

THE APPLICATION OF GOOD GOVERNANCE IN PUBLIC FINANCIAL MANAGEMENT

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ABSTRACT

The relationship between politics and public administration in modern society has required a redefinition of the role of government with reference to the utilisation of power, which raises the issue of governance. Good governance encapsulates the legitimacy earned by those who hold the public trust to exercise power over public resources. Those powers must be applied to ensure the public interest and the common good of the nation. Good governance in public sector financial management cannot be divorced from good governance of the state. The two areas are mutually inclusive. The point of departure being, that governance is intrinsically linked to how the state is managed in terms of ensuring a good quality of life for all citizen's, and how authority and power is separated in order to achieve this goal. The independence of the three branches of a state that is; the legislature, executive and the judiciary is the cornerstone of good governance. Apart from the unquestioning role of the three branches of the state, it is ultimately the activism by civil society that will hold all branches accountable. The role played by civil society is therefore the lifeblood of good governance and ultimately good public sector financial management. The point of departure in this article is to examine the nature of good governance in public sector financial management and its interfaces with the other role players while addressing aspects of the power relations among the Executive, Parliament and civil society.

INTRODUCTION

Good governance is a result of the legitimacy earned by those who hold the public trust to exercise an all-inclusive power over public resources. It is important that such power must be applied for the public interest and the common good of the nation. Good governance in public sector financial management cannot be divorced from good governance of the State. The two systems are actually mutually inclusive. The point

of departure being, that governance is intrinsically linked to how the state is managed in terms of ensuring a good quality of life for all citizen's, and how authority and power is separated in order to achieve this goal. The independence of the three branches of the state; the legislature, executive and the judiciary is the cornerstone of good governance. The role played by civil society could also be regarded as the lifeblood of good governance and good public sector financial management.

CONCEPTUALISATION OF GOOD GOVERNANCE

The concept of *good governance* gained prominence during the eighties following the World Bank and IMF report (1994), which highlighted the economic crisis confronting the *Third World* countries and specifically the sub-Saharan Africa. The view that emerged from the World Bank and IMF centred around the democracy-development relationship. The World Bank pronouncement positioned *democracy* as a necessary pre-requisite for development. *Good governance* was reflected as the existence of a multiparty democracy, rule of law and free press that kept political leaders accountable in view of the fusion of the role of politics and administration (Wohlmuth, 1999:7). Hence, governance implied the exercise of authority, control, management and power by the government. Alternatively, governance is the manner in which a government exercises political power and encompasses the state's institutional and structural arrangements, decision-making processes and implementation capacity, and the relationship between government officials and the public. While good governance is about the norms of governance, which entails: the legitimacy of the government; a legal framework or rule of law; popular participation; freedom of association and expression; and rational non-personalised public administration (Wohlmuth, 1999:7). Thus, the type of laws determines how a state is governed and policies legislated and how these laws and policies are monitored and implemented.

The clarification of governance could also imply that government may be *captured* by elites who has the *intention* to plunder the nation's wealth (Pierre Landell-Mills and Ismail Serageldin, 1995:203). In order to ensure that public resources are employed for public ends, requires a clear separation of what is public and what is private. Therefore a legal framework that governs the behaviour of all public leaders and officials mediated by institutional mechanisms to enforce compliance is necessary.

It should be noted that *good governance* is not exclusively a concern in the developing world nor is the objective simply a matter of enhancing democracy for development. Good governance applies equally to the developed world as the Enron scandal in the USA can be cited as an example. The argument that "democracy precedes development" is also challenged and in this case Malloch-Brown reveals that of the 140 countries that have embraced democracy over the past 15 years many are experience frustration and despair in achieving development goals (United Nations Development Programme Report, 2002: v). The interdependence of national economies as reflected by the phenomenon of globalisation, demands that good governance is a central concern for both the developed and the developing world. Nevertheless *good governance*, as a western imposed concept, has salience in the developing world given the abysmal economic growth and social

development. The New Partnership for Africa's Development appears to agree with this view (NEPAD Action Plans. 2001/02).

Governance is fundamentally a political imperative and should not be reduced to purely public administration this, due to the conflation of the political-administrative role. Consequently, the three critical functions of government are to:

- facilitate redistribution to assist those marginalized by market forces;
- enable the level of economic activity and the rate of economic growth;
- allocate resources to the production of goods required collectively by society and which if the market were to produce it, would be too costly for citizens.

To ensure this function, government must function in a responsible, participative, transparent and accountable manner as the guiding principles of good governance. Thus, governance is a relational concept and entails a triangular relationship among government, the legislature and civil society.

BACKGROUND TO GOVERNANCE IN AFRICA

The de-colonisation of Africa commenced in 1957, with the independence of Ghana. At this point, political leaders believed that through self-rule and self-determination countries would transcend the colonial legacy of underdevelopment and poverty that existed on the continent. However, what leaders inherited were weak institutions and commodity economies with no industrial base for beneficiation of products. At the centre of this inheritance, stood an illiterate citizenry. Countries therefore took out loans from the World Bank and International Monetary Fund (IMF) to commence their development programmes (Wamalwa, 1993). However, loans were used rather to, first secure the position of the leaders at the expense of the rural majority. Governments who felt threatened invested heavily in arms and security, expending up to 30 percent of the national budget on defence. The one-party political system no doubt contributed to the phenomenon of *winner take all* (Mengistu, 1997:189) such that ethnic minorities in many instances were marginalized while development and public services were skewed in favour of the ruling party strongholds marked by patronage (Were, 1982; Ajayi, 1982 cited in Page, 1999:74). Furthermore the one party political system saw leaders personalise the power of their office and deny their citizen's basic rights, individual freedoms and democratic participation in the public governance system. This system was to unleash a period of civil wars marked by violent intra-state conflict on the continent. The two oil crises of 1973 and 1979 was a shock to the major economies of the world. The result was that world commodity prices fell. Countries relying on commodity economies were thus unable to service their debts – and by the 1980s were highly indebted to the World Bank. The reaction of the World Bank/IMF was to dictate structural adjustment programmes and prescribe economic reforms to the poor countries. However, by the late 1980s the economic crisis had worsened, as had political stability in the region. It is argued that it is against this background the World Bank defined *governance* as the “ exercise of political power to manage a nation's affairs” (World Bank 1994:3).

CORRUPTION: THE ANTITHESIS OF GOOD GOVERNANCE

The over-riding concern with good governance in Africa is associated with financial mis-management and official corruption that frustrate development goals. Corruption sets in when public officials are for example paid *rent* in order to circumvent the restrictions in terms of quotas, import restrictions, excise duty, to secure a contract, obtain monopoly over a contract or to limit competition (Szeftel, 1998: 223-4). Officials could then position themselves where they can be bribed for various decisions, services or turning a blind eye to certain illegal practices. Corruption in the administration is seen as a consequence of one-party political systems. Western donors and multilateral organisations advocate multi-party elections as a way of holding leaders accountable and rekindle the *democracy-development cause and effect* argument. Corrupt leaders will be voted out of office through the democratic process. Furthermore, those democratic practices such as transparent decision-making, and active civic structures will be able to scrutinize and regulate the operation of the state. Nevertheless, what is accepted is that corruption undermines both development and democracy. The following are examples of the areas where corruption normally manifests itself (Public Sector Anti-Corruption Strategy: Public Service Commission, 2003):

- bribery;
- embezzlement ;
- fraud;
- extortion;
- abuse of power;
- conflict of interest;
- favouritism;
- nepotism;
- theft/collusion.

Poor financial management includes corruption in all its manifestations as reflected above, since corruption either sees public funds misused, applied to benefit a select individual or entity or sees potential public funds diverted away from the national revenue to private income. Public financial management hence is not confined to those finances appropriated to render particular public services or goods but to all transactions where financial value is prevalent. Nepotism, favouritism, abuse of power and insider trading are equally about lack of good governance in public financial management as is embezzlement and extortion. To address good governance the causes of corruption must be explored. For example, the poor remuneration level of public servants is given as a potential cause of corruption. Furthermore the insecurity in a position could also lead to corruption. Officials who are uncertain of how long they will be in public office or official position aim to enrich themselves, while in office. The consequence of corruption is that it defrauds the state of revenue, puts off potential investors and donor countries and hence undermines the ability of the state to meet social and development goals. Corruption impacts on the culture and image of the state as it emasculates the

rule of law. The Country Assessment Report (2003: 1-6) identifies four consequences of corruption.

- Firstly at the macro-fiscal level the state loses revenue from tax and custom levies and fines.
- Secondly the practice of corruption deters foreign investors who are wary of the hidden costs involved in setting up business, while the abuse of official development aid upon which many poor countries are dependent, could result in funding being terminated.
- Thirdly the poor are denied services as corruption see resources diverted away from the poor, inequities being reinforced and public policies distorted.
- Fourthly, the loss of trust in government institutions undermines the rule of law. Hence corruption must be targeted and eliminated to enhance state credibility in local and international spheres.

LEGAL FRAMEWORK FOR GOOD PUBLIC FINANCIAL MANAGEMENT: THE CASE OF SOUTH AFRICA

Section 215 of the *Constitution of the Republic of South Africa*, 1996 prescribes that the national, provincial and municipal budgets must promote transparency, accountability and the effective financial management of the economy, debt and the public sector. Section 216(1) mandates a national Treasury to prescribe measures to ensure transparency and expenditure controls. While s 218(2) mandates the national treasury with the approval of the relevant Cabinet member to suspend funds to an organ of state, but must secure parliamentary approval within 30 days of the decision s 216(3), subject to a report made by the Auditor-General to Parliament in terms of s 216(5). The Constitution, could be regarded as the cornerstone for good governance in the financial management of the State and national revenue. In terms of the Constitution, the *Public Finance Management Act*, 1999 (Act 1 of 1999 as amended) was created and chapter 4 of the Public Finance Management Act (PFMA) prescribes the tabling of the annual budget to Parliament (s 27), adjustments to budgets to the National Assembly (s30) and publishes at the end of each month reports on the state of the budget in the Government Gazette (s32), while unauthorized expenditure or overspending if not approved by Parliament or the provincial legislature is deducted from the next year's allocation of budget (s 34.2). The financial statements must be prepared in accordance with generally recognised accounting practice (s40.1.b) audited by the Auditor-General (s 40.1.c) and submitted with the annual report to Parliament by the accounting officer(s 40.1.f). The Constitution clearly prescribes the need for transparency and accountability through the separation of powers of government and Parliament as well as enforces the independent investigative and reporting role of the Auditor-General. This institutionalisation of the budget approval and report process is extended by the PFMA, which prescribes accountability as well as distinguishes the role and function of the Cabinet member, Legislature and the Auditor-General in the management of public funds.

The financial plans and the budget process can be considered as the point of departure for responsible, transparent and accountable public sector financial management. The

PFMA requires that these plans, which are reflecting the government's priorities in terms of service delivery, are tabled in Parliament and are made public following the budget speech of the Minister of Finance. Although the PFMA process, enforces transparency and accountability, there are still shortcomings in determining whether the appropriations by departments and state entities are indeed addressing national priorities and providing value for money outputs. In the first instance the technical nature of the plans can bring confusion about the understanding of the plan and on the other hand the costing procedure is not clearly visible or available. Whilst the mechanisms are in place such as the planning and reporting process to Parliament and parliamentary committees the technical competency of such institutions to fully appreciate the manner in which public funds are managed need to be enhanced to ensure good governance. The enhancement can be achieved by drawing on inputs from interest groups and academics in civil society and even consult private sector expertise to audit the plans and authenticate the costing process. This will hold government officials accountable in terms of ensuring effectiveness, efficiency and productivity.

INSTITUTIONAL MECHANISMS TO UPHOLD GOOD GOVERNANCE IN PUBLIC FINANCIAL MANAGEMENT

The Constitution 1996, mandates state institutions in Chapter 9 to uphold constitutional democracy. The Auditor-General (AG), Public Protector and the Public Service Commission are the primary institutions to ensure good public governance. These institutions are independent and in s 181 (2) are impartial and subject only to the Constitution and the law. The separation of powers through unfettered and independent constitutionally mandated institutions are fundamental to prevent corruption to hold all organs of state financially accountable in the public sector. There are also other regulated institutions such as the Special Investigations Unit that play a critical investigative role. The power and functions of these institutional mechanisms facilitate good governance through their public pronouncements and exposure and beyond this they serve as a deterrent to corruption.

The constitutionally mandated institutions such as the AG, Public Protector and the Public Service Commission are established to ensure good governance in the public sector. These are fundamental mechanisms that will reveal financial mis-management by state departments, entities and officials. However, the proof of effectiveness lies not in its mandate but with the strength to which they guard their independence and remain impartial. A weakness is that while the constitutional mechanisms are accountable to Parliament they first report to the President. The impartiality of such reports may then be questioned. If the criterion for good governance is the separation of powers and the activism of civil society, then what is clearly needed, is for such reports to be first presented to the legislature and open for public scrutiny. Public sector corruption must be comprehensively dealt with to ensure good governance in the management of public funds. This requires that the code of conduct of public officials must have the necessary sanctions and be enforced decisively. Defaulting officials must be decisively dealt with and where relevant disbarred from future positions of public trust.

CIVIL SOCIETY ACTIVISM AND PARTICIPATION

Civil society activism as well as formal participation in the financial matters of state are central to good financial governance. Civil society acts as a counter-balance to the power government holds over decision-making and resource allocation. However, civil society must be organised to leverage their power and be truly representative of their sector. Interest groups and non-governmental organisations are regarded as key non-state actors in good governance. The dimension of civil society in good financial management is, however, imperceptible in Africa and South Africa in spite of the *Public Finance Management Act, 1999*.

What, however, predominates are individual appointments by the Executive authority of individuals to the boards of management of public entities. This is inadequate as such individuals while ostensibly elected to represent an impartial perspective and nominated because of their expertise, rarely represent civil society nor do they take their mandate as articulating the public interest and distinctly do not see themselves accountable to any particular sector. This is a shortcoming in terms of good governance in public sector financial management as the executive is only accountable to Parliament or another legislature for performance budgeting, expenditure and the outcome thereof. Civil society is excluded from a critical role or has excluded itself due to its passive acceptance of the *status quo*, its un-organised structures or its complacent dependence on elected representatives in the legislature. Decisions taken by Governments to privatise state owned enterprises or enter into public-private partnerships that provide water provision, transport or electricity impacts especially on the poor and the poor have no voice or powerful platform from which to articulate their views and therefore influence decisions.

There are other mechanisms within civil society, which can play a critical role in holding public officials and government accountable for public spending. In this regard the media has played an important role to bring under the attention of the public any suspicious matters of government spending. The media as the public watchdog, are only able to bring matters to the attention of the public and it is for the public to hold Cabinet, Government and public officials accountable for the management of public funds. As stated the *Public Finance Management Act, 1999* is silent on the role of non-state actors in the financial governance of public funds. While the Constitution upholds the rights of all people through the Bill of Rights, it falls short of mandating or articulating a clear role for civil society. Clearly what are required are non-governmental organisations and organised interest groups are required to be consulted by the Executive and Legislature before policy decisions are made.

INDICATORS OF GOOD GOVERNANCE

The outcome of good governance in public sector financial management is development towards the improved quality of life for all citizens as well as increased integrity of those who hold the public trust. In this case external agencies such as the World Bank and the United Nations Development Programme (UNDP) provide a range of indicators in their reports with respect to the outcome of good governance in a country. Other

more pertinent indicators of good governance are the *Corruption Perception Index* and the ranking of the country by Transparency International (South Africa) by non-governmental groups. The value of such assessment is that such agencies have international legitimacy and hence their external perception of the performance of a country is taken as objective. In South Africa, the Human Sciences Research Council (HSRC) is an independent council that provides an outside view of the country as is the Human Rights Commission. According to the 2001 *Corruption Perception Index* (CPI), South Africa was ranked 38 of 100 countries with a CPI score of 4,8 out of score of 10 (Finland ranked first in the world with a score of 9,9 and Botswana at 26 with a CPI score of 6,0). The recently announced *Human Development Index* 2003, ranked South Africa at position 111 and in 2002 at position 103. Last critical indicators of good governance are those, which are derived from communities. For example in 1997 the HSRC and KwaZulu Natal government conducted a survey, which explored the satisfaction of the communities in terms of government and development programmes. The findings revealed that the urban communities were more satisfied with development investment than the rural communities (HSRC 1997: 205-212). This study explained the need for civil society to participate in the determination of national priorities. The utilization of indicators can be regarded as an important guide in assessing good governance with specific reference to good governance in public sector financial management.

The following are examples of preventative measures public departments can adopt to address corruption (Public Sector Anti-corruption Strategy: Public Service Commission, 2003):

- departmental policy or mandate on anti-corruption
- Fraud Prevention Plan
- strategic objectives related to fighting corruption
- investigative procedures
- whistle blowing policy
- Public Service Regulations (PSR) on corruption, fraud and awareness
- anti-corruption workshops
- cooperation with agencies
- systematic approach to fighting corruption.

Policies are important steps in ensuring good governance in public sector financial management, however what is ultimately required is the political will to enforce it and the resources to enable such legislative and policy requirements. A matter of concern is the inability or lack of political will by the Executive authority to enforce compliance. To avoid a state of non-compliance is to ensure that legislation enacted must be enforced. The inability to enforce legislation will emasculate a state and render it powerless.

CONCLUSION

A government holds both political and administrative power over public resources. Given this combination of power, good governance becomes a critical factor in the financial management of the public sector. Good governance entails that govern-

ment must ensure the economic stability, redistribution and achievement of development goals by acting responsibly, participatively, transparently and accountably. These are the guiding principles of good governance.

There is a strong relationship between effective financial governance and development outcomes. Good financial governance should not be minimized to an abstract philosophy that is captured in legislation alone, but as a normative concept that must be aimed at concrete and achievable objectives. In the case of Africa, it is social and economic development. Consequently, the measure of good governance in public sector financial management should be the measure of the achievement of these objectives.

The mechanisms that the public sector put into place to monitor itself are of crucial importance. The Office of the Auditor-General, the Public Protector, the Public Service Commission as well as other investigative units as examples fulfil a vital role in holding public officials accountable for financial management and expenditure. However it is important that the separation of powers should be respected between the three branches of the state; the Legislature, Executive and the Judiciary, to monitor and regulate each other. However and in the final instance the actions of civil society through activism or participation in the law making process, decision-making policy process a guarding role over the expenditure of public funds will hold public officials and public servants accountable for the financial management of a state and thus the development of the nation.

Good governance should also be seen as an individual responsibility. Until a culture of good governance has been institutionalised over time as a distinct cultural trait, every society and state will have to ensure mechanisms; by means of empowered institutions, civic activism and the independence of the three branches of the state, to hold public officials accountable to deliver on the requisite social and economic development goals.

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