TECHNICAL ASSISTANCE REPORT

SOUTH AFRICA

Report on Government Finance Statistics Mission (October 7–18, 2024)

MAY 2025

Prepared By

Philip Stokoe

AFRITAC South

MEMBERS

Angola, Botswana, Comoros, Eswatini, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Zambia, Zimbabwe

PARTNERS

European Union, China, SECO, Germany and FCDO

DISCLAIMER

The contents of this document constitute technical advice provided by the staff of the International Monetary Fund to the authorities of South Africa (the "CD recipient") in response to their request for technical assistance. This document (in whole or in part) or summaries thereof may be disclosed by the IMF to the IMF Executive Director for South Africa, to other IMF Executive Directors and members of their staff, as well as to other agencies or instrumentalities of the CD recipient, and upon their request, to World Bank staff, and other technical assistance providers and donors with legitimate interest including members of the Steering Committee of AFRITAC South, unless the CD recipient specifically objects to such disclosure (see Operational Guidance for the Dissemination of Capacity Development Information). Publication or Disclosure of this report (in whole or in part) to parties outside the IMF other than agencies or instrumentalities of the CD recipient, World Bank staff, other technical assistance providers and donors with legitimate interest including members of the Steering Committee of AFRITAC South shall require the explicit consent of the CD recipient and the IMF's Statistics department (STA).

MEMBERS

Angola | Botswana | Comoros | Eswatini | Lesotho

Madagascar | Mauritius | Mozambique | Namibia | Seychelles

South Africa | Zambia | Zimbabwe

PARTNERS

EUROPEAN UNION

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO

BMZ Federal Ministry for Economic Cooperation and Development

Foreign, Commonwealth & Development Office

Table of Contents

Acronyms and Abbreviations

AFRITAC South (AFS)	Regional Technical Assistance Center for Southern Africa
ASAP	As soon as possible
CD	Capacity development
CF	Compensation Fund
CODI	Corporation for Deposit Insurance
CPD	Corporation for Public Deposits
DBE	Department of Basic Education
DMRE	Department of Mineral Resources and Energy
EBI	Extrabudgetary Institutions
GEPF	Government Employees Pension Fund
GFECRA	Gold and Foreign Exchange Contingency Reserve Account
GFS	Government Finance Statistics
GFSM 2014	*Government Finance Statistics Manual 2014*
GG	General government
IEA	Integrated Economics Accounts
IMF	International Monetary Fund
ISCG	Institutional Sector Classification Guide
LB	Land and Agricultural Development Bank of South Africa
LG	Local Government
Mintek	Council of Mineral Technology
MFS	Monetary and Financial Statistics
NG	National Government
NECSA	Nuclear Energy Corporation of South Africa
NSFAS	National Student Financial Aid Scheme
NT	National Treasury
PCs	Public Corporations
PG	Provincial Government
PRASA	Passenger Rail Authority of South Africa
PSCC	Public Sector Classification Committee
PSDS	Public Sector Debt Statistics
QB	Quarterly Bulletin
RAF	Road Accident Fund
SAA	South African Airways

SACU	Southern African Customs Union
SARB	South African Reserve Bank
SASRIA	South African Special Risk Insurance Association
SOC	State-Owned Corporations
SOE	State-Owned Enterprises
STA	IMF’s Statistics Department
STATS SA	Statistics South Africa
SSFs	Social Security Funds
TA	Technical Assistance
TBD	To be determined
TCTA	Trans Caledon Tunnel Authority
TVET	Technical Vocational Education and Training
UIF	Unemployment Insurance Fund
WTE	Water Trading Entity

Summary of Mission Outcomes and Priority Recommendations

1. **In response to a request from the authorities and as part of the work program of the Regional Technical Assistance Center for Southern Africa (AFRITAC South – AFS), a government finance statistics (GFS) technical assistance (TA) mission was conducted in Pretoria, South Africa during October 7–18, 2024.** The mission followed the August 2023 mission that provided GFS and Public Sector Debt Statistics (PSDS) training and diagnostic TA to the Economic Statistics Department (ESD) of the South African Reserve Bank (SARB), as well as Statistics South Africa (STATS SA) and the National Treasury (NT). The mission was hosted by SARB, and included representatives from SARB, STATS SA and NT. The mission is grateful for the engagement of all three institutions and the support and hospitality provided by SARB.

2. **The mission had in depth discussions on a broad range of GFS topics.** Topics discussed during the mission included (i) the definition of general government and the public sector (ii) the reconciliation of fiscal data published by the three institutions, (iii) recording of ESKOM debt relief operations (iv) withdrawal and recording of funds from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), (v) transactions related to the Road Accident Fund (RAF), (vi) the recording of interest on index-linked and discounted bonds, (vii) recording of statistical discrepancies by SARB in the Quarterly Bulletin (QB); other one-off fiscal events, and other technical issues.

3. **With respect to the general government and public sector boundary, the mission recommended that the Public Sector Classification Committee (PSCC) implement a number of reclassifications.** This included the reclassification of the Passenger Rail Authority of South Africa (PRASA)[1], Council for Mineral Technology (Mintek), the Corporation for Deposit Insurance (CODI) and the Road Accident Fund (RAF) to the Extrabudgetary Institutions (EBI) sector; the reclassification of local government trading services to the nonfinancial corporations' sector; and reviewing the classification of public universities. These reclassifications should then be implemented consistently (to the extent possible) in the fiscal data compiled by NT, SARB and STATS SA.

4. **The mission also noted that public schools are not included in any of the fiscal data compiled and reported by the three institutions.** All three institutions accept that public schools are conceptually part of the general government sector. The impact of this omission is limited, as teachers' salaries are covered directly from the provincial government budgets, and other expenditures by schools are also mostly covered by additional transfers from the provincial governments. However, many public schools do generate some additional revenues through school fees and donations, and expenditures financed by these revenues are not currently captured in South Africa's fiscal data. STATS SA is encouraged to liaise with the Department for Basic Education (DBE) to see if administrative data is available on own revenues and expenditures of public schools that could be used to expand coverage to include this additional revenue and expenditure.

[1] The PSCC agreed on the reclassification of PRASA following the mission at the December 2024 PSCC meeting

5. Comparability between the different fiscal data published by NT, SARB and STATS SA is hampered by the differences in institutional classification and coverage, but even where there are no coverage differences there are sometimes differences in the economic classifications used by each institution. Revenue and expenditure data for the national government (NG) compiled by NT is different to the data compiled by STATS SA and SARB due to the different treatment of Southern African Customs Union (SACU) receipts. Stats SA and SARB record SACU receipts as payments to foreign governments, while NT nets it off from the gross tax revenue. The mission recommended that all three institutions record net SACU receipts, in line with the approach taken by NT, and the other SACU countries. There are also other acknowledged discrepancies in the expenditure data, where transfers to schools, or certain EBIs are recorded differently or wrongly classified in one or more of SARB, STATS SA or NT, and the mission identified a number of areas where this data could be aligned or improved.

6. With respect to the ESKOM debt relief operation, the mission reiterated that this operation should be recorded above the line, in line with previous advice and the guidance in *GFSM 2014.* Although there have been changes in the policy design, with "loans" now initially bearing interest, the main policy is still that the "loans" to ESKOM will be converted to equity once conditions are met, and the mission remains of the view that it is very unlikely that the government of South Africa has an *effective claim* on ESKOM, nor will earn a *sufficient rate of return* to justify recording this operation below the line. The mission also noted that, in the budget presentation, there appears to be no justification for recording the ESKOM bailout in financing, given the definitions used for above the line transactions in financial assets used in the budget presentation.

7. With respect to GFECRA, the mission recommended that the withdrawals from GFECRA be recorded as below-the line-transactions. GFECRA is correctly recorded as a liability by SARB in their financial statements, and a loan asset / liability between SARB and the government in the Integrated Economic Accounts (IEA), consequently withdrawals from GFECRA are financial transactions – exchanging one kind of financial asset (a loan) for cash and should be recorded below the line in GFS data, and as part of financing in the NT budget presentation.

8. As well as recommending reclassifying the RAF from the social security funds (SSFs) subsector to the EBI sector, the mission also recommended changing how the operations of RAF are recorded from a *cash* to a *modified cash* basis. In the current recording, RAF has a broadly balanced (cash) budget, but this masks the large accrual deficits that RAF was recording in its financial statements until a recent (and disputed) accounting change. Switching to a modified cash basis for RAF's claims expenditures would increase annual expenditure by ~R45 billion, also increasing the general government net lending / net borrowing.

9. The mission found that interest on index linked and discounted bonds is not currently recorded correctly. Contrary to *GFSM 2014* guidance, neither the discount nor the uplift in the value of the bonds due to inflation is currently being recorded as interest, but instead simply recorded as amortization below-the-line when the instruments mature. The mission strongly recommended that this be changed in all three institutions with interest either being recorded at maturity, or better, on an ongoing basis through the life of the instrument. The annual additional amounts of interest, while not known with certainty, are likely to be significant. In 2023/24 the discount on bonds issued was R66 billion, and the stock of index-linked bonds was over R1 trillion at the start of fiscal 2024/25, and so inflation of 4.5 percent would result in interest of around R45 billion accruing on the index linked bonds alone.

10. The mission discussed improvements to the reconciliation of GFS above- and below- the-line data by SARB and identified areas of improvement. This included a correction in the compilation of financing data for the NG, removing the need for large *ad hoc* adjustments that SARB was using to eliminate the statistical discrepancies. The mission also discussed reconciliation of other subsectors of the general government and nonfinancial public corporations and suggested marginal improvements to the compilation procedures and additional work on data sources to resolve some of the compilation issues.

11. The mission also discussed the recording free basic services. Further work is needed to fully understand the flows that finance the provision of free electricity, water and refuse collection services to indigent households, and how to ensure these are recorded correctly in South Africa's GFS, and so this will be discussed further in a future TA mission.

12. Finally, the mission also discussed improvements to the presentation of data in the QB. This included presentational and compilation changes to the SSF balance sheet data and expanding the coverage of the data for public financial corporations.

13. To support progress in the above work areas, the mission provided a number of short-, medium- and longer-term recommendations, however the following six priority recommendations, each of which would result in material revisions to fiscal data compiled by SARB, STATS SA and / or NT, carry particular weight to make headway in improving GFS:

TABLE 1. Priority Recommendations

Target Date	Priority Recommendation	Responsible Institutions
December 2025	*Revise recording of SACU Receipts – to be in line with NT approach and GFSM 2014 guidance*	SARB / STATS SA[2]
TBD	*Implement reclassifications in the ISCG – RAF, Municipal Trading Services, Mintek*	PSCC
December 2026	*Record ESKOM Transfer above the line, and reclassify "interest" as other type of revenue / provide detailed information on ESKOM flows to SARB / STATS SA and IMF*	SARB / NT
TBD	*Review recording of RAF in GFS data, and adopt modified cash / accrual method for RAF expenditures*	SARB / STATS SA / NT
TBD	*Implement modified cash basis of recording interest in GFS data*	SARB / NT

14. Further details on the priority recommendations and the related actions/milestones can be found in the action plan under Detailed Technical Assessment and Recommendations.

[2] Stats SA plan to implement the recording of net SACU receipts in the 2023/24 publication, which will be published in June 2025

Section I. Detailed Technical Assessment and Recommendations

TABLE 2. Recommendations

Priority	Action/Milestone	Responsible Institutions	Target Completion Date
Coverage and Definitions of the Public Sector			
High	**Priority Recommendation:** Implement reclassifications in the ISCG – RAF, Municipal Trading Services, Mintek	PSCC	After September 2025
High	Implement reclassifications in QB and GFS data	SARB	December 2025*
Medium	Expand coverage of the consolidated government accounts to include TVET colleges, universities* in line with STATS SA and SARB	NT	TBD
Medium	Review the classification of universities as government-controlled institutions	PSCC	April 2025
Low	Investigate availability of data on own revenues and expenditures of government-controlled schools	STATS SA	June 2025
Low	Monitor financial performance of South African Airways – and review classification if necessary	PSCC	Ongoing
* Subject to outcome of the classification review of universities			
Recording of Transactions			
High	**Priority Recommendation:** Revise recording of SACU Receipts – to be in line with NT approach and GFSM 2014 guidance	SARB / STATS SA	December 2025
High	**Priority Recommendation**: Record ESKOM Transfer above the line, and reclassify "interest" as other type of revenue / provide detailed information on ESKOM flows to SARB / STATS SA and IMF	SARB / NT	December 2026
High	**Priority Recommendation**: Record GFECRA transactions below the line in *Monthly Release* and *December QB* and GFS data	SARB / NT / STATS SA	ASAP
Medium	Align recording of transfers to private schools according to approach taken to Stats SA	SARB / NT	December 2025

Priority	Action/Milestone	Responsible Institutions	Target Completion Date
Medium	Record NSFAS transfers as social assistance benefits	SARB / STATS SA / NT	December 2025
Alignment with GFSM 2014			
High	**Priority Recommendation**: Review recording of RAF in GFS data, and adopt modified cash / accrual method for RAF expenditures	SARB / NT	TBD
High	**Priority Recommendation**: Implement modified cash basis of recording interest in GFS data	NT / SARB	April 2026
Reconciliation of Data			
Medium	Further test adjustments to National Government data (removing ad hoc revaluation adjustments) and investigate other ambiguous items in NT source data	SARB / NT	April 2026
Medium	Follow up with ESKOM and Transnet to understand precise nature of transactions recorded in quarterly survey forms	SARB	December 2024
Low	Replace provincial government currency and deposit calculations with actual data from MFS survey, and identify scope of resulting statistical discrepancies	SARB	March 2025
Low	Ask NT to provide EBI by EBI grant data and additional below the line data for Provincial Governments	SARB / NT	April 2026
Other Recommendations			
Low	*Revise recording of the SSFs balance sheet data in QB*	SARB	June 2025
Medium	*Expand coverage of public financial corporations' tables in QB to include SARB, CPD, Landbank and Postbank*	SARB	June 2025
Low	*Expand coverage of public financial corporations to include non-bank public financial corporations*	SARB	June 2026

A. INTRODUCTION

15. The main objective of the mission was to develop capacity and to improve consistency of fiscal data between NT, Stats SA and SARB, in terms of the coverage and definitions of the

general government and public sector, in the recording of transactions, and in accordance with the guidelines of the *Government Finance Statistics Manual 2014 (GFSM 2014*). This AFS mission was a follow-up to the Training and Technical Assistance mission conducted in August 2023, as well as the Fiscal Transparency Evaluation that also took place in Summer 2023.

16. The mission had in depth discussions on a broad range of GFS topics. Each of these topics is discussed in the following sections of the report.

- Section B discusses the coverage and definitions of the public sector;
- Section C discusses the recording of transactions;
- Section D summarizes discussions on recording the operations of the Road Accident Fund (RAF);
- Section E provides on overview on the discussions on the recording of interest on index linked bonds and bonds issued at a discount;
- Section F discusses reconciliation of above and below the line data and statistical discrepancies in SARB's GFS data;
- Section G provides a short overview of the discussions on the recoding of Free Basic Services; and;
- Section H summarizes the adjustments the mission recommended on the tables for the SSF balance sheets, and public financial corporations in the QB.

B. COVERAGE AND DEFINITIONS OF THE PUBLIC SECTOR

Introduction

17. As we noted during the 2023 mission, the starting point for compilation of high-quality fiscal data is the classification of institutional units as part of the public sector, and the delineation of the public sector between the general government and public corporations. This is a well understood and well-defined process in South Africa. The various GFS compilers in South Africa jointly agree on the classification of entities within the public sector through the Public Sector Classification Committee (PSCC), which meets regularly to decide on the classification (or reclassification) of units within the different parts of the public sector in South Africa. The list of units is published in the Institutional Sector Classification Guide (ISCG) which was last updated in July 2024.

18. *In theory*, the ISCG and the decisions of the PSCC should guide NT, SARB and STATS SA on what to include in their fiscal statistics, however *in practice*, the coverage of fiscal data produced by the three institutions is not completely consistent with the guide. In the case of SARB and STATS SA, both institutions are aiming to apply the guidance in the *GFSM 2014*, including non-market producers in the general government sector, and recording public units that are market producers as either public nonfinancial or public financial corporations.

19. However, NT is not following the definition of the government sector as defined in *GFSM 2014*. Instead, in the Budget Review W2 Annexure, NT explains that "*The consolidated government account presents the accounts of national and provincial government, and social security funds……. In the 2023 Budget Review, 162 national and provincial departments, and 186 central government entities, classified as extra-budgetary entities, are included. These entities also include some government business enterprises, which either sell most of their goods and services to government* *institutions or departments at regulated prices and are therefore not businesses in the true sense of the word, or are directly involved in infrastructure, financing and development*." NT goes on to note that state owned entities (SOEs) that provide goods at market prices are excluded from the consolidation, specifically citing ESKOM and Transnet as examples. NT also excludes South Africa's municipalities from its data.

20. **While NT's description of what it includes and why sounds similar to the concepts of market and nonmarket producers, NT acknowledge that they are applying a slightly different concept to the statistical definitions of the government sector in *GFSM 2014***. Consequently, NT includes a number of entities in their consolidated government accounts despite them being explicitly listed as non-financial corporations in the ISCG, while some other units that the ISCG lists as EBIs are not included. Entities included in the consolidated government accounts by the NT, which are excluded by STATS SA and SARB, include the PRASA; MINTEK, Trans Caledon Tunnel Authority (TCTA), the 7 Regional Water Boards[3] and the Nuclear Energy Corporation of South Africa (NECSA). The most significant entities excluded by NT, but included by STATS SA and SARB are public universities and the Technical Vocational Education and Training (TVET)Colleges.

21. **Although data compiled by SARB and STATS SA is more aligned with each other, and with the classifications in the ISCG, there is one large difference in how the two entities define the local government sector.** In South Africa, the retail supply of water and electricity as well as refuse collection services are handled by local governments. In some cases, municipalities have created separate legal entities to operate these services, most notably City Power Johannesburg[4] and Johannesburg Water[5], both created by the City of Johannesburg. However, the more usual arrangement is for these services to be provided by a department of the municipality through a ring-fenced *Trading Services* account. STATS SA treats these trading services accounts and the separate companies, where they exist (excluding the balance sheet and their capital expenditures), not as part of the local government sector but as public nonfinancial corporations and public nonfinancial quasi-corporations[6], however SARB includes Municipal Trading Services within their local government data[7].

22. **During and before the previous mission we also queried the current classification of some units, most notably PRASA, the Road Accident Fund (RAF) and the Corporation for Deposit Insurance (CODI).** Consequently, during this mission we convened an informal meeting of the PSCC members to discuss the classification of the entities listed above.

Road Accident Fund

23. **The RAF is currently classified in the ISCG as a general government sector, within the SSFs subsector, but this classification is wrong, and RAF should be reclassified as an EBI.** As previously discussed, RAF does not meet the definition of an SSF. By definition, SSFs should be primarily

---

[3] Amatola Water, Bloem Water, Lepelle Northern Water, Magalies Water, uMgeni-uMhlathuze Water, Overberg Water, and Rand Water.

[4] See https://www.citypower.co.za/

[5] See https://johannesburgwater.co.za

[6] See *GFSM 2014* §2.33-2.34

[7] The ISCG does not include any specific references to LG Trading Services, or the separate companies created by some Municipalities, but earlier editions of the ISCG did specifically list City Power Johannesburg and Johannesburg Water as local government controlled Non-Financial Corporations.

funded by the payment of *social security contributions*, and their principal activity should be the payment of social *security* benefits. This is not the case for RAF. RAFs principal source of funding is a levy on petrol, which is an excise tax, not a social security contribution, and the benefits it pays are social *assistance* benefits, not social *security* benefits. Consequently, the mission reiterated its strong recommendation to reclassify RAF as an EBI.

Passenger Rail Authority of South Africa

24. The previous mission also reviewed the classification of PRASA over the period from 2018–2022 and concluded that PRASA was wrongly classified as a public nonfinancial corporation and that it should also be classified as an EBI. PRASA is highly dependent on government subsidies to meet its costs and raises relatively little revenue from rail fares. The mission extended its analysis to include analysis for 2023 and all the way back to 2008 using PRASA's published financial statements (see Appendix **Error! Reference source not found.**). This analysis indicates the PRASA's more recent dependence on government subsidy is not a new development. Since 2008, PRASA market sales have <u>never</u> covered more than 35 percent of its operating costs, let alone got above the 50 percent threshold to be considered to be a market producer. PRASA has generated around R23 billion from rail fares since 2008, compared to receiving five times that amount, R130 billion, in operating subsidies and capital transfers from the government. Following the mission, PSCC agreed to reclassify PRASA at their December 2024 meeting.

Mintek

25. Mintek is a relatively small entity, with revenue in 2024 of just R765 million, and is currently classified as a public nonfinancial corporation in the ISCG, but this classification is also likely to be wrong, and it should also be probably reclassified as an EBI. Mintek describes itself as a research institution, constituted in terms of the Mineral Technology Act 1989 and controlled by the Department of Mineral Resources and Energy (DMRE), created to serve the national interest through research, development and technology transfer, to promote mineral technology and to foster the establishment and expansion of industries in the field of minerals and products derived therefrom.

26. A superficial review of their accounts, which shows government grants and subsidies averaging around 40 percent of their revenue in 2023 and 2024 could suggest they are a market unit, but a closer look at their accounts is merited. In the notes to their recent accounts, over the last 4 years, the government in the form of the DMRE or other EBIs have accounted for 71 percent of their revenues, with the vast majority of this coming from DMRE. The mission is therefore highly skeptical that any of this revenue, especially the payments from DMRE, is really *market* revenue, and even a quite conservative application of the market test sees Mintek fail. A breakdown of their revenues, expenditures and the market test for 2020–2024 is included in Appendix B.

Corporation for Deposit Insurance

27. The mission also briefly revisited the classification of the Corporation for Deposit Insurance (CODI), which the previous mission recommended be classified as a general government unit. Since that mission, SARB have agreed to implement this in their statistics, and CODI is listed in the ISCG as a national EBI but the PSCC plan to review the classification once CODI's first financial statements are available. The mission re-emphasized that this is not necessary, as the nature of CODI's financing and operations is already known, and guidance on the classification of financial protection schemes (such as CODI) in *GFSM 2014* is not especially influenced by information in financial statements, but rather by the nature of the scheme. The mission therefore reiterated that CODI should be classified as an EBI.

Trading Services

28. **Municipalities in South Africa are responsible for the provision of electricity, water and refuse services to households and businesses through their Trading Services departments or stand-alone companies established to fulfill these functions.** These trading services function very differently from the wider functions of the municipality, with ring fenced accounts and a very different pattern of revenue and expenditure.

29. **This difference can be seen in the accounts for those municipalities that provide detailed segment reporting in their Annual Financial Statements.** The Trading Services are typically funded by “exchange transactions” (i.e. selling goods and services – water, electricity, refuse collection), whereas the other functions of the municipality are typically funded by taxes, levies and grants from the national and provincial governments. An example of the accounts from eThekwini (Durban) is included in Appendix C.

30. **Consequently, if these trading services were incorporated as companies, as they are for the City of Johannesburg Metropolitan Municipality, these entities would be classified as market producers, and as public nonfinancial corporations.** However, under *GFSM 2014* (and SNA 2008) guidance, they need not be legally separate entities as long as it would be possible to compile a separate set of financial statements including a balance sheet, as they can be recognized as quasi-corporations. Quasi corporations are defined in *GFSM 2014* as entities that “are not incorporated or otherwise legally constituted, but function as if they were corporations.” This is how STATS SA treat the Municipal Trading Services, and this is what the mission also recommends.

Regional Water Boards and the Water Trading Entity

31. **In the case of Regional Water Boards, although SARB and STATS SA include them in the consolidated government accounts, NT does not dispute their current classification in ISCG as public nonfinancial corporations**. Given this, the mission recommended that the NT consider removing the regional water boards from the consolidated government accounts, to bring the coverage closer to the coverage of the EBIs subsector used by STATS SA and SARB.

32. **More broadly, the authorities provided an overview of the water industry in South Africa, which as previously mentioned includes the Municipal level water supply companies and departments, the Regional Water Boards and then two entities at the national level, the TCTA and the Water Trading Entity (WTE).** All of these entities are essentially involved in similar activities, and derive most of their income from selling water, and receive little or no subsidies or transfers from the government budgets (though the WTE does receive some transfers from the Department of Water and Sanitation). However, while the Regional Water Boards and TCTA are currently listed as nonfinancial corporations in the ISCG, and the municipal water trading services should also be classified that way (see above), the WTA is classified as an EBI, even though its income statements look essentially very similar to accounts for the Regional Water Boards – as can be seen in Table 3 below, comparing the 2023 accounts for WTE with those of Rand Water.

TABLE 3. WTE and Rand Water - Revenue and Expenditure 2022-2023 R’ millions

Water Trading Entity		Rand Water	
Revenue	**16,867**	**Revenue**	**19,578**
Sales of Water Services	12,649	Sales of potable water	19,345
Interest revenue	1,692	Finance Income	973
Funds from the Department of Water & Sanitation	2,268	Other	340
Expenditure	**8,384**	**Expenditure**	**17,655**
Employee costs	1,797	Employee costs	1,990
Operating expenditure	4,314	Operating costs and costs of sales	14,940
Depreciation	350	Depreciation	644
Finance Cost	1,748	Finance cost	81
Other	175		
Surplus / Deficit for the year	**7,516**	**Net income for the year**	**3,535**

Source: WTE Annual Financial Statements 2024 and Rand Water Integrated Annual Report 2023

33. The mission suggested that the PSCC reconsider the classification of the WTE, to potentially reclassify it to a public non-financial corporation, alongside the rest of the entities in the water industry. However recently passed legislation, the South Africa National Water Resources Infrastructure Agency Act, will merge some or all of the functions of WTE with TCTA (which will be abolished) and so a sensible option will likely be to consider the classification of the new entity once it is established, rather than reclassifying WTE shortly before it is reshaped by the legislation.

Nuclear Energy Corporation of South Africa (NECSA)

34. NECSA is currently classified as a public non-financial corporation in the ISCG but included by NT in their consolidated government accounts. NECSA began life as the Atomic Energy Corporation, becoming NECSA in 1999. It has two subsidiaries, Pelchem SOC and NTP Radioisotopes SOC, which are also both listed as public nonfinancial corporations. These are also included in NT's data, as they include the entire NECSA group.

35. The activities of NECSA the company, and its two subsidiaries are quite different. While NECSA appears to be primarily funded by government grants to handle nuclear decommissioning, the two subsidiaries appear to be commercial entities engaged in the sale of fluorine and other products (Pelchem) and production of radioisotopes for industrial and medical applications (NTP Radioisotopes).

36. Consequently, the accounts for NECSA, the company, and the NECSA Group (including its subsidiaries) look very different. The below extract from NESCA's2023 Integrated Annual Report shows the revenue for the company NECSA alone) and the Group (NECSA and its subsidiaries), and indicates that, if classified separately, NECSA should be classified as an EBI, and not as a public nonfinancial corporation, even if the group as a whole would likely pass the market test.

TABLE 4. NECSA Revenue – Group and Company 2023

Notes to the annual financial statements

as at 31 March 2023

27. Revenue

	Group		Company	
	2023 R 000	2022 R 000	2023 R 000	2022 R 000
Revenue from contracts with customers				
Sale of goods	1 545 490	1 102 273	119 862	112 213
Rendering of services	18 731	(58 274)	-	-
Government grants	820 423	715 455	729 531	715 455
Other grants	37 911	20 094	37 911	20 095
	2 422 555	**1 779 548**	**887 304**	**847 763**

Source: NECSA Integrated Annual Report 2023

37. That said, NECSA is a relatively small entity and separating out and including NECSA (the company) into the SARB and STATS SA GFS data would make little impact. Nor would stripping out NECSA's subsidiaries make much difference to the NT consolidated government data, and so the mission attaches a relatively low priority to any reclassifications for NECSA.

Technical Vocation Education and Training Colleges and Universities

38. TVET Colleges and especially Universities are one of the significant differences in coverage between the consolidated general government account compiled by NT and the GFS data compiled by STATS SA and SARB. Though the government funding both entities receive is recorded in the NT data, both sets of entities have additional own revenues (more significantly in the case of universities), and both sets of institutions are significant employers, and the wages paid to their employees is included in the STATS SA and SARB GFS but missing from the NT data. The mission therefore reviewed the classification of both institutions and especially the extent of government control.

39. Both TVET Colleges and public universities operate within statutory frameworks, in the form of the Continuing Education and Training Act 2006 and Higher Education Act 1997 respectively. These pieces of legislation set out important information about how these entities should be governed. In both cases the governing body of the TVET or university is called the Council, and this governing body includes a mixture of government and non-government appointees.

40. In the case of TVET Colleges, the government control is reasonably clear. The Council of a TVET has a large share of government appointees, and the government also selects the management staff for each college. College employees are accountable to the college's Council but also to Department of Higher Education and Training. Given TVET Colleges rely on government grants for the majority of their funding, the mission concluded that the existing classification of TVET Colleges in ISCG as EBIs is correct.

41. The classification of public universities is less clear cut. Unlike TVET Colleges, the government only appoints a minority of the Council. The mission examined the governing documents for three large Universities, the University of Cape Town, University of South Africa (UNISA) and the University of Pretoria, and in each case direct government appointees made up a small minority of the

Council, which is instead dominated by representatives of staff, students and alumni. The management of the University is also selected by the Council, and not by the government. Although there are likely to be some constraints, it seems probable that South Africa's public universities have considerable day-to-day autonomy and that their classification merits a closer review. As we noted in the August 2023 mission, governance arrangements in South Africa's public universities strongly resembles governance arrangements in the UK's universities, which are classified as private, not public sector entities by the UK Office for National Statistics.

42. The mission therefore recommended that PSCC reconsider the classification of public universities, and especially carefully consider whether and by what mechanisms they are controlled by the government. In the first instance, the mission recommended that PSCC ask the Department of Higher Education and Training for more information on their relationship with universities and the powers they hold to control the general policy and program of the Universities**.** PSCC should give regard to the indicators of control in *GFSM 2014* Box 2.1 Control of Non-Profit Institutions.

Schools

43. Public Schools are not currently mentioned at all in the ISCG, but there was a recognition from SARB, NT and STATS SA that public schools are, conceptually, government units that should be included in the general government sector. Thankfully this is not a significant omission from South Africa's GFS, as teacher's salaries, the largest cost for most schools, are paid directly by South Africa's 9 provincial governments, and so included in all three sets of fiscal data. In addition, further government transfers to the schools are also captured in the data.

44. However, it is acknowledged that many public schools have some of their own revenues, most notably in the form of school fees, and while these are unlikely to be especially large, this omission means some amounts of revenue and expenditure are missing from the various sets of fiscal data. While in the short term, it's unlikely that this data gap can be filled, the mission encouraged STATS SA to liaise with the DBE to see if any administrative data is already being collected from public schools that could form the basis for expanding the GFS data to include estimates for public schools own revenues and the expenditure it finances.

South African Airways

45. The mission finally discussed the classification of South African Airways (SAA). Currently classified as a public nonfinancial corporation, SAA, like most other airlines globally, was severely impacted by the Covid-19 pandemic, and suffered a dramatic drop in revenue. The mission shared high-level data on their total income and operating costs from 2018–19 to 2021–22 and recommended that PSCC seek the accounts for 2022/23 and 2023/24 to see if SAA's revenues have recovered as the world emerges from the pandemic.

TABLE 5. South African Airways – Income and Operating Costs 2019- 2023 R' millions

Year ending March 31	2019	202	2021	2022
Total income	26,992	24,320	5,440	2,012
Total operating costs	29,943	27,966	11,828	5,185

Source: SAA Annual Reports

C. RECORDING OF TRANSACTIONS

Introduction

46. **In part due to the differences in the definitions of general government and the public sector used by NT, STATS SA and SARB, there are differences between the fiscal data published by the three institutions.** However, *even controlling for sectoral coverage* there are differences in the three institutions' fiscal data, even when the coverage of the data is the same.

47. **NT presented the results of an exercise they conducted to reconcile data for the National Government (NG) across the three institutions.** While this indicated many areas where data is well aligned, there are areas in both revenue and expenditure where data is not aligned.

48. **South Africa's fiscal data is also not always aligned well or aligned *consistently* with *GFSM 2014*.** The mission therefore discussed a number of areas where improvements can be made to the classification of transactions in all three institutions, as in almost all cases there is a conceptually correct way to record a transaction, following *GFSM 2014* guidance. The ultimate goal of all three institutions should be to align fiscal data as far as possible.

Revenue

49. **Revenue data for the NG is mostly consistent across the three institutions, apart from some small inconsistencies and one very large one.** One of the small inconsistencies comes in the recording of taxes on property and taxes on goods and services, where STATS SA's data shows considerably lower taxes on property and higher taxes on domestic goods and services than SARB and NT's matching data.

TABLE 6. Taxes on Property – NT, SARB and STATS SA Data 2023 R' millions

	NT	STATS SA	SARB
Taxes on property	**21,237.7**	**4,385**	**21,237.7**
Domestic Taxes on goods and services	**579,990.1**	**596,846.9**	**579,459.6**

Source: NT

50. **The mission believes that this discrepancy comes from the recording of South Africa's taxes on financial and capital transactions**. In *GFSM 1986* and 2001, these taxes were recorded as part of taxes on property, but in *GFSM 2014* this recording was changed, and they were moved from taxes on property to be part of taxes on goods and services, so in this case the conceptually correct approach would be for SARB and NT to also shift where these taxes are recorded in line with how STATS SA already record them.

51. **There are also some smaller discrepancies between total taxes recorded by SARB and the other two institutions.** This is because SARB reclassify revenues of the Universal Service Fund (USF) from taxes to a non-tax revenue. This is incorrect, as USF fees in most countries are taxes, SARB plans to reclassify this transaction following the mission.

52. **There are a number of other small differences in classification of revenues, but the most significant difference is because of differences in the treatment of Southern Africa Customs Union**

(SACU) receipts. This difference in recording of these receipts results in NG revenue and expenditure being around R45 billion per year lower than that recorded in STATS SA and SARB.

SACU Receipts

53. The Southern African Customs Union (SACU) includes South Africa, Botswana, Eswatini, Lesotho and Namibia. Its aim is to maintain the free interchange of goods between member countries and so it provides for a common external tariff and a common excise tariff to this common customs area (CCA). All customs and excise collected in the CCA are collected by South Africa and then the resulting revenue is shared among members according to a revenue-sharing formula (RSF), based on GDP as described in the SACU agreement.

54. All SACU receipts are recorded as South African government tax revenue by SARB and STATS SA, with the amounts shared with the other four countries recorded as grants to foreign governments[8]. However, NT does not record the gross amount of SACU receipts as revenue, instead netting off the amounts transferred to Botswana, Eswatini, Lesotho and Namibia (BELN states) as negative revenue.

55. STA has a long history of providing advice on how to record the SACU flows and in May 2007, STA participated in a workshop in Namibia organized by the SACU Secretariat with representatives from all 5 SACU Countries. This workshop provided 3 options for recording SACU receipts in GFS (as well as in Balance of Payments (BOP) and National Accounts (NA)statistics):

- Option 1 – Record taxes as revenue collected by SACU (an international organization) and record each country's share as grants received from an international organization.
- Option 2 – Record taxes in each member country in proportion to the respective underlying economic activity that gave rise to levying the tax (imports, excisable activities) – any discrepancies between the amount received and the rightful share should be recorded as a grant from the losing country to the winners.
- Option 3 – Record all taxes as revenue for the collecting government (i.e. South Africa) and then record grants to the other governments

56. The aim of the 2007 workshop was to get consistent reporting, and it did not provide a strong recommendation for any of the options, but since the 2007 workshop there is now specific guidance on how to record these types of flows. The *GFSM 2014* now includes specific guidance on customs unions in *GFSM 2014* Appendix 5 Regional Arrangements. The guidance identifies 4 common scenarios in paragraph A5.8 as follows:

> "A5.8 The following paragraphs set out four possible types of regional arrangements:4
>
> - A designated agency levies,5 collects and distributes the proceeds from the duties.
> - A designated agency levies and distributes duties, but member governments collect duties on behalf of the designated agency.

---

[8] Though there are even some small discrepancies between the amounts recorded by SARB and STATS SA, due to differences in the amounts recorded as SACU repayments, that the mission didn't fully understand.

- Member governments have collective rights (i.e., the right is shared by everyone in the group) to levy, collect, and distribute the duties.
- Member governments have collective rights to levy the duties, but only one member collects and distributes the duties."

For SACU, the mission considers the fourth option to be the conceptually right approach, and paragraph A5.18 and A5.16 provide guidance on how and what to record.

> "A5.18 If member governments have collective rights to levy the duty, the tax revenue is attributed to the member governments according to the underlying economic activity that gives rise to the customs duties. If one of the member governments collects all the customs revenue, the recording is as described in paragraphs A5.16–A5.17. ……
>
> A5.16 If member governments have collective rights to levy the customs duties under the customs union agreement, the custom duty revenue is attributed to the member governments according to the underlying economic activity that gives rise to the customs duties. The total customs duty revenue attributed to each member government is in proportion to the respective underlying economic activity that gives rise to the customs duties. ………… Should the customs union agreement provide for any member government to receive a larger share of the customs pool than is evidenced by the underlying economic activities, a grant revenue (13)/expense (261) should be recorded between member governments……….."

57. **Applying this guidance, the recording of SACU receipts by NT is correct[9], and both SARB and STATS SA should revise their recording to align**. It is worth noting that the NT approach is also consistent with how SACU receipts are recorded in Botswana, Eswatini, Lesotho and Namibia, all of whom report SACU receipts as tax revenue in the data they report to the IMF GFS.

58. **While we are seeking cross country comparability and conceptual consistency in how SACU receipts are recorded, from a South Africa perspective it would be strongly preferable to record SACU receipts consistently *in South Africa***. Aligning with the current NT approach would come close to having fully consistent GFS data in relation to SACU for all 5 countries (though BoP and NA data may still not be fully aligned). This would also eliminate the single biggest consistent source of discrepancy between the NT, SARB and STATS SA data for the NG.

Expenditure

59. **There are more widespread and persistent discrepancies in expenditure data, especially in the recording of transfers.** Examples of discrepancies in expenditure include:

- Transfers to Universities and TVET colleges – linked to the difference de facto classifications these are recorded as transfers to NPISH by NT, but as grants to EBIs by both SARB and Stats SA

---

[9] Or perhaps, more correct. Strictly speaking, the guidance in the manual would seem to suggest that the customs component and the excise component would be recorded as taxes but perhaps the development component would be an example of "larger shares" going to the 4 smaller economies that the manual indicates should be recorded as a grant, but it's not clear if there is sufficient data to make this split.

- Transfers to Armscor – although Armscor is classified and treated as an EBI by all three institutions, the transfers it receives from the government are treated as a subsidy by NT, but as a grant by SARB and STATS SA.
- Transfers to schools from provinces are recorded as transfer to NPISH by SARB and NT but are reclassified to subsidies (when the recipients are private schools) and purchases of goods and services (when the recipients are public schools) by STATS SA.

60. In the latter case, the recording of transfers to private schools as subsidies by STATS SA is correct, but the transfers to public schools are *grants*. Public schools are themselves part of the general government of South Africa, albeit not all of their revenues and expenditures are currently fully included in South Africa's GFS data.

61. The mission also discussed the recording of student assistance grants provided by National Student Financial Aid Scheme (NSFAS). These transfers, which are around R40 billion each year are recorded as part of other expense / transfers to households by Stats SA, NT and SARB, however these payments, which are limited to lower income households, are clearly linked to social needs and social risks and so should be recorded as social benefits.

62. More broadly, the recording of transfers as either subsidies, grants, social benefits or other current / capital transfers in GFS should be underpinned by purpose of the transfer, and the classification of the receiving entity in the ISCG. Transfers to EBIs will, in most cases, be recorded as grants. Transfers to entities outside of the government sector, such as ESKOM, cannot be classified as grants in GFS, as by definitions grant are transfers between general government units.

63. In addition to these ongoing discrepancies, which cause persistent differences in the data across institutions, the mission discussed some other once off transactions and how these should be recorded in GFS data. We therefore revisited the discussions from the previous mission in relation to the debt relief being provided to ESKOM, we also discussed the separate debt relief being provided to SANRAL, and the transactions initiated this year with respect to the Gold and Foreign Exchange Contingency Reserve Account (GFECRA).

ESKOM Debt Relief Operations

64. Prior to and during the August 2023 mission, STA were included in discussions along with the IMF African Department team on how to record the planned ESKOM debt relief operations. The government is providing sizeable assistance to ESKOM, over three years, with payments in 2023/24 (R76billion) and planned payments in 2024/25 (R66billion) and 2025/26 (R40billion).

65. The government's original plan, discussed during the previous mission was to provide funds to ESKOM in the form of interest free loans, which would then convert to equity once conditions of the support were met. In 2023/24 of the R76billion provided, some R16billion has been forgiven and converted to equity. The mission has learned that the policy has shifted since 2023, with interest being received on unconverted loan amounts, which ESKOM is paying.

66. The previous advice from the IMF has been to record this operation in GFS data above the line, as a capital transfer, applying *GFSM 2014* guidance on support to State Owned Enterprises (SOEs) (*GFSM 2014* Chapter 6 Box 6.3). This guidance requires that for support to an SOE to be recorded as a loan or as an acquisition of equity there has to be an *effective claim* (in the case of loans) as or a *sufficient rate of return* (for recording of equity). In this case, the policy intention is explicitly that the loans will not be repaid under the terms of a loan agreement, but rather they will be converted to equity, and so it is unrealistic to regard there being an *effective* loan claim in this case. As for recording this support as a transaction in equity, it seems highly doubtful *ex ante* that there will be a sufficient rate of return on the government's "investment", which would have to be achieved through sufficient future dividends to both repay the government's principal and cover the government's own cost of borrowing and more for the government to actually earn a return on the injection.

67. Consequently, although there is now "interest" being paid, these payments are likely to be short lived, and principal will not be repaid, or at least not for a very long time, and so the missions advice remains to record the ESKOM bailout as a capital transfer above the line in GFS. However, the short-term recording of interest before the loans are converted to equity does raise a question about *when* to record the capital transfer, with two main options:

- If the ESKOM operation is recorded by NG on a pure cash basis, then the capital transfer should be recorded at the time money is transferred to ESKOM. However, under this scenario, where we are deeming there to be no loan asset, the "interest" received on the unconverted loan amounts should be reclassified to another type of revenue (probably *transfers not elsewhere classified)*, as there is no underlying loan asset on which to receive interest payments.

- The second option would be to follow a modified cash approach for this transaction in GFS, recording a loan transaction when the money is originally provided, but then recording the capital transfer when each tranche is converted to equity. Under this option, the interest could continue to be recorded as interest.

68. Given the policy intention is to convert the loans to equity, and this is already happening, the missions' preference is to record the capital transfer at the time money is transferred to ESKOM. NT is asked to provide detailed information on all the ESKOM related flows to STATS SA / SARB and the IMF African Department to enable them to record operations correctly and consistently in GFS data.

69. The mission continues to note that NT, in the budget presentation, recorded the ESKOM transactions below the line in financing. This is despite the budget presentation including an above the line item called transactions in financial assets and liabilities which is defined by NT in the *2023 Budget Review* Annexure W2 as including "lending to or making equity investments in public corporations as well as debt takeovers for policy purposes. Payments for financial assets are expensed rather than treated as financing because, unlike other financial transactions, the purpose of the transaction is not market oriented." Financing is defined narrowly. It seems very clear that, applying this definition consistently, the ESKOM operations should have been recorded above the line and the mission encouraged NT to reconsider how it has recorded the ESKOM operations to date.

South African National Road Agency Limited

70. In the context of discussing support to ESKOM, the mission also discussed the recording of the 2022/23 support provided to the South African National Roads Agency Ltd (SANRAL). SANRAL incurred debt to construct a new tolled highway, and this debt was guaranteed by the government. However, a subsequent policy decision was taken to remove the tolls, removing the income stream SANRAL was expecting to use to service the debt and this resulting in a transfer from NG to SANRAL of R23.7 billion in 2022/23.

71. Unlike the ESKOM transaction, NT *did* record this as part of transactions in financial assets and liabilities, but in the GFS framework this should be recorded as a capital transfer, part

of expense. SANRAL is classified as an EBI, so in the consolidated government data published by NT, and the consolidated general government GFS data published by SARB and STATS SA this transaction, however it is recorded, is eliminated in consolidation, nevertheless it is important to record it correctly in the accounts of the core NG, as well as in the EBI subsector.

Gold and Foreign Exchange Contingency Reserve Account (GFECRA)

72. Section 28 of The South African Reserve Bank Act 1989 requires that any credit or debit balance resulting from revaluations of gold, foreign assets and forward exchange contracts be transferred to a Gold and Foreign Exchange Reserve Account (GFECRA) that will be established and managed by SARB on behalf of the National Treasury. This is recorded as a liability to the government by SARB in its financial statements, and by the 31 March 2023 this was valued at R458.7 billion.

73. In 2024, the government decided to extract money from GFECRA to help repay debt and finance the deficit. This resulting in withdrawals from GFECRA in 2024/25 of R200 bllion (R180 billion in July 2024, and a further R20 billion in August 2024), with further withdrawals of R25 billion planned in both 2025/26 and 2026/27.

74. Following negotiations and discussions between SARB and NT, R100billion of the R200 billion withdrawn from GFECRA was immediately returned to the SARB contingency reserve, leaving NT with a net increase in cash over July / August 2024 of R100 billion. This was recorded by SARB as revenue (non-tax revenue) and expenditure (other expenditure) in the September 2024 QB and the monthly release, but NT's recording was more complicated, as although these amounts did appear as revenue and expenditure, adjustments to the data were made so that these transactions did not fully impact the budget balance, with just R100 billion recorded as revenue.

75. This is not in line with the IMF advice on how to record withdrawals from GFECRA, which was to record the withdrawal below the line as part of financing. GFECRA is correctly recorded as a liability by SARB in their financial statements, and a loan asset / liability between SARB and the government in the Integrated Economic Accounts (IEA), consequently withdrawals from GFECRA are therefore *financial* transactions – exchanging one kind of financial asset (a loan) for cash, and recorded below the line in GFS data, and should be recorded as part of financing in the NT budget presentation.

76. This mission recommended that the injections back to SARB's contingency reserve should also be recorded below the line, in this case as transactions in equity, as government is merely exchanging its asset in GFECRA for a different financial asset. All GFECRA operations therefore should be recorded below-the-line in SARB and STATS SA's GFS data. NT should also revise its recording to record the GFECRA transactions below the line.

77. SARB is recommended to modify how it recorded the GFECRA transactions in the monthly release and QB, to be in line with this approach. This may require some explanatory metadata to explain why the SARB table on National Government Finance (KB402) is not quite aligned with the equivalent NT tables, or, if the table is not modified, why users of the table should be aware of the GFECRA transactions that distort the total revenue and expenditure data in this table.

D. RECORDING OPERATIONS OF THE ROAD ACCIDENT FUND

78. As discussed in Part B of this report, RAF is currently classified as a SSF but should be reclassified as an EBI. Though the authorities have not yet reclassified RAF, SARB do recognize the need to reclassify its main source of revenue, the fuel levy, as part of excise taxes, and to record their main expenditures, the payment of claims, as a social assistance benefit, rather than a social security benefit.

79. **However, a more important concern is that all three institutions are recording the activities of RAF on a cash, not an accrual basis, which the mission believes provides a misleading picture of RAFs financial health.** This is important because over the last 8 years back to 2016, while RAF on a cash basis has largely run a balanced cash budget, with a modest accumulated deficit of R439 *million*, on an accrual basis, RAF has made an accumulated deficit of R364 *billion*. Its annual deficits, on an accrual basis, have averaged around R45 billion[10]. Prior to the accounting changes made by RAF in 2021, this meant that RAF showed considerable accumulated liabilities in unpaid claims of R331 billion. NT and SARB have continued to include estimates of large RAF liabilities in their various publications, rather than follow the modified RAF accounting approach which saw the previously recorded liabilities fall by 90 percent .

80. **Although the mission continues to have some questions on the exact way to record RAF's claims expenditure and the resulting stock of unpaid claims, the mission strongly recommends that RAF's activities be recorded in South Africa's fiscal statistics on a *modified cash* basis.** This would mean recording the claims expenditure on an accrual or accrual-like basis, as was done in RAF's income statements prior to 2021, which would significantly increase RAF's expenditure with a knock-on impact for the net lending / net borrowing of the general government.

81. **Data for RAF, compiled on a cash and modified cash / accrual basis for the period from 2008–2023 are included in Appendix D of this report.** The mission also shared an excel file with different methods for compiling RAF's data with the authorities. This includes estimated values for accrued claims expenditures from 2021 onwards, as RAF's accounting before and after 2021 is not consistent.

82. **NT indicated that, following the outcome of recent court cases, that RAF will likely have to reverse the changes to its method of accounting for claims expenditure, returning to the old approach**. This may mean that RAF will have to restate its accounts since 2021, and so assuming this takes place in the accounts for 2024–25, should enable consistent data to be used, without estimations, for RAFs operations. This may inform the timing of implementing any move to a modified cash / accrual basis for recording RAF's operations in South Africa's fiscal data.

E. RECORDING OF INTEREST – INDEX LINKED BONDS AND BONDS ISSUED AT A DISCOUNT

83. **While discussing the differences between NT data for the NG, compared to the GFS data produced by SARB and STATS SA, the mission discovered issues with the way South Africa records interest.** In particular, the mission confirmed that interest is recorded incorrectly on its large stock of domestic bonds linked to the consumer price index (CPI), and bonds issued at a discount.

84. **Conceptually, bonds issued at a discount, or bonds linked to the CPI are simply substitutes for conventional bonds issued at par or non-index linked bonds with higher interest rates.** By issuing a bond the value of whose principal is linked to the CPI, a government protects the

---

[10] As discussed in the August 2023 TA report, RAF made controversial changes to its accounting practices that significantly reduced its accrual expenditures and which were immediately challenged by South Africa's Auditor General, and it is likely that RAF will have to revert to its earlier accounting approach.

creditor from inflation risk, and so these bonds typically have a lower coupon, and they can be issued at significantly longer maturities than regular coupon bonds.

85. South Africa also has bonds that pay a fixed coupon rate, and so when these bonds are auctioned, the sometimes sell for less than face value, if the fixed rate of the coupon is lower than the market rate on South Africa's debt. In other countries, the bonds are often all sold at par, but the coupon is allowed to vary according to the results of the auction. This is the same process, albeit over a longer time period, that occurs with Treasury Bills (TBs), which are sold at a discount (though there is no coupon – interest on a TB is the difference between the issue price and the face value paid back at maturity.

86. As a result of issuing bonds at a discount, and CPI linked bonds, the amounts that South Africa repays when these instruments are redeemed is higher than the amount of money the government received when the bonds were issued. In some cases, it is significantly higher. In December 2023 the NT redeemed R197 CPI linked bonds, first issued in 2001 and then reopened a number of times, for R90 billion[11], however the total cash received for the sale of these bonds was less than R30 billion.

87. In *GFSM 2014* (and other international accounting and statistical standards) this difference, between the issue price of a bond and its eventual value at maturity, <u>should be recorded as interest</u>, but this is not the case in any of South Africa's fiscal data. Instead, the NT simply records repayments of a CPI linked bond, or the repayment of a bond issued at a discount as amortization below the line. In case of index linked bonds, this means when bonds get revalued [upwards] in line with CPI the uplift should be recorded as interest – ideally in the period it happens (a non-cash transaction), or in a large lump sum at maturity. Discounts on bonds should also be recorded as interest – again ideally spread over the life of the instrument, or in full at maturity. Extracts from the relevant sections of *GFSM 2014* are included and highlighted in Appendix E.

88. The missing amounts of interest are large – for both of these components. In 2023/24 bonds were issued with total discounts of bonds of R66billion, and the stock of CPI linked bonds at the end of March 2024 was more than R1 trillion. If CPI was 4.5% in 2024, this implies the value of the CPI linked bonds will increase by R46 billion. Data provided by SARB enabled the mission to estimate the annual interest on just the CPI linked bonds for 2020/21 to 2023/24, which suggests interest each year of between R55-R89 billion.

TABLE 7. Estimated Interest Arising on Index Linked Bonds, 2020/21 to 2023/24 R 'billions

	2020/21	2021/22	2022/23	2023/24
Estimated Interest	55.6	69.4	89.8	78.1
Stock of CPI Linked debt	787.2	853.5	992.2	1027.5

Source: SARB and Mission Calculations

[11] See https://www.sharenet.co.za/v3/sens_display.php?tdate=20231204113000&seq=35

89. Although further work is required to determine the correct amounts that should be recorded, the mission strongly recommends that all three institutions agree in principle to record the discount and the CPI uplift of index bonds as interest. On a cash basis, this would be recorded as the bonds mature, however the mission recommended that it be recorded during the life of the instrument, i.e. on a modified cash basis. Recording on a cash basis would push off the recording of the interest into the future, in some cases a long way into the future, rather than accurately reflect the economic reality of the interest accruing *now*.

90. The mission also noted that for SARB and STATS SA, it is important to remember that other parts of the general government or public sector will likely hold some of these instruments as assets, and so where possible, interest revenue should also be adjusted, and the modified cash interest consolidated. The mission noted differences between cash flow and accrued interest in the financial statements of both the Unemployment Insurance Fund (UIF) and the Compensation Fund, and this might indicate that they hold some of these types of instruments, meaning interest revenue may also need to be adjusted and these flows consolidated.

F. RECONCILIATION AND STATISTICAL DISCREPANCIES

91. In *GFSM 2014*, the net lending / net borrowing (surplus / deficit) of the government can be calculated from above-the-line (revenue minus expenditure) or below-the-line (financing). Conceptually whether calculated from above- or below-the-line the result should be the same, and if not, this is a potential indication of something going wrong with the data compilation it is therefore a useful check on the quality of the data being produced.

92. In the QB, SARB currently shows that deficit or surplus for each sector and subsector of the public sector is equal to the financing, that is, the statistical discrepancy is zero. However, as noted in the previous mission this is achieved using some below-the-line items as residual or balancing items, as well as the use of *ad hoc* adjustments, and so the previous mission encouraged SARB to stop using this approach and publish the actual statistical discrepancies for each subsector.

93. SARB provided detailed explanations of the current approaches and data sources for compiling GFS for National Government, Provinces, SSFs, EBIs, Local Government, and Public financial and non-financial corporations. This enabled the mission to understand which items were being used to balance out the net lending / borrowing and also allowed the mission to identify some concrete improvements to resolve statistical discrepancies in the future. However, for many subsectors of the government, and especially for quarterly data, SARB are using a variety of data sources and methods that will make it difficult to fully resolve discrepancies in the short term.

94. The NG is by far the largest piece of the South African GG, and the most important part to have fully reconciled. In addition, the existing source data provided by NT is already fully reconciled. Despite the source data being balanced, the NG data compiled by SARB currently includes a [sometimes large] *ad hoc* adjustment in financing to ensure the above and below-the-line data is balanced. The mission identified the main source of this imbalance, which arises due to some ambiguous labelling of some debt related flows in the NT-provided source data. Correcting for this in some periods largely eliminated the need for the adjustment, and resulted in NG GFS data with small discrepancies, and the mission is confident the remaining discrepancies can be understood and eliminated. SARB is therefore recommended to repeat this correction for longer time periods to check that it consistently resolves the need for the *ad hoc* adjustment, and investigate the remaining small discrepancies with NT.

95. **For South Africa's nine provinces, source data is also provided by NT, but only above-the-line data is provided, and so the change in currency and deposits is calculated as a residual by SARB to ensure data balances.** However, the cash balances of provinces are already being compiled by SARB in their Monetary and Financial Statistics (MFS) (Table KB407) and so the mission replaced the currency and deposits estimate calculated as a residual, with amounts calculated from the MFS, resulting in some small discrepancies in some periods. SARB is encouraged to repeat this exercise over a longer period to see what the resulting discrepancies look like. That said, the mission notes that the MFS data, drawn from surveys of financial institutions, may have data quality issues / reporting errors that themselves contribute to the discrepancy.

96. **Ultimately, resolving the statistical discrepancy for the provincial governments requires additional data**. NT are recommended to expand the data reporting to SARB to include below-the-line data for provincial governments. Ideally this would include opening and closing cash balances, and any transactions in relation to debt, in addition to the existing above the line data.

97. **For Provincial EBIs, National EBIs, PFCs, PNFCs, Local Government and Social Security Funds the balancing item used is transactions in liabilities in the form of equity and investment fund shares.** Sometimes this requires entering some large and implausible values for this line, and while these values are not easily visible in SARB's aggregated QB data, these amounts for some sectors can be seen in the data reported by SARB to the STA annual GFS database.

98. **The mission strongly recommended against using this line to balance out statistical discrepancies**. It is very unusual for government units to have equity liabilities, never mind transactions in equity liabilities – so in long term, the mission recommended to not eliminate discrepancies this way.

99. **That said, the mission also recognized that there is limited value in pursuing compilation changes and seeking improvements in these subsectors at this stage**. As SARB implements the recommendations in Part B of this report, the composition of most of these subsectors will change significantly in the near future, as entities are reclassified from SSF to EBIs (RAF), from nonfinancial corporations to EBIs (PRASA etc.), from LG to nonfinancial corporations Municipal Trading Services). Consequently, in the short term the mission recommended making some smaller changes to improve source data (EBI by EBI grant data from NT), and understand the data being reported by some key entities (data reported by ESKOM and Transnet).

G. FREE BASIC SERVICES

100. **During the previous mission, we noted that the recording of free basic services to indigent households was not being recorded correctly.** South Africa's government provides refuse collection services, free basic water (six kiloliters per poor household per month), and energy (50 kilowatt-hours per month) through the municipal trading services, and this is financed out of the equitable share funding provided by the NT to municipalities.

101. **This provision of free basic services to low-income houses should be recorded as a social assistance benefit by the government to these households but is not currently recorded this way.** STATS SA used to record this but stopped doing so as data from the Municipal Standard Chart of Accounts data no longer provides sufficiently granular data to record this.

102. **The mission discussed some conceptual recording options for these benefits provided to low-income households but did not make further progress**. How to record this is also linked to the

separation of trading services from local government data, and so further work will be needed in a follow up TA mission to resolve this issue.

H. ADJUSTMENTS TO THE QUARTERLY BULLETIN

103. Finally, the mission discussed two final items on how to record specific things in the QB – the social security funds balance sheet (Tables KB450 and KB451), and the recording of the Financial public enterprises and corporations (Tables KB425 and KB426 and KB446 and KB447)

Social Security Funds – Balance Sheet

104. The existing presentation of the Social Security Funds balance sheet data in the QB should be revised. Notwithstanding that the data includes the RAF, which should not be included at all, the data would benefit from three major changes:

- On the liabilities part of the balance sheet, the stock of outstanding claims for RAF is recording as part of the liabilities in equity and investment fund shares but should instead be classified under *other accounts payable* – most likely in the column currently titled provisions for outstanding claims.
- The social security funds sub-sector should not have any liabilities in equity and investment funds shares, as none of the entities included in the subsector are entities that have shareholders and equity liabilities. Instead, the balancing item between assets and liabilities for this subsector, like the local government sector, should be *net worth*.
- In the assets, the large *synthetic* accounts receivable asset that is included by SARB to ensure assets and liabilities are balanced should be removed.

Public Financial Corporations

105. For the public financial corporations data in the QB, although labelled as data for Financial public enterprises and corporations, the data only includes a subset of the financial public corporations. Consequently, the previous TA mission and the FTE recommended to expand coverage of data on public financial corporations to include all, not just some, of the South African public financial corporations. Conceptually this includes the public deposit taking corporations (SARB, CPD, Landbank, Postbank), but also public pension funds (e.g. GEPF), public insurance corporations (e.g. SASRIA) and public financial auxiliaries (e.g. the Public Investment Corporation)

106. In the short term, the mission recommended that the table be expanded to include public deposit taking corporations. SARB already has balance sheet and income statement data for these four entities, (and cashflow may be easier to obtain).

107. Inclusion of pension funds and insurance corporations is a longer-term goal. While expanding the balance sheet data to include these items would be relatively easy, there are some conceptually trickier aspects to compiling cash flow statements for these entities. SARB's Public finance division is encouraged to discuss data sources and data availability with SARB colleagues from the Capital markets and flow of funds division to understand what data is readily available on the transactions of these entities.

108. In the long term, the mission suggested that a sensible goal may be to publish three separate tables. This would include an initial expanded table covering all of the public sector "banks", then in the longer term a separate table covering the public sector pension funds and insurance companies and then a final table that would include total public financial corporations.

I. OFFICIALS MET DURING THE MISSION

Name	Job Title	Institution
Mr. Michael Manamela	*Head of Department, Economic Statistics Department*	South African Reserve Bank
Ms. Susana Paulse	*Senior Manager, Economic Statistics Department*	South African Reserve Bank
Ms. Lisa de Beer	*Lead Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Mr. Barend de Beer	*Senior Manager, Economic Statistics Department*	South African Reserve Bank
Mr. Victor Ramphele	*Lead Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Ms. Eldoret deLange	*Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Ms. Vutlhari Mathe	*Associate Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Ms. Tlhologelo Thoka	*Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Ms. Theresa Gumbi	*Senior Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Ms. Mothwale Maboea	*Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Ms. Vutomi Nkuna	*Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Mr. Kgomotso Thanwane	*Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Ms. Takalani Rasalanavho	*Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Ms. Freelancia Pulutsoana	*Associate Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Mr. Gray Morai	*Associate Economic Statistician, Economic Statistics Department*	South African Reserve Bank
Ms. Naledi Moabelo	*Graduate Intern, SARB Academy*	South African Reserve Bank
Mr. Hennie Swanepoel	*Chief Director, Budget Office*	National Treasury
Ms. Lindy Bodewig	*Chief Director, Office of the Accountant General*	National Treasury
Ms. Alice Mahlomotja	*Director, Budget Office Government Finance Statistics*	National Treasury
Ms. Tumi Tjale	*Director, Budget Office Government Finance Statistics*	National Treasury
Mr. Patrick Mbedzi	*Deputy Director, Budget Office Government Finance Statistics*	National Treasury

Name	Job Title	Institution
Mr. Moses Mnyaka	*Chief Director, Government Financial Statistics,*	Statistics South Africa
Ms. Nomvula Nobiya	*Deputy Director: Economist, Government Financial Statistics, National and Provincial Government Institutions*	Statistics South Africa
Mr. Ephraim Mowa	*Assistant Director: Economist, Government Financial Statistics, National and Provincial Government Institutions*	Statistics South Africa
Mr. Elvis Mulaudzi	*Assistant Director: Economist, Government Financial Statistics, National and Provincial Government Institutions*	Statistics South Africa
Ms. Lerato Sindani	*Assistant Director: Economist, Government Financial Statistics, National and Provincial Government Institutions*	Statistics South Africa
Mr. William Mello	*Economist, Government Financial Statistics, National and Provincial Government Institutions*	Statistics South Africa
Mr. Costa Doukas	*Deputy Director, Economist, Government Financial Statistics, National and Provincial Government Institutions*	Statistics South Africa
Mr Malibongwe Mhembe	*Director: Government Financial Statistics, Local Government Institutions*	Statistics South Africa
Ms Hellen Maribe	*Deputy Director: Economist, Government Financial Statistics, Local Government Institutions*	Statistics South Africa
Mr. Ntsele Adoro	*Deputy Director: Economist, Government Financial Statistics, Local Government Institutions*	Statistics South Africa
Mr. Charles Thobela	*Deputy Director: Economist, Government Financial Statistics, Loca; Government Institutions*	Statistics South Africa
Mr. Azwimbavhi Khobo	*Deputy Director: Economist, Government Financial Statistics, Local Government Institutions*	Statistics South Africa
Mr. Simon Kgomo	*Deputy Director: Economist, Government Financial Statistics, Local Government Institutions*	Statistics South Africa
Ms. Ceila Mambolo	*Deputy Director: Economist, Government Financial Statistics, Local Government Institutions*	Statistics South Africa
Mr Ralph Seanego	*Assistant Director: Economist, Government Financial Statistics, Local Government Institutions*	Statistics South Africa
Mr Jimmy Ledwaba	*Economist, Government Financial Statistics, Local Government Institutions*	Statistics South Africa

Appendices

A. PASSENGER RAIL AUTHORITY OF SOUTH AFRICA – MARKET TEST ANALYSIS 2008-2023

TABLE 8. Passenger Rail Authority of South Africa – Market Test Analysis 2008-2015

	Year ending 31 March	2008	2009	2010	2011	2012	2013	2014	2015
A	Fare Revenue	1,191	1,341	1,751	1,628	1,701	2,054	2,189	2,190
B	Operating lease rental income	246	222	251	283	300	328	385	517
C	Interest / Finance Income	175	210	36	69	162	247	229	202
D	Other Income / Sundry Income	51	52	93	366	219	219	586	138
E	Operating Subsidy	2,259	2,550	3,186	3,155	3,339	3,527	4,328	3,887
F	Capital subsidy / Capital subsidy and grants amortized	281	432	776	886	1,322	1,383	1,824	1,929
G	Fair Value Adjustments / actuarial gains								
	Total Revenue	**4,203**	**4,807**	**6,093**	**6,387**	**7,043**	**7,758**	**9,541**	**8,863**
H	Employment related costs	1,929	2,254	2,605	2,881	3,367	3,710	4,136	4,372
I	Depreciation and amortization	653	734	1,017	1,128	1,277	1,367	1,799	1,985
J	Repairs and maintenance	501	667	785	350	174	294	110	103
K	General expenses	1,640	2,167	2,683	2,857	2,827	3,689	3,252	3,490
L	Finance costs	28	31	48	93	14	8	20	12
M	Impairment losses / reversal of impairments	(8)	3	13	20	34	(1)	36	38
N	Loss on disposal of assets	28	33	57	55	103			
O	Fair value adjustments	(11)	(18)	(25)	(234)	(774)	(1,265)	(322)	(115)
P	Derecognition of disposal of assets						107	83	13
Q	Actuarial Gain / loss	(36)	2	2	4	-	(4)	(2)	(3)
	Total Expenditure	**4,724**	**5,873**	**7,185**	**7,154**	**7,022**	**7,905**	**9,112**	**9,895**
	Deficit / Surplus	**(521)**	**(1,066)**	**(1,092)**	**(767)**	**21**	**(147)**	**429**	**(1,032)**
	Market Test								
	(A+B+D) / (H+I+J+K+L)	**31%**	**28%**	**29%**	**31%**	**29%**	**29%**	**34%**	**29%**

TABLE 9. Passenger Rail Authority of South Africa – Market Test Analysis 2016-2023

	Year ending 31 March	2016	2017	2018	2019	2020	2021	2022	2023
A	Fare Revenue	1,984	1,680	1,802	1,516	1,049	178	343	380
B	Operating lease rental income	602	561	675	773	725	527	608	616
C	Interest / Finance Income	425	718	968	1,012	1,520	1,095	1,005	1,652
D	Other Income / Sundry Income	160	183	170	308	273	125	116	191
E	Operating Subsidy	4,866	5,082	5,876	6,577	8,376	9,474	16,669	19,858
F	Capital subsidy / Capital subsidy and grants amortized	2,997	3,140	4,671	3,474	4,259	-	-	-
G	Fair Value Adjustments / actuarial gains			-	299	2	-	-	34
	Total Revenue	**11,034**	**11,364**	**14,162**	**13,959**	**16,204**	**11,399**	**18,741**	**22,733**
H	Employment related costs	4,460	5,357	5,444	5,688	5,789	5,772	5,876	6,016
I	Depreciation and amortization	2,219	2,228	2,357	2,184	2,518	2,942	2,479	4,819
J	Repairs and maintenance	134	271	645	1,232	1,070	378	410	729
K	General expenses	3,772	4,090	4,339	7,536	4,238	2,602	3,618	4,942
L	Finance costs	7	10	12	22	34	29	40	65
M	Impairment losses / reversal of impairments	751	1,009	(41)	(657)	(19)	1,155	76	9,357
N	Loss on disposal of assets			-	96	245	1,535	76	294
O	Fair value adjustments	(143)	(221)	-	-	52	115	316	94
P	Derecognition of disposal of assets	135	168						
Q	Actuarial Gain / loss	(6)	2						
	Total Expenditure	**11,329**	**12,914**	**12,756**	**16,101**	**13,927**	**14,528**	**12,891**	**26,318**
	Deficit / Surplus	**(295)**	**(1,550)**	**1,406**	**(2,142)**	**2,277**	**(3,129)**	**5,850**	**(3,585)**
	Market Test								
	(A+B+D) / (H+I+J+K+L)	**26%**	**20%**	**21%**	**16%**	**15%**	**7%**	**9%**	**7%**

B. MINTEK MARKET TEST ANALYSIS 2021-2024

TABLE 10. Mintek Market Test Analysis 2021-2024

	Year ending 31 Mar	2021	2022	2023	2024
	Total Revenue	**553**	**600**	**649**	**766**
A	From related parties (of which)	433	432	476	494
	Department of Mineral Resources and Energy - State Grant	245	261	282	277
	Department of Mineral Resources and Energy - MTEF	31	9	14	2
	Department of Mineral Resources and Energy - Asbestos	97	91	122	147
	Department of Science and Innovation	47	64	50	56
	Mining Qualification Authority	8	4	3	7
B	From non-related parties	120	168	173	272
	Total Expenditure	545	592	641	760
C	Employment related costs	284	313	312	361
D	Depreciation and amortization	28	32	39	43
E	Impairment losses	3	4	1	3
F	Bursary costs	6	5	3	5
G	Finance costs	1	2	1	1
H	Professional services	11	17	24	19
I	Rehabilitation services	85	75	95	126
J	General Expenses	127	142	165	201
K	Loss on disposals of property, plant, and equipment	-	2	1	1
	Operating Surplus for the year	**8**	**8**	**8**	**6**
	Market Test				
	B/(C+D+H+J)	**27%**	**33%**	**32%**	**44%**

C. ETHEKWINI MUNICIPALITY SEGMENT REPORTING 2021-22

eThekwini Municipality and its Municipal entities

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand thousand

NOTE 67: SEGMENT STATEMENT OF FINANCIAL PERFORMANCE - 30 JUNE 2022 - GROUP

	Economic and Environmental Services R'000	Trading Services R'000	Community and Public Safety R'000	Total segments	Other non segments R'000	Total agreeing to Entity amount R'000
REVENUE						
Revenue from Exchange Transactions						
Service charges	0	22,360,280	0	22,360,280	0	22,360,280
Housing development construction contract revenue	0	0	672,026	672,026	0	672,026
Rental of facilites and equipment	46,073	81,219	255,207	382,499	386,728	769,227
Other Income	110,294	151,730	72,692	334,716	72,412	407,128
Interest received	0	273,172	4,221	277,393	302,720	580,113
Gains on disposal of assets	34	1,958	282	2,274	13,225	15,499
Total Revenue from Exchange Transactions	156,401	22,868,359	1,004,428	24,029,188	775,085	24,804,273
Revenue from non-exchange transactions						
Taxation Revenue						
Fines	50	0	139,707	139,757	0	139,757
Property rates	0	0	0	0	9,737,673	9,737,673
Property rates – penalties imposed	0	0	0	0	168,576	168,576
Licences and permits	2,907	0	41,313	44,220	0	44,220
Transfer Revenue						
Government grants & subsidies	194,165	3,301,454	2,138,898	5,634,517	1,332,856	6,967,373
Levies	0	0	0	0	3,012,812	3,012,812
Public contributions and donations	0	12,947	0	12,947	0	12,947
Reversal of loss on impairment – PPE	0	0	0		26,641	26,641
Donations – Property, plant and equipment	0	0	87	87	900	987
Reversal of loss on impairment – Inv. Properties	0	0	2,991	2,991	1,024	4,015
Total revenue from non-exchange transactions	197,122	3,314,401	2,322,996	5,834,519	14,280,482	20,115,001
Total Revenue excluding Recoveries	353,523	26,182,760	3,327,424	29,863,707	15,055,567	44,919,274
Recoveries	2,302	3,495,995	183,929	3,682,226	3,589,476	7,271,703
Total Revenue	355,825	29,678,755	3,511,353	33,545,933	18,645,043	52,190,977

D. ROAD ACCIDENT FUND GFS COMPILATION

TABLE 11. Road Accident Fund GFS Compilation 2016-2023 – Cash Basis

GFS Code	GFS Descriptor	2016	2017	2018	2019	2020	2021	2022	2023
1	**Revenue**	**31,527,870**	**33,658,521**	**36,139,562**	**41,990,522**	**42,699,184**	**40,701,320**	**47,275,363**	**48,765,392**
11	Taxes	31,441,748	33,544,875	36,048,140	41,890,191	42,632,836	40,559,571	47,058,716	48,481,606
1142	Excises	31,441,748	33,544,875	36,048,140	41,890,191	42,632,836	40,559,571	47,058,716	48,481,606
14	Other revenue	86,122	113,646	91,422	100,331	66,348	141,749	216,647	283,786
2	**Expense**	**30,493,428**	**34,020,635**	**36,158,669**	**42,575,156**	**42,232,026**	**37,355,226**	**51,046,839**	**48,938,406**
	Of which:								
21	Compensation of employees	1,279,874	1,434,772	1,605,147	1,735,302	1,752,737	1,941,244	2,072,908	2,248,316
22	Use of goods and services	411,555	399,868	258,968	733,891	679,912	55,982	289,802	694,597
24	Interest	151,036	209,375	223,657	291,126	236,803	62,273	119,089	298,076
27	Social benefits	28,628,546	31,954,954	34,049,350	39,793,076	39,538,609	35,291,706	48,559,700	45,693,041
28	Other expense	22,417	21,666	21,547	21,761	23,965	4,021	5,340	4,376
31	**Net acquisition of nonfinancial assets**	**43,385**	**36,147**	**66,090**	**74,553**	**23,704**	**13,366**	**45,087**	**64,760**
2M	**Expenditure**	**30,536,813**	**34,056,782**	**36,224,759**	**42,649,709**	**42,255,730**	**37,368,592**	**51,091,926**	**49,003,166**
NLB	**Net Lending Borrowing**	**991,057**	**(398,261)**	**(85,197)**	**(659,187)**	**443,454**	**3,332,728**	**(3,816,563)**	**(237,774)**

Source: RAF Financial Statements and mission calculations

TABLE 12. Road Accident Fund GFS Compilation 2016-2023 – Modified Cash Basis

GFS Code	GFS Descriptor	2016	2017	2018	2019	2020	2021	2022	2023
1	**Revenue**	**33,204,663**	**33,339,269**	**37,342,861**	**43,239,323**	**41,240,480**	**42,248,516**	**48,154,678**	**48,757,778**
11	Taxes	33,113,056	33,229,532	37,250,841	43,138,770	41,177,671	42,088,592	47,931,888	48,471,534
1142	Excises	33,113,056	33,229,532	37,250,841	43,138,770	41,177,671	42,088,592	47,931,888	48,471,534
14	Other revenue	91,607	109,737	92,020	100,553	62,809	159,924	222,790	286,244
2	**Expense**	**68,117,341**	**68,040,467**	**63,650,213**	**98,968,206**	**100,812,100**	**88,819,172**	**101,019,659**	**102,585,665**
21	Compensation of employees	1,279,874	1,434,772	1,605,147	1,735,302	1,752,737	1,941,244	2,103,544	2,248,316
22	Use of goods and services	397,542	420,016	454,265	515,183	534,456	530,020	531,316	668,252
24	Interest	151,036	209,375	223,657	291,126	236,803	62,273	119,089	298,076
27	Social benefits	66,266,472	65,954,638	61,345,597	96,404,834	98,264,139	86,281,614	98,260,370	99,366,645
28	Other expense	22,417	21,666	21,547	21,761	23,965	4,021	5,340	4,376
31	**Net acquisition of nonfinancial assets**	**43,385**	**36,147**	**66,090**	**74,553**	**23,716**	**13,366**	**45,087**	**64,760**
2M	**Expenditure**	**68,160,726**	**68,076,614**	**63,716,303**	**99,042,759**	**100,835,816**	**88,832,538**	**101,064,746**	**102,650,425**
NLB	**Net Lending Borrowing**	**(34,956,063)**	**(34,737,345)**	**(26,373,442)**	**(55,803,436)**	**(59,595,336)**	**(46,584,022)**	**(52,910,068)**	**(53,892,647)**

Source: RAF Financial Statements and mission calculations and estimates

E. GFSM 2014 GUIDANCE ON INTEREST

6.65 From a cash recording perspective, periodic debt service payments, recorded in the Statement of Source and Uses of Cash, can be distinguished as interest payments (“coupons” or “coupon payments”) or principal payments. When using the cash basis of recording, interest payments are recorded as an expense transaction when such cash flows occur. In this case, only principal repayments will reduce the debtor’s liability. The amount initially advanced or borrowed is also known as initial principal.

6.66 In macroeconomic statistics, interest is calculated according to the debtor approach.[22] According to this approach, interest is equal to the amounts the debtors will have to pay to their creditors over and above the repayments of the amounts advanced by the creditor. For fixed rate instruments, this approach assumes that interest expense is determined for the entire life of a financial instrument by the conditions set at inception of the instrument. Interest accrual is therefore determined by using the original yield-to-maturity. A single effective yield, established at the time of security issuance, is used to calculate the amount of accrued interest in each period to maturity. Th e accrual of interest should be calculated by the compound interest method.[23]

6.71 Certain financial instruments, such as short-term bills and zero-coupon bonds, do not require the debtor to make payments to the creditor until the liability matures. In effect, the debtor’s liability is discharged by a single payment covering both the amount of the funds originally borrowed and the interest accrued and accumulated over the entire life of the liability. Instruments of this type are said to be discounted because the amount initially borrowed is less than the amount to be repaid. The difference between the amount to be repaid at the end of the contract and the amount originally borrowed is interest, which on the accrual basis of recording must be allocated over the reporting periods between the beginning and end of the contract. The interest accruing in each period is recorded as if being paid by the debtor and then borrowed as an additional amount of the same liability. Thus, interest expense and an increase in the liability are recorded in each period. When more than one reporting period is involved, there are a number of ways to allocate the total amount of interest among the periods involved. The most common and simple method is to assume that the interest rate is constant throughout the contract period. On the cash basis of recording, the full amount of the difference between the amount to be repaid at the end of the contract and the amount originally borrowed is recorded as interest when the payment is made—that is, at the end of the contract when the liability matures.

6.75 Index-linked securities are instruments for which either the coupon payments (interest) or the principal or both are linked to another item, such as a price index, an interest rate, or the price of a commodity (see paragraph 7.153). The item is one that normally changes over time in response to market pressures. The values of the indicators are not known in advance. For debt securities with indexation of the amount to be paid at maturity, these amounts may be known only at the time of redemption. As a result, total interest flows before redemption cannot be determined with certainty. To estimate interest accrued before the values of the reference indicators are known, it is useful to distinguish various arrangements.

Indexation of the coupon payments only

6.76 When only coupon payments are index-linked, as with floating-rate notes, the full amount resulting from indexation is recorded as interest accruing during the period covered by the coupon. To the extent that data are compiled after the coupon payment date, the value of the index is known and can be used to estimate that payment. If the data are compiled before the date for the coupon payment, the movement in the index during that part of the reporting period covered by the coupon can be used to calculate the interest accrued.

Indexation of the amount to be paid at maturity

6.77 When the amount to be paid at maturity is also index-linked, the amount of interest accrued becomes uncertain because the redemption value is unknown; in some cases, the maturity time may be several years in the future. There are two approaches, depending on whether the index is based on a broad or narrow reference item.[28]

- When the amount to be paid at maturity and coupon payments are indexed to a broad-based index (e.g., the consumer price index), interest accruing in a reporting period may be calculated by summing two elements:
    - The amount resulting from the indexation of the coupon payment (as described in paragraph 6.76) that is attributable to the reporting period
    - The change in the value of the amount outstanding between the end and beginning of the reporting period due to the movement in the relevant index.

This approach works well when a broad-based index is used, as such indexation is expected to change relatively smoothly over time.

- When the amount to be paid at maturity or the coupon payments and the amount to be paid at maturity are indexed to a narrow index (e.g., a gold index) that includes a holding gain motive, interest accruing may be determined by fixing the yield-to-maturity (rate of accrual) at the time of issue. Accordingly, interest accrues over the life of the instrument at a rate that reconciles the difference between the issue price and the market expectation, at inception, of all payments that the debtor will have to make over the life of the instrument. Any deviation of the underlying index from the originally expected path leads to holding gains or losses that will not necessarily cancel out over the life of the instrument. Th is approach works well when the indexation of the amount to be paid at maturity combines motives for both interest income and holding gains (e.g., a commodity price, stock prices, or gold prices). The treatment of indexation of securities is also discussed in paragraph 9.41.