



SOUTH AFRICA

South Africa's transition to democracy has been accompanied by significant efforts to establish transparency and accountability in the budget process. These include the introduction of a Medium Term Expenditure Framework (MTEF) and various other budget reform measures.

Legal framework for transparency

- The South African Constitution entrenches, in principle, a degree of transparency in budgeting and financial management. Further national framework legislation has been introduced to translate this principle into budget practice.
- As an important legislative cornerstone, the Public Finance Management Act (PFMA) of 1999 sets stringent transparency requirements, including regular reporting and the assignment of accountability. It also has far-reaching provisions on the scope and usefulness of budget information. Subsequent legislation has extended the requirements of the PFMA to the provincial sphere of government.
- The South African legal framework meets – and in some respects exceeds – most of the key features listed in the IMF Manual on Fiscal Transparency. One exception is the need for clear conditions for the use of contingency funds.
- In spite of significant progress, there continues to be a lack of clarity around the budget amendment powers of the legislature. The legal basis of transparency requirements for the executive is also not comprehensive enough.

Clarity of roles and responsibilities

- The Constitution assigns relatively clear roles and responsibilities to the different spheres of government. These have been translated into practice via new institutional arrangements, the MTEF process and the strict assignment of accountability under the PFMA.
- However, the system of inter-governmental fiscal relations in South Africa is complex and not easily or widely understood. The media, civil society and the public generally have little knowledge of who in government is responsible for what.
- Greater clarity of roles and responsibilities at the legal and institutional levels has thus not yet translated into a more transparent interface between government and citizens. This detracts from the ability of stakeholders to hold government (at different levels) to account.

Public availability of information

- Changes in the structure of government and budget reform measures have brought about vast improvements in the budget information available to legislatures and civil society.
- Budget information during the drafting phase includes the publication of a pre-budget statement. This includes a discussion of the macro-economic outlook, the fiscal framework for the budget, the main spending policy parameters and the main divisions of revenue between the spheres of government, as well as functions and types of spending.
- In the legislative phase, budget information is reasonably comprehensive, with good supporting documentation on macro and micro fiscal decisions, measurable objectives and reporting on spending and delivery in the previous year.
- Budget information is generally and increasingly reliable, accurate and user-friendly. A process is underway to extend uniform expenditure classifications to all government financial publications, which will further aid budget scrutiny.
- In terms of the PFMA, audited statements on spending by government departments, legislatures, constitutional institutions, public entities and enterprises must be presented to the relevant legislatures within seven months after the end of the fiscal year.

Checks and Balances in the budget process

- A system of checks and balances has been established to strengthen fiscal transparency.

- The Constitution guarantees the independence of the Auditor General. The PFMA extends this mandate to include reporting not only on accounting for funds used, but also the efficiency and effectiveness of spending, as well as adherence to prescribed rules and procedures, such as those for procurement.
- National statistics are collected and collated by an independent institution.
- The National Treasury runs an early warning system to detect under- and overspending, backed up by legal reporting requirements.
- While emergency spending is governed by regulations, these could be more specific.
- Existing procurement regulations are unnecessarily complex, non-transparent and are not always followed in practice. A procurement reform process is underway.

MANAGEMENT OF EXTRA-BUDGETARY ACTIVITIES

- The Public Finance Management Act (PFMA) casts a net over most extra-budgetary institutions, by classifying all boards, commissions, companies, corporations, funds or entities established by national legislation or owned by government. It sets standard budgeting and reporting requirement for all listed institutions and tasks the accounting authorities of public entities to provide annual reports, financial statements and auditors' reports. The PFMA also enables the Auditor General to audit any of these institutions.
- Some loopholes remain, and there are on-going efforts to improve reporting on extra-budgetary activities.

PARTICIPATION IN THE BUDGET PROCESS

- The legislatures and civil society have access to sufficient and adequate information to engage with the budget process.
- However, so far legislatures and civil society have failed to make optimal use of available information and to take up opportunities to influence policy in the medium-term.
- There is scope for the legislature to restructure its engagement in the budget process to make its inputs more meaningful.
- Civil society and the legislatures require greater capacity and will to focus on issues of allocative and operational efficiency.

FISCAL TRANSPARENCY research in SOUTH AFRICA

The South African chapter is based on a revision and update of an earlier country report on transparency and participation in the budget process, published by Idasa's Budget Information Service in 2000. The revised chapter was written by Conrad Barberton, an economist with Cornerstone Economic Research.