

## **FISCAL TRANSPARENCY AND PARTICIPATION IN THE BUDGET PROCESS**

### **South Africa: A Country Report**

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#### **Executive Summary**

In a modern democracy the right of citizens to know how their government spends money underpins fiscal transparency. Even without recourse to the principles of democracy, the availability of good information on budgets is important for better government. Such information enables public debate which may improve resource allocation; it is a prerequisite for accountability, leading to better decision-making and reduced corruption; and it may enhance social consensus on difficult trade-offs in the context of limited resources and multiple demands.

However, the benefits of greater transparency often remain illusive if it is not followed by broadened participation in governmental budget decisions.

These broad benefits of the openness of government fiscal and budget decisions find a specific application in the combat of corruption. That there should be a direct link between increased transparency on the operations of government and a decrease in corruption at any level is obvious. Not in the least because more open government decision making processes, decisions and outcomes will enhance a culture of honesty in any public service.

The focus in this paper is on fiscal and budget transparency. By way of introduction it is useful to consider the following linkages between this research and the combat of corruption:

- The public availability of frequent and useful quality information on fiscal and budget decisions and outcomes is a pre-requisite for accountability. Without such information it is not possible to hold public officials to account for the use of resources. Lack of accountability creates an incentive for corruption. Also, the lack of reliable information on the use of public resources can cripple any attempt to uphold sanctions against corruption. Fiscal and budget transparency is therefore a pre-requisite in any anti-corruption programme, as an underpinning to both preventative and curative measures.
- The institutionalisation of transparency in budget practices creates the demand for those types of government systems which are key to combating corruption: namely an independent, effective and efficient auditing system, an internal accountability system and an information system that produces timely and accurate information. Should increased demand for transparency happen within the context of a broader budget reform programme that draws on the tenets of new public management, it is bound to include measures of government performance, such as client satisfaction surveys. These surveys can play a pivotal role in exposing corrupt practices, both

those directly related to the misuse and embezzlement of public resources, and those that involve bribes and the abuse of the economic power of the state over an individual or company.

- The focus in the research on participation emphasises that good fiscal and budget information needs to be used in order to be effective in bringing about better government. The same can be said for corruption: the mere availability of information on corrupt practices is not enough. It requires action by the state or civil society organisations to hold guilty parties to account and to put a stop to these practices. If there are any disincentives to such participation, a survey such as this may make them explicit.
- The scope of the questionnaire as it stands currently, includes various standards which are of direct relevance to the combat of corruption. These are the availability of actual spending information, the reliability of budget information, the independence, scope and effectiveness of auditing systems, the availability of information on government spending objectives and government performance, the transparency of procurement regulations, the transparency of roles and responsibilities for fiscal and budget management, the transparency of tax regulations, the existence of transparent codes of practices and client rights charters for taxpayers, etc. The research entailed the development of specific measures in each of these broad areas, which is useful for application in other contexts. The research results are also bound in a more general way to make explicit shortfalls in the systems that are most crucial to any anti-corruption programme.
- Finally, insofar as the combat of corruption necessitates the creation of a partnership between government and civil society, this type of research may represent an effective vehicle for such a partnership. The research itself makes explicit the level of fiscal and budget transparency against a norm, thus creating demand for more transparency. Secondly it investigates the incentives for participation by the legislature and civil society, which are key to the creation of any partnership. Thirdly, while the research was done from a general approach which sought to investigate fiscal and budget transparency in the interest of better budget outcomes, the framework lends itself well to be adapted for a specific anti-corruption focus. In a similar way this will create demand for anti-corruption information, boost anti-corruption information systems and enhance the co-operation of civil society and the state against corruption.

### **The South African Research**

The attached paper is a shorter version of the full transparency report that is the result of a research project by the Idasa, Budget Information Service and the International Budget Project (IBP) of the Centre for Budget and Policy Priorities in Washington, D.C. The project was initiated by the two organisations as a pilot project within the IBP as fiscal transparency and the openness of the budget process is of concern of many of the organisations supported by the IBP.

The report itself borrows from, modifies and adds to the IMF Code of Good Practices on Fiscal Transparency. The Code was selected as a base framework for the measurement of fiscal and budget transparency since it already included many of variables of interest for applied budget work and developed these in a systematic way. The report is based on responses from a panel of respondents to a framework

questionnaire that includes IMF Code standards. The most important deviation from the Code is the focus on participation, which necessitated the development of further standards, a focus on the importance of distinguishing between transparency in principle and transparency in practice and the development of specific indicators to further unpack IMF standards. The report may serve as an approach that would be of use to researchers in other countries who are interested in assessing how the IMF Code and other principles of transparency and participation could help inform and improve the budget process and governance practices in their countries.

In an anti-corruption context, the report highlights the following milestones and concerns.

- The Constitution entrenches the values of transparent, honest and fair government. It translates these values into practice by setting a framework of pro-transparency requirements for the executive and the legislatures.
- The passing early this year of the Public Finance Management Acts sets a strong regulatory framework for financial management and the frequent publication of budgetary information. Such transparency is fundamental to establishing an accountability framework that can underpin anti-corruption programmes.
- Improvements in the reliability of budget information mean that public sector budgets are increasingly becoming credible instruments of internal control. Similarly, public sector budgets are increasingly becoming credible yardsticks against which parliament and civil society can monitor budget execution.
- The office of the Auditor General and Statistics South Africa are independent. This supports the reliability of budget execution information in general, as well as the particular role of auditing systems in combating corruption.
- Greater fiscal and budget transparency has enabled the strengthening of civil society and legislature participation in budgetary processes. This has the broader effect of enabling an effective parliament and a vibrant civil society, both of which are essential to anti-corruption programmes.

In contrast, the paper notes the following concerns:

- Procurement regulations are not transparent.
- Early warning systems are still weak and may not be fully supportive of internal in-year control systems.
- Current information and financial management systems may not be able to produce the full range of information as required by the Public Finance Management Act as frequently as is required. This may make current implementation deadlines unfeasible and have a long-term effect on the application of the act.

- While it has improved, participation by the legislature and civil society in budgetary processes still fall short of being effective in providing a check and balance to executive powers. This may be largely be due to the lack of formalised access to the process, such as through legislative amendment powers. However, lack of capacity in these institutions and too little time in the budget process for meaningful budgetary involvement also play a role.
- In an anti-corruption context the paper notes concerns by the Auditor General about the lack of follow-up on reports of misconduct and maladministration in the annual audit reports. It highlights several potential reasons, namely the long time lapse between the end of the fiscal year and the reports, different classification systems between budget estimates and the audit reports and the low capacity and high barriers for participation by the legislature and civil society in the budget process, including the monitoring of budget execution. Changes to the budget system, such as the enactment of the Public Finance Management Act and the drafting of appropriate amendment powers for parliament, already put in place measures that shorten the time lapse, that make budget execution information more user-friendly and will enable the strengthening of parliament and civil society.

However, it may not be enough. Currently there is no provision in the financial management system that forces follow-up: there is no agency charged with the design and implementation of curative or preventative measures or the prosecution of transgressions. Currently the budget process ends in an open-ended way with the tabling of the Auditor General's reports in parliament. A key recommendation in this regard would therefore be (a) an even tighter working relationship between the office of the Auditor General and the Treasury to ensure that issues highlighted by the Auditor General reports can be evaluated and responded to and (b) the clear assignment of roles and responsibilities between the executive and the legislature to ensure that the annual tabling of Auditor General reports is not the end of a process, but a on-going catalyst in the strengthening of open, honest and fair government.

In a broader context the report affirms that South Africa has made great progress in the establishment of a legal framework for transparency practices and in the availability, reliability and usefulness of fiscal and budget information. However, it finds that the country has not succeeded yet in following this greater transparency with a proportionate increase in participation. As above weak participation by the legislature in the process is driven by the lack of budgetary amendment powers, too little time to scrutinise the budget and virtually no independent research capacity. Weak participation by civil society results from lack of access to the process, as well as factors endogenous to the sector, such as lack of research capacity and the historical involvement of the non-governmental sector in public service delivery rather than in public policy debates.

The report cautions on the lack of information on extra-budgetary institutions and contingent liabilities. It also points out that whereas new financial management legislation contains much more stringent information requirements for budget execution, the ability of information and management systems to deliver on those requirements is in doubt. Lack of clarity on sub-national expenditure responsibilities furthermore weakens accountability for expenditure and outcomes.

Despite the above information and structural impediments to effective participation, the report finds that efforts by the legislatures and civil society to have a say in budget preparation and execution have met with some success and have indeed enhanced the availability of information. This points to a reciprocal relationship between transparency and participation in support of better governmental outcomes.

The report concludes with a set of recommendations, chief amongst which are:

- The design of effective amendment powers for legislatures and changes in the budget process to allow sufficient time for the legislature to discuss the pre-budget policy statement and scrutinise the final executive budget proposals. These changes should be accompanied by the establishment of independent research capacity for the legislature. Such powers will strengthen legislature participation and provide an incentive for the development of more and better civil society involvement.
- The mainstreaming of transparency through a single regulatory/legal framework and the designation of an agency in or outside of government whose mandate will be the promotion, monitoring and protection of transparency measures.
- The enhancement of information availability and usefulness through amongst other the publication of a consolidated report on national and provincial contingent liabilities and the frequent publication of actual expenditure data, directly comparable with estimated spending classifications. The report notes that current budget reform plans will improve the usefulness of budget information through the addition of outcome information, but cautions that the implementation of these plans should be monitored.