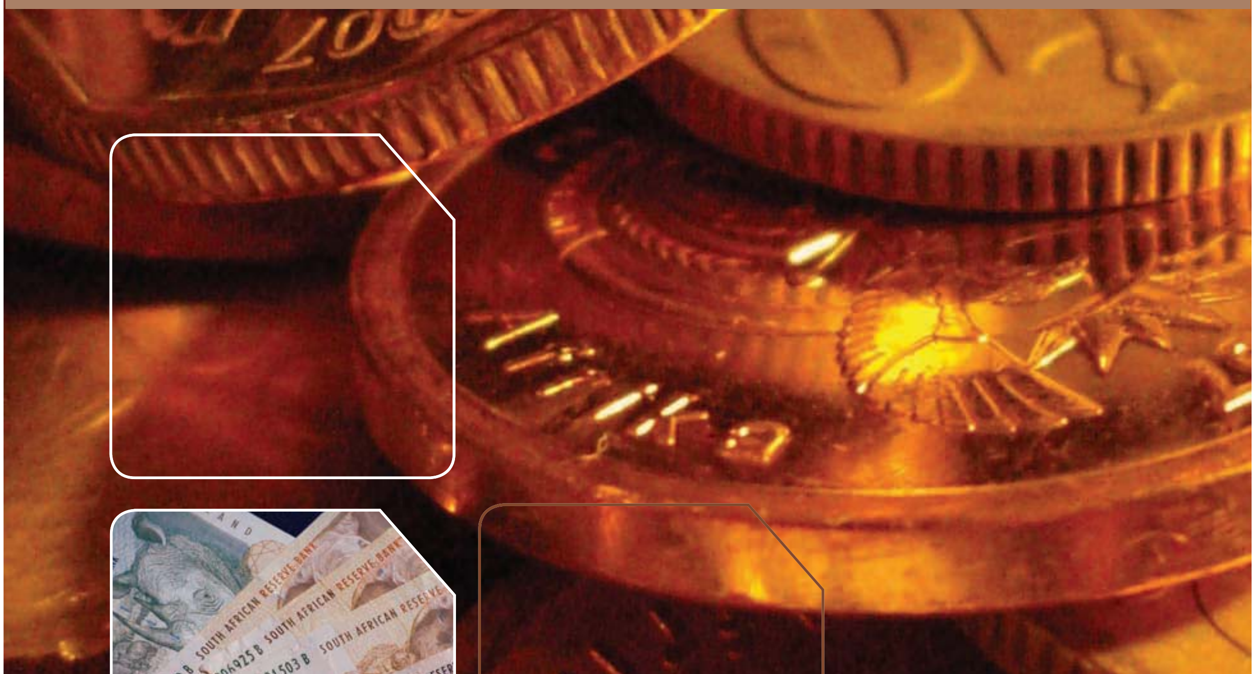


The National Treasury is responsible for managing South Africa's national government finances. Supporting efficient and sustainable public financial management is fundamental to the promotion of economic development, good governance, social progress and a rising standard of living for all South Africans. The Constitution of the Republic of South Africa mandates National Treasury to ensure transparency, accountability and sound financial controls in the management of public finances.

In support of government's Accelerated and Shared Growth Initiative for South Africa (AsgiSA), National Treasury's work on fiscal policy and budget reform focuses on strengthening infrastructure investment and maintenance, broadening participation in the economy and improving the quality of social services.

Improved budget planning, better documentation and greater transparency in public finances continue to be key priorities. National Treasury is expanding its capacity to provide technical support, particularly for infrastructure planning and project management.

The Constitution lays down a framework for the division of responsibilities between national, provincial and local government. It prescribes an equitable division of revenue between the spheres of government, taking into account their respective functions. It also creates an independent auditor-general (AG) and an independent central bank, and sets out the principles governing financial accountability to Parliament, as well as the annual budget process.

Fiscal policy framework

The Minister of Finance, Mr Trevor Manuel, presented the national Budget for 2008/09 in February 2008.

Government's fiscal policy seeks to support structural reforms of the South African economy consistent with long-run growth, employment creation and an equitable distribution of income. It aims to promote investment and export expansion while enabling government to finance public services, redistribution and development in an affordable and sustainable budget framework. Fiscal policy seeks to:

- ensure a sound and sustainable balance between government's spending, tax and borrowing requirements
- improve domestic savings to support a higher level of investment and reduce the need to borrow abroad
- keep government consumption spending at an affordable level
- contribute to lower inflation and a sustainable balance of payments
- support an export-friendly trade and industrial strategy to improve South Africa's competitiveness.

Planning and budgeting challenges associated with the 2010 FIFA World Cup™ are being addressed through a dedicated unit, working closely with the Organising Committee and the Deputy Minister of Finance.

The economy and fiscal stance

Highlights included:

- gross domestic product (GDP) growth of 5% in 2007, with growth averaging about 4,3% a year over the forecast period
- consumer price index, excluding interest rates on mortgage bonds (CPIX) inflation, rising to 7,1% in 2008 before declining to 4,9% in 2009
- gross fixed capital formation projected to rise from 21% of GDP in 2007 to 24% in 2010
- estimated consolidated national budget surpluses of 1% in 2007/08 and 0,8% in 2008/09, with projected surpluses over the three-year period
- real growth in consolidated government non-interest expenditure of 6,1% a year over the Medium Term Expenditure Framework (MTEF) period.
- government's contribution to national savings projected to rise from 0,8% of GDP in 2006/07 to 1,5% in 2010/11
- R60 billion to support Eskom's capital financing requirements over the next five years.

Tax proposals

Highlights included:

- total tax relief for individuals of R7,7 billion
- a reduction in the corporate income tax rate from 29% to 28%
- a simplified tax regime for small businesses
- R5 billion in tax subsidies over the next three years for labour-intensive industries and industrial policy
- an electricity levy of 2 cents per kilowatt hour
- fuel (petrol and diesel) taxes to increase from 2 April 2008 by 11 cents per litre
- a packet of 20 cigarettes to cost 66 cents more
- a 750-ml bottle of wine to cost 12 cents more
- a 340-ml can of beer to cost 5 cents more
- a 750-ml bottle of liquor (spirits) to cost R2,17 more.

Spending on public services

Additions to spending over the next three years included:

- R33,2 billion for provinces, mainly for school education, healthcare, welfare services and roads
- R6,5 billion for municipalities for the extension of free basic services
- R12,5 billion for social grants, including extension of the Child Support Grant to children up to their 15th birthday in 2009 and lowering the age of eligibility for men to receive old-age pension to 60 years
- R9 billion in conditional grants for school-building, HIV and AIDS, hospital revitalisation and school nutrition
- R8,2 billion for public transport, roads and railway infrastructure
- R6 billion for housing, water and general-built environment infrastructure
- R2 billion for 2010 World Cup stadiums and related infrastructure
- R2,5 billion for industrial development and small, medium and micro-enterprises (SMMEs)
- R2,6 billion for agriculture and land reform
- R2,7 billion for information technology (IT) network infrastructure, police forensic laboratories and additional police personnel, and R2 billion for correctional facilities
- R1,4 billion for higher education, research and knowledge development
- R1 billion for programmes under the Expanded Public Works Programme.

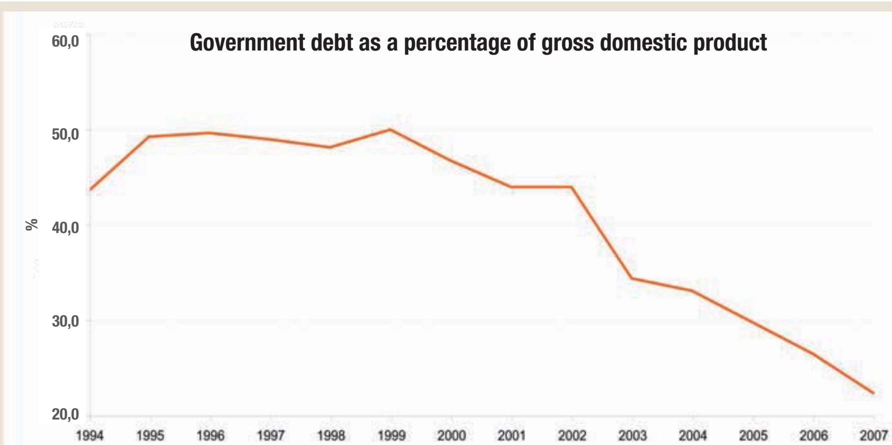
> The Organisation for Economic Co-operation and Development (OECD), National Treasury and the Bond Exchange of South Africa Limited jointly hosted the second Regional Workshop on public debt management and bond market development in Johannesburg in June 2008.
>
> The event formed part of the OECD Project on African Public Debt Management and involved senior debt managers from more than 15 African countries, experts from regional institutions, the Macroeconomic and Financial Management Institute of Eastern and Southern Africa and the Bank of Central African States, in addition to commercial banks and primary dealers.

Debt management

A further priority for National Treasury is the prudent management of government's financial assets and liabilities, including the domestic and foreign-debt portfolio. The main debt-management objective of financing borrowing requirements at the lowest cost within acceptable levels of risk has shifted towards actively pursuing government's macroeconomic objectives, particularly reducing sovereign external vulnerabilities.

Twelve years of prudent macroeconomic policy have contributed to a robust economy capable of both sustaining and accelerating the growth trajectory. The uniqueness of South Africa's economic landscape is reflected in the fact that government is increasing capital and socio-economic expenditure, even as it continues to enjoy a positive fiscal balance, and is reducing the amount of money it needs to borrow.

Government debt decreased from 43,5% of GDP in 1994 to 22,3% in 2007. This led to low debt-servicing costs for the public sector. Revenue collection increased, while spending was controlled. This provides protection against turbulence in international financial markets and frees



Source: Development Indicators, 2008

Consolidated national, provincial and social-security fund expenditure: Functional classification[1]

	2007/08		2008/09		2009/10	
	Revised estimate	% of total	Budget estimate	% of total	Budget estimate	% of total
General government services and unallocable expenditure[2]	34 959,8	6,7	39 500,2	6,7	43 987,7	6,8
Protection services:	85 857,3	16,6	94 377,6	16,1	103 440,6	15,9
Defence and intelligence	27 444,1	5,3	29 491,6	5,0	31 009,5	4,8
Police	38 563,3	7,4	42 730,3	7,3	47 932,2	7,4
Prisons	11 113,8	2,1	12 049,5	2,1	13 077,2	2,0
Justice	8 736,2	1,7	10 106,1	1,7	11 421,7	1,8
Social services:	306 622,9	59,2	349 118,3	59,6	425 735,2	60,5
Education	105 249,4	20,3	120 494,9	20,6	133 354,1	20,6
Health	65 896,3	12,7	72 851,6	12,4	80 817,3	12,5
Social security and welfare	91 650,1	17,7	105 077,7	18,0	116 013,0	17,9
Housing	10 999,1	2,1	13 439,9	2,3	15 980,1	2,5
Community development[3]	32 828,0	6,3	37 254,2	6,4	42 283,1	6,5
Economic services:	90 714,2	17,5	102 374,9	17,5	112 931,9	17,4
Water schemes and related services	9 164,4	1,8	11 043,9	1,9	13 134,0	2,0
Fuel and energy	6 846,3	1,3	5 427,6	0,9	6 279,6	1,0
Agriculture, forestry and fishing	13 692,0	2,6	14 304,8	2,4	14 431,8	2,2
Mining, manufacturing and construction	2 504,2	0,5	2 364,6	0,4	2 472,6	0,4
Transport and commuications	35 256,2	6,8	41 961,6	7,2	47 009,2	7,2
Other economic services[4]	23 251,1	4,5	27 272,4	4,7	29 604,8	4,6
Subtotal:						
Votes and statutory amounts	518 154,1	100,0	585 370,9	100,0	648 807,8	100
Plus contingency reserves	-	-	6 000	-	12 000,0	-
Total non-interest expenditure	518 154,1	-	591 370,9	-	660 807,8	-
Interest	52 829,0	-	51 236,0	-	51 125,0	-
Total consolidated expenditure	**570 983,1**	-	**642 606,9**	-	**711 932,8**	-

1) These figures were estimated by National Treasury and may differ from data published by Statistics South Africa. The numbers in this table are not strictly comparable to those published in previous years, due to the allocation of some of the unallocable expenditure for previous years. Data for the previous years have been adjusted accordingly.
2) Mainly general administration, cost of raising loans, and allocable capital expenditure.
3) Including cultural, recreational and sport services.
4) Including tourism, labour and multipurpose projects.

Source: *2008 Budget Review*

resources for investment towards a more productive economy and expansion of social services.

South Africa's public finances do not centre on servicing debt, but on the essential pillars of human development – poverty reduction, health, education and job creation. Interest costs measured as a percentage of revenue and GDP have fallen to historically low levels, as a result of a favourable interest-rate outlook and lower debt stock. A decade ago, government spent 18 cents of every rand on servicing debt. This decreased to 11 cents in 2007, and by 2009 the figure is expected to be around eight cents. Consequently, the debt burden on future generations continues to decline, releasing additional resources for economic development and poverty relief.

Legislation

In 2008, a number of pieces of draft legislation were under consideration and expected to be tabled in the short and medium term, pending the outcome of policy, drafting and consultation processes. These included:

- the Public Finance Management Bill, which will amend the Public Finance Management Act (PFMA), 1999 (Act 1 of 1999)
- the Direct Charges Bill
- the Financial Services Law General Amendment Bill.

Division of Revenue Act, 2008 (Act 2 of 2008)

The Act provides for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2008/09 financial year and the responsibilities of all three spheres pursuant to such a division, and to provide for matters connected with it.

Financial Services Law General Amendment Bill

In May 2008, the National Treasury tabled a new omnibus legislation in Parliament designed to close regulatory loopholes in current pieces of financial-sector legislation. The department indicated that global integration of the financial sector had necessitated the proposed legislation to reduce the risk profile of financial companies and strengthen the ability to enforce laws.

The Financial Services Laws General Amendment Bill will amend existing legislation such as the Pensions Fund Act, 1956 (Act 24 of 1956); Financial Services Board (FSB) Act, 1990 (Act 97 of 1990); and National Payment Systems Act, 1998 (Act 78 of 1998).

The Bill will create beneficiary funds as opposed to a trust for the payment of death benefits. The non-member spouse of a pension fund involved in divorce proceedings will now have a say in how payment is made. The FSB will establish an enforcement committee empowered to impose administrative sanction and decide on compensation where due. The committee will impose a R1-million fine or a five-year prison sentence. However, criminal proceedings will still be followed where appropriate. The legislation will widen the capacity of the appeal board to include a chairperson of high legal standing, such as a retired judge.

The Bill will also amend the Financial Advisory and Intermediary Services Act, 2002 (Act 37 of 2002), to allow the registrar to conduct on-site visits of service-providers. Members of a licensed service-provider will have to meet certain standard operating requirements in the interests of promoting a safe investment environment. Amendments will give the registrar the power to openly declare those service-providers that have been debarred or suspended. The National Payment Systems Act, 1998 will also be amended to provide further powers to the South African Reserve Bank (SARB) to monitor certain entities in the payment system such as Postbank, which currently operates under an exemption of the Banks Act, 1990 (Act 94 of 1990).

Public Finance Management Bill and Direct Charges Bill

The Public Finance Management Bill is intended to ensure sound, transparent and sustainable financial management of the affairs of state institutions and public entities in the national and provincial spheres of government. It aims to ensure that all revenue, expenditure assets and liabilities of those institutions and entities are managed efficiently and effectively. It will give effect to Section 217 of the Constitution by providing for a public-sector procurement system that is fair, equitable, transparent, competitive and cost-effective and that accommodates the advancement of persons disadvantaged by unfair discrimination. It also provides for the listing of all existing and new public entities; and for matters connected with these.

The Direct Charges Bill is intended to authorise certain payments and withdrawals from the

National Revenue Fund as direct charges against the fund.

Public Finance Management Act (PFMA), 1999

Transforming public-sector financial management is one of National Treasury's key objectives.

To this end, National Treasury has been implementing the PFMA, 1999 since 1 April 2000.

The Act changed the approach to how public funds are managed by introducing a less rigid environment for financial management, with a stronger emphasis on the prudent use of state resources, improved reporting requirements and the use of management information to enhance accountability.

Since its introduction, the PFMA, 1999 has contributed towards measurable improvements in financial management in both the national and provincial spheres of government, which include, among other things:

- an improved linkage between planning and budgeting, whereby departments are required to compile and table strategic plans that are consistent with their budget envelope
- strategic plans and budget documentation containing improved information on measurable objectives expressed in terms of quantity, quality and timeliness
- the submission by departments of monthly expenditure reports on actual expenditure incurred, and on projected expenditure for the remainder of the financial year
- risk-management processes
- establishing internal-audit functions and audit committees in all departments
- setting accounting standards in accordance with best accounting practices
- finalising and submitting financial statements to the AG within two months of the end of the financial year
- tabling annual reports in the legislature within six months of the end of the financial year.

While it is recognised that the PFMA, 1999 has contributed positively towards the enhancement of public-sector financial management, it has been acknowledged that an increased emphasis should be placed on capacity-building to further improve the quality of financial management.

The Public Administration Leadership and Management Academy (previously the South African Management Development Institute) has, in association with National Treasury, developed the Financial Management Training Strategy for the roll-out of training programmes to improve the skills of public-sector finance practitioners.

Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003)

The Act applies to all municipalities and municipal entities, and national and provincial organs of state, to the extent of their financial dealings with municipalities.

The objective of the Act is to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms, standards and other requirements for:

- ensuring transparency, accountability and appropriate lines of responsibility in their fiscal and financial affairs
- managing their revenues, expenditures, assets and liabilities, and handling their financial dealings
- budgetary and financial-planning processes and co-ordinating processes of organs of state
- borrowing
- handling financial problems and other financial matters.

A wide range of supporting publications, guides, regulations and circulars are available on *www.treasury.gov.za* under the MFMA icon.

Financial Sector Charter

The Financial Sector Charter was signed in November 2003, signalling a key milestone in the transformation of the financial sector.

The charter seeks to ensure the broad-based transformation of the sector, based on the following elements: human-resource development (HRD), procurement and enterprise development, access to financial services, empowerment financing, ownership, control and corporate social investment.

National Treasury

Financial expenditure

National Treasury plays a pivotal role in managing government expenditure.

It determines financial-management norms and standards, and sets reporting policy that guides the AG's performance. It also assists Parliament, through the Standing Committee on Public Accounts (Scopa), with its recommendations and the formulation of corrective actions. National Treasury closely monitors the performance of state departments and is obliged to report any deviations to the AG.

National Treasury furthermore maintains transparent and fair bidding processes, as well as accounting, logistic and personnel systems. It sets and maintains standards and norms for treasury and logistics, acts as a banker for national departments, and oversees logistical control of stocks and assets.

Exchange-control reforms

Further reforms were announced in the Febuary 2007 Budget Speech. Two of the reforms dealt with simplifying customer foreign-currency accounts and lowering the outward foreign direct investment (FDI) threshold for investments by South African entities outside of Africa, from a controlling interest to at least 25%.

The JSE Securities Exchange Limited (JSE) was also, for the first time, given approval to establish a rand-currency futures market. A new framework, regulating authorised dealers in foreign exchange with limited authority, was approved by the Minister of Finance in 2007.

Retirement fund reform

Since the release of the *Social Security and Retirement Reform Paper* in February 2007, significant progress has been achieved in developing proposals for the reform of the social-security system. A number of projects have been undertaken by an interdepartmental task team to assess the detailed operational approach and policy implications.

By mid-2008, progress in developing key design features for the basic social-security benefit included:

- good progress towards a shared government view on basic social-security design, but further analysis was still needed, particularly in relation to industry and the preservation of retirement benefits
- exploring broad institutional-governance options in terms of the co-ordination of administrative arrangements (South African Revenue Service [Sars], the Unemployment Insurance Fund [UIF], Compensation Fund [CF], the Government Employee Pension Fund [GEPF], etc.)
- modelling of a conceptual framework and "administrative clearing house" dealing with system design
- preparing a wage-subsidy discussion paper and an evaluation model.

Furthermore, the options for post-retirement medical-contribution protection were being explored in terms of their linkages with wider social-security reform. Much more work needs to be conducted on private pension and social-security law reform, particularly with regard to the overall design issues, opt-out issues, sequencing of the reform and balance of risk between the State, employees and contributors.

Treasury norms and standards

In terms of Section 216(1)(c) of the Constitution, National Treasury must prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing uniform treasury norms and standards. These treasury norms and standards aim at deregulating financial controls, by granting accounting officers of spending agencies more autonomy in financial decision-making within the ambits of impending financial legislation.

Budget evaluation

National Treasury plays an important role in supporting the economic policy to which government has committed itself. It determines the macrolimit on expenditure, which is then matched with requests from departments, in line with the affordability and sustainability of services.

Based on this limit, all national departments are requested to submit budget proposals annually to National Treasury for the following financial year.

Early Warning System

The Early Warning System was first established in 1997. Any likely under- or overexpenditure is brought to the attention of the Cabinet, so that the relevant minister can ensure that appropriate action is taken.

Introducing the system has also assisted in the monthly monitoring of provincial departments' expenditure trends, by having provincial treasuries report to National Treasury in a prescribed format. The information derived from early warning reports is used for advising the Budget Council and the Cabinet. The Minister of Finance is also informed of the early warning report results.

Financial policies, systems and skills development

National Treasury is responsible for financial-management systems and the financial training of government officials.

It delivers services that support the following areas:

- financial systems, which consist of the Personnel and Salary System, Logistical Information System, Financial Management System, Basic Accounting System and Management Information System
- banking services and financial reporting for government
- developing financial management in national and provincial governments.

Procurement

The preferential procurement regulations give substance to the content of the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000). This Act and its regulations apply to all three spheres of government.

Bids are evaluated according to a preference point system. A bidder can score a maximum of 80 or 90 points for price, while 10 to 20 points can be scored for contracting or subcontracting historically disadvantaged individuals (HDIs), and promoting or achieving specified Reconstruction and Development Programme (RDP) goals. A contract is awarded to the bidder who scores the highest total number of points.

The implementation of the regulations enhances the involvement of HDIs in the public bidding system and contributes to achieving RDP goals, including the promotion of small and medium enterprises (SMEs).

One of government's Apex Priorities is the introduction of a system of products for preferential procurement by government from small, medium and micro-enterprises (SMMEs).

Supply Chain Management (SCM)

The SCM Framework, issued in terms of Section 76 of the PFMA, 1999, replaced outdated procurement and provisioning systems in government with an integrated SCM system, and an international best-practice process for appointing consultants.

The SCM Framework also incorporated the preferential procurement policies of government, as espoused in the Preferential Procurement Policy Framework Act (PPPFA), 2000 (Act 5 of 2000), and the regulations issued in terms of this Act.

The PPPFA, 2000, in its current form, became outdated as it was not aligned with the aims of the Broad-Based Black Economic Empowerment (BBBEE) Act, 2003 (Act 53 of 2003), and its related strategy. It is envisaged that the PPPFA, 2000 will be repealed and that the framework required by Section 217 of the Constitution will be provided for through appropriate amendments to the PFMA, 1999.

Financial Intelligence Centre (FIC)

Government has adopted a strong stance on eradicating money laundering and financing terrorism, in keeping with United Nations (UN) conventions and international standards.

South Africa's system of combating money laundering and the financing of terrorism is based on the interaction of three separate laws. In 1998, the Prevention of Organised Crime Act, 1998 (Act 121 of 1998), was passed, which criminalised money laundering. This was followed by the FIC Act (FICA), 2001 (Act 38 of 2001), which provides for the establishment of the centre, and imposed reporting and administrative obligations on financial and other institutions.

The Protection of Constitutional Democracy Against Terrorist and Related Activities Act, 2004 (Act 33 of 2004), provides for the reporting of terrorism-financing activities.

The FIC started functioning in February 2003 as a government agency reporting to the Minister of Finance.

The centre is mandated to:

- identify the proceeds of crime and the financing of terrorism
- formulate and lead the implementation of policy regarding money laundering and the financing of terrorism
- advise the Minister of Finance about issues aimed at anti-money laundering and combating the financing of terrorism (AML/CFT)
- monitor the compliance of accountable institutions and supervisory bodies regarding their AML/CFT obligations
- prevent and reduce money laundering and CFT activities
- meet and uphold the international obligations and commitments required of the centre and South Africa as a country.

The FICA, 2001 identifies a range of 19 different business sectors, which it defines as being accountable institutions and most vulnerable to abuse by criminals. These include banks, *bureaux de change,* life-insurance companies, stockbrokers, money remitters, casinos, lawyers, accountants, investment advisers, estate agents and motor dealers. These accountable institutions have certain reporting and administrative obligations, including record-keeping, appointing compliance officers and the training of staff.

The centre analyses and stores reports made by the accountable institutions. After further analysis and due consideration, it makes disclosures to law-enforcement agencies for investigation. It may also make this information available to similar bodies in other countries.

The Amendment Bill to the FICA, 2001 was approved by Parliament on 22 May 2008. These amendments include the ability of the centre to address the deficiencies relating to the supervision of compliance with the Act. It provides for detailed procedures for the administrative adjudication and sanctioning of non-compliance with the FICA, 2001, as well as extended powers for supervisors to address compliance failures appropriately. The Amendment Bill also provides for issues relating to customer due diligence and the updating of the schedules to the FICA, 2001.

By 31 March 2008, the centre had received in excess of 90 067 suspicious transaction reports, of which 24 580 were made during 2007/08.

From 1 April 2007 to 31 March 2008, the centre referred 910 reports of transactions totalling in excess of R1 billion to law-enforcement agencies for investigation.

In 2002, South Africa joined the 14-member Eastern and Southern Africa Anti-Money Laundering Group. South Africa is also a member of the Financial Action Task Force, which is the international standards-setting body for combating money laundering and financing terrorism.

The centre is a member of the Egmont Group of financial intelligence units, which facilitates the exchange of information, skills and technical assistance between financial intelligence units worldwide.

Financial and Fiscal Commission (FFC)

The FFC is a constitutional body established to give advice to Parliament, legislatures and organs of state on matters of intergovernmental finance.

The commission, which came into operation in April 1994, is a statutory institution and permanent expert commission dealing with intergovernmental fiscal relations.

The FFC submits recommendations and advice to all spheres of government based on research and consultations on a range of intergovernmental fiscal issues.

The research includes:

- developing principles for intergovernmental fiscal relations, which are based on analysis of international best practice
- analysing local, provincial, and national government budgets to understand revenue and expenditure trends
- identifying and measuring factors influencing provincial and local revenues and expenditures; and assessing fiscal policy instruments, such as conditional grants, equitable share transfers and taxes.

Government is required by the Constitution and other legislation to consult with the FFC on issues such as:

- provincial and local government revenue sources
- provincial and municipal loans
- the fiscal implications of the assignment of functions from one sphere of government to another.

Budget Council

The Budget Council consists of the Minister of Finance and the nine provincial members of the executive committees responsible for finance, while the Budget Forum is the Budget Council extended to include representatives of organised local government. The mission of the two forums is to ensure that there is cohesion between national policy priorities, the division of nationally raised revenues, and planning and budgeting in provincial and local spheres of government.

The forums also allow the leadership of the three spheres of government to evaluate the performance of government on key national programmes and, where deemed necessary, to agree on support initiatives that will ensure the attainment of national goals.

Public Investment Corporation (PIC)

The PIC is a corporate body governed in terms of the PIC Act, 2004 (Act 23 of 2004).

The corporation was officially launched in April 2005. The PIC invests funds on behalf of the South African public sector.

There are currently 40 entities or clients whose funds are managed by the PIC. Major clients include the GEPF, the UIF, the Associated Institutions Pension Fund, the Compensation Commissioner: Pension Fund, the CF and the Guardian's Fund. The strategic focus of the PIC in recent years has been on restructuring to build capacity that is comparable to private-sector asset managers.

Key activities and achievements include:

- revising the PIC's governance structure and regulatory oversight
- concluding comprehensive client mandates that set clear risk-adjusted investment-return targets and service levels
- achieving investment returns that meet or exceed agreed client benchmarks, which are unique and stipulated in each client's mandate
- establishing the subsidiaries, Advent and the Pan African Infrastructure Development Fund (PAIDF), to focus on property investments in townships or rural areas and infrastructure development in Africa
- adopting the role of corporate-governance champion and activist in relation to investments managed on behalf of the PIC's clients
- establishing an enterprise-risk-management capacity comprising the risk, compliance and internal audit divisions
- revising HR policies and recruiting skilled professionals across the three business divisions: investments, risk and operations
- implementing key IT infrastructure and systems, including an investment administration system and a performance and attribution system
- revising client fee scales to a level that can sustain PIC operations in the long term.

Strategic priorities over the MTEF period are to ensure the long-term financial sustainability of PIC operations, retain key customers through investment performance and a high standard of client service, achieve operational excellence and make a positive contribution to South Africa's economy, including corporate governance and shareholder activism.

Macroeconomic strategy

The economy continued to expand at a robust pace of 5,1% in 2007, generating new jobs, broadening the consumer base and providing the impetus for rapid growth in investment.

Economic growth was projected to average just over 5% a year over the next three years. However, the year 2008 saw a somewhat weaker growth in the world economy and interest rate increases.

In 2004, government set out the objectives of halving poverty and unemployment by 2014. A growth rate exceeding 5% a year on average between 2004 and 2014 is necessary to achieve these targets. In February 2006, government introduced AsgiSA with the objectives of growing the economy and improving the labour-absorbing capacity of the economy, leading to shared growth.

The methodology employed involves identifying the "binding constraints" to achieving growth objectives. AsgiSA has identified the following binding constraints:

- the relative volatility and level of the currency
- the cost, efficiency and capacity of the national logistics system
- the shortage of suitably skilled labour amplified by the cost effects on labour of apartheid spatial patterns
- barriers to entry, limits to competition and limited new investment opportunities
- the regulatory environment and the burden on SMEs
- deficiencies in state organisation, capacity and leadership.

A number of decisive interventions aimed at addressing these constraints and allowing government to achieve its objectives more effectively include:

- macroeconomic issues, including reducing the volatility of the Rand, improved estimation of revenue collections in the budgeting process and improved expenditure management
- the rapid increase in infrastructure spending to improve the availability and reliability of infrastructure and to reduce the cost of doing business
- sector-investment strategies (or industrial strategies) to promote private-sector investment, with a focus on rapidly growing labour-intensive sectors and sectors with BEE opportunities such as business-process outsourcing, tourism and biofuels
- skills and education initiatives to alleviate the pressing shortage of skills, including initiatives to improve skills in areas such as Science, Mathematics, engineering, management and IT
- second-economy interventions to bridge the gap between the first and second economies, including increased participation and broader access to opportunities and education
- public-administration issues, including the reduction of costly institutional interventions.

Government is committed to achieving the objectives set out in AsgiSA. Higher and shared economic growth will allow South Africa to achieve its social objectives of reducing inequality and virtually eliminating poverty.

South African Revenue Service

In accordance with the Sars Act, 1997 (Act 34 of 1997), the revenue service is an administratively autonomous organ of state. It aims to provide a world-class, transparent and client-orientated service, ensuring optimum and equitable revenue collection. Its main functions are:

- collecting and administering all national taxes, duties and levies
- collecting revenue that may be imposed under any other legislation, as agreed upon between Sars and an organ of state or institution entitled to the revenue
- facilitating trade
- providing protection against the illegal importation and exportation of goods
- advising the Minister of Trade and Industry on matters concerning control over the import, export, manufacture, movement, and storage or use of certain goods.

Tax system

National Treasury is responsible for advising the Minister of Finance on tax-policy issues that arise in local, provincial and national government spheres. As part of this role, National Treasury must design tax instruments that can optimally fulfil their revenue-raising function, and are aligned to the goals of government's economic and social policy. National Treasury and Sars co-operate in compiling tax policies.

In 2001, South Africa's source-based income tax system was replaced with a residence-based system. Residents are now taxed (subject to certain exclusions) on their worldwide income, irrespective of where their income was earned.

Foreign taxes are credited against South African tax payable on foreign income. Foreign income and taxes are translated into the South African monetary unit, the Rand.

International tax agreements for the avoidance of double taxation

International tax agreements are important for encouraging investment and trade flows between nations, by providing certainty about the tax framework. By reaching agreement on the allocation of taxing rights between residence and source countries of international investors, double-taxation agreements provide a solid platform for growth in international trade and investment. South Africa has tax agreements with various countries.

Sources of revenue

Income tax

Income tax is government's main source of income and is levied in terms of the Income Tax Act, 1962 (Act 58 of 1962).

In South Africa, income tax is levied on South African residents' worldwide income, with appropriate relief to avoid double taxation. Non-residents are taxed on their income from a South African source. Tax is levied on taxable income, which, in essence, consists of gross income less allowable deductions as per the Act.

The income threshold below which no tax is payable by individuals under 65 years was raised to R46 000 for the tax year beginning March 2008, and for taxpayers over the age of 65 to R74 000 a year. The maximum marginal rate of tax remains at 40%, while the threshold was raised from R450 000 to R490 000.

The domestic interest and dividend exemption for taxpayers under the age of 65 was raised from R18 000 to R19 000 and increased from R26 000 to R27 500 for senior citizens.

The proportion of the exemption applicable to foreign-interest income and dividends was raised from R 3 000 to R3 200.

A revised tax regime for medical-scheme contributions and medical expenses was introduced in the 2005 Budget. It had the effect of raising the tax benefit for middle- and lower-income earners, while restricting the tax allowance for more expensive medical schemes. For the tax year 2008/09, taxpayers under 65 are not taxed on, or may deduct, contributions to medical schemes up to R570 for each of the first two persons covered under a medical scheme (taxpayer and one dependant), and R345 for each additional dependant. In addition, they can claim a deduction for medical-scheme contributions above the caps and any other medical expenses, to the extent that the total exceeds 7,5% of taxable income. Taxpayers

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The South African Revenue Service (Sars) has firm and cordial relationships with other administrations as exemplified in the participation in the Southern African Customs Union (Sacu), the Southern African Development Community, the World Customs Organisation and the Forum for Tax Administrators of the Organisation for Economic Co-operation and Development. Sars' administrative infrastructure is particularly important to Sacu as it collects more than 90% of the customs and excise revenue within the union.

under 65 years may claim all qualifying medical expenses where the taxpayer or the taxpayer's spouse or child is handicapped. Taxpayers who are 65 years and older continue to enjoy a full deduction of all medical expenses.

Income-tax returns are issued annually to registered taxpayers whose employers have reconciled their EMP501 from 1 July 2008 with Sars. The year of assessment for individuals covers a period of 12 months, which generally commences on 1 March of a specific year, and ends on the last day of February the following year. Companies, on the other hand, are permitted to have a tax year ending on a date that coincides with their financial year.

Tax returns must be submitted to Sars within the specified period.

People who owe Sars tax are charged interest at a rate as published in the *Government Gazette* that is linked to the rate specified in accordance with the PFMA, 1999.

Persons who derive income from sources other than remuneration, such as trade, profession or investments, and companies, are required to make two provisional tax payments during the course of the tax year and may opt for a third "topping-up" payment, six months after the end of the tax year.

Capital gains tax was introduced on 1 October 2001. It forms part of the income-tax system. Capital gains made upon the disposal of assets are included in taxable income.

Local governments levy rates on the value of fixed property to finance the cost of municipal services.

In the 2008 tax season, new emphasis was placed on the information supplied by employers to the South African Revenue Service (Sars) in respect of the pay-as-you-earn (PAYE) deducted from employees. In 2008, employers were required to meticulously and timeously submit records, which ensured that Sars was in possession of accurate information about their employees. The information about the PAYE deducted and paid over to Sars ensures that Sars has accurate information to:

- pre-populate income tax returns for certain categories of individuals
- verify information supplied by individuals on their tax returns.

In addition, the information declared by employers, in terms of existing law, is used in PAYE audits of employers to verify whether the correct amount of tax was levied, deducted from employees and paid over to Sars.

Value-added tax (VAT)

VAT is levied on the supply of all goods and services rendered by registered vendors throughout the business cycle. Effectively, VAT is levied on the value added by an enterprise.

Vendors levy and pay over the tax included in their prices, resulting in VAT being paid by the final consumer. VAT is also levied on the importation of goods and services into South Africa. It is levied at the standard rate of 14% but certain supplies are zero-rated or are exempt from VAT.

The prices of goods and services must be quoted or displayed on an inclusive basis, which means that VAT has to be included in prices on all products, price lists, advertisements and quotations.

Customs duty

South Africa is a signatory to the Southern African Customs Union (Sacu) Agreement, together with Botswana, Lesotho, Namibia and Swaziland (the BLNS countries).

The five member countries of Sacu apply the same customs and excise legislation, the same rates of customs and excise duties on imported and locally manufactured goods, and the same import duties on imported goods. The uniform application of tariffs and the standardisation of procedures simplify trade within the Sacu common-customs area. Import duties, including anti-dumping and countervailing duties, are used as mechanisms to protect the local industry.

The renegotiated Sacu Agreement is in force and provides a new dispensation for calculating and affecting transfers based on customs, excise and a development component.

South Africa has entered into agreements on mutual administrative assistance with a wide range of customs administrations. These agreements cover all aspects of assistance, including the exchange of information, technical assistance, surveillance, investigations and visits by officials. Efforts continue to improve the effectiveness of custom control and trade facilitation.

Following the launch of the Southern African Development Communiy (SADC) Free Trade Area, a SADC Customs Union will be established.

Excise duty

Excise duty is levied on certain locally manufactured goods and their imported equivalents. This duty is levied as a specific duty on tobacco, liquor, and as an ad valorem duty on cosmetics, audio-visual equipment and motor cars.

Relief from excise duty is available where excisable products are exported. In addition, relief is also available for specific farming and forestry, and certain manufacturing activities.

Excise duties are imposed both as a means to generate revenue for the fiscus and to change consumer behaviour.

Transfer duty

Transfer duty is payable on the acquisition of property by individuals at progressive marginal rates between 0% and 8%. With effect from 1 March 2006, houses costing less than R500 000 attract no duty.

A 5% rate applies at between R500 000 and R1 million, after which 8% applies. The 10% flat rate for companies and trusts was also reduced to 8%. All transactions relating to a taxable supply of goods that are subject to VAT are exempt from transfer duty.

Estate duty

An estate consists of all property, including deemed property (e.g. life-insurance policies, payments from pension funds, etc.) of the deceased. The exempt threshold was increased to R3,5 million in 2007. The duty, at a rate of 20%, is calculated on the dutiable amount of the estate. Certain admissible deductions from the total value of the estate are allowed.

Stamp duty

Stamp duty is levied on instruments such as leases of immovable property and unlisted marketable securities at different rates. It is also payable on leases for fixed property at a fixed rate of 0,5% on the quantifiable amount of the lease. It is proposed that the stamp duties on short-term leases (less than five years) should be abolished.

Uncertificated securities tax (UST)

UST at a rate of 0,25% is payable for the issue of, and change in beneficial ownership in, any securities which are listed on the JSE Limited. In the case of unlisted securities, stamp duty is levied at the same rate of 0,25%. UST on the issue of securities was eliminated from 1 January 2006.

Skills-development levy

This is a compulsory levy scheme for the funding of education and training. Sars administers the collection of the levy. The rate, as from 1 August 2005, is 1% for employers with an annual payroll in excess of R500 000.

Air-passenger departure tax

A tax of R120 per fee-paying passenger departing on international flights, and R60 per passenger departing to BLNS countries is payable.

Organisational performance

Sars collected a preliminary R571,8 billion during the fiscal year 2007/08.

The preliminary result was R0,8 billion above the revised budget estimate made in February 2008, and R15,2 billion above February 2007's estimate of R556,6 billion.

The preliminary estimate of national expenditure was R541,6 billion, bringing the main budget surplus to R18,5 billion or 0,9% of GDP, which was 0,1% higher than the February 2008 estimate.

Sars continues to implement improvements in revenue collection to benefit the South African people, by enabling the fiscus to fund government's social-delivery programmes.

E-filing

E-filing (*www.efiling.gov.za*) is a secure service, enabling taxpayers to submit their tax returns online. It removes the risks and inconvenience of manual tax returns. Not only can returns be submitted via the Internet, but users can also make secure tax payments online. There is also a facility to apply for tax directives, which can be obtained within 24 hours.

The e-filing service is on par with international standards, being comparable with services offered in the United States of America, Australia, Singapore, Ireland, Chile and France. Sars has seen e-filing in South Africa grow signifanctly since it was initiated in 2003. In 2007, more than one million individual tax returns were submitted through e-filing and annually millions of returns are submitted by e-filing by businesses and practitioners.

Filing of Tax Returns Season

Filing Season is an extensive marketing and publicity venture to remind taxpayers of their responsibilities to submit their tax returns on time and with the correct details.

The Taxpayer Education Campaign focuses on helping all eligible taxpayers to complete their tax returns correctly. The Filling Season Campaign helped to increase the number of registered taxpayers from 4,8 million in 2003 to just over eight million in 2008.

National Gambling Board (NGB)

The NGB was established in terms of the National

Gambling Act, 1996 (Act 33 of 1996), which was repealed on 1 November 2004 by the National Gambling Act 2004, (Act 7 of 2004). The Act provides for the oversight of matters relating to casinos, gambling, betting and wagering and promotes uniform norms and standards in relation to gambling throughout South Africa.

The board has evolved into a cohesive and knowledgeable strategic unit, capable of executing the mandate of the NGB. It performs its regulatory functions diligently, enhances the industry's credibility and creates an increased sense of public awareness about the potential risks of gambling. The regular function is performed concurrently with all nine provinces. The vigorous broad public awareness and education programmes are regarded as a base for dispelling the myths of gambling within South African society.

National Database System for Self-Exclusion

This was the flagship of the NGB for the year ended March 2008. The system is fully developed and the industry and regulators are apprising themselves of how to implement this system, which will take management and care of problem gamblers to the next level.

Interactive gambling

The South African authorities have pronounced the stance with respect to Internet-based gambling activities. Both Houses of Parliament approved the Bill in May 2008 for promulgation into law.

The Interactive Gambling Tax Bill was released for comment in November 2008. The Bill provides for the imposition of a special tax on operators with an interactive gambling site in South Africa.

Research

The National Gambling Board conducted three qualitative research studies and distributed the reports to relevant stakeholders within the gambling industry.

Responsible gambling

The National Responsible Gambling Programme (NRGP) integrates research and monitoring, public education and awareness, training, treatment and counselling. It was specifically devised to address the challenges posed by South Africa's developing-nation gambling environment after the promulgation of gambling legislation in the mid-1990s. The Schools Programme, originally pioneered in the Western Cape in 2002 and extended to Gauteng in 2004, has developed into a national schools programme, which went through a pilot phase of introduction in KwaZulu-Natal during March 2008.

The NGB maintains a national statistics database to monitor specific gambling activities as provided by the provincial gambling boards. Based on the results for 2007/08, the gross gambling revenue increased by 16%, from R13,520 billion (2006/07) to R15,618 billion (2007/08).

The NRGP has also implemented a community outreach project directed at social groups who are considered to be particularly vulnerable to problem-gambling behaviour – youth and senior citizens.

Two new treatment innovations were introduced: one was the development of continuing care groups in those centres where such a service was not available, while the other entailed clients being referred by treatment professionals for debt counselling. The NRGP's progress may be measured by the growth in the number of people who are aware of the programme and the growth in the number of those seeking help. Since its inception in 2000, more than 25 740 calls have been received by the toll-free problem-gambling counselling line and about 8 795 callers were referred for free treatment by a medical/treatment professional – about 90 a month.

The NRGP, in conjunction with the NGB, embarked on a three-month commuter responsible-gambling-awareness campaign from June to August 2007.

The National Centre for the Study of Gambling, directed by leading academics at the universities of Cape Town and KwaZulu-Natal, is helping to build and secure South Africa's capacity for continuously enhancing the understanding of gambling behaviour, and to promote the prevention and treatment of problem gambling.

Conferences and forums

The fifth NGB Biennial Gambling Conference and Exhibition at Emperors Palace, Kempton Park, in April 2008 brought together stakeholders and informed regulators and industry on their respective views regarding relevant issues.

In November 2007, the Gambling Regulators Forum, for which the NGB fulfils the secretariat role, held a successful conference in Malawi. This is a platform to share and discuss comprehensive gambling regulations and legislation, as well as other gambling-industry-related matters and challenges. The most significant outcome of the 2007 conference was that a technical team was put together, led by South Africa, to research and design a system that will ensure control over the movement of gambling machines and devices across the borders. The movement of illegal machines promotes illegal operators.

National Lotteries Board (NLB)

The NLB was established in October 1998 in terms of the Lotteries Act, 1997 (Act 57 of 1997).

The board's main activities are, among other things, to:

- advise the Minister of Trade and Industry on the issuing of the licence to conduct the National Lottery
- ensure that the National Lottery and sports pools are conducted with all due propriety
- ensure that the interests of every participant in the National Lottery are adequately protected
- ensure that the net proceeds of the National Lottery are as large as possible
- administer the National Lottery Distribution Trust Fund and hold it in trust
- advise the minister on percentages of money to be allocated in terms of Section 26(3) of the Lotteries Act, 1997
- advise the minister on establishing and implementing a social-responsibility programme in respect of lotteries
- administer and invest the money paid to the board in accordance with the Lotteries Act, 1997.

The National Lottery' operator is Gidani, a 89,2% black-majority-owned private company.

Auditor-General

The AG has a constitutional mandate and, as the supreme audit institution of South Africa, it exists to strengthen the country's democracy by enabling oversight, accountability and governance in the public sector, thereby building public confidence.

Through the Constitution and the Public Audit Act, 2004 (Act 25 of 2004), the AG's mandate is to promote accountability and good governance within government.

The AG does this by providing world-class audits and reports on the accounts, financial statements and financial management of:

- all national and provincial state departments and administrations
- all municipalities
- any other institution or accounting entity required by national or provincial legislation to be audited by the AG.

The AG may also audit and report on the accounts, financial statements and financial management of:

- any institution funded from the national or a provincial revenue fund, or by a municipality
- any institution that is authorised in terms of any law to receive money for a public purpose.

Public-sector auditing involves investigating and evaluating government and related institutions' financial-management practices, performance and compliance with legal requirements.

By mid-2008, the AG had 1 982 employees, of whom about 833 were trainee accountants. Various business units provide auditing services, corporate services and specialised audit work, such as forensic and computer auditing, and audit research and development. The AG also boasts an impressive international auditing complement.

Financial sector

South African Reserve Bank

The SARB and the Ministry of Finance form the monetary authority in South Africa. The SARB has been given a significant degree of autonomy in terms of the Constitution and must perform its functions independently.

However, the SARB must hold regular consultations with the Minister of Finance. Its management, powers and functions are governed by the SARB Act, 1989 (Act 90 of 1989).

The SARB formulates and implements monetary policy and regulates the supply of money by influencing its cost. Monetary policy is guided by the objectives of the SARB, which are formulated to ensure financial stability. Consistently combating inflation is the cornerstone of the bank's policy.

A formal inflation-targeting monetary-policy framework has been adopted since 2000. Monetary policy is set by the bank's Monetary Policy Committee (MPC).

The committee, consisting of the SARB's governors and other senior officials, usually meets every two months, after which the bank issues a statement indicating its assessment of the economy and policy changes, if any.

The SARB is responsible for:

- assisting government in formulating and implementing macroeconomic policy
- formulating and implementing monetary policy to achieve its primary goal in the interest of the community it serves
- ensuring that the South African money and banking system as a whole is sound, meets the

community's requirements and keeps abreast of international finance developments
- informing the South African community, and all interested parties abroad about monetary policy, and the South African economic situation in general.

The SARB is managed by a board of 14 directors, seven of whom are elected by the shareholders of the bank and who represent commerce, finance, industry and agriculture. The President of South Africa appoints the governor, three deputy governors and three directors.

The SARB acts as the central bank of South Africa and as a banker to other banking institutions. It provides accommodation to banks and is the custodian of the statutory cash reserves that all registered banks are required to maintain. It also provides facilities for clearing and settling interbank obligations.

The main instrument for managing liquidity in the money market is the repurchase transactions (repo) rate, which is the price at which the central bank lends cash to the banking system. The repo rate has become the most important indicator for short-term interest rates.

The repurchase agreements entered into between the SARB and other banks are conducted on the basis of an outright buy-and-sell transaction, with a full transfer of ownership of the underlying assets. The system also provides for a marginal lending facility, which replaces the previous discount window. This facility is available to banks at their initiative, to bridge overnight liquidity needs. The marginal lending facility forms an integrated part of the South African Multiple Option Settlement (Samos) System. This enables banks to electronically make payments to, and receive payments from, the SARB through their settlement accounts held in the books of the Reserve Bank. Daily settlements of interbank exposures are effected through the Samos System.

Payments through the system can only be made if a bank has sufficient funds in its settlement account. Such funds can be obtained through interbank transfers, repurchase transactions, other types of liquidity-creating instruments of the SARB, or the marginal lending facility. The Samos System, however, allows banks to receive funds obtained in the interbank market directly in their settlement accounts in the SARB's books.

The SARB uses various instruments to achieve its objectives. These include changes in the repo-rate marginal-lending facility; open-market transactions, including selling its own debentures; changes in requirements regarding banking institutions' cash reserves; and controlling liquidity in the money market through repurchase transactions. The bank undertakes national and international transactions on behalf of the State, and acts for government in transactions with the International Monetary Fund.

The SARB is the custodian of the greater part of South Africa's gold and other foreign-exchange reserves. The SARB issues banknotes (printed by the South African Bank Note Company, a wholly owned subsidiary of the Reserve Bank) and controls the South African Mint Company.

Monetary policy

Growth in the broad money supply (M3) maintained strong growth during 2007, registering an annual high 12-month growth rate of 25,8% in August 2007, before decelerating moderately to 21,0% in March 2008. Growth over 12 months in banks' total loans and advances similarly remained relatively strong during 2007, peaking at 27,7% in June 2007, before slowing down to 21,8% in February 2008. However, growth again accelerated to 23,6% in March 2008. Asset-backed credit (mortgage advances, leasing finance and instalment sale credit) constituted the bulk of the increase in banks' total loans and advances throughout 2007 and early 2008.

The moderation in the growth in banks' total loans and advances that was evident from the second half of 2007 was consistent with the gradual tightening of monetary policy since June 2006, accompanied by tighter lending standards set by the National Credit Act (NCA), 2005 (Act 35 of 2005), from June 2007.

Following interest-rate increases in 2008, the MPC reduced the repurchase rate by 50 basis points to 11,5% per annum with effect from 12 December 2008.

The banking industry

The South African banking system remained stable and banks were sound during 2007. Banks maintained capital-adequacy ratios above the minimum requirement of 10%. The capital-adequacy ratio for the banking sector amounted to 12,78% at the end of December 2007 (December 2006: 12,29%).

By the end of December 2007, there were 33 banking institutions reporting data to the Office of the Registrar of Banks (excluding two mutual banks; however, including one institution doing banking business in terms of an exemption notice under the provisions of the Banks Act, 1990, [Act 94 of 1990], namely Ithala Limited). Forty-six foreign banks had authorised representative offices at the end of December 2007. The number of people employed in the banking sector totalled 139 149 at the end of December 2007.

Banking-sector assets increased from R2 075,3 billion at the end of December 2006 to R2 547 billion at the end of December 2007, representing an annual growth rate of 22,7% (December 2006: 23,7%). Assets of the four big banks amounted to R2 167,8 billion and represented 85,1% of banking-sector assets at the end of December 2007, compared with 84,1% at the end of December 2006. Loans and advances, and investment and trading positions were the main contributors to the increase in banking-sector assets during 2007.

Profitability ratios remained strong throughout 2007. The return on regulatory capital amounted to 18,1% at the end of December 2007, compared with 18,3% at the end of December 2006, while the return on assets amounted to 1,4% at the end of December 2006 and December 2007. The efficiency ratio (also referred to as the cost-to-income ratio) improved from 58,8% at the end of December 2006 to 56,9% at the end of December 2007.

South African banks implemented the Basel Capital Accord (Basel II) on 1 January 2008.

The microlending industry

The Department of Trade and Industry introduced the NCA, 2005 to allow the credit market to function in a robust and effective manner. The NCA, 2005 replaced the Usury Act, 1968 (Act 73 of 1968), and the Credit Agreements Act, 1980 (Act 75 of 1980). The NCA, 2005, which became effective on 1 June 2007, aims to regulate the granting of consumer credit by all credit-providers, including microlenders, banks and retailers.

It created the National Credit Regulator (NCR) and the National Consumer Tribunal, which play a vital role in ensuring enforcement, promoting access to redress and adjudicating contraventions of the Act.

The NCR is responsible for regulating the South African credit industry. It carries out education, research and policy development; registers industry participants; investigates complaints; and ensures that the Act is enforced.

In terms of the Act, the NCR has to promote the development of an accessible credit market to meet the needs of people who were previously disadvantaged, earn a low income or live in remote, isolated or low-density communities.

The National Consumer Tribunal adjudicates various applications and hears cases against those who contravene the Act.

The Act provides for the registration of debt counsellors to assist overindebted consumers. Debt counsellors are required to undergo training approved by the NCR through approved training service-providers appointed by the NCR.

Financial Services Board

The FSB is an independent statutory body financed by levies imposed on regulated institutions and persons.

The FSB supervises institutions and services in terms of several parliamentary Acts that entrust regulatory functions to the registrars of long-term insurance, short-term insurance, friendly societies, pension funds, collective investment schemes (CIS), financial services providers (FSPs), exchanges and financial markets.

The FSB also promotes programmes and initiatives by financial institutions and bodies representing the financial-services industry to inform and educate users of financial products and services.

Included in such functions is regulatory control over central securities depositories and depository institutions responsible for the safe custody of securities.

The FSB is also responsible for the financial supervision of the Road Accident Fund.

The executive officer has the power to impose regulatory sanctions, including the cancellation of authorisation to supply financial services.

The executive officer has formal powers of investigation to which criminal sanctions attach in the event of obstruction.

The executive officer can, in certain circumstances, also petition for the winding up, or placing under judicial management or curatorship, of certain financial institutions such as insurers and pension funds.

Furthermore, the Inspection of Financial Institutions Act, 1998 (Act 80 of 1998), allows the FSB to obtain warrants for searching and questioning third parties who might have information about unregistered financial institutions, such as those providing insurance or investment services.

The FSB is assisted by an advisory board on financial markets, and by advisory committees on FSPs, long- and short-term insurance, pension funds and CIS. The Financial Services Consumer Advisory Panel advises the FSB and Registrar of Banks on consumer-protection issues falling within the regulators' jurisdiction.

The FSB maintains a close relationship with all existing industry associations. It liaises with overseas regulatory organisations, and is a member of the International Organisation of Security Commissions, the International Association of Insurance Supervisors, the African Association of Insurance Supervisors and the International Network of Pension Regulators and Supervisors.

Domestically, the FSB liaises with bodies such as the Independent Regulatory Board for Auditors, Consumer Affairs Committee and various government departments, as well as with prosecuting authorities such as the South African Police Service and the National Director of Public Prosecutions.

Insurance companies

Short-term (non-life) insurance is concerned primarily with risk management against the risk of a contingency loss in the short term. The contracts usually run from year to year and can be cancelled by either party.

These contracts apply to engineering, guarantee, liability, motor, business, accident and health, property, transportation and miscellaneous insurance. By 31 March 2008, 106 short-term insurers were registered with the FSB, of which 95 represented primary insurers and the remainder reinsurers.

Long-term insurance business consists of life, assistance, sinking fund, health and disability insurance. By March 2008, the number of long-term insurers registered with the FSB totalled 82, of which 76 were insurers and the remainder reinsurers.

According to class of policies, life-insurance business forms the bulk of premiums of primary insurers and accounts for almost 50% of net premiums.

Other financial institutions

Development Bank of Southern Africa (DBSA)

The DBSA Act, 1997 (Act 13 of 1997), stipulates that the main role of this development-finance institution (DFI) is to promote economic development and growth, HRD and institutional capacity-building. The bank achieves this by mobilising financial and other resources from the private and public sectors, both nationally and internationally, for sustainable development projects and programmes.

The bank operates within South Africa, in the other SADC countries, and increasingly as a development agent and knowledge partner in the wider region of Africa south of the Sahara. The mandate of the bank is mainly infrastructure development in the wider sense of the term.

Historically, the bank has covered economic, social and institutional development. This has been done both via loans of its own funds, and by acting as a catalyst for investments in partnership with the private sector and other DFIs, locally and internationally.

Funding and development impact

The bank is a self-funded institution and raises funding from domestic and international capital markets, bilateral and multilateral institutions and internally generated resources.

Credit lines have been established with reputable and highly rated international institutions, such as the African Development Bank, the European Investment Bank, bilateral sources such as the *German Kreditanstalt für Wiederaufbau* (KFW), the Japanese Overseas Economic Co-operation Fund and the *Agence Française de Développement*.

The bank's total assets grew to R33,2 billion during 2008 from R27,9 billion in 2006/07. This asset growth of 19% is mainly attributable to the growth in income-earning assets, with a key feature of this increase coming from equity investments, which doubled to R2 billion.

This accelerated asset growth allows the bank to build and optimally leverage on a strengthened balance sheet.

In 2007/08, the DBSA and its co-funders approved projects to the value of R34,4 billion, with the bank contributing 31,5%.

Disbursements totalled R6,2 billion, with the bulk being allocated to projects relating to the contruction of integrated services, energy and social infrustructure. Disbursements made in 2007 will contribute to the creation and maintenance of about 30 000 jobs in South Africa and the impact on the GDP will be about R3,8 billion over the next 20 years. DBSA project funding also has a significant indirect impact on taxes and the potential tax impact of approved projects by the bank and its co-funders for 2007 was estimated at R7,1 billion. During 2007, the DBSA spent R20 million on subsidised lending rates, R48 million on research, R3 million on external training related to the VulindlelaAcademy,R63milliononcapacity-building grants and development facilitation costs and R121 million on the Siyenza Manje programme.

Strategy

The DBSA's strategy addresses five main themes:

- co-delivering social and economic infrastructure, with a focus on the public sector
- building human and institutional capacity, with a focus on municipalities
- promoting broad-based economic growth, job creation, co-operation, integration and prosperity, with a focus on identified sectors, geographical areas and projects
- serving as a centre of excellence for development financing and effectiveness
- engendering sustainability, both internally and externally.

Vision 2014

Vision 2014, which is guided by the bank's mandate, focuses on the following key goals within the Government's development agenda:

- reducing poverty by half through economic development, comprehensive social security, land reform and improved household and community assets
- reducing unemployment by half through new jobs, skills development, assistance to small businesses, opportunities for self-employment and sustainable community livelihoods
- massively reducing the incidence of tuberculosis, malaria, diabetes, malnutrition and maternal deaths; turning the tide against HIV and AIDS; and improving services to achieve a better national health profile and reduce preventable causes of death
- positioning South Africa strategically as an effective force in global relations, with vibrant and balanced trade with countries of both the South and the North
- providing the skills required by the economy, building capacity and providing resources across society to encourage self-employment.

Strategic initiatives

Key initiatives include leading Siyenza Manje, the municipal task force of engineers and project managers being implemented jointly with National Treasury, the Department of Provincial and Local Government, the South African Local Government Association and other government departments.

The Sustainable Communities Programme is also underway to turn dormitory townships and informal settlements into viable towns, with community centres, clinics, shops, sports facilities, etc. The Local Investment Agency has been established in the Eastern Cape to fast-track private-sector economic development in areas with natural potential. The bank is also heavily involved in supporting the host cities in their development of infrastructure for the 2010 World Cup.

The bank has positioned itself to provide strategic and financial support to the South African Football Association in its planning and co-ordination of infrastructure development around South Africa's hosting of the 2010 World Cup.

Vulindlela Academy

The bank has launched the Vulindlela Academy, a specialised institutional training facility dedicated to creating and upgrading the skills required for increased economic growth.

The DBSA Vulindlela Academy is supported by a local government resource centre and a wide area local government computer network, to connect municipalities to a wide range of resources and facilities.

Land and Agricultural Development Bank (Land Bank)

The Land Bank operates as a DFI within the agricultural and agribusiness sectors, and is regulated by the Land and Agricultural Development Bank Act, 2002 (Act 15 of 2002). The Land Bank provides a range of financing products to a broad spectrum of clients within the agricultural industry.

Financing products include wholesale and retail financing to commercial and developing farmers, co-operatives and other agriculture-related businesses.

The Land Bank's objectives are defined within its mandate, which requires that it should achieve:

- growth in the commercial market
- growth in the development market
- business efficiency
  - service delivery
  - resource management
- sustainability.

(See Chapter 3: *Agriculture and land affairs*.)

The Land Bank is the sole shareholder in the Suid-Afrikaanse Verbandversekeringsmaatskappy Beperk, which provides insurance to people indebted to the bank through mortgage loans.

Collective investment schemes

CIS in securities, property and participation bonds are supervised in terms of the CIS Control Act, 2002 (Act 45 of 2002).

South African collective investment schemes in securities

There was a net increase of 134 portfolios during 2007/08, which was slightly higher than that experienced during the previous year (121). On 31 March 2008, there were 41 managers with 899 approved portfolios, reflecting the depth of portfolios on offer to local investors.

The industry attracted positive inflows in spite of volatile markets. Considering the outflows experienced in other global industries, the net inflows of R63 billion recorded for the year ended March 2008 indicate a commendable performance by the industry. Total assets under management at the end of the year stood at R659 billion, compared to R596 billion as at March 2007. In general, the industry produced excellent returns.

Foreign collective-investment schemes (FCIS) in securities

The total net investment for the offshore collective investment products saw net outflows of R1,2 billion at 31 March 2008. Retail funds continued to attract investors with net inflows of R459 million in the March quarter, on top of the R803 million in the previous quarter, while the institutional funds had a net outflow of just over R1 billion during the March quarter. The total assets under management reached R117,9 billion at the end of March 2008. This represents a 12,2% increase compared to the 49% increase recorded during the previous year.

There has not been any significant change in movement in respect of foreign operators in the South African markets as evidenced by the net decrease of five schemes and an addition of one portfolio during the year. By 31 March 2008, 67 licensed schemes marketed 383 portfolios in South Africa.

Collective investment schemes in property

The higher-than-expected inflation had a mixed impact in the listed property sector. The increase in interest rates and the expectation of further increases resulted in a significant drop in prices of participatory interests. Although there was a general decline in the markets during the year, the total market capitalisation of the industry increased by 16,5%. This increase may be partly attributed to an increase in the number of participatory interests.

By 31 March 2008, there were 4 180 billion participatory interests in issue with a market capitalisation of R22,6 billion, compared to 2 614 billion participatory interests with a market capitalisation of R19,4 billion at the end of March 2007.

Collective investment schemes in participation bonds

A steady decline of investment continued in this industry. By 31 March 2008, the total investment stood at R3 billion owing to 26 820 participants in five of the seven schemes in operation during the year. Two schemes were winding up their operations and consequently had no investments.

Stokvels

Stokvels are co-operative rotating saving schemes that mobilise funds among mostly black communities for a variety of purposes. Rotating saving schemes similar to stokvels are also found in countries such as South Korea, Jamaica, Egypt and Japan.

Estimates are that the total investment in stokvels and burial societies in South Africa has reached the R20-billion mark. According to a University of Cape Town Unilever Institute of Strategic Marketing research study, this sector touches every industry, either directly or indirectly.

The study shows that the average membership size of burial societies is 88, and that 29% of South African adults are members. This suggests a total of 89 000 burial societies. Figures gathered by the institute show that 2,5 million South African adults (9%) belong to eight million stokvels and that 14% of bank-account holders are stokvel members.

Stokvels and burial societies, according to the study, are based on group affinity and network marketing – selling to a group rather than to an individual.

Financial intermediaries and advisers

The purpose of the Financial Advisory and Intermediary Services (FAIS) Act, 2002 (Act 37 of 2002), is to regulate, in pursuance of consumer protection, the provision of advice and intermediary services to certain clients in respect of a range of financial products and services.

The FAIS at the FSB is responsible for the oversight and supervision of the industry, captured under the FAIS Act, 2002.

Recognised representative bodies

Section 6(3)(iii) of the Act provides for the Registrar of FSPs to delegate any of their powers in terms of the Act to anybody recognised by the Act. Two such functions, the consideration of applications for licences under Section 8 and the consideration of applications for approval of compliance officers under Section 17(2) of the Act, were delegated to 11 recognised representative bodies.

Advisory Committee on Financial Services Providers

The Advisory Committee on FSPs was appointed by the Minister of Finance to investigate and report or advise on any matter relating to FSPs. With the exception of the registrar, who is an ex-officio member, committee members hold office for a period determined by the minister.

Licensing of financial services providers

In terms of the FAIS Act, 2002, the FSB approves and renders the ongoing supervision of three categories.

Category One consists of financial advisers and those intermediaries without discretionary mandates. Category Two consists of individuals or entities that are involved in discretionary management of securities, loan stock and derivatives on behalf of both individual and institutional clients.

Category Three represents investment managers specialising mainly in the bulking of collective investments on behalf of clients (linked investment services providers).

Intensified supervision

The FSB's FAIS has developed a customised risk-based supervision framework, which is vitally important for the successful supervision of FSPs. The diversity of the financial-services industry requires the department to concentrate its efforts on FSPs that call for greater supervisory oversight. It will also ensure a smooth transition from the previous compliance-based supervisory approach. For this purpose, a change-management process will be implemented to support the framework.

Inspections

Eleven formal inspections were requested during 2007/08, mainly in respect of alleged contraventions of the provisions of the FAIS Act, 2002.

Retirement funds and friendly societies

By 31 March 2008, a total of 12 690 registered retirement funds were being supervised by the FSB. The latest available statistics for the year ended 31 December 2006 were in respect of the official (state) funds, Transnet and Telkom funds, bargaining council funds not registered with the FSB and 45% of the registered funds that submitted financial statements.

Membership of retirement funds by 31 December 2006 totalled 9 342 118, of which 7 370 436 were active members and 1 089 000 pensioners, deferred pensioners and dependants. The figures do not reflect the total number of individual members of funds, since some are members of more than one fund.

Contributions received decreased by 4,2% from R75 131 million in 2005 to R72 009 million in 2006. Contributions to official (state), Transnet, Telkom and Post Office funds decreased by 14,4%, while contributions to privately administered, underwritten and bargaining council funds in the private sector decreased by 6,6%.

Benefits paid, which includes amounts paid in respect of pensions, lump sums on retirement, death and resignations, decreased by 2,2%, from R85 937 million in 2005 to R84 024 million in 2006.

Total assets of the retirement fund industry in South Africa increased by 13,3%, from R1 284 billion in 2005 to R1 454 billion in 2006.

Financial markets

Primary capital-market activity

Government bonds

The bond point spread for South Africa (rate at which South Africa has to pay its creditors compared to the United States of America [USA]) has been steadily falling since 2001. This shows that the risk of investing in South Africa has fallen compared to other emerging markets. This is largely due to macroeconomic stability, industrial policies that add to domestic value and increase the country's competitiveness and positive global assessment of the country's socio-political prospects. The rising premium since 2007 is largely a result of the global reaction to the financial crisis in the USA.

Retail bonds can be purchased from government outlets and selected private retailers for amounts ranging between R1 000 and R1 million. Since the introduction of RSA fixed-rate retail savings bonds in May 2004, more than 18 400 investors had invested in these bonds, to a cumulative amount of some R2,5 billion up to April 2008. Interest rates on the South African Government fixed-rate and inflation-linked retail bonds are priced off the

Government bond yield curves. The daily average yield on the R157 Government bond (maturing in 2015) increased significantly from 8,9% on 29 October 2007 to 10,13% on 6 June 2008.

This increase was in response to, among other things, the recent depreciation in the exchange value of the Rand coupled with the increase in the international price of oil and the higher rates of inflation. By contrast, the daily closing yield on the US 10-year bond continued on a downward trend from 5,28% on 13 June 2007 to 3,34% on 20 March 2008, before increasing to 3,92% on 6 June 2008. Consequently, the spread between the South African R157 bond yield and the US 10-year bond yield widened from 293 basis points on 13 June 2007 to 621 basis points on 6 June 2008.

From the end of October 2007, the level of the yield curve shifted upwards across all maturities as bond yields continued to rise in response to the depreciation in the exchange value of the Rand, higher inflation expectations and, for shorter maturities, increases in the repurchase rate. The yield gap, measured as the difference between yields at the extreme long and short ends of the curve, narrowed from a negative 341 basis points on 15 January 2008 to a negative 211 basis points on 6 June 2008. The break-even inflation rate in the five-year maturity range fluctuated higher from a low of 4,96% on 29 October 2007 to 7,79% on 6 June 2008. This was due to a general increase in nominal yields on conventional government bonds and declining real yields on inflation-linked government bonds, as inflation expectations continued to deteriorate.

The currency risk premium on South African government bonds narrowed from 296 basis points in December 2007 to 280 basis points in January 2008, before widening to 380 basis points in May 2008 as a result of a pronounced increase in yields on the South African domestic Rand-denominated bonds compared with yields on dollar-denominated South African bonds. Over the past year, the turmoil in international financial markets was accompanied by the repricing of risk. From a low of 153 basis points in May 2007, the JP Morgan Emerging Markets Bond Index Plus (EMBI+) 5 spread widened to 308 basis points in March 2008, before narrowing to 243 basis points in May 2008. Similarly, the sovereign risk premium on South African US dollar-denominated bonds in the six-year maturity range trading in international markets widened from an average of 67 basis points in May 2007 to 286 basis points in March 2008, before narrowing to 196 basis points in May 2008.

In 2008, government relaunched the retail savings bond and introduced an inflation-linked instrument.

Private-sector bond issuance

The issuance of fixed-income debt has become a convenient and cost-effective means of funding in South Africa, as it has in other emerging markets. Data showed that by 2007 a fifth of corporate funding was obtained through the bond market, as corporates made less use of the more traditional funding means. Funding by means of debt issuance remained attractive in 2007. The nominal value of private-sector bonds listed on the Bond Exchange of South Africa (Besa) increased by R57 billion as the exchange attracted 246 new corporate listings. Besa was one of the few exchanges to record such strong growth in corporate listings in 2007. Listings by banks as a percentage of total had tripled relative to 2000, while securitisations had grown 10 fold.

A key corporate listing was that of Lion of Africa Insurance Company Ltd, a black-owned insurance company. International Ferro Metals SA (Pty) Ltd, whose parent company is listed on the London Stock Exchange's AIM, also listed a bond on Besa. Besa also brought to market three new foreign listings in 2007. Among these, was a listing by the Namibia Power Corporation, which was a dual listing with the Namibian Stock Exchange, and a supranational listing by the African Development Bank. The first Exchange Traded Fund was listed on Besa in 2007. The Govex represents a portfolio of South African government bonds held in the same proportion as the Besa Government Bond Index.

Eurorand bonds

Abundant liquidity in the global financial markets led to increased activity in the Eurorand bond market. The Eurorand bond market expanded in 2005 and 2006 with gross issuance of R9,1 billion in 2006, which is 9% less than the R10,1 billion issued in 2005, excluding a R1-billion issue not regarded as a pure eurorand transaction. In 2006, R4,1 billion worth of eurorand bonds matured, resulting in a net issuance of R5 billion.

In the first three months of 2007, gross issuance amounted to R3,7 billion, while R1 billion matured, bringing net issues to R2,7 billion.

During 2006, Germany's KFW and the European Investment Bank dominated issuance in the Euro-rand bond market, comprising 3,2% and 26% of total issuance respectively.

Other issuers include Rentenbank (9%), the Province of Ontario (7%), Rabobank Nederland (5%) and Eurofirma (5%). The rest were issued by new issuers such as *Caisse d'Amortissement de la Dette Sociale*, Toyota Motor Credit Corporation, Inter-American Development Bank and General Electric Capital Corporation.

The type of credit issued remained predominantly AAA-rated, and the maturity structure is concentrated in bonds maturing in nine years or less.

Uridashi bonds

Issuance of rand-denominated bonds by foreign borrowers in the Japanese Uridashi bond market remained fluid in 2008. The total nominal value of R16,2 billion issued in the first seven months of 2008 was more than the R13,1 billion recorded in the entire 2007.

Gross issuance of rand-denominated bonds in the European bond markets amounted to R15 billion in the seven months to July 2008 and net issuance amounted to R8,9 billion, some 14% less than in the corresponding period of 2007.

Secondary capital-market activity

Domestic bonds

The cost of capital rose across the board during the second half of 2007, on the back of tighter domestic monetary policy and increased global risk aversion. By the end of 2007, the yield on the benchmark R153 Government bond had increased by 129 basis points, aided by a widening in overall emerging market spreads. These conditions encouraged trading activity and resulted in turnover on the bond exchange, reaching a record R13,8 trillion in 2007. Repo trades during the year amounted to R8,7 trillion while the total number of trades increased by 5% year-on-year to 327 319 and the market recorded an increased turnover velocity of 17,7 times.

Non-resident investors' participation in the South African secondary bond market continued to grow in 2007. Non-residents' nominal turnover increased to R5,5 trillion in 2007 from R4,3 trillion in 2006.

The steady growth in market turnover recorded by Besa since the 1990s attests to the continued development of the domestic bond market, with the development of the repo market helping to improve market liquidity. Indeed, according to the Bank for International Settlements, South Africa's government bond market was the sixth most liquid in 2005, measured in terms of turnover ratio and bid-ask spreads. In addition, both in 2007 and over the first half of 2008, Besa emerged as the fourth largest exchange by total value of bonds traded.

Money-market activity

The South African money market is an over-the-counter market in which a fairly large number of banks and other institutions actively participate. The Reserve Bank implements its monetary policy in terms of a system based on creating a shortage in the money market. The bank refinances this shortage through weekly repurchase transactions with seven-day maturities at its policy rate, the repo rate. The bank therefore influences other market interest rates. The daily liquidity requirement in the money market averaged R12,6 billion in 2007.

The SARB uses mainly four types of open-market operations to drain surplus liquidity from the money market, namely, issuing Reserve Bank debentures, conducting longer-term reverse repo transactions, foreign-exchange swaps and outright sales or switches of government bonds. The amount of liquidity-draining instruments employed by the bank is generally managed in such a way that factors impacting on money-market liquidity – such as the redemption of government bonds and/or coupon interest payments – are broadly offset.

During May 2007, the bank expanded the pool of liquid assets accepted as collateral in the refinancing system to include bonds from the All Bond Index (Albi), excluding those issued by commercial banks.

The bonds are detailed in the table below:

Assets previously and still included as eligible collateral	Assets that have been added as from 23 May 2007
• Government bonds • Land Bank bills • Separate trading of registered interest and principal of securities • SARB debentures • Treasury bills	• Development Bank of Southern Africa (DV07) • Eskom Holdings Limited (ES09, ES170, ES 33) • South African National Roads Agency (SZ25) • Transnet Limited (T011) • Trans-Caledon Tunnel Authority (WS03, WS04)

Domestic currency market

The South African Rand appreciated by almost 3% against the US Dollar during 2007. Although part of this appreciation was due to general US dollar weakness over this period, which caused most emerging-market currencies to appreciate, the Rand was also supported by domestic economic conditions such as the decline in the inflation rate, positive economic growth, improved sentiment and an increase in official foreign-exchange reserves.

South Africa's official gross reserves increased from US$33 billion at the end of December 2007 to US$34,4 billion at the end of March 2008. Demand for the Rand was also fuelled by foreign portfolio investment, particularly during the last quarter of 2004. According to Bloomberg's annual ranking report, the Rand was the second-best performing currency against the UD Dollar during 2004.

The analysis comprised 60 currencies from developed as well as emerging-market countries. The only currency to marginally outperform the Rand was the Polish Zloty. The Rand also appreciated against other major currencies. Against both the Euro and the Pound, the Rand appreciated by almost 10% and compared with the Yen, the Rand appreciated by 13%.

The average daily turnover in the domestic currency market increased from US$14,2 billion during 2006 to US$16,5 billion during 2007. These increases occurred mainly in the foreign-exchange swap market.

During the first quarter of 2008, the Rand depreciated by 16,4% against the US Dollar, mainly as a result of the continuing turmoil in international financial markets and concerns about the supply of electricity. The depreciation was to some extent moderated by exceptionally high prices of precious metals as well as a sound Budget, which was tabled in February.

Exchange control

Exchange control is administered by the Reserve Bank on behalf of the Minister of Finance. The bank is assisted in this task by a number of banking institutions that have been appointed by the Minister of Finance as authorised dealers in foreign exchange.

These institutions undertake foreign-exchange transactions for their own account with their clients, within limits, and subject to conditions laid down by the Reserve Bank.

The Government is committed to an open capital market and the gradual relaxation of exchange controls.

The following dispensations regarding exchange control are allowed:

Institutional investors

Exchange-control limits on foreign investment by institutional investors – insurers, pension funds, CIS and investment managers – have been gradually liberalised since 1996. Foreign diversification of investment portfolios, consistent with prudential limits, has largely been achieved. This allowed the authorities to replace exchange controls on institutional investors with a system of prudential regulation. This shift entails the removal of the pre-application process for foreign investment and its replacement with a system of quarterly reporting and monitoring of foreign exposures.

Retirement funds, long-term insurers, CIS management companies and investment managers are allowed to transfer funds from South Africa for investment abroad:

- Retirement funds and the underwritten policy business of long-term insurers may invest up to 20% of total retail assets. Investment managers registered as institutional investors for exchange-control purposes, CIS management companies and investment-linked businesses of long-term insurers are restricted to 30% of total retail assets under management.
- Institutional investors will be allowed to invest an additional 5% of their total retail assets by acquiring foreign-currency denominated portfolio assets in Africa through foreign-currency transfers from South Africa or by acquiring approved inward-listed instruments based on foreign reference assets or issued by foreign entities listed on the Besa or JSE Ltd, respectively.
- Foreign companies, governments and institutions may list instruments, including derivative instruments, based on foreign reference assets, on South Africa's bond and securities exchanges.
- Institutional investors are required to report on a quarterly basis on the allocation of assets according to the major asset classes and provide information from institutions in excess of the foreign-asset limit on proposed portfolio adjustments to bring foreign asset levels back in line.

South African corporates

With effect from 20 February 2008, the pre-approval process for FDI was removed for transactions totalling less than R50 million per company per year. Authorised dealers will administer the directives and guidelines on these types of investments. The exchange-control requirement that a shareholding of at least 25% is obtained was replaced with the requirement that at least 10% of the foreign target entity's voting rights must be acquired.

Where the total cost of FDI exceeds R50 million per company per calendar year, an application must be submitted to Exchange Control prior to the investment being made.

As a further alternative mechanism of financing offshore investments or to repay existing offshore debt, applications by corporates to engage in corporate asset or share-swap transactions and requests for share placements offshore by locally listed companies will be considered.

The corporates that have existing approved subsidiaries abroad are allowed to expand such activities without prior approval, subject to certain conditions. Dividends declared by the offshore subsidiaries of South African corporates may be retained offshore and used for any purpose, without recourse to South Africa.

Authorised dealers may also extend foreign currency-denominated facilities to South African corporates for financing approved FDI.

To further enable South African companies, trusts, partnerships and banks to manage their foreign exposure, they are, with effect from 20 February 2008, permitted to participate without restriction in the Rand futures market on the JSE Ltd. This dispensation is also extended to investment in inward listed (foreign) instruments on the JSE Ltd and Besa.

Emigrants' blocked assets

A system of exchange-control allowances for the export of blocked assets when persons emigrate, has been in place in South Africa for a number of decades.

Emigrants' blocked assets in excess of the emigration allowance were placed in emigrants' blocked accounts to preserve foreign reserves. Reflecting the improved strength and resilience of the South African economy, these blocked assets are now being unwound.

The imminent elimination of the net open forward position and an increasingly diversified and growing export sector create an environment that is conducive to dealing with the foreign reserve problems of the past. As such, the following applies:

- Emigrants qualify for a foreign capital allowance of R2 million per individual or R4 million in respect of family units emigrating.
- Emigrant-blocked assets are being unwound. Amounts of up to R2 million, inclusive of amounts already exited, are eligible for exit without the 10% exit levy. Holders of blocked assets wishing to exit more than R2 million, inclusive of amounts already exited, must apply to the Exchange-Control Department of the Reserve Bank to do so. Approval is subject to an exiting schedule and an exit levy of 10% of the amount requested.
- New emigrants wishing to exit more than R2 million, inclusive of amounts already exited, can similarly apply to the Exchange-Control Department to do so, with approval subject to an exiting schedule and an exit levy of 10% of such additional amount.

Private individuals resident in South Africa

Private individuals resident in South Africa qualify for a foreign-capital allowance of R2 million per private individual who is a taxpayer in good standing and over the age of 18 years, for investment purposes outside the common monetary area (i.e. Swaziland, Lesotho, Namibia and South Africa).

A single discretionary allowance of R500 000 per year for the purpose of travel, gifts, donations to missionaries and maintenance was also introduced for private individuals with effect from 20 February 2008.

Local financial assistance to affected persons and non-residents

To improve access to domestic credit in financing FDI in South Africa or for domestic working-capital requirements, foreign companies or foreign-owned South African companies are permitted to make greater use of local finance.

Foreign companies or foreign wholly owned subsidiaries can borrow locally up to 300% of the total shareholders' investment.

This ratio does not apply to emigrants, the acquisition of residential properties by non-residents or affected persons, and certain other financial transactions, such as portfolio investments by non-residents, securities lending, hedging, repurchase agreements, etc. In these cases, the 100% ratio still applies.

JSE Limited

As South Africa's only full-service securities exchange, the JSE connects buyers and sellers in five different markets; equities, which includes a primary and secondary board; equity derivatives; agricultural derivatives; and interest rate instruments. The JSE is one of the top 20 exchanges in the world in terms of market capitalisation.

JSE Limited is the market of choice for local and international investors looking to gain exposure to the leading capital markets in South Africa and the broader African continent. JSE Limited also provides companies with the opportunity to raise capital in a highly regulated environment through its markets: the Main Board and AltX, the Alternative Exchange. A respected brand associated with high market integrity, the JSE is regarded as a mature, efficient, secure market with world-class regulation, trading, clearing, settlement assurance and risk management.

The exchange has been part of that process, playing an instrumental role in creating the internationally prominent King II Code on Corporate Governance. The JSE's listing requirements require all companies to adhere to key concepts of King II and all companies are required to report on their level of compliance with the code in their annual financial statements. Furthermore, the JSE has harmonised its listing requirements, disclosure and continuing obligations with those of the London Stock Exchange and offers superb investor protection.

The JSE provides a diversified range of products and services. The JSE provides investors with the opportunity to trade a multitude of financial instruments and at the heart of its diversified product offerings are single stock futures (SSFs). This area has grown substantially to become one of the five largest in the world.

SSFs are ideal for conservative investors seeking to hedge their share portfolios, or for sophisticated speculators seeking geared exposure to anticipated share price movements. This market also offers investors derivatives on indices, Kruger rands, dividend futures as well as can-do options, which give investors the advantages of listed derivatives with the flexibility of over-the-counter contracts.

The JSE's Agricultural Products Market reflects the commitment to providing versatility in the product offering. It is a transparent electronic market used vigorously in the price-risk management of commodities through futures. This market continues to grow due to a greater understanding of its function and the development of a broader base of marketing strategies based on the derivative products. It is the first market in the world for trading both the cash spot bond (secondary trading) as well as the interest-rate derivative products, on one trading platform. Its pioneer product is currency futures launched to further develop South Africa's financial markets and increase liquidity in the currency market.

The JSE provides total price transparency through its world-class information systems. The trading activity on the markets generate a wide range of data that assist market participants with make-or-break investment decisions.

The JSE has both domestic and global reach in terms of the provision of all its information, through data-providers, investment banks, other financial industry stakeholders and directly through the exchange.

Interest rate market

Yield-X, the interest-rate exchange, is dedicated to trading a wide range of interest rate products that enable participants to manage interest rate exposure and risk. The product range includes bonds, bond futures, swaps and more.

Bond Exchange of South Africa

Besa is an independent, licensed exchange, constituted as a public company, and responsible for operating and regulating the debt securities and interest-rate derivatives markets in South Africa. Besa was granted its exchange licence in 1996 and over the past 10 years has been at the forefront of market developments in South Africa.

In December 2007, Besa entered a new era, successfully converting from a mutual association to a public company. As the direct regulator of the bond market, Besa operates within the framework of the Securities Services Act, 2004 and a set of rules and directives approved by the FSB.

The South African bond market is a leader among emerging-market economies. Turnover reported on Besa in 2007 reached a record R13,8 trillion while offshore trades in bonds settled through local infrastructure totalled R9,6 trillion for 2007; this represents a turnover velocity of 30 times market cap. By December 2007, Besa had listed some 967 debt securities, issued by

104 sovereign and corporate borrowers, with a total market capitalisation of R862 billion.

Strate Limited

Strate is the authorised Central Securities Depository for the electronic settlement of all financial instruments in South Africa.

Its core purpose is to mitigate risk, bring efficiencies to the market and improve South Africa's profile as an investment destination.

Currently Strate handles the settlement of equities, warrants and bonds for the JSE Limited and Besa. In the future, Strate will also settle money-market instruments. In addition, Strate is the provider of a growing number of products, data and services in line with market demands and trends.

Strate is aligned to international best practices and continually strives to bring further efficiencies and enhancements for the good of southern Africa's financial community.

Strate is a public unlisted company.

Financial-sector continuity planning

The South African financial sector collaborates extensively in contingency planning for systemic risks that may disrupt settlement, financial intermediation and possibly economic activity in general. The primary objective of this co-operative arrangement is to identify crisis events that may threaten the stability of the South African financial sector and to propose appropriate plans, mechanisms and structures to mitigate such threats.

This arrangement also facilitates co-operation between key financial-sector institutions and regulators in times of a significant catastrophic event, to have the best chance of protecting staff, facilitating recovery and sustaining both a stable financial market and consumer confidence.

Although individual firms are responsible for managing and mitigating risks for their respective operations, the broader collaborative effort is focused on risks that threaten the financial sector as a whole. Such risks range from the impact of global economic threats to potential causes of major operational disruption.

These risks are regularly analysed and appropriate response strategies devised.

Acknowledgements

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