Budgetary Processes and Economic Governance in Southern and Eastern Africa.

Literature review

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Preface

This report is an overview of literature on budget processes and economic governance. The review takes stock of the latest advances in relevant international journals and in publications by the World Bank, the International Monetary Fund, and the Organisation for Economic Development and Cooperation (OECD), as well as relevant studies carried out in Southern and Eastern Africa. In light of the concept of good economic governance, particular attention has been given to the experiences of mid-term expenditure frameworks, and the role of revenue agencies, parliaments, the auditor general and non-state actors in the budget process. The literature review establishes the methodological basis and a common reference point for the comparative study 'Budgetary processes and economic governance in Southern and Eastern Africa' that is conducted by the Southern and Eastern African Policy Research Network (SEAPREN).

The review has been carried out as a joint study by researchers at the Chr. Michelsen Institute (CMI), Bergen, and the Namibia Economic Policy Research Unit (NEPRU), Windhoek. Special thanks to the CMI and NEPRU librarians for their assistance. Financial support from the Norwegian Agency for Development Co-operation, (NORAD) and extra time from our institutes are gratefully acknowledged.

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List of abbreviations

AU	African Union
CBO	community based organisation
CEC	Commission of the European Community
ECDPM	European Centre for Development Policy Management
EU	European Union
IDASA	Institute for Democratic Action, South Africa
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Organisations
MP	Member of Parliament
MTEF	Medium Term Expenditure Framework
NGO	non-government organisation
NSA	non state actor
OECD	Organisation for Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Paper
RA	Revenue Authority
UNDESA	United Nations Department of Economic and Social Affairs

1. Introduction

There is an increasing international consensus that good governance is the basic prerequisite for sustainable economic development. Good economic institutions, particularly in the public sector, are seen as instrumental to economic growth. Components of good economic governance include: limited government, relatively benign and uncorrupt bureaucracy, legal system that protects property rights and enforces contracts, modest taxation and regulation (La Porta *et al.* 1998). Empirical evidence shows that governance matters, i.e. that there is a strong causal relationship from good governance to better development outcomes such as higher per capita incomes, lower infant mortality, and higher literacy (Kaufmann *et al.* 1999). Hence, capacity building for effective and sound governance is a primary means of poverty reduction programmes.

While good governance is increasingly recognised as crucial for development, its economic dimension has remained on the sidelines. This study of 7 countries in Southern and Eastern Africa recently initiated by SEAPREN aims to contribute to fill this gap by mapping the budget processes and the institutions involved as an important element of economic governance. The study will carry out three policy studies on crucial aspects of the budgeting process that are supposed to improve economic governance in the field of budgets: Medium-Term Expenditure Frameworks the role of Autonomous Revenue Authorities, and the role of Parliaments, Non-State Actors and the Auditor General in controlling the budget.

This background paper reviews relevant literature in order to identify issues to be studied in this research project. The paper is organised as follows: In Section 2 the concept ‘good economic governance’ is defined. Section 3 provides an overview of the budget process and some guiding points for the analysis. Mid-term expenditure frameworks (MTEF) are discussed in section 4, while Section 5 provides a framework for the analysis of revenue agencies. Section 6 presents a framework for analysing the roles of Parliament, the Auditor General and non-state actors in the budget process, followed by section 7. A detailed list of relevant literature references follows at the end of the paper.

2. Good economic governance

Good economic governance as a general concept has many different aspects and may be defined in a number of different ways. When considering the political, institutional, organisational and managerial aspects of good economic governance it becomes clear that there are considerable differences between countries in the way they approach the quest for good economic governance. This means, firstly, that there are different ways of developing good economic governance, and secondly that comparisons and exchange of experience are likely to be conducive to future improvement.

While good economic governance as conceived presently comprises both private and public sector, the project will focus on one particular aspect of good governance in the public sector, the budget process (see section 3).

Governance can be defined in broad terms as 'the exercise of political, economic and administrative authority to manage a nation's affairs comprising the complex range of mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise rights and obligations and mediate differences' (UNDESA 2000:1-2). Hellmann *et al.* (2000) relate governance to taxes and regulations, macroeconomic management, physical infrastructure, competition and the provision of law and order. Bräutigam (1996) emphasises the importance of local ownership; of clear rules and transparent, merit-based procedures for hiring and promotion, institutionalising review procedures that evaluate and reward good performance. More specifically, governance addresses the traditions and institutions by which authority in a country is exercised, including:

- The **process** by which governments are selected, monitored and replaced (indicators of voice and accountability, political instability and violence);
- The **capacity** of the government to effectively formulate and implement sound policies (government effectiveness, regulatory burden); and
- The **respect** of citizens and the state for the institutions that govern economic and social interactions among them (rule of law, graft).

Governance is, however, not the sole prerogative of the state. Its functions could be assumed by or delegated to autonomous institutions and organisations in the private sector and civil society which operate in a legal and political framework defined by the state. The concept of governance in the context of promotion of sustainable economic development includes efficient government, effective civil society, and a successful private sector.

Countries have different economic histories and backgrounds as well as potentials. Thus, it is regarded as difficult to identify a common framework of good governance applicable to all. Nevertheless, a number of basic, fundamental and non-controversial precepts of good economic governance can be identified. In the broadest sense, systems of good governance are (UNDESA 2000:2):

- Participatory
- Democratic
- Transparent[1]

[1] On the importance of transparency, see Vishwanath and Kaufmann (1999).

- Aiming at sustainable development
- Promoting equity and equality
- Able to develop the resources and methods of governance to promote gender balance
- Promoting synthesis of diverse perspectives
- Mobilising resources for social purposes
- Strengthening indigenous mechanisms and ensure effective and efficient use of resources
- Based on the rule of law
- Engendering and commanding respect and trust
- Having public servants that are accountable
- Having government organisations that are service oriented, act as facilitative and an enabling regulatory rather than controlling
- Creating a conducive economic environment for economic growth and social progress

Economic governance consists of the entire institutional framework of the government engaged in the evolution and implementation of the general economic policy in all its manifestations (fiscal, trade, and monetary policy). Good economic governance is conditioned by effective economic policies, an adequate institutional and regulatory framework and an efficient and well-trained administration. It presupposes the existence of a well-defined and well-established institutional framework which is competent to undertake the implementation of economic policy. It depends on economic administrators that are able to take ‘pragmatic, intelligent and quick decisions on matters that are constantly in a flux’ (UNDESA 2000).

The quality of economic governance depends crucially on the capacity of government. Four dimensions of state capacity can be distinguished: regulatory, technical, extractive, and administrative capacity (Bräutigam 1996:82):

- Regulatory capacity refers to the ability to establish and enforce the rules that guide or regulate societal behaviour (possible indicators: ability to enforce the rule of law, its rules, existence of a black market, alternative power holders).
- Administrative capacity refers to the routine ability to manage the personnel and resources of the state and to ensure accountability and efficiency in service delivery (possible indicators: turnover of top officials over time, ratio of expatriate personnel in government, access of population to government services).
- Technical capacity refers to the expertise and knowledge required to make and implement technical decisions (possible indicators: scope and timely

production of statistical and information services, presence of effective policy instruments such as central bank, planning bureau, development finance agency).

- Extractive capacity refers to the ability to raise the revenues the government needs to pay for the expenses of implementing its policies and goals (indicators: ratio of revenues to GNP, ratio of fiscal self-reliance vs. aid reliance, relative importance of different tax categories that require different capacities to collect).

3. The budget process

3.1. General overview

The budget is an annual plan for what government wants to achieve and how it will utilise resources to achieve those objectives. It involves ensuring that the state has the resources needed to achieve its objective and clearly exhibit priorities of government. The budget depicts the balance between revenue (government income) and expenditure. The budget process involves making trade-off decisions in an environment of mismatched needs and resources. These decisions indicate its priorities and what risks government is taking in terms of deficit spending

The budget cycle normally starts with the local, regional/provincial and national departments assessing their needs and preparing budget proposal linking goals for service delivery to expenditure. The methods used for distributing resources between local governments and regions/provinces and ministries differ from country to country. Different factors are taken into account, including population size and poverty levels. When the local government, regional/provincial and ministerial proposals are brought together, the national and regional/provincial policy priorities are fused in terms of resources. This results in the budget statement which is tabled in Parliament, where the budget is exposed to the relevant committees.

Dobell and Ulrich (2002:6-7) give a summary of what the budget process entails. It includes policy and management analyses needed to take decisions and actions related to implementing them. It involves adjusting mandates, objectives, resources and practices put in place to ensure the realisation of plans and tracking of performances (the management side of the budget). The action side includes obtaining parliamentary approval, reporting on performances and accountability (the governance issues). Government is responsible for the management and action or implementation of the budget, while Parliament is involved in the governance issues.

Three elements are generally regarded as important characteristics of the budget. Toure (2001) outlines these elements:

(i) The unanimity implicit in an agreed budget, provides an overall vision of state policy.

(ii) Coherence among the various sectors of activities covered by the national budget.

(iii) Thoroughness based on the evaluations of needs.

(iv) The budget needs to be transparent with regard to all the items taken into account.

(v) The budget needs to be cautious and realistic given that demand always exceeds available resources.

(vi) The classification of investment expenses (spread over several years) and current expenditure (spread over one fiscal year) and organization of the budget in relation to policy objectives must be clear and specific.

3.2. Guiding points for research on the budget process

The guiding questions for country studies on the budget process can be outlined as follows:

- What are the steps taken in the budget process?
- What are the management issues arising from the budget process?
- Is the budget perceived to comply with the principles of good governance?

4. Medium-term expenditure frameworks

4.1. General overview

Medium Term Expenditure Frameworks (MTEF) are increasingly common within Eastern and Southern Africa. By encompassing all expenditure they provide a linking framework and facilitate the management of policies and budget realities to reduce expenditure pressure throughout the budget cycle. The result is supposed to be generally better control of expenditure and better value for money within a hard budget constraint (World Bank 1998). However, there is some doubt about the readiness of some countries for introducing MTEFs. A comparative analysis of their performance will help policy makers identify success factors and enable them to improve medium-term budgeting.

From the very beginning of organised budgeting, Public Expenditure Management (PEM) has been at the centre of attention of governments, social scientists and, not least, the public. PEM and budgeting systems are formed mainly by *domestic* social, political and economic factors as well as overall public sector management. The various systems of PEM have therefore developed at different speeds and in somewhat different directions over time. In the OECD countries, which have been in the forefront of public sector management, it has been difficult to discern common trends until the last decades when there were more parallel movements in the driving forces for change, perhaps as a result of increasing globalisation. There is ample description of such changes from OECD and the IMF (see, for example, Premchand 1994; Blondal 2001; OECD 1997).

In the 1960s the OECD countries saw Planning Programming Budgeting Systems (PPBS) as the cutting edge of PEM. During the 1970s most European countries prepared multi year budgets as an important feature of the PPBS. The fascination with PPBS had limited duration as inflation spiralled and the forward budget projections were taken as expenditure floors and created difficulties for holding the fiscal line.

Over the 1980s and early 1990s governments started to consider methods of public sector management which so far had only been used in the private sector. The management philosophy started to change, the use of commercial accounting and market principles were considered. This included leaving decisions on the most efficient use of public funds to sector managers. The use of IT, which had started much earlier, now became a dominant feature of expenditure management.

The huge deficits in OECD countries in the late 1980s and early 1990s were a cause of concern for many OECD governments. The focus on this problem helped forge the EU Growth and Stability Act as well as fiscal targeting. Budget policies started to be backed up by law as, for instance, in the case of the US Budget Enforcement Act and similar acts in Australia and New Zealand. There were also several new features and developments in institutional arrangements from the

1980s onwards. The emphasis on relaxing inputs controls and concentrate more on on evaluation of outputs and outcomes received continued attention. The main problem of fiscal deficits called forth more emphasis on top-down budgeting and prudent economic assumptions in fiscal planning. The 1980s and 1990s also saw an increase in the concern for transparency. Up to the end of the 1990s fiscal deficits in the OECD have closed considerably for nearly all countries. This was both due to management reforms and the favourable development in the underlying economy.

The financial management reforms that took place in Australia from 1984 contains many of the elements that later have characterised the Medium Term Expenditure Framework (MTEF). The MTEF ‘package’ has been recommended to a large number of developing countries by the World Bank and the IMF and is now under implementation in many countries. Briefly, Australia’s situation in the mid 1980s was one of recession, unwanted deficits and deteriorating economic performance. Although there was concern with the deficit, the Australian reforms were first of all driven by the perceived need to reallocate public resources and getting more value for public money. The core of the reforms aimed at giving greater responsibility to the sector managers and turn sectors around to focus on output. Before, they had been focusing mainly on following bureaucratic rules. The forward estimates system which had been operated since the late 1970s were placed at the centre of the system, providing top-down estimates within which sectors/ departments would have to live.

Elements from this and other experiences from both OECD countries and developing countries were brought together as a model for budgeting/planning, first and foremost by the World Bank (World Bank 1998). The MTEF, although focused on PEM, is a set of recommendations for the overall medium term planning, the fiscal policy and budgeting processes aiming to achieve three important objectives:

- to maintain aggregate fiscal discipline;
- to ensure allocation of resources in accordance with strategic priorities; and
- to provide line ministries and agencies predictability in policy and funding so that they can plan ahead, their programmes can be sustained and they can make sure that resources are used efficiently and effectively.

The World Bank Public Expenditure Management Handbook sets out seven stages of a “comprehensive” MTEF process:

Stage 1: Development of a macroeconomic framework including projections of revenues and expenditures for three years, linking economic projections to fiscal targets. The advantages of model building and model use with broad participation of staff from planning, finance and statistics are stressed.

Stage 2: In parallel with stage 1, line ministries and agencies will review policies of their sectors and cost them. This will include (a) agreeing on objectives, outputs and activities, perhaps development of performance indicators; (b) reviewing or developing agreed programmes and sub-programmes; and (c) costing agreed programmes. The emphasis should be on what Ministries manage to achieve with the resources they have got.

Stage 3: Conduct hearings between the Ministry of Finance and Sector Ministries to go over the outputs of the sector review.

Stage 4: Development of a strategic expenditure framework by the Ministry of Finance to guide the deliberations of the decision making body (Cabinet, Council of Ministers). The statement should be made valid for a three to five year period and should include (a) broad objectives; (b) statement of the need for discipline in macroeconomic management; (c) targets for broad aggregates of public revenue and expenditure; (d) procedures for setting and revising the expenditure framework; and (e) allocation of responsibilities of key agencies.

Stage 5: Main decision makers decide on medium term sectoral allocations including the budget (first year) and define sector resource envelopes for the next three years.

Stage 6: Ministries make revisions to budget estimates to fit them within approved ceilings.

Stage 7: Revised ministerial budget estimates are reviewed by the Ministry of Finance and presented to Cabinet and Parliament for final approval.

The process is said to be a 'complex task and a radical shift in perspective and the way business is done' (World Bank 1998). The factors on which success is said to hinge are listed below:

- Political commitment and endorsement of difficult issues in expenditure restructuring.
- Strong management of donors to make them operate within the MTEF framework.
- Subject outside budget decisions and financial implications to the MTEF discipline.
- Understanding of and commitment to difficult decisions at line ministry level.
- Refrain from introducing new expenditure decisions during budget implementation.
- Not undermine decisions by over-expenditures and reallocations.
- Improve macroeconomic management and avoid cuts in expenditure because of revenue shortfalls.
- Briefing politicians and senior management during implementation.
- Improvements to expenditure reporting on results.
- Development of a computerised accounting system.

The existence of 'Development Budgets' and Public Investment Programmes do not appear to be wholly compatible with the MTEF approach.

Considering the above list, it appears as a radical shift only if the initial setting exhibits the common features of a poor and mismanaged country. For a government which is serious about its efforts to improve the management of public expenditures it would look like a list of quite obvious points to achieve a better PEM.. The MTEF, as presented above, may be seen as a very valuable bundle of approaches to various aspects of public sector planning linked to the budget process and budget implementation. It states an ideal of which the component parts, taken one by one, are neither new nor untested. Its advantages and novelty lies in the parallel and coherent use of approaches which are also useful separately.

Different interpretations of MTEF come to different conclusions with regard to how different or novel the proposed system is. Schiavio-Campo and Tommasi (1999) hold that the precise nature of the MTEFs that are implemented or are in the process of being implemented varies from one country to another. They argue that the disciplined forward budgeting systems found in some of the Scandinavian countries, and even less demanding instruments, would fit with an MTEF approach. Another examination focusing on the South African MTEF (Walker and Mengistu 1999:27) argues that the MTEF represents a "whole new way" of doing business in government.

By a count in late 2001 referred to by Talierco and LeHouerou (2002), 25 developing or transforming countries were at various stages in the process of adopting MTEF that had been started during 1997-2001. Over half of them were African[2]. The study commented that 'if the Africa region has been the laboratory for MTEF development, the World Bank has been the principal researcher'. Poor budgeting systems and poor outcomes in Africa together with a high degree of influence through various Bank/Fund programmes has no doubt been reasons for the concentration on Africa.

4.2. MTEF in developing countries

The literature on MTEF in developing countries is dominated by the descriptive and normative material, much of it produced by the World Bank or in connection with World Bank consultancies. Apart from the Public Expenditure Handbook itself (World Bank 1998), the British Department for International Development, (DFID 2001) has produced a valuable handbook for aid personnel in the field. The chapter (13) on Multi-year Expenditure Programming approaches in Schiavio-Campo and Tommasi (1999) and partly Walker and Mengistu (1999) also give interesting overviews and practical advice on MTEFs. Because of the short time since the start of MTEF implementation in developing countries, conclusive analysis of outcomes is scarce. (Schick 2001) places MTEF in an overall PEM setting, concluding that

[2] These are Benin, Burkina Faso, Gabon, Ghana, Guinea, Kenya, Malawi, Mozambique, Namibia, Rwanda, South Africa, Tanzania and Uganda.

MTEFs have not been adequately tested and that the responsibility for successful MTEFs lies with the political leaders. Without their support 'the MTEF will join a long line of failed budget reforms'.

The main efforts of analysis have been done by two World Bank studies, one on African MTEFs (Talierco and LeHouerou 2002) and a synthesis of eight case studies, seven of them African (Holmes and Evans 2003)[3]. Overall conclusions in terms of actual improvements stemming from the introduction of MTEFs are few. The studies do not interpret this as a failure of the MTEF approach but tend to argue that implementation of MTEFs is incomplete and important initial conditions have not been in place. The idea is that MTEF is still a valuable framework for reform of PEM.

There are a number of studies of single country cases, the latest of them relating to the synthesis study mentioned above (Bird 2002a, b; Carlier and Jennis 2002a,b 2003; Kanani 2002; Short 2002a, b; Zyl 2002). Earlier case studies include Bevan (2001); Muggeridge (1997) and one comparative case study by Anipa, Kaluma, and Muggeridge (1999). An IDASA study (Fölscher 2002) of six African countries, although focusing budget transparency and participation, gives important insights into budgeting issues. Additional work by IDASA through the Africa Budget Project serves to illustrate how MTEF budget and budget processes in Malawi and Namibia work (Chisi 2000; Schade and Froderma 2000).

A chapter of a World Bank Study on Namibia (World Bank 1999) gives interesting insights into how the study team argued the cases for and against implementing an MTEF in Namibia. The published Sectoral Medium Term Expenditure Review for education in South Africa is also interesting case material (Government of South Africa 1998).

One important angle to the MTEF is how it links with PRSPs/PRGFs and HIPC. In several cases an important factor leading to the introduction of an MTEF has been the introduction of a World Bank/IMF programme which has necessitated an improvement of the PEM system. ODI has done five case studies looking at 'How, When and Why does Poverty get Budget Priority'. The synthesis study (Foster *et al.* 2002) deals with MTEFs and Poverty in a main chapter. Coordination of planning and budgeting come out as important for poverty issues to be reflected in annual budgets. The World Bank has done a case study on PRSP and budget linkages (Talierco 2002a) which in its conclusion tends to see MTEFs linked to plans and PIPs as something of a centrepiece in building a Budget-PRSP link.

Joint IMF and World Bank teams have considered poverty spending (IMF and World Bank 2003). For instance, IMFs Fiscal Affairs Department and the World Banks Poverty Reduction and Economic Management Network (2001) focus strongly on

[3] Found on the World Bank website with an 'only for comment' note. Most of the case studies on which it is built (mentioned in the next paragraph) have apparently not yet reached their final draft stage and are difficult to get hold of.

improvements in public expenditure management and budgetary frameworks as the way to efficient implementation and donor alignment. The importance of capacity building in PEM is stressed.

The MTEF is also considered in the context of integration of government and donor efforts by Foster and Naschold (2000). In conclusion, the study stresses the possible role of MTEFs in creating the kind of donor respect for the budget process which is needed to enhance the control of national governments. A study by the World Bank's Operations Evaluation Department (Jones and Lawson 2000) considers the move from project to programmatic aid and raises the question of whether the MTEF agenda is too ambitious.

Cash budgets have often been recommended and applied after pressure from the IMF and the World Bank in countries where fiscal deficits have tended to get out of control. The introduction of a cash budget is often seen as an opposite to the MTEF approach. Two studies of fairly recent origin conclude quite different on this issue. On the basis of the Zambia and Uganda cases Stasavage and Moyo (1999) argue that cash budgeting has brought clear benefits in terms of improved expenditure control. Dinh *et al.* (2002) focusing on poverty reduction in Zambia, however, argue that cash budgets create a false sense of fiscal security and distract policy makers from addressing the fundamental issue of fiscal discipline.

Among the thirteen cases of MTEFs at various stages in Africa, five (Kenya, Namibia, South Africa, Tanzania and Uganda) exist in SEAPREN countries. Botswana and Zambia do not have MTEFs and Namibia is at a relatively early stage of development. The centrality of MTEF in overall public sector reform, its recent origins, the fact that it still is at an experimental stage, the lack of good comparative studies and the fact that there are countries both with and without MTEFs among the SEAPREN countries constitute a strong argument for including a focus on MTEF in our research project.

MTEF is a system consisting of a number of distinct properties. After having defined and registered the various properties of medium term plans, budgets and developments over time it would be possible to decide to what degree a given system is an MTEF and whether or not it has developed towards such a system. One might also decide to which degree the existence of MTEF elements would have had an effect on key aspects of good governance.

4.3. Guiding points for country studies on MTEF

The guiding questions for country studies on MTEFs can be outlined as follows:

- In general: What are the key elements to indicate to which degree a country has taken up MTEF?

- For each country a detailed questionnaire should be drawn up to focus on the answer to the following questions and build the basis for a comparative analysis :
  - To what extent has the country adopted MTEF type approaches?
  - How has the use of a higher or lower degree of MTEF elements in public sector management had an effect on performance in economic governance?
  - What are the main reasons for strong and less strong uptake of MTEF elements? In particular, what would be the case with respect to capacity building?
  - How might efforts at implementing MTEF elements be speeded up through overcoming obstacles external to the MTEF system?

Are there any factors in principle, practice or theory that may make the country postpone or choose not to introduce a complete MTEF?

5. Revenue agencies

5.1. General overview

The traditional way of organising central government revenue collection is to let it be handled by units within the Ministry of Finance (Das-Gupta and Mookherjee 1998; Hadler 2000). However, over the past decade several countries in the region and beyond have implemented comprehensive reforms of their tax administrations by introducing semi-autonomous revenue authorities (Devas *et al*. 2001). The revenue authority model has now been instituted in Uganda (1991), Zambia (1994), Kenya (1995), Tanzania (1996), and South Africa (1997). In Botswana and Namibia the revenue collection departments are still located within the Ministry of Finance. Hence, it will be interesting within the SEAPREN-project and also useful for policy makers of both country groups to learn how revenue agencies perform comparatively. Do the revenue authorities deliver what they promise? And what are their roles in the budget process?

5.2. The revenue authority model

The choice of a revenue authority model aims partly to limit direct political interference by the Ministry of Finance, and partly to free the revenue administration from the constraints of the civil service system (Devas *et al.* 2001; Fjeldstad 2003). First, it is assumed that the revenue authority model will be less vulnerable to political interventions in its operations. Second, a semi-autonomous revenue authority can in principle recruit, retain and promote quality staff by paying salaries above the civil service regulations, and also easier dismiss staff. It is assumed that such steps will provide incentives for greater job motivation and less corruption. Third, it is believed that a single purpose agency can integrate tax operations and focus its efforts on collecting revenues better than what is possible under civil service rules. In aid dependent countries such as Tanzania and Uganda, a shift to a semi-autonomous revenue authority model was also attractive to donors and senior politicians because it opens opportunities for more widespread reforms of tax administration (Therkildsen 2002).

The extent and nature of the autonomy of a revenue authority (RA) is distinct from that of the autonomy assigned to other types of public sector organisations (Taliercio 2002b). A revenue authority is not meant to be as autonomous as a central bank, nor as dependent as departments in line ministries. Hence, it is referred to as 'semi-autonomous'. But a revenue authority is meant to be more independent of the financing and intended personnel rules that govern the public sector in general and the Ministry of Finance (MoF) in particular.

5.3. Autonomy

Autonomy is intended as a remedy for political as well as managerial and administrative problems. First, an important element of the revenue authority reform is to give the tax administration's management autonomy from undue political influence. Second, the managerial and administrative problems often refer to problems of recruiting and retaining the professional, specialised staff that the revenue administration need.

5.3.1. Political influence

Few public agencies are as powerful and as interwoven with society as the tax administration, which monitors and appraises the economic activities of many of the citizens and corporations in the country. For instance, the tax administration has often important financial information about the economic operations of these actors. Having political control over the tax administration can pay high political dividends (Taliercio 2002b). Politicians can, for example, intervene in the tax administration to grant favours such as tax exemptions to supporters or to harass political opponents through audits.

In many developing countries, the frequent use of the tax administration for political purposes has contributed to eroding taxpayers' confidence in the fairness and impartiality of the tax administration, which again has contributed to undermine tax compliance (Fjeldstad *et al* 2003). An important element of the revenue authority reform is therefore to minimise undue political interventions in the tax administration's day to day operations. Taliercio (2004) argues that the establishment of a revenue authority represents an attempt by politicians to create a credible commitment to taxpayers that the tax administration will be more competent, effective and fair by delegating power to tax bureaucrats. The level of autonomy is the factor that enables politicians to make the commitment credible, since tax administration traditionally has been an area characterised by high levels of political intervention.

Limiting political interference, or increasing autonomy, is in effect the same as increasing the authority of the revenue collection department at the expense of the Ministry of Finance. The separation of tax collection functions from the Ministry can therefore be regarded as a standard problem of delegation, where some authority is transferred from the Ministry to the revenue authority (see Bendor *et al.* 2001). The basic trade-off in standard delegation problems is between sharpened focus and enhanced efficiency of the agent given greater autonomy, and less control over and co-ordination with the autonomous agent. In other words, a semi-autonomous revenue authority may collect taxes more efficiently, but its insulation from political control, good or bad, also makes abuses of autonomy possible. Moreover, with autonomous agencies there is less co-ordination of civil service activities, which implies that potential gains from co-ordination are forgone.

In a recent article, Taliercio (2004) argues that the establishment of semi-autonomous revenue authorities is a convincing means of commitment, by affecting taxpayers' perceptions of the tax administration in three different ways: First, he argues, a revenue authority signals a more competent tax administration, where improved quality of taxpayer services (e.g. simplicity and help in filling out tax declarations) reduces the compliance costs for taxpayers. Second, a semi-autonomous revenue authority is more effective in detecting non-compliance, and less prone to outside influence in the enforcement of tax regulations. Third, a revenue authority will be fairer in its treatment of individual taxpayers, and in taxing taxpayers in similar situations equally hard.

Given the centrality of the commitment idea to the creation of autonomous agencies in other areas of government, it is surprising that this perspective has almost been absent from the discussion of tax administration reforms. Moreover, service quality, effective detection and fairness are factors which influence tax compliance is well established in the literature on compliance (see, e.g., Levi 1988; Andreoni *et al*. 1998; Fjeldstad and Semboja 2001). Hence, creating a semi-autonomous revenue authority, thereby curtailing political interference, could be viewed by taxpayers as a credible commitment to improving tax collection efficiency and fairness, and hence increase tax compliance. Accordingly, in countries with an incompetent, ineffective and unfair tax administration, we can expect low compliance rates (Fjeldstad and Tungodden 2003). A government wanting to increase compliance rates therefore has an interest in reforming the tax administration. However, a reform is costly in terms of investment in personnel and equipment, in addition to the foregone opportunities of patronage and other discretionary use of the tax administration.

Even in the absence of increased compliance, revenue authorities might serve this purpose if the civil service is sufficiently fragmented and the Ministry of Finance cares sufficiently about the total revenues collected. It is suggested that a perspective of this kind explains several important aspects of the evolution of revenue authorities, notably why the revenue authorities were established with so little opposition from the institutions involved.

5.3.2. Managerial autonomy

To operate a tax administration effectively requires that the chief executive has some autonomy over the setting of organisational goals and recurrent operations *vis-à-vis* the political system. Obviously, it needs 'adequate' resources, too, without which autonomy has little practical meaning. Finally, to secure internal discipline and efficient operations, the chief executive needs some control over resources, staff and their use. According to Grindle (1997:491), autonomy in personnel matters is crucial. This autonomy implies that an organisation can identify positions, advertise for candidates, establish routines for hiring people to fill positions, promote staff based on organisationally defined standards, and punish those that do not meet them (Therkildsen 2004). Such autonomy is associated with good performance as it facilitates effective chief executive and management practices so that performance-oriented norms and behaviours are possible. But, obviously autonomy does not *assure* these outcomes.

A basic implication of autonomy is that it expands the freedom to use incentives to promote the objectives of an organisation. The civil service in many developing countries is often quite rigid in its adherence to rules and formalities, too short on resources to recruit motivated and skilled staff, and unreceptive to the idea of increasing pay differentials to reward performance. Through the creation of autonomous revenue authorities, these institutions have more of an opportunity to run their affairs in a business-like manner, free from the constraints of the civil service system (Devas *et al*. 2001). The institutions have more latitude in introducing pay and bonus structures to motivate, retain and recruit staff, and hiring and firing mechanisms to promote efficiency. Autonomy can thus be seen as a facilitator of improved management in public organisations.

Grindle (1997) suggests that autonomy in personnel matters facilitates an organisational culture conducive to improved public sector performance. Based on a study of 29 public institutions in six developing countries, Grindle finds that the best performing organisations were characterized by a strong mission focus, performance-oriented management practices, high performance expectations and autonomy in personnel matters. From the way in which these characteristics tended to go together, Grindle (1997:488) argues that autonomy is a “facilitating condition that provided organisations and managers the ability to build cultures that allowed particular organisations to rise above the norm for public sector organisations”. Though these ideas are interesting, the data and methods used by Grindle are at best indicative of a link between autonomy and other success factors. The dataset is too small to offer any statistically valid conclusions, and the empirical analysis is done in a too simplistic manner to really prove the hypothesis.

Autonomy can also have a more direct effect on management, by potentially simplifying the environment in which an institution operates. Hence, Devas *et al.* (2001:212) argue that an autonomous agency “as a single purpose agency, can focus its efforts on a single task”. In other words, where a tax administration integrated into the Ministry of Finance adheres to the murkier and more general objectives of the civil service, an autonomous revenue authority can focus explicitly on its fundamental objective of collecting taxes. Moreover, by limiting political interference in day-to-day operations, the structure of interaction with other parts of government is simplified, which means that less time and resources are spent on infighting and positioning within the civil service. Among other benefits of autonomy, Devas *et al.* (2001) include flexibility in budget management, protection from budget cuts, control over buildings and equipment, and ability to take legal action.

5.4. Revenue targets

The principal objectives of a semi-autonomous revenue authority often refer to (Fjeldstad *et al.* 2003):

- raise domestic revenues by establishing a sustained revenue base to enable the country to finance its recurrent and development expenditure needs; and
- develop a tax regime that is transparent, effective and conducive to economic growth led by private investment and international trade.

Of these objectives, increase in revenues is in general the major one as publicly announced by the government and normally reflected in the Budget Speeches of the Minister of Finance. The performance criterion of this objective is to reach a given revenue target, expressed as a given ratio of tax revenue to GDP. This target is typically revised annually in the Finance Minister's budget speech.

Economic policy in several countries in the region is intimately linked to donor influences and must be interpreted in this light. This is also the case for tax policies and tax administration. Donors, and in particular the IMF, are actively involved in the annual exercise of setting revenue targets, as is the Ministry of Finance. The tax-to-GDP targets are announced in the Budget Speeches, and are written into the Policy Framework Papers (PFP) which the government co-signs with the IMF. Hence, in aid dependent countries the revenue authorities most likely have limited autonomy in setting revenue targets. This may have important implications for both staff motivation and tax collection priorities. For instance, lack of influence on setting revenue targets may lead to conflicts between the RAs and the MoF. In some countries the revenue authority staff blames the MoF and the IMF for setting unrealistic targets, based on expenditure needs rather than revenue potentials (Fjeldstad *et al.* 2003). Others point out that the international comparisons of tax shares frequently used to argue for the existence of large untapped revenues, and hence for the legitimate expectations of better revenue collection performance, have a shaky empirical basis. First, due to the fact that the GDP-figures themselves are subject to discussion. And second, straight tax share comparisons fail to take into account the differences between countries with respect to economic structure (e.g. the size of small-scale agriculture and the extent of the mining sector), income per capita, urbanisation, tax policies etc. (see Stotsky & WoldeMariam 1997).

5.5. Guiding points for country studies on the role of the revenue agencies in the budget process

The guiding questions for country studies on the role of the revenue agencies can be outlined as follows:

- What are the major objectives of the revenue agency as reflected in policy documents and acts?
- How is the institutional set up (organisation) of the revenue administration, staffing and funding?
- What were the factors motivating the establishment of a revenue authority (RA) in the country?

- Which are the key performance indicators of the revenue agency? For instance, effectiveness indicators such as (i) the gap between budget and actual collection, (ii) number of registered taxpayers, (iii) arrears recovered; and efficiency indicators such as (1) registered taxpayers per employee, (2) collections per employee, (3) tax arrears as % of annual revenue, (4) tax revenues as % of GDP (also trends over time)?
- How are the payment schedules of the revenue agency staff compared to the corresponding salaries in the MoF?
- How is the revenue agency's actual autonomy with respect to staffing (hiring and firing, setting salaries, bonus schemes etc.)? Issues of political interventions and managerial autonomy in the agency's day to day operations are relevant in this respect.
- How is the composition of the RA Board (*ex officio* and appointed members)?
- What are the relations between the RA Board and the management? Their sharing of labour in principle and in practice? Does the Board intervene into the RA's day to day operations?
- How are the relations between the RA and the MoF and other key institutions, including the Parliament and donors (IMF). Where are possible areas of 'conflicts and/or harmony' in the budgeting process?
- What is the actual role and influence of the RA when revenue targets are set in the budget? Do the views of the MoF and the RA differ about revenue collection targets and the analytical basis for these?

6. The role of Parliaments, Non-state actors, and the Auditor General in the budgetary process

The section focuses on the role of the Parliaments, Non-state actors, and the Auditor General in the budgetary process. The aim of the section is to give an overview of work on the key issues with respect to the three institutions in relation to their roles in the budgetary process. Furthermore, the section aims at highlighting the general best practices of these institutions as well as their differences.

Parliament, Non-state actors and the Auditor General are important to improve good economic governance through external scrutiny of the budget processes (Krafchik 2003). Sustainable fiscal policies are the result of blending competent technical solutions with political feasibility. The latter is facilitated by participation of civil society. This promise to improve sustainability of policies through ownership is expected to contribute to a better information basis and to enhance the government's resoluteness and policy credibility. It is also expected to minimise adverse impacts on the poor by getting their input into fiscal policy decisions. It works best if built into ongoing public institutions and decision making procedures (Brinkerhoff and Goldsmith 2003). However, critics of wider participation claim that it may undermine fiscal discipline trigger conflict and divisiveness and advantage established interest groups such as big business to the detriment of the poor and other disadvantaged groups. A comparative analysis of the impacts of parliament and NSA involvement in complementing the Auditor General within the budget processes may contribute to shed light on these issues.

6.1. The role of Parliament in the budgetary process

6.1.1. The general role of parliament

The Parliament is an important element of the institutional set-up of a democracy. The democratic ideals are based on good governance, transparency, and participatory systems, which by default reinforce uniform approaches and practices to issues on development and provision of public goods and services.

The role of parliament centres around three fundamental roles: *empowering* government (legislation), *scrutiny and representation* (Dobell and Ulrich 2002:7). *Empowering* entails providing authority and resources to the government and placing constraints and other requirements on reporting and accountability. *Scrutiny* involves checking how government has used its powers and resources in the interest of the citizens, assigning credit and blame and seeking redress, *Representation* is less operational and reflects parliament as a legitimate body for consulting on, deliberating and defining public interest and advise the government. The role of parliament is generally imposed by law. The laws on the role of parliaments vary from country to country, in terms of procedures, constraints and requirements on different aspects, which are also subject to the form or structure of government and parliamentary structure or systems (Dubrow 2002:25).

Under the perspective of good governance, the role of Parliament ought to be strengthened to achieve a vibrant and responsible democracy. In the context of the African Union (AU), this entails developing a common framework which will provide a mechanism for the evaluation of established benchmarks. Hope (2003) lists among other factors (a) strengthening public sector legislative and administrative institutions – including efficient parliamentary oversight and adequacy of the audit machinery; (b) transparency, (c) predictability, and (d) accountability as keys to improve governance in Africa.

Stapenhurst and Pelizzo (2002) characterize parliaments in terms of the Poverty Reduction Strategies. Parliaments are viewed as representative institutions charged with holding governments accountable for achieving the objectives set forth in the Poverty Reduction Strategy Papers (PRSP). It is the Parliament's overall constitutional responsibility to oversee and review whether the government's allocation of resources is consistent with the demands and needs of their constituencies and the national development objectives in general. The budget cycle is the entry point for the involvement of the Parliament in the PRSP-process, which provides domestic oversight of governmental actions in winning the fight against poverty (L'Eautier 2002).

6.1.2. The role of parliament in the budget process

One of the main duties of the Parliament is to discuss and pass the budget. At the heart of parliament's work is the mandate to enforce financial and economic policy accountability, based on the way governance affects the livelihoods of the country's people (Langdon 2002:49). This depends on tax levels, spending patterns, the impact of policies on investment and on interest rates, as well as ways domestic choices interact with international economic factors. Thus, financial and economic management of these matters are regarded as central to the role of Parliament. Dobell and Ulrich (2002) describe a typical Westminister-style Parliament with regard to the fundamental roles and engagement of the Parliament in the budget process. These roles are centred on (i) representation, (ii) empowerment, and (iii) scrutiny. In the following sections we will elaborate on these three factors.

6.1.3. Representation

Representation in the budget starts with *pre-budget consultations*, which offers parliament an opportunity to exercise its consultative and advisory role (Dobell and Ulrich 2002: 8). This helps parliament to define the public interest and public agenda. Open consultations with the citizens are seen as adding quality and legitimacy of its views of the public interest. They highlight the importance of ownership of the budget – for which the government (executive) is fully accountable, and have to decide what advice to take. Parliament has to play this role, whether or not its advice is taken.

The finance committee or its equivalence deals with the budgetary issues in parliament (Dubrow 2002:25). This can have more specialised sub-committees with competences in different sectors of the budget. The committees on finance have a constitutional mandate to oversee and monitor the budget process. The finance committee or the equivalence deliberates mainly on the principles of the budget, while the sub-committees deliberate on details of the budget. However, this may vary depending on the parliamentary structure of a country. Parliamentary committees or equivalence are regarded as most important ongoing instruments of effective parliamentary action on the budget cycle (Langdon 2002:51).

The finance committee (or its equivalence), through budget hearings or consultations ensures, in principle, participation and representation of citizen interests in the budget. The finance committee consults different groups and individuals on budgetary issues. The work of the committee may also contribute to the public's understanding of the government's agenda, public's interest and the budget process itself (Dobell and Ulrich 2002:8). The pre-budget consultations of the finance committee (or its equivalence) generally focuses on general aspects of the budget, such as aggregate expenditure, tax policy and deficits and surpluses.

Detailed allocations and specific information on programs are principally an object of the committee studies. Committee studies enable parliament to engage and consult the citizens (organisations and individuals) on specific issues of the budget, and to inputs from various interest groups and citizens. Budget decision makers consider the recommendations and make their decisions based on the available resources. Issues of effectiveness and priority require in depth studies. The committees are often tasked with this responsibility. Although not easily measurable, the quality of committee deliberations is an important aspect as well. The number of minority reports and the increased use of roundtables of witnesses are used as indicators (Dobell and Ulrich 2002:11).

6.1.4. Empowering government

Parliament provides authority and resources to government to achieve certain things in a certain way (Dobbell and Ulrich 2002:13). The power and authority serve as the control framework within which government works. Parliament has the capacity to influence, amend and debate the budget, and a constitutional function through instruments of appropriate laws to pass the budget in the respective legislature before money is authorised for expenditure (Fubbs 1999). Thus, parliaments play the role of approving the aggregate budget proposal, which gives government power and authority to go ahead and execute its plans embedded in the budget.

Parliament makes use of committees specialising on specific areas of parliamentary issues. Langdon (2002:50) identifies the channels through which the members of parliament can increase their impact on the budget cycle process. They include the straightforward action of raising robust questions to appropriate institutions in the budget cycle depending on the parliamentary setup.

6.1.5. Scrutiny

The budget is viewed as reflecting the policy of the government, the prioritisation of resources and government policy instruments (Fubbs 1999; Krafchik 1999; Toure 2001). The role of the Parliament involves scrutinising the budget in terms of priorities and effectiveness. The Parliament's scrutiny of the budget comprises question periods and in depth studies by the committees. The opposition has the opportunity to scrutinise the budget and make alternative proposals. The Parliament plays a crucial role by voting on the budget. It has an oversight role over the budget and follows up on the execution of the adopted budgets (Dubrow 2002:25).

The office of the auditor general supports the committees in financial and management scrutiny (Dobell and Ulrich 2002:11). Similarly, the Public Accounts Committee or its equivalence is another important agent of parliament in the scrutiny of the budget. The constituencies and the public through various channels also form part of the Parliament's budget scrutiny mechanism.

The Parliament's scrutiny of the budget is a mirror image of empowering government (Dobell and Ulrich 2002:11). As a result, parliamentary committees may play an important role in the scrutiny of the budget. Committees can scrutinise the budget through the review of public accounts and the auditor general's report, the regional and departmental estimates, plans and through in-depth studies of policies and programmes by the committee studies.

6.1.6. Factors hampering the role of parliament in the budget process

The Parliamentary Centre of Canada (2000) in its *Parliamentarian's Handbook* observes that parliaments are beginning to strengthen their handling of the budget process by having key committees conduct public consultations in advance of the budget implementation. However, it points out that there are still obstacles to parliamentary effectiveness. These might include the executive's lack of cooperation, inexperience of MP's with regard to the complexities of national finances and weak parliamentary research and information services. Furthermore, the non treatment of the budget cycle in its entirety, inability to make each part of the budget accountable and lack of interest by other committees in the budget weaken the role of the Parliament in the budget process. Parliaments are found to be more effective if parliamentarians are well-informed (Dubrow 2002:27).

In a presidential system, the separation of powers can provide the legislative with significant oversight powers, while semi-presidential systems are generally found to provide fewer opportunities for supervision by the Parliament (Dubrow 2002:25). A properly defined relationship between the Parliament and the Government is crucial for the Parliament's ability to carry it out its oversight role. This is required, for instance, when it comes to tackling corruption, a prevalent feature in the literature dealing with budgetary issues (see Tanzi 1998; Dye and Stapenhurst 1998; Parliamentary Centre of Canada 2000). Fjeldstad (2002:3) argues that executive domination often leaves little space for ordinary parliamentarians to carry out their legislative oversight and representative functions. Similarly, Miller (2002) identifies state centred, executive dominated state institutions with marginalised parliamentarians as limitations to good governance.

Kombo (2002:20) further highlights that supplementary or additional budgetary estimate provisions are sometimes used in a manner which undermines the role of the Parliament in the budget process. Often, the supplementary or additional estimates which were meant to be proposals are in fact already incurred expenditure, and the Parliamentary approval is only a formality exercise. In addition, Miller (2002) identifies party politics as an obstacle to an effective role of the Parliament in general and in the budget in particular.

Structural and managerial factors are also identified as incapacitating the Parliament. Although structural issues are dealt with, due to popular electoral processes that do not necessarily submit themselves to meritocracy, managerial weakness remains a problem in strengthening the role of the Parliament including in the budgetary process (Kombo 2002). Moreover, some of the budgetary aspects are often not easily accessible and may be difficult for parliamentarians to understand (Dobell and Ulrich 2002:16).

In both the parliamentary and presidential systems, the strength of the Parliament's oversight role are claimed to be contingent upon the size of the governing party's majority of seats. According to Dubrow (2002), party domination can filter to the committees and limit their effectiveness as well as the effectiveness of the Parliament in general. Moreover, committees might be more effective and strong when party control over committees is weak, especially in parliamentary systems. Dubrow (2002) identifies changing committee membership as another factor impacting on the committee's effectiveness by affecting the policy expertise which committee members are able to build.

6.1.7. Factors determining the ability of parliament

According to Krafchik (1999), there are two primary factors determining the ability of the Parliament to influence the budget process:

(a) The amendment power vested in the Parliament. Kombo (2002:20) identifies weak amendment powers in Kenya as seriously constraining the Parliament's role in the budget process. Krafchik (1999) observes that most parliamentary systems apply restrictions to the powers of the legislature in budgetary matters, particularly with respect to increases in expenditure. However, he finds that it is not possible to explain major variations in the magnitude of actual amendments across countries simply with reference to differences in allocated powers.

(b) The *de facto* amendment of power of the Parliament depends on a second set of factors that relate to the effective role of committees in the budget process.

These factors are outlined by Krafchik (2002) as follows:

- The location of amendment powers, whether the committees have the power to suggest actual amendments to the Parliament, and whether the committee reports foster in-depth debate, are likely to lead to amendments.
- Time allocated to committees to debate relative to the total time available for considerations in the Parliament.
- Committees involvement in the budgetary process.
- Access to independent research capacity for a detailed scrutiny by specialised research staff in the Parliament.
- Access to departmental information, which includes timely access to executive information.

6.1.8. Guiding points for country studies on the role of parliament in the budget process

The guiding questions for country studies on the role of parliament in the budget process can be outlined as follows:

- What are the parliamentary and government systems and structures in the country?
- What laws are governing the Parliament and its role in the budget process?
- Where is the amendment powers situated?
- What are the consultation levels of the Parliament, both in general and at committee levels and at the different stages of the budget cycle?
- Does the Parliament involve the public and constituencies in scrutinizing the budget? If yes, how?
- How do committee studies operate in the country?
- What are the main factors hampering the role of the Parliament in the budget process?
- What is the level of the executive's co-operation with the Parliament in the budget process?
- Are the relationships between the Parliament and the executive and party domination in the Parliament and the parliamentary committees properly defined?
- Does the budget system allow for supplementary and additional estimates?
- How often does committee membership change?
- Is sufficient time allocated for budget discussions in the Parliament?

- Does the Parliament or the parliamentary committees make use of independent research capacity by specialised research staff?

6.2. The role of the Auditor General’s Office in the budgetary process

6.2.1. The general role of the Auditor General’s Office

Dye and Stapenhurst (1998) depict audit institutions in the broad view of ensuring that political, social and economic priorities are based on broad consensus in society, and that the voices of the poorest of the poor and the most vulnerable are heard in decision making over the allocation of resources. The audit institutions are important in promoting accountability, transparency and in dealing with issues such as corruption.

Kombo (2002:20) referring to Kenya argues that lack of prosecution powers by the committees to which the Auditor General (AG) reports implies that its recommendations will often gather dust. Similarly, Dubrow (2002:25) infers that the audit and controller-general’s office responsible for detailed audits of expenditure often takes place post-facto. Linking this to the fact of no prosecuting powers may make this institution dealing with formalities, but having no real power to take action on its findings. He argues that strengthening the role of the Auditor General’s Office as an independent auditing institution is required. Dubrow (2002) raises two questions which are important to address if one wants to strengthen the independence and effectiveness of the AG’s office: (a) Has the auditing institution the ability to compel members of the executive branch to provide information that can expose irregularities? (b) Is the AG’s office in a position to document its needs to conduct an intensive audit?

6.2.2. The role of the Auditor General’s Office in the budget process

The Auditor General’s Office plays a role in the budget process. It is expected to raising questions about the probity of expenditures. Miller (2002:13) stresses that the Auditor General’s Office is one of the established means for strengthening accountability. However, he warns that a proliferation of watchdog agencies may create turf battles and public confusion. The fact that these agencies are also under the executive may render them ineffective.

The auditing institutions’ legal mandate, reporting relationships and effectiveness vary between countries, reflecting different governance systems and government policies. However, in general their overall role remains to oversee the management of public funds and the quality and credibility of government’s reported financial data (World Bank 2001). They provide the legal, financial and institutional frameworks and moderate capricious application of rules and laws.

6.2.3. Types of auditing systems

There are three main auditing systems: Napoleonic, Westminister and board (World Bank 2001). The Napoleonic system has both judicial and administrative authority and is independent of the legislative and executive branches, forming part of the judiciary, making judgements on government compliance with laws and regulations as well as ensuring that public funds are well spent. In the Westminister system, common in sub-Saharan Africa, the Auditor General's Office is an independent body that reports to the Parliament. The office is, in principle, made up of professional auditors and technical experts. There is often little emphasis on legal compliance and the office serves no judicial function. However, its findings may be passed to legal authorities for further action. The board system is similar to the Westminister system in being independent of the executive. Hence, it is in a position to 'help' the Parliament to perform oversight. Its primary mandate is to analyse government spending and revenue and report its findings to parliament.

There are three types of audits which form the comprehensive audit framework. These are: (i) the financial audit framework; (ii) the compliance audit framework; and (iii) the performance based audit framework (World Bank 2001). Under the financial audit, the accuracy and fairness of the financial statements are assessed. Whether government revenue and spending are authorised is verified through a compliance audit. The process includes reviewing if government departments and agencies have conformed to all applicable laws and regulations, including the spending authority in the annual budget as well as any relevant legislation. A performance audit is meant to determine whether taxpayers get value for their money. This type of audit is carried out in collaboration with subject matter experts who offer advice and review audit results. The mandate with regard to this function may vary among audit institutions. It can range from reviewing the effectiveness of government programmes to being confined to reviewing operational efficiency.

Audits are regarded as an integral part of the budget cycle. In a Westminister system, audit institutions are a core element of the parliamentary oversight, on which the Parliament rely to audit public accounts. In this system, there is an extensive interaction between the audit institution and the Parliament. In the board system, the audit board prepares the audit reports and submits them to the cabinet which in turn submits them to the Parliament. In the Napoleonic system, the Parliament does not automatically receive the auditors' report, though it may receive a report on the courts' work.

6.2.4. Conditions for successful audit institutions

The World Bank (2001) lists several features viewed as crucial to the success of audit institutions: supportive environment, clear mandates, independence, adequate funding and staffing, sharing of knowledge and experience, and adherence to international auditing principles. Inadequacies with these features form the limitations to the auditing institutions in the budget process. Further aspects of good practices of the audit institutions are contained in OECD (2002). The Parliamentary

Centre of Canada (2000:47) views a good audit system combined with a watchful and active parliament, rather than a host of direct controls and regulations, as key instruments to ensuring accountability. This includes a legislative framework that defines the government's intentions and regulates the powers and authorities of the executive, and strong and active parliamentary committees.

An important aspect underlined by the Parliamentary Centre of Canada (2000:76) is the timeliness of audit reports. It affects the relevance and usefulness of the reports to the budget process. Scholtz and van Straaten (1999) argue that because audit investigations take place after the transactions have been completed, this leaves a serious void, as corrective steps can take place only once an irregularity has taken place. This limits the role of audit institutions to exposing such irregularities.

6.2.5. Guiding points for country studies on the role of the auditor general in the budget process

The guiding questions for country studies on the role of the auditor general in the budget process can be outlined as follows:

- Which are the laws dealing with the auditor general's office?
- What are the auditing systems practices in the respective countries?
- How does the auditor's office promote accountability and transparency?
- How is the relationship of the auditor's office to other institutions (the Parliament and the government)?
- Is the auditor's office independent and does it have prosecution authority?
- What is the level of the technical expertise of the General Auditor's Office?
- How does the auditor's office carry out its functions with regard to the three types of audits forming the comprehensive audit framework?
- How does the auditor's office interact with the Parliament?
- How is the auditor's office funded?
- How is the auditor's office staffed?
- Does the auditor's office adhere to international auditing principles?
- Is the auditor's office timely with its reports?
- What is the role of the Auditor General's Office in preventing irregularities?

6.3. The Role of non-state actors in the budgetary process

6.3.1. General

Achieving development goals requires the participation of both state bodies and all sectors of the society. As a term, ‘non-state actor’ is relatively new but its notion is old. Terms long used as ‘special interest groups’ and ‘civil society’ circumscribe the notion of non-state actors. Non-state actors come in a range of organisations that bring together the principal, existing or emerging, structures of the society outside the government and public administration. In the formal public economic literature the non-state actor concept is referred to under special interest groups (Rosen 1998). Non-state actor organisations include non-governmental organisations (NGOs), community based organisations (CBOs), trade unions, employers associations, universities, association of churches and other confessional organisations, cultural associations, private sector associations, business organisations and the media (CEC 2002).

6.3.2. Characteristics of non-state actors

Non-state actors are, in principle, independent from the state. They are often created voluntarily by citizens and promote an issue or an interest either general or specific. They can be profit or non-profit making. However, there is indistinctness regarding this characteristic (International Alert 2003). While private businesses might be included in the definition, non-state actors often refer to non-profit organisations. For our purpose, the emphasis is on non-profit organisations as operational or advocates in the implementation of projects, consultation processes, policy discussion and in contributing to development strategies, as well as interest groups such as business organisations and trade unions.

The basis for the formation of interest groups (non-state actors) depends on many factors. Rosen (1998:129) outlines some of the bases on which interest groups are established: ideological orientation, income categories and sources of incomes, industry and employment, regions, demographic and personal characteristics. The rationale of group formation is in the effectiveness of people with common interests to exercise disproportionate power by acting together, compared to individuals acting independently. Non-state actors introduce an element of organisation and arena to strengthen the information position of the interest group members.

6.3.3. Non-state actors and the budget process

Many developing countries have difficulties to implement and maintain sound macroeconomic policies. Externally prescribed policy reforms are often not domestically ‘owned’ and soon become reversed and replaced by populist policies of unbalanced budget deficits and inflationary monetary policies. This is why international donors push recipient governments to forge a domestic public consensus on macroeconomic policy in order to enhance sustainability of a set of sound policies. Public consensus may also help to improve pro-poverty effects of policies. However, to reach such a consensus often faces two major problems: On the one hand, policy makers may have little faith in the civil society's ability to understand matters of economic policy and to make meaningful contributions on these issues. Second, many civil society actors may not trust that their inputs will be heard and that policy makers make the right decisions for them. From this situation arises the question how citizen participation can bridge this gap (Brinkerhoff and Goldsmith 2003).

The link of non-state actors and the budget is in the three-sided relationship *(the iron triangle)* with the bureaucrats and the elected representatives of parliament (Rosen 1998:130). The Parliament authorises programmes, the bureaucrats are responsible for administering it, and special interest groups are the beneficiaries. Some non-state actors are well placed in the promotion of poverty reduction, good governance and sustainable development. They are not only beneficiaries, but have to make inputs to the process, by initiating as well as advocating the needs of their members.

Non-state actors can be involved in the budget process in many ways. They can participate in the preparation and implementation of national development strategies, and in the budget review process. They can also participate by having access to the corresponding parliamentary committees. Similarly, they can play a role in the budget process by lobbying parliamentarians. If well organised, civil society may ensure that politicians deliver promised services, and keep them on their toes to deliver efficient programmes and better policies (Sarrouh 2002:63).

Non-state actors may link with the budget through their funding needs. Since the budget is responsible for the allocation of the national resources, non-state actors benefit from the budget allocation as project implementers. The capacity of the non-state actors will determine the extent to which they can be relied on for the implementation of projects. The level of budgetary allocation to non-state actors will depend partly on their capacity to carry out projects. Countries have varying rules on the funding of non-state actor activities and they may differ from activity to activity. Similarly, the framework under which non-state actors are funded can affect their independence (Jones 2001).

At a broader level, non-state actors can influence the budget process as part of civil society through the electoral process. Non-state actors as advocates of interests can influence the budget by lobbying the parliament to increase the budget allocations to their priority areas. Apart from the election process, which is the primary mode by which non-state actors can influence the budget process, non-state actors can play a role in the budget through the available mechanisms to participate directly in parliamentary activities. For instance, they can provide inputs to the parliamentary committees. Furthermore, non-state actors may play a crucial role by serving as platforms to educate and channel information on the budget to their members.

6.3.4. Factors hampering the role of non-state actors in the budget process

While non-state actors can be an effective tool in the implementation of development projects, they occupy a sensitive niche in the political market. They are directly involved with grass-roots and can influence their views on important policy issues. This is in principle a positive aspect that can lead to a vibrant and deepening democracy. However, the competition nature of elections can cause resistance to an increased role of non-state actors in development activities (Babb 2003). Brown and Kalegaonkar (1999:5) observe that in many countries governments are deeply suspicious of civil society organisations, especially in centralised regimes. They view them as potential competitors, as deliverers of services to constituencies, channels of resources from international donors or as watchdogs and challengers of state policies and actions.

As a result, governments may limit the role of non-state actors in the development process. It presents a danger for inefficiencies and room for public fund abuses and corruption. These have both direct and indirect consequences on the national budget and good governance. Non-state actors who often are dependent or closely allied with the government (or donors) risk to become compromised by their fear of retribution through denial of resources (Miller 2002:13).

There is emerging awareness of the importance and significance of non-state actors in the development process. The European Union (EU) has introduced policies that foster community ownerships of development strategies (CEC 2002). Non-state actors provide the medium through which development strategies and through which the grass-roots can be made a part of the development process. Accordingly, the *Cotonou Partnership* agreement between African, Caribbean and Pacific countries, and the European Union (EU), makes a mandatory provision for a proportional funds allocation for different development and cooperation projects to involve non-state actors (ECDPM 2001).

However, this has to some extent led to a perception that non-state actors in some countries are used to promote foreign values and hidden agendas. Sarrouh (2002) observes, for instance, that there is a trend by aid agencies to channel aid through non-governmental organisations and other non-state actors, who are perceived to be cost-effective and less bureaucratic. This may result in tensions between non-state actors, parliamentarians and bureaucrats, and also to marginalisation of non-state actors their impacts on the budget process.

Whilst non-state actors present an opportunity for democratic evolution and social change, they may at the same time be perceived as a threat by governments, especially in developing countries (Brown and Kalegaonkar 1999:6; Sarrouh 2002:64). The dependency of non-state actor organisations on funding from the government and aid agencies makes them vulnerable. Moreover, this dependency may draw their attention away from their original agendas and into unproductive rent-seeking activities.

6.3.5. Guiding points for country studies on the role of non-state actors in the budget process

The guiding questions for country studies on the role of non-state actors can be outlined as follows:

- Which major non-state actors are involved (visibly and vocally) in the budget discussions – business, employee organisations, professional organisations, cultural organisations, research institutes and advocacy groups, NGOs, CBOs, religious groups, media?
- Which form does this involvement take?
- What stages of the budget process are they involved in?
- Are these groups representative or do they represent the elites? Which groups are underrepresented?
- What technical capacity does the NSA have?
- Does the NSA involvement in the budget process reflect an understanding of the interest group's particular interests?
- Does it reflect an understanding of the broader macroeconomic and fiscal effects?
- What actual impacts if any do the NSAs have?
- How are the NSA organisations which are involved in the budget process financed (membership, state, donors)?
- How does government regard their involvement in the budget process?

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