AN APPROPRIATE FINANCIAL MANAGEMENT AND BUDGETING SYSTEM TO SUPPORT TRANSITION IN SOUTH AFRICA

THESIS PRESENTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF ADMINISTRATION AT THE UNIVERSITY OF STELLENBOSCH

BY

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DECLARATION

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously, in its entirety or in part submitted it at any university for a degree.

Signed:

Date:
ABSTRACT

The study is devoted to the determination of an appropriate financial management and budgeting system to support a transforming South Africa. Given the challenges and opportunities presented by the new political dispensation, both locally and abroad, the evolution of financial management and budgeting systems is analysed. Specifically, elements of each budgetary system that stood the test of time to the present, are studied.

International case studies of countries that have undergone (or are undergoing) the transformation process successfully, or otherwise, are fully discussed to serve as invaluable lessons and experience for South Africa on its quest for a smooth and swift transformation, to prevent it from ending up as just another unsuccessful transformation. This then serves as a broad foundation for an appropriate financial management and budgeting system which is proactive in the transformation process.

South Africa will not reinvent the wheel. Unlike other countries that waited for transformation problems to fall upon them, the South African financial management and budgeting system manipulates the financial management policies. It achieves this by broadly defining the objectives to be achieved through prioritisation and reprioritisation, formulate clear strategies for short-term, medium-term and long-term plans, goals, processes, functions and activities.

It applies all the positive elements of input-orientated systems, activity/performance measuring systems, objective/goal-orientated system, medium term expenditure framework and multi-year budgets studied and drawn from lessons and experience of other countries. South Africa's appropriate financial management and budgeting system is a broad crosswalk model vacillating between all systems from a broad definition of objectives, goals, processes and activities ending up with a strong financial management tool.
OPSOMMING

Dié studieword gewy aan die daarstelling van 'n Geskikte Finansiële Bestuur- en Begrotingstelsel om 'n veranderende Suid-Afrika te ondersteun.

Teen die agtergrond van die uitdaging daargestel deur die nuwe politieke bestel word die revolusie van finansiële bestuur- en begrotingstelsels plaaslik en in die buiteland ontleed en in perspektief geplaas. Meer spesifiek is die elemente van elke begrotingstelsel wat die toets van die tyd deurstaan het, bestudeer.

Internasionale studies van lande wat die veranderingsproses suksesvol ondergaan het (of tans daarmee besig is), of andersins, word volledig bespreek om as 'n onskatbare les en ondervinding vir Suid-Afrika in sy soektog na 'n gladde en vinnige transformasie te dien en om te verhoed dat dit op net nog 'n onsuksesvolle transformasie uitloop. Dit dien dan as 'n breë grondslag vir 'n Geskikte Finansiële Bestuur- en Begrotingstelsel wat pro-aktief in die Suid-Afrikaanse transformasieproses is.

Suid-Afrika sal nie die wiel kan heruitvind nie. Anders as in ander lande wat op transformasieprobleme gewag het om hulle te tref, kan die Suid-Afrikaanse Finansiële Bestuur- en Begrotingstelsels finansiële bestuursbeleid pro-aktief ondersteun. Dit word bewerkstellig deur 'n omvattende bepaling van die mikpunte wat bereik moet word deur priorisering en herpriorisering van planne, doelwitte, prosesse, funksies en aktiwiteite op die kort, medium en lang termyn. Dit is moontlik indien al die positiewe elemente van verskillende finansiële bestuur- en begrotingstelsels, soos bestudeer in en geleer uit ander lande se ondervindings toegepas word. Suid-Afrika se Finansiële Bestuur- en Begrotingstelsel behels 'n breë omvattende model wat put uit al die stelsels wat 'n bepaling van doelstellings, mikpunte, prosesse en aktiwiteite bevat ten einde te eindig met 'n sterk Finansiële Bestuurswerktuig.
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"SEEK NOT THE FAVOUR OF THE MULTITUDE, IT IS NOT SELLDOM GOT BY HONEST AND LAWFUL MEANS. BUT, SEEK THE TESTIMONY OF A FEW AND NUMBER NOT VOICES, BUT WEIGH THEM"

Emmanuel Kant (1824 – 1804)
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CHAPTER 1
INTRODUCTION

1.1 BACKGROUND

*No society can surely be flourishing and happy, of which by far the greater part of numbers are poor and miserable* (Adam Smith, 1776:436).

The Republic of South Africa is a society believed to be one of the most unequal in the world. It is reasonable to maintain that these inequalities are products shaped by a history characterised by discrimination, dispossession, domination, segregation, abuse of human rights and fundamental deprivation. This was the result of one race having all the advantages over and above others.

This country has become one of many extremes. One part of society is excessively wealthy, while the other part is utterly poor and living under conditions of abject poverty in African terms; one extreme is highly educated, trained and skilled, the other one suffers the exclusion from direct centres of knowledge, training and good quality education, resulting in an unskilled and excessively unproductive labour force. Not a single village, town, city or province fails to mirror the images of the Republic of South Africa as mentioned above.

One part of a town reflects an affluent society, resembling the first world, while at the same time the other part of the same town, resembles the third world; one part of a province also reflects the same different extremes with towns and cities having a better appearance than many of the rural villages which are in a pool of abject poverty, coupled with a lack of basic facilities in the form of clean water, healthy conditions, proper educational facilities and a general lack of infrastructure.

Maladministration, theft, bribery and extreme cases of financial mismanagement in government institutions and big corporations, whether
private or public, small businesses and government agencies alike, are cases which blow the financial marrow of any country and leave it as impoverished as ever before.

There is, however, a steady breakthrough in what is popularly called “Heath’s List” in magazines and other media circles, giving a tip of the real corruption iceberg. Here are some of the Unit’s many successes: Mpumalanga Park Board’s promissory note declared invalid before it could be negotiated, valued at R340 million; 372 vehicles recovered on behalf of the Department of Transport, value R33 million; fraudulent award of State building tenders in Queenstown set aside, R125 million and the private company compelled to return cash already in its bank account intended for Eastern Cape small business loans, value R22,5 million. The Heath Commission and the Public Protector continue to turn stones in their commendable work without government interference as the guilty parties are brought to book.

Corrupt governments retard growth. It is an economic reality that it is best to butter bread on both sides, and a corrupt government can supply the opportunity. A government which can be bribed, inevitably has a negative effect on the country’s economy. The World Report (September 1997:1381), contains a number of issues of which South Africa must take note in government, business and non- government organisations. It points to the concerns regarding corruption leading to political support of aid programmes through developed countries being compromised. Good governance in private and public sectors is a priority if globalisation is to be a success. Sustained developments require control over corruption without betrayal of the poor. The report further confirmed that corruption is related to the extent of the involvement of government in economy and development. The greater and more extensive the involvement, the higher are the chances of corruption (Esterhuysse, 1998 : 26).

Simultaneously the world today is undergoing a dramatic change and transformation on a macro-scale of which the African Continent in general, and the Republic of South Africa in particular, are no exceptions. In this
changing scenario there are challenges, opportunities, fears and threats (imagined and real) leading to either a motivated or a demotivated workforce in the country, depending on the perception of the environment.

The government should shift from a trade preference more appropriate to a pauper, to a strong enterprise developing economic policy in a growing, stable democracy with a sound financial management system. Such an appropriate financial management and budgetary system (which is the subject of this study) calls for strong fiscal discipline and proactive financial management and budgetary processes. In the new public management the government should use competition as one of its chief tools for service provision. Government must do two specific things: firstly, it must restructure its traditional public enterprises, turning them into public companies operating in a market environment; and, secondly, it must sharpen its institution of competition and free entry in order to level the market playing fields. De-regulation can only work if the rules enhancing contestability are transparent and equitably enforced by the state or an international body. Public financial budget players must all comprehend the complexity of the budgetary system in order to manage finances effectively and efficiently. Beyond financial control, setting priorities will be at the centre stage throughout into the new millennium.

Public sector reform ideas are one thing as discussed in the media as well as in scholarly journals. Public sector reform realities may be of quite a different colour altogether as there tends to be a huge gap between lofty theory and down-to-earth practice. By comparing a couple of countries, one is in a better position to understand the logic of public sector reform as one is confronted with actual variation in the scope and orientation of policies and their outcomes. One would thus be less prone to accept the ready-made blueprints of public sector reform.

The standard ideas about public sector reform can be seen as a three-stage rocket launched against the huge public sector. Once deregulation has been enacted, one proceeds to question the existence of the large public enterprise
which ought to be incorporated and sold out. After deregulation and **privatisation**, it is time to proceed to **marketisation** of public sector's core activities. Thus external privatisation will be followed by the creation of internal markets within the governments.

The government is looking at new ways and guidelines to bolster the majority previously excluded from political decision-making and fundamental economic privileges. The institutions capable of investing in human resource development and skills training will receive appropriate incentives. Race relations are destined to rise above the political agenda.

From the point of view of the taxpayers' pockets the bottom line and unintended implications of poor financial management and budgetary systems are too ghastly to contemplate. It is also disastrous for potential investor policy requirements in a country where the unemployment rate is already soaring to more than forty-five per cent. International crime syndicates are shaking the moral systems of justice and society everywhere. South Africa needs a clean slate for public financial management and skill to transform the present smoothly into the future. Successful democracy depends, to a large extent, upon good governance, which is the pillar of a growing economy. The present political dispensation, the Republic of South Africa Constitution Act, the Reconstruction and Development Programme document, and the Growth, Employment and Redistribution Strategy will play a major part to direct the desired change. (Republic of South Africa Constitution Act 108, 1996; Growth, Employment and Redistribution, 1996; Reconstruction and Development Programme, 1994).

Much time and the country's resources have been wasted through deliberate under-development of the disadvantaged of the country. While this process of fundamental deprivation went on, so the country's optimum growth was undoubtedly equally limited by the impact of that policy. It is against this background that the policy of Affirmative Action, which cuts across race and gender, has become appropriate and qualified in the present government, irrespective of the hew and cries from those previously advantaged. The only
sensitive part is the policy and strategy of redistribution of the country's resources equitably and transparently. Thus the public financial management and budgetary system becomes relevant for exploring a supportive and transforming budgetary system for South Africa.

1.2 PROBLEM STATEMENT

There is an ever growing demand for the scarce financial resources as part of the solution of the problems stated above. To this end there is a need to describe or design an appropriate financial management and budgetary system for a changing Republic of South Africa.

The new political dispensation, the Reconstruction and Development Programme document as well as the Growth, Employment and Redistribution Strategy will not bear fruit without an equivalent change in the financial management system: a radical and bold step of assessing the old culture which was mostly under the cloak of secrecy and top-down financial management. The present culture being developed emphasises principles of equity, transparency, human rights and a participative, inclusive approach to the activities of the government.

1.3 OBJECTIVE OF THE STUDY

Against this background the real objective of the study can now be stated: To describe or design an appropriate financial management and budgeting system for the transformation process which must allow for entrepreneurial public financial management.

In order to achieve this objective, the following goals will be taken into account in more detail:

- Review of budgeting processes.
• Review of selected budgetary systems, i.e. emphasising the elements that make up for appraisal of the system as a foundation for future budgeting.
• Review the environment which may dictate a particular system. The need for successful transformation must be experienced within the framework of the present constitutional dispensation, the prevailing social, political and economic climate.

1.4 HYPOTHESIS

An appropriate financial management and budgetary system will positively support the transition in South Africa.

1.5 METHODOLOGY

This is an exploratory qualitative study. It will use relevant questions and personal interviews to identify weaknesses of the previous budgetary systems and come up with the most appropriate budgetary system for a changing South Africa. For the methodology to be successful, it must enable the study to identify the priorities and needs for supporting a transforming society.

Questions to be answered include: Which budgetary system will be most appropriate and effective in a changing and transforming South Africa? Has the particular system ever been applied successfully or otherwise anywhere else? Can the same system be applied in South Africa? What is the value of accountability, transparency and openness in the determination of an appropriate public financial management and budgetary system? What are the major weaknesses in each system? What experience and lessons can a changing South Africa draw from other countries with successful transformations? When is government intervention justified in economic development and transformation? What are the good qualities of an appropriate public financial management and budgetary system? Can such a system serve as the solution to all problems of transformation in South Africa?
The main question is: What qualities must a public financial management and budgetary system have to support successful transformation in South Africa and prevent it from being one of the unsuccessful transformations?

1.5.1 Contextualisation

At this stage of contextualisation, the dependent and independent variables are put in perspective. Any reaction in the dependent variable is positively or negatively caused by independent variables. When two variables move together and their values tend to increase together or in the same direction or even if they decrease together, then there is a positive relationship between the two variables.

1.5.1.1 The Dependent Variable

The transformation process in South Africa is the dependent variable. The government operates not in a vacuum, but in an environment which affects its policies and which may even threaten its own existence. Valuable lessons can be learnt from the experiences of other countries in this regard. It is therefore necessary in this research to relate to these experiences. Indicators for successful transformation for South Africa within the present political dispensation will be a sustained economic growth and development together with equitable redistribution of income in a stable, growing, competitive and transparent democracy.

1.5.1.2 The Independent Variables

The financial management and budgetary systems are the independent variables. The research process will inter alia look at the Financial and Fiscal Commission and the selected budgetary systems which were previously applied, as well as problems encountered while using these systems. Once again, the experience and lessons of other countries will be considered with the objective of arriving at an appropriate financial management and budgetary system for South Africa. Finance, whether private or public, is finite, and filters through to all areas of the lives of citizens. It is, therefore, in
the public's interest to design and have sound public financial management and budgetary systems in place.

1.6 CONTENTS OF THESIS

The structure of the thesis in terms of chapter content is as follows:

**Chapter 2** examines the transforming environment and the guidelines for changing public management. This change is generally constituted by the Constitution, the Bill of Human Rights, Reconstruction and Development Programme (RDP), the Strategy for Growth, Employment and Redistribution (GEAR), Affirmative Action (AA), Essential Stability, Employment Creation and Crime Levels and Southern African Development Economic Community (SADEC). Financial management and Budgetary reform should be based on popular sovereignty, separation of government powers and the rule of law, acknowledging community values and norms, economic growth and stability, representation, participation and civil society, democracy and prosperity and good management agenda and decentralisation strategy. The issue of accountability is put into perspective. Finally, in this chapter the Presidential Review Commission, is further discussed as a linkage to the next chapter.

**Chapter 3** reviews intergovernmental fiscal relations and the Financial and Fiscal Commission as a major factor in public financial reform in South Africa. Its design of a formula for fiscal intergovernmental relations and the principles are emphasised. Various budgetary systems are further discussed, including Line Item (Traditional) Budgeting, Performance Budgeting (Programme Budgeting), Planning - Programming Budgeting (PPB), Management-By-Objectives (MBO), Zero-Base Budgeting (ZBB) and Multi-year Budgeting as a basis for determining an appropriate public financial management and budgetary system for a changing South Africa. Finally, the Medium-Term Expenditure Framework (MTEF) presently being implemented in South Africa, is analysed in terms of the requirement for an appropriate financial management and budgetary system.
Chapter 4 deals with a case study of countries from which South Africa can gain some experience and lessons regarding transformation. These range from the First World in the West, the Commonwealth countries and the Far East.

Chapter 5 is about the relevance of the study for a changing South Africa. This chapter asks and answers questions. Some of the questions asked are: Why is the study relevant for South Africa? What is the value of Accountability, Transparency and Openness in budgetary determination? Is the observance of financial regulations really critical for a transforming South Africa?

Chapter 6 gives highlights of multi-year budgets, strategic management and planning. It further provides characteristics of a working public financial management and budgetary system, further research and Behn's Big Questions and ends with a proposed model.

Chapter 7 provides a summary and the conclusion of the research project.

1.6.1 Contents of thesis: diagram
CHAPTER 2
FINANCIAL MANAGEMENT AND BUDGETARY
REFORM IN A CHANGING ENVIRONMENT

2.1 INTRODUCTION

In this chapter the changing environment in South Africa will be put into perspective as a basis for determining an appropriate financial management and budgetary system for the country. It is a long accepted fact that public finances are not operations in a vacuum, but instead amid a myriad of other variables. Thereafter an examination of the Reconstruction and Development (RDP) with its principles will be discussed as the main policy framework of the present government, particular issues such as Affirmative Action (AA), Gender Equality, Human Rights, essential stabilising issues, such as efforts in job creation and the crime levels in the country will be discussed.

Other aspects which will be raised, are the Budget itself and its functions which will be central to the thesis as a basis for an appropriate financial management and budgetary system as well as its principles. The nature of Public Finance, the goals and objectives of government as well as the canons of Expenditure will be looked into to clarify the changing environment in order to determine an appropriate financial management and budgetary system. It is necessary to understand these canons of expenditure, because, as money is a scarce commodity, so financial management should be prudent through the use of an appropriate financial management and budgetary system.

The whole discussion revolves around the Constitution of the Republic of South Africa (Act 108 of 1996) which is the main pillar that levels the playing field for an appropriate financial management and budgetary system.
2.2 THE CHANGING ENVIRONMENT

In his definition, Bridges stated that, "Change is not the same as transition. Change is situational: the site; the new boss; the new roles; the new policy. Transition is the psychological process people go through to come to terms with the new situation. Change is external, transition is internal." (1991:3)

Unless transition occurs, change will not be coped with. Mindset must precede cultural change. People have to reorientate themselves psychologically. There can be as many as possible changes, without transition; nothing will be different when the dust settles.

The speech made by President F W de Klerk on 2 February 1990 meant that the irreversible point in South Africa's history was finally reached. The die was cast. In essence, the speech was the springboard, the framework and the dynamics with effectively three core processes: the democratisation of the state system, the majority principle and franchise; protection of minority rights, an independent judiciary, equal rights and a bill of human rights; and, the levelling of the political field through unbanning of all political groupings (De Villiers (ed), 1994:6). In essence, this was the beginning of dynamic transition politics in full swing, causing tensions among political parties and their inner circles, but also excitement and disbelief of the reality and of the time. This was the beginning of the process of political dispensation which later had a major impact on public administration in South Africa.

The challenges presented by this situation placed the country on the road to understand its diversity and change in the public sector, its practices, its epistemologies, its institutional framework and its functions in government. In order to be effective, continually institutions must be able to contain and to adapt to changing circumstances. Repositioning of an institution entails a change in the way it functions. Strategies, formal structures, cultures, operating styles and people may all have to change. The Constitution itself represents an important impetus for change (Van der Waldt and Helmbold 1995:96).
Concepts such as change, transformation and transition were commonly used during this process. They were popularised through exploratory negotiations, accommodative negotiations, confrontational sub-phase transition politics, persuasive politics, internationalised politics and risk politics. The result of this dynamic period was a Constitution for the country which created a new environment with excitement, challenges and opportunities for many and, of course, stress, frustration and disbelief for others for years to come. The process of change and transition in terms of the Constitution serves to transform the country and society for a far better and brighter future (van der Waldt and Helmbold, 1995:96-98; Ekvall, 1994:54-58; Tichy, 1983:3-6).

Bridges forcefully stated that change is external, transition is internal. By the same token politics is internal and public administration is external. Politics is the reason for public administration to give real values for change. Among the chances, the development of an appropriate public financial management and budgetary system for supporting a transforming South Africa, which is the theme of this study, has become indispensable and relevant (Bridges, 1991:3).

2.3 DEMARCATING THE TRANSFORMING ENVIRONMENT FOR PUBLIC FINANCIAL MANAGEMENT IN SOUTH AFRICA

2.3.1 Constitution is Supreme

In the process of change and transformation South Africa no longer finds itself as a "Parliamentary State". It has become a Constitutional State, based on the principles of the sovereignty of the Constitution and the Rule of Law (Esterhuyse, 1998:22).

Change is always dynamic, uncertain and stressful, but desirable and essential. Whenever changes take place, stability is always questionable. The signing into law of the Constitution Act of the Republic of South Africa (Act 108 of 1996) marked the end of South Africa's isolation, together with its
main pillars of sanctions and disinvestment resulting from the continued policy of apartheid.

The South African Parliament is still a supreme legislative institution in a unitary state. It is also subordinate to the Constitution. De Villiers (ed.) (1994:83) observed that the Constitution is expressly declared to be the supreme law of the land, binding all three spheres of government. Procedures for constitutional amendment are set out. The National Assembly and the Council of Provinces sitting together serve as the Constitutional Assembly for most constitutional amendments. Any amendments to the legislative and executive powers of a province require not only a majority of two-thirds of the members of each house voting separately, but also the consent of the legislature of the province affected.

Van der Waldt and Helmboldt identified five principles from a public administration point of view also contained in Schedule A of the Constitution, namely:

1) The Constitution shall provide for the establishment of one sovereign state, with a common South African citizenship in a democratic system of government committed to equality for all.
2) It prohibits racial, gender and all other forms of discrimination in order to establish one peaceful rainbow nation with strength from its diversity.
3) It is the law of the land binding all levels of government. The Preamble to the Constitution also emphasises that the "Constitution is the supreme law of the Republic".
4) There shall be clear separation of the powers of government, namely the legislature, the judiciary and the executive.
5) The government shall be structured into national, provincial and local levels with a democratic representative at each level and proper checks and balances (1995:27).

These principles will be applied continuously in a democratic South Africa as they lay a broad foundation for new democratic institutions of public sector
reform from the old. This will move the financial management and budgetary system from a closely watched confidential document to a much more open public democratic document such as a national budget.

A constitutional process such as the one which the Republic of South Africa has undergone, has resulted in far-reaching changes which are continuously taking place with previously unthinkable impact on the old environment. Not all the environmental issues will be discussed. Only those which are relevant to the study will be considered. However, these will not be considered in isolation.

South Africa has achieved the democracy that seemed so distant for so long. If the change in our national condition since then can indeed be called fundamental – it is not so much that conditions have changed – most South Africans need a real improvement in their lot because of the new vision that has set us on a different course in which change is really possible (Bell, 1998:27-28).

Section 73(2) of the Constitution under the National Legislative Process stipulates that only the Cabinet member responsible for national financial matters may introduce a Money Bill in the Assembly. Section 77(1) further stipulates that a Money Bill may not deal with any other matter except a subordinate matter incidental to the appropriation of money or the imposition of taxes, levies or duties.

The point is made that no appropriation can be made without the express authority of the National Assembly through the Cabinet minister responsible for financial matters. Any appropriate financial management and budgetary system for South Africa must have the blessings and support of the National Assembly of the land, without which it remains unconstitutional (RSA Constitution Act 108 of 1996).
2.3.2 The Bill of Human Rights

From a historical perspective, the Universal Declaration of Human Rights was adopted and promulgated on 10 December 1948 by the General Assembly of the United Nations. This marked the beginning of the international recognition of human rights. It also represented the beginning of the end of the idea of absolute state sovereignty, the idea that a state can exist in legal isolation, separate from other states, and that the way it treats its own inhabitants is entirely its own business and no concern of any other state (Robertson and Seneque (eds.), 1991:1).

South Africa, together with the Soviet Block and Saudi Arabia, abstained from voting on the Declaration. Instead South Africa claimed that, in terms of the Charter and traditional law, there were no restraints in the manner in which it treated its own citizens within its own domestic jurisdiction (Robertson and Seneque, 1991:16). This approach was initially supported by some colonial powers, but South Africa became increasingly isolated later through imposition of economic sanctions by the United Nations, the Commonwealth and the European Economic Community.

Over the years the South African Government changed its attitude towards human rights and agreed to bring South African law in line with the international standards. Hence its support for the Draft Charter of Fundamental Rights issued by the South African Government in February 1993 and Fundamental Rights proposed in the Constitution of the State of Kwa-Zulu Natal, as well as the Bill of Rights for the Transitional period in the Republic of South Africa. The church organisations and other extra-parliamentary groupings were not at all passive in the struggle against unjust laws as they emphasised the spiritual unity among all men in Christ. They further demanded justice in trials, freedom of worship and methods of future consultation and co-operation between churches (Togni, 1994:248-290; De Gruchy, 1986:66–67).
Elazar in De Villiers (1994:31, 86) concurred that Fundamental Rights are essentially directed to the protection of individuals, but that it does provide a limited form of group rights, particularly religion, language and culture and to some extent, with regard to education, guaranteeing equality before the law and protection of the law, extending franchise to all citizens and freedom of political competition. The norms of democracy are the guidelines for Fundamental Human Rights.

Constitutional interpretation of Fundamental Human Rights requires tact, imagination, originality and sensitivity with impartiality and resolute willingness to be independent in the competing interests and value systems. It requires a strong judiciary system to support the application and the establishment of the culture of human rights with which citizens can identify. South Africa must therefore learn the new rules of the game (Selby, 1987:12-43; Naidu, 1988:6-39).

The relevance of human rights to the exploration of an appropriate financial management and budgetary system for South Africa is to ensure that citizens are allocated an equal and fair share of the resources of the country after determining the real priorities. Another objective is to make sure that community values are well catered for. After all, budgets are made for the benefit of citizens of a country. An appropriate financial management and budgetary system must see to the equitable distribution of resources among deserving citizens.

2.3.3 Reconstruction and Development Programme (RDP)

The Reconstruction and Development Programme (RDP) is a document which is the end of one process and the beginning of another. It is a policy framework for the present government. It has principles and policies to which the government and its alliances are deeply committed. Democracy will have little content or value and will indeed be short-lived if the present government does not address the socio-economic problems within an expanding and a growing economy.
The RDP is an integrated coherent socio-economic policy framework with the objective to mobilise the people and all of the country’s resources to the total eradication of apartheid and the building of a democratic, non-racial, non-sexist future through development of detailed policy positions and legislative programmes of government. It requires a wide range of consultation of a range of non-governmental organisations (NGO’s) and research organisations. The business community and other organs of civic society are encouraged to participate. It is an inclusive approach which is unique in South Africa, to develop and implement broad policies along the traditions of the Freedom Charter (ROP, 1994:1–2).

The RDP is necessary for many reasons, but mainly because South Africa's income distribution has been racially distorted and ranked as one of the most unequal in the world. Lavish wealth on one extreme and abject poverty on the other characterise our society. Rural areas have been divided into under-developed and undeveloped bantustans and well-developed white-owned commercial farming areas. Towns and cities have been divided into townships without basic infrastructures for blacks and well-resourced suburbs for whites. Segregation in education, health, transport and employment left deep scars of inequality and economic inefficiency. In every sphere of life - whether social, economic, political, moral or cultural environments – South Africans are confronted by serious problems which have a legacy of political, social, economic and moral injustice. This also unleashed a vicious circle of violence and a wave of brutal killings and maiming of innocent people with the security forces failing to protect the victims (Lodge, 1997:10; Hyemans, 1995:57-63; ROP, 1994:2-4).

There are basic principles which, linked together, make up the political and economic philosophy, namely:

- An integrated and sustainable programme which brings together all the country’s resources and strategies in a coherent and purposeful effort that can be sustained into the future.
• A people-driven process with their energies, aspirations and collective determination to address their immediate needs.

• Peace and security to involve all people and for all in our societies, to build and expand on the National Peace Initiative and uphold the Constitution.

• Nation building limits which in the long-run will stop massive division and inequalities which must not be perpetuated. The objective here is to support the Southern African Region and world competitiveness and to ensure that the country takes its effective role in the world communities.

• It is also a link between construction and development, that is, growth increases output and the way it is distributed, contributes to building long-term production capacity and human resource development.

• Thoroughgoing democratisation of South Africa is absolutely integral to the whole RDP and requires fundamental changes in the way of minority control and privilege which obstruct mainly development.

Black as well as white South Africans have fears and apprehensions created by the past. These should be discussed honestly and openly. Whites had to accept that the advantages and privileges they had enjoyed, had created certain responsibilities, and blacks had to understand that it would require hard work to turn opportunities into real wealth (Marais, 1996:7).

The population at large may not immediately be markedly better off than before, but it should be much happier now that apartheid has been replaced by democracy and blacks are no longer second-class citizens in their own land (Bruce, 1998:10).

The RDP can be a tool for redistribution of resources through the application of an appropriate financial management and budgetary system for the development and advancement of those who were previously excluded and disadvantaged. Correctly used, the RDP programme can open up a mine of opportunities for everyone. What is lacking, is genuine commitment from all sides to develop appropriate solutions to their country's problems. An
appropriate financial management and budgetary system will be central to all RDP strategies and development.

Through an appropriate financial management and budgetary system, the RDP proposes to meet basic needs by developing a common vision and objective for all. These needs will be met through creating jobs by means of the following:

- public works;
- land reforms and redistribution;
- housing provision and services;
- water and sanitation,
- energy and electrification;
- telecommunications;
- transport facilities and improvement;
- environmental awareness campaigns and protection,
- providing nutrition to millions of South African children below the age of 10 who are malnourished and stunted;
- social security and social welfare for all South Africans; and
- developing our human resources through proper and quality education and training, involving sports and recreation and youth development programmes.

Finally South Africa needs building of the economic wealth of the country by integrating reconstruction and development, resource-based industries and democratising the whole society (ROP, 1994:14–136; Meijer, 1994:1-3).

The challenge for the RDP is no small matter, especially if one is not certain about strategies and appropriate financial management and budgetary systems to be used for transforming the country. An appropriate financial management and budgetary system which is the theme of this study, will be of
great assistance and impetus to revive the high spirit of the RDP and its objectives by analysing policy priorities and formulating strategies for growth and development.

A Father Christmas State for South Africa is rejected outright, together with all its concerns, such as intervention in everything for the individual. On the other hand, a neutral, caretaker *Laissez faire* system is not acceptable and has no place. A truly developmental state should transform in the following direction: the state cannot stay aloof from the developmental needs and poverty. Partnerships between government and the private sector are needed to get socio-economic justice and development along with economic growth off the ground (From a speech by Deputy President Mbeki, 1998). The goals of government and canons of expenditure need to be explored to provide further insight into the direction in which transformation should go.

2.3.3.1 Goals of the Government

Gildenhuys (1993:3) poses several questions about the goals of government: Why do governments exist? What do they do and why do they do what they do? A study of a public financial management and budgetary system is not really concerned with the political problem of what they should be doing: rather is what they do an accepted premise. Questions to be answered are: What are the goals of government? What are the functions by which they strive to realise their objectives? What is the nature of public services required in order to fulfil the functions? How and from which sources of income should the functions be financed?

(i) Economic Goals

In less developed countries constitutional and institutional constraints often severely limit the freedom of action by the government in relation to economic stabilisation policies. The reason is that their fiscal and monetary institutions and their administrative capacity have frequently not been developed to the point where discretionary policies should be.
The concept of individualism postulates that the state exists in the interest of the individual. Individuals can, however, agree on collective matters, but an individual is left alone regarding his life, views and personal philosophy. The government therefore exists to serve the individual to develop to full potential. The free-market enterprise system is the economic base. Citizens must be free to discover the values through their mind to facilitate the social application of an objective theory. The government or anyone else should not intervene in the judgement of values as the individual makes the decision (Gildenhuys, 1993:14-16).

The economic goals are identified as the maintenance of a stable economic environment, the efficient allocation and equitable distribution of natural resources to the citizenry. This allows for individual theory of public choice of goals in the market place without any government intervention (Musgrave and Musgrave, 1989:56-61; Bernstein and O'Hara, 1979:318-322).

Mbeki (1998) justified the state intervention to activate the economy through support of the poor and building of the necessary infrastructure to the level of equitable application of an objective theory of values by individuals in a free enterprise economy.

(ii) Social Welfare Goals

Socialism and the idea of a social welfare state emanate from the idea of social welfare goals. These goals emphasise equitable distribution of resources, but it is not a classic concept per se. Rather it is a combination of normative criteria and mass market necessity. Normatively the country does not have to allow a mass of severely impoverished people to exist for reasons that may be humanitarian. Furthermore, the post industrial market place needs a multitude of consumers with money to spend. If few were rich and most were poor, it would be difficult to sell several million cars and employ the thousands of workers at present in the automobile industry (Bernstein and O'Hara, 1979:320).
In the theory of public goods, the market place is the prime mechanism for meeting society's needs for goods and services. However, society will not always get what it wants because the market is an imperfect allocator. Private firms will not provide desired products if doing so is unprofitable. Thus government is called upon to fulfil product demand rejected by producers (Bernstein S.J. and O'Hara, 1979:321).

Social services are a direct benefit to the State as a whole, and public expenditure on these is a sound investment, because it lessens the number of the unfit. In other words, public expenditure should be carried to a limit where the advantage to the community is counter-balanced by the disadvantage of a larger dose of taxation. It should be noticed that public expenditure may cause large changes in the character and volume of production. Considerable diversion of wealth may be directed into channels determined by policy (Shirras, 1924: 38-40).

Specific diversions of wealth may be channelled into areas determined by policy and therefore affect favourable conditions in a country. In fact, public expenditure should increase production by increasing expenditure on police in South Africa and on law and order, as these make conditions favourable for increased production. This will also increase the material resources in a country as well as social services namely education and health. Shirras (1924:38-40) stated that such increase in expenditure affects the community's working power and its saving power. Wise expenditure should be directed to education and health, which in turn directly increase the ability and desire to save. The community does not die like an individual. It is therefore necessary to discount the future as little as possible by allowing the benefiting community to shoulder public expenditure. Durable assets with long-term benefits for future generations are central. Such responsibility improves the asset value to the benefiting community.

There are no sharp dividing lines in the economic activity between government, households, private business and other sectors which are non-governmental. Difficult questions of public policy and concerns, public
administration, public finance and budgetary processes arise from these borderline areas: What must be privatised and what not? Which services must be privatised? Will the providers of services or products be willing to take the risk of profit uncertainty? Will communities be able to afford the price in general?

2.3.3.2 Canons of Expenditure

Public finance is about how money is spent in government activity and who benefits, as well as what happens to the surplus. Musgrave and Musgrave (1989:4) explained that the only effects of expenditure and tax policies depend upon the reaction of the private sector, but the need for fiscal measures is determined by how the private sector would perform in their absence. Finance in the public sector has an important and constructive contribution to perform rather than be viewed as increasingly interfering in a free market. Therefore the canons of sanctions, surplus, benefit and economy are discussed below.

(i) Canon of Sanctions

No public expenditure should ever be incurred without proper authorisation, namely by going through normal budget preparations, through parliamentary or legislative processes of appropriation and formal approval, execution and control.

The following specific stipulations must be observed. There should be no expenditure by any authority beyond its powers of sanctions; the loans that may be raised must only be spent on objectives for which the money was borrowed; and, there should be proper arrangements for any sinking fund to be made or liquidation process.

(ii) Canon of Surplus

Financiers should not debit capital with what should be met from revenue and vice versa. Otherwise there will be no true surplus or true deficit. Shirras
(1924:45) clearly stated that the Great War has taught the vital importance of this canon and it applies equally to central provincial and local governments. The main fact is the importance of the public expenditure to avoid deficit. Public authorities must make their living and pay their way like ordinary citizens to balance the budget.

(iii) **Canon of Benefit**

This canon refers to the maximum social advantage such as increased production preservation of the social whole against external attack and internal disorders and as far as possible, reduction in the inequality of incomes. The greatest happiness of the greatest number. All important is that no public expenditure should be permitted for the benefit of particular individuals (Shirras, 1924:41). This is the concern presently at the rate of corruption, crime and extortion in South Africa.

(iv) **The Canon of Economy**

This canon calls for the same prudent spending and national control in public expenditure as required for ordinary private individuals. The price of the economy, as of liberty, is eternal vigilance, and there can be no assurance of that without the resolute application of sound financial control and sound public opinion (Musgrave and Musgrave, 1989:1-5; Shirras, 1924:42).

The proposed reform in the public financial management and budgetary system in South Africa is precisely in line with the prudent application of this canon on the economy, realising that finance is a scarce commodity. This fact is also realised by South Africa" Minister of Finance in the 1998 Budget Speech: “Government finance is finite”.

In closing a quotation from Resolution II of the 1920 International Conference in Brussels seems appropriate: “... the country which accepts the policy of budget deficits, is treading the slippery path which leads to general ruin; to
escape from that path, no sacrifice is too great" (quoted in Orde, 1990:106-107).

Budget deficits come not only from mere extravagance, but from disregarding the balance between income and expenditure because stable expenditure vests not in pious hope, but in making both ends meet. The dynamics of public financial management in South Africa and the necessity for an appropriate financial management and budgetary system revolve around these canons. These canons cannot be wished away; they are a reality for true economic growth and social upliftment. They are appropriate for RDP, GEAR and Restitution, analysing policy priorities and formulating strategies for growth and development.

2.3.4 The Strategy for Growth, Employment and Redistribution (GEAR)

The Strategy for Growth, Employment and Redistribution is an integral macro-economic framework (Bell, 1998; Nomvete et al, 1997:19-24). It articulates a series of policies with targets that, working together, will put the country on a competitive basis. GEAR's main premise is that job creation is the only way to address poverty. All other attempts will fail in the long run without the creation of employment. This means improving capital inflows, reducing imports and improving on exports. Progressive changes were made on the deficit side. The target of economic growth at 4.3 per cent in 1997 was a real positive step. The move in the right direction is in progress and reforms are taking place in exchange for control and accountability.

However, the economy is growing without the number of jobs projected for creation. There is an estimated unemployment of 3.9 million. Altogether 1.5 million people belong to poverty-stricken families with no wage earners. In 1998 the total number of employees in the gold mines was 515 000. Today there are a mere 300 000 employees. Perhaps the one thing under-estimated with GEAR was the difficulty in getting sequencing in these policies (Bell, 1998:8; Bruce, 1998:10; Nomvete et al, (eds.) 1997:22).
There is a problem in understanding what exactly is going on in the labour market. It is necessary to investigate the needs of the labour market over and above the macro-economic strategy that will solve the problem of unemployment. The major economies in Europe face the same challenges. Finance has been under pressure from the political leadership to change course on, for example, deficit. The government must learn to deal with issues differently and must take a bold stand to create correct conditions for investment and, in the process, acknowledge the importance of the private sector in that equation. But this is a two-way street and is about stakeholders learning to deal with each other in a symbiotic way. They must acknowledge that they both enter a new era and therefore need a centre point that is conducive to proper decision and discussion about the most productive environment for job creation (Ramos, 1998:10-12).

The old relationship between capital and labour has changed dramatically, but it also needs to change even further. During the 1980s debates were crude: simply capitalism versus communism, as if that were the heart of the debate. There is a need to understand that the real world is a lot more subtle. To raise standards of living, one has to raise spending power. South Africans tend to think about this in a narrow fashion; their pronouncement on productivity, for example, is about the lowering of the cost of labour when what it really is about, is more quality and even more efficiency. That is the only way to improve output (Ramos, 1998:12).

The GEAR strategy cannot be a success unless an appropriate financial management and budgetary system can be implemented to support the strategies of bringing labour and business together while the government continues to create a stable and attractive climate for investment.

2.3.5 Empowerment

South Africa has an admittedly critical problem with a severely skewed pattern of wealth and income distribution (Siebritz, 1996:33-40). However, this does
not pose a grave danger to the country. Because there are endless efforts for uplifting both quality and the standard of living of the greatly deprived majority of the population by deliberate re-distributitional policies.

The process of Affirmative Action (AA) is presently taking place in South Africa. The concept has been subjected to controversy, deliberate misconception and different meanings to suit particular political as well as sectional interests. Most experts on the subject agree that AA is: 1) not about appointing unqualified people to the post, but about giving preference to designated groups previously excluded from the mainstream of the economy, namely blacks, women and the disabled who are suitably qualified and competent to do the job; 2) not reverse discrimination, but the re-distribution of privileges and opportunities to those previously disadvantaged and excluded; 3) not about dropping standards or selling shares to a few disadvantaged elite, but actively enhancing decisions and output through diversity (Morkel, 1998:3-4).

A large majority of people, especially blacks, were deliberately kept out of managerial positions because of South Africa’s history. To this day, it is still difficult for blacks to be appointed in these posts without the right background. AA must and will have to play a role, but the more artificial that role becomes, the greater the danger that the end result will ultimately be detrimental to all South Africans (Chusmir and Frontczac, 1990:295).

Although the Government has the collective will to manage the process more effectively, we all need to work harder and think more creatively in terms of getting results. High courage is needed to do the unpopular, for some the unthinkable and for still others, the impossible (Morkel, 1998:3).

Black empowerment is and always has been about creating opportunities and paving the way for blacks to enter business and other ventures. Whoever says he/she is going into business to enrich the people out there, is a liar or a fool. There are disparities in wealth or ownership and African societies had their own exclusive and upwardly mobile elite. The notion, therefore, that, in
terms of African values, Africans should not become rich, is nonsensical. They should, like any other member of the African society, not feel ashamed about making money – as long as it is made legitimately (Sekhakhane, 1998:50; Moloi, 1998:4-6; Madi, 1997:47-48).

Black empowerment is a process that will take longer and must go deeper. It is not just about making every black person a shareholder. As Moloi says "It is about pointing to the disadvantaged some of the obligations and responsibilities of the new South Africa as against sitting around and waiting for free handouts and entitlements. It is not apologies people need. It is work and service ethic. It is time people stop beating their breasts and start working for the future" (Bullard, 1998:2).

When the Government talks about transformation of the country, it means improving the quality of life. Black empowerment refers to skills transfers and quality of education being given to those previously disadvantaged to enable them to advance through the process of black empowerment. Whether it is Affirmative Action, Black Empowerment, Black Advancement, Equity or Gender Equality, it has some things in common: consideration for privileges and opportunities previously enjoyed by other minority groups, skill and training transfers and wealth distribution. It is about equity. There should be complementary strategies between Government and business to look into Affirmative Action as was the case in Malaysia, Japan, West and presently in East Germany, as well as elsewhere.

The Employment Equity Act recognises that there are disparities in employment, occupation and income within the national labour market. These create such pronounced disadvantages for certain categories of people that they cannot be redressed simply by repealing discriminatory legislation. It eliminates unfair discrimination in employment, ensures implementation of employment equity to redress the efforts of discrimination and advises a workforce broadly representative of our people and promotes economic development and efficiency in the workforce. These will be achieved through prohibition of unfair discrimination, affirmative action, commissions for
employment equity, monitoring, enforcing and legal proceedings (Employment Equity Act 1998: Ncholo, 1996: Noncontinuous paging)).

South Africans should not fear taking stands on issues such as exposing the truth, openly debating extensive social programmes as a burden on individual wealth, and other contemporary societal problems. Keeping quiet about these issues, will not lead the country away from trouble, but directly trouble. The Truth and Reconciliation Commission have dealt mainly with truth. Truth itself, while good for the soul, does very little for the body. Look around in the South African society to find the ultimate truth of the TRC’s work: that beyond the horrors and tears, reconciliation has its greatest political relevance as a material one. It is about the establishment of economic and social justice which was also the object of the RDP. That job remains to be done. The material changes of many generations must be undone in only one generation. According to Bell "White South Africans fear debate, whites never grasped this deeper meaning of the R-word" (1998:27-29).

The government should stick to the clear set of economic objectives, and business should accept a mission and responsibility to bring growth and equity into closer alignment (Oliver, 1998:48). Looking at the history of the world, what seemed to work in one country was obviously a failure in others, so affirmative action is in fact dictated to by the environment of a particular country. Nobody can really explain why countries like Japan, Taiwan and South Korea made simultaneous progress and stability during their process of empowerment while many others failed. Perhaps there may be specific cultural, religious and civilisational or time-related reasons for success stories, reasons which are beyond the realm of empirical verification (Nafziger, 1995:3-27).

Of course, South Africa is not unique in this slow process of empowerment. The mere replacement of an authoritarian regime with democracy, is in itself a miracle in South Africa. This refers to the long-term aspects such as economic growth, inequality and downright elimination of historical patterns of poverty. One cannot be too optimistic about the government’s ability to deal
effectively with the ever widening gap between aspirations and its political consequences in the existing reality in post-apartheid South Africa (Olivier, Leadership, 1998:47).

2.3.5.1 Some ways towards empowerment

There is a need for joint business and government strategy to look at issues surrounding specifically GEAR and generally RDP to enhance innovation for small, macro and medium enterprise development and job creation. There must be broader understanding of what empowerment really is about. A Public Works Programme's important contribution to a local community in a rural area to sacrifice its labour for a water building project so that women no longer have to carry water on their heads for further than five kilometers, is empowerment. This results in access to clean water and electricity to improve health standards. Financing some students from poor backgrounds with bursaries, while they in return help their communities with knowledge, is empowerment. The issue of medical students who receive more than conventional universities from a tax base put in place by ordinary citizens, and then getting a call from Minister Nkosazana Zuma for a year of service to the community, has created a tremendous fuss and moaning from the medical profession and the country (Moloi, 1998:1–6; Madi, 1997:47–59).

Empowerment comes in many forms. The provision of housing to otherwise homeless citizens and equally to informal settlements and recipients, is empowerment. By sitting on company boards, black directors contribute to a programme, and encouraging career-planning for them, not only gives them experience to develop loyalty, but they also act as models for junior staff and enjoy the esteem of the market. Also needed is encouragement of democratic values in such boards so that they can become more flexible than at present. Advancement in ownership, decision-making and jobs should also be encouraged. Finally, Madi (1997:72) summed this up as follows: “The bottom line is that real improvement, even if there are 200 certificates under the mattress, without a job, genuine empowerment has not happened” (1997:72).
Training by the big South African companies must be taken more seriously than is happening at present. They continue to be portrayed in various surveys as spending very little compared to their counterparts in the world. A recent Cape Town based Labour Research Services survey revealed that many of the country’s largest companies spend little more than 2.5 per cent of their income on training. The international average is between 4 and 7 per cent. The survey was confined to large companies, only reflecting a further gloomy and probably worse picture when it comes to smaller and medium-sized companies. The question is: If South African companies are so cavalier in their attitude towards staff training under normal circumstances how are they to tackle the extraordinary training requirements emanating from our tortured past? At the same time, the same companies bemoan that “Change is not the same as transition. There are just not enough skilled blacks out there (Employment Equity Act, 1998; Madi, 1998:21).

The government needs to give clear guidelines as to what constitutes genuine empowerment exercise, if it seeks to reward companies that are doing well and wants to penalise those not doing so well or not doing anything at all (Green Paper on Employment and Occupational Equity, July 1997; Madi, 1997:4). The fact of the matter is that South Africa, both the corporate world and the public sector, should be spending more than competitor nations on training. An appropriate financial management and budgetary system and financial policy should develop an embracement of skills required for setting the country on the path to social and economic growth. The challenge for new cadres in management is to make sound decisions for building confidence building while accepting that negotiations will take time to develop.

Finally, if the process of empowerment is to be a success, blacks who are targeted, should stop scrambling over a deal or a job and reverse discrimination, as recently (1997) demonstrated in the appointment of the South African Broadcasting Corporation’s Chief-Executive. They must consistently and continuously struggle to escape from the vicious cycle of
white negative expectation about black performance and anti-affirmative action utterances. Tribalism, favouritism, nepotism, exilism (or returneeism), ex-Robben Islandism, self-dejection, despondency, bad ethics and corruption are all but the death knell of the black empowerment process in the short-term and the collapse of institutions under black leadership in the long run. According to Madi "... the cheap talk in the township of 'grabbing' by public officials is beginning to be disturbingly common and this must stop" (1997:37-38). Copy all what is right from the cultures of the world to enrich your own culture. Then the process and the country will advance economically. The Japanese took some of the relevant Western positive cultural values to enrich their culture. This made them a winning nation in the world.

AA is about reconciliation and real empowerment, although not necessarily between blacks and whites or between the victims of the apartheid perpetrators. It is between the rich and the poor as much as it is between the haves and have-nots. Once again, this requires a solid, strong, energetic pact between government, business and labour for the sake of social and economic justice (Bell, 1998:16). Madi put it most succinctly that the new black leadership faces the biggest challenge: that of proving beyond reasonable doubt that there has not been just a replacement of one colour of plunderers by another. It must still prove history wrong that liberators often become plunderers themselves (1997:85).

2.3.6 Essential Stability, Employment Creation and Crime Levels

South Africa has become the most violent country on earth with a reported murder rate of 45 per 10 000, compared to an international average of 55. The crime index graph for crimes such as robbery, housebreaking, assault, vehicle theft and hijacking rose steeply in the first half of this decade. Although the introduction of the Community Safety Plan in 1995 and the National Prevention Strategy in 1996 had a positive effect, crime statistics seem to have stabilised at unacceptable high levels. In 1996 alone there were
23 000 reported serious assaults, 74 000 housebreakings, 320 000 robberies and 100 000 motor vehicle thefts in South Africa (Khumalo, 1998:43).

Rape and child molestation have become pernicious, sordid, epidemic diseases. In 1996 alone 50 481 cases were reported. The estimates are that for every woman who speaks up, 20 keep silent, which would put the figure at 1 million rapes per annum. Gang rape, the most extreme form of brutality against women, continues to increase. Approximately 30 000 cases of child abuse were reported in 1996, 35% more than in 1995. It is acknowledged again that only a fraction of cases of crime against children is reported. We remain with an alarmingly escalating rate of abandonment and neglected, emotionally and physically damaged children roam the streets of cities, towns and neighbourhoods. The 1996 startling revelation concerns a document that has been widely circulated in rural areas in which farm murders are encouraged, which does not only spread despair among the farmers, but sends a message, making foreign investors nervous. In May 1998 89 farms were attacked and 20 farmers murdered. In all 554 farmers have lost their lives violently since the 1994 general elections. One out of every 100 farmers is murdered. If you happen to be a commercial farmer in South Africa, there is a one in 100 chance that this will cost you your life within the next four years. (Khumalo, 1998:44–45; Van Zyl, 1998:10-16). The politics of extortion is a field of people who lead by means of networking, the ability to manipulate others and to instil fear in some.

Plundering of public and private funds is not a benefit, but a crime. Corruption, fraud, murder and maladministration is a cancer eating away the very heart of the country. When these types of crime are evident they can sabotage the country’s future (Bruce, 1998:20).

To prevent crime is almost a superhuman task and requires joint efforts from the community and Government. Crime is related to unemployment. The South African Reserve Bank Quarterly Bulletin stated that the economy shed 130 000 jobs in 1997, and that 365 000 people entered the job market annually while only 82 000 jobs were created between 1990 and 1995. The
Central Statistical Services estimated that R32.4 billion from the informal sector was contributed to the gross domestic product and further found that 1.74 million people were participants in the economy (Kobokoane, 1998:14).

The Government has embarked in several strategies to develop entrepreneurship to bring down unemployment, such as Promotion of Small Business, the National Council for Small Business, Khule Enterprise Finance and the National Small Business Act. Other countries like Singapore, Taiwan and the United States developed their economies enormously through small business. China introduced reforms after 1976 which gave entrepreneurs their start and resulted in that country's unparalleled economic revival (Bruce, 1998:10; Nafziger, 1995:153-162).

Therefore without clear intervention policy strategy, the informal sector development will remain trapped in survival mode, with commercial institutions leaving the gap for costly short-term loan financiers to mushroom.

Restoring the moral fibre of society would demand a positive contribution made by men towards family, community and nation. Such initiative should be done in partnership with women and all other affected groupings. Some of our most pressing needs will revolve around political stability, fiscal discipline, economic growth and human capital development paradigms. The difficulty does not lie in the new ideas, but in escaping from the old ones (Khoza, 1998:55).

After World War 2 Germany had priorities which had to be tackled as vigorously as possible, just like the new South Africa. These were: (i) political and social stability without which investment was neither calculable nor practical; (ii) initiatives which would go further than simply measuring statistics and exchange rates. The Germans learnt what it was like when justice and the law were held in contempt and abuse. Their response in the years that followed was to place enormous importance on the rule of law, the institutionalisation of conflict and adherence to correct procedure. South Africa is in the midst of revolutionary social development which cannot always
move in a straight line. An investment in South Africa is an investment which will pay rich dividends. The legal system should be strengthened and a dedicated campaign against crime and violence is required. The respect for law is one of the most basic requirements for social, political and economic reconstruction and transformation.

2.3.7 Southern African Development Economic Community (SADEC)

South Africa has been isolated by the world due to its historical apartheid system of government. Since the 1994 general election the whole population of South Africa has rejoined other countries of the world and participates effectively as an equal member in international organisations. This opened many challenges and opportunities for South Africa since joining the Southern African Development Community (SADC). As the agreements between countries became effective for free trade zones, there was a gradual reduction of General Agreement on Trade and Tariffs (GATT). It is this breakthrough which saw South Africa trading with countries in Africa and other parts of the world. The SADC has fourteen (14) member countries at which South Africa aims expanding through effectively implementing trade in pursuit of national objectives (David, (ed.) 1973:233).

South Africa has existing advantages of good physical and financial infrastructures, the potential for the domestic market and the country’s future role in the SADC region. It must investigate its export market through policy initiatives and a positive domestic market. Sectoral policies should be focused on labour intensive sectors with export potential.

Questions of equity cannot be ignored in developing countries because of uneven distribution of incomes and wealth which includes the SADC and other regions in Africa and South America. This is in direct contrast with the developed world where concern for equity tends to be overshadowed by preoccupation with economic development which is regarded as the only means of raising incomes and wealth all round (David, (ed.), 1973:233-234). That means the government is not expected to intervene in the private,
economic and social activities of individual citizens. The trade protocol requires that local added value to imports should only be 35% to qualify for duty-free passage between member states of the SADC (van der Walt, 1998:13).

All these official measures are directed at facilitating entrepreneurial endeavours as the private sector is the activator of economic growth. Industrial restructuring and responsible labour relations will constitute a more internationally competitive and labour-absorbing economy. If the labour market fails to respond to the aspirations of the unemployed, nothing will come of attempts for job creation and economic growth. As governments across the continent embrace gradual economic liberalisation policies, privatisation on its own will not achieve the objectives of income and wealth redistribution. Natural stability and return on the market rate are the inducement for investment leading to empowerment and job creation. Under the guidelines mentioned, Telkom has expressed interest in utilities to be privatised in countries such as Uganda, Mauritius and Senegal (Kobokoane, 1998:4).

If South Africa sustains its democracy, fights corruption and negligence and maintains its infrastructure and prosperity, while fighting for the same in African countries, it would not be too difficult to have a vision of a Southern African and African future where the ideas of an African Renaissance are achievable. The choices that African countries have in terms of defining their dreams of the future are dramatically limited. Today the cold war is not only over, but capitalist seemingly triumphed over communism. Global capitalism along with its free market economic policy seems to be the only way to go now. An unprecedented rise in communications and information technology offsets the overbearing presence of the United States of America and Western Europe (Omotso, 1998:81).

Finally, South Africa’s commitment to working regional organisations is also welcome. Over the years regional organisations came and went in different directions on the continent, like the East African Community which comprised
Tanzania, Uganda and Kenya. The regional organisations broke down under the strain of differences between the countries involved. Today there are encouraging hopes to revive these organisations. The Economic Community of West African States tottered under the harsh leadership of the Nigerian military leadership. If Southern African regional organisations, especially the economic ones, succeed, the rest of Africa would learn to stick together in their organisations. Such organisations would work for their members and would constitute a strong building block of an effective all-African Organisation (Omotso, 1998:38).

The previous section dealt initially with the changing environment and the environment of public finance in South Africa. The Constitution, the Bill of Rights, RDP, Affirmative Action, essential stability, job creation and the Southern African Development Community were issues raised.

2.4 GUIDELINES FOR FINANCIAL MANAGEMENT AND BUDGETARY REFORM

In the literature of Budgetary Reform guidelines are often referred to in the same breath as the "Principles of Good Government" (Hollis and Plokker, 1995:48) or "Principles for Reforming Government Operations" (Public Manager, Winter 1997/98:3-4) and still others call them "Principles of Public Financial Administration" (Thornhill and Hanekom, 1995:115-116). Whichever term or phrase is used, it substantially means the core intention of this part of the theme - which is the fundamental basis for sound guidelines of public financial management.

Changes have been far-reaching with profound effects on national government in the "new" nations of Africa, the Soviet Union and the Far East. These include devolution of functions to state and local government, contracting out of services and functions, decentralising of authority and building a culture of human rights. Reliance on technology has increased tremendously. Basic changes are being made in the roles of functionaries in budgeting, procurement and auditing.
The basic question to ask is: what guidelines lie behind the system and institutions of good government that can enable smooth transformation in changing countries? Or put the other way: how can these guidelines contribute to a successful transformation process?

The following guidelines, which are subsequently discussed, have been identified as common to all democracies in transition.

2.4.1 Popular Sovereignty

The concept of popular sovereignty and the necessity of universal suffrage is now beyond dispute in established democracies. In a true democracy, what matters most, is to have the right kind of people in office. That is what Edmund Burke called people who have the ability, experience and inclination to govern wisely in the interest of society as a whole. Democracy could be achieved only within a party and not within a society as a whole, because when left to people themselves, they would make wrong decisions (Hollis and Plokker, 1995 : 50). Thus most seasoned western democracies, such as Germany, the United Kingdom and the United States of America, pride themselves and their economic successes to democracy and a multi-party system.

The budding democracies of mainly Asian countries and the economic success of South Korea, Taiwan and Hong Kong express their achievements in ideas resulting from the democratisation of their countries. As individuals exercise their human rights in a democracy, they are capable of forming a government to maintain law and order and promote growth. This brings us to another guideline.

2.4.2 Separation of Powers and the Rule of Law

According to this principle of checks and balances of the powers of government, there is clear separation of legislative, judiciary and executive
powers. This is a guarantee for people that the government will not fall into tyranny and dictatorship. The government will function only in accordance with the rule of law, and not by arbitrary and uncertain decisions; all citizens will be treated equally before the law, and government in principle enjoys no privileges; the independent judiciary must solve all the disputes in the state. Supremacy of rule of law and clear separation of powers are traditional ideals in democracies since the days of Aristotle and Polybius (Hollis and Plokker, 1995:51; Thornhill and Hanekom, 1996:115–6).

The power of the state is both subordinate to the land and its people and accountable to them as the electorate. However, to ensure that managers do not exceed their discretionary powers, the requirement of administrative law must be considered and reviewed. As far as public financial management, budgeting and other matters are concerned, the manager has to be au fait with legal requirements concerning his/her financial responsibility. This financial requirement is strong during transformation, but will clearly be stronger after transformation, as more functions are clarified through the guidelines from the legislature.

It is therefore incumbent upon the budget managers to be conversant with the legislative guidelines and keep abreast of changes in the nation and the methods of work and management practices. Failure to take cognisance of the situation will result in serious implications for the minister who depends on the budget manager’s advice for policy matters. Or on the other hand, he/she may fail to convince the legislature that the public’s interest is not prejudiced on the interpretation of provisions of legislation (Thornhill and Hanekom, 1996:115).

2.4.3 Acknowledgement of Community Values and Norms

In a democracy norms and values of community are acknowledged in public and as such, to violate them is to violate the nation’s constitution. All actions by government through its public officials should be carried out in a way that is acceptable to the majority of the citizens.
Therefore, citizens in a democratic state expect certain values to be reflected in the behaviour of their government. Such values should be defined clearly and incorporated in the national systems that are emerging. This will further ensure that changes in government result in improved quality of service to citizens and a better administration and management of laws and policies by those in the national service. This is a clear call for public service ethics. (Maphai, 1998:16; Novotney, 1998:3; Thornhill and Hanekom, 1996:115–116).

The financial management and the budgetary system, together with financial policies, will not only be an end of financial control in policy execution, but it will guide the impacts and outcomes of policies on the values and norms of community. So, as values and environment in a country change, so will the need for financial management and budgetary systems reform process change, but in a much more proactive manner.

2.4.4 Economic Growth, Stability, Democracy and Prosperity

Democracy has been hailed as a stabilising factor in liberalising economies. During transformation of countries and governments there is an ever greater need for national stability, continuity and competence, and fairness in administration and industry will continue to demand well-trained and well-managed workforces to effectively pursue programmes. To command and maintain the confidence of the people, it is important to recognise the requirement that the unique nature of national government should be defined clearly and expressly to guide managers and civil servants.

The national government in a transforming democracy will emphasise on the public servant the values concerning nonpartisan, non-sectarian and nondiscriminatory personnel who respects citizens' fundamental human rights, and equal treatment in the diligent execution of their responsibilities, and will rely on a workforce responsible beyond the call of duty, staffed by efficient and accountable result-orientated personnel. It must be
representative and professional so that the price for its pay is worth the service. Competence is only possible if the selection of personnel as well as promotion and termination of service takes place on merit.

A country with a stable government reflects better the prospect of how it manages its resources, industry its international debt. It also has a reputation of good policies which are investor-friendly in many ways. The manner in which the levels of crime and corruption are reported, should not bar investors and established business from the country. Most new democracies must still improve a great deal on this. The financial management and budgetary systems under reform should work positively on financial control, analysis and management to prevent corruption and maladministration. For a democracy to thrive, immediate, short-, medium- and long-term policies should be realistically drawn up to boost investor confidence.

There is a connection between democracy and prosperity. Hollis and Plokker, however, observed that political freedom in itself is no guarantee of prosperity and equally true is that political freedom denial does not inevitably entail economic failure and disaster. A recent World Bank Report on the relationship between economic progress and democracy in 90 countries between 1973–1990 confirmed that economic freedom promotes economic progress, and increased civil and political freedom is reliably and clearly associated with higher rates of growth (1995:57).

East Asian governments have been, in the relative short term, successful in achieving economic growth and prosperity. They may now be subjected to increasing parallel civil and political freedom to provide lasting guarantees of economic freedom. The construction of democracy, if it is to lead to lasting economic success and to a measure of political stability, must be achieved along with wider creation and encouragement of social and economic conditions suitable to a country's structural and cultural circumstances. The key issue is a dual creation of a virtuous cycle between social and economic development on the one hand, and political development on the other in
societies with many transitional problems to face (Hollis and Plokker, 1995:58).

The founder members of the East Asia Tiger Club in the 1980s were Singapore, Taiwan, Hong Kong and South Korea. They wanted to describe their aggressive economic performance with export orientated economies. Such miraculous formulas for economic success could be transferred to other countries, namely Malaysia, Thailand and Indonesia. These seven economies, as well as Japan, produced an average GDP per capita growth of about 5,5 per cent from 1965 – 1990, more than twice the OECD average. Shifting from basic subsistence to middle and upper class affluence, was the consequence of increased output by 20 per cent for millions in Eastern Asia. There was a decline of people living in absolute poverty from 58 per cent to 17 per cent in Indonesia between 1960 and 1990, and from 37 per cent to 5 per cent in Malaysia. An average of 14 years increase in life expectancy during the same years was no small achievement in one generation (Rees, 1998:218).

Understanding this outstandingly sustained economic success spawned attempts at emulation, as the formula proved somewhat elusive to replicate. Government intervention appeared to be part of the secret, such as in Singapore and South Korea, but not in others, such as Hong Kong. Stable, though not necessarily democratic, political systems characterised most of these countries with the exception of Thailand. In the case of Japan and South Korea the generous United States aid arguably provided initial impetus for performance. Other factors bind societies together: a broad acceptance of a capitalist system, combined with ferocious work ethic, high expenditure levels on education and acknowledgement of competition and domestic saving. Asian children consistently rated higher compared with their peers in developing and developed countries. Rapid economic growth makes it easier to finance the military, and a compromise in the areas of personal liberty was necessary for rulers to pursue this goal to make their citizens behave. The point to demonstrate by means of the Asian crisis is to emphasise Hollis and Plokker's viewpoint expressed earlier.
The economic process in the long term is demonstrated to be a "fragile flower", proving that sustained success involves a complex set of ingredients. It reveals flaws at the micro-level - an absolute absence of countable markets, critical view of projects and due diligence by financiers. If capital is freely available so will it be freely used (Rees, 1998:219).

Hollis and Plokker (1995:58–59) concluded the linkage between democracy and prosperity by stating that democracy undoubtedly means building strong institutions with the remit and capability to provide effective regulations of a complex economy to develop a new physical and social infrastructure to tackle, once and for all, severe poverty and distributive inequality. It means sound politics, spreading real citizen democracy, an active civil society and active management of the inevitable tensions inherent in growth and development. It is not something to be achieved overnight, but by building up layers of coral. The influence of participation in the global market economy may reduce national differences in the long term, and transfer of knowledge and experience of the best practice may promulgate some international standard of government and management. While economic transition and democratic accumulation is under way, it is very important to adopt a flexible approach to the design of government and management systems, such as reform of public financial management and budgetary systems and the formulation of public financial management policies and other human resource policies. In view of India’s dismal economic failure despite its British-inspired democratic model, the writing is on the wall that Western-style government is not sufficient answer and may not always be the answer for economic progress.

2.4.5 Representation

In a small community such as the Greek City State people may have participated directly in the democratic decision-making processes. In large democracies direct participation is impractical as much as provision for a direct referendum on specific decisions or in exceptional circumstances.
Sometimes, through their representatives, people will agree to the constitutional framework within which government is exercised. True democracy with only its framework is not enough. It requires continued involvement within the rules of social participation and competition enforced by the government. The government itself must be kept in check. The popular support of the neo-liberal democratic government of both Britain and the United States of America in the 1980s shows continuous fear and lack of trust of big governments (Ott and Ott, 1993:20–21; Hollis and Plokker, 1995:53; Wildavsky, 1964:74–81).

Democracy is also viewed as furthering the execution of the welfare state by allowing itself to be used for the benefit of furthering interests of citizens. Individual liberty within this view is extended to overcome the problem of poverty, prejudice, ignorance and illness. In this instance democracy may be compatible with big and small governments as long as it commands and maintains popular consent and freedom of expression. Democracy, through representation, brings to the fore the issue of parties and a multi-party system which may be capable of forming a coalition under specific circumstances. This is walking a tightrope because, in a coalition a democratic government can only be as stable as the strength of its coalition (Hollis and Plokker, 1995:53–54). Another tendency in democracies is that changes in government will not affect the stability in some exceptional cases and impoverish the country as has happened in Italy during the 1980s and early 90s. Democracy through representation creates an environment for negotiations and exploration of creativity for accommodating diverse interests. Development across diverse interest can provide a sound foundation for developing a strong government and leadership trained in the levels of politics and other civic structures.

2.4.6 Participation and Civil Society

As stated above, an individual character is developed through participation in civil and religious structures. Freedom of expression has created "the
permanent interests of man as a progressive being”. So, as a developed being man must be free to think and act for himself. Each individual has certain fundamental rights which must be respected and which cannot be transgressed by the rule of the majority, including the minority rights. This principle calls for people to engage in political action and effective participation, evaluation and formation of public policy (which is inclusive of public financial policy as well) to discourage passive action (Hollis and Plokker, 1995:54-55).

The Constitution of the Republic of South Africa mandates local government to:

1) provide democratic and accountable government for local government;
2) ensure the provision of sustained service to communities;
3) promote social and economic development;
4) promote a safe and healthy environment through people participation; and
5) involvement of community and organisations in matters of interest to them.

This is the essence of local government involving participation of civil society (The White Paper on Local Government, 1998:57-80).

These changed realities and mandates of local government require new capacities, attitudes and approaches which are only emerging. Planning with a vision with integrated development and key projects ranging from short-term to medium-term to long-term in relation to clear annual budget including the infrastructure investment plan are underway as strategies for development (The White Paper on Local Government, 1998:19-36).

The intention of delegation of powers in an institution or to another level of government by national government, is a definite form of decentralisation. In other documents it is referred to as "bringing the government to the people" or further assertion of one of the Freedom Charter’s clauses: "People shall govern" (White Paper on Local Government Transformation 1997:31-48).
The idea is that if people own a project or an item, they tend to value that project or item. This view has worked successfully in other parts of the world, such as Britain, during Thatcherism's successful privatisation policy. Whether it will work with the same success in the new democracies of the former Soviet Union such as the Ukraine, which were never exposed to liberal values as being discussed, is a matter for observation over time and skills training.

The involvement of ordinary citizens through their individual capacity and relevant structures in the successful transformation of the South African system is regarded as the most powerful role citizens can play in influencing government policy-making. The paradigm shift in the teaching and practice of Public Administration as a field of study from a traditional generic process approach to a more open, transparent development-orientated approach, among other substantial benefits, also facilitated active citizen participation in government operations. Citizens should therefore be sensitised in general about what they are able to achieve by taking up the cudgels, involving themselves in government activities. The system must also be reasonably prepared and receptive to increase the opportunities of improving the quality of their participation (Thornhill and Hanekom, 1996:41-42).

Citizen participation is a broader concept than just lobbying which only increases opportunities to bring across the views of the group concerned. Citizen participation in its broad meaning relates to inclusiveness, representativeness, consultation, action and responsibility. It is also a good way, on the one hand, of asking not what a government can or cannot do, but actually determining what people themselves can do. Once people understand the need for reform, and they become part of the process, they are able to set the standard for service and promote good community values and ethics with positive societal morals. Communities at this level can begin to accept the responsibility of their actions and the correct assessment of the actions of the government they voted into power.

"Participating democracy" in this sense means a democratic government small enough to achieve more direct participation. In effect it is just another
measure of self-government. The devolution of political power to the lower levels of government and the delegation of related activities to achieve full self-government at these levels is a good process of soliciting participation from citizens. The Governing Council of Students - Teachers - Parents Association is another example in South Africa. Student bodies and other structures have brought to the attention high forms of corruption in schools and universities which call to question the morals of those in leadership. In local community politics, workplace democracy and in the management of local services, a bigger number of people can participate effectively to influence and improve their local circumstances than is possible with national representative politics (Hollis and Plokker, 1995).

Discussion and opinion surveys, reporting through the media about events, can take place between all citizens or in informal political situations on a broader democratic scale. More important in democracy is that it affords people themselves a rare opportunity they can never obtain in totalitarian environment: to decide about things that affect their lives and their futures. Once well-established, the culture of democracy becomes ubiquitous like the air we breathe - it is found in household backyards, in schools and on sporting fields, in working and business life, in small towns and big cities, in rural and urban areas and in every corner of the country. In the name of democracy these structures can be used to control and manage resources, including financial resources, to achieve specified objectives. This can be about financial relationships between national, provincial and local government. To protect their autonomy, local institutions and participating people will act within the proper guidelines of public accountability. This is the rationale in all spheres where democracy applies (Hollis and Plokker, 1995:55; Scott, 1987:85-90).

The "civil society" is not necessarily democratic. It provides for the association of individuals within a complex set of networks - clubs, friends, professional groups, voluntary groups of all kinds - which are alternatives to kinship ties or to those of party in a totalitarian state. It is in these institutions of civil society - a free press, independent media, universities and other research
organisations, trade unions, professionals and trade associations, commercial firms and charitable voluntary organisations and many others - that the leadership of a democratic society is recruited and trained. It is in interaction among and between these institutions and the government institutions that the wider participatory process of policy evaluation and discussion are possible (Hollis and Plokker, 1995:56).

It is social organisation that amounts to "social capital" (both physical and human “capital”) which facilitates co-ordination for mutual benefit, and enhances investment in other forms of capital. Active citizen participation glues society together by holding unrelated individuals in public and civic issues in active collective endeavour, thus creating favourable conditions for both economic growth and effective democracy.

Hollis and Plokker (1995:57) finally observed that democracy is more than institutions and ideals. It is a condition of society, a society characterised by attachment to individual liberty and human rights, existence of an active civil society and adherence to the rule of law. It is more effective when individuals realise that conciliation is better than conflict, and then engage in a habit of the culture of debate and compromise. Adoption of federal or otherwise decentralised structures or systems of proportional representation are all pluses for democratic superiority.

2.4.7 The Good Management Agenda

Initiatives to establish and improve public sector management are currently extremely popular in the relatively well-established democracies of the United States of America, the United Kingdom, Australia, Canada, New Zealand and the Netherlands. The reform agenda has been related to a market-type mechanism - internal markets, charges, vouchers and contracting-out - partly to introduce more choice in public services, but primarily to improve efficiency and to reduce public expenditure. This is linked to greater delegation and deregulation of central government control and introduction of a performance-based culture. The broader context of this principle includes important
underlying political and philosophical principles concerning the roles of central and local government and the nature of the partnership of the central government with other levels and institutions especially financial matters (Hollis and Plokker, 1995:59-61; Scott, 1977:83, 86, 113).

Sound management goes beyond building capacities and improving efficiency. It embraces improving accountability and establishing a predictable framework of law. The government behaviour must be such that it applies the law systematically and consistently. This improves quality and the flow of information to achieve greater transparency in democracy for good quality decision-making. It also means that, before changes are widely adopted, they should be tested and evaluated. Changes in resource allocation to agencies should be accompanied by appropriate changes in their functions, work methods and responsibilities. Devolution and contracting out to other levels of government should be done when inherently government functions are not involved or jeopardised. The cost saving or other public interest justifies it, or the recipient has justified the capacity to perform. Accountability for the use of government powers can be assured, and adequate oversight of functions performed by contractors can be provided (Novotny, 1997/98:4; Hollis and Plokker, 1995:61).

The legislative oversight should not be bothered with calculation and mathematical details of control, but should concentrate on focus and policy strategy for short-, medium- and long-term realities which become more complex in the current transformation process. The legislature must not be allowed to escape its responsibility to govern and remain publicly accountable.

2.4.8 Decentralisation: Local Autonomy and Good Government

Towns and cities in Europe secured local freedom from overlords and monarchs of their time. This meant liberty from feudal obligations to their inhabitants under their own municipal law. The cities and towns in Italy became independent republics resulting from bitter struggles for power among
states. As the struggle continued and bitter consequences followed, it became possible for these towns to resolve their deep-seated differences and they began to develop their own unique forms of government to resolve the tensions continuously in future. Such local independence did not survive the growth of the nation state, but nevertheless there is renewed emphasis on decentralisation within the nation state (Hollis and Plokker, 1995:61-62).

Decentralisation in essence means the transfer of central government authority, and of its tasks and functions, to other lower bodies. There may be different degrees of transfer of such functions, depending once more on the nature of the state. Under this concept functions are not transferred from lower to higher authority, but the tendency is to transfer these functions and authority to lower levels. The main objective is to preserve the autonomy of the local community to have an opportunity to plan and run its own affairs and solve its own problems.

These objectives are also in preparation for good financial management which may involve concepts such as responsibility and accountability. Once more, the nation state should remain an overseer and should not relegate its responsibility. After all, the whole city state and the towns belong to a nation state.

Wherever there is great diversity within society, as is the case in New Zealand and South Africa, society produced wide local variation regarding the needs and aspirations of the population. As the population becomes less homogeneous, the highly centralised system of government becomes less responsive to local needs. Administrators, because of centralised procedures and policies, exhibit antagonistic attitudes, at best suspicious to local initiatives aimed at amending policies to make them more suitable for a particular local environment as if it is a threat to retrench them in the long run (Scott, 1987:111).

It is important that local government structures are sufficiently empowered to be able to manage their activities as fully-fledged institutions, because that is
where money finally lands, for better or for worse, depending on the powers of the local authority concerned. Budgetary systems, if they are to be successful, must filter down through all layers of government from the national government to provincial and local governments, as well as to organisations of civil society.

The Constitution stipulates that municipal councils should make decisions concerning the exercise of all powers and performance of municipality. Delegation of authority and functions are advantages of efficiency, i.e. to be able to act quickly in a situation, unlike a large legislature. It has also an added advantage of accountability, as an independent legislature can call to account both the executive and administration to stimulate debate on policy issues (The White Paper on Local Government, 1998:83-84). The medium-term financial plan forms a basis on which annual budgets can be drawn. Although the development of municipalities is still in transition, they must be familiar with the planning and budgeting system applied by the national government and must reflect their own long-term, medium-term and short-term plans with clear vision and integrated development plan as well as key projects. Key Performance Indicators must reflect accurate pictures of performance with quality and value-for-money municipal services (The White Paper on Local Government, 1998:30-31).

Therefore, decentralisation has an increasing popularity as a dimension of financial management and budgetary reform. Agencies at appropriate levels provide either value for money or services as they are the closest to the consumers of the services and can identify local needs more accurately and can respond quickly. Beyond devolution of authority, power and functions, as well as resources, local people, not just as consumers but also as producers of services, must participate effectively to preserve their three-stage approach of autonomy, agency and administration. The closeness of sub-national government to the people is not just an issue of efficiency. It provides an immediately available and accessible opportunity for participation in democratic life. Decentralisation encourages greater electoral participation and increased involvement in politics, membership of voluntary organisations,
taking part in local meetings and developing other locally organised interest
groups. Unlike countries where there are rigidly controlled alternative
avenues of political aspirations, participation of this nature tends to be
seriously underdeveloped. It is therefore correct to say that decentralisation
contributes to the creation and development of a civic organisation or society
and helps to create and maintain conditions for social capital to be rebuilt and
democracy to accumulate (Hollis and Plokker, 1995:63-66).

Sub-national government has legitimacy as it enables local communities to
give expression to the right of self-government, thus providing them with a
sense of unique identity within the wider national identity. There are core
provisions to distil local autonomy: political autonomy for direct election
through universal suffrage of local representatives and legislative autonomy,
including power of local authorities to carry out their functions as they see fit
and legislate accordingly. Administrative autonomy refers to freedom from
other hierarchical supervision by other tiers of government; and financial
autonomy that makes it possible to avail oneself of the resources and the
ability to allocate and manage them with integrity commensurate with their
responsibilities (Hollis and Plokker, 1995:64-65).

No autonomy is without limits. Local government, as any other authority, is
bound by the provisions of the Constitution and law. In South Africa the
Financial and Fiscal Commission is in a process of determining a suitable
formula for division of responsibilities and financial resources between the
spheres of government in terms of the Constitution.

2.4.9 Accountability

As a principle, accountability has been referred to in the previous discussion,
but the real meaning yet has to be clarified. Accountability has been seen as
answerability to courts for lawfulness of action with two main components.
Most basically is fiscal accountability: that means carrying out a legal audit in the manner in which ministers and public officials carry out their tasks to ensure administrative regularity. The objective is to ensure that they both do not exceed their legal authority, and the way they reach their decisions, must follow the rules of natural justice. Secondly, and more ambitiously, it is a way of making political power more accountable in the larger sense of controlling whether or not the actions of the government uphold or offend specific adjacent basic human rights. Parliament can sack a minister, but not a civil servant. The courts have literally no more than a peripheral role, that is, they review whether or not the decision is within the powers conferred by the relevant statute (Day and Klein, 1987:24-25; Dudley, 1996: Noncontinuous paging; O'Toole, 1995:58-64).

In fact, accountability is a constitutional imposition for checks and balances for all the activities of public servants and ministers as to the nature of legal validity of decision, thus embodying the fundamental rules of public action allowing governments to be called to account, and for their actions to be tested on criteria independent of political process.

In the doctrine of ministerial responsibility and public officials, the minister is answerable to Parliament for the workings of the department. The action of the department is the action for which the department is collectively responsible and for which the minister in charge is alone answerable to Parliament. It is only in exceptional cases that blame can be attached to the individual civil servant, and it follows from the principle that the minister alone has responsibility for the actions of the department, that the individual civil servant that contributed to the collective decision of the department should remain anonymous (Fry, 1985:13-14).

While the collective responsibility was and is an established convention of the constitution, the notion of collective responsibility of civil servants in a department is novel. It is the civil servants who fear that, if they do not hang together, they would hang separately if such caution was justified under the constitutional "fiction" of ministerial responsibility (Fry, 1985:14). This principle
is not a myth and it is the principle around which the case of British Central Government, and hence the work of civil servants, is organised. Ministerial resignation, in principle, over matters of policy and administration have always been rare, but ministers still remain responsible. In a sense they are liable to report upon the activities of government departments of which they are political heads to the Crown, to the Prime Minister and Cabinet and to Parliament. Civil servants remain non-political in the sense that they are appointed independently of ministers.

Civil servants are permanent administrative officials in that, unlike their minister in cabinet, they are not subject to the whims of election which is subject to vote by citizens. The relationships between ministers and their civil servants become crucial for the success of government policies as one cannot function without the other. The executive Cabinet is a link between the Parliament and government department (administration). This principle is invaluable for success of any democracy (O'Toole, 1995:60).

2.4.9.1 Dimensions of Accountability

As a concept, accountability is as old as discourse about the nature of civil society and man's place in it, the term has passed from political discussion into ordinary language. This discussion on accountability can end by alluding to the various dimensions and attributes of the concept without examining the problems surrounding it in any scale.

Between political and managerial accountability are the framework for analysis. Political accountability is about those with delegated authority, being answerable for their actions to the people, whether directly in simple society or indirectly in complex societies. The main issue in complex societies is whether the linkages between action and explanation are in place and, if in place, whether they are adequate to the task in hand: whether the channels of communication are operating and whether the sanctions are sufficient to compel a justification as needed. A secondary set of issues involves questions about openness of the process and the existence and availability of

Managerial accountability has a number of dimensions. Conventionally these are:

- fiscal accountability which is about making sure that money has been spent as agreed, in terms of appropriation rules;
- legal accountability, which ensures that proper procedures and rules of decision-making have been observed;
- process/efficiency accountability ensures that a given course of action has been followed and that value-for-money has been achieved; and
- programme/effectiveness accountability makes sure that a given course of action or investment of resources has achieved its intended result (Day and Klein, 1987:27).

These dimensions of managerial accountability can be conceptualised as concerned with inputs, outputs and outcomes. They can be reconciled in a hierarchy of political accountability and managerial accountability with all its sub-dimensions of implementing decisions from political accountability, executing them through programmes using effective processes.

This brings us to the end of discussion of the Guidelines of Budgetary Reform or Good Government Management in a democracy. Suffice to state that these principles lay a very fertile ground for facilitation of planned reform, transformation and transition. They call for sharpening financial management and budgetary systems for successful transformation of a country. No transformation can be possible with at least more than half of these principles not applied. They are demanding for training personnel of a high calibre for transformation, negotiation, accommodation and flexibility. One cannot discuss reform of a financial management and budgetary system without reference to the guidelines, as they filter down through every activity in government.
Not all countries may practice these principles to their extreme limits at one and the same time. They can also not be achieved overnight. They come from a long process of nation building rediscovery and cultural rebirth and value systems change. They call for walking a tight-rope - if you look down, you are doomed. They call for participation of whole segments of society to give meaning to transformation. They enable identification of an appropriate financial management and budgetary system where all the role players will participate together with integrity and confidence. Countries that want to be successful, apply these principles to sustain their growth longer than those that do not.

2.5 PRESIDENTIAL REVIEW COMMISSION (PRC)

The foregoing discussion has been on a changing environment in South Africa, and the nature of public financial management. A further look at the Presidential Review Commission serves as a linkage between the changing environment and a financial management and budgetary systems (chapter 3) in order to determine an appropriate public financial management and budgetary system.

The Terms of Reference of the Presidential Review Commission were:

- the PRC will inquire into the structures and functions of the public service and its statutory bodies;
- the PRC will conduct an internal audit and review of each municipality, provincial administration, and other entities;
- the PRC will conduct a review and a revision of the system, the routine procedures of planning, and budgetary and financial execution in the public service.
The Presidential Review Commission has presented the ANC-led government with a comprehensive plan to overhaul the whole system of government from the Office of the President downwards with the objective of making it leaner, more efficient and less costly. The commission’s proposal for dissolution and/or restructuring of no less than eight ministries are bound to provoke opposition, particularly from political notables whose portfolios are at risk. The proposed reduction in the number of deputy ministers is likely to arouse similar resistance. Inseparable from these other reforms is another potentially controversial issue, namely to cut back the public service dramatically, partly by providing for compulsory rather than voluntary retrenchments (Bruce, 1998:12).

The PRC report draws attention to the whole range of issues required to bring about the correct level of change and transformation in both structures and attitudes. In the field of financial management the reforms are already taking effect. One of the lessons is that there are no short cuts. It takes time for things to happen.

There is a need to combine the departments of State Expenditure and Finance, clarify roles and lines of accountability and assess the continued need for public works departments. It further recommends that there should be clear responsibilities and lines of accountability when delegation of financial management and functions is taken to lower levels of government and institutions. Provincial and local authorities will have to undergo further change. There is a need to create a small self-accountable civil service, re-definition of the citizen as a client and introduction of Private Finance Initiative which is intended to bring private sector investment into public sector projects.

There is virtue in keeping systems simple. It is important to distinguish between good cash control and achievement of value-for-money. The comparative study between South Africa and other countries such as New Zealand, Singapore, Australia and the United Kingdom, gave the PRC further impetus and guidelines on the proposed recommendations which will transform the country. Diversified selection from each of the comparator
countries, together with performance orientation has been accompanied by some opening up of the process and promoting public service (Maphai, 1998; Noncontinuous paging).

Much might be said and should be said on a fitting occasion, of the mode in which the old order of things has become unsuited to the state of society and of the human mind. With one voice all should be united and claim that they are vicious both on the outline and in detail, and that they should be renovated, transformed and purified. Not that things – all things as they are, are wrong, but that it is not by remaining in the old ways that they can be set right. Society anticipates a new machine and a new order, constructed in another manner.

William (1996:31-32) observed: "Mankind have outgrown old institutions and old doctrines and have not yet acquired new ones. When we say outgrown we tend to prejudice nothing. A man may not be either better or happier at six-and-twenty than when he was at six years of age. But the same jacket which fitted him then will not fit him now".

It is this outgrowing of things that brought the above-mentioned environmental factors to be considered in a study of public financial management and budgeting. One can now look at the nature of Public Financial Management through the window of a changing South Africa.

Few governments would relish the proposed stirring of anxiety and resentments in the Cabinet as well as the civil service by approving changes of that magnitude when the countdown to the general elections has started and opposition parties are visibly manoeuvring for advantage. The present government is no exception. The only solution is to develop in business, in society and everywhere else, a set of common values unique to South Africa, but accepted by everyone and to which we can all adhere. The prerequisite is for those values to be relevant to South Africa, accepted by everyone and rigorously applied. Havenga (1998:5) concluded that every intended action, every judgement and everything we do, should first and foremost be
measured against these values. If they fail this test, we speak simply of another route.

The changing environment in South Africa has led to a new Constitution, Human Rights and Affirmative Action which presented the country with further challenges on available scarce resources, such as human and financial resources. Further challenge is that South Africa finds itself back as a full member of international organisations and a major player in the Southern African Development Economic Community as recent events in the region have proved. Can South Africa be an example to the rest of Africa by re-energising economic growth? If South Africa can win the rest of Africa will win, especially with the challenge to the continent – that of an African renaissance. The Presidential Review Commission serves as a further impetus for change through its far-reaching recommendations for South Africa.

2.6 SUMMARY AND CONCLUSION

Transformation in South Africa is demarcated by the Constitution, the Bill of Human Rights and the Reconstruction and Development Programme. The Strategy for Growth, Employment and Redistribution, and the application of mechanism for empowerment as further determinants for the study of public financial management and budgetary systems reform have also been discussed.

The guidelines of financial management and budgetary reform present issues such as popular sovereignty, the separation of powers and the Rule of Law, community values and norms, a link or relationship between democracy and prosperity, representation as well as participation and civil society. Other issues, such as good management agenda, decentralisation and accountability challenge old financial structures in South Africa. Finally the discussion on Presidential Review Commission links Chapter 2 with Chapter 3, which examines inter-governmental financial relations through Financial and Fiscal Commission and an analysis of budgetary systems.
CHAPTER 3
INTERGOVERNMENTAL FINANCIAL RELATIONS AND
BUDGETARY SYSTEMS

3.1 INTRODUCTION

The previous chapter dealt with the changing environment and sound guidelines for public financial management and budgetary reform. The Presidential Review Commission serves as a linkage to the discussion which follows on the Financial and Fiscal Commission and the evolution of the budgetary systems.

Among the many challenges facing South Africa today is the issue of fiscal discipline and sound public financial principles. At the centre is the critical, hard choice of an appropriate budgetary system - which is the theme of this thesis - for supporters the transformation of the country into one of the strong competitive global economies. Such an appropriate budgetary system will be deducted from research into various existing systems. The approach will be historically descriptive and critically assessing the strength and weaknesses of each system. Emphasis will be on what sustained a particular system over a specific period.

Many public budgetary techniques and systems have failed to live up to expectations because they did not recognise that politics is a legitimate way to answer Key's question: On what basis shall it be decided to allocate X dollars to Activity A instead of Activity B? In a slightly different manner the same inquiry of political science is put as follows: "Who gets what, when and how from the decisions of administrative units?" (Kramer, 1979:3; Sharkansky, 1970:xiii; Wildawski, 1974:8).

It is classic questions like these that resulted in gradual tension between the routine traditional simplification of doing things versus the holistic national systematic analysis within a slowly changing, turbulent or even revolutionary
environment in a country. The financial management and budgeting systems were to support resolving the fundamental problems of distribution and allocation of scarce resources among a variety of competing claimants.

The subject of budget plan harmonisation is quite complex and more difficult than might appear at first. There is always an overriding necessary interaction between the Departments of Finance and of Economic Planning because their responsibilities run through the whole national economy (United Nations UAP, 184, 1971:106–120). Historically the present budget was supposed to be both an administrative tool and a tool of social and economic modernisation, but it often falls short in the latter respect.

With resulting changing circumstances, especially in the original and secondary goals of the State, within the context of limited scarce resources such as finance, the object of the budgetary system is not only to translate the political vision and values of society, but also to reconcile economic rationality with the social and political goals. These systems are not only assumed to move the budgetary decisions towards the economic rationality at the end of the theory continuum, but also to provide a systematic planning and analysing tool for the decision-making process.

This chapter deals in detail with the independent variables of the thesis. Firstly, intergovernmental financial relations in general and the Financial and Fiscal Commission in particular, are major determinants in financial reform and intergovernmental financial transfers. The Presidential Review Commission's terms of reference were to inquire into the structure and functions of the public service and statutory bodies, to conduct an internal audit and to review the minority of provincial administrations. It had, also, as the core of this study, to review and revise the planning, budgetary and financial execution in the public service. Its final report is a comprehensive plan to overhaul the whole system of government to make it leaner, more efficient and less costly. (Maphai, 1998; Bruce, 1998:12). The Financial and Fiscal Commission carries out the reforms in financial management and financial relations.
Secondly, the financial management and budgeting systems that will be discussed, are grouped into the following:

1) input-orientated systems (the traditional line budgeting);
2) activity/performance system (programme budgeting and performance budgeting system);
3) goal/objective orientated systems (planning-programming-budgeting system, management by objectives and zero-base budgeting;
4) medium-term expenditure framework (as applied in countries during transformation such as the United Kingdom and the Commonwealth countries; and
5) multi-year budgets which are common to all countries in transformation.

These systems are evaluated on their appropriateness to contribute to a financial management and budgeting system that supports the transformation process in South Africa.

The intergovernmental fiscal relations is the first to be discussed.

3.2 INTERGOVERNMENTAL FISCAL RELATIONS

South Africa is a unitary state in terms of the Constitution Act 108 of 1996, with three spheres of government: national, provincial and local. Each sphere contains specific powers and functions which may be shared or which are exclusive. These functions are listed in Schedule 4 (exclusive) and Schedule 5 (inclusive) of the Constitution. This gave greater autonomy to subnational governments. Provincial legislation in respect of Schedule 5 functions takes precedence over national legislation, except when national legislation is necessary to establish national norms and to promote the national economy (Abedian, et al, 1997:43–44).

The Constitution provides a broad framework for intergovernmental financial relations with its key feature the "spirit of co-operative governance", with
obvious implications for public financial management and budgetary systems. The government of National Unity inherited a financial and fiscal system with the most serious flaws, such as the manner of budget determination, the skewed distribution of public financial resource, the lack of a clear financial management system and control and the overall lack of fiscal discipline. (Erasmus, 1998:Noncontinuous paging; White Paper on Local Government, 1998:11–14).

In order to address these shortcomings and to meet the constitutional objectives, the Public Finance Management Act 1 of 1999 set the norms and standards for provinces and local governments and punitive steps can be taken for non-compliance. This ensures the effective implementation of intergovernmental fiscal relations recommended by the Financial and Fiscal Commission (Public Finance Management Act 1 of 1999; Erasmus, 1998;Noncontinuous paging; White Paper on Local Government, 1998:37-41; Intergovernmental Relations Act 97 of 1997).

In the past public finance was driven by a number of macro-political decisions. The policy of racial differentiation in the public sector funding and the "special duality" policy were associated with the system of racial differentiation. On the one hand there was the establishment of a homeland system and specifically the creation of "independent" states and self-governing territories (SGT). On the other hand there were the four provincial systems comprising "white South Africa". It was the integration of those special systems into nine provinces of the Interim Constitution (IC) that resulted in great disparities that the FFC formula attempts to address. The transfer per capita for the former TBVC states was greater than for blacks living within South Africa (in aggregate), but were skewed towards administrative finance, economic services and agriculture. Hence, while education remained under-funded, overall funding levels were not low relative to the national average for blacks, given the excessive expenditure or bureaucracy. The challenge facing provinces is to rebuild neglected services while streamlining and reorganising administrations (FFC : Apartheid Funding Policies and Realities of Public Finance in the New Provinces, 1996:1–12).
Most South African taxes are raised nationally to avoid duplication associated with a decentralised system of government. Imbalances exist between the expenditure mandates and the financial resources each sphere of government is capable of raising. The Constitution entitles provinces to an equitable share of resources through a formula applicable to the norms and standards discussed below.

3.2.1 Norms and standards applicable to a system of Intergovernmental fiscal relations

The Government's role in democratic societies is to serve its citizens in countless ways and the combinations chosen, give rise to different fiscal systems. The goals of public policies are often conflicting and this makes it difficult to achieve them. It is therefore necessary to make trade-offs of one against another. The Constitution requires that nationally raised revenues be divided equitably between the three spheres of government, and that the provincial share be divided equitably among the nine provinces. In addition, provinces and local government also receive grants from the national share (Department of Finance: Budget Review, 1998:4.1).

Although provinces have significant expenditure requirements, they have extremely limited revenue sources. In order to allocate resources equitably, the following national norms and standards are applied with due consideration of the recommendations of the Financial and Fiscal Commission under the system of intergovernmental relations.

3.2.1.1 Effective use of resources

Resources are scarce. They must be allocated in the best possible manner to acquire maximum benefit for the community. There must be a point of impact at which public revenue is inserted whenever budgetary decisions are made. That differs from the point of initial liabilities. This depends not only on how budget payments are made, but also on how the budget impacts on the economy and the community. There is a need for those responsible for implementing policy decisions to be subjected to public scrutiny. Citizens

3.2.1.2 Accountability

In terms of the Interim Constitution Section 92 and 153 as well as the Constitution of South Africa, Act 108 of 1996, the principle of accountability remains the cornerstone of democracy in South Africa. The constituency endows the government with specific obligations and responsibilities. "Fiscal responsibility means that the government must account through elected representatives for its intentions, objectives and strategies, the cost of its strategies and actual results" (Abedian, Ajam and Walker, 1997:141). Those in authority must justify their expenditure and explain why the revenue is necessary to sustain the expenditure.

Justifying the expenditure has implications for the measurement of results and this inevitably calls for fiscal policy and strategy evaluation. The advantage of the system of accountability in place is that all decisions as subject to public scrutiny. A good and effective fiscal system must encourage this, as the system filters through all the spheres of government. In order to meet the objectives of this principle, the Treasury Control Bill in Chapter 4 elaborates on the budget process and accounting officers in national and provincial government and their responsibilities are explained. Chapter 7 tabulates the uniform Treasury standards and norms applicable to a public financial management and budgetary system (Public Finance Management Act 1 of 1999; Dudley, 1996:noncontinuous paging; FFC: Framework for Intergovernmental Treasury Bill 119 of 1998; Fiscal Document for Intergovernment Fiscal Relations in South Africa, July 1995:18).

3.2.1.3 Nation Building and Fiscal Autonomy

South Africa opened a new chapter in its history with new challenges of nation building. These range from redressing injustices of the past, fragmented land and other resources distributed to divided people to form one nation. All
levels of government in terms of the Constitution Act 108 of 1996 are constitutionally mandated to be seen within the context of national unity and reconciliation. Although South Africa is a unitary state, more powers and responsibilities are delegated to the provincial and local government spheres. Functions such as education and health have become priorities shifted to the provinces (De Bruyn, et al, 1998:54–70; RSA Constitution Act 108 of 1996).

Fiscal autonomy refers to the degree to which lower tiers of governments can take their unrestrained decisions and determine their own priorities. These priorities must be consistent with expenditure borrowing and taxation powers as inherent freedom in self-government. Fiscal autonomy means that provincial and local governments assume full responsibility within their constitutional and fiscal mandates (Abedian, et al, 1997:53-75).

### 3.2.1.4 Certainty of Revenue

Provincial and local governments cannot be fiscally autonomous unless they are financially sustainable. This means that these governments must receive adequate revenue resources to finance services they are expected to provide.

The resources to be shared between the national, provincial and local government spheres are projections on the economy's performance over the medium-term. Constitutionally all revenue nationally raised will be equitably divided between all three spheres of government through a system of vertical division. Horizontal division refers to equitable distribution between provinces. This directs revenues to provinces, based on their demographic and economic profiles. This is done through the use of a formula with six components – an education share, a health share, a social security component, a basic share, an economic output share and an institutional share component (Abedian, et al, 1997:46,50,55; Manuel, 1997:37-43).

### 3.2.1.5 Transparency

There should be a transparent, visible method to calculate and allocate sub-national revenue sharing through a formula which must be easily
understandable to promote credibility and stability. Regular monitoring of the method is required to confirm that all expenditure has been authorised correctly. According to Abedian, et al, (1997:59), “The Constitution prescribes that, in the interest of transparency and consistency, provincial and municipal budgets should conform to the guidelines laid down in national legislation …”

3.2.1.6 Equity

A province (in terms of the Interim Constitution Act) is entitled to an equitable share of revenue collected nationally, and allocations should be determined with due regard to national interest, the different fiscal capacities, fiscal performances, efficiency of revenue utilisation, needs and economic disparities within and among provinces, as well as developmental needs. Equity is characterised by the spirit of fairness, justice and impartiality and further serves the normal virtues which qualifies, moderates and reforms hardness of economic forces. This also acts as a yardstick to redress an existing historical maldistribution of income. It has many dimensions of economic development, income distribution, opportunities, fiscal capacity and many more (Manuel, 1997:37-43; Constitution Act, 108 of 1996).

3.2.1.7 Administration

Whichever fiscal system is chosen, it needs to be administered properly and efficiently. This will be drastically enhanced if provincial taxes would be handled by National Commission for Inland Revenue on an agency basis (FFC: Recommendations for the Allocation of Financial Resources to the National and Provincial Governments, 1997/98 Financial year: 4–15).

3.2.1.8 Macro-Economic Management

Certain goals have macro-economic dimensions which make them impossible to decentralise. Stimulation of economic activity and sound management of the economy is required.
3.2.1.9 **Loan Financing**

The system of intergovernmental grants should not impede provinces’ reasonable access to other sources of finance. For example, a province may wish to acquire additional funds from the capital market to implement long-term infrastructure projects. Loan financing for such projects makes it possible for such cost to spread over a similar period as that to which the benefits arise, thus ensuring intergovernmental equity. However, the total demand for capital, if uncoordinated and uncontrolled could still prove to be excessive (Abedian, *et al*, 1997:65; Manuel, 1997:39).

3.2.1.10 **Transition**

There must be guaranteed stability and rendering of essential services during transition from the old order to the new. The system should, in addition, support restoration of service rendering in the interest of socio-political stability. The financial responsibilities to facilitate adequate cash flows to finance essential services are as important as the fiscal ones (Framework Document for Intergovernmental Fiscal Relations in South Africa, July 1995:4-9; FFC: Recommendation for the Allocation of Financial Resources to the National and Provincial Governments: 1997/98 Financial Year 1996:4.15-4.17; Manuel, 1997:37-43).

3.2.1.11 **Spill-over Effects**

The services provided by one municipality that produces a positive externality for a neighbouring municipality will be catered for in the new transfer system. The same principle will apply to provinces provided with academic hospitals to compensate them for the cost of medical training and provision of “unique” services such as heart transplants (FFC: 1996 Recommendations for Allocation of Financial Resources to National and Provincial Governments for the 1997/98 Financial Year; Budget Review, 1998:4.15-4.17; Manuel, 1997:37-43).
Each of the three spheres of government is assigned certain powers, functions and financial resources, each of which may be concurrent, exclusive or sharing. The superimposition of an existing tax and public expenditure on the three spheres of government is characterised by severe vertical and horizontal imbalances. That is, while the national government raises the bulk of aggregate revenues, its expenditure responsibilities are much lower. Provinces only raise a small proportion of revenues which they require for their expenditure responsibilities. Furthermore, fiscal imbalance exists among provinces and also among localities and within provinces. A country characterised by the above-mentioned features and a sensitive political history depends upon a system which provides for inter-governmental fiscal transfers. The flow of resources between tiers must be determined equitably and in a transparent manner.

The norms and standards applicable to a system of intergovernmental fiscal relations are central to public financial management and budgetary system reform. Their effective implementation will lead to the success of a macro-economic strategy which is discussed below.

### 3.2.2 A Macro-Economic Strategy

The Department of Finance published the Growth, Employment and Redistribution Strategy (GEAR) document. The goals of macro-economic policy in the document are the attainment of growth rate of 6% per annum and creation of 400 000 jobs per annum by the year 2000. The core elements of GEAR are:

- reduction of the fiscal deficit to 3% of GDP by year 2000;
- budget reform to improve the redistributive aspect of budget;
- gradual relaxation of exchange controls;
- maintenance of monetary policies, consistent with reduction of inflation and exchange management to stabilise the real effective exchange rate at a competitive level;
• consolidation of trade and industrial reforms, incorporating lowering of tariffs;
• an expansionary public infra-structure investment programme;
• introduction of tax incentives to stimulate investments;
• labour market flexibility; and
• enhanced productivity.

The focus of this document is on health and education, therefore there is little doubt that GEAR's emphasis on reducing government expenditure will have a major impact in the short term (FFC: Public Expenditure on Basic Social Services in South Africa, 1998:21; Department of Finance, 1996:45-46).

The government's macro-economic strategy Growth, Employment and Redistribution (GEAR) - starts with the premise that job creation is the way to address poverty and to increase employment opportunities, as higher economic growth is required. Three macro-economic objectives with a time frame are distinguished: 1) maintenance of stability which is essentially a short-term policy, but its absence may have serious long-term implications; 2) over the medium term moving the economy to levels of growth commensurate with employment and fiscal resources which are needed to address the social backlogs; 3) improving long-term growth capacity by enhancing productivity through education and training and adjusting to international competition, and by providing environment conducive to sustained investment both domestic and foreign (Nomvete, et al, 1997:19).

The government has the unenviable task of bringing financial management and budgetary under control while faced with strong demands from the constituency. Faced with equity it has to shift resources to other provinces, thereby increasing political pressures for fiscal expansion. It was a brave decision to accelerate deficit reduction as a measure of the government's commitment to achieve its objectives. Public sector salary increases have seriously eroded the capacity of government to provide services within its

The signposts have been created by GEAR, but growth- and equity-orientated policies remain no more than blueprints unless they are implemented with determination and imposed with authority, accompanied by good governance. There is a need for increased productivity in the South African economy that can only be achieved by a strengthened work ethic, a financial management and budgetary system reform commensurate with competitiveness (Nomvete, et al. 1997:23, 34–38; Biggs, 1997:23-36).

The macro-economic policy of the government puts the GEAR document forward as a notion of fiscal discipline. It is appropriate that the budget deficit and government debt as further determinants of the financial management and budgetary systems are discussed.

3.2.3 Budget Deficit and Government Debt

The most disturbing aspects of the increases in government spending are that they were financed from borrowing which was facilitated by the unification in 1976 of the revenue account and the loan account of the budget into a single state account. Prior to that unification, current expenditure was financed out of current revenue, while loans were only used to finance capital expenditure. Consequently, interest payment on current government debt became an important budget item. The following features are important for understanding the extent of the problem: total current expenditure between 1980 and 1996 increased from 78% to 90%; as a consequence, total capital expenditure declined from 22% to 10% and interest payment during this period went up from 9% to 17% of total expenditure. Thus receipts from the sale of state assets are generally applied for the purpose of reducing state debt or, in other cases, for the recapitalisation of the enterprise concerned. Total loan redemption amounted to 12.5 billion in 1997/98, which included the scheduled repayment of R203 million in 1997/98 on debt which was taken over from
Namibia in terms of an agreement on 23 May 1997, and an unforeseen repayment of former TBVC states and self-governing territories amounting to R229 million and a small amount of bonds repurchased before redemption date in terms of a facility made available to the Reserve Bank (De Bruyn, et al. 1998:25; Department of Finance, Budget Review, 1998:3.23-3.24).

In financial management and budgetary systems the high debt puts pressure on interest rates thereby discouraging investment in capital goods. The government has debt service obligations. After debt servicing, fewer resources are available for services such as education, health, security and others. On the other hand, it may put downward pressure on currency and worsen the trade balance, thereby having a negative influence on higher inflows of capital. Without the necessary co-operation of the Reserve Bank, this could have inflationary consequences (Abedian, et al, 1997:28–29).

This calls for stringent fiscal discipline for equitable distribution of resources and reprioritisation of services. Education expenditure, which follows this discussion, is not the only priority service for the country.

### 3.2.4 Education Expenditure

Convention has it that South Africa is spending at best as much as it should, and at worst more than it should on education in particular and on social services in general (De Bruyn, et al, 1998:27). In terms of conventional indicators South Africa is at or near the top of the league with respect to expenditure in education. It is argued that the criteria is inappropriate within the historical context of the country, the inequitable pattern of expenditure and, more importantly, the quantity and the quality of education that should be provided for the youth of the country. In addition, there is the more vexing question relating to more adequate funding of a rapidly expanding higher education sector. Public expenditure on education as a percentage was in the range of 22 – 24% of the total government expenditure for the late 1980s to the 1990s, while expenditure as a percentage of GDP increased steadily.

A feature of education in South Africa (as in most other sectors) has been (and still is) the high proportion that is devoted to current expenditure, particularly salaries of educators and other administrative personnel. The ratio of current expenditure of the college/school sector to capital expenditure was around 94 – 96% in 1987, 1991 and 1995, and declined slightly to 93% in 1996. Data from developing countries indicates that public expenditure on education is favourably biased towards primary/basic education (on average primary education accounts for 40% of all education expenditure and secondary education accounts for 30%). These favourable trends seem to have been reversed in 1995/96 with a slight increase in the share of tertiary education (De Bruyn, et al, 1998:27–29).

A public financial management and budgetary system that supports spending on good quality education and other social services as a priority will encourage investment and savings in the long run. It will be able to use its resources effectively to cover other obligations that the government has to meet as was experienced in the United Kingdom, Japan and the United States of America (Banks and Muller, 1998:183-196; Barnes, 1997:31-35; Jones and Pendlebury, 1992:75-98).

Education was accorded a fairly high priority because the budget on education was always racially slanted towards whites. In 1965 for example, 64,2% of education budget was a white share, compared with Africans at 6,3% and Coloureds at 10,5%. The poor quality of black education has significantly hampered skills acquisition and development with an overall impact on productivity and growth. Health enjoyed an almost consistent share, while security had dramatical increases from 1960 to the 1980s. Housing has a backlog of over 30 years for the Africans. All these service objectives
mentioned above as well as others impact on the public financial management and budgetary system and the need to address the backlogs for the country (De Bruyn, et al, 1998:27-29).

It is against this background that the new public finance context is discussed.

3.2.5 The New Public Finance Context

The new context introduces and includes a political and economic policy framework, and introduces institutional and procedural changes. Part of these is the developing intergovernmental fiscal relations, including the FFC and its role in public finance. Financial relationships of the apartheid era reflected the political ideology of the time with institutions to administer these policy responsibilities. Many of these could be characterised as having been politically motivated, fragmented, inequitable, centrally controlled, inflexible, unaccountable and non-transparent.

It follows that institutional change is required to meet the objectives of the new political order with a very different vision and concomitant policies which are based on equity, development, accountability, democracy, transparency, predictability, sub-national flexibility and voluntary co-operation.

The following financial legislations play a major role in the determination of financial management and budgetary systems:

- Finance Legislation: The Financial and Fiscal Commission, as stipulated under Section 220 of the Constitution, is a statutory advisory body accountable to Parliament, the Act has contributed significantly to intergovernmental fiscal relations (Budget Review, 1998:4.3).
- The Intergovernmental Fiscal Relations Act took effect on 1 January 1998 and established a formal process for considering intergovernmental budget issues. It facilitates and regulates a process of consultation to promote a fair budget distribution process between spheres of government (Budget...
Review, 1998:4.3). It gives effect to Section 214 of the Constitution to arrive at an equitable share of revenue raised nationally, provincially and locally.

- The Finance Management Act 1 of 1999 will give National and Provincial Treasuries the responsibility to:
  
  - design and enforce an optimal system of cash management;
  - regulate the tabling of estimates of expenditure;
  - set standards for financial reporting and accountability; and
  - finally, lighten the rules that allow for shifting of funds within votes (Budget Review, 1998:4.4).

Having examined briefly the financial legislation that has implications on financial management and budgetary systems, the genesis of the Financial and Fiscal Commission is the focus.

### 3.2.6 The Genesis of the Financial and Fiscal Commission (FFC)

The FFC is one of the innovations of the Multi-party Constitutional Negotiations which took place in South Africa during 1992-1994. South Africa's socio-political history and the form and the manner in which economic consideration has occurred has been taken into account together with world-wide experience of countries with similar constitutional structures and a vision of how such an institution could promote the key funding ideals of the new South Africa. Sections 198 to 206 of the Interim Constitution established the FFC which came into operation on 27 April 1994.

Section 220 of the Constitution Act (Act 108 of 1996) establishes the Financial and Fiscal Commission. In terms of Section 220, sub-sections (2) and (3), it is independent, and subject only to the Constitution and the law and must be impartial. It must function in terms of an Act of Parliament in performing its functions and it must consider all relevant factors, including those listed in Section 214(2). These include the national interest, any provision that must
be made in respect of the national debt and other national obligations, needs and interests of the national government, determined by objective interest, the fiscal capacity and efficiency of the provinces, economic disparities within and among provinces, local government and municipalities and the desirability of stable and predictable allocation of revenue shares (FFC : Framework Document for Intergovernmental Fiscal Relations in South Africa – First Draft for Discussion, 19 June 1995; Republic of South Africa Constitution Act 108 of 1996).

The Financial and Fiscal Commission consists of eighteen (18) commissioners, with the chairperson and deputy chairperson respectively being the chief executive and deputy chief executive officers.

Commissioners have to be South African citizens and are required to have expertise in one or more of the following fields: economics, public finance, public administration, taxation, management, accountancy or local government. Every commissioner is expected to perform his/her duties fairly, impartially and independently and may not hold office in any political party or organisation. Its budget is funded from the fiscus via appropriations in Parliament with employment subject to strict and transparent audit. Its decisions require agreement by two-thirds of those present and a quorum of nine members (FFC : Allocation of Financial Resources to National and Provincial Governments, 1997/98:20–23; Interim Constitution of the Republic of South Africa Act 200 of 1993).

The Fiscal and the Financial Commission has specific functions in terms of the Constitution which are discussed below.

3.2.7 The functions of the Financial and Fiscal Commission (FFC)

The following are functions of the Financial and Fiscal Commission as stipulated in the Draft White Paper on Financial Management and Expenditure Budget Reform, July 1996, with Part A concurrently with the Constitution of

These functions are:

1) The FFC is given the role to be an independent and impartial statutory institution accountable only to the legislature. Its objective is to contribute towards the creation and maintenance of an effective, equitable and sustainable system of inter-governmental fiscal relations. Such fiscal relations will be between the national government, the provincial and local governments, between provinces, and between provinces and the local government.

2) The FFC must advise and make recommendations to the legislative authorities regarding financial and fiscal policies about the most equitable fiscal requirements for all spheres of government.

3) The FFC makes recommendations to the national and provincial governments on equitable financial and fiscal allocations from revenue collected nationally. It discharges its responsibility according to a formula to ensure equitability based on provincial demography and other factors.

4) The FFC must take into account the provincial and fiscal capacities, fiscal performances and their efficiency of revenue utilisation, provincial needs and economic disparities.

5) It takes into account factors such as the national interest, the redemption of national debt and the legitimate needs and interests of the national government. At all times the FFC is guided by the national interest of the country's priorities.

Having considered the Constitution and the Financial and Fiscal Commission, it is now possible to explore how financial resources are allocated according to a formula.

### 3.2.8 Allocating resources through a formula

The development of the formula and its implementation were considered to be dynamic processes. There is an urgent need to gradually phase in the formula: firstly, by the incorporation of the different elements of the formula in the revenue calculation as the necessary statistical data becomes available; secondly, the changeover from the existing allocation pattern to the new one calculated with the assistance of a formula. These processes would run concurrently and be mutually supportive (Financial and Fiscal Commission Framework Document for Intergovernmental Fiscal Relations in South Africa, First Draft, 9 June 1995:17).

Public spending in South Africa can only be financed from revenue or from borrowing. Government’s commitment to reduce the deficit to 3 per cent of the national budget, thereby reversing the corresponding interest payment of deficit and the limits in the overall tax burden, together determine the level of public expenditure over the next three years (Manuel, 1997:27-28).

Within the constitutional context, the three spheres of government – national, provincial and local – are entitled to equitable shares of revenue raised nationally to provide basic services and to perform functions allocated to it. Such divisions will take into account the functions of each sphere under the constitution and the capacity of each government to pay for these functions through own receipts and revenues. The Constitution gives each sphere authority to raise its own revenue to pay for these activities (Budget Review, 1998:4.1; Manuel, 1997:37–38).
3.2.8.1 Objective formulae

In reaching an equitable distribution of revenue and other allocations to provincial and local governments, the government benefited from the advice of the Financial and Fiscal Commission (FFC) which has been taken as a point of departure for further deliberation by the budget role players. The aim of the FFC's recommendations were:

(i) effective and efficient resource allocations;
(ii) fiscal equity in the provision of services; and
(iii) development of fiscally sound and democratically responsive provincial and local governments (Manuel, 1997:37-38).

The provincial formula allocates funds between provinces according to their demographic and economic profiles, taking account of the services – primarily health, wealth and school education – for which provinces are responsible. The local government formula is designed to enable municipalities to deliver a package of basic services to low income households at affordable costs with a strong equity component to recognise special needs of poorer areas (Budget Review, 1998:4.1-4.2).

The Constitution requires that all revenue raised nationally be divided equally between all three spheres of government. Government currently borrows to meet its expenditure requirements. It is the balance of national revenue plus borrowing, less debt obligations that represent the total pool of resources available for sharing. The Constitution provides for national legislation to govern the power of provinces and local government to borrow, and places limitations on powers to raise revenues and indicates that revenues raised by these levels cannot be deducted from its equitable share (Manuel, 1997:38–39; Budget Review, 1998:4.1; 4.3).

Under the Act the budget process begins with the FFC making recommendations on these allocations ten months before the start of the financial year. The Minister of Finance then consults with provinces and local
governments about FFC recommendations. The recommendations fall into two categories discussed below, namely (i) vertical division of resources between national government and provincial government and (ii) the horizontal division of resources amongst the provincial governments.

(i) Vertical Division

Firstly, resource allocations and transfers are divided from the revenue pool between national and provincial spheres of government. Secondly, this is followed by the horizontal division of the pool of resources available among nine provinces (Abadian, Ajam and Walker, 1997:45). The division of resources among the spheres of government is based upon the constitutional allocation of functions for delivery of major services to the public (FFC: Allocation of Financial Resources to the National and Provincial, 1997/98 Financial Year, FFC Executive Summary (1); Budget Review, 1998:4.9–4.10).

The vertical relationship between national, provincial and local governments are such that an imbalance exists between tax bases (revenue collection) and the obligation to deliver (expenditure). About 95% of taxes collected at national and provincial levels comprise taxes collected nationally. A significant 59% and more of expenditure responsibilities and obligations are assigned to provinces. The implications are that a large proportion of national revenue has to be transferred to the provincial level. This is the vertical division (Abedian, et al, 1997:43–46; FFC: Allocation of Financial Resources to the National and Provincial Governments, 1997/98).

The determination of expenditure at the national level is the function which the national departments have obligations to fulfil, including the cost of servicing the national debt. The share of revenue allocated to match these expenditure requirements can be defined as \( a \), and the provincial share of revenue expenditure on functions which are assigned to them including amounts for local government as \( B \). It therefore follows that \( a + B = 1 \). Hence the vertical division between the national and provincial governments is \( a - B \). If policies
are set which exceed the budget available, then $a + B > 1$ (FFC: Allocation of Financial Resources to National and Provincial Governments 1997/98: 12).

Alternatively there is a mechanism for an appropriate intergovernmental body such as the Budget Council to determine the $a/B$ ratio in accordance with the national priorities. Initially the vertical divisions will be determined annually at a national level due to fluidity of the present institutional environment. Before ultimate approval by Parliament, the vertical division will be approved by the Budget Council which is composed of the FFC and both political and technical representatives from the Departments of State Expenditure and Finance, provinces and other relevant agencies (FFC: Allocation of Financial Resources to National and Provincial Governments 1997/98:12).

In practice the proportion of consolidated national and provincial budgets devoted to interest payment has increased steadily over the years, exacerbated by high interest rates and decreasing inflation. This increased debt service commitment has reduced resources available for other functions which led to a further decline in economic services after the vertical split.

When the process of vertical slicing of resources between national and provincial governments is completed, the revenue process between provinces takes the place.

**(ii) Horizontal Division**

The FFC uses a formula for horizontal division of resources among the nine provinces for a period of three to five years. The assertion is that the formula is objective and cannot easily be manipulated by participants. Provinces are enabled to predict with certainty the revenues accruing to them while the formula is in force and facilitate budgeting. The percentage of the total revenue pool that each province receives, will change over time under the formula. Previously under-resourced provinces will enjoy increases in allocation which will exceed the inflation rate, resulting in real increases (Abedian, Ajam and Walker, 1997:47–49).
The elements of the FFC formula for provincial allocation between provinces can be expressed in the following equation:

\[ P = S + m + T + I + B \]

These elements of the formula are further interpreted as:

- **P** = the total allocation to a particular province
- **S** = a minimum standards grant
- **m** = is a spillover grant
- **I** = is an institutional grant
- **T** = is the fiscal capacity equalisation grant
- **B** = is a basic grant


According to Abedian, Ajam and Walker (1997: 49 – 51) the formula elements can be further elaborated with the institutional grant (I), providing basic administration in terms of the Constitution. The FFC recommendation of R32 million per province (totalling R286 million) is already taken out of the revenue pool as the first slice. The minimum standards grant (S) enables provinces to provide minimum standards in education (both primary and secondary) and primary health care services. The size of the population eligible for these services at average cost will be the key determinant, for example a pupil-teacher ratio of 1.38. Spillover grants (m) are special grants for services provided by one province on a national basis, like medical training at academic hospitals in the Western Cape, KwaZulu Natal, the Free State and Gauteng. It also applies to patients attending the hospitals in these provinces. The fiscal capacity equalisation grant (T) introduces accountability at the margin, as provinces are accountable for any additional revenue raised. It also supplements a province’s taxation capacity that falls below the national average. The basic grant (B) authorises a degree of autonomy to provinces to determine their priorities and to establish and maintain institutions necessary to fulfil their constitutional objectives (FFC: The Allocation of Financial Resources to National and Provincial Governments, 1997/98:14-18).
However, the FFC recommendations were partly accepted for the budget year 1997/98. Interest on government debt was the first to be subtracted from the total available revenue as well as membership fees for international organisations, improvement on service conditions and social pensions. The remainder was divided between national and provincial government. The Budget Council uses a percentage distribution calculated by the FFC for the provincial revenue pool (Abedian, et al, 1997:52).

The formula is being phased since 1996 and whichever system is adopted, it will necessitate shifts in the relative allocations to provinces resulting from the introduction of cost differentials and human development factors which will accentuate these shifts. A phasing-in period of several years has been proposed in order not to disrupt services. The first phasing-in part is the incorporation of different elements of the formula in revenue calculations or as the statistical data necessary becomes available. The second part of phasing-in is the changeover from the existing allocation pattern to the new one calculated with the help of the formula. The two processes should run concurrently and should be mutually supportive (Framework Document for Intergovernmental Fiscal Relations in South Africa, July 1995:18).

These norms and standards have an influence on public financial policy in South Africa. Therefore they must be considered for purposes of determining an appropriate financial management and budgetary system.

3.3 BUDGETING SYSTEMS

According to Abedian, et al, (1997:25, 29) the government has a number of different goals to achieve, namely promoting employment, improving the general well-being of individuals, especially the poor, and keeping inflation down while addressing the public debt problems. These challenges reduce government's flexibility to finance desperately needed programmes. For example, the present and the future generations are affected while servicing the debt, increasing borrowing levels by reducing available funds in the private
sector for development. When these problems exceed the threshold, they destabilise the economy. There is therefore a need for a broad macro-economic strategy to deliver services to all people in South Africa within the dictates of the present circumstances.

The budgeting systems are categorised into input-orientated systems, activity (performance) measuring systems, performance objectives/goal-orientated systems, and a Medium-Term Expenditure Framework. The following is an analysis of budgetary systems with emphasis on their strong characteristics. These lay a basis for the determination of an appropriate financial management and budgetary system for a changing South Africa just as much as the Financial and Fiscal Commission has done. The systems were selected in terms of their applicability for supporting transformation in South Africa. Budgetary development and innovation can be broken down under the following budgetary systems:

1) Traditional Line Item with its emphasis on control orientation, with control being defined as that process of enforcing limitations and conditions set in the budget and appropriation by the control authority (Henry 1980: 207; Schick, 1971:4).

2) Programme Budgeting with clearly identified components, namely (i) hierarchy of objectives; (ii) an activity schedule; (iii) resource schedule; and (iv) financial schedule in terms of standard expenditure items (Gildenhuys, 1993:537–538).

3) Performance Budgeting which ties workload measurement to various governmental activities. It considers service to be rendered rather than things to be acquired. It looks at the performance benchmark which must be economical, efficient and effective in utilisation (Gildenhuys, 1993:516; Henry, 1980:207; Kramer, 1979:3).

4) Planning–Programming–Budgeting System (PPBS) or (PPB) with its economic planning orientation. The budget is also conceived of as an instrument of policy and programme planning instead of focusing on the

5) Management-by-Objectives (MBO) with its emphasis on budgetary decentralisation. It is an effort to carry out approved plans as efficiently and effectively as possible through involvement of the lower levels of an institution (Bates, 1993:188; Henry, 1980:207).

6) Zero-Base Budgeting (ZBB) with its stress on ranking programme priorities. It emphasises justification of expenditure to continue funding the activities. It also examines the effectiveness of the programme (Dimock, Dimock & Fox, 1983:379; Henry, 1980: 207; Bates, 1993:197).

7) Medium-Term Expenditure Framework (MTEF) which emphasises the rolling three-year budget, implemented in South Africa recently, as its own version. It also emphasises medium-term budget planning and flexibility on budget reform. (Department of Finance: Budget Review, 1998:5.1; Maphai, 1998; Manuel, 1997: 37 - 38).

Each of the above budgetary systems unequivocally gives more thrust on broadening the meaning and functions of the budget. Most importantly, they are the pointers to the essential elements of the budget and budgetary process.

In order to determine an appropriate financial management and budgetary system for South Africa, the following section expands on the elements of the budgetary system during the evolution. The discussion is structured under the following:

1) Input-orientated System.
2) Activity/Performance measuring system.
3) Objective/Goal-orientated system.
4) A Medium-Term Expenditure Framework.
3.3.1 **Input-Orientated System**

The concept of Line-item Budgeting is identified in this category and discussed below.

### 3.3.1.1 The Line-Item (Traditional) Budgeting System

In most countries Line-Item Budgeting is the oldest form of budgeting. Whether they may now be defined as highly industrialised or developed countries, they have, sometime in their history, applied this concept. It is a simple accounting entry system; it sets out the details in a line as items. Even ancient courts of Egypt, Babylon and China needed something to keep track of expenses. In the United States of America (as in South Africa) the refinement of the Line-Item was a product of reformist pressure. The value behind it was the ousting of corruption in government through consolidation of public financial bureaux under the chief executive. It was also a response to an administrative integration movement and a desire to build administerial honesty within discretionary powers (Tulloch, 1993:811; Henry, 1980:207; Golembiewski and Rabin, 1975 (2):378-379; Wyld, 1932:627).

Jones and Pendlebury (1992:50) observed that the annual traditional (Line-item) budgeting has always been an attempt by Parliament to exercise control over the activities of central government. As a consequence it is now practice that total government expenditure as appropriations of expenditure for particular purposes for each financial year must be approved by Parliament.

Some advantages of the Line-Item Budgeting System can now be highlighted. It is associated with administrative honesty, efficiency and, less propitiously, inflexibility. It emphasised skilled accountancy for humbler and routine business of government. It frequently provides more details with precise data where every rand is being spent. The disadvantages are that a traditional budgeting procedure of the percolate up variety restricts the executive to very late factoring, and it is very difficult for top executives to influence those factors which he/she must particularly control. It is not concerned with a
question of policy. It covers only such inputs as it took to make a project. It also fails to show what the money is being used for in terms of programmes, and easily lends itself to stagnation as a result (Berkely, 1984:261; Henry, 1980:280; Golembiewski and Rabin 1975:278-279) Following, is a discussion on the necessity to distinguish between capital and expense budgeting.

(i) Capital Budget

Before concluding the discussion on Line-Item Budgeting, a difference between capital budgeting and expense/operating budget must be highlighted. Most governments divide their budgets into two: a capital and an expense budget. The rationale for this segregation is that the capital budget usually entails considerable expenditure toward capital infrastructure, for example, building a school or a new highway. Capital budgeting enables the community to break payment for the project from one year to many years. Since such projects are usually financed from the sale of bonds that are paid over 20 or 30 or even 40 years, placing such expenditure outside the annual budget makes a good deal of sense. Consequently it is only rational that those who will benefit from the expenditure, should shoulder some of the burden (Jones and Pendlebury, 1992:6; Berkely, 1984:258-259; Henry 1980:208; Ralph and Break, 1961:62).

(ii) Expense Budget (Operating Budget)

The expense budget lists items to be purchased and prices to be paid, including manpower, electricity, water and other less tangible items. Nearly all the basic objects of expenditure are customarily covered and set out clearly, in page after page in neat rows (Berkerly, 1984:261).

Critique

Over many years these strong characteristics of the Line-Item Budgeting System for national government were very effective as the focus was always upon protective tasks, like defence and law and order, transfer payments and higher education and some infrastructure. Evaluation was focused on
whether money was used according to regulation and for what it was appropriated. The present reform in the public sector calls for much more than that. Demands for improvement in economic efficiency increased which means either productivity or effectiveness. The risk of inefficiency is taken note of in a large institution like the public sector. On the allocative reform side there is a continuous search for more efficiency and more accountability. Allocative efficiency refers to micro-efficiency which is what the line-item does in terms of regulatory control. However, present public sector reforms in South Africa call for efficiency in redistribution, and deals with effects of extensive transfer payments on the economy. What is at stake is extensive capacity and incentive compatibility. That is, whether income maintenance programme hurts or benefits the economy, that is macro-efficiency.

The line-item does not tell much about the activities or functions of an institution. Its usefulness is particularly limited in terms of using the budget as a device for direction and purpose to public service programmes. However, its superiority to focus the legislature to budget items remain the desirable merit (Mengistu, 1997:4-5).

These critical shortcomings of the line-item budgeting meant that some of the characteristics of the system had to give way for more innovation in budgeting and reform to answer crucial political questions of decision-making and real budget objectives. The line-item budgetary system, like the Financial Management Systems in South Africa, cannot and does not support action in transformation in the country within its present dispensation. Thus a performance/activity measuring system was a necessity.

### 3.3.2 Activity/Performance Measuring Systems

The separation of the capital budget from the expense budget is a shift in budgetary thought from broader goals and multi-year budgets to reflect the longer-term benefits. This calls for the introduction of management accounting in the public sector reform which can allow divisions to be based
on solid material achievement rather than mere input costs. Bates (1993:72) observed that output measurement and the potential this gives for effective decision making, means that sophisticated management accounting is a necessity in a well-managed institution. The line-item system cannot offer a more variance analysis of the budget and an analysis of unit variance which is so important in the transformation and cost saving of any country.

Programme budgeting and performance budgeting will be considered under the next headings.

3.3.2.1 Programme Budgeting

Programme budgeting allocates money to functions or activities rather than to specific items. It shows functions for which money will be spent and emphasises the priority which the budgeting authority places on these functions, making it difficult for budgetees to hide information (Mengistu, 1997:5-6).

After World Wars 1 and 2 there was an evolution of government activities being expanded, making managers more accountable for the quantity of work to be done for managerial programmes. Management deals with action and application of policy and rules, and its test is the result. It also deals with people, their values, their growth and their development, and this makes it a humanity. The same applies to its concern with impact on social structure and community. The Government policies of the 1980s and before reflected a more rationalistic and instrumental conception, and industry was a highly regulated budgetary orientation. Management is a technique applying theories, methods and tools derived from management science. Management makes it possible to implement policies economically, efficiently and effectively, to measure performance against objectives and to learn from that. Management has a responsibility for medium- and long-term control within the institution and for managing the effects of external changes (Bates, 1993:88; Henkel, 1991:198–200).
A Programme Budgeting System confronts accounting officers with the focus on problems arising, definition of the organisation's objectives, and programmes, for reaching the objectives including possible alternatives to achieve stated goals, are identified. Major issues are identified and resolved in the formulation of objectives and programme development. There is an annual cycle for planning, programming and budgeting steps which is established for ordered approach, and development of analytical tools for measuring costs and benefits. Projection plans are recognised in the early years of the programme and in the development of multi-year programmes and financial planning each year (Gildenhuyse, 1993:516–517; Golembiewski and Gibson, 1983:178–180; Kramer, 1979:42–43).

Programme budgeting became a technique of policy analysis and decision-making for questioning programmes to accomplish goals. There was a need to adopt existing accounting systems to provide inputs to planning and programming levels. Budget officers became more interested in macro-budgeting and less and less in micro-budgeting. They saw their mission broaden in developing activity classification by considering not only inputs, but outputs as well. There was an exploration of various kinds of cost/work measurement. While management responsibility became newly centralised, planning responsibility remained dispersed and policy-making remained incremental. It focuses on services delivered for which resources were allocated. It emphasises the presentation of budget information to improve rational decision-making (Erasmus and Visser, 1997:170–174; Golembiewski and Gibson, 1983:178–180; Golembiewski and Rabin, 1975:379).

This is clearly a call for two contrasting goals: efficiency and accountability. They contrast, because the former calls for less public expenditure, whereas the latter could demand more resources. They play a major role in efforts at public sector reform in all countries in the world. Both economic efficiency and broader accountability are to be accomplished by local and provincial governments under broad discretion from national government, including taxation powers and budgetary autonomy (Lane (ed) 1997:189–190).
Like the traditional line-item budgeting system, the programme budgeting system lends to increase the purview of costs and programmes immediately. South Africa needs, for its transformation, cost-effective and efficient systems for basic control to eliminate maladministration and corruption. It needs elements of the multi-year programme budgeting system to address the shortcomings of the previous financial system with a combination of a one-year-financial plan for much more complex social and economic policies. Programme budgeting questions the worth of all programmes that a government undertakes. What are the best standards to give optimal benefits? It also concentrates on what the government is doing, rather than what it should, so that planning goes beyond the government and integrates the broader economy and government activity. Favourable policies are traded for co-operation bargaining.

Programme budgeting does not show the level of services that should be produced by functions for which money has been allocated. This weakens its value as a tool of quality management in public institutions. Can performance budgeting be better?

3.3.2.2 Performance Budgeting

Performance budgeting, according to Gildenhuys (1993: 516), emphasises the cost per activity unit as compared to performance of the service unit in the previous fiscal year. It looks at activities to be performed and the total amount of money needed to complete them over the fiscal year. It has a double function: the supply of funds and performance standards of each activity.

According to Erasmus and Visser, performance budgeting system

- allowed for evaluation of the feasibility and profitability of projects before they were initiated;
• budgets were drawn up for years into the future with emphasis on long-term planning (1997:171).

It has three outstanding characteristics according to Gildenhuys:

• choices and budget information are classified in terms of activities and not individual items;
• measurements are determined for each activity and the efficiency in the use of resources is evaluated; and
• efficiency reports are checked for deviation of actual cost while accomplishment is monitored from planned levels to focus on problems for corrective action (1993:516–517).

With the establishment of accurate accounting purchase and personnel practices, the budget reform had, firstly, established the control techniques. Secondly, the budget was the tool to centralise and co-ordinate the management of a vastly expanded government. Thirdly, the budget was the means to measure managerial effectiveness of government service delivery (Henry, 1980:209).

According to Gildenhuys (1993:518) Performance Budgeting brings the quality of budgeting to be an analysing instrument to ensure efficiency and effectiveness in financial management. It is a measuring tool as it can be checked according to time, cost and quality standards. Review and allocation of the budget by the legislature is enhanced by considering traditional expenditure items. The system readily accommodates the successful implementation of management-by-objective because “performance standards become the objectives and their realisation can be monitored and evaluated during the course of the fiscal year.”

Critique

Performance budgeting concentrates mainly on the performance of government activities rather than on changing real needs of the community. There is internal efficiency as regards government institutions rather than
external efficiency and effectivity as regards more community-orientated outcomes. That means being less concerned with the extent to which performances satisfy public needs. There is no question about the existence of departmental functions. Alternative ways and methods of performance measurement and goal realisation are ignored. No reference is made about the relevance of public services. Accounting officers may apply it to expand their budget demand, thereby causing added pressure on scarce financial resources. It can be applied as an instrument to expose waste, cut expenditure and reduce taxes because the performance-unit-cost leads to the development of improved operational methods. It does not sacrifice quality performance, but was viewed as an impediment to planning.

There are implications of performance budgeting, although the problem lies in finding acceptable norms as a measure of historical efficiency and effectiveness in present day conditions. These implications are:

• performance budgeting transfers the budget into an analysing instrument for ensuring efficiency and effectiveness in financial management;

• under performance budgeting, the legislature has to review and change allocation of budget requirements from the traditional standard expenditure items (line items) to concentrate on departmental functions and activities for which performance standards have been established; and

• performance budgeting can successfully accommodate management by objectives.

The performance standards became the objectives, and realisation can be monitored and evaluated during the course of the fiscal year. Performance, quality and results are reconciled (Gildenhuys, 1993:517–518).

Transformation in South Africa needs cost-effective and efficient systems, but must also adapt an element of medium- to long-term planning. Optimum
standards should not become ends in itself, but only a means to achieve the broader goals. The South African government attempts to move towards corporatisation by securing policies through bargaining and negotiation with powerful functional groups. Favourable policies will be traded for co-operation beyond performance budgeting with its internal benchmarks or measurement orientation of activities.

Performance budgeting is considered the most useful of the three presented so far, because of its ability to make funding agencies to regulate/evaluate in the most positive way both quantity and quality of services. However, in the public sector it is extremely difficult to define the unit of work of a department, establishing a system to supply reliable measures of work output and to establish acceptable service levels for various activities (Mengistu, 1997:6-7).

Performance budgeting can only serve part of the major objectives of historical backlogs in South Africa. It is a more effective, efficient and comprehensive instructor to promote competent institutions than the limited line-item and veiled service-level programme budget. These inherent shortcomings led to a further search of a more objective/goal-orientated system of budgeting.

3.3.3 Objective/Goal-Orientated Systems

Mengistu (1997:2) submitted that "... the fundamental policy concerns of the government can best be addressed by a budgeting technique that would allow the selection and targeting of programmes, financing them to the best possible level and assessing and benchmarking for improvement ...".

It is a challenge for the South African government to prioritise accurately its objectives and define them clearly for programme identification. This will enable the determination of an appropriate financial management and budgeting system for South Africa.
3.3.3.1 Planning Programming Budgeting System (PPB)

Planning Programming Budgeting System (PPBS) is concerned with the needs of decision-makers. Invariably the resources available are not unlimited in the public sector organisations in relation to the demand for them. Choices have to be made to ensure that limited resources are allocated in such a way that they produce the greatest beneficial impact on overall objectives. Planning defines choices of operational goals of government while programming is scheduling and implementation of particular projects to fulfil goals in the most effective, favourable and efficient way possible. Budgeting is the price estimate to each goal plan, programme or project (Jones and Pendlebury, 1992:68; Henry, 1990:212; Golembiewski and Gibson (ed.), 1983:179).

Private sector auditing changed due to environmental conditions. Firms began to go beyond the function of attesting to financial statements towards providing management consultant services. As public disenchantment grew, accounting firms were also called upon initially to assess the managerial efficiency of local and state government agencies. Clearly the legislature's intent was upon expanding its control over public policy and administration. Creative and strategic leadership was essential to harness environmental turmoil to serve institutional purpose. In designing the PPB, separate programme management was superimposed from the top down over traditional organisations and appropriation patterns. It was designed to aid justifying resources for the right purpose and not for managing resources efficiently after they have been obtained (Doig and Hargrove, 1987:288–289; Golembiewski and Rabin, 1975:379).

PPB can basically be compared to line-item budgeting. It is a programmed effort to increase the top executive control, thus requiring specific and comprehensive policy choices to be made before budget estimates are solicited. The emphasis is on a broad planning approach, yet specific from top down to the bottom on which programmes will be based. A line-item, a crude but useful proposition, lessens the executive's control over planning and
programming. It percolates up the hierarchy from lower levels where substantial consensus and political support can develop about early factoring. PPB is the major and most complex expression of this third stage of budgeting innovation (Golembiewski and Rabin, 1975:379).

The characteristics of PPBS may further give the extent of innovation and complexity of PPB as a budgetary system. These can also highlight some of the limitations of the much hailed PPBS, namely:

- it integrates budgetary formulation with Keynesian economic concepts by attempting to understand the effect of government spending on the economy;
- PPBS is an effort to develop and use informational sources and techniques for objectivity and evaluative analysis;
- it integrates system wide planning with budgeting;
- PPBS constructs its programmes on the basis of their contribution to the realisation of pre-determined objectives in multi-year budgets;
- it focuses on outputs of governments which are well-defined;
- it groups similar objectives together for budget purposes, resource competition and alternatives.
- PPBS applies cost-benefit analysis to compare advantages and disadvantages of alternative objectives;
- it forces institutions to examine work methods and procedures that will deliver expected results; and

PPB was seen as a solution and a panacea to all shortcomings of budgeting frustrations and problems resulting from previous approaches. Relating
resources to objectives was an obvious way to proceed and to eliminate
duplication through clever identification of objectives.

**Critique**

PPB was not merely to find gaps and duplication in an institution, but aimed at
complete thoroughly rational statement. It
- was a means to establish explicit rational criteria for decision making;
- sharpens administrative decisions and clarifies policy options available;
- cuts across conventional lines of responsibility and provides information on
  impact of objectives;
- enables resource allocation on the basis of cost-benefit analysis.

It is not, however, without its own share of flaws:
- it cannot make values beyond illuminating choices;
- sometimes it is mindless calculation which end up beclouding values;
- it is potentially centralising bias by diminution of legislative control;
- many activities are of a multi-purpose nature and it is difficult to allocate
  resources to a particular output category;
- it has a strong implementation resistance resulting in new budgetary
  reform taking the stage;
- it was implemented in the Department of Defence of the United States of
  America. For South Africa, it will need to be radically adjusted to suit the
  transformation environment;
- in its original form it is a non-starter, as it calls for highly skilled personnel
  in accounting, evaluation and management planning strategies which are
  just not available for South Africa;
- it rests on a national decision-making model.

PPB attempts to identify the goals established through planning, and relates
them to activities on a programme. It is highly technical and complex. It calls
for a formula of cost benefit analysis that does not exist in terms of social
preference values on a rationalist approach. This makes it a non-starter for
problem solutions within the present South African environment without further modification. A search for another alternative is pursued.

3.3.3.2 Management-By-Objectives (MBO)

When line management presents the departmental head with the budget, it actually presents a goal to be achieved. It is a hypothesis of this thesis that management increases the tendency of the departmental head to aim at, or reward officials for its attainment. It can enforce absolute compliance with the budget to achieve the goal by threatening with dismissal for non-compliance. Management-by-Objectives is budgeting and employee behaviour to achieve the goal through participation, budget performance and comparison or competition. MBO, as a philosophy, can be used formally and informally. As a process it contains objectives, action plans, progress review and self-control. It is a process whereby organisational goals and objectives are set by participation of members of the organisation in terms of expected results. It encourages self-management, autonomy, decentralisation and self-development, and advocates an integrated approach to total management with emphasis on communication and feedback (Henry, 1980:219; Golembiewski and Rabin, 1975:251–219).

Kramer (1979:95) together with Golembiewski and Rabin (1975:263–264) suggested the following as major activities central to management-by-objectives: it is capable of setting or developing realistic achievable goals; although participation is not a panacea, the fundamental point is that when participation is used, the budget must be modified as a tool of control, as a plan influenced by the environment and, accordingly, this boosts the morale and productivity and leads to greater commitment. It also encourages feedback for results and adjustment of the goals for effectiveness; it encourages recognition through participation. Thus participation may have great value in improving the budgets by drawing together the knowledge among the participants. MBO also deals with psychological problems of employee satisfaction (Kramer, 1979:95, 99–104; Golembiewski and Rabin 1975:262–267).
Critique

As a concept MBO is deceptively more simple to explain than to implement, because goals are perceived or understood differently by employees at different levels of an organisation. A cleaner, for example, understands the goals of an organisation different from the managing director or the director-general of a department. MBO emphasises a productivity measurement programme and evaluation and facilitates an effort to establish social indicators of programme effectiveness. It may bring responsibilities the budgeted individual was not aware of, to his attention, e.g. looking jointly at technical and financial performance responsibilities. It is associated with positive rewards for departmental heads in the attainment of goals. As a budget system, it must be adjusted for full participation. In theory the contrast is that the PPB decision flow is in the opposite direction as it flows down while MBO is up with flexibility, which is a death knell for PPB. Some problems are unique to the public sector and they act as barriers to successful implementation of MBO, namely philosophical attitudes towards measurement of social services, i.e. since the advent of publicly financed services it has been difficult to measure achievement or evaluate total effectiveness. There is always an outcry for uniqueness of services from both politicians and administrators. Lack of power to enforce requirements for achieving objectives is still a problem because administrators in both the private and public sectors enjoy different directionary powers. For example, an employee may fail to obtain an objective in the public sector, but it may be more difficult to terminate (if not impossible until recently) his/her services than it is the case in the private sector to momentarily reward differential levels. When organisations fail to reinforce individuals through a reward system, it is impossible to sustain long-term interest in attaining objectives and MBO becomes helpless. In the case of rapid change the societal problems demand a responsive government; not one which lacks flexibility and thus limits MBO's success.

The above discussion is not exhaustive for MBO in terms of problems and positive appraisals. MBO's participative approach is a tempting quality for a
transforming South Africa, but certain problems arise. Can all the citizens fully comprehend the goal-setting and participative strategies by government in its decision-making powers? This sends us on a further search for another system to determine an appropriate budgetary system.

3.3.3.3 Zero-Based Budgeting (ZBB)

Zero-Base Budgeting has been defined as "... the preparation of operating budgets from a zero base; even though the budgeting process might be operating more or less in previous years, the budget process assumes that it is starting anew ..." (Jones and Pendlebury, 1992:78).

There must be justification for every rand requested during the next budget period, including the current expenditures that are to continue. Effectiveness of each activity is examined at various funding levels. ZBB became Jimmy Carter's symbol of controlling government expenditure through better management techniques. ZBB, as introduced and developed by Peter Phyrr, initially for the State of Georgia and later for the federal government, sought to allow virtually all programmes – both old and new – to be reviewed in the budgetary process. This was made possible by the identification of the usual components of ZBB, namely decision units, decision packages, ranking of decision packages and preparation of detailed budgets (Gildenhuys, 1993:379; Dimock, Dimock and Fox, 1983:379; Henry, 1980:222; Kramer, 1979:145).

The programming function interacts with the budgetary function by identifying different goals to accomplish goals, objectives or purposes, as well as specifying different levels of effort for performing the activity designed for achieving a goal.

Gildenhuys (1993:527) further asserted that ZBB not only seeks to focus on incremental programme extensions which increase the expenditure, but it must also consider abolishing poorly performing programmes.
In its analytical approach it seeks to develop popularity of a new form of budgeting: by representing somewhat simpler and possibly more successful attempts to alleviate problems inherent in traditional line-item budgeting. It requires, without option, absolute understanding of decision units, development of packages and review and ranking of decision packages. The concept of zero budgeting is not new. Whenever an individual or organisation begins a new venture, a budget must be built from zero. According to Erasmus and Visser (1997:172-173), all expenditure and projects for purposes of ZBB are judged and evaluated on merit. During budget compilation departments must always determine whether existing programmes are effective and efficient and whether projects should (or should not) be continued. The projects should be considered and evaluated to achieve organisational objectives. Estimates must be drawn annually up from scratch, irrespective of previous years. It always begins with the proposition that an institution has no historical base in its present form. It must therefore justify each of its programmes in terms of alternative use of its funds. The programming function interacts with the budgeting function. By identifying different ways to accomplish a goal, objective or purpose, as well as specifying different levels of effort for performing a particular activity and an additional effort for the same activity, the programme manager introduces flexibility and recognition of expenditure levels (Jones and Pendlebury, 1992:78; Golembiewski and Gibson, 1983:185–186).

Sunset Legislation forms the core attraction of ZBB, as advocated for its existence. Because of ZBB's ability to initially question the programme of any agency from no change whatsoever to the total elimination of the agency itself, it is associated with the "Sunset Law". A "Sunset Law" provides that, unless the legislature specifically acts otherwise, public programmes or agencies are disbanded after a set period of time, for example five to ten years. Programmes are reviewed periodically under this threat of termination to eliminate overlapping jurisdiction and inefficient programmes or to possibly rework them. ZBB annually challenges and requires justification of institutional programmes without presumption that it will receive previous year's appropriation level. Theoretically, at least, the budget must be
defended in its entirety, otherwise sunset legislation will be justified (Mikesell, 1986:152; Henry, 1980:222).

Sunset legislation has to meet at least the specific criteria:

- the termination of specific programmes and agencies must take place at a set date, unless recreated specifically by the legislature;
- there must be formal institutionalisation of the process of sunset legislation;
- there must be gradual phasing in of the sunset legislation throughout the national, provincial and local government;
- it must serve as the strengthening of evaluation capacity in government; and
- finally, there must be a genuine public participation in the sunset process and not pseudo-participation (Henry, 1980:222–223; Golembiewski and Rabin, 1975:265–266).

The following core elements are indispensable for development and implementation of ZBB (Jones and Pendlebury, 1992:79–87; Berkely, 1984:270; Kramer, 1975:145).

(a) Decision Units

This is identification of decision units which are the lowest level at which meaningful management decisions are made. The agency should exercise considerable flexibility and discretion in deciding which of its activities should constitute decision units and which should not. The activities not considered part of a decision unit, will still be considered part of another unit as long as they require funding. All decision units of government, when logically grouped for review at a higher level, constitute a programme structure. If an agency makes its decision units too small, it will have too many small units and will be swamped by paperwork (as is always a problem with ZBB). If it makes them too large, it will limit ZBB's effectiveness.
Such an identification of decision units is in a hierarchy of budget preparation ranging between responsibility centres, cost centres, profit centres and programme categories or programme elements. The following characteristics represent an ideal decision unit: a specific manager who should be clearly responsible for the operation of the programme; the programme must have well defined and measurable impact; and finally, it must have well-defined and measurable objectives (Jones and Pendlebury, 1992:80).

Conceptually, therefore, the decision unit could be the whole local authority or provisional authority at one level or a physical department of a particular school at another level.

(b) Formation of Decision Packages

The formation of decision packages demands that each decision unit develops several decision packages for aspects of its programme. Each programme package spells out in detail the description of the programme objectives and the manager's objectives to the amount of resources needed to carry out the programme. The managers must now single out several possibilities of gradations (alternatives of an activity). Information so collected, becomes a decision package. Therefore, a decision package is merely a document which displays information concerning the effects on a function of alternative courses of action. It provides a basis for management review of information.

(c) Ranking of Decision Packages

Ranking of decision packages will gradually reach its minimum or lowest level first, next lowest, second, and so on, for its most important requirement is to obtain enough funds to keep functioning. All packages ranked by the first level managers are forwarded up the hierarchy for further reviewing and ranking against decision packages from other decision units. Superiors can thus change the ranks of decision packages received and send them up the line until a final decision has been made. This final heading of rank in the
packages records the number assigned to each package to reflect the order of priority.

The main consideration in selecting decision units is the organisation's responsibility structure that must always be done parallel to the flow of responsibility. Availability of data often contains the choice of decision units.

(d) Administrative Level

After ranking by managers at administrative level, decision packages will compete with other decision packages from other decision units. Those in charge at this level must make up new packages and rankings of the decision units.

The steps of ZBB just discussed, is reflected in Figure 3.1 below:

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Figure 3.1: Steps to Zero-Base Budgeting
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Critique

ZBB tries the impossible, because it is impossible to justify every programme's appropriation. To justify appropriation is to prove beyond doubt that benefits for a specific request outweigh the benefit of expenditure elsewhere. This is not easy. No ordinary man decides that funds should be shifted from one programme to another by noting the purposes and existing appropriators of various programmes. Excluding reference to the previous year's budget is self-defeating on its own, because a request of which relation to the current appropriation is unclear, is needlessly hard to evaluate. The way a programme operates currently, is observable and subject to a number of comments from various sources for evaluation, criticism and appraisal. No system is perfect. Officials fear the system, as it tests the efficiency and effectiveness of their work. It demands well-trained programme managers and other staff well-equipped for analysis. It is difficult to identify suitable decision units. There is a general lack of norms to establish workloads and the generation of substantial paperwork. Performance information and standards can be far-fetched, irrelevant and unrealistic. Some government activities are not sustainable for ZBB, as they may not readily be costed. It focuses too much on routine matters. Decision packages become unmanageable as they multiply in numbers. Imposition of cuts at each level of consolidation may result in negative behavioural consequences, such as low morale, stress and low productivity. Practical consideration of all alternatives avoids waste of time. Like PPB, ZBB tries to impose a highly formal and economical national approach to budgeting on a system that is essentially based upon "political choice" and "political control".

The advantages which make ZBB worth the salt of its period are:

- it considers inputs, outputs, effects and alternatives;
- it focuses on decision-making process;
- it demands managerial and planning skills;
- it demands critical information about the programme and agency and is very cautious of its decentralised policy-making style;
• it re-instates the budget in its role of policy-making instrument (Henry, 1980:223);
• it does not assume that the previous year's allocation of resources is necessarily appropriate for the current year; thus it is a useful control device;
• it forces managers at all levels to identify objectives;
• it quantifies and evaluates the cost-effectiveness of alternative ways of achieving objectives, resulting in further advantages of improved management information, involving the participation of lower level management in the budgeting process. Unexpected events occurring during the year can be easily adjusted because of information available for modifying the goals (Jones and Pendlebury and, 1992:89-90).

Gildenhuyys (1993:530) added on the advantage list quoting Phyrr (1983:342) and Mikesell (1986:153), saying that:
• ZBB compels officers to come up with relevant departmental information for objectives, targets and activities;
• new priority programmes can be excluded immediately;
• a programme's efficiency can be increased dramatically;
• more funds can be allocated to programmes with higher priority resulting from necessary justification; and
• tax increases can be limited.

Merewitz and Sosnick (1971:64-65) finally caution us on the cost of ZBB which can make efforts to justify every programme impossible. It is not possible to justify every cost of an activity without being subjective. Political costs too may enter the stage whereby the wisdom of particular statutes may be re-evaluated too. Nevertheless an in-depth review of every programme can be too costly and time-consuming, although it is clear to demand more in the way of preparing and presenting the reports and testimony for programmes which can affect programmes both adversely and qualitatively positive as well. Although it encourages officials to reallocate funds as they think appropriate, it does not provide any basis for judgement of what is ideally
appropriate, nor any impetus to reallocation. However, it does encourage optimum use of human resource through higher levels of creativity, cost-effectiveness and efficiency.

ZBB is an attractive system for a country as diverse and skewed as South Africa to apply if appropriate Sunset legislation, especially, can be applied on redundant and overlapping services or agencies. It does make personnel understand why they work in an agency as they develop decision packages and justify their agency’s programmes. It is sophisticated and overestimates, the individual’s ability to calculate and look at all other alternatives for decision-making. Some of its features can be adapted to South Africa for financial management and budgetary systems reform, but it is definitely not an answer to present challenges of transformation. The search continues.

3.3.4 Multi-Year-Orientated Budgets

Multi-year budgets originated in the United States of America. It is an analysis of existing and proposed programmes, supported by quantitative calculation, where possible. This applies not to current progress, but to proposals of new legislation. The years beyond the budget year show the future implication of current (past and present) decisions (Gildenhuys, 1993:579; Merewitz and Sosnick, 1974:33).

In the absence of multi-year budgets, proponents of new activities and other ventures need not analyse future requirements carefully and this is dangerous. It encourages competition for resources to take place among alternatives. All results are obtained on the basis of programmes constructed to reach predetermined goals and usually require careful and accurate definition of programmes. If the budgets are worthwhile, there is no reason to cancel the programme, regardless of what the future predicts. If expenditures are not worthwhile in the future they should be cancelled in the future, not in the current year when they are worthwhile. They help us to know future expenditures on a programme which may not only be justified, but also
continued in the longer term. So the project may be deferred to some specific years.

Financial policies that benefit the country presently, but not in the medium- to long-term, should not be cancelled. They should be allowed the benefit process up to exhaustion. This can only be possible through cost-benefit analysis and evaluation of policies in a multi-year budgeting programme.

**Critique**

Multi-year budgets encourage planning, innovation and creativity on the part of management. It encourages long-term programmes to be developed and costed if they are worthwhile. It does give a country an opportunity to develop its medium- to long-term projections, which is very popular in new democracies of the world today, especially during transformation and nation-building. It does incorporate comprehensive aspects and qualities of policy formulation, especially on those projects which need comprehensive planning such as housing, nation building projects, entrepreneurial development, infrastructure, as opposed to the incremental/line item budget with its base year limitation. It does not exhibit positive qualities for practical implementation. It is planning in the true sense of the word. It is only a vision, as the future cannot always be predicted, not even by the best of the world's forecasters. The world is a complex phenomenon which has its own international markets which respect no political boundaries. It calls for more skill as regards risk and uncertainty management in the public sector reform and in the country as a whole. A system of this nature sounds good for transforming South Africa, but must be purged with intervention strategies for short- to medium-term programmes. Developing economies need not take risks with the taxpayers’ money, but through multi-year budgets the benefits are optimal.
3.3.5 Medium-Term Expenditure Framework (MTEF)

The Medium-Term Expenditure Framework, as an expansion on the discussion of the previous three models, has principal ideas which dominates public financial management and budgeting reform debates and agenda by calling for strategies of institutional change. Clearly it notes the substantial shift away from the traditional concept of the expansionist, welfarist interventionist state, towards a reductive and entrepreneurial model of governance. This model is driven by principles of competition, privatisation, efficiency and effectiveness. This means substantial restructuring and slimming down of the state, notably through privatisation of state enterprises. The search for cost reduction has led to restructuring of central public service institutions (national government), provincial government and local government spheres.

3.3.5.1 New Public Management Reform

These restructuring initiatives produced significant reductions in numbers employed in the public service, some efficiency and competency gains, but have also brought anxiety about confused accountability processes, reduced staff morale and claims of damage to public services (Maphai, 1998:63-78).

In the field of intergovernmental relations decentralisation reforms have focused on delegation of responsibilities and activities away from the central authority towards regional and local government, on the allocation of services to not only the private sector, but also to the "third sector" institutions (nongovernmental and community bodies) or to new institutional partnerships both within the public sector and between public and private sectors.

In the United Kingdom the processes of rationalisation, transformation and reform brought about substantial changes in the local and regional governance.
Policy implications include:

- the main constraint on public reform is political, which points in the direction of rehabilitation rather than privatisation;
- in many countries reform should focus on building and strengthening core administrative institutions rather than weakening them;
- gradual reform of key institutions may be more feasible than a comprehensive blueprint; and

During the last two to three decades there has been a distinct paradigm shift from the assumptions about the state to a model of entrepreneurial governance in the United Kingdom and other countries (Gray and Jenkins, 1995:205-211; United Nations, 1995:107-121). In essence, Osborne and Gaebler (1993:32-39) summarised the entrepreneurial model involved, conceptualising a move away from the State and towards the market.

These new public management reforms constitute a dominant model which has become a global agenda for reform. This is because it offers a solution for fiscal management and budgetary problems which is central to this thesis: a search for an appropriate financial management and budgetary system to support transition. It promises efficiency and gains. However, some elements of reform, especially privatisation, executive agency reform and internal competition mechanisms, may not transfer well outside developed economies. The strengthening of core administrative institutions is crucial. So is the creation and innovation capacity in public policy design, decision making, co-ordination and evaluation.

They are:
- strategic planning;
- re-engineering;
- total quality management;
- benchmarking and performance management;
- team management; and
- privatisation.

While these cannot be discussed further, they are critical for strengthening management systems to support high performance. There are critical steps in strategic planning which should be mentioned for high performance, namely:

- preparing the way for change:
  - being strategic
  - understanding the environment identifying stakeholders
  - four first steps
    - clarifying your purpose
    - ask relevant questions
    - assess strengths and weaknesses
    - decide, act with commitment
  - identifying stakeholders
  - build commitment
- crafting your vision, mission and values:
  - clarify terms such as vision, mission and values
  - develop your own mission
  - continuous improvement of vision, mission and values
- conducting useful organisational assessment taking into account reasons for assessment and types of assessment required
- designing a results-driven plan for change which will include:
  - a framework for accountability
  - designing the approach inclusively
  - defining results by setting the foundation for accountability
changing the policy, process and culture and select appropriate strategies for change
- reaching a decision, implementing and communicating and continuously improving it
- setting limits for accountability and consequences, while establishing rewards and penalties when appropriate (Popovich, 1998:47-55).

Giving the above details is pertinent to the Medium-Term Expenditure Framework and public management reform which include a financial management and budgeting system. The system is still as popular in countries that have undergone transformation as was the case when the process began. This emphasises the importance of the principles of good governance and budgetary reform advocated by Hollis and Plokker as set out in Chapter 2 of this study. Countries engaged in the transformation process develop vision and mission, and to realise their vision, is a matter of their capabilities in terms of their quality of human and financial management and commitment.

3.3.5.2 Privatisation

Privatisation lies at the very heart of the market approach to public management. According to the World Bank (Compos and Fahani, 1996:451:485) "Public provision must become the exception rather than the rule. State intervention is justified only where markets fail". Privatisation has been a flagship of public management reform in the United Kingdom. It embraced all main utilities and transportation which represented 12% of the annual GDP. The shared public employment dropped from 8% in 1979 to 2% in 1995 (Taylor, 1998:236).

Cook and Kirkpatrick (1995:110-113) quoted 75% of asset sales in 1988 - 1992 were in developed countries, and for Africa constituted only 1% of the global total. This may not matter, since the research evaluation of privatisation suggests the link to economic efficiency. The real issue is monopoly rather than ownership, and efficiency goals can be attained through
corporatisation (Maphai, 1998:noncontinuous paging; Laing, 1998:150-152; Cook and Kirkpatrick, 1995:33-58; OECD, 1994:5-50). In many developing countries "privatisation" is interpreted to include joint public ventures, contracting-out arrangements and internal restructuring of existing enterprises.

3.3.5.3 Service Providers

While acknowledging that the democratic support for alternative service providers is part of the democratic process of decentralisation and that the resources available are no longer sufficiently able to support the state services network, provinces and local authorities need to evaluate which services they will continue to provide within the present financial constraints. They should also decide which they will not be providing. To do that, they must answer questions about goals and objectives for provision, responsibility for service provision and the role played by the local government (Hollis and Plokker, 1998:199). It is further asserted that these service ventures should be commensurate to the risk and certainty to be undertaken by the service providers from non-governmental organisations, the private sector and a combination option through public/private partnership (Hollis and Plokker, 1998:199; Maphai, 1998:60-61).

3.3.5.4 Establishing Accountability

There is a need to establish accountability and responsibility to ensure delivery of services. Deregulation is the theme here:

- managers must be freed from hierarchical and budgetary controls and allowed to manage;
- public services through market mechanisms must be freed from the orthodox command and control systems;
- the private sector operates in an environment free from control, regulations and restrictions.

The contrast is that at the same time the implementation of new public management reforms required new forms of regulation. Mechanisms for

The challenges presented by reform have spurred new forms of compliance for cost estimates. In the USA there is a rigorous cost-benefit impact assessment to propose regulatory action, and Germany has a checklist system intended to sensitise officials to regulatory costs (OECD, 1995:45). This goes beyond traditional audit of fiscal regulatory into the field of value for money. Key performance indicators have been concerned with the relationship between costs and resources (economy); between resources and outputs (efficiency) and between outputs and outcomes (effectiveness).

3.3.5.5 Ethical Issues

Governments everywhere have become concerned with questions of honest and ethical behaviour with resultant (Gray, Schlorke and Szanyi, 1996:425-450) concern with transparency. Good governance incorporates democratic and participative values to give greater weight to accountability rather than to efficiency. In developing countries corruption is a major issue and its costs are skyrocketing, resulting in ineffective government. Once again, rapid transition to market economy stimulates corruption.

Some observations of the United Kingdom's reforms on the public financial management side are that privatisation has been more rhetoric than substance in developing countries, compared with developed nations. This is because reform sits so uneasily with the local community system. Sophisticated reforms, such as market testing and internal markets, are unlikely to work outside developed economies. There is a need for improved public service delivery which has been neglected. Many reforms fail because they are little more than guesswork, imposing an idealised blueprint on an under-researched and under-diagnosed system. It is imperative to build a
capacity in internal management consultancies, to analyse real systems and evaluate pilot reforms. Training in financial management reform is essential. There is a need to have strategies in place to satisfy social needs and development. In the United Kingdom broad structures are in place to distribute money in accordance with political priorities and money in line with the need. The new system needs constant adjustment in terms of new development and programmes as well as financial planning and budgeting. There is also a need to emphasise planning to meet standards and targets of performance.

Lessons from the United Kingdom are that it takes time for initiatives to be implemented fully. There is virtue in keeping systems simple. People can become enthused about good financial management, but they need to understand what they are responsible for. It is important to be clear about the distinction between good cash control and the achievement of value for money.

3.3.5.6 Commonwealth Countries

Most nations and governments of the world (as stated earlier) relied on centralised regulation as the main formal technology of public administration. A public service normally requires discretionary judgement by public servants. How such discretion is applied, depends upon the alignment of interest of government, of public servants which depend on the perceptions, values and motivations of public servants involved. The ideal is to find a balance among approaches to discretion, control and autonomy, and to formal and informal influences on them in order to create the best public administration performances.

Countries have had varying success with highly centralised regulated systems, such as New Zealand, Malaysia and Singapore. This was because of the culture of the civil service involved, but there is a general perception that it copes less well in a globally competitive environment (Presidential Review Commission, 1998:2-3). Even the Commonwealth countries which
are regarded as having made the traditional public service work best, like the city-state of Singapore - which is more compact and culturally-cohesive - is moving quickly to a performance-orientated system.

Virtually any bureaucratic system needs periodic attention for appropriate alignment of direction, values, controls and motivations. Such issues are high on the agenda because of globalisation which culminates in radically changed circumstances in which governments operate. Governments must be more responsive to both unexpected external influences and higher expectations of citizens, with interaction and services which meet their needs. The world has become more interdependent with new technology, new economic realities and borderless trade zones. Governments have to re-invent themselves (Ingraham, et al, 1998:190-210; Osborne and Gaebler, 1993:38-63).

The following section reflects the medium term and expenditure framework of Malaysia, Singapore, New Zealand, Australia and Canada. It is clear that any successful performance-orientated organisation must have the following: clarity of purpose; clarity of role; responsible managers; incentives for good performance; management systems which supports performance; accountability and transparency, appropriate staff capability; and culture and value aligned with organisational purpose (Maphai, 1998:3-4; Hollis and Plokker, 1998:200-220; Osborne and Gaebler, 1993:34-53).

All these countries' relationship with their Ministries are influenced by the prevailing political, public and administrative culture and the character of players, both political and administrative. A performance-orientated public administration must be able to contain public expenditure from year to year, not just at the appropriation but also for unanticipated eventualities. Within that framework of government-contained share of national resources, it must find a balance of direction, control and operational autonomy that optimises pressure for productivity and scope for reallocation.
Change can start like a seed, sprouting anywhere within the organisation and it can grow where it finds conditions to nurture and support it. But someone must initiate it or become a catalyst.

From the Clinton administration's National Performance Review to radical government reinvention in Australia and New Zealand governments today are part of a global movement representing a new era of public management. Public organisations all around the world are fast learning that failing to continuously improve quality, control costs to a minimum and ensure results can lead to the forfeiting their rights or authority to do so. Some other organisation will provide the service and a programme, or some entity may be created to take over management. Although anyone can promote change, today's performance-and result-focused climate makes it easier to promote necessary changes and ultimately to engage top-level management in the process (Popovich, 1998:173).

3.3.5.7 Vision Exercise

It is important, even in very large and complex sets of institutions that there be the capacity of the national discretion to change. For this there must be connection to the purpose of the constituent institutions and individuals to change. One instrument for creating this sense of shared discretion is a governmental "vision exercise" (Maphai, 1998:8).

The Malaysian government produced "Vision 2020" to make Malaysia a fully developed nation by the year 2020. It provides a focal point for the nation, its structures and values to align themselves. New Zealand's "Towards 2010" is another example of a government's broad medium-term aspiration for society. It is a framework for strategic setting, like Singapore's Public Service for the 21st Century Programme. How will the civil service be positioned to meet sophisticated and demanding public service standards in an increasingly outward-orientated economy?
The overall aim of these statements, missions, goals, customs, and beliefs, is for a first class service which is capable, innovative and forward looking.

This medium-term expenditure framework in the United Kingdom's approach is emphatic on high quality performance with the least cost. It is re-inventing functions in government. It does provide long-term goals, but not multi-year budgets as the present problems demand. It is a complexity which is built up from several budgets and systems, mainly a performance-measuring system. It goes further than deregulation and contracting of services. Accountability is emphasised at a higher level and among all role players.

In the next chapter the experiences of other countries, will be discussed to establish an appropriate financial management and budgeting system that supports South Africa during the period of transition.

3.4 SUMMARY AND CONCLUSION

This chapter dealt with intergovernmental fiscal relations. It addressed in detail the intergovernmental relations dealing with norms and standards for equitable division of resources among all levels of government. It looked at the macro-economic strategy, budget deficit, education expenditure and the new public finance context. The Financial and Fiscal Commission (FFC), together with its functions, has been further reviewed. FFC's application of the formula for slicing of the financial resources has also been highlighted.

The chapter ends with a discussion of specific budgeting systems. It is structured under the following headings: Input orientated systems, Activity/Performance measuring system; a medium-term expenditure framework and multi-year budget. These were discussed as applying to other European and Commonwealth countries.

The following chapter is an international case study of countries during transformation.
4.1 INTRODUCTION

Chapter 2 dealt with the environment and the guidelines of public financial management and budgetary reform. That laid a broad basis for determining an appropriate budgetary system for a changing and transforming South Africa. In this chapter countries that have undergone the process of change, transformation and reform over years are explored to determine to what extent their budgetary systems comply with the budgetary systems discussed in chapter 3, and to what extent each system supported the transformation process. Such lessons and experiences from other countries are critical for a transforming and changing South Africa.

In recent decades the world has undergone tremendous changes towards what has become commonly known as “the global village”. The broad challenges and opportunities, as well as threats and insecurities were not always the same in all countries. For some it was the consequence of war and strife and therefore the desire to rebuild the country; for others it was their desire to promote rapid sustained economic growth, equity and to alleviate poverty. There was the desire to achieve mass productivity, not necessarily with high quality for others, and for still others, the desire to promote efficiency in the public service through the process of privatisation and corporatisation of state enterprises, and for yet others, top of the agenda were the redistribution of wealth and other resources and nation-building. These objectives and many more are relevant for a changing and transforming South Africa.

Common to most countries in transition and change, whether observed from the West, Commonwealth or the Far East, they all had to change old mindset and ways of doing things and apply new rules and principles. Some common guidelines of public financial management and budgetary reform are:
popular sovereignty through democracy and a multi-party system;

- clear separation of government powers between the branches of
government – legislative, executive and judiciary powers – and the Rule of
Law;

- acknowledgement of community values and norms;

- sustained economic growth and stability as a connecting link between
democracy and prosperity;

- proper representation;

- participation and civil society;

- decentralisation: local autonomy and good governance;

- accountability.

These principles guide the discussion of transforming and transformed
countries. Countries to be discussed, are the United Kingdom (UK), Australia,
New Zealand, Canada, China, Malaysia, Taiwan and Japan. Reference will
also be made to other leading countries in economic development, technology
and growth, such as the United States of America, Germany, Korea, Hong
Kong, Thailand, Singapore, Indonesia and the Philippines and African
countries that have begun to liberalise their economies. Understanding some
of their policies and strategies is inevitably a strong lesson for South Africa in
many ways and especially for achieving the objective of determining an
appropriate budgetary system.

The countries mentioned above have been selected for their achievement in
bridging the gap between the rich and the poor, for eradicating absolutely or to
very minimum levels rates of illiteracy, income and resource redistribution,
export capacity and input strategies as well as their ability to formulate plans
for short- medium- and long-term goals. It is important for South Africa to
learn about their successful strategies of implementation. Countries selected
are not the only ones that are best in development, but they have specific
lessons for South Africa that are appropriate for this study.
4.2 EXPERIENCE AND LESSONS FROM OTHER COUNTRIES

Change in financial management and budgeting systems is often the dependent variable in other countries while the transformation process in society is an independent variable due to the fact that transformation necessitated a change in financial management and budgetary systems. However, the purpose of this study is to investigate a proactive change in financial management and budgetary systems in order to support transformation in the South African society.

The following is a short exposition of the experiences from the selection of countries and a reflection on how they dealt with public financial management and budgetary reform. Many details on budgetary reform perspectives have already been dealt with in the previous section. This is a continued exploration of appropriate budgetary systems for South Africa by exploring the experience of other countries. As the discussion proceeds, observation will be made and specific lessons drawn and related to the South African environment.

The financial figures are expressed in terms of the specific currency of the country under discussion.

The first country among equals to be studied, is the United Kingdom (UK).

4.2.1 United Kingdom (UK)

1. Capital: London
2. Geographical Territory: United Kingdom became a political unit when England and Wales united with Scotland in a single Parliament in 1707. It occupied most of the World, but had to review three revolutionary wars.
   Area in total: 222 356 km²
3. Population:
   Total: 58,78 million (1996)
   Birth rate per 1000: 12,3
   Death rate per 1000: 10,3
   Marriages per 1000: 642 000 (1994)
   Infant Mortality rate per 1000: 2 285
   Population growth: 12,5 million
   Life expectancy – Males: 73,9 (1995)
4. Economy:
   Economic policy: rewards achievement, encourage enterprise and stability
   Performance: 5% (1990-92)
   GDP growth: 0,5% = 18 620 per head
   Budget 1996-1997:
   Total debt incurred 1998-99: Expenditure: 326,5bn
   Revenue:
5. Infrastructure:

(i) Roads: (1995) 366 999 km
(ii) Railways: 25 train companies (1995)
          16 666 km rail
(iii) Vehicles:
      Road casualties and deaths 25 369 (1995) (in 1000)
(iv) Telecommunications:
      • 20 000 post offices
      • 148 telecom operators
      • 125 cable operators
      • 19 registered public telephones
      • more than 7 million subscribers
      • several telephone franchises
      • 606 direct operators
      • broadcasting
      • 5 national television, radio networks

6. Constitution and Government: customs and traditions

• Houses: Lords: 1223 (86 women)
• Commons: 380
• Crown: Royal family (reigning Queen, Head of Commonwealth (Queen Elizabeth)
• Prime Minister with 21 Ministers (Cabinet)


It is against the background of the needs inherent in the above information that countries review and implement change, monitor and reform or even overhaul the old systems and replace them with new ones. The management of finances all over the world is a limiting factor of and a denominator for all other functions.

The United Kingdom, like South Africa, is a unitary state with a long history of concentrating power at the centre. In any government machinery there are three components, namely, structure, finance and functions. For our purposes suffice to say, finance can be described as the system by which the units within the structure of government machinery acquire resources necessary to perform their functions. 'It is more than tempting, ... as Hollis and Plokker (1995:72) put it, '...to see that the amount of financial resources act as a given factor from which the quality and quantity of functions can be determined ...'
Thus the financial system underpinning the machinery of government is influenced by a number of factors in a country. These include the macro-economic situation in the country, the rate of economic growth, the socio-economic situation of the population, and international and local pressures such as trade liberalisation or loan requirement.

Public services in the United Kingdom are provided both by government and non-departmental public bodies and public corporations, trading funds and nationalised industries. Many nationalised industries were denationalised over the last decade, and a half remains subject to regulation. This half is required to make a contribution to government (Maphai, 1998:28-36).

Certain issues have been raised in support of privatisation which may be lessons for South Africa, in line with saving scarce finances. It will enhance economic freedom. Deregulation will generally extend the range of consumer choice by increasing the number of sources of supply. It will remove the basis for cross-subsidisation of loss-making products or service from profitable ones, for example buses. It will increase efficiency by easing the problem of public sector pay and reduce borrowing by government (Kay, Mayer and Thompson, 1989:6-8).

**4.2.1.1 Control over Expenditure: Accountability**

In the United Kingdom the central government determines the plans for public expenditure and is responsible for the delivery through the Minister of State. Planning is based on a Public Annual Survey which sets out plans for the next three years on an annual estimate. Parliament has constitutional control over the expenditure of departments and other closely related bodies through the supply procedure during which the estimates or votes are debated and formally passed by Parliament. The Treasury has the responsibility of overall control of all the accounts of the state (Maphai, 1998:33-49).

Accountability has traditionally been achieved through presentation of appropriation accounts to Parliament which set out how spending compared
with the sum allocated. From 1999/2000 departments prepares resource accounts which will show how the total resources, both cash and non-cash, have been used in pursuit of objectives as well as achievement of selected targets. Local authorities and National Health Services are obliged to produce accounts and reports which must be made available to the public. Local authorities may inspect their own accounts and object with an appeal to an external auditor. Finally, all public bodies will both have internal and external auditors.

Accountability is not about political responsibility only, but about financial responsibility as well - a look whether the appropriate funds have come or outgoing money has been spent properly (Maphai, 1998:26-31; Day and Klein, 1987:8-9).

4.2.1.2 UK Experience of Financial Control

The following is a brief explanation of the UK experience in financial control for South Africa to emulate in its struggle to broaden the social services and to balance its budget.

It has been the primary objective of recent governments to control public expenditure, both in the form of overall cash limits and as a proportion of Gross Domestic Product. The first has been achieved with convincing success, although the difficulty is on controlling “demand-led” services, such as social security benefits and pension payments.

In 1982 the Financial Management Initiative (FMI) was launched. It involved the specification of objectives, definition of responsibilities and development of supporting systems. This was a paradigm shift in practice of improving financial management across the public sector with tight control and the imposition of expenditure cut; greater reporting requirements, and above all the requirement, under privatisation policy stated earlier, to subject many services to market testing and competition. Finally there was a need to set up external audit bodies with greater investigation powers into the achievement of
value for money. All these lessons are appropriate for South Africa, especially
to strengthen its control in all government levels.

Since the 1960s medium-term expenditure plans were considered initially over
a 5-year period, but were later reduced to a 3-year period. Most important
debates were on an annual expenditure for public bodies. Neither the Public
Expenditure White Paper on the medium term, nor estimates for departments
received extensive debate in Parliament. In transition, public expenditure
seemed out of control and various reports drew attention to this inadequacy.
Then the Financial Management System was introduced, but it addressed
only the internal management of departments and not what was intended, i.e.
clear objectives and clearly assessing performance against stated objectives
and a clear responsibility for management of resources.

The fiscal framework involved broad discussion on strategies to link and
balance solid needs and development. The structures were in place to
distribute money in line with the needs. But the system needed constant and
continuous adjustment, because needs and priorities change. Furthermore,
shortcomings and anomalies of the system are always revealed after its
implementation. New development programmes also tended to be added at
margins without any fundamental shifts in expenditure, especially if not
strongly supported by the legislature. Political initiatives tend to be introduced
at very short notice not usually viable for strategic planning. Thus there is
always a need to make demonstrable progress with new initiatives, yet the
planning cycle in government activities is both long and slow (Maphai,

Until the 1970s allocation to National Health Services and local authorities
were made in cash terms, but central government control was in terms of
volume. Pay and price rises had to be met as they occurred, without any
effect, until cash limits were introduced in 1973. The Treasury then developed
central systems for monitoring central expenditure. This went terribly wrong in
some government departments in the early 1980s, largely because
expenditure was budgeted through the number of staff in posts and average
pay rates, that is a line-item approach. Shortages were not identified early in the system by departments, because of inadequate information systems and methods of monitoring. Cash planning has the virtue of simplicity, but also has the limitations if the main focus is input rather than output. There is weak control over cost and time to implement long-term projects. Because of incremental levels, budgets are sometimes made to suit cash limits rather than expected activity levels (Fry, 1985:38-72).

A new resource budgeting system to match a new form of resource accounting was planned to solve cash budgeting problems by granting some year-end flexibility to unused funds and so eliminate year-end over-stocking of supplies. Focus on performance, including inputs and outcomes, and the understanding of good financial and project management and cost for forward planning were introduced. This called for further rationalisation of resources in government through privatisation policies and strategies and also for changing the whole structure and the functions of the civil service in the United Kingdom. This path of transformation and change has not been trouble-free, with a lot of misunderstanding between management and financial accounts, failure to reconcile, lack of appropriate information to match structure for delegation and lack of clarity of roles. Predominant, as pointed out earlier, was the doctrine of ministerial responsibility and the top civil servants. There was a mismatch between budgets and expected levels of budget responsibilities to those who could not influence budgetary control (Maphai, 1998:34-36; Day and Klein, 1987:32-120; Fry, 1985:13-33).

There was nevertheless gradual improvement of information resulting from the introduction of annual financial efficiency plans after some over-specification of computer systems leading to lengthy implementation. Outdated systems could no longer contain the load. There were also poor links between institutional performance measures and use of public funds beyond staying within cash limits or blame over spending as lack of individual and poor financial management performance (in usually negative terms). Improvement in the understanding by individuals of financial management systems, and responsibility by a dedicated and highly professional team for benchmarking service level agreement, market testing, quality definition, value for money
and good practice were developed. It is beneficial to display information and to encourage the spread of good practice. Therefore, appropriate financial management systems have been a variable in government departments and a sound basis for the role of a control body to encourage good practice. These are the UK lessons which quite rightly fit the South African scenario (Maphai, 1998:42-43).

A close study of the experiences of the UK regarding financial management and reform, reveal a process of change of the budgetary system from an incremental (or Traditional Line-Item) budgetary system through a performance budgeting system, a programme budgeting system, a zero-base budgeting system and to a multi-year budgeting system.

4.2.2 Australia

1. Capital
  Canberra

2. Geographical Territory: Australia stretches from Cape York in the north to Tasmania in the south, from Cape Byron in the east to Western Australia. External territories comprise Ashmore, and the Cartier Islands.

3. Area in total: 17 682 km²

4. Population: Total: 17,89 million
   Birth rate per 1000: 7,3 natural; 11,3%
   Death rate: 7,1 = 126 709
   Marriages: 111,174 = 6,4%
   Infant mortality rate: 1508 = 5,8%
   Population growth: 258,247 = 14,5%
   Life expectancy – males: (1994) 75 yrs
   females: (1994) 80,9 yrs
   Age distribution: Und34 15 yrs = 3 867 600; 16-64 yrs = 6 912 032 100; 65 yrs and over = 2 154 300.

5. Economy:
   Performance:
   GDP growth: 1996: 3,8% (SA 389,371 million 1994)
   Budget 1996-1997: SA 129 686 million in Australian Dollars
   Total debt incurred 1998-99: Expenditure: 326,5bn
   Revenue: 330,1bn

6. Infrastructure:
   (i) Roads: 81 000 km (16 000 km national highways)
   (ii) Railways: 7 government-owned railway system
   (iii) Vehicles: 10 935 400 (including motorcycles)
   (iv) Telecommunications:
     • 3992 post offices
     • 4325 postal items
     • Telstar provides domestic services competing With other international couriers.
     • 40,6 Facsimile machines
     • 54% Mobile phones
     • 48,4% Paid-up TV licences
     • 96% Telephones connected

6. Constitution and Government:
   • Houses: Vested powers the Queen represented by Governor-General
   • 76 Senate Members

The above is a small window on some of the major activities which grow annually, causing undue pressure on rationalisation of the fiscus and its structures. The changes that have taken place a decade or so ago and those that are presently taking place, have objectives similar to those envisaged by the changing South Africa. Financial management and budgetary systems reform is crucial for the success of transformation and change. Such financial management reforms have to be effective and efficient as well as analytical for appropriate application to the country’s conditions.

The Financial Agreement of 1927 was a landmark in Commonwealth-State financial relations. It provided three strands of thought to bring about a major shift in the distribution of financial powers and responsibilities relating to borrowing, debt redemption and grants to the states.

The Agreement provided for the setting up of the Australian Loan Council to regulate borrowing by the Commonwealth and the six states. The Loan Council consists of the Prime Minister of the Commonwealth and the Premier of each State. In practice the Treasurer is almost invariably the Commonwealth representative and takes the chair, but the Prime Minister usually attends the conference. The Premier of the State is very often the Treasurer of the State representative. This compares well to the inter-governmental financial relations reforms and budgeting in South Africa that are presently taking shape (Mathews and Jay, 1972:110).

The programme budgeting system, as was practised by Australia, proved a good way of connecting national strategy with budget allocation and public services action. Initial discretion within this system has also shown that giving wide discretion to departments within programmes and the system encourages resource reallocation as priorities change within the programs. This system may, however, be less of a success in respect of pressure on productivity. It is not capable of releasing the will to work on the part of the civil servant. It has inherent actions that cause budget deficits or surpluses which tend to generate monetary counterforces that may reduce or increase the

A new vision for a new public service is growing in Australia with support and encouragement from the top, to entice creativity and innovativeness which is quite the opposite of the traditional following of precedence rules and regulations. A total mindset change is implied. A lot of internalising of demands has to be accomplished. Financial decentralisation and delegation require adequate planning, including the installation of proper systems and controls and their staffing, by adequately trained staff (United Nations, 1991:47).

Government intervention in tackling socio-economic problems was under observation and question. The question focused on the quality of strategic choices being made and goods produced by government. On all accounts this was a question of performance of the total public sector.

4.2.3 New Zealand

New Zealand’s economy is heavily dependent upon overseas trade, while exports are dominated by sales of primary products. In March 1974 overseas goods and services and debt servicing represented 30 per cent of national expenditure. No less than 91 per cent of export income came from sales of primary products. As with most developed economies, the majority of New Zealand’s workforce is engaged in service industry (Thorn, 1974:145).

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<tr>
<th></th>
<th>Capital</th>
<th>Wellington</th>
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<tr>
<td>2.</td>
<td>Geographical Territory:</td>
<td>1983 kms from Wellington to Sydney; Two Principal Islands North and South besides Stewards Islands.</td>
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<tr>
<td></td>
<td>Area in total:</td>
<td>Total area: 540791 sq.m.</td>
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<tr>
<td>3.</td>
<td>Population:</td>
<td>3,77 million</td>
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<tr>
<td></td>
<td>Total:</td>
<td>(1996) 15,5</td>
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<tr>
<td></td>
<td>Birth rate per 1000:</td>
<td>(1996) 7,60</td>
</tr>
<tr>
<td></td>
<td>Death rate:</td>
<td>(1996) 17,1</td>
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<tr>
<td></td>
<td>Marriages:</td>
<td>(1996) 1,5%</td>
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<tr>
<td></td>
<td>Population growth:</td>
<td>(1996) 73,7</td>
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<tr>
<td></td>
<td>Life expectancy – males:</td>
<td>(1995) 79,1</td>
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<td></td>
<td>females:</td>
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<th>4. Economy:</th>
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<tr>
<td>Economic policy</td>
<td></td>
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<tr>
<td>Performance:</td>
<td>(1997) 6.9%</td>
</tr>
<tr>
<td>GDP growth:</td>
<td>(1997) 4.4 (NZ$ 95,816 million)</td>
</tr>
<tr>
<td>Budget 1996-1997:</td>
<td></td>
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<tr>
<td>Total debt incurred 1997:</td>
<td>Expenditure: 32 953</td>
</tr>
<tr>
<td>Revenue:</td>
<td>34 778</td>
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<th>5 Infrastructure:</th>
<th></th>
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<tbody>
<tr>
<td>(i) Roads:</td>
<td>(1996) 91 684 km of which 55 800 is tarred, 3 600 km gravel; 10 453 kms. National provincial highways</td>
</tr>
<tr>
<td>(ii) Railways:</td>
<td>(1996) 4 439 km (504 km is electrified)</td>
</tr>
<tr>
<td>(iii) Vehicles:</td>
<td>(1996) 2 540 006; Road deaths 539</td>
</tr>
<tr>
<td>(iv) Telecommunications:</td>
<td>(1996) (a) 1,714 main clear lines, (b) 477 per 1000 people, © 288 post offices, (d) Shops: 683 centre franchises; (e) 112 600 TV Licences</td>
</tr>
</tbody>
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<tr>
<th>6. Constitution and Government</th>
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<tbody>
<tr>
<td>(a) House of Representatives = 120 members (i.e. 60 for general seats; 55 for party Members and 5 for Maori.</td>
<td></td>
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<tr>
<td>(b) Executive: Prime Minister and Cabinet</td>
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**Source:** Turner (ed), 1998:1037-1047

The above profile illustrate the major activities of New Zealand from the beginning of the transformation period to the present. Prior to 1984 New Zealand was a highly regulated country in which government was involved in virtually every sector of the economy. The restructuring process and transformation have seen the government removing itself steadily as a play from activities better handled by the private sector through an extensive programme of corporation and privatisation.

With respect to the core public sector a similar philosophy has been adopted. A great deal of decision-making has been devolved to public sector managers in return for more vigorous accountability and reporting mechanisms. Ministers are responsible for ensuring that the performance they expect from the chief executive is precisely and comprehensively specified. They are no longer responsible for decisions regarding staffing, accommodation, computer systems or any other resources. The chief executives are held accountable for the results they achieve (Ball, 1996: Non continuous paging).
The cornerstone of New Zealand’s banking and financial systems is its Reserve Bank. Since government took ownership in 1936 the Bank has been very much an official agency. It gives advice to government and is expected to give effect to the monetary policy of government which is directed at the maintenance and promotion of economic and social welfare. One thing that is peculiar to the New Zealand scene, is that the Reserve Bank of New Zealand acts as a banker of the Dairy Board. It handles the majority of export receipts from the sale of dairy products. It may, when export prices are unfavourable, also provide loans at low interest rates to enable the payment of a guaranteed price to dairy producers. Such loans are usually under the heading “Advances to Marketing Organisations” in the balance sheet and are reduced when export prices recover (Thorn, 1974:145-6).

New Zealand’s government – whatever its place in the political spectrum – has consistently favoured a policy of low interest rates. The New Zealand Bank as a reserve bank has never pursued market operations. Instead New Zealand opted for a variety of controls on institutional sources of credit, such as holding of a minimum proportion of their assets in government and other securities (Thorn, 1974:146).

South Africa can critically and introspectively examine its own policies and discover for itself what New Zealand has achieved through following its own policies in the world of economic development. It is also in our interest to embark further in budgetary system reforms and strategies appropriate for the South African environment.

The lesson is that emphasis on performance and in particular on establishing performance measurement is required from managers at the start of the budgeting and reporting period. At the end of the reporting period the manager is assessed on the same basis as it was specified at the beginning subject to any agreed variation during the period. It was expected that the new budgetary format and financial management reform which split parliamentary and departmental information, would be better for users of estimates, proposed estimates, output specification and revenue to be received by New
Zealand Crown. Chief executives are responsible and accountable for the day-to-day running of their departments and for all resource decisions related to output production including staffing and accommodation. Ministers now maintain a hands-off approach in connection with departmental management. The development of an accountability mechanism based on contracting performance has allowed decision-making on the production of output to be devolved entirely on the shoulders of the Chief Executive. The major consequence of this separation of responsibilities is the increased focus on strategic issues. Documents which outline a vision for New Zealand into the next century have replaced the detailed input orientation planning documents of the 1970s and early 1980s (Ball, 1996: Non continuous paging; Holmes, 1996: Non continuous paging).

The New Zealand reforms offer appropriate and rich experience from which South Africans can draw lessons, firstly because of similarity in conditions which prevailed before changes were introduced in the two countries, and secondly, because of an exciting emphasis on the role of the contracting chief executive officer.

Estimates were substantially reorganised when the New Zealand Public Finance Act was passed in 1989. It redefined the notion of public sector performance by changing the basis of Parliamentary appropriation from inputs to outputs, introducing a distribution between the purchase and ownership of the Crown, making the chief executive responsible for departmental financial management, removing many administrative controls, and by establishing new Crown and departmental budgetary and reporting requirements. It provided detailed description of output classes, including quantity, quality, cost and timeliness of what was to be delivered. The 1994/95 financial year estimates culminated with the passing of the Fiscal Responsibility Act and further amendments to the Public Finance Act. The review incorporated all changes required by the move to accrual accounting for the whole of government as well as changes for appropriation for non-departmental providers of outputs whose performance is now measured on much the same basis as departments (Ball, 1996: Non continuous paging).
Any budgeting system should be premised on a system of devolution or management autonomy where executive officers are given greater authority with commensurate responsibility and accountability. A reform of Treasury prescriptive regulations, rules and instructions would necessarily allow departments to develop the information, to control and financial systems to meet their specific needs. Treasury will use the information to fulfil its functions and obligations to Cabinet and Parliament (Keenan, 1998:36; Ncholo, 1996: Non continuous paging).

Both New Zealand and Australia present interesting parallels and contrasts. Both emphasised greater flexibility of funding for existing policy through a system of forward estimates as part of a medium-term expenditure framework, which extends to the running costs of line agencies in the case of Australia, but not New Zealand. Predictability can mean complacency. The uncertainty and contestability in the Australian system relate to policy which receives considerable scrutiny every year, with the aid of an extensive evaluation system and in tight down aggregate resource allocation. Incentives to resource improvement revolves around autonomy, clarity of purpose, transparency and tightly constrained and reduced budgets.

In the case of New Zealand the approach is targeted more to the agency. It is designed specifically to create uncertainty in the minds of line managers about future funding for the agencies objectives. They have to compete with other service providers to supply goods and services the minister wishes to purchase as well as being subject to tight top-down constraint on the input side (Maphai, 1998: 16-17; Holmes, Non continuous paging).

Both Australia and New Zealand, more than any other country, have created a system which builds and creates greater certainty in the relationship between policy and funding through its system of forward estimates. It has even changed the rules of the game quite dramatically for all role players. The improved flow of information has happened at the same time for the legislature as, what for many, has been seen as a lessening of their role. The argument for a stronger parliamentary role should be the result of more
effective scrutiny role-based and scrutiny of budget documents, annual reports and reports of the Auditor-General. Experience often suggests that scrutiny roles are effectively carried outside the pressure cooker environment of the annual budget (Holmes, 1996: Non continuous paging). To encourage risk management rather than risk avoidance, requires the reforms discussed to turn the budget into an enabler and a demander of performance. The lesson from both New Zealand and Australia is that the central budget agencies have played a crucial leading role in reform, beginning with their own responsibilities. The Audit Office has moved to supplement traditional financial auditing with performance auditing.

Thus both Australia and New Zealand have lessons for South Africa’s transformation process and beyond. They both bear resemblance to the South African situation: in the supremacy of the constitution in Australia’s federal system, and in the diversity of population in New Zealand’s unitary system of government. South Africa, with a unitary system of government, is characterised by supremacy of the constitution and population diversity. An appropriate base for a transforming financial management and budgetary system is indispensable within a country of many diversities. Australia’s contribution to the development of a workable system of fiscal federalism is unrivalled among the world’s federations. It must be recognised that in the last resort (whether a country is a unitary South Africa or New Zealand, or a federal Germany or the United States) the many-sided problems of intergovernmental financial relations (irrespective of whether at national state, local state or national-local levels) demand political or constitutional rather than purely economic solutions.
4.2.4 Canada

1. Capital: Ottawa
2. Geographical Territory: Bounded in north-west by Beaufort Sea, north by Arctic Ocean; north-east by Baffin Bay, east by Davis Strait, Labrador Sea and Atlantic Ocean, south by USA and West by the Pacific Ocean and Alaska

Area in total: 9 970 610 sq km of which 755 180 sq km is fresh water
3. Population:
   Total: (1996) 28 846 761 (60,5% in 1991 gave their mother Tongue as English and 23,8% as French.
   Birth rate per 1000: (1996) 1,3% (379,295)
   Death rate: 215 740
   Infant Mortality rate: 6,8%
   Population growth: (1996) 7,2%
   Life expectancy – males: 74,9 yrs
   females: 81,2 yrs

4. Economy:
   Economic policy: National Reconstruction Plan
   Performance: GDP growth: 2,9% (1996)
   Budget 1996-1997: Gross Revenue = $229 722 437 million
   Gross Expend = $173 992 572 million
   Total debt incurred 1996-97: $176,478 million

5. Infrastructure:
   (i) Roads: 190 194 km (1991)
   (ii) Railways: 2 Great Transcontinentals 32500 km route
   (iii) Vehicles: 17 794 730 (1994)
   (v) Telecommunications: 18 500 retail post office locations
      11 800 items of mail processes
      $4 900 million total revenue after $28m expenditure
      Radio and TV Commission
      Independent Canadian Broadcasting Corp. operates:
      Two national TV
      3 private TV networks
      2245 cable TV systems deliver to 7,7m households
      1 769m telephones in use
      0,5m fax machines (1997)

6. Constitution and Government
   Houses: Parliament consists of senate – 104 members appointed until 75 yrs
   House of Commons elected by universal suffrage for 5 years
   Executive: Prime Minister and Cabinet


Canada is a constitutional monarchy, a federation and a parliamentary democracy. Federal power is shared between the legislature, executive and judiciary branches as in all democracies of the world. It is composed of ten (10) provinces with each exercising its own clearly defined powers. The Prime

Unlike the Depression of the 1930s when many Canadians became jobless, in the depressing 1980s and 1990s they were provided with temporary occupations as relief workers. There was a social safety net installed with unemployment insurance and universal healthcare. The unemployment rate was never more than 12% and, in less than three years exports began to boom. More than 80% of the Canadian merchandise was exported to the neighbouring United States of America (Wood, 1996: 429-432).

Reform in Canada was the result of recession and growing levels of joblessness. In early 1996 the federal government gave five regions of Canada – including Quebec – the power to veto any future constitutional changes. Such a bill was federal rather than constitutional. The bill further recognised Quebec as a distinct society within Canada as a result of the sovereignty referendum results of 50.6% supporting "No" to a federalist notion and 49.4% favouring separation (Wood, 1996: 437-441).

The Canadian governments at all levels are facing the problem of rising debt levels throughout the 1990s. They are responding to the problem by centralising, while decentralising in some cases and privatising and deregulating services in other cases. More often the burden of taxation has been shifted to the taxpayer. The real challenge to governments is that, because of the bigger allocation to support the social safety net, less money was available to maintain the crumbling physical structures. Only Alberta province had solved this problem by privatisation of most of its services, and it now has a budget surplus. Alberta is envied by all provinces, including the Canadian Federal Government, and admired by the world for its public financial management and budgeting system performance (Wood, 1996: 437-439).

The lesson for South Africa is that the government must clearly move away from direct ownership of services as the Canadian government and its
provinces have done. It must make strides in its reforms in public financial management and budgeting systems to support a transforming society. The government must not stand aloof when there is a need for intervention strategies to set the economy on a growth path. It must remain a major policy-maker.

The central government, once a positive movement in terms of long- and medium-term plans takes-off, must phase out gradually to allow involvement and participation of all civic organs of society to own the benefits of development and growth. These are the principles of public financial management and budgetary reform as cornerstones of development.

4.2.5 The People’s Republic of China

1. Capital: Beijing (Peking)
2. Geographical Territory: Bordered on the north by Russia and Mongolia, east by North Korea, the Yellow Sea and East China Sea with Hong Kong and Macao as enclaves on the south-east Coast, west by India, Pakistan, Afghanistan and others
   - Area in total: 97 572 900 km²
3. Population:
   - Total: (1996 census) 1 230 510 638
   - Birth rate per 1000: 16.98%
   - Death rate: 5.56%
   - Population growth: 10.42%
   - Life expectancy – males: 68 yrs
   - females: 71 yrs
4. Economy:
   - Performance:
     - GDP growth: 2604 per head
     - Budget 1996: 1996 728 m Yuan of which 119510 m Yuan was foreign debt.
     - Total debt incurred: 1996 728 m Yuan of which 119 510 m Yuan was foreign debt.
5. Infrastructure:
   - Roads: 118 5800 km (1996)
   - Railways: 56 700 km including 10 000 km electrified (1996)
   - 998 077 km surfaced (1994)
   - Vehicles (1994): 4.8 m passenger vehicles
   - 2.89 privately-owned
   - 253 362 traffic accidents
   - 66362 fatal road casualties.
   - Telecommunications: 76 496 post offices (1996)
   - 70 467 500 telephones
6. Constitution and Government
   - National People’s Congress with powers to amend the Constitution and remove highest officers from office
   - 1993 – State Council became Supreme Executive Organ comprising Prime Minister, Deputy and Councillors
   - Administratively divided into:
     - 22 provinces
     - autonomous regions
     - 4 government controlled municipalities

The People's Republic of China is a developing socialist country with a centralised planned economy in a military state. The National People's Congress has powers to amend the Constitution and remove the highest officers from office. In 1993 the State Council, which is composed of the Prime Minister, Deputy Prime Minister and State Councillors, became the supreme executive organ of state. At the local government there are four administrative levels: firstly, provincial autonomous regions and municipalities directly administered by the central government; secondly, prefectures and autonomous prefectures ("zhou"); thirdly, counties, autonomous counties and municipalities, and fourthly, towns. Local governments exist at the level of provinces, counties and townships, and in national minority autonomous prefectures (Turner, 1998: 383-8; Banks, 1998: 181-182).

Banking is a state monopoly, as all domestic transfers are handled by the People's Bank of China. The bank acts both as a central bank and the nation's commercial banking system. China is not a member of the International Monetary Fund and its currency, renminbi, is not readily convertible into Western currency. It also lacks a developed body of commercial or banking law. There are currently problems about China's adhesion to an international banking system (Thorn, 1974:48).

Agriculture led to China's economic reform. Until 1979 agricultural production was organised under communes (Townships of Xiang) which were further divided into brigades (one brigade for one natural village and production teams of about 15 – 20 households). The decision of what to produce came directly either from the brigade or filtered down from the commune, which also ran schools, clinics, factories and shops. Infrastructure, such as roads and irrigation works, was planned and co-ordinated at commune level. The commune as a self-sufficient unit was good for times of crisis, such as war, as it could be relied upon to deliver the most basic needs. It could, however, hardly lead to prosperity. China's agricultural growth in the pre-reform era was barely sufficient to keep up with the population growth. The Third Platinum Reform was a "revival" of the "household responsibility system" (HRS). Under the HRS all production resources – land, draught animals and farm tools –
were divided up and contracted out to individual households in return for a fixed share of the output. Individual cultivators enjoyed greater autonomy in decision making and incentives to increase production (Banks, 1995: 180-182; Wong, 1994: 24-27).

Individuals were allowed to keep their leased land for up to 50 years. They could also hire labour, own farm machinery and freely sell their outputs to markets. This virtually turned peasants into long-term tenants, and agriculture was effectively decollectivised. The impact of rural reform measures was immediate, with a rapid growth in income for rural farmers and agricultural production.

The Open-Door Policy was associated with the establishment of Special Economic Zones (SEZs) and the opening of coastal cities to foreign investment – moving from an inwardly-looking economy to one that actively participates in the world economy. The SEZs were used as laboratories to try out market orientated reform measures on the assumption that they could be isolated from the rest of the economy, but their success proved the opposite. They were extended into the interior cities, sectors and industries. Thus the most significant economic role of foreign investment in China at this stage, as in many developing countries, is not so much to meet the capital needs as to fulfil the more important economic functions of employment, creation, technology transfer – including modern management – and development of export markets (Wong, 1994: 27-29).

As far as industrial reform is concerned, it is well known that state enterprise had little autonomy. Their production, pricing and investment were subject to central planning. Gradual price liberalisation ended in a dual-track price system, such as free market price systems for ordinary consumer goods, and controlled prices for key commodities. This duality was phased out by government in 1988. In 1986 the government introduced “contrast responsibility systems” (CRS) to state enterprise with performance targets, output quota to the state and financial obligation to government, specified for three or four years. By 1988, 90% of the state-owned enterprises were
covered by CRS. Initially the CRS made positive impact on enterprises performances, but could not solve the many deep-rooted problems underlying the process. State enterprises are free only in managing production, prices, sales and purchases of raw material. They have no autonomy over decisions to invest, export, import and dismissal of workers (Wong, 1994: 31-33).

In the process of privatising state enterprises, the focus was on separating management from ownership through a shareholding system. The government also encouraged enterprises to form conglomerates to emulate Japan for their kerretsu for economy of scale and to improve efficiency. Labour can now move freely to sell its labour in a growing private sector. Clearly the main challenge to the Chinese leadership in the 1990s is to address the unfinished business of reform. After all, reform is not an end in itself, but a means to more efficient economic growth (Wong, 1994: 33-43).

A ninth 5-year plan covers 1996 – 2000. There is also a 15 year Strategic Plan – "Long-Term Target for 2010". These plans envisage a gradual opening to the outside world, enhanced development of agriculture, reduction of tariff barriers and development of power regions. In November 1993 the Communist Party declared that public ownership should remain the cornerstone of the economy, with alongside that a modern enterprise system suited to the demands of the market economy in which government control is separated from management.

Before 1996, 82.18% of the adult population were literate. In 1994, 98.4% of all school-age children attended schools. An educational reform of 1985 is phasing in a compulsory nine-year education system to replace the five-year system (Turner (ed), 1998: 396).

South Africa has much more to learn from China during transformation than one can imagine. In agriculture, rural reforms, the production team approach, as well as the 50-year lease of land and leasing machinery and other resources may contain aspects to support land reform. The spin-off of labour to mushrooming shops and other enterprises from agriculture is a clear
connection. Foreign investment can also act separately from the mainstream of the country's economy. Privatisation strategies in China are a positive experience for public enterprise privatisation. Decentralisation, autonomy and the support of transforming society are other issues for comparison. The long-term strategies, visions and targets up to 2010 are fruitful lessons for the long-term solution of South Africa's problems. The strategies adopted to eliminate illiteracy by such a high percentage needs to be revisited by a country committed to development (Goodman and Lawless, 1994: 78-93).

Finally, protectionism from external markets has a potential to constrain or divert a country from developing its comparative advantage along lines it would develop without restrictions. To assess the effects of protection are notoriously difficult, ranging from quality, quantity, skill, morals and in general a country's competitiveness. The impact of direct foreign investment on the host country's economy can be the advantage in production and process technology. It helps to promote exports as the foreign investor is normally more conversant with foreign markets and world market networks or even with the home country. It also results in additional employment and training by the multi-nationals generally upgrading the technical skills of local staff through exposure to international practices, management and organisational know-how. It may result in promotion of subcontracting through supplying various parts and components to foreign-invested enterprise. This may also lead to better quality control. These are the lessons for South Africa, as it is gradually implementing a reduction of the General Agreement on Trade and Tariffs (Yeats, 1991:3-32; Khan, 1991:2-3).
4.2.6 Malaysia

1. Capital
   Kuala Lumpur

2. Geographical Territory:
   Comprises the 11 states and 1 federal territory of Peninsula Malaysia, bounded in the north by Thailand and with Singapore as an enclave on the southern tip, North Borneo and Sarawak
   Area in total: 329 728 km$^2$ (127 317 sq miles)

3. Population:
   Total: 21,7 m
   Birth rate per 1000: 26,1%
   Death rate: 4,6%
   Infant Mortality rate: 9,8%
   Population growth: (Natural) 21,7%
   Life expectancy – males: 69,3 yrs
   females: 74,1 yrs

4. Economy:
   Economic policy
   Sixth 5-Year Plan (1991-95); Privatisation programmes in force.
   Performance: 8,7%
   GDP growth: 8,0%
   Budget 1996 – 1997: RM 60 780m Ex RM 59 980 m

5. Infrastructure:
   (i) Roads: 67 608 km of which (1997)
   51 700 is paved
   15 908 unpaved
   (ii) Railways: 22 227 km track
   approximately 33,7m passenger journey per annum
   4,9m tons freight per annum
   (iii) Vehicles: 750 811 (1996)
   (vii) Telecommunications:
   6 036 service network
   620 post offices
   290 mini post offices
   413 post office representatives
   50% fax subscribers (1994)
   Broadcast Government Control TV Station
   Radio station
   Monopoly nationality. Voice of Malaysia
   8 languages

6. Constitution and Government
   Houses: Federal Constitution. Special interest of Sabah and Sarawak
   5 years hold office
   Supreme Heads and Deputy Head
   Executive: Prime Minister and Deputy Prime Minister
   Regional and local government with single elected chamber state
   Ruler appoints executive council on advice of Chief Minister
   In Peninsula Malaysia each state is divided into district under a district Officer
   Each district into makims with a head

Malaysia has a federal constitution for special interest of Sabah and Sarawak (the name for the Malaysian Monarchy). Malaysia has been referred to as one of the East-Asia miracle countries with a remarkable record of high and sustained economic growth with unequal success in poverty alleviation (Pitt, et al, 1993:323-26). Emphasis was strong on growth and redistribution policies and strategies throughout its development phases, along with effective planning. The State played an important role in promoting development, delivering the benefits of development to the poverty-stricken majority of the population, bringing about human development and improving income inequalities. Why and how do some governments do better than others in poverty alleviation, sustaining development and responding to changes?

Malaysia may provide South Africa with some lessons. The overall economic growth in Malaysia is associated with the rapid growth of the manufacturing sector. Although there were fluctuations, high growth rates were recorded in 1973 and 1976 of 11,7% and 11,6% respectively as well as the recession years of 1985 and 1986 respectively recorded 1,0%, and 1,2%. Meanwhile, the share of the manufacturing sector increased from 13,9% in 1970 to 32,7% in 1995. The service sector's share to GDP increased from 39,6% in 1970 to 44,8% in 1995 (Siwar, 1998:1-3).

The essence of the miracle lies in rapid, sustained growth with significant poverty reduction and more equal income distribution. Before the financial crisis of 1997 – 1998 Malaysia’s economy was mainly characterised by rapid sustained growth, rapid demographic and economic transformation, rapid export-led industrialisation, high investment rates, high rising endowment of human capital, improved productivity and technological improvement. The principles of good governance, sound economic management and macro-economic policies contributed to Malaysia’s rapid and sustained growth. Absolute poverty has been significantly reduced, human welfare, life expectancy, literacy and access to basic amenities have increased (Siwar, 1998:3-4).
The poverty line income (PLI) in Malaysia is a monetary equivalent of expenditure to meet decent standards of living, to acquire socially determined essentials of life. PLI is defined by monthly household income per capita derived from the gross monthly income divided by the average household size. Those individuals with incomes below PLI are considered poor and those with half or less than PLI are referred to as living in “hard-core poverty”. The number of poor households declined from 49% in 1970 to 8.9% in 1995 and is projected to decline to 5.5% by the year 2000. There is still demographic poverty by ethnicity, sector and regions. The incidence of poverty is higher in the rural sector of Malaysia (as is the case in South Africa) than in the urban poor households, which decreased from 21.3% in 1970 to 4.2% in 1995. This was because of abundant employment and business opportunities in urban industrial areas (Siwar, 1998:3-5).

The Malaysian government plays a pivotal role in poverty alleviation as seen through, directly or indirectly, various policies, strategies and programmes. These are:

1. promoting a climate conducive for private sector growth and partnership;
2. a catalyst or facilitator of development and growth;
3. a strong commitment to affirmative policies and budgetary support for poverty alleviation;
4. access to all basic amenities and infrastructure;
5. good governance, stability and continuity; and

Malaysia has merchant banks which are joint ventures between itself and foreign interests. They operate in Malaysia as intermediaries in the short-term money and capital markets. They are allowed to accept deposits from the commercial banks. Malaysia uses depository funds for financing of trade and commerce and for motivating and promoting economic growth. Commercial banks are the only institutions in the country licensed by the Central Bank –
Bank Negara Malaysia – as trading or cheque paying banks. They had been a dominant force in the financing of economic activities under the Second Malaysian Plan, 1971/1975 (Thorn, 1974:58).

The Bank of Agriculture has as its objective to provide credit to farmers and co-operatives. Borrowing companies act under the Legislation Act of 1969, a statutory body that constitutes the most important source of private sector credit. They accept deposits from more than ten persons and are licensed to operate by the Central Bank. Such credits complement those offered by the commercial banks and are mainly for financing of higher purchase transactions, commercial, industrial and residential construction (Thorn, 1974:68).

Malaysia does have a co-ordinating control agency in the form of The Economic Planning Unit which has a strong integrating role. It is a very promising model for countries seeking to improve their central policy and planning capacity. The Malaysian government, on behalf of its country, produced what it called “Vision 2020” wherein it aspires to make Malaysia a fully developed nation by then. It continues to put heavy emphasis on government-owned training and development provision for reasons very largely of the need for a strong and unified public service culture (Maphai, 1998:29-33).

The education policy of Malaysia is free for the first six (6) years of primary schooling, starting at the age of 6 years. Tertiary education is provided at a nominal fee, but is not free (Turner, 1998:939).

South Africa can learn from the experience of Malaysia in vision development, foreign trade development, government intervention in poverty alleviation, rapid sustained economic growth, development and implementation of affirmative action as well as elimination of population illiteracy and other policies of education. The gradual privatisation of state enterprises and respect for rural culture and institutions of traditional nature are areas of interest to South Africa.
These are aspects affecting both the transformation process and the financial management and budgeting system. In terms of the latter the lesson for South Africa lies in increased expenditure for social services and education in the national budget and a strong fiscal discipline.

### 4.2.7 Taiwan

<table>
<thead>
<tr>
<th>1. Capital</th>
<th>Taipei</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Geographical Territory: Taipei lies between the east and south Cline Seas about 100 miles from the coast of Fujan. Off the Pacific coast are Green Islands and Orchids Islands. The north has The Tiayutai Islets.</td>
<td></td>
</tr>
<tr>
<td>3. Population: 21.6m</td>
<td></td>
</tr>
<tr>
<td>4. Birth rate per 1000: 1,42%</td>
<td></td>
</tr>
<tr>
<td>5. Death rate: 5,71%</td>
<td></td>
</tr>
<tr>
<td>6. Infant Mortality rate: 6,66%</td>
<td></td>
</tr>
<tr>
<td>7. Population growth: 0,9%</td>
<td></td>
</tr>
<tr>
<td>8. Life expectancy – males: 71,87 years</td>
<td></td>
</tr>
<tr>
<td>9. females: 77,92 years</td>
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</tbody>
</table>

| 4. Economy: Economic policy | As regional economic blocks take shape, Taiwan plans to develop into an operation centre for the Asia Pacific Over the next 10 years, with 6 operation centres. |
| 5. Budget 1996 – 1997: Central Budget: NT$ 1,243m Revenue; Planned Expenditure: 20,9% Defence; 10,6%, Economic Development; 20,3% Social Services; Education, Science and Culture 15,3%. |

| 5. Infrastructure: (i) Roads: 19 634 km |
| (ii) Railways: 23 631 km (1996) |
| (iii) Vehicles: 14.3m (38 704 203 passenger cars and 21 598 buses) |
| (iv) Telecommunications: 10 429 020 telephones 1 253 987 mobile phones 2 496 090 radio pager subscribers 65 radio stations 4 commercial TV stations 117 cable systems |

| 6. Constitution and Government Houses: ROC Constitution is based on principles of nationalism, democracy and Social well-being. 3 levels of government: central, provincial, municipal and country/city with well-defined powers. Executive: Central government consists of President, National Assembly and Five governing branches, namely, Executive, Legislative, Judiciary, Examination and Control Yuan. |

**Source:** Turner (ed), 1998: 401-407
The above is a presentation of Taiwan since it began its transformation and nation rebuilding after its rejection of "one China" policy on either mainland or island terms. The ROC Constitution is based upon the principles of democracy, nationalism and social well-being. The government is divided into central, provincial and municipal spheres, as well as counties and cities, each with well-defined powers. The central government comprises the President and National Assembly and the five governing branches, namely, Executive, Judiciary, Legislature, Examination and Control (Yuan). At the provincial level governments exercise administrative responsibilities since the ROC government administers only Taiwan and two counties in Fukien Province. Only two provincial governments are currently operational, namely, Taiwan and Fukien. Taipei and Kaolisiung are special municipalities which are under direct jurisdiction of the central government. At the local government level under Taiwan Provincial government are five city and sixteen county governments with governance of the subordinate cities (Turner (ed), 1998: 401-404).

Education policy prescribes compulsory education from the age of 6 years to 15 years (9 years of compulsory education which is absolutely free) (Turner (ed), 1998:406).

The lesson for South Africa is to look critically at the education budget and compare it with the role of government budgeting in Taiwan. Its production level as one of the growing economies of the East is exciting. It has been capable of exporting its goods to other countries (including South Africa) during the last two decades. Perhaps its strength lies in its budget for education, which is far higher than that of South Africa and many other countries. Education encourages higher productivity, investment and savings. For South Africa an ability to handle educational inequities through an appropriate budgetary system will achieve the objectives of nation building, economic growth and investment in the long run. South Africa has to revisit its budget for education of 6,5% for 1997/98, 7,1% for 1994/95 as well as the social and welfare and other social services of 7,9%, 7,6%, respectively, if it is to compete with other developing nations. Budgetary constraints will have to
be reprioritised to address the real sensitive problems of the country as compared with other developing or developed countries (Manual, 1998:12-14).

### 4.2.8 Japan

<table>
<thead>
<tr>
<th>1. Capital</th>
<th>Tokyo</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Geographical Territory:</td>
<td>Japan consists of four major islands and many small islands.</td>
</tr>
<tr>
<td>Area in total:</td>
<td>377,819 sq km</td>
</tr>
<tr>
<td>3. Population:</td>
<td></td>
</tr>
<tr>
<td>Total:</td>
<td>125,86m</td>
</tr>
<tr>
<td>Birth rate per 1000:</td>
<td>(1995) 9,6%</td>
</tr>
<tr>
<td>Death rate:</td>
<td>(1995) 7,4%</td>
</tr>
<tr>
<td>Marriages:</td>
<td>(1995) 6,4%</td>
</tr>
<tr>
<td>Infant mortality rate:</td>
<td>(1995) 4,3%</td>
</tr>
<tr>
<td>Population growth:</td>
<td>2,1%</td>
</tr>
<tr>
<td>Life expectancy – males:</td>
<td>76,36 years</td>
</tr>
<tr>
<td>females:</td>
<td>82,84 years</td>
</tr>
<tr>
<td>4. Economy:</td>
<td>Government adopted a 5-year Plan for Economic and Financial Reform and relaxing of state control for employment creation, with compulsory education (6 and 15 years)</td>
</tr>
<tr>
<td>Performance:</td>
<td>2,5% (1996)</td>
</tr>
<tr>
<td>GDP growth:</td>
<td>PPS 21,581 per head</td>
</tr>
<tr>
<td>Budget 1996 – 1998:</td>
<td>Balanced at 77,390,000 m Yen</td>
</tr>
<tr>
<td>Gross Expenditure = $173,992,572 million</td>
<td></td>
</tr>
<tr>
<td>Total dept incurred 1996:</td>
<td>22,975,000 m Yen</td>
</tr>
<tr>
<td>5. Infrastructure:</td>
<td></td>
</tr>
<tr>
<td>(i) Roads:</td>
<td>1,242,308 km</td>
</tr>
<tr>
<td>(ii) Railways:</td>
<td>27,258 km (1996)</td>
</tr>
<tr>
<td>(iii) Vehicles:</td>
<td>67,200,000</td>
</tr>
<tr>
<td>World’s largest underwater tunnel opened in 1997, Spanning Tokyo Bay</td>
<td></td>
</tr>
<tr>
<td>(viii) Telecommunications:</td>
<td>71 m subscribers in telephone NTT services and mobile telephones</td>
</tr>
<tr>
<td>Japan Broadcasting Corporation controls and transmits</td>
<td>2 national networks and external service Radio Japan broadcasts in 22 languages</td>
</tr>
<tr>
<td>Minority stations, 5 commercial networks (1994)</td>
<td>114 radio and 85 m TV colour sets</td>
</tr>
<tr>
<td>6. Constitution and Government</td>
<td>Houses: Legislative powers rest in Diet which consists of House of Representatives elected over 4 years. House of Councillors of 252 members with 100 elected by party list system. 152 from pre-election districts One-half of members elected over 3 years.</td>
</tr>
</tbody>
</table>

**Source:** Turner (ed), 1998: 823-832
The Japanese legislative powers rest in the Diet, consisting of the House of Representatives, elected by citizens above the age of 20 years over a four-year period. The House of Councillors comprises 252 members with 100 elected by party-list system and 152 from prefectural districts. One half of members are elected every three years (Turner, 1998:825).

With regard to the economy, the Bank of Japan is the Central Bank, forming the kernel of all financial institutions. The government financial institutions hold special positions in functions, supplementing those of the private sector institutions. Legally, Japanese banking institutions can be classified as ordinary banks, long-term credit banks and foreign exchange banks. There are also specialised financial institutions for medium- and small-sized enterprises and agriculture, forestry and fisheries (Turner (ed), 1998:824; Thorn, 1974:2).

Japan was selected for this study because of its export in the vehicle manufacturing industry and other electronic industries. There is also a financial reform plan centred around the relaxation of government control and job creation. South Africa can further learn about the need for an appropriate financial management and budgetary system to enhance the culture of high quality productivity which has been a success miracle over the last thirty years. Like most countries in the Far East, education in Japan is compulsory up to 15 years of age. Good quality education is a precondition for productivity and the desire to invest. An early investment in education is a long-term benefit for generations to come. Education systems should not be allowed to stagnate and become redundant as was the case in Japan during the late 1980s and early 1990s. It should be allowed to be inventive, creative, innovative and competitive in order to expand development, efficiency and discovery of new methods.

The specialised banking systems such as Agricultural Co-operatives, Credit Federation of Agricultural Co-operatives, Agriculture, Forestry and Fishery Finance Corporation, Government Financing Institutions and Japan Development Bank are positive instruments to transforming. In South Africa
very little has been done to promote farming and commercial entrepreneurship. This is a challenge to successful reform and transformation.

The Banking Law authorises the Minister of finance to demand reports from banks on their business and to inspect them whenever necessary. Banks are required to maintain a higher ratio of legal reserves than that provided by commercial banks. Any bank intending to provide foreign exchange or to gain the status of an authority, must be licensed. These banks are governed by the Bank Law of 1954. The Foreign Exchange and Foreign Trade Control Law of 1949 governs foreign transactions and licences (Thorn, 1974:2-3).

This system of control is under the direct supervisory control of the Minister of Finance who has wide ranging powers from instructing banks to change their directors and auditors, suspend business operations, consign its property to depository issues or any other necessary order. Small Business Financing are special financing institutions facilitating operations for small businesses. These include mutual loan and saving banks, credit associations and credit co-operatives. Other financial institutions differ as to their specialised fields. The Financial Institution for Agriculture, Forestry and Fisheries is concerned with ways to obtain finance from ordinary commercial banks, because their credit standing is generally unstable and they require long-term loans and low interest rates. To overcome this difficulty, finance is mainly carried out by co-operative type specialised financial institutions as well as by government institutions. Each industry has a co-operative within a town credit federation or co-operative on the prefectural level and at the head of this is the Norinechukin Bank (the former Central Co-operative Bank for Agriculture and Forestry) (Thorn, 1974:13).

Business financing in Japan also has some interesting lessons for developing entrepreneurs in South Africa. There is internal financing, such as depreciation and drawing on reserves; the other is external stock issue, flotation and borrowing from banks. Companies invested an enormous amount in plant and equipment since World War 2. Again, the pattern of financing equipment is very different from that in Europe, the USA and South
Africa. Japanese companies have financed their equipment mainly through the banking system, consequently the net worth ratio at 17 per cent is very low compared with other developed countries (Thorn, 1974:14-16).

When Japanese companies seek financing externally, they depend upon borrowing more, and less on stocks and debentures which resulted in undeveloped surety markets with consequent difficulties to obtain money. South Africa's lesson is to activate an appropriate financial management and budgetary system based firmly enough in its macro-economic framework capable of developing security markets to obtain more money at competitive rates to meet government objectives of GEAR.

4.3 ANALYSIS OF OTHER COUNTRIES

There is a strong golden thread going through reform efforts which has a devolutionary and a decentralising thrust as expressed in the Principles of Public Financial Management and Budgetary Reform. Concerning intergovernmental relations, lessons on reform come from a wide variety of developing nations whose decentralisation has become the focus. There is trouble in other countries as attention is limited to budgetary reform only. South Africa will have to balance its reform priorities properly with moderately ensured stability rather than emphasising one reform at the expense of all others. This is because reform initiatives are intertwined and inter-linked with all others (Hollis and Plokker, 1995:50-60; Bullivant, 1994:75-96).

The United Kingdom, together with Canada, have gone further to resolve the question of privatisation as well as trade-offs between control and performance linkages. A strong debate ensued in the UK to determine the competency or otherwise of any agency to undertaken specific services. Common to both countries was that the consumer should be sovereign in an ideal situation. Other new democratising countries have also valued the importance of devolution and decentralisation as the means of empowerment and training the nation. What is clear, is that for any reform to take place and
gain support, it must be well-received and supported at grass roots level of society to be a bottom-up approach (Day and Klein, 1987:32, 76-83, 106-113; Kay, Mayer and Thompson; 1989:38-76; Kramer, 1979:99-143; Ott and Ott, 1974:74, 95, 97).

The fact is that what is applicable elsewhere, is the mindset change about financial management and a budgeting system to support an environmental change. Whereas Singapore had no choice but to have a global and a competitive mindset change, the same, for example, should be true about developing countries in Africa, and South Africa in particular. The world has become more interdependent than ever before with new technologies, new economic realities and borderless economies. As problems of new democratic co-horts are changing in tandem, governments and bureaucrats alike have to re-invent themselves to be relevant (Maphai, 1998:13-21). The UK and New Zealand at least have introduced some formal and written arrangements with the ministerial/permanent secretary relationship to provide some structure to the relationship on a performance-based orientation. This allows problems to surface and provides a measure of protection for both parties.

A credible system of accountability and transparency allows for more developed decision-making and managerial direction. Transparency reassures that information on performance must be freely available. A number of countries have found that strong incentives for good performance can flow from making the performance information available to society. Unless information requires minimum criteria for protection of national security, or privacy of individuals, the public is entitled to it even on how resources have been used. Optimum use of the Office of an Ombudsman must be made to investigate public complaints in the event of public servants withholding valuable information. Citizen charters are also used to focus more attention on the needs of the customer which will make the public servants more conscious of the quality of public service to citizens. Most commonwealth countries apply accountability and transparency within the ambit of their respective legislation.
Some countries have also moved to a “mixed economy” in the field of training and development in which both the public service and other service providers are used, such as the United Kingdom, Canada and Australia. Malaysia puts heavy emphasis on government-owned training and development for strong and unified public service reasons. New Zealand withdrew from direct involvement in training. South Africa’s policy in this respect is one of a “mixed economy” as adopted by Australia and other countries.

Similarly New Zealand, like Malaysia’s “vision 2020” has produced a document called “Towards 2010”, describing the broad terms of the government’s medium-term aspiration for the New Zealand society. Once the vision has been determined, it is translated into a number of medium-term objectives (called strategic result areas) for the public service as a whole and the nation within budgetary limits.

In Singapore the civil service launched the “Public Service for the 21st Century Programme”. This was mooted in 1994 when the civil service was concerned about how well it was positioned to tackle the most important department: a more sophisticated and demanding public which will expect higher standards of service. Japan and China have some visions of their own too. In fact, all or most of the transforming countries have developed their own visions for strategic plans. The Presidential Review Commission’s report does give some more impetus to this vision building and development (Maphai, 1998:75-81).

Prior to December 1970, Singapore banking and semi-banking institutions were under the control and supervision of various departments of the Ministry of Finance. Since the formation of the Statutory Body, the Monetary Authority of Singapore (MAS), specifically performed functions of the Central Bank with one major exception: the note issuing authority which continues to be the responsibility of the Board of Commissioners of Currency in Singapore. The Chairman is the Minister of Finance, his deputy is the chief executive and members come from the business community (Thorn, 1974:92). South Africa needs to consult even more with the business community to tap optimum creativity to strengthen its budgetary system reform, economy and financial management.
Table 4.1: Summary of principles of good governance and reform and the extent of application to studied countries

<table>
<thead>
<tr>
<th>Principles and Issues: Criteria</th>
<th>United Kingdom</th>
<th>Australia</th>
<th>New Zealand</th>
<th>Canada</th>
<th>China</th>
<th>Malaysia</th>
<th>Taiwan</th>
<th>Japan</th>
<th>United States of America</th>
<th>Singapore</th>
<th>Korea</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Popular Sovereignty</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>M</td>
<td>H</td>
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<tr>
<td>2. Separation of Powers of Government</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
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<td>H</td>
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<td>3. Rule of Law</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>M</td>
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<td>4. Economic Growth and Stability. Democracy and Prosperity</td>
<td>H</td>
<td>H</td>
<td>H</td>
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<td>5. Proper Fair Representation</td>
<td>H</td>
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<td>6. Decentralisation: Local Autonomy</td>
<td>M</td>
<td>H</td>
<td>H</td>
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<td>7. Accountability</td>
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<td>8. Foreign Investment and Trade</td>
<td>M</td>
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<td>H</td>
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<tr>
<td>9. Development of Banking Law</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>M</td>
<td>H</td>
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<td>10. Pluralistic Decision Making Pattern</td>
<td>L</td>
<td>H</td>
<td>H</td>
<td>L</td>
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<td>M</td>
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<td>L</td>
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<td>11. Scarce Management Develop. Talent</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
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<td>L</td>
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<td>12. Pattern of Service Delivery</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
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<td>M</td>
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<td>M</td>
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<tr>
<td>13. Strategic Plans and Develop.</td>
<td>H</td>
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<td>H</td>
<td>H</td>
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<td>H</td>
<td>H</td>
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<tr>
<td>14. Privatisation and Corporation</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>H</td>
<td>M</td>
<td>H</td>
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</tbody>
</table>

Key: H = Highly Positive, M = Medium, L = Low to below positive
Table 4.1 provides a summary of countries concerning the application of the principles a good government and reform. The rating of Highly Positive (H) of a particular principle means that such a country is applying the principle to make a positive difference in development. If it is rated Medium (M), it means that there is an average application of the principles or issues under consideration. If rated Low (L), it means that the country has a low or negative application esteem of a particular principle in question.

The democracies have been rated High in popular sovereignty and Rule of Law, separation of power has been rated High for all countries, and a good lesson for South Africa for the transforming society is to have the Rule of Law in place. This will encourage foreign investment. Developing strategic plans is popular for all the countries studied, as this determines the way forward for economic development and transformation. Development of scarce management talent is an on-going process that cannot be stopped or completed. Countries eager to develop like South Africa will have to learn more about these principles and issues summarised from other countries as well.

It is possible to find correlation between “successful” countries and countries with good financial management and budgetary systems. Such countries are usually rated high on principles and issues raised in the summary of good governance and reform. The United States of America, New Zealand, Australia, Malaysia, Canada, the United Kingdom and Singapore have developed good financial management and budgetary systems and are referred to as “successful” countries. Their rating on principles and issues discussed above, range from H number 1-14. It shows none of these countries lower than medium. Japan is no exception with its strong pattern of high service delivery resulting from a highly determined work ethic culture which correlates well with the existing need for an appropriate financial management and budgetary system to support a transforming community in South Africa.
Empirical studies have also shown that countries which do not apply these principles and issues summarised above, cannot be characterised as “successful” in the long run. In war-torn dictatorial parts of Africa, emerging New Europe and South America, where appropriate financial policies and financial management and budgetary systems have collapsed, countries can well be referred to as “unsuccessful” countries. Wherever in the world stability is threatened, the necessary financial management and budgetary system to support everything else for good governance, is the first target, and a showdown for that particular country’s success ensues.

Therefore, countries with reasonable application of these principles and issues, are more likely to have invariably good financial management and budgetary systems which lead to “success” than countries which do not apply them. In the long run countries which do not apply the principles, and which are normally rated as “unsuccessful” will collapse. Those that apply these guidelines, will have sustained economic growth and prosperity and reaffirm the label “successful countries”.

4.4 SUMMARY AND CONCLUSION

The challenges facing countries in transformation, transition and nation building, is a mammoth task indeed. It obliges any country or nation serious about its development to look closely at the experiences of other countries, in terms of this thesis regarding how a financial management and budgeting system should be changed to support transformation.

Some valuable lessons are indispensable. With the shrinking supply of financial resources, human skills and other natural resources, it is important to apply optimally appropriate budgetary systems and public financial management systems to achieve both long- and short-term objectives. It is now appropriate to review the summary of the principles that have been applied by other countries for successful transformation and reform.
The discussion of the Principles of Public financial Management and Budgetary reforms has shown the basis of their application in other countries. Public financial management and budgetary systems cannot be applied in a vacuum. A political structure is firstly necessary, followed by the application of finance as a factor in the machinery of government. It became clear that public financial management and budgetary systems are more effective over the long term in more established democracies. In short, a democratic government which applies an appropriate budgetary system can positively achieve more of its objectives and economic growth than an undemocratic government.

The Far East, as recent history shows, has had an economic miracle over the last decades to assume the name “Asian tigers”, acknowledging their economic success, as indicated earlier in this study. The economic crisis of the late 90's in those areas does not take away all that much from the miracle. Whether South Africa can learn from the experience of the Far East and revive the African Renaissance, is still a big question. However, South Africa is on the road to reform and transformation, which is why an investigation of the financing structures in other countries is necessary to afford an opportunity to determine an appropriate financial management and budgetary system for a changing South Africa.

From a sample of countries studied, South Africa can, in fact, learn more and apply some of the experiences to transform itself into a powerful economy. Such information, which has been applied in a nutshell, shows the extent of a country’s responsibilities and obligations, but it is by no means exhaustive. It is only a sample of each country’s activities. On issues of accountability, performance orientation and privatisation, South Africa has a wide choice for itself and bigger challenges into the 21st century. The budgetary system (MTEF) and the financial management guidelines which are being implemented, will have to be made more flexible and adjusted to circumstances and time. A vision for South Africa must be developed and promoted to the public for its support, as other countries’ long-term visions
have proved. Accurate business plans in South Africa will have to be prepared accordingly to develop quality creditable information for decision-making.
CHAPTER 5
THE RELEVANCE OF THE STUDY FOR A CHANGING
SOUTH AFRICA

5.1 INTRODUCTION

Chapter 2 reviewed the environment and the guidelines of Public Financial Management and Budgetary Reform. Chapter 3 explored various budgetary systems and the origin and role of Financial and Fiscal Commission. Chapter 4 contained the case study of countries that are undergoing or have undergone change and transformation. The objective of this chapter is to determine what lessons and experience can South Africa gain from the countries discussed in Chapter 4. The central objective of this study is to determine an appropriate financial management and budgetary system for a changing South Africa.

5.2 WHY IS THE STUDY OF BUDGETARY SYSTEMS IMPORTANT FOR SOUTH AFRICA?

Understanding the evolution of financial management and budgetary systems, as discussed in Chapter 3, has become important for a changing South Africa. These are almost essential pointers in a sequence of reforming, formulating and developing a budgetary system appropriate to South Africa, its budgetary process and the public financial management system.

The deficiencies in past public financial management and budgetary systems included failing to meet the requirements of new legislation as well as of improved implementation capacity and the changing dimension of accountability in South Africa. Since 2 February 1990 South Africa embarked on a new footing for change. Such change gained momentum with the passing of the Constitution Act 108 of 1996 virtually assuming the centre stage of the Transitional Constitution which was just repealed. Both these acts
presented South Africa with unrivalled challenges that required clear understanding of the country's diversity. An appropriate public financial management and budgetary system occupies a pivotal point in supporting the challenge of transition.

In order for strategic policy planning to be linked to spending agencies, it is necessary to relate transformation of the total public sector to the financial management and budgetary system. There is a need to reform fragmentation in the national planning and decision-making process to ensure that money spent means value for services. Money as a resource is scarce. Improvement on the expenditure of this scarce commodity is compulsory and calls for more efficient and effective use. Understanding of the environment, of available resources to achieve the objectives and the quality and competitive base from other countries are necessary in order to do this. It is only through original creativity, innovation and inventiveness that strategic planning for a transforming South Africa can be an invaluable benefit for all its peoples (Linde, 1996: Non continuous paging; Du Preez, 1996: Non continuous paging).

The Financial and Fiscal Commission is a major factor in South African public financial management and budgetary systems, because of its vertical and horizontal role in intergovernmental fiscal relations and application of a specific formula for that purpose. Without the desire to understand more about the financial management and budgetary system in South Africa, the functions of the Financial and Fiscal Commission, the evolution of the budget both locally and abroad, as well as the functions of the budget and the aspiration for equitable distribution of resources will all be irrelevant.

South Africa is said to be a country of many extremes and diversity. During the period of transition and transformation it is appropriate to determine financial management and budgetary system processes. Such budgetary systems should nevertheless forcefully advance the programmes and public policies that transform the country away from the status quo, to a free, harmonious, equal and participative society. A system that perpetuates the
present disparities and inequalities will not be supported indefinitely in South Africa. Regardless of the country, any budgetary system reform must be in harmony with the political environment and the political process. Budget traditions, however, have a life of their own and are often sustained just as much by internal organisational dynamics as by exogenous political influences (Ncholo, 1996: Non continuous paging; Schick, 1971:194).

5.3 UTILISING THE INFORMATION GENERATED IN THE PREVIOUS CHAPTERS

The relevance of budgetary systems as they evolved over time, with one system giving way to the other, as dictated to by the changing environment, has proved invaluable lessons for South Africa's transforming environment.

The analysis of budgetary functions and the evaluation of budgetary systems broadened the base from a limited line-item regulatory control to a more effective performance management and, finally, to a broader planning and decision-making orientation. It is from these that South Africa can build a more appropriate financial management and budgetary system.

In the previous chapter it became evident that a financial management and budgetary system is often a product of history and transformation, and of advancement in economic development. Therefore transformation in a country causes the redevelopment of budgetary systems. Transformation is the independent variable, while budgeting systems development is the dependent variable. It is attempted in this thesis to learn from other countries and other examples to propose a financial management and budgetary system that will support transformation, rather than follow on transformation. Such a system – in order to succeed in its purpose – must contain the required diversity to safeguard the integrity of appropriations and to be a management tool.

Traditionally budget design is largely the product of a historical response to the need to safeguard the integrity of appropriations against careless,
negligent, ill-informed or mal-efficient administrators in the executive departments. It was, however, never designed for planning, analysis and decision-making. It was a conventional comptroller's budget and not a manager's budget. It never clearly identified its objectives and actually allocated resources to preferred ends. It did not concern itself with future projections beyond the base year for the following year. Responsible officials always lacked information to choose any alternative goals, measure total immediate cost of activities designed to achieve a goal and also lacked identification with implicitly future costs of present programmes and charts (Gouillart and Kelly, 1995:5-23).

Thus, budget reform in the past, was more a product of bureaucratic than political influence. As an example, line-item budgeting is a common mode in most governments, regardless of their political forms. Whether developed or developing, presidential or parliamentary, democratic or authoritarian, local or national, governments generally adhere to the itemisation of supplies and purchases. They all use the budget process to control spending by departments and agencies. Rarely do governments use their budget machinery directly for planning and policy purposes (Bates, 1993:198-210; Henry, 1980:207-208).

With such an approach the bureaucratic machinery is used for resource allocation. The lack of market tests, the striving for organisational growth and status and the scarcity of public resources have started inducing all governments of divergent shades and political colours to use the budget power to control their agencies (Schick, 1971:195; Wildavsky, 1964:129).

Most countries in the world today are finding centrally regulated personnel and financial policies too blunt an instrument under the modern globally competitive conditions for effective delivery of public service. Continued application of this approach is found by many countries to produce public service which becomes an extravagant, bloated, corrupt and wasteful user of scarce resources without being responsive to the nation's needs. Such a problem cannot be cured by more of the same. Countries have to face up to
the realities of their circumstances and environment and must live up to the priorities of the nation that are set. Resources, whether human or financial or otherwise, never increase at the same pace as demands for them. Unfortunately this is a contrasting reality. Countries that continue to engage in conflicts, civil wars, mal-administration, go-slows and under-production, coupled with demands for higher pay, negligence and pilferage of public equipment, time and other property, directly impoverish those nations with gaping wounds that will never be cured (Marais, 1998:226).

Such developments also effect staffing of operating agencies, particularly the divisions responsible for internal budgeting and management. The responsibility of fiscal officers is to equate the role of an accounting officer with broad training and experience in management. He/she must have an ability to understand programme content and purpose. Though not a programme administrator he/she must be so familiar with what is being done that he/she is able to aid the line administrator, interpret information and to suggest possible management improvements as the budgetary system reform move from a simple line-item budgetary system on a continuum to the more complex with multiple objectives and multi-year budgeting with strong elements of planning and analysis. Firstly, changes must therefore occur in the concept of the budget process; secondly, they must occur in the roles of the participants in budgeting and financial management processes, and thirdly, they must occur among the types of staff performing the budgetary functions.

5.4 THE BUDGET AND ECONOMIC DEVELOPMENT

An understanding of economic conditions is necessary for sound fiscal and budget policy formulation, revenue estimation and specific expenditure decisions for effectively transforming South Africa. A broadened budgetary system of the national government, embracing all the implications of the budgetary elements of control, planning, management, analysis and decision-making for policy formulation has become indispensable. Any country neglecting the economic implications does so at its own peril.
Akpan (1982:20-21) observed that wars have always altered things, opened new horizons and introduced new experiences. The very nature of war requires efficient decisions, and quick performances usually expose deficiencies, weaknesses and inefficiencies of the public services of countries affected by them. They always pool heavily the national manpower resources from the public service business and industry, the universities and other areas of public life. The interaction after the war of diverse groups for common purpose has always led to dynamic changes. South Africa is no different from this. After the unbanning of political parties and general elections, diverse groupings came together and the country found itself on the road to transformation. To activate the economy, some intervention strategies by government are normally guaranteed during this period.

South Africa, too, needs to adopt an adjustable system relative to its own environment, while the government remains accountable for controlling the government purse. If financial management and budgetary systems development from a line-item format, through performance, and PPB, MBB and ZBB formats are considered, each contains elements to be utilised by managers. The MTEF, as it was implemented in South Africa since 1996, is but a framework. It still requires the generation and application of management information at operational level in order to compile a meaningful budget. One should nevertheless actually strive towards a system of crosswalk budgeting. This is where elements of the discussed budgetary systems are applied as technique of management accounting. By integrating financial with strategic information, it will become possible to support transformation (Maphai, 1998:non-continuous paging).

Basically, still moving on the budget continuum, budgeting is becoming more of a management, planning and analytical tool than one of control. The proper and legal expenditure of monies is still the concern of the budget office; such responsibility is subordinated to management, because of its adequately developed accounting and auditing procedures. The budgeting process is becoming more balanced, in that aspects of budgeting are commanding
greater attention than ever before. Economic rescue is being undertaken, both to provide information basic to programme and fiscal policy decision-making and to realistically perform the revenue estimate function. The budget process is becoming more decentralised to aid agencies in using the budget as a management tool for accomplishing organisational goals. It is through developments like these that the budget is viewed as continuous rather than as an annual accounting exercise. Finally, the budget analyst is being selected with the broadened responsibility of budgeting (Davis (ed), 1969:198).

While struggling with an appropriate financial management and budgetary system and economic intervention, worth noting is the story of John Maynard Keynes who was educated at Cambridge as an economist and whose thoughts were influenced by World War I and World War II. The two periods he served in the public service were the war periods and he experienced their immediate aftermath. He saw Russia emerging as a Marxist economy, with the philosophy of state control of the means of production, distribution and exchange: the abandonment of any form of private enterprise. All these events radically influenced Keynes’ thinking, leading to challenging and in many respects destroying Adam Smith’s classical precepts. Advancing Keynes’ philosophy is because he advocated “a temporary enormous spending by government to get the national economy growing again”, which helped to save the world economy from total collapse following the Great Depression in 1929. To emphasise Keynes’ philosophy of government to help industries when need arose, President Hubert Clark Hoover lost his election for a second time in the 1932 Presidential election, because he refused to accept or support that policy. Franklin Roosevelt, with his “New Deal” was elected President (Akpan, 1982:21).

The Malaysian government also intervened to alleviate poverty and to create employment opportunities in a sustained rapid growing economy. During periods of depression of the economy, government intervention is necessary to revive the economy of the country. Countries that have developed or have advanced economically, had their government intervening in the economy
during recession in order to restructure their economies. Privatisation and corporatisation have been the pillars of transformation, applying the principles of public financial management and budgetary reform. The South African government is justified to intervene in the economy, but not as far as doing everything for the individual. The governments of Canada and the United Kingdom provide lessons for South Africa as far as government intervention in the economy is concerned.

Governments in Africa have equity and redistribution of resources as one of their priorities. In the First World it is normally economic growth. These goals are not necessarily in contrast, but they should complement each other. Africa, generally, lacks the necessary structures to support a transforming society. It is then imperative that the government intervenes to build the necessary infrastructure for a developing and changing society to alleviate problems of inequity, illiteracy and poverty. The government must intervene to support the economy to take off. During the First and Second World Wars governments in Europe also took over industries to support their communities.

The significance of this philosophy is reflected in the general policy of governments to see that the national economy is kept going through budgetary processes and systems. An appropriate financial management and budgetary system for South Africa will be one that is able to intervene positively in the economy with consideration of the Reconstruction and Development Programme (RDP), using the strategy of GEAR (the Growth, Employment and Redistribution Programme) as one of the principal instruments for the realisation of policy objectives of RDP. The demands increased for financial management and budgetary systems to focus on the external impact of government activities rather than on internal control only. It makes efforts to answer questions like “Will spending proposals and the programmes they represent, achieve the goals set by society?” (Manuel, 1997(iii); Bernstein and O’Hara. 1979:289-300; Shick, 1971:196; Wildavsky, 1964:145).
The budgets of the 1990s were characterised by over-spending priorities and subsequent cut-backs in popular programmes. The budget process reform reinforces parliaments to demonstrate that they have the leadership and political will necessary to budget responsibly and intelligently for the benefit of their various constituencies and the country as a whole. Such reform and financial management and budgetary systems cannot make up for the lack of political will, lack of leadership and lack of interest among voters to make hard budget decisions and hard choices (Gruenebaun, 1996:5).

Wildavsky (1974:v, 126) noted with a forceful insight that human nature is never more evident than when men are struggling to gain a larger share of funds. Budgeting deals with purposes of men. How can they be moved to co-operate? How can their conflict be resolved? How can they find ways of dealing effectively with recalcitrant problems? Serving diverse purposes, a budget can be many things: a political act, a plan of work, a prediction, a source of enlightenment, a mechanism of control, an escape from restrictions, a means to action, a brake on progress, even a prayer that the powers that be will deal gently with the aspirations of feeble men.

The budget is the lifeblood of government, the financial reflection of what the government does or intends doing. A theory like the normative theory that contains the criteria for determining what ought to be in the budget, is nothing short of a theory stating what the government ought to do. The normative theory of budgeting, therefore, is utopian in the fullest sense of the word: its accomplishment and acceptance would mean the end of conflict over the role of government in society (Kramer, 1979:45-63; Wildavsky, 1964:12).

The budget and economic development harmonisation in developing and transforming countries will be incomplete without the necessary accountability, transparency and openness in budgetary determination as discussed below.
5.5 ACCOUNTABILITY, TRANSPARENCY AND OPENNESS IN BUDGETARY DETERMINATION

In terms of its composition, the South African budget was traditionally a document not supporting accountability and transparency. It did not provide adequate information about the objectives and goals of the government.

The financial management and budgetary system must be a better developed decision-making aid for managerial discretion with all actions conforming to public policy and all public servants accountable for all their activities after they have acted. A well-orientated performance system should engender a sense of aligning values of trust building and culture with the broader community in question. It requires focused and creditable processes of accountability which can further be re-enforced by making the accounts transparent to parties outside the hierarchy.

The information on expenditure represents the accountability of ministers to parliament. These become important documents during examinations and debates of appropriation. Ideally, each budget document must contain a statement of the financial position, a cash flow statement and the main performance indicators for each department. Such accountability ensures that public services have in fact been delivered as intended through the following process (Turner (ed), 1998:1410-1423).

- management specifies particular services and reports their delivery to meet certain predetermined standards;
- external auditing reports to pre-specified standards of key performance information to the central agency and this includes evaluation of performance measurement;
- statutory monitors must exist and must refer to the involvement of the independent opinion of a body external to the agency (Turner (ed), 1998:1410-1423).
As in New Zealand, accountability aspects must be focused at contracting with chief executives, usually for a maximum period of five years, and this is a political appointment with a performance-related contract accountable to the minister. This is distinct to a management dimension of accountability to the minister as to the dimension of political accountability of the minister to parliament which has in turn, parliamentary accountability to citizens. Management accountability is seen as the key relationship within the system (Holmes, 1996: Non-continuous paging).

An accountability framework will have a two-way flow of information and, hence, of responsibility. Firstly, budget documentation and agency corporate plans are expected to be consistent with pre-arranged performance agreements. Secondly, in return for the degree of freedom to make production decisions, the chief executives of departments are expected to report progress on performance expectations both during and at the end of the contracting period, subject to any prescribed variations of contracts in between (Holmes, 1996: Non-continuous page; Gouillart and Kelly, 1995:25-64).

While it is fundamental that a civil servant is ultimately answerable to the minister as the elected representative of the people, it has in many areas proved an excellent discipline for public service departments to be obliged to publicly articulate the quality of the service that the specific section of the public they serve can expect from them. The process has been further elaborated by consulting the public on what delivery standards (as in the United Kingdom) should be and whether they have been met and, in some cases, by promising compensation in some form to citizens, who it can be shown had failed to receive the promised service. While such a system should not be allowed to distort the rights of the government to make prime decisions on the allocation of scarce resources for public services within the reasonable constraints, posted delivery standards can act as strong incentives for good performance. Transparency of the process which limits the opportunity for civil servants to act unfairly or arbitrarily or which shows when they function well, should undoubtedly increase the confidence of the general public in service delivery. This is as much about political accountability as it is about financial

For political reasons governments of the world (including South Africa) find it necessary to delegate their responsibility for delivery of public service to a professional administrative class. Public service managers, through lines of hierarchical responsibility, are accountable to the government, through government to parliament and through parliament to the public. Executive government is accountable for broad policy and strategic direction. Ministers, through the institution of Cabinet, are collectively responsible for that policy, and individually accountable for policy of their own departments. Public servants – traditionally secretaries and more recently through chief executive officers – are accountable for implementation of that policy. It is for them to decide how best to administer their resources and manage their staff (Shergold, 1997:294; Barnes, 1997:26-32).

The key to the transformation is to reduce the role of the State; that is to scale down both the public sector and public expenditure relative to the private sector and application of market principles of efficiency and economy. In South Africa micro- and macro-economic ambitions have to be redefined in terms of the Reconstruction and Development Programme (RDP), using the strategy of Growth Employment and Redistribution (GEAR) as instrument for empowerment mainly through competition. It is, however, politically dangerous to the parliamentary democracy to compromise the government’s right to govern, and economically debilitating to strengthen the vested interest power against enterprises and market forces. The onus is on the public service to prove that they can give the right quality at the right cost. The common theme therefore is a clear call for improved performance through competition and accountability by setting standards and monitoring performance (Wilson, 1992:3-6). From the perspective of accountability this convention of individual ministerial responsibility acts to the advantage of both ministers and parliament, and allows for democratic control of public officials over the activities of government. Any financial management and budgetary system in any form of government that does not provide for clear lines of responsibility
and accountability is not worth mentioning, because it is guaranteed never to deliver. It is necessary for the government to be accountable in order to assume its full responsibility and to be able to deliver on the objectives it set for itself. The size of public administration will continue to diminish during transformation and long thereafter in order to create an affordable, lean public sector. The performance of the public sector is, therefore, expected to apply the same managerial disciplines as the private sector. The public sector is expected to speak the same language of continuous improvement and service quality and to test the performance in the market. Most of the functions of the public sector are now contestable; many are competitive and an increasing number are currently being transferred to the private or voluntary sector.

Better information on decision-making certainly also contributes to improved accountability. Corporate planning, programme management and budget performance monitoring and reporting of results and outcomes have enhanced the scrutiny of public administration. Such initiative has been a necessary concomitant to the devolution of authority. The provision of more better quality information to parliament and the public is an important counterbalance to managerial freedom. Both the parliament and the media must indeed move away from perceiving accountability in terms of compliance, towards terms of achievement of outcomes. Indeed the public servant of the late 1990s and early in the millennium will be accountable in terms of how systematically risks have been assessed, reviewed and monitored in trying to make the best of tax-payers’ money. The reality is that, in spite of assurances from a growing institution of the Auditor-General, parliamentarians remain glued to the risk strategy, which, however disciplined, is prudent and explicit, and inappropriate to the management of public funds (Barr, et al, 1994:129-133; Lessem, 1990:172-190; Tichy, 1983:74,118,124, 147).

The principles of accountability, transparency and openness are valuable during transformation and change in South Africa, because a different system of domination should be rejected. This culture must be nurtured to allow for a growing democracy without compromising accountability. This includes
developing managerial knowledge and understanding of areas of discretion and responsibility in order to be held accountable.

For change to be successful and accountability to be understood, especially in a non-profit organisation (like public service or NGO), the chief executive must buy into the intended change. She/he must also own the initiative for change and take the leading role in producing major independent outcomes according to Eadie (1997:115-124), such as

- getting involved in establishing and practising creativity in planned organisational change;
- ensuring professional, well-managed change for continued stability;
- getting involved from the initial allocation and ensuring availability of resources: human, financial and technological;
- understanding human behaviour which facilitates immediate solutions when dealing with human resistance;
- ensuring that the board of directors or trustees or corporate level policymakers (NGO's) are clear about the objectives.

The value of accountability and responsibility in a transforming society has to do with a growing culture of democracy, participation, publicity and openness. This supports the transforming community through freedom of expression, courts and the organisational structures. An appropriate financial management and budgetary system is part of this supporting structure. Accountability is about ensuring that functions have been done properly and in accordance with the fiscal legislative allocations and not otherwise. Without accountability, the ability to hold someone responsible for actions and transparency, and the budgetary control in general would not be possible. Appropriate budgetary control would therefore be out of the question as well.
5.6 THE OBSERVANCE OF FINANCIAL REGULATIONS

In developing countries the role of accounting and its potential for improving the efficiency of management are often underestimated. Accounting requirements, particularly in the public sector, are often seen as routine, legalistic and low status activities associated with observance of established procedure, but not with the need to get things done. Unravelling this situation for an appropriate financial management and budgetary system is a challenge for South Africa. There is a need to adjust the content of ethos of training schemes for accountants to widen their appreciation of other than purely accounting issues, and to help those who dealt with accounting information to understand its importance, its limitations and how it could be used.

It is also necessary to reassert the central role played by accounting in any financial management system. Without good accounting data, such activities as budget formulation, budgetary control, progress monitoring, forecasting financial scenarios and managing and analysing liquidity are at best severely handicapped and at worst impossible. Given evidence of poor government accounting in many developing (and sometimes developed) countries, it appears obvious that managing financial improvement programmes and financial reforms generally must be preceded by a careful diagnosis of the strengths, weaknesses and capacity of government accounting systems. A system found to be weak must receive adequate attention before improvements are made. Thus a reasonably efficient government accounting system is a precondition for good financial management (Maphai, 1998:93-96; United Nations, 1991:8-9).

Whenever financial rules and internal control procedures are not observed, there is an inefficient financial accounting system behind it and, as such, no basis exists for financial management. There is a need for wide dissemination and attention to financial rules covering all aspects of Government to be recognised by participants in administration and internal control. Financial rules must be brought together in one comprehensive document and rules must be reviewed from time to time. They must derive their authority from
existing legislation so as to become equally binding upon all operators. The Departments of Finance and State Expenditure is to be continuously charged with implementing the provisions, and monitoring their observance. There must be open disciplinary action and sanctions for breach to be meted out swiftly and timeously to defaulters indiscriminately. Responsibility and accountability should not be an illusion, but must be fixed and not providing room for doubt. High officials should not be exonerated from observance of rules, but must lead by example. Appropriate internal control and accounting systems are significant for the observance of financial regulations.

5.6.1 Internal Control

The rational distribution of staff and duties lead to a solid structure for internal control. Final responsibility and accountability must continue to rest with the person at the top and not the one to whom authority was delegated. Coordination must be encouraged among officers, collusion discouraged through rotation and transfers at reasonable intervals, and officers should be encouraged to take annual leave whenever it becomes due. The Constitution should not be allowed to be used as a scapegoat by people who flagrantly disobey the rules and must be firm, giving confidence to those who apply discipline, as the public interest is at stake. A reasonably efficient internal audit system in ministries requiring them must be installed immediately, although it cannot be a substitute for the national Auditor-General's Office (Maphai, 1998; Berkley, 1984:256-257).

Thus, since financial management and budgetary systems filter all areas of government activities through national distribution of staff to perform the activities, sound accounting systems and financial management resulting from a well focused budgetary system reaffirm the co-ordination, control and planning as instruments of the budget.

While the participants in budget reforms and rules to be observed have been discussed briefly, accounting systems, in particular, have only been
mentioned in passing. An appropriate financial management and budgetary system obliges South Africa to decide which of the two systems of accounting to adopt: cash versus accrual.

5.6.2 Cash versus Accruals Accounting

In the approach to develop a management-orientated financial management and budgetary system the experience of the private sector should be taken into consideration. They have formulated what is known as Generally Accepted Accounting Practic (GAAP) (Vorster et al, 1998:4-7; Dudley, 1996: Non continuous paging).

Sadly, capacity constraints, as indicated earlier, threaten to make change and transformation long and difficult. The financial management and budgetary system has to be supplemented with appropriate accounting systems. It must be decided whether public accounts should be based on cash flow as preferred by the International Monetary Fund, or on accruals, which is favoured by the United Nations. Most countries have a hybrid system with the only exception being New Zealand which has switched to full accruals (Stern and Chew, 1998:32-39; McGrath, 1997:49-52).

5.6.2.1 Cash Accounting System

Cash accounting system shows cash actually paid or received in a year measuring the flow of cash resources. Information can be gleaned through this about the allocation and uses of cash resources as well as how the government financed each item. This system can be an effective basis for democratising compliance with spending limits and other legal and contractual needs. Unfortunately such a system can make government accountable for amounts it spends only, and can give no account of the efficiency or inefficiency of the government. The cash accounts are incompatible as they do not show the value of the non-cash assets, liability or the cost of providing the service or product and no performance measurement basis. It can easily
be manipulated by varying time of receipts and payment transactions and events. It is inconsistent and not sufficient for well informed management decisions (Bruce, 1998:27-30; Archibald, 1994:18).

5.6.2.2 Accrual System

An accrual system, on the other hand, reflects the financial effects of transaction and events in the period they occur, irrespective of whether cash is paid or received. For example, buying on credit, creates a claim against the state resources, but no actual cash changes hands. Accounts of the past and cost of assets are recognised in the period in which the assets are used, thus tracking liability and assets. The government is operating economically and efficiently. Once fully implemented, the accrual system does not have many limitations apart from an increasing reliance on estimates and judgement. There is delay in implementing this system in South Africa, but it is, ideally, an appropriate financial management and budgetary system to opt for (Bruce, 1998:26; Peters, 1998:381-386; Vorster, et al, 1998:4-11; Archibald, 1994:18).

Budgetary reform, together with improvement in financial management, is not a smooth sail. There are upheavals and strong psychological resistance which is capable of tenaciously clinging to the traditional budget system, which is more familiar and reliable to the participants. Undoubtedly these changes will have a profound effect on the dynamics of budgetary reform and the quality of information available to public service managers and those busy with monitoring activities. They provide a set of tools for priority setting and reduce the need for arbitrary expenditure cuts (Marais, 1998:226-241; Beer, et al, 1990:158-166).

Reform in New Zealand was eased since the 1980s when the country adopted the private sector methods of accounting: accrual accounting experience and talent from the private sector can then be used. On full accrual, departments must publish monthly reports on efficiency and effectiveness of their operations. Implementation depends on determination and co-operation
among various departments. During transformation and reform in New Zealand (as it also happened in South Africa in the 1990s) transparency and efficiency in government are commendable, but one must also note the negative impact of job losses, which some would consider a benefit. Accounting reform is only part of a general budgetary reform to design an appropriate financial management and budgetary system that takes many years to implement in a broader financial management environment. The present is only the sowing of seeds to reap benefits far into the future.

Public accounting is not an end in itself. It can only provide a link between the budget and the financial reports on actual results. The test of wider reform is the degree to which performance in government can be evaluated. If this is not easy or even impossible, the quest for public accountability and transparency continues. The primary measure of performance in business is profit. The government’s performance must be measured differently as they are accountable not to shareholders, but to the public whose money they spend. One can but only echo Robert Saunders’ words: “I notice with concern the tendency to introduce complexity and sophistication in law and accounting ahead of the general capacity to handle these things. We need constant reminders that we are still in a Third World country” (1996:23-26).

5.7 MULTI-YEAR BUDGETS

Are multi-year budgets and rolling year-budgets major factors in the stimulation of economic growth and transformation of countries? Are they the basis for forward planning and decision-making for governments? Are multi-year budgets a reflection of the government’s future commitments and can this be of benefit to an appropriate financial management and budgetary system for South Africa?

There is no common ground or agreement concerning the budgeting period which is customarily a year, but may be two, three or four or any other period. The year is not necessarily a calendar year, because the diversity of practice
may start at any month. Budget innovators do not directly address the issue of how a proposed change might affect political values and interests. Most ideals and inspirations for innovation are grounded on a nationalist conception of efficiency and not on rational politics and values.

The influence of planning is now making its appearance in the budget process. Consequently it is now desirable that all departments project the impact of anticipated developments, programmes, objectives and policies and workload data wherever possible in the form of four-year projections (or a rolling budget of three years in South Africa). These are considered every budget year and adjusted according to new data and policy priorities. Departments are expected to frame their own policy proposals within their multi-year projections. The initial discussion indicated that one of the major elements of the budget is planning. Under a multi-year or a long-term planning budget, it is imperative for South Africa to categorise its own priorities and policies and engage in more vigorous research, consultation and planning in order to achieve the planning objectives.

An appropriate financial management and budgetary system must accommodate the long-term plans of a country, and take into account the evolution or even stagnation of the economy and, therefore, the resources available to the public sector. These categories of the budget must clearly differentiate the immediate policy priorities and objectives from the medium and long term. It is the contention in this thesis that South Africa cannot do everything at once. So its priorities in terms of political and resources available will inevitably be divided according to short-term, medium-term and long-term range.

Multi-year plans are regarded as the core element of the planning process and act as the bridge between long-range plans and biennial budgets. The total planning process is to caution several sections dealing with projections and analysis of factors, moving to concrete multi-year programmes and plans. They conclude with estimates of manpower, facilities and funds required to implement the proposed programmes. Thus there is one section for the
analysis of issues and problems, and another for analysis of alternative policy directions. Moreover, the pivotal multi-year budget programmes and plans are to identify both programme priority and alternative programmes and strategies (Buehler, 1940:239-240; Manuel, 1997; Schick, 1971:135-136).

The South African budget, within an appropriate financial management and budgetary system for its transformation and change, must reflect the government’s socio-economic priorities and its expenditure plans within the definition of the nature and scale of its ambitions for the nation. A trade off analysis and choices that confront the nation in addressing reconstruction and development priorities should clearly indicate that there are priorities and objectives which the government is capable of achieving immediately, and then there are those which can only be achieved over time. This must be clearly communicated to the recipients of services through the usually accepted policy of openness, transparency and the participative, consultative and co-operative policy-making process. Two aspects, namely balanced budgets and an economic structure allowing for greater participation, need to be discussed further.

5.7.1 Balanced Budget and Economic Stimulation

Out of the dream of a balanced budget, contemporary interest in the problems of business cycles and economic insecurity proposals arose that government should seek a way to balance its budgets, not at yearly intervals, but over periods as long as the business cycle of several years. These cycles would normally run through phases of prosperity, crises, depression and recovery. Taxes would be advanced and public debt redeemed during prosperity to place the brakes on dangerously rapid upward surges in business activity. During depression, taxes would be lowered and debt would be increased to stimulate recovery. Modulation in taxation and borrowing throughout the business cycle would, if properly controlled, exert a stabilising influence on general economic conditions in combination with government efforts.
Ideally, countries should strive to maintain a balanced budget on a long-term multi-year budget plan. Business cycles are normally longer than the normal multi-year budgets. It is advisable that capital expenditure should be included into the multi-year budgets with the benefits distributed throughout the benefiting generations. This will release more funds from the government to stimulate the economy in other priorities. The government will also be able to increase taxation during prosperity and borrow during recession. This is not a smooth sail. The government will have to command high morals and integrity to control such modulations.

Buehler (1940:241) viewed the case of budgetary cycles as resting on the assumption that governments may be trusted to pay off during prosperity debts they contracted during depression. They can now learn when to modify taxation and borrowing to combat instability and also that they could exercise their power to decrease rather than increase cyclical fluctuation. It is contended that governments can better control their expenditure in the interest of economy and stability if their spending, borrowing and taxing are planned over periods of years as well as annually.

There are clear weaknesses of cyclical budgets. Legislatures and administrative officials who will cease borrowing when safety limits have been reached and also those who will raise taxes once business recovery is well under way and repay the debt incurred during depression are scarce. Deflation must follow inflation if the cyclical theory is to be carried out through the business cycle: the longer the budget remains unbalanced and the larger the debt and deficits that accumulate, the less it is likely that the government that has become entangled in the intricacies and pleasantries of deficit financing, will right-about-face and proceed to raise taxes and pay off the debt so that the budget may be brought back to balance. There is a continuous uncertainty about the duration and intensity of the phases of a business cycle. For example, if a prolonged depression is entered during a period longer than the cycle, new complications arise and continued deficit financing becomes even more dangerous (Musgrave and Musgrave, 1989:7-14, 41-60; 219-128; Dalton, 1952:7-11, 130-141).
Though not insuperable, such problems cannot be disposed of lightly. Nations cannot borrow themselves into permanent prosperity. Controlled borrowing and consumptive activity has long been accepted as justified, yet it is not a substitute for production. The dream of the balanced budget over the course of the cycle remains unattainable as long as governments lack the bold courage and the intelligence to tax heavily enough during prosperity to cancel the debts they created during depression before they soared to great heights. Until governments learn how to control their debts, they can hardly be expected to follow the principle of cyclical budget. Modern history is illuminating on the difficulties of paying off debts. It reveals that they tend to be perpetuated or are repudiated or wiped out by inflation (Bernstein and O'Hara, 1979:321-325; Schick, 1971:196-198; Beuhler, 1940:240-241).

The business cycles in the world are a reality. A financial management and budgetary system which is sufficiently capacitated and empowered by a competent legislative process should welcome the multi-year budgets as given. It affords them an enormous opportunity to analyse the present programmes and to evaluate them for future projections and policies. Once again this hinges back on the capacity of our human resource potential for successful transformation. Multi-year or long-term budgets mean there are continuous planning, analysis, research and budgeting throughout the process of government. It may not be easy to obtain and maintain a balanced budget, but it is possible to obtain more clarity about what works and what does not. One can, with confidence, make projections far into the future with programmes like education, gender equality, affirmative action, housing, transportation and job creation as well as entrepreneurship and other human resource initiatives. The new members of the legislature, not just government ministers (or the Cabinet) should be trained in the unique expenditure budget process and governance generally to maximise their valued contribution to sound governance. The legislature should, of course, be supported to the extent possible by independent advisors and experts. This is macro-economic planning linked to national economic planning supported with information to formulate national economic policy and priority setting.
Shirras (1924:30-31) observed that when the policy of government is not at fault, then the government expenditure is above criticism. Lavish expenditure is frequently the result of carelessness or weakness on the part of policy makers. It should be the aim of an appropriate financial management and budgetary system of a well-organised financial administration to take measures to prevent the injudicious expenditure either by punishment or by exposure of the responsible official(s).

5.7.2 Democratic Economic Structure

The practice of drawing up Five-Year Plans, supplemented by an annual target for the economy, was a protracted process of negotiation in China: the plans both five-yearly and annually are typically the result of a complex process of aggregation involving many participants and culminating in the finalisation of a complex multivariate input-output model for economic sectors. Under the influence of reform, especially after 1980, mandatory planning has increasingly been supplemented by guidance. This means that most targets are negotiated between individual enterprises and the relevant ministry in the capital or local government. The Chinese economic system is decentralised in a multi-layer and multi-region form. Central government ministers control only a small portion of State-owned Enterprises (SOE's) and most are under the control of regional governments. At regional level functions are further divided along geographic and functional lines with provisional governments controlling country governments and provincial SOE’s, and county governments controlling townships governments and county SOE’s. The structure creates great duplication, but ensures a good deal of autonomy from the centre (Clarke and Yuxing, 1998:239-249).

Proposed financial management and budgetary systems should be sufficiently flexible to accommodate all economic structures in a multi-layer economy to
ensure full autonomy and to guarantee stability. Most corporate governance systems in industrial countries throughout the world have moved to multi-year plans of financial management and budgetary systems while they are still in a state of transition as a result of internationalisation of the markets and foreign exchange. The outcome is increased diversity within the overall trend to convergence. There is a renewed emphasis on business integrity and responsibility and a move away from short-terminism. In South Africa long-terminism guarantees long-term policies and strategies that are big priorities.

This brings to an end the discussion on multi-year budgeting. Strategic management and planning, as a mechanism for transformation in South Africa, should also be explored and related to financial management and budgeting systems.

5.8 STRATEGIC MANAGEMENT AND PLANNING

Is there a panacea to solve the problems of transformation, transition and change in applying strategic management and planning to South Africa's challenges? Is strategic management and planning an appropriate solution to the country’s problems in the short, medium and long term? Can strategic management and planning assist the South African government in determining its priorities? Is a changing South Africa ready to apply strategic management and planning to develop its vision and stabilise its economy?
5.8.1 Diagram: Corporate Planning

- **Corporate Planning**
  - **Need determined from top-down**
  - **System of support, including an appropriate financial management and budgeting system**
  - **Strategic Management and Planning**
    - **Long-term Vision**
    - **Objectives determined from the bottom-up**
  - **Programme and Project Management**
    - Execution of activities towards reaching short- and medium-term objectives
    - **Support systems**
The diagram on Strategic Corporate Planning reflect corporate planning as a broad over-arching comprehensive vision encompassing all three circles. These are strategic management and planning, programme and project management, and systems of support including an appropriate financial management and budgeting system. Strategic management and planning is centred around development of long-term vision which is a progeny of corporate planning as reflected by a downward facing arrow. Programme and project management is the wholesale execution of activities towards reaching short- and medium-term objectives. The bottom-up facing arrow embraces determined and identified objectives from other spheres through consultation and participation. The whole process is a synergy to realise the long-term vision as the arrow at the centre reflects.

The systems of support including an appropriate financial management and budgeting system support and balance achievement of the long-term vision and the programme and project management during the execution process as shown by the horizontal arrow from the right to the left centre.

There are no universal solutions to the problems of change and transformation in any one country. Of importance to countries is the ability of strategic management to enable the country to determine its priority and build a vision on its way forward. The truth is that different situations require different solutions and no situation is ever a replica of another and the solution can never be repeated in its entirety. However, there is an ever growing need for a comprehensive guide, such as strategic management and planning, to understand culture, constraints and the inherent complexities facing public managers with the responsibility of achieving new public management for turning ideas into action and benefits (Lessem, 1990:1-19; 173-185; Collis, 1992:4-31).

Strategic management and planning facilitates implementation of change initiatives and therefore of making innovation and creativity work. Strategic management, as an engine of innovation, enables realisation of the potential for planning. It realistically avoids long-term projections of activity into the far,
unknown future and is selective in its focus on particular challenges of change. It is increasingly suited to the unruly, increasingly unpredictable world with proven utility to its innovation process. It usually has a broad strategic planning theme. It is a disciplined effort to produce the fundamental decisions and actions that shape and guide the organisation, the government and the country (Eadie, 1997:125-131).

5.8.2 Strategic Planning: Some Guidelines

According to Smith (1994:2-12) strategic management involves:

• strategic planning, with its key principles of
  ➢ clarity of purpose which is a sense of direction
  ➢ setting common goals and priorities;
• unity of purpose, which relates to participation by all parties concerned and building knowledge of the technical, political, economical and social environment of the business or organisation;
• coherence of the structural elements top-down or bottom-up to ensure clarity and unity of purpose;
• achievement of purpose must relate to involvement of top management through flexibility to analyse carefully the purpose of the organisation and give consideration to resources available, with clarity of responsibilities;
• a framework for day-to-day decisions which involve delegation, monitoring the plan and responding to uncertainty through proper planning;
• a style of management related to bringing together all the above principles and organising them to come up with a specific management style, i.e. through interaction of all elements in the organisation.

It is important that these principles are not only understood, but also applied fully for clarity and unity of purpose. Failure to plan is in fact planning to fail. Hanekom observed that failure to plan is like jumping off the bed at midnight, getting into the car without lights and driving at high speed. Imagine the disaster!(1996:14).
5.8.3 Strategic Management

Strategic management has key features which must be understood before applying it to the issues in this thesis. The first overriding feature is long-term focus which relates to the desired future: determining what needs to be changed to meet the present situation and likely future developments by drawing up a clear picture of what form the plan should take. Formulate a mission statement, a vision statement, a value statement and a strategic statement, all of which have become blurred in distinction from each other (Lovell, 1994:23-24).

Another feature is top management involvement whereby leaders in an organisation must be able to identify with the strategic mission, vision, values and objectives so that they can support it. The feature of shared vision would involve all the people as drivers of change to create another feature, a future creation that should not only be imagined, but should include the involvement of all participants in actual plans and working towards achievement of the objectives which leads to a new future in real terms. Every strategic plan has a monitoring feature to adjust the plan for all variations or deviations from the master plan. Decision-making must be continuous in order to realise the outcome of the public organisation; clear links must come from strategic management, i.e. all role players or participants must link up to the strategy.

Elements within strategic management must not compete against each other to the detriment of achieving the main goals of an organisation, but must collaborate for broader vision and mission realisation. Competition must be creative and contributing to achieving stated goals. Finally, there must be structures and processes that support strategy in the form of organisational structure, functions on finance and human resource with equipment, and data processing for sound decision-making. Time cannot be excluded (Lovell, 1994:20-25; Smith, 1994:16-35).
Project Management

Project management can be considered to be any series of activities and tasks that have specific objectives to be completed within certain specifications, with defined start and end dates, as well as funding limits with relevant resources. It involves planning and project monitoring. Successful project management means to achieve the project objectives within time, within costs at the desired performance/technology level while utilising the assigned limited resources (Kerzner, 1995:2-4).

Experience over the decades indicated that in many developing countries many projects failed due to the lack of project management training. More often the western concepts of projects primarily relate to industrial and infrastructural development which are only partly relevant to the Third World. Texts which are sector specific include a full range of the technical tasks and interpersonal skills which managers require. Project management is an accepted mechanism for the improvement of successful development. Attention is also paid to private sector enterprise to provide the mechanism for development and a growing awareness to enhance efficiency, especially in public sector organisations through processes of institutional development. Accordingly, Cusworthy and Franks (eds.) (1993:1-3) stated that projects and a project approach are instrument of policy. "The need to link appropriate projects is an increasingly important element of the development process. Whatever their shortcomings, projects will remain as an important element for implementing policies:..."

Implementing financial management and budgetary systems reform is a project of transformation on its own in South Africa. However, South Africa needs to take note or reasons why projects fail or succeed. Cusworth and Franks (eds.) (1993:11) identified two levels. Firstly, there is failure to implement the project effectively and timeously in accordance with the master plan. Projects are usually running late and suffer from cost over-runs and inflation. Secondly, there is a problem when implementation has been completed, but with the resulting facilities created failing to meet the intended
objectives. Financial managers will be keen to avoid both types of failure within the diversity of cultural demands in the South African environment. It is necessary when formulating a project that it is adapted to the needs of the local situation and to develop an approach that is in harmony with existing practices (Cusworth and Franks (eds.), 1993:3-4).

The point is made that, for successful project management of the financial management and budgetary system, South Africa is a country with a population diversity. Knowledge and competence of project management has become an urgent necessity for all financial managers for an appropriate successful financial management and budgetary system that supports a transforming community.

5.8.5 Corporate Planning

Corporate planning in a real sense is a much broader concept than strategic management as illustrated in the diagram 5.8.1, because it involves all of the following in order to drive the process of change forward:

- strategic planning which is long term direction and mission statement;
- business planning relating to medium-term securing and allocation of all resources, like human resource, finance, capital in the form of machinery and equipment;
- budgeting, which is the basis in the short term for one-year monitoring and control of all activities in the public organisation;
- action planning, i.e. delegation of authority and responsibility for clear lines of communication, setting targets, flow of work and milestones to make things happen;
- monitoring and watching the present, and corrective action as the wheels of change begin to move.
This is a continuous process throughout: evaluation, by learning from recent experience and recent performance. And, having achieved an objective, asking questions in case one has to repeat the action:

- what improvement could be introduced?
- what could have been done better?
- is there a better way of doing the same project all again?

Therefore corporate planning involves strategic planning, business planning, budgeting, monitoring evaluation and action planning. Project management, as part of corporate planning, is a set of activities to be achieved within a specified time frame with clear objectives within the organisation. Clarity of objectives will include plans which are drawn up and then executed as a project. Included in corporate planning, is human resource planning. It is important to understand people for successful strategic management. Understand yourself and other people's personal baggage; understand people as pioneers of change. Understand how people perceive transition and change, and make an objective judgement which involves decision-making, evaluation and choice, tolerance of ambiguity and use of team building. Understand the senses of people and types of personality and, finally, communicate change clearly (Lovell, 1994:40-76).

5.8.6 Responsible Risk-taking

It is necessary to examine briefly risk and uncertainty in the public sector for the envisaged appropriate financial management and budgetary system in South Africa. These two terms are closely related, but they do not mean the same. To be uncertain, means not to be sure, for example, about the future. Risk has to do with emotions of an individual to be venture some or efforts to embark on plans into the future, to sacrifice something for better dividends (Ross, et al, 1996:325-326; Bowers, 1994:134).
The turbulent public sector environment increasingly requires more proactive managers to adopt innovative approaches to solve emerging problems. Risk-taking requires an appreciation that adversity and uncertainty can be overcome in the quest for better outcomes. The possibility of failure is real and the taxpayers' money is at stake. Managers must be confident that when their efforts do not bear the intended fruit, they can recover and pursue alternative actions. Risk-taking appeals to the need for adventure. The accomplishment that is experienced by many managers and those with propensity for risk-taking realise that potential gains provide a yardstick by which their performance is judged. As indicated earlier, New Zealand's chief executive officers are on contract for a period of five years and all other departmental processes are delegated to them to achieve prescribed objectives. Achieving those objectives is their business with all the resources at their disposal. Renewal of a contract is subject to achieving the objectives, and the contract cannot be renewed for more than two consecutive periods.

Strategic management, with all the elements of strategic planning and its principles, corporate planning and responsible risk-taking, is a radical shift from the legalistic past with its routines. The present disobeys routines, as the environment is turbulent and changes very fast. An appropriate financial management and budgetary system must be flexible, adaptable and broad enough to command a degree of stability within the achievement of performance-based outcomes. More analysis of information, which has to be timeous and accurate and always up-dated, must be the only basis for public managers to make their own judgements about the future and circumstances. The government remains accountable to the electorate, even on services that have been contracted out.

In future all departments and agencies will need to formulate their own strategic management plans and state how they are going to achieve their objectives. The legislature will not be bothered with too much detail, as it will be busy with broader public policies and decision-making. There will be more clarity on the role of ministers and chief executive officers than ever before. The contract employment on its own are an incentive, and discretionary
powers are themselves a source of motivation, therefore there is a brighter picture for a high quality standard of service efficiency, effectiveness and economy. Roll-over funds will be limited in the circumstances, or the system will be strong on idle funds.

5.9 SUMMARY AND CONCLUSION

The previous chapters dealt with the guidelines to public financial management and budgetary reform, the inter-governmental fiscal relations and budgetary systems as well as the international case study of countries in a transformation process.

Chapter 5 asked and answered questions about an appropriate financial management and budgetary system for supporting a transforming South Africa. It raised issues relating to a financial management and budgeting system and the timely justification by government intervention in the economy as well as experience and lessons from other countries for South Africa. It consolidated views from the previous sections by looking into the budget and economic development, accountability and transparency in budget determination, observance of financial regulations and full implementation of multi-year budgets.

Chapter 6 discusses an appropriate financial management and budgetary system – a model for transforming South Africa.
CHAPTER 6
AN APPROPRIATE FINANCIAL MANAGEMENT AND BUDGETARY SYSTEM – A MODEL FOR SOUTH AFRICA

6.1 INTRODUCTION

In Chapter 5 the relevance of the previous chapters for a South African context was explained. This provided a consolidated basis for Chapter 6. In this chapter an appropriate financial management and budgetary system for South Africa will be extracted from the information generated in the previous chapters.

Public financial management and budgetary systems are rooted in both tradition and myth, under very strong philosophical views governing the way things are organised in the public sector and how reforms should take place. The public servant is trained to be unsusceptible to fraud, but is also incubated in both his mind and behaviour with a deep suspicion about business methods. The public sector will never be like business, but it must be business-like if it is to succeed and make the most of resources available, especially the shrinking funds for economic growth, redistribution and a stable growing democracy into the next millennium.

It is the objective of Chapter 6 to discuss an appropriate budgetary system – a model for South Africa. The issues that are raised, will clarify the explanation of the model that appears at the end of this chapter. These are the environmental factors, the crosswalk budgeting systems, the financial and fiscal commission and strategic management and planning. Other related aspects to financial management and budgeting system, the paradigm shift and the explanation of the model as well as avenues for further research are raised.
6.2 ENVIRONMENTAL FACTORS

A model of a financial management and budgeting system exists in an environment fraught with factors competing to promote or restrain the model. These factors will weaken the financial management system or strengthen it, depending upon the negative or positive impact. The financial management and budgeting system always exists in an environment with factors to promote or restrain it.

6.2.1 The Constitution

The present environment is the result of a long process, ushered in by F W de Klerk's 2 February 1990 speech as former President of South Africa, to bring political reality in line with the required changes. The transition to real politics took four long and often frustrating years to reach consensus in the Interim Constitution at Kempton Park. The 1994 post-election situation then resulted in a government of National Unity who came up with the Constitution of 1996 (Act 108 of 1996) (see 2.3.1).

6.2.2 The Bill of Rights and Empowerment

The Constitution further stipulates the Bill of Rights, which was inter alia addressing the extremes of wealth and poverty in the population of South Africa. The urban and the rural, the white and the black South Africans, the skilled and unskilled, as well as educational disparities came to the fore as the major challenges facing the new government (see 2.3.2 and 2.3.5.). In order to address these inequalities and fundamental deprivations, the Constitution alone was not enough. There was a need for the Employment Equity Bill of 1998 (Act 55 of 1998). There was a need to strengthen the formation of a Black Management Forum and other empowerment groupings. These structures cannot function without the support of an appropriate financial management and budgeting system that is the theme of this study.
The budget of the 1990s and early into the new millennium will have to be proportionally weighed to advance the groups who were previously excluded from the mainstream economy.

6.2.3 Reconstruction and Development Programme (RDP)

The RDP is a framework policy of the ANC and clearly gives a picture of the challenges and anxieties facing South Africa as stated in 2.3.3. Without doubt, the ideals expressed in the document can sustain the time for the ANC to remain in government. Once again, the reality is that the ideals are many and varied. They are short-term and medium-term, others long-term, and still others are pure ideals. To attempt to solve any one ideal requires the resources which have been deliberately underdeveloped by fundamental exclusions. Any financial management and budgeting system that does not address these fundamental deprivations in an honest, cohesive manner, will be a non-starter.

This is a clarion call for equity, for redress and for reparation through empowerment, advancement and prudent application of an appropriate financial management and budgeting system. The model proposed here does not only take into account the environmental factors, but it is active and participating in the stream of the transformation process. It is a model that supports a transforming society in South Africa. The model is addressing the complex problems of South Africa by its capacity and flexibility to broadly define the objectives to be achieved. It moves on a continuum, depending upon the demands of a situation.

6.2.4 Stability, Job Creation and Crime Levels

It is an accepted fact that there is a direct connection and relation between job creation, crime levels and stability. Job creation leads to lower crime levels and, therefore, to stability. Conversely, where there is high job creation, and the rate of unemployment is low, (e.g. 12 per cent, as in Canada) stability is
ensured. It is contended in this study that an appropriate financial management and budgeting system will remain proactive and will learn from other countries. It will take strategic consideration to address unemployment, thereby lowering levels of crime (see 2.3.6).

The model acknowledges deliberate financial policies that address the country's entrepreneurship and other highly skilled personnel shortages. It is firm on financial and empowerment policies of internship, mentoring, personnel exchange programmes, as well as international organisational connections. An appropriate model cannot afford to shy away from programmes that address poverty, stability and human resource empowerment.

The security structures that are in place, must be highly trained to work smarter for an equivalent remuneration as a source of motivation. Their ability to be effective, depends in the long run on the ability of the government and/or the private sector to create employment.

With an official unemployment rate of 32.6 per cent in South Africa (4.6 million people), this fact is understandable at the official estimates. Apart from the human misery involved, unemployment is the topmost cause of crime and other social problems. Creating more jobs is a national priority and will remain so for a long time (Welsh, 1997:47; OECD, 1994:30-36).

6.2.5 Growth, Employment and Redistribution Strategy (GEAR)

This strategy, adopted in 1996, had ambitious targets for job creation, as indicated in the previous sections. With approximately 400 000 new entrants in the labour market annually, with an additional unknown number of illegal immigrants, the magnitude of the problem became even more imminent. The 15 per cent employment by the informal sector has been a mitigating factor, otherwise the situation would have been worse (see 2.3.4).
This challenges our lateral thinking and innovative and creative abilities through prudent financial management and budgetary systems to deliver effectively.

6.2.6 Regionalisation and Globalisation

The determination of international organisations and foreign governments to welcome South Africa back from its international isolation after April 1994 is indeed welcome. There was hope that the South African transition would succeed as a result of moral support and promise of economic assistance. During 1995 – 1997, there was a steady stream of important international visitors and heads of state and governments who wanted to meet President Mandela because of his moral stature. This was the reality of the ideals of foreign policy based upon human rights and the hard realities of a competitive world where national interests are paramount (see 2.3.7).

South Africa finds itself a full member of the Southern African Development Economic Community (SADEC), United Nations Organisation (UNO), Organisation of African Unity (OAU) and others. This has brought tremendous opportunities for South Africa whereby it must be able to facilitate benefits for all its peoples. It is here that an entrepreneurial catalyst government is necessary and it must be supported by a strong public financial management and budgeting systems model. This model requires of government to act businesslike. This means a government that applies this model to see where dividends are high and risks low to benefit the country.

6.3 THE FINANCIAL AND FISCAL COMMISSION (FFC)

The Financial and Fiscal Commission (FFC) is a statutory body responsible for making recommendations on intergovernmental fiscal relations. It has the capability of applying a formula for the slicing of revenue among all spheres of government, namely national, provincial and local government. It is guided by the norms and standards for vertical as well as horizontal division. Vertical
division represents slicing between national, provincial and local government, while horizontal division represents revenue division between provinces. Such division of financial resources takes into account the demography of the population and its size (see 3.2.6 and 3.2.7 respectively).

The FFC plays a crucial role in intergovernmental fiscal relations and has the capacity to give sound advice on public financial management, financial policy matters and budgeting systems. It is this statutory body, with its research capacity expertise unrivalled in the world, that enables an appropriate financial management and budgeting systems model to manipulate financial policies during the transformation process. It is acknowledged in the model that it is necessary to be proactive to influence the environment. The FFC plays a major role in intergovernmental fiscal relations after provision has been made for the deduction of South Africa's membership fees for international organisations and for the debt repayment. This affects the achievement of wider objectives as it limits resources available. It is again a model of a financial management and budgeting system that is capable of achieving the most with little money. It is necessary to apply the model that co-ordinates FFC's recommendations and assesses its experience and expertise for achievement of broader objectives through equity, efficiency and effective services (see 3.2.8).

In the proposed model the FFC is a critical factor which can make or break the transformation process if not properly co-ordinated and collaborated. They are two sides of the same coin. While one side is dividing the revenue among the spheres of government vertically and horizontally, on the other side, the model proposes managing the divided revenue effectively, efficiently and with equity, accountability and transparency.

6.4 CROSSWALK BUDGET SYSTEM

An appropriate model of a financial management and budgeting system is a crosswalk budgeting system embracing the best elements of the most popular
budgeting systems. These include input-orientated budgeting systems (or resource budgeting systems); an activity/performance measuring system; objective/goal-orientated systems, the medium-term expenditure framework, and the multi-year budgeting systems as advocated in 3.3.

A financial management and budgeting system model that takes into account the positive elements of all the above systems, is indeed superior in many aspects:

- it is capable of supporting the transformation process with all its complex challenges;
- it moves on a continuum from a broad holistic perspective to a definition of objects to be achieved followed by the goals, activities and performance measurement;
- it takes into account long-term, medium-term and short-term goals and processes;
- it ends with a strong input-orientated management tool;
- the model is concerned more with outcomes than with outputs.

The financial management and budgeting systems model accept the production of desired goods or services of higher quality with the same few resources. Productivity and quality in this model continue to improve daily, weekly and from year to year, leading to achievement of the mission. This is not a simple talk about processes, technologies and techniques. The essential focus is on people in and outside South Africa with vested interest in the country’s performance. Under this model high performance is not restricted to traditional organisational boundaries. Everybody wants Government to sharpen its focus on producing results that matter for their people and families. Regardless of ideology or the fiscal posture of a political leader, fiscal pressures under this model demand better performance, vision and mission from Government (see 3.3.4 – 3.3.5).
The crosswalk budgeting system has a decisive influence with all its ramifications on the formulation of an appropriate financial management and budgeting systems model to support transition in South Africa. However, for all these systems to play an effective role, strategic management and planning will be necessary.

6.5 STRATEGIC MANAGEMENT AND PLANNING

Other countries experienced budgetary changes as a result of transformation. As the process of development proceeded unabated, the need arose to migrate from a line item through performance and objective-orientated budgeting. It is claimed with this study that an appropriate financial management and budgeting system can support the transformation process in South Africa, implying that an inappropriate system will be an impediment to the transformation process.

To define sharply where we are heading with our transformation, questions must be asked and answered. In order to put the theme of this thesis in perspective, it is contended that the following questions posed to all levels and spheres of society reflect the extent to which the proposed model supports the transforming society. This is a matter of asking the right questions to get the right answers.

6.5.1 What are the objectives to be achieved?

This question must be supported with a multi-year financial management and budgetary system which clearly identifies the priorities and their correct sequencing. These objectives must be defined clearly in terms of the broadly based government objectives and the country's vision for the short-term, the medium-term and the long-term objectives (see 3.3.5.7; 3.3.5.9; 4.2.2 and 4.2.3).
Countries such as Australia, New Zealand and the United Kingdom and to a certain extent, the United States and Canada, observed more year-end flexibility of unused funds. They therefore became more concerned with performance budgeting, including inputs and outcomes, and a good understanding of financial and project management. This resulted in a further call for rationalisation of government resources. There was a gradual improvement in information which resulted in financial efficiency plans. The financial budgetary systems of both the United Kingdom and the United States of America, as discussed in the previous section, have valuable lessons for South Africa (see 4.2 and 4.3).

6.5.2 What possible strategies will bring us to the objectives?

What we need, is a financial management and budgetary system which investigates, inquires and supports the broad generation of alternatives. There is an urgent need for lateral thinking that will facilitate the manipulation of financial policies and processes to support transformation.

It is part of technology and project management to create a culture that fosters innovation. Such a culture evokes incredible energy, enthusiasm, initiative and responsibility-taking connected to achievement of extraordinary high goals (Frohman, 1998:9) (see 5.6 and 5.8).

It is asserted that most organisations are less productive, in certain cultures. Presently organisations suffer from a lack of the culture that evokes incredible energy, enthusiasm and initiative. This is because of previously deeply rooted paternalistic culture on the one hand where employees are more comfortable while avoiding responsibility. Authority is obsessed, goals accepted, ideas unwelcome while conformity is expected. The result is less innovation. On the other hand there is also a culture of highly individualistic organisation in which a person is free to do his or her own thing. In this case, there is an absence of respect for individuals due to focus, or personal annihilation tasks and goals. Communication is limited and management is weak with no clear
agenda and norms. Innovation is held back. There may be a lot of invention, but without adequate teamwork to apply the innovation. In an organisation with teamwork, there is the highest degree of conformity, because teams are the way by which things get done. A small group exerts a powerful social force. The individual must comply; else he/she is isolated. The teams are used for their own sake. Authority is vested in the team, and ideas depend upon the norms of the team; goals and goal setting are team goals and the team is revered the most. None of these cultures build innovation at all levels (Frohman, 1998:9) (see 4.2.6 & 4.2.8).

An appropriate financial management and budgeting system breaks loose from cultural and bureaucratic boundaries to a new field of lateral thinking, innovation and proactivity. Cultural stereotypes are not suitable for strategic management and project management to address strategies for transformation.

In chapters 2 and 5 there are, however, guidelines to build a culture of innovation in order to achieve strategic goals, namely

- decisions are always based on clear goals;
- people recognise that helping others to be innovative is part of their job;
- people are willing to share ideas, because they find others will invariably build on and strengthen the idea;
- everybody joining the project finds they influence the flow of the process;
- experimentation is prized and expected from everybody throughout the organisation;
- mistakes are lessons to learn from, and learning is expected and celebrated;
- people trust that others will listen to, learn from and inform them;
- innovation is seen as something to be sought; not something to be managed.
Thus, the financial management and budgetary system calls for a rethink of what is truly an essential activity for South Africa’s transformation. What alternatives can be generated by the application of the financial management and budgetary system? How do we generate those alternatives? Under what climate can these alternatives that enable the financial management and budgetary system to support a transforming South Africa, be generated?

6.5.3 What processes will give an indication of what strategy is to be applied?

Strategic planning is the strategy to be served by the processes to achieve stated goals. The purposes of planning is clarity of purpose, unity and achievement of goals within a framework for day-to-day decision-making. Clarity of purpose requires a sense of direction, set priorities and a common understanding of values. Strategic management components are analysis, action and appraisal.

For this question to be answered, we need a financial management and budgetary system which clearly defines processes. These processes, just like the objectives in the first question, must be identified on all levels of the public sector and in all spheres of society. These processes must be clearly identified from activities (see 3.2 and 3.3).

Once again, as argued in Chapters 3 and 5, the financial management and budgetary systems development from a line-item format, performance, budgeting, planning, programming budgeting system, management-by-objectives and zero-base budgeting formats, all contain elements to be utilised by all managers for transition. Within their context it is further contended that the medium-term expenditure framework, as it is implemented presently in South Africa, is but a broad financial management and budgetary system which must have the capacity to consider all the elements and processes.

In order to compile a meaningful financial management and budgetary system, the need for the generation and application of more management and
information through modern information technology, creativity and innovation at operational level, cannot be overemphasised. This is undoubtedly a movement towards a system of crosswalk, incorporating various positive elements of discussed budgeting systems as techniques of management accounting.

It is in the integration of performance and financial management information with strategic management information that it will become possible to support transformation. Such information brings us to the fourth question.

### 6.5.4 What activities must be included in the processes?

What South Africa needs, is a financial management and budgeting system which clearly identifies activities as building blocks of processes serving strategies towards achieving objectives. This calls for a holistic view to analyse and link up identified objectives and strategies to achieve those objectives through building blocks of processes with the performance and outcomes linked to cost-benefit analysis processes (see 2.4; 3.2; 3.3 and 4.2).

It is further argued that this is a broadly based financial management and budgetary system, co-ordinating instruments to avoid duplication and overlapping of activities. This is a consolidation of activities under one umbrella in so far as the activities are similar and redundancy and waste are eliminated.

The Presidential Review Commission has indicated a need for radical restructuring in the public sector which will have far-reaching effects and implications for the financial management and budgeting system in South Africa, as indicated in Chapter 2. It has emphasised a lean government. When this process of public sector restructuring begins, it will facilitate identification of activities which will serve as building blocks of processes for strategies to achieve the stated objectives. However, this study does not underestimate the
mammoth task of restructuring and transformation facing South Africa, but only contributes a tool of the financial and budgeting system that supports transition. This brings the next question to the fore.

6.5.5 **What resources are required for each activity?**

In the previous chapters it became evident that budgeting systems are more often than not products of history, transformation and advancement in economic development. The transformation in a country causes redevelopment of the budgeting system. In this study, as lessons from other countries in chapter 4 have proved, it is clear that South Africa requires an appropriate financial management and budgeting system that contains diversity to safeguard the integrity of appropriation and to be a reliable management tool.

The initial thrust was to define the objectives to be achieved clearly. Then the strategies to bring about the realisation of achievement of the objectives were addressed, as well as the processes to serve the strategies. What kind of activities must be included in the processing of a financial management and budgetary system that works? At this stage, the question of resources required for each activity is addressed. However, more questions come up. How are the activities determined? What guidelines should be adopted to come up with the activities? Are they real activities to achieve the broad objectives? How relevant are they to the objectives, processes and strategies? It is in the performance management of these activities that project management becomes relevant.

In the previous chapters it was mentioned that, for the financial management and budgeting systems to be a success, it is appropriate to implement important aspects of strategic management and project management and accept that they form a point of departure to achieve the objectives. In future all institutions and agencies will each have its own vision and mission statement and strategies on how the objectives will be achieved.
In the light of the above argument the conclusion in financial management and budgeting systems is what the budget processes really entail. This is then the reverse of the evolution of the budgetary systems and processes applied in other countries. Whereas the budget continuum in other countries, as discussed in Chapter 4, started off with line-item format and ended with objective-oriented budgeting format, an appropriate South African financial management and budgeting system needs a crosswalk, starting with broad objectives and ending with the line-item as a limited control instrument.

South Africa is a developing country. Managers work in different contexts and face different sets of problems. The cultural factors play a fundamental role which does not allow managers to practise managerial skills freely and the environment makes it impossible for even the best indigenous project manager to operate effectively because of general problems of developing countries. The financial management and budgetary system, as discussed in this thesis, is within the context of a developing country, compared with other industrialised countries. The journey to becoming a competitor is demanding for South Africa. It begins broadly with a vision of what could be. The vision needs to be sufficiently and attractively well-formulated to motivate managers and organisations to rethink the structure and activities of the value-delivery system to maximise performance and outcomes. Initiating and executing a programme that improves the responsiveness of an organisation rapidly, is not easy, because it must compete with all others for attention. This has further implications for a financial management and budgeting system (Stern and Chew (ed.), 1998:163; Cusworth and Franks (ed.), 1993:40-41).

The previous discussion centred around strategies for successful implementation of an appropriate financial management and budgeting system model. These strategies are understanding and taking into account the environmental factors, FFC, crosswalk budgeting system and strategic management planning. The following section examines an implementation model of an appropriate financial management and budgetary system to support a transforming society.
6.5.6 Diagram: Summary of Thesis and the Implementation Model

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- Financial Management Systems
  - Public Financial Management Act
  - Constitution Act
  - Intergovernmental Fiscal Relations Act
  - FFC
  - RDP
  - GEAR
  - Empowerment
  - Crosswalk

- Budgeting System

- Medium-Term Expenditure Framework
  - Objective-Oriented Budgeting
  - Performance Measuring Budgeting
  - Resource Listing
  - Multi-Year Budgeting

Identification of Core Objectives

STRATEGIES MANAGEMENT AND PLANNING (MEDIUM-TERM)

Concrete Identification of objectives
Determination of alternatives
Demarcation and performance of activities
Allocation of resources
Programming of activities
Short-Term

Need

Performance

Programming

RESOURCE ALLOCATION
Concretising identification of objectives

LONG-TERM

10 YEARS 20 YEARS 30 YEARS 50 YEARS

BROAD LONG-TERM VISION
FOR EXAMPLE
AFRICAN RENAISSANCE

- Communities
- Societies
- Region
- Continent
- Globalization

(Source: Adopted from Burger, 1999)
1. **Broad long-term vision**
A broad comprehensive long-term vision is identified in a big circle as African Renaissance as acknowledged by President Thabo Mbeki. The vision is explained comprehensively for everyone to understand it in terms of how it develops allegiance to the African continent. Debates, deliberations and discussions with further consultation are engaged through communities, societies, regions, the continent and globalisation. As the whole continent begins to talk about the good built into the vision, another process begins. It will be achieved over a long term usually longer than five years. It could be 10 years, 20 years or longer.

2. **Strategic Management and Planning**
Identification of core objectives is at this level. This facilitate the development of medium-term strategies in the top circle to left to realise long-term objectives. These include financial management systems strategies for achievement of medium-term objectives as indicated in the circle on strategies. The strategies are Financial Management Act, the Constitution Act, Intergovernmental Fiscal Relations Act, FFC, RDP, GEAR and Empowerment. Once all strategies for medium-term objectives are in place, it is possible to relate to the third level for action planning.

3. **Short-term objectives and programmes**
With the interplay of debates and deliberation between communities, societies, regions, the continent and globalisation, concrete objectives and programmes are identified. The budgeting systems enable the determination of alternatives and setting of priorities.

Allocation of resources and programming of activities ensure the demarcation of activities by setting concrete achievable objectives within a short-term period – probably no longer than three years. These short-term objectives are crucial to the societies because, communities, regions, the continent and the globe, to ensure that concrete objectives and needs are addressed. To the
leadership which contributed to the development of a broad vision the first
golden steps are on the way to satisfying medium- and long-term objectives.

The big circle on the right indicated long-term vision with an arrow leading to
the determination of core objectives. This leads directly to the development of
action plan strategies in the circle representing medium-term objectives.
These are financial management systems and interplay with all other
strategies. This leads to a third circle where budgeting systems interplay
through participation of stakeholders from societies, communities, regions, the
continent and the globe to ensure day-to-day, week-to-week and month-to-
month business to achieve short-term objectives, medium-term and long-term
objectives as the step-by-step dotted arrow shows in the diagram.

Crosswalk is a strategy as much as it is a budgeting system which also takes
account of the changes in environment. It is equipped with all the
ramifications of an appropriate financial management and budgeting system to
support transition. It is indispensable in transition countries because of its
adaptable quality.

The rectangle at the bottom represent the role players for development of the
long-term vision, medium-term as well as the determination of core and
concrete objectives. These role players in the rectangle can be crucial in
determining and evaluation of outcomes of the programmes. In fact, this
implementation model is about vision development, audit by checking
strength, weaknesses, opportunities and threats, development of action plans
and programmes to achieve short-term, medium-term and long-term
objectives and the evaluation of outcomes.

The proposed financial management and budgeting system can be
implemented successfully, if the following guidelines to public financial
management and budgeting reform are implemented.
6.5.7 Guidelines of Public Financial Management and Budgetary Reform

Continued support of financial management and budgeting reform requires the guidelines to be elaborated further (see 2.4).

6.5.7.1 Community Values and Norms

An appropriate model for financial management and budgeting reform should be aligned to the community values and norms. Through strategic management and planning, the model has the capacity to advance community values and norms. It is in the ability to harmonise these values and norms on the part of the model that the priorities and objectives are set. Negotiations to develop the vision that is crucial for this process, can be long and difficult (see 2.4.3).

6.5.7.2 Separation of Powers and the Rule of Law

The model acknowledges the existence of the balance of power between the legislature, judiciary officials and the executive in government. These enable checks and balances to achieve the broadly stated objectives in the short-term, medium-term and long-term (see 2.4.3).

The Rule of Law ensures that

- there is equality for all before the law;
- the judiciary is independent of the legislature to and the executive;
- citizens have equal access to courts of law whenever their rights have been transgressed, either by a public or private institution or by an individual.

The model ensures further that the institutions are catered for in budgeting in order to protect higher values through quality norms without any transgression of human rights.
6.5.7.3 Economic Growth and Stability

It is the contention of this study that stability leads to economic growth. It is also a premise of this theme that sustained economic growth in the long run, through a stable environment resulting from strategic management and planning in the model, will lead to the achievement of broader objectives and ideals for a vision set for South Africa. It is also conversely true that lack of stability threatens economic growth and leads to higher levels of crime, abject poverty, famine and civil conflict. The striking feature of the model is its capacity to state its objectives broadly so that even if they cannot be achieved all at once, those expectations are put into perspective as well (see 2.4.4).

An appropriate financial management and budgeting systems model should have the capacity to set priorities accurately to satisfy community values through economic growth. Anything that threatens the stability of the country by corrupt or other criminal methods, should be fought with all the might from the relevant institutions and communities. That is the reason democracy and prosperity is discussed as a guideline for successful transformation implementation and management of the model.

6.5.7.4 Democracy, Prosperity and Representation

Democracy does not necessarily guarantee prosperity, but proper representative democracy with correct mandates does lead to economic prosperity. Countries which liberalise their economic policies have higher prosperity than those which do not. Even in the Third World African context, it is only in countries which liberalise their policies for market economy and have democracy that, even if they are still at the subsistence level, there is positive economic growth which in the medium to long term will lead to prosperity. Uganda and Ghana are such countries. An appropriate model of a financial management and budgeting system for South Africa must be proactive, inventive and consultative to come up with strong financial policies that support the transformation process (see 2.4.5 & 2.4.6).
Military governments do not necessarily lead to prosperity, but are just *ad hoc* bodies which should be allowed to exist for a short time. Nigeria is an example of a military government that remained in power for a long time until 1999. Its period of governance was marked by negative growth, famine, destruction and conflict. It is not a suitable example for this model.

*6.5.7.5 Participation, Civil Society and Popular Sovereignty*

Freedom, liberty and fraternity are values enshrined mostly when one talks of popular sovereignty. Popular sovereignty, together with participation of civil society in all walks of life, strengthen facilitation of the transformation process. It calls for involvement of all members of the community, in organisations and actively participating in the decision-making process which include prioritising of objectives and mapping the route to satisfy them. An appropriate financial management and budgeting system consults and negotiates with and allows full participation by the community. In this way, not only is the project facilitated by government through the model, but partnership through ownership is passed over to the participants. This raises the value of the project (see 2.4.6 and 3.3.5.6).

Participation and involvement of the community, professionals and all other civic structures in administrative institutions, in the running of government and other organisations will ensure that democracy is growing. Quality financial management and budgetary systems will promote financial policies with positive impact on the community. It is the contention that this model's involvement of people will ensure the support of society in the transformation process (see 2.4.6).

*6.5.7.6 Good Management Agenda and Accountability*

According to Drucker (1968:240), “We need a government that can and does govern. This is not a government that ‘does’; it is not a government that ‘administrates’; it is a government that governs”.
The financial management and budgetary systems model contended in this thesis goes beyond set boundaries by public, private and/or non-government or non-profit sectors. It acknowledges the role played by all of the sectors. It is a catalyst facilitator, community-owned model for government that is capable of deciding and giving direction and it leaves the "doing" to others. It is community-owned and empowers it through its entrepreneurial endeavours.

To reach high performance, institutions need to create an environment where entrepreneurship can flourish. The model support self-designing and self-managing teams. It understands that entrepreneurs will not reform South Africa overnight, but are a significant way to build positive experience in moving the transformation forward and achieving the vision (see 3.3.5.6 and 4.2.1.1).

A good management agenda accommodates the development of leadership right from the involvement of leadership in all organs of civic society. It is leadership that involves several critical dimensions, such as vision, commitment, inspiration and the ability to facilitate change. Such a model gives extra credit for a good quality education policy which is capable of developing effective leadership with good innovative and creative ideas that penetrate government processes and transform them for the country's benefit.

The government should have an agenda reflecting its own vision and mission facilitated by an appropriate model of financial management and budgeting systems. It must remain the agent of change with all strategic management plans.

6.5.7.7 Decentralisation and Good Governance

It is the premise of this thesis as stated in 2.4.7 and 2.4.8 that the government that decentralises realistically, also achieves several other objectives, such as empowering the community and allowing problems to be solved at the source. It encourages private partnerships, privatisation, competition and corporatisation. It is capable of establishing more effective management for
service delivery. The following section will expand briefly on some of these as they prove to be a saving of scarce financial resources in the long run under such a financial model.

(i) Privatisation and Corporatisation

The standard idea about transformation and reform in terms of the model of a financial management and budgeting system can be seen as a three-pronged rocket launched against the huge public sector. Firstly, deregulation has to be enacted to set the scene for privatisation and corporatisation. Secondly, proceedings should follow to question the existence of a large bureaucratic public sector enterprise which should be incorporated and sold out and privatised. Thirdly and finally, it is time to proceed with marketisation of public sector core activities. This external privatisation process is followed by the creation of internal markets within governments and also within global markets. It is appropriate for a good policy for a public financial management and budgetary system to ignite the government to a more enterprising and competitive approach (see 3.3.5.3).

However, privatisation for its own sake, will fail to achieve the objective of income distribution. Privatisation should entail reassessment of each enterprise mission statement within the parameters of the present constitutional dispensation, and is the enterprise for delivery and service-rendering to clients. South Africa can learn about this process as indicated in Chapter 4 under the United Kingdom privatisation strategy, Australia, Malaysia and Singapore. Selling for the sake of selling assets which are unproductive, would kill the undertaking from the very start. Privatisation by surrender and distressed privatisation are courses which are clearly irrational, downright discouraging effective utilisation of scarce resources and job creation. There is a tendency for secrecy to surround many transactions and a pattern of delayed intention where future ownership is unclear. The process must be seen as a means to reduce debts by lending agencies, as a saving in public expenditure, an attractive venture for the potential private investors and an improvement on financial management and budgetary systems for effective
service delivery and empowerment. There is no reason that the public sector should not be user-friendly and highly efficient in providing service (Jones and Subramanian, 1993:653-661; Sigcau, 1994:10-17).

Finally, as nationalisation has a recorded history of failure in Britain, consumers paid more and not less for products of nationalised industries. Inefficient management and poor productivity growth are the cankers offering few incentives for large investors to acquire assets yielding so poor a return. In alternative financial management and budgetary systems, managers, whether financial or otherwise, must be made aware that they may be replaced by an alternative set of managers for failure to deliver. This is an incentive largely absent in the public sector (Konney, 1990:17-19).

Privatisation and corporatisation, when it is effected with good reasons of achieving the major objectives of the government – empowerment, enterprising, stimulating economic growth, employment creation as well as income redistribution – have the potential of saving the scarce financial resources while it is generating them. This is the ability to attract investments. That is the reason for a closer examination of public-private partnership which follows.

(ii) The Dawn of Public-Private Partnership (PPP)

Traditional methods of providing municipal services through the usual government organs – central, provincial and local spheres – are under radical review globally. Severe problems and structural government inefficiencies all combine to bear on insufficient and shrinking revenues to cover maintenance and investment. Privatisation is the wholesale of state assets or enterprise to private individuals. According to Moosa (1997:Video Interview), PPP allows municipalities to formally contract expertise from sector agencies or other municipalities to provide efficient services. These municipal service partnerships range from options to contract partnerships with non-governmental organisations (NGO) as well as community-based organisations (CBO) (see 3.3.5.3 and 4.4.2).
The PPPs encourage competitiveness and improvement of quality service delivery. At the same time it also helps achieve several government objectives of accountability, transparency, participation by affected communities and ensures sustained equity in service delivery through this empowerment process. The model of PPPs allows municipalities to award contracts to small and emerging entrepreneurs to carry out municipal services in a more efficient manner. It is a question of municipalities attracting funds from potential investors. An appropriate financial management and budgetary system, which is central to this thesis, facilitates the establishment of ventures of this nature both in the short term, medium term and long term, through decentralisation and autonomous stable structures. It is this financial management and budgetary system that is flexible enough to manipulate financial policies and strategies that deliver services through a working budget and competition.

(iii) Reconsidering the Functions of Government

In Chapter 2 goals of government under 2.3.3.1 were raised as economic goals and social welfare goals. Economic goals were identified as the maintenance of a stable economic environment, efficient allocation and equitable distribution of natural resources. Social welfare goals are a combination of normative criteria and mass market necessities. Such an identification ends up with canons of expenditure as postulated by Musgrave and Musgrave (1989:1-5); Shirras (1924:38-45).

These are canons of sanctions, of surplus, of benefit and of economy. Within the context of this study an appropriate budgetary system has the capacity to embrace all these canons as inherent to the evolution of the functions of government (see 2.3.3.2).

The proposed model (see 2.4):

• is concerned with the economy in order to discourage lavish waste and extravagance on the part of the public sector;
- involve participation of the community that actually benefits from the services in this regard;
- is concerned with the equitable distribution of the country’s income and wealth to benefit the citizens;
- is concerned with sanctions on the part of the citizens and the behaviour of all concerned not to exceed prescriptions, norms and morals.

Actions against these canons will have to be strictly and swiftly applied, irrespective of the positions held in society.

Unless these canons are applied to the optimum and the evolution of government function from simple expenditure to much more complex modern budgets is understood thoroughly, the capacity for success of a single financial management and budgetary system that disregards these canons, will be limited. Accordingly Mathews (1973:233-234) observed developed world trends to be concerned with economic development to overshadow the question of equity in developing countries. When the financial management and budgetary systems are capable of addressing broad questions of government objectives in details, it is inevitably capable of linking equity with economic development. That is central to this thesis regarding a proactive financial management and budgetary system which manipulates financial policies to support a transforming South Africa. It is concerned more with outcomes than with programmes and objectives. The question of equity within the canon of benefit cannot be ignored in developing countries because of uneven distribution of incomes and wealth (see 2.3.3 and 2.3.5).

Changes in the functions of government over the last century have also meant changes in the manner in which the government performs its activities. As the economy as a whole expanded, the proportion taken by the public sector grew faster and became more complex. In 1976 public sector spending in the United Kingdom represented 48 per cent of the gross domestic product (GDP) in 1980 it was just 9 per cent (Bates, 1993:3).

While this called for a more comprehensive analysis of the operations of government, as stipulated in Chapter 2 and 3, it also meant that the existing
budgetary system could no longer satisfy the needs of government. Reasons were advanced for this shift in expenditure:

- Firstly, there was an inevitable need for centralisation of administration in a complex modern state. This was a strong control over economic policy; factory and product safety that had to be worked out and administered. State armed forces guarded security internally. Jobs related to their concerns proliferated as governments attempted to balance the requirements of an expanding number of new and powerful interest groups.

- Secondly, technical advances gave rise to greater opportunities, many of which required an amount of capital for exploitation. There were telephone systems, electricity supply and major sewage systems in cities. To supply an unified sewage system for a major city, most governments decided stated provision was necessary.

- Lastly, it is noted that where economic benefits are difficult to measure, or where monopolies were natural, government provision was considered the best alternative (Bates, 1993:3-4).

The view expressed, is that government business became too complex for a single year budgetary system. The government business, due to changes in environment, also had to change to accommodate circumstances. With it, financial management and budgetary system reforms were changing too. Thus, as the public sector became more successful, its nature inevitably changed from that of political retainers supporting a strong man (in the name of the King, Queen or Minister) to the role of servants serving the public at large. To the extent that public servants are in fact political retainers, this is a complex and a highly relevant issue for public administration. Government administration, major industry and the welfare services employ clerical and manual staff in a way very similar to that in the private industry. Thus they require technocratic expertise very different from the purely political skills of statesmen. It is recommended that government, business and labour should
genuinely come closer together and formulate an honest joint vision, mission and strategy for moving the country forward. Without the involvement of all parties concerned, however, genuine strategy and multi-year plans are the strategy itself and will not have the necessary wings. This strategy is what Malaysia did with its SPS 2020 and New Zealand with its vision of “Development 1992” (Maphai, 1998:47) (see 4.2.6).

(iv) Value-for-Money (VFM)

It was indicated in the previous discussions that the theme of this study is to ensure that what the government pays for, is actually the value of the services rendered. Any financial management and budgetary system, no matter how dynamic or flexible it may be, if it does not provide for “value-for-money” (VFM), it is bordering on the extremes. What the transforming South Africa needs, is a financial management and budgetary system that is dynamic enough to contain and support transformation with integrity. It must be capable of prioritising its services, and of discriminating between residual services (services subject only to specification of requirements and the publication of contract award notices) from tendering options. These options are: the Open Procedure (where all interested contractors are allowed to tender); the Restricted Procedure (establishes a select list of tenderers, following the invitation of expression of interest) and the Negotiated Contract (following advertisement, the Council or body that is in authority, selects one or two contractors with whom to negotiate) (Sparke, 1994:12-13) (see 5.2 and 5.6).

The option to advertise, indemnifies officers from the challenge that assets have been disposed of undervalued. Failure to advertise leads to the need to demonstrate value-for-money in some way. This perception saves money for the taxpayers. Demonstrating VFM includes the use of external valuation advice and limited competition between alternative negotiating parties. The present study attempts to effectively use assets of the public sector for optimum benefit to the taxpayer. On the other hand, a system of safety checks and balances to avoid alienation of future services or profits must be in place.
This may well be generating additional surpluses against the value of the submitted bid and these should not be ignored when determining whether to externalise services or not. An appropriate financial management and budgetary system to support the transforming South Africa must accommodate value-for-money and externalisation without neglecting future services or surpluses (Sparke, 1994:13-14).

An appropriate financial management and budgetary system must ensure value-for-money and must command integrity beyond human fallibility consistently in its implementation. It must be subject to accountability, as discussed in Chapter 2, and demonstrate all dimensions of accountability.

(v) Using the Budget as a Management Tool

The functions of the budget were discussed in Chapter 3.4, the budget has several functions. It is a planning tool, a management tool, an authorisation of expenditure, it is used to focus into the future, and it is a communication device. The financial management and budgetary systems dynamics become clearer once functions of the budget are considered. The financial management and budgetary systems build a broad framework of functions to effectively manage the government activities (see 5.5; 5.6 and 5.8).

It is the premise of this study that an effective financial management and budgetary system must embrace all the functions of the budget within the dynamics of public financial management. This strengthens fiscal control as much as it applies all the budgetary phases discussed under 3.5.

(vi) Term Variation (Short-, Medium- and Long-Term)

The multi-year budget, discussed in previous chapters, and the Medium-Term Expenditure Framework reflect term variations in accordance with the objectives of government far in between one- and three-year cycles. It has been noted that some countries have longer terms, such as Japan and China
with their five-year plans, while the United Kingdom once had five-year terms, but has since reverted to three-year terms (see 5.4 and 5.7).

It is contended in this study that financial management and budgetary systems must encourage lateral thinking, inventiveness and originality peculiar only to South Africa. It is these term variations that will be able to accommodate broad objectives and give direction as to where the country is heading with its transformation. Some of the government objectives may be achieved in the short term, others in the medium term and long term. An appropriate financial management and budgetary system must be capable of distinguishing between objectives in term variation to the benefit of the taxpayer. It must also be capable of assessing programme validity and demand, through continuous review and evaluation, applying specific guidelines from previous budgetary systems, such as Zero-Base Budgeting and others.

(vii) Technology

Intellect and innovation are the sources of virtually all economic value, growth and strategic edge today. It is asserted that managers must understand the key relationship connecting intellect, professional knowledge, technology and innovation. In Chapters 2 and 4 it is contended that any financial management and budgetary system should allow managers in departments a degree of autonomy to develop information, giving access to prescriptive rules and regulations and financial systems through technology for speedy decision-making. A financial management and budgetary system is about managing by financial managers through technology. It is about transferring technological skills from and between countries. It is about international human resource exchange programmes. The critical organisations involved in these technological skills transfer type are non-industrial performers, universities and affiliated institutions, government laboratories and a number of public, private and mixed contract activities and consortia.
Information technology (IT) and technology commercialisation (TC) are two related issues. They are intertwined by the fact that IT can be used to facilitate the commercialisation of all technologies.

The value of technology is varied in many respects, but it mainly contributes to quick decision-making by means of a readily available central data base. It is decisive in stopping programmes that are not producing the desired technical results or that are no longer judged likely to bring business advantages. It recognises new ideals and provides guidance on desired changes in programme direction (Cohen, Kamienski and Espine, 1998:36-37).

The financial management and budgetary systems should strive for technologically-based outputs and outcomes. It must be capable of improving performance. Global competition is no longer an illusion or perception, but a fact and a reality to be faced by all countries. An appropriate financial management and budgetary system must therefore emphasise low cost and high quality, as well as speed, while at the same time not delaying high performance. This is possible only through an appropriate financial management and budgetary system with the capacity to change and adapt the information systems through a wide variety of technologies to achieve best results and outcomes.

Technology has a significant potential for creating a strong earning stream and erecting barriers to competition. But it should not be considered a panacea and should not be pursued for its own sake. It must be understood in terms of the many difficult roles it plays in support of the financial and organisational strategies. "Rather it implies the corporation's ability to balance technological potential against the needs of operational effectiveness, the market viability of the results and the nature of the barriers to competition" (Goodman and Lawless, 1994:119-120).

Reforming the financial management and budgetary system for a transforming South Africa means examining the concept of becoming a "world class" competitor. It sets the standard for the country's performance at nothing less
than excellence all round the functional combination of both people-embodied and capital-embodied knowledge that represents the totality of the organisation's competence base.

In technology, research and training in virtually any field, including a financial management and budgetary system, "...under conditions of poor technology, only areas of obvious comparative advantage will be exploited. ... Resources that are difficult to exploit, as mountains or deeply embedded mineral areas or deep distant fishing grounds, remain out of reach. The inability to exploit the natural resource potential results in low productivity, a widespread problem in developing countries..." (Schwella, et al., 1996:318-319). It is only through the ability to be inventive and creative that the present technology can be manipulated by an appropriate financial management and budgetary system boost for widely needed productivity and decision-making.

The foregoing discussion is summed up as strategic management and planning combined with performance and project management bound together to form an implementable model of public financial management and budgeting system. However, other aspects are also considered.

6.6 VARIABLES RELATED TO FINANCIAL MANAGEMENT AND BUDGETING SYSTEMS

Financial management and budgeting system does not exist in the vacuum but in a myriad of other activities. These activities may have direct or indirect impact on efficiency and effectiveness of an appropriate financial management and budgetary system. They therefore influence the effectiveness and quality of outcome in service delivery. These aspects are further clarified below.
6.6.1 Decentralisation: Autonomy of Local Government

Whether in the First World or not, most countries with advanced economies in the Far East or in developing Africa and South America, are moving towards more decentralisation and autonomous structures. Unitary States, such as the United Kingdom and New Zealand, are devolving and decentralising powers and authority to lower levels. The Federal States have begun to strengthen their federal autonomous units and are even recognising them as a "unique province", as is the case in Canada (Wood, 1996:438).

These countries have recognised that centrally regulated personnel and financial policies are too blunt a tool for effective and efficient delivery in a globally competitive economy. They have embarked on strategies of solving the problems directly where they occur. This presents each country with challenges for developing its local talent in order to handle the complex problems of decision-making and performance measurement. This also enables services to be out-sourced for value for money as there is competition between the private and the public sectors (Lane (ed), 1997:159-161; Mokgoro, 1996:non-continuous paging).

In Chapter 4, on international comparative study, Australia with its MTEF presents new dynamics in financial management and budgeting systems. It has empowered the responsibility for delivery to lower levels which has strengthened its delivery process.

Australia is the best example of a federal form of government to instruct South Africa and Africa in general on how effective decentralisation can be. This is in terms of the quality of service being delivered (van der Linde, 1996:non continuous paging).

The decentralisation process should not be done for its own sake. There must be benefit derived from those affected by it and they must participate throughout the process for the sake of public interest. In the long run the
process of decentralisation, if implemented with good objectives, will save the scarce resources (both human and financial) as it will also empower the community. The latter aspect is also part of the government's objectives: empowerment and nation-building.

6.6.2 Specialised Financial Systems

In Chapter 4.2.1, 4.2.5, 4.2.6 and 4.2.7 Turner (ed.) (1998:1410-1423; 378-395; 401-407) argued that the United Kingdom, China, Malaysia and Japan, had to establish specialised financial systems to address specific deficiencies, such as entrepreneurs and farmers who became supportive during periods of crisis. These financial policies can be beneficial to South Africa's financial management and budgetary system.

Countries like the United States of America, China, Japan and especially Singapore, as pointed out in Chapter 4, have boasted their specialised financial system as a formidable support for a changing and transforming society. These have specialised institutions for the development of entrepreneurs, agriculture and co-operatives and heavy investment in machinery and technology, in the short, medium and long term. It is on record that the United States of America had for a long time policies that openly supported the budding entrepreneurship industry. Whatever position the USA occupies in the world today, it owes a big percentage to its investment policies regarding development of its human resource potential in all other sectors.

It is argued that South Africa will be better off if it can implement some of the policies that have led to the prosperity of these countries. It is acknowledged in South Africa, that something is being done for entrepreneurs, as about 1,74m people are involved in small business. Something more radical than this is necessary, as they contribute not only to creating employment opportunities, but almost a billion rand to the revenue as well. A lesson comes from China in the development of rural farmers who could supply the rural community with all the basics, especially during the crisis, recession and war.
These are the challenges which are not impossible, but a start must be made. This will also serve another policy of affirmative action as the people become more empowered and involved in the mainstream of the economy, so that the economic empowerment process can proceed. South Africans must also accept that these policies cannot be achieved overnight. They are part of a long process which must go further and deeper. South Africa should not be imprisoned in the past, but it must liberate itself from the past and develop bold, radical policies that will be able to indicate the direction where the country is moving (Kobokoane, 1998:3; Day and Klein, 1987:9).

6.6.3 Education Policy

Case study countries in Chapter 4.2, have made exposition of their education policies in different ways. Common to all, if not most countries, is the issue of compulsory education which can be a good strategy for an absolutely literate South African population in the next generation. This is not a miracle, but a strong directed policy which must be implemented with a prescribed minimum years of compulsory schooling. Malaysia, Japan, the United Kingdom, Korea, Singapore, Canada and the United States of America have had a compulsory education policy of schooling during the first 13 years to 15 years. We are writing about these countries as economic giants because of their quality of education and economic progress.

It is further submitted that an appropriate financial management and budgeting system will be able to manipulate policies that will benefit the country, both in the short and long terms by reprioritising the government objectives. With its checks and balances the quality of education will be ensured.

South Africa must appreciate the fact that it will not win the victory over poverty and illiteracy if it continues to neglect the development of educational policy and its successful implementation indefinitely. The millions who never had the opportunity to get schooling, must be saved. It is these same millions who should have joined the entrepreneurship development programmes at a
time when the country’s job market absorption is shrinking, with more people losing jobs than those joining the market as work seeking graduates from education institutions, universities and technikons. South Africa will have to do something fast and meaningful for these graduates and save millions from the plight of falling onto the unfortunate side of the line. Crime levels are related to unemployment and this is the challenge to South Africa.

Statistics on crime levels in other countries are not readily available. But where rates of unemployment are low, such as those of Canada at 12 per cent (and it has never exceeded 12%), the reported crime rates are not as shocking as in countries with a high rate of unemployment.

6.6.4 Political Rationality and Economic Rationality

Adding to what Kramer (1979:42-43) said in Chapter 3.3.3, regarding decision-making for questioning programmes to accomplish goals, Jones and Pendlebury (1992) in the same chapter, brought the issue of cost-benefit analysis and therefore the creative strategic leadership in PPB. It is the interpretation of these PPB, programme and performance budgeting systems and the achievement of goals that further raised the hair about political and economic rationality. The present financial management system harmonises politics and economic objectives.

Wildavsky (1964:140-148) observed that political rationality is important for creating the structure where all other problems can be solved through debates, negotiations, compromise and consensus. Schick (1971:164-166) confirmed that political rationality has its own rules for the game of decision making, such as voting, affiliation to parties, multi-party democracies and plain right of existence of institutions and individual human beings. Diesing (1975:175-187) stated that political rationality is the fundamental kind of reasoning because it deals with creation and improvement of decision structure for all decisions. "Unless a decision structure exists, no reasoning and no decisions are possible" (Diesing, 1975:170). There can be no conflict
between political rationality and technical, legal social or economic rationality, because all solutions of political problems are probably on the attack of all other problems. A senior politician deficiency can prevent or undo all other problem solutions. South Africa will be better off understanding this critical difference between political and economic rationalities.

Non-political problems are solved by considering a problem on its own merits and by evaluating purposes according to how well they will solve the problem. The best available proposal should be accepted, regardless of who makes it or who opposes it and a faulty proposal should be rejected or improved, no matter who makes it. Compromise is always rational. The rational procedure is always to determine which proposal is the best and to accept it.

In the ideal world counterpart of Classical Economic Man and Simon's Administrative Man, whatever their stations or roles, they would act rationally and efficiently, regardless of their personal interests at stake in the budget outcomes. In such a budget, ruled by such men, there would be an unswerving commitment to efficiency, explicit and prior delineation of goals and purposes, objectives, evaluation in cost-effectiveness and no bias of interchange of data analysis. If these norms were expenditive and requisite data and skills were available, a radical transformation would occur in budgetary behaviour and in action. In every instance the best alternative that optimises the use of public resources, would be adopted (Schick, 1971:164-166) (see 3.3.5.4).

In a real world of partisanship of interest, the administrator's role as a claimant to scarce resources is in conflict with his role as the producer of public funds. While the claimant's role impels him to be concerned with his staff matters and the status of his accounts, the benefit-producer's role demands attention to end-products. The crucial aspect of budgeting is whose preferences are to prevail in disputes about which activities are to be carried out and to what degree in the light of limited resources. How shall budgetary benefits be maximised? Who shall receive them and how much? A normative theory (or a social welfare function of a hierarchy of values) is proposed which specifies a
method for maximising returns for budgetary expenditure. The formula is unable to impose a set of preferred policies on others however the solution breaks down (Wildavsky, 1974:129; Schick, 1971:165; Lyden and Miller, 1972:420).

The point of division between political and economic rationality is resolved by stating that the process developed for dealing with interpersonal comparison is not economic, but political. All conflicts are solved under agreed upon rules, by translating different preferences through political systems into units, called votes or into types of authority, like veto power. There need not be full agreement on goals. Parliaments directly threaten compromise and trade favours in regard to policies to register results according to the rules of the number of votes. Nowhere does a single authority determine what is going to be in the budget, as only a small number of alternatives are politically feasible and considered at any one time. Compromise is always rational. Action should be designed to avoid complete identification with any proposal and any point of view, no matter how good or how popular it might be. The best available proposal should never be accepted just because it is available. It should be deferred, objected to and discussed until major opposition disappears (Diesing, 1962:120-139; Wildavsky, 1974:132-136).

6.6.5 Foreign Investment

In Chapter 4.2.5 Banks (1995:180-182) and Wong (1994:24-27) made the point that a country must export more than it imports in order to increase its foreign reserve.

A financial management and budgeting system must have the capacity to be flexible enough to support transformation. It must be able to enact financial policies that benefit transformation.

Through an appropriate financial management and budgeting system it is here contended that South Africa must take lessons from other countries regarding
the benefits of foreign investments. The countries without foreign restrictions develop in a manner which they otherwise would not if restrictions were there. Such countries begin to understand world markets and gain the necessary expertise and understanding. China is one such country from which South Africa can learn. There are both direct and indirect benefits in foreign investment, such as the advantage of production and foreign technology, export promotion, employment and training, exposure to international practices, management and organisational know-how, sub-contracting in other instances and quality control.

The strategy advocated by international theorists is that a country **must** export or die. This means that South Africa will have to export its products in best quality to compete in the "global village markets". In principle a country must not import more than it exports. That means it must export more and import less to obtain more benefits of foreign investment. Countries that import more, soon run into the problems of debt increases which result in a budget deficit. The financial management and budgetary system must accommodate exports and import policies so that the country can prosper and enjoy economic development. Virtually all countries studied are involved in foreign investments although this takes time, but it does have benefits for them.

Finally, it makes no sense to speak as if one could make drastic changes in budgeting without altering the distribution of influence. The task is inevitably so formidable that others speak of changing the budgetary process without altering the intractable political element and transform it. Firstly, political changes must be introduced. Secondly, it must be understood that there will be no budgetary process or significant changes without affecting the political process. South Africa has started with the political structure. Is the choice of the financial and budgeting system the most appropriate one for the current political process? Only time will tell. There are good qualities of an appropriate budget highlighted below.
6.7 GOOD QUALITIES OF AN APPROPRIATE FINANCIAL MANAGEMENT AND BUDGETARY SYSTEM

In budgeting no reform is won easily. The cards are stacked in favour of repeating next year what was done this year and in earlier years. Small changes are achieved through large efforts as each wave of reform leaves it modest legacy and prepares the way for future improvements. The budgetary system is a legacy of more than half a century. Experts know how to change the format of the budget. They can even apply analytical techniques to budget problems. But do experts know how to change the way people decide? Or can they change the rules of evidence for budget choice? These questions and many others come easily whenever one considers qualities of a good performing appropriate budgetary system.

The public service serves the interests of the public. Its actions express the will of the state: a Constitutional State, the judicial interpretation of that document and the policies set out by the government of the day (Chapter 2). The common purpose of advice to the public service is to give the basis of its understanding of public interest for which programmes and public policy decisions for appropriation are made. It has to continue to set a high standard of strong, neutral but impartial and apolitical public service leadership.

6.7.1 Fiscal Targets and Fiscal Policy

South Africa is in step with its Medium-Term Expenditure Framework (MTEF), as there is no doubt that the most comprehensive approach at this level (as has been the case in New Zealand and Switzerland), the fiscal responsibility, guides decision-making by government by targeting reductions in debt and the deficit. The budget is central to government decision-making and crucial to efficient and effective service delivery. It embodies many of the incentives confronting all role-players: the executive, the legislative, public servants and the community. Financial management and budgetary system reform has sought to change the rules of a disabling traditional budget to encourage improved performance (see 3.3.5).
Ideally parliaments in these multi-year horizons are able to set ceilings in nominal terms of expenditure which makes the future more predictable. In South Africa from April, one year is added to the remaining two years with the first two years remaining unchanged unless exceptional circumstances favour a new decision.

In the case of Australia in Chapter 4, fiscal targets have been more ad hoc, ranging from a commitment to no real increase in spending, no increase in taxation to the GDP ratio and a reduction of the deficit in the 1980s, to a commitment during the recession of the early 1990s to reduce the deficit to 1 per cent of GDP. South Africa has followed the lessons. Numbers are not so important, but the discretion of the movement is the contribution to fiscal responsibility and the framework provided for improving strategic resource allocation and operational resource use.

The cyclical or business cycle developments in the economy over the past few years have been encouraging, but also provided evidence of structural deficiencies of the South African economy. A medium-term plan cannot ignore the implication of the business cycle for the government revenue, expenditure and borrowing requirements, but must purposefully aim at elimination of these deficiencies. Further overemphasis on the cyclical performance of the economy often marks the real structural deficiencies. For example, government revenue will normally be higher, at or shortly after the peak of the cycle, and government expenditure relatively lower during this phase. Thus the GDP measured at a specific ratio in this situation may be lower than the real deficit.

It is no easy task to design a framework for a fiscal plan that will meet all macroeconomic goals at the same time. It requires a stable, sound investor-friendly environment. Policies must be pursued which encourage the employment of more people. Economic growth may be a precondition for more employment. Any financial management and budgetary system that does not meet the requirements of fiscal discipline, employment creation, increase in investments and which does not challenge the reality of structural
deficiencies in South Africa, means that the expectations of South African people will never be fulfilled.

6.7.2 Restraint, Performance and Information

The two over-arching themes in financial management and budgetary systems reform have been restraint and performance. Restraint on the macro-level of individual programmes can go hand in hand with performance if government incentives are right. To get these right, information must be timeous and accurate. Budlender (1996:2465) further confirmed that a major problem is the lack of adequate data which is imperative in identifying the size and shape of the problems which face the country. This will enable government to establish clear-cut objectives in planning policies and programmes to address the problems. Timely indicators and performance audits are also important to measure their success and provide feedback for modifications (Chapter 3).

The budget, as a central element, transcends over all performance in the public sector. To reform the public sector without reforming the financial management and budgeting system, is a dead end. The opposite is also true, namely that reforming the budget without equivalent reform of other systems, processes and structures will give less than optimal results. Agency specific incentives which are necessary for optimal performance are clarity of purpose, clarity of tasks, the authority to pursue the purpose and perform the task and accountability for the use of this authority (see 5.8).

The quite appropriate obsession of a central finance agency with macro-stability has too often been translated into unnecessary instability at micro-level, with damaging effects on the allocation of resources in accordance with strategic priorities and on service delivery. Too often the focus on the cost side has ignored the link at micro-level. The root cause of these problems has been failure to link policy, planning and resources in such a way as to contribute to optimum performance at all these levels. This linkage and reconciliation must begin at the political level and not at the board which is
concerned with balancing the cheque book. All along it has suited central and line agencies to avoid making the link. Once more, budget reform has revolved around enabling and requiring these links to be made at all levels, starting at the political level.

An ideal financial management and budgetary system should be able to reconcile and link up with the levels of micro- and macro-economic development activity. It must be restrained when necessary and relate performance to outcomes.

6.7.3 Comprehensiveness and Discipline

An appropriate financial and budgetary system must encompass all the fiscal operations of government and force all policy decisions with financial implications to be made against the background of harder budget constraints and in competition with other demands on the budget. Separate decision-making processes for capital and recurrent expenditure usually biases the policy instrument and undermines the whole transformation process. Emphasis will be on those budgets absorbing only specific resources necessary to implement government policies.

The inherent difficulty of many programmes is the technical knowledge required to understand the budgetary devices as workload data, and the subtleties of people's varied preferences in such areas as welfare programmes make complexity a central concern of the participants as in Chapter 2 and 3. Yet time and man's ability to calculate is limited and there are few other ways to alternative choices. An ideal financial management and budgetary system must therefore understand all ramifications and interlinks in the government system, time and means limitation and observe more the circumstances which are real than over-emphasising rational concept at the expense of discipline. It is best to base decision-making on complete understanding to reconcile all or most of the elements in the system (Ncholo,
6.7.4 Predictability

The multi-year ideal ensures that just as the private sector grows in a stable environment, so the public sector will perform where there is stability in macro- and strategic policy which requires short-term/long-term balance. Fiscal policy must take account of the need to ensure the time flow of funds to programmes and projects. This requires that there be a medium-term approach to the adjustment of budgetary imbalances, programme development and evaluation. In return, predictability is nil without the prerequisite honesty in projections of both revenue and expenditure. Where there is review and evaluation and where the line agency is subject to continuous improvement, there is a need for contestability in policy-making and service provision (Manual, 1986:6-11).

6.7.5 Information-Based Budgeting

Sound decision-making requires good, timeous, valid and accurate information data on costs, outputs and outcome. This is a further challenge to place a price tag on all the services and goods delivered by the government. Whenever a proposed new venture is considered, a detached lay-out of all costs associated with total commitment is usually required. The same business plans required by the private sector are ideal for an appropriate financial management and budgetary system, because with this approach, one is able to determine the level of capacity and activity of all or part of the activities of the department or agency. Again this convergence of similarity in skill demands between the two sectors – private and public – confirms the strong competition for high quality service for the country. This is a forward projection of costs in the most realistic and feasible terms.
6.7.6 Transparency and Accountability

In 2.4.9 it is argued that decisions made on sound basis will have the positive results, and the costs must be accessible, clear and communicated to the wider community. All decision-makers must be held responsible for the exercise of the authority allocated to them. Just as separation of funding and service provision has made important contributions to improving service delivery performance, so has the separation of policy regulatory and service provision responsibilities. Ideally the forward estimates are thus the most significant in an appropriate financial management and budgetary system for a changing South Africa (see 3.2).

There is a great improvement in costing so that it clears further the future for forward projections subject to variations that may come along. This is the result of performance budgeting, management by objectives, zero-base budgeting and planning, programming and budgeting systems which have planning, management and analytical and objective-orientated elements of budgeting. These make the financial management and budgetary system more credible for transparency and accountability. Individual ministers have the responsibility to allocate their programme resources within the top-down resource envelope to reflect the key strategic decisions made by cabinet and the strategic priorities for the sector. Running costs of the agency are determined largely by formulae within the larger envelope which is essentially one bucket of money with considerable autonomous focus on accrual accounting (Du Preez, 1996:non-continuous paging).

This high degree of autonomy, transparency and accountability has led to some critical evaluation of decentralisation of services and contracting services out. Shergold (1996:293-305) asked the following questions: How ill we make sure that the agency will not contract out at citizen's expense? How will South Africa distinguish between answerability for the standards of service provided to customers and being accountable for the standard of service provided to the public?
Administrative performance in the public sector can be enhanced by more strategic management. But good governance depends upon partnership, mutual respect and trust, wielded under the discipline of parliament, the constitution and public scrutiny. The more things change, the more they stay the same.

6.7.7 Facilitate meaningful measurement

An appropriate financial management and budgetary system should facilitate meaningful measurement of the total monetary costs of accomplishing defined objectives. It must balance line-item control orientation with performance budget as its management orientation, planning, programming and budgeting systems with planning orientation and analytical orientation and zero-base budgeting with competing agency or packages for funding and sunset legislation orientation. With an ability to reconcile these budgetary systems and taking into account the South African environment and the Medium-Term Expenditure framework with rolling three-year budgets, it is possible to harmonise the elements in the environment of politics and furnish more accurate information for broader decision-making and to ensure value for money (Chapter 2).

Moreover, a package of current costs only will not suffice. The statement should project the total cost stream throughout in the foreseeable future. Such projected plans will also reflect upon available or needed skills for the future to carry out activities in the department. A decision can then be facilitated on how to capacitate the challenges in years to come by preparing the present manpower and determining the costs to train and develop it, or to make an alternative decision whether to hire out services or recruit new staff, whichever works cheaper (Chapter 3).

It thus facilitates comparison of alternative ways to accomplish a given objective. During large-scale decentralisation of activities and devolution of political power, hard decisions based on projections have to be made. For
example, deciding which of the two approaches to the problem is suitable, for relieving geographical pockets of idle resources: 1) retraining workers and creating inducement for the in-migration of new industries, or 2) relocating workers at places where employment opportunities exist with or without retraining (Novick (ed.), 1967:34-35).

An appropriate management and budgeting system should clearly identify the future cost implications inherent in near-term financial commitments. It is contended that those who allocate scarce funds, should be made aware of the prospective increased or extra expenditure in the budget streams. This will help to avoid entrapment in the familiar inclusiveness of modest, first year costs. The point is that there must be open and honest communication between the budget office and departments and agencies so as to forewarn the budget office about the new additional expenditure.

### 6.7.8 Comparison of Cost Input and Achievement Output

The budget design should facilitate comparison of cost input and achievement output when related segments of a single programme are administered by different management units. Compare, for example, a hospital under the direction of veteran administration versus hospital services under another jurisdiction. In Chapters 2 and 3 to further simplify this, compare costs input into a privately run hospital’s administration with the costs input of a provincial hospital’s administration both to the achievement output. Where the costs vary too much, the output may be the same, but is it really worth the cost?

An appropriate financial management and budgetary system is capable of delineating the objective of discreet spending commitments in such terms that significant cost-effectiveness (cost-utilising) analysis can be carried out. There are obvious limitations in our ability to define goals that are measurable or even measurable progress of workload towards achieving such goals. This financial management and budgetary system for South Africa nevertheless continuously seeks ways and means to an informal analysis and advance into
quantitative goals and common service into allocatable activities. This is a challenge for budgeters and experts in budget innovations, that achievement output should be worth the cost input even if it is compared from different jurisdictions. The two jurisdictions mentioned do not really compete, but one can out-compete the other for the same service output (see 5.8).

An appropriate financial management and budgetary system, when efficient and effective enough, makes it possible to aggregate related expenditures wherever they occur in the government's sprawling administrative structures. Research continuously takes place in many departments and other foreign agencies in order to be more effective and to assist in the national decision-making process, thus permitting identification of aggregation for both the legislators and citizens to recognise the total size and multiple location of the identified commitments.

A financial management and budgetary system for South Africa that effectively meets all the qualities mentioned above, goes further into serving another important need: that of generating economic data on legislative inputs to the national economy by meaningful activity segments. It will also be able to put more clearly into perspective public programmes and public policies in a growing democracy. This will also help private analysis to understand and interpret the direction and influence of general spending. It will thereby improve the efficiency of private investment through rational administrative commitments in relation to present and future programmes. At the same time a flow of information relevant to political and social programmes will be available.

There must be alignment of the top-down fiscal targets and the bottom-up estimates of the costs of existing government policy as in Chapter 5. It is only the annual budget context which provides the discipline to force the tough decisions that need to be made at the strategic level.

However, policies and attractive plans mean very little if the necessary resources to effect them are not in place. The researchers are at a critical step
in their path-breaking reports in concretising the policy and budgetary changes necessary to facilitate appropriate policies and programmes. As more information comes up, more revaluation about budgetary systems reform will come and the budget continuum goes on.

The public financial management and budgeting system model that appears at the end of this chapter embraces all characteristics just discussed. It is a model that supports a transforming society in South Africa. It influences the environment by interacting with factors therein to influence financial policies. It remains proactive continuously, and has the capacity not to neglect factors in the environment.

The following section gives some highlights and challenges on the paradigm shifts about Behn's Big Questions, new ways of thinking about policy-making and budget reform, the financial management and budgetary model, as well as avenues for further research.

6.8 PARADIGM SHIFT

The issue of paradigm shift is critical to intellectual and theoretical growth as much as it is to time, consequence and transformation. The former, through research, increases understanding and discovery of new knowledge and concepts, broadens our comprehension and leads to the decay and rejection of old knowledge and structures, and the discovery of new truths, knowledge and structures. The latter – time, consequence and transformation – questions our understanding of the environment, the individual, organisations, management and leadership styles, technology and our daily interaction with our environment and the problems encountered. Do we understand them? Or do we understand parts of the problems?

The ability of research to answer questions and solve problems in the environment, in organisations and in the future, lasts for several decades and new questions come up. New beliefs, values and views come up and stabilise
the environment but for a limited time. They challenge our very existence in the environment and face a shift from one strongly held belief to several other beliefs in our lifetime. We therefore talk about learning individuals and learning organisations.

Max Weber's bureaucracy which once was “one-size-fits-all” is no longer successfully serving institutions. Organisations began to crumble and its effectiveness and efficiency is questionable worldwide. Why? Simon's *Economic Administrative Man*, Druker's *Age of Decay* and Tom Peter's *In Search of Excellence*, are but a few of our desires to improve our well-being. The search for an appropriate financial management and budgetary system will continue along the philosophy of this paradigm shift.

6.8.1 Behn's “Big Questions”

According to Behn, questions must address the essential nature and dynamics of an element of the discipline that it exerts at its very core. Specific “big questions” proposed were: What is the nature of the organisation? How is the public organisation related to the environment? What does it mean to manage the organisation? Essentially, if not all, most of these questions have been answered; left to study is nearly everything all over again (Newman, 1996:409-411).

True, sciences are known by the “big questions” they address. Equally important and usually obscure to the layman (and even to Behn himself), is the fact that, among the scientific disciplines, the big questions are never really completely answered. By this very nature, they are multi-faceted and extend into dimensions of which we are never fully cognisant at any time. Thus, while for the time being, it might seem that the major question has been put to rest, in truth we have only produced answers that our existing vision enables us to find. Eventually the big problem transcends in some way our current vision so that we immediately become aware of some new realm where the old solutions are either inadequate or do not work at all. The budget
continuum reflects the shifting from old budgetary systems to new ones as conditions, circumstances and the environment change to challenge the capacity of old systems. As the environment becomes more complex, so the discipline’s complexity multiplies (Chapters 1, 2, 5 & 6).

It becomes a real struggle to find solutions and no longer only quick-fix or *ad hoc* solutions, and the result is the switch over to programme budgeting and planning, programming and budgeting systems with their management and planning orientation. In fact, a switch to a more holistic viewpoint means movement to multi-year budgets in order to understand the broader scope and nature of the discipline and the problems encountered in the country.

In the early years of this century a paradigm shift had taken place within science, which allowed new dimensions of old problems to become visible. Within these new dimensions the old answers were not so much wrong as they were inadequate as pointed in 3.2). Now, in the latter part of the century, another new world view of nature appears to have great implications, not only for the physical world, but also for the social world as well, and organisational theory and the rules of organisational dynamics may be far from settled after all. The new paradigm is that of the nonlinear system. Under the guises of the nonlinear systems theory, the “complexity” or “chaos” theory, it is providing researchers with a new view of both physical and social systems (Newman, 1996:412-413).

If, for example, organisations were to operate in the same way and manner as complex natural systems, perhaps organisations might be shown to respond best to the problem when they strive to mimic the dynamics of the natural system purposefully. One could find that new definitions of efficiency and effectiveness are in order. New organisational designs may be devised, not under positivistic principles, but under the natural ecosystems. It might even be discovered that it would be more productive not to attempt to manipulate an organisation’s bureaucratic structure.
All this has far-reaching implications for public administration and public management under the new paradigm. It is again terra incognita for the discipline with implications that are truly profound. All the closed doors and all the apparently settled questions must now be reopened. After all, the “Big Questions” of the core discipline have not been answered satisfactorily. To be more specific, the financial management and budgetary system which used to answer all questions satisfactorily, is no longer satisfactory. With the change in the nature of government business, a need not only to control government expenditure is expected, but also to manage and to plan for a sound policy decision-making process becomes the focus. There is an urgent need to link up performance to outcome, and planning to long-term financial management and budgetary systems. It means that there is an ever-growing need for researchers to reconcile control, management and planning as budgetary functions in a balance so that they solve problems rather than aggravate them (Chapters 3-5).

A broad in-depth analysis of these functions and budgetary dynamics as well as natural dynamics may reveal how organisations can be more successfully linked to their external publics. The end might be more effective on public input to improve a quality decision-making process.

In fact, what is required, is moving up the ladder to levels of abstraction beyond the forward instrument of collective action of broader processes. Public bureaucracies are one instrument of collective action which challenges us to develop, manage, nurture, change and improve the range of instruments of collective action which achieves societal goals. Similarly, science is one approach to social inquiry, and over-commitment should be the same as in a bureaucracy to improve the range of processes through which societal learning occurs. To the extent that public administration limits itself to public bureaucracies and science, so it limits its own relevance and impact. Analysis can be used to be included in the policy-making process or it could reach consequences that would otherwise be neglected (Newman, 1996:411-412).
6.8.2 New Ways Of Thinking About Policy-Making And Budgetary Reform

Literature on budgetary reform based on the normative theory has tended to obscure the fact that very little is known about the budgetary process. There are many articles on public finance and literature is steadily coming up, but nothing of substance about how or why budgetary decisions are actually made. The national budgetary process is not meant to discourage concern with normative consideration on reform.

A financial management and budgeting system is the nation's choice of how it proposes to spend its resources among the various items of expenditure. It is a statement of the nation's priorities spelt out in rands. The fact that the budget may not be the result of anyone's conscious desire, does not render normative appraisal inappropriate. Along with the budget is the census institution that needs to be developed better. The budget must be subjected to systematic criticism which is a major way to improve the nation's normative capacity. In chapters 2 and 3 it is pointed out that the consensus should be, among other things, an inventory of the state of the principal dimension of human condition that reflect the quality of life in the nation. This is essential when South Africa form a normative judgement of the quality of the nation's performance: how well the public interest, the core values of society, are being reflected on the nation's practice. The goals of rationality remain abstract and utopian without an appropriately nominated evaluation of preference statement and testing of the theoretical base on which policy is grounded.

Procedures that de-emphasise overt conflicts among competing programmes also indirectly encourage secret deliberation, non-partisan and personnel recruitment who feel comfortable in side-stepping policy decisions most of the time. The politics of budgetary implementation is marked by a pattern of broad discretion and its abuse and reduction are followed by lessening of control. This pattern is political and highly controversial (see 3.2). Generally budgets are carried out as intended. Accountability and adaptability in the budget are managed within the skilful use of constraints over budget implementation.
which may be overly rigid and expensive in which case they will be softened eventually.

Budgeting is not just a function of relations between the executive and legislative branches. It also reflects policy preferences of the chief executive and, to some extent, the legislature. The national government is most sensitive to policy issues in the budget which is partly a function of its larger size and the impact of the budget on the economy. At the level of provinces, spending has a relatively smaller impact on the economy, ideological budgeting is less apparent and the budget process typically does not force the same level of explicit trade-off between kinds of expenditure. The top-down policy directions and the bottom-up programme budgetary system estimates for expenditure reflect a mutual relationship between the executive branch and the legislative (Rubin, 1992:81) (see 5.8 and 6.5.6).

What is necessary, is a realistic view of how a financial management and budgetary system works. How can innovation in the financial management and budgetary system be effected in the process of public financial management? It is contended that, as long as the political structure is unwilling to accept innovative measures by innovators, the whole process is futile. Political structure enables the solution of all problems, whether they be social or economical. Political structure, together with political rationality, does not guarantee efficiency. So, budgeting, financial management and budgetary systems and processes are all political documents of an administrative nature, i.e. they have more real impact in the administration and the nation after being authorised by the legislature (see Chapter 2 and 3).

Any attempt therefore to renovate or replace any financial management and budgetary system must be supported by the legislature first so that administration can follow. Furthermore, the routine that budget role players create around themselves, is almost a century or half a century old. Any attempt to change that without the necessary understanding of the human element to drive the change, is bound to grind to a halt. However, South Africa is in a new political dispensation, so resistance is not expected to be strong.
This does not mean it will be easy to transform the country. It will not be easy at all, but it is still better than in a country without any political changes. The financial management and budgetary system reform should be looked at broadly as enabling the present system to be transformed. In the process new knowledge will be gathered and further new ways to policy-making and thinking will be discovered.

The swings in budgetary decision-making suggest there are some internal mechanisms for balance, but they are not well-regulated. They depend on knowledge of outcomes which is often not there. Where constraints are devised, they usually address the last swing and not the next potential one. Of necessity is the knowledge to understand reform. We should concentrate on identifying the places and times, the mechanisms that direct all balances to swing widely or too widely, and the turning points or mechanisms that have historically brought the extremes back from danger.

In the present financial management and budgetary system there is absolute interchangeability of budget roles. Reforms that simply give the executive more power, are not long-term solutions to budget disciplines and/or balance. History does not support the position that increased power to the executive will solve deficits or other budgetary problems. Unreformed legislature riddled with corruption, then shifting power to the executive, may bring about short-term solutions. The balance of power between the executive and the legislature is probably more sound in the long run than the weakening of one and the continual strengthening of the other. It is not a weak government that is required, but fairly balanced powers (see 2.4.2 and 3.3.4). The policy knowledge or the new way of making policy simply focuses on the relationship between the budget processes and outcomes. The budget process allocates power to different actors, each of whom has ideologies, values and goals. When the budget process shifts power for decision-making more to one actor than to another, it influences the likely outcome. The process also tends to weaken top-down control with its narrow political control, or it may be broadly policy-orientated in the sense of trying to control spending or shift spending priorities.
In the paradigm shift Behn's Big Questions and new ways of thinking about policy-making and budget reform have been discussed. It is now opportune to explain an appropriate financial and budgetary system model for South Africa as a further process in developing Behn's Big Questions.

6.9 AN APPROPRIATE FINANCIAL MANAGEMENT AND BUDGETARY MODEL FOR SOUTH AFRICA

The model – adapted from Hollis and Plokker (1995:76) – for South Africa takes into account the environmental factors as the arrows from the right indicate (see 6.9.1). The factors are the Constitution, the Bill of Rights, RDP, GEAR, AA, stability employment creation, crime levels and regionalisation as discussed in Chapter 1.

The Financial and Fiscal Commission is concerned with intergovernmental fiscal relations, as discussed in Chapter 3. It equitably applies the norms and standards with formula for vertical and horizontal division of financial resources among all the spheres of national, provincial and local government. The arrow facing down (see 6.9.1) indicates this.

Strategic management and planning is referred to in Chapter 4 in the study of other countries’ multi-year budgets and vision formulation and also in the consolidation in Chapter 5. It was also referred to in Chapter 6 regarding an appropriate budgetary system model for South Africa. Arrows from the bottom up from the guidelines of public financial management and budgeting reforms (see 6.9.1) ensure the successful, effective and efficient management from short term and medium term to long term as strategies. These guidelines are discussed in Chapter 2, regarding strategic management and planning to achieve objectives stated in the Constitution.

The circle at the centre (see 6.9.1) represents an appropriate financial management and budgetary system model, crosswalk budgeting to accommodate the FFC’s recommendation of norms and standards, taking into account the environmental factors and strategic plans for South Africa's transformation. Rather than becoming just another factor, the model is an agent of reform and a proactive facilitator, as it accommodates all elements of the transformation, including the macro-economic framework.

The model just explained, appears on the following page. Thereafter, avenues for further research are discussed.
6.9.1 An Appropriate Financial Management and Budgetary System Model for South Africa

Budgeting Systems
- Medium-term expenditure framework
- Objective-orientated budgeting
- Performance measuring budgeting
- Resource listing budgeting

Environmental/Policy Factors
- Constitution
- Bill of Rights
- RDP
- GEAR
- Affirmative Action
- Stability, job creation, crime levels
- Regionalisation and globalisation

Financial and Fiscal Commission
- Vertical and horizontal division of financial resources
- Application of norms

Guidelines of Public Financial Management and Budgetary Reform
- Popular sovereignty
- Separation of powers and the rule of law
- Community values and norms
- Economic growth and stability/democracy and prosperity
- Representation
- Participation and civil society
- Good management agenda
- Decentralisation: Local autonomy and good governance
- Accountability

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STATEGIC MANAGEMENT AND PLANNING

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Finance
6.10 AVENUES FOR RESEARCH

Studies of budgetary trade-offs may produce major insights if they adopt a realistic view on how the budget works. By assuming that the revenue constraints are variable and not fixed, that most trade-offs occur within departments and within the capital budget rather than across sections, and that major changes in spending priorities occur only over fairly long periods of time, presents challenges to transformation. That kind of expenditure makes a difference, since much of the politics of budgeting revolve specifically around the degree of flexibility and the attempt to lock some expenditure.

Further research into provincial and local finances in South Africa needs to be documented to meet the present constitutional dispensation specifically on budgeting and on linkages between decision clusters, the relationship between micro-budgeting and macro-budgeting as well as the inter-financial, inter-governmental relations. What strategies do budget actors use and how effective are these strategies? (Chapter 6)

The question remains of tensions between discretion and control: a discretion-and-control cycle for budget implementation, and a critical examination of how administrators re-create discretion within budget control. What about these internal dynamics and the different political values of different resources depending on the degree of discretion they entail? Now unencumbered money without strings, has a special value in tightly controlled budgets.

The process of locking and unlocking decisions in budgeting involves a number of decisions that budget actors at the peak of this power try to make permanent. Often there are attempts to unlock decisions, to reverse them once they are made. How does this happen, and is it of interest to researchers? Under what circumstances do locking and unlocking strategies work? How are trust funds established? In each of these more attention should be focused on the processes and circumstances for undoing or reversing them as questions were asked in 6.5.
There is a need for further exploration of the relationship between the technical and political aspects of budgeting. The technical concerns of the budget normally include accurate estimates of expenditure and revenue, realistic evaluation of the economy, compliance with balance requirements, timely completion of decisions, prevention of overspending or unauthorised expenditure by agencies and the creation of a plan that puts enough resources in the right place to get mandated work accomplished. The political concern of a budget includes establishing and enforcing priorities, getting sufficient support for taxation to allow expenditure to occur and balance to be achieved without being thrown out of office. The creation of workable budget processes, the design and implementation of rules of balance and the satisfaction of perceived needs for constituting benefits. Who performs which functions? How do they balance? When does political distortion of the economy get severe enough to force the creation of an alternative to more neutral projection? When do technical efforts achieve balance to cause major policy changes? When is the most appropriate opportunity to introduce radical innovations in the budgetary processes, budget and financial management? Whose responsibility is it to maintain the informational integrity of the budget and its usefulness as a tool of accountability to the public? How far can that integrity be eroded before counter-procedures are exerted? (Chapters 3 and 4).

Runners continue to break world records, because training and management techniques continue to improve. There are always newer and better ways of using measurement of achievement to improve performance. Measurement is a first-rate start, but there is more to management and achieving value for money. Can the new budgetary systems strengthen linkages between performance and outcomes? Can it really move internal evaluation of administration in government to external linkages?

These and many more suggestions call for further challenges in the field of public financial management. There are interesting trends when one compares South Africa to the rest of the world, such as Europe and the Far
East. Can the same strategy excite the researcher in inter-relationship of financial management and public administration in Africa?

6.11 SUMMARY AND CONCLUSION

The previous sections discussed a changing environment, guidelines to financial and budgetary reform, inter-governmental fiscal relations and the budgetary systems in the form of input-orientated budgets, activity performance measuring systems, objective/goal-orientated system and Medium-Term Expenditure Framework during transformation. There was an international case study of countries with questions asked and answered in collating and consolidating data.

Chapter 6 examined an appropriate financial management and budgetary system for South Africa. It explored the contextual benefits, experiences and policies of other countries, performance and project management with regard to financial management and budgeting systems. It examined aspects related to a financial management and budgeting system, such as decentralisation, specialised financial systems, education policy as well as political and economic reality. Good qualities of an appropriate financial management and budgetary system are further explored as reform is not won easily. The paradigm shift is highlighted under Behn's "Big Questions" with a general preliminary note, new ways of thinking about policy-making and budget reform. A diagrammatic model of an appropriate financial management and budgetary system is presented. The chapter ends with a brief overview of avenues for further research.
CHAPTER 7
SUMMARY AND CONCLUSION

7.1 INTRODUCTION

Throughout this study project I have stressed the need for a model for financial management and budgeting system to support a transforming society in South Africa. Our society is at a critical juncture when resources of all sorts become scarcer by the day. It has never been clearer that the government is under pressure to be productive, efficient and effective. It must pull back from a range of public responsibilities as it embarks on community-building, partnerships and privatisation through competition to build on cost savings of some of the basic functions. The study broadly defines the objectives in terms of the constitution and formulates strategies on the short, medium and long term.

The research process has reviewed the environment in which an appropriate financial management and budgeting system can effectively support a transforming South Africa to deliver the pre-determined objectives by Government. These included the Constitution, the Bill of Rights, RDP, the goals of Government, GEAR, empowerment, the relationship between employment, stability and crime levels, and the SADC. The guidelines of budgetary reform also laid a strong argument for applying strategic management and planning in determining an appropriate financial management and budgeting system. These guidelines are popular sovereignty, separation of powers and the Rule of Law, community values, economic growth, stability, democracy and prosperity, representation, participation and civil society, a good governance agenda and accountability. They guide all activities in the governance of public financial management.

The overview of the Presidential Review commission and its findings served as a linkage between exploring both dependent and independent variables. The importance of the environment is that the financial management and
budgeting system, resulting from this research project, will not be implemented in a vacuum, but in a myriad of other variables from the environment. The independent variables included exploring the FFC and its functions and its role regarding intergovernmental fiscal relations. The budgetary systems as well as some financial management policies have been reviewed under specific budget-related headings, such as input-orientated systems (the line-item); activity/performance measuring systems (Programme budgeting system and Performance budgeting system); Objective/Goal-orientated systems (planning, programming budgeting system, management-by-objectives and zero-base budgeting) and finally, multi-year budgets which include most of the objective/goal-orientated and the programme budget, but goes further to include long-term objectives. The role of a medium-term expenditure framework and transformation in the United Kingdom and the commonwealth countries over the last three decades have also been explored.

The capacity of the financial management and budgetary system to manipulate the transformation of the country has been done through understanding of the budgetary systems mentioned above and through the international case studies of countries that have undergone or are undergoing transformation as lessons and experience for a changing South Africa.

During consolidation of the research process, issues raised in the study and their relevance for South Africa are critically examined. Of relevance to the study for South Africa are: the budget and economic development, accountability, transparency and openness in determination of the budget, financial regulations and multi-year budgets. Questions were asked and answered in this section. Thus strategic management and planning, the FFC, particularly its application of the formula through guidelines of the norms and standards, and the environmental factors have become clear, with the resultant crosswalk budgeting system as a final product of studying different systems. This study is about the determination of an appropriate financial management and budgeting system that supports transition in a changing South Africa. It is from the varied analysis of financial management and
budgeting systems specifically, and international case studies of countries in Europe, the Commonwealth and the Far East that such an objective has not been found wanting. It has been achieved. It is now possible to make some observation and recommendations from the findings.

7.2 FINDINGS AND RECOMMENDATIONS

There is a desperate need to revolutionise the way in which the government business is conducted. The government does not have to be a gigantic and inefficient bureaucracy, as much as the same size of bureaucracy is not acceptable in the private sector. It is also true that it does not have to be small in order to deliver effectively. Questions asked and attempts to answer them are those of scarcity of resources, especially financial, human and time. It is further observed that they are intertwined: we need timeously skilled human resources to manage and finance the priorities set for the country effectively. Without skilled manpower resources and capital, financial management within the provisions of the Constitution cannot be achieved. It is the premise of this study that an appropriate financial management and budgeting system must be able to manipulate financial policies to support a transforming society in South Africa. It is further contended that, while other countries waited for transformation to come, the purpose of this study is to determine a proactive financial management and budgetary system that understands and manipulates the environment to support a transforming South Africa with relevant financial management policies and strategies.

It is my salient belief that, whenever transformation takes place in financial management and budgeting systems, as the budgeting systems study proved, the core elements of a particular system that are capable of standing the test of time, remain intact. Only incremental changes are possible, as dictated to by the demands of the environment. It is further contended in the thesis in Chapter 3 that any system we have had since time immemorial, the finance system we have now and the one we will have in future, all contained and will
still contain all the major features of financial management and budgetary systems that have been studied.

Strategic management and planning in Chapters 5 and 6 throws light onto aspects which make the public sector as well as the private sector inefficient, ineffective and somehow stagnant. The broad definition of objectives to which the government is committed, have to be determined in terms of priorities. Relevant questions must be asked whenever prioritisation is in process. The processes, activities, strategies, functions and goals must be determined and monitored from time to time and adjusted in accordance with demand. Any strategic management and planning that does not address issues as mentioned in terms of objectives broadly defined, functions, activities, goals and formulation of strategies to achieve them, is not worth the trouble and should be thrown out. The present transformation process if it is to be successful, must oblige all institutions, as well as agencies and even units, to produce clear-cut business plans. That will determine where the country's transformation is heading. It is contended that each and every institution, unit or section or agency that compete for public funds, must have its business plan ready in future, otherwise no funding will be availed.

The lessons and experiences in Chapter 4, of other countries, such as Malaysia, New Zealand, Taiwan and the United Kingdom, is that they have something in common: they have strategic management plans up for to many years into the future. These strategic management plans enable countries to accommodate policies which have long-term as well as medium-term implications. These plans further assert what was acknowledged earlier in the thesis: that no country can solve all its problems at once. The challenge is to prioritise. South Africa as a country in transition is no exception to this rule. With its problems of unemployment, financial management, abject poverty, crime levels, wealth and income redistribution, an appropriate financial management and budgeting system must be capable of manipulating the environment and developing financial management policies and budgeting systems to transform the country smoothly. Some other problems are those of affirmative action, equity housing provision, security and economic growth and
development. All these must be prioritised and reprioritised to meet challenges.

The challenge for South Africa is to pre-empt the problems arising from transformation and to create safety checks for supporting a transforming society. In the manipulation of financial policies, strategies, financial management and budgeting systems, the transformation is supported and not vice versa. The whole of the strategies just mentioned were changed because of transformation that took place. South Africa has set its target higher within the context of this study. What other countries achieved in several generations, South Africa will do in only one, applying the model proposed in this study.

7.2.1 Salient Features of the Model

However, it is opportune to consider specific issues raised in the study project further as very salient features of an appropriate financial management and budgeting system to support transformation.

7.2.1.1 Definition of Values and Culture

The financial management and budgetary system is applied within the parameters of the constitutional dispensation. It advocates universal values and culture beyond parochial interest in Chapters 2, 3 and 5. It looks creatively for ways to generate and save as much money as possible. The financial management and budgetary system engages in strategic management and planning to advance the universality of values and culture. It strongly recommends bonuses for money saving for up to 15% of employee earnings for generated innovations. The thesis is simple. Big bureaucracies grew to be too big during the industrial era and became bloated, wasteful and ineffective. When the world changed, the bureaucracy did not change. This is the problem facing the world: lack of response on the part of the bureaucracy.
The only consolation now is that the new partnerships will steadily take over from both sectors for better delivery of services to clients or customers.

### 7.2.1.2 Comprehensive Productivity Improvement

An appropriate financial management and budgetary system should be viewed as a comprehensive public sector improvement, because of its broad holistic approach to problems. There are resource inputs (in the form of money, labour, energy and time) which are limited to internal capacity. These are integrated with managing for quality, developing the human resources, adopting the technology and information system, building partnerships. Together they lead to output (of services) which has an impact on outcomes. These outcomes may be subjective/personal or they may be objective/empirical and are taken back to parliament or to the chief executive of corporate/media/citizen judgements. Feedback on a budget management decision is made and the whole cycle of input to output and to outcomes repeated. The cycle can be repeated for as long as there is effective measurement for delivery of services with impact on the community (see 3.3.2).

The point is made in this study of a balanced approach to financial management and budgetary systems to support transition in South Africa. It is this concern with environmental factors that has been highlighted. One conclusion is that change and reform may proceed only from the foundation of thorough understanding of an institution, its culture and its employees as well as the external factors. There must be clear communication about the need for change and a careful plan for implementation of the financial management and budgetary system. Leadership really matters in every transformation. One must find the right channels for support and for learning lessons and must apply them to maintain a sense of focus and purpose. It is submitted that transformation and change are hard, take a long time and go even deeper. To change the people’s mindset makes them uncomfortable and angry. The urgent pressures for change and transformation at all levels of government are too intense and consistent to ignore (see Chapter 5).
7.2.1.3 Functional and Innovation Tools

Public managers have a number of tools to use when crafting solutions to problems. These can be functional tools or innovation tools. Most complex tasks in the public sector require team efforts rather than strictly individual performance. Traditional financial management and budgetary systems which are input-orientated, focused management on meeting specific targets and objectives through regulations. Tracking performance is no less critical than it was in the past (Chapter 3).

The innovation tools approach and the use of information to conceptualise the financial management and budgetary system act as one element of a more complex system of performance measurement. In addition, by adding benchmarks, as pointed in Chapter 3, the model is capable of comparison and effecting a competitive edge among the agencies for funding. Strategic management and planning in implementing the financial management and budgetary systems model must be applied to assess the capability of the agency, environment and purpose.

However, caution must be taken as, even if people embrace change, there is usually a limit on how much and how quickly they can learn to be competent in the new environment. Organisations, especially public organisations, do not have the luxury of stopping current production while they learn a new way of work.

Investment budgeting, especially in the financial management and budgeting system, is a model that helps to improve the quality of resource allocation and decisions by clarifying options that will yield a high return. It begins, as stated in previous sections, by defining broadly the objectives to be achieved and prioritising for short term, medium term and long term. It embraces input-orientated budgeting systems, activity/performance measuring systems, goal/objective-orientated systems, medium-term expenditure framework and multi-year budgets. It defines clearly the outcomes to be achieved by the public sector and also gauges their value using innovative tools.
It goes further to build community partnerships, not just privatisation. These community partnerships are innovative tools in the form of citizens and volunteers, public sector partners, private sector partners and not-for-profit partners.

What makes a real difference, is real competition and not privatisation itself. Cost saving competition will, for instance, encourage innovation for service provision by allowing quicker response to new service areas. Co-operation between partnerships is important in minimising costs. There is also the desire between these partnerships, when directed by a comprehensive financial management and budgeting system module, to spread the costs and benefits of economic development across the region. With limited fiscal means, costs will not be burdensome if they are borne by the government alone or by a particular institution or sector alone. Indeed, substantial savings are realised for participating when competing for jurisdiction in training, education, dispatch, transportation and other essential functions that are centralised.

These joint public-private ventures, as innovative tools, strengthen the government’s capacity to deliver quality services by providing donations of personnel or equipment, supplementing schools, parks and libraries, developing joint strategies to ameliorate emerging problems, such as homelessness and crime waves and stimulating economic development. They can begin by investing for general public good rather than for any specific short-term bottom-line gain. Such is the model for a financial management and budgeting system to support a transforming South Africa.

7.2.1.4 Result Orientated/Outcome Based

The performance review of how the government works and not dwelling on what the government should be doing, is a clear shift in focus on the government functions. Such a shift can be in vain without an equivalent shift in financial management and budgetary systems for a transforming South Africa. This is a blueprint of the urgently required changes in financial and structural attitudes to financial policies and strategies. These are the innovative efforts
that create a government that works better on less money and that is more responsible to challenges rather than reactive.

It is submitted that the present financial management and budgetary systems model must be a catalyst, a facilitator and a proactor in the transformation by developing and manipulating financial policies for transformation. It is comprehensive enough to define broadly the objectives set by the government in a holistic view. Yet it promotes shared vision and goals through the continuity of leadership and it applies the consultative participative bottom-up approach where appropriate, and top-down where appropriate, so that the value of accountability is not overshadowed by changes.

However, fundamental change and transformation is difficult and painful. It is fraught with uncertainty and risk. The model that is proposed, accepts the fact for the public institution as much as for the private sector. It is contended that public institutions, if they are to face up to the challenge, must be able to abandon old programmes and their leadership must become more innovative, imaginative and creative. This means a capability to design relevant measurement tools for ensuring the achievement of set objectives: measurement of outcomes.

7.2.1.5  
**Entrepreneurial Government**

An appropriate financial management and budgetary systems model allows the government to release the will to work among its personnel to achieve stated objectives. It understands that a successful entrepreneur does not commonly take risks. On the contrary, he/she defines the risks carefully and balances that with opportunities and dividends that may come up. Most entrepreneurial governments promote competition, empowers citizens and measure the performance of institutions not by focusing on inputs only, but on outcomes as well.

As stated in strategic management and planning, financial managers are driven by goals which are their mission statement and redefines the
importance of their clients – the citizens – as consumers of services. They manipulate the environment for change, prevent problems even before they emerge and market mechanism is an alternative to bureaucracy.

The government should move away from the act of “doing things”, such as delivering services. There is more demand for governance: a need to lead the society. This leads to government under this model to have more time for creativity, innovation and decision-making for policies. Simultaneously, in a democracy, as advocated in Chapters 5 and 6). There will be a process of empowering society in the new structures to own the transformation process and sustain it while the government remains accountable.

The financial management and budgetary systems model envisaged enabling the government to apply the guidelines of budgetary reform to ensure sustained development and growth. Very few people outside government understand the processes of the budget, but budgets control everything in an institution. Budgets appear to be omnipresent, useless and demeaning. This study is intended to clear these perceptions. The fact is that the budget is a public document and affects all the members of society. The community must learn about the financial management and budgeting system and participate in the debates and other organs and structures of the society.

The study is a clarion call to all: the government, the private sector and the non-governmental and not-for-profit sectors to join hands and face up to the challenges of a changing South Africa. Members of civic organisations, business and political leaders, as well as those from other third and fourth sectors, must come together and formulate a common vision to direct transformation as to where the country is going. The third and fourth sectors are sectors other than the public and private sectors. Mission-driven civic organisations have high morale rather than rule or being regulation driven. This regularity is a challenge and a process facing governments in their transformation. Osborne and Gaebler (1993:117) observed that “... The real pay-off comes when governments deregulate these systems because they create the basic incentives that drive employees ...”. This breaks and unites
the leaders who say employees must focus on the mission while budget officers say they must observe rules and regulations. A budgetary system that challenges stereotypes, and rigid regulations which retain bureaucracy at the disadvantage of the client, will fail to transform South Africa. The financial management and budgetary systems model challenges the role players in budgetary processes and all sections of community leadership to participate.

7.2.1.6 Public-Private Partnerships (PPP)

It is contended that public-private partnerships are working in other parts of the country. It is, however, crucial that an out-sourcing of services must not take place at the expense of the taxpayers again as pointed in Chapter 6. The joint partnership should not be delayed until government properties or other services dilapidate and lose value or become unattractive to the prospect. Poor tender procedures and financial management and budgeting systems will be ineffective. These ventures must be attractive with resources to assist in delivery. Value-for-money is also central to the model. The money one pays, must be equal to the services rendered. It is concerned with economy and efficiency of resources.

7.2.1.7 Political Rationality versus Economic Rationality

There is a clear distinction between political rationality and economic rationality. In Chapter 2 it was argued that political rationality builds the framework for the solution of all other problems. It has its own rules for decision-making and votes to endorse those decisions. Political rationality lays a framework for all decisions regarding community values, legislation and financial issues. However, economic rationality attempts to impose a formula for political problems as if they are also economic problems. The preference formula of social values quickly breaks down and becomes impractical.

The point is made that, for solutions to the South African problems, it is necessary to understand as broadly as possible the challenges and objectives confronting the process of transformation. This model accommodates and
reconciles political rationality and economic rationality to address the challenges. While political rationality is more concerned with negotiations, debates, campaigns, collusion and collaboration, consensus and vote, economic rationality tries to design and impose a social preference formula of national values which, at different levels, are naturally more political than economical. The central theme is that there is no such thing as the application of absolutes. An appropriate financial management and budgetary system applies both rationalities with different adaptation and flexibility of the economic rationality into a political national environment and not the other way round. Community values are more political than economical. As long as there is no conflict between the two rationalities, a balance can be maintained throughout. Whenever conflict between the two arises, political rationality takes the upper hand.

7.3 HARD FACTS AND TOUGH CHOICES

This is a reality about the public sector in line with the financial management and budgetary system that rationalises the public sector. The flatter and leaner public institution of tomorrow can only work if staffed by a new kind of employee. Public employees need training to broaden their skills and horizons and must be strongly supported to abandon the play-it-safe style of working favours. There is no longer any tolerance for sloppiness. Public employees under this control must move from "command and control" to "trust and lead". It means giving executives room to change and holding them accountable for results and outcomes. It means eliminating layers of redundant managers who are watching each other to see what happens. It means rebuilding human capital and releasing the will to work, creating new skills packages, creating financial incentive for learning, innovation and cost saving, inventing a new type of public manager and co-operation with clearly defined contracts and goals for chief executives.

There are at least the following competing premises that drive innovation, transformation and change in the public sector within the financial
management and budgeting systems model. These are fiscal pressures for cutback management, privatisation and competition improvement. These are the resources for discretion, such as making potential surplus resources for innovation and cost saving available to innovators. Public servants must be highly motivated to respond with commitment to their client’s needs.

7.4 FINAL REMARK

This study project was about determining an appropriate financial management and budgetary systems model: a comprehensive, integrated approach to supporting the transforming society in South Africa, within the guidelines set by the new constitution. It is concerned with high improvement of performance with measurement of output and outcomes.

Its success is dependent upon

- implementation of public sector improvement of a multiple-step strategy of defining and clarifying goals and obtaining support;
- locating appropriate business plans for each activity/programme;
- identifying promising areas, building a team, planning the project, collecting data and modifying plans;
- implementing improvement action, monitoring and publishing the results.

A financial model of the nature proposed in this study acknowledges that answers to research are never complete as they become valid for a while. It accepts that competition and not privatisation is an answer to cost saving. Co-operation and collaboration will strengthen delivery of services and solution to problems. For the model to succeed, the public sector will move fast from command and control to lead, trust, facilitate and catalyse.

This chapter generates questions to be answered at the end of each section in order to determine an appropriate budgetary system. Such questions are, e.g.:
• Are the budgetary systems discussed appropriate for transformation of this country?
• Are the countries selected for case study relevant for this country's transformation?
• Are the guidelines of Public Financial Management and Budgetary Reform System realistic for South Africa?
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