

TRANSPARENCY AND PARTICIPATION IN THE BUDGET PROCESS

South Africa: A Country Report¹

December 2000

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¹ This is a condensed version of the original report published in October 1999. The original report is available at http://www.idasa.org.za/final/publications/bis_transparency_full.htm.

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INTRODUCTION²

A movement towards greater transparency and participation in governmental budget decisions is sweeping much of the world. The trend is apparent in developed countries, where broad budget reforms adopted in recent years placed great emphasis on transparency. This trend is also apparent in many developing countries, as part of their transformation toward a more open and democratic society. Furthermore, in the context of widespread poverty in the developing world, citizens and civil society organisations are increasingly focusing on the budget and its effects on the distribution of resources, leading them to demand more and better budget information.

Nevertheless, in many countries budget transparency and participation are more ideas than reality. In these countries the entire budget is produced in a closed-door process and is dominated by the executive branch and legislative approval occurs with little opportunity for debate or amendment. There is a paucity of information on the implementation of budgets, including the effectiveness of expenditure.

In South Africa, despite path-breaking strides since the new state was established in 1994, the consolidation of democracy is an on-going challenge. Budget transparency and participation are critically important to the development of democracy. The current budget process, in particular, allows for little input by the legislatures and the public, and in certain respects remains opaque. It is within this context that the Budget Information Service (BIS) of the Institute for Democracy in South Africa (Idasa) and the International Budget Project of the Center on Budget and Policy Priorities based in Washington, D.C. undertook to produce a report on transparency and participation in South Africa's budget process. That report was released in October 1999. The reaction to the report within South Africa has been positive; it has helped promote discussion over how to advance budget accountability principles within the country. It has also received

² The authors would like to thank Stefan Falk and Joel Friedman of the International Budget Project for their helpful comments, as well as acknowledge the Ford Foundation as the primary funder of the study.

substantial interest from the international community, reflecting international interest specifically in the topic of transparency as well as general interest by independent researchers in examining the budget process and policies in advancing such principles in their own countries.

This is a revised version of the report. The revision was undertaken with the view of making it more accessible to an audience outside South Africa and more useful to researchers in other countries who are interested in assessing how the principles of transparency and participation could help inform and improve the budget process in their countries. Such assessments are underway by researchers in Russia and in several countries in Latin America, Africa and Eastern Europe, among others.

To help make this revision accessible and useful outside South Africa we have attempted to clarify the issues and context that are peculiar to that nation. We have also added an appendix that discusses the reaction to the report when it was released in South Africa and the follow-up steps that Idasa plans to take. The revision is somewhat shorter than the original version, and attempts to highlight the points of most general interest.

Much has changed since the original research was conducted in 1998/1999. We have indicated where these changes have been substantive. The more subtle changes, however, have not been incorporated in this revision, since they would require a thorough re-evaluation. That evaluation will take place in 2001, when the South African budget system will be assessed as part of a multi-country African study.³

Why are transparency and participation important?

Good governance dictates that government operations and decisions should be made openly and with the active participation of those people influenced by them. The budget is the primary economic policy document of the government; for this reason transparency and participation in

³ The African study has adapted the Idasa framework for a comparative study across Ghana, Kenya, Nigeria and South Africa. The research is being conducted by civil society organisations in the countries and is being co-ordinated by Idasa.

the budget are particularly important. Indeed, it can be argued that the public has a *basic right* to information about the budget and to have its views considered in budget decisions.

The benefits of transparency include:

- Early identification of the weaknesses and strengths of policies, thereby promoting necessary reforms. Transparency, for example, can contribute to macroeconomic and fiscal stability as it prevents the build-up of a crisis in secret, bringing about smaller adjustments sooner.
- Improved accountability of government. Legislatures, the media, civil society and the public will be better able to hold the executive to account if they have information on its policies, practices and expenditures. Elected office holders and public servants may be more likely to act in a responsible manner if their decisions are open to public scrutiny. Holding governments accountable can provide a check on corruption.
- Increased transparency may increase faith in governments and commitment to policy trade-offs. Transparency can thus build social cohesion. For instance, if the public can better understand what their government is doing and why they may have more confidence in that government.
- Improved investment climate. With a clear understanding of government's policies and actions, international and local investors may be willing to invest more resources in a country.

The connections between transparency and participation are important. To reap these benefits of budget transparency fully *participation* of legislatures and civil society in government decision-making is required. Transparency and participation are mutually reinforcing and jointly required for better budgetary outcomes. Transparency is a prerequisite for public debate and participation which, in turn, can lead to more requests for information:

- Involvement of actors outside the executive branch can improve policy and allocation decisions by bringing different perspectives and creativity to budget debates. The need for such participation is strengthened by the legislatures' and civil society's closer contact with communities and interest groups.

- Information may allow legislatures to monitor executive decisions and performance, but if they do not have sufficient opportunity to act on the information they receive, their oversight may be less effective.
- While transparency can engender consensus on policy and allocation decisions, this consensus may be prevented or weakened if stakeholders are not able to participate in a debate.

Methodology

The report is based on interviews conducted in South Africa, existing literature, information audits, and budget and systems analysis. The report method takes into account current efforts to measure transparency in institutions such as the European Union, the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) Code of Good Practices for Fiscal Transparency. At the start of the project we relied very heavily on the IMF Code and many of the standards in our initial survey echo the Code. However, as the study progressed we interpreted the IMF standards for the South African context or developed further standards.⁴

The most important deviation is the addition of a focus on participation in public policy and our focus on budget transparency. Further, our method teases out the informal rules governing information availability from the legal and regulatory practices that officially determine the level of transparency. The Transparency and Participation Questionnaire developed for this report, as well as the answers it produced, can be found in full in appendix two.

⁴ The IMF code comprises a set of guidelines to establish a sound and viable transparency framework for fiscal policy. It is built around the following objectives, each of which speaks to a category of requirements: roles and responsibilities in government should be clear; information on government activities should be provided to the public; budget preparation, execution and reporting should be undertaken in an open manner; and fiscal information should be subjected to independent assurances of integrity. While the IMF Code is an important advance in efforts to promote fiscal transparency, it is limited, particularly when it is examined from the perspective of promoting participation in the budget decision-making process.

This research is not simply an opinion survey. Data was gathered from several sources. A panel of experts from the executive, legislatures and civil society with different areas of specialisation was selected and interviewed.⁵ We consulted 19 respondents from the executive branch of government, the Auditor General's office, the legislature and civil society. In writing the report we attempted to reflect the full spectrum of opinion. The survey also draws on existing data and research, including the work of BIS.

The questionnaire covers five basic areas of transparency and participation in the budget process; these areas, listed below, comprise the following five sections of this paper:

- a legal framework for transparency;
- clarity of the roles and responsibilities of the national and provincial sub-national tiers of government;
- public availability of budget information;
- independent checks and balances of budget execution and government data; and
- the budget decision-making process.

In conducting the survey and writing this report, it became clear that it is extremely difficult to obtain an accurate snapshot of the state of transparency in South Africa. The image of a country in transition is bound to be blurred. The survey questions rarely elicited straightforward answers. More often than not, the answer was conditional on an information system coming on-line or on future change, or was unclear because processes have not yet settled down.

⁵ The panel of experts was selected with care; each had a specific and relevant area of specialisation and in each area of specialisation there were experts from different sectors of society, that is, from the executive, the legislature, civil society and the public sector. The tougher questions were the qualitative ones: for example, the question on the clarity of roles and responsibilities presupposes consensus on what it takes for roles and responsibilities to be called clear. To help resolve this methodological problem we conducted both in-depth interviews, written interviews and follow-up interviews.

We did not interview members of the media, but in retrospect we probably should have. It is crucial that budget information is available to the media. Also media representatives have a good sense of the ease of finding information, as well as of its usefulness for non-expert audiences.

In trying to deal with this ambiguity, the results were collated in the following format: The report discusses particular questions and provides overall evaluations of the results in each broad area or section. Where relevant we distinguish between policy decisions in principle and the feasibility of implementation. As appropriate, reference is made to future transparency and participation measures. We intend this method to establish a benchmark against which changes can be measured in future surveys.

The South African context

South Africa is a country in transition. The change in government brought about by the first democratic election in 1994 set off a transformation process to incorporate the democratic principles established in the pre-election negotiations. The principle of budget accountability is no exception. The South African budget process has been reformed in ways that markedly increased the degree of transparency and participation.

The following developments were essential to this dramatic transformation in the budget process:

- The new Constitution, enacted in 1996, calls for specific measures to translate transparency and participation principles into practice.
- In 1997, the executive embarked on a drive to reform budget management in the public sector to improve service delivery. The reforms are based on a world-wide trend towards more performance-oriented management, including the devolution of power with increased accountability and transparency.
- The introduction of a Medium Term Expenditure Framework (MTEF) for the 1998/99 fiscal year brought forward projection of macro-economic assumptions, revenue and expenditure over two years beyond the fiscal year, illustrating how revenue and spending will develop over the medium term. The first MTBPS was published at the end of 1997 for the 1998/99 fiscal year. This pre-budget report stated government's overall fiscal policy (balance between expenditure, revenue and the deficit) objectives and its budget policy objectives (the

relationship between spending decisions and policy priorities) for the forthcoming budget and the following two fiscal years.

- The evolution of an intergovernmental fiscal relations system was marked by the establishment of a clear intergovernmental budget process, intergovernmental negotiation structures and legislation (the Intergovernmental Fiscal Relations Act and the Financial and Fiscal Commission Act) to provide a legal framework for the division of revenue and assignment of roles and responsibilities between spheres of government.
- As the term of the country's first democratic legislatures (national and provincial) in office progressed, it increasingly became clear that the legislative arm of government was developing an identity separate to the executive, resulting in demands for more information and greater participation in the decision-making process.
- The government also enacted critical legislation in 1999 that will have important effects on budget transparency and participation in the years ahead. In February, the Public Finance Management Act (PFMA) was passed which establishes stringent transparency requirements, including regular reporting and the assignment of accountability. The PFMA is the cornerstone of new public financial management in South Africa. It has far-reaching provisions covering the scope and usefulness of information on fiscal activities. For example, the PFMA demands monthly actual expenditure reports from departments to treasuries and audited statements to the legislatures within seven months after the end of the fiscal year. It also brings public enterprises under the transparency and accountability net. The PFMA Amendment Act, passed in March, extends the requirements of the PFMA to the sub-national level of government.

One of the notable lessons from South Africa is how much progress can be made in instilling transparency and participation into the budget process in a relatively short period. If these principles are established as objectives, it is possible to move towards them at a rapid pace. On the other hand, the South African experience also shows the difficulties of implementing any framework changes in budget management. Achieving desired levels of transparency and

participation will be an ongoing process as government and civil society develop the necessary capacity to effectively implement the reforms.

Moreover, more changes are needed both to make the system more transparent and to open up avenues for participation. The discussion in the next five sections of this publication – corresponding to the five broad areas of transparency and participation that were examined - is intended to establish how far the country has progressed, as well as to highlight obstacles and challenges to further advances. The publication ends with a summary of all the findings and some concluding observations.

SECTION 1

A legal framework for fiscal transparency

Background

This section examines the legal framework for transparency and participation in South Africa's budget process. The legal framework typically dictates the nature of the budget process; to the degree that governments advance transparency in an informal fashion, such advances are more likely to prove transitory.

Section 1 examines the following aspects of transparency:

- the existence of legislation or rules setting transparency requirements for the executive arm of government and the observation of these rules;
- a legal framework that clearly defines the roles and responsibilities for all key aspects of fiscal management;
- the legal basis for taxes;
- the legal basis for expenditure responsibilities and taxing powers of sub-national governments.

Section evaluation

Since the 1994 democratic election, the legislative framework for fiscal relations, budgeting and financial management has changed in line with the dictates of the structures and functions of government agreed upon prior to the election. The final Constitution entrenched a degree of transparency in budgeting and financial management. It did so, however, only in principle. In the four years since the enactment of the Constitution in 1996 the South African government has passed further national framework legislation that has translated these principles into a set of practical arrangements.

Compared to these positive features of the legislative framework for transparency practices, we note these concerns:

- National legislation to give form to parliament's oversight duties over the budget still needs to be passed. This is a crucial omission.
- Parameters for reporting liabilities have not been extended to include contingent liabilities.
- Legislation on provincial tax powers is still outstanding.
- Current legislation sets out detailed executive transparency requirements, but does not task any one body with policing these requirements. Nor is there any single piece of legislation that focuses on transparency.
- It needs to be seen whether current information systems and management capacity will be equal to the increased transparency requirements under the new legislation. There is considerable doubt that it will. The implementation of legislation is therefore now the bigger challenge.

Given that key pieces of national legislation have been passed to support transparency requirements (the PFMA), while key pieces (amendment powers, provincial taxing powers) are still outstanding, we rate South Africa as medium on the legal framework for transparency. We note, however, the positive record in the area of national taxes.

Detailed assessment

Transparency requirements for the executive

Fiscal transparency requirements for the executive are set out to a limited extent in existing legislation. South Africa does not have a comprehensive fiscal transparency code for the executive, such as the United Kingdom's Code on Fiscal Stability (1989) or New Zealand's Fiscal Responsibility Act of 1994. Nevertheless, fiscal transparency in South Africa does have the following important legal foundations:

- constitutional requirements;
- the requirements of the 1999 PFMA;
- the government's obligations under the IMF Standards of Data Dissemination;

- the obligations placed on departments under the new Public Service Act and the new Public Service regulations to publish information on departmental objectives and programme outputs and outcomes.

The enactment of the PFMA is a major advance. At the same time some respondents expressed doubt that the government's information management and accounting systems will be able to produce the full scope of information as frequently as is required by the PFMA, even though implementation does not need to be immediate.

As will become apparent later in this publication, the government currently publishes *more* than what is required by the acts and regulatory framework documents as a result of its interpretation of what information is needed by parliament and civil society to participate in and monitor the budget.⁶ The resultant scope, depth and usefulness of available information are therefore dependent on the goodwill of current office holders.

The lack of legislation on the publication of contingent liabilities⁷ and extra-budgetary activities⁸ remains a major gap in South Africa's transparency requirements. A detailed, annual and consolidated statement on public sector contingent liabilities could be a useful addition to current documentation. Such a report could further serve the purpose of making explicit who is liable in the final instance, aiding the management of contingent liabilities between spheres of government.

⁶ For example, the 2000 budget documentation brought extra-budgetary funds such as the Unemployment Insurance Fund and Road Accident Fund into the budget. While this is laudable, it would be even better if it was a legal requirement and not easily reversible.

⁷ Contingent liabilities place an obligation on the central budget should certain events come to pass. Thus the timing and amount of the obligation is contingent on the occurrence of some uncertain event, an event that may in fact never occur.

⁸ Extra-budgetary activities are those activities in the public sector that do not use funds directly raised or appropriated under the annual budget but through separate legislation.

Key aspects of fiscal management

Two sets of measures were used to flesh out this section of the questionnaire, namely the requirements under the Constitution and some key aspects listed in the manual accompanying the IMF Code.

The Constitution requires that national legislation be enacted to set out roles and responsibilities for key aspects of fiscal management, including budget planning, approval, execution and oversight. It requires the establishment of a national treasury and the need for measures to ensure both transparency and expenditure control in each sphere of government by introducing generally recognised accounting practices, uniform classifications and uniform norms and standards.

The promulgation early in 1999 of the PFMA and an act amending it (which was applicable to the provinces) codifies much of what is required by the Constitution. The PFMA further obligates the national treasury to publish regulations that will refine the framework requirements of the act. Due to these various pieces of legislation, many of the key features listed in the IMF Manual on Fiscal Transparency are met.⁹ An exception is the manual identifies the need for clear and stringent conditions for the use of contingency funds. This is not covered by existing legislation.

In addition, legislation for the clear assignment of fiscal management responsibilities between the executive and the legislature has not yet been adopted. The Constitution assigns to parliament the crucial roles of policy making through legislation and oversight over the executive through monitoring the direction of policy. It therefore grants the legislature amendment powers over the budget in principle, but leaves it to national legislation to determine what exactly these powers should be. In the continuing absence of such enabling legislation, it is unclear how the legislature is to fulfil its responsibility to scrutinise the budget (see discussion under Budget Process Section).

⁹ Among these are: the budget should be comprehensive; budget transactions should be in gross terms; a minister responsible for finance should be so designated; individual agencies should be held accountable for collection and/or use of resources by these agencies; and audited reports should show clearly how public funds have been used.

One respondent pointed out that whereas an extensive legal basis for the budget exists, it is spread over many acts and documents. In addition, several government regulations qualify and expand published budget rules. There is no agency or body tasked with ensuring that all actors fulfil their legal obligations and there is no budget law that ensures sufficient scope of budget information. All this makes a clear understanding of the legal requirements difficult for stakeholders outside the executive, which in turn limits their ability to demand compliance.

The legal basis for taxes

Respondents felt that taxes are raised according to explicit legislation approved by the legislature. South Africa also has a well-established tax case law, as well as transparent and well-established procedures for negotiating concessions and settling conflict. Tax regulations are published by the South African Revenue Services (SARS) in guidebooks and distributed to all taxpayers with their tax returns. Simplified booklets explaining regulations and procedures are available.

The rights and obligations of the state vis-à-vis the taxpayer and vice versa are also made transparent by the code of conduct adopted by SARS in 1997. Furthermore, a SARS client charter was published in the 1998/99 Budget Review that sets out the rights and obligations of taxpayers.

Despite the above, some respondents felt that tax regulations are still not very clear for those who lack tax expertise. The tax system itself is seen as confusing and non-transparent. Another respondent, however, emphasised that in a modern economy all tax codes are likely to be complex, and that South Africa is no worse than other countries. In fact, the SARS issues notes and procedures on contentious issues that can be applied uniformly.

Most respondents to the tax questions felt that the law and incidence follow each other fairly closely in South Africa, compared with other countries.

A respondent from the Department of Finance remarked that whereas there may be a legal basis for taxes, there is continuing lack of transparency on the rationale behind new tax regulations and their impact. There is also no reporting on the effects of new tax proposals, making it difficult for

the executive to plan and justify future tax proposals, and difficult for parliament to fulfil its oversight role, both before and after taxes are published. The 1999/2000 and 2000/01 budget documentation, however, showed much improvement on this score with an in-depth discussion of the revenue proposals.

The legal basis for sub-national expenditure responsibilities and tax powers

The Constitution assigns either concurrent or exclusive expenditure responsibilities to the national and provincial spheres of government. Functional areas of concurrent responsibility are listed in Schedule 4 of the Constitution (for example health, housing, education, welfare services and policing). Exclusively provincial functions are listed in Schedule 5 (for example abattoirs, ambulance services, provincial roads and traffic). Other functions remain exclusively at the national level (for example defence and foreign affairs).

The taxing powers of sub-national governments are still murky. The Constitution grants provinces the right to levy certain taxes as long as these do not interfere with national policies and are in accordance with national legislation. This national legislation is still outstanding; as a result, there is little clarity about the future tax powers of sub-national governments.

Section 2

Clarity of sub-national roles and responsibilities in practice

The clarity of roles and responsibilities in the management of public finances is essential because it means that the electorate can hold specific parts of government accountable when things go wrong, or praise the correct parties when things go well.¹⁰ In this way, transparency provides an incentive for individuals in government to govern better.

South African sub-national governments are elected separately from national government, but have very little taxing powers. The Constitution assigns expenditure responsibilities for particular functions to either or both national and provincial spheres of government. It does so, however, only in principle. As will be explored in this section, the practical arrangements in South Africa fall far short of such transparency. All respondents to the questionnaire agreed that the assignment of expenditure and tax responsibilities between spheres of government is unclear or emerging.

Two sets of factors contribute to the obscuring of roles. Firstly, the national and provincial governments in South Africa share the same budget cake. Currently provincial own revenue¹¹ contributes on average only 5% of total provincial expenditure. Yet more than half of government spending — outside interest payments — is spent at the provincial level. Despite constitutional provisions for sub-national autonomy, discretion in making such expenditures is severely constrained, reducing clarity on roles and responsibilities. Two factors compound this fundamental fiscal imbalance:

¹⁰ Another aspect of the clarity of roles and responsibility is whether the role of government in the economy is clear and widely understood. In South Africa this would encompass transparency on, for example, the management of public enterprises, the use of extra-budgetary funds and quasi-fiscal activities by public financial institutions. These topics have been deferred to the section on the availability of information.

¹¹ Provincial own revenue refers to revenues that provinces collect for deposit into their own revenue accounts and over which they therefore have control. Examples are licence fees, gambling taxes and the income from provincial toll roads.

- In the South African system the decision on the division of national revenue is firmly located in the national sphere of government. Respondents agreed that whereas the Constitution envisaged a key role for an independent advisory body, the Finance and Fiscal Commission (FFC), in ensuring agreement on the assignment of revenue, it has never gained enough influence to fulfil its function. An ineffective FFC means that the independent authority that could have given weight to division of revenue decisions is lacking. Instead, decisions are made within the national sphere, reducing clarity on who would be responsible for poor service delivery.
- National policy decisions and national norms and standards in those areas of concurrent responsibility (known as joint competencies) bind provinces to spend the largest proportion of their budgets on national spending mandates. Often these are not funded.¹²

Secondly, in the joint competencies the roles of the spheres of government are not clear. Broadly speaking, national government is theoretically responsible for policy and for norms and standards, while provincial governments are responsible for delivering services. One respondent pointed out that, in practice, historically available capacity determines what happens where, and that this is inconsistent across sectors. Education is a good example: in the 1998/99 budget the national department not only took over the delivery of text books in provinces which were without books (a provincial responsibility) but for a period also entertained the notion that provinces should be allowed to set their own teacher/pupil ratios (a national responsibility). Despite the above concerns, it would be unfair to ignore governmental efforts to make explicit the expenditure responsibilities of sub-national governments. For example, the Budget Council, an intergovernmental body of national and provincial ministers, now discusses and agrees on the divisions of revenue between provinces and across areas of spending. The MTEF enables

¹² An example of an under-funded mandate is the obligation under national legislation to pay social security grants to all eligible recipients. Provinces have to find the money for these within the overall share of funds they receive from the government i.e. the grants are not funded on a case by case basis from the national level. In the Northern Cape, for example, where take-up rates have been historically high, social security payments make up a disproportionate spending obligation for the provincial government.

national and provincial spending departments to plan within spending trajectories, and then to argue cases of under-funding when they are unable to stick to their budgets. For national legislation with provincial budget implications, a memorandum needs to be attached assessing the potential cost to provinces. Finally, the exercise by the national sphere of its Section 100 powers¹³ has forced three provinces to accept budget constraints and responsibility for delivery within these constraints. Whereas this is an extreme measure, it has had the effect of setting precedents that make provinces' expenditure responsibilities explicit.

Section evaluation

Although the Constitution assigns relatively clear powers to the different spheres, in practice there has been a great deal less clarity in the assumption of roles and responsibilities by the spheres of government. New institutional arrangements like the Budget Council, the MTEF budget process and the strict assignment of accountability under the PFMA represent improvements in practice to enforce constitutional roles and responsibilities, but fundamental problems remain that allow sub-national spheres to deny budgetary responsibility.

In weighing up these factors and respondents' answers to our questionnaire, we rate the South African system as weak on the clarity of sub-national roles and responsibilities in practice.

¹³ Section 100 of the Constitution grants the national government the right to intervene or take over a provincial government in the national interest. The Minister of Finance has used these powers to grant three provincial governments bail-outs conditional on a revamp of budgets and hard future budget constraints.

Section 3

Public availability of information

Background

A fundamental requirement of fiscal transparency is that comprehensive, reliable and useful budget information is made available. This section firstly examines the comprehensiveness of budget documentation as regards:

- the budget framework;
- fiscal stance;
- budget classifications;
- extra budgetary activities; and
- actual spending information.

Secondly, it focuses on the reliability of budget information by testing for divergence between budget plans and actual spending. Thirdly, it evaluates the usefulness of budget information.

Section evaluation

Changes in the structure of government, as well as budget reform measures, have resulted in far-reaching improvements in the budget information available to legislatures and civil society.

Let us consider the milestones:

- South Africa now publishes over 90% of the information required by our survey. In comparison, approximately 30% was published five years ago. The increase in available information did not happen piecemeal, but was the result of fundamental changes in the system. These include the introduction of an MTEF and the passing of the PFMA. The South African experience suggests that if a government sets out to provide more budget information, much can be accomplished in a short time.
- Since the 1996/97 budget year, budget documentation has been improving steadily. The national and provincial Budget Reviews have become indispensable guides to the budget. At the national level, the National Expenditure Survey has added more detailed information about the objectives of spending. The economic forecast information has also been expanded

in scope and depth, including better indications of risk to the government's overall position. The annexures including statistics on the government accounts and memoranda to the division of revenue and tax proposals have been expanded in the 1999/2000 <I>Budget Review to include much more comprehensive information in each area.

- Should the requirements of the PFMA be realised, legislatures and civil society will have access to more comprehensive actual expenditure information more frequently. Public entities and enterprises are now included in the net.

Compared to these milestones, the concerns we would like to raise include the role of government in the economy and the paucity of information management capacity.

- Although the PFMA extends standard budgeting and reporting requirements to public entities and public enterprises, the government is still not required to publish a consolidated statement on all extra-budgetary activities. An annual review of the government's extra-budgetary activities would enhance transparency on the role of government in the economy as well as on the use of public resources.
- The assessment has also identified the following information shortfalls: information on contingent liabilities is not sufficiently comprehensive; as yet the budget documentation contains no information on tax expenditures; and analysis of tax incidence is lacking.
- The 1998/99 fiscal year saw a marked improvement in the reliability of overall expenditure estimates. This can be ascribed to increased treasury control measures as well as an improvement in the government's information bases for the national sphere and nine provinces. It took two fiscal years after the 1996 wage policy decisions for budgets to reflect actual spending obligations in terms of these decisions.¹⁴ It is, however, too soon to establish

¹⁴ The 1996 wage agreements not only set up large increases for a three-year period, but in some sectors also included agreements on simplifying wage structures which on average moved personnel into higher salary brackets. There was no data available to predict the impact of these decisions. Other policy decisions with severe spending implications included the move to free health care for pregnant women and children. This led to increased expenditure, as well as reduced own revenue as previously user-charges were levied.

whether this is a once-off event or a permanent improvement in budgeting systems that is able to withstand future shocks.

- The continued absence of information on objectives and the efficiency and effectiveness of spending detracts from the usefulness of available information. This is especially true at the provincial tier. There is very little trust in the capacity of government information systems to generate accurate and suitable information to comply with the requirements of the PFMA.
- The use of inconsistent classification of budget data across votes and spheres of government, as well as between planned and actual expenditure, complicates comparisons across categories and detracts from budget transparency.

Even though the concerns above are important, given the significant improvements in the availability, reliability and usefulness of budget information since 1994, the section is rated medium.

Detailed assessment

Comprehensiveness of budget documentation

Since 1994, the national Department of Finance has systematically expanded the breadth and depth of annual budgetary information and the availability of budget information has grown in a range of areas.

Budget framework

One catalyst for improved budget documentation has been the implementation of the macro-economic strategy, known as GEAR, which required fiscal policy to be based on its macro-economic framework and forecasts.

The introduction of medium term budget planning in the 1998/99 budget year extended the annual agency and programme forecasts to cover a three-year period. Currently the documentation that is submitted annually to parliament on Budget Day includes a Division of Revenue Bill, an Appropriation Bill and a Tax Amendment Bill, backed by the Estimates of Expenditure, the Budget Review (an analysis of budget policy), the Budget Speech and the

National Expenditure Survey. National data is published in the consolidated Estimates of Expenditure, as well as in the Budget Review. The new National Expenditure Survey added contextual information on a national level for every department.

At the provincial level each province prepares their own budget, which is submitted, to provincial legislatures as Expenditure Estimates, supported by a Budget Speech and, in most provinces, Budget Reviews. Another document, the Intergovernmental Fiscal Review, is published later in the year and adds sectoral contextual information for provincial expenditures. A pre-budget statement, the MTBPS, was issued for the first time in November 1997. This package of documents brings South African practice in line with the best practice fiscal transparency measures for fiscal reports¹⁵ posed by the OECD.

Indicators of fiscal stance

The budget documentation for consolidated government contains several indicators of fiscal stance. Tables in annexure B of the Budget Review include net worth, overall balance¹⁶, primary balance, public debt indicators and liabilities. It is important to have different measures of fiscal

¹⁵ Two reports under these standards, the mid-year report and the pre-election report, are not part of South African practice.

¹⁶ The analysis of the government's fiscal position should be based on the overall balance i.e. revenue plus grants received less expenditure less "lending minus repayments". Adjustments to this indicator may be necessary, depending on the fiscal practices of the government in question. For example, in countries with substantial public debt the primary balance (the overall balance excluding interest payments) is an indicator of the degree to which current policies will add or subtract from the debt burden. Another example is where quasi fiscal activities (and other balance sheet operations) are extensive and quantifiable, an augmented fiscal balance should be estimated. A suggested base for an augmented deficit or surplus would consist of the overall balance (that is, the fiscal deficit or surplus derived from the budget or final accounts statements), plus any loss by the central bank, plus recapitalisation activities not recorded. Where transactions in financial assets are large, the underlying balance should be reported. This balance would embody the principle that the proceeds from asset sales, which essentially reflect a balance sheet transaction, be treated as financing rather than revenue, negative capital expenditure, or negative net lending. The underlying balance would be net of "lending minus repayments" in an attempt to remove from cash- or modified cash-basis accounts the impact of all transactions in financial assets.

stance that allow for an assessment of the impact of all of government's activities on the nation's balance sheet. For example, if the primary balance is negative, it would imply that the current government policies carry a debt burden. On the other hand, the overall balance is an indication of the effect of the government's activities excluding changes in assets.

The budget documentation does not compare estimated indicators of fiscal stance with the actual outcomes. However, analysts could monitor these indicators by referring to data published by the Reserve Bank.

The budget deficit is presented in the budget itself and taken up by the press and analysts as the litmus test of the government's financial position. The 1999 MTBPS expanded the analysis of the fiscal framework to the wider general government and public sector accounts, including specific reference to the public sector borrowing requirement in relation to the deficit.

There are some concerns that the schedule of contingent liabilities is defined too narrowly. The national budget excludes contingent liabilities such as provincial overdrafts, university debt, non-departmental organisations, research councils, government agencies and social security and other funds. The Budget Review contains financial guarantees furnished by national government, but does not cover all potential shortfalls that may have to be covered by the budget, such as those incurred by public entities or public enterprises.

The debt table does not include provincial debt. It also excludes extra-budgetary institutions (EBIs) and social security funds, making it difficult to assess the full fiscal liabilities of the consolidated government. The budget documentation contains no information on quasi-

fiscalities¹⁷ or on tax expenditures.¹⁸ It also does not include a statement of financial assets and liabilities or one of net worth.¹⁹

Forecasts

Fiscal policy and budgeting is based on medium term macro-economic forecasts. These are supported by limited analysis, including some reference to assumptions. The medium term assumptions are updated twice a year in the MTBPS and the Budget Review. The discussion of the economic outlook in the 1999/2000 Budget Review was much improved in scope and depth compared to the previous year's analysis.

The assumptions and parameters of the macro-forecasts are discussed in depth in the budget documentation. Government forecasts make use of the Reserve Bank model, as well as models from the Council for Scientific and Industrial Research and the University of Stellenbosch. These are not open to independent assessment, but are generally seen as credible.

Further, the interaction between the fiscal framework and the macro-forecasts is based on a set of policy guidelines in the medium term macro-economic strategy document, GEAR. GEAR was drafted by a panel of economists in a closed process and is based on the same inaccessible models. Since its announcement, GEAR has proved controversial. Its major opponents include the labour movement and prominent pro-poor non-governmental organisations (NGOs). Given that the macro-economic growth projections of GEAR have not been achieved, that the drafting process was closed, and that the models are not open to scrutiny, public reaction to the budget is often still overshadowed by debates on the integrity of the macro-forecasts and the validity of

¹⁷ Quasi-fiscalities would result from government activities or regulations that have indirect fiscal implications, either on the tax or revenue side. Examples would be subsidised lending to preferential sectors of the economy, multiple exchange rates or charging less than commercial prices for goods delivered through the public sector.

¹⁸ Tax expenditures would be the cost of tax concessions, for example the cost of excluding certain categories of mining companies from a general company tax.

¹⁹ A strong argument can be made that focus on the deficit as an indicator of fiscal position can be misleading, especially in cases where governments sell off assets in order to reduce the deficit. Changes in net worth, which includes assets and liabilities as variables, provide a longer term focus to assessments of fiscal position.

GEAR, thereby diminishing the needed debate and scrutiny on allocative or operational issues. The necessary social accord that would ease the implementation of a macro-economic strategy is also lacking. Labour, for example, rejects the central GEAR tenet of growth before redistribution and does not temper its annual wage demands or its stance on labour policy to allow for a more flexible labour market.

Classifications

The Constitution requires the national treasury to introduce uniform expenditure classifications in the interest of transparency, simplicity and comparability. Both the IMF and the OECD fiscal transparency guidelines require expenditure to be classified by administrative, economic and functional classification. A programme is underway to pilot these changes in the 2000/2001 budget.

Currently, expenditure is classified first by vote²⁰, then by programme. Programme information is classified three times. Once in a functional manner according to sub-programmes or activities, a second time according to economic classification (expenditures classified by the nature of the expenditure as capital or current) and a third time by a “standard items” line item classification. This classification system will be modernised, starting on a pilot basis in the 2000/001 budget. The main change would be an amalgamation of the standard items and broad economic classifications into a more detailed economic classification. The new system will be automated and compatible with international standards and the systems used by the Reserve Bank and Statistics Bureau that generate South Africa’s official government statistics. It will provide more useful information for budget scrutiny and qualitative control of expenditures. The following table details the expected changes:

²⁰ A vote refers to portions of the budget that are voted separately by parliament, usually coinciding with a department. However, in the case of some provincial departments, two departments would be covered under one vote. A department, however, would not receive funds from more than one vote, unless it is through a transfer or a conditional grant. Since 2000 the legislatures actually vote on the programmes within a vote, but budget documentation is still organised by vote. This complies with the requirement for a clear administrative classification of the budget.

Standard items classification (old system)	Economic classification (new system)
	Current spending
Personnel expenditure	Remuneration
Administrative expenditure	Goods and services
Stores and livestock	
Professional services	
Transfers (current)	Current grants to persons & households
	Subsidies
	Capital spending
Equipment	Transport equipment
	Machinery and equipment
Land and buildings	Land and buildings
	Infrastructure & construction
	Other fixed assets
Transfers (capital)	Capital grants
	Net lending & financial transactions

Extra-budgetary institutions

Transparent fiscal management requires that all fiscal activities should be subject to scrutiny as part of the budget process. Extra-budgetary activities are those activities in the public sector that do not use funds directly raised or appropriated under the annual budget. Extra-budgetary activities are often undertaken by extra-budgetary institutions (EBIs), such as universities, but not necessarily. Extra-budgetary activities can also be undertaken through extra-budgetary funds, such as the Road Accident Fund or the Social Security Fund. In both cases, the activities are funded on the authority of separate legislation and often use earmarked revenue (such as a fuel levy in the case of the Road Accident Fund and a tax on income for the social security unemployment fund). Although extra-budgetary activities are managed independently and have standing legislative authority, they should still be reviewed periodically as they directly or indirectly use public resources or impose costs on households and should be part of the priority setting process. Furthermore, the affairs of these institutions and funds should be included in any picture of the public finances since the burden for any shortfall in such funds often reverts to the central budget.

For the sake of simplicity and comprehensiveness, we have consolidated our discussion of transparency on extra-budgetary activities in South Africa in this section of the paper. The discussion draws on several questions in the questionnaire.

Fiscal year 1999/2000 saw two pro-transparency developments in publishing information on EBIs, namely the passing of the PFMA and the inclusion of more extra-budgetary information in the 2000 Budget Review and the 1999 MTBPS.

The PFMA introduces several changes on extra-budgetary activities:

- It casts a net over most EBIs by classifying all boards, commissions, companies, corporations, funds or entities established by national legislation or under ownership of the state as public entities. These can either be national public entities that are fully or partially funded by the state, or national government business enterprises that are under the ownership **and** control of the executive and are not funded by the state.
- It standardises the budgeting and reporting requirements of all the listed institutions and extends the accountability provisions of the act to the accounting authorities of public entities. It requires the auditors of public entities to submit reports to the relevant legislatures.

The Public Finance Management Amendment Bill extends these provisions to provincial public entities. However, whereas the new legislation establishes a central list of EBIs, it does not require consolidated reporting by government on its extra-budgetary activities²¹ and, secondly, the lists still excludes certain institutions, such as those of higher education.

Changes to the 1999/2000 Budget Review represent an effort by central government to consolidate data on EBIs. The Budget Review takes several steps to bring the South African budget closer to international standards. Tables in this document are constructed to include EBIs, and where data is available, donor funds and information on local governments.

²¹ The 1998 <l>Budget Review included a table that gives the consolidated revenue, expenditure and deficit/surplus for EBIs. This table was omitted in the 1999 <l>Budget Review. This is an instance of information that is volunteered – i.e. not required by law or regulation - one year and then not published subsequently.

On the national level, the Estimates of Expenditure and the <I>Budget Review distinguish between budget and extra-budgetary funds. The <I>Budget Review classifies revenues, financing and debt in a way that is compatible with the Government Finance Statistics standards of the IMF. Provincial overdrafts are excluded, however.

The 1999 MTBPS made an explicit effort to include information on the fiscal activities of the wider public sector. This includes information on the wider public sector borrowing requirement over the medium term and the setting of fiscal policy aims (on general government expenditure, capital formation, saving, interest on debt and tax revenue) for the wider public sector.

Availability of actual spending information

Up until the enactment of the PFMA, fiscal reporting to the legislatures took place once a year, and audited financial statements were available two years after the budget had been adopted. Both the frequency and timing of fiscal reporting made it difficult for legislatures to fulfil their oversight role.

In accordance with the PFMA, audited statements on spending by provincial and national 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. This is five months earlier. Under the old system audited statements were not presented until a year after the end of the fiscal year.

A more significant change is the requirement that the national treasury must also publish monthly statements within 30 days after the end of each month on the actual revenue and expenditure per vote. The Public Finance Management Amendment Bill extends these provisions to the provincial level. This means that actual expenditure data should be available year-round. The data is available on the Department of Finance's website.

The reliability of budget information

The questionnaire tested two indicators of reliability: the incorporation of information on risks to the fiscal position and the reliability of expenditure and revenue estimates. The budget presentation includes a discursive assessment of risk: it sketches a low and a high economic forecast scenario and indicates factors that could affect those. Further indicators of risk can be found in the contingent liabilities tabled in the <I>Budget Review.

In testing the expenditure and revenue estimates, we calculated the average absolute deviation of outcome numbers from estimates in four areas:

- medium term macro-economic forecasts;
- budget framework;
- expenditure between votes on a national level; and
- types of expenditure within a vote (provincial).

Medium-term macro-economic forecasts

The South African economy has consistently failed to achieve the overall growth rates forecast in GEAR and in subsequent budget documentation. The real GDP growth rate forecast for 1996/97 was 3.75% but it turned out to be 3%. The comparative numbers for 1997/98 were 2.5% and 1.5%. The 1999/2000 MTBPS published in November 1999 adjusted growth projections for 1998/99 to 0.2%, compared with the 3% projected in the Budget Review six months earlier. The effect of these adjustments on the fiscal framework over the medium term is not insignificant given the programme to sustain deficit reduction. To still achieve GEAR targets of a 3% deficit by the year 2002, the 2000/01 fiscal year has absorbed an adjustment in expenditure estimates of approximately six billion rand (a reduction in overall expenditure of 3%) less than the baseline. That reduction itself is based on projected GDP growth rates that may not be achievable.

Budget framework

Since the introduction of GEAR, the government has succeeded in delivering an actual deficit within range of its target. This, however, is not attributable to precise revenue or expenditure estimates. Since 1996/97 improved collections on the revenue side have offset over-expenditure. The table below records planned estimates and actual outcomes for the budget framework since 1995/96.

Planned and Actual Revenue, Expenditure and Deficit for the fiscal years 1995/96--1998/99

R billion	1995/96 Budgeted	1995/96 Outcome	1996/97 Budgeted	1996/97 Outcome	1997/98 Budgeted	1997/98 Outcome	1998/99 Budgeted	1998/99 Revised
Revenue	125.96	126.06	142.99	146.52	161.98	163.49	177.6	178.89
Expenditure	153.02	151.83	173.66	176.29	186.75	190.61	201.3	204.29
Deficit	28.06	25.56	30.68	29.77	24.77	27.12	23.7	24.36

Source: <l>Budget Review 1997, 1998

If one takes the absolute deviation of actual outcomes from planned estimates (see table below), the average over the four years is 2.8%.

Percentage absolute change from budget framework estimates 1995/96-1997/98

	1995/96	1996/97	1997/98	1998/1999	Average over four years
Revenue	0.08	2.46	0.94	0.72	1.05
Expenditure	0.78	1.52	2.07	1.49	1.46
Deficit	8.93	2.97	9.47	2.64	6.00

The average absolute deviation over the four years is not high, and it is also encouraging that it decreased over the period 1996/97 to 1998/1999.

Expenditure between votes on a national level

While the actual levels of overall expenditures have not differed dramatically from their expected levels, there have been large discrepancies between expected and actual expenditure levels in particular programmatic areas. On average, over the four fiscal years 1995/96 to 1998/99 actual expenditure deviated from planned non-interest expenditure across all the budget votes by 17%.

Trends for the four years are as follows:

Amounts overspent and underspent on planned national expenditure 1995/96--1998/99

	1995/96 (in R million)	1996/97 (in R million)	1997/98 (in R million)	1998/99 (in R million)
Amount overspent	3702	4257	13898	4746
Amount underspent	30347	30134	911	225
Total absolute deviation	34049	34391	14809	4971
Total national budget expenditure	122494	142191	151128	160880
Average absolute % change from planned expenditure on votes	23%	24%	24%	9%

Source: <l>Budget Review 1999, Estimates of Expenditure 1995/96; 1996/97

Although the average absolute deviation from planned expenditure over the four years is not inconsiderable, the trend is again encouraging. For the 1998/99 fiscal year on average spending in particular departments differed by only 9% from the budget estimates.

Actual spending between types of expenditure within programmes and between programmes within a vote can differ substantially from budgeted expenditure. The table below provides a snapshot of the 1998/99 planned and actual expenditure by national vote. Six departments deviated more than 20% from their planned expenditure.²²

²² Please note that the tables compare planned expenditure at the start of the fiscal year to projected outturn. The expenditure authorised under the adjustment budget that is approved by the legislatures half way through the fiscal year is included in column three. Since the purpose of the comparison is to assess the reliability of budget documentation, including the adjustment budget expenditure in the base amount would defeat the objective. However, the function of the adjustment budget is to allow for flexibility by providing a mechanism to adjust budgets for unforeseen and unavoidable expenditure. When departmental

	1998/99 planned	1998/99 adjustment budget	1998/99 projected outturn	Percentage change planned to projected outturn
Welfare	175.4	449.9	258.8	47.5
Executive Deputy President	34.6	49.3	48.3	39.7
Government Communication and Information	46.8	60.3	59.7	27.5
Water Affairs and Forestry	2,309.9	2,939.9	2,919.9	26.4
Finance	5,983.1	7,423.4	7,272.2	21.5
Sport and Recreation	81.8	98.9	94.3	15.2
SA Management Development Institute	14.5	26.3	16.6	14.8
Home Affairs	1,056.6	1,215.7	1,202.5	13.8
Land Affairs	678.0	842.3	752.4	11.0
Justice	2,117.9	2,315.6	2,292.6	8.2
Foreign Affairs	1,183.8	1,289.6	1,280.0	8.1
Public Works	3,823.9	3,016.6	4,125.6	7.9
Arts	737.8	809	795.0	7.8
Defence	9,721.2	10,374	10,249.6	5.4
Constitutional Development	2,014.6	3,184	2,121.3	5.3
Minerals and Energy	643.9	678.5	675.9	5.0
Transport	3,245.3	3,422.4	3,402.4	4.8
Statistics SA	92.6	97.4	96.5	4.2
Labour	734.1	768.5	764.5	4.1
SA Police Service	13,255.5	13,896.7	13,747.8	3.7
Housing	3,629.3	3,814.5	3,748.0	3.3
Education	6,495.7	6,857.7	6,698.9	3.1
Correctional Services	4,345.5	4,515.6	4,444.1	2.3
Environmental Affairs and Tourism	395.2	412.2	403.3	2.0
Public Enterprises	28.2	28.8	28.7	1.8

deviations are assessed the reader therefore needs to keep in mind that the difference may be quite legitimate (i.e. a response to an emergency situation), desirable and made transparent through the adjustment budget mechanism.

Agriculture	718.9	788.6	730.5	1.6
Health	5,446.1	5,665.1	5,526.9	1.5
President	32.3	33.4	32.4	0.4
Public Service Commission	27.6	28.1	27.6	0.0
Parliament	351.0	360.5	349.0	-0.6
Communications	887.2	920.6	862.7	-2.8
State Expenditure	1,227.6	1,252.2	1,170.7	-4.6
Trade and Industry	2,362.2	2,910.8	2,241.8	-5.1
Independent Complaints Electorate	27.8	28.1	22.9	-17.5
Public Service and Admin	56.2	69.4	39.7	-29.3

Estimates of Expenditure 1998/1999; 1999/2000

Expenditure differentials between kinds of spending within a vote

It needs to be noted that once the expenditure of a department is broken down further, even greater variation may occur. For example, expenditure on personnel may be much higher than planned for, as happened in the 1996/97 and 1997/98 fiscal years when in-year wage agreements put huge upwards pressure on personnel spending. Under the PFMA, however, a department cannot vire²³ more than 8% of a sub-programme's total expenditure without reverting to parliament. This would improve the quality of planning and credibility of budget information even further.

In sum, the variance tables constructed above are meant to illustrate firstly that whereas on aggregate expenditure does not deviate significantly from estimates, the composition of expenditure may. Secondly, it is quite clear that even if average absolute deviation across national departments is quite high (10%), the majority of departments are within 5% of their projected expenditure. Furthermore, the few departments contributing to the bulk of expenditure shifts are likely to change from year to year. It can be concluded that fundamentally budget

²³ Virement refers to spending agencies moving funds between expenditure programmes within a vote during the fiscal year, ie after the legislature had approved funds for the vote in accordance with the division of funds between the different programmes. The PFMA limits this discretion to 8% (see main text).

information is reliable in South Africa. Significant deviations can often be related to specific planning or implementation problems that periodically affect departments.

Usefulness of budget information

The public availability of information is of little benefit if it is not released in a format that can be understood and assessed. The questionnaire establishes three indicators of the usefulness of budget information:

- information given on the calculation, aggregation and coverage of data;
- the amount of supporting information (on objectives for example) that accompanies budget information;
- comparability of budget information.

On a national level, a clear statement on the accounting basis and policies adopted in the budgets and accounts of government is made in the <I>Budget Review. The same policies legally apply to the provincial budgets, but are not consistently stated in the provincial documentation.

Recent requirements²⁴ applicable both to national and provincial government require annual reporting on departmental and programme objectives, planned activities and outputs. The annual report should also include the result of a client's needs survey conducted earlier in the year.

Furthermore, as part of the medium term expenditure planning for every programme, performance indicators must be drafted. These will be consolidated in the provincial and national medium term expenditure frameworks.

Policy and budget analysts today have immediate access to much more supporting budget information than in 1994. A milestone is the inclusion of a national <I>Expenditure Review in the budget documentation for the 1999/2000 budget. This document reports on the objectives, funding and activities of spending departments on a programme level for the national government. The <I>Intergovernmental Fiscal Review (published in September 1999) offered

²⁴ The Medium Term Expenditure Framework Document, the Public Service Regulations and the Public Finance Management Act.

some similar information for provincial expenditure. It also provided the first access to comprehensive actual provincial expenditure data in some areas. Some provinces, like the Western Cape, publish an extensive supporting memorandum that fulfils some of the functions of the Expenditure Review on a vote level, but this is not done consistently across the provinces. The absence of information on the objectives and activities of programmes continues to present a problem.

To be useful, budget data should be comparable across years, spheres of government, votes, programmes and between planned and actual expenditure. In South Africa, the following shortcomings are noted:

- Because of changes in vote structure, planned expenditure is not always comparable across years. In most cases no effort is made to reconcile previous structures with current ones.
- Provinces do not provide the same data across votes, nor are their votes structured similarly. This means that education expenditure in the Eastern Cape cannot be readily compared with education expenditure in the Northern Province, where the vote includes arts, culture and sports expenditure.
- The Adjustment Estimates contain very little detail on adjustments, making it very difficult to adjust vote and especially programme expenditure accordingly.
- Actual expenditure is consistently reported by the Auditor General, Statistics South Africa and the Reserve Bank. However, their classification differs from that of the national Department of Finance's planned expenditure, rendering the consistent comparison of actual with planned expenditure impossible. To get comparable data, analysts have to refer to data on actual expenditure published by the national and provincial treasuries. Such data is not published consistently across all votes or across years. This reservation should also be noted against the planned improvement in availability of actual expenditure data in accordance with the PFMA. Although the act prescribes regular public reporting on the state of the budget, it does not specify the format. Unless such reporting is reconciled with the budget estimates, its use will be limited.

SECTION 4

Independent checks and balances of budget execution and government data

Background

A critical requirement of fiscal transparency in the context of democracy is the opportunity for legislatures and civil society to assess whether the government undertook what it planned in the budget. Another fundamental issue is to establish checks and balances to the data used in the budget process. The survey tested the following:

- the independence and effectiveness of the national audit and statistics offices;
- the regulations governing procurement;
- the rules governing emergency expenditure;
- the existence of early warning systems in case of poor budget execution.

Section evaluation

In this section, we have noted the following milestones:

- The Constitution guarantees the independence of the Auditor General. Statistics South Africa is independent and effective.
- The new PFMA provides for continuous checks on the execution of budgets through frequent departmental and treasury reporting procedures. This should support the early warning system of the Department of State Expenditure.
- The PFMA establishes procedures to govern emergency expenditures.

Concerns are:

- The scope of the Auditor General's auditing obligations does not cover EBIs. The Auditor General noted concerns about capacity in his office to deal with performance auditing.
- Procurement policy is unclear, inconsistently applied and ignored.

- While procedures have been determined to govern emergency expenditure, concern remains about the definition of emergency expenditure.
- The effectiveness of early warning systems for over-expenditure is untested, as is the ability of the public sector to comply with the actual expenditure reporting requirements of the PFMA. Information from the early warning system is also not public, except on an aggregate level where the national and provincial treasuries have to publish monthly expenditure reports. While such reports will be useful, they can hide a multitude of over- and under-expenditure cases, detracting from the ability of legislatures and the public to raise concerns over spending at an early stage.

Based on the strong independence of data collection and auditing agencies and the clear provisions of the PFMA, the authors rate South Africa as strong on the integrity of execution data. On the other hand, various emergency and over-expenditure controls are noted as serious concerns, and poor procurement control is a glaring deficiency.

Detailed assessment

Independence of the national auditing and statistics offices

National statistics are collected and collated by an independent institution, Statistics South Africa. Economic outcome data, as well as the data on the national government accounts, are reliable.

The Constitution guarantees the independence of the Office of the Auditor General. Provincial Auditor Generals fulfil the functions of the national body for provincial governments. In practice, the funding mechanism in place for the Auditor General enforces independence. The office of the Auditor General does not draw its funds from a budget vote, as in other countries. Rather it operates by invoicing departments on a time basis. Departments are required to budget for their audits in accordance with practice in the private sector.

Currently, the Auditor General's mandate has been extended not only to monitoring and reporting on the accounting for funds used, but also to the efficiency and effectiveness with

which they have been used as well as adherence to prescribed rules and procedures, such as those for procurement.

Officials in the Office of the Auditor General expressed concern regarding government information and accounting systems. Staff of the Auditor General pointed out that previous attempts to institute consistent information systems have failed because of the lack of political will in seeing these reforms through, and because the systems' redesign did not take adequate account of users' needs. As it is, the buy-in of the users who determine the quality of information going into the system is crucial to ensuring that quality information is produced within it. It was feared that in the current redesign the same fundamental errors are being made.

It was also pointed out that whereas the Auditor General's office has a mandate to audit the activities of public institutions, it has no exclusive mandate to audit EBIs. These are mostly audited by private sector auditing firms, whose auditing scope is notably more limited than that of a public auditor who also has to report on the efficiency of expenditure and procedural compliance with prescribed norms and standards. One example of the potential danger of such arrangements is the Mpumalanga Parks Board's deal with the Dolphin Consortium. Although the Board's auditors gave the deal a clean bill of health, the Auditor General decided to get a special mandate from parliament to investigate the deal, a procedure which unearthed several irregularities.

The Auditor General expressed some disappointment at the lack of follow-up on his recommendations. It was felt that both the legislatures and the executive often wait until abuse of systems has resulted in fraud and corruption before taking heed of warnings on weak adherence to, for example, the procurement procedures or financial reporting requirements.

Procurement regulations

The current regulations around procurement set up provincial and national tender boards and a procedure for inviting and evaluating tenders. Respondents to the questionnaire recognised the following:

- Current procurement processes are unnecessarily complex and non-transparent, rendering them inefficient and creating opportunities for corruption.
- Current regulations are not always observed in practice, leading to inconsistent application and corruption. The Auditor General's report for the 1997/98 financial year noted several instances of non-adherence to procurement procedures across all votes and provinces. The reasons ranged from ignorance of the rules and regulations to deliberately ignoring them.
- Current procedures are costly, adding unnecessarily to the price of the resource purchased, and should be streamlined.

The Constitution calls for national legislation to ensure fair, equitable and cost-effective procurement systems across the public sector. It does not, however, say which agency should take responsibility. Given the complexity and inflexibility of the current rules and regulations, the Department of Public Service and Administration has expressed its intention to draw up new regulations that will simplify the system. In the meantime, some provinces have proceeded to draft their own regulations. At the same time, the PFMA makes it the responsibility of agency accounting officers and accounting authorities to ensure that a fair, equitable and cost-effective procurement system is in place and tasks the national treasury with drawing up a framework within which systems can operate. It is expected that a Draft Procurement Bill will clear up some of the uncertainties around the regulations.

Emergency expenditure

The PFMA sets out clear procedures for emergency expenditures. The Minister of Finance may authorise the use of funds from the National Revenue Fund to defray expenditure of an exceptional nature which is not provided for in the current budget and which cannot be postponed until the next budget without serious prejudice to the public interest. The combined amount of all authorisations in any year may not exceed 2% of the overall expenditure allocation of the consolidated national budget. Any amount authorised must be reported to the national assembly and the Auditor General within 14 days, and must be attributed to a vote. A report must

also be tabled²⁵ in the national assembly and the expenditure must form part of the next adjustments budget or be authorised separately by parliament within 120 days.

Whereas the procedures are clear, respondents have noted some caution about the generic terms in which the rules are stated: almost anything can be termed expenditure of an "exceptional nature".

Early warning systems

The national treasury²⁶ runs an early warning system that compares monthly actual expenditure with planned expenditure. Monthly expenditure trends are extrapolated to annual expenditure and compared to planned expenditure. No specific adjustments are made for cyclical demand or spending trends. Should expenditure deviate beyond a set target, the department dispatches liaison officials to investigate the cause of over- or underspending.

Provincial governments have instituted different systems to control over-expenditure. The measures include ceilings on certain types of expenditure, regular provision of cash flow statements and projections, regular review meetings, treasury approval for all spending commitments and even a virtual banking system in the case of Gauteng. Many of these measures were only implemented in the past two years and their effectiveness remains untested.

These early warning systems are expected to be supported by a PFMA requirement that spending departments submit monthly actual expenditure reports to treasuries.

The bail-out in 1999 of the Free State province by the national Department of Finance emphasised the need for reports to the legislature to prevent crises. The Department of State Expenditure's system is largely untested, and continuing expenditure overruns within provincial departments have raised doubts as to its effectiveness. For example, in 1999 in the Eastern Cape the Department of Agriculture and Land Affairs had effectively ceased operating, calling in staff to avoid travel costs and closing order books, due to severe budget shortfalls for the remainder of the year. With an effective early warning system this should not occur.

²⁵ When a draft bill is put in front of parliament for deliberation and authorisation, it is referred to as "tabling" the legislation.

²⁶ Recently the Department of State Expenditure and Finance merged to form the National Treasury.

SECTION 5

Budget decision-making process

Background

This section tests the extent to which the legislature and civil society are able to effectively participate in the drafting and legislative stages of the budget process. By effective participation we refer to opportunities to make viewpoints known to appropriate people and have these views taken seriously, especially if they justifiably suggest a change in policy or budget. The following aspects of participation were tested:

- the availability of information during the budget drafting process;²⁷
- the opportunities for participation by the legislature in the budget process, as well as actual participation to date; and
- the opportunities for civil society participation in the budget process, as well as actual participation to date.

Section evaluation

Since 1994, the relationship between the legislature, the executive and civil society has been transforming according to the dictates of the Constitution and the end of the struggle against apartheid. Milestones for increased participation in this process have been:

- In the absence (until now) of formalised frequent fiscal reporting to parliament, some legislature committees have of their own accord flexed their constitutional muscles and demanded monthly actual spending reports and frequent briefings by departments in their portfolio. This has been a critical information source on the activities of government.

²⁷ This differs from the availability of information section where the main focus was on the scope of information published once the budget has been finalised by the executive.

- The enhanced effectiveness of the national Finance and Public Account Committee's participation in the budget process can be measured through the increasing openness, quantity and depth of hearings, as well as through increased involvement in legislation.
- The growth in participation by civil society in parliamentary budget debates is manifested by the growth in the number of submissions to the portfolio committee considering the budget. Outside parliament, civil society is engaging in fiscal debate through campaigns such as the Jubilee 2000 debt reduction campaign.
- The MTBPS has introduced a second point in the fiscal year for the release of macro-assumptions and macro-allocations between the spheres of government. The MTBPS allows a space for legislatures and civil society to engage in the discussion on the macro-framework and to start engaging with the allocations for the forthcoming budget.

Several obstacles still remain, however:

- The effectiveness of oversight by legislatures is impaired by the lack of formalised amendment powers, the timing of the budget process and the lack of parliamentary research capacity.
- The capacity of national civil society to participate in the budget process is limited to the better-resourced NGOs and the private sector. The provincial situation is marked by the absence of civil society participation.
- Civil society does not have easy access to the executive or judiciary²⁸ as an alternative means of influencing the budget. As the legislature is still largely seen as an ineffective access point, one of the unfortunate effects is to lock civil society capacity into the broadest policy questions.

A closed budget drafting process and lack of legislature amendment powers severely restrict legislature and civil society participation in the budget process. Whereas some legislatures have

²⁸ Whereas industrial interest groups could still access the Constitutional Court should they want to present a case that policy and its budgetary implications are unconstitutional, the high cost of this route is closed to the non-profit public interest organisations and their constituencies.

carved a space for themselves in monitoring the implementation of the budget, they are also largely unable to effectively scrutinise budget plans before passing the budget. In turn this restricts civil society input into the budget. We rate South Africa as weak, albeit improving, in terms of participation in the budget process.

Detailed assessment

Availability of information during the drafting process

The budget drafting process is relatively closed in most countries and South Africa is no exception. Until 1997, no information was available to the public prior to the public presentation of the forthcoming budget. In this context, the MTBPS released at the end of October 1998 (in the midst of the drafting process) represented a substantial improvement. The 1999 MTBPS was also debated for the first time in parliament, after a process of committee debates and hearings. The national treasury is of the opinion that the information released in the MTBPS represents an optimal degree of transparency during the drafting stage. Members of the treasury argued that parliamentary and civil society scrutiny is a vital part of budget decision making, but it should not mean that the government has to formulate the budget in public. They argued that three-year expenditure estimates offer parliament and civil society sufficient time to influence the budgeting decisions of subsequent years. A concern was expressed that the premature release of insufficiently formulated allocative options is more likely to lead to poor decision making than to better decision making.

The MTBPS does indeed contain very useful information, including information on the medium term economic outlook and the fiscal framework. On the inter-governmental front, the MTBPS announces the expected divisions of allocations between the national and provincial level, as well as between the provinces. The MTBPS also details the broad divisions of spending, such as the amount of capital spending or spending on social services.

Our assessment is that the MTBPS enables a thorough and timely evaluation of macro-economic policy, assumptions and performance. This may offer a space to influence macro-economic

policy for years two and three in the MTEF. There are, however, several qualifications to note on the usefulness of the MTBPS:

- The bill giving legal form to the broad division of revenue policy decisions of the MTBPS is tabled with the budget, at which point it is very difficult to debate or amend its provisions, even if amendment powers were in place. In the current budget system subsequent detailed budget decisions are made in accordance with the broad divisions under the MTBPS. An earlier vote on the division of revenue would create an incentive for more meaningful debate.
- Inter-department allocations are not provided and neither are intra-department programme allocations. The data is restricted to broad economic and functional sector classifications. This exclusion obscures the major South African budget challenge of reprioritisation within departments and prevents detailed early engagement and research on this issue in preparation for the legislative budget process. While it would make little sense to include these in the MTBPS (since it would then just be the budget a few months earlier and lose its advantages) there is an argument to be made that earlier information to parliament on detailed spending allocations would render legislature involvement more meaningful. A release of this information would not require treasuries to prematurely release policy decisions since many of the allocative decisions have been made. It will, however, contribute immensely to the quality of budget debate; detailed engagement is important to focus the nation's energies on timely research and debate on intra-department allocations. (As a member of the national assembly's Finance Committee argued, the need to interact with the budget numbers before budget day is critical because of limited time and legislative capacity to assess the numbers once the budget is introduced.)

Legislature participation

On balance, greater availability and usefulness of budget information has had a less than proportional effect on participation. Partly, this may be inherent in the structure of the South African democracy. It may also be because the obstacles to effective participation still outweigh the opportunities.

In terms of the Constitution, legislatures have strong powers to call witnesses and experts, including any member of the executive, and to hold public hearings. Some commentators have argued that the nature of the South African democracy suggests that committees may end up rather weak custodians of oversight given, in particular, the large ruling party majority and the proportional party list system which maintains party discipline.

Certainly, the committee system has not always proved strong to date. Nevertheless, it does seem that where committees have been willing to push their powers, they have been increasingly and effectively used to investigate financial issues, such as the Sarafina saga, the Sitole case and the Child Maintenance Grant. In each of these cases, the relevant national parliamentary committee intervened either to hold the executive to account for expenditure decisions (Sarafina and the Sitole case) or to change the provisions of draft legislation with a budgetary impact (the Child Maintenance Grant). Where these powers have been tested, the legislatures' right of access to civil servants and demands for accountability or policy shifts have often been upheld.

Enhanced effectiveness in the national Finance and Public Accounts Committee's participation in the budget process can be measured through increasing number of hearings, greater depth of certain hearings and increased participation in hearings. Increased participation is uneven but visible in several of the provinces. Provincial finance committees have found mechanisms within current constraints to enhance effectiveness such as securing accurate monthly actual expenditure reports and significant improvements in departmental information on budget implementation. Two provincial legislatures have also been at the forefront of uncovering mis-expenditure and overspending (KwaZulu-Natal and Mpumalanga). In general, the national Finance Committee has established expertise in some system and macro-economic issues, while several of the provincial legislatures have established expertise in tracking budget execution.

Opportunities for participation

Apart from the availability of information (as discussed above) three further factors influence the effectiveness of parliament's participation in the budget: time, capacity and the formalisation of amendment powers.

Time: The budget is typically tabled in the national assembly on the second Wednesday in February (this is a one month improvement over pre-1999 practice). Following the presentation in the national assembly, the budget is referred to the Portfolio Committee on Finance that has only seven days to undertake public hearings and to table its report to the House. The budget is then referred to each of the sector Portfolio Committees that have the option of holding public hearings and tabling a report. In the national assembly the Finance Committee report is debated on the floor of the House, as are all votes. In the National Council of Provinces committee involvement is optional. The lack of time for committee research and analysis on a document that has taken 18 months to prepare is a serious obstacle to transparency and legislative oversight.

The time allocated to parliamentary debate is also skewed towards deliberations in the House as opposed to detailed committee investigation. Finance Committee debate comprises less than one-tenth of the four months allocated to the entire legislative budget debate in the deciding chamber. Most of the process is consumed by general debate in the House, often unrelated to the budget. One of the solutions currently under discussion is shifting the presentation of the budget to November or January to allow for sufficient analysis prior to parliamentary hearings and the beginning of the financial year. Currently the budget is tabled two months before the start of the fiscal year. By the time it is passed, the fiscal year has already started. Although spending in the period after the start of the fiscal year and before the budget is passed is covered by detailed provisions in the PFMA, it should in principle be minimised.

As far as budget execution is concerned, the time lapse between the tabling of audited accounts and the end of the fiscal year makes it difficult for parliament to relate audit results to the current spending environment. This contributes to a lack of effective oversight over budget execution. The format of actual spending information and audit reports should also facilitate reconciliation with budget plans, to enable parliament to hold the executive to account²⁹.

²⁹ The PFMA has changed the timing of the audit reports to only 7 months after the end of the fiscal year. This was implemented for the 1999/2000 fiscal year.

Amendment powers: Neither the national nor provincial legislatures now have the power to amend the budget. The Constitution grants legislatures the right to amendment, but enabling legislation has not yet been agreed on. In theory, a committee can recommend that parliament rejects the entire budget (or specific votes) and this could lead to a motion of no-confidence or force the executive back to the drawing board. In practice, however, this is unlikely to happen for several reasons, including the large ruling party majority in the national assembly. Parliamentary officials recall only one instance in the past when part of the budget was rejected; even in this case, the decision was overridden. Legislation on amendment powers was tabled in the national Finance Committee in late 1997, but was immediately withdrawn and referred to a Finance Committee/Department of Finance working group that has yet to resolve the issue.

While the early availability of inter-departmental allocations may give the legislature more influence in the budget, such availability should not be traded for amendment powers.

Amendment powers, correctly designed to take account of the need for parliament to hold the executive to account for the effectiveness of spending, are still required to give weight to parliamentary recommendations.

Research capacity: The obstacles to effective legislature participation are compounded by the lack of legislature research capacity. The national Portfolio Committee on Finance currently has access to only one researcher. The Committee on Public Accounts has secured outside funding for two researchers, but by the time of writing appointments had yet to take place. There is no independent parliamentary research capacity, nor is there a tradition of researchers available to individual members. The situation in the provinces is even worse. In many cases the whole legislature, including committees, has access to only one or a couple of researchers.

Civil society participation

Pre-1994 participation in parliamentary budget debates was restricted to a small section of private sector interests. This situation is changing. In 1997, there were three civil society groups participating in the national Portfolio Committee on Finance hearings articulating the priorities of low-income people and women. By 1998, this had grown to six presentations. In 1999, a total

of 14 civil society presentations were made at the hearings representing a broad spectrum of macro-economic, poverty and sector interests. A group of community-based organisations (CBOs) also got together and drafted a reaction to the budget which was distributed country-wide to other CBOs and NGOs. It is worth noting that the stimulus for most presentations is an invitation from the Committee rather than individual or organisational initiative.

Outside actual budget deliberations, civil society involvement in finance related legislation is rare.³⁰ Exceptions include the strong involvement in the Jubilee 2000 campaign that advocates the scrapping of apartheid-related debt and the Child Maintenance Grant campaign that advocated for an increase in the amount of support per child. Both of these are closely related to poverty.

At national level, the greater breadth of input still primarily reflects better-resourced NGOs. The input of community groups is still very limited. Throughout the provinces participation of civil society in budget debates remains low – in fact it appears to be non-existent in most provinces. It is important to note the lack of solid data on which this judgement is based. Neither the national or provincial legislatures maintain a database on civil society participation, despite commitment in each legislature to a public participation policy. Some data is becoming available through the work of the Parliamentary Monitoring Group, which monitors committee procedures. However, data on the incidence of civil society input is not captured independently of committee reports, making it difficult to ascertain the extent, quality and impact of such inputs.

The absolute and relative participation of civil society does not yet do justice to the size and potential contribution of the sector to public policy formulation and poverty alleviation. Despite

³⁰ At local government level budgeting systems, transparency and participation differ from local authority to local authority. Some authorities have participatory budgeting processes that allow for high levels of community involvement. Others have closed processes with low levels of involvement and transparency. In many cases CBOs have taken up the challenge of participation, campaigning for certain outcomes from the budgetary process, such as streetlights or civil amenities. This kind of budgetary participation by civil society is not included in our assessment because the research focused on the consolidated national budget, of which only R1 billion (or less than 1%) is transferred to local government level.

strong improvement, civil society participation started from a low base and has not yet reached a critical mass that can stimulate consistent and broad involvement. There are several reasons for this:

- Consistent and in-depth budget data required for analysis has only recently been made available. To date civil society involvement has occurred despite data constraints.
- The continuing institutional obstacles to amendments and the timing of the budget process further constrain involvement. The perception is that parliament is still performing a rubber stamp role. Further, civil society does not have easy access to the executive or judiciary as alternative means to influence the budget. The legislature is the most accessible avenue for intervention, but without amendment powers even this presents only a weak option for influence. One of the unfortunate effects is to lock civil society involvement into the broadest questions of macro-policy and debt relief, rather than detailed discussion of intra-vote spending where creativity is vital.
- The obstacles to deeper civil society involvement are also endogenous to the sector. The general lack of skilled researchers is a major problem. The legislatures, civil society and the executive are frequently appointing from the same limited pool, bidding remuneration above civil society levels.
- There is a growing but very limited group of organisations that are attempting to develop expertise in budget and finance issues. At the national level a very limited number of organisations have built capacity to consistently focus on national and provincial budget issues. At a sector level, the pool of NGOs is stronger in health, welfare and education, but this focus is often diluted by other core activities. At the provincial level, there is very limited capacity in any province, although interest is growing.
- The above reflects in part an adjustment in the core activities of civil society towards public policy analysis and parliamentary process. Although South African civil society is deeply engaged in service delivery, translating these strengths into budget analysis and parliamentary intervention is still work in progress. This transition towards critical public policy has not infrequently met resistance in government, particularly in provincial

legislatures and executives. Thus civil society is, in a real sense, slowly creating a legitimate role for itself in budget debates.

Summary results and conclusions

South Africa is lifting the shroud of secrecy that obscured public finances in the apartheid years. In areas such as the availability of information, progress has been remarkable. In other areas, such as the roles and responsibilities and the availability of sub-national data, practice still needs to catch up with the in-principle requirements of existing legislation. In yet other areas, such as the rules for budget execution and the coverage of contingent liabilities and EBIs, the laws and procedures themselves are insufficient to be effective in fulfilling the objectives of transparency. While the degree of progress is certainly laudable, it should not cause complacency on the issue of transparency.

In summary, the following table provides an overview of areas tested, criteria used and scores assessed.

Section title	Areas tested	Scores	Reasons for assessment
Legislative framework for transparency	<ul style="list-style-type: none"> • Existence of legislation setting transparency requirements for executive arm • Legal framework that defines roles and responsibilities for all key aspects of fiscal management • Legal basis for sub-national expenditure responsibilities • Legal basis for taxes 	Medium	The establishment of a legal framework to assign fiscal management responsibility to the executive is noted, as is the strong legal basis for taxes. However, the failure to adopt legislation on provincial taxing powers and the role of parliament in the budget process, as well as the lack of a legal basis for transparency requirements for the executive, are still strong concerns.

Clarity of sub-national expenditure roles and responsibilities	<ul style="list-style-type: none"> The clarity of sub-national expenditure responsibilities in practice 	Weak	Although the Constitution assigns clear expenditure responsibilities, the assumption of roles in practice has led to such a lack of clarity that the spheres of government have been able to point fingers at each other about accountability, making it difficult to assess responsibility.
Comprehensiveness, usefulness and reliability of information	<ul style="list-style-type: none"> The comprehensiveness of budget documentation as regards the budget framework, fiscal stance, budget classifications, extra-budgetary activities and actual spending information The reliability of information as manifested in divergence between estimates and outcomes The usefulness of information as measured by the availability of supporting information and the comparability of budget information 	Medium	On the positive side South Africa is now publishing much more budget information in terms of both scope and depth than five years ago. The reliability of this information has shown marked improvement in the 1998/99 budget year, but it is too soon to say that this progress is permanent. Although more supporting information is now available, South Africa still does not publish detailed programme objectives and assessments for most spending (outside of interest payments). The capacity of information systems to supply quality supporting information is also in doubt.
Independent checks and balances of budget execution and government data	<ul style="list-style-type: none"> Independence and effectiveness of the national audit and statistics offices Existence of early warning systems in case of poor budget execution Rules governing emergency expenditure The regulations governing procurement 	Strong	The Auditor General is guaranteed independence in the Constitution and Statistics South Africa has been set up as an independent institution. An early warning system does exist and is now backed up by reporting requirements under the law. Both emergency expenditure and procurement are governed by regulations. The authors do note, however, that the procurement regulations are not observed in practice, and that the procurement process remains an area of serious concern.

Budget decision-making process	<ul style="list-style-type: none"> • Availability of information during the drafting process • The opportunities for participation by the legislature in the budget process • Opportunities available for civil society participation in the budget process 	Weak	<p>Budget preparation still happens behind closed doors, with the exception of a medium term statement which makes available the budget framework two to three months in advance.</p> <p>The legislatures have no formal power to amend the budget and even if they had, neither the budget timetable or legislature capacity is conducive to effective participation.</p> <p>Official opportunity for civil society participation is channelled through the legislatures and is therefore limited and ineffective.</p> <p>Both the legislatures and civil society are engaging increasingly with budgetary processes despite their restricted access.</p>
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Many of the shortcomings mentioned in the above table, are covered by the following planned budget reform measures:

- legislation that will establish a regulatory framework to define the fiscal management roles of the executive and legislatures, including the power of the legislature to amend the budget;
- a new revenue framework for the provincial sphere of government that will look at borrowing and taxing powers in the context of the asymmetrical assignment of revenue powers and expenditure responsibilities and the ensuing difficulty of assigning expenditure responsibility;
- an overhaul of government budget formats, financial management systems and management information systems to enable greater consistency across spending departments;
- the establishment of output and outcome indicators for spending programmes across the board;
- the inclusion of information on tax expenditures in the budget documentation.

It bears noting that planned budget reform measures are, at this stage, just plans. It is not assured that they will be adopted in the near future. But, as this publication underscores, it is important

that these plans be enacted if the South Africa budget process is to be strengthened. The details of the plans are, of course, also critical, and will determine in substantial part how much further down the road of transparency and participation South Africa will go. For instance, the details of the still-to-be drafted budget amendment powers bill will determine the effectiveness of the legislatures' scrutiny and oversight functions. Should the legislation grant parliament weak powers only, the effectiveness of legislature and civil society participation in the budget will be dealt a severe blow. In addition, the way in which structures in support of parliament's amendment powers are set up may exclude civil society from the process, strengthening parliament's hand, but weakening civil society.

The exact design of these budget reform measures, as well as the implementation of future and currently new transparency provisions, needs to be tracked carefully. The progress towards clearer in-practice sub-national expenditure roles and responsibilities also bears close observation. Should practice over time not enable better clarity, renewed efforts should be made to regulate responsibilities in a more transparent manner. This research also leads to the following recommendations:

- Clearer procurement regulations should be instituted.
- The promotion of transparency as a tool for better government should be made the specific mandate of a department/institution within government. Such a function may rest with parliament or with the Auditor General. Its functions would include monitoring adherence to legal provisions for transparency. Whereas South Africa complies with many of the transparency requirements stipulated by the IMF and in this publication progress in this regard has so far been the by-product of other processes. The potential benefits of transparency merit closer attention to its institutionalisation in principle and implementation in practice.
- Legislation/regulations should be drawn up setting minimum transparency requirements for national, provincial and local governments, consolidating the requirements of other processes, fleshing out the pro-transparency statements of the Constitution and institutionalising the efforts of the current government to publish more and better

information. This will align well with the recommendation above. Although some respondents argued that by legislating minimum transparency requirements across the board, one would limit what is published, the establishment of a pro-transparency gatekeeper will be supported by such legislation.

- Two annual statements should be added to the fiscal publishing schedule, namely one on contingent liabilities and the other on extra-budgetary activities. While all stakeholders may not access this information, the consistent availability of information ensures access for specialised stakeholders at required times, enabling better governance.
- The timing of the budget process should be reconsidered to give parliament and its committees enough time to be effective in its oversight. This may include tabling the budget earlier, before the start of the fiscal year. Alternatively, more information on budget plans should be made available during the planning year to allow input from the legislatures and civil society.
- That an explicit effort should be made to reconcile actual spending information formats with budgeted estimates. This would apply both to monthly reports on the state of the budget, as well as the audited financial statements for all levels of government. As far as the latter is concerned, an annual review of the actual spending information as per the budget formats for both the national and provincial spheres of government at the time of the release of the audited statements will considerably improve opportunities for budget analysis.

Our concern in this publication was neither with transparency nor with participation alone, but with the relationship between transparency and participation in bringing about better government. It is in this arena that the South African country study has started to crystallise principles that may be applicable to other countries. And it is to these principles, implicit in much of what is written above, that we want to turn in conclusion.

First, transparency is a prerequisite for effective participation. Prior to 1994, the activities of an organisation such as Idasa's Budget Information Service would have been severely constrained, as government decisions and their budgetary implications were not part of the public arena. After

1994 the provisions of the Constitution and the availability of more information and access to civil servants enabled the legislatures and civil society to begin to explore budget work and financial oversight.

Second, transparency will not automatically lead to increased or effective participation. The improvements in the availability of budget information in South Africa have not yet been followed by a proportionate increase in the effective participation of legislatures and civil society. This is because of strong institutional and legislative obstacles, including the availability of access points for debate in the budget process, the timing of the budget, and civil society and legislature capacity. It would be interesting to see if the weight of these factors in the South African situation are similar elsewhere.

Third, significant improvements in participation can occur in the absence of formal information releases. In South Africa both civil society and the legislatures were able to significantly improve participation through creative information seeking.

The openness of government decision making, the availability of budget and outcome data, and the effective engagement of government's constituencies in budget debates are inseparable. The release of better information by the executive branch will not mean much unless coupled by efforts in the legislature and civil society to use it. Similarly, it is difficult for the executive to establish accurately what information and institutional provisions are most needed without a dialogue with legislatures and civil society. Only through a vibrant budget debate thus enabled, will the potential benefits of transparency be fully realised

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Appendix I

Release of the report and next steps

Release and reaction to the report

Under some circumstances, a transparency and participation study would form the basis of a campaign to improve the information flow on the budget to those outside the executive branch and to improve their opportunities for participation in the process. In South Africa, however, the Idasa: Budget Information Service saw the report as the anchoring study of an on-going project aimed at monitoring transparency and participation in the budget process. Its launch was therefore aimed at:

- enriching the existing debate on the institutions of the budget process;
- establishing a base report for the on-going monitoring process;
- motivating a range of organisations to support the monitoring of transparency, including public policy think tanks, statutory institutions such as the Financial and Fiscal Commission³¹, other non-governmental organisations, the national legislatures' finance and public accounts committees and the press;
- increasing the profile of transparency and participation as public policy issues.

The report itself was first released to a limited group, including members of the Finance Department, the legislature and civil society, for comment and review. This was followed by a formal seminar with a group of invited key stakeholders in the budget process. This group included officials from the Department of Finance, members of the Financial and Fiscal Commission secretariat, members of the finance committees in the National Assembly and the National Council of Provinces, members of the Western Cape Provincial Treasury, research organisations, public policy think tanks, civil society organisations and the press. After a formal presentation of the study and its findings, the discussion was open to the floor. The discussion quickly focused on the role of parliament and the Financial and Fiscal Commission in the budget process and how lack of capacity and impact hinder participation. The report was covered in at least one of the prominent daily newspapers.

Some of the recommendations of the report have been implemented since its publication; in certain cases, the report is likely to have contributed to these changes though we certainly do not assert a causal link. The report has been used as a technical reference document by Idasa and other South African organisations.

The report has garnered some attention world-wide. Multi-lateral agencies, for instance, saw the report as a positive move in the context of an increased focus on the potential role of civil society in promoting good governance. Upon the request of meeting organisers, the report was presented

³¹ The FFC is established under the Constitution to provide parliament with recommendations on the division of revenue.

at a World Bank Seminar on Budget Reform and at the 9th International Anti-Corruption Conference of Transparency International.

Similar reports are in the process of being undertaken in a dozen or so other countries. These studies are occurring at both national and sub-national level. In small or large part, these studies either reflect the initial South Africa report or are being undertaken with the assistance of Idasa or the International Budget Project.

In Africa, the study is currently being used as a base for a comparative research initiative between five African countries, Ghana, Kenya, Nigeria, South Africa and Zambia. This study, the first joint study by a new network of African Budget NGOs, is being funded by the World Bank Danish Trust Fund on Governance through the Public Expenditure Management Thematic Group of the World Bank and the Swedish International Development Authority (in Zambia). In Botswana an independent study has started that also uses the South African report as a base document.

In Latin America, researchers in five countries (Argentina, Brazil, Chile, Mexico and Peru) have begun the process of undertaking a comparative study of budget transparency and participation. Within Russia, a network of organisations have launched a wide-ranging budget transparency campaign at sub-national level.

In South Africa our next steps are to complete a follow-up study within the African research project, to publish a popular guide to budget information detailing where information on the budget can be found and an annual update published in the form of a Budget Brief³² on changes in transparency. BIS also monitors the design of a formal role for parliament in the budget process in a partnership with other civil society organisations and the implementation of the PFMA. On the issue of mainstreaming transparency through establishing a monitoring agency³³ and drafting a centralising code or legislation, BIS may in future decide to take it up as part of a campaign.

³² Budget Briefs are short accessible documents published by Idasa: Budget Information Service on topical issues. They are accessible on our website at www.idasa.org.za/bis.

³³ The IMF in its revision of the Code on Fiscal Transparency has identified this issue as one of the potential new areas where revision of the Code may take place.

Appendix II

Transparency and participation in the budget process survey

This appendix includes respondents' questions and answers. When multiple choice questions were asked, the consensus "answer" is indicated in bold.

Section 1

Legal framework for transparency

Legal basis for the fiscal transparency requirements of the executive

- Does legislation set out fiscal transparency requirements for the executive arm of government
 - a) to a limited extent or not at all?
 - b) **moderately well?**
 - c) very well?

- Are the accountability and transparency provisions of the law observed in practice
 - a) to a limited extent?
 - b) **moderately well?**
 - c) very well?

Please note that the accountability and transparency provisions of the new fiscal transparency legislation is still untested. The score of moderately well reflects that past provisions have been observed, as well as doubts as to the immediate ability of government to comply with the new provisions.

Legal basis for all key aspects of fiscal management

- Does a legal framework exist that clearly defines the roles and responsibilities for all key aspects of fiscal management³⁴
 - a) to a limited extent?
 - b) **most aspects with significant gaps?**
 - c) comprehensive?

 - How clear is the definition of fiscal management roles of the executive and legislature?
 - a) **unclear or emerging,**
 - b) established with significant areas of uncertainty
 - c) well established with capacity to resolve issues
-

Legal basis for roles and responsibilities of sub-national governments

- How clear is the taxing and expenditure responsibilities of sub-national governments defined in law?
 - a) unclear or emerging
 - b) **main functions clear but subject to ad hoc negotiations**
 - c) comprehensive allocation of powers and transfer mechanisms

Legal basis for taxes

- Is there a legal basis for taxes?
 - a) widespread discretionary concessions or negotiated tax and customs
 - b) explicit and clear statutory basis for liability or concession in most tax and customs laws
 - c) **explicit and clear statutory basis for liability or concession in all tax and custom laws**
- How clear are the tax regulations and procedures?
 - a) generally unclear
 - b) unclear for some taxes
 - c) **clear for all taxes**
- Is there a significant difference between the law and tax incidence?
 - a) to a limited extent
 - b) **moderately well**
 - c) very well
- Is there an officials' code of conduct or process protection?
 - a) none or few taxes?
 - b) some taxes?
 - c) **most or all taxes?**
- Is there a code governing taxpayers' rights and obligations?
 - a) none or few taxes
 - b) some taxes
 - c) **most or all taxes**

Overall assessment of section

Medium overall but strong in the area of taxes.

Section II

Clarity of sub-national expenditure responsibilities in practice

- How clear is sub-national expenditure responsibilities in practice?
 - a) **unclear or emerging**
 - b) main functions clear but subject to ad hoc negotiations
 - c) comprehensive allocation of powers and transfer mechanisms

Overall assessment of section

Weak

Section III

Public availability of information

Comprehensiveness of budget documentation

Budget framework information

a) Forecast of fiscal aggregates for budget year plus two years?	Yes
b) As above but with forecast by individual agency?	Yes
c) Formal rolling medium term baseline (3-5 yrs) baseline?	Yes
d) Estimates of revenue are maintained in (c)?	Within reason
e) Statement of government's medium-term fiscal policy objectives and priorities?	Yes
f) Explicit targets set for budget policy in the medium-term: <ul style="list-style-type: none"> • Expenditure / GDP • Revenue / GDP • Deficit / GDP • Debt / GDP • Other 	No Yes Yes Yes Provincial equitable shares

Indicators of fiscal stance

- Which of the following indicators of fiscal stance are provided in fiscal policy statements?

(i) Overall balance	Yes
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(ii) Overall balance, less asset sales	Yes
(iii) Primary balance	Yes
(iv) Operational balance	No
(v) Public debt	Yes
(vi) Contingent liabilities	Yes
(vii) Quasi-fiscalities	No
(viii) Tax expenditures	No
(ix) Statement of financial assets and liabilities	Yes
(x) Net worth (or other balance sheet indicator)	No

Note: There was some concern from respondents about the coverage of the public debt and contingent liabilities tables in the policy statements.

- Are they monitored ex-post?
 - a) **limited or not at all**
 - b) to some extent
 - c) to a great extent

- Are similar indicators applied to sub-national government or general government policy statements?
 - a) **limited or not at all**
 - b) to some extent
 - c) to a great extent

- What are the main summary indicators of the government's financial position in the annual budget presentation?

(i) No indicators presented with the annual budget?	No
(ii) Central government overall balance?	Yes
(iii) Central government underlying balance?	Yes

- As above, with limited additional supporting analysis and indicators? Yes
- As above, with extensive additional supporting analysis and indicators? No

Forecasts

- Is information given on the macro-economic and fiscal forecasts used as the basis of fiscal policy and budgeting?
 - a) not at all
 - b) **to a limited extent**
 - c) comprehensively

- Are these in the medium term?
 - Yes

- As above, with analysis of assumptions and parameters?
 - a) no analysis
 - b) some analysis

c) thorough analysis

- As above and open to independent and expert assessment?
No

Note: While budget documentation contains thorough analysis of the forecasts, the assumptions and parameters of the models on which the analysis is based is not open to public scrutiny.

- How accurate are the medium-term macro-forecasts?
 - a) unrealistic
 - b) moderately**
 - c) very reliable
- How frequently are the medium-term assumptions updated and published?
 - a) never
 - b) one a year
 - c) twice a year**

Classifications

- Which of the following classifications are provided in budget documentation?

(i)	Expenditure classified by individual administrative agency?	Yes
(ii)	Individual program budgets?	Yes
(iii)	Line items within programs?	Yes
(iv)	Capital / current expenditure breakdown within above?	Yes
(v)	Classification of revenues, financing and debt in a way that is compatible with GFS or other international standard?	Yes
(vi)	GFS / SNA functional classification of expenditures?	Yes

Extra-budgetary institutions

- What is the extent of coverage of extra-budgetary activities in budget documentation?
 - a) not at all
 - b) to a limited extent**
 - c) comprehensive
- How clear are the mechanisms for co-ordination and management of budgetary and extra-budgetary activities?
 - a) not well defined**
 - b) sufficiently defined to enable effective control of budget and EBF **WHAT'S THIS? EBI?** spending
 - c) well defined

Note: Although the PFMA requires reporting on a comprehensive net of EBIs, there are no mechanisms to make public or debate the nature and scope of extra-budgetary activities ex ante. There is no aggregate reporting on extra-budgetary activities.

Availability of actual spending information

- How frequent and timely is fiscal reporting?

<i>Time</i>	<i>How soon after</i>	<i>Level of government</i>	<i>By</i>	<i>Content</i>	<i>Dissemination</i>
Monthly	Within 30 days after month end	National/provincial	Departments	Expenditure for month Expenditure up to date for fiscal year	Treasury
Monthly	Within 30 days after month end	National/provincial	Treasuries	Aggregate expenditure for month Aggregate expenditure up to date for fiscal year	Public (via Government Gazette)
Annually	Within seven months after end of fiscal year	National/provincial	Departments Treasuries Public enterprises Parastatals	Audited statements	Legislatures

- How soon after the close of the financial year does the auditing body provide an annual assessment?
 - a) within 6 months
 - b) **within 1 year**
 - c) more than 1 year

Reliability

- Does the budget presentation formally incorporate information on risks to the fiscal position?
 - a) not at all
 - b) **to a limited extent**
 - c) extensively
- How reliable are the budget expenditure and revenue estimates?
 - a) unrealistic
 - b) **moderately reliable**
 - c) very reliable
- Is a clear statement made on the accounting basis (e.g. cash or accruals) and the accounting policies adopted in the budgets and accounts of government?

Yes

Usefulness

- Is a statement of objectives to be achieved by government programmes provided with budget documentation?
 - a) not at all
 - b) some reporting of objectives**
 - c) general reporting of objectives
- As above with expected indicators of performance?

No indicators

Overall assessment of section

Medium to strong in most areas, with the exception of EBIs, where the information is weak.

Section IV

Independent checks and balances of budget execution and government data

Independent national auditing and statistics offices

- Is there a national, independent auditing body?

Yes
- What is the impact of the recommendations and findings of the independent audit body?
 - a) no follow-up and rectification**
 - b) some follow-up and rectification
 - c) consistent follow-up and rectification
- Does the national statistics office have institutional independence?

Yes

Procurement regulations

- Do regulations require open tendering processes for public supply contracts?
 - a) are not in place
 - b) are in place but unclear or incomplete**
 - c) satisfactory
- To what degree are tender regulations observed in practice?
 - a) not observed
 - b) only partially observed**
 - c) are followed rigorously

Early warning system for over-expenditures

- Is there an early warning system for over-expenditures?
 - a) no warning system
 - b) some system, but ineffective**
 - c) a comprehensive and effective system
- Does this exist at national and / or sub-national government?

National. Provincial level not consistently so.

Emergency expenditures

- Are there procedures and rules governing emergency expenditures?
 - a) no rules
 - b) some rules leaving either scope or nature of spending discretionary<I>**
 - c) comprehensive rules that enable tight control over scope and nature of spending
- Is reporting required on emergency expenditures?
 - a) no reporting required
 - b) only audit reporting after end of fiscal year
 - c) timely reporting before end of fiscal year**

Overall assessment of section
Medium

Section V

Participation in the budget process

Availability of information during drafting process

- Which of the following fiscal policy decision-making tools are publicly released during the budget drafting stage and when?

Macro-assumptions	Yes	3 months before budget day
Interdepartment allocations	No	Only on budget day
Tax options	No	Only on budget day

Note: The inter-provincial allocations + expected aggregate sectoral and economic classification of the budget is released together with the macro-assumptions.

Legislature participation

- What are the opportunities for and incidence of legislature participation in the budget?

(i) How much time is available to the legislature to review the budget?	One month
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(ii) What are the amendment powers of the legislature?	Legislature has no amendment powers, can only pass budget or individual votes in total or reject them in total
(iii) What is the ratio of legislature budget / finance committee debate relative to general budget debate in the house?	Finance Committee has 6 days, house has 3 to 4 weeks
(iv) What is the independent analysis capacity of the legislature?	One researcher to Finance Committee One researcher to Public Accounts Committee i.e. Very weak
(v) Can the legislature hold public hearings and who may it call to appear?	Yes. Up to the discretion of the legislature. Members of civil society and the executive branch

Civil society participation in the budget

- Is there any independent space in the budget process for civil society participation?
 - no independent space**
 - limited space but ineffective
 - effective space – i.e. participatory budget processes
- If civil society takes part in the budget process through the legislature

To what extent does civil society take part in legislature hearings?	Submissions have grown from three to 14 from 1997 to 1999. Extent of participation restrained by time committee has to hold hearings and the effectiveness of participation
To what extent does civil society undertake independent analyses of the budget?	The media and financial community have always analysed the budget. Recent years have seen an increasing number of NGOs undertaking analysis. Often this is focused on the budget framework and macro-economic issues rather than on the allocative level.

Overall assessment of section

Weak