

# **INCLUSIVE NATIONAL BUDGETING: A SOUTH AFRICAN CASE STUDY**

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This talk will present a case study of the work of the Budget Information Service at the Institute for Democracy in South Africa. I will provide background information on the political-economy context before describing the work of the Service and its impact on inclusive poverty reduction. I will conclude with some thoughts on some of the challenges to a government intent on stimulating inclusive budgeting.

### **The South Africa context**

In 1994, South Africa undertook its first democratic election allowing the excluded 80% of the population to vote for the first time. The backdrop is a deeply divided society, with deeply embedded traditions of racial exclusion. The democratic transition was the culmination of a long period of international and local struggle, the resolution of which involved several difficult compromises. Apartheid era civil servants were granted a sunset clause protecting their jobs. Amnesty for apartheid crimes were granted on the basis of truthful disclosure. These and others constrain the speed of reconstruction and equalization.

The country also faced several serious macro-economic challenges:

- Poverty and inequality were entrenched and formal sector unemployment stood at around 35 – 40%.
- The economy had not recorded positive growth rates since the early 1970's.
- The apartheid government had built up internal public debt that consumed 22 cents of every government Rand spent.
- The country faced a new intergovernmental relations system. The new constitution divided the country into nine unequal provinces and largely devolved to them responsibility for social services.
- The country already spent as much as any other developing country on social services, yet as a result of racial discrimination, social outcomes were considerably lower than countries in this group.
- Budgeting in South Africa was an executive dominated process, with parliament operating as a rubber stamp and civil society virtually excluded from participating.

The complex challenge in South Africa can be expressed in budget terms as: the urgent need to reprioritize existing budget resources and service delivery from tertiary services to middle-class white people in cities towards primary services for low-income black people in the rural areas of the weakest provinces.

In order to meet this challenge, the entire budgetary system required reform, including the design and implementation of a new public financial management system, the collation and publication of substantially improved budgetary information, provision for the participation of civil society and parliament, and enhanced accountability of civil servants.

### **Institute for Democracy in South Africa (Idasa) and the Budget Information Service (BIS)**

The Institute for Democracy in South Africa was founded in 1986 as an effort to create a safe space for dialogue between those in power and those in the liberation movements. The organization has grown into a public interest organization committed to consolidating the country's democratic institutions. Idasa operates as a non-aligned, independent think tank and training specialist. It is funded through international grants from public and private donor institutions and is increasingly generating its own resources through service provision. The organization has no membership base and is governed by a Board of Trustees.

In response to South Africa's first democratic elections in 1994, Idasa established the Budget Information Service (BIS) in order to promote the smooth flow of public policy related information between citizens to government. BIS was one of three related institutions established concurrently – the other two focussing on political information and public opinion polling.

The Budget Information Service was established in 1995 in order to:

*Produce timely, critical, objective and accessible information on the impact of the budget on poor people.*

The aim of this work is to enhance the participation of legislatures and civil society in the budget process. This reflects the organization's belief that inclusive budgeting will support South Africa's transition through:

- Building citizen commitment to tough budget policy choices.
- Improving budget and poverty decision-making and program impact.

The work of BIS initially focused on two primary target groups – legislators and civil society organizations.

- Approximately 80% of the legislators elected in 1994 had little experience in parliamentary democracy and they entered an institution renowned for its acquiescence. Most legislators had recently emerged from exile or underground internal movements. Yet, within the first few weeks of office they were presented for approval with the budget for 1994/5 drafted by the previous government. The weaknesses of the legislature in budgetary matters become the initial entry point for the work of BIS. Our first efforts were targeted at building oversight capacity by assisting legislature committees to understand the budget and prepare for the legislative budget process.
- In 1994, there were approximately 54 000 non-governmental and community-based organizations in South Africa. These organizations provided many of the services that should have been provided by a legitimate government. Post-apartheid South Africa is redefining the role of the public and non-profit sectors, but the latter will continue to play an important role in poverty advocacy and research, service delivery and accountability and oversight. To shift to its new role, civil society requires expertise in parliamentary advocacy including applied fiscal and budget issues.

Over time, we have come to realize the importance of working with two other actors, the media and the executive. The media is a crucial dissemination vehicle for our research and a third partner in the oversight “troika” of civil society and legislatures. Increasingly, the executive has recognized the value of our research and our interaction has grown to include regular consultations.

Before turning to BIS’ subprojects and methods, it is important to introduce the following *strategic principles* that guide our work.

- BIS considers itself to be *critical allies* of the South African transition. It tries to undertake work that supports government poverty alleviation efforts, but retains the right, as an independent organization, to criticize government where necessary. At any one time BIS is engaging in several projects that are supportive of government together with those that are critical of government. I think this principle is likely to be important in many political transitions where too abrupt a shift towards political antagonism between previous allies can split the fragile balance of forces supporting democratic consolidation.
- The second principle distinguishes between information and advocacy organizations. In the first instance, BIS is not an advocacy organization. It tries to provide information / analyses that will help the advocacy / interventions of civil society and legislatures. BIS chose this position as it

does not have a membership or community base or mandate. Its strength lies in producing critical, quality, accessible information that can help other institutions to choose positions and design the strongest interventions. This does not mean BIS never takes a line. The organization does advocate strongly when faced with issues that are at the heart of its democratic interests, such as information transparency and participation in budgets. BIS may also indicate which policy option it favors, but tends to do so late in the policy process so as not to drown out legitimate voices of the poor.

### *Projects and methods*

The Budget Information Service is divided into the following sub-projects.

- Training: As I mentioned earlier, BIS' first efforts were directed at building the budget participation capacity of the legislature. This activity has grown and BIS now offers approximately 20 applied budget training modules that can be used in designing targeted and tailored training packages for different audiences. Modules include system issues, budget analysis and budget process and advocacy issues. BIS' training is mostly directed at legislatures and civil society, but they increasingly also train provincial Departments of Finance and international donor and technical assistance organizations.
- Women's and Children's Budgets: These incidence group budgets are a method BIS developed to measure expenditure and tax reprioritization by monitoring the relationship between government policy and budget allocations to women and children. This year BIS is also producing a budget for people with disabilities. These are not alternative or separate budgets but are analyses of the impact of the public budget on particular groups with high incidence of poverty. These projects are research and training projects. BIS uses researchers from civil society and provides them with budget analysis training on the job. We also build reference groups for each project that consist of parliamentarians, government personnel and civil society representatives. Together the researchers and reference groups expand the amount of citizens that take an active interest in budgetary issues. These projects are also partnerships between civil society and the parliament. In each case, the project provides new critical budget information to parliamentarians, while they help to funnel the research findings through appropriate points in the budget debate.
- Intergovernmental fiscal relations: The resources BIS devotes to inter-governmental fiscal relations are a response to the new, untested provincial structure and responsibilities. Project activities started with a book that provided the first text on the rules of the new system and challenges for greater provincial equality and poverty alleviation. BIS then reduced this text

into a set of training modules that it provided to those inside and outside government with a stake in the system. Following this, BIS responded to the paucity of cross-provincial information by maintaining an information monitor in each provincial legislature. These provide BIS with monthly reports on new and forthcoming legislation and issues. The system means that BIS often provides the first inter-provincial comparisons of health, education and welfare expenditure in the country. BIS information is designed to test the implications of the new system for the poor and to support provincial legislatures and provincial network civil society partners. Recently, BIS has backed this up with a partnership with KPMG accountants to place budget trainers in each of the nine provincial legislatures.

- Budget reform: Most of BIS' work is ultimately targeted at creating an improved budget system. I wanted to indicate though that in many developing and transitional countries, there is a unique opportunity for systems work that can in part be responded to by civil society organizations. For example, BIS conducts comparative analyses of anticipated financial legislation – both on process, design and content issues. The organization's aim is to predict future budget legislation and provide policy alternatives drawn from international experience that can deepen debate and improve choices. BIS' major intervention here was on the design of the new bedrock South African financial management system codified in the Public Financial Management Act. I will return to the impact of this work at the end of my input. Our current focus is on effective participation options for legislature and civil society organizations in the drafting and legislative budget processes. This includes a considerable focus on the benefits and limitations of budget amendment powers. There is no literature on the relationship between legislatures and the budget in developing countries, but many of our civil society colleagues in developing countries are helping to overcome this problem.
- Budget transparency and participation in the budget process: About two years ago BIS together with the International Budget Project designed a comparative survey to measure the extent of budget transparency and participation in the budget process. Our method drew on the work of international institutions such as the IMF and OECD, but added issues of concern to us. Broadly speaking, our survey is more operationally focussed, targets budget transparency specifically and adds a focus on legislature civil society in the budget process. The pilot survey on South Africa was launched last year and is currently being replicated in five Latin American (Argentina, Brazil, Chile, Mexico and Peru) and four African countries (Ghana, Kenya, Nigeria and Zambia). The results of these studies will be out in December 2001.

- Africa Budget Project: A new development is BIS' work with the International Budget Project to develop an African sub-network of budget organizations. The first activity was to convene a workshop on Public Expenditure Management and Participation in the Budget in Harare in 1999. The meeting was co-sponsored by DFID, The World Bank and the Ford Foundation and taught in conjunction with the Public Expenditure Management unit at the Bank. BIS' current work in Africa includes budget training, research on comparative fiscal constitutions and budget reform.
- New projects: BIS is currently testing a method to measure the link between budget allocations and the impact of expenditures. The pilot projects are assessing the expenditure effectiveness of programs to establish a court for rape victims and child criminals. Later this year, BIS will conduct a large assessment of a national nutritional program. BIS are also starting to work on public sector reform issues, in particular keeping the congruency between budget reform and public sector reform. It's current focus is on the civil service wage bill at the start of angry exchanges between government and public sector unions.
- Dissemination: In order to ensure that BIS work reaches its target audience, it designed several dissemination vehicles. The two basic principles of our dissemination are to produce several versions of all research to meet the needs of different audiences; and to disseminate timely information to stakeholders to ensure their intervention in current issues.

BIS primary dissemination vehicles include:

- Budget Watch is a 6-weekly technical magazine targeted at Departments of Finance, universities and think-tanks.
- Budget Briefs are an accessible, electronic publication that we use to respond within 48 hours to current events.
- BIS also produces books on full research results. Submissions to departments and parliament.

BIS' secondary dissemination projects include:

- It produce a weekly political-economy community radio program, Democracy Radio that provides national news to approximately 30 community stations throughout the country.
- Popular publications, summarizing the conclusions of our detailed studies.

BIS tertiary dissemination takes place through, amongst others:

- It relies on a set of organizational partners in the provinces to assist in translating our materials into resources for those with less than eight years formal education and into alternative languages.

- BIS maintains relationships with editors of important financial and popular newspapers and journals.

### **How does the work of BIS contribute to participation and poverty alleviation?**

As BIS tries to work, in part, through enhancing the participation of other civil society organizations and the legislatures, we need to measure both the direct and indirect impact of our work. At the end of six years of budget work, we feel we make an impact in the following ways, working from indirect to direct impacts.

- Impact through monitoring: As an example, the Children's Budget assesses expenditure and taxation relative to the government's commitment to the United Nations Convention on the Rights of the Child and the national Programme of Action. The research findings are used as an objective source of base information by both government and civil society in the formulation of their separate reports to the UN convention. The Swedish International Development Agency and the Commonwealth are assisting with adapting these approaches in other developing countries.
- Building debate by improving flow and depth of timely, critical information. In 1997, the Welfare Minister in South Africa announced the broader dissemination of the Child Support Grant to all South African families. Her analysis was that resource constraints required that the grant be reduced from US\$ 80 to US\$ 8. In response, civil society organizations demanded that the grant remain at its previous level – as a minimum requirement. In order to generate a realistic compromise, Idasa through a poverty project, conducted research on international levels of similar grants, costs of living and the budgetary impacts of alternative grant amounts. This information was disseminated to civil society and government and was instrumental in the organization of a public hearing attended by all stakeholders. The compromise was that the grant was raised to a fiscally realistic level, in part funded through expenditure reprioritization suggested at the meeting.
- Impact through building capacity: We offer 1 – 5 day training packages to legislatures, civil society and media – where possible, simultaneously. The training draws on a set of 25 training modules that we can tailor to a particular audience. The effects of training are visible in the functioning of committees, standard and frequency of legislature questions and debate with departments and from the number and quality of submissions from a broadening range of civil society organizations.

- Impact through partnerships: The Women's Budget is a partnership between civil society and parliamentary Committee on Status and Quality of Life of Women. The project provides parliament with critical analysis, while civil society organisations are guaranteed that the findings are utilized at right time in policy debates. The project uses civil society researchers that are new to budget work and provides training for them during research period. To date the women's budget has trained approximately 50 researchers, many of which continue with budget work in their own organizations. After securing Ministerial commitment to tracking women's interests, the project is helping the South African Department of Finance and Central Statistics to design a framework to track the quality of life and status of South African women. The Commonwealth is further assisting several developing countries in replicating the women's budget effort.
  
- Identifying and disseminating best practice: We have a program that identifies innovation and best practice in government and provides resources to stimulate replication. The winning project of last years award – a rural road maintenance project – has now received donor resources and will be replicated in several provinces in South Africa. Similarly, BIS' identification of best practice budget management in the Gauteng province has led to the adaptation of these methods in other provinces.
  
- Impact through consulting: One of BIS' recent consulting briefs has been to work with the Financial and Fiscal Commission on their 2002 budget proposals. The Commission is an independent body charged with advising parliament on intergovernmental fiscal relations. BIS' work has been to develop suggestions for the division of revenue between national and provincial government to enable sub-national governments to meet their social delivery responsibilities. BIS has also been approached several times to provide an "objective" evaluation of the budget proposals of political parties. In one case, these proposals led to the reversal of a budget decision to close two local mental hospitals. This was made possible through the identification of alternative reprioritization opportunities.
  
- Direct impact: Our financial legislation work is a good example of where BIS' work has had a direct impact on policy. The South African parliament recently passed the bedrock legislation for new financial management system – the Public Finance Management Act. The first draft of the Act that was tabled in parliament contained several flaws. In response, BIS prepared comparative research to understand the approach and details of similar legislation in comparable countries. BIS subsequently pressured for a public hearing and built participation in the hearing by communicating the potential impact of the draft to stakeholders. BIS' work contributed to a substantially improved final



Act that introduced clauses on Virement and established clear sanctions for mismanagement.

### **What are the challenges to supporting the development of applied budget work?**

In this closing section, I want to suggest some lessons from the South African experience for government's that want to encourage inclusive budgeting.

- Increasing participation / inclusion

Representation of the poor: Budget work will tend to attract the more skilled, better-funded civil society groups, not always those that are closest to the poor. There are certainly mechanisms to try to increase the direct involvement of community organizations or others close to the poor and the opportunities for the involvement of the poor increase at sub-national level. The participatory budgeting in Brazil and participatory auditing in India provide some examples of larger-scale involvement of the poor in budget processes. However, it is unlikely that many of these organizations will choose to make a long-term, full-time commitment to budget work from among the many competing claims for attention. The greater the real opportunities for effective budget involvement, the greater the likelihood that broader participation will occur. Nevertheless, popular participation in the budget will often need the involvement of intermediary organizations, such as Idasa, that can monitor these issues consistently and provide quality analyses that popular organizations can rely on when they choose to focus on particularly important budget related issues.

Effective participation: Participation in budgets will be related to the opportunities for effective participation. Organizations will be drawn to budget work because it is a powerful nexus of policies and implementation. But, the resources set aside for this work will be related to the opportunities to be seriously heard and considered. Opportunities for cosmetic involvement could well backfire and discourage groups from involvement.

- Increasing transparency and information

Transparency is one of the primary requirements for inclusive budgeting processes, but it is only valuable when related to participation. It is not just the quantity of available budget information but also its usefulness, timeliness and accessibility; as well as the existence of complementary opportunities for participation. Participation can bring with it demands for even greater transparency and accountability from civil society and other oversight institutions. This may initiate a virtuous circle helping to consolidate democracy.

However, participation may not flow immediately from improvements in transparency. Improvements in participation may lag those of transparency. The lag is related to the lead time in acknowledging opportunity and developing skill. Patience is needed. Specializing in applied budget work takes several years of full-time commitment and resources. Yet, without increased transparency and openings for participation, the incentives for civil society to develop budget expertise may not exist in the first place.

Particularly, important types of information for participation include data on disaggregated actual expenditure, debt redemption, incidence – benefit and other impact data, multi-year spending plans, planned outputs, revenue collection and issues in the development of the next budget. Each of these is compatible with new public expenditure management requirements.

- Supporting the capacity of civil society groups for action

Legislatures and civil society: The most appropriate stage in the budget process for civil society intervention is often the legislature stage. This is when budgets are first seen by the public, when they are most visible and when there are often formal opportunities for civil society engagement. This means that effective civil society intervention will depend on the strength of the legislature and its own opportunities for effective intervention. It is often necessary to support the opportunities for both institutions simultaneously. To support the work of civil society through legislatures requires dealing with the pre-requisites for effective legislature involvement including:

- Powers of amendment
- The role of committees in the legislature process
- The timing of the budget process and
- Independent legislature budget research capacity.

Skills: A significant part of the challenge to developing applied budget capacity is identifying skilled staff. A significant part of the problem is related to the lack of applied public finance training opportunities in developing countries. While most universities include public finance in the core economics syllabus, rarely do these courses address practical budget analysis skills, budgeting systems, legislature issues or current policy issues. The best method to develop these skills is in on-the-job training that can be provided through internships, access to budgeting processes and the integration of applied budgeting into technician or civil society training. Government can provide a significant input to these opportunities. To the extent that government also struggles to identify suitable budget experts from the tertiary training institutions, the content of public sector applied budget training may well also suit the needs of the NGO sector.

Government action: Budgets are still considered the exclusive preserve of government in most developing countries and budget processes remain closed to external participation. These practices are often maintained by a set of negative myths that civil society and legislature intervention will upset markets and destroy macro-balance.

Closer engagement shows that civil society participation requires many of the same requirements as market friendly budgets, such as clarity and certainty. Experience is also beginning to show that external engagement in budgets may be compatible with fiscal discipline and reprioritization. Changing this mindset requires direct positive interventions from government.

If government were to accept budget groups as a partner in national budgeting, there are ways to manage the potential negative implications. Government should use its capacity to focus and direct civil society into appropriate stages in the budget process. In a world where state and legislature capacity is often less than desirable, budget groups offer a new form of public – private partnerships that may, over time, enhance domestic budget management.