

Furthering new public management principles through financial reforms in post-1999 South Africa

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DECLARATION

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ABSTRACT

The purpose of this research is to describe how the reform of public finance undertaken in South Africa since 1999 has furthered the principles of new public management (NPM).

The first part of the research outlines the history of public sector reform in South Africa in general, with particular emphasis on public finance. It also discusses how reform was initiated and supplemented by the principles of new public management with the adoption of the Public Finance Management Act, No. 1 of 1999 (PFMA, 1999). This is followed by a deep analysis and detailed discussion of key indicators and the mode of their collection. The final phase consists of a description of how new public management principles have impacted public finance management since 1999. The study concludes with recommendations for further research and for practice and policy.

The results tend to show how some principles of NPM have furthered public finance reform in some areas while others are still lacking. However the lack of sufficient data results in gaps in the findings: this lack of data makes it difficult to portray a clear picture of the extent to which principles of NPM have been fully implemented. Thus one of the recommendations is that certain indicators should be investigated further to understand the phenomenon better; it is probable that in a few years sufficient data will be available to allow for trend assessments.

OPSOMMING

Die doel van hierdie navorsing is om te beskryf hoe hervorming van openbare finansies sedert 1999 in Suid Afrika onderneem is ten einde die beginsels van ‘nuwe openbare bestuur’ te bevorder.

Die eerste gedeelte van die navorsing fokus op die Suid-Afrikaanse openbare sektor hervorming geskiedenis in die algemeen, met spesifieke fokus op openbare finansies. Dit beskryf hoe die Openbare Finansiële Bestuurswet, No 1 van 1999 (PMFA, 1999) hervorming en die beginsels van ‘nuwe openbare bestuur’ bevorder het. Dit word gevolg deur ‘n diep en deeglike bespreking van kern indikatore en die wyse waarop data versamel is. Die finale fase behels ‘n beskrywing van die bedra van openbare finansiële bestuur hervorming sedert 1999 tot die bevordering van ‘nuwe openbare bestuur’ beginsels. Die studie sluit af met aanbevelings vir praktyk en beleid asook verdere navorsing.

Die resultate toon dat sommige van die beginsels van ‘nuwe openbare bestuur’ bevorder is deur openbare finansiële hervorming, terwyl ander steeds agterweë bly. ‘n Tekort aan genoegsame data lei egter tot leemtes in die bevindinge: die tekort aan data maak dit moeilik om ‘n duidelike prentjie te vorm oor die mate waartoe die beginsels van ‘nuwe openbare bestuur’ ten volle geïmplementeer is. Een van die kern aanbevelings is dus dat spesifieke indikatore verder ondersoek moet word om die verskynsel beter te verstaan; dit is waarskynlik dat genoegsame data in die toekoms koers berekenings moontlik sal maak wat verdere begrip sal bevorder.

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LIST OF ACRONYMS AND ABBREVIATIONS

AGSA	Auditor-General of South Africa
ANC	African National Congress
CPI	Corruption Perceptions Index
DBSA	Development Bank of Southern Africa
DPSA	Department of Public Service and Administration
FFCA	Financial and Fiscal Commission Act, No. 99 of 1997
GDP	Gross domestic production
GEAR	Growth, Employment and Redistribution (programme)
IBP	International Budget Partnership
IFRA	Intergovernmental Fiscal Relations Act, No. 97 of 1997
IMF	International Monetary Fund
MTEF	Medium term expenditure framework
NPM	New public management
OECD	Organisation for Economic Co-operation and Development
PFMA	Public Finance Management Act, No. 1 of 1999
PSC	Public Service Commission
RDP	Reconstruction and Development Programme
TI	Transparency International
TQM	Total quality management
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value added tax
WPTPS	White Paper on the Transformation of the Public Service

CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

1.1 INTRODUCTION

The study focuses on the new public management (NPM) outcomes on South African public finance management following the implementation of the Public Finance Management Act, No. 1 of 1999 (South Africa. National Treasury, 1999b), referred to below as the PFMA, 1999.

1.2 BACKGROUND/RATIONALE TO THE PROPOSE STUDY

Since the end of the 1970s “the entire western world appears to have moved into administrative reforms” (Kickert, 1997a: 15). In many countries, “a post-bureaucratic paradigm of public management was firmly embedded” (Flynn, 2007: 354). The attachment to reform was important due to the international economic recession following the oil crisis of 1970. One consequence of the oil crisis was “enormous deficit of the public budget” (Kickert, 1997a: 17); therefore traditional public management based on “command and control” (Feldman & Khademian, 2003: 340) could not help government to absorb the financial crisis. Adoption of new reforms in the public sector was essential to do public tasks with less money. Adoption of new reforms was also a way to review government’s role in public service delivery.

The government of states in Europe and North America saw in the reforms a means of “reducing the state, reform of the public industrial sector, liberalisation, deregulation, privatisation, tax reform” (Kickert, 1997a: 8). The reform of the public sector was also seen as an opportunity for states for “greater cost-consciousness, providing better customer service, performance budgeting, human resource management, information technology, performance control, and evaluation of results” (Kickert, 1997b: 733). The new reform objectives were about “increase[d] productivity, greater efficiency, better value for money” (Kickert, 1997a: 17). Van de Walle, citing Haynes, argues the reform of public administration attempted to implement management ideas from business and private sector into the public service (Van de Walle & Hammerschmid, 2011: 3). In all, the reform objectives were about reducing the role of states and decentralizing power within the public sector.

In Europe, the United Kingdom plays an important role in expanding the NPM and its principles, and can “arguably claim to have been its birthplace” ([McLaughlin](#), Osborne & Ferlie, 2002: 1). According to Kickert (1997a: 4), in the United Kingdom, public administration reform consisted of

introducing a client-centred orientation with a citizen's charter, as well as the introduction of market competition in the government paper on competing for quality.

In Australia and New Zealand, Christensen and Lægreid cite Halligan who said that public sector reform in both countries concentrated on “output and outcomes, and accrual budgeting and transparency” (Christensen & Lægreid, 2007: 57). Objectives for reform in the public sector, and specifically public finance management, in both countries were concerned with getting improved budgeting and planning processes, via the principles of NPM

In the United States, the “reform of New Public Management is sometimes confused with the New Public Administration Movement in the U.S.A of 1960” (Halpern, 2013). At the end of 19th century, the New Public Administration Movement turned against “the abuses of the American spoil system” (Kickert, 1997a: 19) which was corrupt and political. There was a need for change in the administration of the public sector. In the latter part of the 20th century, the oil crisis and the Vietnam War caused a huge budgetary deficit that accelerated the reform process in public administration. Public administration reform in all states was essential as a remedy to the oil crisis. In addition, the need to improve service quality for citizens was important for all states; as a result, the concept of “new public management” became diffused among states.

Furthermore, in terms of reforming the public sector, public finance management becomes essential, since it sustains government activities. Visser and Erasmus citing McKinney, define public finance management as the process whereby a government unit or agency employs the means to obtain and allocate resources and/or money, based on articulated priorities, and then utilizes methods and controls to achieve publicly determined needs effectively (Visser & Erasmus, 2002: 8). They further maintain that financial management in the public sector comprises functional activities performed by public officials to determine the optimum utilization of scarce resources to achieve political objectives effectively and efficiently (Visser & Erasmus, 2002: 9). From the station manager's perspective the budget, as an integral part of the management of public finance, is seen as the “principal vehicle for developing government plan and policies” (Fox, Van Wyk & Fourie, 1998: 127).

In South Africa, the transition to democracy brought many challenges for the new democratic government, because of the “complex puzzle of governments, agencies, departments and legislatures” of the past regime (Chipkin & Meny-Gibert, 2012: 105). Democracy brought also challenges with regard to the number of qualified people able to perform management tasks, because “within the apartheid regimes before 1980, there were no trained black personnel working as senior managers” (Chipkin & Meny-Gibert, 2012: 106). To respond to the multiple challenges of

post-apartheid, the government brought important changes into the management of public administration, specifically the management of finance public, the essential subject of this research.

Reforming public finance was essential for the newly elected government to manage diverse programmes aimed at redistributing wealth among all South Africans. According to the Auditor-General ‘‘half of the government departments and entities audited incurred more than R2.1 billion in fruitless and wasteful expenditure’’ (Ndlangisa, 2013). To overcome overspending and wasteful expenditure, and to manage public funds properly based on transparency, citizen participation and the efficient use of the scarce resources of the state, government introduced public finance reform. Thus, in 1999, government adopted the Public Finance Management Act, No.1 of 1999 (South Africa. National Treasury, 1999b). The Act strives to transform public finance management through the application of NPM principles.

The concept of ‘‘new public management’’ is about ‘‘decentralization of powers to managers, financial reforms, performance management, contract appointments, the introduction of the senior management service and corporatization’’ (Cameron, 2010: 184). Public finance management is fundamental to economic development as well as the sustainability of government activities, because good management of public finance is critical for good governance and social progress of states. The application of the principles of NPM into the management of South Africa’s public finance is also about improving efficiency, effectiveness, accountability and transparency.

Furthermore, the current research will describe whether the NPM principles introduced into South African public finance management has had a positive effect, especially since the implementation of the PFMA, 1999. Finally, the research will add value to the concept of NPM in terms of public sector reform, through making recommendations arising from this study.

1.3 OBJECTIVES OF THE STUDY

1.3.1 General objective

The study will describe, as reflected in key indicators, to what extent the introduction of public financial reforms, based on the principles of NPM, have reformed financial practices in South Africa. Put another way, the general objective will answer the question whether the public financial reforms since 1999 have furthered the objectives pursued by the NPM paradigm.

1.3.2 Specific objectives

Five specific objectives will support the conclusions reached in the general objective. These are:

- i. Analysing the principles of NPM;
- ii. Analysis of the financial reforms in South Africa post-1999;
- iii. Effect of financial reforms: analysis of key published financial indicators;
- iv. Links between NPM and the PFMA for enhancing service delivery; and
- v. Conclusions on the success of financial reforms, and recommendations for further research.

1.4 RESEARCH DESIGN AND METHODOLOGY

1.4.1 Research design

Mouton states that

The research design addresses the key question of what type of study will be undertaken to provide acceptable answers to the research problem or question. The research therefore indicates what types of research design will be followed in the study and why this research design was selected and what possible challenges or limitations in the design require attention (Mouton, 2001: 49).

The research is based on a non-empirical design with a focus on secondary data analyses of key indicators. An indicator by definition is “a statement or assertion of verified information about something that is the case or has happened” (Farlex Free Dictionary, 2013). As the study focuses on South African public finance management, data for key indicators was gathered from published South African government documents. The choice to use government documents was made because they are local, relevant to the study and reflect the reality of South African public finance management. The choice for secondary numerical data analysis was made, first, because the study analysed key indicators before the adoption of PFMA, 1999, which implied analysing ancient data. Second, this should provide evidence of the outcomes or results that have been achieved by PFMA, 1999 through the application of NPM principles. Finally, the secondary numerical data analyses aimed to answer whether the NPM principles had influenced the management of public finance in South Africa after adoption of the PFMA, 1999.

With this in mind, 14 key indicators were chosen for review by the study, derived from the following key sources: Auditor-General’s reports; the National Treasury; the Public Service Commission (PSC); Transparency International (Corruption Perceptions Index) and the International Budget Partnership (Open Budget Survey and Index). However, ultimately only eight of these were chosen for tracking in terms of presenting the results of the study.

The indicators chosen for the study are: engagement with the portfolio committee on finance, providing open access to information held by departments, misstatements in financial statements submitted for audit, Transparency International's Corruption Perception Index (South Africa), financial misconduct, unqualified audit report, clean audit report, credibility of budget (open budget index), total debt to GDP, budget deficit, government over- and under-expenditure and non-authorized expenditure.

The research also made use of documentary analysis of NPM concepts and principles; the analysis of legislation around the adoption of the PFMA, and legislation and documents used in the management of public finance before the adoption of the Act in 1999.

These documents and the data analysis provided answers to the question of whether public finance reforms, though the adoption of the PFMA, 1999, furthered the principles of NPM.

The challenges of using secondary data are

1. Lack of control for data collection errors, as secondary data analysis consists of the study of existing data done by other researchers;
2. Being constrained by the objectives of the original research;
3. The suitability (relevance and appropriateness) of the data to their original research requirements and the measurements of data and their validities for the research;
4. Limits the external validity of findings;
5. The data collected for key indicators pre-1999 might be different from that collected for these indicators after the implementation of the PFMA in 1999.

1.4.2 Data collection methods

Data was generated through systematic review of statistical documents of key indicators, gathered locally from the National Treasury, Auditor-General and the PSC, and internationally from Transparency International and the International Budget Partnership. The key indicators were collated and analysed using Excel spread sheets for a period of approximately 10 years before and after implementation of the PFMA in 1999; this is because some data was not be available prior to 1994. Data ranges are between 1994–2004, 2000–2010 and 2006–2012 depending on the availability of data on each key indicator. The period 2000–2010 was chosen because results following the implementation of the PFMA would only commence from 2000, and some secondary data was only finalised by departments a couple of years after implementation, hence the decision to cut off at 2010.

1.5 DATA ANALYSIS

Data is “information obtained during the course of an investigation or study” (Pollit and Bouckaert, 2004: 267). The data analysis consisted of investigating some of the key indicators before and after the adoption of PFMA, 1999. Analyses consisted of describing how the principles of NPM—that are based mainly on effectiveness, efficiency, transparency and accountability—were attained (or not) by government through sound management of public finance.

1.6 CHAPTER OUTLINES

The content of each chapter is presented briefly below:

Chapter 1: Introduction and problem statement

Chapter 1 explained the background and rationale for the research. It outlined the reasons for the selection of the problem studied. The chapter highlighted the reasons for the adoption of the PFMA as well as the principles guiding the concept of “New Public Management”. The chapter introduced briefly all terms used in the research, including a list of the key indicators studied.

Chapter 2: Literature review and new public management theory

Chapter 2 covers a review of literature to enable the researcher to improve her understanding of the problem studied. It provides a theoretical framework of the principles of NPM and how these link to the management of public finance, for better outcomes of public policy. Principles of NPM are summarised and their impact on public finance management is analysed. The PFMA and its outcomes on the South Africa budget and fiscal policy are also investigated.

Chapter 3: History of South African public administration

The chapter is devoted to South African public sector reform, specifically public finance reform. It focuses, first, on the nature and development of South African public administration before 1994. Then it looks at public finance reform with the adoption of the PFMA, 1999 and the multiple principles enshrined within the Constitution of 1996 with regard to the PFMA and its application.

Chapter Four: Research design and methodology

Chapter 4 consists of an in-depth analysis and detailed discussion of the data collected, as reflected in key financial indicators, to respond to the question whether the introduction of public financial reforms, based on the principles of NPM, did indeed reform financial practices in South Africa. Overall, this chapter illustrates the findings of the research.

Chapter 5: Summary and conclusions

The last chapter rounds off the study with a summary and discussion of the main conclusions of the study. It also provides recommendations for further research and/or practice or policy.

1.7 CONCLUSION

The research aims to determine the impact that NPM principles had on South African public finance management, since these were used as a guide for the reform process of public finance management. The research used documentary evidence of South African public finance management before and after the implementation of PFMA, 1999. It enabled the response to the research question, which is to describe whether the public financial reforms of 1999 have furthered the objectives pursued by the New Public Management paradigm.

CHAPTER 2

LITERATURE REVIEW AND NEW PUBLIC MANAGEMENT THEORY

2.1 INTRODUCTION

Public sector management in its earliest stages, in the ancient and medieval period, is characterised by an “authoritarian, patriarchal and elitist” system (Basu, 2004: 1). Public administration mainly consisted of the monarch controlling the financial resources in the public interest, and a routine mode of performing tasks. With the evolution of societies, supplemented by industrialization and a commercial revolution, public sector organisation began to transform. Government began to experience new ways of functioning of society, due to the “nationalism, imperialism and internationalism that widened the scope of state functions while increasing population, urbanization, public communication, and mobility” (Basu, 2004: 1). Within the context of improvement in public performance overall, states started initiating new modes of management such as management by objectives, evidence-based management, and the principles of NPM, which includes performance management, new technology tools and scientific management.

In the context of public sector reform, this chapter focuses mainly on NPM tools as the mainstream of public sector transformation, particularly the financial sector. The chapter first discusses the background of reform in the public sector and the framework of principles of NPM. Second, it discusses the impact of NPM tools on public sector re-organisation in general and particularly public finance that sustain government activities. Third, the chapter looks at outcomes evaluation, the utility of outcome evaluation and objectives for analysing key financial indicators. Outcomes evaluation is important as it helps in describing the process surrounding the research question, namely how the principles of NPM influenced public finance reform in South Africa.

2.2 BACKGROUND FOR REFORM OF PUBLIC ADMINISTRATION

According to Osborne and Gaebler, cited by Rabin (Khalo & Fourie, 2003: 970), “the traditional approaches to government, designed at the beginning of the twentieth century during the progress era, are no longer effective for a post-industrial, knowledge-based global economy”.

This is because public organisation had failed to keep up with changing conditions in the post-industrial society; as a result public administration functioning become a problem and consequently citizens had begun to lose faith in the capacity of government to serve their needs. As society

developed further with industrialization, the commercial revolution and the broadening of human knowledge, new ideologies appeared. Among these liberalism, modernism and socialism all contributed to redefining public sector governance. The evolution of those ideologies gave rise to the “foundations of contemporary social insurance programs” aiming at improving the life of citizens (Congleton & Bose, 2013: 2). It also provided a clear definition of the public sector, as defined by Muhammad Al-Buraey (1985: 228), as “activities of organised groups of people which accomplish, as effectively as possible, the task of government or any branch of it, through coordination, harmony, and rational decision-making”. Al-Buraey’s definition can be said to cover the whole management system of the public sector, as well as the role of different actors working within the system.

To expand public administration and reform, a Weberian, rational-legal type of bureaucracy first dominated the management of the public sector in a modernised society. The rational-legal bureaucracy is defined as a “division of labour, permanence, professional management, hierarchical coordination and control, strict chain of command, and legal authority” (Encyclopaedia Britannica online edition: 2013). It also focused, for example, on an organisational arrangement in which “each lower office is under the control and supervision of a higher one” (Sapru, 2008: 82). With regard to the decision making process, the rational-legal authority is structured to maintain the law, rules and hierarchy. To conclude: the Weberian bureaucracy predominant in the management of public sector in the 20th century focused on the re-organisation of the public sector with an emphasis on respect for the rule of law, and hierarchy.

At the end of the 20th century, with intensification and differentiation, individual expectations of government grew; as a result, public sector reform became even more important. With the recession of the 1930s, and later the oil crisis of the 1960s-1970, NPM principles were seen as a means for government to recover from budget deficits. One of the largest reforms in the public sector came in the 1960s and 1970s “with the ideas that grew out of the NPM movement” (Holzer & Schweste, 2011: 32). The NPM principles also focused on a re-organisation of the public sector based on flexibility for employees to perform administrative tasks without suffering from bureaucratic rule. It was also aimed at redefining the role of the state, based on more transparency, effectiveness and efficiency, for the enhancement of public sector management.

NPM principles adopted since the 1960s aim towards continuous improvement of good governance outcomes within the public sector.

2.3 NEW PUBLIC MANAGEMENT FRAMEWORK

Before discussing the framework of principles of NPM, other important management tools that assist in the pursuit of transforming the public sector are discussed briefly, including scientific management, management by objectives, evidence-based management, and performance management.

Scientific management is defined as “management that analyses and synthesizes workflow. Its main objective is to improve economic efficiency, especially in labour productivity” (Ask.com, 2013). Scientific management tools in reforming public sector management focus on assimilating machines into the workforce for performance improvement.

Management by objectives focused more on how a public sector manager can work with employees to break a routine mode of management. According to Drucker, objectives of an organisation are determined at the top of the organisation and cascade down in a structured and systematic way. This is because “managers are the most expensive resource in most business - and the one that depreciates the fastest and needs the most constant replenishment” (Drucker, 1977: 3). Therefore, the way managers manage and are managed determines whether business goals will be reached. Worker attitudes also depend largely on how they are being managed. The management by objective focus is on “the accomplishment of well-defined objectives” (Agarw, 1982: 65) so that administrators break the routine mode of performing tasks to achieve programme or policy objectives.

For evidence-based management tools, Segone introduces the concept by exploring the apparent tension between authority and power on the one side, and knowledge and evidence on the other. He suggests “monitoring and evaluation should inform evidence-based policy options, to facilitate public argumentation among policy makers and societal stakeholders and facilitate the selection of policies” (Segone, 2005: 8). Reform through evidence-based management tools means to put best evidence at the heart of every policy decision. Therefore, before adopting a policy decision, a manager has to consider “what evidence is relevant for a decision, and, where necessary, will search for it” (Stewart, 2002: 6).

According the many authors, NPM, the focus of the research, aims to promote good governance in terms of public sector management. Hence, NPM is defined as a way of improving public service delivery though efficiency and service delivery (Christensen & Lægreid, 2011; Pollitt & Bouckaert, 2004; Brunsson & Olsen, 2003; Minogue, Polidano & Hulme, 1998a; Kickert, 1997a; Hood, 1995). These authors consider NPM as mainly providing better services to citizens that include all the

features of the service activity. According to Kickert (1997b: 18), citing the Organisation for Economic Co-operation and Development (OECD), NPM is characterised by eight main trends:

- i. Devolving authority, providing flexibility;
- ii. Improving the management of human resources;
- iii. Ensuring performance, control, accountability;
- iv. Optimizing information technology;
- v. Developing competition and choice;
- vi. Improving the quality of regulation;
- vii. Providing responsive service and
- viii. Strengthening steering functions at the centre.

Kalimullah, Alam and Nour (2012: 14) reviewing previous literature, argue that the NPM model has had several incarnations, such as managerialism (Ferlie, Lynn & Pollitt, 1998), NPM (Hood, 1991), market-based public administration, and entrepreneurial government (Osborne & Gaebler, 1993, as cited in Khalo & Fourie, 2003: 970)

Christopher Hood (1995: 97) defines NPM as “a move towards more explicit and measurable (or at least, checkable) stands of performance for public sector organisation, in terms of range, level and content of service to be provided”. It is also about improving government performance through strategic planning, effectiveness of service, transparency, participative management, quality management, and use of information technology systems. Kickert (1997b: 733) argues that for this to happen, NPM must provide a public officer a set of “performance, budgeting, human resource management, information technology, performance control, and evaluation” results.

New public management thus replaced the old traditional bureaucracy, characterised by rule, hierarchy and order. According to Hughes (1994), cited by Schilder (2000: 89), the focus in NPM is placed on:

- Mission, goal and strategy;
- Results and performance measurement; and
- Attention to external relations.

Therefore, managers and employees within the public sector have to maximize delegation and encourage a participatory approach to work.

Frederickson and Gher (2005: 165) added this with regard to the objectives pursued by NPM: it is intended to “fix issues of public sector ethics and government corruption” through incorporating

principles of transparency, accountability, effectiveness, and efficiency in financial resource management.

The principle of transparency means the validity of concepts, such as best practices in accomplishment of administrative tasks, knowledge management, organisational learning, and information to citizens about public sector activities.

The principle of accountability relies on “improvement in the quality and quantity of performance information [which] opened up possibilities to use methods such as benchmarking and examination of performance” Christensen and Lægreid (2011: 32).

The principle of efficiency is the commitment of administrators to use scarce state resources in an adequate manner for the achievement of “objectives of an institution or service” (Dent, Chandler, & Barry, 2004: 130)

The principle of effectiveness means that government is supposed to be lean and purposeful about

- efficiency and effectiveness regarding the functioning of government itself and the production and distribution of goods and service;
- the right and the adequacy of the government process, concerning the relationship between government and its citizens;
- representation and power checks, concerning public scrutinizing of the functioning of government (Kickert, Klijn and Keppens, 1999: 39).

In all, NPM and the principles related to it impacted greatly on the reform process of the public sector as explained below. NPM permitted public managers and employees to perform administrative tasks without suffering from old-style bureaucracy. Through adoption of NPM principles, public organisations became more engaged in providing government service via technology tools such as e-government, which “revolutionized public sector productivity, provided citizens with faster, better information and access to services, and even ushered in a new wave of participatory democracy” (Pollitt & Bouckaert, 2004: 7). New public management also permitted the revision of the notion of lifetime employment for civil servants. Public sector officers needed to perform their duties with efficacy because “their stay is no longer guaranteed” (Fenwick & McMillan, 2010: 130).

New public management also permitted the creation of sustainable partnerships with other organisations, whether public, quasi-public or private companies. It also permits government to

outsource some of its services that can be provided efficiently by the private sector. In addition, the reform of public administration through NPM tools allowed great transformation in the management of public funds, including the introduction of new budgeting techniques, for example the replacement of the old line-item budgeting with performance budgeting systems. This performance budgeting technique permits governments to “build around the activities in which government engages rather than the commodities on which it expends public funds” (Fox, Van Wyk & Fourie, 1998: 128). Another objective of performance budgeting systems is to lay emphasis on the inputs that are required to achieve output of a policy.

2.4 NEW PUBLIC MANAGEMENT LINK TO PUBLIC FINANCE MANAGEMENT

This section provides greater insight on the link between NPM and public finance reform.

To overcome fiscal deficit and public debt, government “acknowledged that more effective and reasonable use of the tax payer money could be achieved only through comprehensive institutional reform and modernization of the public finances” (Bokros & Dethie, 1998: 381).

Performance budgeting systems replaced the old traditional budgeting system, based on line item budgets that used to keep control over expenditure. In adopting performance-budgeting systems governments aimed to ascertain the exact activity or function of an institution and its various units. The performance budget system allows government to classify expenditure into groups according to the objectives to be fulfilled. Performance budgeting also allows government to emphasise inputs (what activities need to be done) to achieve outputs (benefits for citizens). It permits government to overcome the problem of over- or under-spending of funds, and to plan well policy objectives to ensure service delivery in a most accountable, transparent and efficient manner. Furthermore, the performance budgeting technique helps the state in managing public funds by establishing “new budget conventions that are based on principal-agent relationships, outcomes-based, accrual accounting and budgeting techniques” (Wanna, Kelly & Foster, 2000: 33).

The principal-agent relationship within performance budgeting system provides a change in the management of public finance: it gives greater responsibility to accounting officers and financial managers but simultaneously makes them more accountable to their work. The re-organisation of finance public “extended the notion of ‘managerial flexibility’ by challenging traditional notions of governance, in which departments are exclusive providers of public services” (Wanna, Kelly & Forster, 2000: 34).

Outcomes-based budgeting permitted government to link the planning, operational management, performance measurement and strategic management of the budgeting process. Strategic

management can support the state, for example to “focus more clearly and consistently on its high-priority goals, which will, in turn, lead to a more intensive pursuit of the results that are deemed to be of the greatest importance” (Pollitt & Bouckaert, 2004: 127).

Some of the benefits of the reform of public finance are:

- In some states, such as Holland and the United States, the reform of public finances permitted change in “the format of budget documents, to display much more performance information” (Pollitt & Bouckaert, 2004: 70). In New Zealand, reform of public finance through NPM tools permitted the Finance ministry to “maintain its focus on keeping government spending under control as it bids to return to surplus and start reducing its debt” (Mann, 2013).
- Another linkage of public finance management to principles of NPM is that government of states sees these principles, namely transparency, efficiency, effectiveness and accountability, as essential tools in a context in which “the demand for public sector service and investment becoming increasingly difficult to finance, especially in inflationary conditions” (OECD, 2002: 117).
- In addition, public finance reform as adopted by many countries is oriented towards decision-making and responsibilities assigned to accounting officers. In most countries, the reforms are part “of change and modernization of public management, with the final objective being to control public expenditure and improve the quality of public administration” (Crespo, 2005: 215).

Other reasons that explain the links between public finance reforms to principles of NPM can be found in governments wanting to have

Budget preparation procedures, particularly comprehensiveness, realism, and classification;

Budget execution and monitoring, including cash management and internal control;

External fiscal reporting and transparency;

External auditing and legislative follow-up; and

Financial management staffing capacity (Allen, Schiavo-Campo & Garrity, 2004: 83).

New public management and its principles have allowed government to overcome a lack of proficiency in managing public funds in general. The use of more sophisticated management tools means that government can now better plan its budget programme and policy. The principles also encouraged more transparency, accountability, efficiency and effectiveness in fund management, which in turn lead to better service delivery to citizens.

2.5 EVALUATING PUBLIC SECTOR OUTCOMES

Evaluating public sector outcomes represents a vital part of the public sector reform process. This is because the evaluation of public sector outcomes can have a major impact on the distribution of resources among different government departments. Unless the outcomes of a programme can be evaluated, “there is no way of telling whether efficacy and effectiveness are in fact improving, or judging whether the reforms already initiated are having the desired effect” (O’Faircheallaigh, Wanna & Welle, 1999: 193). Evaluating public sector outcomes is also a good way to ensure public sector employees, and those affected by government programmes, are aware of some fundamental issues and problems involved in conducting programme evaluations. Using outcomes evaluation in this research aims to assess reform of public finance through analysis of key indicators. Put another way, analyses of key indicators, taking into account the importance of outcomes evaluation, can assert how NPM influenced public finance reform in South Africa.

Collecting and measuring key financial data and discussing each indicator can help in measuring the impact of NPM on public finance management. Another advantage of key indicator analysis is that it can “enable those outside the organisation with a basis for judging performance” of public accountability (Van der Waldt, 2004: 53).

However, indicator analysis also has its flaws, because an indicator might be defined in such a way that it is not as meaningful as originally stated. There is the stress that an indicator result might not help in answering the research question. There is also the stress that indicators will not have same content, since indicators will be analysed between two periods: before and after the adoption of NPM in the reform process of public finance.

Outcomes evaluation in this research aims to understand whether government, by reforming the public finance sector, was able to attain the desired results of public policy. This is because usually public policy is realised through public funding. In addition, outcomes evaluation can help to describe further how transparency, accountability, efficiency and effectiveness, the major principles of NPM, are reflected in public finance management.

For example: if the chosen indicator is financial misconduct (which documents the number of occurrences of financial misconduct in a department), the analysis of the graph will provide us with trends in terms of reduction or increase in financial misconduct since the implementation of the PFMA, 1999. Therefore, we can explain the extent to which the NPM principle of accountability has impacted the management of public finance.

However, outcomes evaluation also has limits because sometimes it is referred to as a vague notion and there is no consensus on how outcomes of a specific programme or reform should be evaluated. Another limitation in assessing public sector activity, more specifically evaluating NPM and its principles, is the fact that it is not something tangible. In addition, once one becomes “engulfed in the intricacies of a particular programme it is often easy to lose sight of why outcome measurement is being undertaken” (Smith, 1996: 1).

2.6 CONCLUSION

Reform of public administration in general, and public finance specifically, has undergone an important transformation. The introduction of NPM and its principles is a shift from the old traditional management system of the public sector: it permitted significant improvement in public sector management in general and public finance. These significant changes also impacted on how government, with its multiple departments, accommodated or adapted to the principles. What is important is that public sector reform supported great innovation in public sector management. It permitted implementation of tools such as outcomes evaluation for programme, reform or policy assessment.

CHAPTER 3

HISTORY OF SOUTH AFRICAN PUBLIC ADMINISTRATION

3.1 INTRODUCTION

Some years after the end of the “Second Boer War” in 1902, South Africa received partial independence from British colonial rule on 31 May 1910, as the Union of South Africa. The Union gained full independence from Great Britain, and dominion status, via the statute of Westminster on 11 December 1931. Shortly after the end of World War 2, after national elections in 1948, the National Party became the ruling party and introduced the apartheid ideology, which was practiced until 1994, when, after years of anti-apartheid struggle, full democracy was obtained. South African governance before 1994 was dominated by policies of segregation and/or apartheid. These policies impacted state administration since government used administrative and legislative dualism to reinforce divisions between different ethnic groups; examples of such legislation include the Native Administrative Act of 1927 (No. 38), the Land Act of 1930 (No.19), the Bantu Authority Act of 1951 (No. 68) and the Mine Worker Act of 1991 (No.12) (Boddy-Evans, 2013). In the same pre-1994 context, public administration management focused on “protecting privileged spheres of employment for whites” (Posel, 2010: 109). In addition, the apartheid ideology re-enforced segregationist policies of previous governments. Old segregationist policies in public sector administration were strengthened with the addition of new policies, such as separate development.

Before discussing public finance reform, it is important first to discuss public administration, because public finances reside within the realm of public administration. This chapter focuses first on the nature and development of South African public administration before 1994; this will assist us in understanding the motivation for later reforms in the public sector. Second, the chapter discusses the development of public administration, specifically public finance, since 1994, with the adoption of NPM management tools that were being used in private sector management systems. The new government saw in NPM tools, based on the principles of effectiveness, transparency, accountability and efficiency, as a means to transform the South African public sector. Third, the research focuses mainly on public finance reform with the adoption of the PFMA, 1999, the multiple principles enshrined within the Constitution of 1996 (South Africa, 1996) with regard to the PFMA, 1999 and how it has impacted on public finance management.

3.2 NATURE OF SOUTH AFRICA PUBLIC ADMINISTRATION AND FINANCE BEFORE 1994

3.2.1 Public finance management before 1994

During the apartheid regime, public finance management was organised by government in a manner that the Department of State Expenditure described as “consisting of departmental officials, with the responsibility to coordinate budget proposals for each area of government’s functional expenditure” (Khalo & Fourie, 2003:678). The Department of Finance in effect allocated funds to all departments based on fiscal aggregates and on a short-term (single year) framework (Khalo & Fourie, 2003: 678). The Executive branch played the main role in the budget-setting process with less input from Parliament; the role of Parliament was reduced to reviewing the budget as a mere formality, rubber-stamping a budget prepared by executive government. The Executive controlled public finance management, with high inaccessibility to the budget documents (Khalo & Fourie, 2003: 677; Fölscher & Cole, 2006: 2).

The budget itself was structured in an incremental manner. This implies that the budget of the following year is based upon the current budget; specifically “last year’s budget should be the starting point for a discussion of the next year’s proposed budget” (Miller, 2005: 364). Government departments, agencies and municipalities applied the incremental budgeting approach to prepare the estimates of expenditure for the fiscal year adjusted by the estimates of the previous year. To understand the mechanism, the objective for government is to control input that goes into a specific programme or policy. To re-enforce the instrumentalism process in finance management, government used the traditional line-item budgeting system. With line-item budgeting systems, managers have the power to control their operating unit. Government, through the Department of Finance and State Expenditure, controlled finance management as well as the different components of finance, namely fiscal policy, expenditure, revenues, investment and taxes, and their functioning.

To illustrate, in fiscal policy management, government introduced the stabilization account in 1968. This account “was actively used during the 1970s as a means to regulate liquidity in the economy via the budgetary accounts” (Heyns, 2005: 7). With the stabilization account system in place, government could also influence the level of economic activity through short-term fiscal adjustment in spending and taxes. In addition, the inaccessibility of the budget through discretionary policy was a means for government to “smooth out automatic fluctuation in the government deficit” (Heyns, 2005: 74). Overall, public finance management pre-1994 was tightly secretive with total control by the Executive.

3.2.2 Segregationist policies and public sector governance

In terms of public sector administration, in 1910, the former British colonies and independent Boer republics united to form the Union of South Africa and received dominion status from England. Even under British rule, segregationist policies had predominated in the governance of South Africa. This domination was ensured through legislation such as the Native Affairs Act of 1920 (No.23) and the Natives Administration Act of 1927 (No.38), forming part of “a process of transferring power over the regulation of African life from Parliament to the Executive” (O’Malley, 2013), so that the executive authority gained more power with regard to the management of the state.

Moreover, the expansion of bureaucracy in the public sector coincided with “the rise of the capitalist market economy, which required steadiness, precision, continuity, speed and minimum cost” (Shepard, 2010: 156). Thus, a Weber-type bureaucracy based on rules, hierarchy and procedure was seen as an ideal type for state governance and management by public servants. The ideal type of bureaucracy, as adopted by the segregated government, was also seen as a manner to respond to the inadequacies of previous public sector organisation, controlled as it was by the monarchy.

3.2.3 The apartheid regime and public sector governance

The National Party came in power in 1948 and set up a system called apartheid. The apartheid regime re-enforced previous segregationist policies and tended to organise the state and public sector in a way that it become a “strict social segregation, a harshly repressive labour regime, including influx controls on the geographical movement of black labour, and the confinement of African land rights to the native reserves” (Nupen, 2004: 122). It “focused on using the public service as a sector to provide employment for whites” (Miller, 2005: 52).

During the later apartheid years, South Africa was ruled by a complex of abstruse government agencies, departments and legislation comprising the Tri-cameral Parliament. The three houses consisted of “Parliament, a President’s Council and the myriad of white and black local authorities” (Chipkin & Meny-Gibert: 105). The government had already created the black ‘homelands’, as part of the policy known as separate development.

The policy of separate development “served as a structural solution for apartheid's planners, who wanted to turn South Africa into a white republic in which Blacks did not feature as citizens” (Howcroft, 2013). The policy “provided for separate development, and eventual independence, of the African homelands” (Sterling, 1996: 70). The homelands consisted of overpopulated regions

with few resources to develop. In terms of education, institutions had an “express purpose of educating black students into subservience” (*Mail and Guardian*, 2009). In the arena of state governance and public sector management, separate development policies offered few opportunities for other ethnic groups to develop. However, it did “provide more opportunities for the accumulation of wealth to the traditional [white] elites as well as to senior bureaucrats and South African companies” (Chipkin & Meny-Gibert, 2012: 106).

With regard to public finance management, it was “standardization and routinization of work” (Ferlie, Lynn & Pollitt, 1998: 52). Budget analysis and allocation was constructed on line-item budgeting, which enabled the government to maintain total control over the state’s budget, specifically expenditure. A line item budget contains two fundamental elements: a commodity to be purchased and a cost of commodity. According to Fox, Van Wyk and Fourie (1998: 128) the amount of detail in a line-item budget is a function of amount of control that central budget managers wish to extend over their operating units. These line-item budgets did not provide information about what government did, or the amount of money proposed to be spent on a specific service. South African public finance was programmed and controlled for inputs and cash management, with “limited opportunity for systematic assessment of the effectiveness and efficiency of spending, or for relating allocations directly to policy” (Fölscher & Cole, 2006: 2). The management of public finance was inadequate, with no process for “good mechanisms to extract good information for use in the budget process and for accountability purposes” (Fölscher & Cole, 2006: 2).

The primary legislation underpinning the budget at that period was the Exchequer and Audit Act, No. 66 of 1975 (South Africa. National Treasury, 1975). The main purpose of the Exchequer Act was to provide for the control and management of the public finances, and collecting of funds from taxpayers. It provided for the regulation of the collection, receipt, control and issue of state monies and the receipt, custody and control of other State property; the raising and repayment of loans by the State; the granting of certain loans from the State Revenue Fund and the terms and conditions for repayment of such loans; the duties and powers of the Treasury; and the granting of certain guarantees to the South African Reserve Bank and matters connected therewith. In terms of the Act, the treasury managed the expenditure of public monies and ensured that proper arrangements for accounting were made by different departments.

The Exchequer and Audit Act confirmed and re-enforced Executive control of public finance management. The discretionary nature of the policy showed up other deficiencies in public finance,

resulting in a lack of information to the public about the management of their funds. Finally, the management nature of public finance did not encourage positive outcomes.

In all, finance management was poor; the budget was a matter for the Executive with Parliament's role limited to rubber-stamping what the Executive had compiled. As a result, good governance and the NPM principles of accountability, effectiveness, efficiency and transparency suffered.

Over time, with an excessive control by the Executive branch of public finance management, accompanied by mass protests against government on issues of public sector management, including public service delivery, inequality and employment, coupled with international sanctions and financial crises, public finance management became increasingly difficult for the apartheid regime.

Further, within the apartheid policies, government had created a public sector that had to ensure job security of white South Africans without sufficient budget enabling to finance those jobs. In addition foreign capital inflows, which the government enjoyed in the early 1970s, was halted by the Soweto uprising of 1976; the international community "limited access to international capital markets and scheduled repayment of debt" to the South Africa government (Jones, 2002: 16). One of the consequences of such sanctions was the isolation of the country from trading, further affecting imports and exports and the economy as a whole.

All these factors led government to a situation where it had to improve state governance, including the management of the public sector.

3.3 TRANSITION TO DEMOCRACY AND PUBLIC SECTOR REFORM DRIVEN BY NEW PUBLIC MANAGEMENT

3.3.1 The Public Service Act of 1994

Shortly after the demise of apartheid, in 1994, the newly elected democratic government had an objective to "reverse the legacy of apartheid and systematic racial discrimination, especially in terms of the administrative structure, culture and practices" (Maphunye, 2002: 2). Public sector reform by government initially focused on putting in place new policies aimed at radically transforming the public service, through the publication of multiple White papers and promulgating new legislation. One of the first of these was the Public Service Act, No. 103 of 1994 (South Africa. Department of Public Service and Administration, 1994).

This Act provides for the organisation and administration of the public service of the Republic, the regulation of the conditions of employment, terms of office, discipline, retirement and discharge of members of the public service, and matters connected therewith.

It was an important step in the process of reforming public sector, because the “public service is the dominant component of the public sector activities” (Fashoyin, 2008: 578). The Act also aimed at public sector employment as “statutes regulate the employment of public employees” (Van der Waldt, Bayat & Fox, 1998: 104). It promoted employment reform, since it stipulated, “employees of the public service are required to place all their working time at the disposal of the state” (*Daily Dispatch*, 2013). Human resource management forms a cornerstone to the transformation of the public service as well as public finance management. Therefore, a re-organisation of human resource management will facilitate the process of reforming public administration as a whole.

3.3.2 White Paper on the Transformation of the Public Service, 1995

Soon after the adoption of the Public Service Act of 1994, the government drafted the first white paper known as the White Paper on the Transformation of the Public Service of 1995 (WPTPS, 1995). This document “established a framework to guide the transformation of the South African Public Service” (South Africa. Department of Public Service and Administration, 1995: 4).

The purposes of the White Paper were to:

- Transform service delivery to meet basic needs and redress past imbalances;
- Rationalization and restructuring to ensure a unified, integrated and leaner public service;
- Institution building and management of reforms to promote greater accountability and organisational and managerial effectiveness;
- Increased representivity though affirmative action;
- The promotion of internal democracy and accountability;
- Human resource development and capacity building;
- Improving employment conditions and labour relations; and the promotion of a professional service ethos (South Africa. Department of Public Service and Administration, 1995: 39).

With the application of WPTPS, 1995 the government started to develop many sophisticated devices for the operation of public sector institutions. Amongst them were the Total Quality Management (TQM) design tools. Because of the adoption of the WPTPS, 1995, TQM focused on a participatory mode of rendering public services. TQM “is about continuous performance improvement of individuals, of groups and organisations” (Kanji, 1995: 3). It is a method by which all employees within a government department are involved in the attainment of specific

departmental objectives. TQM is also in line with decentralization of power as encouraged by principles of NPM.

The adoption of the WPTPS, 1995, also involved a number of key and related processes, including:

- i. Strategic review;
- ii. Policy formulation and performance measures;
- iii. Strategic planning and implementation;
- iv. Monitoring, evaluation and performance measurement;
- v. Co-ordination;
- vi. Communication, consultation and participation; and
- vii. Research (South Africa. Department of Public Service and Administration, 1995: 40).

Government's general vision aimed at changing the public sector for better service delivery to all South Africa citizens. The WPTPS, 1995 also focused on public sector management in which people are central to government's effort to execute its functions. Government also favoured introducing private sector management systems into the public sector via the model of NPM and its principles.

3.3.3 The Public Service Commission, 1996

Next, the Public Service Commission was established in terms of Section 196(4) (a) of the Constitution of 1999 (South Africa, 1996), and is responsible for promoting the values and principles governing public administration, as set out in Section 195 of the Constitution. These values and principles are:

- A high standard of professional ethics must be promoted and maintained;
- Efficient economic and effective use of resources must be promoted;
- Public administration must be development-oriented;
- Services must be provided impartially, fairly, equitably and without bias;
- People's needs must be responded to, and the public must be encouraged to participate in policy-making;
- Public administration must be accountable;
- Transparency must be fostered by providing the public with timely, accessible and accurate information;
- Good human resource management and career development practices, to maximise human potential, must be cultivated;

- Public administration must be broadly representative of South African people, with employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation.

3.3.4 White Paper on the Transformation of the Public Service, 1997: Batho Pele

The White Paper of 1997 followed with the principle name of ‘Batho Pele’, meaning “Put People First”. This policy document focused on how public services are provided to citizens. Batho Pele is “about improving the efficiency and effectiveness of the way in which services are delivered” (South Africa. Department of Public Service and Administration, 1997: 9). Therefore, government was applying the NPM principles of effectiveness and efficiency. The Batho Pele principles required all national and provincial departments to make service delivery a priority.

To achieve this, Batho Pele spells out eight principles for public service delivery:

1. Consultation: Citizens should be consulted about the level and quality of the public service they receive and, wherever possible, should be given a choice about the services that are offered.
2. Service standards: Citizens should be told what level and quality of public services they will receive so that they are aware of what to expect.
3. Access: All citizens should have equal access to the services to which they are entitled.
4. Courtesy: Citizens should be treated with courtesy and consideration.
5. Information: Citizens should be given full, accurate information about the public services they are entitled to receive.
6. Openness and transparency: Citizens should be told how national and provincial departments are run, how much they cost, and who is in charge.
7. Redress: If the promised standard of service is not delivered, citizens should be offered an apology, a full explanation and a speedy and effective remedy, and when complaints are made, citizens should receive a sympathetic, positive response.
8. Value for money: Public service should be provided economically and efficiently to give citizen the best possible value for money (South Africa. Department of Public Service and Administration, 1997: 15).

The Batho Pele principles also “call for a shift away from inward-looking, bureaucratic systems, processes and attitudes and a search for new ways of working, which put the needs of the public first” (Kroukamp, 1999: 329). They require from public servants that efficiency, transparency,

effectiveness, sound management, access to information, openness, and courtesy be at the heart of public service. These principles are also the cornerstone of NPM.

Government, in adopting the Batho Pele White Paper of 1997, aimed to manage the public sector in a customer-oriented way that in return would improve service delivery as well as citizen satisfaction.

In a continuing process of reforming the public sector, government introduced other policy documents and adopted other legislation, including:

- White Paper on Affirmative Action in the Public Service Act, No. 564 of 1998;
- White Paper on Human Resource Management in the Public Service, 03 Dec 1997;
- White Paper on Transforming Public Service Delivery, 09 May 1997;
- The Public Service Laws Amendment Act, No. 47 of 1997 which made the Minister for Public Service and Administration responsible for policy on the functions of the public service; and
- The Employment Equity Act, No. 55 of 1998.

3.4 PUBLIC FINANCE REFORM WITH NEW PUBLIC MANAGEMENT PRINCIPLES

3.4.1 The beginning of public finance reform

The culmination of the transition to democracy was the introduction of the new Constitution of the Republic of South Africa, No.108 of 1996 (South Africa, 1996). Chapter 13 of the Constitution provides the “institutional framework for budget reform” (Fölscher & Cole, 2006: 5). It also provides the framework for public finance management: Chapter 13, Section 215(1) states that all three levels of government (national, provincial and municipal) must promote transparency, accountability and the effective financial management of the economy, debt and the public sector.

At the beginning of public finance reform, government, through the Reconstruction and Development Programme (RDP) and the Growth, Employment and Redistribution (GEAR) policies, used public funds to change nature of the fiscal policy, tax reform, acceleration of liberalization of markets, bring down the external debt, and so on, as previously explained. Government was using public funds to attain the objectives of its broader societal and macro-economic reform policies; therefore, the specific transformation of public finance management was not yet fully implemented.

Once in power from 1994, the African National Congress (ANC) government proposed first the Reconstruction and Development Programme (RDP), which aimed at measuring progress by the extent to which it succeeded in delivering each citizen's prosperity, well-being and progress. It was intended to be an integrated, coherent socio-economic policy framework aimed at redressing the poverty and deprivation of the apartheid regime. It became the macro economic framework for development of South Africa as a whole. The RDP was a comprehensive approach to harnessing the country's resources to reverse the effects of apartheid and to attack poverty and the deprivation of previous years (African National Congress. 1994: 7).

For government the RDP meant financing massive programmes such as building houses for the poor, increasing employment and education, the improvement of the health system, the redistribution of income and the provision of water and electricity to all South Africa citizens. As a result some "21 projects had been initiated by early 1995 with an additional four programs launched at the end of the 1994-95 financial year" (Dollery & Worthington, 1996: 5). However, the RDP implementation did experience some problems, because R2.5 billion was allocated to the RDP in fiscal year 1994-95, but only a fraction of these funds had been spent by early 1995, representing an inauspicious start to the program (Dollery & Worthington, 1991: 7).

To conclude, the RDP permitted government to create a vision for South African macro-economic growth while eradicating the inequalities of the past. Managing public finance for government was about financing RDP policies to improve citizens' lives.

To support the achievement of its RDP policies, government later introduced the Growth, Employment and Redistribution (GEAR) programme. GEAR's mandate was to restructure government macro-economic policy; it then started to introduce changes into the administration of fiscal policy to generate enough funds to fulfil the obligations of the RDP program.

Another mandate of GEAR focused on "bringing down further the inflation rate, government spending and the deficit to GDP ratio" (Michie & Padayachee, 1998: 3).

GEAR was also founded on the pillars of market liberalisation and the reform of taxes that was guided by Professor Michael Katz. Tax reform moved from being a residence-based tax system to taxing off-shore earnings as well (Naidoo, Willcox, Makgetsi & Stott, 2008: 11). This ensured that income was not just deemed to be generated in offshore havens, but also, to the detriment of tax collections in the country, following on from Katz's recommendations, government implemented a single unified revenue authority, the South African Revenue Service (SARS).

One consequence of GEAR was that the inflation rate was brought down to “four percent if you used the consumer price index (CPI) excluding the interest rate on mortgage bonds or less than one percent if you used CPI only” (*Daily Dispatch*, 2004).

In conclusion: in general, government public sector reform undertaken since 1994 focused on new policies, creating a regulatory framework as well as legislation to replace the past segregationist and apartheid public sector management. First, the Batho Pele White Paper focused on public service customer-orientation, efficiency and effectiveness, which is in line with NPM principles (South Africa. Department of Public Service and Administration, 1997). Second, government through its RDP and GEAR policies used public funds to transform the fiscal policy, introduce tax reform, accelerate the liberalization of markets and reduce the external debt.

3.4.2 The reform process of public finance management

To give further understanding of the reform process of South Africa’s public administration, this section focuses mainly on public finance reform. It will discuss the reforms contained in the PFMA, 1999, which is based mainly on the principles of NPM: the legislation surrounding the adoption of the Act; the model of finance management promoted by government through the Act; and the structures, objectives, focus, and some department roles. It also will discuss how the PFMA, 1999 has impacted on public finance management since its adoption.

In the process of transforming public administration under the new constitution, government first emphasised changing fiscal policy; its explicit concern was to redistribute “income and expenditure in favour of the poor” (Strydom, 2002). To achieve the objective of income redistribution, fiscal policy now emphasised changing the characteristics of budgeted expenditure. For example, defence expenditure reduced from 14.2% of total expenditure in 1983 to 6.5% in 1994, and 6% in 1997. Expenditure on the public service was also reduced from 12.7% of total expenditure in 1994 to 8.2% in 1997. On the other hand, education expenditure rose from 17% in 1984 to 22% of total expenditure in 1997 (Strydom, 2002).

To give effect to the new fiscal policy, in 1997 the Financial and Fiscal Commission Act (FFCA) as amended by the Constitution was promulgated. The FFCA’s role is to give advice and make recommendations to organs of state in the national, provincial and local spheres of government in respect of fiscal policy. In terms of Section 220 of the Constitution, the FFCA is also a juristic person, independent and “subject only to the constitution and the law” (Visser & Erasmus, 2002: 258).

Government's first reform was to transform fiscal policy with the objective of redistributing income among all South African citizens. Other objectives of the new fiscal policy were to reduce the budget deficit and stabilise the national debt.

In 1997, the medium term expenditure framework (MTEF) was introduced (South Africa: National Treasury, 1997). The MTEF is a "set cycle of three-year spending plans for national and provincial governments that are published with the main budget by the Minister of Finance as part of the budget every year" (Pauw *et al.*, 2009: 73). The MTEF provides government with tools to manage competing policy priorities with budget realities, and to coordinate policy with budget to limit under- or overspending of funds.

The MTEF objectives are to:

1. Improve the budget process;
2. Relieve poverty and create jobs
3. Improve fiscal policy: lower deficits and generate more economic growth;
4. Improve the impact of government policy; and
5. Shift from bureaucratic administration to a managerial culture (South Africa. National Treasury, 1997).

In all, the MTEF "is about the structures, institutions, and rules of the budget process" (Schiavo-Campo, 2007: 22). The MTEF is also about encouraging transparency and accountability in the utilisation of resources. It provides tools for government to plan and structure budget policy. The Minister of Finance, Trevor Manuel, even said in his budget speech of 1997 that the MTEF budget policy aimed at encouraging a participatory approach to the budget formulation between national, provincial and municipal government (South Africa: National Treasury, 1997).

Finally, the last reform of public finance management introduced by the South Africa government to date was the PFMA, 1999, as amended by Act No.29 of 1999 (South Africa: National Treasury, 1999b).

The PFMA, 1999 reversed the Exchequer Act of 1975, in which management was based on line-item budgeting. The implementation of PFMA, 1999 initially focused on improving financial reporting and management system and procedures. Its objectives were to regulate financial management at national, provincial and municipal level; to ensure that all revenue, expenditure, assets and liabilities of those governments were managed efficiently and effectively; and to provide for the responsibilities of public servants entrusted with financial management.

It also addresses the management of finances of departments by clarifying the role and responsibility of executive authority, financial officers, accounting officers and public entities (such as Eskom and Telkom), Parliament and the provincial legislatures, and constitutional institutions (such as the Human Rights Commission). It provides tools for managing public finance with characteristics based on accountability, transparency and effectiveness. In all, the PFMA, 1999 is a shift from the traditional management system to the NPM.

The Act also gives effect to other sections in Chapter 13 of the Constitution:

- Section 213 limits exclusions and withdrawals from the National Revenue Fund through an Act of Parliament;
- Section 215 notes that budget and the budgetary process “must promote transparency, accountability and the effective financial management of the economy, debt and the public sector”;
- Section 217 requires procurement to be “in accordance with a system which is fair, equitable, transparent, competitive and cost-effective”;
- Section 218 regulates the conditions for the issue of guarantees by a government in any sphere; and
- Section 226 limits an exclusion from a provincial revenue fund through an Act of Parliament (South Africa, 1996).

With regard to the management of budget, the PFMA, 1999 proposed a performance-based budgeting system in place of line-item budgeting. The budget performance system is “built around the activities in which government engages rather than the commodities on which it expends public funds” (Fox, Van Wyk & Fourie, 1998: 128). Accountants are in charge of reviewing the budget and analysing it to appreciate the relative efficiency of budget undertakings. According to Fox, Van Wyk and Fourie (1998) the key to performance budgeting is that expenditure is classified and grouped according to the organisational function or task that needs to be fulfilled. The first step in performance budgeting is to ascertain the exact activity or function of an institution and its various units. The second step in constructing a performance budget is to identify the expenditure that is necessary to produce the activities. The third step requires the budget makers to devise specific measures of performance for each activity in which an institution and its units engage, and to calculate the unit cost of each. The objective of performance-based budgeting is to place emphasis on inputs required to achieve outputs. A performance-based budget system also gives more responsibility to the accounting officers to use funds efficiently and effectively during the budget process until service delivery.

The PFMA, 1999 “is one of the most important pieces of legislation passed by the first democratic government in South Africa” (South Africa. National Treasury, 1999b: 22). It set out to modernize public sector budgeting and financial management through regular financial reporting, and independent audit and supervision of control systems. It also provides accounting officers and finance officers with training tools. It emphasised outputs and performance management. In all, the implementation of the PFMA, 1999 with its budgeting in line with the principles of NPM enabled important changes in the management of public finance in South Africa.

3.4.3 The medium term expenditure framework

The implementation of the medium term expenditure framework (MTEF) was an important step public finance reform. It was implemented to overcome the challenges of the RDP and GEAR policies. With the introduction of the MTEF government started to emphasize public finance management more heavily. However, in alignment with the GEAR objectives, which aimed at boosting economic growth, the MTEF went further, in providing government with tools to manage competing policy priorities within budget realities; according to the International Monetary Fund, this can be seen as another definition of MTEF (IMF, 2006: 4)

A MTEF permits government to link annual budget and national development policies, and provides information that enables the alignment of expenditures to national priorities, outputs and outcomes as part of an economic recovery strategy. It also allowed government to plan in a manner that, given South Africa’s development challenges, provided a strategic, long-term approach to inform the allocation of resources so that historical inequities could be addressed progressively.

Within the MTEF, the budget can be well structured so there is a link between an institution’s objectives and its detailed operational budgets. Such a budget programme structure would provide a stable framework linking successive plans and strategic priorities to budget allocations and performance indicators that track delivery over the medium to long term (South Africa. National Treasury, 2010: 3)

The introduction of the MTEF by the South African government “served as the frame of reference for medium-term expenditure plans as articulated in the medium-term budget policy statements of the Minister of Finance” (*Mail and Guardian*, 2008b); thus with adoption of the MTEF “fiscal policy become more predictable and transparent” (Joffe, 2006). In addition, in line with the NPM principle of openness, as part of the reform process of public finance, the MTEF permitted opening debate into the budget process that included parliamentarians, civil society and other civic organisations.

However, even if the MTEF permitted participation by civil society, parliamentarians and others, in reality, people were “only given chance to see the budget when it was already too late to give any significant input” (Nattrass, Wakeford & Muradzikwa, 1997: 297). In addition, accountability in terms of government expenditure has not been given tangible results because “poor financial controls and monitoring have resulted in over expenditure by some departments and in the failure of others to spend their full budgets” (Nattrass, Wakeford & Muradzikwa, 1997: 297).

By adopting the MTEF as part of public finance reform, South Africa, influenced by the principles of NPM, permitted important changes into the management of public finance. This included the promotion of public participation into the budget process; the promotion of transparency in the budget process; access by the public to budget documents; a comprehensive budget planning and strategic approach, as well as the development of inter-governmental relations in the context of public finance management.

3.4.4 The influence of New Public Management on the PFMA, 1999

The PFMA, 1999, which came into effect on 1 April 2000, repealed various national and provincial Exchequer Acts and gives effect to the Section 213, 215, 217, 218 and 226 of the Constitution of the Republic of South Africa. It

- regulates financial management in the national and provincial governments to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively;
- provides for the responsibilities of persons entrusted with financial management in these government departments; and
- provides for matters connected therewith (South Africa. National Treasury, 1999b.)

All the principles and regulations of the PFMA, 1999 are enshrined in the Constitution. Since the Constitution is the highest law in the land, this re-enforces the application of the PFMA as well as the overall management of public finance. In this way the PFMA furthers the application of NPM principles into the management of public finance.

The relevant sections in the Constitution, which enshrine the principles of public finance management, are:

- Section 215(1), which states that national, provincial and municipal government must promote transparency, accountability and the effective financial management of the economy and/or debt (South Africa, 1996: 1331(26)).

- Section 214(1), which states there must be an equitable share and allocation of revenues between the national, provincial and local spheres of government (South Africa, 1996: 1331(25)).
- Section 217 stipulates that any organ of the state at the national, provincial or local sphere of government, which wants to contract for goods or services, must do so in accordance with a system which is equitable, transparent, competitive and cost-effective. This section aims at reducing administrators stealing money from government by ensuring that procurement is based upon a clear objective in using funds, which should ensure more transparency in fund management (South Africa, 1996: 1331(27)).
- Chapter 13 of the Constitution also outlines the revenue-raising authority of the spheres of government, revenue sharing and inter-governmental grants and borrowing powers. Chapter 13 further addresses issues referring to the rules and principles by which budgetary decisions are made, implemented and accounted for (South Africa, 1996: 1331(25)).

The aims of the PFMA, 1999 are further supported by the Intergovernmental Fiscal Relation Act, No. 97 of 1997 which

- promotes co-operation between national, provincial and local spheres of government on fiscal, budgetary and financial matters;
- prescribes a process for the determination of an equitable sharing and allocation of revenue raised nationally; and
- provides for matters in connection therewith (South Africa. Office of the Presidency, 1997b: 1).

The Intergovernmental Fiscal Relation Act (IFRA) “refers to the various components of the governance, administrative and fiscal arrangements operating at the interface between national, provincial and local governments” (South Africa. Department of Provincial and Local Government, 2008: 7).

Another Act that applies to the regulation of the PFMA, 1999 is the Financial and Fiscal Commission Act, No. 99 of 1997 (South Africa. Office of the Presidency, 1997a). This Act gives effect to the constitutional requirements relating to the Financial and Fiscal Commission; and provides for matters in connection therewith. The Financial and Fiscal Commission is a juristic person, independent and subject only to the Constitution (South Africa. 1996, Section 220). It provides advice and makes recommendations to the three organs of the state – administrative, legislative and judicial – with regard to the fiscal policy or any other fiscal matters.

A number of laws with their characteristics are enshrined within the Constitution of 1996 to re-enforce the reform of public finance management based on the principles of NPM namely transparency, effectiveness, efficacy, economy, sound management and objectives-seeking. Clearly, major transformation took place within South African public finance management with the new Constitution of 1996 regulating more than ever government's social and development policy priorities, as reflected in the medium-term spending plans of national and provincial government.

The objectives of PFMA, 1999 (Section 2) are to ensure transparency, accountability, and sound management of the revenue, expenditure, assets and liabilities of the institutions to which it applies (South Africa. National Treasury, 1999b: 12). These institutions include:

- a) Departments
- b) Public entities listed in Schedules 2 and 3
- c) Constitutional institutions; and
- d) Parliament, subject to Subsection (2).

According to the Department of Public Enterprise (South Africa. Department of Public Enterprise, 2003: 21), the PFMA aims at proper financial management to ensure effective service delivery through the effective and efficient use of available national resources.

According to Finance Minister Pravin Gordhan, another objective of the PFMA is to establish norms and standards for the funding of government departments, which in turn "obliges MPs to consider the implications of any proposed changes to the economy and the delivery of public service" (*Financial Mail*, 2010). Furthermore, according to Minister Gordhan, the new budgeting system introduced through the PFMA provides an opportunity for Parliament to foster real policy debate and call errant departments to account more vigorously (*Financial Mail*, 2010).

To conclude: the objectives of the PFMA are to impact on economic governance more broadly, and financial governance more specifically, to strengthen the links between government priorities and its spending plans. The improvement of public finance management will lead to better public service delivery and quality of life for people throughout South Africa.

3.5 NEW PUBLIC MANAGEMENT PRINCIPLES PROMOTED THROUGH THE PFMA

As discussed in in Chapter 2 and above, NPM impacted greatly on the reform process of the public sector in general and public finance in South Africa. The reform of public administration through NPM tools allowed great transformation in the management of public funds, as much of public finance management involves planning and budgeting, accounting and reporting, internal controls, auditing, promotion of accountability, transparency, effectiveness and efficiency for the benefit of

the greatest number of citizens. The PFMA, 1999 enabled the government of South Africa to implement this transformation.

With the adoption of the PFMA, government aimed at ensuring that financial management became central in public service. The implementation of NPM principles (including decentralization of roles, a participatory approach in the budget process, accountability, flexibility, efficiency and effectiveness) encapsulated in legislation permitted major transformation of the management of public finance.

The four main principles of NPM that are applied through the PFMA are:

Principle of accountability: an accounting officer must be able to interpret the components of a budget in the context of the service being delivered, and how it can be improved. Managers of departments are to be responsible and transparent in managing public funds and they will be held accountable for the way they use resources allocated to deliver services. Thus, “managers at all level in the department have a critical role in managing the day-to day line functional activities and thus have to manage and administer the human, physical and financial resources to ensure the accountability principle” (Khalo & Fourie, 2003: 134). Monitoring and evaluation action planning is required to support the managers in achieving success in the execution of their tasks.

To give further impetus to the principle of accountability, Sections 100 and 216 of the Constitution (South Africa, 1996) confirm it. There is a possible intervention by national government when an organ of government fails to perform an executive function related to financial management, and circumstances under which funds may be withheld are clarified. These factors promote the principle of accountability, as defined in Chapter 2 above, for the effective management of public funds.

Principle of transparency: government has put in place mechanisms to avoid any mismanagement of public funds. Section 215 of the Constitution clearly states that budgets in each sphere of government must show the sources of revenue and the way in which the proposed expenditure will comply with national legislation. The budget process promotes the principle of transparency of NPM as defined in Chapter 2.

Principle of efficiency: as defined in Chapter 2 above, a public officer must use scarce resources in an efficient manner, so that government employees prepare, execute and manage state budgets efficiently. With the adoption of the PFMA, 1999, government has been able to spend efficiently in the manner that benefits citizens, as evidenced by “the share of social service as a percentage of GDP growing from around 12% in 1998 to close to 20% at the end of the 2010/11” (Wildeman &

Jogo, 2012: 14). Government is promoting efficiency through the PFMA since funds are being used to respond to the needs of citizens in an efficient manner.

In addition, Section 27(4) of the PFMA ensures that the way in which budgets are presented to Parliament allows it and the public to exercise oversight by specifying that each programme should have measurable objectives. Furthermore, Section 38(1) (a) (iii) requires that an accounting officer maintain an appropriate procurement and provisioning system that is fair, equitable, transparent, competitive and cost-effective.

Principle of effectiveness: this is maintained in the PFMA via the way accounting officers need to act as managers, and ensure effective in-year management mechanisms are in place. Departmental reports at all levels “must achieve a balance between presenting sufficient detail to be meaningful without overburdening the preparer or swamping the reader; focussing on critical outputs with accurate and timely data, presented attractively and concisely” (South Africa. National Treasury, 2000c: 6).

Apart from the four main principles/approaches chosen for the study, the government also promotes other principles of NPM, such as performance budgeting. A performance budgeting system is defined as a “result-orientated budgeting methodology, which shifts focus from inputs to the service delivery outputs and outcomes of public expenditure” (Bokoda & Nkoana, 2009:50). A performance budgeting system presents the purposes and objectives for which funds are requested.

The performance budgeting system improves budget outcomes and increases financial integrity, since public finance is no longer seen as a virtue but as a necessity. Within the context of MTEF, performance budgeting systems have been adopted by many member countries of the Organisation for Economic Co-operation and Development (OECD); it proposes a different type of budgeting technique for the projection of future income and expenditure.

Even though South Africa is not a member of the OECD, it implemented the MTEF when it adopted the PFMA, and therefore the government has adopted the performance budgeting system as well. Through the use of the performance budget system the government placed emphasis on activities that need to be done to achieve outputs, which in turn permits it to achieve the effectiveness principle of NPM.

The performance budgeting system also concentrates on the objectives of government activity, the costs needed to achieve those objectives, and on measurement of the degree to which objectives are fulfilled, all of which are in line with the principle of efficiency as stated in principles of NPM.

Overall, the performance budget technique centres on monitoring and performance measurement through its emphasis on activities that need to be planned to achieve desired outputs.

The PFMA also implemented tough controls. Accounting officers gain more power; they became responsible for the budgetary control in terms of Section 39(a) so that the expenditure is in accordance with the budget vote for the department. This implies that departments should not spend their fund in any other manner other than that outlined in the voted budget. Section 27(4) of the PFMA, as amended, requires that when the annual budget is introduced in the National Assembly or a Provincial Legislature, the accounting officer for each department must present measurable objectives for each programme. In all, the accounting officer is responsible for all functions regarding the accounting of funds and must perform well to avoid any sanctions. This is similar to the United Kingdom, which reformed its public finance management with decentralization of power to accounting officers, whose power “increased substantially and their position has changed from the periphery of management to a central and key responsibility” (OECD, 2002: 139).

These principles, developed within the reform of public finance movement, show clearly how the new government has made use of the principles of NPM to establish solid public finance reform.

The PFMA also meant changes to the executive authority. In terms of Section 63(1), the executive now has the responsibility to ensure that different government departments perform their statutory functions within the limits of the funds authorised for the relevant objectives. In addition, in terms of Section 65(1), the executive authority must table in the national assembly or a provincial legislature the annual report or financial statement within one month of their department’s year-end.

However, the full application of all NPM principles in the context of South Africa adopting the PFMA, in reality remains challenging, because there are not yet tangible results in terms of the transparency and accountability principles. In terms of budget management within PFMA framework, it has been observed that some departments struggle to link strategic planning and budgeting (Siswana, 2007: 226). With regard to the accrual accounting system developed through the PFMA, according to the Auditor-General it appears that some government departments are struggling to account effectively for the expenditure of tax resources based on the system, and “These trends have an impact of diminishing the confidence the public has in the administration of accounts” (Temkin, 2007).

Further, in another link of the PFMA, 1999 to NPM, the South African government adopted it so that “government departments are mandated to develop and implement fraud prevention plans”

(OECD, 2010: 111). The fraud prevention plan is regarded as a key instrument in preventing fraud and creating a culture of accountability within the public service.

With the introduction of the PFMA, 1999 and its linkages to the principles of NPM, the government of South Africa introduced major reforms into the management of public finances to regulate the expenditure of public funds. Public finance management is also not as obstructive as it was in the past. The legislation spells out clearly what a government department may do, how it needs to be done, and what procedures need to be followed. Therefore, mismanagement of public funds can be avoided or minimised. Thus, the PFMA enables government to provide clear information on the content of budgets to the public.

Overall, the implementation of the four main principles, via the PFMA, by the South African government provides some useful information to policy makers, politicians and citizens about how well resources are translated into results, although it is acknowledged that measuring results is more complex than is reflected by analysis of these principles only.

3.6 CONCLUSION

The literature review showed the development of the country's public administration, specifically public finance management, since 1994. Various pieces of legislation, white papers and new regulatory frameworks enabled the state to develop a participatory approach to public administration and public finance, as opposed to the previous discriminatory management of public administration and public funds. These reforms also permitted the creation of a framework that included parliamentarians, the executive, the judiciary and citizens in the management of public administration and public finance. Furthermore, the reforms required that public officials carry out their duties openly and strictly in accordance with identified rules and procedures.

With the adoption of the PFMA, 1999 "the National Treasury has the capacity to oversee revenue and expenditure transactions through daily bank reconciliations and to monitor the public entity's plans and financial management" (South Africa. National Treasury, 2008c: 16). Government has also developed the NPM principles of accountability, transparency, efficiency and effectiveness to produce consistent documentation. It used tools such as the MTEF to link budget to policy, and it has introduced a system of monitoring and evaluation and auditing in each department. Thus, NPM became essential in the process of public finance reform of South Africa.

The next chapter provides further information on the impact of the reform of public finance, through statistical data analysis of key indicators illustrating the four main principles retained for the study. The analysis of indicators can help show to what an extent the public finance reforms since 1999 have furthered the objectives pursued by the NPM.

CHAPTER 4

RESEARCH DESIGN, METHODOLOGY AND PRESENTATION OF RESULTS

4.1 INTRODUCTION

As we have seen, South African public sector reform has been influenced greatly by NPM and its principles since the end of apartheid in 1994, especially with the adoption of the PFMA, 1999.

With this in mind, this chapter undertakes an analysis of key indicators to reflect on the success of introducing NPM in the South African public finance management domain. Indicators were chosen to demonstrate the application of the principles of NPM. The indicators provide us with a “measurable quantity, which ‘stands in’ or substitutes, in some sense, for something less readily measurable” (Jupp, 2006: 144).

The chapter first introduces the indicators selected to reflect NPM principles. The link between a chosen indicator and NPM is also explained. The second part describes the process of data collection and analysis. The last part presents data on selected indicators, which enables us to reflect on the degree to which public finance reforms since 1999 have furthered NPM principles in the South African public sector.

4.2 SELECTED FINANCIAL INDICATORS TO REFLECT ON NPM PRINCIPLES

This section provides an explanation of how the chosen indicators are linked to the NPM principles of transparency, accountability, efficiency and effectiveness. By describing the link between the theory of NPM with the chosen indicator, we are able to answer the research question which is how did NPM principles impact on South African public finance reform? The chapter discusses each indicator and the indicators related to it. This relating of indicators to the four main chosen principles is the only way to measure the extent to which government achieved those principles in public finance reform.

However, the chosen indicators have also their flaws, as discussed further in later sections. This is because some indicators were non-existent prior to the implementation of the PFMA, 1999, as explained in Chapter 1. In addition, a limitation of some indicators is their incapacity to explain fully the extent of impact of a principle of NPM, resulting in many potential indicators being left out of the research. Another flaw in the selection of indicators is the unavailability of data prior to 1994. For some indicators, for example ‘non-authorized expenditure’, the mode of collection and

meaning changed after the implementation of the PFMA, which can impact data analysis. These limitations on indicators may have some impact on the conclusions of the research. Finally, because the aim is to test changes following the implementation of the PFMA in 1999, data for the first 10 years of implementation (the period 2000-2010) was analysed for most indicators as this is the period when changes are most likely the direct result of the introduction of the PFMA. After this period, changes are less likely to be only the result of the implementation of the PFMA, as more variables and changes enter the playing field. The narrow analysis of data, for this time window only, directly influences the recommendations that flow from the analysis.

The next section introduces and explains the relevance of potential indicators reflecting the four principles of NPM. However, given the limitations presented above, only some of these indicators will be analysed in fulfilling the research objectives. In the final adoption of indicators the researcher attempted to reflect the four principles of NPM, and to give prevalence to those indicators for which dependable secondary data was readily available.

4.2.1 Transparency

Transparency as a principle of NPM is important to for building a legitimate and successful governance system, through the scrutiny of programmes and policies. It is also a fundamental principle for the effective management of public funds. To reflect the impact of this principle, the indicators chosen were ‘engagement with the Portfolio Committee on Finance’, ‘providing open access to information held by departments’, ‘misstatements in financial statements submitted for audit’ and ‘Transparency International’s Corruption Perceptions Index (South Africa)’. The relevance of each of these indicators to the principle of transparency, and the strengths and weaknesses of each, are discussed below.

4.2.1.1 Engagement with the Portfolio Committee on Finance

This indicator is related to transparency because the Portfolio Committee on Finance provides oversight on how departments spend public funds. The Committee also discusses and debates government policy as well as other political issues.

The strength of this indicator is that it can provide information on the extent to which government fulfilled implementation of the transparency principle though adopting the PFMA. However, the weaknesses of this indicator are that the *quality* of debates and oversight is difficult to reduce to a numerical value, and the substantive elements of these critical activities of government cannot be established due to unavailability of quantitative data; therefore ‘engagement with the Portfolio Committee’ as an indicator will not be analysed for purposes of this research. Nevertheless, this key

element is encapsulated and measured in another indicator below, ‘credibility of budget’, which highlights the transparency of the budget process and institutions that provide oversight, such as legislatures.

4.2.2.2 Providing open access to information held by departments

Governments raise and spend public funds to meet public needs. To do this, they must make good policy choices, execute them effectively and be accountable for their decisions and actions. This is more likely to happen in a budget system that is transparent; therefore, open access to information held by departments can enable transparency. By tracking this indicator, we can analyse how transparency was further achieved since the implementation of the PFMA. The strength of this indicator is that it can help assert how transparent government is in providing citizens with sight of budget documentation. The weakness of this indicator is that it cannot always ensure that the budget documents published are completely transparent. In addition, a lack of quantitative data on the indicator prevents tracking it further. However, the indicator ‘Transparency International’s Corruption Perceptions Index (South Africa)’ can help compensate for the loss of the ‘open access to information’ indicator, because it shows how transparent government is in managing public finance, and makes people aware of the levels of corruption in government as a whole, so that disciplinary sanctions can be taken.

4.2.2.3 Misstatements in financial statements submitted for audit

This indicator can help assert if audits were conducted in accordance with generally accepted government auditing standards. It can also show how the standards required for audit purposes are maintained, to obtain reasonable assurance that the financial statements are free of material misstatements. The weakness of this indicator is that it cannot fully assert whether acknowledgement of misstatements will lead to good management of public funds. However, once again this potential indicator will not be tracked further due to the lack of available data. This indicator is compensated for through the indicator ‘Transparency International’s Corruption Perceptions Index (South Africa)’ that analyses the level of corruption, which includes knowledge on misstatements in financial statements, that lead eventually to fraud and corruption.

4.2.2.4 Transparency International’s Corruption Perceptions Index (South Africa)

This is the only indicator chosen to track the transparency principle of NPM. It is a good indicator to track transparency in South Africa because the survey is conducted annually on a global basis, using the same framework and providing information regarding the level of corruption within each country. Transparency International defines corruption as the abuse of entrusted power for private

gain. The Corruption Perceptions Index (CPI) ranks countries according to perception of corruption in the public sector. The CPI is an aggregate indicator that combines different sources of information about corruption, making it possible to compare countries. CPI “increases public awareness of the problem of corruption and reinforces the pressure on governments to directly address the issue and the negative image of their nation that gives a low ranking on the CPI” (Transparency International, 2013: 6).

By tracking the index of corruption perceptions of South Africa, we are able to describe whether transparency has been achieved in public finance reform since the implementation of the PFMA in 1999. Finally, the research tracks the indicator because data was readily available for secondary analysis for the period 1998–2010, approximately ten years after the implementation of the PFMA; however, no data is available prior to 1994.

4.2.2 Accountability

Accountability refers to a duty of the implementing body to provide disclosure and comprehensive explanations on how the responsibility is performed. It “involves a double duty of doing, and the obligation to provide the report” (Fatemi & Behmanesh, 2012: 46). In Chapter 2 we saw that there was a need to get improvement in the quality and quantity of performance information and the examination of that performance. From this definition of the accountability principle, the indicators chosen were financial misconduct, unqualified audit report, clean audit reports and credibility of the budget.

4.2.2.1 Financial misconduct

Financial misconduct refers to “any falsification of records, or deliberate misrepresentation in financial reporting to government bodies” (Mhlauli, 2009: 1356). In terms of the PFMA, 1999 financial misconduct by public officials occurs when they have not observed or have not complied with Sections 38 – 42 and 44 of the Act. The PFMA expects government departments to report on financial misconduct committed by officials.

The strength of this indicator is that it can provide an answer as to whether government is active in rooting out corruption in the public service and if the people responsible for financial misconduct are being held accountable for their actions. The weakness of this indicator is the possibility of not being able to provide a full picture on the real number of financial misconduct reported by departments. Since the data is available prior to 2001, shortly after the implementation of the PFMA, this indicator will be tracked for the ten-year period from 2001 to 2010.

4.2.2.2 Unqualified audit report

‘Unqualified audit report’ is an indicator used by the Auditor-General for measuring departmental financial performance. An opinion is said to be unqualified when an auditor concludes that the financial statements (FS) give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the FS. An auditor gives a clean opinion or Unqualified Opinion when he or she does not have any significant reservations in respect of matters contained in the FS. To satisfy the requirements of the PFMA, ‘unqualified report’ was chosen as an indicator because it can assert how accountable departments are in terms of public finance management.

The Auditor-General normally covers a range of public bodies, such as national and provincial departments, local government, Constitutional institutions and public entities, for audit purposes. In the current research, the focus is on the 40 national departments, because they represent government at a national level. When a national department functions properly, this has generally a positive impact on other levels of government department. The strength of this indicator is that it can assert how departments are accountable in providing clean audit reports in terms of the PFMA legislative requirement. The weakness is the possibility of incorrect numbers that can be provide about the number of clean audit by departments. It will be tracked from 2000 to 2010, the ten years after the implementation of PFMA.

4.2.2.3 Clean audit report

The ‘clean audit report’ was reviewed as an alternative indicator for the accountability principle. By definition, a clean audit is an audit free from material misstatements. Thus, ‘clean audit’ as an indicator can show whether or not there are proper controls and supervision of public funds within a department, and it assists in gauging how well accountability is being applied as a principle of NPM. The weakness of the indicator is that it is similar to the ‘unqualified audit report’ indicator. It will not be tracked further due to lack of data. However, ‘unqualified audit report’ will encompass the clean audit report indicator because ‘unqualified audit report’ assumes a report that is clean.

4.2.2.4 Credibility of budget (Open Budget Index)

A credible budget means a budget capable of being believed, plausible and worthy of confidence. (Farlex Free Dictionary, 2013). As an indicator chosen for accountability, it can measure the extent to which departments are answerable with regard to the outcomes of their budget. This is because the first requirement of effective public financial management is a credible budget that focuses on the key deliverables of the department. The South African government is recognised for having put

in place a credible and accountable budget mechanism, which is supported by a legislative and regulatory framework (Fölscher and Cole, 2006: 5). This became possible with the adoption of the MTEF. The MTEF provides credible links between priorities and long-term spending plans. This led each department to “compile a three-year strategic plan, and the first year of this (the operational plan) will include the service delivery indicators and costs which, once approved by the legislature, becomes the annual budget” (South Africa. National Treasury, 2000d: 8). Other institutions that provide oversight on budgets are the Auditor-General and the PSC, ensuring that finances are properly controlled and spent accordingly. The weakness of this indicator is that the International Budget Partnership started analysing credibility of budgets only from 2006, whereas the ideal would have been to track it back from 1994. However, this indicator can assert the extent to which government has made effort to make its budget more credible and sound through the PFMA.

4.2.3 Efficiency

One of the key precepts of NPM is that introducing market-orientated management in public sectors will lead to better cost efficiency in government. Achieving efficiency in public finance management is possible only through a commitment by administrators to use scarce resources of the state in an adequate manner, as discussed in Chapter 2. To measure the efficiency principle, the indicators ‘total debt to GDP’ and ‘budget deficit’ were reviewed.

4.2.3.1 Total debt to GDP

Before 1999, the main objectives of debt management were to develop the domestic market and promote a balanced maturity profile. After 1999, the focus shifted “to reducing the cost of debt to within acceptable risk limits, ensuring the government’s access to domestic and international financial markets, and diversifying funding instruments” (South Africa. National Treasury, 2012a: 1). Total national debt can be measured in relation to its gross domestic product (GDP). By “comparing what a country owes to what it produces, the debt-to-GDP ratio indicates the country’s ability to pay back its debt” (Investopia, N.d.). The weakness of this indicator is its limitation in measuring the efficiency principle in terms of the implementation of the PFMA. However, in terms of public finance management, a government that keep the debt-to-GDP low means that it is managing its resources efficiently and not living beyond its means; therefore, government will not need to borrow an increasing amount of money to keep itself sustainable. ‘Total debt to GDP’ will be tracked to assert the efficiency principle, as data is available prior to 1994 and up to 2010.

4.2.3.2 Budget deficit

By definition, “a country experiences deficit in her budgetary system when its expenditure exceeds its revenue” (Oladipo & Akinbobola, 2010: 6). This raises a problem, because government has to cover the deficit by borrowing funds to execute its service delivery programmes. The extent to which government can manage this budget deficit will give us an indication of the effective management of available financial resources for efficiency.

Other reasons to be concerned about a budget deficit include:

- Increasing national debt. If the budget deficit is above a certain level, this may lead to a higher percentage of national income being spent on debt interest payments. This will detract from spending on service delivery to the population;
- If a country has a deficit that increases too quickly, the government may be forced to adapt policies aimed at a sharp deficit reduction. This can cause economic problems and hardship as cuts in government jobs and spending are effected across the board (Levit, 2011: 6).

This is a good indicator to track efficiency in financial management as secondary data is available prior to 1994 and up to 2010. The ‘budget deficit’ data weakness is the ability to express the efficiency principle of NPM within the context of financial management.

4.2.4 Effectiveness

Effectiveness “refers to the outcome or the result of organisational performance” (Lane, 2000: 62). It measures the extent to which the objectives of government are achieved and the extent to which particular problems are solved. The Public Finance teams of the National Treasury facilitate the implementation of the PFMA and Treasury Regulations within national departments, public entities and constitutional institutions, and provide appropriate management systems for monitoring and managing expenditure. Reforms introduced under the PFMA place the National Treasury spending teams at the centre of policy and budgetary debate across Government. (South Africa. National Treasury, 2003c: 33). From 2003 onwards, the National Treasury continued to work in partnership with national departments, enhancing and consolidating the measurable objectives, output measures and service delivery target information as set out in the annual Estimates of National Expenditure. The publication of measurable objectives for each programme, in line with the PFMA, 1999 reflected a commitment to improved service delivery, greater transparency and increased accountability (South Africa. National Treasury, 2003c: 31).

The chosen indicators for effectiveness are ‘government over- and under-expenditure’, ‘non-authorised expenditure’ and the ‘State of the Nation Address’ for each year.

4.2.4.1 Government over- and under-expenditure

Government over-expenditure occurs when government spends more money than it has budgeted, whereas under-expenditure occurs when government departments do not spend their allocated funding in respect to the budget voted. The strength of this indicator is that both under- and over-expenditure can be regarded as problematic in the context of the effectiveness of government in managing public finances. This is because a government that underspends the budget was unable to deliver the services that it set out in the budget. Conversely, a government that overspends its budget, either means it is overpaying for services rendered or spending on items not outlined in the budget for the year. Thus, by tracking the ‘under- and over-expenditure’ indicator it is possible to track how effective government is, overall, in managing public finances in the delivery of services. In addition, secondary data is available for analysis from 1994–2010, the period chosen period for the research. However, the weakness of the data is a limitation in interpreting the effectiveness principle of NPM.

4.2.4.2 Non-authorized expenditure

In terms of public finance norms, un- (or non-) authorised expenditure is expenditure that was in excess of the amount budgeted or allocated by government, or that was not incurred in accordance with the purpose for which it was intended (South Africa. Auditor-General, 1995: 9). Before the implementation of the PFMA, non-authorized expenditure was reported as required by Section 5(d) of the Auditor-General Act of 1995 (South Africa. Office of the Presidency, 1995). However, because unauthorised expenditure was redefined by the PFMA as of 1 April 2000, it is not possible to continue to report on the Auditor-General Act of 1995. Currently, unauthorised expenditure within the PFMA is defined as expenditure made in non-accordance with the purpose of a vote, or a main division within a vote. Therefore ‘non-authorized expenditure’ as a chosen indicator can help track how government used public funds according to the vote for the achievement of objectives of an institution or service. The weakness of the indicator is that, since 2000, unauthorised expenditure is not measured as it was prior to implementation of the PFMA, resulting in possible gaps in the data. Despite this, because data before and after PFMA implementation is available, although not necessarily directly comparable, this indicator will be tracked.

4.2.4.3 Annual State of the Nation address

The State of The Nation address is a speech made by the president to the legislature annually. The choice of the ‘State of the Nation address’ as an indicator to measure effectiveness is valid because it measures the overall performance of government. It also talks about the virtues of some of the

successes of government. The strength of this indicator is that the Address provides national priorities and the extent to which those priorities have been affected by departments. The limitation is that the president does not consistently track the same indicators in every speech and therefore one cannot track long-term trends and their performance. The president also focuses only on the areas of positive government performance.

Although the 'State of the Nation address' is a good indicator to measure the effectiveness of service priorities to promote development of citizens, due to lack of consistent data and the wide diversity of programmes to be covered, it will not be tracked further. However, it will be compensated for by the 'government over- and under-expenditure' data that focuses on how government spends public funds on the programmes described in the State of the Nation address.

4.2.5 Data sources

The majority of the data sources are the reports of government departments. The departments chosen, that is, the National Treasury, Auditor-General and Public Service Commission, are mandated to scrutinize government departments in term of their spending of public funds as well as in the application of diverse legislation, thus their reports provide reliable information. In addition, as a source of secondary data, these documents are stored digitally, are fast to retrieve and are readily available from government websites. The data sources for this research are from:

1. Auditor-General reports. The Auditor-General of South Africa (AGSA) is the supreme audit institution of the public service of South Africa. By law, it is the only institution that has to audit and report on how government is spending South African taxpayers' money. Data derived from the Auditor-General website (<http://www.agsa.co.za>) relates to the following indicators:

- Non-authorised expenditure and
- Unqualified audit report.

2. The National Treasury, which is responsible for managing South Africa's national government finances. It is responsible for publishing the national annual budget via its website. The budget documents published annually by National Treasury on its website (<http://www.treasury.gov.za>) supplied the data relating to the following indicators:

- Budget deficit;
- Government over- and under-expenditure; and
- Total debt.

3. The PSC derives its mandate from Sections 195 and 196 of the Constitution, 1996. The PSC task is to investigate, monitor, and evaluate the organisation and administration of the Public Service. The PSC is an independent and impartial body created by the Constitution, 1996, to enhance excellence in governance within the public service by promoting a professional and ethical environment and adding value to a public administration that is accountable, equitable, efficient, effective, corruption-free and responsive to the needs of the people of South Africa (South Africa, 1996). Data for the following indicator is derived from the PSC's website (<http://www.psc.gov.za>):

- Financial misconduct.

4. Transparency International is an independent global coalition against corruption. The organisation works with governments, business people and civil society of all countries with the mission to stop corruption and promote transparency, accountability and integrity at all levels and across all sectors of society. (Transparency International, 2013). Transparency International's website (<http://www.transparency.org>) supplied the data for the indicator

- Corruption Perceptions Index (South Africa) report.

5. The International Budget Partnership (IBP) collaborates with civil society around the world to use budget analysis and advocacy as a tool to improve effective governance and reduce poverty. The IBP aims to ensure that government budgets are more responsive to the needs of poor and low-income people in society and, accordingly, to make budget systems more transparent and accountable to the public ([International Budget Partnership. 2011.](#)) The International Budget Partnership's website (<http://internationalbudget.org>) supplied the data for the indicator on

- The Open Budget Index.

To summarise: of the 14 indicators reviewed, eight were chosen for further tracking because of their ability to illustrate the implementation, in practice, of the NPM principles by the South African government through the PFMA, 1999 and its related structures. The indicators are tabulated on the next page:

Table 4.1: Indicators selected to track the NPM principles

Principle	Selected Indicator(s)	Source of data
Transparency	Corruption Perceptions Index (South Africa)	Transparency International
Accountability	Financial misconduct Unqualified audit report Credibility of budget	Public Service Commission Auditor-General of South Africa International Budget Partnership
Efficiency	Total debt to GDP Budget deficit	National Treasury National Treasury
Effectiveness	Government over- and under-expenditure Non-authorised expenditure	National Treasury Auditor-General

4.3 PRESENTATION OF RESULTS

The results that follow are presented according to the four main principles of NPM; thus, since we start with the transparency principle, the Corruption Perceptions Index (CPI) is the first indicator analysed.

4.3.1 Transparency principle indicator: Transparency International’s Corruption Perceptions Index (South Africa)

Mode of collection

Transparency International seeks to provide reliable quantitative diagnostic tools regarding levels of transparency and corruption at the global and local levels (Transparency International, 2013). It is a composite index, drawing on 17 different polls and surveys carried out by 13 independent institutions, with the business community and country risk analysts and other surveys of the local and expatriate populations. All sources measure the overall extent of corruption (frequency and/or amount of corruption) in the public and political sectors. Non-resident experts and resident business leaders do the evaluation of the extent of corruption in their own countries.

The CPI measures the degree to which public sector corruption is perceived to exist in different countries around the world. It scores countries on a scale from 10 (very clean) to zero (0) (highly corrupt). These scores per country are listed annually making country comparisons possible.

Table 4.2: South Africa’s score on the Corruption Perceptions Index, 1998 to 2010

Year	South African score on the CPI
1998	5.2
1999	5
2000	5
2001	4.8
2002	4.8
2003	4.3
2004	4.6
2005	4.7
2006	4.6
2007	5.1
2008	4.9
2009	4.7
2010	4.5

Source: Transparency International, http://www.transparency.org/research/cpi/cpi_2010

Analysis

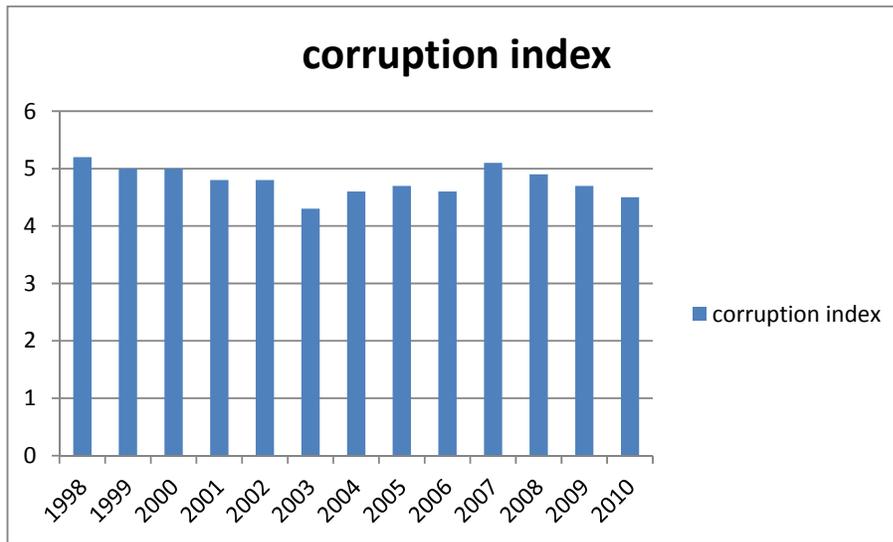


Figure 4.1: South Africa’s score on the Corruption Perceptions Index, 1998 to 2010

From Figure 4.1 above we can see that the perceived levels of corruption in South Africa fluctuated between 4 and 5 without an important change toward the number 10; that is, ‘very clean’. According to the CPI, in 2012, South Africa was ranked 72nd out of 177 countries surveyed, with a score of 42 out of 100. In 2013, South Africa’s ranking had improved to 69th out of 176 countries, with a score of 43.

Despite this, there is still non-compliance with transparency in some areas because good governance is not embedded in the public sector, as evidenced by the “reliance on personal networks for survival rather than on holding the state accountable; personalised politics and patronage; illegitimate leadership; and excessive control on information” (De la Harpe, Rijken & Roos, 2008: 3).

Looking at this indicator, it appears the implementation of the PFMA, 1999 did not dramatically promote the principle of transparency although it may have helped to sustain the corruption index in a stable band, which in its absence may have worsened.

4.3.2 Accountability principle indicator 1: Financial misconduct

Mode of collection

In terms of Section 81 of the PFMA, 1999 the PSC provides a reporting format or template for departments to use for reporting on the total number of financial misconduct cases in their individual portfolio.

Financial misconduct involves any material losses through criminal activity committed by a public official including bribery, involving a promise and offering or giving of a service based on self-interest. Other offences include fraud, theft or misappropriation and abuse, which involve the wrongful, improper or excessive use of public funds and/or assets in a person’s care (South Africa. National Treasury, 1999b).

The PSC aggregates all the data on financial misconduct cases from government departments, and publishes the report annually on its website.

Financial misconduct data for 2002 to 2004 was derived from the *Report on Financial Misconduct 2002/2003 AND 2003/2004 Financial Years* (South Africa. Public Service Commission, 2005: 11). The data for 2005/2006 was retrieved from the *Report on Financial Misconduct for 2005/2006 Financial Year* (South Africa. Public Service Commission, 2007: 11); the data for 2006/07 from the *Overview of Financial Misconduct for 2006/2007 Financial Year* (South Africa. Public Service Commission, 2008) and for 2008 from the *Report on Financial Misconduct for 2007/2008* (South Africa. Public Service Commission, 2009: 8). Finally, data for 2008 to 2010 was retrieved from the *Report on Financial Misconduct for the 2009/2010 Financial Year* (South Africa. Public Service Commission, 2011: 9).

The researcher constructed an Excel spread sheet on the indicator ‘financial misconduct’ from 2001 to 2010 based on the information provided on the PSC website. Then the data was analysed to

assess any improvement (or decline) in the 10-year period with regard to the number of cases of financial misconduct. The indicator on financial misconduct was non-existent before 2001; therefore, it was impossible to track it back from 1994.

Table 4.3: Cases of misconduct, 2001 to 2010

Year	Reported cases of misconduct
2001/2002	434
2002/2003	849
2003/2004	582
2004/2005	513
2005/2006	771
2006/2007	1042
2007/2008	868
2008/2009	1204
2009/2010	1135

Source: Public Service Commission, <http://www.psc.gov.za/documents>

Analysis

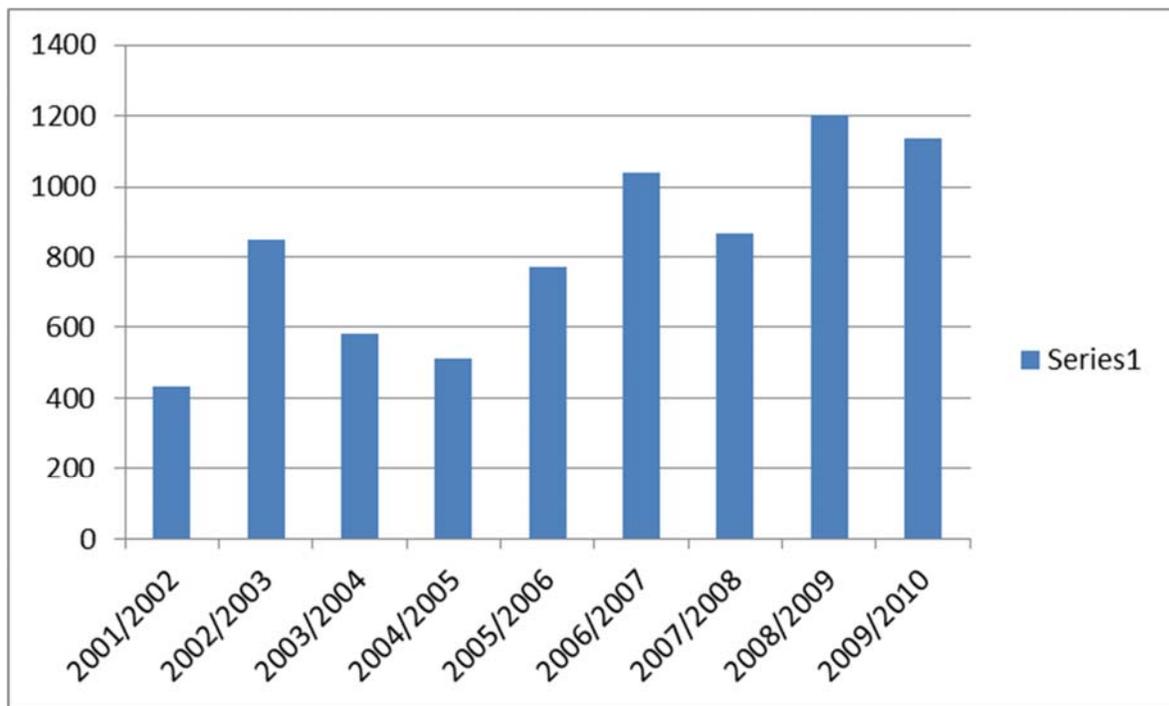


Figure 4.2: Cases of misconduct, 2001 to 2010

According to the data presented in Figure 4.2 above, the implementation of the PFMA, 1999 did not enhance the principle of accountability. One possible explanation may be the inability to enforce strong sanctions for financial misconduct. According to the PSC (South Africa. Public Service Commission, 2006a: 17), the sanctions imposed for the 2003/2004 year were: 1 public official was

transferred; 32 had written warnings; 12 had fines imposed; 94 had final warnings and 1 person was imprisoned. Similarly, for the 2009 financial year, final written warnings were issued in 489 cases (43%) of finalised financial misconduct cases; this was the most prevalent sanction imposed upon a finding of a guilty verdict (South Africa. Public Service Commission, 2011: 10).

As can be seen, in the majority of cases of financial misconduct no drastic sanction that is taken against the offender and criminal action is usually not instituted against offenders. Therefore, the practice of the principle of accountability is still lacking.

4.3.3 Accountability principle indicator 2: Unqualified audit report

Mode of collection

To receive an unqualified audit report a department must have good capital asset management; must be able to provide appropriate supporting documentation relating to expenditure; must have a good reporting system on material losses in place; must have good internal control of financial components; must have no material misstatements in the financial statements and the financial statements must present fairly the financial position. (Ainapure & Ainapure, 2009: 571). The indicator 'unqualified audit report' aims to ensure the entire public finance management system within the department being audited is operating correctly, without any misstatements in the financial report.

To find data on unqualified audits, the researcher consulted the reports of the Auditor-General for the period 2000 to 2010. The data was then captured into an Excel spread sheet and was presented graphically for trend analysis, to see whether there had been improvement in the number of unqualified audit reports after the implementation of the PFMA, 1999.

Data was sought only for the 40 national departments. The choice of national department as the unit of measurement was made because, to a large extent, they represent government, and good practice within a national department can have a great influence on other layers of state governance, such as provincial and municipal entities. Data was only collected starting from 2000, because, before this, 'unqualified audit report' was collected in terms of the Auditor-General Act, No. 12 of 1995, on the government as a whole, not on each department individually.

Table 4.4: Number of unqualified audit reports in state departments, 2000 to 2010

Year	Number of unqualified audit reports
2000	17
2001	21
2002	10
2003	33
2004	24
2005	21
2006	6
2007	7
2008	14
2009	5
2010	3

Source: Annual reports by the Auditor-General, <http://www.agsa.co.za/Documents/Auditreports/PFMA>

Analysis

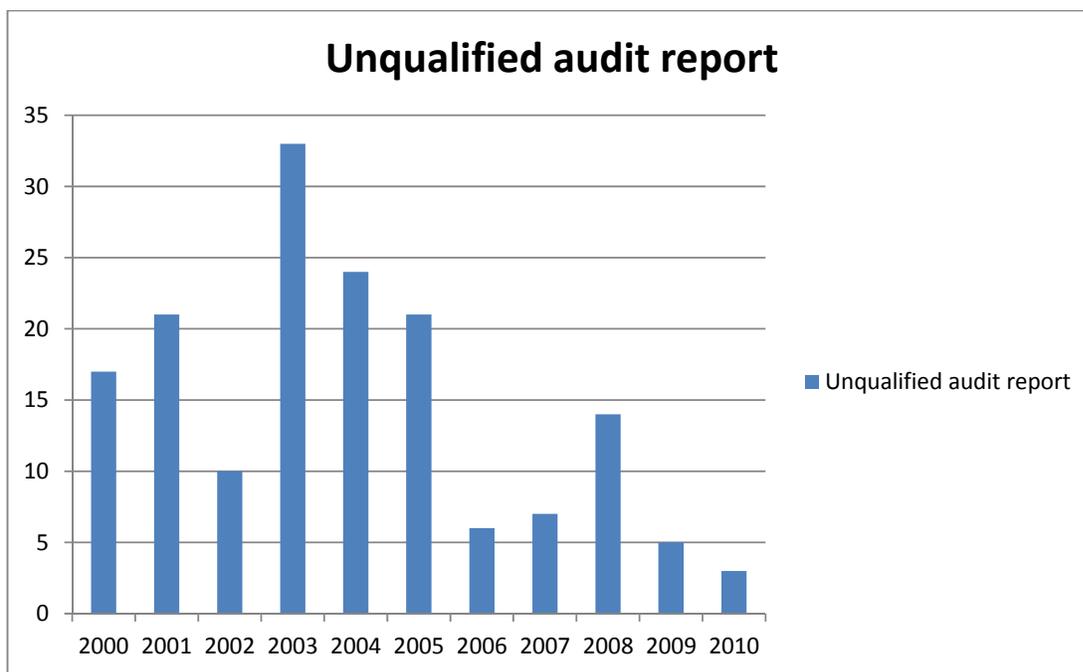


Figure 4.3: Number of unqualified audit reports in state departments, 2000 to 2010

In 2003 (a large number of unqualified audits were noted at national departmental level, with 33 unqualified opinions and only 8 receiving qualification(s) South Africa. Auditor-General, 2003). In 2006, of the 22 national departments audited, 16 received unqualified reports with matters, and 6 with no matters (South Africa. Auditor-General, 2006). In 2008, when 33 departments were audited, 14 received unqualified audit reports.

The indicator ‘unqualified audit report’ provides a clear indication that departments generally struggle with financial controls. This is because some department audit reports prove to be good in a year and then in the subsequent year the same department provides a mediocre result in terms of providing an unqualified audit report.

To delve further into the issue of the accountability principle, taking the Northern Cape as an example: The Department of Transport showed a decline from an unqualified opinion the previous year to a qualified audit opinion (Sibande, 2012). The reason for the decline was “a lack of political will to adhere to recommendation put forth by the Auditor-General and the Standing Committee on Public Accounts (SCOPA), as well as the unwillingness to take disciplinary steps against officials who transgressed the PFM Act” (Evans, 2011). Therefore accountability as a principle of NPM is not bearing fruit according to the indicator ‘unqualified reports’ at national government level.

4.3.4 Accountability principle indicator 3: Credibility of budget

Mode of collection

The Open Budget Survey undertaken by the International Budget Partnership assesses whether the central government in each country surveyed makes their key budget documents available to public. The survey also looks at whether the data contained in these documents is comprehensive, timely, and useful. Further, the survey seeks to discover what occurs in practice, rather than what the law requires (International Budget, 2011: 7). The questionnaire is intended specifically to evaluate the information available to the public during the budget year.

For the current research, data was collected from the Open Budget Survey reports for South Africa; then an Excel spread sheet was drafted from which the data was presented graphically (next page):

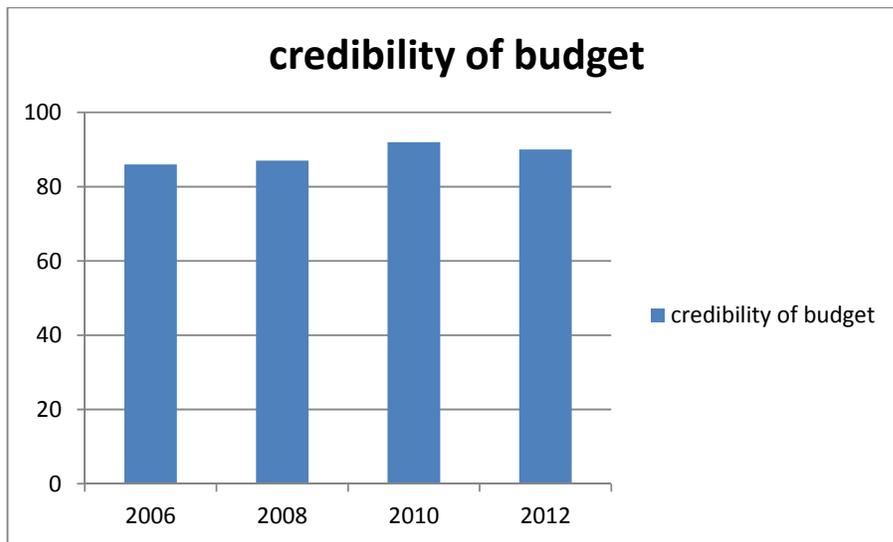


Figure 4.4: South Africa's rating on 'credibility of budget', 2006 to 2012

Source: International Budget Partnership, <http://internationalbudget.org/>

Despite the fact that data for this indicator is unavailable prior to 2006, it is an important indicator to illustrate the accountability principle because it shows the continuous improvement made by the South African government, from an already high base, in terms of providing extensive public access to the national budget and maintaining a high level of budget credibility.

In 2013, the Washington, D.C.-based International Budget Partnership ranked South Africa second out of 100 countries for the transparency and accountability of its budget processes. According to this indicator, the principle of accountability, as adopted in public finance reform, has been furthered (International Budget, 2011: 7).

4.3.5 Efficiency principle indicator 1: Total debt to GDP

Mode of collection

The formula for total debt is total domestic and foreign debt less the cash balances of the National Revenue Fund, including the profits and losses on the Gold and Foreign Exchange Contingency Reserve Accounts ([South Africa. Reserve Bank, 2013: 58](#)). Government calculates total debt from this formula then publishes it in a table in the annual National Budget Review.

The researcher tabulated total debt from the National Budget Reviews and the statistical tables contained in the annexures of the Reviews, of 1998, 2000 and 2006. To illustrate, data for 1994 to 1998 was retrieved from statistical tables in the 1998 *Budget Review* (South Africa. Department of Finance, 1998b); for 1999 to 2003 from the statistical tables in the 2000 *Budget Review* (South

Africa. Department of Finance, 2000) and for 2003 to 2010 from statistical tables in the 2006 National *Budget Review* (South Africa. Department of Finance, 2006).

Table 4.5: Total debt to GDP, 1994 to 2010

Year	Total debt to GDP %
1994	48.60
1995	54.80
1996	56.20
1997	55.80
1998	55.20
1999	54.30
2000	52.80
2001	51.30
2002	45.03
2003	43.00
2004	32.90
2005	29.80
2006	26.10
2007	23.20
2008	22.70
2009	28.20
2010	32.20

Source: Annual National Budget Reviews, <http://www.treasury.gov.za/documents/national%20budget>

Analysis

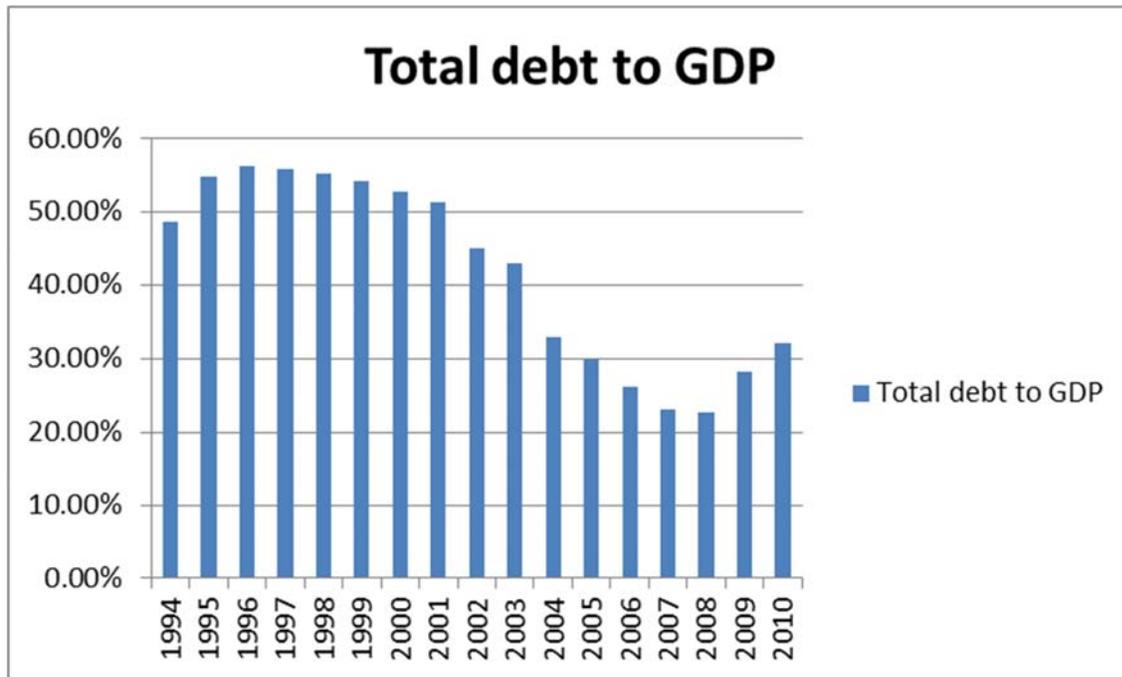


Figure 4.5: Total debt to GDP, 1994 to 2010

At the advent of the new democratic government in 1994, the size of the government debt was large, with debt to GDP at 48.6%. During 1994 to 1996, government created the RDP, which meant there was an extensive reprioritisation of government budgets. (South Africa, National Treasury, 2012a: 5). New fiscal and financial institutions were created to form a backbone for these reforms. There was the consolidation of the former Transkei, Bophuthatswana, Venda and Ciskei states (the former 'homelands'), integration of departments and the harmonisation of an enlarged civil services body with new provincial government structures. "The total debt to GDP increased to a high of 56%, and interest cost on the debt consumed 24% of the total government revenues, leaving not much financial freedom to spend on the new governmental priorities" (Nowak and Ricci, 2005: 6).

The period 1997 to 2000 was one of fiscal consolidation with the introduction of medium term expenditure planning, the PFMA, a strong focus on improved management of the public finances, increasing transparency and accountability, and substantial investment in tax reform and revenue administration capacity. The government efforts at reforming the fiscal policy and the monetary policies of central bank started to bear fruit in stabilizing and reducing inflation. The level of public debt to GDP started to fall and the interest cost fell to below 21% of national revenues.

From 2001, "the debt to GDP continued to decline to below 43% and the cost of servicing debt dipped below 18% of national revenues" (Coleman, 2013).

Because of much improved fiscal management and the declining relative burden of debt service costs, the government could afford to start to provide tax relief to grow the economy faster. The government also increased expenditure on public services to speed service delivery. to the population.

From 2004 to 2008, the debt to GDP declined because of the stronger growth of economy and the improvement in the management of public debt. Finally, from 2009 to 2010, a worldwide recession led to GDP declining. Government took the decision to raise more debt to support the budget deficit and to spend on infrastructure. The result was an increase in the total debt to GDP for the years 2009 and 2010.

From this review of the data it appears that the NPM principle of efficiency was achieved in the management of the debt of the country. Even though this cannot be attributed solely to the enactment of the PFMA, it did play central role in the achievement of the goal of efficiency, evident in the rapid improvements post its implementation.

4.3.6 Efficiency principle indicator 2: Budget deficit

The budget deficit is the annual amount the government has to borrow to cover the gap between revenues and expenditure (Black, Hashimzade & Myle, 1997: 43).

Mode of collection

The National Treasury publishes the budget deficit as part of the annual Budget Review. The Budget Review is compiled by the National Treasury using the latest information from departmental and other sources, including the reports of the Auditor-General on the Appropriation and Miscellaneous Accounts; the printed estimates of revenue and expenditure for the national and provincial budgets; information supplied by the South Africa Reserve Bank and Development Bank of Southern Africa; and monthly press releases of the National Treasury, published in terms of Section 32 of the PFMA, 1999. After collecting the information from the different departments, National Treasury drafts a Budget Review in which the budget deficit is presented.

The researcher collated the data on budget deficit for the period 1994 to 2010 into an Excel spreadsheet, to generate Figure 4.6. To illustrate, the budget deficit for 1994 was R25,132 million (South Africa. Department of Finance, 2001: 184). Data for 1995 was derived from the statistical tables in the Budget Review, 2002 (South Africa. Department of Finance, 2002: 190). This method was followed by scrutinising statistical tables of each subsequent year until data to 2010 was sourced.

Table 4.6: Budget deficit, 1994 to 2010

	budget defic
1994 -	25,132
1995 -	25,382
1996 -	28,998
1997 -	26,558
1998 -	17,411
1999 -	16,588
2000 -	18,342
2001 -	14,642
2002 -	13,016
2003 -	29,278
2004 -	20,605
2005 -	4,936
2006	11,005
2007	19,351
2008 -	27,158
2009 -	167,512
2010 -	133,228

Source: Statistical tables to Annual National Budget Reviews, <http://www.treasury.gov.za/documents/national%20budget>

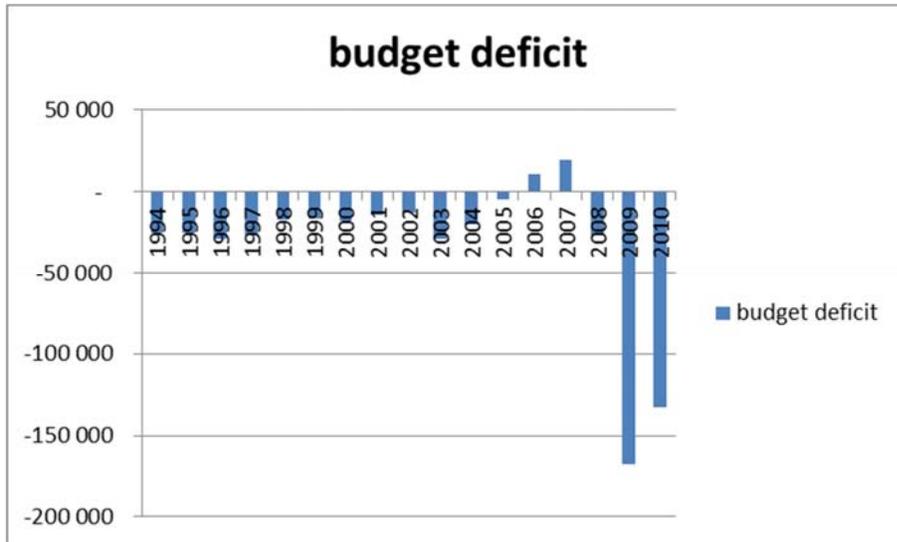
Analysis

Figure 4.6: Budget deficit, 1994 to 2010

As shown in Figure 4.6, the overall picture of government deficit from 1994 to 2005 was one of decrease. This situation can be attributed to good management of public funds. The trend leads to the conclusion that with the implementation of the PFMA, 1999 as well as the implementation of the MTEF, government was able to maintain the deficit at a certain level that had a positive impact on economic growth. In addition, in the 2006 and 2007 financial years, the deficit was transformed into a surplus.

In terms the efficiency principle of NPM, government has been able to control the budget deficit due to improved management of government revenues versus expenses, as shown in the figures in Table 4.6, from 1994 to 2007.

However, in 2008, worldwide recession occurred, and government took the decision to increase expenditure to support the domestic economy and invest in infrastructure. This led to large deficits occurring in 2009 and 2010, on a larger scale than witnessed since the inception of democracy.

Overall, government, through sound management of the budget deficit, has furthered efficiency as a principle of NPM.

4.3.7 Effectiveness principle indicator 1: Government over- and under-expenditure

Government over-expenditure occurs when government spends more money than it has. Conversely, under-expenditure occurs when government departments do not spend their allocated funding in respect to the budget voted.

Mode of collection

Government over- and under-expenditure data is collected from government revenue and expenditure statements, which include interest on overdue income tax, non-resident shareholders, non-residents' tax on interest, undistributed profits tax, small business tax amnesty, and value-added tax (VAT). The National Treasury tabulates, analyses and publishes this information annually. For example, 1994 estimates were captured in the 1994 *Budget Review* data (South Africa. Department of Finance, 1994) and the actuals recorded a year later in the 1995 *Budget Review*.

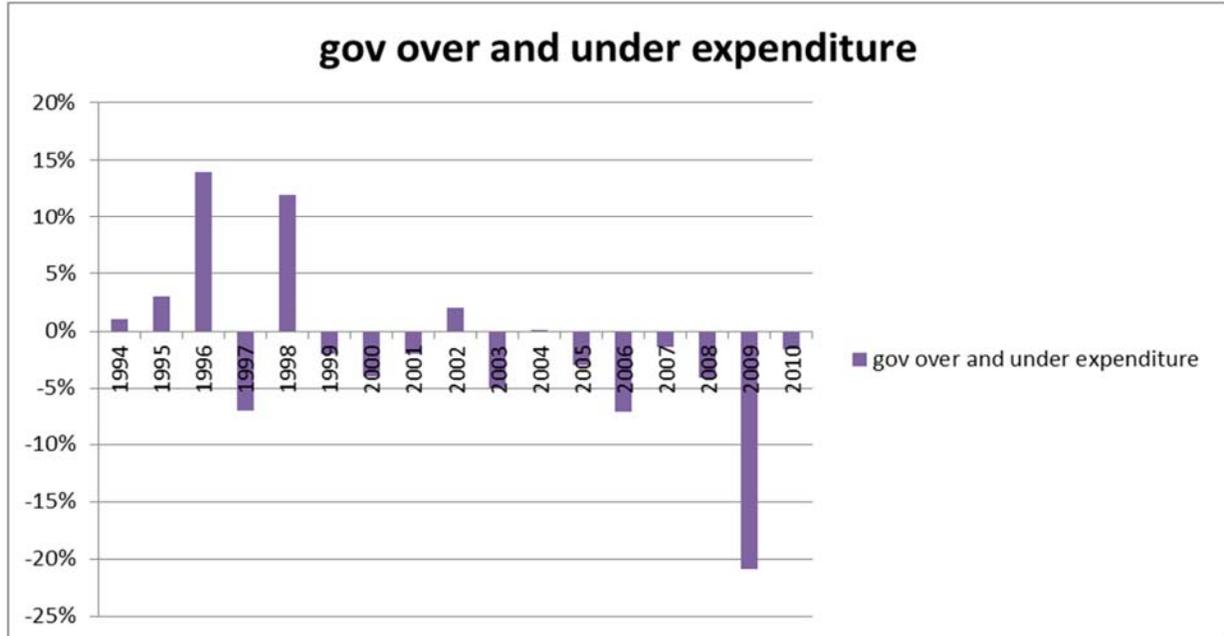
To get the over- or under-expenditure amount, the researcher calculated the difference between the actual and estimated expenditure (Table 4.7, next page). For example, in 1994, actual expenditure was R138,347 million (South Africa. Department of Finance, 1995: 30) while estimated expenditure was R140,004 million (South Africa. Department of Finance, 1994: 32), resulting in under-spending of the budget by R1,657 million relative to what was projected. On the other hand, in 1997, actual expenditure was R189,192 million (budget, 1998:30) while estimated expenditure was R176,070 million (South Africa. Department of Finance, 1997: 40), resulting in over-expenditure by government of R13,122 million with regard to what was projected.

Table 4.7: Government over- and under-expenditure, 1994 to 2010

Year	Actual expenditure R million	Estimated expenditure R million	Difference R million	Difference %	Over-/ under-expenditure
1994	138,347	140,004	1,657	1%	Underspent
1995	153,248	157,360	4,112	3%	Underspent
1996	154,526	176,070	21,545	14%	Underspent
1997	189,192	176,070	-13,122	-7%	Overspent
1998	193,075	215,696	22,621	12%	Underspent
1999	208,978	204,293	-4,685	-2%	Overspent
2000	233,942	225,414	-8,528	-4%	Overspent
2001	262,905	258,318	-4,587	-2%	Overspent
2002	285,219	291,823	6,604	2%	Underspent
2003	333,965	315,630	-18,335	-5%	Overspent
2004	368,459	368,904	445	0.1%	Underspent
2005	416,684	404,654	-12,031	-3.0%	Overspent
2006	470,193	439,058	-31,135	-7.1%	Overspent
2007	541,499	533,873	-7,626	-1.4%	Overspent
2008	636,064	611,096	-24,968	-4.1%	Overspent
2009	738,563	611,096	-127,467	-20.9%	Overspent
2010	818,143	805,141	-13,002	-1.6%	Overspent

Source: Annual National Budget Reviews, <http://www.treasury.gov.za/documents/national%20budget>

Analysis

**Figure 4.7: Government over- and under-expenditure, 1994 to 2010**

The two indicators together describe how government has managed its annual budget. With regard to under-spending, from 1994 through 1996, spending was less than projected. This can be

explained by the fact that economic growth was much stronger and more sustained after the political transition than anticipated.

In terms of under-spending, the lowest level, of 14% in 1996, should be compared to the highest level of government over-spending (at 20.9% overspent in 2009), on a much larger budget. Measured in Rand terms, this fluctuation has a marked impact on how effective the government is in term of managing public finance.

With regard to over-spending, the increase in expenditure was driven by employee remuneration, substantial increases in police spending and also programmes such as the establishment of “a new legislative framework, financing diverse programmes, and health information systems” (OECD, 2008: 568). However, in this instance, effectiveness is not compromised because the spending aims at delivering services to citizens as well as improving public sector governance with for example the creation of legislation.

Most of the over-spending occurred after 2000, with only two years of under-spending since 2000. This must be seen against the growth in the budget from R138 million in 1994 to R818 million in 2010.

The trend exhibited in the data indicates that the variance of government over- and under-expenditure has declined remarkably post 1999, with the variance generally under 5% even though the overall budget has increased substantially in the last 10 years. Overall, the indicator shows government to have been more effective in the management of expenditure over time from 1994 to 2010.

4.3.8 Effectiveness principle indicator 2: Non-authorized expenditure

Mode of collection

For unauthorised expenditure to occur, “departmental transactions have to be outside the mandate of the department and cause overspending on a programme or vote” (South Africa. National Treasury, 2013b: 2). In addition, since the enactment of the PFMA, it also comprises a transaction that contravenes the PFMA. According to this definition, the Auditor-General audits a government department then analyses the financial report to see whether expenditure is in line with the amount voted for the department. If non-authorized expenditure did occur, the Auditor-General reports on the specific department that incurred the non-authorized expenditure. The Auditor-General reports for 2000 to 2010 were reviewed for data on non-authorized expenditure by national departments.

This was used to populate an Excel spread sheet and the data was graphically presented and analysed, per Table 4.8 and Figure 4.8 below.

Table 4.8: Non-authorized expenditure, 2000 to 2010

Year	Non-authorized expenditure R million
2000	270.457
2001	44.982
2002	25.882
2003	111.5
2004	37.4
2005	103.8
2006	1.123
2007	228
2008	1,400.00
2009	362.4
2010	787

Source: Annual reports by the Auditor-General. <http://www.agsa.co.za/Documents/Auditreports/PFMA>

Analysis

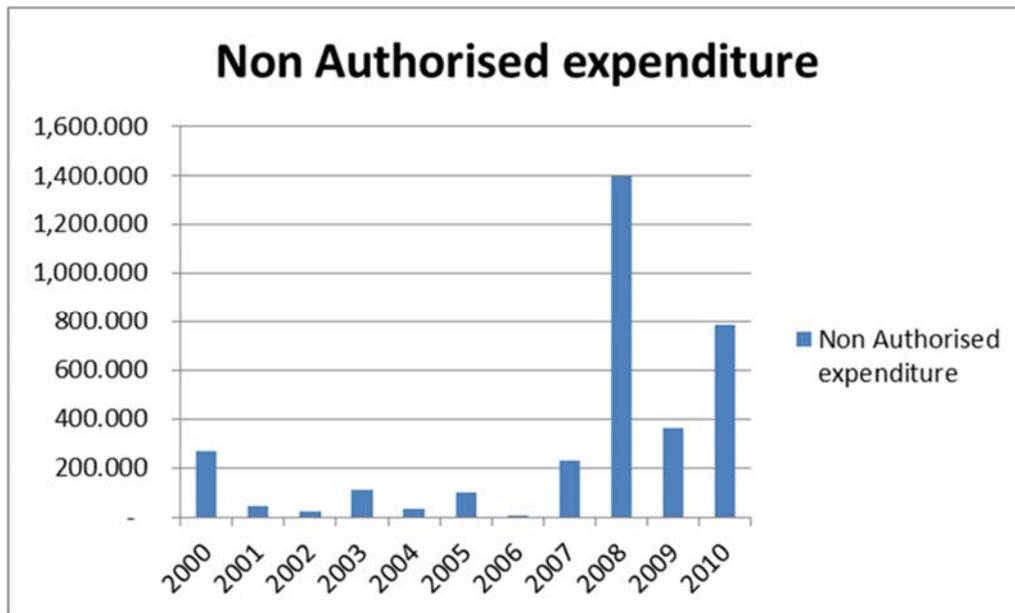


Figure 4.8: Non-authorized expenditure, 2000 to 2010

As can be seen from analysing the indicator, non-authorized expenditure at a national level was relatively low from 2001 to 2006. From 2007 to 2010 an important shift occurs, especially in 2008 when R1 400 million of non-authorized expenditure occurred.

Some of the reasons for this spike in non-authorised expenditure were because, for example, “the Department of Home Affairs wasted more than R56-million in detaining illegal immigrants who did not exist, according to its 2007 annual report” (*Mail and Guardian*, 2008a). Also in the same year, according to the Auditor-General’s report, the departments of Education, Housing and Economic Development received qualified audits based on their management of capital asset. Finally, the Department of Health alone in the Provincial of Gauteng accounted for R1-billion of the wasteful expenditure (Sokana, 2009).

In 2006 only one department, out of 34 departments audited, recorded non-authorised expenditure. However, in his 2012, report the Auditor-General noted that multiple government departments were not willing to cooperate in terms of transparency improvement and providing information for financial statements. Indeed “regression occurred in compliance-related material misstatements in financial statements submitted for audit, HR management, asset and liability management and revenue management” (South Africa. Auditor-General, 2012: 14).

From this, it appears that effectiveness as a principle of NPM is still lacking despite the implementation of the PFMA.

4.4 FLAWS IN DATA

As explained in Chapter 1, there are a number of difficulties associated with using secondary data, especially the fact that the researcher has limited control over the data, because it is work done by someone else. It becomes difficult to assert explicitly that the four main principles, namely transparency, accountability, efficiency and effectiveness, are related directly to the chosen indicators. Then, even if institutions such as the Auditor-General, National Treasury and PSC are mandated by law to fulfil their task regarding reporting on government departments, they can make errors in terms of collecting the right information in their annual reports on all departments. This also applies to Transparency International as well as the International Budget Partnership, since they might collect incorrect information on the countries analysed or show data bias.

The possibility exists of flaws in the data collected and its analysis, which means that all research studies have inherent strengths and limitations; it the responsibility of the investigator to acknowledge the limitations. In the current research, the difficulties centre on obtaining the correct information, having adequate data over time to support conclusions as well as identifying the key indicators. Specific shortcomings of the analysed indicators are pointed out below.

4.4.1 Transparency International's Corruption Perceptions Index (South Africa)

According to the CPI, in 2004, 106 out of 146 countries (73%) scored less than 5 against a clean score of 10; in 2005, this had dropped slightly, to over two-thirds of the 159 nations surveyed. By 2011, the CPI was surveying 183 countries and territories around the world. Thus, the annual placement of a country needs to be seen against the total number of countries surveyed in that year. In addition, the data on perceived corruption in South African was provided by Parliament and may not necessarily reconcile with official government personnel data; thus a possible flaw or bias in the data.

4.4.2 Financial misconduct

For reporting purposes on financial misconduct, some departments do not provide accurate information, as evidenced by the observation in the *Report on Financial Misconduct for 2005/2006 Financial Year* that even though “departments had to report on the format provide by PSC, some information was still not reflected in some of the reports that were submitted to the PSC” (South Africa. Public Service Commission, 2007: 13). This then can result in misleading information on the actual number of financial misconduct cases annually.

In terms of Treasury Regulation 4.3.1, departments are required to indicate the ranks of officials charged with financial misconduct (South Africa. National Treasury, 2000d). Because of the use of different rank designations by departments, and the fact that employees in the Department of Defence and the South African Police Service are appointed in terms of either the Defence Act of 1957, or the South African Police Services Act of 1995, respectively, it is problematic to analyse the information provided (South Africa. Public Service Commission, 2006a: 15).

Furthermore, some departments are not complying fully in reporting financial misconduct cases. Therefore, the failure to report on finalised cases of financial misconduct results in the PSC publishing incorrect figures in its final report.

4.4.3 Unqualified audit report

Some of the data on unqualified audit reports is difficult to identify due to the presentation within the Auditor-General's report. Then, the Auditor-General does not have access to all department's financial information for the period requested, i.e. to the end of the financial year (the end of March annually), which means that not all departments are audited annually due to late submission, or lack, of information by some departments. For example, out of the 40 national departments, only 34

were audited in 2006, only 33 in 2008, and only 35 in 2009. Therefore, the number of unqualified audits does not provide a full picture of the 40 national departments.

Furthermore, recently new terminology and audit standards have been introduced for auditing purposes. Among these are separate definitions and standards for misstatements in financial statements, effectiveness of internal audit, unauthorised expenditure, and fruitless and irregular expenditure. These new standards may not have been internalised fully in all departments.

4.4.4 Credibility of budget

The flaw in the Open Budget Survey by the International Budget Partnership is that researchers may not respond correctly all the requests contained in the questionnaire to provide information on the extent to which governments provide information about their budget documentation to the public. This is because the Open Budget Survey is designed to be completed by an independent civil society researcher or team of researchers. The questionnaire

Seeks to determine whether a country's government provides certain types of information to the public, and whether certain activities occur during the budget process. Answers to the questions must be based on empirical research, and researchers are required to provide evidence about why they have selected a particular answer (International Budget Partnership, 2011: 6).

Thus, there might be possible biases on how researchers collect information and respond to the questions.

4.4.5 Total debt to GDP

The flaw in the 'total debt' indicator is that some of the figures relating to total debt were revised after 1998, which can also impact on how total debt is calculated and displayed in the budget after 2000.

4.4.6 Budget deficit

With regard to budget deficit data, some of the components of the budget were revised after 1994 to align with the new system of data collection adopted by Statistics South Africa. There is a gap between the total budget deficits as stated in the 1994 Budget Review compared to the same number in the 1997 Budget Review. Historical data has been adjusted to account for functional shifts between departments, thus the figures presented for some departments may differ from their financial statements.

4.4.7 Government over- and under-expenditure

Given that the over- and under-expenditure data was also revised after the adoption of the PFMA, 1999, the possibility of flaws in the data exists. The adoption of the MTEF also means budget presentations are different from ones done in 1994.

4.4.8 Non-authorized expenditure

The data was analysed for 2000 to 2010 only, because non-authorized expenditure before the implementation of the PFMA, 1999 was expressed for all government departments. There is a great difference between non-authorized expenditure as reported in 1994 compared to after 2000. With the promulgation of the PFMA, non-authorized, irregular and fruitless expenditure are all expressed differently with separate definitions.

4.5 CONCLUSION

The principle of transparency was analysed against the indicator ‘Transparency International’s Corruption Perceptions Index (South Africa)’, which showed that the perceived levels of corruption in South Africa fluctuated between 4 and 5 without an important change toward the number 10; that is, ‘very clean’. The conclusion reached was that good governance is not yet embedded in the public sector and that the implementation of the PFMA, 1999 did not dramatically promote the principle of transparency, although it may have helped to sustain the corruption index in a stable band that in its absence may have worsened. The indicators ‘engagement with Portfolio Committee on Finance’, ‘providing open access to information held by departments’, ‘misstatements in financial statements submitted for audit’ were reviewed but deemed unsuitable for further tracking.

The principle of accountability was analysed against the indicators ‘financial misconduct’, ‘unqualified audit report’ and ‘credibility of budget’. The conclusion were mixed: with regard to financial misconduct, and unqualified report the accountability principle appears to be lacking whereas the ‘credibility of budget’ indicator has been achieved as the South African government, has provided extensive public access to the national budget and maintains a high level of budget credibility. In 2013, the Washington, D.C.-based International Budget Partnership ranked South Africa second out of 100 countries for the transparency and accountability of its budget processes.

Efficiency as a NPM principle was analysed against the indicators ‘total debt to GDP’ and ‘non-authorized expenditure’. The review of debt management data provides a good picture of how the South African government was able to control total debt in terms of public finance management,

thereby achieving the principle of efficiency. With regard to the ‘non-authorized expenditure’ indicator a poor picture emerges, such that departments are still not using public funds in as efficient a manner as envisaged within the PFMA. Indeed, in 2012 the Auditor-General noted “regression occurred in compliance-related material misstatements in financial statements submitted for audit, HR management, asset and liability management and revenue management” (South Africa. Auditor-General, 2012: 14).

The effectiveness principle seems partially successful, with government over- and under-expenditure because government has been able to manage expenditure, even if elsewhere non-authorized expenditure is not providing a positive result.

Compliance with all the principles of NPM has not yet been fully achieved by all South African government departments. Indeed, according to the Auditor-General, for some departments the situation regarding non-authorized expenditure due to the non-submission of audit requirements to ensure an annual audit is even worse. The PSC notes a similar trend with regard to cases of financial misconduct.

Furthermore, 2010 data can, at best, refer to indicators for 2009. This is challenging as there are significant evidence-based sources which indicate that, due to a number of factors, South African governance performance has come under some stress since then. The 2010 cut-off date may therefore miss more recent emerging trends, with some implications for the conclusions, which may be less favourable if trends for the added years (2010 to 2013) were analysed.

In Chapter 5 the reasons for the failure by departments to comply with the PFMA legislation are discussed, to understand what measures can be taken to overcome to this failure. This is desirable because an achievement by government of all the NPM principles will permit to South Africa “to provide the foundation for maintaining confidence in the stability and continuity of the State. Efforts to enhance its professionalism and integrity, and to buttress its impartiality, legality and transparency, are critical to the fulfilment of the State’s overarching goals” (Basheka, 2012: 61).

CHAPTER 5

SUMMARY AND CONCLUSIONS

5.1 INTRODUCTION

The South African history of public sector and public finance reform must be understood from both the historical and political contexts. During the apartheid era, public administration was not meant to be inclusive for all citizens. This system prevailed until the democratic government came into power in 1994; consequently, reforms were initiated based on transparency and citizen participation. This was possible because of the willingness of government to make the public sector more efficient, effective and inclusive. With the adoption of the PFMA, 1999 NPM principles were the cornerstone used to transform the public sector and public finances.

The PFMA, based as it is on the NPM principles of transparency, accountability, effectiveness, efficiency and good governance, provided a framework for the management of public funds that became a cornerstone to the reform process of South African public finance. To make that possible, new legislation and regulatory frameworks were required. Amongst these important legislative interventions are the 'Batho Pele' principles (outlined in the White Paper on Public Sector Transformation, 1997 (South Africa. Department of Public Service and Administration, 1997) which underpin the PFMA. The new regulatory frameworks also meant the adoption of new management tools to assist in their implementation at all levels of government. Some of the management tools include outcomes evaluation for programmes, monitoring and evaluation of programmes and performance assessment.

This chapter first provides an overview of the previous chapters. It then discusses the findings, interpretation of results, gaps, anomalies and deviations of the data to arrive at the conclusions, which confirm that, in terms of public finance management, some principles of NPM have been implemented fully, some partially, and some have not yet been furthered. Overall, it shows that the implementation of the PFMA resulted in a deep insight into public finance management, with more information being accessible to citizens through legislation and regulatory frameworks that enable public scrutiny of public finance management. The chapter ends with recommendations for further research.

5.2 OVERVIEW OF PREVIOUS CHAPTERS

Chapter 1 discusses the outcomes of NPM principles in public finance reform in South Africa following the implementation of the PFMA in 1999. The chapter provides different definitions of

NPM and its principles as well as the background to the research question, which is to find out whether NPM theory had an impact on South African public finance reform. The chapter also discusses the methodology used to collect and analyse data.

In Chapter 2 the focus is on the framework of NPM and how it was introduced in South African public sector reform. It discusses the impact of NPM tools on public sector re-organisation in general and public finance in particular. It looks at outcome evaluation tools as these help us to assert the impact NPM had on public finance reform, through indicator analysis. Finally, it discusses the importance of public sector reform and the forces driving this.

Chapter 3 begins by looking at the nature and development of South Africa public administration before 1994. Then it reviews the transformation of public administration in South Africa post the advent of the democratic government, specifically public finance with the adoption of the PFMA, 1999, and the white papers, legislation, and regulatory frameworks that enabled the state to develop a participatory approach to public administration and public finance. The chapter also discuss how government adopted the NPM principles of transparency, accountability, efficiency and effectiveness in terms of public finance management.

In Chapter 4 the focus is on the selection of indicators and their analysis, to describe whether public sector reform has maintained the NPA principles since implementation of the PFMA. The chapter provides information on how the selected indicators relate to each of the four main principles of NPM, to answer the research question. It also explains the flaws in the data and how this can limit the scope of the research.

5.3 FINDINGS AND CONCLUSIONS

By analysing the four main principles of NPM against eight main indicators selected to describe their performance, we are able to describe how some principles of NPM have been furthered in terms of public finance reform undertaken since 1999.

5.3.1 Transparency

The analysis of the transparency principle against the Corruption Perceptions Index (CPI) of South Africa, showed that the South Africa government, through the PFMA and associated legislation, has been able to put forward policy to combat corruption in the public sector. However, performance against those policies is variable. Overall, from 1998 to 2010 there was a slight improvement of South Africa's rating in terms of the CPI.

Should it be possible to analyse the indicators not selected, such as ‘engagement with the Portfolio Committee on Finance’, ‘providing open access to information held by departments’ and ‘misstatements in financial statements’, this would generate a fuller picture of how the transparency principle is performing in public finance management through the implementation of the PFMA.

5.3.2 Accountability

Before the promulgation of the PFMA in 1999, national departments were governed by the Exchequer and Audit Act of 1975, while provincial departments were regulated by their own provincial legislation. This way of separately managing provincial and national public finance undermined public financial accountability because different government structures were subject to different standards. Therefore, there has been a long history of poor accountability in public finance management, which Treasury wished to change with the introduction of the PFMA. However, this was an ambitious task which could not be addressed through one policy instrument only.

Changes in ‘accountability’ were analysed against the indicators ‘unqualified audit reports’ and ‘financial misconduct’. Most financial misconduct by civil servants, as well as the unauthorised expenditure that arises from cases of financial misconduct, goes without proper sanctions against the defaulters. This may account for the dramatic increase in cases of financial misconduct (from 434 to 1135 in the ten year period analysed) despite the implementation of the PFMA. Failure to implement sanctions for financial misconduct may create a climate of general non-compliance with PFMA regulations, as these are seen as a barrier to wealth accumulation by public officials; hence, the will to implement controls is lacking in some government departments. Unless measures are taken against people transgressing the regulations, it is questionable whether the implementation of the accountability principle will be achieved.

However, the performance against the indicator ‘credibility of the budget’ can be regarded as very positive. In 2013, the Washington, D.C.-based International Budget Partnership ranked South Africa second out of 100 countries for the transparency and accountability of its budget processes. According to this indicator, the principle of accountability, as adopted in public finance reform, has been furthered.

5.3.3 Efficiency

From the analysis of the ‘budget deficit’ and ‘total debt to GDP’, government has been able to build a strong fiscal policy reflecting sound management of socio-economic development needs. The overall picture of government deficit from 1994 to 2005 was one of decrease. In the 2006 and 2007

financial years, the deficit was transformed into a surplus. This can be attributed to sound management of public funds.

From 2004 to 2008, the debt to GDP declined because of the strong growth of economy and the improvement in the management of public debt. In 2009–2010, a worldwide recession led to GDP declining; nevertheless, government took the decision to raise more debt to support the budget deficit and to spend on infrastructure. The result was an increase in the total debt to GDP for the years 2009 and 2010.

Performance against this indicator proves that government has been able to manage debt properly. Thus, efficiency as a principle of NPM was furthered with regard to ‘total debt to GDP’ as well as budget deficit.

Overall, the implementation of the PFMA has been completely successful in furthering the efficiency principle.

5.3.4 Effectiveness

Effectiveness was reviewed against the indicators ‘non-authorised expenditure’ and ‘government over- and under-expenditure’. The two indicators together describe how government has been able to manage annual budgeting as well as spending.

As regard to ‘non-authorised expenditure’ government has not been able to contain this expenditure well, as evidenced by the fact that in 2008 it reached a high of R1.4 billion; however, from 2001 to 2006 the national level was relatively low.

With regard to ‘government over- and under-expenditure’, the data indicates that this has declined remarkably post 1999, with the variance generally under 5% even though the overall budget has increased substantially in the last 10 years. The analysis leads us to conclude that the government has grown more effective in the management of expenditure over time.

Unfortunately, data was not available to enable analysis of the ‘State of the Nation address’ as an additional indicator to measure effectiveness in the implementation of government priority areas. This would be an important indicator to see how effectiveness principles have been achieved by government with the implementation of the PFMA and it is hoped that the introduction of the Department of Performance Monitoring and Evaluation in the Office of the President will in time provide sufficient data that the actual results from government programmes may be tracked over time,

For now, the implementation of the PFMA has not been completely successful in furthering the effectiveness principle. Even though with the ‘government over- and under-expenditure’ data, government has been able to manage both the deficit and expenditure effectively, non-authorised expenditure occurs to provide a lack in terms of full achievement of the effectiveness principle in public finance reform.

5.3.5 Further comments

Other constraints that may explain the non-achievement of the main principles of NPM, despite public finance reform via the implementation of the PFMA, include:

- Strategic management staff members, including accounting officers, are often political appointees of the Ministers. Their independence as accounting officer, a pre-requisite in the Act, may be lacking. The high turnover also has an impact on succession planning to achieve departmental goals.
- Audit recommendations are frequently not applied. This is an important requirement in terms of the PFMA. At the end of a financial year, the Auditor-General publishes all government audits with advice on how they can improve their financial reports. No subsequent measures are taken to ensure application of the recommendations, because, it seems that “there is no formal requirement that exists for departments to report on how they would implement recommendation that arise from annual audit reports” (Hassen, 2010). The Auditor-General in his 2010 report concurred, stating that there are “long-standing weaknesses in government financial controls, particularly in the management of capital assets, that threaten to undermine a critical objective of the Zuma administration, namely rooting out corruption and boosting service delivery” (Ensor, 2010).

The research objective was to find out whether the reform of public finance undertaken in South Africa post-1999 has furthered the principles of NPM. The results show that government departments are struggling to comply with the four main principles of NPM, as required with the adoption of the PFMA, 1999. While some indicators reflect desired changes, others do not yet provide evidence supporting full achievement of NPM principles. Transparency has improved but accountability is still highly lacking. Indicators such as ‘financial misconduct’ and ‘non-authorised expenditure’ show a worrying trend every year and this may undermine the achievement of the accountability and efficiency principles of NPM. Overall, the effectiveness principle has been best integrated, as can be seen in the management of the non-authorised expenditure and government over- and under-expenditure.

The empirical data analysis has shown the gap between the legislation and its full application. Furthermore, the empirical data has enabled us to draw conclusions on public finance reform, and findings of the research from the reports of the Auditor-General and PSC permits us to assert why departments are not complying with all principles of NPM as required by public finance reform.

The direct result of the non-compliance with most of the principles of NPM is a problem with service delivery. According to Deputy Minister in the Presidency, Obed Bapela, in a report on the 2012 development indicators, “service delivery figures showed a worrying trend and remains a challenge and, indeed, it is a worrying element” (Sapa, 2013). This situation is the result of a long-term incapacity to achieve fully the principles of NPM in public finance reform.

Therefore, there is a need for government to take essential measures for departments at national, provincial and local level to fulfil the objectives of public finance reform as provided for in the PFMA, 1999.

5.4 RECOMMENDATIONS

To promote compliance with the four main principles of NPM in the basis of public finance reform, the following recommendations are made:

5.4.1 Appointment of departmental accounting officers

Accounting officers have gained important powers in terms of the PFMA. Therefore, they are in a position to facilitate the furtherance of NPM principles via the PFMA.

The PSC, with participation from National Treasury, should oversee the appointment of all accounting officers to make sure that accounting officers and their deputies have an excellent knowledge and experience of finance management. The choice of the PSC is because it has the mandate to investigate, monitor, and evaluate the organisation and administration of the public service. The PSC and National Treasury are among those government departments that have performed well in terms of compliance with the PFMA. As they also oversee and report on other departments’ compliance with the PFMA, they are able to ensure an effective application of the four main principles that are still lacking within other government departments.

The appointment process should include the following:

- Accounting officers must undergo a training programme to understand planning and reporting in terms of the PFMA, before being appointed to a government department. Once the training is completed, they should submit to a test to make sure that they understand the

Act fully, so that they can properly teach the legislation to officials under their supervision. This will enable a better management of public finance for enhancement of service delivery as well as management of department budgets.

- Emphasis must be place on compliance with training, so that current and future financial officials can ensure the continuity in public finance management as well as the assimilation of the PFMA itself.
- The PSC must draw up a list of suitable candidates of accounting officers, which a Minister must choose from to provide room for preferences or better chemistry in their working relations
- The accounting officer should be directly accountable to Parliament for their performance instead of the Minister.

5.4.2 Proper sanctions against defaulting departments and/or officials

To promote the principles of accountability and efficiency, once the Auditor-General's report on the departmental finances has been tabled, the PSC and National Treasury should take measures against the defaulting department(s). National Treasury must make sure that departments that do not comply with audit recommendations will not have access to the next budget allocations until the recommendations of the auditors have been applied to correct financial mistakes pointed out in the audit reports. Not implementing the Auditor-General's recommendation should be a classed as a disciplinary offence.

Government must put in place mechanisms that enable disciplinary sanctions against *any* public servant who is suspected of financial misconduct, non-authorized expenditure, corruption, or fruitless expenditure of public funds. Until government starts imposing severe penalties on defaulters, as provided in the Act, the desired result of public finance reform will not be obtained.

A special Commercial Crimes Court needs to be set up to deal with cases of fraud of public funds, since the normal courts are overloaded and there is a need to speed up the prosecution of this type of case to instil discipline.

5.4.3 Educational programmes

It is important that proper education, training, and the commitment of both politicians and public officials are in place to ensure compliance with all principle of NPM as set in public finance reform. This is important, because "appropriate levels of financial and effective delivery depend effectively on functioning political institutions" (Besley & Ghatak, 2007: 8).

An Academy for Public Service Training is recommended, where public servants who have achieved excellence in different areas of administration can assist in training others on best practice.

This training could take place within The National School of Government (NSG), which replaces the Public Administration Leadership and Management Academy (PALAMA) that arose from the decision to professionalise the public service to realise the national development objectives and support sustainable growth, development and service delivery (South Africa. Department of Public Service and Administration, 2014).

Indices such as Transparency International's Corruption Perceptions Index of South Africa, and the Open Budget Index should be used to sensitize public employees to the extent to which a good report will benefit South Africa, for example, in attracting foreign investment.

5.4.4 Publication of norms and standards

The National Treasury must publish information relating to prescribed norms and standard through the media so that all citizens are informed about new regulatory frameworks that are issued in terms of public finance management.

5.4.5 Centralised government tenders portal

Government should develop or apply technology to centralise information on all government tenders by creating an information portal or website. This would list all the tenders above a certain figure, for instance R10m, and all the information should be provided on the awardees and the losers and the prices they submitted. This would improve transparency; would provide a measure to provide numerous quotes to government for services provided; and would overcome the issue of not following PFMA tenders process that could lead to expenditure being classified as non-authorized. This will also assist in monitoring fruitless and wasteful expenditure at provincial and national level.

5.5 LIMITATIONS OF THE RESEARCH AND RECOMMENDATIONS FOR FURTHER STUDY

5.5.1 Limitation of findings

The research attempted to measure the complex, multi-faceted concepts of 'financial reform' as a sub-segment of 'new public management' through a number of single-concept indicators, with the selection of indicators based on data availability. The results at most provide a gross picture of

changes in financial reform that may be used to highlight potential shortcomings in the current approach. It cannot however accurately reflect the complex phenomena that it reflects upon.

A further limitation of the research is the lack of available data on some indicators to confirm whether the principles of NPM impacted on public finance reform. The use of secondary data also provides an obstacle because of the unavailability of data to track an indicator's entire history prior to 1994. Therefore, there are gaps in the data set for certain years of measurement.

The research used only secondary data to look at how the principles of NPM have impacted on public finance reform. In the future, by using primary data, it might be possible to have more in-depth analyses on how NPM principles influenced public finance reform. This would also mean total control on data storage and the mode of collection.

The function and responsibilities of the Auditor-General have changed over time: from the Constitution of the Republic, No 200 of 1993 to the Auditor-General Act, No. 12 of 1995, to the PFMA, 1999. This makes comparisons of Auditor-General reports problematic.

Indicators themselves may have flaws, because "each has drawbacks and may send false signals because of unforeseen shocks, faulty measurement, or suspect collection processes". (Yamarone, 2012: 40). For instance, the Auditor-General pointed out the fact that performance information highlighted fundamental deficiencies in the reporting on performance information in the annual report which included "poor linkage to budget commitments, lack of measurable objectives and lack of explanation of deviations from planned targets and outputs" (South Africa. Auditor-General, 2004: 16).

In his 2012 report, the Auditor-General stated that numerous government departments that are not willing to cooperate in terms of effectiveness improvements and providing information for financial statements (South Africa. Auditor-General, 2012: 14).

5.5.2 Recommendations for further research

The research aimed to describe whether the reforms of public finance have furthered the paradigm of NPM and its principles, since NPM in recent decades has reflected major changes in administrative policies in different countries (Pollitt & Bouckaert, 2004). By implementing NPM and its principles, governments all around the world have been able to break the hierarchy and rules that dominated public sector management for decades, so that reform of public sector provides more delegation to public servants. That delegation also provides more responsibility to public servants to perform their duty well or otherwise be answerable for their actions.

The findings of the current research can contribute to further research on how NPM and its principles can be implemented successfully in public finance reform. Further research topics include investigating the indicators this study rejected because of the unavailability of data, such as ‘open access to information held by departments’, ‘engagement with Portfolio Committee on Finance’ and ‘misstatements in financial statement submitted for audit’. Additional indicators such the performance plan of other departments with traceable indicators could also be studied.

In terms of research design and methodology, secondary data analysis “can be a valuable resource, providing an opportunity to bring a new perspective to existing data, to use elements of the data that have not been fully analysed, or to form a base for comparison with newly collected data” (Ritchie & Lewis, 2003: 6). Thus, in time, analysis of future secondary data would permit us to see how public finance management data has been transformed to adjust to the new public finance management system developed over time with the implementation of the PFMA.

Further research can also be done to emphasize why the NPM principles have not been fully implemented as required by the legislation of the South Africa government. This could show what further measures need to be taken for departments to comply with the legislative requirements to achieve good governance in the public sector.

5.6 CONCLUSION

The findings of the research show important changes in the management of South African public administration, especially public finance. These have moved public finance from the apartheid-style control to a more modern and transparent mode of management of public finance. The implementation of the PFMA, 1999 provided a deep insight on public finance management to citizens with more information being accessible. Public finance management reform, influenced by the principles of NPM, required legislation and regulatory frameworks that promoted public scrutiny of public finance management, as part of promoting transparency, accountability, efficiency and effectiveness. The implementation of the PFMA, 1999 was a crucial step in this process which has had significant results in some – but not all – areas. Further work and concentrated effort is needed to further pursue the aims of better financial management in terms of the principles of new public management.

A luta continua.

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