACKGROUND & ANALYSIS
YES, WE NEED WAGE RESTRAINT, BUT ALSO CREATIVE SOLUTIONS

COMPUTERS
BACKGROUND & ANALYSIS
BIG-NAME BRANDS ALL SET FOR A FULL-SCALE ASSAULT ON SA

Overhaul economy, Cabinet told

(49) CT (BR) 6/4/95

SA is woefully lacking in almost every sector, with many industries surviving only through protection and subsidies

BY CLAIRE GEBHARDT

South Africa will remain a Third World country with First World aspirations unless business and government work together to create an environment that nourishes effective competition, according to a major study presented to the Cabinet yesterday.

The report, commissioned by the National Economic Forum last year, proposed a set of "imperatives" necessary to make South Africa globally competitive.

The study was conducted by Monitor, a respected international strategy consulting firm founded by Harvard Business School professor Michael E Porter.

The report concluded that a dramatic overhaul of the country's "rusty and outdated" economic engine was needed. In almost every sector researched, identical products were being made at substantially lower cost or higher quality by firms in other countries. Many industries survived in South Africa only because of protection and subsidy.

The trade and industry minister, Trevor Manuel, who released the report at a media briefing in Cape Town, said the report underlined the urgent need for business to sharpen its competitive edge.

He said the government was committed to supporting a more competitive environment. "Tariff protection on demand is dead."

David Green, one of the Monitor researchers, told the joint parliamentary standing committee that "we need a transformation of the economic structure as all-encompassing as the political transformation already witnessed."

The study blamed South Africa's poor competitiveness on factors including lack of rivalry among firms, government bureaucracy and poor work organisation leading to inefficient productivity.

Manuel said the study would be used by the National Economic, Development and Labour Advisory Council (Nedlac) in the development of competitive policies in conjunction with research already done by Cosatu's Industrial Strategy Project.

☐ See reports inside

IMF praises ANC's 'change in thinking'

(49)

CT(OK) 7/4/95

The government has done much to dispel fears over its economic policies — but needs to act fast on creating jobs

By Bruce Cameron
Assistant Editor

A senior official of the International Monetary Fund has approved of changes in economic thinking in South Africa, but has warned that unemployment remains the Achilles' heel of the economy.

In a recent IMF publication, James Gordon of the IMF's African department says the ANC's economic ideas were initially perceived as socialist, but since coming to power it has proved to be a "study of moderation".

"Prudent fiscal pronouncements and a central bank exercising independence have done much to calm fears about government profligacy," he writes.

"A commitment to trade liberalisation, together with a dramatic switch to favouring less, rather than more, public ownership, has buttressed the government's free market credentials."

Gordon also expresses approval of the reconstruction and development programme, and the way it is being handled. He says a measure of its success is the successful \$750 million global bond issue, at a favourable price.

But, he adds, the government has to overcome significant problems, the most serious of which is endemic unemployment.

He points out that the new government "has inherited an economy that has not created a new job in the non-agricultural sector since the 1980s.

"This has pushed unemployment to record levels, with 45 percent of the labour force without formal sector employment and 30 percent without any employment at all."

The challenge in the years ahead will be to generate rapid employment growth, thereby giving all South Africans a stake in the market economy.

Gordon warns that as long as unit labour costs remain high and industrial relations inimical to labour-intensive investment, employment growth was likely to be impeded.

"Most observers see GDP growth averaging 3 percent over the medium term; with unchanged factor prices, and allowing for some growth in factor productivity, this rate of growth will be insufficient to prevent unemployment from rising further.

'The challenge is to give all South Africans a stake in the market economy'

"South Africa faces the challenge of showing that this gloomy prognosis for unemployment is not inevitable.

"This will probably require bold action in the labour market — perhaps through a social pact developed in the newly established National Economic Development and Labour Council (Nedlac)."

Gordon suggests that such a pact might combine wage restraint in exchange for training programmes delivered by business, and RDP benefits delivered by the government.

"A major asset in this process will be South Africa's increasingly evident expertise in consensus-building."

He praises the government for doing much to calm fears that populist economic policies would be pursued to the detriment of macroeconomic stability. "The economic upswing has been successfully nurtured, and has been investment-led."

According to Gordon, the cost of recovery has been the elimination of the surplus on the external current account.

This has been matched by commensurate capital inflows, but foreign reserves, which have improved significantly since the election, are still far from a comfortable level.

The recent Budget, with its commitment to reduce the deficit before borrowing, has helped to allay fears that the RDP would either be incompatible with fiscal discipline, or that its financing would require outright redistributive measures such as wealth taxation.

Instead, the "guiding principle" behind the RDP was that it would be financed by means of savings elsewhere in the budget as well as donor funds, with privatisation seen as a means to reduce public debt.

The resultant savings in interest will be channelled into the programme.

IMF study gloomy on SA growth

(49)

ST(Br) 9/4/95

By KEVIN DAVIE

URGENT action is needed to address South Africa's jobs crisis, says a confidential staff report by the International Monetary Fund.

The report, the IMF's annual Article IV appraisal, is generally supportive of the government's economic direction, but calls for real currency depreciation and an incomes policy to foster employment growth.

"The government should waste no time in preparing for as smooth an adjustment path as possible," says the report, dated January 9.

"Unemployment, which is high and still rising, and relatively weak economic activity remain dark clouds on the horizon."

The report says the outlook for employment is dire. Unit labour costs have increased by 40% relative to export prices since 1985.

The low level of domestic savings makes foreign investment necessary to fund growth, but "to the extent that profit margins are being reduced by wage cost developments, foreign financing might not be spontaneously forthcoming and domestic investors might be reluctant to move even if financing were available".

It says labour organisations should be persuaded to champion the interests of the whole labour force and not just the members of their constituent members.

"Given the urgent problem of youth unemployment, the statutory floors on wages payable to young persons should be lowered in real terms while efforts are made to enhance their skills.

"Greater importance should be accorded to regional disparities in the cost of living in nationally negotiated wage agreements, and the statutory extension of such agreements to firms (especially small firms) not party to them should be curtailed."

Two years into the economic recovery "growth is slow, per capita incomes are still falling and unemployment has worsened".

The IMF staffers say a pact between business and labour seems to be an essential component of any policy to improve the competitiveness of SA labour.

"But it appears that the probability of a rapid solution along these lines is low."

The report proposes a rapid currency depreciation, supported by tough monetary policy and a wage pact to bring "significant positive influences on employment".

But it warns that if the depreciation elicits off-setting wage settlements and accommodating monetary policy, this would "spark a vicious cycle of price and wage inflation that could well impair the credibility of the authorities".

The report notes, though, that the Reserve Bank rejects using monetary and exchange rate policy to correct price distortions.

"This argument was buttressed by pointing to the inflationary pressures and the industrial action which followed the sharper depreciation of the first half of 1994."

The IMF's projections, based on stated government policies, see growth of 3,5% this year, arresting the rise in unemployment, but growth slowing in 1996 and beyond with negative consequences for jobs.

On the positive side, the report says government has set about establishing a track record of economic moderation, has made trade reforms such as scrapping import surcharges and has through the RDP identified crticial areas such as housing, education, health and land reform.

Inflation is relatively low, the economy is growing after years of recession and foreign debt is low (although accompanied by a difficult amortisation schedule).

"The course of the debate in South Africa on political economy has been extraordinary. Only 18 months ago the discussion focused on government intervention, on public works programmes and nationalisation.

"Now the discussion is centred on fiscal discipline, on trade as the engine of growth and on privatisation."

World Economic Forum to meet in Johannesburg

(49) CT (BR) 12/4/95

By Bruce Cameron

Political Editor

The Swiss-based World Economic Forum is to hold its third southern African economic summit on May 11 and 12 in Johannesburg, which is aimed, among other things, at boosting investment in the region.

The conference will be attended by heads of state and senior ministers of neighbouring countries and local and international representatives.

The summit is being organised in conjunction with the Southern African Development Community.

A spokesman for the forum, which is better known for its annual meetings in Davos, Switzerland at which world leaders discuss the international economy, said the meeting will focus on national and regional economic programmes.

Governments will present projects of interest to foreign investors while the delegates will be asked to thrash out "concrete proposals to boost economic growth" in the region.

The proposals will be presented to the heads of state and governments of southern Africa.

The conference will also look at regional structures and policies, including trade liberalisation, privatisation and exchange controls.

Questions to be dealt with will include:

☐ Does the region's current dependence on South Africa as a market and source of infrastructure hamper regional development?

☐ How can the economies be linked into effective interdependence?

☐ How far will the region go in meeting international pressures for economic reform, while dealing with the expectations at grass roots level for basic needs? and

☐ What opportunities will open up to the international community?

R2,7bn windfall for government

BD 24/4/95 GRETA STEYN (49)

GOVERNMENT is sitting on a cash pile of about R2,7bn more than expected from the last fiscal year — reducing the need for heavy borrowings at the start of the 1995/96 fiscal year and easing the pressure on capital market interest rates.

Finance Department spokesman Johan Redelinghuys said the surplus cash, which came about because unexpectedly large amounts budgeted for in the 1994/95 fiscal year had not been spent, had reduced the amount needed from the capital market at the beginning of the fiscal year. Nevertheless, borrowings had already started and the programme was "on track".

More than R6bn in expenditure budgeted for in the 1994/95 fiscal year had not been spent. This had been carried over to the next fiscal year — a move instituted to prevent departments from splurging at the end of the fiscal year to avoid losing funds.

Another spokesman said a major reason for the unexpectedly large amount of finance left over was that R825m budgeted for improvement of conditions of service (salaries) had not been spent. He could not explain why, but a source speculated that cutbacks had been achieved.

The finance rolled over must be allocated in the same way as the initial budget,

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Windfall

(49) BD 24/4/95

☐ From Page 1

otherwise departments lose the funds.

The main reason for the unusually large amount rolled over to the next fiscal year was the delay in implementing the reconstruction and development programme. Finance department figures showed only R854m of the R2,5bn fund had been spent — even less than the R1,1bn figure Minister without Portfolio Jay Naidoo released earlier this month.

At the time of the March Budget, it had been expected that about R2,1bn would be spent, and the total funds unspent after 1994/95 would be R3,4bn.

Another finance spokesman said the extra cash, after taking into account the much smaller balance rolled over from the 1993/94 fiscal year, represented a prefunding of expenditure rolled over and also served as a cushion during the early part of 1995/96 when revenue normally lagged expenditure and above-average financing needs were experienced.

Analysts said the cash pile would be a positive signal to a jittery capital market which was reluctant to participate in government's efforts to lengthen the maturity profile of its debt. The Reserve Bank, which markets government stock, had failed to allocate any of the 2 007 stock it had put out to tender at the beginning of the new fiscal year due to a lack of demand and high interest rates demanded.

Finance Department figures also showed the budget deficit in 1994/95 was 6,3% of GDP. The original target had been 6,6%, but a massive revenue overrun had boosted government's coffers. The eventual overrun was R2,9bn — about R309m more than the March revised estimate.

New budget rules for govt

TIM COHEN

CAPE TOWN — Government departments will for the first time be required to submit three alternative budgets to the State Expenditure Department, documents approved by Cabinet state. (49)

The innovation will make it easier for central government to choose spending patterns different to those suggested by the government departments concerned.

This change comes on top of the requirement that departments "budget from zero" and thereby justify all expenditure items individually, rather than simply asking for an incremental increase on the previous year's budget.

Another change is that departments will have to present budgets for the next three financial years — to encourage departments to plan ahead. BD 24/4/95

The changes appear in a document giving departments a step-by-step guide on how to determine their expenditure.

The process involves re-examining each activity against a new set of criteria and effectively submitting three different spending proposals.

The guide states that this will enable the State Expenditure Department to match the budget for a specific year with the macroeconomic expenditure plan and a five-year fiscal framework.

A critical part of the process will be discarding present activities that do not

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Budget (49) BD 24/4/95

☐ From Page 1

promote government goals and establishing activities which do.

Each "spending agency" is being asked to identify and list all its activities for this financial year. The rationale for each activity must then be defined and re-examined. It also needs to be stated why the activity should be performed by government and how it contributes to government and reconstruction and development goals.

The spending agencies also have to state what options exist for cutting personnel-related expenditure and what options exist for introducing user charges for services provided by government.

The guide has determined a new planning process for the budget cycle which specifies the date by which every step has to be performed. Agencies have to submit their new proposed budgets by May 2.

'A knock to fiscal discipline'

(49) WM 28/4-4/5/95

A question mark has been raised about the government's commitment to fiscal discipline.
Reg Rumney reports

A PROPOSED diversion of money from pensions to wages would be a blow to perceptions about the government's commitment to fiscal discipline.

It was reported this week that the government intends "borrowing" up to R1,1-billion from money originally intended to make good the actuarial shortfall in government pension funds. This money would then be used to finance higher wage increases for increasingly restive public servants.

Democratic Party finance spokesman Ken Andrew has slated the move as a knock to fiscal discipline, calling for a cut in the public service.

"Then we can start living within our means and stop mortgaging our children's futures by dipping in to pension fund money to pay public service wages. In the private sector you get sent to jail for doing just that."

Andrew's remarks are made against the rise in the remuneration of employees as a share of 1995/96 spending from around 36 percent to 38 percent.

At the time of going to press, no one in the Department of Finance or the office of the public service comission could elaborate on the reported diversion of funds.

After the March 15 Budget, economists were suprised to see that only R2,5-billion was allowed for "improvements in conditions of service".

The 3,2 percent increase provided for remuneration of public servants — a real decrease of seven percent — raised eyebrows at the time.

They were sceptical then that government could keep to this, though it could also be seen as a sign to public

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'A knock to fiscal discipline'

(49)

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servants of a get-tough attitude.

The proposed move has been presented as innocuous. It shifts spending from one place to another in the Budget, and so does not increase overall spending, goes the argument.

It will not dent the all-important Budget deficit singpost figure of 5,8 percent.

However, Andrew is at pains to point out it will mean government has backtracked on its commitment to cut down on "dissaving" — spending borrowed money on anything other than capital investment, in this case salaries.

Dissaving has been likened to an individual using mortgage money to buy groceries.

How big are the shortfalls? It is reported in the March 15 *Budget Review* that national government pension funds had an estimated actuarial shortfall of R39,9-billion on March 31 1994. The Government Service Pension Fund had a funding shortfall of 49 percent at end-March 1991. The Temporary Employees Pension Fund had a shortfall of 54 percent. It is not known what the latest figures are.

The vaunted 5,8 percent Budget deficit must also be put into perspective.

Old Mutual's economists point out that 5,8 percent puts South Africa in the rather dubious company of fiscally slack countries like India and Hungary.

International norms for acceptable budget deficits are becoming increasingly demanding, they say (see table). While South Africa's trend is correct, the deficit should have been cut further.

Forecast 1995 budget balances for certain developing countries

India	-6,0
Hungary	-5,9
South Africa	-5,8
Indonesia	0,5
Malaysia	-0,5
Argentina	+1,3
Thailand	+1,5
Chile	+1,7

Nedlac gets down to business

49

By Thabo Leshilo

Staff Writer

CT(BR) 4/5/95

The National Economic, Development and Labour Council (Nedlac) had established an essential infrastructure and would begin discussing priorities today, the body's executive director, Jayendra Naidoo, said at a media briefing yesterday.

More than half the staff quota had been filled with members drawn from the trade unions, the business community and the government.

Naidoo said various constituencies would make their first formal presentations on the draft Labour Relations Bill at today's meeting of the Nedlac development chamber.

He said the struggle between the National African Federated Chamber of Commerce (Nafcoc) and Business SA over the 18 seats on the body which were reserved for business, had not affected progress on the council.

Bobby Godsell, BSA's vice president, agreed, saying that progress had been made at numerous meetings held between Nafcoc and BSA to resolve their differences.

The 18 seats were to be shared among BSA's 18 affiliated business bodies. However, Nafcoc demanded nine seats as it was the largest body representing black business and should be treated as an equal.

Nedlac unveils its work programme

BD 4/5/95 (49) (~~[illegible]~~)

JOHN DLUDLU

THE National Economic, Development and Labour Council (Nedlac) last night unveiled its long-awaited working programme to enable its chambers to start economic and development policy talks.

At a news briefing in Braamfontein, Nedlac executive director Jayendra Naidoo said the council — which represented labour, business, community and government constituencies — had established the infrastructure to become operational.

Constituencies had approved a budget; total budgeted expenditure over 15 months was R6,2m.

The work programme set out key priorities, with processes and time frames for negotiation.

The work programme would kick off today with discussion in the labour market chamber of the draft Labour Relations Bill, Naidoo said.

Other issues on the agenda included International Labour Organisation conventions, amendments to the Unemployment Insurance Act and monitoring revision of labour laws.

Top on the trade and industry chamber's agenda were policy on international trade relations, competition, supply side measures, and minerals and energy policy.

The development chamberwould hold its first meeting today.

Naidoo said the National Women's Coalition, the National Youth Development Forum and the SA National Civic Organisation had been admitted as representing community interest.

The current chairman of the executive council and management committee was Cosatu secretary-general Sam Shilowa. The chairman's seat would be rotated on a quarterly basis.

On the dispute between Business SA and the National African Federated Chamber of Commerce (Nafcoc) over business representation on the council, Business SA leader Bobby Godsell said "substantial progress" had been made towards agreement on the criteria to be used.

However, he would not disclose how representation would be divided between Nafcoc and Business SA.

Naidoo said a proposal on media access to chamber proceedings was being considered.

Meanwhile, RENEE GRAWITZKY reports that representatives of the three constituencies believed that the process for reaching consensus on the draft Labour Relations Act could be evaluated only after their positions had been tabled in the labour chamber today.

Government co-ordinator Les Kettledas said it was essential the legislation complied with the provisions of the constitution, the reconstruction and development programme and international standards.

Godsell said the goal was to ensure the new Act in its entirety inspired the confidence of all parties. Inevitably, not all clauses would be agreeable to everyone.

Labour co-ordinator Ebrahim Patel said any agreement covering such complex issues would be "a series of compromises".

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Budget gets big thumbs up

WM(BM)5-11/5/95 (49)

Business considers the March 15 Budget a resounding success, reports **Reg Rumney**

BUSINESS response to the first Budget of the Government of National Unity was overwhelmingly positive.

A survey of 100 of South Africa's top business people, undertaken by the Community Agency for Social Enquiry (Case) just after the Budget of the GNU, shows almost three quarters of the business people polled viewed the Budget positively.

White business people were the most positive (78 percent) of those polled. According to Case, many white business people (63 percent) thought Finance Minister Chris Liebenberg's Budget indicated "responsible and fiscally disciplined government" which valued "fairness and equality".

Fewer black business people (57 percent) were as positive, more of them were unsure of its effectiveness.

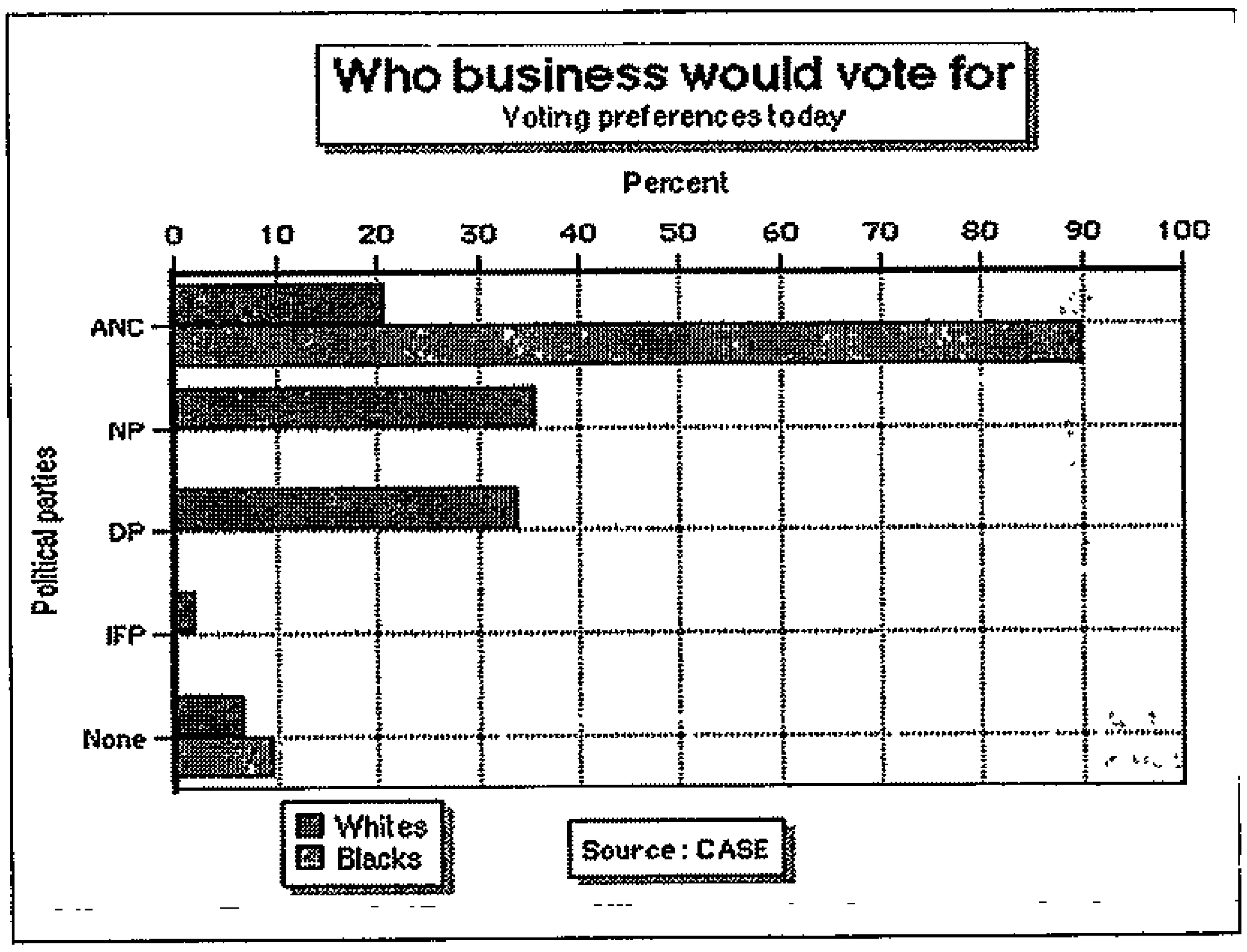
Only 23 percent of black business people mentioned a responsible and fair government as the basis of their positive assessment. "They tended," say the Case researchers, "to opt rather for the explanation that the government was now properly focusing on social spending, and addressing the needs and grievances of the poor and unemployed."

Seventy-eight percent of the overall business sample — and 93 percent of business women — thought enough had been done to reduce the Budget deficit. This figure — the difference between budgeted government spending and tax revenue, which has to be borrowed — is a symbol of fiscal responsibility.

Those who did not agree that enough had been done thought that cutting the public service as well as the defence budget would have helped to reduce the deficit.

A low six percent of all business people consider too high taxation a negative, though more black business people came to this conclusion (14 percent) than whites (six percent). Similarly a low percentage consider personal tax too high, perhaps indicating relief that no super-tax or wealth tax was introduced.

White and black business people differed strikingly on whether the emphasis in tax policy should shift from direct tax, chiefly personal income tax and company tax, to indirect tax, chiefly Value Added Tax. Sixty-six percent of white respondents favoured more indirect tax, as opposed to only 17 percent of black respondents.



Split vote: The overwhelming majority of black business people are faithful to the ANC, but white business' vote is split between the NP and DP

Labour satisfied with Budget deficit

(49)

WM(BM) 5-11/5/95

Reg Rumney

LABOUR leaders seem satisfied about the Budget deficit, the figure symbolic of "fiscal discipline", according to a survey by the Community Agency for Social Enquiry of fifty-five union leaders.

This could signal that government leaders, principally Deputy Finance Minister Alec Erwin and Reconstruction and Development Programme Minister Jay Naidoo, have done a good job of selling the concept to union leaders.

The survey shows that many unionists are satisfied the deficit has been cut enough — and many think it could have been cut further.

Almost half of the union respondents thought more could have been done to cut the deficit, notably through reducing further the amount devoted to defence.

Otherwise, unionists were notably less positive about the Budget than business (47 percent as opposed to 73 percent for business).

Those in favour mentioned similar factors to business, such as responsible government and higher social spending.

Of those against, equal proportions mentioned unaddressed problems, inadequate commitment to the RDP and high defence spending.

Forty percent of unionists were in favour of increased Value Added Tax. This was less than the business respondents, 56 percent of whom were in favour — but not as big a difference as one would have supposed, given the vociferous union opposition to the introduction of VAT.

Those against were concerned that it would exacerbate the plight of the destitute. In this they largely agreed with black business people, far fewer of whom thought more emphasis on indirect tax was a good idea than whites.

Survey a 'stark reminder' of SA's problems

ADRIAN HADLAND

CAPE TOWN — The provincial breakdown of results of a nationwide survey of householders, released yesterday, was a stark reminder of the development problems SA faced, Minister without Portfolio Jay Naidoo said. (41) (49)

Conducted by the Central Statistical Service in October, the survey of 30 000 homes indicated wide disparities between living conditions, employment levels and access to resources in various provinces.

It showed rural unemployment in Eastern Cape was at 56,3% and in Northern Transvaal 50,7% — compared with 16,4% in Gauteng and 4,64% in Western Cape.

Urban unemployment was 32,4% in Eastern Cape, 23,3% in Northern Transvaal, 29,2% in Gauteng and 19,7% in Western Cape. BD 9/5/95

More than 80% of rural people in Eastern Cape, 61,7% in Northern Transvaal and 69,4% in KwaZulu/Natal had no tap water in or near their homes.

A lack of electricity affected 92,9% of rural residents in Eastern Cape, 90,7% in Northwest, 86,7% in Northern Transvaal and 77,1% in the Free State.

There were disproportionately high levels of unemployment for women, particularly in rural areas. The bulk of the unemployed of both genders were poorly educated and aged between 15 and 29.

Naidoo said while many of the trends confirmed earlier diagnoses, he was surprised by the low number of people working in the informal sector and the extent of rural deprivation.

About 1,5-million people — 10,4% of the 8,2-million-strong economically active population — earned a living from the informal sector.

The provincial results of the survey, which followed national results released in March, would help determine reconstruction and development programme priorities. The statistics would also be used by the Financial and Fiscal Commission to work out criteria for the allocation of central government funds to provinces.

A major national census next year would add to the data government required to implement its development objectives.

Figures confirm RDP priorities - Naidoo

World development index ranks SA 86th

(49) Day 9/5/95

Cape Town — Results of the first South African Human Development Index list Northern Transvaal as the nation's least developed province and rank South Africa 86th on the world development table, alongside Paraguay.

Jay Naidoo, the minister in charge of the Reconstruction and Development Programme, told a news conference in Cape Town that the UN-linked human development index would be updated annually as one measure of the country's post-apartheid development.

He said the index, based on life expectancy, income, education and literacy, provided a useful single-figure table on which to measure the impact of the five-year, R37,5-billion RDP.

The results showed Northern Transvaal as the only province in the "low human development" category at 0,470 on the zero-to-one scale.

The Western Cape at 0,826 and Gauteng at 0,818 are the only provinces in the "high human development" range.

Naidoo said the index highlighted the gap between black and white living standards, ranking "white South Africa" 19th among the 173 countries on the international index and "black South Africa" 119th.

White society rated 0,901 on the human development index with the Asian community also in the high development category at 0,836. The coloured community was measured at 0,663 with black society lowest at 0,500.

Naidoo said the figures, released with further results of the Government's benchmark October Household Survey of 30 000 South African families, broadly confirmed the priorities of his reconstruction programme.

"The figures underline the extent of the problem of rural underdevelopment. We had anticipated the trends, but not the starkness of the problem," he said.

"It is important that we should not be content to live in poverty . ." he added. — Reuter.

SA economy is still under fire – Sacob

(49) Star 10/5/95

The South African Chamber of Business in two separate business confidence surveys has expressed concern over the nation's ability to sustain a strong economic recovery.

According to the group's latest Business Confidence Index, political disputes and violence in KwaZulu Natal played a role in sharp declines in foreign exchanges reserves last month and could cause a further reduction in long term capital flows.

In addition, pressures from soaring inflation and a dismally high money supply growth rate could lead to a rise in interest rates.

"It would be cautious to sit down and think about the sustainability of the economic upturn," said Ben van Rensburg, economic policy chief.

The key indicator to watch in the months ahead will be the balance of payments which remains the Achilles heel of the economic upturn, said the survey.

Although the trade balance gap is narrowing — latest figures show that first quarter trade surplus was R788-million compared to last year's first quarter of R4396-million — it indicates a rise in the current account deficit. Financing the current account deficit will be crucial for propelling the economic recovery.

Furthermore, the survey warned that while capital inflows are critical for medium and long term growth, the political deadlock over international mediation may have already delayed some foreign direct investment projects.

One positive sign is the global growth in industrial production which has helped push the dollar price of commodities up by 25% over the past year.

In a separate survey of confidence levels in the manufacturing sector, Sacob found a decline in the number of respondents who still feel optimistic about the nation's economic prospects for the next year. Similar reasons such as political violence, rising inflation and a fear of a hike in interest rates may have contributed to the decline.

At the same time, a majority of respondents expect sales volumes and real capital expenditures to be higher than in March while predicting a decline in production volumes, and capacity utilisation.

The region that is expected to grow the most in April is Port Elizabeth, mostly due to its booming automotive industry while (the former) Transvaal area was branded the "least optimistic region" for manufacturing. — Staff Writer.

~~(30)~~ ~~(433)~~ (49)
NEDLAC FM 12/5/95

Off to a wobbly start

Realism is needed about what the National Economic Development & Labour Council can accomplish.

It was launched in February, to forge consensus between major stakeholders in the economy. But its credibility has been undermined by reports that Labour Minister Tito Mboweni has threatened to act unilaterally on labour legislation if no agreement is reached soon between business and labour. Its viability is threatened by acrimony within constituencies and between them. And its role is not entirely clear.

The organisation has no power to implement proposals. It is an advisory body and, says its communications officer Lomin Saayman, "an agreement making body." He argues that, as government will be party to any agreement reached, it is unlikely to ignore proposals flowing from it. "Government's commitment to Nedlac is demonstrated by the number of its top officials, mostly Cabinet Ministers, who lead its delegation on the executive council."

If the organisation proves influential, the question of transparency becomes critical. This is particularly important where a handful of negotiators are acting on behalf of a large and diverse constituency. As yet no decision has been made as to whether the meetings of Nedlac's four chambers will be open to press and public. "We are still considering this issue," says executive director Jayendra Naidoo. In its press release Nedlac says its goal will be "to inform its constituents and their membership, the public and the media."

However, it goes on to warn that "transparency does not necessarily lead to effective communication, and information generated by the negotiating process has to be packaged in such a targeted manner that it will meet the information requirements of all stakeholders."

Roughly translated that means issues will be obscured by ambiguous policy statements issued when negotiations are over.

Another problem, still to be resolved, relates to the dissension in the business community over representation. There is a dispute between the two umbrella bodies, Nafcoc and Business SA (BSA), over how many seats Nafcoc is entitled to on the Nedlac's executive council and the four chambers (*Leaders* May 5).

This has also left the SA Chamber of Business, the biggest and most influential representative body in the country, unrepresented on the key trade and industry chamber.

The dispute has been referred to mediation. BSA and Nafcoc have appointed a task force to interact with mediators John Hall, chairman of the National Peace Committee, and advocate Dikgang Moseneke. The impasse must be resolved before the next meeting of the executive council.

This is only one aspect of the dissension in the business community on the issue of representation. There are those who question the need for a structure as formal as BSA, which duplicates the functions and roles of certain member organisations. They suggest it could operate more flexibly.

Meanwhile, Nedlac has published a work programme for three of its four chambers — dealing with public finance & monetary policy, trade & industry chamber and the labour market (see *Current Affairs*). The fourth chamber, home to the development constituency, is still embryonic and had its first meeting on May 4.

Nedlac, which operates under the Nedlac Act of 1994, has absorbed two organisations. One is the National Economic Forum, the tripartite alliance between business, labour and government. The other is the National Manpower Commission. And it has acquired a new partner — the development constituency.

It can be an important sounding board and think-tank and play an influential part in decision making. But, if its goals are too ambitious, it will ensure it falls short of

WORK PROGRAMME FOR NEDLAC

Nedlac (see above) has published a list of work priorities.

The public finance and monetary policy chamber is examining exchange control and exchange rate policy, and its effect on trade, investment, employment and inflation.

A macro-policy framework for reprioritising expenditure is being developed by the Central Economic Advisory Service. It will be fed into the budgeting process and the results will be considered by Cabinet in June.

It is also "aiming to achieve consensus on procurement policy." And a government investigation into the reorganisation of State assets will be tabled shortly.

The trade & industry chamber is looking at international trade relations and trade policy, foreign and domestic investment policy, industrial policy and industrial restructuring, export marketing and technical assistance for medium, small and micro businesses, supply side measures, competition policy and mining minerals & energy policies.

The agenda for the labour market chamber is the draft Labour Relations Bill (see page 42), International Labour Organisation conventions, amendments to the Unemployment Insurance Act, harmonisation of labour laws and the Labour Market Commission whose report will be tabled in mid-August.

The fourth chamber, of the development constituency, is still embryonic. Its first meeting was on May 4.

The Argus, Monday May 15 1995

(49) ARGT 15/5/95

IMF sees lower growth for SA

WINDHOEK. — South Africa's economy will grow more slowly than the rest of Sub-Saharan Africa this year as those economies benefit from a commodity price windfall, the International Monetary Fund forecasts.

Jurgen Reitmaier, chief of the IMF's South African Division 1, says the IMF has downgraded South Africa's gross domestic product growth prospects because of the drought threat.

Poor agricultural conditions will trim 0,5 percent off growth in 1995, he told a IMF/World Bank seminar here. Real GDP will likely be 2,5 to 3,0 percent instead of an earlier forecast of 3,0 to 3,5 percent.

Sub-Saharan Africa as a whole should achieve a GDP increase of 5,0 percent in 1995, although possible drought effects could also impinge on its growth performance.

David Cook, the World Bank's resident representative in Zimbabwe, says this will probably result in a gain of two percent in real per capita incomes for the sub-continent, after more than a decade of falling living standards.

However, South Africa's muted growth will unlikely impact positively on per capita incomes and at least four percent growth is necessary to alleviate high unemployment

The strong rise in agricultural, mineral and other primary commodity prices will underpin Africa's growth performance during the next two years, and contribute to an improvement in exports and lower inflation, he says.

The Bank believes this improved external environment in conjunction with economic liberalisation efforts, especially trade reforms, will stimulate GDP growth in Africa.

However, Bank and Fund officials warn Sub-Saharan Africa not to squander the gains from the improved external environment due to better commodity prices, likely to last through to 1996.

The commodity price boom is only transitory and the Bank anticipates real prices by 2005 will be no higher than their levels registered in 1990.

Mr Cook says some countries may be tempted to cut corners with current IMF and Bank supported reforms, as commodity market windfalls mask serious economic inefficiencies.

African countries struggling with the short-term pain of economic structural adjustment could waste these gains through increasing wasteful public consumption and not investing enough in productivity.

Instead, Mr Cook and the IMF's Mr Reitmaier encourage Sub-Saharan African countries undergoing structural adjustment programmes to push ahead with economic liberalisation.

They believe governments' involvement in the economy needs to be curtailed further, saving and investment must be encouraged, and trade barriers speedily dismantled. — Sapa.

IMF downgrades SA growth outlook

(49) Star 16/5/95

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They believe governments' involvement in the economy need to be curtailed further, saving and investment must be encouraged, and trade barriers speedily dismantled.

Macroeconomic stabilisation will help keep a lid on inflation and tariff reform will enable Sub-Saharan Africa's developing countries to benefit from the implementation of the General Agreement on Tariffs and Trade.

Sticking to the economic adjustment path will enable Sub-Saharan Africa to achieve average GDP growth of 3,8% a year from 1995 to 2004, while GDP per capita could increase on average by 0,9% annually and inflation average 8,0% per annum.

Sub-Saharan African economies could perform even better if their debt burdens are reduced. The region's debt-servicing ratio has doubled in recent years to 4,5% of GDP. — Sapa.

Agricultural output falls 12,7% (49)

BD 16/5/95

Poor mining, drought stunt GDP growth

Mungo Soggot

POOR mining and agricultural production hit GDP growth in the first quarter, squeezing annualised growth from the previous quarter to only 1,5%, Central Statistical Service figures showed yesterday.

The figure surprised economists as most had expected annualised growth of at least 2% after 6,4% in the last quarter of last year. But economists remained confident that 3% growth was still attainable this year, compared with 2,3% last year.

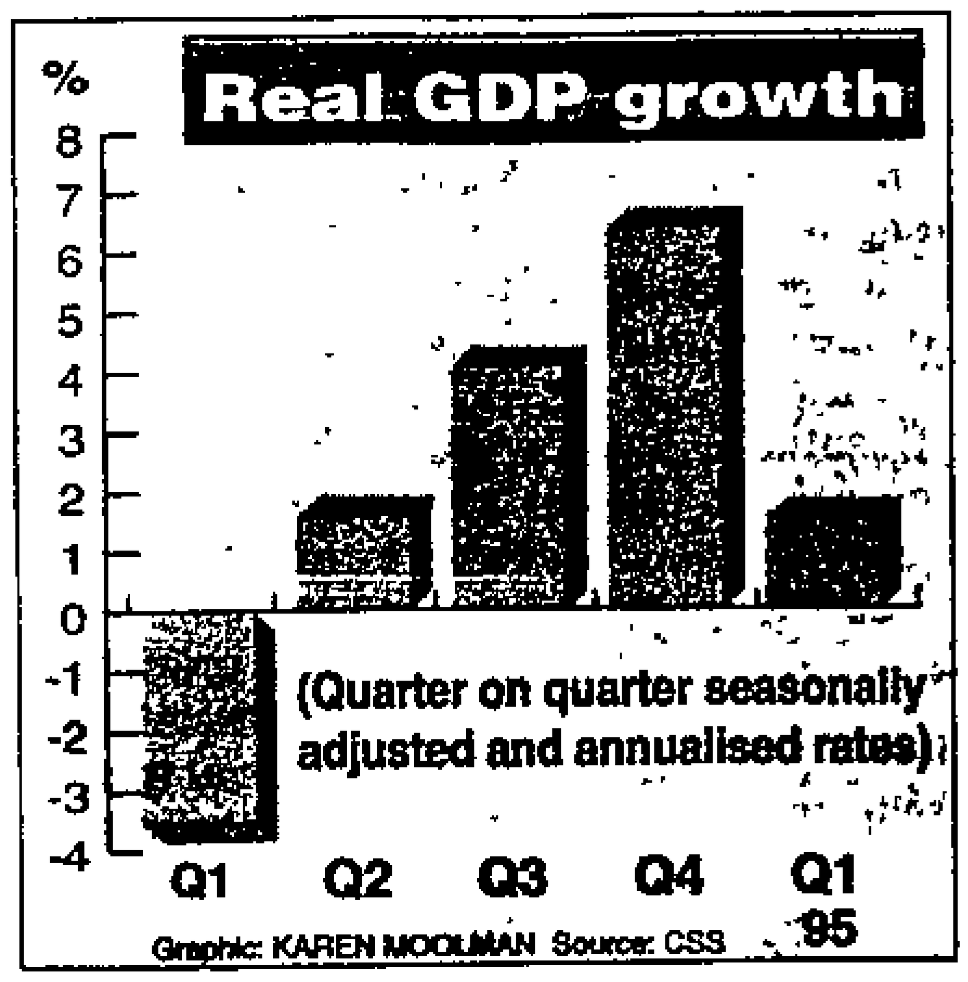
Figures are quarter-on-quarter seasonally adjusted and annualised unless otherwise stated.

Agricultural output shrank 12,7% in real terms as the drought took its toll. But Standard Bank's economics unit warned that the major effects of the drought would strike only in the second and third quarters when the maize crop was harvested. Mining was down 8,1%, mainly because of a fall in gold production.

Ed Hern, Rudolph economist Nick Barnardt said the weak agriculture and mining sectors could shave a percentage point off this year's growth. He said 3% was still within reach. The manufacturing sector was up 3,9% and economists said they expected continued strong growth. The sector grew 6% year on year and Barnardt said that the revised figures could end up showing an 8% year-on-year increase.

The CSS said excluding mining and agriculture the economy had grown 3,1%, while the non-agricultural sector had grown 1,9%.

Econometrix economist Tony Twine said the weak performance of major export sectors like agriculture and mining was worrying. Evidence that the economy was more buoyant in the first quarter than the GDP figures suggested — in particular the rapid rise in imports — signalled rapid growth in gross domestic expenditure (GDE is GDP less the trade balance).



Barnardt said GDE appeared to be growing at least twice as fast as GDP. The pattern of growth in sectors experiencing strong demand for imports — such as manufacturing — and simultaneous decline in the export industries meant the current account of the balance of payments would probably deteriorate further.

Economists noted the small quarter-on-quarter increase in GDP had come off a high base — in the fourth quarter of last year the economy grew an annualised 6,4%. Real GDP at market prices was up 3,5% year on year, helped by coming off a very low base from last year.

Finance committee slates government

BD 24/5/95

Tim Cohen (49)

CAPE TOWN — The parliamentary finance committee yesterday slated government's financial management, describing it as "woefully inadequate and virtually absent" from the public sector.

In its report on the State Expenditure Department, the committee said that despite the critical importance of financial management, the auditor-general's reports and evidence before the committee indicated financial management was virtually absent. While all government departments were responsible for ensuring effective financial management, the State Expenditure Department's options and responsibilities should be resolved urgently.

The committee commended the department for its clear vision, concrete plans of action and a timetable for its plan.

But several aspects still needed consideration, it said, suggesting that expenditure on intelligence services within the responsibilities of the State Expenditure Department was undesirable.

Intelligence services' budget should be placed with the Office of the President where responsibility for those services lay, the report said. The lines of authority between State Expenditure and provincial executive members responsible for state expenditure required clarification.

Nedlac 'may have to call in outside facilitators'

(49) BD 24/5/95

Renee Grawitzky

INFORMAL discussions had taken place to bring in outside facilitators to assist the parties in reaching consensus on labour legislation in the National Economic, Development and Labour Council.

Nedlac executive director Jayendra Naidoo said this may become necessary because of the complexity of the issues and the tough nature of the negotiations.

Labour attorney John Brand said the process adopted in developing new labour legislation was flawed and had resulted in the parties adopting positions which under normal circumstances might not have been adopted. This had resulted in adversarial rather than constructive and creative negotiations.

Naidoo said a number of critical issues, such as centralised bargaining, had to be resolved.

Government had committed itself to centralised bargaining in terms of the reconstruction and development programme, he said.

Industrial relations consultant Gavin Brown said if government was committed to centralised bargaining then this should be given expression in legislation. He said employers would prefer some sort of compulsory centralised bargaining where the parameters and requirements were clearly specified in the legislation which created certainty over where the parties stood.

the education department.

Full backing for free hand of auditor-general

BD 30/5/95

Adrian Hadland (49)

CAPE TOWN — Political parties yesterday reported unanimity on enshrining the auditor-general's independence and impartiality in SA's new constitution.

The chairman of the subtheme committee considering the place of financial institutions in the constitution, ANC MP Rob Davies, said a "high level of consensus" had been achieved. Even the views of the Inkatha Freedom Party, which is not taking part in the constitutional process, had been incorporated.

NP committee member Piet Welgemoed described the level of consensus as "99,9%" with only a few nonsubstantive matters left to be redrafted.

Among clauses agreed were that the auditor-general be appointed by a parliamentary committee representing every political party for a maximum of two five-year terms. The incumbent would have the discretion to investigate accounts of any institution controlling public funds.

The committee will finalise the proposal next Monday before passing it on to the constitutional committee for inclusion in the draft constitution.

The committee is also due to consider the more controversial question of the independence of the SA Reserve Bank. The debate escalated into a row last week as Bank Governor Chris Stals announced his opposition to ANC plans to differentiate between the operational and goal independence of the institution.

Technical adviser Cyrus Rustomjee has been requested to analyse information from the Bank, Finance Minister Chris Liebenberg and other sources. He is scheduled to give the committee a presentation next Monday.

● See Page 12

Cape Town keeps away the parliamentarian blues

Edward West
BD 30/5/95

CAPE TOWN — Parliamentarians are struggling to find time for their duties and were deeply dissatisfied with the workload generated by the new committee system, a survey conducted by the University of Cape Town (UCT) has found.

UCT's political studies department conducted the survey through questionaires and telephone calls to all the 400 MP's and 90 senators.

The department received 171 replies on how effective the parliamentarians thought government had been and how they liked Cape Town.

Parliamentarians indicated their main problems were related to time management rather than Parliament's Cape Town location, UCT politics senior lecturer Peter Collins said.

They said there was not sufficient time for committee work and a family life and they lacked adequate research and secretarial assistance.

By contrast, the traditional parliamentary debate was seen as a "time-waster". Only four of suggested the legislative and executive branches of government should be located in the same city.

Of the respondents, 112 recommended improvements and rescheduling of committees, while 99 wanted more research and administrative staff.

About 159 reported having a pleasant stay in Cape Town as against 11 who had not, which indicated it would be undemocratic to move the legislature, said Collins.

On a question of whether the government of national unity should continue after 1999, 54% or 89 voted yes, while 75 or 46% voted no, with no apparent party political difference in the respondents replies from the ANC, NP, Inkatha Freedom Party, DP, Freedom Front and SA Communist Party.

The majority view was that the business of government was effectively conducted last year, that the system was personally rewarding and that Cape Town was a congenial place to work, the survey concluded.

Archbishop Desmond Tutu said [illegible] research showed the present wrangling over the location of Parliament was unbecomming. The leader of a Cape Town group lobbying to keep the legislature in the city, David Bridgeman, said the survey was the latest in a series of research findings which "proved" that Cape Town was favoured as the parliamentary capital.

Keeping a hold on the nation's purse-strings

(49) Star 3/6/95

Weighing up costs is Auditor-General Henri Kluever's business. However, the task does not extend to balancing the political books, writes Chief Reporter JOHN PERLMAN

"I'm probably in trouble again this morning," says Henri Kluever, but the chuckle suggests he is not particularly anxious.

The previous day, South Africa's auditor-general had criticised government plans to pay for a public servants' pay increase with R1-billion originally budgeted for reducing the shortfall in government pension funds. This was unacceptable financial practice, Kluever said. It was "like selling the family silver to buy bread".

Kluever has annoyed politicians before.

Earlier this year, his warning to Parliament of impending disarray in the public service was blasted by Public Service Minister Zola Skweyiya as "exaggerated and inflammatory".

In his report on the Government's 1993/94 spending, Kluever said government departments were losing large numbers of senior people, while remaining overstaffed and inefficient in other areas.

Skweyiya said: "I am not sure that he is sufficiently aware of the political cost of the allegations he is making."

Weighing up costs is, of course, Kluever's business. "The office of the auditor-general does some 1 400 audits a year," he says, "and we spend R40-million contracting people in to do others." That involves keeping an eye on all government departments, nine provinces, about 750 local authorities, 37 regional services councils, 22 agricultural control boards and more than 450 statutory bodies.

> *I like writing the reports — I think I've got a little devil on my shoulder. I have to say I enjoy the power and the status*

However, that task does not extend to balancing the political books. "I'm just an auditor," Kluever says. "We don't have anything to do with the running of the country. We stick to our auditing and we blow the whistle if they are not playing the game by the rules. Sometimes we make comments on the rules."

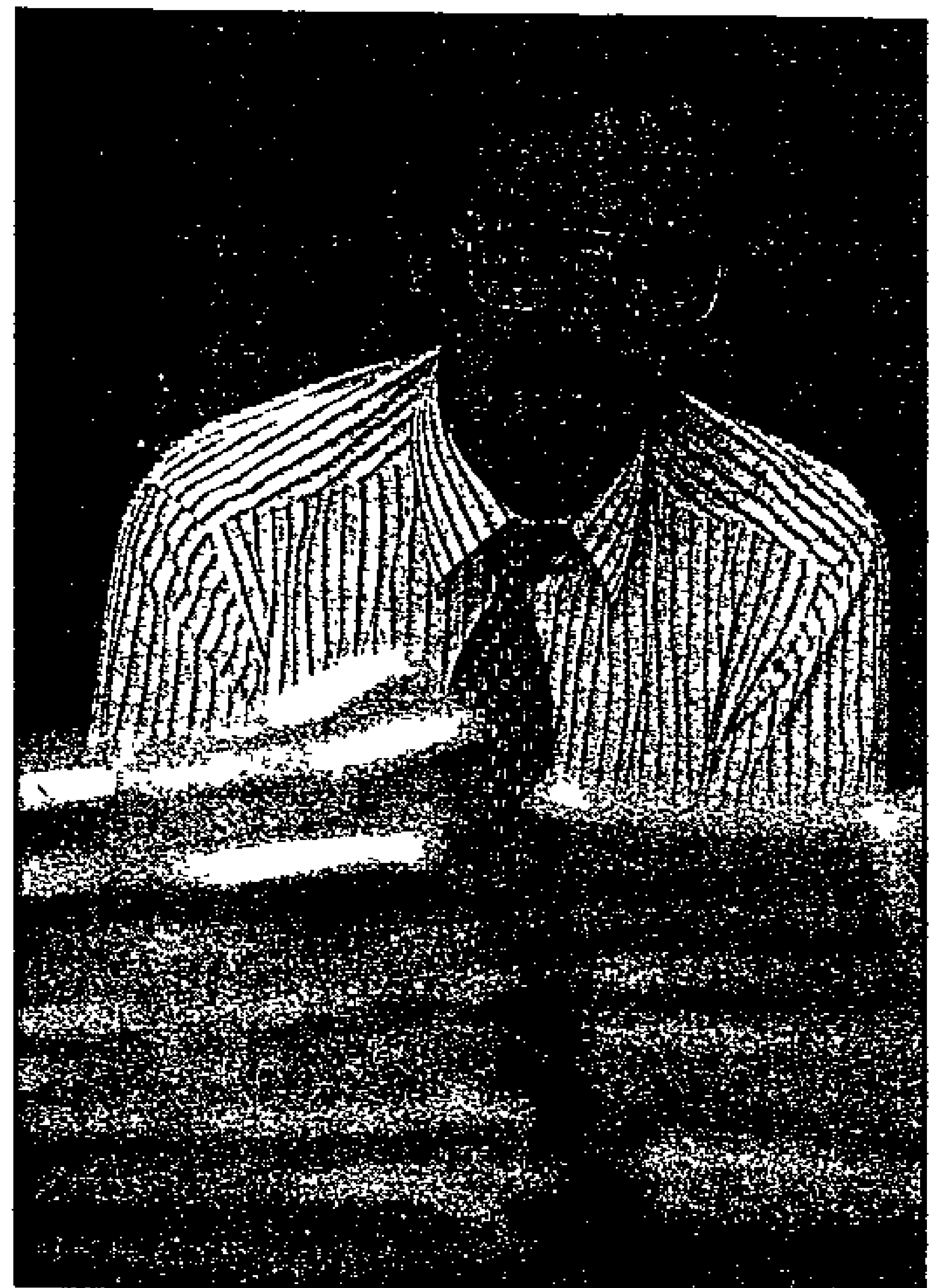
Kluever is confident that the auditor-general's office can weather powerful political storms. "The constitution states that no organ of state and no person shall interfere with the auditor-general or his staff."

That reflects a longer process which saw the auditor-general's office separated from the Department of Finance and then made independent in 1993. "Parliament is now boss," Kluever says. "I report to three parliamentary committees: the audit commission, the joint standing committee on public accounts and the standing committee on finance.

"What determines my ability to do my work is my relationship with these committees. All three of these committees have absolute trust in me. As long as that remains, people can throw any stone they want."

Kluever's briefings to these committees have a much wider audience than in the past. "The media and the public are present at the hearings, which was not the case before. If you look at the debate that was generated, the taxpayer is now getting much better value for his money. He now has a big rottweiler watching over his money instead of a Maltese."

When Kluever presented the auditor-general's report to Parliament in March, it was incompetence and abuse that drew most publicity — assessed tax amounting to R8,5-billion had not been collected, and the homeland financial mess was so deep and tangled that "an audit may indeed be impossible".



KEEPING TABS: Kluever is confident that his office can weather political storms PHOTOGRAPH ANTON HAMMERL

Yet he laughs at the suggestion that all of this would surely disillusion even the sunniest optimist. "I report on problems, but it's not all problems," he says. "If you look at the whole picture, the central government departments were not doing too badly, although nobody is a 10 out of 10, not even Bo Derek.

"Unfortunately, as we move away from central government, you find that things are not as well managed. We've just completed a report on the TBVC countries and what's been going on there is terrible."

Even so, says Kluever, South Africa "is not a corrupt country by international standards. You don't have to put a dollar note in your passport to get through customs." And, he says, it is "definitely not correct" that the crooks in government keep getting away with it.

"Just catching the buggers is the problem," he says.

"If we report something it goes to the standing committee on public accounts. They have a hearing on the matter and can ask anyone to appear and testify, including ministers. The recommendations of these committees are not taken lightly and the director-general of the relevant department has to act on them."

As one small preventive step, Kluever recommended to Parliament that firm guidelines be set on government officials' receipt of gifts. "Exchanging small gifts is part of normal business practice and I don't think the abuse is too bad. I would say a bottle of whisky is okay, a case is unacceptable."

Other problem areas, like tax collection, need deeper surgery, he says. "I think we should take the office out of the public service and create a separate agency, like in the United States. If you work in America and they say 'submit your return on such a date', you'd better do it."

> *The taxpayer is getting much better value for money. He has a big rottweiler watching over his money instead of a Maltese*

Making a separate agency of the auditor-general's office has been a great success, he says. "The office is run as a business unit and the set-up is so modern we have been having inquiries from all over the world."

Kluever took over as auditor-general when the late Peter Wronsley retired in December 1992. He was appointed for a seven-year term which was not renewable — "so the auditor-general can't curry favour for reappointment," he says.

"I have had some nice offers from the private sector, but I enjoy what I am doing. I like writing the reports — I think I've got a little devil on my shoulder. I have to say I enjoy the power and the status, if I'm truthful. But I also believe I can make a contribution to a better South Africa."

Last month Kluever's office was appointed to audit the World Health Organisation, which has a budget of some $1,5-billion (about R5,5-billion).

Kluever says the decision was made at a meeting of the World Health Assembly, with South Africa and Australia the two final contenders. "We did what the Springboks did."

Speaking of which, what would his proposed guideline be on gifts of, say, a pair of seats at Ellis Park on June 24? "A gift of two tickets to the Rugby World Cup final is borderline. It's prrrrobably acceptable," Kluever says with a laugh that suggests even he could not resist it.

Theft of taxpayer's money must be stopped urgently

CT(BR) 7/6/95 (49)

MY TURN

Ken Andrew, MP, and the Democratic Party's spokesman on finance, writes on the crisis in the government's financial management

Hardly a week goes by without new evidence emerging of serious deficiencies in financial management and control in government, both now and in the past.

This has resulted in billions of rands of taxpayers' money being wasted, stolen or simply going missing.

The great danger is that unless drastic action is taken this situation is likely to deteriorate rather than improve.

Consider some of the evidence.

Most government departments do not have financial managers and proper internal audit components in place.

Moreover, most former TBVC and self-governing administrations fell far behind in having their accounts audited and satisfactory financial control and administration was sorely lacking or non-existent.

Extraordinary

The Auditor-General has commented that financial control and administration "have deteriorated to such an extent that extraordinary efforts will have to be made to restore financial order". In the case of Transkei, for example, more than R1 billion has gone missing and cannot be accounted for.

New provinces which have had to take over corrupt or inefficient homeland administrations are now struggling to ensure proper financial control and management.

The state expenditure department, which needs to play a critical role in rectifying this situation, has suffered a debilitating loss of senior staff, having lost nearly half of its most senior staffers over the past two years — most of whom have taken early retirement.

This is a crisis of major proportions which involves billions of rands and which cannot be handled by simply implementing incremental improvements.

It is a crisis which, if not resolved soon, will result in the wastage of billions of rands, make the reconstruction and development programme unachievable and sabotage any possibility of reducing state debt to manageable proportions.

How can one solve this crisis?

First, government must recognise that it is a serious crisis. Second, government must recognise that the public service does not at present have enough skilled people to resolve the crisis on its own

Then, we need to look at how one can involve the private sector.

Two specific forms of involvement of the private sector should be looked at urgently.

First, private accounting firms should be contracted for three years to assist wherever needed at provincial level:

- To maintain up-to-date and accurate financial records as required by law;
- To introduce proper budgeting, financial management and control systems; and
- To undertake intensive training and, where necessary, assist with recruitment to ensure that the systems can be operated effectively after the three year contract is completed.

We cannot afford to have a repeat of what happened in some former homelands where inadequate control and outright theft were the order of the day. Some provinces do not at present have the skilled personnel able to look after their finances properly. Action must be taken now, not in a few years time after the Auditor-General has had to report that billions of rands of taxpayers' money have disappeared.

Second, the private sector should be employed to take over non-discretionary administrative functions wherever possible.

A good example is the successful pensions payout pilot project currently being conducted in the Western Cape. The paying by government of social old age pensions had been a nightmare: long queues, widespread fraud, armed robberies, inaccurate records and dissatisfied pensioners were some of the outstanding characteristics

Dramatic

The job was put out to tender and the improvements have been dramatic. There are many other administrative functions of government which should also be privatised.

One does not want to be alarmist, but it is hard to overstate the seriousness of the situation in so far as financial control and management are concerned and the fact that a real possibility exists of an almost complete breakdown in some areas.

NATIONAL DEBT

Picking up the tab

(49) FM 9/6/95

The disappearance of the TBVC states as political entities masks a growing problem in national governance. This is that, in every single case, the independent homelands (Transkei, Bophuthatswana, Venda and Ciskei) were either ruled by corrupt elites, whose financial probity left much to be desired, or subject to gross maladministration.

The financial effects — which no-one seems able to quantify — have not worked themselves through the system. Where accounts were kept, auditing systems were defective and mismanagement flourished. This, at any rate, is the judgment of the Auditor-General. In his report to parliament, conditions in the TBVC and self-governing territories are reflected as having "deteriorated to such an extent that extraordinary efforts will have to be made to restore financial order."

With the redrawing of the regional boundaries, different provinces have theoretical responsibility for the conduct of certain public affairs in the remnants of the homelands. In fact, this is proving impossible, since in many cases the third tier — local government, where it exists — has been acting unilaterally by writing off debts. Thus, rents and service payment arrears, theft and waste have led to an accumulated deficit of unknowable proportions in the provinces.

In the case of the Transkei, R1bn is missing and cannot be accounted for.

During last week's debate on the State Expenditure Vote, Democratic Party finance spokesman Ken Andrew pointed out that "the possibility of almost complete breakdown in some areas looms large." This was exacerbated by the situation in the Department of State Expenditure itself, which has lost almost 50% of its senior staff over the past two years, most having left on early retirement.

An inter-departmental committee — reporting to the Minister for Provincial Affairs & Constitutional Development Roelf Meyer — was set up last year to investigate the existing conditions and future of local government finance.

However, no authoritative report has been forthcoming and, according to Meyer, "the committee is conducting a comprehensive investigation which will continue for a considerable time."

In some regions, the decision to write off service debts has added to the confusion. Replying to a parliamentary question last month, Meyer admitted that the amounts involved "are unfortunately not known. Local authorities are autonomous, and it was suggested to them that arrears of residents be written off by means of a council resolution. It is not known if this was executed everywhere."

Furthermore, "local authorities which decide to write off their service charge arrears are themselves responsible for the financial implications which may result from it."

These local authorities, of course, are not exclusively linked to the former homelands. But the disbandment of the TBVC, along with the plurality of transitional authorities and plain confusion over powers and responsibilities, explains why government is finding it difficult to cope. On the ground, as in the Eastern Cape, many townships which became ungovernable under apartheid have remained so — and that applies to education and social services in severely neglected areas.

Meyer . . . *impact of write-offs not known*

It can be surmised that no-one will want to accept financial responsibility for debts that "are unfortunately not known." The ancillary problem — of how to restore or initiate services in deteriorating areas — could therefore be moot.

Andrew's suggestion is that the scope of the crisis should be admitted — as well as the fact that the public service does not have enough skilled people to resolve matters. From that admission could flow the beginnings of a solution: contracting out financial and social services to the private sector.

Financial involvement by commercial firms (which Andrew suggests should be for a three-year contract period) would be aimed at:

- Maintaining accurate and current finan-

Communists in attack on GNU's economic policies

BY MONDLI MAKHANYA
POLITICAL REPORTER

The South African Communist Party (SACP) has, in its latest journal, launched a major assault on the Government's economic policies.

In what reflects a widening gulf between the ANC in Government and its ally on economic matters, the planned disposal of state assets comes in for scathing criticism in the SACP's quarterly publication The African Communist, which is due out this week.

SACP deputy secretary general Jeremy Cronin and Congress of South African Trade Unions president and SACP central committee member John Gomomo have, in separate articles, castigated the ANC-led Goverment for extolling the virtues of privatisation and other economic strategies advocated by donor agencies.

"Public assets are not the private property of a particular party or government, but a heritage of the whole society. They should be protected from unilateral action taken by ruling parties," writes Gomomo.

He says any unilateral privatisation would be rejected by the union movement. Cronin singles out Public Enterprises Mininster Stella Sigcau for slavishly holding Malaysia up as a model for South Africa to follow in implementing privatisation and affirmative action.

Cronin argues that the Malaysian economic success touted by Sigcau was achieved on the back of authoritarian regimes and has benefited only a small elite.

There are more parallels between the Malysian policies and those of the Verwoerdian era National Party in South Africa than with the ANC, Cronin says.

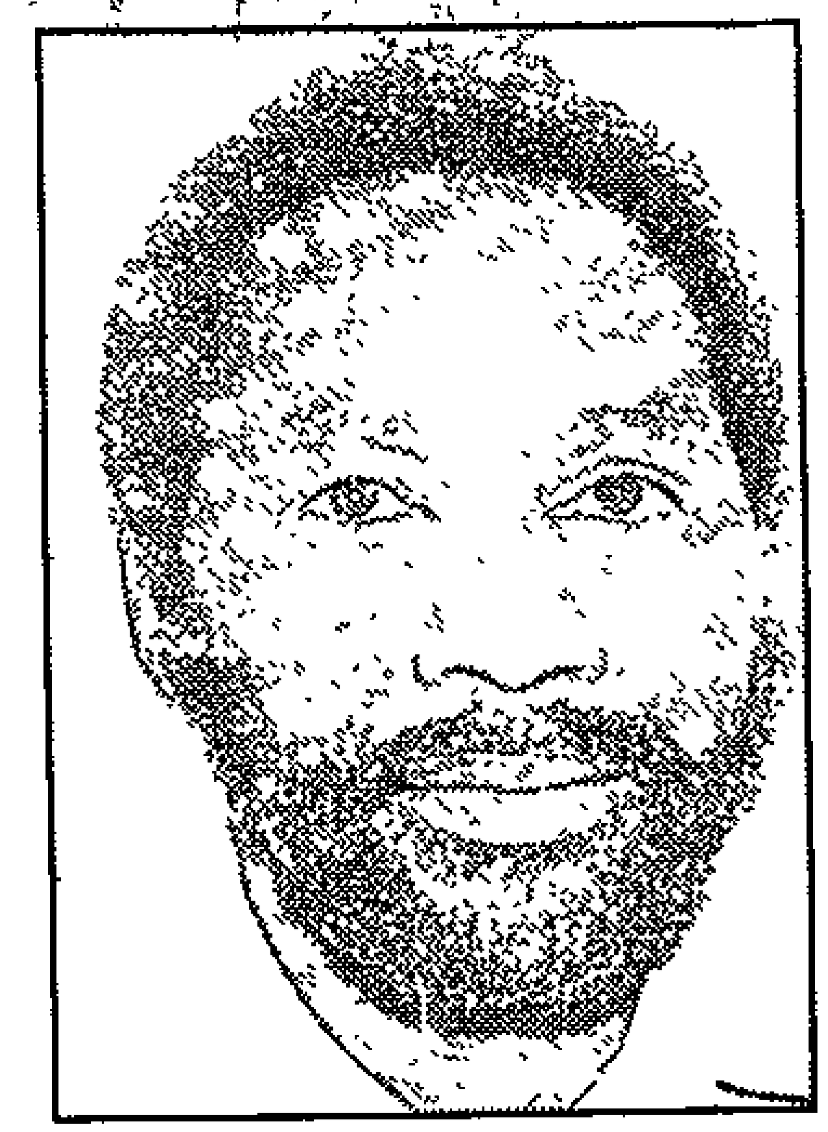
Gomomo also takes the Government to task for wanting to accept "the blueprints of outside agencies wanting to impose their dogma on to our situation".

He says accepting this advice would lead to privatisation and rationalisation of the public sector, the rapid lifting of trade barriers, the establishment of cheap labour Export Processing Zones, and the advent of "Thatcherite monetarism".

He attacks the privatisation and rationalisation of the public sector and argues that, if carried out, it would rob the population of basic services and result in a loss of jobs.

"Apart from the social problem created by privatisation, it also has a poor record of creating jobs. If anything, commercialisation and privatisation have destroyed jobs," says Gomomo.

Referring to the rationale used to justify privatisation Gomomo says the financial spin-offs would amount to only one year's servicing of the national debt. It should also not be used to empower black business because this would only benefit a small elite of the black community.



John Gomomo . . . SACP central committee member.

(49) Star 13/6/95

427, also above the 376 guideline.

SA's economic 'success story'

49

ARG 20/6/95

JOHANNESBURG. — Rapidly rising productivity and a sharp drop in strike levels rank as a big success story in the first year of South Africa's new democracy.

Top financial consultants Ed Hern, Rudolph said: "Underlying labour trends in the economy are actually less negative than generally realised."

Estimating a 10 to 20 percent drop in man-days lost from strikes for 1995 from 1994, Ed Hern, Rudolph said there had been a 2,5 percent rise in labour productivity combined with a single-digit year-on-year overall unit labour cost inflation of 8,5 percent.

"The fastest improvement has been in manufacturing, where real labour productivity was up more than five percent on the first quarter — probably one of the highest rates in the world over the past year."

"The rapidly rising productivity, in turn, has substantially curtailed the underlying inflation rate in labour costs (which) converts an 11 percent average rise in wages and salaries into an effective year-on-year inflation rate of only 8,5 percent in overall unit labour costs (ULC).

"These highly favourable underlying labour trends hold the 'triple whammy' benefits of raising economic growth, corporate profits, fixed investment and of new employment growth while simultaneously subduing inflationary risks.

"The remarkable labour achievements of the past year probably rank together with the huge net capital inflow of R17 billion and the double-digit growth in real fixed investment as one of the big economic success stories in the first 12 months of South Africa's new political dispensation."

Labour analysts Andrew Levy and Associates said in a wage settlement survey in May that strikes dropped significantly in South Africa. Reuter.

Key issues must be resolved, warns Sacob

ARG 22/6/95 (49)

Business Editor

SOUTH Africa could be trapped into low growth rates of about three percent if key issues in the economy are not resolved, the SA Chamber of Business (Sacob) has warned.

In a statement after Sacob's mid-year council meeting in Johannesburg yesterday, the chamber's president, Les Weil, said a growth rate of five percent to six percent was necessary to tackle unemployment and poverty.

But unless key issues were resolved soon, the political and economic gains made in the last year could be negated, he said.

Issues identified by Sacob were:

- Labour relations;
- Crime and violence;
- Competition policy;
- Public holidays, and
- Taxation

Mr Weil said the chamber was concerned at prospects of a land tax, a health tax, a provincial surcharge on national taxes and higher regional services council levies.

SA growth 'stronger than GDP figures indicate'

CT (BR) 22/6/95 (49)

By Derek Tommey

A large part of the South African economy is growing much more strongly than the global GDP figures indicate, says First National Bank's treasury in its newsletter Rand Focus

It says real GDP in the first quarter of this year is 3,5 percent higher than a year ago.

But hidden in the overall GDP performance is the fact that only a small section of the economy is not growing strongly, with a much larger part doing better than generally thought

Only three sectors are performing poorly These are agriculture, as a result of climatic conditions; general government, whose spending growth is being restrained by budget considerations; and gold mining, as a result of rising costs in the face of a stable rand gold price putting pressure on marginal mining activity.

Together these sectors represent only 25 percent of GDP. In contrast, another four sectors representing 60 percent of the economy are growing at a steady pace of 4 percent or better.

These are manufacturing, retailing, private services and non-gold mining.

The remaining 15 percent of GDP is contributed by construction and the three main parastatals (electricity, transport and communication) with their private competitors.

These two sectors are barely averaging 2 percent growth, but have considerable potential in terms of reconstruction and development programme plans.

The treasury takes the view that a large current account deficit need not retard South Africa's growth rate. It sees no danger in South Africa borrowing enough money overseas to cover a quite substantial deficit. But the danger could arise if these borrowings were not used to strengthen the economic structure.

Real current spending is growing at the moment by about 5 percent a year, against a real GDP growth of about 3 percent, it says.

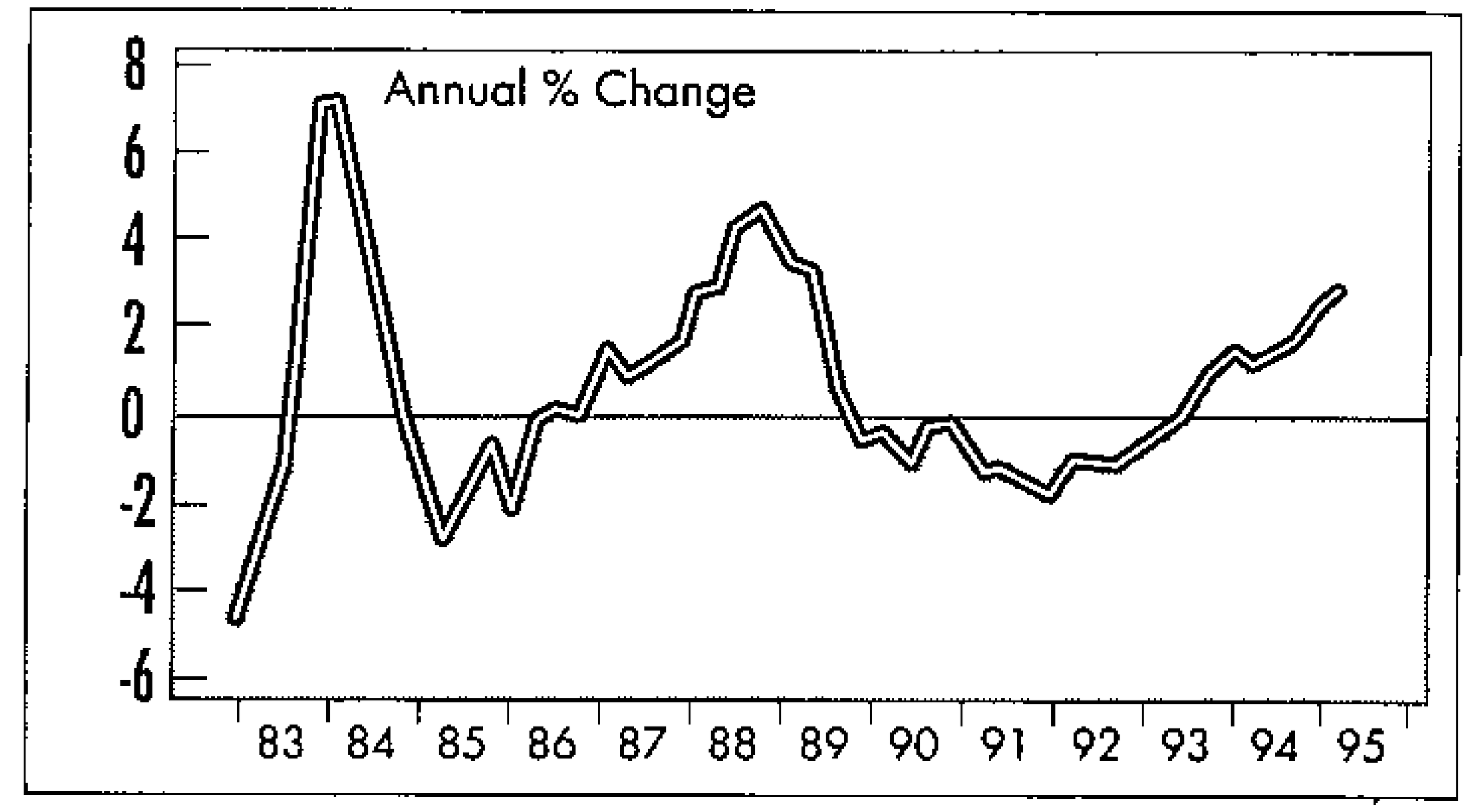
If this continues the savings "gap" next year may easily rise to between 2,5 percent and 3 percent of GDP.

This implies a current account deficit of between R13 billion and R15 billion, requiring at least matching inflows of foreign capital.

The treasury says that while these numbers look big, they are by no means exceptional compared to other "successful" development countries pursuing domestic reform agendas and high growth rates. South Africa's foreign debt has been estimated at $25 billion which is low by international standards and against annual exports of $30 billion and a GDP of about $130 billion. Such a foreign debt could be increased "comfortably" by up to $20 billion, which should support steady economic growth for a number of years. This in turn should support further inflows of foreign capital. An annual foreign capital need of $4 billion (3 percent of GDP) for some years is not in itself a dangerous proposition.

More to the point is the composition of such inflows in terms of stability and whether such a period of increasing reliance on foreign funding would be used to strengthen the economy. This would imply a restraint on consumption, both by consumer and government, in favour of productive investment.

Non-agricultural GDP



Productivity hopes rising

By Derek Tommey

Hopes are rising in the gold mining industry that workers are starting to respond to the message that if they do not work more effectively, their jobs may be at risk.

Ken Dicks, regional general manager of Freegold, Anglo American's large Free State mine, said he had been heartened by the fact that no workers had taken time off on Monday afternoon to take part in the demonstration organised by Cosatu.

He said that at a subsequent meeting with union leaders they had highlighted this fact.

Dicks sounded warnings recently that unless worker productivity at the mine improved to somewhere near the levels achieved in 1993, there was a risk that the mine would end up closing 11 marginal shafts with a potential loss of 32 000 jobs.

RAMPANT THEFT, FRAUD IN FORMER TBVC STATES

'Homelands' bleeding SA dry

(49)

ET 22/6/95

THE AUDITOR-GENERAL has recommended that people be brought to justice for the millions of rands of public money being lost through maladministration, fraud and theft in the former homelands. **ANTHONY JOHNSON** reports.

THE wholesale collapse of virtually all aspects of financial administration and control in the former independent homelands is bleeding the South African taxpayer dry, the auditor-general warned yesterday.

A special report commissioned by Parliament on the former TBVC states paints a picture of rampant fraud, theft, overpayments, destruction or non-existence of vital records, absenteeism, idleness within government departments, parastatals and local authorities.

His report notes that hundreds of millions of rand of public funds go missing or are not accounted for in the former homelands.

The "situation analysis" was conducted for auditor-general Mr Henri Kluever by five private audit firms between February 28 and March 31 this year after the joint standing committee on public accounts in Parliament had raised the alarm in October last year.

In his report Mr Kluever calls on the government to stop the ongoing wastage of "very large amounts of taxpayers' money"

Justice

He recommends that teams of specialists be sent to probe fraud and misconduct claims so that accountability and responsibility can be established and "perpetrators be brought to justice".

The probe found that the last audited reports by homeland auditors-general submitted to their respective parliaments or legislative authorities was 1986/87 in the case of Transkei, 1988/89 in Venda, and 1990/91 in Ciskei and Bophuthatswana.

Transkei had not done 85,7% of the required audits of government departments from 1988-94, and 72,9% of those required for corporations, parastatals and funds from 1989-94.

The investigation conducted this year found that in the Transkei there was evidence of the destruction of vital records and, with the exception of a few corporations, inadequate control over expenditure, salaries and wages, and the safeguarding of assets.

While certain departments were grossly overstaffed, "there was a general lack of enthusiasm or commitment with staff either not having work to do or not doing their work. Management was either unable or unwilling to implement discipline".

Appalling

In the case of the Ciskei, the report states: "On the whole the internal controls and accounting records in government departments are in an appalling state.

"Consequently, fraud and manipulation could be perpetrated on a widespread basis."

Personnel in the Ciskei appeared to be unproductive "and absenteeism is a common problem in the office of the Ciskei auditor-general and elsewhere".

In Bophuthatswana, investigators found that none of the personnel in the Department of Foreign Affairs "seemed to have any productive tasks to keep them occupied", while some had been told to stay at home while the process of amalgamation with the national department was being completed.

Theft of government vehicles was common (97 last year).

In Venda, investigators found a history of overpayments of officials, with 47% of the total budget in 1993/94 going to salaries. Actual salary expenditure increased 21,6% in 1992/93 and 18,9% in 1993/94, suggesting unauthorised increases or appointments.

Liebenberg outlines challenges

(49)

FROM REUTER

CT (BR) 23/6/95

Helping the provinces to manage their own budgets, maintaining recently acquired credit ratings and preventing large scale money laundering were some of the major challenges facing South Africa, Chris Liebenberg, finance minister said yesterday.

Speaking during debate on his budget vote in the national assembly, Liebenberg said it would be vital to ensure that the provinces had strong enough financial controls and skilled staff to manage their budgets.

The planned restructuring of the Inland Revenue Department to improve tax collection would also include a marketing drive to encourage people to pay taxes.

Liebenberg said that his vote did not include the cost of the planned restructuring.

"Over a period we are obviously going to profit significantly from the better administration that will flow as a result of better collection, but initially we will have to spend money to create the structures that are necessary," Liebenberg said.

He said he hoped that the restructuring would include the establishment of a marketing department "because we have to sell the idea of paying taxes".

International acceptance since the first democratic elections had also placed new responsibilities on his department, especially as far as its credit rating was concerned.

"Many people think it sufficient that we have a credit rating. Actually, the work only starts now to make sure that we do not slip back," Liebenberg said.

"On the regulatory side, now that we are back in the international fold, we have to think very carefully how we can prevent money laundering and promote an investor friendly image."

BUSINESS REPORT, FRIDAY JUNE 23 1995

(49)

CT(BR) 23/6/95

State spending rises 13,2 percent

Government spending for the first two months of the financial year amounted to R28,04 billion — up 13,2 percent compared to the corresponding period last year.

According to a statement released yesterday by the finance department director-general, R14,6 billion was requested during May by the various national spending agencies and provinces. R13,4 billion was requested in April.

Exchequer receipts for the first two months were R19,46 billion, 16,8 percent higher than the comparable figure last year.

The receipts of R9,26 billion for May this year were 27,6 percent higher than the figure in May last year. Receipts for April this year, at R10,2 billion, were 7,3 percent higher than April last year.

The difference between total exchequer issues and receipts showed a deficit of R8,5 billion for April and May, which was R1,5 billion lower than was recorded for the same two months last year. — Sapa

Setting the limits of government revenue

ST(DT) 25/6/95 (49)

THE Financial and Fiscal Commission, which will determine how much each of the nine regions will receive from the national tax pool, may well become one of the central government's most important authorities, writes SVEN LUNSCHE.

THE Financial and Fiscal Commission has been given an extremely cumbersome mandate by the interim constitution: "To play a leading role regarding the development and maintenance of intergovernmental financial and fiscal relations in South Africa."

Hidden behind the rhetoric, however, the FFC is set to play a crucial, if not the most important role in establishing the financial limits in which provinces and local governments will operate.

Its key function will be to determine guidelines for establishing how much each province gets from the tax pool collected nationally by Pretoria. It can also suggest additional taxes to be raised by provincial and local governments.

The commission was established last year, but its work has since gone almost undetected by the public and the provinces, who have expressed dissatisfaction about its slow workings.

This week, however, it published the first framework document to guide fiscal relations between the various tiers of government — and the blueprint contained a number of potentially controversial proposals.

The FFC's policies are not binding on the government but the financial authorities will hardly be able to justify ignoring a commission that has been working for almost a year and which has some of the finest fiscal brains in the country.

Chaired by former UDF activist Murphy Morobe, it includes Anglo American tax consultant Marius van Blerck, ANC tax adviser Lieb Loots, Kagiso Trust chairman Eric Molobi and Cosatu's leading policy maker, Ebrahim Patel. Deputy chairman Anthony Melck has been seconded to the FFC from Unisa, where he is vice-principal.

Half of the commissioners are appointed by the government while the nine provinces each have one representative.

Mr Morobe says the FFC has been mandated to make a contribution in drawing up the 1996/7 Budget. He is confident that this can be achieved before government departments start discussing their budgetary requirments in November this year.

He says three broad norms guided the FFC in drawing up its proposals for the fiscal system:

- Each level of government should raise as much as possible of the revenue it spends, granting them a relatively high level of fiscal autonomy.
- Equitable inter-governmental fiscal relations. "Vertical disparities between the three levels of government and horizontal disparities between jurisdictions at the same level (various provinces) should be compensated for by grants from the national government; thereafter granting lower-tier governments freedom to make own allocative choices should enhance efficiency," says the report.
- Easily intelligible and accessible reporting, accounting and auditing procedures must be in place before lower-tier governments assume fiscal independence.

The FFC's most controversial proposals relate to the additional tax-raising powers of the provinces.

The report suggests that the bulk of the main taxes and levies should continue to be raised at national level and distributed to the provinces and local government.

However, in a crucial addendum, it says lower-tier governments should be allowed to implement flat-rate surcharges upon national taxes.

"This implies that the national tax bases must be used unaltered, but that provinces and in some cases local governments may add a few percentage points to the national tax rate according to their own discretion."

At the provincial level, says the FFC, the most suitable tax for this purpose is personal income tax.

Anticipating an outcry by the country's harrassed taxpayers, the FFC adds that the maximum surcharge should be limited to a few percentage points in order "to keep the maximum rates within acceptable limits and not to dissuade persons (especially the rich) from living in particular provinces".

For the remainder the FFC recommends that provinces should derive additional revenue only from casino taxes and gambling and horse-racing licences, as suggested in the interim constitution.

Local governments will have to rely on the current rates and taxes for income, although the report suggests that a surcharge could be placed on the national fuel levy "to allow lower-tier governments greater discretion over their revenues".

In the main, however, provincial and local governments will continue to rely on allocations from central government which in the past Budget accounted for about 90% of total provincial revenues.

The manner in which Pretoria allocated funds was heavily criticised at the time of the Budget and most provinces went into deficit on their budgets.

The FFC's task of finding a suitable revenue-sharing formula is a tricky one. The provinces are hoping to receive a lump sum from the government which they would then allocate according to their various needs.

Some analysts on the other hand were advocating a set amount to be granted to provincial expenditure departments, such as education, according to the specific requirements of that province. For example, Gauteng's education department would receive an amount based on the pupil:teacher ratio in the region.

The FFC has opted for the middle way. Dr Melck says for most departments independent variables, such as population figures and/or the number of existing users, could determine the revenue sharing formula. The bulk amount would then be transferred to the provinces who would be free to allocate the funds according to their own perceived needs.

This allocation, however, would be limited to the extent that in certain departments, particularly education and health, minimum standards would be laid down to determine what reasonable public spending on these services should be.

Dr Melck says the bulk of the FFC's work over the next few months will be determining the revenue sharing formula and establishing minimum standards. The report stresses that the system of transfers "will inevitably be a dynamic one of refinement as objectives change or become clearer and additional data become available".

The final function of the FFC is to determine and supervise the borrowing powers of the provinces. The Provincial Borrowing Powers Bill, set to go before Parliament later this year, will clearly limit the amount of work the commission has to perform in this area, but the FFC has been asked to sort out the question of who guarantees the borrowings of lower-tier governments and the status of foreign loans.

In terms of the Bill provinces will, under very strict conditions, be able to tap financial markets in order to finance capital projects or raise bridging finance.

The FFC has also indicated that the Intergovernmental Forum between central government and the provinces will be used as a clearing house for its proposal before being referred to the legislative process.

PROPOSED REVENUES BY VARIOUS TIERS OF GOVT

NATIONAL	PROVINCIAL	LOCAL
* Exclusive taxing of income, VAT & sales tax	Own revenue * Surcharge on income tax * Exclusive taxing of casinos, gambling, etc * User charges	Own revenues * Property rates, levies, fees, taxes & tariffs * Surcharge on fuel levy
Loans	Loans * for capital expenditure & bridging finance	

Graphic: FIONA KRISCH

Source FINANCIAL & FISCAL COMMISSION

ECONOMIC OUTLOOK

Fighting on two fronts

(49) FM 7/7/95

Last week's one percentage point rise in Bank rate, to 15%, came not a moment too soon. And it's unlikely to be the last.

Growth in the broad monetary measure, M3, provides an early warning of inflation and it has been flashing for some time. Growth rates have been topping the 6%-10% guidelines for the target year. The data for May shows that, from the base of the target year, in mid-November, M3 grew an estimated 20% to R262bn. The figure has been seasonally adjusted and annualised.

By raising the cost of borrowing, interest rate rises help contain demand for credit, one of the main counterparts of money supply. Though the prime rate at which banks lend to their best borrowers has been high in real terms (with inflation stripped out) for several years, it has not been high enough to keep both aggregates from ballooning.

The trough in money supply growth was in June 1993, when M3 shrank nearly 1%. By the start of 1994, growth had reached the upper limit of the 1993 and 1994 guidelines, of 6%-9%, set by the Reserve Bank. The growth rate continued to rise steeply throughout 1994 and, in 1995, it is still accelerating (see graph).

Growth in credit extension to the private sector has followed a similar pattern. Measured over 12 months, it was at a low of 6,7% in May 1993. By the end of that year it was 9,7% and, by December 1994, 17%. The latest available figure — for April — shows it running at 19,5%.

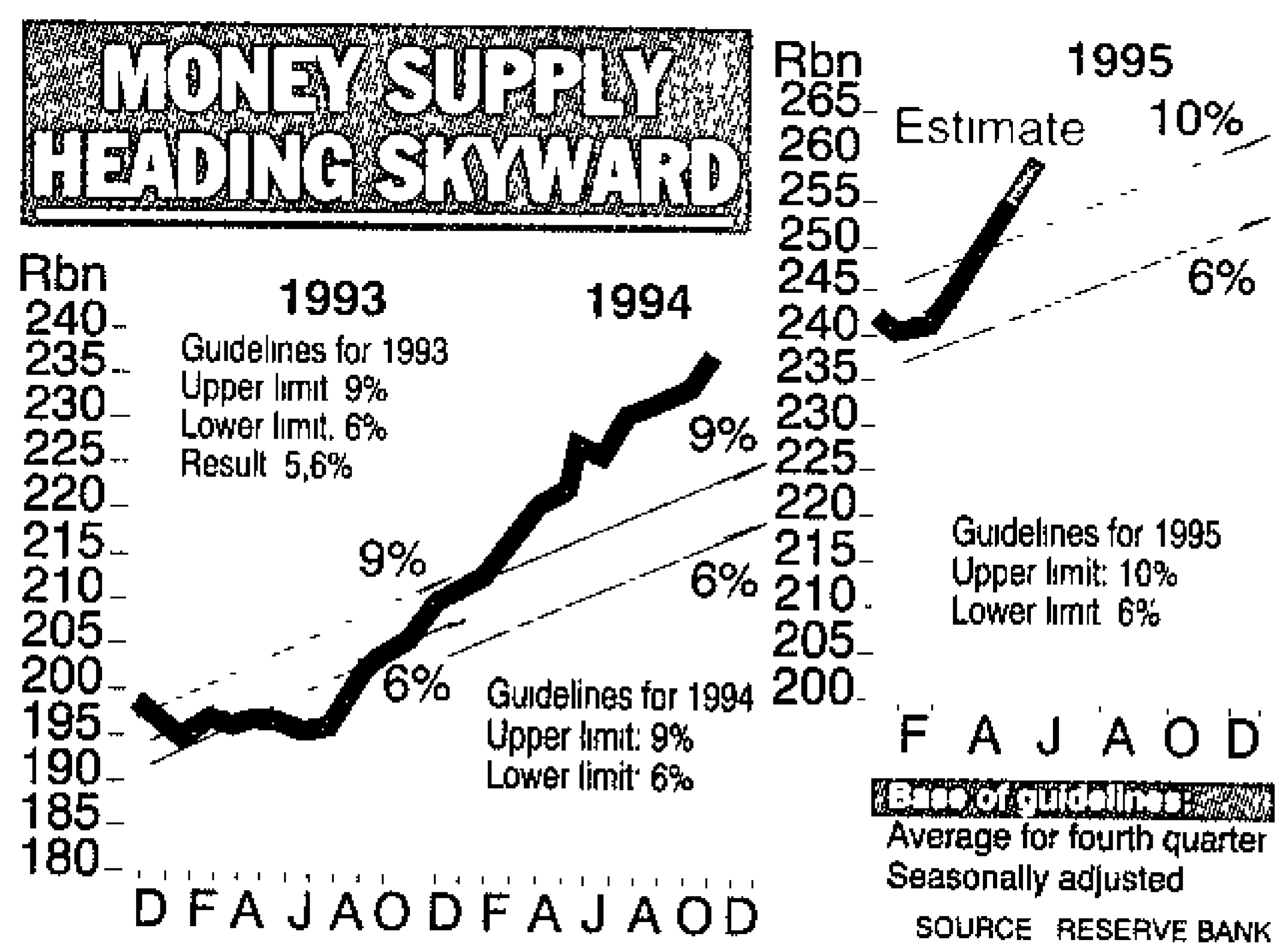
This means inflationary pressures have been pumping into the system for about 18 months, barely checked by the two previous rises in Bank rate (the official rate at which the central bank lends to the banking sector), of one percentage point each, during 1994 and early 1995.

Though inflation subsided 0,2 percentage points in May, to 10,8% (see page 34) it will be under huge demand pressure from credit extension.

Now the current account of the balance of payments has fallen into deficit — R2,2bn in the first quarter. And the trade account for May shows a monthly deficit of nearly R135m.

Both imports and exports are rising but problems in the gold mining industry are moderating export performance. First quarter gold production was running at low levels — an annualised 532 t compared with 584 t in 1994 and 619 t in 1993. It seems unlikely second quarter production figures would have shown an improvement on the first quarter levels.

On its own, the current account deficit would not be cause for concern. It is an inevitable spin-off of growth in the economy and the resurgence in capital spending. As long as the capital account continues to



experience net inflows, these will finance any shortfall in the trade in goods and services. Figures on gross foreign exchange reserves for June, due by the end of the week, will show whether these flows are still strongly positive.

Capital inflows are critical. "The fundamental problem is the economy has limited capacity," says Nedcor chief economist Dennis Dykes "And it is essential to attract capital flows to finance the fixed investment we need, after the low levels of growth throughout the Eighties and the early Nineties

"In these circumstances discipline is essential in monetary policy and even more important in fiscal policies. If this discipline is maintained it will attract the capital flows needed."

So the recent rise in interest rates is a positive step towards maintaining the long-term health of the economy.

However, there are concerns about the immediate impact of the latest Bank rate hike on the recovery which has already shown signs of faltering. GDP growth slowed to 1,5% in the first quarter, from 6,4% in the fourth "What Stals is trying to do," says Dykes, "is choke off excess growth — that means growth we can't sustain. Apparently he believes we can't sustain more than the

ECONOMY & FINANCE

current rate of about 2,5%-3%. So, if the economy grows more strongly he is likely to counter it with tighter monetary policy.

"Growth will be restricted until we have built sufficient capacity into the economy."

Fortunately much of the credit has been used to pay for capital and intermediate goods and, hopefully, the benefits will still be seen on the supply side. ■

World financial bodies plead for Africa

CT(BR) 7/2/95 (49)

BY ROBERT EVANS

REUTER

Geneva — The world's three main financial and economic institutions yesterday called for a major international effort to help Africa pull out of a syndrome of self-perpetuating poverty and backwardness.

"The virtual absence of African and other least-developed countries from growth-creating possibilities was the most urgent challenge which faced the World Trade Organisation (WTO)", said Renato Ruggiero, the director-general of the organisation.

Michel Camdessus, the managing director of the International Monetary Fund (IMF), said Africa needed access to the markets of industrial countries for its exports, while John Wolfensohn, of the World Bank, called for a "dynamic partnership" between Africans and donor states.

Both Ruggiero and Camdessus warned of the danger of a new rise of protectionism.

"Any tendency towards protection in the industrial countries would threaten the diversification of the export base of African economies," Camdessus said.

Ruggiero pledged that the WTO, launched on January 1, would focus efforts on helping African and other least-developed countries emerge from poverty through expanding their opportunities for trade diversification and growth.

Speaking a week after Washington pulled out of talks on a global deal in the WTO to free trade in financial services, he said multilateral accords were vital for world economic growth.

SA owes UN R582 m

MIKE LITTLEJOHN (49) ARG 15/7/95
Foreign Service

NEW YORK. — South Africa has moved into the unenviable position of second biggest debtor to the United Nations — after the United States — with no sign that the arrears problem may soon be settled.

Allen Shardelow, the South African mission spokesman, said: "We are trying to work out a payment mechanism, but there is no precedent."

He was referring to the fact that the republic's arrears of about R582 million ($166 million) accumulated in the period after 1974 during which South Africa was barred from participation in the General Assembly and its subsidiary bodies.

Mr Shardelow said that negotiations with the UN were continuing on a number of options.

The "first prize", as he put it, would be an agreement to waive all debts incurred during the hiatus until the new government reclaimed the seat last year.

The General Assembly will consider the question at its new session — for part of which President Nelson Mandela will be present in New York.

But UN officials said any solution would have to be politically motivated since there was no rule that could be invoked to relieve any state of its financial obligations, regardless of circumstances.

The world body did create a precedent in agreeing last year that South Africa could vote on resolutions, regardless of a rule that would have denied it that prerogative because its debts exceeded two years' dues.

Government 'deeper in red than it admits'

(49)

ARG 19/7/95

COLIN DOUGLAS
Staff Reporter

THE government is deeper in the red than it is prepared to admit, says a leading non-governmental organisation.

And, the budget information service of the Institute for Democracy in South Africa (Idasa) warns this could seriously undermine public confidence in the state's financial management.

It says the government has understated its budget deficit by more than R5 billion.

Citing researcher Michael Biggs of the University of Cape Town's budget project, Idasa said the deficit was running at 6,8 percent of gross domestic product (GDP), one percent higher than Finance Minister Chris Liebenberg's stated figure.

Unless immediate action was taken, state accounts would become increasingly unreliable and the government would sink deeper into a crisis of credibility, said the organisation in its Budget Watch, which is to be published next week.

Chris Liebenberg

Budget Watch says the inaccuracy arose because the government did not record the additional costs of bonds — certificates of debt issued by the government to raise funds and repayable by the state at a set date — that were sold at a discount.

A discounted bond is sold to an investor for less than what the government must repay to that investor at the bond's expiry date.

"When government issues new debt at a discount, the related additional financing costs never appear in the government accounts," said Mr Biggs.

"Of particular concern is that actual discount costs have increased alarmingly over recent years, resulting in the government accounts becoming increasingly understated."

In Mr Liebenberg's March budget, there was an increase in discount costs from an estimated R3,9 billion in 1994/95 to R11 billion in the current financial year, said Mr Biggs.

This dramatic increase was not reflected in the government's calculation of interest costs on state debt as a percentage of total government spending.

Mr Biggs estimated the government would write off discount costs of R5,86 billion on bonds redeemable during the current financial year and that this amount — were it reflected in government accounts — would increase the deficit as a percentage of GDP by one percent.

In contrast to accounting practices in other countries, South African government accounts did not recognise discount costs as an expense, he said.

"Discounts, like interest, are a cost, and should be recognised as part of the government's expenditure — the present treatment is misleading as it results in finance costs and, consequently, the budget deficit being significantly understated."

He added: "It is clear the government accounts are materially understated. What is most worrying is that the amount of the underestimation is steadily increasing."

Top cabinet group to jolt SA economy

CT 28/7/95 (49)

PRETORIA: A presidential working group has been set up to consider immediate steps to stimulate economic growth, cabinet secretary Professor Jakes Gerwel said yesterday.

The group, set up at a cabinet meeting here, includes President Nelson Mandela, Deputy Presidents Thabo Mbeki and F W de Klerk, IFP leader Chief Mangosuthu Buthelezi, Finance Minister Mr Chris Liebenberg, Trade and Industry Minister Mr Trevor Manuel and Minister without Portfolio Mr Jay Naidoo.

The group, which might also make recommendations on a more permanent structure, would report to the cabinet on August 16.

The group was a "recognition of the need to move from broad strategy to very specific, implementable steps which can be monitored," Prof Gerwel said.

"They will examine concrete steps ... to stimulate economic growth and and will make proposals."

The existing cabinet committee on economic affairs merely processed decisions and there was a need for a "planning and implementation vehicle" to look after the management of the economy.

Mr Gerwel said Mr Liebenberg and Mr Manuel had told the cabinet it was possible for the country to achieve an economic growth rate between three and four per cent over the next 12 months.

Manuel said "the economy has turned and there are grounds for optimism". Employment in the private sector had also increased. — Sapa

Growth strategy high on agenda

(49)

Ministers' body to steer SA economy

BD 28/7/95

Adrian Hadland

PRETORIA — The Cabinet set up a high-powered committee of ministers yesterday to tackle sensitive macroeconomic and financial issues such as privatisation, the enhancement of economic growth and the provision of investment incentives.

This follows an ANC national executive committee recommendation last weekend that a macroeconomic body be established in the office of the President which would be capable of a more decisive role than formulating broad economic policy.

The Cabinet agreed a body was required to take decisions on politically sensitive economic matters, and to make concrete recommendations to the Cabinet on implementing these decisions. High on the list of matters requiring urgent attention were short-term measures to stimulate economic growth, a presidential spokesman said.

The committee, consisting of President Nelson Mandela, Deputy Presidents Thabo Mbeki and FW de Klerk, Home Affairs Minister Mangosuthu Buthelezi, Finance Minister Chris Liebenberg, Trade and Industry Minister Trevor Manuel and Minister without Portfolio Jay Naidoo, meets for the first time early next month.

Cabinet secretary Jakes Gerwel said that although the presidential committee was not initially intended to be a formal structure, it would consider transforming itself — with Cabinet approval — into something more permanent. The decision to create the committee was based on "recognition of the need to move from broad strategy to very specific, implementable steps which can be monitored".

The existing Cabinet committee on economic affairs processed decisions but was not involved in setting economic priorities or in planning and implementing decisions. Issues to be considered by the new committee include labour-related matters, the short-term enhancement of economic growth, tariff policy, investment incentives and privatisation. Gerwel said it would formulate concise proposals on steps to stimulate economic growth.

Earlier, Liebenberg and Manuel told the Cabinet it was still possible for SA to reach an economic growth rate of 3%-4% over the next 12 months. The economy had turned, employment in the private sector was on the rise and there were grounds for optimism, Manuel said.

Liebenberg reiterated to Cabinet the need to discourage government dissaving, to reduce the budget deficit and trim a bloated bureaucracy. Positive signs in this regard, together with the projected 3%-4% annual growth of the economy, were likely to fuel rising business confidence, he said.

Naidoo said greater private sector involvement was needed in the reconstruction and development programme

Which is SA's most competitive province?

wm(BM) 28/7-3/8/95 (49)

The Foundation for Research and Development rated South Africa's provinces on competitiveness. **Karen Harverson** reports on its findings

THE Western Cape has come out tops as South Africa's most competitive province in a report issued this week on the competitiveness of the nine provinces by the Foundation for Research and Development (FRD).

Gauteng ranked second, followed by KwaZulu/Natal, Free State, Eastern Transvaal, North-West, Eastern Cape, Northern Province and Northern Cape.

The provinces were rated in four categories: physical resources, human resources, economic strengths, and scientific and technological resources.

The report emphasises that each province has its own comparative strengths which need to be exploited for economic success.

While Gauteng rated highest in economic strength and scientific and technological resources, it is handicapped by the small area it occupies and its subsequent lack of physical resources.

Not so the Western Cape which has 12 percent of South Africa's arable land. Its potential for tourism is vast and it has the country's highest human development index — a measure of life expectancy, level of education and income.

"It has the most assets for future development which include a manufacturing base with a signficant high-technology component, a large seaport complemented by minor harbours, two major airports, a high tourism potential, productive farmlands, a variety of exploitable mineral resources, a literate workforce and an effective education system," says FRD policy analyst William Blankley.

The Northern Cape, which scored lowest on the rating, has less than two percent of South Africa's population and showed a high dependence on mining/quarrying and agricultural production. Its economy shows a declining growth rate.

"It has the potential to expand its transport industry as it already serves as a base for fleets of transport trucks. De Aar is an important central rail junction, but the future of rail development will depend on national transport policies," says Blankley.

The province also has South Africa's lowest levels of crime and violence.

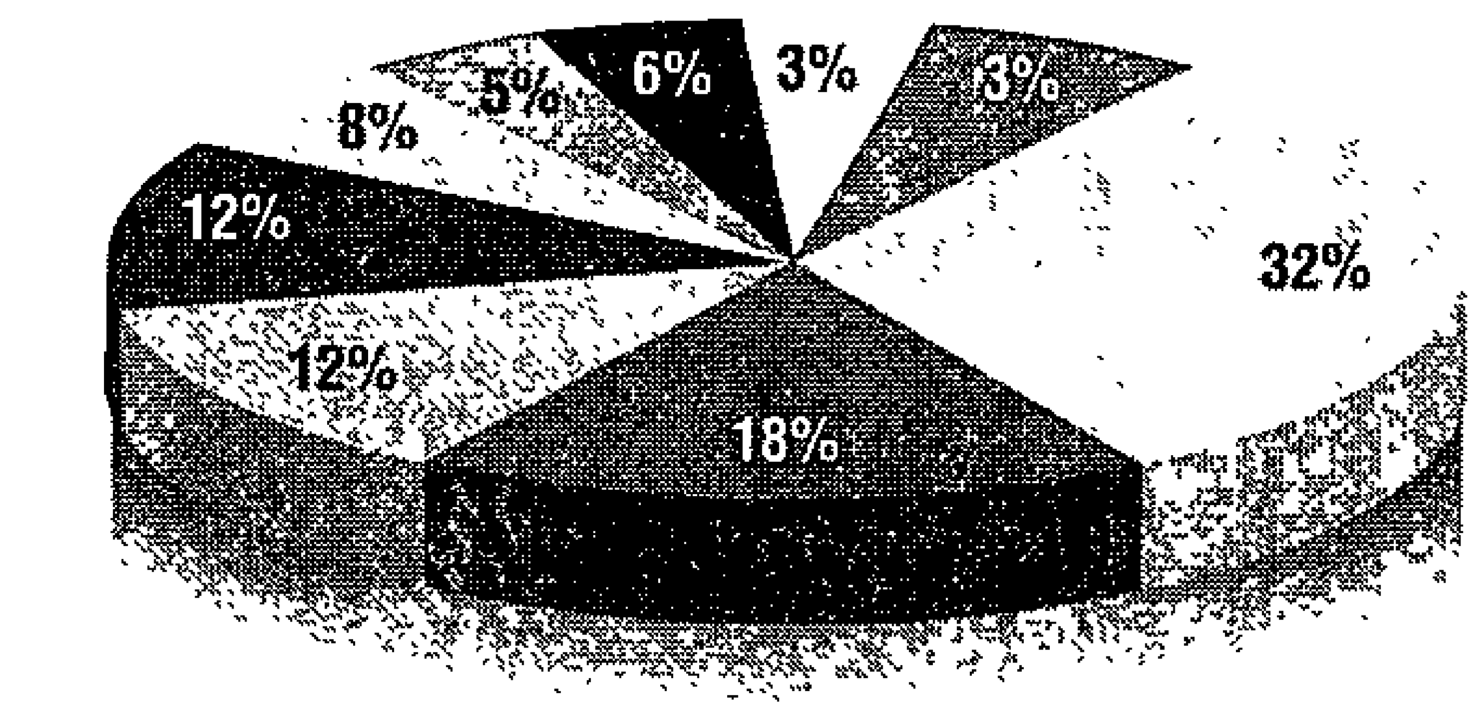
But, says Blankley, the best way to examine these rankings is to study the provinces in terms of their stages of general development.

How the provinces ranked on competitiveness

	Average rank from 1 to 9
Western Cape	2,7
Gauteng	2,9
KwaZulu/Natal	4,1
Free State	4,3
Eastern Transvaal	5,3
North-West	6,2
Eastern Cape	6,3
Northern Province	6,5
Northern Cape	6,7

Average ranks have been calculated to show the comparative difference in competitiveness

WHERE IS THE MOST ARABLE LAND?



3% GAUTENG
32% FREE STATE
18% NORTH WEST
12% WESTERN CAPE
12% EASTERN TRANSVAAL
8% NORTHERN PROVINCE
5% EASTERN CAPE
6% KWAZULU/NATAL
3% NORTHERN CAPE

With 32%, the Free State has by far the largest portion of South Africa's arable land, while Gauteng's puny 3% puts it at a disadvantage

The report is loosely based on Michael Porter's research on the competitive advantage of nations which suggests four stages of development: factor-driven, investment-driven, innovation-driven and wealth-driven.

"South Africa shows aspects of all four stages although the national economy is predominantly factor-driven, relying heavily on its natural-resource base," says Blankley.

Projects such as Sasol, Koeberg and Mossgas are investment-driven-stage developments, where technologies and economies of scale are developed.

South Africa's innovation-driven industries, where locally created technologies are sought after by foreign countries, are largely the result of specialisation, particularly in defence research, by apartheid governments.

Some elements of the wealth-driven stage, where investment in financial assets takes over from investment in real assets, exist but not in the true sense. "The proliferation of shopping centres, new office blocks and town house developments has been the major product of recent investments, rather than industrial sites, large manufacturing plants or state-of-the-art factories," says Blankley.

The Western Cape and Gauteng could be classified as developed provinces, while the Free State and KwaZulu/Natal could be called semi-developed. The remaining provinces fall into the category of developing provinces," he says.

He proposes that the developed provinces could be attractive for growth in high-technology manufacturing.

The semi-developed provinces — KwaZulu/Natal and Free State — might well encourage investment in secondary industries and niche services related to their agriculture and mining industries.

The developing provinces offer the widest range of investment opportunities which may be high risk, but offer better returns. "For example, the provision of services such as electricity and water to areas previously denied these basic necessities could lead to the development of flourishing home industries and small businesses."

Mandela's order: Go all out for growth

(49) ST 30/7/95

By RAY HARTLEY and EDYTH BULBRING

PRESIDENT Nelson Mandela, frustrated by his government's failure to deliver on election promises, this week instructed his cabinet to abandon its obsession with grand plans and make economic growth its top priority.

In so doing Mr Mandela has put South Africa on a course pioneered by the "Asian tigers", which have turned Third World economies into booming successes

A special cabinet committee headed by the president himself has been tasked with deciding a "battle order" listing action that must be taken to stimulate growth.

Deputy President Thabo Mbeki said yesterday the list would focus on "key critical issues that, if properly implemented, would make a significant difference You could list a thousand issues, all of which could be correct, but you couldn't handle them at the same time"

ANC sources said the list of priorities was likely to include tariff cuts, privatisation, investment incentives, job creation and action against unfair monopolies

The turnaround follows the ANC national executive committee's frank assessment last weekend of the government's performance after 15 months in office

The committee concluded that the government's focus on delivering basic services outlined in the Reconstruction and Development Programme would not succeed without concentrating first on stimulating growth — an area which had been neglected

A statement issued after the NEC's meeting said that socio-economic programmes could succeed only if they were underpinned by sustainable economic growth

The NEC also decided that a powerful authority at the highest levels of government was needed to implement the new priorities and co-ordinate the delivery of programmes by various ministries

The new initiative will demote RDP minister Jay Naidoo from his pivotal role of overseeing the reprioritisation of government spending and responsibility for co-ordinating economic policy

Mr Mbeki said government had mistakenly represented the so-called RDP ministry as the body responsible for macro-economic planning

"Part of the mistake we made from the govern-

To Page 2 ⇨

SA netball girls tumble

By CLAIRE MIDDLETON
Birmingham

THE South African team has made their mark on world netball despite losing the final to Australia 68-48 in Birmingham yesterday.

In Irene van Dyk South Africa proved to have the most reliable shooter in the world. The question before the final was: Can anyone stop the 1,90m South African with the cover-girl looks?

Thanks to Liz Ellis, Australia's tenacious goalkeeper, some of the edge was taken off Van Dyk's performance yesterday. But until then no one had been able to stop her.

"Unbelievable, a class above everybody else," was the way England's captain, Kendra Slawinski, described her after her side had been beaten 77-54.

And Slawinski has seen a few talents come and go after more than a decade at the top.

Some teams — New Zealand and England among them — made the mistake of concentrating on cutting the shooter out of the game.

This week Trinidad resorted to the sort of tactics that left spectators wondering how South Africa had finished with a full complement of players.

Van Dyk remained composed throughout. After the Trinidad match she said she had been surprised by the rough tactics, which included a few elbow nudges in her face.

"I'm not bruised or anything, but we had never seen netball players like that," she said.

● Full report on Page 28

Cabinet to focus on growth

(49)

⇨ From Page 1

ST 30/7/95

ment's side is to say that the whole effort to reconstruct and develop by government is centred on this ministry. I'm saying that structurally it can't happen," Mr Mbeki said.

"Maybe we misrepresented this matter. As government functions, you cannot say that a minister, who has got equal powers with other ministers, should become a super minister. It can't work."

Mr Naidoo has in the past described his job as "re-prioritising government expenditure".

Mr Mbeki said this function needed to be under the control of the ministers themselves.

The NEC's decision to focus on growth was endorsed at a two-day special cabinet meeting this week.

The meeting was addressed by Finance Minister Chris Liebenberg, Trade and Industry Minister Trevor Manuel and Mr Naidoo.

Mr Liebenberg said yesterday: "There is a very general appreciation that we need to tread a fine line between maintaining fiscal discipline in meeting government's objectives and economic stimulation".

The committee appointed by cabinet to draw up the "battle order" for economic growth priorities consists of deputy presidents Mbeki and F W de Klerk, IFP leader Mangosuthu Buthelezi, Mr Liebenberg, Mr Manuel and Mr Naidoo. It must submit its recommendations by August 16.

The committee has also been tasked with creating a permanent structure to oversee implementation of the "battle order".

Super body to boost economy

(49)

BARRY STREEK
POLITICAL STAFF

CT 31/7/95

THE NEW super cabinet committee, under the chairmanship of President Nelson Mandela himself, would streamline the government's role in stimulating macro-economic growth, a presidential spokesperson, Mr Joel Netshityenze, said last night.

The decision to appoint the new body — which includes the leaders of all three political parties in the government — was taken after the ANC's national executive and the cabinet accepted that "a major weakness" had been the government's role in promoting economic growth, he added.

CHAIRMAN: President Nelson Mandela

No date has yet been set for the new committee nor has a decision been taken on whether it should be a permanent body, but it is likely to meet soon.

It has been asked to draw up a "battle plan" of action and has been given a mandate to take decisions about increasing the government's role in promoting economic growth.

One of the consequences of the cabinet decision is that the new committee will be responsible for macro-economic planning, and not the RDP office which previously had this responsibility.

According to weekend reports, Deputy President Thabo Mbeki admitted that it had been "a mistake" to concentrate reconstruction and economic development in the RDP ministry.

The super economic committee's major function would be to monitor fiscal and monetary policy in general and decide on how to deal with these issues.

● See Page 6

Net inflow of R11bn this year

(49)

SA facing foreign debt bill of $7bn

BD 2/8/95

Greta Steyn

SA's foreign debt bill this year is about $7bn after massive short-term loans were taken up last year — a situation which compels government to follow sound policies to retain foreign creditors' confidence.

SA's reliance on foreign credits is evident from Reserve Bank figures released last night showing the maturity structure of SA's foreign currency debt at the end of last year. The table showed that debt with an original maturity of less than one year amounted to almost $4,9bn at the end of last year. The debt included trade finance and the Bank noted "most of these liabilities are normally rolled over, renegotiated or replaced with new facilities".

The figures also showed that other debt falling due this year was about $2,3bn, bringing the year's total bill to about $7bn.

Economists said rollovers had been easy to secure, and would continue if government and the Bank maintained impeccable monetary and fiscal policy credentials. Political stability was essential.

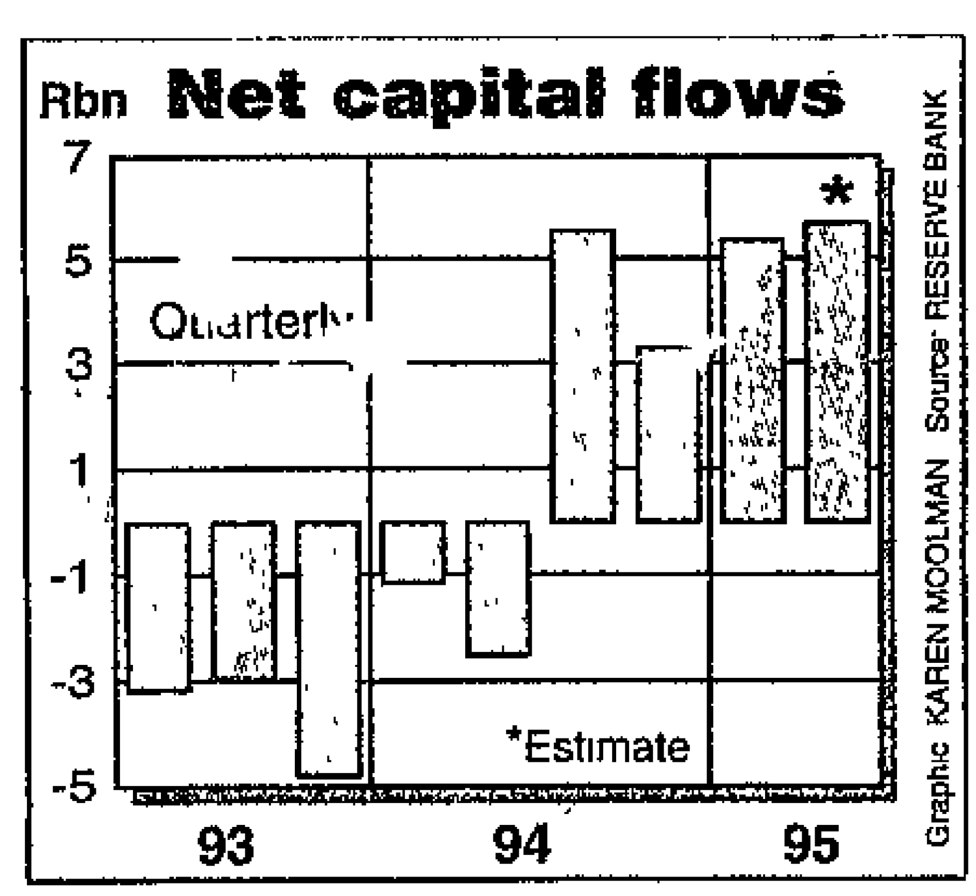
"Capital has poured into SA virtually without pause since the inauguration of President Nelson Mandela," an economist said. He estimated the total net inflow at about R20bn since Mandela took over, with about R11bn in the first half of this year. SA was getting more than enough foreign capital for its immediate needs.

For the first time in a decade, SA can run a current account deficit without the threat of a debt crisis. But economists warned the only way to ensure that there was no danger of a foreign capital crunch was to stick to the straight and narrow of economic policy. "SA cannot afford to flirt with outlandish ideas," an economist said, noting that its forex reserves were about $3bn and its short-term debt about $7bn. It went without saying that political violence could also trigger a financial disaster.

The Bank released the maturity profile of SA's debt for the first time since the 1985 debt standstill, which was triggered when the country was unable to secure rollovers for its massive short-term debts. It shows that SA's debt falling due fluctuates around $2bn for the next couple of years. SA's total foreign debt was estimated at $18,6bn at the end of 1994.

The figures do not include debt incurred this year, which would change the picture substantially. The Bank said it had decided to make available the figures every six

Continued on Page 2



Foreign debt

(49) BD 2/8/95

Continued on Page 2

months because of recent requests

SA relies heavily on volatile short-term capital, but an economist said he believed most of the capital inflows in the second quarter had been longer term. He estimated a net inflow of short- and long-term capital of more than the first quarter's R5,4bn in the second quarter.

Mungo Soggot reports Sanlam senior economist Pieter Calitz also said inflows in the first half appeared to have amounted to R11bn — more than enough to cover a deficit on the current account of the balance of payments for the period of about R5,5bn. Inflows in the year to June totalled about R20bn.

Calitz said his main concern was the quality of the inflows during the period, which appeared to have been largely short-term "hot money", which meant it could leave the country as quickly as they came in. Almost all of the inflows in the first quarter had been short-term.

Old Mutual chief economist Dave Mohr said that considering the high level of imports in the second quarter, a large chunk of the inflows during the three months to June were presumably short-term trade finance. A significant portion would also have been in foreign investment in SA equities and bonds. There had been no obvious indications of substantial direct investment during the period.

ANC queries role of the goverment's auditor

(49)

CT (BR) 7/8/95

By Bruce Cameron

Political Editor

The future independence of the auditor general, charged with ensuring the proper use of taxpayers' money, has been questioned by the ANC.

The question mark over the auditor general's independence came although ANC members of the constitutional assembly sitting in a sub committee had previously agreed to conditions guaranteeing the autonomy of the office.

When the recommendations of the sub committee were on Friday put before the constitutional committee, the main negotiating body of the constitutional assembly, a number of ANC members of parliament launched an attack on both the principle of independence of the auditor general and on details.

Most of the members were also members of the South African Communist Party.

Johnny de Lange, an ANC MP, launched the attack against the effective appointment of the auditor general by parliament, saying it would whittle away the powers of the executive.

Accountable

Colin Eglin, a Democratic Party MP, said the independence of the auditor general was a matter of principle. It was through the auditor general that parliament could hold the executive accountable. As such, the auditor general should be appointed by parliament.

In questioning the recommendations of the sub committee, ANC members said the six theme committees and their sub committees, appointed to look at various aspects of the constitution, were not intended to reach agreement on issues. They were supposed to provide alternatives for the constitutional committee to debate.

ANC members also questioned a number of other issues, including the two thirds majority vote recommended for the election or dismissal by parliament of the auditor general and whether many of his powers should be written in to the constitution or left for legislation.

Members of the constitutional committee also raised the question whether there should not be an overall structure for the election of all offices which were independent of the legislature and the executive. These included the chief justice and the governor of the Reserve Bank.

Rob Davies, the chairman of the sub committee, told the constitutional committee there had been a problem in that the sub committee was forced to look at the issue of the auditor general in isolation.

The whole issue has now been submitted to another sub committee — this time of the constitutional committee — established to thrash out points of difference.

Sacob welcomes Govt boost to economy

(49)

Sowetan 10/8/95

By Mzimkulu Malunga

THE South African Chamber of Business says it welcomes the government's initiative to establish a high level cabinet committee to coordinate economic policy.

In its monthly Business Confidence Index released this week, Sacob says it is encouraging that the Government has realised that an uncoordinated economic policy could undermine current economic restructuring.

Also, says Sacob, the initiative is due to a further realisation by the new rulers that proper restructuring of the economy cannot take place in a low economic growth scenario.

As on previous occasions, Sacob warns that the South African economy could be caught in a low-growth trap if foreign firms do not come and invest their money in the country.

Without direct foreign investment, five percent growth rate, which will help the country address it unemployment problem, will not be possible to achieve. The organisation says from its discussions with potential investors it has gathered that they are not prepared to come to South Africa until something is done about labour costs.

Limiting the escalation of wages, argues Sacob, will make the country more attractive to investment. South Africa will also have to be internationally competitive if it is to achieve higher economic growth and eradicate unemployment.

With consistently high wage increases, it will not be possible to be competitive and achieve high growth and as a result employment could suffer, says the organisation. However, this view has been consistently rejected by the unions who argue that the wage gap between workers and management has to be addressed first

Sacob says although the optimism of the captains of industry was dented heavily by the Reserve Bank's sudden decision to increase interest rates last month, other economic indicators managed to offset the mood.

The downward trend shown on the inflation front – the rate at which prices escalate – a decline in the number of registered unemployed and a sharp drop in the number of people and companies becoming bankrupt, are some of the factors that saved business confidence.

The BCI for July improved slightly by 0,2 percentage points to 107,4 percent.

A better performance by the South African rand against the United States dollar, higher volume of exports and increased production on the manufacturing front are additional factors which saved business confidence from plunging

'Super group' finalise proposals

SPECIAL CORRESPONDENT

CT 11/8/95

JOHANNESBURG: The high-powered special economic committee established by the cabinet two weeks ago met President Nelson Mandela yesterday to finalise proposals to be presented to the cabinet on Wednesday. (49)

The "super group", comprising Mr Mandela, deputy presidents Thabo Mbeki and F W de Klerk, and ministers Mr Trevor Manuel, Mr Chris Liebenberg, Mr Jay Naidoo and Chief Mangosuthu Buthelezi, was set up to expedite the implementation of an economic policy.

At yesterday's meeting the committee was expected to make "stark choices" about the economy, including tax reform, tariff reduction and the RDP.

One of the major decisions facing them was whether to establish a "macro-economic authority" in the President's Office, a government official said.

Auditor-general warns of undue influence

Star 21/8/95 (49)

■ BY BRUCE CAMERON

Henri Kluever, the auditor-general, has warned that the Constitutional Assembly is dangerously watering down the ability of the office to act independently, opening the way for undue pressure to be brought on the main policemen of government.

In a letter to Hassan Ebrahim, executive director of the Constitutional Assembly, Kluever said he regularly encountered attempts at interference and influence.

The claim by Kluever follows attempts by some members of the ANC who want to change the interim constitution which may curtail the ability of the auditor-general to act independently. Kluever said his answers were based on practical experience gained during almost 20 years of close association with the audit office.

"Specific, detailed and unambiguous constitutional protection is necessary for the auditor-general and his or her staff, so as to be able to function as an essential and unique tool in the system of government checks and balances in South Africa."

He wants the definition and protection given to the audit office in the interim constitution to be maintained in the new constitution "with substantially the same wording".

Kluever rejected attempts by some of the plethora of constitutional committees to create clauses that will define all the "independent" offices under an omnibus section of the constitution.

"A consequence of such an approach will most likely be the lowest common denominator of differing main principles," he said. Kluever told the committee that the person appointed as auditor-general should be limited to one period of office to prevent any currying of favour for a further term.

Five-step economy plan

ARG 23/8/95 (49)

Liebenberg's focus on sustainable growth, stability

CLIVE SAWYER
Political Correspondent

FINANCE Minister Chris Liebenberg has outlined five steps to sustainable economic growth and stability.

Opening the second reading of the budget debate in the national assembly yesterday, he acknowledged that the economic challenges facing South Africa were formidable. However, there was no reason to be depressed about the economy.

Achievements of the past year included an expected growth in gross domestic product (GDP) of about three percent, an increase in GDP per capita and an inflow of R4 billion in foreign funds for the first time in years.

Real interest rates had come down from 8,5 percent to less than six percent.

These achievements were founded in political stability.

The government had shown it was able to manage the economy conservatively, inspiring confidence by doing so. But the expected growth rate would not be enough to reduce joblessness.

Capital inflow was needed because of a lack of domestic savings.

Mr Liebenberg said that while he understood the disappointment of those who had wanted a higher growth rate, South Africa lacked the infrastructure to absorb this without inflation being forced up.

There were five areas the country would have to focus on to get sustainable economic growth. They were·

● Improved co-ordination of economic aspects, including better co-ordination of the "economic" ministries.

Part of this was better control of roll-over funds — money left unspent by departments to which it had been given to pursue their policy goals.

"Money in the bank does not create GDP growth," Mr Liebenberg said.

Collection of taxes, customs and excise had to be improved.

Improved debt management was needed. As South Africa moved back into the international economy, with access to loan funds, it had to resist the temptation to over-indulge.

Mr Liebenberg singled out the proliferation of private-brand credit cards, including those issued by retail stores, as having a possible impact on inflation.

● Regional aspects would have to be attended to. Other countries in the Southern African Development Community had not had a good year, and South Africa would succeed if the region succeeded.

● The government, labour and business would have to reach an accord to campaign side by side for common goals.

● The country's infrastructure, such as its harbours, would have to be improved to keep pace with economic development needs.

● The perception of a breakdown of law and order would have to be addressed, Mr Liebenberg said.

Toyota Mandela? FW Ford?

Political Correspondent

AFRICAN National Congress MP Serake Leeuw wants South Africa to build its own car, and he already has a name for it: The Toyota Mandela.

"Africa would be very excited," he told the national assembly second reading debate on the budget yesterday.

South Africa had built the Rooivalk, and should follow up with its own car.

Mr Leeuw's suggestion prompted a member on the NP benches to shout out he wanted the "FW Ford" built.

Private tax audits planned

CT(BR) 28/8/95 (49)

By Ross Herbert

The Inland Revenue department was working on a plan to allow private accounting firms to perform tax audits instead of government auditors to reduce resentment from black-owned business, Alec Erwin, the deputy minister of finance, told the Association for the Advancement of Black Accountants of Southern Africa convention at Sun City on Friday.

The finance department was also evaluating a capital gains tax to bring South Africa into line with most other Western countries.

Erwin said the department was experiencing problems with tax collections, particularly among black businesses. The Inland Revenue department was trying to crack down on tax fraud and bring more businesses into the tax-paying fold.

However, its nearly all-white auditing staff were encountering friction and resentment from black-owned business.

Erwin said what amounted to outsourcing auditing could be a boon to the few black-owned certified accounting firms. It could also improve tax collection among small black businesses and supplement the department's auditing capacity.

The department was increasingly plagued by skills shortages, particularly among auditing and computer staff, caused mainly by the large gap in salaries between government and the private sector.

Broke couple awarded $1

From Ben Macintyre

short-term capital flows into and

'SA not competitive enough'

(49)(2??)

FROM SAPA

eT(PR) 29/8/95

The South African economy is not competitive enough to maintain an economic growth rate at a level high enough for its own needs, Chris Stals, the governor of the Reserve Bank, said yesterday.

He told a meeting of the Northern Transvaal Chamber of Industries at the Pretoria Show that far-reaching structural reforms were needed to increase the country's current growth rate of about 3 to 4 percent a year.

One of the major problem areas was the labour market "where relatively high wages combine with relatively low productivity to create an extremely high average unit labour cost for every unit of production delivered by South African industries, mines or farmers".

Stals suggested that better living conditions, education, training facilities and health care would contribute to the improvement of the quality of human resources.

It was also necessary to lift the savings of the South African community to a higher level, particularly in the personal sector.

It was obvious that the country needed to make itself less vulnerable to balance of payments constraints by increasing exports to the rest of the world.

"Success in export markets is not dependent on a continuous depreciation of the rand, but rather on greater efficiency in the domestic production processes."

Stals said economic growth in South Africa also depended on political and social stability. "In the final situation, all business decisions are influenced by the overall environment in which they are taken."

Too late for SA to be a tiger

BD 29/8/95 (49)

TREVOR BISSEKER

IT MAY be too late for SA to be an economic tiger — even if it had the stomach to try.

That seemed to be the feeling left with delegates who attended the lively conference on the Taiwan experience and its implications for SA in Pretoria on Saturday.

In their struggling circumstances, how do South Africans begin to identify with the achievements of one of the world's fastest growing countries, in which there is virtually free education and health care, 99,7% of households have electricity, one in four people is a full-time student, and the same proportion of the 20-million population holiday overseas each year?

How does SA, with close on half its potential workforce unemployed, relate to a small island nation which brings in 170 000 "guest workers" to do the more menial tasks, and pays an interest subsidy on "low-cost" homes valued at R360 000?

Centre for Policy Studies director Steven Friedman — the last speaker — concluded that SA had "got things the wrong way round" by achieving its political democracy before solving its economic problems.

Taiwan was clearly a "top-down" model, Friedman said, in which an elite "not originally elected" had imposed an agenda, and then gradually moved through a process of political liberalisation. Such a "tiger programme", initially unsympathetic to organised labour, was not an option for SA. Nor should it be — the social and political costs were too high.

Friedman said there were certainly lessons to be learnt from every society, but they had to be put in context. SA was "blessed or doomed" to move forward through a series of messy compromises. Fortunately, the country was good at solving crises, even though they were mostly self-inflicted.

As delegates filed out of the auditorium, one complained to his Chinese companion that "the last speaker didn't make sense". Friedman, in fact, had set out to be provocative — "offensive" was the word he used — and he did the conference a service by dampening the euphoria. As session chairman John Barratt commented, Friedman had raised awkward questions, and his speech highlighted the need for counter-positions in any debate.

Earlier, four Taiwanese professors, all temporarily in high government positions, had sketched the almost incredible achievements of their country in its transformation from a poor, agriculturally based society in 1948 to the economic giant it is today. The lamentable contrasts with SA over the same period, most of it under apartheid rule, were reflected in a paper by Pretoria University sociology professor Kobus Oosthuizen, notably in the fields of health, literacy, education and urbanisation.

His presentation prompted a questionable rebuke from discussion leader on the economic papers, Pundy Pillay. He accused Oosthuizen of presenting an "apartheid paper" glossing over distortions in policy which deprived the majority of services and opportunity.

Delegates seemed nonplussed by the attack, some of which was based on sections of the written paper not addressed in the presentation. Oosthuizen declined to respond, apart from dismissing Pillay's assertions as "nonsense".

Pillay, director of SA's financial and fiscal commission, criticised other speakers for underplaying the role of Taiwan's government — authoritarian until recently, he might have added — in planning the country's economic miracle. He pointed to the World Bank's view that Taiwan's success was achieved by a blend of "interventionist strategies" and free enterprise. It was not sufficient to put everything down to market forces. Government had a role to play in creating conditions in which free markets could flourish.

Taiwanese Council for Economic Planning and Development vice-chairman Prof Chi Schive would not have argued with that, but his whole theme was economic liberalisation. He stressed that the development of an export culture precluded protectionism, because successful exporters had to be competitive and efficient. The same point was made by Prof Geert de Wet of Pretoria University, who said the dropping of barriers on imports forced innovation on local manufacturers.

In pleading for the scrapping of protectionism, Schive compared the free market with an umbrella — "to use it, you must first open it". Good advice, even for non-tigers.

Some of the conference was devoted to the "two Chinas" issue. At the opening, Public Works Minister Jeff Radebe repeated President Nelson Mandela's assurance in April that SA had no intention of cancelling its diplomatic relations with Taiwan. A strong case was made for "dual recognition" of the two Chinas, whether or not the People's Republic liked the idea.

FRIEDMAN

Author and student of the Orient, Prof Themba Sono, said Beijing had itself set a precedent in dual recognition by refusing to choose between the ANC and the PAC as the authentic voice of the liberation struggle. He said SA should urge the UN to practise the principle of universality its charter demanded, and restore the membership of the Republic of China, which met all the requirements of a sovereign state.

GOVERNMENT SPENDING

New look (49)

FM 1/9/95

Provincial government spending is financed largely by transfer payments from the national Budget. These transfers were included in the R153,2bn national budgeted figure for expenditure in 1995-1996, published in March, while national revenue was estimated at R124,2bn.

However, provinces have their own

sources of revenue (from licence fees and departmental receipts, for example). As provincial budgets were not complete in March, the consolidated figures included only provisional estimates of revenue and of the provinces' budgeted expenditure.

Provincial budget figures have now been tabled and consolidated figures for central and provincial government show total revenue to be R129bn and expenditure R158,1bn. This leaves the total deficit unchanged.

The Department of Finance last week published an economic and functional breakdown (see graph).

The economic breakdown shows R144,1bn (91,8% of the total) goes on current expenditure. Of this:

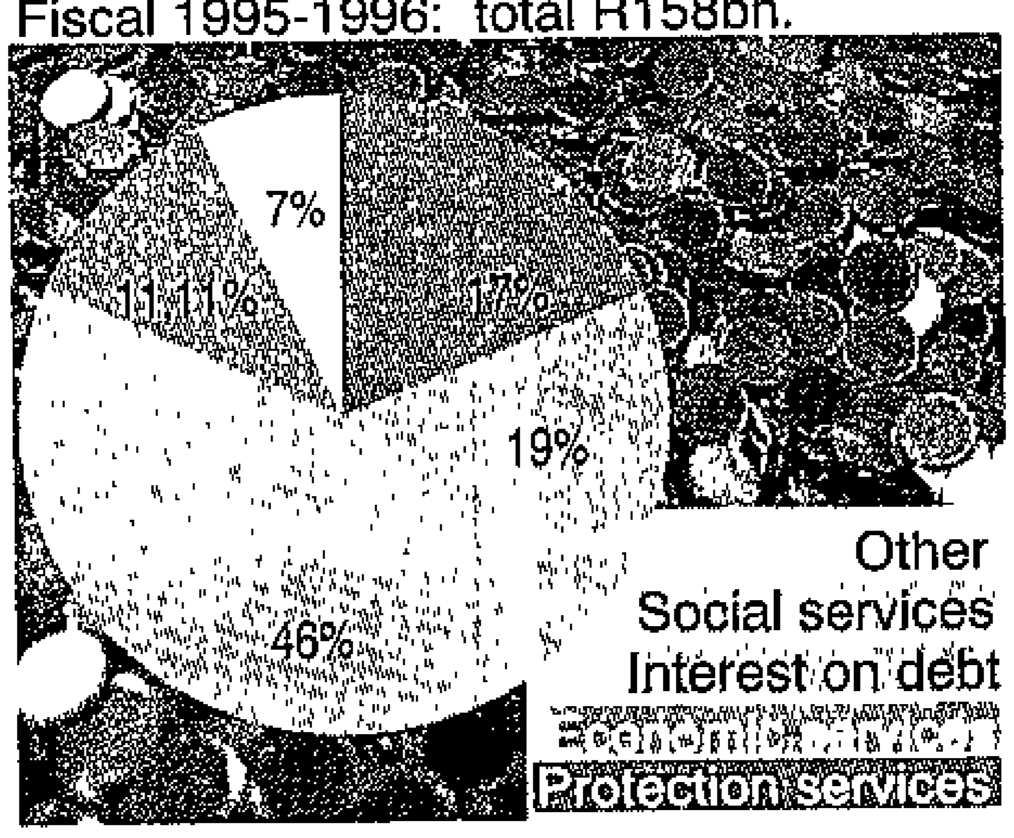
- R77,3bn (49,2% of total expenditure) goes on goods and services, which is broken down into remuneration (R56,7bn) and other (R20,6bn);
- R29,5bn (19%) goes on interest costs;
- R23,9bn (15,2%) on current transfers to businesses, households and the rest of the world, and
- R13,4bn on current transfers to other general government institutions and funds.

Capital spending is budgeted at R13,1bn. Of this, R8,8bn is budgeted for the acquisition of fixed capital assets, stock, land and intangible assets, says the department.

The functional breakdown shows:

HOW PUBLIC MONEY IS SPENT

Budgeted expenditure of national & provincial governments
Fiscal 1995-1996: total R158bn.



- R29,5bn goes on debt servicing;
- R26,5bn on protection services. "Though defence has shown a marked decline over the past few years, it still has the largest share in protection-related spending (2,4% of GDP), with police at 2%;"
- R72,5bn on social services. "Expenditure on education remains the largest single item on the Budget — 21,3% of the total. Expenditure on health and welfare have equal shares (about 10% each), with expenditure on housing 1,9%, 2,8% goes into outlays on sewerage, sanitation, community development and other community services;"
- R17,9bn on economic services. "Transport & communications remains the largest item and will comprise 4,6% of the total. The other major components are agriculture (2,5%) and export promotion (1,5%)," and
- R10,9bn on other services ■

Nine provincial auditors appointed

Amanda Vermeulen (49)

BD 4/9/95

AUDITOR-general Henri Kluever has appointed a provincial auditor for each province, it was announced at the weekend.

The new officials would be responsible for management of all audits of provincial government, specific statutory bodies and local authorities. They will also be responsible for related reporting to the provincial legislatures, and other provincial and local government institutions.

Contact and interaction at a senior level would be initiated and maintained throughout, a statement said.

Gauteng's provincial auditor will be Shauket Fakie, currently employed as senior manager of Ernst & Young's small business development arm in Cape Town.

Chris Foster, a chief auditor in the auditor-general's office, will be the provincial auditor for KwaZulu-Natal.

Assistant auditors-general Willie Brits and Chris Oosthuizen have been appointed in the Western Cape and Eastern Cape respectively.

The other officials appointed by Kluever are Steve Lekutle in the Northern Province, Godfrey Muller in the Free State, Douglas Maphiri in Mpumalanga, Bryant Madliwa in Northwest, and Ben van Niekerk in the Northern Cape.

Government's borrowing and expenditure 'too high'

M 4/9/95 (49)

Edward West

CAPE TOWN — A far more rapid reduction in government spending and borrowings was required to increase savings levels and finance accelerating private sector investment, said Board of Executors (BoE) economist Rob Lee.

In the BoE's latest Investment Outlook, Lee said the main area of economic weakness in SA lay in fiscal policy. Greater fiscal discipline was essential if the sustained economic growth was to be increased.

It would enable a more rapid scrapping of exchange controls and increase prospects for interest rate cuts next year. "If the new Cabinet Economic Committee is to make a difference, this is the area to concentrate on. A more radical approach to privatisation would also help downsize government."

Lee said the formation of the new committee appeared to indicate a realisation in government that the economic policy-making process had been overly cautious and ineffective in removing constraints to economic growth

He said economic growth levels reached without a large increase in living standards were unsatisfactory, and were the inevitable cost of a gradualist approach to economic reform.

The domestic economy was slowing at present, but the prospects for sustained economic growth had become brighter.

Forces holding inflation down were high real interest rates, increased competition, high unemployment, low global inflation and rising productivity.

Govt debt now R245-billion

(49) Star 7/9/95

Cape Town – Government debt increased to just over R245-billion – 55% of GDP – during the past financial year, Finance Minister Chris Liebenberg said yesterday.

This included debt of the former TBVC states and self-governing territories.

Debt had increased over time because of continuous budget deficits and fairly high inflation. – Sapa.

New funding formula will give more to Gauteng, KwaZulu-Natal

(49) (264) (266)

Tim Cohen

CAPE TOWN — The Financial and Fiscal Commission has presented its provincial funding formula, increasing Gauteng's share from the national fiscus and giving all three Cape provinces proportionately less, while national government remains the major beneficiary.

After more than a year's work, commissioners have decided that provincial funding should be on a per capita basis, but that an extra weighting would be given to rural people and those requiring education and medical care.

They said at the weekend that in 2000, Western Cape should get about 7,9% of the total provincial budget compared with its current 11,3% share. Eastern Cape would get 15,5% (17,6%); Northern Cape 1,6% (2,4%); KwaZulu-Natal 21,2% (20%); North-west 8,5% (8,3%), Gauteng 18,6% (14,9%), Mpumalanga 6,5% (5,8%), Northern Province 13% (12,6%) and Free State 7% (unchanged). Care was taken by the commission to ensure that no province's budget fell more than 4% in real terms in a year.

The commissioners assumed that all income growth over the five-year period would be granted to the provinces, but that national government would remain the dominant partner at the end of the period.

The current national-provincial split is R86,5bn to R66,7bn. By the end of the five-year phasing-in period the gap would be decreased. Assuming a 2,5% growth rate and making provision for a decrease in the budget deficit, the national government's portion would be static in real terms. Provincial government revenue would increase to R79,3bn.

Presenting the recommendations, commission chairman Murphy Morobe said the division was based on the constitutional allocation of functions which stipulated that delivery of major services was the responsibility of lower-tier governments. The commission recognised that all tiers of government had commitments which had to be honoured in the short term.

The commission indicated that apart from the weighting in favour of pupils, rural residents and for heath care needs, the formula would also take into account a "tax capacity equalisation grant" that encouraged provinces to raise their own taxes. This would be done by supplementing the revenue of provinces that wished to raise their own revenue but could not because of limited tax bases.

The first function of the grant would be to fill the gap between what the province would have raised if it had national taxing capacity and what it actually raised. The second function would be to encourage provinces to raise their own revenues because if they did not do so they would forfeit the revenue raised and the national

BD 11/9/95 **Continued on Page 2**

Funding

Continued from Page 1 (49) (264) (266) BD 11/9/95

government top-up.

Despite the importance the commission attached to this element of the formula, it could not be introduced because it had to be done in conjunction with the granting of powers to provinces to levy their own taxes. The introduction of provincial taxes could affect the total tax burden, so this element of the formula would have to be introduced simultaneously with the granting of provincial taxation powers and recommendations on the level of provincial and national taxation.

Commission deputy chairman Antony Melck said he hoped this element of the formula would be included before the commission reviewed the figures in 1997.

The commission excluded compensation for provinces with large infrastructural backlogs, saying the backlogs fell largely within the ambit of the reconstruction and development programme fund.

It said no province should be allowed to make "special pleas" to overcome regional difficulties as this would undermine the new revenue-sharing system's credibility.

Morobe said the recommendations were being released in time for Budget discussions, which were to begin next month.

Western Cape finance minister Kobus Meiring said the proposals were impractical. A 3% decrease in the province's budget would require large-scale retrenchments and termination of certain services. The scaling down should take place over a decade, he said.

NEWS

Southern Africa 'an exciting point of development'

Economy is priority, Mandela tells summit

Star 11/9/95 (49)

Southern Africa had the potential to become one of the most exciting points of development in the world and should focus on using its energies and resources to make this a thriving reality, President Nelson Mandela said last night in a speech read on his behalf by his deputy Thabo Mbeki.

The region was firmly on the road to the strengthening of democracy, guaranteed peace and stability and sustained development, he told local and international businessmen and politicians ahead of the Southern Africa Investment Summit in Johannesburg.

The country had moved beyond a general call for investment and was now able to identify strategic investment priorities, like infrastructure, housing, training, communication, agriculture and tourism. The urgent challenge was to raise living standards, said Mandela.

The Southern African Development Community had, in a short space of time, turned the region into a powerful force for development and a friendly destination for investors.

A strategy for integrated development – a joint approach to regional infrastructure – was being implemented. Agreements at the recent SADC heads-of-state summit had seen energy and water join transport and communications as areas of infrastructural co-operation in the region.

"Building on such agreements, we will progress towards the creation of a market of 120-million people or more, a development which will benefit all the people of the region and those who will be active in the region as corporate citizens," Mandela said.

Southern African countries were committed to jointly dealing with crime, including drug trafficking, illegal weapons, stolen goods, money laundering and violent crime.

Listing South Africa's achievements, Mandela said the country was working within a framework of fiscal and financial discipline and opening the insular apartheid economy.

As a committed member of the World Trade Organisation, phased trade liberalisation had begun with measures to enhance competitiveness. Foreign exchange controls were being gradually reduced, he said. – Sapa.

Sustainable economic growth in SA vital for improved living standards

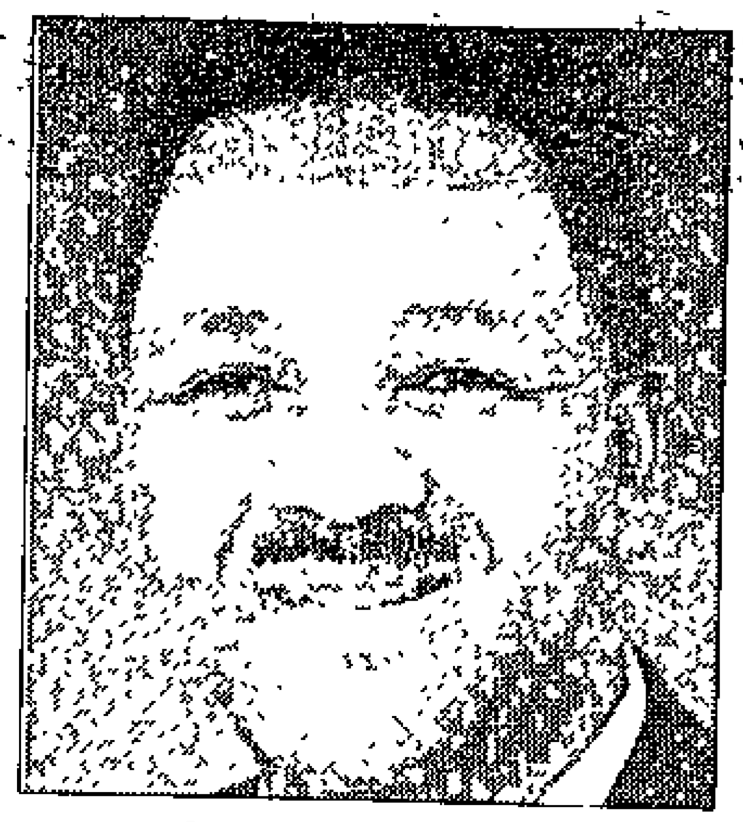
(49) Star 11/9/95

BY JOVIAL RANTAO
POLITICAL REPORTER

Economic growth, which is critical for sustainable improvements in services and incomes, will only be realised through policies that stress human resource development on a massive scale, Public Works Minister Jeff Radebe said last week.

Launching the Department of Public Works pioneer Consultants' Pilot Roster in Johannesburg, Radebe said the emphasis of the human resource development programmes should be in the technological and scientific fields.

"These two fields must be transformed to play an important role in the development of all sectors of our society and must address the extremely unequal distribution of resources in our country," Radebe said.



Hopeful ... Jeff Radebe

It should be seen as one of many necessary strategies to transform and to democratise the professions operative within the building environment.

The new system would allow firms from the disadvantaged communities to gain access to lucrative State contracts.

The launch of the Pilot Roster system represented an important step forward in the overall transformation of building environment professions.

The minister said the basic criterion for admission to the Pilot Roster will be professional registration with the relevant statutory council as an architect, professional engineer or quantity surveyor.

Radebe said the Government spent almost R150-million on consultants a year.

The figure, he said, impacted on the R1,5-billion capital works projects put out by the Government per annum.

The new system received support from the South African Black Technical and Allied Careers Organisation and the Association of Development Professions, various statutory councils and key Government departments.

Committee wants greater say in government, the Budget

(49) CT (BR) 11/9/95

By Bruce Cameron

Political Editor

The influential joint standing committee of parliament wants a greater say in government and the budgetary process.

In a report on its first full parliamentary session the committee, under the control of Gill Marcus, has made a number of recommendations for its own restructuring and other changes to improve its role.

Among the changes the committee wants is the investigation of the introduction of legislation that will "enforce updates on departmental spending, macro economic forecasts and forward spending estimates".

The committee also wants better resources to be able to improve its performance. These include a staff of six researchers, a strategic co-ordinator, a clerk of the committee, two high-level administrators as well as financial resources for transport, accommodation, seminars and consultants.

In the wake of the legislative chaos in parliament, the committee wants to be told of legislative priorities and programmes early in the session.

It also wants to introduce a checking system that will ensure that issues raised at hearings and in debates result in formal responses from Cabinet ministers on a quarterly basis.

The committee sees its role as including:

- Participation in economic debates of the executive, as recognition that it is part of government;
- Ensuring discussions on economic policy take place across parliamentary committees and ministries;
- Persuading other parliamentary committees to play a meaningful role in the budget process;
- Developing constant communication with the community, for example through the National Economic Development Labour Council;
- Ensuring a greater role for the committee in the budget process in parliament;
- Ensuring that the RDP concerns cut across different departments, including human resource development and sex and disability issues, are dealt with in the budgetary process; and
- Assisting in shifting and reallocating resources within the budget to better reflect and promote the aims of the RDP.

The committee said it was being frustrated by the degree to which it can influence legislation or "even engage constructively" with the execution of legislation.

"Reasons for this range from tradition, through inefficiency to what some see as obstructionism, as well as the lack of understanding of new approaches and values and how to implement them."

But the committee conceded that there was a lack of clarity about its status, role and powers.

However, the committee did find that it is building constructive relationships with various departments, institutions and the public while relationships between members and parties in the committee were co-operative and followed an approach of trying to ensure a high level of debate and consensus.

New funding plan benefits Gauteng

(49)

CT 11/9/95 (BK)

By Bruce Cameron
POLITICAL EDITOR

A major reallocation of resources to the provinces is about to be implemented with the Western Cape and Northern Cape as the big losers and Gauteng and Mpumalanga as the main beneficiaries.

The reallocation has been designed by the financial and fiscal commission and will be implemented in next year's budget.

The commission found there were major imbalances in allocations by central government and has set out to redress them over a five-year period.

Murphy Morobe, the chairman of the financial and fiscal commission, said a balancing period of five years was decided on to keep real reductions in budget allocations to the provinces to below 4 percent a year to allow them to adjust.

The formula recommendations, which were discussed by the parliamentary finance committee last week, would be a central component of the two weeks of discussions between government departments and the nine provinces. The talks start in Pretoria today.

The formula allocations have, to a large extent, been based on existing inaccurate demographic data and will have to undergo a major revision.

In this year's rand terms and based on a moderate growth in the economy Gauteng will see its share of provincial grants go from R9,9 billion for the 1995/96 budget year to R14,7 billion in five years while the Western Cape's grants will drop from [illegible] billion to R6,3 billion. KwaZulu Natal will go from R13,3 billion to R16,8 billion.

All the provinces will receive a basic grant to enable them to establish and maintain institutions they are obliged to maintain in terms of the constitution.

The basic grant will be set on the population figures of each province but with a 25 percent additional weighting being given for the number of rural people in each province.

Morobe said research had shown a necessity for additional spending in rural areas with levels of deprivation being far higher than in urban areas.

The second funding category is a national standards grant which will be allocated to provide for minimum standards of primary and secondary education and for primary health care.

The education grant is based on providing an acceptable level of education for children aged between five and 17 years, using the norm of one teacher to every 38 school children.

The health care component will be phased in over eight years, assuming 3,5 visits a year to a primary health-care clinic and 0,5 visits a year for people with medical aid.

The third part is a tax capacity equalisation grant to encourage provinces to raise their own revenue.

Morobe said the equalisation grant would not be in force for this year's budget as the provinces did not yet have the capacity to raise all their own revenue.

To establish the size of the grant a national potential average will be worked out. The grant will fill the gap between what a province can raise and the average. If any province does not meet targets set for meeting its own revenue-raising potential it will not receive the grant.

Morobe said the reason for this was to maximise revenue raising potential while introducing an element of public accountability.

State must loosen its grip on economy — study

(49)

COLIN DOUGLAS
Staff Reporter ARG 12/9/95

SOUTH Africans enjoy less economic freedom than the citizens of most other countries — and they will lose out in the race for prosperity unless the state substantially loosens its grip on the economy.

This is the finding of a major comparative study to be published soon by Canada's Fraser Institute, which ranks South Africa 74th in the world on a comprehensively researched economic freedom index.

A draft of the study was unveiled in Cape Town yesterday by Michael Walker, the institute's executive director, at a summit of the Mont Pelerin Society, a high-powered international liberal grouping.

South Africa's economic freedom was rated 4,4 out of a possible total of 10, compared with Hong Kong, the economically most free territory, with 9,3, and Algeria, the least free, with 2,1.

The index measures the level of state intervention in the economy and the extent to which citizens are prevented from freely exercising economic choices.

Although the index put South Africa ahead of neighbours like Zimbabwe and Zambia, the country lagged behind several other African states such as Botswana, Mauritius and Senegal.

But the prognosis on South Africa was not all bad: the study, which tracked economic freedom from 1975 to this year, found that South Africa had slightly increased its economic freedom over time while many African countries had shown a decline.

"In those countries which have been reducing economic freedom, economic performance has been markedly down," Mr Walker said.

"But in those countries where economic freedom has increased, the rate of economic growth has increased in addition to the growth attributable to investment.

"Costlessly, by giving your citizens freedom, you can increase economic growth; South Africa has enormous opportunities to enhance growth in this way."

South Africa's most blatant infringement of its citizens' economic freedom, the study found, was its restriction on the opening of foreign bank accounts.

This was coupled with exchange control regulations which restricted South Africans' ability to engage in capital transactions with foreigners.

South Africa also got bad marks for the state's huge role in the economy, with government consumption as a percentage of gross domestic product (GDP) rating among the largest in the world.

The size of government-owned enterprises and the extent of tariffs and price controls were also found to be large by international standards.

Economic outlook excellent – survey

(49) Sowetan 12/9/95

By Uta Zimmermann

GERMAN companies are playing a leading role in South Africa's economy.

This is clearly indicated by the results of the third survey of German enterprises in South Africa conducted recently by business consultant Dr Gunter Pabst.

"When one looks at the real importance of German economic activities in South Africa, one can easily recognise there is hardly another country with as much influence as Germany," he notes.

The survey identifies one major difference between German firms and other foreign companies: they have established their own manufacturing facilities in South Africa.

This has resulted in the transfer of skills and resources, instead of merely exporting domestic products and franchise operations to South Africa.

German companies have also tried to improve the lot of their employees by paying attention to their working conditions, social security, education and training.

"This created standards later adopted by other enterprises," says Pabst.

Furthermore, the survey regards the uninterrupted stay of German companies in South Africa – despite worldwide sanctions – as a factor that has strengthened Germany's importance to the local economy.

According to the South African-German Chamber of Commerce and Industry there are 360 German companies employing about 60 000 people in the South African market.

German companies are mainly active in the automobile industry, electronics, chemical industry and machinery.

Those enterprises, which rate the current economic climate as "excellent" – or at least "sufficient", have increased from 81 to 90 percent since last year's survey.

Germany's Chancellor Helmut Kohl in South Africa .. a new survey shows German companies are optimistic about this country's economic future.

"Among the top 20 companies, with more than 40 000 employees and an annual turnover of R20 billion, only one rates the climate as bad," Pabst observed.

Their main concerns about the prospects of South Africa are crime and violence, corruption, an inefficient civil service, low productivity of the work force and unaccountable trade unions.

Despite this, most of the German enterprises are optimistic about expanding their production in South Africa.

The survey listed the following positive aspects: a market-driven economy, reliable political leaders, equal opportunity for foreigners, a reasonable return on investments and free competition. However, the survey does show that there is still more confidence in the economy of the new South Africa than in its political structures.

Finance committee wants to play a greater role

BD 13/9/95 (49B)

CAPE TOWN — Parliament's finance committee demanded a greater say on legislation and the budgetary process yesterday — which it said was in urgent need of reform — and called for clarity on the role and powers of parliamentary committees.

In an "annual report", the 55-member committee, headed by ANC MP Gill Marcus, also objected to the pressure placed on it to hastily approve legislation and the absence of adequate secretarial and research backup.

It said the committee, which is made up of five working groups, was plagued by quorum problems as many members also sat on other committees. It recommended it be scaled down to 37 MPs and senators with a 10-member support team, including six researchers.

The report, prepared with the help of the Institute for a Democratic Alternative for SA, is unusual in that it is believed to be the first time a parliamentary committee has undertaken a critical examination of itself.

It said members were frustrated by the "inefficiency and obstructionism" which often limited the committee's ability to influence or initiate legislation.

There was also insufficient clarity on the status and powers of the committee and the role which parliamentary committees in general were expected to play.

Members felt the committee should have a "more significant" say on legislation and in challenging government "in a critical but constructive" manner.

"Reform of the budgetary process is urgently needed, including a greater awareness of how budgetary decisions affect the lives of, for example, women and the rural poor," it said.

Marcus said the report would be circulated in government departments for comment. — Sapa.

RUM

The secret Budget makes a mockery of SA's 'transparent' government

(49) CT(MR) 14/9/95

TAXING QUESTIONS

The nurses cry is also that of fiscal revolt. We know tax plays havoc with our pockets

BY MATSHERU MATSHERU

We listened with interest when President Nelson Mandela, the apostle of transparency told striking nurses that the government did not have the money to answer their pay-increment prayer.

This provokes the following rhetorical questions. Did the government consult the nurses before the strike began to tell them that the nation's purse was no longer pregnant with rands and cents? If not, do our leaders think that nurses are prophets and are supposed to know that the exchequer is empty?

Nurses and other South Africans are not allowed by the people-orientated and transparency-crazy government to participate in the creation and the management of the Budget. The Budget is created and managed secretly, excluding the same people who elected the government into office as if they were elected to pursue a secret agenda.

Ignorance impedes good governance as people will not be able to participate in national affairs as they do not have information.

In the same week that nurses were striking, MPs made a proposal that their earnings should be increased by about R4 000 to more than R20 000 each a month without taking into account other improvements requested such as secretarial allowances, free parking at airports and the subsidising of telephone accounts when parliament is not in session.

This invites another question. Are MPs, the same people who participate in the parliamentary budget debate, unaware that the state does not have money, as the president told the nurses? Or is it the old story of the left hand not knowing what the right hand is doing?

The nurses' cry is not merely a voice for more money and better working conditions. By demanding that Nkosazana Zuma, the health minister, should resign, this shows that people are losing confidence in the manner in which the country is run.

Revolution

The nurses' voice is also a cry for fiscal revolution. Demanding a revision of the tax system shows that people are aware, more than ever before, that it is not always the level of remuneration that reduces their standard of living, but it is the high tax rates that cause havoc in their pockets.

It does not help much to get salary increases when the increase will be suffocated by high tax rates.

The nurses' voice, coming loudly a year after the election, demonstrates people's awareness and economic maturity that political franchise feeds nobody and that we are not free until we pay less tax.

The government has two choices. It can reduce the tax rate or give nurses an increase. If they reduce the tax rates everyone will benefit.

On the other hand, if the government offers nurses increases, other government employees may start to toyi-toyi for more pay and the state will find it difficult to refuse after they have agreed to the nurses' demand.

Our leaders must start to restructure their management style. I would recommend the following.

First, deputy ministers must go. They spend too much time as the tails of their seniors and have little to offer.

Second, unproductive Cabinet ministers and useless premiers should be replaced with people from the private sector. This will have the effect that people from the private sector, once in public office, will not have to employ the costly services of consultants as they have the knowledge and experience.

Third, it will also be wise to halve the number of MPs. Taxpayers do not understand the role played by these bloated MPs except their demand to be on the exclusive gravy train.

Fourth, excess employees must also be reduced because the government is not an employment agency. Recent reports that the Northern Province has about 40 000 employees who are dead wood is enough to scare taxpayers to death.

Fifth, better financial control by all government departments is vital for a reduced Budget. State departments should be policed under strict supervision.

Traditions

Above all, misdirected priorities of a government spending money like Imelda Marcos should stop. Paying millions to traditional leaders who no longer have the influence to enforce traditional values and beliefs is a case in point.

Our leaders have been preaching the gospel of cutting public expenditure. But talking about something without solving it is like leaving clothes unhemmed.

The government is learning that it is easier finding excuses than delivering the goods.

If the present fiscal fire is not extinguished soon it will confirm the view that the only talent politicians have is their ability to sleep with their eyes open.

Makes you think, doesn't it?

Matsheru Matsheru is an independent tax consultant

Harvard's free-trade evangelist knocks wishful RDP thinking

(49) ST(BT) 17/9/95

By SVEN LUNSCHE

ONE of the world's most influential economists has an uncomfortable message for South Africa.

"Your economic strategy appears to be a wish list and not a vision of sustainable economic growth," says Harvard University's Jeffrey Sachs.

"This country needs more than a reconstruction and development programme; it needs a concept of how growth will be achieved over the next 20 years."

Professor Sachs, head of Harvard's Institute for International Development, has won fame and controversy as economic adviser to 15 governments in Latin America and Eastern Europe.

His most recent, and most high-profile, assignments were as adviser to Poland's Solidarity government and Russia's President Boris Yeltsin.

For both governments he prepared programmes of radical economic transformation, which met with mixed success when implemented.

His influence, however, remains profound on issues such as macro-economic stabilisation, privatisation, market liberalisation and international financial relations.

It is this vision, applied to South Africa's economic transition, he shared at a Wits Business School function this week.

The basis of his assessments is to gauge a country's overall reform programme according to the progress of trade liberalisation.

"Trade liberalisation not only establishes powerful direct linkages between the economy and the world system, but also effectively forces the government to take actions on the other parts of reform under the pressure of international competition," he says in a recent paper.

The paper, a study of 90 developing countries, finds that the 15 nations which followed open policies achieved growth rates in excess of 2% a year from 1970 to 1995. Of the 75 closed economies, including South Africa, 68 averaged less than 2% and many of them ended up in macro-economic crisis.

South Africa's poor growth performance was exacerbated by its mineral dependence, which created a bias against manufacturing development and labour-intensive exports, he told the Wits Business School.

"I have only had a chance to glimpse at your economy but this assessment shows that an outword looking, manufacturing oriented and low-wage growth path works for an economy," Professor Sachs says.

"To achieve this you do not need public interference, but the cold shower of minimum trade tariffs, rigorously exposing the economy to competition.

A crucial component of this strategy is the introduction of zero tariff zones. "Make Soweto a free-trade zone and the impact will be immediate."

Competition is also a far better way to control industrial conglomeration than anti-monopoly policies, he adds.

Professor Sachs is aware that the low-wage component is difficult to achieve in South Africa, but stresses that "wage restraint now will later buy you ownership of the economy, more jobs and strong growth in future income."

In this sense, privatisation should first aim at broadening the ownership of the economy rather than raising funds.

He also urges particular openness in South Africa's relations with its neighbours. "If you want investment opportunities in the region you have to offer farmers an open market."

Professor Sachs doesn't mince his words when assessing the RDP.

"It is a less than satisfactory document that has a flavour of government-led growth by creating jobs, building houses, etc. The country will go broke if it relies on the government to provide the jobs."

Private sector contribution sought

Plan to fund infrastructure needs R174bn

BD 18/9/95 (49)

Robyn Chalmers

MORE than R170bn in public and private sector finance will be needed over the next five years to fund government's plans for a massive infrastructure investment push.

A preliminary report on government's infrastructure investment plan, prepared by the CSIR for the reconstruction and development programme (RDP) office, envisages serious shortfalls in meeting the funding requirements, and says incentives may be offered to the private sector to ensure they make a major contribution.

According to the report, central government, the provinces and parastatals provide only about 80% of the funding.

The sector requiring the most funding from government revenues and other borrowing was water and sanitation, followed by housing, urban infrastructure and transport.

In the present fiscal year, R21,9bn should be spent on infrastructure — but government and parastatal investment would amount to a smaller amount of R21,4bn. This was made up of about R11,5bn from central government and the rest from parastatal funds. An average of about R38bn should be spent for each of the remaining four years. These needs could not be met by central government.

To meet the needs for the 1996/97 financial year, the report said the funds for infrastructure from central government would have to increase 115%, excluding inflation.

"Assuming a similar level of funding to the 1995/96 financial year from the national revenue, the government will need to borrow an equal amount from other sources to satisfy the needs," said the report.

Alternatively, it said a longer time frame would have to be considered to offset the backlog. The private sector should also be actively encouraged to invest and new financial instruments could be created to this end.

RDP Office capacity building chief director Frank Meintjies said an RDP infrastructure investment conference was scheduled for the end of the month. It would bring together representatives of stakeholder groups including government, institutional investors, pension and provident fund members and labour and community organisations, to debate an RDP infrastructure investment strategy.

The conference would also consider an RDP infrastructure investment accord to address key issues, including a regulatory framework to facilitate investment in the RDP by institutional investors and the need for and role of financial instruments for funding.

According to the CSIR report, this

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Infrastructure

(49)

Continued from Page 1

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fiscal year's spending did not include any requirements for urban infrastructure. The R500m shortfall for infrastructure needs, excluding urban infrastructure, in the current financial year would have to be carried in subsequent years.

The report estimated that R30,1bn would be required over five years to address water and sanitation backlogs, with available funding from government and parastatals at R19,2bn.

The funding was needed for the water affairs and forestry department's plan to establish a national water supply and sanitation programme in the short term, and an on-site water supply to all rural households and adequate sanitation facilities to 75% of rural households in the medium term.

The longer-term scheme was to ensure that all South Africans had access to water and sanitation services.

The transport department's funding strategy for rural roads would require R29,1bn over five years, with R4bn needed in the current financial year. Available funding from government and parastatal sources was R11,4bn over the five year period and R2,5bn in the current year.

It was estimated that the housing department required R19,5bn over five years, of which R2,3bn was needed in 1995/96, with R1,3bn available.

Neighbours richer than SA citizens, says bank

BD 21/9/95 (49)

Simon Barber

WASHINGTON — A new economic yardstick being developed by the World Bank to supplement GDP shows that Namibians and Botswanans are three times as rich as SA citizens, and have a higher asset value.

Add together three facets of a nation's economy: its natural resources, the productive capacity of its people, and the value of its "produced assets" — factories, infrastructure and the like. Divide by population. The result is per capita wealth.

SA's per capita wealth, as of 1990, comes to $61 000, placing it 69th out of 192 countries charted by the bank. Botswana comes in 31st, with dollars $188 000. Namibia is close behind at 34th, with $181 000.

The top African country is oil-producing Gabon, coming in 27th, at $232 000. Nigeria, by contrast, trails badly at 174th, proving that natural resources are not everthing, especially if you have a lot of people to share them among and those people are not very productive.

The people of Botswana and Namibia play relatively little role in their countries' wealth. Their share of overall value is 17% and 22% respectively, while natural resources contribute 81% and 75%. In SA's case the breakdown is: people 40%, plant 14% and nature 46%.

That means that each man, woman and child in SA contributes $24 400 to the country's net wealth; a Namibian $39 820; and a Botswanan $31 960.

None of these numbers, which reflect the health and education levels and resultant productive potential of the populations in question, is impressive. By contrast, the average citizen of the US, which ranks 12th overall with a wealth of $421 000, is valued at $248 390.

Japan ranks 5th, with per capita wealth of $565 000. It has virtually no natural resources, and though it is highly industrialised, fully 81% of its wealth is accounted for by human assets, each with an average value of $458 000.

While large, resource-rich and empty Australia easily tops the chart at $835 000 (Canada is next with dollars $704 000), your average Aussie adds only dollars $175 000 to his nation's wealth.

As for the bottom end of the chart, an Ethiopian, whose country comes in dead last with $1 400, is valued at a devastating $560; a Nigerian at $738.

Althouth this is all very much back-of-the-envelope stuff, the bank is trying to make an important point: a country's net wealth, and therefore what it will be able to pass on to succeeding generations, depends less on what lies beneath its soil than on the extent to which, through education, proper nutrition and the like, it has been able to add value to its people. The Western industrialised nations have been pretty good at this, as has the Pacific Rim. The less developed world, especially those with mineral blessings, have done far less well despite hordes of Western technical experts theoretically helping them.

We are in a debt trap, and Stals must carry the blame

(47) BD 21/9/95

Edward Osborn

SO THE minister of finance has reassured Parliament that there is no public debt trap. I do not think we can be that complacent in the face of a budgetary structural imbalance, real interest rates and a positive yield curve. That needs some explaining.

The public debt trap arises when there is borrowing in order to fund the interest bill and there is an ongoing core deficit.

The interest bill is continuously spiralling and there is, in effect, no funding contribution from the core budget to dampen the escalation of interest; indeed, there is an enhancement of the interest bill escalation.

The deficit before borrowing can be resolved into a core budget and the interest bill as follows in the budgetary identity:

$D = (E-R) + I$

where E is non-interest expenditure, including both recurrent and capital formation; R is revenue, including both normal and any capital revenue; and I is the interest bill.

Deficit

The core budget is the (E-R) factor, either positive — that is a deficit of non-interest expenditure over revenue — or negative on a budgetary surplus, which assists in reducing the overall deficit before borrowing.

We now have both a core deficit and a rising interest bill which may, irrespectively, be characterised as a fiscal deficit component — shall we say a Liebenberg or L element — and a monetary component, or S element.

For the moment, assume the L element is neutral or zero. The S element will grow exponentially at a rate dictated by the average coupon rate of interest on stock and by the volume of new stock to be issued to fund the interest bill, as governed by the price of the stock in the market.

That is, interest in time t + 1 is interest in time t plus the interest charge on stock raised to fund the interest bill.

The factor is simply:

$1 + C/P$

where C is the average coupon rate of interest, and P is the price, say of the common stock to be issued for the funding of the interest. Alternatively, P is 100 - D, the discount on stock issued.

The important issue is whether this growth factor is larger or smaller than the GDP growth given by the factor:

$I + G$

thus the ratio at the interest bill or S element to GDP will grow larger if $C/P > G$.

Putting some flesh on this structure, the current position for us is an average coupon rate on local registered stock of 11,5%. The yield on, say, the major funding stock of 10 years is 15,5%, which, for a coupon rate of 11.5% gives a market price of R78,83. (The formula relating market yield and price is complicated.)

The ratio C/P is thus 14,59%, which is well ahead of the current nominal growth rate of GDP of 12,5%. The interest bill/GDP ratio will therefore grow.

In practice, however, as interest is paid half-yearly, the calculations should be carried out on a six-monthly basis which tends to speed up the whole process of exponential expansion.

In this example, then, the rate of expansion of the interest to GDP ratio works out at 2,33 a year and the present ratio of 5,66% would grow to 6,35% in five years.

What this means in practice is that if monetary policy is such that there is a real rate of interest beyond the real growth rate and, furthermore, this differential is made greater by there being a positive yield curve — that is, the yield on funding stock is greater than short-term rates — the interest to GDP ratio must grow exponentially.

Thus there is a nucleus to the deficit/GDP ratio that will be growing exponentially in a regime of strict monetary policy.

Reserve Bank governor Chris Stals's firm monetary policy is therefore a guarantee of the deficit ratio rising inexorably.

His policy provides a twofold underpinning of the rising S element of the deficit, namely through the real interest rate and through any dampening of the nominal growth rate.

For the interest to GDP ratio to remain constant — still holding the L element neutral — C/P must equal G. For C at 11,5% and nominal GDP growth at 12,5%, or more pertinently 6,1% per half year, the price of stocks will be R94.79, giving a 10-year yield of 12,36% a year. This would be possible if the Bank rate were brought right down or the yield curve in the market turned severely negative.

Clearly we are well and truly in a debt trap because of Stals, unless there is alleviation from the L factor — that is, if the core budget is positive.

But the core budget is currently in deficit and is structurally so. On the one hand, there are the high costs of a more complex state and provincial configuration, the pressures on the RDP to deliver, the public service salary demands, and the growing evidence of corruption and lack of control of public funds.

On the other hand, revenue is constrained by the tax reform programme on corporate taxes and taxes on foreign capital ahead of the means of doing so and the unwillingness or inability of a large segment of the population to contribute to state financing.

Diversion

In the 1995/96 budget the L core deficit is only R700m, or 0,14% of GDP.

However, that does not take into account unspent provisions brought forward from last year, the diversion of pension fund contributions to salary increases, and allocations still to be approved in the February adjustment budget.

The L element is going to turn out to be much worse, and is likely to remain so for the foreseeable future. And what this does is add fuel to the escalation of the S element, compounding the whole process. The deficit ratio must deepen progressively.

The solutions to the debt trap predicament are obvious, but it does require an admission that we are in it and appropriate policy measures are devised to work towards climbing out of it. That will certainly take time

The alternative is much too horrid to contemplate.

The only solution to an impossible situation in time will be what Lenin and Keynes called the debauchment of the currency and what Keynes referred to as the euthanasia of the rentier.

☐ Osborn is economic consultant at Edey Rogers.

Govt can be more active in promoting growth

BD 21/9/95 (49)

PETER HILSENRATH

IT IS with some reluctance that I intrude upon a cosy consensus among economic policy analysts and thinkers. The consensus is that fiscal discipline is needed for a healthy economy. Moreover, they argue, SA is constrained to no more than 3% or 4% growth because of structural rigidities. Keynesian stimulus would merely result in inflation undermining the bond markets and slowing the limited growth.

But there is reason to pause and question this conventional wisdom. Outside Iowa City there is a town called West Branch. It is the birthplace of Herbert Hoover.

There is an impressive exhibit detailing Hoover's extraordinary life. Hoover was a great humanitarian and did much to assist post-First World War Europe. But, ultimately and sadly, he was a failed president.

Hoover staunchly adhered to classical economics and preached the virtues of fiscal discipline and the righteousness of government abstention from employment and social welfare endeavours. In 1932, with high levels of unemployment, Hoover was voted out of office and replaced by Franklin Roosevelt.

Roosevelt proceeded to put people to work. He built roads, dams and electrified rural America. The economy came to life. By the end of the Second World War economists had embraced the theories of John Maynard Keynes who argued, among other things, that high unemployment could be addressed through government stimulation of aggregate demand. Increased employment could occur without generating inflation.

Governments the world over have been committed to this principle. In the US it is law. But since the mid-1970s, demand management has fallen into disfavour. Classical economists emerged from desolation.

Increasingly, economists recognised that stimulating employment when most people already had jobs could produce only short-run employment gains at the cost of ever higher inflation. And of greater consequence, Keynesians neglected the supply side. Keynesians provided little solace in an environment plagued by oil and other supply side shocks. So, many economists over the past 20 years have shifted their focus to the more difficult job of managing the supply side.

Unfortunately, the pendulum has swung too far, and while the new classical economics has considerable appeal in the more fully employed developed economies, South Africans should expect more of government. Is it reasonable to believe that all of SA's unemployment is "structural", that long-term growth should be jeopardised because of fears of inflation, that it is better to have much of the country unemployed than inefficiently mobilised by the public sector?

Moreover, government intervention need not be confined to demand management. There are a host of interventions affecting the supply side available to government. These include providing education, health care and public works.

The reconstruction and development proramme is certainly consistent with these objectives, and most classical economists recognise the utility of public investment. So did Hoover. The differences lie in the scale and scope of activity. Classical economists often emphasise the importance of savings to economic growth. But while savings are important, they are less important than the ability to absorb new technologies and deploy an educated work force.

Governments worldwide have helped mobilise resources. They are pretty good at that. They are not good at employing those resources efficiently; markets are better at that. This government can play a more active role in mobilising resources and promoting growth. The foreign investment SA seeks will not come in abundance unless growth is evident. It is sad to see wasted potential. Perhaps reflection on Hoover's story would be sobering and provide added inspiration to SA's economic leadership.

☐ **Hilsenrath, an assistant professor of economics at the University of Iowa, is spending time working as an investment strategist at Syfrets Managed Assets.**

LETTERS

Strait-jacketed divisions 'no longer acceptable'

(49) CT (BR) 27/9/95

This is the first of a two-part interview with Alec Erwin, the deputy minister of finance, by political editor Bruce Cameron. The second article will discuss a number of issues, including why the government has struggled to deliver in the short term and changes in the tax structure, including wealth taxation

Deputy-minister of finance, former trade unionist, member of the Communist Party of South Africa, unashamed adherent of firm monetary and fiscal discipline, a man of undeniable talent and intellect, Alec Erwin is no convert, as some seem to think, to rampant capitalism.

He has a firm commitment to restructuring the country to balance out the extremes of wealth and poverty but, among other things, it is within the bounds of sustainable economic growth and responsible fiscal and monetary policies.

In a speech delivered at a conference in Paris in January 1990, before FW de Klerk's historic unbanning of the ANC and the release of Nelson Mandela and when he was still very much a trade unionist, Erwin said: "We have to open out the agenda of debate beyond ideological cliches if we are to avoid a future economy where mass poverty exists side by side with minority affluence Such a society cannot be democratic and must collapse into renewed oppression and conflict."

In a recent interview his views were much the same and what were seen then as controversial remarks are clearly more the norm now, particularly with the broad acceptance of a policy designed to wrench the majority of South Africans out of dire poverty.

He continues to argue that the strait-jacketed ideological divisions of the past are no longer acceptable.

A case in point is the approach to the reorganisation of the state's immense assets.

Privatisation "is no longer an ideological or theoretical issue. Pro and anti-privatisation arguments of the past don't offer useful policy. Capitalist and socialist approaches require a rethink".

The overriding approach should be in the principles of the RDP and the use of growth to empower people. But privatisation should not be rushed without the proper regulation or "we could end up with some quite serious mistakes.

"We have to do the homework and must not be rushed."

However, he acknowledges that there are still political sensitivities on the issue with organised labour, in particular, being very ticklish.

"Account has to be taken of the fears and sensitivity of labour since they are not without foundation."

But the government was further down the road in the reorganisation of state assets than was apparent from the recently released guidelines. The guidelines had been overtaken in many respects with the Cabinet already focusing on the process, rather than the guidelines

Erwin also has no difficulty in moving from what was previously an extremely partisan position on labour to being involved in the government and then to working closely with Chris Liebenberg, the finance minister, who comes from the world of banking — the sector of business often portrayed as the worst element of capitalism.

He meets Liebenberg regularly. "It is very nice for me to work in such any easy team relationship."

He is "very comfortable" being in government as "the basic underlying principle we are building into government and Nedlac is that unions must fulfil their tasks, which is to represent their members.

"Government must provide channels for them to be heard. Business also represents its own interests but government has to balance the much wider set of interests. In that sense there will be times that government must stick to its position rather than jeopardise a wider set of concerns and interests

"There are times when government can resolve the problems by being the referee or arbitrator." Erwin's pragmatic approach is in evidence as his views on the Baragwanath nurses' strike illustrate.

The government sympathised with the position of nurses, he said, but the nurses could not be given special treatment without considering others like the police, educators and even doctors.

If wage increases were given, in a piecemeal manner, the effect would be destroyed by increased interest rates and increased inflation.

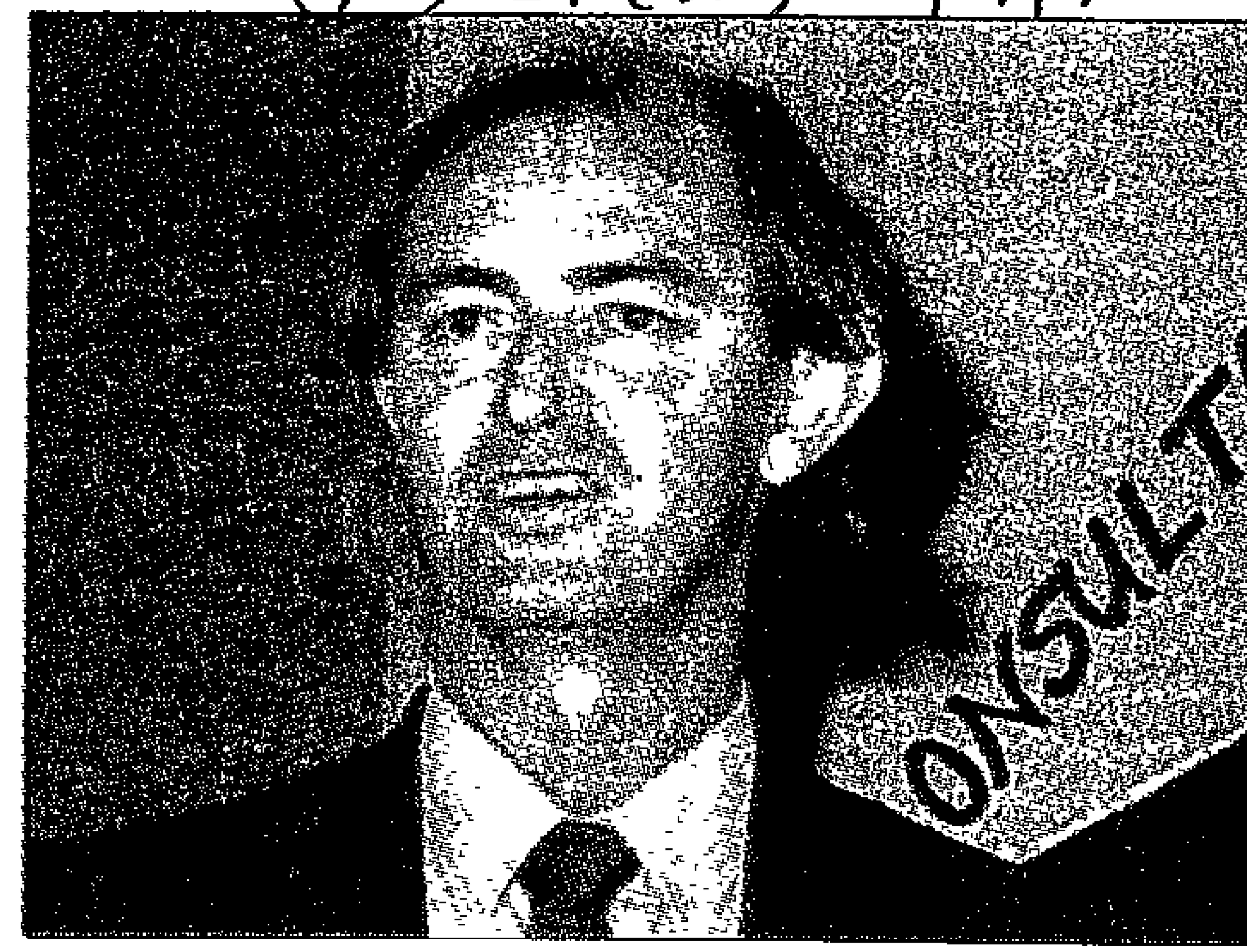
"We would get ourselves into a negative economic cycle.

"The answer lies in altering the payment structure in the civil service by looking more carefully at its size and deployment, addressing both the wage and other promotional issues within our capacity.

"If we can do that everyone benefits. Interest rates will come down and we keep inflation stable. Then we will be giving real wage increases rather than nominal increases.

"If the government has a plan and it feels that plan will work, then it must stick to that plan. If it starts to make ad hoc decisions then it will get itself into a complete mess.

"If we maintain the integrity of policy, we believe we can succeed given the time to do it."



DETERMINED *Alec Erwin, the deputy finance minister, is committed to balancing out the extremes of wealth and poverty in the country*

Erwin said everyone, including the Public Service Commission, agreed the public service required a complete overhaul.

"The problem is we have got a structure where the gap between top and bottom is too big, where there are too many grades and complications. We must redefine the levels of the basic system. Nurses and teachers should not be far from the bottom end of management but for a range of past reasons they are quite significantly below the bottom of those ranks of management."

But these problems could not be solved within the present structure and within fiscal constraints.

Erwin rejects claims that the commission is the sole cause of any problem.

He has "quite strong reservations about an auditor-general expressing himself in such a general manner" as was done recently by Henri Kluever, the auditor-general.

Kluever should have been precise in his criticisms rather than raising a general alarm.

Erwin says he knows there are problems in the public service and particularly in the broader finance departments.

But solutions are at hand. The investigations by the special adviser to Liebenberg, Charles Stride, into the departments of customs and excise, and inland revenue will lead to legislation next year and significant changes in the departments.

The Stride report will be released "after we have consulted all stake holders. We don't want to release it now as it could be seen as prejudging issues".

The consultatias ons are going well and Erwin believes there is already broad agreement as to what should happen to the departments.

One of the problems, which had been highlighted by the Stride report was the nature of the problem.

"I believe in the past we got hooked on the wrong issues.

"I would dispute the question that everyone knows what the problem is In a sense everyone knows what the problem is, in that we could be collecting more tax."

The Stride investigation had shown it was not merely a question of uncompetitive salaries or structuring the departments outside the control of the Public Service Administration.

Changes in work organisation, resource management and strategic planning were required.

"We see no reason why, in line with the changes in the public service that we happen to be making, the departments don't remain within the disciplines of the public service."

The other problem with which Erwin has to deal as part of his responsibilities is the claim that corruption is rife in the department of customs and excise.

Erwin said it had been difficult in the past to get concrete facts but two processes had been initiated "to ascertain whether we are looking at something really significant".

Erwin doubts the situation is as bad as has been claimed as the situation would then be absolutely chaotic.

The problem of corruption is included in the reform of the department. There was a focus on what modern customs' structures could do to limit the potential for abuse.

"To a certain extent you are dealing with the private sector's capacity. One of the most profound recommendations is that we are proposing that we should be able to match private sector technology."

Our economy needs a major kick-start

(49) Star 30/9/95

The Democratic Party has recently re-formulated its submission to the Constitutional Assembly on the retention in the final Constitution of the right to free economic activity. **PETER LEON**, leader of the Democratic Party in the Gauteng legislature, gives the reasons why

FREE ECONOMIC ACTIVITY: "Government does not create jobs. People do. Creating jobs will eradicate poverty and help fight the vicious circle of crime"

Although to the struggling entrepreneur in Soweto, or the street hawker in Hillbrow, the constitutional protection of the right to earn a living is axiomatic, the cause of liberal capitalism does not resonate loudly in our liberal democracy, despite its obvious benefit to small business

A striking example of this, if any is needed, is the ANC's diffidence about creating the necessary supply-side measures to kick-start the economy: privatisation, meaningful tariff reform and the liberalisation of the capital account

The right to engage in free economic activity, while protected under section 26 of the 1993 Constitution ("the Constitution"), is unlike any other fundamental right, doubly circumscribed by section 26 itself and the general limitation clause in the Constitution (section 33) The survival of this right in the final constitution – much disputed and unsatisfactorily resolved at Kempton Park – is by no means certain

Section 26 of the Constitution currently provides:

■ Every person shall have the right freely to engage in economic activity and to pursue a livelihood anywhere in the national territory.

■ Subsection (1) shall not preclude measures designed to promote the protection or the improvement of the quality of life, economic growth, human development, social justice, basic conditions of employment, fair labour practices or equal opportunity for all, provided such measures are justifiable in an open and democratic society based on freedom and equality."

The double circumscription of this right may well render the right nugatory In view of this, the Democratic Party has recently reformulated its submission to the Constitutional Assembly on the retention of this right in the final Constitution. While we believe that the retention of the right to free economic activity is unarguable, that view is not shared by those organisations which regard capital as the traditional enemy of labour. What is clear is that the right cannot be retained in its current form, as its double circumscription makes it of a dubious constitutional value.

In arguing for the constitutional protection of free enterprise, it is significant that Article 12 of the German Basic Law contains a provision in similar terms to section 26(1) but not section 26(2), the material part of which reads:

"All Germans shall have the right freely to choose their trade, occupation or profession, their place of work and their place of training The practice of trades, occupations and professions may be regulated by or pursuant to a law."

Ideally, as with any other right, the right to free economic activity should only be circumscribed by the limitation clause in the Constitution. In view of the economic realities of modern South Africa, with its huge disparities of income, we accept that some measure of circumscription may be necessary to promote a market economy based on social justice.

Whatever limitation is contained in section 26(2) should, however, not render the basic right meaningless, as is the case with the existing section 26(2).

With this in mind, we have proposed, in our final submission to the Constitutional Assembly, that while certain of the concepts underlying section 26(2) are retained, the phrase "basic conditions of employment, fair labour practices or equal opportunity for all" should be deleted, as all these concepts are covered by section 8 (equality) and section 27 (labour relations) of the Constitution and will, because of the power of their political constituencies, undoubtedly be carried forward in the final Constitution

As it is important to promote harmony between the two existing sub-sections, we have suggested that while section 26(1) is retained, section 26(2) should be re-formulated as follows:

■ In order to develop an open and democratic society based on freedom and equality, reasonable measures may be taken to protect or improve the quality of life, economic growth, human development and social justice."

The advantage of this formulation is that it is complementary to and co-extensive with (1), thus encouraging the development of a market economy founded on social justice Unlike the existing formulation of section 26, which is negative and contradictory, this formulation is positive and cohesive

While the Democratic party's economic policy has, at its epicentre, the preservation of the free market, we recognise that the state has a limited role to play in the eradication of poverty and the upliftment of our people.State intervention, should however, be restricted to:

■ increasing economic output.

■ promoting productivity;

■ fostering an internationally competitive economy.

Government, in other words, should follow predictable and stable macro-economic and fiscal policies which promote confidence in the economy and thus growth. In our view, while the re-distribution of wealth is essential in the South African economy, it is best achieved through growth.

Government does not create jobs: people do. Growth will foster jobs and jobs themselves will eradicate poverty and thus help fight the vicious circle of crime, despair and poverty.

Our promotion of the right to free economic activity in the final Constitution would, if enacted, make a significant contribution to a market economy founded on social justice in this country

Govt to apply for World Bank loans

(49) (358)

Robyn Chalmers

BD 3/10/95

GOVERNMENT is planning to apply to the World Bank for loans to support the RDP in the 1996/97 financial year, but will promote private sector, concessionary and government funding to ensure that no new expenditure is added to the Budget.

This is the first confirmation that government will borrow from the World Bank after almost two years of speculation, although Deputy Finance Minister Alec Erwin said earlier this year that such a move was on the cards.

RDP office deputy director-general Bernie Fanaroff said yesterday studies had been undertaken in conjunction with World Bank officials, a preliminary move to applying for a loan.

These studies included the RDP's social, economic and infrastructure needs, while requirements of the education, health and housing departments, among others, were being investigated, he said.

Preliminary reports on government's integrated infrastructure investment plan estimated that infrastructure needs alone would cost about R174,1bn over five years. Water and sanitation would need the most funding, followed by transport, housing, urban infrastructure, education, health, energy and telecommunications.

Recent reports indicated that the World Bank had budgeted $850m in loans to support the RDP in areas of education, agriculture, urban renewal and small business development.

The World Bank's budget plans were drawn up after SA and the bank

Continued on Page 2

Loans

(358) (49)

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Continued from Page 1

signed a memorandum of understanding last March which provided for studies to be undertaken on several projects. It also raised the possibility that SA might start to call upon bank resources in the fiscal year starting July.

Fanaroff said that while government would apply for loans from the World Bank after the studies had been completed — probably by the end of this year — it was imperative that this did not exacerbate the burden on government finances.

SA was in danger of falling into a debt trap and was paying R28bn a year in interest on government debt out of a budget of R153bn, which was viewed as highly problematic.

"We want to make sure that both the mix and the timing of the loan application is right and that no new expenditure is added to the budget during the next financial year," said Fanaroff.

To achieve this, private sector investment as well as concessionary and government funding would be emphasised. "In addition, various departments such as education and health have to be able to quantify exactly what they need and where they need it before we are prepared to go to the World Bank.

"These funds must be used judiciously and will be placed where they have the most effect," he said.

A document prepared by the CSIR on infrastructure needs in SA said investigations had been hampered by the sparsity of data available.

The document said only a limited analysis of needs had been possible due to the lack of data, differences in planning frameworks within the departments in terms of assumptions and objectives and the unavailability of a macro-economic policy envelope.

Fanaroff said the restructuring of development finance institutions such as the Development Bank of Southern Africa would also have to feed into the mix, particularly with the organisation's shift of focus to infrastructure.

It was proposed that the refocused bank would consider financing for basic infrastructure, agriculture, small and medium-sized enterprises, operations policy research, technical support and grants for capacity building.

This was still being considered by the finance department.

IMF warns SA to watch its 'mix of policies'

ARG 5/10/95

☐ *Uncertainty 'caused outflow'*

(49)

PETER FABRICIUS
The Argus Foreign Service

WASHINGTON. — The International Monetary Fund has cautioned South Africa to reappraise its economic policies to correct a predicted deterioration in its balance-of-payments position.

The IMF's biannual World Economic Outlook report released yesterday blamed excess demand pressures, fuelled by cyclical capital inflows for this problem in SA and other emerging market countries such as Brazil and Indonesia.

These countries "need to reappraise the overall stance and mix of policies to address the underlying causes" of the problem, the report said.

Asked to elaborate at a Press conference here yesterday, Michael Mussa, IMF economic counsellor and director of research, said that uncertainty about SA had caused "some degree of capital outflow".

SA had a "significant but not huge" current account imbalance. The domestic economy was growing but not as much as the IMF had hoped for, given SA's potential and high unemployment.

But a plus for SA was that it enjoyed strong political consensus on how to move forward.

Asked what SA should do about its remaining exchange controls, Mr Mussa said that in general the IMF strongly recommended liberalisation of international capital markets.

But it was also important to proceed prudently and cautiously and that applied especially to SA.

SA should move forward but only after making adequate preparations and ensuring the macro-economic situation was stable.

The report stressed in general that there was no need to reconsider liberalising financial markets because of the potential for market turmoil.

"Admittedly, markets occasionally are mistaken and often appear to react too slowly to emerging imbalances.

"But shifts in market sentiment are usually justified even though the resulting movements in asset prices can appear excessive.

"Closing the capital account of the balance of payments is neither feasible nor desirable.

"The issue facing policymakers is rather the need to address the policy problems and weak fundamentals that are often at the root of market turmoil."

Overall the world economy had proven quite resilient to the recent financial turmoil and the IMF forecast growth of four percent in 1995 and 1996.

IMF expects progress by SA in easing exchange controls

CT(BR) 5/10/95 (49)

By Bruce Cameron and Peter Fabricius

Washington — The International Monetary Fund (IMF) would like to see South Africa liberalise exchange controls

But it accepts that the government will have to be reasonable and prudent in handling the matter.

This was said by Michael Mussa, the IMF economic counsellor and director of its research department, as he answered questions at a media conference on the IMF's World Economic Outlook Report.

Mussa said the fund expected progress on the easing of exchange controls "But this should be done taking account of pitfalls and in the context of macro-economic policy."

Mussa said that the IMF had hoped for better growth in South Africa, particularly in view of high structural unemployment.

He agreed that the country faced significant economic difficulties but said the political consensus had opened the way to move forward.

The IMF also warned that countries which failed to play by the rules of strict monetary and fiscal policies would increasingly be the target of sanctions by international markets.

The fund said the large increases in bond yields last year, and the large movements in capital flows and exchange rates this year, were in part attributable to "concerns about the resolve or ability of governments to deal with economic problems and imbalances, and to correct weaknesses in economic policies"

"If anything, the sensitivity of markets to such concerns seems to be increasing," the IMF said.

Among the specific market concerns were overheating, fiscal or external imbalances, tensions over trade or lack of credibility of exchange rate pegs.

Imbalance

The IMF said markets "ultimately react forcefully if the imbalance is not corrected".

The fund gave itself an A on its own report card for the general performances of world economies.

In the industrial world, economic expansion had been under way for some time, with inflation in many cases remaining at its lowest level since the early 1960s.

"Pre-emptive tightening of monetary policy last year has proved successful in dampening inflationary pressures in countries most advanced in the economic cycle, said the IMF. "Lower inflation and stronger efforts and commitments to contain budget deficits have helped reverse earlier trends in long-term interest rates, while co-ordinated intervention in foreign exchange markets and changes in official interest rates have brought key inflation rates more in line with fundamentals."

And in developing countries, growth has remained particularly strong. This has been helped by stabilisation and reform efforts.

Confidence had been restored quickly in all but a few countries following the Mexican financial crisis.

In the former eastern bloc, the transition from central planning to market economies was increasingly seeing the fruits of the adjustment efforts, with output rising in many of the countries.

The IMF said it was still concerned about a number of long-standing problems, including high structural unemployment and excessive budget deficits in most industrial countries.

"Many challenges also need to be addressed to further deepen the role of market forces among the developing countries, and the countries in transition. Integration of world financial markets underscored the urgency for the performance of individual countries and for global economic and financial stability in addressing weaknesses in economic policies," the IMF said.

SA ready to meet World Bank's terms

ST(BT)8/10/95 (49)

HE government appears ready to accept the World Bank's \$850-million loan package to support RDP-related projects in the 1996/7 fiscal year.

The subject will be discussed at this week's World Bank-IMF annual meetings, as will the wording of the country's assistance strategy document, which the bank's board must approve before any lending decision is made.

By SIMON BARBER: Washington

Bank officials stress, however, that they are in no way pressurising South Africa to borrow.

To make sure money is available, should government ask for it, bank staff have drawn up provisional loan summaries in four sectors and pencilled in dollar amounts: \$150-million each for urban renewal and education loans, \$50-million for agricultural projects and \$500-million for small business promotion.

In each of these sectors, bank staff and consultants have been working closely, and largely at bank or other donor expense, with the relevant SA players to work out policy options in the light of international experience and local conditions.

For example, there has been collaboration on designing a so-called "Apex institution" to foster commercial and non-bank lending to small and micro black enterprises.

Likewise, bank economists have been working with SA policymakers on possible fiscal arrangements for provincial and municipal governments.

The numbers were "notional", bank officials emphasised. The loan summaries were prepared as part of the bank's internal contingency planning, and not on the basis of any request from South Africa.

What are the pros and cons of taking the bank's money?

South Africa would be borrowing at the bank's market-rate window — the International Bank for Reconstruction and Development — because its per capita GDP is too high to qualify for concessional loans from the International Development Association.

But IBRD money still has its advantages. It is long-term, with maturities ranging up to 20 years. The cost of borrowing reflects the bank's credit rating — AAA — not the borrower's. Broadly speaking, the IBRD sets its interest rates at 50 basis points — 0,5% — above the price it pays for the money on world markets.

The IBRD's variable loan rate for the fiscal year that ended in June was in the order of 7,1%, 6,98% for loans denominated exclusively in dollars. Timely payers received a 25 basis point discount.

A wad of long-term money from the bank will look good on the capital account. On the other hand, servicing the debt will put further strain on the current account. More importantly, borrowing from the bank will increase the indebtedness of government and the proportion of the budget devoted to interest payments.

That means borrowing from the bank will make sense only if the proceeds are invested in such a way that they yield economic returns greater than the government's interest and principal obligations. Sounds obvious, but it is a point both the bank, which in the past has measured its success by the amount of money it could shovel out the door, and governments have often overlooked.

Then there is the question of conditionality. What hoops will South African policymakers have to jump through to obtain bank finance?

In South Africa's case, the bank has taken pai[illegible] ensure that the use[illegible] which any loans will be [illegible] will both be dictated [illegible] South Africans and [illegible] generate more than ample returns by acting as a catalyst for private investment.

It is important to note that the lending the bank has provisionally budgeted for is not linked to structural adjustment or conditional upon the government promising to adopt certain macro-economic policies and targets in return for balance of payments support.

Rather, the idea is to back RDP objectives in the four sectors with project-based loans or credit lines if and when government requests them.

SA interested in World Bank loans

(49) CT (BR) 10/10/95

By Peter Fabricius and Bruce Cameron

Washington — South Africa intended to borrow money from the World Bank but only if it fitted in with its overall borrowing strategy, Chris Liebenberg, the minister of finance, said yesterday.

Asked to comment on reports that South Africa could borrow $850 million from the bank for development projects, Liebenberg said he had never discussed specific loan amounts with James Wolfensohn, the president of the World Bank.

Liebenberg and Wolfensohn were sharing a panel in a discussion on SABC's Agenda programme about South Africa's relationship with the bank.

In an earlier interview, Praful Patel, the country manager of World Bank South Africa, explained that the $850 million figure referred to in press reports was obtained by adding together several potential projects which the bank had listed for internal accounting purposes

He stressed that the bank had not allocated or budgeted any money for these projects and would not do so until South Africa applied for loans.

Asked to comment on criticism that the World Bank placed tough economic conditions on loans, Liebenberg stressed that the South African government regarded the World Bank as just another bank.

South Africa would examine the bank's conditions and interest rates and if it did not like them it would go elsewhere in the capital markets to seek loans

But he said the World Bank could provide other benefits besides loans, such as technical assistance and analysis which it was already doing

Although South Africa had not yet applied for a loan, it had indicated to the bank that it was interested in a range of projects.

"We are probably going to approach the World Bank for some kind of financing"

He said South Africa and the bank had signed a memorandum of understanding which formalised their relationship out of which finances would flow.

"When we have a bankable project we will sit down and negotiate"

Lack of water seen as a threat to top fiscal areas

BD 12/10/95 (49)

Edward West and Kathryn Strachan

CAPE TOWN — The success of two of SA's top economic provinces, Gauteng and Western Cape, could become the direct cause of their economic failure as water shortages made it difficult to cope with high population growth in future, said the University of Stellenbosch's Graduate School of Business.

The university said in its findings in an economic competitiveness survey of the nine provinces that Western Cape and Gauteng would be faced with water shortage problems by 2010, making it difficult to cope with high population growth rates.

SA's population and populations of countries north of its borders would tend to migrate where opportunities existed, the survey said. Water availability could, in future, necessitate balanced regional development.

The survey showed Gauteng contributed almost 38% to SA's GDP, and its density of economic production was almost R5m/km², about 14 times that of the second largest provincial economy, KwaZulu-Natal. Belgium's average economic density was R20m/km².

Mpumalanga was the best economic performer in the early 1990s at 2% growth a year. Northern Province and Western Cape were the only other two provinces to report positive growth, albeit it very moderate. The conclusion was that the economies of the provinces were in an "extremely tenuous situation".

Current investment ratios in Gauteng, KwaZulu-Natal and Western Cape were barely sufficient to maintain capital stock. Ratios in the other provinces were significantly below replacement rate, indicating the deteriorating trend of SA's competitiveness.

On the respondents' perspectives on government, the survey deduced that government, influenced by pressure groups, was perceived to be an obstruction to business development in the three largest provinces. There was little confidence in justice and security systems, and fiscal policy was seen to discourage entrepreneurial activity.

The large differences in the poverty gap between the provinces suggested a likelihood that the economic dependence of poorer provinces on wealthier provinces would remain with SA for some time.

A common denominator in the study was the low ratings awarded in all nine provinces to aspects of management relating to human development. Aspects covered willingness to delegate, intercultural understanding, social responsibility and employee turnover.

Scam scourge riddles economy, says Tager

(49) Star 14/10/95

FINANCE STAFF

Schemes and scams are in danger of strangling the South African economy and merely introducing new, tougher laws is not the answer, says the chairman of the Business Practices Committee, Professor Louise Tager.

"The more control there is through law, the more opportunity there is for bribery and corruption," Tager told the Cape Assurance Industry Liaison Committee conference recently.

Ethics

"It has been said that ethical standards are at an all-time low. Schemes and scams are going on at such a frightening rate across the country – it really scares me," said Tager.

Ultimately, the effect of bad business ethics was to strangle the economy.

Tager said she was in favour of new laws only if there was a definite need for them to protect society and if they could be enforced. "Let's reduce the opportunity for fraud and corruption by reducing the number of controls."

LOUISE TAGER: Sees self-regulation as the antidote

The best way for business to improve its standard of ethics was by self-regulation – and this was already proving successful, she said. "Put the responsibility on the shoulders of each industry – let them write their own rules."

About 20 such codes had already been drawn up, the latest was one for the franchise industry, and more would follow.

The Harmful Business Practices Act was a powerful piece of legislation which empowered the Trade and Industry Minister to close down a business, but the Act had been used only 40 times in the past seven years.

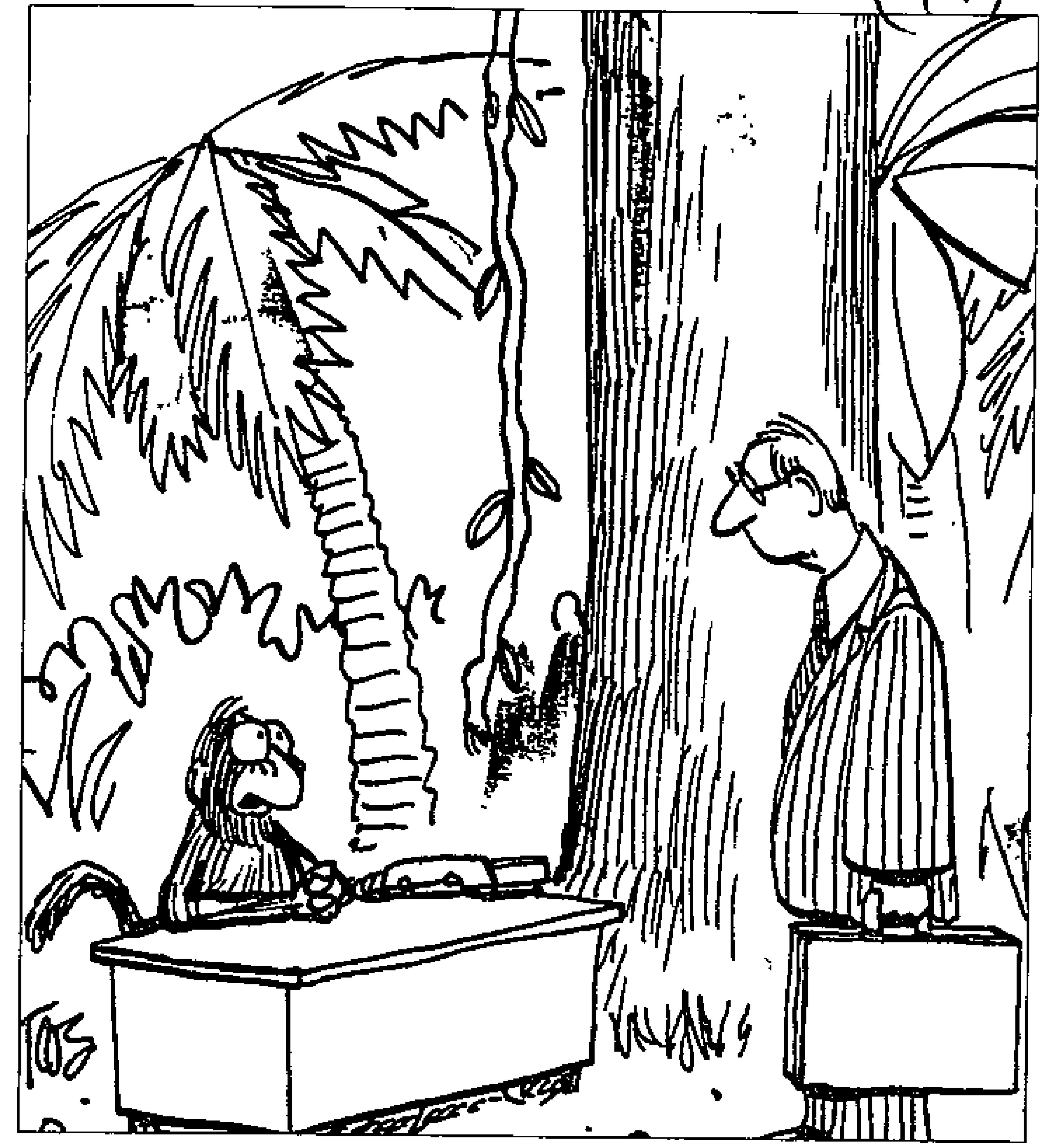
However, said Tager, the Act had been used a number of times "behind the scenes" to resolve issues of ethics through informal action.

Effective protection of South African citizens from dishonest business depended on having educated consumers with access to the courts. "Unless our judicial system allows easy access to the courts, we are not going to protect the consumer."

It was extremely difficult and expensive for individuals to litigate at magistrate's or supreme court level.

South African consumers were "very trusting", across all categories of society, and believed talk of doubling their money.

Turning to the life assurance and short-term insurance industries, Tager called for more disclosure when products were presented to consumers. "The only way consumers can make a proper decision is if they are fully informed."



"He'll see you now"

In the case of life assurance policies, this should involve the disclosure of surrender values within the first few years.

The loss of savings through lapsed and sold policies was a serious problem and one way of addressing this might be to require brokers and salesmen to explain the implications of early surrender to new policyholders, she said.

Another concern in the assurance industry was the occasional abuse of the personal relationship between policyholders and their brokers.

Intermediaries who sold policies often had personal knowledge of consumers' finances.

"We have found that people have made investments based on the relationship with their broker, in shares or debentures, due to a degree of trust and reliance," said Tager.

"In some cases, we have found that this relationship has been abused."

A policyholder who had just come into money from a pension payout or the sale of property could be "a ripe target" for brokers or sales representatives.

The long-term assurance industry was trusted and relied upon. "You have a heavy responsibility not to abuse that trust. We think a code of conduct would be a good place to start."

Her committee would also investigate the "microscopic" print on some insurance contracts, she said.

Surrender values

Speaking after Tager, Morris Bernstein, managing director of Fedlife, said he expected disclosure of policy surrender values to become part of new assurance legislation.

He agreed with Tager on the disclosure of surrender values. Many people who sold their policies within the first few years, he said, should not have been customers in the first place. "We deserve to lose that portion of the business. Those people should have gone to a bank."

ANC document calls for one macroeconomic body

(49) BD 16/10/95

Tim Cohen

CAPE TOWN — The ANC released at the weekend a discussion document which calls for the formation of a single, central macroeconomic authority.

The document, titled One Year of Government of National Unity, says that government has achieved credibility on economic questions, but suggests it has not been able to "shift the paradigms within business".

The document states: "The need for a macroeconomic authority at central level cannot be overemphasised."

"This body would help co-ordinate the definition of a clear industrial strategy.

"Broadly speaking, big business is in a comfort zone of familiar territory: some economic growth to make the most of and no serious application to strategic economic matters."

Industrial strategy meant guiding business on areas of emphasis and intervening with foreign investors "so we don't end up with billions invested in hamburger chain outlets".

"We also need to examine the extent to which the fiscal and monetary authorities are acting in concert rather than conspiring against one another's objectives," it said.

The formation of a central economic authority would help deal with one of government's major weaknesses: disparate economic centres in government and the fact that the relevant cabinet committees were not playing a macroeconomic supervision role.

Next year, government should not allow carry-overs of funds earmarked for communities because of bureaucratic delays.

Government should not allow people in desperate need to be worse off today simply because it had grand long-term plans, the document said.

It also said measures to nip corruption in the bud should be instituted and a rethink of government approach to projects should be undertaken.

While continuing with current activities, the government may consider implementing one massive, visible project per province with interdepartmental involvement and management, the document said.

Capital of R18,6-bn flows to SA

■ BY BRUCE CAMERON

Star 16/10/95

(49)

New York – South Africa has been rewarded for scrapping apartheid with a massive turnaround in capital flows, allowing the economy to start growing.

Chris Stals, the governor of the Reserve Bank, has told the influential South African/United States business council at a luncheon in New York on Friday that the single most significant economic change was the dramatic switch in capital flows after the elections last April.

Over the past 18 months to the end of June, there had been a total net capital inflow of R18,6-billion.

The inflows "exceeded the most optimistic expectations of the pre-election period".

Stals said between 1984 and the elections last year, South Africa had seen a capital outflow of R5-billion a year.

The luncheon was attended by a number of influential Americans, including Chester Crocker, the former secretary of state responsible for Africa.

Stals said by the time of the elections, the economy was fairly depressed and structurally distorted, while expectations of what the new South African economy would deliver to improve living conditions were extremely high.

In many respects the expectations were completely unrealistic, Stals said.

The capital inflows had provided a major stimulus for economic growth, but significant structural adjustments were still required for the economy to achieve its full potential.

He said an unduly large part of the reversal in capital flows had come from short-term funds. However, the magnitude of the short-term capital inflow had enabled the economy to perform better than expected.

Stals welcomed the inflow of funds, but he said he would like to see a change in the composition to the medium to longer term.

He said there had been numerous advantages to the inflow including:

■ The ability to finance the growing deficit on the current account of the balance of payments because of rising imports without recourse to the International Monetary Fund or other short-term borrowing facilities;

■ An increase in foreign reserves held by the Reserve Bank and commercial banks by more than R10-billion. This included a reduction in short-term foreign borrowings of the Reserve Bank from R8,5-billion in May last year to the current R1-billion;

■ Allowing the scrapping of all exchange controls on non-residents and a start on dismantling restrictions on resident-owned funds; and

The foreign capital had partly come from:

■ South African importers and exporters finding it easier to access short- and medium-term trade finance for rising imports in particular;

■ Short-term borrowing by South African banks from foreign banks;

■ The access gained by the government, public sector institutions and the private sector to borrowings from international capital markets.

Les Weil praises govt's discipline

BD 17/10/95 (49)

Mungo Soggot

PORT ELIZABETH — The worst fears of the business community had been laid to rest by government's attention to monetary and fiscal discipline, outgoing SA Chamber of Business president Les Weil said yesterday.

Speaking at Sacob's annual convention, Weil said the ANC's previous talk of redistribution and restructuring had been replaced by sound economic policy — a result of constructive economic debate.

Economic growth was expected to hit 3% this year, he said.

But government still had a long way to go to address the maladministration, corruption and crime that continued to threaten the economy.

Government had also still to embrace privatisation — "a key that will unlock many doors".

He pinpointed the poor performance of the tax authorities as a serious drag on the economy.

Merging the Customs and Excise and Inland Revenue departments could boost the state's dismal tax recovery by R7bn, he said.

"This is an indication of the extent of maladminstration in current revenue collection," he said.

"The huge under-recovery of taxes and municipal levies are problems that are beginning to appear endemic. Without a secure tax base no society can thrive."

Tax collection was one of several problems which should deter an "inappropriate flush of hyper optimism" among businessmen.

Solid achievements such as the curb on inflation could also be overshadowed by the "ugly realities of crime, incompetence and endemic poverty which continue to haunt the public image of SA".

Weil said business was prepared to offer private sector expertise to help upgrade local administrations — an offer which was welcomed at the convention by Provincial Affairs Deputy Minister Valli Moosa.

Moosa told the conference local administration had crumbled over the past [illegible] years, and decentralisation now provided the key to neglected regions of SA.

"We need effective administration at local level," Moosa said.

"I would like to take up the offer to use businessmen to build local government."

Weil said secondments into the public sector could be negotiated: "There are many retired businessmen who would be able to lend their years of expertise to the cause of good governance."

Meanwhile, Local Government Elections National Co-ordinating Committee co-chairman Frederick van Zyl Slabbert warned business against dismissing the importance of the local government elections.

The success of local government would have a crucial effect on expectations, and if these were not met irresponsible political action would follow.

"It is important for government and the private sector to work together at local level," he said.

SA had to go for growth and democracy at the same time, Slabbert added.

There were few historical precedents, but SA had no choice.

Weil will be succeeded by Sanlam Business Development Manager Rudi Heine, nominated as this year's president.

Swiss bank predicts SA foreign debt will reach $30bn

(49) CT (BR) 23/10/95

By Neil Behrmann

London — The Union Bank of Switzerland (UBS) has forecast that South Africa's foreign debt is set to reach $30 billion (R110 billion) this year from about $25 billion in the early '90s, rising to $37 billion by 1997.

However, in its latest review on South Africa, the bank says there is little cause for alarm, as the economy will be also be expanding, meaning that the foreign debt proportion of gross domestic product will rise to only 25 percent, compared with 22 percent in 1995

Debt service ratios are also acceptable, with interest payments forecast to remain at only 7 percent of exports.

The UBS says the foreign debt figures illustrate that South Africa is rapidly raising short and long-term international finance and that it has become relatively easy for state and private corporations to issue medium and long-term bonds

South Africa's low foreign exchange reserves, which are only sufficient to pay for about one month's imports, remain the nation's "achilles heel".

Even though South Africa is attracting higher levels of capital inflow, there "is little prospect of significant rises in foreign exchange reserves in the next two years".

Foreign obligations averaging $2,5 billion annually must also be repaid over the next two years. The net result will be average foreign exchange reserves, excluding gold, of less than $3 billion.

They believe the ability of the Reserve Bank to support the rand will thus be "limited", forecasting a rand/dollar rate of 4,05 at the end of 1996 and 4,35 in December 1997

Yet UBS suggests that the market pays too much attention to the rand/dollar rate, and should rather focus on the trade-weighted values of the currency

UBS says the rand is vulnerable to shifts in short-term funds and is concerned that direct foreign investment since the election has been only $700 million.

The bank contends that fears of political instability in the post-Mandela era are exaggerated, yet it frets for KwaZulu Natal as a volatile and potentially explosive region

"Foreign perceptions are such that any sudden negative developments in South Africa could easily trigger an outflow of short-term capital, thereby exacerbating an already fragile situation"

While it predicts growth of 3 percent over the next two years, it believes the country needs "growth of 4 percent to 6 percent to dent the unemployment backlog.

"An unemployment rate of perhaps 45 percent for blacks and huge differences in living standards are a source of tension and insecurity"

Positive achievements on the economic front are the result of "model" policies.

State expenditure is being restructured and constrained; the budget deficit is on a declining path; inflation is at its lowest since the early 70s; protectionist barriers are coming down and the heavy hand of state regulation is being lifted.

Yet to achieve higher growth, the economy must be restructured, liberalised and deregulated. Removing exchange control on residents will be "a crucial component of reintegrating the country into the global economy"

Investigations into budget spending

Greta Steyn (49) (259)

THE state expenditure department is investigating the possibility of substantial spending overruns this fiscal year which could result from taking over functions of the former independent homelands.

State expenditure director-general Hannes Smit said yesterday it was impossible to judge at this point in the fiscal year whether the 1995/96 Budget spending targets would be met.

"There are too many uncertainties about provinces and government departments that took over TBVC functions. We have set up task forces to investigate the problems and as soon as we have a clear idea, an announcement will be made." Auditors investigating the problems had been asked to report by the middle of next month.

If the problems uncovered in the TBVC accounts do not change the picture, government is on track to end the fiscal year pretty much as budgeted. At the halfway stage, spending and revenue were both slightly less than half of the March targets. However, spending does not take place evenly over the year, and a surge could still occur in the final quarter.

Smit said over and above possible irregularities in the TBVC books, cen-

Continued on Page 2

BD 26/10/95

Investigation

Continued from Page 1

tral government would not consider meeting the provinces' demands for extra funds. This followed the Western Cape saying it was running a budget deficit of R1bn this fiscal year.

"Constitutionally, provinces are not allowed to run deficits." He suggested provinces with problems try to improve their cash flow management.

The provinces are not yet able to borrow to finance their capital expenditure, as enabling legislation has not yet been passed by Parliament.

The Western Cape will be dealt a blow if government accepts the proposals of the Financial and Fiscal Commission for new formulas for allocations from central government.

Smit said the proposals had not yet been accepted by government, and the phasing in would therefore not begin in the next fiscal year. "We can expect a lot more debate about those figures before Parliament takes a final decision."

The finance and state expenditure departments and the commission have differed over the extent to which provinces should determine their own budgets. It now also seems as if the commission's suggested formulas will not necessarily be accepted.

(259) (49) BD 26/10/95

Economy distorted course of science in SA, says Ngubane

(49)

BARRY STREEK
POLITICAL STAFF

CT 1/11/95

SOUTH AFRICA's science and technology system had been subject to severe distortions because of the siege economy under the last 20 years of apartheid, the Minister of Arts, Culture, Science and Technology, Dr Ben Ngubane, said yesterday.

Giving the annual Zuckerman lecture in London, he said although his country had a fairly small technically qualified population, it had an enviable record of contributions to the academic and applied science spheres.

"It will be critically important to protect this heritage, even as we endeavour to extend the benefits of science education and training to the majority of the people of South Africa who were deliberately excluded during the apartheid years."

South Africa was undergoing profound social and political changes, but while doing so, it was seeking to enhance its science and technological capacity.

Among the distortions that accompanied the siege economy was that technology was directed largely at replacing imports instead of increasing competitiveness.

"The RDP has created ... a set of national goals ... that... seek to harmonise the efforts of all important sectors of our economy."

UK to help fund research

POLITICAL STAFF

BRITAIN and South Africa have reached an agreement, worth more than R3 million over three years, on scientific collaboration.

The United Kingdom-South Africa Science and Technology Research Fund, involving £600 000 (about R3,3 million), is to support research projects and fellowships.

Details were given by the Minister of Arts, Culture, Science and Technology, Dr Ben Nugbane, while delivering the Zuckerman lecture in London yesterday.

SA, India have potential for high growth

BD 2/11/95 (49)

CAPE TOWN — SA and India could become the world's two newest high-growth economies if they dealt with their poor international competitiveness, World Competitiveness Report director Stephane Garelli said.

"They have all the elements to do something unique ... the point is they have to do it," Garelli told a seminar at the University of Cape Town Graduate School of Business.

SA's strength lay in its wide range of resources while India, despite its poverty, had a core of very wealthy people, a good civil service and well qualified engineers.

In the latest World Competitiveness Report released in September, India fell from 34 to 39 out of 48 and SA slipped seven places from its previous ranking to 42.

Lausanne-based Garelli said rules for increased competitiveness included a stable legislative environment which was "not necessarily pro-business, but predictable". — Reuter.

'SA needs to be a catalyst'

(49) BD 6/11/95

Business Day Reporter

TO CONTRIBUTE to pan-African economic success, SA had to be a catalyst for the exchange of work practices, personnel and financial resources, Andersen Consulting senior manager Tor Mesoy said.

He was speaking on the role of the information technology (IT) industry at the Johannesburg Chamber of Commerce and Industry seminar on the role of SA in the globalisation of Africa.

Mesoy, who has worked on large IT projects in the US, China, Indonesia, France and Scandinavia, said sub-Saharan Africa attracted less than 5% of total — not just foreign — direct investment in the developing world, amounting to $2,5bn last year.

Africa accounted for only 2,5% of world trade, as trade was hampered by lack of infrastructure, lack of contacts and excessive regulation, although regulation was in the process of easing.

As a result of these deterrents, SA was appealing as an investment opportunity in its own right and as a bridgehead into the rest of Africa, as was the case with Hong Kong and China.

Mesoy said SA provided a comfortable cultural context for most Western investors, as well as a widely-understood language, experience with trading in Africa and adequate infrastructure.

"Since such activity is closely linked to information sharing, IT will play a unique role as enabler in the process of African globalisation," he said, predicting that the correlation between economic and IT growth would continue to strengthen.

"While the IT status of Africa is generally poor, it is improving and there is tremendous potential in this regard."

Mesoy stressed the effect on developing nations of access to information on areas such as new market opportunities, market price changes, enhanced technologies — like water purification, advanced farming techniques, health care innovations — and available aid and assistance.

He said SA, with its relatively advanced IT infrastructure, was well placed to play a leadership role in Africa's globalisation and "it is in its own interests to do so".

II. The aforesaid amount

SA economy breaks boom-bust cycle

(49)(BR) CT 7/11/95

By Michael Wang

Johannesburg — South Africa's re-entry into the world economy has not only led to a modest recovery, now in its third year, but to a local economy that is far less vulnerable to the volatility it experienced during the last years of apartheid rule, economists say.

"South Africa is returning to growth cycles as opposed to the classic boom/bust cycles of the past two decades," writes Dave Mohr, the chief economist of Old Mutual, South Africa's largest financial services group, in the group's quarterly economic review, The Monitor.

For the investor, the current upswing translates into the first genuine investment opportunity in more than a decade.

With consumer inflation at 6,4 percent, a 23-year low, the real return on South African bonds has widened to almost 8 percent, and the equity market — fuelled by strong corporate earnings — shows promise of continued capital appreciation, economists say.

"With low inflation and high interest rates, there's little chance of the economy overheating and falling into a recession," says Dennis Dykes, the chief economist at Nedcor.

On course for growth of roughly 3 percent this year, most economists predict that the South African economy will post "the same, or even higher" gains next year, in line with forecasts for real world output.

The fact that recent gross domestic product figures suggest the business cycle may be waning — annualised growth of 5 percent during the second-half of last year has been replaced by 1 percent over the first six months this year — is given little weight.

Mohr points to a raft of traditional economic indicators to argue that South Africa's trading environment is becoming more robust.

Among them are strong company earnings reports; a 17 percent climb in gross domestic fixed investment over the past 12 months; a decline in consumer price inflation to an annualised 6,4 percent, its lowest level since 1972; and a resurgence of capital inflows for the first time since early 1991.

South Africa's bond and equity markets have taken the cue.

The yields on the government's R150 12 percent 2005, the benchmark gilt, crashed through the key 15 percent resistance level for the first time this year on October 25. On Friday, it was trading at 14,735 percent.

The JSE has been more of a mixed affair. While gold shares have lost their sparkle with investors, industrial counters have found new momentum. Since July the industrial index has jumped 10 percent.

The rand has also proved to be a pillar of strength, against perceptions that loosening foreign exchange controls would see it free fall against the dollar. Since abandoning the financial rand last March, the rand has remained largely unchanged against the dollar, while the dollar has edged higher against the Deutsche mark and gained significantly against the yen.

ROBUST *Dave Mohr, the chief economist at Old Mutual*

Economists expect that the country's dedicated monetary policy of high interest rates, enforced by Reserve Bank governor Chris Stals, will lead to a "consolidation" in economic growth.

But a full-blown recession is discounted for several key reasons.

The end of sanctions has meant greater foreign participation in the local economy and access to offshore capital, both economic buffers. In the first half of this year, net inflow of capital amounted to R9,8 billion, ahead of the R8,8 billion figure for the last half of last year.

"With the absence of these inflows," says Mohr, "interest rates would have been much higher by now, and the economy probably headed for a renewed recession."

Also, financial stability has returned, which is probably best expressed by the behaviour of the inflation rate. Since early 1991, annualised consumer price inflation has slowed from almost 17 percent to 6,4 percent.

High interest rates (the base lending rate is 15 percent), a stable exchange rate, keener industrial competition and a low world inflation environment have been the chief reasons for South Africa's break with double-digit inflation, economists note.

'By keeping inflation in check, you create more room for growth'

Stals reaffirmed his commitment to tight monetary policy last week when he said it would be "foolish" to lower the base lending rate, in the face of inflation-busting indicators such as a money-supply expansion growing at 16 percent and private bank credit extension galloping along at 19 percent.

A premature drop in interest rates, he said, "will only bounce back on us with a vengeance in the form of higher inflation and serious balance of payments problems".

"By keeping inflation in check, to say under 10 percent," says Dykes, "you create more room for sustained growth."

Still, economists point to a series of structural deficiencies in the economy that hold it back from assuming a profile nearer a western industrialised country or even an Asian Tiger.

Among them are:

☐ High tariff barriers against a variety of goods from textiles to cars.

☐ A growing government budget deficit unacceptably high at 5,8 percent of gross domestic product.

☐ Foreign exchange restrictions against the local population that prevents the free flow of capital overseas.

☐ A tax structure that includes the 15 percent Secondary Tax on Companies, in effect a surcharge on the basic 35 percent corporate tax rate.

☐ Wage expectations well above the current pace of inflation.

☐ An emboldened labour movement which has won important concessions from business in recently concluded round-table negotiations on new labour laws brokered by the government.

Mohr also points to South Africa's inability to properly educate its masses and train them for a changing work force, and a sharp rise in violent crime. — AP-DJ

How 100 countries fare on economic freedom

HENRY KENNEY and DUNCAN REEKIE

AS FAR as socialism is concerned, the fat lady has been singing for a while now. Apart from a few Stalinist holdouts like Cuba and North Korea, it is dying and nearly gone. But most countries still do not have free economies.

This gives added force to Marinus Daling's call in a recent speech for economic freedom fighters.

He need look no further than to the compilers of the accompanying diagram. It is taken from a recent study from the Heritage Foundation in Washington DC. Written by Bryan Johnson and Thomas Sheehy, the Index of Economic Freedom (1995) is a 250-page manual — the first of its kind — which carefully and comprehensively constructs a composite indicator of economic freedom for more than 100 countries. Aimed at two audiences, the index provides information at once disturbing and encouraging.

One set of readers is the group of policymakers responsible for targeting and providing foreign aid. Will aid be squandered in economically unfree countries? The paradox is that countries apparently most in need of (US) aid are the least deserving, since their government-controlled economies will misuse it. The countries less likely to squander (US) aid, precisely because they have free economies, are also those which least need it.

The key to development, Johnson and Sheehy conclude, is not aid but economic freedom. This is where a second set of readers will find the report invaluable. Foreign investors will have a better idea which countries will give them a decent return.

Foreign investment decisions naturally require detailed analyses by firms themselves, but the report provides an assessment of the economic "fundamentals". These can mean more to investors than whether or not a government claims to be targeting a given business "cluster" or industrial sector for growth. Targeting, after all, is not an indicator of economic freedom but rather of manipulation.

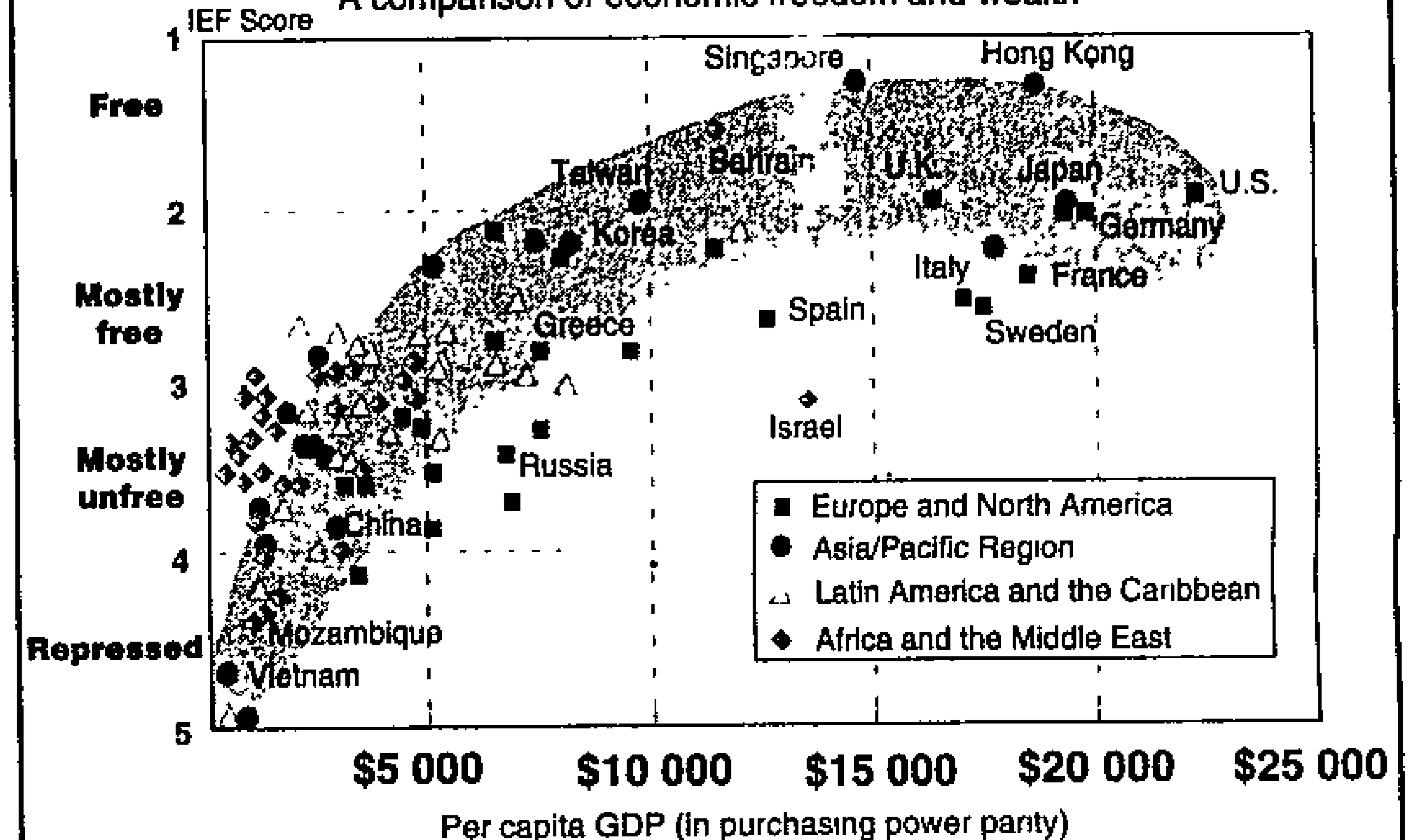
The fundamentals which are included in the index on an objective and quantitative basis include tax rates, currency stability, trade policy, private property rights, the size of the government sector, the level of regulation, the presence of a black market, capital flow controls and wage and price controls. Development economists will no doubt debate and analyse these factors, whether they were appropriately measured, and whether the weightings given to each are valid. However, such critiques should not be delayed. The Heritage Foundation intends repeating its exercise on a regular basis.

And, of course, repeated returns may or may not confirm the current impressionistic view that over time countries which pursue economic liberalisation grow more rapidly. Hong Kong, Singapore, Taiwan and South Korea are cited as rapid growth (1965-1991) countries with high (1995) index values. African economies have much lower values, but to the extent that some African countries had relatively less poor indicators of economic freedom they did indeed grow more rapidly over that period.

The main message of the chart, however, relates to a snapshot of the level of development, not growth as such. Only seven of 101 countries were awarded a "free" score. Eight were deemed to be "repressed". The "curve", the authors hint, may suggest that after a certain level of prosperity is achieved countries (like Sweden) are tempted to regress, to regulate, to raise taxes, increase welfare programmes and so forfeit growth. That sort of speculation must await confirmation.

The Curve of Economic Freedom

A comparison of economic freedom and wealth



Nevertheless, economic wellbeing and economic freedom do indeed seem to be closely linked.

And SA's position on the chart? One year after the 1994 election the Heritage writers computed a composite score of "three" for SA. In terms of economic freedom we are closer to such repressed places as Haiti (4,20) and Mozambique (4,40) than to Hong Kong and Singapore (both 1,25).

We are not yet ready, it seems, to begin moving down the curve of economic freedom by embracing redestributive welfarism of which the Swedes have been the pioneers.

☐ **The authors teach business economics at Wits University.**

LETTERS (49) BD 9/11/95

Money pours into surging SA economy

(49)

ST(BT) 12/11/95

By SVEN LUNSCHE

THE economic upswing is likely to gather momentum with the announcement of new capital projects totalling R50-billion so far this year.

At the same time the Department of Finance announced on Friday that South Africa had been pledged R12,8-billion in overseas development assistance over the next four years.

The surge in fixed investment comes at a time when consumer spending is beginning to show signs of a slowdown and will therefore underpin economic growth of about 3% or more in 1996.

Figures released by Nedcor this week show that capital projects totalling R160-billion for the next five years have already been announced.

While about R40-billion of this amount will be spent this year, the bulk of the projects will commence in 1996 or later.

Most of the capital projects — including Telkom's R16-billion Vision 2000 project — have been made public over the past six months, signifying strong confidence by investors.

Kevin Lings, an economist with Nedcor, says that in the first nine months of this year 132 new projects valued at R49,4-billion were announced.

"The new projects announced during 1995 are extremely diverse in nature, ranging from the upgrading of manufacturing facilities to the provision of social services, housing, water schemes and roads."

Mr Lings says although not all projects are certainties, they nevertheless indicate investor confidence in South Africa "that is increasingly being shared by foreign investors".

Southern Life economist Sandra Gordon says the surge in gross domestic fixed investment should see economic growth of 3% this year and 3,5% in 1996.

The fixed investment boom is largely driven by private investors, with real private sector capital outlays rising by 17,4% in the first half this year.

The investment boom is creating "a more sustainable recovery as it creates jobs and increases the productive capacity of the economy", she says.

ALEC ERWIN

The amount of R12,8-billion pledged by foreign governments and institutions will considerably boost government capital expenditure on social projects.

A significant amount of the foreign aid, R2,2-billion, is grant financing and will be devoted to the reconstruction and development programme. Providing a further breakdown of overseas development assistance, Deputy Finance Minister Alec Erwin says 18% (R2,3-billion) is in the form of technical assistance, 51% (R6,4-billion) in concessionary loans and 14% (R1,8-billion) in the form of trade and credit guarantees.

Detailed analysis of the packages should allow the government to make more efficient use of foreign aid.

So far the new government has been reluctant to utilise these facilities as it has been concerned about strings attached.

The R4,5-billion in grant and technical assistance are targeted equally towards government and non-government organisations, Mr Erwin says.

In terms of concessionary loans the split is roughly 70 to 30 between government and parastatals.

'SA must raise production'

(49) (180)

By Roy Cokayne

CT (BR) 13/11/95

Pretoria — Time is fast running out for South Africa to increase the production capacity of the economy for increased competitiveness, says At Engelbrecht, an economic adviser to the Northern Transvaal Chamber of Industries (NTCI).

"Careful analysis of the present state of affairs in the South African economy demonstrates clearly that the country's production capacity can hardly accommodate a sustainable growth rate much higher than the rate at which the population increases," Engelbrecht says in the latest NTCI Economic Outlook.

He said South Africa, when taking into account the need to improve the socio-economic conditions of the underprivileged, was faced with a dilemma which underscored the need for appropriate strategies focused on strengthening the potential for growth.

South Africa would have to come to terms with the underlying obstacles hampering economic growth to break the vicious circle of low growth and high unemployment, he said.

"The only viable route to follow is to accept and tolerate the disciplines of tested and sound macro economic policies, supported by labour and business, to streamline production processes to the extent needed to become a successful and competitive role player in world market and by creating an investor-friendly environment."

Engelbrecht said one of the main features of the economic upswing up to now had been the strong growth in total real gross domestic fixed investment. In the first six months of this year it lost some impetus but still increased at a fairly high rate, attaining a ratio to GDP of 16,5 percent, he said.

But Engelbrecht said this indicated that a relatively small portion of total national disposable income was being used for fixed investment purposes while more than 80 percent of income was directed to consumption expenditure.

Budget process 'sidelines Parliament and citizens'

BD 14/11/95 (49)

Tim Cohen

CAPE TOWN — The process of drawing up SA's Budget was lambasted yesterday by one of Deputy Finance Minister Alec Erwin's special advisers, who argued that the process excluded both Parliament and citizens.

University of Cape Town economics associate professor Iraj Abedian said the ultimate authority for drawing up the Budget rested with the Cabinet.

Addressing a workshop on Budget reform held by the parliamentary finance committee, Abedian said the overall division of power and control in drawing up the Budget was strongly biased in favour of the executive as opposed to the legislature.

By the time most MPs saw the Budget, usually around mid-March, it was far too late for them to exercise any real influence on it.

The process did not lend itself to "democratic participation by the SA citizenry" who first saw the Budget at the same time as most MPs.

This sidelining of the public was most ironic as the budget was the public's money but the taxpayer was not allowed to know what was in it.

The process failed to accommodate SA's version of fiscal federalism. The provinces spent about two-thirds of the Budget, but did not have a two-thirds influence over its development.

The integrity of the Budget was undermined by ad hoc and parallel allocation via the reconstruction and development programme fund.

SA was far behind international practice and should quickly move to a multi-year process in which successive annual budgets were published. At the same time, SA should engage in multi-year budgeting.

Exchequer Bill 'could be unconstitutional'

Greta Steyn

(49) BD 16/11/95

THE state expenditure department's efforts to compel provinces legally to provide it with details of their budgets have run into snags after legal advisers said the draft exchequer Bill could be unconstitutional.

A state expenditure spokesman said yesterday the revision of the Exchequer Act had included the requirement that details of provincial budgets should be provided. This had not been a major deviation from the present legislation, which also provided for the provision of information on provincial finances.

But once legal advisers had seen the draft Bill, they said its provisions could contradict the constitution with regard to provincial powers, the spokesman said. "We decided to withdraw the legislation until the relationship between the provinces and central government has been sorted out," he said.

He said the department was holding discussions with the fiscal and financial commission, and with the writers of the final constitution with a view to achieving consistency between the constitution and the Exchequer Act.

He said the state expenditure department's desire to compel provinces legally to provide it with information on their budgets was aimed at arriving at a comprehensive fiscal picture for the country as a whole. He declined to comment on speculation that the department of state expenditure would try to influence the wording of the final constitution to ensure it was able to pass the draft legislation.

The state expenditure department and the commission have clashed before over the extent to which central government can control provincial budgets.

However, the spokesman said there was a "good relationship" between the provinces and the department.

Budget deficit cut to 5% of GDP proposed

(49) ARG 16/11/95

SOUTH Africa will reduce its budget deficit to five percent of GDP in the 1996/7 fiscal year from 5,8 percent in the current year in a R171,7 billion package hammered out by the government's budget committee.

The deficit target was among figures revealed in a confidential presentation to parliament's finance committee, which was inadvertently broadcast on an internal monitoring system for reporters and MPs.

Director General of Finance Estian Calitz told the committee that overall state spending in 1996/7 (April-March) would rise to R171,7 billion from R153,3 billion in 1995/6, an increase of 12 percent, and revenue would increase to R143,2 billion from R124,2 billion.

This would leave a deficit of R28,5 billion, or five percent of gross domestic product (GDP), against R29,1 billion in 1995/6.

Finance committee chairwoman Gill Marcus said yesterday she regretted that the confidential briefing had been broadcast on Tuesday owing to a technical error beyond the control of her committee and promised to ensure it did not happen again.

"We are still four months away from the budget and these figures are very soft... They could lead to unnecessary speculation," she said.

Director General of State Expenditure Hannes Smit said the proposals, which formed the backbone of the next budget to be presented on March 15, were thrashed out by a cabinet-appointed budget committee and could be revised by the cabinet.

The budget committee included Finance Minister Chris Liebenberg, his deputy Alec Erwin, Mr Calitz, Mr Smit and Ms Marcus.

Mr Calitz and Mr Smit said in a joint statement they had believed their presentation was confidential and that reports were incomplete and did not "give a properly contextualised impression of the current state of affairs in the development of next year's budget.

"The figures given to the committee are by no means final and will change drastically before the 1996/97 budget is finalised," they said.

Mr Calitz said that without any change in current tax policy, total revenue for 1996/97 was estimated at R140,5 billion, leaving a shortfall according to current early estimates of R2,7 billion to reach the required revenue.

He said final decisions on how to make up that amount would be made after the report of the Katz Commission on tax due out later this month.

He said the decision could be made against the background that a one percentage point rise in VAT to 15 percent would bring in an extra 2,6 billion and each one cent a litre increase in the fuel levy would raise R150 million.

The 25 percent Secondary Tax on Companies (STC), which the government had previously said was under review, currently brought in R950 million, he added.

Mr Calitz said the figures were based on the assumption, for the 1996/7 fiscal year, of three percent GDP growth and a 10 percent inflation rate, recently revised down from 10,5 percent and subject to further revision if current lower rates hold.

Mr Smit told the committee's agreed savings on spending included R200 million off a proposed R1,8 billion worth of computer purchases and R1,6 billion in personnel cost savings.

Mr Smit said a special R30 million allocation to the South African Broadcasting Corporation's Channel Africa would be scrapped, R400 million would be saved through better cash management of public debt and R500 million from expected interest payment reduction.

He said government's plan for multi-year budgeting had not materialised in the current year and the promised switch to zero-based budgeting would not be implemented.

Mr Smit detailed planned nominal increases in departmental allocations, before allocations from the Reconstruction and Development Programme (RDP) Fund, which would receive R7,5 billion rand, as:

Education 5,3 percent; Health 5,6 percent; Welfare, excluding pensions, six percent; Roads 2,8 percent; Agriculture 2,2 percent; Nature Conservation 5,7 percent; Prisons 7,4 percent; Justice 0,8 percent; and, Police 3,2 percent.

But housing, which would roll over some R4 billion in unspent funds from 1994/95 and 1995/6, would see its allocation of new funds cut 35,7 percent in nominal terms to R2,2 billion. Labour would lose 20 percent, defence 10,3 percent, and trade and industry eight percent.

Water Affairs and Forestry would receive an extra 57,8 percent, taking its allocation to R1,9 billion.

Among allocations, R6,5 billion would be used for public service salary increases, R150 million for the restructuring of revenue collection and R1,7 billion for provincial budget overruns.

As a percentage of the budget, defence goes down from 9,8 percent currently to 7,6 percent. Police spending is static at 7,5 percent.

Ms Marcus discussed the inadvertent release of the figures with her committee and said afterwards that while the committee wanted to move towards open and transparent budgeting, "we didn't want to do it this way." — Reuter.

COMPETITIVENESS REPORT

Think or swim

(49)

FM 17/11/95

SA is one of the least competitive countries in the world. While local business leaders believe SA will shoot up the international competitive rankings over the next few decades the data shows just how far it has fallen behind.

Paul Hatty, SA associate editor of the *World Competitiveness Report*, has analysed the findings in the four years of SA's inclusion. The results appear in a report: *How good a swimmer is SA?*

He found, over the past four years, SA's ranking has declined in all but two out of eight categories measuring competitiveness.

But the downward trend is at least partly due to the entry of six new countries ahead of SA — including Israel, Iceland and Egypt — which caused SA to drop seven places from 35th in 1994, to 42nd out of 48 countries this year.

Hatty . . . *can SA swim?*

Were it not for the newcomers, SA's ranking would have improved in five out of eight categories — the most significant being government which would have climbed five places. In the event government fell one place to 38th.

So although SA has improved on its own performance, in global terms it is slipping.

SA is ranked last in terms of its human resources, 43rd on its level of internationalisation, and 28th on science and technology. These categories have all shown a declining trend over the four years.

SA's domestic economic strength and management were static for the first two years but declined this year to 42nd and 35th respectively.

Only infrastructure has shown an upward trend over the four years, with a current ranking of 19. Close behind is SA's financial capability which improved this year to 20th position.

In all but one year, SA has been ranked rock bottom in terms of its human resources.

The report explains why.

It says SA values do not support competitiveness, people lack energy and enthusiasm, the education system does not meet the needs of a competitive economy and the level of compulsory education attained by most of the population is inferior to that of foreign competition.

While it takes only two years to reverse an economic deficit, the report estimates that it takes 10 years to reverse a technology deficit and 20 to reverse a deficit in skills and training.

Stephane Garelli, a professor at the International Institute for Management Development in Lausanne which compiles the competitiveness report, says competitiveness is not about having cheap labour, but educated labour — it is crucial that SA invest in education.

SA's internationalisation ranking (the extent to which a country participates in international trade and investment flows) is low because of restrictions on cross-border ventures with foreign partners, high levels of protectionism, low direct investment flows abroad, lack of supportive trade policies and investment protection schemes.

Management's weaknesses include the spheres of industrial relations and customer orientation.

SA government's rating is weakened by the level of official reserves excluding gold, the budget deficit, the level of serious crime, the extent of State control of enterprises, government health policy and market dominance by a few enterprises.

SA's science and technology ranking is depressed by a lack of qualified engineers, the unattractiveness of engineering sciences as a career and inadequate science teaching in schools.

Features of the domestic economy which are seen as liabilities include growth in private final consumption expenditure, real GDP growth and real GDP growth per capita. Assets include the growth in capital goods production.

The report's "executive opinion" — the views of top international and local businessmen — ranks SA 36th in 1995, indicating they are more positive about the country's competitiveness than the data signify. (According to the data we are ranked 42nd).

Although they do not yet see strong enough signs of improvement, they predict that SA will be ranked 15th by the year 2030.

If this dream is to be realised, all major players in SA will have to combine forces in a targeted onslaught against the country's noncompetitive bias. ■

BUSINESS

SA hammers out ambitious budget package

(49) ARG 17/11/95

JOHANNESBURG. — South Africa's state budget committee has hammered out an ambitious package for fiscal 1996/97 to rein in its hefty budget deficit, economists say.

But Finance Minister Chris Liebenberg would have his work cut out raising revenue by more than 15 percent, while the risk remained of slippage on spending by the time the budget is presented on March 15, 1996.

The basis of the deal, calling for a reduction in the budget deficit to five percent of GDP next year from 5,8 percent in 1995/96, became public on Wednesday after a confidential briefing to MPs was inadvertently broadcast in parliament.

If realised, it would put Mr Liebenberg well on the road to achieving his longer-term goal of a budget gap of 4,5 percent within five years.

Economists expressed cautious satisfaction and said a five percent target was broadly in line with market expectations.

"If they were to have a deficit much above five percent that would be a negative signal to the markets," said Peter Worthington of J P Morgan in London.

The government has already acknowledged that overspending this year will push the deficit above the 5,8 percent target.

Edward Osborn, an independent economist, said there would now be pressure for spending concessions in 1996/97, too, with parliamentarians and government departments looking for better deals in areas facing real cuts.

"At the moment they are showing a very strict fiscal position, but the battles will resume now with the departments... and I think there will be concessions," he said.

"It is very likely that by March it (the deficit) could be back to about 5,5 percent."

Director General of Finance Estian Calitz told parliament's finance committee this week that overall state spending in 1996/7 (April-March) would rise 12 percent to R171,7 billion and revenue would increase 15,3 percent to R143,2 billion.

On current assumptions, a R2,7 billion shortfall needs to be made up to meet the revenue target.

Mr Calitz said no decisions had yet been taken on raising taxes. He noted that a one percentage point rise in VAT to 15 percent would raise an extra R2,6 billion and each one cent a litre increase in the fuel levy would bring in R150 million.

Economists said an increase in VAT was a clear option, though politically difficult.

Another revenue source could be privatisation receipts, although the government has yet to take a firm decision on the future of state assets.

At the same time, the government is looking to ease the burden on industry by reducing the Secondary Tax on Companies (STC), which now nets R950 million.

Mr Liebenberg said this week that revenue from STC was less than expected, owing to companies electing to make capitalisation awards rather than pay dividends.

That made it easier to get rid of the tax, although this would probably be done in several steps.

The finance ministry said the figures were by no means final and would change drastically. — Reuter.

South Africans take note: Uncle Sam doesn't need you

ST(BT) 19/11/95 (49)

By SIMON BARBER: Washington

WITH gross national product roughly that of Maryland, a modest American state, South Africa is a small country stuck at the end of a continent that ranks at the bottom of virtually every chart of global economic and social indicators.

Despite its remarkable political transition, it needs to remember its relative irrelevance as it tries to establish a working relationship with the US.

Of course, this is the sort of statement that raises South African hackles. But getting huffy and defensive isn't a terribly useful response.

The trick is to engage the US to your own best interest.

This is not being done very well at the moment by SA diplomats led by the ambassador to the US, Franklin Sonn. As a result, opportunities are in danger of being missed.

An important illustration is the continuing dispute over Armscor's 1991 indictment by a Philadelphia grand jury.

The new SA government understandably asserts that the arms-smuggling charges are now an anachronism, and that the demands Washington is making to resolve the matter entail not only a serious bite out of the fiscus but an arrant violation of SA sovereignty.

All that may be true, but there is no point in arguing. The thing to focus on is this: if you wish to acquire US military technology, you must first convince Washington that you will use it in a manner concordant with American national interests.

Denel aspires to be an international player in the arms business. With few exceptions, countries cannot make an internationally competitive weapons system without sourcing components and technology from abroad.

The US is the dominant supplier of parts and know-how at the high end of the business — aircraft, radar, guidance systems. If you want to build an attack helicopter that will attract foreign customers you are not going to stand much of a chance without access to US companies — as Atlas Aviation found with its aborted bid to sell Rooivalks to the British.

Why fight this when American companies like McDonnell Douglas are more than eager to get into joint ventures? The opportunity costs of standing on sovereignty in defiance of US law far outweigh the fines the US is seeking.

The arms industry isn't the only one where South Africa badly needs to get into global alliances. Other good examples are telecommunications, where Telkom has been cold-shouldering AT&T's Africa One consortium, and commercial aviation.

Negotiations with the US on a new air services agreement to replace the treaty revoked by Congress in 1986 remain acrimoniously stalled on whether US carriers should be able to sell tickets to South Africa on the aircraft of other countries' airlines. South African Airways, which feeds passengers on to American Airlines' US-South Africa routes, fears that others will use such schemes to lure away its own customers.

That is debatable but, in any event, a better tack for SAA would be to expand its own alliances and start preparing for the day, perhaps less than a decade off, when the skies will be controlled by multinational airlines against whom national dinosaurs will find it increasingly difficult to compete.

Such shifts in mindset, and then in policy, take time, especially for a country that has been isolated for so long.

This is where most of the friction between the US and South Africa is coming from. The world moved on while South Africa was under siege.

Not used to the standard give-and-take of negotiations with the US on trade and other technical matters, South Africans have tended to take mundane differences personally and treat such routine matters as being placed on the US Trade Representative's watch list as an "imperialist" affront.

This seems to be passing and, with each side learning the other's ways, the relationship will steady.

What matters is getting access to American capital and technology, and that is achieved not by being nice to Vice-President Al Gore when he shows up in South Africa with a cast of hundreds next month, but by opening up the economy and entering commercial alliances.

Mr Gore's smile is meaningless beside Enron getting to build a gas pipeline to Phalaborwa, McDonnell Douglas taking part in the manufacture of helicopters, or South Western Bell being allowed to own a chunk of Telkom.

TAKIN

‘Extra R550m’ on govt’s interest bill

(49)

Greta Steyn BD 20/11/95

GOVERNMENT could face an extra R550m in interest payments this fiscal year due to the Reserve Bank’s massive stock sales over the past couple of months, according to calculations by Edey Rogers economic consultant Edward Osborn.

Osborn said the extra interest would arise not only from the Bank’s move to drain liquidity out of the money market through selling stock, but also from government’s borrowing spree in the first half of the fiscal year. The cost would, however, to some extent be offset by the interest government earned on its deposits with banks.

Huge stock sales pose a problem for government, as interest already consumes almost 20% of the Budget and limits its room for manoeuvre on spending.

Economists have noted there is a conflict of interest between the fiscal policy objective of keeping a lid on government’s interest bill, and the monetary policy objective of draining liquidity from the market through sales of stock.

The Bank acts as government’s agent in the capital market, raising finance on its behalf to fund its Budget deficit. It also sells stock for its own purposes when it wants to take cash out of the money market.

For monetary policy purposes, the Bank sells stock from its own portfolio, which is then converted from non-interest-bearing (zero coupon) paper to interest-bearing stock. The Bank had a pool of R7,5bn in non-interest-bearing government securities at its disposal of which about R3bn has been converted into interest-bearing stock and sold into the market.

Osborn said the Bank’s campaign to drain liquidity out of the money market could, in September alone, add about R120m over a full year in interest payments. He said the Bank’s October balance sheet showed a net sale of government securities of more than R1bn, which helped lift the money market shortage at the end of that month to record highs.

The sale of stock into the market also added to government’s debt burden as there was a discount to face value which had to be redeemed at maturity.

Bank capital markets GM Andre Kock acknowledged there was pressure on government’s interest bill, but said this would be alleviated by profits the Bank made and interest on government deposits in the money market. The bull run in the gilts market would also have a positive influence.

Referring to heavy borrowing on government’s behalf in the first half of the fiscal year, Kock said it had been necessary to meet this month’s huge stock rollover and interest payment, as well as the allocation to the provinces. The provinces would receive their funds fortnightly instead of monthly.

Price of potatoes expected to double

Louise Cook BD 20/11/95

POTATO prices are expected to double next month because of the recent heat wave over Northern Province, but will have little effect on prices of potato crisps, industry sources said.

The Potato Producers’ organisation, representing a large portion of SA’s potato farmers, warned that by the end of the year prices could jump to R14 for a 10kg bag. Current price levels were R7,50 a bag.

However, brokers in SA Futures Exchange (Safex) agricultural markets division were divided on the effect on prices of the heat wave and subsequent shortages.

Potato processors Willards and Simba said long standing contracts with farmers would ensure consumers were not hit by price hikes.

A broker dismissed reports of imminent shortages, saying production from the Vryburg area would compensate for lost production from the Northern Province.

Safex agricultural markets division GM John [illegible] confirmed that Northern Province was an important production area and said prices could jump.

Potato processors were unperturbed, saying contracts going as far back as 18 months, in some cases, would put a ceiling on prices. Potato chips should still be affordable at Christmas, they said.

Lekota says SA market open

Sowetan 24/11/95 (49)

By John Fraser
Sowetan Foreign Service

BRUSSELS – Free State premier Patrick Lekota has assured Belgian businessmen that they can sound a "clarion call" if they feel the SA economy is being badly run.

During a trip to Brussels, he told a gathering of diplomats and business leaders that President Nelson Mandela's Government had made it easier for foreign firms to shut up shop in South Africa.

"It is important to give the international community rights, including the right to withdraw their money should they wish to do so," he said.

"We must therefore keep up with world standards. If not, they can sound the clarion call, take their money out and close their firms."

Lekota stressed that the South African market is "a new one", following the elimination of the financial rand.

"Today you can come into South Africa and invest. Tomorrow, if you want to take your profit or your capital out, you will be able to do so.

"People who invest in South Africa can have the confidence that they can come into the market and leave as and when they wish.

"This is no riskier than the previous situation, where earlier investors were faced with such difficult conditions that they couldn't take their money out," he said

Lekota will also meet Belgian ministers and business leaders, as well as European Union representatives.

He showed particular interest in a Belgian conflict resolution centre which he had been taken to see.

The Centre for Equal Opportunities and the Combating of Racism is run by Belgium's Flemish community.

"There are certain elements of the problems we are faced with in South Africa that we have no experience of," he said.

"Therefore, we are required to tap in to the experience of other nations, to deal with those problems.

"We need to learn how to develop structures of conflict management, the management of diversity, the management of linguistic tensions and the sheer experience of intervention in any situation that lends itself to tension."

He said South Africa also needs to draw on outside experience for the training of its police, prison officers, and customs officials.

World Bank sees private sector lead

ET (BR) 29/11/95 (49)

Johannesburg — The private sector had to take the lead in promoting economic growth in South Africa, Gene Tidrick, the World Bank's lead economist for southern Africa, said yesterday.

Addressing a press seminar in Johannesburg, Tidrick said only the private sector could create the economic growth levels required in South Africa.

He said the bank would advise the government on the steps needed to promote this investment.

Restricted

The bank was involved in preparing investment programmes, but its role was restricted to facilitating discussions rather than co-ordinating the investment projects.

The investment programmes "may or may not" be financed by the bank as the government had not yet formally requested funding, Tidrick said.

Committed

He said that the country's overall macroeconomic framework was good, and the bank believed the government was committed to promoting economic growth.

However, he said that South Africa's wage policy and the recent labour reforms required "closer scrutiny".

Tidrick said the bank was conducting a study about the constraints on the developing small- and medium-sized businesses in South Africa.

Tidrick also said the bank was providing technical support for the current debate on land reform. — Sapa

SA's economic policy 'mostly not free'

CT (BR) 29/11/95

(49)

By Peter Fabricius

Washington — South Africa's economic policies have again been rated "mostly not free" by the Heritage Foundation, a conservative American think-tank that is influential among the Republican Party majority in Congress

In the foundation's annual economic freedom index, South Africa was given a score of three — in a scale where one is most free and five is least free or repressed — placing it 66th in the world rankings.

The foundation, an advocate of laissez-faire economic policy, has expressed the hope in the past that its rankings will be taken into account by policymakers as they consider who should get foreign aid. However, it is not clear to what extent this has happened.

Hong Kong was ranked first in this year's index, rated by the foundation as having the most free economic policies in the world. South Africa shared the 66th spot with Barbados, Columbia, Peru and Turkey.

Several African countries were ranked above South Africa. Botswana was ranked 47th with a score of 2,8; Uganda was ranked 53rd with a score of 2,83; Swaziland 57th with 2,9; Benin 62nd with 2,95; and Zambia 62nd — also with 2,95.

South Africa's score is unchanged since the last rankings a year ago, despite some economic liberalisations since then including the scrapping of the dual-currency system and a significant relaxation of trade tariffs.

Again, the relatively poor ranking seemed to have been influenced by the foundation's suspicions of what the government might do rather than what it had done.

Overall the foundation said that South Africa's transition from democracy had gone well and that national reconciliation had been impressive.

Over the years, the government had maintained a great deal of control over the economy but badly needed economic liberalisation had only been undertaken recently.

Fiscal discipline had been maintained, but the government would be continually tempted to overspend on social programmes and engage in other state interventions in an effort to improve the lives of previously disenfranchised black South Africans, the foundation said.

The economy was eventually growing but South Africa still suffered from continued political and criminal violence.

The three score was reached by averaging 10 scores, from one to five, in 10 categories of economic policy. Below is an outline of the scores the foundation gave South Africa in the various categories, with a summary of their reasons.

☐ Trade policy — score five plus — very high level of protection.

South Africa's previously high tariffs and other import restrictions were gradually changing as the country liberalised its trade policies. Tariff reductions agreed to under Gatt would be phased in over several years. But in the meantime, South Africa remained a heavily protected market with an average tariff rate of more than 20 percent.

☐ Taxation — score four minus — high tax rates.

The result is a composite of scores of four for private income tax and three for corporate taxes.

☐ Government consumption of economic output — score three — moderate level of government consumption.

The government consumed 21 percent of GDP and despite its study of reconstruction of state enterprises, "there is unlikely to be significant privatisation any time soon"

☐ Monetary policy — score three — moderate level of inflation.

☐ Capital flows and foreign investment — score two — low barriers to foreign investment.

While applauding the general absence of investment barriers, the report noted that high corporate taxes, political and criminal violence and low labour productivity were harming South Africa's attempt to attract foreign investment.

☐ Banking — score three — moderate restrictions on banking.

The report said South Africa had a world-class financial sector and that legal restrictions on foreign-owned financial institutions had been eliminated.

But, it said, that the banking and insurance industries were tightly controlled by the Reserve Bank and interest-free reserve balances had to be deposited with the Reserve Bank.

Exchange controls precluded international investment by South African financial institutions and licences for new banks and insurance companies were not readily granted. "The new government may pressure the banks into investing in its (RDP)."

☐ Wage and price controls — score two minus — low level of wage and price controls.

Price controls, once pervasive, now existed only on agricultural machinery, liquor, coal, fertilizer, steel products, meat, milk, petrol, sugar and tyres.

There was no national minimum wage, but labour legislation under consideration had the potential to impose wage controls.

☐ Property rights — score three minus — moderate level of protection of private property.

No private-sector company, domestic or foreign, had ever been nationalised and the judiciary was professional and effective.

"However, there is a danger that the policies (of redistribution) of the government, including its land reform programme, may weaken private property rights. Moreover it is possible that the protection of private property clause — now part of the interim constitution — will not be part of the new one."

☐ Regulation — score two — low level of regulation.

Regulation of economic activity was minimal, the report said. However, there would be increasing political pressure to practise more affirmative action, a directorate having been established in the labour ministry.

☐ Black market — score three minus — moderate level of black market activity.

High levels of trade restrictions encouraged smuggling of several goods, including textiles.

Private sector must lead, says World Bank

(49) BD 29/11/95

THE private sector had to take the lead in promoting economic growth in SA, World Bank lead economist for southern Africa Gene Tidrick said yesterday. He told journalists in Johannesburg only the private sector could create the economic growth levels required in SA. The World Bank would advise the government on the steps needed to promote such investment.

He said SA's overall macroeconomic framework was good and the World Bank believed the government was committed to the promotion of economic growth. However, the country's wage policy and the recent labour reforms required "closer scrutiny".

The World Bank was studying the constraints on the development of small and medium-sized businesses in SA and providing technical support for the debate on land reform. — Sapa.

Slash spending, state urged

(49) ARG 30/11/95

☐ *0,5% 'simply not enough'*

ALIDE DASNOIS, Business Editor

THE AFRIKAANSE Handelsinstituut (AHI) has urged the government to cut spending in real terms in the 1996-97 financial year — in spite of surging socio-economic needs.

In budget proposals submitted to Minister of Finance Chris Liebenberg this week, the AHI said growth in government spending — excluding interest payments — should be held down to 9,5 percent next year, from R123,7 billion to R135,5 billion.

"This represents a real reduction of more than one percent — really a great challenge in the face of socio-economic needs in numerous fields."

The AHI said lowering the fiscal deficit at a rate of 0,5 percent of Gross Domestic Product a year was "simply not enough".

Calling on the government to cut the deficit by one percent of GDP each year, the AHI said R28,5 billion — 4,9 percent of GDP — was the maximum acceptable deficit for the 1996-97 tax year.

With government revenue expected to rise by 13 percent for the year, the AHI said, total state spending, including interest on the government debt, should not exceed R140,5 billion in 1996-97.

Earlier this week in Vredenburg, AHI president Mof Terreblanche called for a tougher stand against crime so that cities like Cape Town did not become "the Chicago of the 1930s".

Asked whether demands to slash government spending would not increase unemployment and crime, he said: "We don't believe it's poor people who are responsible for the crime today.

"And throwing money at the crime problem is not the answer. What we are asking for is a commitment to make sure that crime no longer pays."

Mr Terreblanche said business would be prepared to pay for a crime-free society — though not necessarily through taxes, where the AHI called for the lowering of the maximum rate on company and personal tax to 35 percent "over the next few years".

SA's economic 'miracle' begins to unfold

(49) CT(BR) 5/12/95

By David Canning

Durban — South Africa was at the beginning of an economic miracle, the chief executive of the Tongaat-Hulett group, Cedric Savage, said in Australia yesterday.

The former president of the SA Chamber of Business was addressing a business audience in Melbourne, which he visited as part of a South African trade mission.

Savage said the economy was in its third year of upturn, was growing 3 percent a year and inflation had been brought down to 6,4 percent.

The real rate of return for overseas investors was an attractive 8 percent plus, which had led to more than R18 billion of short-term investments flowing into South Africa over the past 12 months.

These investments had bolstered the general reserves and the rand exchange rate, but their short-term nature was causing concern.

While the economy was surprisingly strong, business believed a GDP growth rate more than 6 percent was needed to compensate for the birth rate, illegal immigrants and the past poor growth record.

Savage said that in practical terms economic liberation had not yet extended to the average man in the street. Despite politicians' promises of jobs, housing, schooling and medical attention, very little had changed in the lives of many people who had voted for the first time last year.

On the negative side, he said crime and violence had topped the agenda. More than 20 000 murders, 60 000 armed robberies, 150 000 serious assaults and 30 000 rapes had taken place during the past 12 months.

Only 52 percent of all serious crimes were solved by the police.

Savage said the police were totally over-worked and underpaid. As a result of the past strength of the trade unions, he said a factory sweeper earned more than a police constable.

The government was now taking steps to prevent and combat crime, Savage said.

Slow TBVC amalgamation hampers audit, says Kleuver

(49)

ARG 4/12/95

SLOW progress in the amalgamation of former TBVC state audit offices and that of the auditor-general created problems in the efficient functioning of his office, Auditor-General Henri Kluever reported.

Another problem area was the rationalisation of the existing auditing structure to address the new structures in the national and provincial public services.

This information came to light in Mr Kleuver's department's annual report for the financial year which ended on March 31.

Mr Kluever said he hoped more rapid progress could be made in the near future with the amalgamation process with the former Transkei, Bophuthatswana, Venda and Ciskei audit offices.

"But (I) would like to point out to those that are not co-operating fully that, in the interests of effective auditing in South Africa, the ship must sail on and that opportunity to board may well become less as time goes by," the report said.

Referring to rationalisation, he said the "difficult exercise" had been analysed in a recent internal report.

It appeared from the report that convoluted arrangements regarding the rationalisation of the public services and the financing thereof were "going to make efficient auditing difficult and will be to the detriment of accountability".

Mr Kluever said in spite of the negative factors, his office had "again managed to better its previous performance in almost all spheres of activities".

It was using fewer resources to deliver "an even better product" and the office's staff were working more efficiently.

The report showed that 1 323 regularity audits had been performed during the year and 42 performance ones.

The costs of audits rose from R135,6 million in the 1993/94 financial year to R146,2 million in the year 1994/95.

Critical performance areas for 1995/96 included the office's supportive role in the implementation of the Reconstruction and Development Programme. — Sapa.

Lid 'must be kept clamped on Budget'

(49) BD 19/12/95

CAPE TOWN — State expenditure director-general Hannes Smit has ruled out suggestions that Budget tax options be discussed before the Budget is delivered in March each year.

He said government generally agreed that Budget reform was necessary, but that some aspects had to remain secret.

Allocations changed so often during the 16-month budget process that publicising the figures would merely be confusing.

"In view of sensitivities on the financial markets and the effect of tax proposals on the economy as a whole, fairness demands that (expenditure and revenue proposals) are released at the same time," Smit said in the latest edition of Budget Watch.

Smit, whose recent briefing to parliamentarians about the next Budget — including preliminary Budget allocations — was inadvertently broadcast on an in-house system, said he did not "know of any country in the world which opens up its allocations to public scrutiny while still in the process of negotiation".

Efforts to reform the Budget process were based on information gathered by officials during trips to Australia, Britain, New Zealand and Malaysia.

"Their findings include warnings from those countries that Budget reform is not a speedy process and will take a number of years to implement."

The fact that the new constitution still had to be finalised was another inhibiting factor.

His department planned to hold a conference and workshop on Budget reform early next year.

A draft White Paper would be submitted to an intergovernmental forum consisting of provincial premiers, the joint standing committee on finance, Cabinet and Parliament. — Reuter.

New economic growth plan

CT 27/12/95 (49)

BARRY STREEK

A DRAMATIC plan to boost economic growth nationwide by supporting the small business sector more and empower the provinces to control street trading has been unveiled by the government.

This includes forming a National Small Business Council (NSBC), nine provincial small business councils, the Ntiska Enterprise Promotion Agency (Nepa) and Khula Enterprise Finance to increase funding for Small Medium and Micro Enterprises (SMME).

This is the first time the government has released a plan of action. Previously, it had committed itself to promoting small business as a key element of economic growth, issued a White Paper and held a presidential conference on the issue in Durban earlier this year.

A draft National Small Business Enabling Act (NSBEA) and a detailed memorandum by the newly formed Centre for Small Business Promotion in the Department of Trade and Industry was published in the Government Gazette shortly before Christmas.

The department has called for public comment by February 15 next year. It said the new bill will be tabled in Parliament before the end of July.

Trading

This new structure takes over most of the functions of the Small Business Development Corporation.

It will also enable the transfer for small business promotional powers to the provinces, which will enable local authorities and the provinces to adopt regulations to control street trading.

The explanatory memorandum says the NSBC and the nine provincial small business councils should provide a voice for the SMME community in regard to the public sector as well as big business.

"This has to be an authentic voice, which is why a bottom-up process of election of council members has been chosen."

Nepa will initiate and co-ordinate support policies for SMMEs, but with implementation left to national, regional or local agencies.

The memorandum says other thrusts of the new strategy includes the restructuring of the Department of Trade and Industry's staff in the Centre for Small Business Promotion, the establishment of Khula Enterprise Finance "to facilitate funding for SMME-loan agencies as well as an expansion of credit-guarantee facilities" and the restructuring of the SBDC.

Govt faces domestic debt bill of R19bn

BD 28/12/95 (49)

Greta Steyn

GOVERNMENT faces a massive domestic debt bill of more than R19bn in the next fiscal year, which has raised the concerns of capital market bears.

According to the Reserve Bank's December Quarterly Bulletin, government stock falling due in the fiscal year to March 1997 would be R19,3bn compared with R7,3bn this fiscal year.

The surge is the result of government's difficulties in raising long-term finance from investors who were not yet convinced of its fiscal policy credentials. The big amount that government will seek in rollovers will add to its overall demand for finance from the capital market.

One capital market analyst said the figure suggested that government's total borrowings on the market next year could top R50bn from this year's budgeted figure of about R38bn. "Other public sector borrowers have become almost irrelevant while government's demand for finance has soared."

He said the market could accommodate government's needs but it was a negative factor in an otherwise generally bullish market.

The Public Investment Commissioners, which manages the state pension funds' investments, would no longer be a captive market of government stock — a situation which could cause financing difficulties, he said.

Further in the future, the freeing of exchange controls could also see money formerly going into government bonds leaving the country. "It is imperative that government reduces its borrowing requirement," the analyst said.

Reserve Bank deputy governor Roelf du Plooy agreed that the amount of stock falling due in the next fiscal year was unusually large and said that it was also problematic as it fell due early in the fiscal year. The Bank acts as government's agent in the capital market.

Du Plooy said: "We are quite aware of the issue and the market need not worry that it will be a big problem."