

**PUBLIC FINANCIAL PERFORMANCE MANAGEMENT IN SOUTH AFRICA: A
CONCEPTUAL APPROACH**

by

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LIST OF ABBREVIATIONS

AfDB	African Development Bank
Aids	acquired immune deficiency syndrome
AG	Auditor-General
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
AU	African Union
AusAID	Australian Agency for International Development
BAS	Basic Accounting System
CABRI	Collaborative Africa Budget Reform Initiative
CMTF	Consolidated Municipal Transformation Programme
COFOG	United Nations Classification of the Functions of Government
COMESA	Common Market for Eastern and Southern Africa
CPI	consumer price index
CPI	corruption perception index
DFID	Department for International Development (UK)
DG	Director-General
DORA	Division of Revenue Act
ESAAAG	Eastern and Southern African Association of Accountant Generals
G8	Group of Eight (Canada, France, Germany, Italy, Japan, the United Kingdom, the United States and Russia)
GFS	Government Finance Statistics
GPFS	General purpose financial statements
GRAP	Generally recognised accounting practice
GTZ	German Technical Corporation
IBP	International Budget Project
IFMS	Integrated financial management system
IMF	International Monetary Fund
IPSAS	International public sector accounting standards
MFMA	Municipal Finance Management Act (56/1993)
MTBPS	Medium-term budget policy statement
MTEC	Medium-term expenditure committee
MTEF	Medium-term expenditure framework
MTSF	Medium-term strategic framework
NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Co-operation and Development

PEFA	public expenditure and financial accountability
PEM	public expenditure management
PEMPAL	Public expenditure management peer assisted learning
PETS	Public expenditure tracking surveys
PFM	Public financial management
PFMA	Public Finance Management Act (1/1999)
PFMRP	Public financial management reform programme
PPBS	Planning programme budgeting system
PSAM	Public service accountability monitor
SA	South Africa
SADC	Southern African Development Community
SAI	Supreme audit institutions
SARB	South African Reserve Bank
SARS	South African Revenue Service
SCOPA	Standing Committee on Public Accounts
SEF	Sector expenditure frameworks
SIGMA	Support for Improvement in Governance and Management
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/Aids
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Fund for Population Activities
UNGASS	United Nations General Assembly Special Session on HIV/Aids
UNHCR	United Nations High Commission for Refugees
UNHSP	United Nations Human Settlements Programme
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
UNPAN	United Nations Public Administration Network
UNSD	United Nations Statistics Division
USAID	United States Agency for International Development

ABSTRACT

The South African Government's service delivery initiatives do not guarantee quality of life for all citizens of South Africa. An active challenge faced by researchers and practitioners, who do not have adequate solutions available, is based on the fact that government departments are not able to say what they have achieved; only what they have done. The aim of this study was to develop a conceptual approach or framework for public financial performance management, which will pave the way for operational and line managers in public financial management towards world-class performance with specific reference to effectiveness and service delivery outcomes.

The contextualisation of public administration highlights the scientific foundations of public administration and the continuous development of administrative theories and growing administrative thought within the discipline of Public Administration. The development of public administration proves to be dynamic with the emphasis on future trends and emerging concepts of public management and good governance and the need for more efficient and effective service delivery. The state's role has changed from hands-on management and direct delivery of goods and services to the facilitation of an enabling environment, which provides a framework for private sector participation. Successful development programmes hinge on the effective economic policies, good governance and financial performance management of the facilitator. Due to the fragmentation of policy responsibility in society, the traditional mechanisms of governmental control are no longer workable, or even appropriate. Control is giving way to interaction and involvement with critical implications for the operational manager's ability to manage, but still to be accountable. The future role of government will be based on governance and stewardship, which can create an enabling environment for all its citizens to enjoy a good life.

Derived from an analysis of the public administration environment, the magnitude of the challenges and the tasks facing African countries, African governments and other stakeholders, especially the international community, must establish capacity to deal with a dynamic and changing environment. A systematic and holistic approach will be needed for the implementation of policy in order to become more effective and responsive to the needs of society. The role of governance as the ideal platform allows for an interactive relationship between the public financial management system and the budget process to be facilitated by various role players in different relationships. Interaction is based on the concept of getting the basics right and is

also aligned with the public financial management system as a series of realistic platforms to accommodate the multiple role players. The result is a financial system that provides the opportunity for financial performance management and effective and optimal budget outcomes.

A high-performing public-sector organisation is results-driven with a sound public financial management system, which allows the government to make the best use of all available resources. This type of organisation will meet the quest to efficiently and effectively utilise public resources to meet the needs of the community in an equitable manner. Public financial performance management must be viewed as the next logical evolution of the field of public management. Public financial performance management must be viewed as an essential component of successful management. This is cultural, operational and human resource management change. The transition will require recognition that rationality is the underlying force of performance management.

The development of public financial performance management capacity is a means and not an end in itself; it is an integral part of the overall development agenda. Consequently, a capacity development strategy must be based on a broader vision of improved financial performance management and increasing organisational effectiveness leading to good governance. While country ownership is critical, the capacity development efforts have to be tailored to match the existing human resources, institutions, legal system, as well as the administrative and political culture. The drive for capacity development should transcend the mode by which it is to be delivered.

Key words:

Public Administration; public financial management; public financial performance management; role of the state; good governance; efficiency and effectiveness.

CHAPTER 1: RESEARCH PROBLEM AND RESEARCH DESIGN

1.1 INTRODUCTION

This study is a conceptual analysis of public financial performance management with specific reference to the area of effectiveness and outcomes. It is an attempt to assess and identify financial performance drivers, which will enhance the South African Government's desire to improve the quality of life of all citizens in South Africa (SA). In this sense, it is also an attempt to scientifically develop financial performance management perspectives and options, which may be useful to resolve the effectiveness of government in a focused and systemic manner. Consequently, a particular methodology will be followed to scientifically analyse different approaches to improve the quality of government services.

In order to have a clear understanding of public financial performance management in the context of government, it is necessary to pay attention to the environment of public administration and the need to develop the theory and practice of public administration in South Africa. Public financial performance management is part of the administrative principles and practices which permeate the daily lives of all citizens of South Africa and has emerged as the most efficient way of ensuring a simultaneously high standard of living and high quality of life. Public financial performance management increases and enhances the professionalism exhibited by government managers and must become an accepted practice norm seeking ongoing improvement and exploring best practices. Public financial performance management produces enhanced capability and replaces the focus on process with a focus on results. The emphasis is on the role of government in society, which impacts on the development of policies and provisioning of services and must be viewed as an essential component of successful management. The classification of administrative functions successfully explains the nature and extent of the duties of officials responsible for administration and of actual administrative practices, but it is necessary for innovative thought for the continued development of the discipline of Public Administration and the practice of public administration.

Although public institutions should not be managed in the same manner as a private business operation, a public institution should be managed for excellent performance as it represents one of the stimulating academic challenges for the academic discipline of Public Administration. To manage public institutions for performance

represents one of the biggest challenges for the future and to face up to this challenge, a situation-specific public management approach will have to be developed.

1.2 OVERVIEW AND CONTEXTUALISATION

Mr Nelson Mandela (BBC,2005), speaking on London's Trafalgar Square in support of the Campaign to Make Poverty History ahead of a meeting with European Union Finance Ministers on 3 February 2005, strongly exhorted the following: *"In this new century, millions of people in the world's poorest countries remain imprisoned, enslaved and in chains. They are trapped in the prison of poverty. It is time to set them free. ... poverty is not natural. It is man-made and it can be overcome and eradicated by the actions of human beings"*. In his State of the Nation address on 6 February 2009, the then President of the Republic of South Africa, Mr Kgalema Motlanthe expressed the need for the efficiency of the South African Public Service and specifically mentioned the need for proper public financial management skills and practices in the Government. To his own question on how to improve the quality of service delivery, the President responded by saying: *"We still got a way to go"*, and *"the challenges remain immense"* (The Presidency, 2009:2).

The South African Public Service has a critical role to play to deliver the goods and services required to accelerate economic growth, reduce poverty and inequality and improve the lives of all South Africans. In his State of the Nation address on 10 February 2011, the President of the Republic of South Africa, Mr Jacob Zuma, confirmed the Government's steady progress towards a more prosperous society and the commitment to build a performance orientated state. Although some achievements were evident, serious challenges such as unemployment, poverty and people without houses, electricity or water and also the poor performance of local government institutions were highlighted. The frustrations in some areas resulted in protests, which indicated the problems that existed in this sphere. As a result of these challenges, the Government's focus on specific priorities was reaffirmed. These are education, health, rural development and agrarian reform, taking forward the fight against crime and creating decent work. These priorities will be dealt with by means of turnaround strategies focusing on, among others, the strengthening of basic administrative systems, financial management and customer care (The Presidency, 2011:1-8).

Despite the progress and achievements of the Government in the delivery of services to the poor, especially in the field of housing, water and sanitation, electrification, health and education, the dividends resulting from increased pro-poor social expenditure by the state have proved disappointing in terms of reducing poverty and solving ongoing socio-economic problems. Unemployment rates in South Africa are exceptionally high and using the expanded definition, currently stand at around 40%, and around 23% using the narrow definition. According to Seekings (2007:16), unemployment rates in South Africa “remain much higher than they were in 1994 and are higher than anywhere else in the world excepting Iraq”.

South Africa currently spends an amount equivalent to about 7% of its GDP on education, yet the education system fails to produce school leavers with adequate work-related skills in sufficient numbers. South African schools simply do not produce outputs commensurate with state expenditure, particularly when viewed in terms of the potential for improved education to alleviate poverty. South African students display exceptionally low levels of literacy and numeracy (Seekings, 2007:18-19).

According to research, the same holds true for healthcare expenditure. Despite greatly increased state expenditure on public health services, life expectancy declined from around 60 years in 1994 to around 49 years in 2006 (about 30% below the world average), largely because of the impact of HIV/Aids. South Africa also has one of the world’s highest reported infection rates (and lowest reported cure rates) of tuberculosis in the world. It also has one of the highest reported rates of fetal alcohol syndrome in the world. South Africa also has one of the highest reported rates of violence (particularly violence against women and children) in the world. In the 2006/07 financial year, South Africa recorded a murder rate of 40,5 per 100 000, a serious assault rate of 460 per 100 000 and a reported rape rate of 111 per 100 000 (this is despite the fact that the majority of women and children do not report being raped to the police) (Luyt, 2008:2-8).

Apart from being borne primarily by the poor, such socio-economic conditions impede economic development and poverty alleviation, and contribute to the country’s haemorrhaging of skills, commonly known as the brain drain, which further retards economic growth. Indeed, the Government Performance Barometer survey conducted by Markinor in February 2008, found that respondents rated the South African Government’s attempts to stop the brain drain as its worst area of

performance, with 73% of respondents saying that the Government performed badly in terms of halting the loss of skilled people.

A decrease in poverty levels in South Africa has been achieved largely by expanded state expenditure on social security grants, and not as a result of economic growth or redistribution. Seekings (2007:27) notes that any significant reduction of poverty in South Africa in the future is “*likely to require a further expansion of the welfare state*”. There are clearly fiscal limitations to such expansion. Over and above the country’s socio-economic problems, the Public Service Accountability Monitor (PSAM) believes that a major obstacle to poverty alleviation in South Africa is poor governance, which includes not simply corruption, but also poor performance of government officials in their management of public resources and a lack of political will to act against underperforming officials. The poor management of public resources translates directly into poor public service delivery implementation, and thus obviously undermines poverty alleviation policies (Luyt, 2008:4).

Given the fiscal restrictions of poverty alleviation through targeted pro-poor state expenditure, good public resource management becomes especially important: every cent must be made to count. Certainly, corruption represents a profound challenge to the alleviation of poverty, but so too does poor performance of politicians and government officials. As Van der Berg, Louw and Du Toit (2007:41) put it, in South Africa “*the key to improving social outcomes for the poor is improved social delivery, which depends on managerial efficiency and good accountability structures. Given the limited scope for increasing government expenditure, it is imperative to improve the efficiency of social delivery. Improving managerial skills and accountability structures is an attainable goal that requires careful attention but does not depend on massive financial resource inputs.*” The absence of adequate accountability mechanisms may lead to frustration with poor service delivery manifesting in more confrontational and violent ways, such as the service delivery protests which have swept through South Africa over the past few years (Centre for Development and Enterprise Press Release, May 2007).

In South Africa, accountability is especially important at the provincial and local municipal sphere, since it is at these spheres that the major part of the national budget aimed at alleviating poverty through the provision of housing, health and education services is spent. In terms of implementation, governance is only as good as its weakest links, and in South Africa, the weak links are provincial and local

government, although there is great variation in the quality of provincial and municipal governance. Some provinces and municipalities display relatively good governance, others are simply appalling, according to Luyt (2008:4).

The role of civil society in entrenching accountability is especially important. While South Africa's national human rights institutions such as the South African Human Rights Commission and other bodies established in terms of Chapter 9 of the South African Constitution (1996), for example, the office of the Auditor-General, the Commission on Gender Equality and the Public Protector are important to ensuring good governance and accountability, they are limited, *inter alia*, by reliance on government funding.

The ultimate goal of financial management in government is based on the principle of stewardship, which means to take care of another person's property or financial affairs. As agents of the people, all decision-makers in financial management must ensure that they safeguard and use available money and other resources in the best interests of the people.

1.3 FRAME OF REFERENCE

Decision-makers in the public service environment today face a very different world from their predecessors. For example, the steady, planned and predictable world of financial management has been changed beyond measure by a number of pressures including public scandals and the consequent intense focus on good governance and risk management. Also evident is the changing expectations of the finance function, from number crunching and rear-view reporting to involvement in strategy setting, execution and monitoring; add to this the rising significance of responsible public service practices and the application of effective business information technology.

Organisations, and especially public sector organisations, with poor strategies will commonly suffer, for example, ineffective risk management, weak strategy execution, and an inability to respond to fast-changing environmental conditions. But while there have been lengthy discussions on how to achieve effective compliance and improved strategic performance, the two disciplines rarely collide, despite considerable evidence that adopting good conformance as well as effective strategic management is essential to achieving sustainability.

Public financial management capacity is at the core of good governance and lies at the heart of effective service delivery. Developing countries are beginning to recognise that problems in sectors such as health, education and agriculture may have a common origin namely weak public financial performance management.

Effective, efficient, transparent, accountable and predictable public financial performance management in, for example, the Government of South Africa as a developing country, is a prerequisite for long-term and sustainable reduction of poverty and effective use of scarce financial resources in order to ensure quality of life for all citizens. Public financial performance management is also directly linked to opportunities for democratic governance and, for example, the ability to fight corruption.

Pauw, Woods, Van der Linde, Fourie, & Visser (2002:138), argue that the public sector might indeed require unique knowledge and skills for the analysis, measurement and evaluation of the performance of organisations: *“The measurement of economy, efficiency and especially effectiveness, requires a lot of thinking.”* Pauw *et al.* (2002:141) further state: *“In government institutions, money is generally a means rather than the end. Money from the legislative environment to public service institutions is not given to receive money back, but to achieve other ends. The ends are the things that need to be measured in non-monetary terms.”* In business organizations, profit acts as an unambiguous measure of effectiveness, but there is no such universal measure in not-for-profit government organisations. Although managers in not-for-profit government organisations do not face a profit-maximising test for performance, they cannot ignore the utilisation of public funds. Performance measurement and management are crucial aspects of public financial management since the spending of public money should be aimed at achieving the objectives of a public institution. It is, therefore, necessary that public officials, especially line managers, understand the underlying principles thereof and be able to apply it continuously in their planning as well as strategic and operational management.

Financial reporting obligations support good corporate governance through outwards and internal reporting. Outward reporting is to Parliament and all external stakeholders. Effective management and decision-making require adequate internal financial reporting systems, which consist of timely and regular submission of comprehensive and candid reports on every significant matter of financial

administration in a public sector institution to all levels of decision-makers. The focus of financial management in national and provincial departments is the successful implementation of the Public Finance Management Act (1/1999)(PFMA) and the Treasury Regulations.

The aim of financial management in the public sector is to manage limited financial resources with the purpose to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes (effectiveness), which will serve the needs of the community (appropriateness). The absence of the profit measure in the public sector makes analysis and evaluation of management performance more difficult than in profit-orientated firms. Management success in the public sector is measurable in terms of economy, efficiency, effectiveness and appropriateness and is directly related to public financial performance management.

Several elements of private sector financial management, however, provide a sound basis for practices in the public sector. The PFMA (1/1999) aims to introduce an approach of management for results instead of managing for compliance. Accounting officers enter into employment contracts with executive authorities supported by performance agreements, which include performance standards and are allowed flexibility in the use of resources.

Financial management ranges from daily cash management to the formulation of long-term financial objectives, policies and strategies in support of the strategic and operational plans of the department. Public financial management includes the planning and control of capital expenditure, working capital management, interaction with the relevant treasury, funding and performance decisions. Public financial performance management supervises the supporting financial and management accounting functions, which are predominately concerned with the collection, processing and provision of financial information and the planning, operation and control of the supporting financial information systems.

1.4 OBJECTIVE OF THE STUDY AND PROBLEM STATEMENT

An active challenge (i.e. problem) faced by researchers and practitioners, who do not have adequate solutions available, is the fact that government departments are not able to say what they have achieved; only what they have done.

In order to clarify this statement, Tigue and Greene (1994:36) distinguish between three types of performance measures. Input measures deal with the question of how much resources are needed to provide a particular programme or service. Output measures focus on the level of activity in providing a particular programme or service (what has been done). Outcome measures focus on the question of whether or not the service meets its proposed goals and these measures are used to evaluate the quality or effectiveness of public programmes (achievements).

Output measures are useful in defining the activities or units of service provided by government, but they provide no indication of whether the goals established for the service have been met, nor can they be used to assess the quality of a programme or service. Tigue and Greene (1994:37) state the following: “*While outcome indicators are of the most interest among policy makers and citizens, they also tend to be the least utilized*”. This statement is supported by various arguments and is also supported by Pauw *et al.* (2002:76) regarding the measurement of organisational effectiveness and that the ends are the things that need to be measured in non-monetary terms.

In a bureaucratic environment, the result of a major focus on input and output performance measurement and less attention to outcomes performance measurement leads to a situation of more reporting on compliance, a high degree of regulation and less focus on performance. It tends to become a situation of working hard, but not working smart. The challenge is to develop mechanisms to measure organisational achievements with specific reference to outcomes and effectiveness.

Performance measurement fulfils a critical component in the measuring of good governance since it is an essential tool for effective management and without which no proper evaluation and improvement will be possible. Performance measurement assists in formulating and implementing policy, contributes to planning and budgeting for service provision, monitors the effects of change and improves standards of service. Performance measurement also ensure fairness in terms of user access to particular services, measures the distribution and the economic and efficient use of resources and provides a critical component in exercising managerial control and decision-making.

From this overview emerges the research question:

How can decision-makers in public financial management give account of their performance with specific reference to the area of effectiveness and outcomes?

The topic of the thesis flows from the research question: **Public financial performance management in South Africa: A conceptual approach.**

The study will attempt to unpack the source of the problem, provide some comments of the philosophy behind international and national developments, construct a theoretical framework to look at particular cases or problems in the Public Service and then provide a conceptual framework to improve public-sector financial performance management in order to meet the needs of all people in the most effective way.

Unique knowledge of the analysis, measurement and evaluation of performance effectiveness in public organisations will be provided. Operational managers will be empowered to measure the effects of service delivery in non-monetary terms in order to ensure effective public financial performance management. Not only will the operational manager be able to indicate what he/she has done, but also account in a constructive manner for all planned achievements. Measurement will enhance management and will shift the phenomenon of public performance management beyond the boundaries of quantity to quality in terms of outcomes. This could ensure a better life for all.

1.5 RESEARCH DESIGN AND METHODOLOGY

Burns (1997:19) describes *research* as a systematic investigation whereby data is collected, analysed and interpreted in an effort to understand or predict a phenomenon and the research is influenced by the researcher's theoretical framework. This theoretical framework is referred to as the paradigm and influences the way in which knowledge is studied and interpreted. *Methodology* refers to the rationale and philosophical assumptions that underline a particular study relative to the scientific method used with a view to explaining the researcher's ontological and epistemological views (Patton, 1989: 69).

The planned research will deal with the concept of *public financial performance management* and will by means of a conceptual analysis clarify and elaborate on the different dimensions of performance in relation to effectiveness and outcomes.

Based on existing theories and historical research, new models will be developed to explain the phenomenon of financial performance management. Research will be conducted in the format of a theoretical investigation and a literature study (national and international) to provide a conceptual framework for financial performance management.

In order to avoid conceptual confusion and theoretical ambiguities, the research will also ensure conceptual clarity and will reveal the conceptual implications of different viewpoints. An appropriate research design will deal with the Public Administration environment and government finances with specific reference to good governance financial management. In terms of existing theories, the emphasis will be on national and international best practices in government finances and financial performance management, taking into consideration the key roles performed by organisations such as the International Monetary Fund (IMF), the World Bank and International Federation of Public Sector Accountants. Current financial systems in public-sector finance in South Africa as well as public financial performance management in the context of the state will be analysed. As a result of deductive theory construction, a set of postulates will be formulated and will then enable the researcher to derive a comprehensive set of theoretical propositions in order to be tested against empirical data.

1.6 BENEFITS, ASSUMPTIONS AND LIMITATIONS

The study has the possibility to deliver some academic input into the field of public administration, specifically in public financial management and financial performance management. The study also has the potential to contribute to the establishment of effective financial practices in terms of government revenue and expenditure and alignment between organisational strategy and financial best practices. Effective financial management practices will contribute to value for money, efficient management, monitoring and reporting and a rise in the perceptions of the general taxpayer and donor organisations regarding the government performance of administration in South Africa. Finally, this study will create favourable conditions to ensure that the right people are at the right place at the right time, ready and prepared to deliver lifesaving services for quality of life. Some of the assumptions are:

- 1) Poor financial performance management can create a situation where essential services, such as rescue and emergency, fail to perform, leading to the death of SA citizens as government clients;
- 2) The international community is relies on financial alignment to ensure effective development programmes;
- 3) International non-government organisations are major contributors to world development and prosperity;
- 4) No individual country or organisation can follow a singular approach to development;
- 5) Development in the national environment is unique, however, basic principles for financial performance management can be similar in various regions around the world; and
- 6) Operational and functional managers (non-financial managers) are key role players in the quest for effective public financial performance management.

There are several limitations to this study, for example, the domain of Public Administration is wide and this study will not cover all aspects of international research. International financial management research will be hampered by restrictions on language, research relevance, disclosure and regional responses to economical situations.

1.7 DATA COLLECTION

Secondary data is used in the research study and was gathered from relevant books, journals, reports, conference proceedings, published articles, relevant government policy documents, speeches, newsletters and newspapers. This literature review forms the theoretical foundation of the study from which empirical interpretations will be developed.

1.7.1 Books and journals

The books consulted were those relating to operations in the public service and financial performance management in the private and public sector. Books referring to theories and paradigms that inform the financial performance management system were also consulted. Several journals focusing on financial performance management issues in the private and public sector were used.

1.7.2 Reports

Reports compiled by the Government of South Africa, nationally, provincially and locally were reviewed. The King report on corporate governance for South Africa (2002), reports from the Organisation for Economic Co-operation and Development (OECD), the World Bank, the International Monetary Fund (IMF), the United Kingdom's Department for International Development (DFID) and reports from other independent organisations were also reviewed and these sources provide valuable insight into the enquiry of public financial performance management.

1.7.3 Conference papers

A variety of conference papers were consulted emphasising the current focus on the need to deliver services in the most economic, efficient and effective way to ensure quality of life for all people in a specific environmental context.

1.7.4 Policy documents

The main policy documents consulted were the South African Acts of Parliament with specific reference to the Constitution of the Republic of South Africa (1996), the Public Finance Management Act (1/1999) as amended by Public Finance Management Amendment Act (29/1999). Other policy documents include the Treasury Regulations for departments, trading entities, constitutional institutions and public entities, issued in terms of the Public Finance Management Act (1/1999) and the Public Service Regulations, 2001.

1.7.5 Other papers and memoranda

Several papers prepared by individuals and non-governmental organisations were also referred to. Papers and memoranda from the World Bank, IMF, DFID, OECD and United Nations (UN) on issues and practices related to public financial management and public financial performance management were valuable sources of information.

1.7.6 Internet sites

The internet was a very accessible and useful medium of data and information. However, the researcher was cautious and guarded against the use of information from web pages and internet sites without due recognition of the relevant sources.

1.7.7 Speeches

Reference was also made to speeches of eminent role players in the international public administration and management environment as well as the President of the Republic of South Africa and also former South African presidents.

1.7.8 Newspaper articles

Newspaper articles are sometimes not viewed by researchers as a reliable source of information, however, at times it can serve as the only accessible source to substantiate the authenticity of a claim. Some key aspects related to public financial performance management that featured in these articles were used for research purposes.

1.8 CLARIFICATION OF KEY CONCEPTS AND TERMS

This section clarifies concepts and terms so that the discussions in the text are put into context and understood throughout the study. These key concepts are:

Accountability: Accountability means that managers are held responsible for carrying out a defined set of duties or tasks, and for conforming with rules and standards applicable to their posts (Pauw *et al.* 2002:136).

Accounting basis: This is the body of accounting principles that determines the form of financial reporting. There are two ways in which this can be done, namely cash-based and accrual based accounting (Institute for democracy in Africa, 2009).

Accounting officer: This is the head of a department or a chief executive officer of a constitutional institution (Public Finance Management Act, 1/1999).

Accounting: Accounting is the systematic recording of the financial aspects of transactions. This is done according to recognised principles so that expenditures are transparent and accounts can be audited (Hickey & Van Zyl, 2002:75).

Accrual accounting: This is an accounting convention by which payments and receipts are recorded at the time that the parties enter into a commitment. For example, this system would record the purchase of naval helicopters when the contract is signed, not when the equipment is delivered and paid for (Institute for democracy in Africa, 2009).

Assets: Assets are objects such as bonds, shares, houses, cars, furniture that may be owned by government, individuals or private sector companies (Institute for democracy in Africa, 2009).

Activity: An activity is a measurable amount of work performed to convert inputs into outputs ([www. businessdirectory.com/activity/definition.html](http://www.businessdirectory.com/activity/definition.html)).

Audit: An audit is an independent, objective assurance activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to assess and improve the effectiveness of risk management, control and governance processes ([www. businessdirectory.com/audit/definition.html](http://www.businessdirectory.com/audit/definition.html)).

Budget: A budget is a quantified, planned course of action over a definitive time period. It is an attempt to estimate inputs and the costs of inputs along with associated outputs and revenues from outputs ([www. businessdirectory.com/budget/definition.html](http://www.businessdirectory.com/budget/definition.html)).

Cash based accounting: This accounting system recognises only cash inflows and outflows. It recognises revenue when cash is received and expenses at the time of payment. Assets are fully expended at the time of payment and no distinction is made between operating and capital expenditure (Visser & Erasmus, 2002:366).

Compliance: Compliance is the ability to reasonably ensure conformity and adherence to organisation policies, plans, procedures, laws and contracts (Visser & Erasmus, 2002:366).

Control: Control is any action taken by management, the board and other parties to enhance risk management and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved (Visser & Erasmus, 2002:366).

Cost-benefit analysis: This is a way of presenting information to assist public-sector choice in selecting an appraisal of projects (Abedian, Strachan & Ajam, 1998:194).

Department: A department is a national or provincial government department, or a constitutional institution (Public Finance Management Act, 1/1999).

Division of revenue: This means the allocation of funds between the spheres of government, as required by the Constitution (1996) (Visser & Erasmus, 2002:366).

Economy: Economy indicates the achievement of the lowest cost for a given quality and quantity of inputs (Allen & Tommasi, 2001:450).

Efficiency: Efficiency is the extent to which inputs are used optimally to produce outputs (Allen & Tommasi, 2001:450).

Effectiveness: Effectiveness is the achievement of the maximum outcome by the selection of the optimal mix of outputs (Allen & Tommasi, 2001:450).

Evaluation: Evaluation is an in-depth examination of economic, financial and social effects of a programme or policy initiatives (Allen & Tommasi, 2001:448).

Executive authority: Executive authority is, in relation to a national department, the Cabinet member who is accountable to Parliament for that department, in relation to a provincial department, the MEC who is accountable to the provincial legislature for that department (Public Finance Management Act, 1/1999).

Financial management: This means the legal and administrative system and procedures put in place to permit government ministries and agencies to conduct their activities so as to ensure correct usage of public funds meeting defined standards of probity, regularity, efficiency and effectiveness. Financial management includes the revenue, the management and control of public expenditure, financial

reporting, reporting, cash management and asset management (Allen & Tommasi, 2001:450).

Fiscal accountability: This means that the government should account, through its elected representatives, for its intentions, objectives and strategies, the cost of its strategies and actual results (Abedian *et al.*, 1998:194).

Fiscal Transparency: This is a policy of providing information to the public about the functions and organisation of the government, its economic and fiscal goals and objectives, its financial forecast and public sector accounts (Allen & Tommasi, 2001:454).

Fruitless and wasteful expenditure: This is expenditure which was made in vain and would have been avoided had reasonable care been exercised (Public Finance Management Act (1/1999)).

Governance process: This means the procedures used by the representatives of the organisation's stakeholders to provide oversight of risk and control processes administered by management (World Bank, 1998).

Government finance statistics (GFS): This means a system designed by the International Monetary Fund (IMF) for the analysis of fiscal policy. It specifies accounting rules, balance sheet formats, definitions and classifications of revenue and expenditure (Institute for democracy in Africa, 2009).

Institution: Institution is sometimes used synonymously with the term *organisation* or *body*, for example, ministry or government office. However, the term is increasingly used in a different sense to describe the formal and informal rules that declare behaviour and the enforcement of the rules (Allen & Tommasi, 2001:459).

Irregular expenditure: This is any expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation (Public Finance Management Act 1/1999).

Logistical information system: This is a provisioning, procurement and stocktaking system, which is highly adaptable to the requirements of a department (Visser & Erasmus, 2002:369).

Medium-Term Expenditure Framework (MTEF): This framework consist of forward medium-term (typically three to five years) estimates of the costs (integrating recurrent and capital spending) of existing policies and proposed policy changes subjected to explicit aggregate fiscal ceilings (Visser & Erasmus, 2002:369).

Operational plan: This is drawn from the strategic plan. It describes and quantifies in sufficient detail outputs and associated required inputs. It provides a description of the operational processes, skills and technology, as well as human, capital and other resources required to deliver the agreed outputs. It also establishes performance measures and indicators by which achievement of the outputs and outcomes can be measured (Visser & Erasmus, 2002:370).

Performance: Performance is the extent of achievement of economy, efficiency and effectiveness in the delivery of outputs/outcomes (Visser & Erasmus, 2002:370).

Performance audit: This is an audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities (International Organisation of Supreme Audit Institutions, 2007:73).

Performance indicator: This is a measure used when outputs or performance is not directly measurable. Indicators do not necessarily reflect the complete picture, but provide relevant information for the assessment of performance (Visser & Erasmus, 2002:370).

Performance measurement framework (PEFA): The performance measurement framework or PEFA framework was developed against the background of the need to: i) reduce the heavy transaction costs on recipient governments; ii) reduce the overlap of the many diagnostic instruments; iii) improve and enhance co-ordination among donors and iv) improve the impact of reform initiatives. The PEFA framework provides a “*snapshot*” of a country’s PFM performance system. It covers the entire financial management cycle and embraces international standards and codes in its structure. The framework is based on a set of 28 evidence-based indicators in terms of the government and three indicators in relation to donor practices (World Bank, 1998).

Programme: A programme is viewed as any suitable and meaningfully integrated group of activities and projects, under a single manager, which consumes resources to contribute to a specified policy objective. The operational objectives of each programme and activity can then be identified (Visser & Erasmus, 2002:370).

Public accountability: This means the obligations of persons or entities, including public enterprise and corporations, entrusted with public resources to be answerable for fiscal, managerial and programme responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities on them (International Organisation of Supreme Audit institutions, 2007:73).

Public finance: Public finance (government finance) is the field of economics that deals with budgeting the revenues and expenditures of a public-sector entity, usually government. Governments, like any other legal entity, can take out loans, issue bonds and invest. Based on the taxing authority of the entity, they issue bonds such as tax increment bonds or revenue bonds. A bond issued by a public-sector entity may give tax advantages to its owners (Allen & Tommasi, 2001:450).

Public financial management: In the public sector, financial management focuses on transparency, prioritisation of scarce resources and value for money i.e. providing the best possible services with the available resources (Allen & Tommasi, 2001:453).

Public sector: This means all institutions owned or controlled by the Government. These include national, provincial and local government, extra-budgetary governmental institutions and non-financial public enterprises, e.g. Telkom, Denel (Hickey & Van Zyl, 2002:127).

Results-oriented (or performance or output) budgeting: This is the planning of public expenditures for the purpose of achieving explicit and defined results. These results may be inspirational policy objectives (outcomes), or the outputs of routine public service activities intended to contribute to policy goals, or 'intermediate outcomes', which represent a major stepping stone in the service delivery towards these goals ((World Bank, 1998).

Strategic management: This is a systematic process or analysis through which a department aligns itself to its operating environment and makes deliberate decisions

about the most appropriate alternatives to achieve predetermined outcomes (Visser & Erasmus, 2002:371).

Strategic plan: This is a plan formulated from the department's mission statement and which deals with the main outcomes that the department will focus on. It includes high-level output objectives, performance measures and indicators (Visser & Erasmus, 2002:371).

Transparency: This is the extent to which openness in governance prevails and the extent to which full information on service cost, delivery and performance is made available to the public (Abedian, *et al.*, 1998:2).

Unauthorised expenditure: This is money that was spent for purposes other than for which it was allocated or expenditure in excess of what was allocated (Hickey & Van Zyl, 2002:142).

Vote: Vote is one of the main segments into which an appropriation Act is divided and which specifies the total amount that is to be appropriated, usually per department, in an appropriation Act and is separately approved by Parliament or a provincial legislature before it approves the relevant draft appropriation Act (Public Finance Management Act, 1/1999).

1.9 STRUCTURE OF RESEARCH

The structure of the study maps the flow of each chapter and presents a short summation of the essence of each chapter. The study is divided into seven chapters and is structured as follows:

Chapter 1 outlines the research design and methodology that were used to conduct the research and provides the objectives of the study and the research problem. The introductory overview highlights the relationship between service delivery and social problems such as poverty and poor health, which seriously affects the majority of citizens in South Africa and deprives them the right to quality of life. The frame of reference puts the emphasis on the relationship between service delivery and public financial performance management with specific reference to concepts related to performance and accountability. A discussion of benefits, assumptions and limitations clarifies future prospects and directions of thought and influential factors

for the study. The secondary approach to data collection is explained and specific key concepts and terms that are prominent in the study are clarified.

Chapter 2 provides the theoretical framework for the contextualisation of Public Administration with specific reference to the historic events and Public Administration theories and the impact thereof on management and foundations for public financial management. An analysis of theoretical constructs in Public Administration will create a deeper understanding of administrative theory and also emphasise the significance of different schools of administrative theories and significance to modern-day public administrative application and management. The generic functions of public administration highlight the relationship between politics and administration with specific reference to policy-making. The functions of financing, human resources, organisation, methods and procedures, control and management are analysed as a possible platform for resource mobilisation and financial performance management towards effective service delivery. Future trends in Public Administration are analysed and key concepts such as public management, stewardship and good governance are explained.

The role and functions of government are the main focus of analysis in chapter 3 and the role of government as facilitator for administration in the public sector is highlighted. This analysis focuses on the economic problem of scarcity and the relationship with the basic functions of an economic system. The roots of modern economic management and the ideological basis of the state provide understanding of the nature and functions of the public service environment and also of the classification of services. This analysis finally provides the opportunity to investigate future prospects and the new role of the state, which is related to financial performance management.

Public administration and government interaction for financial performance take place in an open-systems environment and therefore a holistic analysis of the environment in which public administration functions will be conducted in Chapter 4. Based on the open-systems approach, the international environment, hosting multinational organisations, the African regional environment, hosting regional organisations, and the South African internal environment are analysed with the emphasis on influence and performance relations.

Based on financing as a generic function of public administration and the interaction with the other generic functions, government and public financial performance management are analysed. The focus of analysis in Chapter 5 is on international reform initiatives and possible best practices in government finances and financial performance management. This allows the opportunity for future alignment in order to provide world-class public services in the South African context. Theoretical models and different approaches to public financial performance management are analysed with the aim of finding cross-cutting issues, evidence of practical applications and also for capacity development.

In-house public financial management and financial performance management are the main focus of Chapter 6. This analysis at first deals with financial management and the relevant political executive scenario and the related financial management approach. This approach is aligned with the role of public administrators as public managers and the related management functions. The emphasis of analysis is on accountability, the various key role players in financial management, management reforms and capacity, assessments and financial performance management.

As the concluding chapter, Chapter 7 integrates all available evidence in order to construct a conceptual model for public financial performance management. This model provides the opportunity to ensure that the right people are at the right place, at the right time, with the right resources, ready and prepared to deliver world-class services in the most economic, efficient and effective way for a quality of life experience for all people.

1.10 CONCLUSION

The Government of South Africa is confronted by problems such as poverty and is compelled to find answers and solutions to overcome and eradicate the unnatural, man-made problem of poverty and related societal problems. Poor governance and inaction by human beings are a major obstacle and create situations where outputs are not commensurate with government expenditure. Management inefficiency and the absence of accountability structures create opportunities for corruption and poor performance of officials to not manage resources in the most economic, efficient and effective manner.

New strategies are necessary to turn around the inability to deliver world-class quality services. New turnaround strategies should focus on renewal of administrative systems and practices, public financial performance management and customer care initiatives. This situation requires thorough research and analysis for performance improvement.

The theoretical framework provides the positioning of the research in the discipline of Public Administration in general and public financial management and financial performance management in particular. Attention was given to the research methodology and design, outlining benefits, assumptions and limitations. The foundation and need for the study were emphasised by focusing on the need to develop a public financial performance management model. Key terms and concepts in public administration, public financial management and financial performance management were defined. Finally, a description of the study and research structure was presented.

The next chapter is devoted to the contextualisation of Public Administration, as a discipline and public administration as an activity. The chapter explores the historical perspectives on public administration, and also considers the development of administrative theories and administrative functions and the impact thereof on the management environment and foundations for public financial management. The chapter concludes with an analysis of the latest trends in Public Administration in relation to public financial performance management.

CHAPTER 2: CONTEXTUALISATION OF PUBLIC ADMINISTRATION

2.1 INTRODUCTION

Public administration as an activity is as old as the human civilisation, and like the sciences, it could be seen as a process and not a product. Public administration is a vehicle for expressing the values and preferences of citizens, communities, and society as a whole. Governments as the primary instruments of democracy in society exercise the power of the state on behalf of the people of the society in that territory which constitutes the state. Government makes policies to respond to the needs of the communities which it must serve, and then organises and enables its administration to give practical effect to those policies. This implies that well-organised and enabled administrations will successfully engage in thought processes and actions to deliver services that satisfy the needs of society. Public administration has evolved over time with an ever-increasing need for a value-orientated public service approach based on public administrative practices to provide efficient and effective services to meet the changing needs of society. Administration is not an aim in itself, but is still a means to an end and the relationship between administration, the government and the environment in order to meet the needs of society is obvious.

The next three chapters will analyse each of these concepts in relation to the central theme of public financial performance management. This chapter is a contextualisation of public administration and in order to attain a degree of validity in this study, the scientific foundations of Public Administration will have to be examined. As a point of departure, this chapter will provide a perspective on the historical events in public administration and the development of administrative theories and the schools of administrative thought in the discipline of Public Administration. The dynamic nature of public administration from the classic to the post-modern era with the emphasis on future trends and the concepts of public management and good governance will be highlighted. The need for more efficient and effective service delivery and an increased demand for public financial performance management in terms of the role and functions of public administration will be examined. The need for public financial performance management in the unique and dynamic environment of public administration will be analysed.

2.2 HISTORIC PERSPECTIVES IN THE DEVELOPMENT OF PUBLIC ADMINISTRATION

Public administration in general could be regarded as an extension of governance. Administrators have been necessary as long as kings and emperors required pages, treasurers, and architects to carry out the business of government. Evidence of basic administrative functions could be traced back to the early inhabitants of ancient Mesopotamia in the development of irrigation systems as a measure to survive (Mumford, 1961:10). During the pre-Greek and pre-Western times, government and administration were in a simplistic way situated with the monarch, who had no intention to devolve power. The administrative process probably settled during the classical times of the Greeks in 510–338 B.C. when the democratic city-state came into existence which was characterised by the devolution of sovereignty (Hammond, 1972:174).

During the Dark Ages of 500–1000 A.D., nearly all forms of government disappeared until the reawakening of Europe by 1100 with the establishment of new governments and different forms of government with evidence of some administrative functions, with specific reference to financing (Collingwood, 1949:435). In England, for example, the absolute autocratic monarchy as a form of government came to an end with the establishment of horizontal and vertical authorities responsible for administrative processes and administrative control vested within different government institutions (Platt, 1976:136).

The history of public administration as an activity and Public Administration as a discipline is characterised by different stages of development in relation to world events and environmental influences. Attention will be devoted to the pre-generation era, the first- and second-generation eras, the development from after World War 2 until the 1970s and finally, developments related to new public administration and new public management.

2.2.1 The pre-generation era

The pre-generation era or the embryonic stage includes thinkers such as Plato, Aristotle and Machiavelli. Until the birth of the national state the emphasis was laid on moral and political issues and the establishment of a public administration to satisfy the needs of society. From the 16th century, the national state was the

reigning model of administrative organisation in western Europe. There was a clear need for an organisation for the implementation of law and order and for setting up a structure to protect the integrity of the state. Also evident was the need for expert civil servants, knowledgeable in taxation, statistics and administration. Public administration was now viewed as a science and with the needs of society satisfied through a rational conversion of inputs to outputs (Bagby & Franke, 2001:623).

2.2.2 The Cameralists and the first-generation era

During the 18th century, the growing need for administrative expertise led to the establishment of professional institutes. King Frederick William 1 of Prussia appointed skilled and knowledgeable academics/professorates in Cameralism as an economic and social school of thought, created to reform society. Cameralism, characterised by sophistication, and the concept of natural law were closely related to the modern science of Public Administration (Langrod, 1961:75).

The first-generation era highlights the work of Lorenz von Stein, an 1855 German professor, as one of the founders of the science of Public Administration. During the time of Von Stein, Public Administration was considered to be part of administrative law, but this according to Von Stein's opinion, was too restrictive. Von Stein considered the science of Public Administration as an integrating science, including several disciplines such as Sociology, Political Science, Administrative Law and Public Finance. Von Stein believed that the science of Public Administration should adopt a scientific method and an interaction between theory and practice (Cahnman, 1966:746).

In the United States of America, Woodrow Wilson in 1887 "prepared the way" for the study of Public Administration as an academic discipline with his article *The study of Administration*. Although Wilson made some controversial statements, his argument that "*it is getting harder to run a constitution than to frame one*" is evident of his valuable contributions in Public Administration (Gildenhuys, 1988:69). With this argument, Wilson refers to the complexity of the executive activities of a government and the implications for a public official without formal training equipped with only a lay knowledge of governmental activities to cope successfully with his/her executive functions (Woll, 1966:18 - 34). Wilson favours the separation of politics and public administration and he argues that the object of administrative study is firstly, to

determine what government can properly do, and secondly, how best to do these things efficiently and effectively.

2.2.3 The second-generation era

Wilson's main theme is still influential and indispensable when studying the development of public administration. The separation of politics and administration advocated by Wilson continues to play a significant role in public administration today. However, the dominance of this dichotomy was challenged by second-generation scholars, beginning in the 1940s. Luther Gulick's fact-value dichotomy was a key contender for Wilson's allegedly impractical politics-administration dichotomy. In place of Wilson's first-generation split, Gulick advocated a "seamless web of discretion and interaction" (Fry, 1989:80).

Luther Gulick and Lyndall Urwick were major contributors to the demarcation of the area of study of the science of Administration in its later development stages. They integrated the work of contemporary behavioural, administrative and organisational scholars including Henri Fayol, Fredrick Winslow Taylor, Paul Appleby, Frank Goodnow and William Willoughby into a comprehensive theory of Administration. Fayol, in his *Industrial and general administration*, developed 14 principles of management. Fredrick Winslow Taylor (1856 – 1915), a contemporary of Wilson, is considered the father of scientific management. He conducted experiments on factory workers on the development of time and motion. Taylor's ideas of finding the one best way of executing a task to enhance production methods were the foundation of the classical organisational theory. Frank Goodnow (1895–1939) argued that politics is the expression of the will of the government and administration is the implementation of that will. William Willoughby is well known for his reasoning that public administration had common features that were applicable to all branches of government, as well as for his work on budgetary reform (Shafritz & Hyde, 1997:2-4).

At a time when the prevalent theme was the separation of politics and administration, Gulick and Urwick believed a single science of administration, which exceeds the borders between the private and public sector, could exist. Gulick developed a comprehensive, generic theory of organisation, which emphasised the scientific method, efficiency, professionalism, structural reform and executive control. In 1937, Gulick summarised the duties of administrators with an acronym: POSDCORB, an

acronym widely used in the field of Management and Public Administration, which reflects the classic view of administrative management. The acronym stands for steps in the administrative process: planning, organising, staffing, directing, coordinating, reporting, and budgeting (Botes, Brynard, Fourie & Roux, 1997:284).

Second-generation theorists drew upon private management practices for administrative sciences. A single, generic management theory bleeding the borders between the private and the public sector was thought to be possible. With the general theory, the administrative theory could be focused on governmental organisations. The second-generation era lasted up to 1945 and was characterised by a continued discussion about the separation of politics and public administration (Thornhill, 2007:3).

2.2.4 After World War 2 to the 1970s

After 1945, third-generation theorists challenged the ideas of Wilson and Gulick and the politics-administration dichotomy remained the centre of criticism. In addition to this area of criticism, political events such as the sometimes deceptive and expensive American intervention in Vietnam and domestic scandals such as Watergate, characterised by ineffective, inefficient and largely wasted efforts, caused a situation where Public Administration as a science had to detach itself from politics. There was a call by citizens for efficient administration to replace ineffective, wasteful bureaucracy. Public administration would have to distance itself from politics to answer this call and remain effective. Public Administration was now allowed to establish itself as an independent body and as an eclectic science developed its own theoretical framework and refined theories from related disciplines to establish an own body of knowledge (Waldo, 1955:1).

2.2.5 New public administration and new public management

During the late 1960s and early 1970s, the new public administration surfaced as a reaction to various factors such as the turmoil in the discipline in terms of its intellectual basis, and a change of emphasis in the social science disciplines (Frederickson, 1980:13). Issues such as social equity, inequality and participation have irrevocably changed the study of public administration. The client-centred approach and service delivery have become the focus of public administration. The models of reform in the new public administration, reinventing government,

business process re-engineering and the new public management of the Organisation for Economic Co-operation and Development (OECD) have all shaped the discipline and provided a framework for analysis of ideas and lessons learnt (Hood, 1995:104-117).

Since the 1980s, neo-liberalism has emerged where the impact of globalisation, the role of markets, privatisation, corporatisation and outsourcing of services have become the new terminology of the new *public management* (NPM) approach. The focus shifted to the balancing of economic policy with social and environmental policies, client-centred service delivery and the participation of the community in government decision-making. Physical evidence of this new approach was Britain's macroeconomic policy of reducing public expenditure through a series of public-sector reforms after 1979. In the United States, the movement began with President Reagan's call for a small-sized public-sector. New public management received greater attention with the entrepreneurial management model outlined in Osborne and Gaebler's popular book *Reinventing government* (1992) and later in the Gore's National Performance Review set out in 1993 to make federal organisations more performance-based and customer-orientated (Moe, 1994:111). Many countries around the world (notably the OECD countries) have tried to implement the reinventing ideas and some influential international organisations, such as the World Bank, promoted new public management (OECD, 1991).

NPM is a combination of ideas derived from economics (public choice theory) and is a new approach to public management, which advocates the reconfiguration of existing boundaries and responsibilities of the state through a number of initiatives. These include the restructuring of public services, the application of various business management techniques to improve efficiency, the utilisation of non-state actors to discharge public services (privatisation) along with the introduction of market-based mechanisms (Auriacombe, 1999:125-128). As such, the direct involvement of the state in the delivery and production of public goods and services is thereby abandoned or at least reduced to give primacy to market mechanisms. The post-bureaucratic reform thesis holds that public administration must become anticipatory, flexible, results-orientated, customer-driven, values-based and entrepreneurial (Kuye, Thornhill, Fourie, Brynard, Crous, Mafunisa, Roux, Van Dijk & Van Rooyen, 2002:20).

Kernaghan, Marson, & Borins (2005:10) offer a relevant perspective of the bureaucratic and post-bureaucratic organisation as possible models “towards the new public organisation”. The emphasis is on the traditional bureaucratic organisation shifting to a post-bureaucratic organisation due to an environment that is rapidly and dramatically changing. The two models are depicted in Table 2.1.

Table 2.1: From the bureaucratic to the post-bureaucratic organisation

Characteristics of the bureaucratic organisation	Characteristics of the post-bureaucratic organisation
Policy and management culture	
<u>Organisation-centred</u> Emphasis on needs of organisation itself	<u>Citizen-centred</u> Quality service to citizens (and clients/stakeholders) – Financial performance
<u>Position power</u> Control, command and compliance	<u>Participative leadership</u> Shared values and participative decision-making for financial performance
<u>Rule-centred</u> Rules, procedures and constraints	<u>People-centred</u> An empowering and caring milieu for employees for financial performance
<u>Independent action</u> Limited consultation, co-operation and co-ordination	<u>Collective action</u> Consultation, co-operation and co-ordination for financial performance
<u>Status quo-orientated</u> Avoiding risks and mistakes	<u>Change-orientated</u> Innovation, risk-taking and continued empowerment for financial performance
<u>Process-orientated</u> Accountability for process	<u>Results-orientated</u> Accountability for results and financial performance
Structure	
<u>Centralised</u> Hierarchy and central controls	<u>Decentralised</u> Decentralisation of authority and control for financial performance
<u>Departmental form</u> Most programmes delivered by operating departments	<u>Non-departmental form</u> Programmes delivered by wide variety of mechanisms for financial performance

Source: Adapted from Kernaghan *et al.* 2005. The new public organisation. Toronto: The Institute of Public Administration of Canada. page 2.

Kernaghan *et al.* (2005:2) propose the movement from a traditional bureaucratic model towards the post-bureaucratic model of public organisation. Movement is based on the premise that reforms are implemented to improve financial performance management and the organisation needs to adjust to changing circumstances. Due to different situations and the unique nature of organisations, Kernaghan *et al.* (2005:2) suggest a selective approach in the adoption of the characteristics of the post-bureaucratic model.

As a result, from the 1980s onwards, many countries (developed and developing) have started reviewing the roles and responsibilities of government institutions. Many government functions have been privatised and those remaining within government have been subject to business-type approaches, such as competitive tendering, performance measurements and public-private partnerships in the production and delivery of goods and services.

2.3 THEORETICAL CONSTRUCTS IN PUBLIC ADMINISTRATION

The question whether Public Administration is a science or not will not be analysed in this study. The emphasis is on developing an understanding of administrative theory and the schools of administrative theories that developed in the study of public administration through time.

Since public administration was first practised and acknowledged as a discipline, there have been many debates on whether Public Administration is an academic science, as it did not have its own corpus of theories (Botes, Brynard, Fourie & Roux, 1998:272). Henry Fayol (in Gulick & Urwick, 1937:101) contends that there is one administrative science that can be applied to private and public affairs alike and that the principle elements can be summarised in the administrative theory. Caiden (1982:205) argues that there are many theories in public administration, but there are few general theories of public administration. Therefore, a common theoretical or applied meaning of public administration is problematic. Raadschelders (1999:282) argues that "public administration suffers from so many crises of identity that normal adolescence seems idyllic". Raadschelders maintains that public administration in general and specifically as a discipline is in a crisis regarding its academic construct and its significance in society. In order to obtain more clarity on this matter, *public administration* will be defined and various approaches and schools of administrative theory in Public Administration will be analysed.

2.3.1 Defining Public Administration

One of the earliest definitions of Public Administration is by Woodrow Wilson (in Gildenhuis, 1988:12), who wrote the following "*The field of administration is a field of business... The object of administrative studies is to rescue executive methods from the confusion and costliness of empirical experiment and set them upon foundations laid deep in stable principle... Public administration is the detailed and systematic execution of public law. Every particular application of general law is an act of administration.*" Goodnow (in Shafritz & Hyde, 1997:2) argues that *Politics* is the expression of the will of the government and *Administration* is the implementation of that will. Gladden (1966:12) describes *Administration* as a process with three stages, namely the stage of decision, the stage of administration and the stage of fulfilment. Pauw (1995:28) defines *Public Administration* as the organised non-political executive state function, while Gildenhuis (1988:14) describes *Public Administration* as the detailed and systematic execution of public law.

Every particular application of general law is an act of administration. *Public administration* has also been defined in terms of its generic functions of public administration, as described by Cloete (1967:58), namely policy-making, organising, financing, staffing, determining work methods and procedures, and controlling. These generic functions will be discussed in more detail as part of the generic functions of public administration. In the South African context, the Constitution of South Africa (1996, Section 197) states that within public administration there is a public service for the Republic, which must function, and be structured, in terms of national legislation, and which must loyally execute the lawful policies of the government of the day. The process of public administration can be described as a number of related activities that need to be performed in public institutions. The tenets of public administration include accountability to the voters, the body politic playing a role, the importance of community values and service delivery. Finally, *Public Administration* can be defined as the management of scarce resources to accomplish the goals set by public policy.

2.3.2 Approaches and schools of administrative theory in Public Administration

Public Administration has been influenced by many disciplines, such as Political Science, Law, Sociology, Psychology, History and Business Management. The main approach of Public Administration is normativism, empiricism, behaviourism and behaviouralism (Botes *et al.*, 1998:279). Normativism describes the ideal, what should be or be striven to and empiricism is the view that all knowledge is based on or derived from experience (Mautner, 2000:166). Behaviourism is a method of psychological investigation, which studies what an organism says and does in order to establish correlation between stimuli and reactions (Mautner, 2000:64). Behaviouralism determines the influence of the system on the overall behaviour of individuals within a given group context (Botes *et al.*, 1998:280). These approaches in Public Administration can be found in the different schools of administrative theory. Gladden (1966:20) states that there are many writings on public administration, but not one accepted approach and White (in Storing 1965:50) argues that "*there are many ways to study the phenomenon of public administration. All these approaches are relevant and from all of them come wisdom and understanding*".

According to Rosenbloom & Kravchuk (2002:5), there are three main theoretical approaches, namely the managerial, the political and the legal, which have influenced the understanding and practice of public administration. Following is an analysis of these different approaches.

2.3.2.1 The managerial approach

The argument for a self-conscious, professional field of study of public administration started from a managerial vantage point. It is widely acknowledged by public administration scholars that Woodrow Wilson (1887) set the tone for the study of public administration in his essay *The study of administration* and that all related arguments became known as the '*politics-administration dichotomy*' (Caiden, 1982:33). Significant to the managerial approach is that government's core focus should be on what government can successfully do and how it can succeed with maximum efficiency (Rosenbloom & Kravchuk (2002:5). Thus, according to the managerial approach, public administration should strive towards maximising economy, efficiency and effectiveness using practices similar to those prevalent in the private sector.

The politics-administration dichotomy resulted in the study of public administration being concerned with organisational and control issues to ensure both accountability and efficiency of the administrative apparatus. Classical administrative theories, such as the scientific management movement of Frederick W. Taylor (1856-1915), the administrative principles of Henry Fayol (1841-1925) and the bureaucratic model of Max Weber (1864-1920) influenced managerial public administration (Shafritz & Hyde, 1997:40).

The scientific management movement of Taylor prescribed a set of principles to be followed for an organisation to be effective and efficient. These are: (i) systematic scientific methods of measuring and managing individual work elements; (ii) scientific selection of personnel; (iii) financial incentives to obtain high performance of workers; and (iv) specialisation of function, namely establishing logical divisions within work roles and responsibilities between workers and management (Shafritz & Hyde, 1997:3).

In parallel with the work of Taylor, Fayol's (1841-1925) 14 principles of administration are considered to be essential to improve the efficiency and effectiveness of organisations. The 14 principles of administration developed by Fayol are division of labour, authority, discipline, unity of command, unity of direction, subordination of particular to general interests, remuneration, centralisation, hierarchy, order, equity, stability of personnel, initiative and unity of personnel or *esprit de corps* (Botes *et al.*, 1998:21). Following this are the reformulated and simplified administrative duties or functions of management (POSDCORB) of Gulick and Urwick (Botes *et al.*, 1997:284).

A description of classical administrative theories would be incomplete if the bureaucratic model of Max Weber (1864-1920) is not mentioned. Like his contemporary, Weber's work emphasised formal organisational structures as a requisite for effective and efficient organisations. Weber described an ideal type of bureaucracy as characterised by a high degree of specialisation, impersonal relations, the merit system of appointment and hierarchical authority structure (Botes *et al.*, 1998:23). Although the model had a profound impact on the science and practice of public administration, it ignored the importance of individuals and their environment to the overall performance of the organisation.

It is the human relations and behavioural scientists, such as Mayo, Maslow, Barnard, Hommans and Likert who showed (through experiments) that the social contexts of employees, including motivation, leadership, status, communication, conflict and social interaction were important management factors (Botes *et al.*, 1998:25-32). Human relations theory brought to the fore the role and influence of informal relations on the productivity and development of an organisation. The managerial approach prevailed until World War II. After this war, however, managerial administration was challenged; this brought into existence the political approach.

2.3.2.2 The political approach

After World War 2, changes in the socio-economic, technological and political environments led to changes in the practice of public administration. It was evident that public administration was as much involved in the formulation as in the implementation of policies. Therefore, the politics-administration dichotomy, which had prevailed, was questioned. The main argument was that the study of public administration should be concerned with the process of social change; and the means for making such changes best serve the ends of a more truly democratic society (Caiden, 1982:41).

The political approach to public administration stressed the value of representativeness, political and administrative responsiveness, and accountability to the citizenry through elected officials. These values, which promote transparency and participation in administrative decision-making, were seen as crucial for the maintenance of constitutional democracy. Thus, it was argued that incorporating them into all aspects of government, including public management, was a necessity. Accordingly, public administration as a policy-making centre of government must be structured in a way that provides political representation to a comprehensive variety of the organised political, economic and social interests that are found in society at large (Rosenbloom & Kravchuk, 2002:18). Another approach that has influenced the study and practice of public administration is the legal approach. Its values and principles are discussed below.

2.3.2.3 The legal approach

The legal approach is said to have originated in Europe, especially in the strong statist France and Germany. Chevallier (1996) argues that the development of the

French liberal state in the 19th century led to the predominance of law and lawyers emphasising the guarantee of citizens' rights and limits on state power. The promotion of the legally legitimate state meant that the administrative law was considered as the exclusive tool to understand administrative realities. In line with this approach, public administration plays the role of a driving force in social life and aims at constantly improving the appropriateness of its management policies and the quality of the results-conformity with the law (Chevalier, 1996:32).

According to Rosenbloom & Kravchuk (2002:35), the legal approach embodies three central values. The first is procedural due process, a term which stands for the value of fundamental fairness, requiring procedures designed to protect individuals from malicious, arbitrary, capricious, or unconstitutional harm at the hands of the government. The second value concerns individual substantive rights as embodied in the constitutions of many contemporary states. Thus, the maximisation of individual rights and liberties is viewed as a necessity within the political system in general and in public administration in particular. The third value is equity, which stands for the value of fairness in the relationship between private parties and government. It encompasses much of the constitutional requirement of equal protection.

2.3.2.4 Implications for Public Administration

The managerial, political and legal approaches in Public Administration are relevant to the management of scarce resources to accomplish the goals set by public policy. These approaches have influenced the understanding and practice of public administration. The management of resources to obtain maximum efficiency is related to the concepts of value for money and return on investment and therefore, public administration principles and practices should strive towards maximising economy, efficiency, and effectiveness using responsive practices similar to those prevalent in the private sector. Public administration principles should be based on systematic and scientific methods of financial performance management, capacitated, empowered and motivated personnel and scientific structural arrangements for logical divisions within work roles and the management of responsibilities. This approach emphasises values such as representativeness, political and administrative responsiveness, and accountability (Bourgon, 2007:19).

Public administration aims to satisfy the needs of society by taking into consideration the requirements for fairness, people's democratic rights, equity, the need for transparency and participation. Aligned with all these implications and in order to manage scarce and limited resources in the most economic, efficient and effective way to accomplish the goals set by public policy, any public organisation needs to determine the functions necessary for successful delivery of goods and services aligned with the needs of society.

2.4 THE GENERIC FUNCTIONS OF PUBLIC ADMINISTRATION

As early as the beginning of the 20th century, Henri Fayol defined the field of management to have five functions, namely planning, organising, commanding, co-ordinating and controlling (Piano, 2005:65). Cloete (1967:58) provides the functions of public administration in terms of the generic functions, namely, policy-making, organising, financing, staffing, determining work methods and procedures and controlling. In the South African context, this classification is being regarded as a rational analytical model, which distinguishes the relationship between the functions (Hanekom, Rowland & Bain, 1992:21).

Cloete (1967:58) describes the function of *organising* as the establishing of task lists for sections and individuals within a department, and also to develop communications systems. The work of the public administration practitioner is being done within the framework of certain work procedures and methods, and controlling in the format of monitoring and evaluation needs to be done. The function through which public funds are obtained, spent and controlled is called financing. Government receives its funds through the collection of taxes, the charging of levies, tariffs and fees, as well as interest gained from loans. As the custodian of the money of the people of a country, the government is responsible for the appropriation of funds to ensure effective service delivery for all. The functions of public administration are interrelated and interdependent and one function cannot be effective without the others. A seventh function, management of administration, was added to the generic functions. Management as a leadership phenomenon should be present in the execution of all six generic administrative functions, which are described as follows.

2.4.1 Policy-making

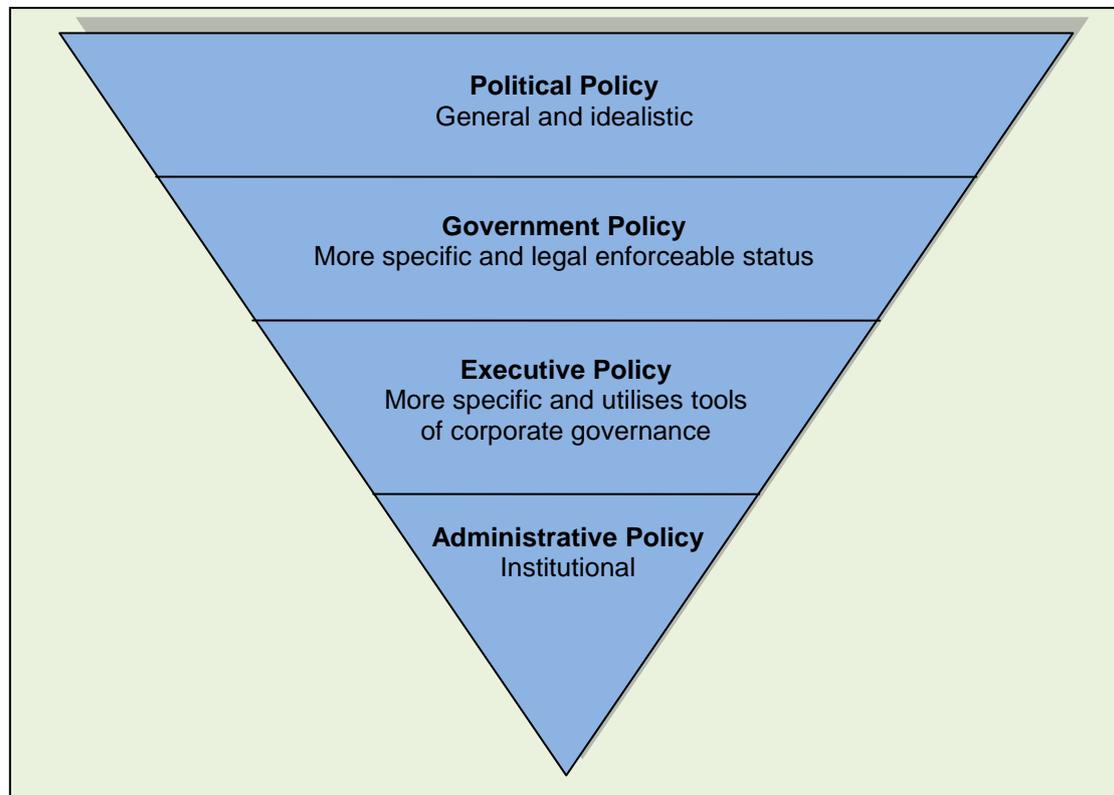
Public policy is the authoritative allocation of values through the political system to individuals in society and it is a purposive course of action to be followed by an actor or set of actors in dealing with a problem or matter of concern. Public policy is thus a response to opportunities or situations that need to be attended through well-conceived and clear goals followed by government action. Public policy consists of details as to what should be done, by whom, when, how and with what resources (Friedrich, 1963:79).

According to Minnaar (2010:19), there are two important elements in public policy. The policy-making process is goal-driven and therefore the ultimate aim is to deliver some measurable value, and secondly, the process takes place within a specific environmental context or situation characterised by change, which influences the scope and nature of goals that must be pursued. The public nature of goals means that the needs and demands of people and their collective interaction in a specific political system are incorporated into the final expression of these goals. Approved expression by means of political sanction implies that the wishes of the citizens are enforceable by political representatives on behalf of the people.

The public policy-making process starts with the political policy-making process followed by the government policy-making process, which is followed by the executive policy-making process, and finally, the administrative policy-making process. This whole process of policy-making is illustrated in Figure 2.1. During the political policy-making process, various political parties and community-based organisations translate the needs of the people into government policy. The result is that defined political goals are incorporated into a national policy agenda. The government policy-making process takes place when duly authorised representatives from various political parties approve policy proposals, which are enforceable in nature. The executive or functional policy-making process takes place when political executives are made responsible for the translation of government policy into applicable functional areas in government. This process takes place in collaboration with senior public managers in various government departments and agencies. The administrative policy-making process is to formulate operational guidelines and frameworks for administrative regulation. The goals of these policies relate to issues such as the creation of structures and staff establishments, the

allocation of resources, work methods and procedural arrangements for organisational effectiveness (Minnaar, 2010:19-20)

Figure 2.1: The public policy-making process



Source: Minnaar, F. 2010. *Strategic and performance management in the public sector*. Pretoria: Van Schaik, page 19.

Policy-making incorporates many actions that can ultimately lead to public policy. No administrative action can take place if explicit goals and objectives have not been put in place (Kuye *et al.*, 2002:71). These goals and objectives should be based on the concrete needs of society. During the process of objective identification, the 'what', 'how' and 'by what means' will be considered to determine the best way to proceed. The legislative body fulfils an important role at this stage of policy-making by deciding on public policy and the tasking of public institutions to implement the legislator's policy decisions. The legislative body also stipulates the degree to which the public institutions will be involved in matters concerned. Policy becomes important for the public administration practitioner after the legislation has been passed (Hanekom & Thornhill, 1993:63).

2.4.2 Financing

According to Musgrave (1959:4), sound, transparent and accountable management of public finances is at the core of organisational performance. Financial performance management as a prerequisite for organisational performance determines to a large extent the government's capacity to implement policy and manage public resources through its own institutions and systems. Financial performance provides the foundations upon which to build effective, capable and accountable administrations, able to fulfil their responsibilities and deliver basic services to the poor.

Financing in public administration focuses on the prioritisation and use of scarce resources, ensuring effective stewardship over public money and assets and achieving value for money in meeting the objectives of government, i.e. rendering the best possible services. This must be done transparently and in terms of all relevant legislation. The financing function within a government includes various activities: formulation of fiscal policy; budget preparation; budget execution; management of financial operations; accounting; and auditing and evaluation (Musgrave, 1959: 4).

In order for a government to render services to its citizens, it needs money to finance the government and deliver the services. The state uses public money and receives this public money from the public in the form of taxes, tariffs, levies, fees, fines and loans (Botes *et al.*, 1998:314). Public money belongs to the community of citizens in a state, called 'the people' and not to the government. People are concerned that governments do not spend their taxes appropriately and there is the quest to know how and for what purpose their taxes are spent. This prompts governments to become accountable, performance- and results-orientated (Pauw *et al.*, 2002:6).

Public finance management includes resource mobilisation, prioritisation of programmes, the budgetary process, efficient management of resources and exercising controls. Rising aspirations of people are placing more demands on financial resources. At the same time, the emphasis of the citizenry is on value for money measured in terms of economy, efficiency and effectiveness, thus making public finance management increasingly vital (Woodhouse, 1997:47).

The word *budget* comes from "budjet", a Middle English word for the king's bag containing the money necessary for public expenditure. Budgets evolved in two

directions. At first, legislatures fought to take control of the budget and make governments accountable for the use of resources. In democratic societies, for instance, approval of the budget (the “power of the purse”) is the main form of legislative control of the executive. The budget authorises the executive to spend and collect revenues. In later years, the scope of government activities expanded considerably, and the role of the government budget became more complex. Today, government expenditure is aimed at a variety of objectives, including economic development, and social goals, or redistribution objectives. Hence, governments need sound fiscal policies, i.e. policies concerning government revenues, expenditures, and borrowing to achieve macroeconomic stability and other government objectives. The budget is the most potent instrument of the government in carrying out its policies. In countries with representative governance systems, the budget is the financial mirror of society’s choices. Public money should be spent only under the law (Allen & Tommasi, 2001:450).

Accounting and reporting systems are crucial for budget management, financial accountability, and policy decision-making. Traditionally, government accounting was aimed at assuring compliance and proper use of public monies. For this purpose, the cash budget, and cash and commitment accounting provided an adequate framework. Experience of performance budgeting during the 1960s to 1970s, the need for managing business activities of the government or for preparing the national accounts, led a few countries to develop accounting systems that encompass liabilities and assets. To assure not only financial compliance but also operational efficiency and results, these accounting and financial reporting systems require spending entities to report their full financial position (including their stock of assets and liabilities), and to assess the full costs of their operation, including the use of assets. In parallel, concerns about the future impact of current policy decisions give governments an incentive to improve their accounting for liabilities (Woodhouse, 1997:47).

2.4.3 Human resources

Human resource management or personnel administration is a multifaceted function, which that includes the generic enabling functions of policy-making, financing, staffing, organisation, procedures and control, as well as social and labour issues. Just as no government department can function without money, it cannot function without people to carry out its work. Public institutions generally

have a division that deals with human resource management based on legislation of the government of the day (Van Dijk, 2003:41).

Human resources are about people and the administrative processes associated with them. It is about employee satisfaction and motivation and performance. The personnel function consists of a network of functions and functional activities, supported by analytical methods and normative guidelines in order to provide competent, motivated personnel for the public service environment (Andrews, 1987:3).

2.4.4 Organisation

Organisation and organisational theories have been prolifically researched and described in the literature, but the question arises: what is it that public administration practitioners really do when they are working? The work includes practical judgements, the everyday taken-for-granted routines and practices, the specific and implied knowledge applied to situations, the day-to-day working in the legal-moral environment of bureaucracies and the mastering of demanding human emotional interactions (Wagenaar, 2004:648). The process of organisation involves, among others, different structural arrangements, line and staff units, span of control, delegation of authority, centralisation and decentralisation and co-ordination of activities (Botes *et al.*, 1997:346). Wagenaar (2004:651) describes the key task of the administrator as follows: "*Confronted with the complexity and overwhelming detail of everyday work situations, administrators have to turn the partial descriptions of such situations, as exemplified in formal rules and procedures, into concrete practical activity with acceptable and predictable outcomes.*"

2.4.5 Methods and procedures

Methods and procedures relate to administrative practices that are designed to make it possible for administrators to carry out their daily work. These methods and procedures are not law, but they are derived from a combination of the many agreed authorisations the institution gives to the administrators to do their work. Methods and procedures are usually put in writing in the form of manuals or managerial policies and need to be revised regularly to ensure improvement and control (Botes *et al.*, 1998:332). Economy, efficiency and effectiveness are the pillars of not only financial administration, but also administrative practices as incorporated into

methods and procedures (Woodhouse, 1997:47). Over the years, a change has taken place in focus from procedural correctness to the efficiency and performance methods that are concerned with customer satisfaction rather than process rights. Many of the new public management methods and procedures have been adopted from the private sector (Woodhouse, 1997:221).

2.4.6 Control over the administration

As early as 1932, Mary Parker Follett said that "*the object of organisation is control, or we might say that organisation is control*" (Gulick & Urwick, 1937:161). She described the fundamental principles of organisation as co-ordination of all related factors in a situation, co-ordination of people concerned, co-ordination in the early stages of the situation and co-ordination as an ongoing process. According to Follett (in Gulick & Urwick, 1937:161), these principles form the foundation and process of control, but also indicate that control is a process.

The ultimate aim of control over the administration is accountability and transparency of government. Control is applicable to financing, staffing, procedures and methods and organising, as well as control itself. The control process normally starts by the setting of standards and then measuring the performance against the set standards (Botes *et al.*, 1998:364). Control is also linked to governance with specific reference to openness, participation, accountability, effectiveness and coherence (Rowe, 2008:2).

2.4.7 Management

In the past, there has been some confusion about the study of management in public administration, a field that studies government institutions which are service-oriented (Botes *et al.*, 1998:353). *Public management* refers to the study of management as a unit of administration. Administration uses policy, finance, personnel, procedures and control for goal attainment, whereas management is concerned with the mobilisation of the individual skills of good managers to make administrative tools operational by applying intellectual activities (Botes *et al.*, 1998:354).

The main functions of a manager are to plan, execute, lead and control the execution of the planned activity. Fox, Schwella & Wissink (1991:2) adopted a concrete and

operational approach in the context of public administration and ascribed a wide meaning to public administration based on an open-systems approach. They define *public administration* as “*that system of structures and processes operating within a particular society as environment with the objective of facilitating the formulation of appropriate governmental policy and the efficient execution of the formulated policy*”. Based on this definition they further explain that public administration is much wider in scope and nature than public management: “*Public management is only a part of public administration and care should be taken not to reduce public administration to public management.*” Public administration (the activity), and therefore also Public Administration (the discipline), has a broader scope and nature than public management. In this view, public management is therefore only a part of Public Administration.

Shafritz & Russell (2005:19) describe *Public Administration* as a management specialty. “*Management refers both to the people responsible for running an organisation and to the running process itself – the use of numerous resources (such as employees and machines) to accomplish an organisational goal.*”

2.5 FUTURE TRENDS IN PUBLIC ADMINISTRATION

Until the 1980s, public administration in different parts of the world was dominated and influenced by the three theoretical approaches, namely the managerial, political and legal approach. In some places, such as the United States, the focus of public administration was on developing management and professional capability, and applying organisational approaches that emphasised rationality and efficiency in management. The influence of elite bureaucrats and professionals, and the use of organisational knowledge in policy-making were high (Caiden, 1982:35). However, with the rapid developments in information and communication technologies, globalisation of world economy, and subsequent difficulties in public service delivery during the past few decades, the traditional practices of public administration proved to be rather outmoded, unresponsive and ineffective in resolving societal problems (Roosenbloom & Kravchuk, 2002:129).

The centralised system of governance has raised many questions pertaining to democratic participation, equity, efficiency and effectiveness. Government and its public institutions being the central organiser and provider of public services produced undesirable consequences, such as inefficiency, corruption, and people

dissatisfaction with service delivery. The discontent with the traditional bureaucratic administration has led to the emergence of a new concept, namely *governance*, dominating the reform debate in public administration. Debate about reform has been analysed beyond the new public managerialism, with a view of the government as one of many social actors whose influence determines the means and ends of public policies (Pollitt, 2003:38). It should also be noted that governance can actually not be separated from stewardship and in this regard, stewardship will be analysed in the next section.

2.5.1 Emerging governance concepts

The concept of *governance* is not new and it is as old as human civilisation. *Governance* means “*the process of decision-making and the process by which decisions are implemented (or not implemented)*” (UNESCAP, 2007). The term *governance* has a clear origin from the Greek verb “*kubernáo*” which means “to steer, guide or govern” and was used for the first time in a metaphorical sense during the pre-generation era by Plato. From a Greek word, it moved over to Latin, where it was known as “*gubernare*” and the French version of “governor”. It could also mean the process of decision-making and the process by which decisions may be implemented (Clark, 2004:2).

In terms of distinguishing the term *governance* from *government*, “*governance*” is what a “*government*” does. It might be a geo political government (nation-state), a corporate government (business entity), a socio-political government (tribe, family, etc.), or any number of different kinds of governments. But *governance* is the kinetic exercise of management power and policy, while *government* is the instrument (usually, collective) that does it. The concept of *governance* also encompasses two main approaches, one that sees governance as concerned with the rules of conducting public affairs, and the other, which views governance as an activity of managing and controlling public affairs (Hyden & Court, 2002:14).

Denhardt & Denhardt (2007:4) define *governance* as the exercise of public authority. The reference to *government* is usually about the structures and institutions of government and those public organisations formally charged with setting policy and delivering services. *Governance*, on the other hand, is a much broader concept. *Governance* encompasses the traditions, institutions and processes that determine how public authority is exercised, how citizens are given voice, and how decisions

are made on issues of public concern. Governance speaks to how society actually makes choices, allocates resources and creates shared values; it deals with societal decision-making and the creation of meaning and place in the public sphere.

According to Bingham, Nabatchi & O'Leary (2005: 548), the concept of *governance* has been explored in many academic fields, such as political science, public administration, policy-making, planning and sociology. The concept of *good governance* gained prominence during the eighties following the World Bank and International Monetary Fund (IMF) report (IMF, 1997), which highlighted the economic crisis confronting *Third World* countries, and specifically, sub-Saharan Africa. The view that emerged from the World Bank and IMF centred on the democracy-development relationship. The World Bank's statement positioned *democracy* as a necessary precondition for development. *Good governance* was reflected as the existence of a multiparty democracy, rule of law and free press, which kept political leaders accountable in view of the fusion of the role of politics and administration (Wohlmuth, 1999:7).

The concept of *governance* transcends the conventional boundaries of public administration. *Public administration* is concerned with the formal institutions of government, whereas *governance* focuses upon wider processes through which public policy is effected. *Governance* refers to the development and implementation of public policy through a broader range of private and public agencies than those traditionally associated with government. Because government is increasingly characterised by diversity, power interdependence and policy networks, governance stresses the complexity of policy-making, implementation and accountability relationships between a variety of state and societal actors at various levels, globally and regionally, and at national government level, as well as in local administrations. In governance theory, the relationships between state and non-state actors become less hierarchical and more interactive. In this way, *governance* denotes a highly fluid institutional and policy matrix in which the powers and responsibilities of different actors and tiers of government are in flux (Wohlmuth, 1999:7).

Hyden & Court (2002:19) define *governance* as the formation and stewardship of the formal and informal rules that regulate the public realm, the arena in which state as well as economic and social actors interact to make decisions. Here, *governance* refers to the quality of the political system rather than technical capacities or distributive aspects, which they argue are a function of policy. Table 2.2 propose six

governance arenas or principles: the socialising, aggregating, executive, managerial, regulatory and adjudicatory, which Hyden & Court (2002:19) argue, are important in shaping policy processes and producing desired development outcomes.

Table 2.2: Functional dimensions of governance and their institutional arenas

Functional dimensions	Institutional arenas	Purpose of rules
Socialising	Civil society	Shape the way citizens become aware and raise public issues
Aggregating	Political society	Shape the way ideas and interests are combined into policy by political institutions
Executive	Government	Shape the way policies are made
Managerial	Bureaucracy	Shape the administration and implementation of policies
Regulatory	Economic society	Shape the way state and market interact to promote development
Adjudicatory	Judicial system	Shape the setting for resolution of disputes and conflicts

Source: Hyden, G. & Court, J. 2002. Assessing governance: methodological challenges, World Governance Survey Discussion Paper 2, Tokyo: United Nations University, page 21.

Hyden & Court (2002:21) argue that *governance* is an aggregation of the above six dimensions and the way these dimensions are articulated and function should constitute the basic measures of governance.

2.5.1.1 Characteristics of good governance

Governance embraces all the methods (good and bad) that societies use to distribute power and manage public resources and problems (UNDP, 1997:19). Sound or bad governance is therefore subsets of governance, depending on whether public resources and problems are managed effectively, efficiently, and in response to the critical needs of all members of society. For the UNDP, a system of governance is good when it satisfies these conditions. It is participatory, meaning it allows both men and women a voice in decision-making, either directly or indirectly. It is legitimate and acceptable to the people; transparent and accountable; promotes equity and equality; operates by the rule of law, which means legal frameworks are fairly and impartially

enforced; responsive to the needs of the people; and efficient and effective in the use of resources (UNDP, 1997:19).

Good governance is a form of governance that embodies eight specific characteristics, and can be seen as an ideal of governance (UNESCAP, 2007):

- 1) Accountability - accountability is a key requirement of good governance. Not only government institutions but also the private sector and civil society organisations must be accountable to the public and to their institutional stakeholders. In general, an organisation or an institution is accountable to those who will be affected by its decisions or actions.
- 2) Consensus-orientated - there are several actors and as many viewpoints in a given society. Good governance requires mediation of the different interests in society to reach a broad consensus on what is in the best interest of the whole community and how this can be achieved. It also requires a broad and long-term perspective on what is needed for sustainable human development and how to achieve such development.
- 3) Effectiveness and efficiency - good governance means that processes and institutions produce results or outcomes that meet the needs of society while making the best use of the resources at their disposal. The concept of *efficiency* in the context of good governance also covers the sustainable use of natural resources and the protection of the environment.
- 4) Equity and inclusiveness - a society's well-being depends on ensuring that all its members feel that they have a stake in it and do not feel excluded from the mainstream of society.
- 5) Participation - participation is a cornerstone of good governance. Participation could be either direct or through legitimate intermediate institutions or representatives. Participation needs to be informed and organised, which requires freedom of association and expression and an organised civil society.
- 6) Responsiveness - good governance requires that institutions and processes try to serve all stakeholders within a reasonable time frame.

- 7) Rule of law - good governance requires fair legal frameworks that are enforced impartially. It also requires full protection of human rights, particularly those of minorities. Impartial enforcement of laws requires an independent judiciary and an impartial and incorruptible police force.
- 8) Transparency - transparency means that decisions made and their enforcement are achieved in a manner that follows rules and regulations. It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement.

Good governance is about performance and conformance. *Performance* is defined by how an institution uses governance arrangements to contribute to its overall performance and the effective delivery of goods and services. *Conformance* is how an institution uses governance arrangements to ensure it meets the requirements of the law, regulations, published standards and community expectations of probity, accountability and openness. Conformance is aligned with the generic functions of public administration and on a daily basis, governance is typically about the way public servants make decisions and implement policies (Rowe, 2008:2). The next section will elaborate on the role of stewardship as a critical determinant of good governance.

2.5.2 The emerging need for stewardship in public administration

Stewardship is the personal responsibility for taking care of another person's property or financial affairs. Historically, stewardship was the responsibility given household servants to bring food and drinks to a big castle dining hall. The term was then expanded to indicate a household employee's responsibility for managing household or domestic affairs. Stewardship later became the responsibility of taking care of passengers' domestic needs on a ship, train, or an airplane, or managing the services provided to diners in a restaurant. The term continued to be used in these specific ways, but it is also used in a more general way to refer to a responsibility to take care of something someone does not own or taking good care of resources entrusted to one.

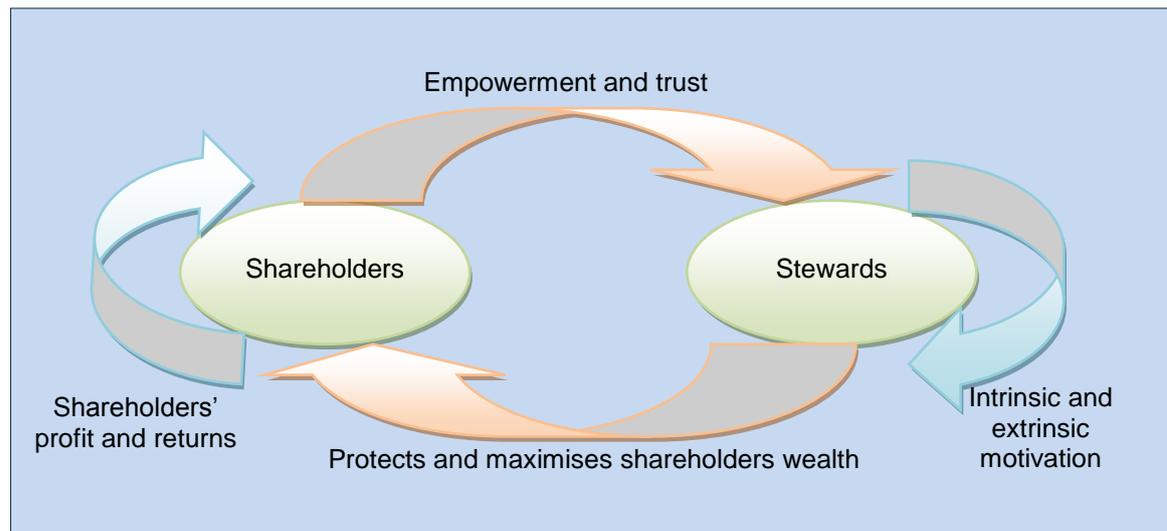
In a public administration context, *stewardship* refers to public servants' responsibility to utilise and develop all resources, including its people, its property and its financial assets in the most economic, efficient and effective way. *Stewardship* also refers to

the keeping and safeguarding of someone else's financial affairs and, therefore, the use of 'wise' administrative practices to achieve good governance practices. From an ethical perspective, *stewardship* can also be seen as a function of government responsible for the welfare of the population, and concerned with the trust and legitimacy with which its activities are viewed by the citizenry. It requires vision, intelligence and influence in the practice of managing or looking after the well-being of the public administration environment.

Another way to conceptualise *stewardship* is to link it with performance improvement in four potential areas. First, by the resource input requirements, and secondly, the throughput requirements, often viewed as process efficiency, measured in terms of time, waste and resource utilisation, thirdly, output requirements, often viewed from a cost/price, quality, functionality perspective, fourthly, outcome requirements, did it end up making a difference?

Stewardship theory has its roots in psychology and sociology and is defined by Davis, Schoorman & Donaldson (1997:20) as "*a steward protects and maximises shareholders' wealth through firm performance, because by so doing, the steward's utility functions are maximised*". In the public administration perspective, stewards are public servants serving the needs of citizens in the most economic, efficient and effective manner. Stewardship theory recognises the importance of structures that empower the steward and offers maximum autonomy built on trust. It stresses the position of public managers to act more autonomously so that the shareholders' returns are maximised (3Es). Indeed, this can minimise the costs aimed at monitoring and controlling behaviours. However, in order to protect their reputation as decision-makers in organisations, public managers are inclined to operate the government organisation to maximise financial performance as well as shareholders' profits (needs of citizens). In this sense, it is believed that the government organisation's performance can directly impact perceptions of their individual performance (Donaldson & Davis, 1991:65). Figure 2.2 depicts a stewardship model.

Figure 2.2: The stewardship model



Source: Adapted from Abdullah, H. & Valentine, B. 2009. *Fundamental and ethics theories of corporate governance*. Faculty of Economics and Management, Graduate School of Management, University of Putra, Putra: Malaysia, EuroJournals Publishing, page 91.

Performance assumes an actor of some kind (stewardship) being an individual person or a group of people acting in concert. In public administration, the performance platform is provided by the functions of public administration used in the performance act based on good governance for the economic, efficient and effective delivery of goods and services, meeting the needs of society. There are two main ways to improve performance: improving the measured attribute by using the performance platform more effectively, or improving the measured attribute by modifying the performance platform, which, in turn, allows a given level of use to be more effective in producing the desired outcome (Donaldson & Davis, 1991:65).

Stewardship in the context of public administration underlines the relationship between the public administration environment, the generic functions of public administration and management and the application of good governance principles in order to provide the opportunity for enhanced public financial performance. The following chapters of this study will contribute towards a conceptual model for public financial performance management based on an improved and/or modified performance platform.

2.6 CONCLUSION

This chapter was devoted to the contextualisation of Public Administration. Different stages and events in the historical development of the discipline and the practice of public administration were discussed. The development of administrative theories and schools of administrative theories were discussed to give a broader picture of the different approaches that influenced public administration. An attempt was made to define public administration and explain the generic functions of public administration, policy-making, financial administration, human resources, organisation, methods and procedures, control and management.

Public administration is indeed a composition of activities guided by the generic functions of public administration. The generic functions must be seen as a whole and could never be isolated as it is impossible to deal with policy-making without considering issues related to financing, management or any of the other generic functions. When dealing with organisational arrangements and staffing, it is obvious to consider funding and other functions as a key prerequisite for performance and organisational success. All administrative and managerial issues that form the study of public administration and management are dominated by public policy. The political environment of public administration and management distinguishes the discipline from other related disciplines and categorises it exclusively.

The last part of the chapter expanded on the future trends related to the development of public administration and the conceptualisation of governance, emphasising the future role and place of the state in the social system. In the study of Public Administration, scholars must acknowledge the presence of private-sector phenomena. Governance in contemporary society has created a need to reconsider the implications of poor performance and specifically, inefficient and ineffective government action.

Performance management must be viewed in the historical context as an evolution in the field of public sector management. Employing a governance perspective and a new focus on public service allows researchers to explore the full range of policy choices, management strategies, ethical responsibilities and civic commitments that are necessary for effective and responsible public administration. It also highlights the complexities of democratic governance and citizen engagement. Democracy involves a diverse collection of people, beliefs, traditions, processes, and structures,

which come into play when public decisions are made. In such a milieu, public administrators are required not only to deal with the traditional concerns of public administration and management, policy development and service delivery but increasingly, the job of public administrators will be that of fostering citizenship and identifying, creating and managing public values.

The next chapter will align the domain of public administration as a practice with the role and functions of government. The basic functions of an economic system and the ideological basis of the state will precede the analysis of the nature and function of public services and the future role of government.

CHAPTER 3: THE ROLE AND FUNCTIONS OF GOVERNMENT

3.1 INTRODUCTION

Government operations are those activities involved in the running of a state for the purpose of producing value for the citizens. Public administration is a vehicle for expressing the values and preferences of citizens, communities and society as a whole. Some of these values and preferences are constant, others change as societies evolve. Periodically, one set of values comes to the fore, and its energy transforms the role of government and the practice of public administration.

Future trends in public administration highlight the importance of good governance and recognise the interconnected roles of the private sector, the public sector and civil society institutions. Good governance requires good government, i.e. an effective public service and effective public service institutions, which are more productive, more transparent and more responsive. The traditional descriptive approach to the study of public administration was confronted with public policy processes that are more open and participative, involving many individuals, groups and institutions both inside and outside government. The changing environment caused a shift towards a new value-orientated public management approach with the ability to provide efficient and effective services to meet the changing needs of society.

This chapter analyses the nature of the economic goods which are typically provided by the public sector and provides an economic argument for the existence of a public sector for resource allocation purposes in a market-orientated system. The analysis considers resource allocation in a society characterised by a preference for the private-sector approach. More specifically, it emphasises the allocation behaviour of a public-sector operating in a mixed, though market-orientated, economic system.

3.2 THE IDEOLOGICAL BASIS OF THE STATE

Gildenhuys (1988:4) indicates that the role of the state is based on four ideologies, namely the laissez-faire capitalism, socialism, the notion of the social welfare state and the notion of an economic welfare state. In terms of the laissez-faire theory, the primary goal of the state is to provide an enabling environment for free competition among the citizens. The government protects its citizens by regulating through

enforcement of contracts by the courts of law, the protection of the individuals and their property, and the defence of the national community from aggression from across its borders. Within this framework, the government promotes free and unregulated competition (Gildenhuys, 1997:6).

Socialism differs from the laissez-faire capitalism in that it does not acknowledge private ownership and free enterprise. Socialism makes provision for the redistribution of income and social benefits such as free health services, social grants, pensions and free education. The role of the state is the control of markets, redistribution of income and provision of welfare services for all citizens (Gildenhuys, 1988:8).

The role of the social welfare state is to ensure minimum standards for a good life to all its citizens through providing education, pensions, medical care, housing, and protection against loss of employment or business. The social welfare state creates an enabling environment to ensure its citizens have equal opportunities for a good life (Gildenhuys, 1988:9).

The economic welfare state emphasises the economic welfare of the individual and is based on democratic values and free enterprise, with minimum government intervention in the activities of the individual. The aim of the economic welfare state is to create an environment in which an individual is free to develop his/her personal economic welfare and this will enable the individual to look after his/her personal welfare. The government regulates the relationships between individuals through an independent judicial system based on common law principles (Gildenhuys, 1997:16).

The political ideology will always have a decisive influence on the financial policy of the government in its strive to achieve specific objectives and results. This influence might vary from minimum government with no interference in the lives of citizens to total government with a situation where the state denies the opportunity for private ownership and free enterprise. Due to imbalances in society neither one of these extremes seems feasible for governments in modern society. There is a continuous need for equal opportunities for a good life and also the need to create an environment in which an individual is free to develop his/her personal economic welfare rather: as this will enable the individual to look after his/her own personal welfare, according to Herber (1971:4).

In terms of public financial performance management, the implications of these ideologies are significant with specific reference to the variation in the impact or results derived from government actions. The social welfare ideology to ensure a good life by providing basic services is not necessarily constructive and developmental in nature; however, it places a very heavy burden on government's revenue, namely, the taxes earned from the citizens in a position to contribute. This situation can convert goods and services into deliverables, but the long-term result or impact might be in question. The economic welfare ideology to create an environment in which an individual is free to develop, providing enabling opportunities for growth and still delivering services through public administration interventions is focused on growth results and long-term impact for quality of life. This situation seems to be conducive for a performance platform and the application of good governance, stewardship and finally, public financial performance management. The next part of this chapter will expand on the role and functions of the state (Minnaar, 2010:15-16).

3.3 THE ECONOMIC PROBLEM OF SCARCITY

The primary goal of the state is to promote the general welfare of society. Aristotle (in Strong, 1963:17) argues that the state exists not only to make life possible, but also to make life good. The state's primary role is not only a political one, it also has moral obligations towards its citizens by providing services in making life good (Chambliss, 1954:197).

Minnaar (2010:16) argues that the basic economic problem of scarcity provides a logical departure point for the analysis of the role and functions of government. Due to unlimited human needs and wants, and limited resources to fulfil these wants, basic conditions for optimal market allocation are not fully met and resources available to any society are limited in their ability to produce economic goods by both quantitative and qualitative constraints. The limited supply of resources available to a society leads to the allocation function or problem of economics. The unlimited scope of aggregate human wants, alongside the limited resources which produce the economic goods (including intangible services) capable of satisfying these wants, requires the allocation of scarce resources among alternative uses. An infinite or unlimited quantity of economic goods cannot be produced. When some goods are produced with the scarce resources, the opportunities to produce other goods are foregone. Thus, an economic system must exist to determine the pattern of

production and deal with the issue of what economic goods shall be produced and in what quantities. Part of the allocation function is the additional dimension of the institutional means through which the allocation decisions are processed. According to Herber (1971:4), this establishes the link between the basic economic problem of scarcity and the study of public finance.

3.3.1 Basic functions of an economic system

Two primary institutions exist for the purpose of performing the basic functions of an economic system. The private sector or market institutions within the domain of business management with the factor of profit as the overriding criterion are engaged in business allocation activities of demand and supply and the price mechanism. Public-sector or government allocation is accomplished through the revenue and expenditure activities of governmental budgeting (Swilling, 1999:21). However, no economy in the world follows a purely market or a purely governmental approach in the allocation functions, instead, Samuelson (1954:387) contends that each economy in the world is 'mixed' to one degree or another. Accordingly, a given national economy may typically be referred to as 'capitalist' or 'socialist' depending on the degree to which it is focused on the market or governmental means of allocation. This analysis will emphasise the allocation behaviour of a society characterised by a preference for a market approach operating in a mixed economic system.

The private and public sectors of a mixed economy also determine the other major branches of economic activity. These consist of the three functions, namely distribution, stabilisation and economic growth functions. Firstly, the distribution function relates to the manner in which the effective demand over economic goods is divided into the various spending units of the society where effective demand stems from the pattern of income and wealth distribution in the private sector and the pattern of political voting influence in the public sector. Secondly, the stabilisation function concerns itself with the attainment of the economy of full- or high-level employment of labour and utilisation of capital, price stability, and a satisfactory balance of international payments, and lastly, the economic growth function pertains to the rate of increase in a society's productive resource base, and a related satisfactory rate of growth in its real per capita output, over a period of time (Gildenhuys, 1988:8).

Since the public sector inevitably will influence the performance of the national economy in terms of these economic functions, it is reasonable to assume that society will wish to consciously formulate fiscal policies to attain given allocation, distribution, stabilisation, and economic growth goals. Hence, the functions or branches of economics may be viewed also as the objectives of public-sector economic activity. These goals cannot always be separated in a precise manner. Thus, a given budgetary act usually will exert an influence on more than one goal (Herber, 1971:6).

3.4 THE EUROPEAN ROOTS OF MODERN PUBLIC-SECTOR ECONOMICS

Adam Smith's *The wealth of nations*, published in 1776, is generally considered to mark the beginning of modern economic theory. Smith described the appropriate economic role of the public sector and enumerated four categories of governmental allocation activity. The national defence function; establishing an administration of justice which provides for law and order in society; the duty of establishing public institutions and necessary public works that private firms could not profitably supply; and the duty of meeting expenses necessary for support of the sovereign (Ranney, 1975:505). Throughout the 1800s and early 1900s, a number of European economists, following Smith, tried to develop a coherent economic theory of the public sector. These exponents were never entirely successful, but their research led to a number of the principles that underpin both the modern mainstream theory of the public sector and Wicksell's theories as the basis for Buchanan's theory of public choice (Tresch, 2008:1)

Ranney (1975:506) contends that though Smith often has been described as a bold advocate of minimal governmental activity, his writings fail to indicate significant opposition to a public sector for allocative purposes in society. In contrast, Herber (1971: 22) argues that the four functions of government would require a level of public-sector resource allocation substantially greater than a laissez-faire economic system. The most relevant of Smith's four functions of government are the first and the third, namely, the national defence and public works functions. The second function, that of preserving law and order in society, and the fourth, that of maintaining the sovereign or executive level of government, are not controversial functions of government and relate to the existence of a public sector for resource allocation purposes in a market-oriented economy. The national defence and the

public works functions, however, are less intrinsic to governmental provision than the justice and sovereign support functions (Herber, 1971:23).

Probably, the most significant of the four governmental functions introduced by Smith is the one relating to “public works”. In his book, *Principles of political economy* (1848), John Stuart Mill (1926:978) argued that in the particular conditions of a given age or nation “*there is scarcely anything really important to the general interest, which it may not be desirable, or even necessary, that the government should take upon itself, not because private individuals cannot effectively perform it, but because they will not*”. Mill (1926:978) thus believed that at certain times and places, the public sector would be required to provide roads, harbours, canals, irrigation works, hospitals, schools, colleges, printing presses and other public works. Mill (1926:978) thought that government should enhance the happiness of its subjects “*by doing the things which are made incumbent on it by the helplessness of the public, in such a manner as shall tend not to increase and perpetuate, but to correct that helplessness*”.

During the 1920s, John Maynard Keynes, a British economist, reiterated the viewpoints of Smith, Mill, and others on the importance of public works allocation by government. Keynes (1926:67) commented: “*Government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at the present are not done at all.*”

The development of economic theory in the Western world has been well represented by an appreciation of the need for governmental resource allocation in a system characterised by a basic preference for private-sector economic activity. According to Tresch (2008:2), economists brought their own distinctive points of view to the analysis of the public sector, centred on three main issues: how were government expenditures and taxes to be determined? Included in this was the issue of how the benefits of the expenditures and the costs of the taxes should be evaluated. Secondly, how could the government achieve efficient and equitable outcomes? The third issue questions the appropriate relationship between the government and the citizens, in particular: to what extent must the government be coercive in carrying out its functions and levying taxes?

The economic case for substantial public-sector resource allocation was supported by the theoretical development of marginal concepts as the basis of the economic

reasoning which occurred during the 1870s and 1880s. William Stanley Jevons (England), Léon Walras (France), and Eugen Böhm-Bawerk (Austria) were the men most responsible for applying marginal utility analysis to private-sector demand while Alfred Marshall (England) was most responsible for applying marginal analysis to private-sector supply as well as to reconciling both sides of the market mechanism. Subsequently, marginal analysis was incorporated expertly into public finance theory by Pigou in his *A Study in Public Finance* (1928). In defining this theoretical point of optimal inter sector allocation, Pigou implicitly recognises the need for a public sector. The same implication may be drawn from the voluntary exchange approach to optimal inter sector resource allocation of Erik Lindahl and Howard Bowen and to the political process insight of Knut Wicksell regarding public goods allocation (Brady, 1995:34).

Some European economists viewed the state from an individualistic perspective and perceived government officials as agents acting on behalf of the preferences of the citizens, which is one of the foundational principles of the modern mainstream theory. In contrast, German economists adopted an organic theory of the state, containing that people had their individual lives to lead and would properly engage in self-interested economic activity in the private sector. At the same time, however, they recognised that people had a broader social identity as citizens of a nation, an identity that gave rise to a collective will or utility. The collective utility is not simply economically based; it is determined in large part by historical, political and cultural values, and thereby varies from country to country and even within a country over time. The collective utility takes precedence over the citizens' individual utilities, and the primary economic function of the state is to promote the collective utility in the interests of preserving social cohesion. Moreover, argued the German theorists, individual citizens do not have the intellectual ability to understand the collective utility nor the resources to pursue it. Therefore, all public expenditure decisions to promote the collective utility are made by experts employed by the state. The government experts also design tax policies with the goal of minimising the loss in the collective utility (Musgrave, 1959:392).

The Germans' organic view of the state posed a challenge for Western economists raised in the humanistic tradition, which has only deepened over time. Governments do confront highly complex problems that require the input of experts. But to place all the decision-making in the hands of the experts risks a high degree of coercion. Where, then, should the influence of the experts end in forming government policies?

The German economists did not see coercion as a threat because the government and the citizens are not in an adversarial relationship. In their view, the people fully accept the role of the state in promoting the collective utility (Musgrave, 1959:394).

Although economists gave equal attention to expenditures and taxes and thought about how to achieve an efficient public sector, British economists focused their attention exclusively on taxation, and their only concern was achieving equity in taxation. The functions of government enumerated by Smith were simply accepted without much more thought given to them. They were viewed as necessary evils, either protecting citizens from foreign predators and from each other or providing essential but unprofitable goods and services. There was no question that the government had to provide these functions; the only issue considered was how to raise the taxes to pay for them. The answer they gave was to minimise the aggregate tax burden to the citizens, which was accomplished by taxes in accordance with people's ability to pay. People with higher incomes would pay more to support the necessary public expenditures than people with lower incomes. Taxing according to people's ability to pay became established as an equitable way of paying for public services in Western economic thought by the 1920s, and it remains a central principle in the discussion of tax policy (Stiglitz, 1998:8).

The Italians did not take government expenditures as a given and viewed the provision of public goods as equivalent to the provision of private goods. Taxes were seen as prices for the public goods, in this case, prices that reflect the opportunity cost of the private goods given up for the public good. Accordingly, each citizen demands a public good such that the marginal benefit of the good to him/her just equals the tax paid for the good, the same decision rule that applies to the purchase of private goods. Taxing in this manner is called the benefit-received principle of taxation, and citizens pay for public goods on the basis of the (marginal) benefits they receive from the goods. Moreover, the benefits-received principle of taxation leads to an efficient provision of the goods, just as it does for private goods (Wikipedia, 2007).

The Italian view of the public sector was not purely individualistic, however. The requirement was that the Italians were used to a ruling class, so it was assumed that the elite ruling class would run the government and make the required marginal benefit and cost calculations for the citizens. Since citizens have different tastes, the decisions of the public officials would reflect the desires of the average citizen. The potential for coercion on the part of the ruling class was an issue, but it was argued

that the government agents would have an incentive to follow the desires of the citizens so that they could remain in office (Wikipedia: 2007).

The Austrians pushed the individualistic perspective to the limit. They added to the Italian economists' theory by distinguishing between *particular* goods that offer specific and measurable benefits to each citizen, and collective (non-exclusive) goods such as national defence, whose benefits are available equally to all citizens and are not so easily measured. The particular goods are paid for in accordance with the benefits-received principle, with the taxes serving as prices. The collective goods cannot be taxed according to the benefits-received principle. Nonetheless, the Austrian theorists argued, the citizens willingly contribute to them even if they believe that their tax payments exceed the benefit they personally receive from these goods. They agree to this because people see themselves as part of the larger society and seek a balance between their self-interest and society's collective interest. They view their relationship to the government as equivalent to their relationships to voluntary trade associations, in which dues are paid for the benefit of all the members of the association. Coercion by the government is not an issue given the assumed attitude of the citizens. People are seen, in effect, as voluntarily taxing themselves to pay for particular and collective goods (Stiglitz, 1998:8).

The Swedes also believed in the individualistic perspective of government, but they did not accept the Italian and Austrian view that the people would simply agree to the decisions of the government. The Swedes understood that people might attempt to free-ride on others in the provision of non-exclusive goods. They also worried about the people who feel that the value of their benefits from the public expenditures is less than the taxes they are being asked to pay. They assumed that these people would feel that they were being coerced by the government, and the Swedes had a dislike towards government coercion. They also placed a high value on political and social justice. Achieving efficiency was important, but no more so than equity (Herber, 1971:63).

These concerns led Knut Wicksell to contemplate about the problem of collective choice within a democratic government, that is, the political process that citizens would use to determine public expenditures and taxes. Wicksell agreed with the Italian and Austrian economists that expenditures and taxes had to be simultaneously determined, and he assumed that people would vote directly or through representatives for different spending and tax packages. He concluded that

the only way to guarantee efficiency and equity was to require a common vote to approve government policies, and this was a decision rule that he knew was impractical (Musgrave, 1959:71).

The other great Swedish economist of the period, Eric Lindahl, described a method for providing non-exclusive goods that, he argued, met the dual requirements of paying for the goods on the basis of each person's marginal benefit received along with the British ability-to-pay doctrine. The latter applied because the marginal benefits were directly related to people's incomes. Unfortunately, his method could not be implemented because people have an incentive to hide their preferences for these goods and try to free-ride on others. Nonetheless, Lindahl's theory was the closest that the 19th and early 20th century European economists came to the modern mainstream public-sector theory, which was first formalised by Samuelson in the 1950s (Herber, 1971:63).

3.5 THE NATURE AND FUNCTIONS OF PUBLIC SERVICES

Minnaar (2010:5) argues that although there are differences between the two main categories of institutions, namely that of making a profit and the promotion of general welfare, there is also a measure of similarity at executive level and particularly at operational level in so far as techniques are concerned. Based on the distinctiveness of public administration, as explained in Chapter 2, every society has devised methods to place political office-bearers in power. Public administrators in a democratic state have to respect specific guidelines that govern their conduct when carrying out their work. These guidelines are derived from the body politic of the state and the prevailing values of society and are the foundations of public administration. The guidelines from the body politic are based on political supremacy and public accountability (Minnaar, 2010:16).

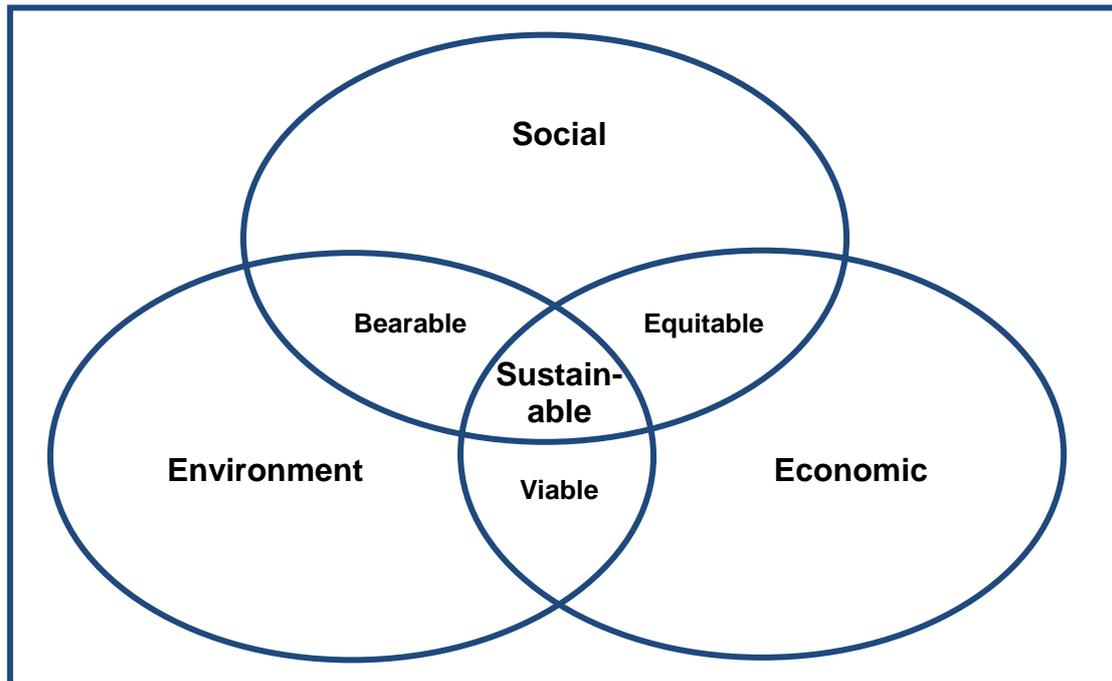
Cloete (1994:57) refers to four categories of state institutions; namely, legislative, political executive, administrative executive and judicial. The political executive institutions deal with governmental functions and integrated with this are the administrative executive functions; namely generic administrative and managerial, auxiliary, instrumental and functional activities. As analysed in Chapter 2, the generic administrative and managerial functions are policy-making and analysis, organising, staffing, financing, determining work methods and procedures and controlling.

According to Fourie (2005:4), governance is fundamentally a political imperative and should not be reduced to purely public administration “*due to the conflation of the political-administrative role*”. Consequently, the three critical functions of government are to facilitate redistribution to assist those marginalised by market forces, to enable the level of economic activity and the rate of economic growth, and to 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.

Improved governance requires that the role of the state be that of a facilitator and a mediator, therefore, the state's endeavours are being directed to basic services in health, education and social development. Ultimately, government will be evaluated through the effectiveness of its role of regulator, facilitator and enabler. To ensure this function, government must function in a responsible, participative, transparent and accountable manner as the guiding principle of good governance. Thus, governance is a relational concept and entails a triangular relationship among government, the legislature and civil society (Otobo, 1997:2).

According to Minnaar (2010:16), the responsibilities of government are to ensure the safety and security of all its citizens and to promote their general welfare. These are the government's ultimate responsibilities against which its performance could be measured. Government makes policy to give practical effect to these two core responsibilities. Execution is the responsibility of administrative institutions and ultimately, the result is sustainable development by the creation of harmony between society, the environment and the economy. This result refers to the triple bottom line as depicted in Figure 3.1.

Figure 3.1: The triple bottom line



Source: Minnaar, F. 2010. *Strategic and performance management in the public sector*. Pretoria: Van Schaik, page 17.

Sustainable development as an outline of resource use that aims to find a long-term balance between human needs and preserving nature can be achieved by considering the balanced interrelationship between society, the environment and the economy. The challenge lies in keeping the interests of society, the capacity of the economy and the ability of the environment for providing resources in balance. Bearable, viable and equitable in the sense that economic growth is depends on resources from the environment. Without these resources, future efforts to deal with sustainable development will fail and without sustainable economic growth, the resources to develop society will not be available (Minnaar, 2010:17).

3.6 CLASSIFICATION OF SERVICES

For any government to fulfil its functions, the delivery of specific services to society is necessary. In order to fund specific services, there needs to be a classification for these services. Services classification is based on the nature of these services. What services are provided by government? Why do people prefer to receive these services from government? What is the difference between government and private services? The answers to these questions are those services that due to the collective nature cannot be provided by the private sector; particular services, which

are essential for the development priorities of government and which the private sector for some reason fails to deliver; services that can due to collective action be obtained cheaper and more beneficial than in the case of individual action. The difference between public services and private-sector services is determined by the collective nature thereof. Collective services are normally classified as government services and particular services as private services. However, this classification does not prevent non-governmental organisations to deliver collective services and government to deliver particular services. It all depends on the state's ideology and the democratic process in a specific country (Gildenhuys, 1988: 34).

Samuelson in "*The pure theory of public expenditure, Review of Economics and Statistics*", defined public goods as "*those where person A's consumption of the good did not interfere with person B's consumption*". Mishan in the Introduction to Normative Economics, 1981, prefer to designate these as "*collective goods*". Public institutions exist to provide public goods and services for the maintenance of the state (Cloete, 1994:57).

3.6.1 The concept of *necessity*

The services and the activities of the public institutions should always be judged on the basis of their necessity. However, as in the case with general welfare as an intangible criterion, necessity is a subjective and contentious concept, which is closely related to individual values. It is inevitable that social needs will always exceed available resources. Public institutions obtain their revenue from money paid by the citizens of society as a whole. Due to the limited nature of revenue or income, the collective ability of satisfying the needs by delivering goods and services is also limited. According to Cloete (1994:81), these restrictive factors prevent public institutions from satisfying the needs of the people and communities in full. Satisfying the most essential needs with available limited resources involves upholding public accountability, democratic requirements, fairness and reasonableness and the supremacy of the legislature in an environment with no exact criterion, such as profit in business administration.

Government is by definition an exercise in intervention. Typically, these interventions take three forms, namely ownership, the state will own a range of business entities and service delivery agencies. The second form of intervention is production, and in essence the state is a producer of goods and services. The third form of intervention

is purchase, the state is a major purchaser of goods and services on behalf of citizens. The budgets of many nations typically allocate up to 80% for the purchase of education, health and social services. These purchases are funded by taxes, borrowings and to a minimal extent by user charges (Cloete, 1994:81).

3.6.2 The state as regulator

The state is not just an owner, producer and purchaser, but also a referee. The state sets the rules of the game across a broad range of public and private activities. The role of the state as regulator differs from its role as participant in providing services, being a producer and a sponsor. In its capacity as regulator, it develops a system of rules designed to resolve conflicting ideologies and protect the rights of individuals and institutions (Otobo, 1997:44).

The state as regulator uses coercive powers to permit or forbid certain activities in the private sector (Schoeman, 2007:128). The state as regulator of different sectors of society also ensures that the public service attains the goals of the state (Department of Public Service Administration, 2003:3). In a globalised world, the state has an important role to play in the establishment and maintenance of a fair competition base and also an enabling environment for private enterprise, individual creativity and social action. Through the provision of a supportive environment for economic growth and social stability (see Figure 3.1), government plays the role of a facilitator and unifies different spheres of the public service to ensure good governance (Bertucci & Alberti, 2001:14).

3.6.3 The state as enabler

Eventually, all these roles and functions add up to the government's role as enabler for private-sector development (Otobo, 1997:1). As the state diminishes its operational role, a partnership relationship with the private sector should emerge where the private sector should play a leading role in development and service provision; and government, in turn, should create an enabling environment for the private sector to deliver services and to grow its operations (Department of Public Service Administration, 2003:3).

3.6.4 Performance reality

Traditionally, it has been assumed that active interventions by the state in all three spheres of ownership, production and purchasing are the best way to advance the public interest, to produce an array of public goods and to promote optimum social and economic outcomes. The reality has been quite different. Luyt (2008:1-7) argues that based on research done by the United Nations, Public Service Accountability Monitor (PSAM), the South African Government as owner squandered resources, diminished the value of the business and delivered, too often, lousy services to citizens. The government as purchaser overspent, failed to get value for money, produced a moral hazard, denied citizens choices and accountability for services and crowded out more efficient and effective private delivery of goods and services. The Government as regulator distorted markets, shielded poor performers, misallocated resources, added to the transactional costs and compromised competitiveness (Luyt, 2008:1-7).

The rationale for intervention demands a fundamental rethink, as does the concept of *public goods*. When the state seeks to justify any one of the interventions, it will typically argue the public goods rationale. On closer scrutiny, it is often revealed that not all of the goods being provided are in fact public goods. Each good belongs somewhere on a continuum from 'pure public' to 'pure private'. The conceptual distinction is well known and important to make (Department of Public Service Administration, 2003:3).

Pure public goods have two defining characteristics; they are non-excludable and consumption of the public goods are non-rivalrous. The consumption of private goods is the reverse. In the middle of this continuum are merit goods. The government may decide to provide access to goods as if it were wholly or partly public goods, even if the goods concerned have the natural properties (rivalry and excludability) of private goods. Education is a most obvious example of a merit good. Public and merit goods can be provided by any one of the three typical state interventions, production, purchase or by regulation (Ploch, 2011:24).

According to Luyt (2008:7), two critical questions need to be asked of any government activity, firstly, what is being provided or regulated a genuine public good or merit goods or is it really a private good or goods, in which case, the government has no reason to be involved? Secondly, is the outcome or results that the

government seeks (e.g. better economic or social development) actually best advanced by the ownership, purchase or regulatory intervention the state proposes to make? For example, the state has traditionally been the owner of a monopoly telecommunications business. What is now evident is that globalisation and technology imperatives demand world-class telecommunication services. These are best supplied not by a bureaucratically operated, intellectual and financial capital-starved state-owned business. The state can best advance the desired outcome by getting out of the business of telecommunications ownership and production and using its regulatory intervention to ensure the competitive private supply of telecommunication services.

The starting point for any drive for a public-sector performance management regime is to ask the fundamental question: what should the state do, and not do? The solution to a large number of government performance problems is to first exit the government from a whole range of counter-productive interventions it currently makes. There is no merit in trying to fix “*how*” the state should operate before addressing ‘*what*’ should the state do (Luyt, 2008:7)?

3.7 THE NEW ROLE OF THE STATE

As analysed in Chapter 2, the debate about public administration reform has been highlighted beyond the new public managerialism, with a view of the government as one of many social actors whose influence determines the means and ends of public policies. Traditionally, government has been seen as the primary agent in serving the public good and defining the collective interest. According to this view, governments set the agenda for change, propose new laws and enforce existing ones. Governments are the providers of public services, the problem-solvers, the arbiters and the decision-makers. As a result, many public-sector reforms have focused on the direct service delivery role of government to citizens. However, using this basis for reforms will be insufficient to prepare governments for the challenges of the 21st century (Kettl, 2002:43).

The emergence of a new thinking about public management, major world trends such as globalisation, the collapse of the communist states and the subsequent end of the Cold War, as well as the enormous increases of inequities within and between developing and developed countries have all contributed to the debate of the changing role of government (Swilling, 1999:21). The classic functions of government

are nation-building, defence, maintaining law and order, creating conditions for wealth accumulation, and some core functions such as taxation and monetary issues, security, environment, education, health, investment and trade and infrastructure (Monteiro, 2002:13). Functions such as taxation, security and policy formation have been outsourced to private companies, but certain core services such as health services and education remain with the state. The state can also play a role in the promotion of technology, marketing, the creation of financial incentives and the management of policies (Chambliss, 1954:197).

The role of the modern state can be seen as a combination of the positive aspects of all the above approaches. The goals of the modern state, or according to Swilling (1999:32), the neo-Keynesian state, are therefore to create an enabling environment for all its citizens to enjoy a good life in a democracy with a free-market system. The state regulates relationships through independent courts of law and promotes individual freedom to personal economic welfare.

While many roles such as facilitator, enabler, regulator, activator and provider were assigned to government, it should not automatically be considered that the state should be the provider of goods such as health services, education and social welfare services (Hart, 2004:1). The role of the state should be confined to what individuals cannot do for themselves, such as provide security, put in place the necessary legal framework, act as mediator between supranational institutions with regard to trade, provide a clean and safe environment, economic stability, provide public transport, provide social welfare and develop a framework to enable people to take responsibility for their own lives (Hart, 2004:2). The role of government could be defined in terms of whatever role the electorate decided to give it. The role of the modern state would ideally be based on a democratic political system, and the creation of a good quality of life for all citizens through protected human rights, the application of the rule of law, and minimum interference by government in the social and economic life of the individual (Crous, 2006:398).

The economic role of the state has increasingly become vital in the successful implementation of a country's development strategy (Stiglitz, 1998:2). The notion that government involvement in the economy is unnecessary and ineffective has been dispelled with the idea of partnerships between the public and private economic sector. Government and the private sector can act together utilising each sector's unique attributes, with government acting as the regulator of financial institutions to

ensure competition and maintain safety and soundness of financial systems (Stiglitz, 1998:8). The World Bank (2003:9) has identified four principles to reflect the overall range of the role of government for creating an enabling environment for corporate social responsibility as follows:

- 1) Mandating - provisioning of formal command and control legislation, regulation and providing legal and fiscal penalties.
- 2) Facilitating - government provides a supportive environment by unifying different spheres of government for economic growth and social stability.
- 3) Partnering - the private sector plays a leading role in development and service provisioning, government creates an enabling environment for the private sector to deliver services and to grow its operations.
- 4) Endorsing - endorsement by means of political support, public procurement and providing publicity and buy-in.

The lines between public-sector instruments and interventions are often blurred as outlined in Table 3.1.

Table 3.1: Public-sector roles in corporate social responsibility

Public-sector roles			
Mandating	Command and control legislation	Regulators and inspectorates	Legal and fiscal rewards and penalties
Facilitating	Enabling legislation	Creating incentives	Capacity building
	Funding support	Raising awareness	Stimulating markets
Partnering	Combining resources	Stakeholder engagement	Dialogue
Endorsing	Political support	Public procurement and public sector practice	Publicity

Source: Adapted from the World Bank. 2003. The World Bank Group's Corporate Social Responsibility (CSR) Practice's Technical Assistance to businesses and education in El Salvador, page 9.

The concept of governance underlines the need for a shift from traditional and rigid public administration practices and procedures to alignment with possible 'best practices' in the business environment. As a result of this situation, public servants are now exposed to a 'new organisation' characterised by business ideas such as quality management, market research, human capital management and

entrepreneurship in an environment characterised by political oversight (Thornhill, 2007:13).

According to Denhardt & Denhardt (2007:1-8), government will continue to play a central role in establishing the overall legal and political rules through which various networks will operate. This can be seen as government operations at meta-level where government will play a role in ratifying, codifying and legitimising decisions that arise from within the various policy networks. By means of facilitation, government provides a supportive environment by unifying different spheres of government for economic growth and social stability. This environment will ensure a value-adding relationship in terms of the important role in establishing broad principles of governance which apply to all and setting the overarching rules of the game.

Government must ensure direction in resolving resource distribution and dependency issues in various networks, but especially between and among these networks. Government will aid in protecting economic interests that are played out in the relationships between different sectors or policy networks; it will play the role of balancing, negotiating, and facilitating relationships across network boundaries (often through the use of incentives rather than directives), and assuring that one sector does not come to dominate others (Bourgon, 2007:11).

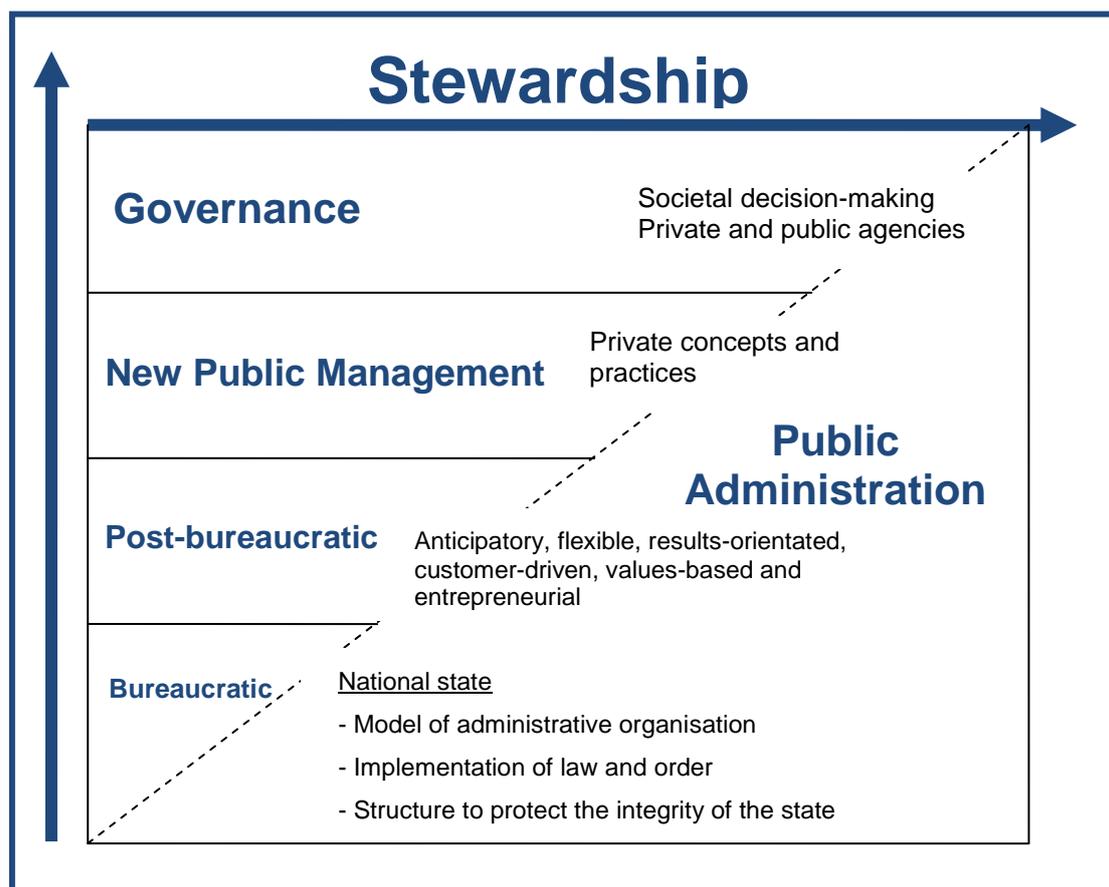
Government will be required to monitor the interplay of networks to assure that principles of democracy and social equity are maintained in specific networks and in the relationships between and among the different networks. Government must assure that democratic processes are maintained and that ultimately, the public interest is served. The emphasis on a governance perspective and a total rethinking about public service paved the way to explore the full range of policy choices, management strategies, ethical responsibilities and public commitments that are necessary for efficient, effective and accountable public administration. These reforms require a broader definition of public results, an expanded view of the role of government and a dynamic understanding of the field of public administration. This situation requires support from a new synthesis of Public Administration, which takes into account the historical foundations, the current realities of practice as well as new insights from other disciplines (Bourgon, 2007:14).

Public administrations are a vehicle for expressing the values and preferences of citizens, communities and society as a whole. Some of these values and preferences

are constant; others change as societies evolve. Periodically, one set of values comes to the fore, and its energy transforms the role of government and the practice of public administration. In order for a responsive and responsible reaction from government, public financial performance management principles and practices need to support a public service that is ready and prepared at all times to provide the most effective services at the right place and at the right time (Bourgon, 2007:7).

Since the first description of the classic model of public administration theory in the early twentieth century, and specifically for the last 30 years, many countries have undertaken extensive reforms aimed at making government more efficient, more effective, more productive, more responsive and transparent. Figure 3.2 provides the basic elements of the future role of government.

Figure 3.2: Basic elements of the future role of government



Source: Adapted from Bourgon, J. 2007. Responsive, responsible and respected government: Towards a new Public Administration theory. *International Review of Administrative Sciences*, 73(1). London: Sage. page 7-27.

The basic elements of the future role of government as illustrated in Figure 3.2 emphasise the evolution of Public Administration from the classical theories and stresses the fact that nothing is really 'new'. The need for a unified public administration based on centrally placed values, themes and principles to resolve the current environmental realities, inspiring and assisting public servants, is evident. The concept of *stewardship* centrally placed on the firm basis of governance as the result of the evolution of public administration makes provision for the true meaning or role of government as derived from its mandate to serve citizens and to advance the public good. This provides the opportunity for the application of public financial performance management as part of the generic functions of public administration.

3.8 CONCLUSION

The role of the state has changed with the advance of globalisation and the focus has shifted to the ability of the state to strengthen its capacity to effectively manage in a changing and complex situation. The state's role has changed from a hands-on management and direct deliverer of service and goods to facilitator of an enabling environment and framework for private-sector participation. The economic role of the state has shifted to that of regulator of financial institutions to ensure fair competition and maintain safety and soundness of financial systems. It has been increasingly clear that the success of a country's development programmes hinges on the country's effective economic policies, good governance and financial performance management. The conflicting situation between unlimited needs and wants and limited resources is the essence and requires world-class interventions for sound financial performance.

Today, the process of decision-making and the process by which decisions are implemented are becoming increasingly more open and participative, involving many individuals, groups and institutions both inside and outside government. Under these circumstances, the role of government is changing and due to the fragmentation of policy responsibility in society, the traditional mechanisms of governmental control are no longer workable, or even appropriate. The traditional hierarchical government is giving way to a growing decentralisation of policy interests, in which government, non-profit organisations and many others will play new and decisive roles. Control is giving way to interaction and involvement with critical implications for the operational managers' ability to manage, but still to be accountable. The goals of the modern

state are to establish an organisation based on governance and stewardship that can create an enabling environment for all its citizens to enjoy a good life.

The next chapter aims to investigate the challenging global, regional and national environment in which public administration is being implemented. Governments in developing countries face daunting challenges such as developing essential infrastructure, reducing socio-economic inequality, combating poverty, supporting social and private-sector development and protecting the environment. The many challenges of developing countries such as national debt, corruption, human rights violations, poverty, conflict, HIV/Aids and other infectious diseases, and food security all impact on the ability of governments to match limited resources with the needs of society in the most economic, efficient and effective way.

CHAPTER 4: THE ENVIRONMENT IN WHICH PUBLIC ADMINISTRATION FUNCTIONS

4.1 INTRODUCTION

The role of government plays itself off in public administration, which is the vehicle for expressing the values and preferences of citizens, communities and society. In order for a responsive and responsible reaction from government, public financial performance management principles and practices need to support a public service that is ready and prepared at all times to provide the most effective services for quality of life for all people in society. This situation requires an enabling environment for a government in order to fulfil its corporate social responsibility by means of mandating, facilitating, partnering and endorsing.

The modern view of the role of government is influenced by a new thinking about public management and the complexity of information management as a result of globalisation with the sweeping power of economy and exchange between nations and other role-players such as international institutions and NGOs. How can organisations govern these processes and the complexity of economic, cultural and political interactions without idealising and exalting the nation state? In this age of unreason the modern view of management is also affected by an increase in the inequities between the developing and developed world with negative consequences for both. The general welfare of the state is no more the sole problem of that state because it affects the general welfare of regions and continents and mutual co-operation seems to be the environmental response to underperforming states.

Today, the world witnesses the decline of the state not necessarily as an entity but as a unit of analysis. Scholars of international relations argue that states should not be the focus of analysis in international relations and that more systemic and institutionalist perspectives are required to understand international relations. The state is an organisation that will never be both all-inclusive and unitary at the same time. Therefore, seeing the nation state as the main actor-player in global and domestic governance would not help in any way.

The purpose of this chapter is to analyse the interrelated and challenging environmental context in which public administration manifests itself in the global, national and regional arena. This chapter will mainly focus on the political,

economical, social and development environmental issues that influence financial performance management in public administration. This discussion, firstly, explores the influence of multinational organisations in relation to international environmental issues, followed by an African regional environmental scenario setting, and finally, the South African public administration environment.

4.2 THE ENVIRONMENTAL CONTEXT

According to Minnaar (2010:8), the world of today is not the same as the world that was known when the “*acronym solutions to the challenges of public administration and management reigned supreme*”. In response to outdated, traditional solutions failing to deliver the necessary returns, future reform thesis holds that public administration must become anticipatory, responsive, results-orientated, values-based and entrepreneurial (Kuye *et al.*, 2002:20). With accelerated change comes more and more inflexibility and less structure with the growing demand to satisfy the needs of the sophisticated twenty-first-century citizen. The twenty-first century is characterised by global competitiveness for resources and the absorption of these resources in modern government.

The implication of the above-mentioned is clear in that government organisations functioning in the new environment will need to adapt their organisational management and planning methodologies to suit the anticipated realities of the environment. Due to the constantly changing environment, organisations will have to reflect the realities of the time in order to be really responsive and responsible. Challenging the bureaucratic organisation is the demise of the permanent, hierarchical-style organisational structuring in favour of more flexible, less rigid project-based structural arrangements unfolding the opportunity for a comprehensive integrated performance management approach. This approach allows for the opportunity to shift away from a focus of finance as an exclusive determinant of organisational performance and suggests a model that allows for the transition of institutional strategies into operational terms. This integrated approach recognises finances, business processes, learning and growth as basic elements of a governance structure (Minnaar, 2010:9-13).

Public administration aims to satisfy the needs of society (legal) by the skillful employment of experts in order to manage (managerial) scarce and limited resources to accomplish the goals set by public policy (political). In this scenario, two integrated

components, namely the political process of policy formulation and a management process of policy implementation, become visible and are linked by the governance function. All these processes take place in a specific environmental context. In this context, *environment* refers to the dynamics and influences that affect government policies, namely the government environment, and organisational aims, namely the management environment. According to Eyestone (1971:18), this makes “*public policy ... the relationship of a governmental unit to its environment*”. In achieving the ultimate aim of government, which is to promote general welfare in a sustainable manner, the need for synergy between the environment, government, governance and management is a critical requirement (Bourgon, 2007:15).

4.3 MULTINATIONAL ORGANISATIONS IN THE INTERNATIONAL ENVIRONMENT

Mutual co-operation in the international context manifests itself in the establishment of multinational organisations as an environmental response to underperforming states. Public financial performance management is high on the reform agenda of these organisations. International institutions’ main reason to exist, according to a public choice perspective, is to provide a way for states to overcome problems of collective action, high transaction costs and information deficits or asymmetries (Harlow, 2006:198). Confusing them with states or regimes may create perception problems and lead to misrepresentation of reality. These institutions have come to exist after successions of international agreements between nation states. It is therefore acceptable to suggest that they affect the state behaviours through self-enforcing agreements and because these institutions collect and provide policy-related information (Aktan & Özler, 2008:165).

Global good governance and related to this, public financial performance management, advocated by international institutions primarily privilege neo-liberal faith in the protection of private property and basic market freedoms. Global good governance emphasises not only economic constitution based on international free trade and a global code of corporate responsibility, but also representative and responsible governments, protection of fundamental rights, a sustainable environment and absence of corruption. Global economic constitutions can emerge through intergovernmental organisations and are entrusted with power by member states to fill out the terms of contract. The contract as the rules of the game governs the transactions among members at local, national and global level (Aktan & Özler,

2008:166). Following is an analysis of the influence and impact of various multinational organisations on the public financial performance management of government organisations in public administration.

4.3.1 The World Bank

According to Aktan & Özler (2008:166), the World Bank (WB) was established to rebuild the war-torn Europe, and then began to promote the economic growth and the eradication of poverty in less-developed countries. The instruments used to pursue those objectives have also changed over the years. The World Bank first supported large-scale growth-oriented projects of governments, and later adopted individual projects to reduce poverty. The World Bank noticed that as far as governments do not improve the way they govern with specific reference to public financial management and adopt policies supporting market economy, the result is poor financial performance and these projects have little value in the long term to reduce poverty and facilitate sustainable development. The World Bank is not directly accountable to the people but the ministries of relevant policy areas of the governments and voting rights are proportional to the contributions of the countries in accordance with their gross domestic product (GDP).

Early financial performance failures related to structural adjustment and reform programmes in the developing world stimulated the interest of the World Bank and other intergovernmental and international institutions in good governance (Harlow, 2006:199). World Bank financed programmes faced local hostility, widespread corruption, disappearance of aid funds, and inadequate auditing arrangements especially in Africa because the governments in those countries were out of touch with the governed. Consequently, a World Bank report on sub-Saharan Africa in 1989 promoted the idea that “democratisation in the context of a free economy would compel governments to be more accountable, less corrupt and hence more efficient developmentally” thus, participation, accountability and transparency formed the triad of good governance values and laid the basis for the World Bank’s leading role in terms of public financial management and specifically, financial performance management (World Bank, 2000).

The World Bank has embraced decentralisation as one of the major governance reforms on its agenda. With the emphasis on decentralisation, the World Bank aims at reducing the role of central government and administration; replacing command

and control economy to market economy; increasing intergovernmental competition and thus learning by doing; providing additional checks and balances in political processes and increasing the responsiveness and efficiency of governments; defusing social and political tensions and ensuring local and cultural autonomy (Aktan & Özler, 2008:178).

According to Harlow (2006:199), the World Bank adopted a more consultative and regional approach to African countries, especially where development is concerned. The New Partnership for Africa's Development (NEPAD) is the ideal platform for the World Bank to support regional issues such as poverty, HIV/Aids and debt reduction. The World Bank supports the African peer review process as a mechanism to deal with the assessment of Africa's own programmes.

Governance, as defined by the World Bank, is the manner in which power is exercised in the management of a country's social and economic resources for development. It is a process which includes setting policies, programmes and their implementation, enforcement and evaluation. It covers all the formal and non-formal actors involved in decision and policy-making as well as the actions of implementation of these policies and decisions (Singh, 2008:1).

4.3.2 The International Monetary Fund (IMF)

The International Monetary Fund (IMF) is an organisation of 186 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. Like the World Bank, the IMF's approach has changed over time as the fund started to provide assistance and advice to countries in transition in its Enhanced Structural Adjustment Facility (ESAF) Programme (Harlow, 2006:207). The view of the IMF on "good governance" is primarily concerned with macroeconomic stability of the monetary system and of the world economy, external viability and orderly economic growth in member countries. Therefore, the IMF's involvement in governance is understandably limited to economic aspects of governance such as public financial performance management (IMF, 1997:3).

The IMF's structural adjustment initiatives and failure in many developed countries due to large-scale corruption in governance increased concerns about advancement of developing countries in their quest to integrate into the global economy. The IMF

began to emphasise the administrative aspects of governance including democratic governance, financial performance management, judicial reform and anti-corruption. Many of these attempts are noble yet many of them are doomed to fail as most of the developing countries are ruled by a corrupt, incompetent, authoritarian class of elites who are reluctant to devolve their power and authority and legitimacy to societal elements. Moreover, the general public and intellectuals in developing countries are very likely to see this type of advice related to governance practices as interference in their internal affairs (IMF, 1997:3).

The IMF contributes to good governance through its policy advice and, where relevant, technical assistance. The IMF improves the management of public resources through financial performance management reforms covering public sector institutions (e.g. the treasury, central bank, public enterprises and the civil service function), including administrative procedures related to performance management (e.g. expenditure control, budget management, and revenue collection). It also supports the development and maintenance of a transparent and stable economic and regulatory environment conducive to efficient private-sector activities for increased revenue (e.g. price systems, exchange and trade regimes, and banking systems and their related regulations) (IMF, 1997:3).

4.3.3 The Group of Eight (G8)

The Group of Eight (G8) is the heads of state or government of the major industrial democracies (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States) who meet every year to deal with economic and political concerns facing their own societies and the global community. The G8 summits are also attended by heads of international organisations and some heads of state of developing countries. This interaction provides the heads of state of developing countries an opportunity to influence the G8 leaders on developmental, political and economic issues (G8, 2005).

At the 2002 G8 summit in Kananaskis in Canada, the G8 adopted the Africa Action Plan in response to NEPAD (Institute for Security Studies, 2005). The 2005 G8 Summit in Gleneagles emphasised the fact that improving public financial performance management systems is critical to countries making progress in reducing poverty. Most of the poverty-reduction strategy papers developed by partner countries recognise that poverty reduction is not merely a question of

spending more, but of maximising the impact and efficiency of public resources and to do more with less, as a requirement for public financial performance management. Partner countries also acknowledge that problems in sectors such as health, education and agriculture may have a common origin: weak public financial management and accountability. Making aid more predictable, procurement systems more robust and budget support more effective also require adequate capacities for managing public finances.

The agenda of the July 2005 summit in Scotland was dominated by the Millennium Development Goals, development challenges facing sub-Saharan Africa and debt relief for the world's poorest countries (G8, 2005). The summit stated that a comprehensive focused development plan based on financial performance management is needed to support Africa's progress towards growth and development in contrast to emergency funding alone. The G8 agreed to double aid for Africa by 2010 and write off the debt of the eligible heavily indebted poor countries. The G8 was criticised because most of the aid was earmarked for emergency relief rather than the development aid needed for investment in growth (Lake & Whitman, 2006:105).

4.3.4 The European Union (EU)

As the European Union (EU) changed its name from the European Economic Community (established in 1957 with the Treaty of Rome) and then the European Community, so it changed from an initial economic union to a more political one. The European Union (established in 1992 with the Maastricht Treaty) consists of 25 member states, with three countries joining in 2007 and Turkey as a candidate country (Europe Cares, 2006).

The Africa and Europe relationship is deeply rooted in history, with Europe as one of Africa's major colonialisers (Commission of the European Communities, 2005). The EU is the world's largest donor in Africa, especially in sub-Saharan Africa, and it is the African continent's main trade and economic partner. Sub-Saharan Africa receives additional funding from the Revision of the Cotonou Partnership Agreement (Europe Cares, 2006). With the onset of the United Nation's Millennium Development Goals project, the EU decided to increase funding for Africa and also developed an EU strategic performance management plan for Africa (Commission of the European Communities, 2005:2). The overall goals of the strategic performance management

plan are to support Africa's efforts to achieve the Millennium Development Goals and also provide a comprehensive, integrated and long-term framework for its relations with Africa. For the EU, sound public administrative practices based on good governance are critical for the highest possible return on investment for member states and these practices need to be portrayed within effective financial management practices and performance management initiatives as prerequisites for sustainable development (Commission of the European Communities, 2005:4).

4.3.5 The Commonwealth of Nations

The Commonwealth of Nations is an alliance of 53 independent sovereign states, almost all of which are former territories of the British Empire, with the British Queen as the head of states (Wikipedia, 2005). The main goal of the Commonwealth is to create an environment of economic co-operation between the members, as well as the promotion and support of democracy, human rights and governance in the member nations. Except for the economic co-operation, the member states also discuss social, environmental, health and developmental issues. HIV/Aids, sustainable development and security issues are regular items on the agenda. Although this is not a political union, matters that have a political impact are discussed and resolutions that emanate from them may have an influence on a member state. This may create an atmosphere of peer pressure among member states to improve their administrations with financial performance management as the key denominator for better service delivery and quality of life.

4.3.6 The Non-Aligned Movement

The Non-Aligned Movement was established in 1961 to express concern that the acceleration of the arms race between the Soviet Union and the United States might result in war between the two world powers (Non-Aligned Movement, 2004a). Over time, the focus has moved from political matters to the support of global economic and related problems. Today, the Non-Aligned Movement has about 115 members, representing the developing countries' priorities and interest. The Non-Aligned Movement tried to establish an independent path in world politics that will put them on the same platform as the big powers. Another focus of the movement is to work towards the restructuring of the global economic order by influencing the G8 and the EU to make more beneficial decisions towards the developing world. The non-aligned countries also endeavour to unify their actions towards the United Nations and other

international discussions to form an effective pressure group. As an organisation representing the interests of the developing world, the Non-Aligned Movement provides the ideal platform for improved administrative practices for enhanced public financial performance management, good governance, accountability and stewardship (Non-Aligned Movement, 2004b).

4.3.7 The World Trade Organisation (WTO)

The World Trade Organisation (WTO) is one of the most controversial international, multilateral organisations and is the only global organisation dealing with the regulations of trade between nations. The WTO's main goals are to decide on rules for the international trading system and resolve disputes between its member states (Wikipedia, 2004). There is considerable evidence that international institutions like the WTO have played a central role in moving the world towards a freer trade regime by reducing tariffs in assisting the developed world rather than the underdeveloped (Bardhan, 2002:185).

Developing countries have become significantly more involved in WTO discussions, especially in the field of agriculture. However, there has been criticism that the WTO does not run the global economy without bias, and that it has a regular bias towards rich countries and multinational corporations. Potentially, the WTO provides the ideal forum for increased trade and investment in developing countries. The WTO must provide the terms of reference for effective trade and investment in order for developing countries to assess their current administrative and management practices for enhanced financial performance management practices (World Trade Organisation, 2006).

4.3.8 The United Nations Development Programme (UNDP)

The United Nations Development Programme (UNDP) objectives are aimed at accelerated sustainable development, secured social support and attraction of foreign direct investment to Africa. The UNDP (1997:19) underlines the need for financial performance management for the efficient and effective management of public resources in response to the critical needs of all members of society. For the UNDP, a system of governance is good when there is evidence of efficient and effective financial performance and also the ability to satisfy these conditions. Good governance requires financial management systems that are transparent and

accountable, operate by the rule of law and are responsive to the needs of the people (UNDP, 1997:19).

The UNDP assists in the simultaneous development of NEPAD and the AU by supporting the involvement of African civil society in NEPAD and encouraging the industrialised world to support the programme for enhanced performance (UNDP, 1997:20).

4.3.9 The Organisation for Economic Co-operation and Development (OECD)

The Organisation for Economic Co-operation and Development (OECD) is a unique forum where the governments of 30 democracies work together to deal with the economic, social and environmental challenges of globalisation as they affect the modern view of government. The OECD strives to provide the opportunity for governments in the developing world to be more responsive and responsible by means of the establishment of public financial management principles and practices for enhanced performance. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance and the information economy. The organisation provides a development platform where governments can compare policy experiences, seek answers to common performance problems, identify good financial management practices and work to co-ordinate domestic and international financial management policies (OECD, 2008d: 2).

4.3.10 The United Nations Economic Commission for Africa (UNECA)

The United Nations Economic Commission for Africa (UNECA) was established in 1958 and is under the administrative direction of the United Nations (UN) headquarters (United Nations Economic Commission for Africa, 2006). It has 53 member states, including sub-Saharan African states, and its mandate is to support economic and social development, encourage regional integration and promote international co-operation for Africa's development. UNECA's main activities are policy analysis, advocacy, enhancing partnerships, technical assistance, communication and knowledge sharing. The organisation annually produces a report on Africa, called the Economic Report on Africa (United Nations Economic Commission for Africa, 2006), which gives an overview of the economic status of the member countries.

4.3.11 Summary of international organisations

The international institutions which were shortly sketched above are confronted with governance dilemmas such as the agency problem, asymmetry of information, closure and lack of transparency (Considine, 2002:20). This problem arises, for instance, when the power and prestige of an international organisation is pitted against the weak position of a developing country. Another problem is accountability and asymmetry of information between these epistemic communities and national interests. In situations where the internationally supported policies failed in a developing country, there is no clear guidance to point out those who were responsible for the failure (Chowla, Oatham & Wren, 2007:3). Actually, the accountability problem increases with the complexity of procedures within a network system of governance and remains a problem at both global and local level to be solved by the adherence of good governance (Stiglitz, 1998:583).

The Bretton Woods institutions are too strong for poor countries and yet their advices are ignored by some developed nations. The inability of the IMF, for instance, to take on its powerful members threatens the global public good of a stable international economy (Bevir, 2006:430). International institutions have faced many dilemmas such as these and now they are more willing to involve effected parties in their development policies. Therefore, these institutions are not reluctant to solve these problems but actively develop governance structures and tools to improve their internal system of governance to meet the criteria of good governance such as public financial performance management, democratic accountability, and transparency (Leighley, 1991:749).

4.4 AFRICAN REGIONAL SCENARIO

The poor people of the world are concentrated in Asia, South America and Africa. For the African continent, one of the biggest threats to human security is violent conflicts and war. Wars have displaced millions of people, disrupted lives, killed and maimed many people and destroyed the infrastructure of countries. Violent conflicts and wars can also roll back the human development gains built up over many years (UNDP, 2005:151). The World Bank estimates that wars and violent conflict cost Africa at least 2% loss of economic growth during the 1990s (Institute for Security Studies, 2006b). During the past 10 years, various violent conflicts and war have disrupted the

lives of the people of sub-Saharan Africa. In conflict, the principles of democracy, and also then the principles of good governance, are not adhered to and mismanagement and corruption in what is left of a government are extensive in nature. For the rich and developed countries to support developing countries with aid, peace and security, which is closely linked to development, is a prerequisite.

Support to developing countries is a requirement for growth and development towards global prosperity and security. However, the developed world and related international aid organisations are more and more concerned that service delivery initiatives to meet the needs of the people do not necessarily guarantee quality of life. Therefore, development support and related funding are subject to an urgent precondition, namely the benefiting countries' decision-makers in public financial management must give account of their performance with specific reference to the effectiveness of service delivery outcomes (Tigue & Greene, 1994:37).

4.4.1 Economic environment

The African economy remains underdeveloped despite decades of conceptualising, formulating and implementing various types of economic policies and programmes. Average income per capita in Africa is lower than at the end of the 1960s. The African region contains a growing share of the world's absolute poor with little power to influence the allocation of resources. Africa's income per capita averaged about US \$315 in 1997. If this figure is expressed in terms of purchasing power parity (accounting for higher costs and prices in Africa) then real income averaged one-third less than in South Asia, making Africa the poorest region in the world (World Bank, 2000:4).

Most countries in Africa remain largely primary exporters, aid-dependent and deeply indebted. In 1997, the foreign debt burden was more than 80% of GDP in net present value terms. Africa is the only major region where investment and savings per capita declined after 1970. The savings rate of the typical African country has been the lowest in the world, averaging about 13% of GDP in the 1990s (World Bank, 2000:4).

The above situation creates an imbalance between revenue and expenditure and does not create the ideal environment for effective service delivery and financial performance. The problem of limited financial resources for unlimited needs can only be solved with a developed economy as the success of a country's development

programme hinges on the country's effective economic policies, good governance and financial performance management.

4.4.2 Development environment

As analysed in Chapter 3, the role and functions of government are related to the establishment of an enabling environment for all its citizens to enjoy a good life. An underdeveloped economy is not the ideal situation for the establishment of an enabling environment for development. The development challenges of Africa are deeper than low income, falling trade shares, low savings and slow growth. In addition, they include high inequality, uneven access to resources, social exclusion, insecurity, environmental degradation and the HIV/Aids pandemic (World Bank, 2000:4).

In order to reverse underdevelopment in Africa, several initiatives have been attempted in the past. These include the 1980 Lagos Plan of Action, the Priority Programme of Economic Redressing of Africa (PPREA) adopted by the OAU in 1985 and the complementary UN Programme for the Economic Redressing and Development of Africa. Other initiatives are the Alternative Structural Adjustment Programme for Africa and the African Scope of Reference for Socio-Economic Redressing and Transformation. These efforts, to a large extent, have not been implemented (World Bank, 2000:4).

More than 90% of sub-Saharan Africa lies in the tropics with the accompanying high burden of tropical diseases, such as malaria and cholera, which reduce life expectancy, human capital development and labour force participation (Ndulu, 2006:214). In sub-Saharan Africa, there are 48 small economies with a median gross domestic product of US \$3 billion. The sovereign, ethnic and linguistic fragmentation makes the region more difficult to develop and the development is slower than in other developing regions (Ndulu, 2006:215). A lack of good infrastructure, especially in the rural areas, impedes growth even further. Most of the countries are landlocked, which relates to high transport costs and higher prices of commodities, which, in turn, slows down growth.

During the last five years, African leaders have renewed efforts at uniting Africa to face the challenges brought on by globalisation and trade liberalisation. The Millennium Africa Recovery Programme and the Omega Plan, which were merged to

form the New Africa Initiative and later the New Partnership for Africa's Development, as well as the newly remodelled African Union are the most important of these initiatives. While the African Union (AU) calls on self-sustaining Africa, the New Partnership for Africa's Development (NEPAD) looks at the industrialised world for partnerships to sustain its programme (World Bank, 2000:6).

On the economic side, there are many economic groupings such as the Southern African Development Community (SADC) in the south, the Economic Community of West African States (ECOWAS) in west Africa, the Maghreb Union of North Africa, the Common Market for Eastern and Southern Africa (COMESA) and the Intergovernmental Authority for Development (IGAD). It may be difficult to bring all these economic groupings together in a single bloc as some of the economic groups feel they are better off alone. The language issue is still a contentious one and many African leaders fail to see the challenges facing Africa from a wholly African perspective (World Bank, 2000:7).

Developing countries may be poor and the quality of life stays the same or goes down, but they have the majority of the world's people (or markets) and raw materials and minerals. Without them, the rich developing countries of the world cannot thrive and many developed countries exploit these resources without investing in the development of factories, human resources and social services. Africa is often viewed as a problematic continent because of war, poverty, corruption, weak governments and poor financial performance management and, therefore, the developed countries are hesitant to invest money in sustainable economic development. As no country can achieve prosperity on its own, the need for regional co-operation was realised as the way for the development of a plan for African development (World Bank, 2000:6).

4.4.3 Regional organisations

The world used to be made up of independent nation states, but now borders are becoming less important and the world is reorganising into regions and trade blocs for free trade and the establishment of an integrated regional and world economy. Unfortunately, free trade does not always mean fair trade and countries that supply raw materials and agricultural produce are at a disadvantage to developed countries. Developed countries also have more powerful voices in international bodies such as the United Nations and the World Bank. Developed countries tend to contribute more

financially and this buys them more power. As the developed countries have organised themselves into effective partnerships for growth and development, the developing countries have also organised themselves to unite around a common agenda so they can negotiate more effectively with the powerful developed world (World Bank, 2000:7).

4.4.3.1 The Africa Commission

The Africa Commission stated in 2005 by means of a comprehensive report that poverty and stagnation in Africa are the greatest tragedy of modern times, which demands a forceful response. Although Africa has made some improvements in economic growth and governance, the continent needs accelerated reform, both from the developed world and Africa to pull itself out of the cycle of poverty. The commission proposed a “coherent package” for Africa's upliftment, including governance and capacity-building, peace and security, education, public health, growth, poverty reduction and more and fairer trade. The report called for an additional US \$25 billion per year in aid to implement the package. However, these development interventions require funding and due to the fact that developed countries are hesitant to invest money for development, the countries to benefit from any assistance need to prove their public financial performance management ability (Commission for Africa, 2005).

4.4.3.2 The African Union

On 25 May 1963, 32 African government representatives established the Organisation of African Unity (OAU) in Addis Ababa with the signing of the OAU Charter. The main objectives of the OAU were to rid Africa of colonialism, promote unity and sovereignty among African states, promote development, ensure sovereignty and territorial integrity, and promote international co-ordination within the setting of the United Nations (African Union, 2005: Introduction). The OAU has, through the years, embarked on various initiatives to unify the states and to enhance economic and social development. The Lagos Plan and the Final Act of Lagos of 1980 mentioned self-reliant development and co-operation among African countries. Many programmes, charters, agendas and declarations followed, always with the OAU's determination to place the African citizen at the centre of development and decision-making (African Union, 2005). One of the most important treaties established the African Economic Community (AEC), commonly known as the Abuja

Treaty, seeking to create the AEC through six stages culminating in an African common market (Leshaba, 2004:5). The OAU laid a solid and firm foundation for the unity and solidarity of Africa.

The African Union (AU) was established through four summits of the OAU: the Sirte Extraordinary Session in 1999, which decided to establish the AU, the Lome Summit in 2000, which adopted the Constitutive Act of the Union, the Lusaka Summit in 2001, which drew the road map for the implementation of the AU and finally, the Durban Summit in 2002, where the AU was launched and the first Assembly of the Heads of States was convened (African Union, 2005). With the establishment of the AU, the OAU and the AEC were unified into one institution. During the celebrations of the 40th anniversary of the Organisation of African Unity on 23 May 2003, the then South African president and the president of the African Union, Mr. Thabo Mbeki, stated that the new issues on the continent's agenda were issues of democracy, peace and stability, good governance, sustainable development, human rights, health, gender equality and computer and information technology (Mbeki, 2003). These issues are quite different from the ones that the OAU had to face 40 years ago. The requirement for administrative action is obvious, but these issues require funding and once again stress the need for effective public financial performance management.

4.4.3.3 The New Partnership for Africa's Development (NEPAD)

As already mentioned, the Africa Action Plan, as a G8 initiative, is interlinked with NEPAD and together they form a partnership based on African priorities for the African people at a continental level. The AU is a clear manifestation of a collective demand for unity and NEPAD is the most significant continent-wide economic initiative to emerge in contemporary Africa (Mohammed, 2002:2). The basis of NEPAD is a commitment by African governments to put in place the good governance preconditions for economic growth, including strengthening democracy and the rule of law, achieving peace and security, and public financial performance management. These measures will help create an enabling environment for development. In response, the international community is expected to provide fairer market access for African products, debt relief and increased high quality aid flows, to enable Africa to meet the International Development Goals (Moller, 2009: 9).

NEPAD has several components, including governance, peace and security, and economic development. It is a sovereign process, driven by African governments, which brings together pre-existing initiatives including the Millennium Partnership for Africa's Recovery, led by South Africa, Nigeria and Algeria, and the OMEGA Plan of Senegal. In some respects, NEPAD is in fact an exercise in bringing together existing best practices of development partnership such as the participatory African Peer Review Mechanism (APRM), a scheme through which African states voluntarily assess each other's political and economic management, or governance. The mechanism is an outgrowth of NEPAD, adopted by African leaders in 2001 as the continent's development framework. The APRM reflects a moral contract to ensure that African leaders and their people adhere to the tenets of NEPAD. The APRM's notion of governance is a broad one, encompassing management of virtually all sectors of society, from the top echelons of political power to business, the media, civil society and local communities. NEPAD is open to all members of the AU and so far about half (25) have joined (Ekpo, 2002:10).

Current criticism that there is "nothing new" in NEPAD might be unfounded. There is no revolutionary blueprint for solving Africa's problems, but instead, increased effort put into what already works, and greater persistence in reducing or removing known obstacles to development, such as unsustainable debt overhang. The emphasis on regional co-operation is also not new, but is given new urgency (Moller, 2009:10).

What makes NEPAD different is the African political commitment behind it, and the fact that it has been greeted very positively among major aid donors including the G8. NEPAD's ability to provide the ideal platform for future public financial performance management reforms and review initiatives is one of the main reasons for international support. The previous United Kingdom Chancellor of the Exchequer, and later prime minister of the United Kingdom, Gordon Brown, called for a doubling in existing aid flows to the developing world, from \$53 billion to \$100 billion, by 2015. A major increase in Britain's aid commitment to Africa is likely to be part of Britain's future initiatives and action (Brown, 2005:6). In this context, NEPAD is the initiative that Western leaders have seized upon as the modality for assisting Africa.

NEPAD is therefore a synthesis of what is known to work and what is believed to work, packaged in a manner that can gain the confidence and support of African and international partner governments. Although NEPAD is not integrally linked to the African Union, it shares many of the same principles and aims. It is likely that the two

will succeed together, or not at all. As NEPAD is a pan-African initiative, the prospects for success depend upon all governments co-operating, and ensuring that the weakest performers are enabled to overcome their problems. Governments that are clearly failing the governance test, for example, are not merely harming themselves but are damaging the prospects for the whole continent. The old argument of non-interference in the internal affairs of African countries, already largely discarded, must be abandoned altogether (Ekpo, 2002:10).

4.4.3.4 The Economic Commission for Africa

The features of underdevelopment are well elucidated in the Economic Commission for Africa (1990) and the commission form the basis for an African alternative to the Bretton Woods structural adjustment programme. It is clear that the Economic Governance Initiative (EGI) within NEPAD fails to capture the reality of the African economy. Part of this reality is the African economic crises, which are deep and different and hence all theories developed outside the continent seem wanting for ignoring this crisis (Ekpo, 2002:11).

4.4.3.5 The Southern African Development Community (SADC)

The Southern African Development Co-ordination Conference (SADCC) was established in 1980 as a free alliance of nine countries in southern Africa with the goal of co-ordinating development projects to assist these countries in reducing their economic dependence on the then apartheid South Africa (Southern African Development Community, 2006) In 1992, the transformation from a co-ordinating conference to a development community took place with the signing of the declaration and treaty at the summit of heads of state of 14 southern African countries, which gave legal status to the Southern African Development Community.

The main objectives of the SADC are economic growth, poverty alleviation, promotion of peace and security, promotion of democracy, enhancement of the standard and quality of life of the people of southern Africa, sustainable development and support of the socially disadvantaged through regional integration. The SADC programme of action was developed to assist the organisation to attain its goals (Southern African Development Community, 2006).

4.4.3.6 **The Common Market for Eastern and Southern Africa (COMESA)**

The Common Market for Eastern and Southern Africa (COMESA) succeeded the Preferential Trade Area for Eastern and Southern Africa in 1993. COMESA has 20 members and its overarching goal is to strengthen the process of regional economic integration. Issues such as sustainable growth, joint development in all economic activity, cross-border co-operation and investment, peace, security and stability are high on COMESA's agenda. Most of the sub-Saharan African countries are members of COMESA (Institute for Security Studies, 2006b).

No country or region can achieve prosperity on its own and the world's view of Africa as a problematic continent will have an impact on the continent's ability for growth and development. The urgent requirement for investment and funding for growth and development is subject to good financial performance management practices. Regional organisations seem to be the answer for the establishment of uniformed financial performance management practices to enhance sustainable economic development (Institute for Security Studies, 2006b).

4.4.4 **The challenges facing sub-Saharan Africa**

The African continent is underdeveloped and faces some daunting challenges in the new millennium, such as crippling national debt, corruption in governments, human rights violations, poverty, conflict, famine and with the world's largest number of people living with HIV/Aids in the region. Sub-Saharan Africa is severely affected with approximately 25.4 million people living with HIV, representing about 60% of all HIV-positive people worldwide. As Aids affects the most productive sector of the population on a continent where four out of 10 people live on less than US \$1 per day, HIV/Aids needs to be taken seriously and become a priority (CIA World Factbook, 2011).

The sub-Saharan region has 34 of the world's 50 least-developed countries and it will need a special effort from both the continent and the developed countries to make major progress towards reaching the Millennium Development Goals (CIA World Factbook, 2011). Although Africa has a positive growth rate, it will not be enough to meet the Millennium Development Goals by 2015. The International Monetary Fund (IMF) has estimated that the Sub-Saharan region should have a growth rate of about 7% per year if the MDGs are to be achieved. Although some of the countries have a

high gross domestic product (GDP) per capita rate, the overall low ranking of human development index and poverty, high HIV prevalence rates, high infant and mortality and maternal mortality rates will have a huge impact on sub-Saharan African governments' public financial policy and spending (Ekpo, 2002:12-17).

In the sub-Saharan Africa region, the Republic of South Africa is firmly established as a regional power. With Africa's largest GDP, a diverse economy, and a government that has played an active role in promoting regional peace and stability, South Africa is poised to have a substantial impact on the economic and political future of Africa. South Africa is also playing an increasingly prominent role in various international fora. The next part of this chapter will highlight the internal environment of South Africa (CIA World Factbook, 2011).

4.5 THE SOUTH AFRICAN INTERNAL ENVIRONMENT

South Africa (SA) is a country with people from many diverse population groups merged into one unique nation. With a history of internal struggles between mainly black and white people to fight for democratic rights for the black population within a government system based on separate development, called apartheid, the past 18 years were evidence of significant changes, growth and development since the first democratic elections in 1994. In the years prior to 1994, the South African public service was divided into "general" and "own" affairs departments of the central government under the tricameral political system, along with six self-governing territories and the Transkei, Boputhatswana, Venda and Ciskei (TBVC) states with their own government departments (Fourie, 1998:233-234).

The South African political system is regarded as stable, but the South African Government faces serious long-term challenges arising from poverty, unemployment, and HIV/Aids (see brief statistics in Figure 3.1). South Africa is divided into nine provinces (see Figure 3.2) and has a population of almost 50 million (CIA World Factbook, 2011).

Figure 4.1: South Africa in brief

Population: 49 million (+)

African, 79%; whites, 9.6%; mixed race, 9%; Asian, 2.5%

Religion: 80% Christian, 2% Muslim, 4% Other, 15% None

Language most often spoken at home:

Zulu, 24%; Xhosa, 18%; Afrikaans, 13%; Sepedi 9.4%, English 8.2%, Setswana 8.2%, Sesotho 7.9%, Xitsonga 4.4%

Population growth rate: -0.38% (2011 est)

Life expectancy: 49.33 years

Prevalence of HIV/Aids: 17.8% (2009 est)

Literacy: 86.4%

Gross domestic product (GDP): \$354.4 billion (2010 est)

GDP per capita: \$10 700 (2010 est)

Unemployment: 23.3% (2010 est)

Source: CIA. 2011. World Fact Book. [Online] Available from:

<http://www.cia.gov/library/publications/the-world-factbook/> [Accessed: November 2009].

Figure 4.2: Map of South Africa's provinces



Source: Ploch, L. 2011. Congressional Research Service (CRS), *CRS Report for Congress, South Africa: current issues and US relations*. January 4, 2011, page 3.

After the first democratic election in April 1994, the South African public sector embarked on a tremendous transformation process, from a one-party minority-ruled regime to a government of national unity with a democratic system of governance. This has brought about new challenges in the political, economic, cultural, technological and physical environment. The challenge faced by the newly transformed South African Public Service is to deliver better services and to meet the expectations of all the inhabitants of the country within limited financial and human resources (Fourie, 1998:233-234).

4.5.1 State of development and growth in South Africa

In terms of the latest mid-year population estimates, in 2008, the total population of South Africa was 48.7 million, which is an increase of about 0.4% from the 48.5 million figure recorded by the 2007 community survey. There has been a significant increase in the number of households from 9 million in 1996 to 12.5 million in 2007. Since 1994, there has been an increase in the number of new households that were formed, which outpaced the increase in the population. It is clear that over time, the South African society has gone through a period where a large number of citizens chose to form new households that were also smaller in size. The large number of new households has placed an additional burden on reducing the service delivery backlog. About 45% of the population lives in rural areas and a fairly large proportion of the urban population reside in township areas and informal settlements (OECD, Economic Surveys, South Africa Economic Assessment, 2008:17- 49).

4.5.2 Performance indicators and current realities

Performance management has become an integral part of modern government with a growing focus on understanding and meeting the needs of communities. There is a continual demand to deliver more, and better, for less resulting in growing emphasis on financial performance management, measuring outputs in relation to the resources necessary for successful delivery of services. Performance indicators and current realities allow the opportunity for continuous improvement (Bogumil, 2004:392).

4.5.2.1 Economic indicators

South African's economy is by far the largest in sub-Saharan Africa with about 40% of total sub-Saharan African GDP, exerting major influence on total output, trade and investment flows of the African continent. The awarding of the 2010 FIFA World Cup to South Africa is a confirmation that South Africa is recognised as a stable, modern state, in many ways a model for the rest of the African continent. In 2010, South Africa successfully hosted the largest event ever held on the African continent, the FIFA World Cup, an international football (soccer) competition. The Government and the private sector undertook a wide variety of construction and infrastructure projects in preparation for the event, which was attended by over three million people and drew over 300 000 tourists. South Africa defied many expectations during the event and six new stadiums were finished on time and crime was very low (Ploch, 2011:2).

Based on the official government development indicators (Government Development Indicators, 2009:5), South Africa's GDP growth is below the growth goal of 6% per annum. The government aims to limit its debt and reduce its demands on the financial markets in order to create conditions for lower interest rates and higher private-sector investment. However, government debt is likely to rise during the current period of slow economic growth and high government investment. In its Global Competitiveness Index, South Africa currently ranks 45th and 48th on the World Economic Forum (WEF) and International Institute for Management Development (IMD) global ratings. Education and healthcare systems bring South Africa's competitiveness down at present, and in recent times, concerns about infrastructure services have grown. South Africa needs to transform from a resource-based economy to become a knowledge-based economy (OECD, Economic Surveys, South Africa Economic Assessment, 2008:17-49).

South Africa is committed to empower historically disadvantaged South Africans. The total BEE transactions have steadily increased over the last 14 years. With a numerical target of approximately 16 million people employed, it is expected that the current global economic situation will have a negative impact on employment. South Africa has just witnessed massive job losses due largely to the global economic crisis and decline in economic growth. The higher number of unemployed youth is especially worrying (OECD, Economic Surveys, South Africa Economic Assessment, 2008d:50).

4.5.2.2 Income distribution

South Africa's distribution of income is among the most unequal in the world. There is an improvement in the incomes of the poorest, however, the income of the richest 10% of the population increased at a faster rate. When the percentage incomes of the richest and poorest quintiles are compared, the deep structural nature of poverty in South Africa is clear. This structural nature of poverty has a racial underpinning. It seems also that the lowest rate of improvement is in the middle income ranges (RSA Government Development Indicators, 2009:5).

4.5.2.3 Unemployment and poverty

Unemployment and poverty remain the most pressing economic problems. The Government's ability to meet the basic needs of all South Africans has declined and the rate of eliminating poverty is slow. The Government needs to provide appropriate social-assistance support to all eligible beneficiaries. Approximately 70.5% of South African households now live in formal dwellings. South Africa has surpassed the Millennium Development Goal of halving the proportion of people without sustainable water and is likely to achieve the 2014 goal of universal access to potable water, despite the challenge of an ever-increasing number of households. The rate of new electricity connections is slowing down considerably as it now has to be preceded by the establishment of bulk infrastructure in areas that were not previously served (RSA Government Development Indicators, 2009:5).

4.5.2.4 HIV/Aids in South Africa

According to the Government Development Indicators (2009:5), the prevalence of HIV/Aids in South Africa is above all a human tragedy on a grand scale. Some 17.8% (2009 est) of the prime age adult population is estimated to be HIV positive, and deaths from Aids now amount to nearly one thousand a day. There are approximately 1.2 million Aids orphans under the age of 18, and millions more children have lost one parent to the disease, which is the biggest single cause of death for South Africans aged 24-49. The goal of building a healthy, well-educated and prosperous nation based on the enhancement of a greater life expectancy shows a trend of increasing mortality, especially of the young. This seems to be related to HIV prevalence rates (CIA World Factbook, 2011; UNAID, 2006).

4.5.2.5 Education

Educational outcomes are poor, contributing to entrenched poverty, inequality and a skills gap. The phenomenon of persistent extreme unemployment is bound up with the failure of the education system to deliver enough skilled workers to the labour force. It appears that the learner-to-educator ratio has stabilised below the set target of 32:1. However, it is critical also to pay attention to disparities within provinces and districts. South Africa needs to improve the quality of education as reflected in the National Senior Certificate Examinations of 2009 with an average pass rate of 60%. The stagnation of the literacy rate between 2005 and 2008 confirms the need for more vigorous programmes to meet the illiteracy challenge facing society (RSA Government Development Indicators, 2009:5).

4.5.2.6 Crime and security indicators

The crime rate remains unacceptably high and South Africa ranks among the worst countries in the world on this front. In the 2007-08 Global Competitiveness Index calculated by the World Economic Forum, for example, South Africa was ranked 126th of 131 countries for the business costs of crime and violence. The problem is not merely one of perceptions: South Africa has one of the highest homicide rates in the world, with particularly high numbers of gun deaths. With the sharp increase in especially violent crimes, feelings of personal safety are declining (OECD, Economic Surveys, South Africa Economic Assessment, 2008d:17-49).

4.5.2.7 International relations

In terms of international relations, South Africa remains a significant actor and a major contributor in peacekeeping operations on the continent and elsewhere in the world. South Africa also continued to render humanitarian support to a number of countries during disasters and also plays a role in supporting post-conflict reconstruction and development in the DRC and Sudan. Recently, South Africa has been playing a crucial role in Libya to restore peace and justice after the violent objections and protest actions against the Gaddafi regime (Ploch, 2011:8).

4.5.2.8 Governance

The need to promote prudent and responsible use of public resources shows little improvement in the number of government departments and public entities that received unqualified audit opinions in the 2009/10 financial year audit. The most notable difference concerns the number of provincial departments that received qualified audit opinions, where there has been a significant decrease. These figures show that there is a lot of work that remains to be done to improve public financial performance management in government institutions in order to improve audit outcomes (Afrobarometer, 2006:1-4). The 2008 Corruption Perceptions Index (CPI) results show a setback in perception regarding the fight against corruption in South Africa. According to the CPI, perceptions about corruption in South Africa have increased between 2007 and 2008, pushing the ranking of South Africa downwards from the 43rd place to the 54th. And for the first time in many years, South Africa's score fell below the midpoint (which is 5) to 4.90 (RSA Government Development Indicators, 2009:5-76).

According to the 2008 Open Budget Index, South Africa continued its impressive record by providing citizens with extensive information about the budget. Out of the 78 countries included in the index, South Africa is ranked among the top five that provide extensive budgetary information to citizens, which confirms the Government's commitment to transparency and openness (RSA Government Development Indicators, 2009:5-76).

4.5.3 National development initiatives since 1994

In the early years of the first post-apartheid government, the main policy framework was the Reconstruction and Development Programme (RDP), which was part of the election platform of the African National Congress in the 1994 elections. The RDP consisted of socio-economic programmes designed to redress imbalances in living conditions and institutional reform, educational and cultural programmes, employment generation and human resource development. An RDP Fund was created to finance RDP projects, and a separate RDP office set up to administer the fund and co-ordinate the programme across ministries. In 1996, however, the Government introduced a macroeconomic policy framework called the Growth, Employment and Redistribution (GEAR) strategy, which put fiscal sustainability to the

fore and stressed that macroeconomic stability was a necessary condition for successful development (Ploch, 2011:8).

The RDP did not actually end with the launching of GEAR, but from 1996, the separate RDP office was disbanded, and the programme was de-emphasised, while GEAR took centre stage. GEAR achieved impressive macroeconomic stabilisation, but growth performance remained mediocre, and unemployment, already extreme, continued to rise, along with inequality and poverty. It was therefore decided to take a careful look at how to accelerate growth and ensure rising living standards for the majority (Ploch, 2011:8).

On 6 February 2006, the then South African deputy president Mlambo-Ngcuka launched a development strategy, the Accelerated and Shared Growth Initiative for South Africa (AsgiSA). As the third major development strategy adopted since 1994, AsgiSA was designed to permit the achievement of pre-announced goals concerning the halving of unemployment and poverty between 2004 and 2014 (OECD, 2008d:18).

AsgiSA was born out of recognition that despite substantial economic achievements since the transition to democracy in 1994, the fruits of those successes were not being shared widely enough. The same disadvantaged blacks who had suffered under apartheid failed to improve their living standards under majority rule (OECD, 2008d:2-4).

During April 2009, the people of South Africa voted in a free and fair election for a new administration, headed by Mr Jacob Zuma as the newly appointed President. During May 2009, a new structure of government was announced in order to create the necessary structures and resources to drive the implementation of the Government's revised priorities as announced by the President in the 2009 State of the Nation address (Government's Programme of Action, 2009:2).

As a result of a functional re-evaluation of the national priorities, 10 priority areas from 2009 to 2014 have been identified. These priority areas will endeavour to speed up economic growth and transform the economy to create decent work and sustainable livelihoods. Sustainable resource management and use will be ensured. A massive programme will be introduced to build economic and social infrastructure. Plans will be developed and implemented to establish a comprehensive rural

development strategy linked to land and agrarian reform and food security. The skills and human resource base will be strengthened, the health profile of all South Africans will be improved, the fight against crime and corruption will be intensified. Cohesive, caring and sustainable communities will be established. African advancement and enhanced international co-operation will be pursued. A developmental state, improved public services and strengthened democratic institutions will be established (Government's Programme of Action, 2009:2).

4.5.4 Functional arrangements in the South African Government

By the end of March 2008, the South African Public Service had 1 204 525 public service employees. Of these employees, 63% were attached to the social services sector (health, social development, education and home affairs), followed by 20% in the criminal justice sector (Department of Public Service and Administration, Public Service Review Report, 2008/2009).

The government has the responsibility to make policies and laws about the rights and responsibilities of citizens and the delivery of government services. The government collects revenue from taxes and uses this money to provide services and infrastructure, which improves the lives of all the people in the country, particularly the poor (CIA World Factbook, 2011).

The Constitution of South Africa (1996) sets the rules for the Government's operations. There are three spheres of government in South Africa, namely, the National Government, the provincial government and the local government. Each sphere of government is made up of the elected members who represent the public and approve policies and laws (legislative authority). At the national sphere, the Cabinet, and at the provincial sphere, the executive committee, co-ordinates law and policy-making and oversee implementation by government departments as the executive administration (Department of Public Service and Administration, The Machinery of Government, Structure and Functions of Government, 2003:14-15).

4.5.4.1 National Government

Laws and policies are approved by the National Assembly (Parliament) and the National Council of Provinces (NCOP). The National Assembly is made up of members of Parliament, elected every five years. The NCOP is made up of

representatives of provincial legislatures and local government. The President is elected by Parliament and appoints a Cabinet of ministers. They act as the executive committee of government and each minister is the political head of a government department. Each government department is responsible for implementing the laws and policies decided on by Parliament or the Cabinet. Government departments are headed by a director-general (accounting officer) and employ managers and staff to execute the functions of government.

Based on the outcome of a departmental strategy, every department prepares a budget for a specific period. Under the guidance of a National Treasury, all departmental budgets are integrated into one national budget to be approved by the legislative authority. Provincial or local government may not do anything that is against the laws or policies set down by the National Government. The provincial government gets most of its money from the National Treasury. The local government also gets grants and some loans through the National Treasury (Department of Public Service and Administration, *The Machinery of Government*, 2003:14-15).

Sound financial management by the government of the day is achieved through maintaining prudent and responsible fiscal policies. Its effectiveness permeates all levels of society. This situation requires a legislative framework, which demarcates areas of responsibility, accountability, and operation. An environment where accountable, responsible public officials collaborate fully will ensure good planning, effective implementation and adherence to prescriptions in order to constitute the foundation that is essential for sound public financial performance management (Visser & Erasmus, 2002:4).

The National Government may raise the vast bulk of revenue, but its expenditure responsibilities are low as certain powers, functions and financial resources are assigned to the provincial and local tiers of government. Therefore, a fiscal system is required providing for inter governmental fiscal transfers, ensuring equitable relationships accompanied by objective and quantifiable criteria for financial performance (Visser & Erasmus, 2002:257).

4.5.4.2 Provincial government

The Constitution (1996) provides for the election of provincial legislatures for nine provinces and each province elects its own premier, who then appoints a provincial executive council. The provincial legislatures have the authority to legislate in a range of matters specified in the Constitution (1996), including education, environment, health, housing, police and transport, although complex provisions give the central government a degree of concurrent power. The legislature also passes an annual provincial budget. Provincial departments employ heads of department (accounting officers) and civil servants to execute the development functions of the relevant provincial government (Department of Public Service and Administration, *The Machinery of Government, Structure and Functions of Government*, 2003:14-15).

In the provincial environment, *development functions* refer to a multidimensional process improving the quality of life of all. The success of development rests in the areas of functionary experts that are responsible for improvements in housing, educational levels, nutrition, and water and sanitation. Development seeks to redress the imbalances of the South African society. Community development, economic growth and employment are issues that are prominent on the provincial agendas. Sound financial management is critical for all functionary experts to be successful and they must be able to manage limited resources in the most economic, efficient and effective way in order to deliver world-class services (Van der Waldt & Du Toit, 2005:145).

4.5.4.3 Local government

Local government is regarded as a sphere of government in its own right and is not regarded as an extension (administrative implementing arm) of the provincial or national spheres of government. The whole of South Africa is divided into local municipalities. Local municipalities have the right to administer the local government matters listed in the Constitution (1996), Part B of Schedule 4 and Part B of Schedule 5, and any other matter referred to them by national or provincial laws. Each municipality has a council where decisions are made and municipal officials who implement the work of the municipality. The council is made up of elected members who approve policies and by-laws. The work of the council is co-ordinated by a mayor who is elected by the Local Council. The mayor is assisted by an executive or

mayoral committee of councillors. The mayor together with the executive council also oversees the work of the municipal manager and other officials (Van der Waldt & Du Toit, 2005:146).

The executive administration, headed by the municipal manager (accounting officer), is responsible for sound management to implement programmes approved by the municipal council. In the absence of functional departments in the local sphere of government, "integrated development planning" (IDP) provides direction for future development in the specific local areas of the country. IDP aims to co-ordinate the work of local and other spheres of government in a coherent planned programme to improve the quality of life for all the people living in an area (Minnaar, 2010:40).

4.5.4.4 Inter governmental relations and co-operative governance

Inter governmental relations refer to the organisation and unique relationships between the three spheres of government. The Constitution (1996) states that the three spheres of government "are distinctive, interdependent and interrelated" (Constitution, 1996, Section 40 [1]). Although the three spheres of government are autonomous, they exist in a unitary South Africa, meaning that they have to work together on decision-making, co-ordinating budgets, policies and activities, particularly for those functions that cut across the spheres (Constitution, 1996, Chapter 3, Section 41).

Local government is represented in the NCOP and other important institutions such as the Financial and Fiscal Commission (FFC) and the Budget Council. The South African Local Government Association (SALGA) is the official representative of local government. SALGA is made up of nine provincial associations (Department of Public Service and Administration, *The Machinery of Government, Structure and Functions of Government*, 2003:27-32).

The fact that the principles of co-operative government are included in the Constitution (1996) should confirm its importance in the South African society. Programmes developed at national government level can only succeed if implementation at the provincial and local levels of government is successful. Organisation and co-ordination between the respective authorities and executive institutions are therefore of cardinal importance. The government of the day can

achieve its objectives efficiently and effectively only if there are sound financial relations between all levels of government (Visser & Erasmus, 2002:276).

4.5.5 Political oversight

Functional arrangements in the various levels of government allow managers the opportunity to manage available resources in the most economic, efficient and effective way. However, in the South African Government environment, all service delivery initiatives and the conduct of public administrators must be aligned with the Constitutional principles for public administration and therefore demand that managers are accountable. Various institutions play an oversight role in order to ensure public accountability with regard to service delivery (Van der Waldt & Du Toit, 2005:42).

4.5.5.1 The Auditor-General

As a constitutional institution, the Auditor-General's role is to audit the accounts and financial statements of national and provincial departments as well as municipalities and any other institution or accounting entity. In addition, the Auditor-General may report on the accounts, financial statements and financial management of any institution funded from the National Revenue Fund, a provincial revenue fund or by a municipality. The Auditor-General is also authorised to audit the financial affairs of any institution that may, in terms of law, receive money for public purposes (Department of Public Service and Administration, *The Machinery of Government, Structure and Functions of Government*, 2003:24).

From a public finance perspective, budgeting and public finance systems are in place enabling government departments to report on the resources they used, on the outputs produced or the activities conducted and to report on these to the legislatures and the public. This approach allows managers to manage, but they are accountable through reporting. The implication of this is that if the legislature and the public had information about where and how money was spent and what was delivered for this money, then they could hold government accountable and thereby improve service delivery (Naidoo & Simmonds, 2007:5).

4.5.5.2 The Financial and Fiscal Commission

The Financial and Fiscal Commission is a consultative body, which makes recommendations and gives advice on financial and fiscal matters for state organs in all spheres of government. The commission consists of expert members appointed by the President of South Africa. As an independent body, the commission is required to act impartially and to make recommendations regarding matters as prescribed in the Constitution (1996) relating to the three spheres of government (Visser & Erasmus, 2002:258).

In terms of financial performance management, the significance of the Financial and Fiscal Commission is the fact that regular reporting to the National Assembly, the National Council of Provinces, and the provincial legislatures on all recommendations is required (openness). In terms of the division of revenue between the spheres of government, the commission advises equitable sharing of revenue and other inter-governmental fiscal issues. The commission can control the negative effects of subjective political decision-making in the allocation of resources (appropriateness) (Visser & Erasmus, 2002:266).

4.5.5.3 The Public Service Commission

In South Africa, the Public Service Commission (PSC) is an independent and impartial body created by the Constitution (1996) as the custodian of governance in the Public Service. The PSC derives its mandate from Sections 195 and 196 of the Constitution (1996). The PSC promotes a professional and ethical environment and adds value to a public administration that is accountable, equitable, efficient, effective, corruption-free and responsive to the needs of the people of South Africa (Public Service Commission, State of the Public Service Report, 2009:2).

In terms of Section 196(4) of the Constitution (1996), the commission is mandated to promote the constitutionally enshrined democratic principles and values in the Public Service by investigating, monitoring, evaluating, communicating and reporting on public administration. The commission must investigate and evaluate the application of public administration practices and propose measures to ensure effective and efficient performance in the Public Service. In order to ensure sound procedures and practices relating to human resource management, the commission must also advise national and provincial organs of state and report to the relevant executive authority

and legislature. The commission must report at least once a year to the National Assembly; and, in respect of its activities in a province, to the legislature of the province. The commission must at all times retain its independent and impartial status. Such interaction must in no way affect its reporting to the National Assembly or the various provincial legislatures (Van der Waldt & Du Toit, 2005:157).

In terms of organisational arrangements, the PSC has work study officials who examine public officials in support of the establishment of sound procedures and practices relating to human resource management. This initiative is aligned with the need for proper training as key requirement for sound financial performance management, rather than reliance on legislation and procedural frameworks, since legislation and procedural manuals alone cannot instil the powers of insight, interpretation and evaluation in officials responsible for implementation. The impact of the PSC can shift the emphasis from a focus on compliance and adhering to principle, to a focus emphasising outputs and real impact or results (Naidoo & Simmonds, 2007:6).

4.5.5.4 **Parliamentary committees**

The National Assembly and the National Council of Provinces are divided into committees, which play a vital role in the process of political oversight and public financial performance management. Committees allow the opportunity for members of the public to express their opinions directly and try to influence the outcome of Parliament's decisions. In the National Assembly, these committees are called portfolio committees and in the National Council of Provinces they are called select committees.

In terms of Section 55 of the Constitution (1996), the National Assembly establishes mechanisms of oversight and the Standing Committee on Public Accounts (SCOPA) is one such oversight committee. In terms of public accounts, SCOPA acts as Parliament's watchdog over the way taxpayers' money is spent by the executive. Every year, the Auditor-General (AG) tables reports on the accounts and financial management of the various government departments and state institutions. The heads of these bodies are regularly called to account by this committee. The committee has the normal powers of any National Assembly committee, including the power to summon any person to appear before it to give evidence, or to produce documents, or require any person or institution to report to it. Owing to its volume of

work (more than 250 reports per year), SCOPA has established two work groups. Most of the reports referred to SCOPA are tabled in September every year in terms of the PFMA deadlines. The AG also tables two general reports and a number of performance and special audit reports.

4.5.5.5 Management capacity in the South African Government

The Public Service Act (103/1994) created the basis for integrating the fragmented system of state administrations inherited from the apartheid era into a unified national public service. The transformation of the South African Public Service is unique and institutionally complex (Fourie, 1998:239).

Based on the situation prior to 1994, the transformation process entails the implementation of policy to deal with affirmative action and the need for equal opportunities. According to Fourie (1998:240), the central public service was dominated by white males, and black officials were only found in the former "bantustans". The number of educated and trained black officials was extremely limited compared with white officials. Historical education policies before 1994 resulted in a skewed distribution of technical skills across races and regions and due to the nature of the political climate, senior officials were subjected to extreme politicisation.

The establishment of a unified service entails major restructuring interventions in order to ensure functional and structural unification and alignment of national and provincial administrations including the assignment of powers to administer existing laws. Policy decisions and strategies to support the transformation process deal with the establishment of new staffing levels, job descriptions, remuneration structures and performance-related promotion. However policies and strategies to redress equity imbalances and rightsizing such as retrenchment and early retirement incentives created a major challenge for future initiatives on skills development and retaining of specialised and scarce skills in the fields of accounting and financial management (Fourie, 1998:244).

Today, the consequences of a lack of management skills are negatively portrayed in government performance indicators and supportive management information systems. The absence of the requisite technical proficiency and educational background to grasp the fundamentals of subjects such as accounting, government

finance, economics, commercial law, quantitative methods, data processing and computerised information systems will continue to constrain organisational performance. Fourie (1998:246) lists the following skills requirements as critical areas of concern: to identify deviations from agreed terms in a contract and to offer constructive solutions; to be alert for the existence of problems or potential problems derived from progress reports and to deal with the required assistance; to be sensitive to human relations and related people skills when negotiating and interacting with people affected by the services being provided also with reference to contractual interaction on contract objectives, evaluation findings and recommendations. Fourie (1998:246-247) further emphasises the need for training and development programmes on financial management, practices and procedures, evaluation and monitoring skills, and the ability to establish business systems and controls in the economical, efficient and effective use of resources. The above scenario is negatively affecting the government's strive for good governance and the need to enhance performance for quality of life for all citizens in South Africa.

4.6 CONCLUSION

Due to the influence of the environment on public administration, public financial performance management is also influenced by the environment. There is no place or organisation that escapes the trend of globalisation. Organisations need to participate in the establishment of strategic alliances and partnerships and must maintain a level of competency comparable with that of worldwide skills and best practices. The future organisation will have to focus on the capacity to access a wider population.

Progress has been made in economic governance, public financial management and accountability and the integrity of the monetary and financial systems by several African countries. As a result, the situation in Africa today is better than it was a decade or so ago. However, a great deal remains to be done, such as the question of leadership and how seriously it is committed to sound public financial management and accountability. The integrity of the monetary and financial system is central, as is the question of the ability of other institutions of government and civil society in general to control the executive and make it accountable. In this regard, the role of parliaments and civil society organisations is crucial. These institutions must be empowered and their capacity enhanced so that they are more or less equal interlocutors and partners with the executive branch of government. The dominance

of the executive over the legislature and the judiciary must be sharply curtailed, and a true and genuine system of checks and balances must be established among the three spheres of government. In addition, civil society organisations (oversight) must be strengthened, and their independence from the government as well as their ability and capacity to play a greater and more effective role in economic policy-making and implementation must be greatly reinforced. Many of these organisations simply lack the capacity and experience to be effective in economic governance and public financial management.

Given the magnitude of the challenges and the tasks facing African countries, African governments and other stakeholders, especially the international community, must focus not only on devising schemes, policies and programmes and adopting internationally accepted rules, regulations and codes of good practices, but also on ensuring that the capacity to implement these well-conceived reforms is available. A holistic approach will be needed for the problem of governance and to make progress on all fronts simultaneously, challenging though this may be.

Chapter 5 deals with the analysis of public financial management practices in the international environment and discusses specific initiatives undertaken by national states and also international organisations in the quest to make the world a 'better place'.

CHAPTER 5: INTERNATIONAL REFORM INITIATIVES IN GOVERNMENT FINANCES AND PUBLIC FINANCIAL PERFORMANCE MANAGEMENT

5.1 INTRODUCTION

The increasing complexity of the public administration environment and the continuous need to align the needs of society with limited resources require that funds are made available for a specific purpose and used for that purpose. Government institutions all rely on the citizens of the country for their income and are therefore subject to relevant public-sector legislative and administrative processes in dealing with revenue and expenditure. Internationally, poor performance of governments has a common origin, namely weak public financial management practices and accountability requires adequate capacities for managing public finances.

The aim of financial management in the public sector is to manage limited financial resources to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes that will serve the needs of the community. A sound public financial management system allows government to make the best use of all available resources, including international development assistance, to improve the quality of life of society. This includes managing expenditure and raising revenue and is not merely an issue of spending more, but of maximising the impact of public resources.

This chapter is an analysis of current international reform initiatives in public finances and financial performance management. The focus of the analysis is on international reform initiatives and possible best practices in government finances and financial performance management. This allows the opportunity for future alignment in order to provide world-class public services in the South African context. Theoretical models and different approaches to public financial performance management will be analysed with the aim of finding cross-cutting issues, evidence of practical applications and also for capacity development.

5.2 AN OVERVIEW OF PUBLIC FINANCIAL MANAGEMENT

The complex of problems that centre around the revenue-expenditure process of government is referred to traditionally as public finance. However, Musgrave

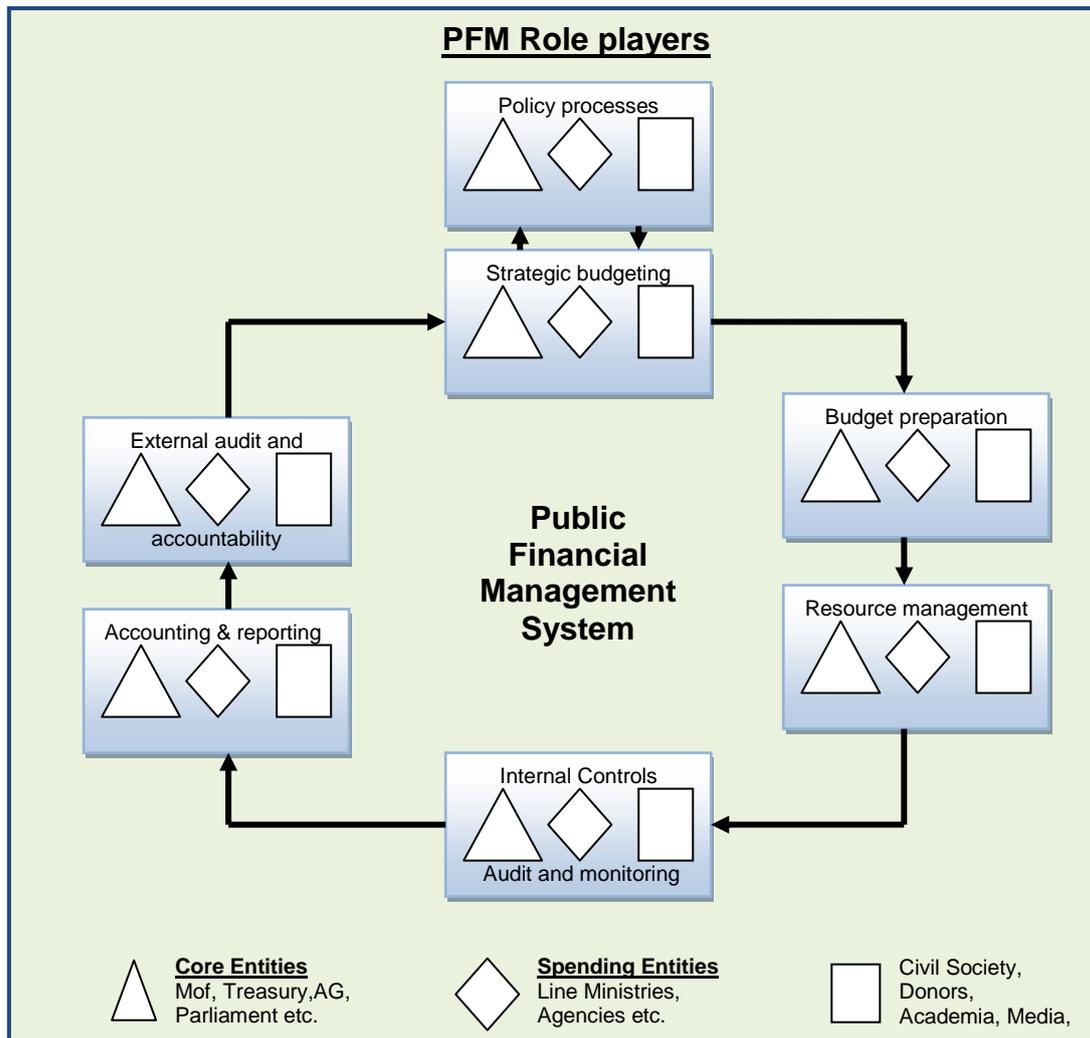
(1959:3) contends that although operations of government involve money flows of revenue and expenditure, the basic problems are not issues of finance or concern about money, liquidity or capital markets. Rather, these problems are related to resource allocation, the distribution of income, full employment, and price level stability and growth. Musgrave (1959:3) further suggests that one thinks of the task of government as an investigation into the principles of public economy; or more precisely, into those aspects of economic policy that arise in the operations of the public budget.

According to Herber (1971:5), *Finance* as such, suggests “monetary flows” as represented by the revenue-gathering and expenditure activities of the governmental budgetary process. The “basic” economic functions of the public sector are those which influence resource allocation, income wealth and political voting distribution, aggregate economic performance, and the rate of economic growth. Although Herber (1971:5) sees this as the direct results of public-sector economic activity, he suggests that “...out of respect to the orthodox nature and well-engrained popularity of the term ‘finance’ the terms ‘economy’ and ‘finance’ can be used interchangeably”.

Although there is a consensus on generic stages of a budget cycle, a review of the literature on public financial management reform shows that there is no universally agreed definition of public financial management (Pretorius & Pretorius, 2008:2). The narrowest definition confines *public financial management* to the downstream activities of budget execution, control, accounting, reporting, monitoring and evaluation (Allen, Schiavo-Campo & Garrity, 2004:11).

As an alternative definition, Rosen (2002:4) describes *public financial management* as the taxing, spending and debt management of government, which influences resource allocation and income distribution. The spending portion covers the budget cycle, including budget preparation, internal controls, accounting, internal and external audit, procurement, and monitoring and reporting arrangements (Witt & Müller, 2006:6). The complexity of public financial management relationships and multiplicity of public financial management role players are best illustrated in Figure 5.1.

Figure 5.1: The multiplicity of public financial management (PFM) role players and PFM relationships



Source: Andrews, M. 2007. *What would an ideal public financial management system look like?* In Shah, A. (ed.) *Budgeting and budgetary institutions*. Washington: World Bank, page 24.

A strong public financial management system is critically important in achieving the strategic goals and objectives of government and requires a series of realistic steps or platforms to accommodate multiple role players and to manage relationships. Each platform is defined in terms of improved outcomes and is the basis for launching the next stage. The PFM system in Figure 5.1 provides for improved outcomes in terms of:

- 1) improved linkage of policy priorities to budget planning;
- 2) a credible budget delivering predictable resources;
- 3) improved internal controls to hold managers to account; and
- 4) integration of accountability and review processes for both financial and performance management.

The PFM system highlights the relationships of various role players in the different components, which create the opportunity for good governance with the emphasis on public financial management capacity, accountability and responsiveness. The system provides for collective decision-making, for citizens to express their preferences and accountability. The PFM system makes provision for aggregate fiscal discipline, strategic prioritisation in composition of expenditure with the budget as a key instrument to implement government policies, operational efficiency in use of resources and fiscal transparency. The result of this financial management process is a credible budget that is a reflection of the government's policies and priorities, it is comprehensive by covering all government activities and there is full transparency of budget processes and information. The internal control system should ensure that the budget appropriations are not exceeded, that funds are spent as intended and that reliable information is produced. Finally, accounting systems provide for timely and reliable reporting at all levels of decision-making; and the ex post systems of external scrutiny by the legislature and by external audit, by holding political executives and management accountable, should help keep the budget on track and improve performance (Shand, 2006:1).

5.2.1 Components of public financial management

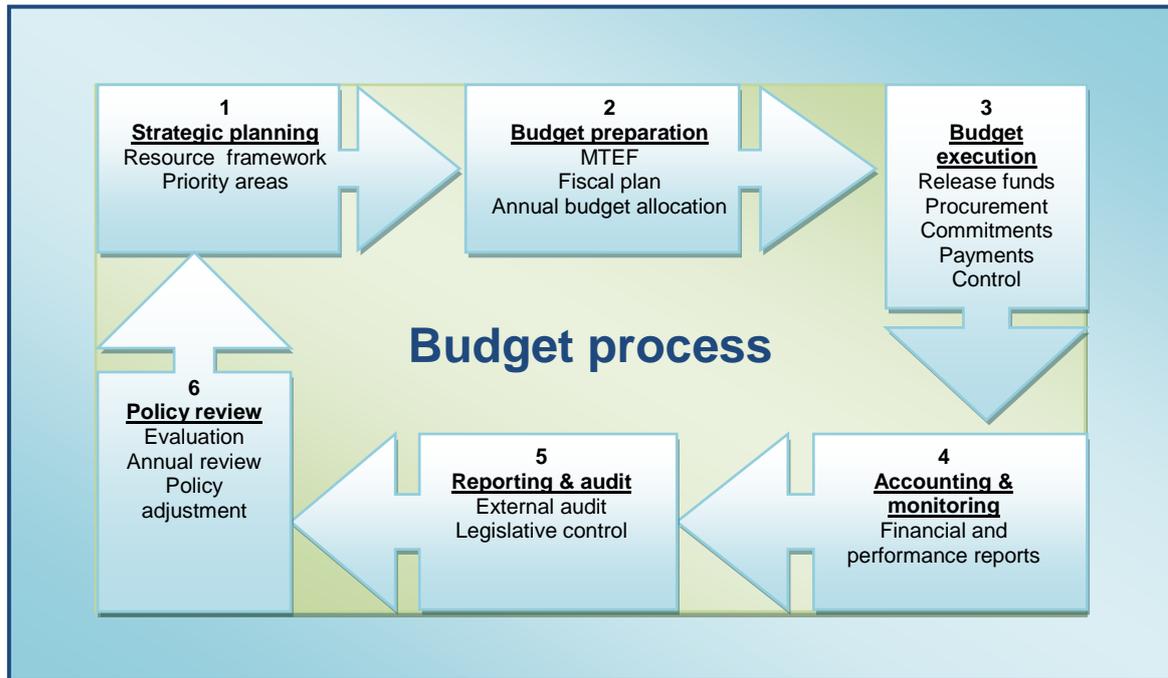
Olander (2007:11) lists four objectives for the management of public expenditure: firstly, the control of aggregate expenditure of public resources in line with available resources; secondly, the effective allocation of resources to different areas of concern in pursuit of objectives; thirdly, the efficient operational use of resources, such as service delivery, to ensure maximum value for money; and finally, fiscal transparency through social control. These objectives are mutually interdependent and interact with each other. All these objectives are realised through the budget process. The budget, the centrepiece in any country's public activity, is both a political and technical document. It is through the budget that policies are implemented, leading to service provision, among other things. Therefore, the budget process, through a sound public financial management system, is one of the most important democratic arrangements. There is a need for budget ownership where both political and administrative role players take greater responsibility for their own finances (Olander, 2007:10).

The World Bank's Public Expenditure and Financial Accountability (PEFA) agency highlights a number of key components for effective public financial management (Public Expenditure and Financial Framework, 2005:2). The budget must be credible, realistic and implemented as intended. The budget and fiscal risks are comprehensive and the information should be available to the public. The budget process is predictable, there are control mechanisms in place and the budget is prepared with the country's policies in mind. An effective accounting, reporting and recording mechanism for the implementation of the budget is in place and finally, all public finances should be open to scrutiny and audits.

5.2.2 The budget process

The budget is the centre of the public financial management process and starts with the preparation of a comprehensive medium-term strategic framework (MTSF), which reflects the political priorities. Planning involves priorities that are linked to the budget and costing is aligned with a time frame attached to activities. In the preparation of the budget, the fiscal plan, annual budget and the medium-term expenditure framework (MTEF) must be taken into consideration (see Figure 5.2). After approval of the budget, it should be executed through financial management systems and with the appropriate controls in place. The public financial management process depends on a sound reporting system, reporting on both financial and performance activities. Audits depend on the information gathered throughout the budget process and external audits ensure quality and transparency. The final element in the budget process is policy review, where evaluations and review outcomes are used to update and adjust policies. Then the whole process starts again with the planning activity (Olander, 2007:10).

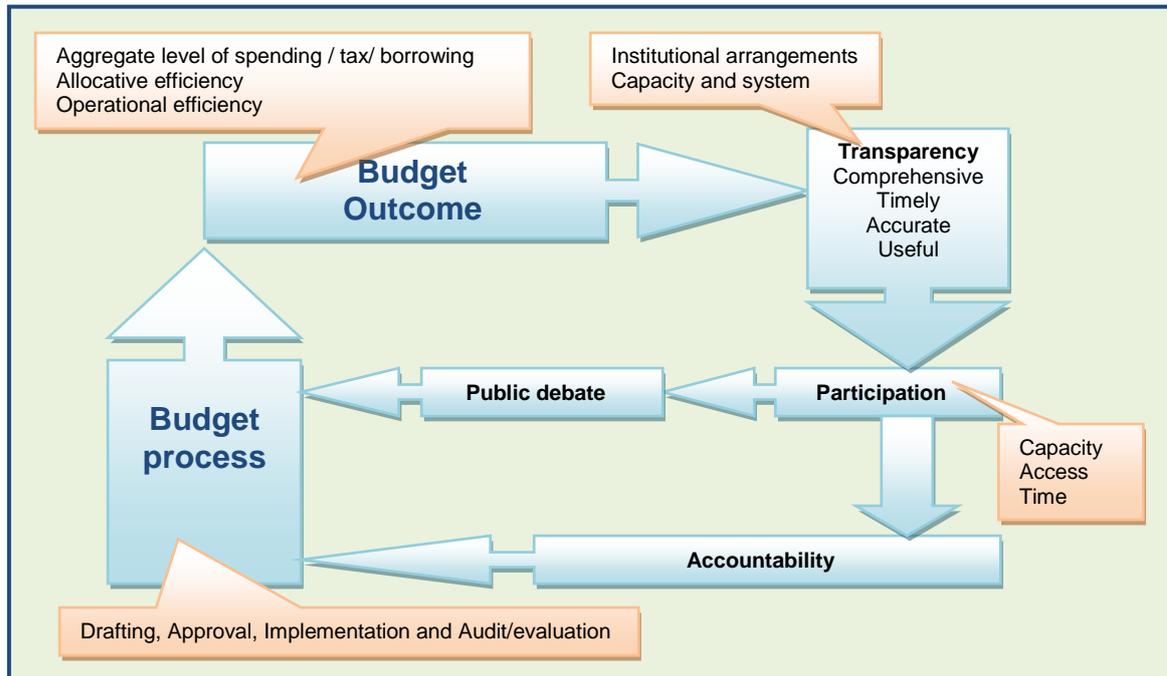
Figure 5.2: The budget process



Source: Adapted from Olander, S. (ed.) 2007. *Public financial management in development cooperation*. Stockholm: Sida. page 12.

The major actors in the public financial management system are the political executive for finance, government departments, institutions and entities in all spheres of government, and the legislative authority with its constitutional institutions such as the auditor-general and financial oversight committees. Fiscal transparency is important in a budget system for oversight, accountability, participation and sanction to ensure good economic practices. The requirements for successful fiscal transparency practices are political will and commitment; commitment to fight corruption; a strong legal framework and enforcement mechanisms and citizen participation. Figure 5.3 emphasises the relations that exist between the public financial management system and the budget process and highlights the fact that various role players in different relationships are key to successful budgeting and specifically the budget outcome and financial performance (Economic Commission for Africa, 2005a:6).

Figure 5.3: The budget process relations



Source: Adapted from Economic Commission for Africa. 2005. *Assessing public financial management and accountability in the context of budget transparency in Africa*. Addis Ababa: UNECA, page 6.

The primary concern for public financial performance management is the economic, efficient and effective utilisation of public resources in order to meet the needs of society in an equitable manner. According to Olander (2007:10), a budget that reflects all public resources available, is transparent and makes it possible to follow up how resources are actually being used, will contribute to good governance as efficiency increases and possibilities to misuse public resources are controlled. Well-structured information on the ways in which public resources have been used and the results that have been achieved will significantly strengthen the accountability process within the legislature and other public audit institutions. Transparent information will increase the legitimacy of the government's fiscal policy in the eyes of the citizens. Democratic governance is a prerequisite for the citizens to influence the state budget and ensure that the budget has a pro-poor profile. (Economic Commission for Africa, 2005:56).

5.3 Background and evolution of public financial management reforms

Research conducted by Pretorius & Pretorius (2008:4) found no evidence of any single event from where the need for public financial management reforms originated and the attribution of cause and effect would be hard to prove. However, there is a consensus that circumstances such as a fiscal crisis, political change, changes in public expectations and public pressure, post conflict, new technology, regional requirements and donor pressures have provided the impetus for change to enhance financial performance (Vani & Dorotinsky, 2008:2).

In general, public financial management reform has been a long-term process, which varies according to individual country or regional situations. Since the mid-fifties donor assistance for developing countries has become evident and continued during the late eighties. In order to enhance sustainable economic growth, management knowledge and skills became part of technical investments with assistance of public financial management issues high on the agenda of donor countries and organisations. Throughout the nineties, the majority of assistance was provided by donors to developing countries through isolated projects, and frequently included complex interventions such as medium-term expenditure frameworks (MTEF), performance budgeting, gender budgeting and integrated financial management information systems (IFMIS) (Vani & Dorotinsky 2008:2).

Since the start of the new millennium, the recognition of aid fungibility (exchangeable), greater acknowledgement of the negative effects of corruption and an increase in policy-based lending all led to an increased emphasis on governance issues including open and orderly public financial management systems. In 2005, government and donor commitment to improved public financial management systems was formalised in the Paris Declaration. Under the declaration, targets were established to strengthen governance and improve performance in public financial management (OECD, 2005/2008:1).

The Monterrey Conference also specifically called on development co-operation agencies to intensify their efforts to: “Harmonise their operational procedures at the highest standard so as to reduce transaction costs and make Official Development Assistance (ODA) disbursement and delivery more flexible, taking into account national development needs and objectives under the ownership of the recipient country” (OECD, 2003:3). One of the key factors that determine the willingness to

provide donor funding is whether the partner country has an effective public financial management reform programme in place and can provide evidence of financial performance (Pretorius & Pretorius, 2008:4).

5.4 THEORETICAL MODELS AND APPROACHES TO PUBLIC FINANCIAL MANAGEMENT REFORM

As analysed in Chapter 2, during the late 1960s and early 1970s, the new public administration surfaced as a reaction to various factors and the client-centred approach and service delivery became the focus of public administration. The models of reform in the new public administration, namely reinventing government, business process re-engineering and the new public management of the Organisation for Economic Co-operation and Development (OECD), all shaped the discipline and provided a framework for analysis of ideas and lessons learnt (Hood, 1995:104–117). Since the 1980s, physical evidence of this new approach was public-sector reforms in countries such as Britain and the United States to make government organisations more performance-based and customer oriented (Moe, 1994:111). Many countries around the world (developed and developing countries) started with the restructuring of public services, the application of various business management techniques to improve efficiency along with the introduction of market-based mechanisms and as indicated in Chapter 4, some influential international organisations, such as the World Bank, promoted these initiatives by reviewing its own approach to providing assistance to budget reforms and developed the public expenditure management (PEM) approach (Auriacombe, 1999:125-128).

By the beginning of 2000, both developing country governments and donor organisations began to question why public financial management interventions to improve expenditure management had only achieved limited success. The ensuing search for answers led to the development of methods to improve country ownership, establish a more realistic pace of change, enhance donor harmonisation and recognise the importance of political context (OECD, 2005/2008:1).

5.4.1 New public financial management (NPFM)

NPFM introduced not just a different way of managing public services, but also the need for different financial management tools and techniques. Introduced initially in response to widespread public criticism of the public service, the overall ethos of the

reforms is greater public-sector efficiency and, as Manning (2001:297) explains, has two key tenets: allowing managers to manage and making managers accountable.

The financial management measures associated with the introduction of the NPM model are often referred to as NPFM, a term that cannot be explained by a single application. Indeed Olson, Guthrie and Humphrey, (1998:2) describe it more as a reforming spirit aimed at increasing financial awareness in public-sector decision-making and therefore an integral part of the broader public service reforms. Guthrie, Humphrey, Jones and Olson (2005:37) identify five key dimensions of NPFM:

- 1) changes to financial reporting systems (cash to accrual);
- 2) devolution of budgets;
- 3) market-based costing and pricing systems;
- 4) a performance measurement approach; and
- 5) performance-based (internal and external) auditing.

In terms of the progress and impact of the overall NPFM reform process, Olson, Humphrey and Guthrie (2001:515-516) note that several authors have questioned the adequacy of the reform evaluations. This is somewhat ironic, given the emphasis on performance evaluation in NPFM itself. In a move to remedy this, the OECD's *Government at a Glance* publication is being developed to help governments monitor the progress of their reform agendas (Lonti & Woods, 2008:7).

What is clear from available literature on NPFM reforms in OECD countries is that social, political and organisational issues affect public-sector accounting and management, and influence the direction and speed of reforms. How things have progressed in northern Europe is different from southern Europe, in Sweden from the United States (Guthrie *et al.*, 2005:15). Newberry and Pallot (2005:27) conclude that while there has clearly been progress, initial expectations have not been met and some concerns have been raised about the increasing complexity of the financial management systems, actually reducing rather than enhancing political accountability and control.

5.4.2 Concepts related to financial performance management

Research by Jantz (2008:6) indicates that performance measurement and performance management methods have been growing in importance since the

beginning of the 1990s, as public management in the age of new public management reforms has increasingly become oriented towards output management via contracts. Australia and New Zealand were pioneers as the first major countries to adopt this approach in response to the need to restore fiscal balance in the early 1980. In addition, the United Kingdom National Health System (NHS), some states in the United States and some public-sector entities in Canada introduced variations on this theme. There is evidence to suggest that this led to clear improvements in cost-effectiveness and budgetary control.

Given that resources in the public sector are mostly generated through taxes and taxes create distortions in the allocation of resources and thus constrain economic growth, it is essential that public expenditures are used to improve long-term growth perspectives and take equity considerations into account. Improved efficiency and effectiveness of public spending not only helps maintain the fiscal discipline, but also is instrumental in promoting structural reform agendas. It alleviates budget constraints as it allows achieving the same results at lower levels of spending or increases value for money by achieving better outcomes at the same level of spending (Mandl, Dierx & Ilzkovitz, 2008:2).

The Wikipedia Free Encyclopedia (2011) describes *performance* as a measure of the results achieved. *Performance improvement* is the concept of measuring the output of a particular process or procedure, then modifying the process or procedure in order to increase the output, increase efficiency, or increase the effectiveness of the process or procedure.

In Organisational Development, *performance improvement* is the concept of organisational change in which the managers and governing body of an organisation put into place and manage a programme which measures the current level of performance of the organisation and then generates ideas for modifying organisational behaviour and infrastructure, which are put into place in order to achieve a better level of output. The primary goals of organisational improvement are to improve organisational effectiveness and organisational efficiency in order to improve the ability of the organisation to deliver its goods and/or services and prosper in the marketplaces in which the organisation competes. A third area of improvement which is sometimes targeted for improvement is organisational efficacy, which involves the process of setting organisational goals and objectives (Van Thiel & Leeuw, 2002:268).

Performance efficiency is the ratio between effort expended and results achieved. The difference between current performance and the theoretical performance limit is the performance improvement zone. Another way to think of performance improvement is to see it as improvement in four potential areas:

- 1) the resource input requirements (goods and services e.g. reduced working capital, material, replacement/reorder time and set-up requirements);
- 2) the throughput requirements, often viewed as process efficiency; this is measured in terms of time, waste and resource utilisation;
- 3) output requirements, often viewed from a cost/price, quality, functionality perspective; and
- 4) outcome requirements, whether it made a difference in the end (Wikipedia, 2011).

Performance is an abstract concept and it should be represented in concrete, measurable phenomena or events in order to be measured. For example, baseball athlete performance is abstract, covering many different types of activities. Batting average is a concrete measure of a particular performance attribute for a particular game role, batting, for the game of baseball (Afonso, Schuknecht & Tanzi, 2003:6).

Performance assumes an actor of some kind but the actor could be an individual person or a group of people acting in concert. The performance platform is the infrastructure or devices used in the performance act. There are two main ways to improve performance:

- 1) improving the measured attribute by using the performance platform more effectively, or
- 2) improving the measured attribute by modifying the performance platform, which, in turn, allows a given level of use to be more effective in producing the desired output.

For instance, in several sports such as tennis and golf, there have been technological improvements in the apparatuses used in these sports. The improved apparatus, in turn, allows players to achieve better performance with no improvement in skill by purchasing new equipment. The apparatus, namely, the golf club and golf ball or the tennis racket, provides the player with a higher theoretical performance limit (Afonso *et al.*, 2003:7).

5.4.3 Financial performance management challenges in public administration

Farrell (1957:11) already investigated the question of how to measure efficiency and highlighted its relevance for economic policy-makers. "*It is important to know how far a given industry can be expected to increase its output by simply increasing its efficiency, without absorbing further resources*" (Farrell, 1957:11). Since that time, techniques to measure efficiency have improved and investigations of efficiency have become more frequent, particularly in industry. Nevertheless, the measurement of efficiency and effectiveness of public spending remains a conceptual challenge. Problems arise because public spending has multiple objectives and because public-sector outputs are often not sold on the market, which implies that price data are not available and that the output cannot be quantified.

However, performance management, while becoming a standard topic in the reform agenda of many countries, has also come in for some tough criticism in recent years. On the one hand, critics say it creates bureaucratic complexity, but on the other, they assert performance management has pragmatic implementation difficulties in the public sector. One observer suggests that "*... most objectives in public management cannot be presented in precise figures, because they always emerge multi-dimensionally and frequently require compromise. Performance measurements, especially those provided by management ratio systems, tend to fall ruin to the myth of quantitative measurability*" (Bogumil, 2004:392).

Performance management in a public sector context refers to commissioning or oversight using performance-oriented objectives that are expressed in terms of defined activities (outputs). The core assumption is that policy-makers and deliverers learn from performance information and make continuously better decisions on the basis of empirical evidence, with performance in the public sector increasing accordingly.

The foundation of any performance measurement system is its definition of *performance*. Government programmes often have multi dimensional objectives, many of which are rather vaguely formulated. Furthermore, there are sometimes several different groups being targeted. As a result, articulating what 'good performance' is can be challenging. While it is relatively easy to determine both inputs (resources such as human resources, money, materials) and outputs (goods and services produced, deliverables), it is often less easy to determine the impact

that the outputs have on the desired high-level policy objectives (outcomes). A qualitative estimation is often required when the time comes to evaluate the effects of state programmes and policies in a society. This can be because there are many factors that government cannot influence, which may affect the outcomes. Or it may be that the causality linking outputs to outcomes is complicated and impacted by a number of different government outputs. It may also be that there is a long time lag between delivering the output and when its effect on outcomes becomes apparent or simply that the policy objectives are couched in such broad terms as to make measurement difficult (Hood, 2007:96).

It is important to differentiate between performance measurement and performance management. *Performance measurement* is to be understood here as the regular collection, recording and evaluation of performance data. Hood (2007:97-98) identifies two different performance measurement systems: target systems, which measure current performance of a period (using previously defined performance metrics); rankings, which measure current or past performance in relation to other comparable entities also known as benchmarking. The objective here is to inform customers about an entity's performance or to provide political decision-makers with starting points for increasing performance.

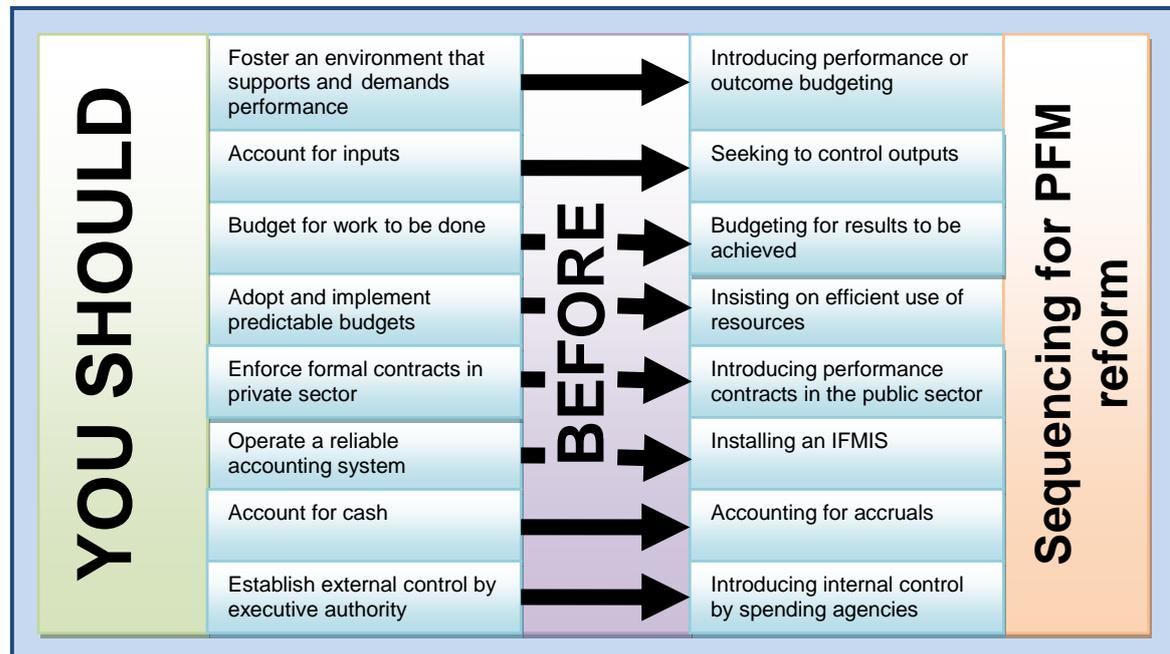
Performance management, on the other hand, is an integrated strategy with the goal of improving the performance of organisations and the individuals in them. Performance management therefore consists of systematic recording and tracking of performance of public organisations in order to promote a continuous improvement process. Due to the increasing challenge around funding public services, in addition to measuring and managing the quantity and quality of public-sector goods and services, much more emphasis is being brought to bear on measuring and managing the cost thereof (Manning, 2001:297).

Effectiveness relates the output to the final objectives to be achieved, i.e. the outcome. The outcome is often linked to welfare or growth objectives and therefore may be influenced by multiple factors (including outputs but also exogenous environment factors). The effectiveness is more difficult to assess than efficiency, since the outcome is influenced political choice. The distinction between output and outcome is often blurred and output and outcome are used in an interchangeable manner, even if the importance of the distinction between both concepts is recognised (Afonso *et al.*, 2003:8).

5.4.4 A fundamental approach to public finance basics

“This philosophy appears simple: focus on the basics on which reform is built, not on particular techniques”, according to Pretorius and Pretorius (2008:9). Schick (1998a:21) argues that the lesson for developing countries from some of the radical reforms of OECD countries is to “get the basics right”. Figure 5.4 illustrates the issues that he considers important when sequencing reforms.

Figure 5.4: Getting the basics right



Source: Adapted from World Bank. 1998. *Public expenditure management handbook*. Washington: World Bank. page 8.

The emphasis of “getting the basics right” is based on a progressive approach and not a selection between variables. This approach is aligned with the public financial management system (Figure 5.1) as a series of realistic steps or platforms to accommodate multiple role players and to manage relationships. Each platform is defined in terms of improved outcomes and is the basis for launching the next stage. In dealing with the “you should” components as first priority, the basics, then the foundation or platform requirement for progress to the next component within the financial management system is ready. The result is a financial system that provides the opportunity for financial performance management.

Stevens (2004:4) asserts that ignorance for getting the basics right has led to the implementation of advanced solutions, which have often proved ineffective and inappropriate. In terms of budgetary outcomes, the argument is also that a government needs a realistic sustainable budget (aggregate fiscal discipline) before it can achieve the other objectives of allocative efficiency (doing the right things not merely doing things right) and operational efficiency (Schick, 1998a:2).

Based on the basic approach of what should happen before any advanced solutions could be found but with a more holistic approach to the public financial management reform process is the so-called platform approach. It aims to implement a package of measures or activities designed to achieve increasing levels (platforms) of public financial management and accountability competence over a manageable time frame. Each platform establishes a clear basis for launching to the next, based on the premise that a certain level of public financial management and accountability competence is required to enable further progress to take place. Each platform is defined in terms of improved outcomes (e.g. delivering a credible annual budget) rather than just focusing on the completion of individual short-term measures or activities (e.g. implementing a new chart of accounts). Defining the platforms in this way helps to provide strategic direction (DFID, 2005b:2).

The hypothesis behind the platform approach is that it can help facilitate genuine government leadership, a politically acceptable pace of change, donor harmonisation and greater levels of trust. These were all problems identified as the main reasons for lack of progress toward public financial management reforms. Once the platforms are defined, the approach then proposes a series of iterative steps to develop the action plan for that particular platform, including initial activities required for subsequent platforms (DFID, 2005b:3).

5.4.5 The public expenditure management approach

As discussed in Chapter 3, in order to perform the roles assigned to the state by its people, the state needs, among other things, to collect resources from the economy, in sufficient and appropriate manner; and allocate and use those resources responsively, efficiently and effectively. The reorientation from conventional budgeting to public expenditure management (PEM) has been driven by unsatisfactory public expenditure outcomes in many developing and developed countries. The problem is the allocation of public money through collective choice

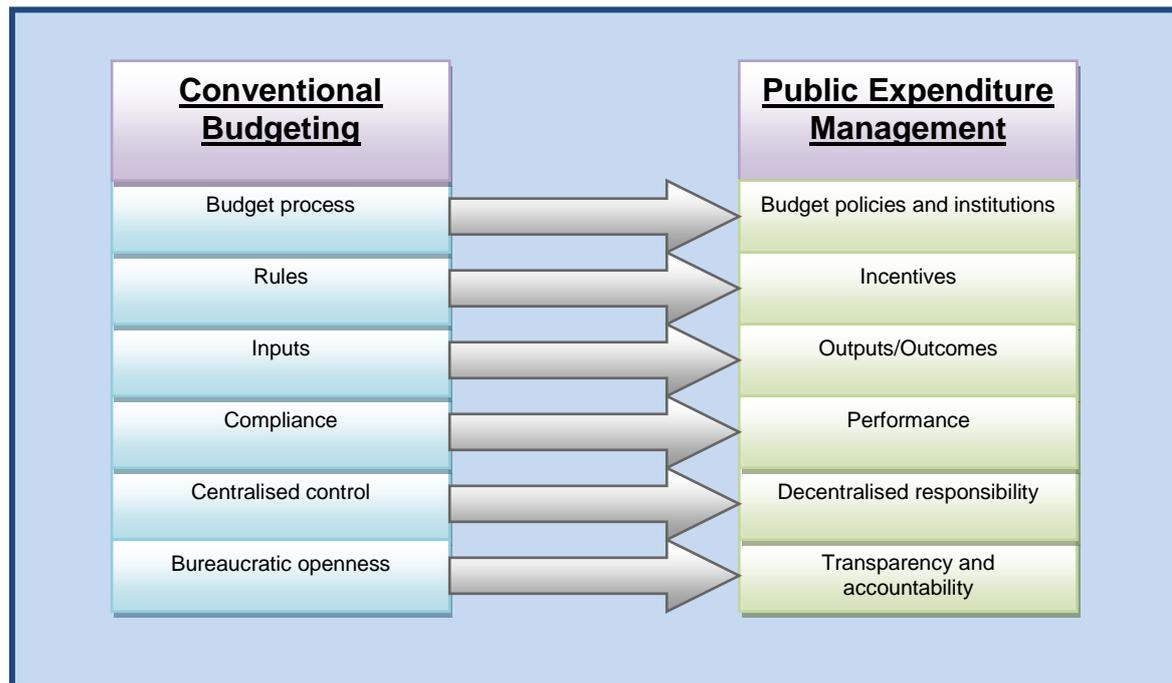
and where these allocations have been made through the machinery of budgeting. Governments generated the routines and procedures to decide the amounts spent, the balance between revenue and expenditure, and the allocation of funds among public activities and entities. PEM evolved from an emphasis on investment efficiency to substantive outcomes and a wider recognition of institutions and governance building (Schick, 1998a:1).

According to Schick (1998b:124), a PEM approach is country-specific and planned interventions must be based on the economic, social, administrative and implementation capacity realities of the specific country. A PEM approach recognises that budget outcomes are not likely to be optimal if the public sector is poorly structured and managed. Substantive outcomes relate to three key objectives of good public expenditure management as follows:

- 1) aggregate fiscal discipline (expenditure control), budget totals should be the result of explicit, enforced decisions; they should not merely accommodate spending demands. These totals should be set before individual spending decisions are made, and should be sustainable over the medium term and beyond;
- 2) allocative efficiency (strategic allocation), expenditures should be based on government policy priorities and on effectiveness of public programmes. The budget system should spur reallocation from lower to higher priorities and from less to more effective programmes; and
- 3) operational efficiency, good operational management to ensure both efficiency (minimising cost per unit of output) and effectiveness (achieving the outcome for which the output is intended) (Schick, 1998a:2).

Figure 5.5 illustrates the shift in focus from a conventional budgeting approach to a broader platform, which highlights the importance of the complex network of actors and institutions involved in the total budget process, and of linking expenditure with measurable results in terms of outputs and outcomes. In particular, the PEM approach focuses on incentives and the informal practices and behaviour of budgeting. Advocates of the approach emphasise that improvements in public expenditure management require changes in budgetary institutions, the roles of spenders and controllers, the rules under which they claim, allocate and use resources and the information available to them (Pretorius & Pretorius, 2008:9).

Figure 5.5: The PEM paradigm shift.



Source: Adapted from Pretorius, C. & Pretorius, N. 2008. A review of PFM reform literature. London: DFID. page 9.

All accountability must be for performance, but performance, is a relative and culture-specific concept. Government employees could be considered well-performing:

- 1) if they always stick to the letter of the rules in a system where rule compliance is the dominant goal;
- 2) if they account precisely for every cent of public money, in a system where protection of resources is the dominant goal;
- 3) if they obey without question a superior's instructions, in a strictly hierarchical system;
- 4) if they compete vigorously for individual influence and resources, in a system where such competition is viewed positively; and
- 5) if they co-operate harmoniously for group influence, in a system where conflict is discouraged.

Whenever the word *performance* is heard, the immediate question should be: In terms of what? It is essential to understand that administrative cultures are not inherently superior or inferior, and that they evolve in response to concrete problems and incentive structures. Even when an administrative culture has become badly dysfunctional, it is still necessary to understand its roots if one wish to improve it in a durable way.

Performance is the achievement of agreed results within the funding provided, without diluting their quality and respecting the prevailing norms of due process. In a PEM approach, performance should be assessed by reference to three objectives namely, expenditure control, strategic allocation and good operational management. The PEM approach and related performance focus attempt to bridge the gap between the traditional performance as “probity and propriety” and a new paradigm of “policy and performance”. The policy and performance approach is the appropriate model, but must be accompanied by respect for due process in order to be sustainable. A results orientation is necessary in PEM, but results must be properly defined, and an exclusive focus on results without consideration of process will not only destroy the process but eventually produce bad results as well.

Transparency of fiscal and financial information is essential for an informed legislature, executive, and the public at large. It is essential not only that information be provided, but that it be relevant and in understandable form. Accountability is needed both for the use of public money and for the results of spending it. Effective accountability has two components: The first component deals with answerability (the original meaning of the word *responsibility*) where it is the requirement to respond periodically to questions concerning where the money went and what was achieved with it. The second component is where there is a need for predictable and meaningful consequences because without consequences, *accountability* is only an empty and time-consuming formality. External accountability is needed as well and strengthening external accountability is especially necessary in the context of initiatives for greater decentralisation or managerial autonomy, when new checks and balances are required to assure that access to and quality of public services are not compromised as a result.

5.4.6 Strengthened approach to public financial management reform

Responding to the need to improve public financial management systems as a critical element for economic growth and development, several institutions came together in 2001 to form the Public Expenditure and Financial Accountability (PEFA) initiative. PEFA is a multi donor effort composed of the European Commission, the UK Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, the World Bank, the International Monetary Fund and the Strategic Partnership with Africa (Public Expenditure and Financial Framework, 2005).

PEFA (2005) identifies the critical dimensions of an open and orderly public financial management system. They are budget comprehensiveness and transparency; policy-based budgeting; predictability and control in budget execution; accounting and reporting and external scrutiny and audit. The introduction of sound systems and procedures in these areas should lead to another dimension, namely budget credibility.

5.4.6.1 **Budget comprehensiveness and transparency**

The United Nations Classification of the Functions of Government (COFOG) and Government Finance Statistics (GFS) manual provides guidance on the classification of government revenues, expenditures and functions (IMF, 2001:1). Conformity with these classifications facilitates the preparation of statistical reports and the macroeconomic analysis of fiscal data. Programme classification as the basis for programme budgeting is also used in many OECD countries and developing countries. Here, in contrast to economic and functional classifications, there is no guidance on its construction. Consequently, there are numerous variations, although many now restrict the scope of a programme to a single administrative unit, e.g. 'Health' rather than a programme, which is multi-institutional and for which there is therefore no clear line of responsibility (Diamond, 2003:12).

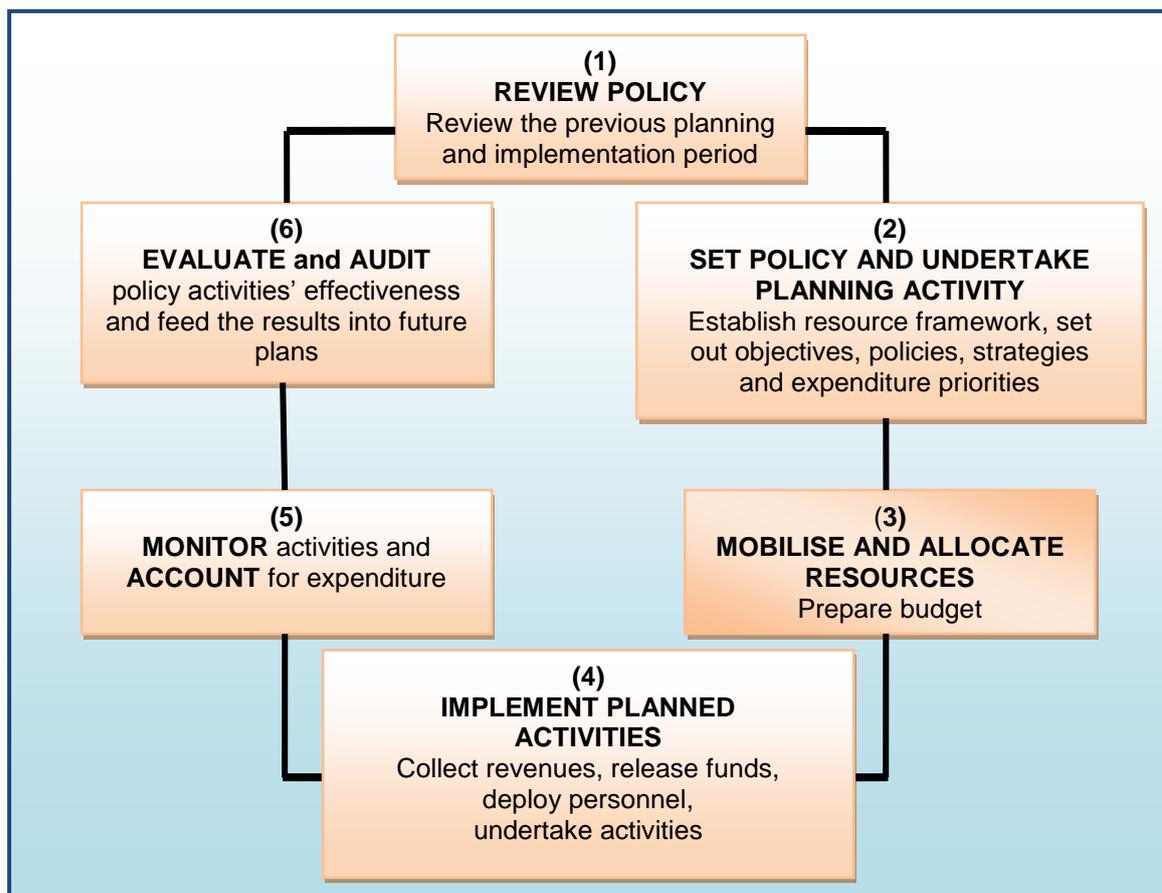
Improving the information base for budget reporting and budget management purposes has been a core part of the South African Public Financial Management Reform Programme (PFMRP). Success is attributed to a number of factors, namely phased implementation approach; comprehensive communication strategy and close monitoring of implementation and compliance. However, the main reason given for the successful implementation of the new budget classification system (Economic Reporting Format and SCOA) is that it is part of a strategy to make public finances more accountable, transparent and better targeted (CABRI, 2005:63).

There seems to be no evidence that improvements in budget classification, to meet international standards have also led to improvements in budget reporting for either management or public use. Indeed, results from the International Budget Project (IBP) open budget questionnaire show that the weakest scores in terms of public accessibility to budget information relate to the fact that most governments fail to provide user-friendly information to the legislature (Gomez, Friedman & Shapiro, 2004:35).

5.4.6.2 Policy-based budgeting

A government budget (budget vote) should reflect what it says it will do (government policies). A medium-term perspective (see Figure 5.6) is crucial for improving links between policy, planning and budgeting (World Bank, 1998:32). According to Holmes and Evans (2003:5), the appeal of MTEFs lies in their potential to link the often competing short-term imperatives of macroeconomic stabilisation with the medium- and longer-term demands on the budget to contribute to improved policy-making and planning, and to the efficiency and effectiveness of service delivery. As an integral part of the annual budget process, the World Bank (1998: 48) describes an MTEF as consisting of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and ultimately, the matching of these costs with available resources.

Figure 5.6: Linking policy, planning and budgeting in the planning and resource management cycle



Source: Adapted from World Bank. 1998. *Public expenditure management handbook*. Washington: World Bank. page 32.

Figure 5.6 highlights the institutional mechanisms that facilitate the allocation of resources to achieve strategic objectives. Affordability must influence policy-making and planning at the point when the decision is made. Where adjustment is required to deal with changing macroeconomic conditions and even more particularly, changing priorities, that adjustment needs to take place through policy change to be sustainable. A medium-term approach that encompasses all expenditure provides a linking framework and facilitates the management of policies and budget realities to reduce pressure throughout the whole budget cycle. The result is better monitoring and control of activities and account for expenditure towards efficiency and effectiveness in implementing policies, programmes and projects (World Bank, 1998:32).

A key reform in budgeting is the move from an emphasis on inputs to a focus on performance, outcomes or results. The OECD (2008c:2) defines *performance budgeting* as budgeting that links the funds allocated to measurable results. The concept of performance budgeting has a long history. During the fifties and sixties, the terms *performance budgeting*, *programme budgeting* and *planning, programming*, and *budgeting systems* were first used, and to a certain degree practised, in the United States. It is an integral element of NPFM, but there is no single model and many countries have introduced performance budgeting for different reasons and in different ways. The main objectives of improving the allocation and use of funds, enhancing public-sector performance and improving accountability are common across all countries. Currently, there is a need to customise the approach to the country context, design reforms with the end-user in mind, involve key stakeholders in the design process and develop appropriate incentive systems for civil servants and politicians. For implementation, it is important to select an approach appropriate to the wider governance and institutional structures, gain the support of political and administrative leaders, have information systems that communicate with each other, consider how changes to budget rules influence behaviour, positively or negatively and recognise the limitations of performance information (OECD, 2008c:5-6).

Although there are exceptions, most OECD governments are finding it difficult to provide decision-makers with good quality, credible and relevant information in a timely manner, let alone incentives to use this information in budgetary decisions. (OECD 2008c:7). Diamond (2003:11) highlights four major features as prerequisites for performance budgeting: setting the programme structure in a wider strategic

planning and medium-term budget framework; redesigning the existing programme structures to ensure accountability; improving the budget-costing systems and associated skills; and introducing a new system of accountability and budget incentives.

5.4.6.3 Predictability and control in budget execution

Effective internal controls are essential for the integrity of the overall public financial management system. The International Organisation of Supreme Audit Institutions (INTOSAI) prepared technical guidelines on internal controls standards in 1992 and these were revised in 2004. These guidelines set out a framework for internal controls including the objectives and five main components of internal control, which are the control environment, risk assessment, control activities, information and communication and monitoring. Importantly, the guidelines stress that all personnel in an organisation play an important role in making internal control work (INTOSAI, 2004:2).

Reforms in developing countries have tended to concentrate on control activities, particularly the introduction of automated expenditure commitment controls. The overall control environment (elements of the control environment include personal and professional integrity, commitment to competence, management style, organisational structure and human resource policies and practices) has also received only limited attention (Dorotinsky & Pradhan, 2007:267).

Internal audit (IA) receives significantly more attention, both in the literature and in reform efforts. In the UK and northern Europe, reforms have mirrored the changes in managerial accountability. Over the last 30 years, IA has been reorganised from a 'turn and tick' to a system-based approach, providing management with advice and assurance (Diamond, 2002b:11). For developing countries, there is considerable debate as to the most appropriate structure and functions; some argue that there is still a need for a centralised function with a continuing role in compliance and regularity (Diamond 2002b:18; Hepworth, 2004:2). Others, although recognising the time and indeed the change in culture required, still argue that a more independent system-based audit is the way forward (Rameesh, 2003:6; Van Gansberghe 2005:14).

Although internal audit is recognised as an important function in the ‘fight’ against corruption, there appears to be comparatively limited research on how effective follow-up of recommendations can be achieved. However, experience in South Africa and Kenya suggests that internal audit achieves better results when working together with management rather than in a more confrontational or policing role (Van Gansberghe, 2005:8).

5.4.6.4 Accounting and reporting

The importance of timely, consistent and comprehensive reports is emphasised in public financial management reform literature, and efforts to improve consistency and comparability have been made through the introduction of the International Public Sector Accounting Standards (IPSAS). The academic debate on the advantages and disadvantages of accrual accounting (and budgeting) continues. OECD experience shows that the move from cash to accrual accounting needs careful planning and should be part of wider public-sector reforms: “Consolidated year-end financial statements ... are critical for transparency in the PFM system” (Public Expenditure and Financial Framework, 2005:45). Statements need to be understandable and provide information in a consistent manner. In the last 12 years, the Public Sector Committee of the International Federation of Accountants (IFAC) has established a set of public-sector accounting standards for general purpose financial statements (GPFs), prepared on either a cash or accrual basis.

In the context of NPM reforms, with their emphasis on performance, a need was identified to introduce the accrual basis in order to “encompass accounting and reporting on the allocation and use of total economic resources (both cash and non-cash) at the disposal of managers” (OECD, 1993:3). However, Diamond (2002a:27) is of the opinion that accounting serves rather than leads budget systems reform and he rejects any assumption that performance budgeting requires accrual accounting. The OECD (2002a:1) argues that accrual accounting cannot be introduced successfully without accrual budgeting. *“More recently, led primarily by the international agencies, such as the OECD, the IMF, and the World Bank, and by some international accounting bodies, such as the IFAC, countries have been strongly encouraged to adopt the accounting system generally used by the private sector: accrual accounting”* (Boothe, 2007:181). However, even after almost two decades, the question remains whether the accounting needs of the public sector, which revolve around democratic accountability, are well served by private sector-

based accounting that revolves around financial performance and profitability, according to Boothe (2007:183).

What appears to be lost in some of these arguments is that cash accounting and accrual accounting is not mutually exclusive concepts, but rather opposite ends of a spectrum. Accrual accounting is a means not an end in itself. Moving along the spectrum can be done gradually (Allen & Tomassi, 2001:26). Currently, only one third of OECD countries have adopted full accrual accounting, either for the whole of government accounts or at ministry or agency level. Important lessons from the introduction of accrual accounting in OECD countries are that the transition is not just a technical exercise, it requires a culture change and needs to link with wider public-sector management reforms. The phasing of implementation needs to be carefully planned and there is a need for enhanced accountancy skills and appropriate IT systems. Finally, the importance of communication, particularly with users such as parliamentarians, media and the public should not be overlooked (OECD, 2002:9).

The essential purpose of a financial reporting system is to demonstrate how the government has managed its financial resources in terms of revenues, expenditures and assets and liabilities. An effective budget reporting system will report on budget integrity, operating performance, stewardship and systems and control. Reports are an important instrument for planning and policy formulation and are based on principles such as completeness, legitimacy, user-friendliness, reliability, relevance, consistency, timeliness, comparability and usefulness (Allen & Tommasi, 2001:318).

5.4.6.5 External audit and legislative scrutiny

Supreme audit institutions (SAI) have a vital role in holding government to account and ensuring transparency in government operations. Although there are differing models for external audit (Westminster model – UK and most commonwealth countries; judicial model – Latin countries in Europe and francophone countries; board or collegiate model – Germany, the Netherlands, Indonesia, Japan and Korea), all models are guided by the fundamental objectives set out in the Lima Declaration, and the international standards of auditing developed by INTOSAI. In response to the growing performance orientation of the public sector, performance (or value for money) auditing is widespread in Europe, Australia, New Zealand and North America and developing elsewhere. There is also a growing emphasis on the central position

of SAIs in their countries' national integrity systems and their role in detecting and reporting on corruption and fraudulent practices (Dye & Stapenhurst, 1998:10).

According to the DFID (2005:2), recent research shows that reform techniques such as peer reviews, twinning arrangements, development of technical training capacity and contact committees appear to be succeeding in both accession and developing countries. EU accession countries frequently request peer reviews. Twinning arrangements are also proving to be effective.

With regard to legislative scrutiny, even as far back as the 14th century, the English Parliament had some power over the purse, when it was ruled that no taxes could be raised from citizens without parliamentary consent, and commissioners were appointed to audit tax collectors. In most countries, the budgetary role of the legislature is both *ex ante* (approval of the budget and/or change) and *ex post* (oversight). The particular emphasis varies. Some research suggests that parliaments in a Westminster-type system focus on a strong *ex post* review, primarily done through the public accounts committee (PAC). On the other hand, legislatures in presidential systems, such as those of the US and France, focus on strong *ex ante* review of budgetary control and resource allocation. The role of legislatures in semi-presidential systems varies within this spectrum (Stapenhurst, 2004:1-6).

5.5 CROSS-CUTTING ISSUES

Legislation, automated systems, gender issues, training and change management cut across all the public financial management components discussed above. The legal basis for national budget systems varies considerably among OECD countries. In developing countries, automated systems, particularly integrated financial management information systems (IFMIS) have become synonymous with public financial management reform, even seen by some as drivers of reform. They are often considered as the answer to the problems of a lack of reliable and timely data and poor financial controls. Gender-responsive budgets (GRB) involve analysing and reordering budgetary priorities from a gender perspective. GRB is not about having separate budgets for women or men or about budgets being divided equally (DFID, 2005:2).

5.6 PUBLIC FINANCIAL MANAGEMENT REFORM – PUTTING THE THEORY INTO PRACTICE

Polidano (2001:10) argues that most reforms fail not because of the contents or technical aspects of the reform programmes, but because of the way they were implemented. Public financial management reform programmes need to be country-specific as they cannot be divorced from their historical, political and social heritage (Schick, 1998b:124). Schiavo-Campo & Tommasi (1999:22) support this notion and they are sceptical about the rigid application of 'best practices' without consideration of local and country-specific realities. Colonial history has often established the foundations of the PFM system. According to Bouley, Fournel & Leruth, (2002:12) traditional approaches have failed to produce sound, efficient and effective systems of resource mobilisation, budgeting and financial management. Prior to 1994, South African government financial processes were controlled by centrally prescribed bureaucratic rules, which allowed little scope for managerial discretion, and even mundane issues had to be referred for central approval. This was, in fact, financial administration, regulating how money was used to 'buy' inputs, and diverting attention from the delivery of the outputs that the inputs were intended to achieve. This approach did not clearly define responsibilities, and resulted in poor accountability and value for money.

In 1999, the Public Finance Management Act (1/1999) was enabled in the South African Government to introduce the approach of management for results instead of managing for compliance and to enhance accountability. Some characteristics of this approach are the following:

- 1) accounting officers (departmental heads) are to account for resources allocated and to improve economy, efficiency and effectiveness in public service organisations based on performance standards;
- 2) effective alignment of strategic and operational planning and budgeting processes;
- 3) central instructions are reduced to the minimum and replaced with guidelines and regulations;
- 4) accounting officers are allowed flexibility in the utilisation of resources focusing on outputs and outcomes;
- 5) appropriate internal control and risk management principles are followed; and

- 6) accounting practices similar to that employed in the private sector are being followed (i.e. accrual accounting, capitalisation of fixed assets and depreciation) (National Treasury, Guide for Accounting Officers, 2000:1-5).

In practice and as illustrated in Figure 5.1, an effective PFM system is critically important in achieving the strategic goals and objectives of government and requires a series of realistic platforms to accommodate multiple role players and to manage relationships. At the core of the PFM system is the budget process, which starts with the preparation of a comprehensive medium-term strategic framework (MTSF), which reflects the political priorities. Figure 5.3 emphasises the relations that exist between the public financial management system and the budget process and highlights the fact that for successful budgeting and specifically, the budget outcome and financial performance, various role players in different relationships are in constant interaction. Interaction is to be based on the concept of getting the basics right as illustrated in Figure 5.4 and is also aligned with the public financial management system as a series of realistic platforms to accommodate the multiple role players. The result is a financial system that provides the opportunity for financial performance management.

PEM application requires a country-specific approach based on the economic, social, administrative and implementation capacity realities of the specific country. Effective and optimal budget outcomes are the result of proper structured and well-managed administrations. The key objectives of expenditure control, strategic allocation and operational efficiency provide for substantive outcomes (Schick, 1998a:2).

Figure 5.6 highlights the planning and resource management cycle with the emphasis on financial performance management opportunities in the various institutional mechanisms. The result is better monitoring and control of activities and accounts for expenditure towards efficiency and effectiveness in implementing policies, programmes and projects (World Bank, 1998:32).

5.7 CAPACITY DEVELOPMENT

The United Nations Development Programme (UNDP) defines capacity as “the ability of people, institutions and societies to perform functions, solve problems, and set and achieve objectives” (UNDP, 2002:2). The strengthened approach to public financial management reform emphasises the importance of moving from diagnosis to implementation and in particular developing a public financial management capacity.

There is general agreement that capacity development should take place at individual, organisational and institutional level. Olander (2007:76) describes four interrelated elements that need to be considered when assessing and developing public financial management capacity (see Table 5.7).

Table 5.7: Public financial management capacity assessment

PFM Assessment Issues			
Management	Resources	Institutional Framework	Support Structures
<ul style="list-style-type: none"> • Leadership - political will and strategic direction • Operations management – improving service delivery outputs • Change management – management PFM reform 	<ul style="list-style-type: none"> • Staff – quantity and quality • Finances – timely and adequate resources • Equipment and facilities – IT, telecom and infrastructure 	<ul style="list-style-type: none"> • Culture – values and norms • Procedures – administrative rules • Legislation – mandate, role and responsibilities 	<ul style="list-style-type: none"> • Education – supply of PFM professionals • Training – skills development • Consulting – role of consultants

Source: Adapted from Olander, S. (ed.) 2007. *Public finance management in development co-operation*. Stockholm: Sida. page 102.

The first element, management, consists of leadership and political will, operational management and change management of the public financial management reform programme. The second element deals with resources and includes the quantity and quality of staff, adequate and timely financial resources, equipment and facilities. The third element, institutional framework, takes account of legislation, procedures and organisational culture. The final element relates to support structures such as the role of tertiary education institutions and professional bodies, the upgrading of skills through training and the role of consultants (Olander, 2007:79).

5.7.1 Management

In terms of management and leadership capacity, AusAID (2004:6) stresses the importance of clear partner leadership and ownership in the successful implementation of financial reform projects in Samoa. An evaluation of several public financial management programmes in the South Pacific also highlights the link between the programmes' success, and the existence of a clear organisational vision, tied to an overall national reform plan. Some evaluations identify a lack of technical capacity as a constraint on public financial management reform, but the

influence of general management capacity on public financial management reform does not appear to have been studied. Similarly, little evidence was found of governments or donors using explicit managerial coaching. According to Skiffington & Zeus (2003), coaching involves a structured mentor-based process, which includes examining values and motivation, setting measurable goals, defining action plans and using behavioural change management tools and techniques to assist the development of individual or group competencies.

5.7.2 Resources

The key constraint in this area is the quantity and quality of the staff. Many assessments identify a lack of economic and accountancy skills in most institutions, as a major problem in public financial management reforms. Clearly, the personnel issue of recruitment and retention of staff highlights the link between financial management and personnel management reforms. In external audit reforms, the need for operational independence, in both financial and personnel management, is also frequently raised (Olander, 2007:77).

Although limitations in resources for the funding of reforms are central themes for discussion, sustainability of the reforms is the more critical issue. As Diamond & Khemani (2005:24) note, “it should be recognized that there are recurrent costs associated with the maintenance and operation of major financial management information systems that must be covered in budgets and that often are not considered”. Other authors cite technological constraints, e.g. reliability of internet provision, as constraints on the adoption of some types of reforms such as e-procurement (Soreide, 2002:39). Regardless of the level of funding, commitment or technical expertise of the donor agency, investments in capacity development have rarely proved significant or sustainable without national champions for reform (OECD, 2006). Hunja (2001:22) also notes that money alone does not buy real reform.

5.7.3 Institutional framework

The World Bank (2005) refer to the impact of an organisation’s culture, the degree of competition, co-operation and information sharing on public financial management reform and the need to improve ethical norms at institutional and organisational level. Lack of compliance with the formal rules of the game is sometimes attributed to

vested interests and informal practices which undermine the system; however, Haller and Shore (2005:22) point out that people may not always attach the same meaning to a particular concept, e.g. gift giving in Kazakhstan. Similarly, in an accountability study in Tanzania, Lawson & Rakner (2005:28) found that “members of parliament are largely judged by voters according to their ability to bring the goods home. As a result, members of parliament see themselves as accountable for providing tangible benefits to their constituencies”.

The importance of understanding different cultural perspectives in implementing reforms, and how cultural values help shape people’s behaviour, is well documented in general management literature. In public financial management reform literature, Andersson & Isaksen (2003:44) ask whether culture is ignored in practice, because it is not regarded as important or whether it is too difficult or threatening to study.

5.7.4 Support structures

Support for public financial management reform in developing countries is provided at a number of levels. Support for national, regional and sub-regional organisations, e.g. the Eastern and Southern African Association of Accountant Generals (ESAAAG), has proved effective in improving capacity and sharing knowledge (Andersson & Isaksen, 2003:43). In South Africa, the Institute of Public Finance and Auditing (IPFA) has established professional training schemes for public-sector accountants. The OECD (2008b:22) notes: “South-South knowledge sharing is increasingly proving useful in addressing the similar problems faced by countries at similar stages of development.” Communities of practice such as the Public Expenditure Management Peer Assisted Learning (PEMPAL) group in Eastern Europe and the Collaborative Africa Budget Reform Initiative (CABRI) have been established to share experience on reform programmes.

The comparative effectiveness of various forms of training (e.g. workshop, on-the-job training, mentoring) on the success of public financial management reforms does not appear to have been studied. Although it is worth noting that, as part of their evaluation of their assistance in the South Pacific, the AusAID (2004:6) evaluation did find that on-the-job training was the most effective in all three countries visited, and well regarded by senior managers and project teams for the results achieved. More generally, a lack of proper training strategies in the civil service is cited as a constraint on public financial management reforms (World Bank, 2005:4).

Capacity is important and goes hand in hand with accountability and responsiveness. Too often citizens have little or no influence over the way services are delivered, and this needs to change if service providers are to become more accountable. To be responsive to the rights of poor people, a state needs the capacity and political motivation to assess citizens' demands and prioritise actions (DFID, 2007:29).

5.8 Service delivery and public financial management reform

Recent literature has highlighted the link between effective public financial management systems and poverty reduction. Weaknesses in public financial management affect efficient service delivery, as illustrated in several public expenditure tracking surveys (PETS), and many sector public expenditure reviews (PERs) show that funds do not always flow as intended.

A sound public financial management system is crucial for the sustainable and successful implementation of a poverty reduction strategy, and indeed the general provision of public services. In developing countries, changes in sector policies and management, especially in the social sectors (health and education) and infrastructure, are regarded as core contributions to poverty reduction and reaching the Millennium Development Goals (MDG). However, the perspective and focus on public financial management of the central ministries, particularly the ministries of finance and planning are different from those of the line ministries. In public financial management reform programmes, led by the minister of finance the needs of the line ministries to achieve quality and efficiency in spending within and across programmes and to combine financial and non-financial information, seem to receive less attention than the need to control overall government spending and to improve allocative efficiency (Witt & Müller 2006:30).

From an overall sector perspective, the situation is complicated by the actual provision of services at various levels of government. Sector-wide approaches (SWAs) are becoming commonplace in many developing countries, particularly those that are heavily aid dependent. From an allocative efficiency perspective, the development of sector expenditure frameworks (SEF) and sector working groups (SWG) is seen as an important component of MTEF implementation (DFID, 2007:30) Yet there appears to be little evaluation of whether sector (e.g. education reform programmes) and public financial management reform programmes are mutually reinforcing or the reverse. In designing an IFMIS, for example, "it is important that it

cater to management needs not just those of the central agencies, but also line agencies...[and] also to support those needs that are likely to arise as parallel budget reforms are implemented” (Diamond & Khemani, 2005:4). The fact that PETS are required because of limited information on resources received at service delivery level, might suggest that this is not always the case. Similarly, the inclusion of a national auditing function in sector groups could be contrary to their legal independence from the national budgeting system.

5.9 CONCLUSION

There is no universally agreed definition of public financial management. Definitions range from the narrow focus on the downstream activities of the budget process to a system of complex relationships, numerous role players and multiple dynamic processes. There is a realisation that PFM sub-systems are interconnected, so that changing one affects another.

In terms of PFM, financial performance management is an integrated strategy with the goal of improving the performance of public service organisations. An effective PFM system is critically important in achieving the strategic goals and objectives of government in the most economic, efficient and effective way. Therefore, international reform initiatives to enhance public financial performance management emphasise the establishment of a series of performance platforms to accommodate multiple role players and to manage relationships. For optimal financial performance, the performance platform must be used more effectively or the performance platform must be modified.

Due to the unique country-specific and changing nature of the public financial management environment, future financial performance will rely on concepts that exceed the conventional boundaries of public administration. The concepts of the future role of government as it has evolved over time illustrate (Figure 3.2) the role of governance as the ideal platform to deal with the current environmental realities and the need for financial performance management. The concept of *stewardship* centrally placed on the firm basis of governance provides the opportunity for the application of public financial performance improvement in the four areas of resource input requirements, process efficiency, output requirements and outcome requirements.

The performance platform allows for an interactive relationship between the public financial management system and the budget process to be facilitated by various role players in different relationships. Interaction is based on the concept of getting the basics right and is also aligned with the public financial management system as a series of realistic platforms to accommodate the multiple role players. The result is a financial system that provides the opportunity for financial performance management and effective and optimal budget outcomes.

The importance of sound PFM systems to enhance service delivery, poverty reduction and the achievement of the development goals is highlighted. In developing capacity, the new guidance is to build on existing capacity and not to impose external solutions. A lack of professional and managerial skills, as a serious constraint on PFM reform, is evident. Peer groups and regional affiliations are becoming increasingly popular. The next chapter analyses the public-sector financial performance management situation in the South African Government environment.

CHAPTER 6. APPROACHES, TOOLS AND TECHNIQUES FOR PUBLIC FINANCIAL MANAGEMENT IN SOUTH AFRICA

6.1 INTRODUCTION

In South Africa, as on the international front, public-sector organisations came under tremendous pressure to reform. The impulse for this concern for service delivery reform stemmed directly from the first democratic elections of April 1994 and the promise made by the newly elected government of a better life for all, especially the most historically disadvantaged sectors of society. The Public Service, the principal vehicle through which this promise for a better life was to be accomplished, naturally became the centrepiece of public attention and transformation became a major policy imperative.

In terms of public financial management in South Africa, the 1994 transition in government to a democratic state brought the realisation that renewed public financial management development initiatives were required, not only to fulfil the demands of the new constitutional framework, but also as a new approach to bring about the improved substantial outcomes sought in terms of fiscal sustainability, improved alignment of spending with the new national priorities and the maximisation of existing resources towards these priorities.

The South African public revenue and expenditure management systems have undergone substantial reform since 1994. While the early reforms shaped macroeconomic stability and strengthened public spending, the more recent emphasis of reform programmes has been on efficient resource allocation and effective service delivery. This resulted in the enactment of new financial legislation, the roll-out of a new intergovernmental system, which requires all three levels of government to formulate and approve their own budgets based on a newly introduced medium term expenditure framework (MTEF) and also revised formats for budget documentation, which include a strong focus on service delivery information. In addition, changes to the budget process have allowed role players to deliberate on key policy choices and on the matching of available resources to plans.

This chapter focuses on the approaches, tools and techniques to develop, measure, evaluate, monitor and report on financial performance management in the South African financial system. The chapter analyses the current legislative frameworks and

administrative arrangements, which provide an opportunity for financial performance management to enhance service delivery, poverty reduction and the achievement of the development goals.

6.2 SERVICE DELIVERY AND THE PROVISIONING OF AN ENABLING ENVIRONMENT

As discussed in Chapter 3, the goals of the modern state are to establish a public administration organisation based on governance and stewardship that can create an enabling environment for all its citizens to enjoy a good life. Access to public services is a right enshrined in the United Nations Declaration of Human Rights, in particular Article 21(2), which states: “Everyone has the right to equal access to public service.” Whenever they are affected, reductions to public expenditure, encompassing basic services such as water, electricity, health and education, impact directly on human beings. The preamble of the Constitution of the Republic of South Africa (1996) also states, as one of its objectives, the endeavour to improve the quality of life of all citizens and free the potential of each person. Taking the cue from the sentiments espoused in the Constitution (1996), one can argue that quality should be an essential life skill that is fundamental to the success of individuals and the public sector.

6.2.1 Constitutional arrangements for financial performance management

The Constitution (1996) states unequivocally that South Africa is one sovereign democratic state. This clearly indicates that the provinces created in terms of the Constitution (1996) are indeed part and parcel of one state. The Constitution (1996) is the supreme law of the Republic and law or conduct inconsistent with it is invalid and the obligations imposed by it must be fulfilled. As the supreme legal framework, any other law passed by Parliament, a provincial legislature or a municipal council must be in accordance with the contents and spirit of the Constitution (1996). All conduct must honour the spirit of the Constitution (1996) and of particular importance for managers is the fact that all conduct inconsistent with the Constitution (1996) is invalid. Managers should, therefore, ensure that their decisions and actions are continuously evaluated against all relevant sections in the Constitution (1996).

Section 195(1) of the Constitution (1996) serves as a reference point guiding the conduct of all public officials in every sphere of government. Section 195(1) provides

the following: “Public administration must be governed by the democratic values and principles enshrined in the Constitution...” These values are listed in Section 1 of the Constitution (1996) as human dignity, the achievement of equality, the advancement of human rights and freedoms, non-racialism and non-sexism.

Section 195(1) further stipulates other principles that should inform public service delivery. The most important are the following:

- 1) the maintenance and promotion of a high standard of professional ethics;
- 2) the efficient, economic and effective use of resources;
- 3) a development-orientated public administration;
- 4) services must be provided impartially, fairly, equitably and without bias; people’s needs must be responded to and the public must be encouraged to participate in policy-making;
- 5) transparency must be fostered by providing the public with timely, accessible and accurate information; and
- 6) public administration must be accountable.

Section 197 further requires that the Public Service must loyally execute the lawful policies of the Government.

Important financial aspects governing financial management are clearly stipulated in various sections in the Constitution (1996). Based on constitutional specifications there is one National Revenue Fund into which all money received, must be paid, except if excluded by an Act of Parliament and money may only be withdrawn from the National Revenue Fund in terms of an Appropriation Act (the Budget), or as a direct charge if provided for in the Constitution (1996) or an Act of Parliament. National, provincial and municipal budgets must promote transparency, accountability and the effective management of the economy, debt and the public sector.

The Constitution (1996) states that national legislation must establish a national treasury to ensure uniform financial practices, standards and norms on aspects such as the transfer of funds, contracts for goods and services, loans and guarantees. Other aspects relate to an independent commission on the remuneration of political office holders, the Financial and Fiscal Commission (FFC) on the equitable shares of the spheres of government, and the South African Reserve Bank as the central bank

of South Africa with its primary objective to protect the value of the currency in the interest of economic growth. The Constitution (1996) makes provision for provincial revenue funds, equitable shares of revenue for provinces and local governments, other conditional or unconditional allocations from the National Government, additional revenue raised by provinces and municipalities, and the arrangements on the enactment of provincial and local taxes. Also derived from the Constitution (1996) is the stipulation that the National Government must assist and empower all provinces to develop the administrative capacity to perform their functions (Constitution, 1996).

6.2.2 White Paper on Transforming Public Service Delivery (Batho Pele White Paper)

In line with the constitutional principles highlighted above, the White Paper on Transforming Public Service Delivery (Notice 1459/1997) has as its principal aim the transformation of the South African Public Service into a coherent, representative, competent and democratic instrument for executing government policies and meeting the needs of the people.

The White Paper on Transforming Public Service Delivery (Notice 1459/1997) asserts that it is vital that the transformation process be guided by a clear, comprehensive and commonly accepted vision of the fundamental principles to guide the composition and functioning of the Public Service. These principles represent a collective vision for public service transformation and provide that the Public Service needs to be, inter alia:

- 1) committed to the provision of high quality services to all South Africans in an unbiased and impartial manner;
- 2) responsive to the needs of the public;
- 3) representative of all sections and levels of South African society;
- 4) democratic in its internal procedures and in its relations with the public;
- 5) accessible, informative, accountable and open to public scrutiny; and
- 6) efficient, effective and productive.

To give effect to these broad principles, the White Paper on Transforming Public Service Delivery (Notice 1459/1997) requires national and provincial departments to make service delivery a priority. Chapter II of the White Paper on Transforming

Public Service Delivery (Notice 1459/1997) requires national and provincial departments to identify, among other things, the following:

- 1) a mission statement for service delivery, together with service guarantees;
- 2) the services to be provided, to which groups and at which service charges;
- 3) in tune with RDP priorities, the principles of affordability and the principle of redirecting resources to areas and groups previously under-resourced;
- 4) service standards, defined outputs and targets and performance indicators, benchmarked against comparable international standards;
- 5) monitoring and evaluation mechanisms and structures, designed to measure progress and introduce corrective action, where appropriate;
- 6) plans for staffing, human resource development and organisational capacity building, tailored to service delivery needs;
- 7) the redirection of human and other resources from administrative tasks to service delivery, particularly for disadvantaged groups and areas;
- 8) financial plans that link budgets directly to service needs and personnel plans;
and
- 9) potential partnerships with the private sector, non-governmental organisations (NGOs) and community-based organisations (CBOs), which will provide more effective forms of service delivery.

The emphasis of a flexible framework is on putting people first in respect of public service delivery and calls for a shift away from inward-looking bureaucratic systems and attitudes towards a search for new ways of working which put the needs of the public first. Thus, a fundamental shift of culture needs to take place whereby public institutions are managed with service to the public as the primary goal. The framework consists of eight principles, derived from the policy goals set out in the White Paper on Transforming Public Service Delivery (Notice 1459/1997). These are consultation, service standards, access, courtesy, information, openness and transparency, responsiveness, and value for money. The principles are broad enough to embrace every public service, yet specific enough to ensure that tangible benefits will result from their application (White Paper on Transforming Public Service Delivery, Notice 1459/1997:15).

6.2.3 Public Service Regulations (Government Notice No. R.1 of 5 January 2001 as amended)

Since 2001, the new Public Service Regulations entail an integrated framework designed to promote effective performance. This framework allows departments to find creative, more efficient and effective ways of achieving policy goals. It facilitates the best route and enables departments to use learning effectively to change strategies. Part IV of the Public Service Regulations (Public Service Regulations, Government Notice No. R.1 of 5 January 2001 as amended) provides an outline for the management of performance.

In terms of Section C of Part III of the Public Service Regulations (Regulation 679 of 1999), executive authorities in the Public Service are required to establish and sustain service delivery improvement programmes for their departments. It would be irresponsible for any government to expect efficiency and effectiveness in the Public Service to occur incidentally. A deliberate attempt to promote these qualities is thus necessary. It appears, according to Masango (2000:66), that a performance management system, which is specifically geared towards excellence in service delivery, is one suitable mechanism in pursuit of the realisation of this objective. For instance, in terms of Section A of Part VIII of the Public Service Regulations (Public Service Regulations, Government Notice No. R.1 of 5 January 2001 as amended), state departments should enhance result-orientated organisational efficiency and effectiveness, as well as accountability for the use of resources. Performance management should be established in the Public Service. Performance management programmes should be directed towards ensuring that more and better services are delivered at the lowest possible cost. The ever-increasing public needs and demands, as well as the limited available resources, require that the status quo should not be perceived as adequate. Subsequently, more and better services should be produced with these scarce resources. Performance management is therefore necessary in order to improve productivity both quantitatively and qualitatively (Masango, 2000:66).

Performance management is seen as an integrated framework of systems and processes for the following (Masango, 2000:66):

- 1) aligning strategic intentions, decisions and activities across and in public service organisations;

- 2) aligning the organisation and management framework of individual departments towards achieving improved effectiveness, and for assessing its effectiveness both in terms of specific results and outputs and the impact of these on the lives of citizens (outcomes); and
- 3) aligning all those human resource processes, systems and practices designed to recruit, retain, support and develop individual staff and set them up to succeed.

Performance management is further regarded as a means, not an end. Its success will be assessed in terms of whether it contributes to creating the conditions for effective performance and finally, in terms of its contribution to overall effectiveness of outcomes. It is a process through which service delivery organisations can continuously clarify both what their goals are and should be, but also experiment and learn about the best ways of organising and managing to achieve these goals. The overall purpose of adopting new systems for performance management and development is to ensure the continuous improvement of the capacity of the public service to develop and implement policy in the public interest; and to provide mechanisms or assessing, reviewing and accounting for what is actually achieved.

6.2.4 Effective service delivery as the ultimate aim of performance management

Since 1994, the public sector has performed reasonably well in implementing government programmes and initiatives. Access to public services has improved, particularly the quality of life in those areas neglected under apartheid. However, it should be acknowledged that the state has not performed optimally in relation to public expectations. Quality and service standards have not always improved, despite massive increases in successive budgets. In some areas, service quality and standards have deteriorated. The pattern of poor quality outcomes despite large growth in real expenditure illustrated in the health and education sectors, which together make up 30% of government expenditure, is unfortunately repeated in some other delivery areas (The Presidency, Improving Government Performance: Our Approach, 2009: 3)

Based on the Empowerdex Service Delivery Index (Citydex) compiled from data sourced from Statistics South Africa, a comparison was made between the results of a community survey in 2007 and the results from the 2001 National Census (See

tables 6.1 and 6.2). Part of this measurement was based on the performance of municipalities, district councils, metropolitan municipalities and provinces on actual delivery (status index) as well as improvements in delivery over a period of time (the improvement index). The inclusion of an improvement index allows for the recognition of previously disadvantaged municipalities that have made improvements over the assessment period. The national average score for service delivery across the five key indicators based on the provisioning of five basic services, housing, water, electricity, waste removal and sanitation was 59.77 percent. The five service delivery elements were equally weighted at a maximum of 20 points consisting of 10 points for current status and 10 points for improvement over time (Empowerdex Service Delivery Index (Citydex), 2009:23).

Table 6.1: Overall final scores

Overall final scores (weighted for increase/decrease in households)		
1	Western Cape	68.50
2	Gauteng	68.10
3	Free State	62.80
4	Northern Cape	62.40
5	Mpumalanga	59.40
6	North West	56.40
7	KwaZulu-Natal	52.50
8	Eastern Cape	47.90
9	Limpopo	46.90

Source: Empowerdex Service Delivery Index (Citydex) 2009 (Economic Empowerment Agency) Johannesburg: City of Johannesburg. page 23.

Table 6.2: Status index and improvement Index

Status Index			Improvement Index	
1	Gauteng 83.10	83.10	Free State	52.30
2	Western Cape 82.60	82.60	Northern Cape	50.80
3	Northern Cape 78.10	78.10	North West	50.50
4	Free State 75.40	75.40	Mpumalanga	50.00
5	Mpumalanga 60.70	60.70	Kwazulu-Natal	49.50
6	North West 62.20	62.20	Limpopo	49.40
7	Kwazulu-Natal 61.40	61.40	Eastern Cape	49.20
8	Eastern Cape 50.60	50.60	Western Cape	48.40
9	Limpopo 46.80	46.80	Gauteng	47.40

Source: Empowerdex Service Delivery Index (Citydex) 2009 (Economic Empowerment Agency) Johannesburg: City of Johannesburg. page 23.

The status index is based on the current proportion of households that have access to a particular service. The improvement index is based on the percentage change of households with access to a particular service. Scores are calculated based on improvements compared with the percentage increase nationally. Overall, the Western Cape and Gauteng offer the best service delivery. Both provinces scored low on the improvement index because they were measured off a high base. Limpopo is the province with the worst service delivery, both in terms of the current status index and the weighted score. When assessing the improvement index, there was no major difference in improvements made to service delivery across the provinces (Empowerdex Service Delivery Index (Citydex), 2009:23).

The transition to democracy fostered hope for a society where all citizens would have the opportunity to realise their full intellectual, physical, social and spiritual potential. This vision was captured in the Constitution (1996) which spells out each citizen's entitlement to adequate housing, basic education, healthcare, food and water and social security. Although the rights are to be realised progressively over time within the available resources, the gap between vision and reality remains large.

Since the late nineties, for more than a decade, tax revenues increased as a result of economic growth and tax collection efficiencies. This creates the opportunity to finance massive increases in social services and social grants, while maintaining a prudent fiscal stance with low deficits. However, South Africa has not been exempt from the effects of the global recession and in the medium term service delivery organisations will face declining tax revenues and burgeoning expenditure pressures. In this context, the pursuit of value for money is imperative for the improvement of service delivery standards and service delivery organisations are compelled to do more with less. Wasteful and unproductive expenditure and corruption cannot be afforded. This process requires a commitment to convert the available inputs into those important outputs aligned with the unit cost of the provided services. Ensuring that the outputs deliver the outcomes that have been politically chosen, is a measure on whether government is being effective. Political executives have the responsibility of ensuring appropriate outcomes, and the Public Service has the responsibility for the outputs. This calls for a radical change in the service delivery approach guided by international imperatives such as the need for prioritisation, outcomes-based planning and financial performance management learnt from international experience (Luyt, 2008:7).

6.3 VALUE FOR MONEY IN SERVICE DELIVERY: A CONCEPTUAL FRAMEWORK

Changes to the current service delivery approach involve general governmental fiscal arrangements, however, these changes also covers the full spectrum of social, economic and political dimensions. This approach is based on the assumption that the fiscal activities of government are a reflection and culmination of the dynamic interaction between all these environmental dimensions within a particular time frame (Visser & Erasmus, 2002:1).

Management consists of various principles and aspects, of which financial management forms the basis of performance against objectives in terms of the available resources. *Financial management* in the public sector is defined as, all decisions and activities of management, as guided by a chief financial officer, which impact on the control and utilisation of limited financial resources entrusted to achieve specified and agreed strategic outputs (IDWG, 1995:3). The aim of financial management in the public sector is to manage limited financial resources with the purpose to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes (effectiveness), which will serve the needs of the community (appropriateness) (Visser & Erasmus, 2002:9).

It can be accepted that financial management in the public sector consists of all the decision-making and other functional activities to ensure the optimum utilization of scarce resources to achieve political goals effectively. As discussed in Chapter 5, the three main objectives of a sound public financial management system is aggregate fiscal discipline whereby a realistic sustainable budget is imperative, strategic allocation of resources and allocative efficiency by doing the right things and not merely doing things right and the efficient delivery of services.

Financial management ranges from daily cash management to the formulation of long-term financial objectives, policies and strategies in support of the strategic and operational plans of government organisations. Financial management includes the planning and control of capital expenditure, working capital management, interaction with the relevant treasury, funding and performance decisions. Financial management supervises the supporting financial and management accounting functions, which are predominately concerned with the collection, processing and provision of financial information and the planning, operation and control of the

supporting financial information systems. Financial management in any organisation consists of a number of processes. Table 6.3 sets out the framework and processes that relate to the South African public-sector environment (Inter-Departmental Working Group [IDWG], Framework for normative measures for financial management in the public sector. Report by the Inter-Departmental Working Group. Department of State Expenditure, 1995:3).

Table 6.3: Public financial management processes in South Africa

Process	Description
Strategic planning	A plan formulated which deals with the main outcomes that will be focused on. It includes high-level output objectives, performance measures
Budgeting	Determining the income and expenditure required to make the strategic plans a reality
Safeguarding	Implementing controls to ensure that the all the assets such as money, motor vehicles, computers and equipment are safeguarded against improper use, loss or theft
Monitoring	Monitoring actual results and performance against the budget through management reporting
Accountability	Reporting to all stakeholders by preparing financial statements, which are audited by the Auditor-General.

Source: Inter-Departmental Working Group [IDWG]. 1995. Framework for normative measures for financial management in the public sector. Report by the Inter-Departmental Working Group. Department of State Expenditure. page 3.

The public sector needs a clear management framework within which service delivery should happen to ensure value for money. In South Africa's public management framework performance management and budgeting should be integrated and linked to both strategic planning and actual service delivery. Actual performance should be independently and objectively evaluated against plans and reported for continuous improvement (Inter-Departmental Working Group [IDWG], Framework for normative measures for financial management in the public sector. Report by the Inter-Departmental Working Group. Department of State Expenditure, 1995:3).

Strategic plans detail the vision, mission, outcomes and objectives that a particular department would like to achieve over a given period of time. Plans also include information about the mix of outputs to be produced and information about timeliness, quantity and quality. Strategic plans usually cover more than one year of operations. The first year in the strategic plan is usually an operational plan, which details the operations for the coming financial year. For each of the activities, detailed roles and responsibilities are assigned. A detailed definition of inputs to achieve outputs and outcomes should also be provided in the operational plan. This includes human resources, information technology, information resources and physical resources such as building or office space. The information on activities, measures and target levels of performance is then used to draw up performance contracts for each of the officials in the organisation (Public Service Commission, State of the Public Service Report, The state of readiness of the public service for 2010 and beyond, 2009:10).

Budgeting is concerned with the linking of plans with resources used in service delivery to produce planned outputs for the achievement of long-term outcomes or objectives. Performance management involves the definition of performance targets and measures (indicators) against which actual performance is assessed. It is seen as far more than performance appraisal. It is linked to a broader set of systems designed to ensure integration and strategic alignment across the Public Service. These broader systems should facilitate the mutual reinforcement of decision and activity across sectors, functions and levels of the Public Service to ensure each effectively contributes to public outcomes. This will be achieved, however, not through uniformity and control over how one organises and, therefore, the imposition of a prescribed system, but by insisting on us taking the responsibility to organise in ways that will lead to effective public outcomes (Public Service Commission, State of the Public Service Report, The state of readiness of the public service for 2010 and beyond, 2009:10).

For a strategic plan to be a sound basis for a budget, it must have detailed the organisational structure. For each of the programmes, objectives need to be defined and aligned with organisation-wide objectives and policies. A budget for the programme has to be specified to show how the financial resources available to implement the programme will be utilised. Objectives must be measurable in order to facilitate performance assessments. That is, each of the objectives must have effectiveness indicators expressed in terms of timeliness indicators, quality indicators

(standards) and levels of service. It is also important to define qualitative indicators, although defining such indicators is often difficult.

Providing the information detailed above ensures that unit costs of producing outputs are known and embedded in budget estimates. It is also important to recognise that not all costs can be described at a unit level, which often contributes to unanticipated expenditures. Unit costs help legislatures approve budgets because they then know what public funds are to be spent on. A standardised budgeting format has been introduced and is widely used. Budgets are prepared based on the medium-term expenditure framework, which provides information on the budgetary implications of current and future programmes two years in advance. At national level, estimates of national expenditure provide information on objectives, policy and outputs. This is a major step towards integrating budgets with policy priorities. Provinces are not all as clear in their statements of planned expenditure. The variable quality of provincial expenditure plans could be resolved through a dedicated budgeting improvement programme (Public Service Commission, State of the Public Service Report, The state of readiness of the public service for 2010 and beyond, 2009:11).

6.4 LAW AND POLICY REGULATING PUBLIC FINANCIAL MANAGEMENT

The South African Government commenced with major financial management and budget reforms through the introduction of the medium-term expenditure framework (MTEF) in 1998, which was aimed at advancing and promoting growth and development. Legislation that was subsequently developed governing public financial management in the South African public service includes the following: The Public Finance Management Act (PFMA) (1/1999), as amended by Act 29 of 1999, and for local government there is the Municipal Finance Management Act (56/2003) (MFMA) and the Municipal Systems Act (32/2000), as well as the Municipal Systems Amendment Act (44/2003). Other Acts are the Preferential Procurement Policy Framework Act (5/2000), the Broad-Based Black Economic Empowerment Act (53/2003), the Division of Revenue Act (DoRA), which is passed by Parliament annually, the Appropriation Act, which is also passed annually and makes provision for the withdrawing of money from the National Revenue Fund in terms of the appropriation done by an Act of Parliament, the Intergovernmental Relations Framework Act (13/2005), the Public Audit Act (25/2004) and the Taxation Laws and Revenue Laws.

From the above discussion, the following are the most important pieces of legislation that drive public financial management in the South African context.

6.4.1 Public Finance Management Act (1/1999)

The Public Finance Management Act (1/1999), as amended by Act 29 of 1999, gives effect to section 216 and other sections of the Constitution. The PFMA (1/1999) applies to the national and provincial spheres and public entities under their ownership and control. Parliament, provincial legislatures and independent institutions established by the Constitution (1996) are also covered in this Act. The Municipal Finance Management Act (56/2003), covers the local government. The aim of the PFMA (1/1999) is to modernise the system of financial management in the public sector and the key objectives are to enable public sector management to manage and to be more accountable, to ensure the timely provision of quality information and to eliminate waste and corruption in the use of public assets.

The purpose of the PFMA (1/1999) is therefore to regulate financial management, to ensure that all revenue, expenditure, assets and liabilities are managed efficiently and effectively, to stipulate the responsibilities of persons entrusted with financial management; and to provide for other matters relating to financial management. In South Africa, the PFMA (1/1999) is one of the most important pieces of legislation and promotes the objective of good financial management in order to maximise delivery through the efficient and effective use of limited resources. As financial accountability was undermined by different pieces of legislation that applied for different entities, the PFMA (1/1999) replaces the various national and provincial Exchequer Acts, which was regulating financial management with a narrow focus on expenditure control. The PFMA (1/1999) adopts an approach to financial management, which focuses on outputs and outcomes, rather than the rule-driven approach of the past. The Act is part of a broader strategy of improving financial management in the public sector.

The PFMA assumes that the political head of a department (Cabinet Minister or a provincial MEC) is responsible for policy matters and outcomes; this includes seeking parliamentary (or provincial legislature) approval and adoption of the department's budget vote. The administrative head (director-general of a national department or head of department of a provincial department) is responsible for outputs and implementation, and is accountable to Parliament or provincial legislature for the

management of the implementation of that budget. Other officials, including all line function managers, are responsible for ensuring that functions are executed in such a way that they comply with the prescripts of the PFMA (1/1999), to protect the accounting officer. This approach is in line with the approach of the Public Service Regulations, which rely on a performance-driven system based on measurable outputs (National Treasury, Guide for Accounting Officers, 2000:2-5).

6.4.2 Treasury Regulations

The Constitution (1996) (Chapter 13) confers extensive powers on the National Government to determine the financial management framework over all organs of state, in all spheres of government. The National Government must, through national legislation, determine uniform treasury norms and standards. The National Department of Finance and the National Treasury as government's executive structures for financial and fiscal matters are responsible for managing South Africa's national government finances and are expected to monitor and enforce these norms. The National Treasury, therefore, not only implements the budget of the National Government, but also plays a financial oversight role over other organs of state in all spheres of government. The PFMA makes provision for the establishment of provincial treasuries, which are responsible for preparing and managing provincial budgets, and enforcing uniform treasury norms and standards as prescribed by the National Treasury and the PFMA (1/1999).

The National Treasury is mandated to promote the Government's fiscal policy framework to co-ordinate macroeconomic policy and intergovernmental financial relations, to manage the budget preparation process, to facilitate the Division of Revenue Act, which provides for an equitable distribution of nationally raised revenue between national, provincial and local government and to monitor the implementation of provincial budgets.

In terms of Section 76 of the PFMA, the National Treasury issues and periodically updates Treasury Regulations. These regulations establish generally recognised accounting practices. The uniform norms and standards required by the Constitution (1996) have been established by the National Treasury and the Accounting Standards Board establishes accounting standards.

In terms of the PFMA, the National Treasury can make regulations that are extensions of the Act, for the management and control of certain financial aspects. The regulations must be published for public comment in the national Government Gazette, before their enactment. The National Treasury must make regulations, among others, concerning any matters relating to the PFMA (1/1999), the recovery of losses and damages, the management of trust money and property, and the rendering of free services. The regulations also stipulate the arrangements for the writing off of state money, assets and amounts owed to the state, the procedures, for the recovery of losses and damages, the cancellation or variation of contracts to the detriment of the state, the handling of claims, payments as an act of grace, asset management and arrangements concerning gifts and donations by or to the state.

6.5 MANAGEMENT IMPLICATIONS OF RESPONSIBILITY AND ACCOUNTABILITY FOR FINANCIAL PERFORMANCE MANAGEMENT

As already mentioned in Chapter 2, accountability is a key requirement of good governance. To be accountable in general terms means to give reasons for and explanations of what one does (Normanton, 1966:1). This implies that an explanation should be provided, that a reckoning should be given, of the manner in which a specific function or assignment has been carried out. One could therefore argue that the most significant characteristic of accountability is the requirement that an explanation should be provided, i.e. reasons have to be given for an action, inaction or even insufficient action. In order to obtain clarity on the important term of *accountability* it should be defined as (Normanton, 1966:1) “ ... public accountability (consists) in a statutory obligation to provide for independent and impartial observers holding the right of reporting their findings at the highest levels in the State, any available information about financial administration which they may request”. It could be deduced from the above-mentioned that accountability concerns a statutory obligation to provide reasons for actions (mostly resulting in the expenditure of public funds). It also implies that the reasons requested have to be provided.

To *be responsible* means (Concise Oxford Dictionary) “to be liable to be called to account or to be the primary cause for something that has happened”. Stated in simplified terms, it implies that someone could be called to give reasons for a specific action or inaction. The following two references from the Constitution (1996) provide clarity: Section 92(1): “The Deputy President and Ministers are responsible for the powers and functions of the executive assigned to them by the President”, and

Section 92(2): “Members of the Cabinet are accountable collectively and individually to Parliament for the exercise of their powers and the performance of their functions”. In a similar manner, Section 84(2) states unequivocally that the President is responsible for *inter alia*, the assenting to and signing of Bills, making specific appointments, summoning the National Assembly, the National Council of Provinces or Parliament to an extraordinary sitting.

Combining the two terms, one could state that someone is responsible for carrying out a specific action or assignment. Thereafter, such a person could be required to provide reasons for any success or failure, i.e. may be held accountable, for example the personnel officer is responsible for sending a letter of appointment to a successful candidate for a particular post. If a delay occurs in sending the letter, the personnel officer could be called to account, i.e. has to provide reasons for the failure to give effect to the instruction (Gildenhuys, 1997:157).

6.5.1 Accounting officers

Placed centrally within the public financial management framework and related financial processes is the administrative head of service delivery organisations, also referred to as the accounting officer. The PFMA, the Treasury Regulations and other legislation confer specific key responsibilities on accounting officers and clarify the division of responsibilities between the administrative head (the accounting officer) and the political head (executive authority). The executive authority is responsible for policy choices and outcomes, while the accounting officer implements the policy and achieves the outcomes by taking responsibility for delivering the outputs defined in the departmental budget. In this way, accounting officers are empowered by unambiguously conferring on them a clear set of responsibilities. The accounting officer prepares the departmental budget (specified in terms of measurable objectives) for the executive authority to approve and present to the legislature for approval.

The functions of an accounting officer can be divided into the preparation and submission of the department’s draft budget to the relevant treasury and the execution of the approved departmental budget. Accounting officers are responsible for the operation of basic financial management systems, including internal controls in departments and any entities they control. They must implement measures to ensure that departments do not overspend their budgets and are responsible for

regular financial reporting according to prescribed time frames. Accounting Officers are to publish annual reports in a prescribed format including performance reporting. In terms of the modernised approach of financial management in the public sector in order to enhance financial performance and to maximise the capacity to deliver services, the PFMA enables accounting officers to manage but, at the same time, holds them accountable for the resources they use (Visser & Erasmus, 2002:41).

6.5.2 Capacity for financial performance management

Derived from the findings in Chapter 2, good governance is about performance and conformance in the way public servants take decisions and implement policies. The concept of *governance* underlines the need for a shift from traditional and rigid public administration practices and procedures to alignment with possible ‘best practices’ in an environment characterised by political oversight.

6.5.2.1 Public financial management transformation

Based on statutory arrangements prior to 1994, the first six years of South Africa’s new democracy were characterised by centrally prescribed bureaucratic rules and specifically by strictly controlled public financial processes, which allowed little scope for managerial discretion. Mundane issues had to be referred for “Treasury approval”, regulating how money was used to “buy” inputs, and diverting attention from the delivery of the outputs that the inputs were intended to achieve. This approach did not clearly define responsibilities, and resulted in poor accountability and value for money.

Since 1999 and in order to maximise the capacity of public service organisations for effective service delivery, Hood’s (2007:11) doctrine of “hands-on professional management in the public sector” (Chapter 2) became evident in the approach of allowing accounting officers to manage but, at the same time, holding them accountable for the resources they use. In terms of this approach, clear lines of accountability were established supported by broad frameworks of best practices, which managers can adopt or, where necessary, adapt with a greater emphasis placed on output controls. Table 6.4 is an exposition of the key areas of public financial management transformation in public service organisations (National Treasury, Guide for Accounting Officers, 2000:6).

Table 6.4: Public financial management transformation in South Africa

Arrangements prior to 1999	Arrangements after 1999
<ul style="list-style-type: none"> • Stable and balanced demand for services vs limited resources • Centralised budgeting • One-year incremental budgeting system • Budget policy separation 	<ul style="list-style-type: none"> • Unstable and imbalanced demand for services vs limited resources • Decentralised budgeting • Multi-year budgeting - medium-term expenditure framework (MTEF) • Budget policy alignment • Empowering managers • Enhancing accountability • Linking planning and budgeting • Service delivery indicators • Performance budgeting

Source: Adapted from National Treasury, *Guide for Accounting Officers*, Public Finance Management Act, October 2000, page 1-4.

As part of the mentioned public financial management reforms, various public financial management training interventions and development initiatives with the support of external donor organisations were launched in the South African Public Service.

The Financial Management Improvement Programme II, sponsored by the European Commission with €7.95 million was implemented to raise the SA Government's financial management performance and to strengthen the finance management capacities at national, provincial and municipal level through supporting the implementation of the PFMA (1/1999) and the MFMA (56/2003) and from there initiate the professionalisation and capacity building process in all governmental financial units. As such, a high emphasis is placed on the strengthening of operational capacity at municipal and provincial governments' public financial management abilities. This will mainly be achieved through capacity building interventions and creating institutional mechanisms to sustain these interventions. The programme is intended to contribute to the improved performance by the National Treasury, to improve the performance of selected provinces in terms of especially monitoring and supporting municipalities in their quest for high standards of financial management and to deliver a road map for future interventions to improve public financial management at provincial and municipal level.

The Municipal Finance Management Technical Assistance Programme (MFMTAP) sponsored by the International Bank for Reconstruction and Development and the World Bank, started in the 2005 MTEF cycle for three years, focused on the provision of technical assistance in implementing municipal financial management reforms in terms of the Local Government Financial Management Grants. Through the programme, about 30 advisors were placed in municipalities for a period of two years. Additionally, roving advisors were allocated to five provincial treasuries to assist provinces in performing their role in respect of the MFMA (56/2003). The World Bank country office supports the Government in the management of the emerging municipal bond market, the establishment of the Municipal Financial Recovery Service, an analysis of local government pension funds, and the strengthening of the Government's oversight role in municipal public-private partnerships.

The Consolidated Municipal Transformation Programme (CMTP) sponsored by the United Kingdom's Department for International Development (UK DFID) is a five-year (£11 million) programme funded in terms of a bilateral agreement between the United Kingdom's DFID and the South African Government. The programme is aimed at making a real difference in eight municipalities in three South African provinces, namely Limpopo, KwaZulu-Natal and the Eastern Cape. The purpose of the CMTP is to support the emergence of municipalities that offer democratic participation and wider, affordable and financially sustainable service delivery. Simply put, this translates into support for the development of a well-structured, informed local municipality, which complies with the legislation, encourages citizen participation and ensures that interventions reflect citizens' needs and priorities. The programme funds integrated service facilitators, many with an international background, along with financial advisors appointed by the National Treasury in the municipalities to assist in key areas. The programme also funds activities in the areas of municipal journalism, anti-corruption and HIV/Aids.

The Local Governance and Development Programme of the German Technical Corporation (GTZ) implements various public financial management reform initiatives aimed at strengthening local government programmes, the enhancement of business development services and local economic development, and facilitation of municipal finance management capacity programmes. With the support of USAID, the Housing and Municipal Services Programme focuses on South Africa's efforts to rollout a new municipal budget process to 175 municipalities through technical assistance in capital investment planning, improved budget information management, monitoring

and training. The Democracy and Governance Programme facilitated anti-corruption reforms during 2006. USAID also funded operations of the Department of Justice’s forensic audit unit to prosecute embezzlement, training of corruption prosecutors and establishing two commercial crime courts. Future plans are to assist municipalities to institute transparent hiring, procurement and complaint resolution systems.

Although various programmes were initiated to strengthen operational capacity and to enhance public financial management abilities, research has shown that public service organisations still fail to deliver the goods and services required to accelerate economic growth, reduce poverty and inequality and improve the lives of all South Africans. It is also evident that the main problem is not necessarily due to inadequate funds, but it is about the changing role of operational managers in terms of the alignment of strategic and operational plans with financial management best practices (see table 6.5).

Table 6.5: The changing role of operational and financial managers

	Financial manager	Operational manager
Accountability	Provide financial information that assists the operational manager with the implementation of policies	Manage objectives and activities that lead to the institution’s outputs and the effective, efficient and economical achievement of objectives
Costing	Promote costing systems and skills in order to support the operational manager in this regard	Is responsible for key decisions that relate to costing, such as the type and quality of services to be provided
Monitoring and evaluation	Support operational managers in monitoring & evaluating expenditure in relation to budgets and objectives	Monitor and evaluate expenditure in relation to budgets and objectives; monitor and interpret output and outcomes of service delivery
Revenue and expenditure	Link revenue and expenditure to programme objectives and overall output of institution	Take corrective management decisions where financial information reveals possible deviation in expenditure projections and plans
Cash flow	Manage and monitor cash and procurement	Provide information on cash flow implications of programme and projects
Reports	Prepare monthly and annual reports for all of the above	Prepare monthly and annual reports for all of the above

Source: Adapted from South Africa. National Treasury. 2000. *Guide for accounting officers*, National Treasury: Pretoria. page 3-9.

Successful integration of strategic and operational plans and budgets requires that operational or line managers be held accountable for the inputs that are allocated to resource their strategic plans. Better budgeting, in terms of the PFMA (1/1999), extends accountability not only to expenditure of inputs, but more importantly, to the efficient and effective achievement of outputs in line with strategic priorities. *Let managers manage* therefore entails considerable changes to the customary functions and responsibilities of public sector financial and operational managers as illustrated in Table 6.5.

According to Plant (2006:5), strategic and operational planning characterised by a top-down process in service delivery organisations has to align with the day-to-day operations and with the performance management and development system. The Senior Management Service members' performance agreements must be linked to the strategic plan and the budget of a service delivery organisation, therefore the setting of the key responsibilities and output targets should be derived directly from the required outputs of the organisation's strategic plan. The Senior Management Service members are responsible for tactical level management in service delivery organisations and are also known as programme managers (Public Service Senior Management Handbook. 2003:Chapter 4, Section 7).

6.5.2.2 Tactical level programme management capacity

Programme management is the process of managing several related activities with the intention of improving the performance of service delivery organisations. Programme management also emphasises the co-ordinating and prioritising of resources across activities, managing links between the activities and the overall costs and risks of the programme. At tactical level, programme management provides a layer above the management of activities at operational level and support a higher-level vision, goals and objectives at strategic level (See Figure 6.1) (Minnaar, 2010:38).

Programme managers are non-financial senior executive managers (deputy directors-general), who are appointed by the accounting officer for the effective and orderly management and administration of line and staff functions in government organisations. According to Visser & Erasmus (2002:43), programme managers

assume responsibility for programmes and are the critical link between the strategic level of the organisation and the operational level dealing with the execution of activities. Minnaar (2010:38) refers to programme managers as senior managers who operate at the tactical level as the first level of implementation with the operational level as the second level of implementation.

Figure 6.1: Planning levels



Source: Adapted from Minnaar, F. 2010. *Strategic and performance management in the public sector*. Pretoria: Van Schaik. page 38.

Programme managers are accountable to the Departmental Budget Advisory Committee, under the chairmanship of the accounting officer, for the success of their programmes. The budget advisory committee provides budgeting advice within and for the government organisation. This committee allows for inputs and participation from programme managers, programme co-ordinators, the chief financial officer (CFO), budget managers and departmental accountants. The budget advisory committee is the critical link between the strategic, tactical and operational level of the organisation in order to ensure optimal financial performance and strategic alignment as a prerequisite for effective performance budgeting (Visser & Erasmus, 2002:42).

6.5.2.3 Operational level responsibility managers

Responsibility managers function at the operational level below that of programme managers and head the different functional entities within a programme. They are fully qualified line and staff functionaries who have the responsibility to administer human and physical resources in the most economic, efficient and effective way, enabling these functional entities to deliver the best possible services or products to the public (National Treasury, Guide for Accounting Officers, 2000:6).

The tasks of responsibility managers can be divided into functional and financial categories. Functionally, responsibility managers have to plan and manage the physical execution of the duties of their functional entities. Financially, as illustrated in Table 6.6, responsibility managers have to administer and manage the resources allocated to them in such a way that their functional entities deliver the best possible service or product at the lowest cost. The different tasks in terms of the financial function consist of the compilation of estimates of expected expenditure, compliance to financial policy and procedures to be followed by their functional entities in accordance with relevant financial regulations in collaboration with the programme manager and financial managers. Responsibility managers incur expenses in order to accomplish the functions of the department and control functional budgets in coordination with the budget advisory committee, which include the monthly evaluation and control of expenditure. Responsibility managers must initiate suitable remedial actions to adjust the actual expenditure trends to the planned estimates, and they manage and exercise control over state property, human resources, documentation, evidence, accounting records, cash and income (Visser & Erasmus, 2002:41).

The success of financial performance management in government organisations depends to a large extent on the appointment of highly trained and competent responsibility managers. These officials are the backbone of the functional management and administration of resources, which enables government organisations to attain their determined goals and objectives (Minnaar, 2010:38).

6.5.2.4 Performance-based budgeting

In the case of the Government, the budget is a financial plan, and it is expected that accountability is provided in a political system, consisting of Parliament and other

oversight authorities such as the Office of the Auditor-General (Lee & Johnson, 1977:10). Budgeting often demands the making of policy choices driven by the insufficiency of funding. Funds are always in short supply and, therefore, finances have to be carefully managed to maximise efficiency and effectiveness. The focus is on the goods and services to be delivered rather than merely calculating and concentrating on the input costs (Walker & Mengistu, 1999:30).

Since the 1960s, the planning, programming and budgeting system (PPBS) has been used. The planning, programming and budgeting system according to Golembiowski & Robin (1997:490) is elaborated as: "a rational decision-making technique which may be used to make more systematic decisions, given a set of objectives and the information at hand". In the planning, programming and budgeting system, the emphasis is on the long-term outcomes rather than the short-term activity-based benefits. It is a process by which objectives and resources are combined to achieve a cohesive programme of action of government (Golembiowski & Robin 1997:491). PPBS budgeting gives due consideration to the pursuit and achievement of policy objectives.

Since the introduction of budgetary reform in 1999, the planning, programming and performance budgeting system has been in vogue in South Africa. Multi-year budgeting was introduced to remove uncertainty from the planning and forecasting process. The medium term expenditure framework (MTEF) was introduced where budgeting is done on a tri-annual basis (Walker & Mengistu, 1999:23). The first year entails the actual allocation of funds and the two outer years are projections of possible allocations. Although budgeting is done on a tri-annual basis, allocations are done annually. Multi-year budgeting has been an elusive myth in South Africa since all budgets are prepared annually and the outer-year projections are not in line with what is ultimately requested or received. However, it does entice accounting officers to plan programmes and projects in anticipation of receiving projected allocations. The myth was obscure in the 2009/10 financial year due to the global financial meltdown and poor revenue outlook in South Africa. Budgets were drastically cut instead of being increased as projected in the previous years, and this had a serious if not deleterious effect on service delivery.

Of late, there has been a shift from programme budgeting to performance budgeting. This is an important consideration since it places renewed focus on performance management and the quest to optimise productivity of employees in the Public

Service. According to Golembiowski & Robin (1997:289), while programme budgeting was effectiveness-orientated, performance budgeting was efficiency-oriented. Policy-makers have to choose between different alternatives to achieve the desired goals after having carefully conducted cost-benefit analyses and impact-assessment studies to ascertain the most efficient route to follow in policy implementation. Lee & Johnson (1977:9) state that in performance-based budgeting, the focus is on holding managers accountable and demanding efficiency of actions through a performance management system.

Performance-based budgeting in the public service began in America in the 1960s under the Planning Programme Budgeting System (PPBS) (De Woolfson, 1975:390). The intention of the Planning Programming Budgeting System was to shift the locus of budgeting from annual reviews to medium-term projections through programmes based on outputs rather than inputs (Bevan, 1983:730). Behn (2003:590) states that the evolution of the Planning Programme Budgeting System to performance-based budgeting shifted the focus away from line-item expenditure to either performance purpose or to specific performance targets.

It is significantly noted that since 1996, the National Treasury has adopted, with some amendments, a Planning Programme Budgeting System to give budgets a structural framework and set the trajectory for performance-based budgeting. The current performance-based budgeting system provides foundational guidelines for performance management systems with all government departments. While it is easy to measure and assess the performance of a department from a performance-based budgeting perspective, this, however, is not clearly evident when compared with the performance of individuals in departments. Accordingly, Telleria, Little, & MacBryde (2002:339) found in their research that the team-based approach to performance management had the effect of integrating all business processes to produce goods or provide services. The performance of individuals, especially those who perform support and administrative functions, cannot be easily measured. The actions of individuals singularly do not support the strategy of the organisation. It needs collective action.

Apart from putting more emphasis on results, performance budgeting provides more and better information on government goals and priorities, and on how different programmes contribute to achieving these goals. The approach also encourages greater emphasis on planning, and provides information on what is working and what

is not. Citizens will continue to demand results for their tax money and, in spite of the challenges associated with this approach, there will be a continuing need for performance information and performance budgeting (OECD, 2008c:8).

6.6 FINANCIAL PERFORMANCE MANAGEMENT AND OVERSIGHT

Government institutions dealing with public administration may be termed institutions performing agency functions for the political authorities. These agencies are funded by means of legislative authorisation with the result that they should, therefore, after performing their functions, and based on the principle of stewardship, account for their performance to the relevant legislature.

According to the Constitution of the Republic of South Africa (1996), Parliament is the highest legislative authority in South Africa. A parliamentary committee on finance has been established to advise Parliament on all aspects relating to financial management. The committee must ensure that the overall financial principles that are set in policy documents are reflected in the budgets, that the budget structures are understandable by the parliamentarians, that the macro economic and fiscal policies are acceptable, and that the budget processes are practical. The committee will also evaluate the recommendations by the Financial and Fiscal Commission (FFC) on the revenue-sharing formula between national and provincial levels as well as between provinces.

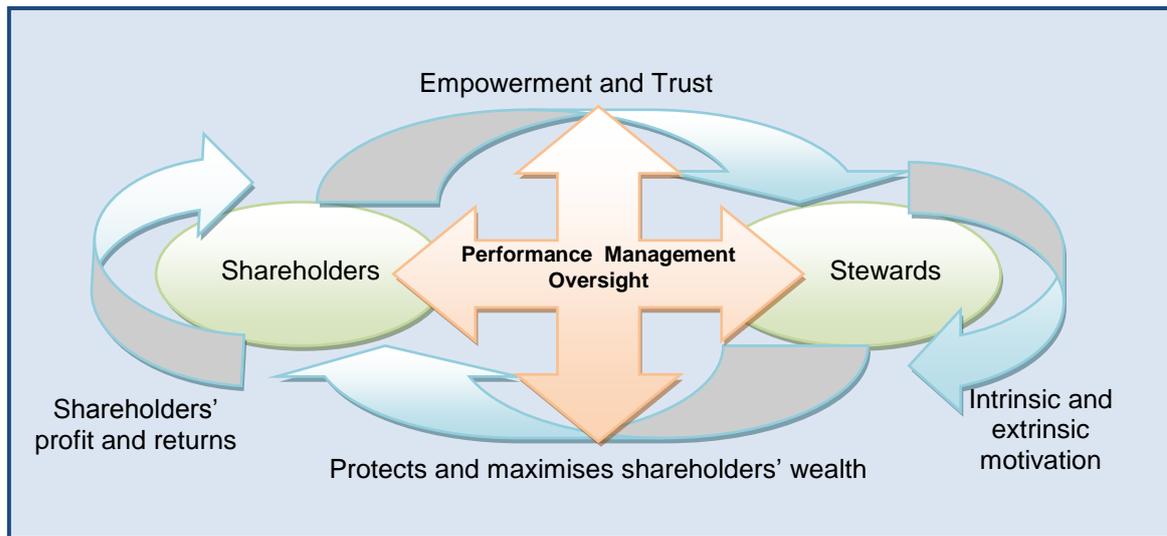
In the monumental book by Normanton (1966:2) *public audit* is defined as "a special device for making public accountability a reality". It is important to note that the auditing thus undertaken should in all respects be independent. That implies that the state (supreme) audit institution should be independent of government and be able to express an opinion or a finding if it is found that wasteful action has occurred. Supreme audit institutions carry out the external audit of public service organisations and are one of the key links in the formal system of financial accountability. The strengthening of audit institutions can therefore result in significant improvements to the effectiveness of public financial management and accountability systems as a whole. As a general rule, Parliament is able to perform its oversight functions most effectively when it uses and can rely upon the audit institution's audit work. The real impact of any audit institution becomes viable when the legislature provides a forum for the presentation and discussion of its audit results and acts as an ally in ensuring corrective actions are taken (DFID, 2005a:6).

In South Africa the Auditor-General Act (12/1995) was passed by Parliament, enshrining the Auditor-General's independence in accordance with the Constitution (1996). The Auditor-General Act (12/1995) determines, among others, the conditions of service and functions of the Auditor-General. In terms of this Act, the Auditor-General is responsible for the investigation of the accounts of any public institution and the reporting thereon to Parliament.

According to Visser & Erasmus (2002:39), “traditionally the audit function verified compliance, from a deficiency approach, with effectiveness and efficiency, and audit reports focused on expended funds only. The audit function is, however, precisely that: the reporting on an ex post facto basis with no intention of prevention.” The fact that areas of mismanagement and ignorance of sound financial management procedures and processes are identified cannot be denied, however, the need for proper performance auditing remains a very high priority. Performance auditing serves a valuable purpose in that programmes and accounts are audited beyond the scope of mere compliance with legislation, regulations, rules and unauthorised expenditure. The need for performance evaluation of strategic and operational plans based on continuous monitoring and evaluation could complement the function exercised by the Auditor-General.

The Standing Committee on Public Accounts (SCOPA) serves as Parliament's most important committee on matters of finance. This committee has the responsibility to oversee the effective, efficient, economical and transparent management of departments. It is to this committee that the Auditor-General reports and based on the Auditor-General's reports, the committee then decides on action to be taken. SCOPA may recommend sanctions against accounting officers, ranging from salary reductions and demotions to dismissals. In serious cases, it may also recommend that charges of financial misconduct be brought against the officials. During the public hearings of SCOPA, the emphasis is mostly on aspects such as the implementation of effective internal controls, the initiation of disciplinary steps, the quality and validness of feedback reporting and the remedial steps that were taken after the problem was disclosed (Visser & Erasmus, 2002:49).

Figure 6.2: The stewardship model in the domain of financial performance management and oversight



Source: Adapted from Abdullah, H. & Valentine, B. 2009. *Fundamental and ethics theories of corporate governance*. Faculty of Economics and Management, Graduate School of Management, University Putra Malaysia, EuroJournals Publishing: Putra, Page 11.

Figure 6.2 shows the critical relationship between stewardship and the domain of financial performance management and oversight. As analysed in Chapter 2, in the domain of financial performance management and oversight, the concept of *stewardship* emphasises the public servants' responsibility to utilise and develop all resources entrusted to them by the stakeholders in the most economic, efficient and effective way. Institutions for oversight and external auditing plays a vital role in good governance as *stewardship* also refers to 'wise' administrative practices to achieve good governance practices related to financial performance management. However, it is important to stress the fact that oversight is not only about protection and maximisation of stakeholders' wealth, but also about empowerment of stewards and the development of trusting relationships aligned with the principles of good governance. The relationship between governance, stewardship, financial performance management and oversight creates the ideal performance platform as a requirement for financial reform initiatives as discussed in Chapter 5 (Donaldson & Davis, 1991:65).

6.7 GOVERNMENT REFORM PROCESS AND DESCRIPTION OF RECENT AND ON GOING REFORMS

The Government of South Africa has embarked upon a number of very successful public financial management reforms since the mid-1990s. The reform agenda has focused on the establishment of a legal and regulatory framework to strengthen and improve the transparency, comprehensiveness and credibility of the budget, debt management and external scrutiny and oversight.

The public financial management reform approach has evolved away from a comprehensive integrated approach centred on a single integrated strategy, with emphasis on sequencing and co-ordination, to a more incremental one. Implicit in the approach of reform was a focus on the three main objectives of a sound public financial management system. These were achieving fiscal discipline, the efficient delivery of services and the strategic allocation of resources. This appears to work because the main fundamental changes to public financial management have already been achieved and the focus is now more on capacity development rolled out to the provinces and municipalities. The approach can remain effective in delivering on improvements because the approach has already made the major transition to a reformed public financial management system and is now focusing upon continuing improvements of the reformed systems informed by the lessons learnt through the decade-long reform experience.

Future reforms will focus away from input controls to delivered outputs supported by improved financial reporting and public and parliamentary access to budget and fiscal documents, and the introduction of audit committees to better hold budget managers accountable. Responsibility was devolved to spending departments for spending choices and use of funds within approved ceilings and against policy commitments. Finally, there will be a better alignment of policy, planning and budgeting. The South African system recognises this and structures the integration of political and administrative practices to ensure that funding choices align with the priorities of the Government, and that political oversight is reinforced. Based on a shift to a multi-year budgeting framework to allow the re-allocation of resources to new priorities, the budget process includes various mechanisms to manage uncertainty and maximise funding and policy predictability over the medium term. This approach also allows for alignment with policies at the margin through the use of rolling baselines, a contingency reserve and a disciplined budget process.

There are five main areas of public financial management reform activity planned, which principally involve the National Treasury, SARS and the Office of the Auditor-General. These are the amendments to the legal and regulatory framework, which include the introduction of a Money Bill Amendment Procedure and Related Matters Bill, the Financial Management Improvement Programme, the improvement, upgrading and integration of the transverse computer systems, the revenue modernisation programme, and the improvements in external scrutiny and public financial performance monitoring.

A framework for managing performance has been developed and at the moment work is being done to improve the Strategic Planning Framework, among others. This comes out of the awareness that strategy and budgets are often not effectively linked. The National Treasury is currently developing national guidelines to improve processes to ensure that when plans are developed, there is an explicit requirement to link this to the budget.

6.8 PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT

A public expenditure and financial accountability (PEFA) assessment was initiated and sponsored by the European Commission and was carried out between June and September 2008. It was undertaken with the formal agreement and active support of the Government of South Africa. The assessment adopted the widely accepted methodology of the Public Financial Management Performance Measurement Framework (PFM-PMF) issued by the PEFA multi donor programme in June 2005. The approach was based on a careful consideration of the demonstrated observable public financial management systems, procedures and practices in South Africa at the time of the assessment as determined through direct interviews with government officials and the reviews of official documents and reports. It was also based on the use of corroborating evidence sought from a variety of independent sources wherever possible.

The purpose was to assess the current status of the public financial management system of the central government. The assessment's restriction to the coverage of the central government public financial management systems means that it provides a snapshot of the public financial management systems, procedures and practices of

only about a third of the public-sector public financial management activity. Given the concurrent roles of the national versus provincial governments, only a limited opportunity is presented to assess technical and allocative efficiency. Given the National Government's role to be principally policy, regulation, oversight, revenue administration, debt and cash management, budget release management, and monitoring and evaluation, this assessment provides limited opportunity to assess the efficiency of expenditure management or the effectiveness of the application of expenditure even where funds may have been allocated at an aggregate level to areas of strategic priority; these functions being principally the role of the provincial governments.

When viewed from the perspective of the objectives of a sound public financial management system, namely aggregate fiscal discipline, strategic allocation of resources and the efficient delivery of services; South Africa scores very well with respect to aggregate fiscal discipline. The public financial management systems are capable of allocating resources in accordance with priorities. The utilisation of a three- to five-year macro fiscal framework, with a definite budget calendar that facilitates the meaningful bottom-up participation by government organisations, along with the very successful integration of cash management and debt management, and the achievement of predictable budget releases and effective payroll management all point to efficient delivery of services. However, these positives were negatively impacted by some procurement and non-salary expenditure management challenges. The public financial management systems provide financial feedback at the end of the service delivery cycle, namely the receipts by front-line facilities such as primary schools and primary healthcare facilities.

Also derived from the assessments are a number of areas that might influence future service delivery initiatives. Any assessment of one level of government without an assessment of the other levels might produce a distorted picture.

6.8.1 The concurrent role of the central government with the provincial governments

The central government is responsible for regulation, policy and planning, revenue administration, cash and debt management, consolidated financial reporting and monitoring and evaluation. The provincial governments are responsible for delivering on the effectiveness of the strategically allocated funds of the central government;

and for service delivery. These concurrent roles lead to a somewhat shared role of public financial management. Consequently, an assessment of the public financial management systems, procedures and practices of central government is more a measure of the legal and regulatory framework, the main institutional arrangements and the level of aggregate fiscal discipline achieved. It measures only to a degree the achievement by way of the strategic allocation of resources (front end), since it would require the provincial governments working as partners to deliver on the effectiveness (back end) of such strategically allocated resources.

The assessment of the central government did not provide much opportunity to measure service delivery. For example, the Department of Health is directly responsible for managing three medical laboratories. All hospitals and clinics are operated directly by the provinces. Consequently, a full picture of the strategic allocation of resources and efficient service delivery will only emerge when PEFA assessments have been applied to the provinces.

6.8.2 The implementation of transverse computerised systems

The central government has implemented a number of transverse computerised systems that operate on country-wide networks, which facilitate the full country-wide roll-out of a number of the public financial management systems. These include the revenue administration systems for income tax, VAT and customs duties; the Basic Accounting System (BAS), which provides computerised accounting across all departments and PERSAL, which is the system used to manage the payroll.

The two systems together provide an opportunity for the integration of cash management and debt management. There is also the LOGIS system used for procurement, but this is not yet available across all departments.

6.8.3 Aggregate fiscal discipline

With respect to aggregate fiscal discipline, South Africa's well-developed debt strategy, and comprehensive transparent management of debt; effective fiscal risk assessment and oversight of public enterprises; credible medium-term fiscal forecasts (revenue, net borrowing and debt service, and expenditure), which serve as the basis for top-down budgetary discipline; well-managed budget releases and a comprehensive and effective commitment control process all point to the ability to

deliver strongly on aggregate fiscal discipline. This is further strengthened by a strict commitment control system supported by an effective cash management system. However, there remain some concerns with respect to the accrual of expenditure arrears, commitment reporting and procurement management.

6.8.4 Strategic allocation of resources

South Africa has in place a number of important steps towards achieving a budgetary process that is fully capable of the strategic allocation of resources. However, there are still a number of important steps that are not fully implemented such as the development of sector strategy fiscal frames and full costings of the sector strategy elements with a more direct link to the medium-term expenditure framework. The budget classification in South Africa is well capable of supporting a policy-based budgeting process and thus provides a necessary input for achieving the strategic allocation of resources. South Africa issued the medium-term policy framework to serve as its national development framework, which includes a clear articulation of its development policy objectives. Although the development objectives do not rely heavily on donor inputs, there are missed strategic opportunities that arise due to a lack of close alignment of donor grants with the budget process and a broad absence of timely reporting on project and programme achievements consolidated into the national consolidated financial reporting framework. The effectiveness of the central government's success in allocating resources strategically, followed by disciplined budget releases in accordance with such strategic considerations will still rely upon provincial governments to deliver on such strategy as well as the incorporation of effective monitoring and evaluation to inform and continue evolving and refining strategy.

Particularly important to assessing the impact of policy objectives is the tracking of resources received by front-line service delivery units such as primary schools and primary healthcare facilities. The consolidation of provincial budget statements with their detailed reports on primary school and primary healthcare receipts of cash and kind by the National Treasury into the Provincial Budgets and Expenditure Review presents a sound basis to better manage the achievement of effectiveness.

6.9 REINFORCING PERFORMANCE IN PUBLIC FINANCIAL MANAGEMENT

A man kept searching for his wallet under the street lamp because, he said, it was too dark in the back alley where he had lost it.

Although the post-bureaucratic reform thesis holds that public administration must become anticipatory, flexible, results-orientated, customer-driven, values-based and entrepreneurial, the pure adoption of private-sector practices and methodologies to the public sector is analytically incorrect and inappropriate in practice (Kuye *et al.*, 2002:20). For business production in a competitive market, the return on outcomes and the worth of activities are most easily measured by the price the buyer is willing to pay; the net social utility of the producer is well approximated by his/her profits during a given period, the 'bottom line'; and persistent losses will drive companies out of business. This is so, however, only when the buyer gets all the benefits of the product and (indirectly) pays all the costs. When indivisibilities and external effects exist (positive, or negative such as water pollution), or where there cannot be a competitive market as for public goods, the 'bottom line' is not as easy to define, the activity is assigned to the public sector, and the measurement of the impact of public-sector activity therefore becomes a major and complex issue.

On the other hand, to limit the notion of public 'performance' only to compliance with budgetary appropriations, or to literal observance of rules and regulations, leads over time to forgetting the real purpose of spending monies obtained from the public at large. Eventually, this generates a 'culture' of means rather than ends, disregard for the public, and the legendary bureaucratic mentality that considers it a success to formulate tight and internally consistent controls, regardless of whether they are necessary or even helpful in executing the functions assigned to the state by the people. Thus, partly from mounting frustration with the unresponsiveness of large bureaucracies, and partly from the logic of the new public management, which has emerged in advanced Anglo-Saxon economies in the last decade, several developed countries and some developing countries have made increasing use of 'performance' concepts and 'results' indicators, both in their managerial practices and in the formulation and execution of public expenditure programmes. In some cases, the real difficulties of measuring performance in the public sector have been recognized and the resulting ambiguities tolerated and adjusted to. In other cases, partial or misleading notions of performance have been adopted simply because they are easier to measure.

It is particularly necessary to present the full complexity of the performance issue both because greater performance orientation is very important and because its introduction is sometimes advocated as a very simple and self-evident matter.

6.10 CONCLUSION

A 'high-performing' public-sector organisation is results-driven, i.e. has a culture of continuously improving performance, receives and allocates funding aligned with cost-effective delivery, is responsive to change, encourages innovation by seeking a balance between risk and opportunity, has a strong customer focus, and last but certainly not least, is highly transparent about its performance to its stakeholders.

A sound public financial management system allows government to make the best use of all available resources and will resolve the quest to efficiently and effectively utilise public resources to meet the needs of the community in an equitable manner. Public financial management is not merely a question of spending more, but requires adequate capacities for managing public finances in order to maximise the impact of public resources.

The main concern of public financial management is how to efficiently and effectively utilise public resources to meet the needs of the community in an equitable manner. A sound public financial management system allows governments to make the best use of all available resources, including international development assistance, to improve the quality of life of society. This includes both managing expenditure and raising revenue. Raising revenue is essential for development and state-building.

CHAPTER 7: CONCLUSION: A CONCEPTUAL MODEL FOR PUBLIC FINANCIAL PERFORMANCE MANAGEMENT

7.1 INTRODUCTION

In order to develop a conceptual model for public financial performance management, it is necessary to provide a brief overview of important research findings. The purpose of Chapter 1 was to describe the character, objectives and need for public financial performance management in order to improve the quality of service delivery in South Africa. The need for this study is highlighted in the fact that despite the progress and achievements of the Government in the delivery of services, serious challenges still prevail, which proves disappointing in terms of reducing poverty and solving ongoing socio-economic problems. A major obstacle to effective service delivery in South Africa is poor governance, specifically corruption and poor performance of government officials in their management of public resources resulting in ineffective public service delivery implementation.

The problem statement reflects issues related to the fact that public financial management capacity is at the core of good governance and lies at the heart of effective service delivery. Therefore, it is necessary to unpack the source of the problem to provide a conceptual framework to improve public-sector financial performance management. Unique knowledge is required for the analysis, measurement and evaluation of performance effectiveness in public organisations. Operational managers must be empowered to measure the effects of service delivery in non-monetary terms in order to ensure effective public financial performance management. Not only will the operational manager be able to indicate what he/she has done, but also to account in a constructive manner for all planned achievements. Measurement will enhance management and will shift the phenomenon of public performance management beyond the boundaries of quantity to quality in terms of outcomes. The research question: how can decision-makers in public financial management give account of their performance with specific reference to the area of effectiveness and outcomes? culminated in the topic of the study: **Public financial performance management in South Africa: a conceptual approach.**

Chapter 2 was devoted to the contextualisation of public administration. The historical development of the discipline of Public Administration and the practice of public administration was discussed to put modern public administration as the

organised non-political executive state function into the context of the 21st century. Performance management must be viewed in the historical context as an evolution in the field of public-sector management. Employing a governance perspective and a new focus on public service allows one to explore the full range of policy choices, management strategies, ethical responsibilities, and civic commitments, which are necessary for effective and responsible public administration. Sound, transparent and accountable management of public finances is at the core of organisational performance. Financial performance management as a prerequisite for organisational performance determines to a large extent a government's capacity to implement policy and manage public resources through its own institutions and systems; it provides the foundations upon which to build effective, capable and accountable administrations, able to fulfil their responsibilities and deliver basic services.

People are concerned that governments do not spend their taxes appropriately and there is the quest to know how and for what purpose their taxes are spent. This prompts governments to become accountable, performance- and results-orientated. Stewardship in the context of public administration underlines the relationship between the public administration environment, the generic functions of public administration and management and the application of good governance principles in order to provide the opportunity for enhanced public financial performance.

Chapter 3 shows that an ideological basis for the state such as an economic welfare ideology seems to be conducive for a performance platform and the application of good governance, stewardship and public financial performance management. This basis provides an environment that is conducive for growth and development, it provides for enabling opportunities for growth while still delivering services through public administration interventions with a long-term impact for quality of life. The problem of scarcity with unlimited human needs and wants, and limited resources to fulfil these wants relies on an economic system to determine the pattern of production and solving the issue of what economic goods shall be produced and in what quantities. These decisions are influenced by the institutional means through which the allocation decisions are processed and this establishes the link between the basic economic problem of scarcity and the study of public finance. Therefore, all public expenditure decisions to promote the collective utility are made by experts employed by the state.

The state's role has changed from hands-on management and the direct deliverer of goods and services to facilitating an enabling environment for private-sector participation. The economic role of the state has shifted to that of regulator of financial institutions to ensure fair competition and maintain safety and soundness of financial systems. It has increasingly become clear that the success of a country's development initiatives hinges on the country's effective economic policies and good governance as a political imperative with a high value placed on political and social justice and public accountability. Good governance as a relational concept will create a situation where people see themselves as part of the larger society and seek a balance between their self-interest and society's collective interest. They view their relationship to the government as equivalent to their relationships to voluntary trade associations, in which dues are paid for the benefit of all the members of the association. Ultimately, government will be evaluated through the effectiveness of its role of regulator, facilitator and enabler.

The emphasis on a governance perspective and a total rethinking of public service paved the way to explore the full range of policy choices, management strategies, ethical responsibilities, and public commitments, which are necessary for efficient, effective and accountable public administration. These reforms require a broader definition of public results, an expanded view of the role of government and a dynamic understanding of the field of public administration. This situation requires support from a new synthesis of public administration that takes into account the historical foundations, the current realities of the practice of public administration as well as new insights from other disciplines.

Public administrations are a vehicle for expressing the values and preferences of citizens, communities and society as a whole. Some of these values and preferences are constant; others change as societies evolve. Periodically, one set of values comes to the fore, and its energy transforms the role of government and the practice of public administration. In order for a responsive and responsible reaction from government, public financial performance management principles and practices need to support a public service that is ready and prepared at all times to provide the most effective services at the right place and at the right time.

Chapter 4 shows that globalisation has opened the boundaries; and the causes and consequences of its political, economic, social and technological decisions are not contained by its borders. Globalisation affects everyone; individuals, communities,

countries, regions and institutions. Globalisation tends to shape not only the organisational character of the administrative state, but also the managerial dimension of public administration. It is increasingly recognised that good governance is significant in a country's developmental processes to ensure that globalisation benefits all. The state, in partnership with business and civil society, has a key role to play in attaining a good life for all its citizens. Organisations need to participate in the establishment of strategic alliances and partnerships and must maintain a level of competency comparable with that of worldwide skills and best practices. The future organisation will have to focus on the capacity to access a wider population.

Progress has been made in economic governance, public financial management and accountability and the integrity of the monetary and financial systems by several African countries. As a result, the situation in Africa today is better than it was a decade or so ago. However, a great deal remains to be done, such as the question of leadership and how seriously it is committed to sound public financial management and accountability. The integrity of the monetary and financial system is central, as is the question of the ability of other institutions of government and civil society in general to control the executive and makes it accountable. In this regard, the role of parliaments and civil society organisations is crucial. These institutions must be empowered and their capacity enhanced so that they are more or less equal interlocutors and partners with the executive branch of government. The dominance of the executive over the legislature and the judiciary must be sharply curtailed, and a true and genuine system of checks and balances must be established among the three spheres of government. In addition, civil society organisations (oversight) must be strengthened, and their independence from the government as well as their ability and capacity to play a greater and more effective role in economic policy-making and implementation must be greatly reinforced. Many of these organisations simply lack the capacity and experience to be effective in economic governance and public financial management.

Given the magnitude of the challenges and the tasks facing African countries, African governments and other stakeholders, especially the international community, must focus not only on devising schemes, policies and programmes and adopting internationally accepted rules, regulations and codes of good practices, but also on ensuring that the capacity to implement these well-conceived reforms is available. A

holistic approach will be needed for the problem of governance and to make progress on all fronts simultaneously, challenging though this may be.

Chapter 5 deals with the analysis of public financial management practices in the international environment and discusses specific initiatives undertaken by national states and also international organisations in the quest to make the world a “better place”. In terms of PFM, financial performance management is an integrated strategy with the goal of improving the performance of public service organisations. An effective PFM system is critically important in achieving the strategic goals and objectives of government in the most economic, efficient and effective way. Therefore, international reform initiatives to enhance public financial performance management emphasise the establishment of a series of performance platforms to accommodate multiple role players and to manage relationships. For optimal financial performance, the performance platform must be used more effectively or the performance platform can be modified.

Due to the unique country-specific and changing nature of the public financial management environment, future financial performance will rely on concepts that exceed the conventional boundaries of public administration. The concepts of the future role of government as it has evolved over time illustrate the role of governance as the ideal platform to deal with the current environmental realities and the need for financial performance management. The concept of *stewardship* centrally placed on the firm basis of governance provides the opportunity for the application of public financial performance improvement in the four areas of resource input requirements, process efficiency, output requirements and outcome requirements.

The performance platform allows for an interactive relationship between the public financial management system and the budget process as to be facilitated by various role players in different relationships. Interaction is based on the concept of *getting the basics right* and is also aligned with the public financial management system as a series of realistic platforms to accommodate the multiple role players. The result is a financial system that provides the opportunity for financial performance management and effective and optimal budget outcomes.

The importance of sound PFM systems to enhance service delivery, poverty reduction and the achievement of the development goals is highlighted. In developing capacity, the new guidance is to build on existing capacity and not to impose external

solutions. The lack of professional and managerial skills, as a serious constraint on PFM reform, is evident. Peer groups and regional affiliations are becoming increasingly popular as there is a worldwide trend towards government outcomes, namely the impact of public policies on citizens.

Chapter 6 is an analysis of the public-sector financial performance management situation in the South African Government environment. A 'high performing' public sector organisation is results-driven, i.e. has a culture of continuously improving performance, receives and allocates funding aligned with cost-effective delivery, is responsive to change, encourages innovation by seeking a balance between risk and opportunity, has a strong customer focus, and last but certainly not least, is highly transparent about its performance to its stakeholders.

A sound public financial management system allows government to make the best use of all available resources, including international development assistance, and deals with the quest to efficiently and effectively utilise public resources to meet the needs of the community in an equitable manner. Public financial management is not merely a question of spending more, but requires adequate capacities for managing public finances in order to maximise the impact of public resources to improve the quality of life of society. This includes both managing expenditure and raising revenue. Raising revenue is essential for development and state-building.

This thesis highlights the focus on financial performance management as a critical component of the total system of public administration and the role that it can play in implementing the South African Government's policies to promote national economic, social and other developmental goals. However, it is recognised that at theoretical level no one method of public financial management will satisfy the specific needs of a government better than any other. It is only in practice that an optimal system of public financial management can be determined. The approach taken in this thesis was to emphasise the role of public financial performance management in support of public administrative reforms that meet developmental needs.

By taking a view of the role of public financial performance management and its potential contribution to public management and development as analysed in the chapters of this study, a conceptual model for public financial performance management can now be depicted.

7.2 A CONCEPTUAL MODEL FOR PUBLIC FINANCIAL PERFORMANCE MANAGEMENT

This study was an attempt to construct a theoretical framework on how decision-makers in public financial management can give account of their performance with specific reference to the area of effectiveness and outcomes. The provisioning of a conceptual model to improve public-sector financial performance management will make a positive contribution to meet the needs of all people in the most economic, efficient and effective way.

1) Public financial performance management and governance

The role of public financial performance management arises at a number of points when considering improvements to governance. The public financial performance management system must be integrated into the total governance framework if it is to contribute as part of an organic whole to enhancing a country's development prospects. Lack of integration between the financial performance management system and the total public management system can make administrative reforms fail or even represent a step backwards. A successful financial performance management system is a core component of a total system of management and needs to work in harmony with the other elements (human capital, strategic and operational planning, information systems, etc.) that are employed to achieve the objectives of government.

In comparison with the traditional bureaucratic model of legislated responsibility, performance-based management systems focus on the specification and achievement of explicit goals in an environment of increased accountability. Such reforms reflect the views of the state that sees its public administration as an instrument for the delivery of economic, social and other goals. Within this rationalist view of the state, the task of the reformer is to find ways to improve the performance of the government in terms of meeting these goals efficiently and effectively. Put simply, the principles of effective management involve a clear expression of an agreement about objectives, managers who are accountable for results, the freedom to manage resources subject to incentives for efficiency and effectiveness, and clear information about performance. Today's environment demands public institutions that are extremely flexible and adaptable. It demands institutions that are responsive to development and growth and willing to establish stewardship relations characterised

by a sense of meaning, ownership and empowerment. This approach of outcome-focused management is the result of an elective stance towards the evolution of public administration and management with a shift away from process regulation and controlling of inputs. Good governance provides a performance approach that is serving the needs of people and is results- and outcomes-driven.

Governance principles apply to the processes towards results and outcomes and highlight the need for role identification and alignment towards the establishment of reporting structures within processes. The creation of a governance structure illustrates the relationships among the various roles and shows the basic governance 'flow' of responsibilities within a process.

2) Management effectiveness to accountability

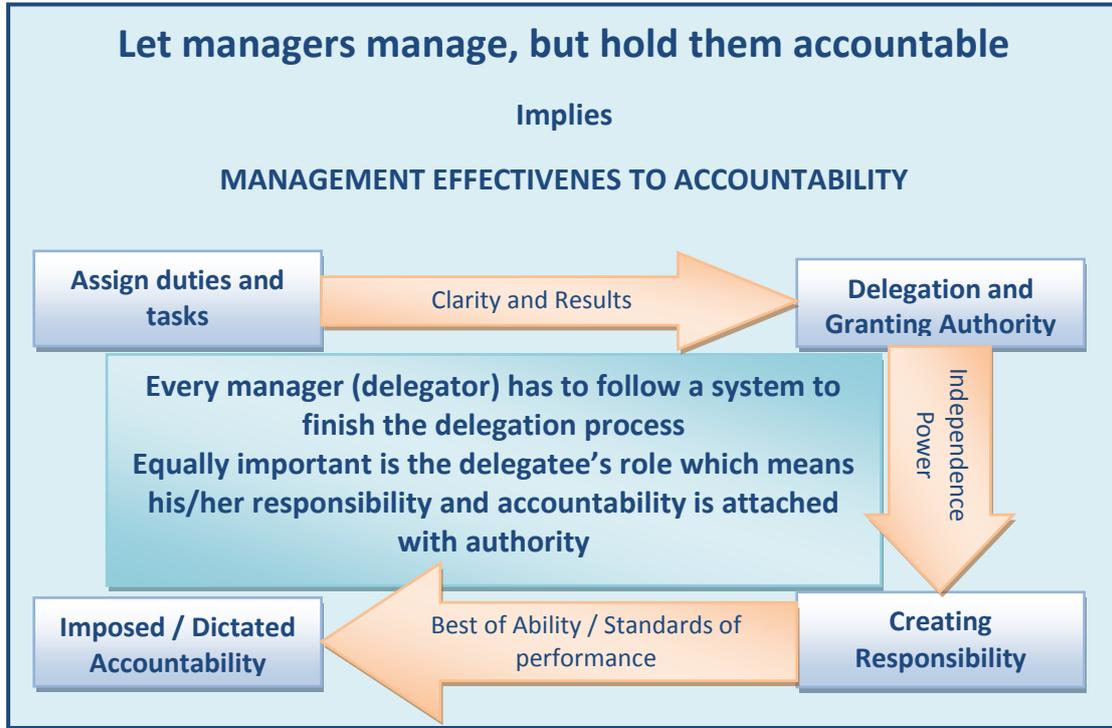
Organisational structures are designed layouts or arrangements of duties and tasks created while taking into consideration the allotment of the job, distribution and granting of authority, as well as operational links of the subgroups or departments in an organisation. Organisational structure, therefore, maximises the group performance by allotting each member individual responsibilities and tasks without redundancies and at the same time monitors the group performance by assigning authorities to supervise and co-ordinate with the members of the group.

Organisational structures, however, differ from one group to another. It varies with the goal of the organisation, the type of leadership a certain group has, as well as the organisation's view of their clients or benefactors. In essence, organisational structures can be broadly classified depending on the distribution of power, authority and responsibility.

As analysed, allowing managers to manage, but holding them accountable for their performance, implies management effectiveness to be more accountable and the obligation of the individual to carry out his/her duties in terms of standards of performance. Accountability is a result of responsibility and responsibility is a result of delegation and granting of authority and empowerment (see Figure 7.1). Empowerment ensures that managers know their roles in implementing the organisation's mission, and have the resources, information, skills and decision-making authority for those roles. Managers cannot be responsible, nor can they be

accountable for performance excellence without adequate authority and empowerment.

Figure 7.1: Management effectiveness to accountability



Organisations have tended to work in a pyramid structure. This structure is easily identified by the existence of a ruling class or individual and every pyramid has a decision-maker at the top. As the pyramid unfolds, the next layer of individuals report directly to the leader, and pass along his/her desires to the people below them. As orders filter down, the groups get larger and larger, until finally, the bottom of the pyramid is reached. The majority of individuals in a pyramid structure are at the bottom layer, performing the most menial tasks.

While a top-down format has certain advantages, the unfortunate truth of the pyramid structure is that it is designed for the most people to have the least input. What is also unfortunate is that in most cases, the services and activities undertaken by the bottom layer are usually the main reason for the pyramid in the first place. While the leader may make the decisions that get passed down, it is the lowest layer that meets the customers, makes the products and delivers the services.

An alternative structure for organisational management is the inverted (or upside-down) pyramid. This structure recognises that the organisation exists solely to

provide for customers. If the payments by customers (through sales or taxes) are crucial for the survival of the organisation, then the most important people in the organisation are those that interact with customers. If customers are satisfied and served well, they will continue to feed the organisation, ensuring its continuity.

While the top of an inverted pyramid consists of the many people who have direct influence on customers, the next level down contains the people required to support the front lines. Support staff may provide maintenance services, administrative services, or even management services. However, in the inverted pyramid, management does not exist to rule but rather to co-ordinate information and efforts of front-line individuals, providing them with the resources required to fulfil service obligations.

Since the front line is crucial to the organisation, those in that position must have input resources for assigned duties and tasks, authority and decision-making responsibilities. While management services may provide guidance, it is really up to the front line to identify their needs. As long as the objectives are to improve service delivery and organisational strength, front-line requirements should always be met.

Switching from a regular pyramid to an inverted pyramid requires a system of structural empowerment. What this means is that front-line individuals are given authority and responsibilities, along with guidelines and structures that ensure all efforts are for the common good. Throughout the transitional process, front-line teams identify common requirements, and adjustments are made in operational process to most efficiently meet those requirements. The shift is not straightforward, and each activity and decision must be reassigned to the most effective level.

In the inverted structure, the leading and motivation function of management prevents individual concerns; and desires can get in the way of success. It is important for all participants to distinguish between their personal desires and the requests that truly improve the organisation. When all are dedicated to the improvement of service delivery and efficient reallocation of authority, it can be successful. When groups or individuals insist on changes that are to the detriment of the entire organisation, expectations must be adjusted. Ultimately, the inverted pyramid works when all of the people choose to make it work.

While the basic concepts of this power shift can be explained, the details are not as clear. The process takes place over time, and specific details fall into place. The key requirement for upper management is to suggest the change, encourage the change, and allow the change. Once an organisation has been given the objective of restructuring, it will. Ultimately, the system of structured empowerment requires the top levels to allow and co-ordinate the shift of power, and the front lines to honourably accept their responsibilities and duties. This situation emphasises the critical relationship between people and power.

3) The people side of public financial performance management

While these structural arrangements related to an outcomes-focused management underlie financial performance management efforts, it should be remembered that a high standard of organisational performance is ultimately established by people and not management systems. Management systems can increase the probability that people perform successfully but cannot guarantee it; by the same token, poor management systems can inhibit good performances by people who would otherwise be capable of achieving them. The human side of improving performance is fundamental to a holistic approach to improving public management.

The traditional bureaucratic organisation, still found in many governments, combines a management philosophy with a system for public service delivery that focuses on enforcing compliance with central requirements to achieve minimum performance standards, which are universally applied. It is similar to the philosophy of management known as Taylorism, which typified management up until the 1960s.

The traditional bureaucratic model as described in Chapter 2 has increasingly come under attack in the government sector, as it did in the private sector and for many of the same reasons. Such organisations fail to become anticipatory, flexible, results-orientated, customer-driven, values-based and entrepreneurial in service delivery. Mass-produced services of indifferent quality, with little concern for the customer, have increasingly become unacceptable in the public sector, as they are in the private sector. To solve the problem requires a complete reorientation of management systems and organisational culture, which most governments are only just beginning to come to terms with even though such ideas have existed for a long time.

The theme of this reorientation will be one of empowering public managers to use resources in a way that will meet their clients' needs. The principle is not one of abandoning control but of finding more effective and efficient ways to deliver public services. It should be noted that control over the higher purpose of delivering a government's strategic objectives can be significantly increased if managers provide a higher quality service and are responsive to policy direction. To ensure this outcome, the administrative centre of government needs to be redesigned, to strengthen its policy development capacities and to develop more sophisticated oversight capabilities in order to monitor the performance of delivery agencies.

The broad perspective on management systems and current trends in management reform yields a particular perspective on financial performance management and its potential contribution to a country's development. Located on the 'hard' side of management, financial performance management is about implementing concepts, systems and processes, which establish essential hygiene factors in an organisation or in a government as a whole, enabling satisfactory accountability for resources to be achieved. Derived from public policy objectives, the financial performance management system needs to be implemented alongside and in harmony with the other basic modules of a management system.

4) Public financial performance management: an implementation orientation

To have a clearer understanding of the public financial performance management model, one needs to understand the relationship to policy as a statement with intent made by someone with authority and then the implementation thereof. The most common meaning of *implementation* is to carry out, to accomplish, to fulfil, to produce or to complete. This meaning could easily be associated with service delivery. Policy *implementation* is regarded as the accomplishment of policy objectives through the planning and programming of operations and projects so that agreed outcomes and desired results are achieved.

In understanding implementation as a complex political process, rather than a mechanical administrative one, an implementation orientation to public financial performance management becomes an attempt to see how it can be influenced by the establishment of a financial performance management model to better accomplish the goals it set out to achieve. While the maze through which policy travels in the course of its implementation is unique to each situation, there must be

an attempt to identify critical variables which shape the direction that implementation might take. A critical variable might be implementation capacity however, it is likely to be a function of the content of policy in order to provide for resources for capacity building. Derived from the public administration environment, the institutional context of the relevant organisation may hinder or help such capacity enhancement. The commitment of implementers to the goals and methods of the policy may make up for the lack of such capacity or vice versa; or the coalition of actors opposed to effective implementation may prevent the capacity, which might otherwise have been sufficient and here, again, supportive clients and coalitions may in fact enhance capacity.

As discussed in Chapter 3, the seminal typology of policy content is provided by Lowi (1963:16), who characterises policy as distributive, regulatory, or redistributive. In very broad terms, distributive policies create public goods for the general welfare and are non-zero-sum in character; regulatory policies specify rules of conduct with sanctions for failure to comply; and redistributive policies attempt to change allocations of wealth or power of some groups at the expense of others. The content of policy is important not only in the means it employs to achieve its ends, but also in its determination of the ends themselves and in how it chooses the specific means to reach those ends that is related to outcomes and results.

Institutional context as another critical variable will necessarily be shaped by the larger context of social, economic, political and legal realities derived from the public administration environment. This is, in no way, an attempt to understate the importance of the larger contextuality, but merely to emphasise the potential impact on the implementation process, primarily via the institutional corridor through which implementation must pass and the support of clients and coalitions. Effective working relations typically result from bargaining, accommodation, threats, gestures of respect and related transactions. Straight lines that link square boxes mean little if the underlying reality is a jumble, whereas effective working relations can be established by transactions among agencies with no formal connections whatsoever. Based on the research findings in Chapter 2, bureaucratic contexts favourable to implementation more often grow out of human interactions (stewardship) than out of hierarchical regulation.

In the context of this thesis, the capacity of the public sector is conceptualised in general systems thinking terms as the structural, functional and cultural ability to implement the policy objectives of the government, i.e. the ability to deliver those

public services aimed at raising the quality of life of citizens, which the government has set out to deliver, effectively, as planned over time, in a durable way. It obviously refers to the availability of and access to concrete or tangible resources (human, financial, material, technological, logistical, etc.). Capacity also includes the intangible requirements of leadership, motivation, commitment, willingness, endurance, and other intangible attributes needed to transform rhetoric into action. The political, administrative, economic, technological, cultural and social environments within which action is taken must also be sympathetic or conducive to successful implementation.

In the context of a systematic network approach to service delivery, capacity-building can be regarded as a total (structural, functional and cultural) transformation of government in order to mobilise all available resources to achieve policy objectives. This amounts to a paradigm shift regarding the nature of government. On no other variable does the analytic literature on implementation seem as unanimous as on the need for effective implementation capacity. It is, after all, intuitively obvious that a minimum condition for successful implementation is to have the requisite administrative and other abilities to implement. However, this simple articulation of the 'capacity problem' is deceptive. Indeed, administrative capacity is necessary for effective implementation. However, providing the necessary resources is nowhere a simple matter; in fact, merely knowing what the necessary resources are can be a non-trivial problem. More importantly, it is a political, rather than a logistic, problem. Like implementation itself, resource provision deals with questions of "who gets what, when, how, where, and from whom". The critical question, then, in understanding how capacity may influence implementation effectiveness is not simply what capacity is required, where, but also: how this capacity can be created and operationalised?

The importance of government joining coalitions of interest groups, opinion leaders, and other outside actors who actively support a particular implementation process is widely recognised throughout the research. This is illustrated by the fact that power shifts can take place and a power shift among the different outside interest groups produces a corresponding shift in the implementation process. As with the other variables, the first task is determining the potentially influential clients and coalitions from the larger cast of characters in the implementation environment. The constellation of actors who are directly or indirectly affected by any implementation process is likely to be far larger than the set of key constituencies whose interests

are impacted enough for them to have the desire, or the ability, to influence the implementation process in return.

What the interlinked dynamic variables imply is that implementation cannot be seen as an activity to be planned and carried out according to a carefully predetermined plan; rather, it is a process that can only, at the very best, be managed and lessons learnt as one proceeds through the different implementation stages. Managing it, and steering it towards a more effective outcome, entails strategically ‘fixing’ those variables over which one has some direct or indirect influence to induce changes in the ones over which one does not have such influence. The strategic imperative is to identify which are the defining variables and how one might best influence them to arrive at the desired results.

Implementation, aligned to the above variables, as an activity to be planned and carried out according to a carefully predetermined plan will only be possible if one can mobilise all available resources in terms of time, cost and quality to achieve policy objectives. This capacity, referred to as ‘strategic fixing’ can only be operationalised within a systems approach in implementation.

5) Finding the right vehicle for public financial performance management

As stated in Chapter 2, a potential area for performance improvement lies within the throughput requirements or transformation of inputs into outputs. There are two options to improve performance: improving the measured attribute by using the performance platform more effectively or by improving the measured attribute by modifying the performance platform, which, in turn, allows a given level of use to be more effective in producing the desired outcome. The second option highlights the need to shift away from the conventional boundaries of public administration, which are concerned with the formal institutions of government. The transformational modification of the performance platform requires a highly fluid institutional and policy matrix in which the powers and responsibilities of different actors and tiers of government are in flux. Furthermore, it requires a focus upon wider processes through which public policy is effected and must make provision for the development and implementation of public policy through a broader range of private and public agencies than those traditionally associated with government. In public administration, the performance platform is provided by the functions of public administration used in the performance act based on good governance and

stewardship for the economic, efficient and effective delivery of goods and services, meeting the needs of society.

Effective stewardship of public resources and efficient provision of services as principles of financial performance management are common to most countries. But the institutions set up for the purpose, and the systems and procedures specified, differ between countries contributing to divergent practices. Some practices may be more efficient than others but consideration alone does not determine the course taken. New approaches imply a total indictment of the existing patterns of work, which are considered hidebound, rule-orientated, and generally uneconomic. Managerial approaches, on the other hand, are expected to be task-orientated and flexible. This very flexibility, however, becomes an issue of accountability. To what extent is the legislature willing to provide that flexibility within the overall framework of accountability? Is the legislative authority prepared to trust the decision of a public servant? The answers to these issues are becoming increasingly problematic, as legislatures keep on adding more and more legislation and administrative rules, which can potentially hamper managerial flexibility in government.

Lack of integration between the financial management system and the total operational management system can make administrative reforms fail or even represent a step backwards. For example, systems of central financial control that prohibit flexibility and innovation in public service provision are common. Similarly, drawing on the modern management philosophy of staff empowerment and granting managers freedom over the use of resources can be a risk in reform programmes in which such freedom is not balanced against those managers' explicit financial accountability. The principles of effective management involve a clear expression of, and agreement about, objectives, managers who are accountable for results, the freedom to manage resources subject to incentives for efficiency and effectiveness and clear information about performance.

In order to provide content to the model in the operational application, the following will be important:

a) Accountability in the context of operational management

Accountability is a key requirement of good governance. To be accountable in general terms means to give reasons for and explanations of what one does. This

implies that an explanation should be provided, that a reckoning should be given of the manner in which a specific function or assignment has been carried out (see Figure 7.1). One could therefore argue that the most significant characteristic of accountability is the requirement that an explanation should be provided, i.e. reasons have to be given for an action, inaction or even insufficient action. It could be deduced from research that accountability concerns a statutory obligation to provide reasons for actions (mostly resulting in the expenditure of public funds). It also implies that the reasons requested have to be provided.

Statutory arrangements are characterised by centrally prescribed bureaucratic rules and specifically by strictly controlled public financial processes, which allow little scope for managerial discretion. This leads to regulating how money are to be used to 'buy' inputs, and diverting attention from the delivery of the outputs that the inputs were intended to achieve. This approach does not clearly define responsibilities and results in poor accountability and less value for money.

Public financial legislation and relevant regulations should adopt a new modernised approach to financial management with the aim of reducing fraud, corruption and waste for more efficient and effective use of public resources. In order to maximise the capacity of governments to deliver services, a doctrine of *hands-on professional management in the public sector* must be evident in an approach of allowing operational managers to manage but, at the same time, hold them accountable for the resources they use. In terms of this approach, clear lines of accountability must be established and must also be supported by broad frameworks of best practices, which managers can adopt or, where necessary, adapt with a greater emphasis placed on output controls.

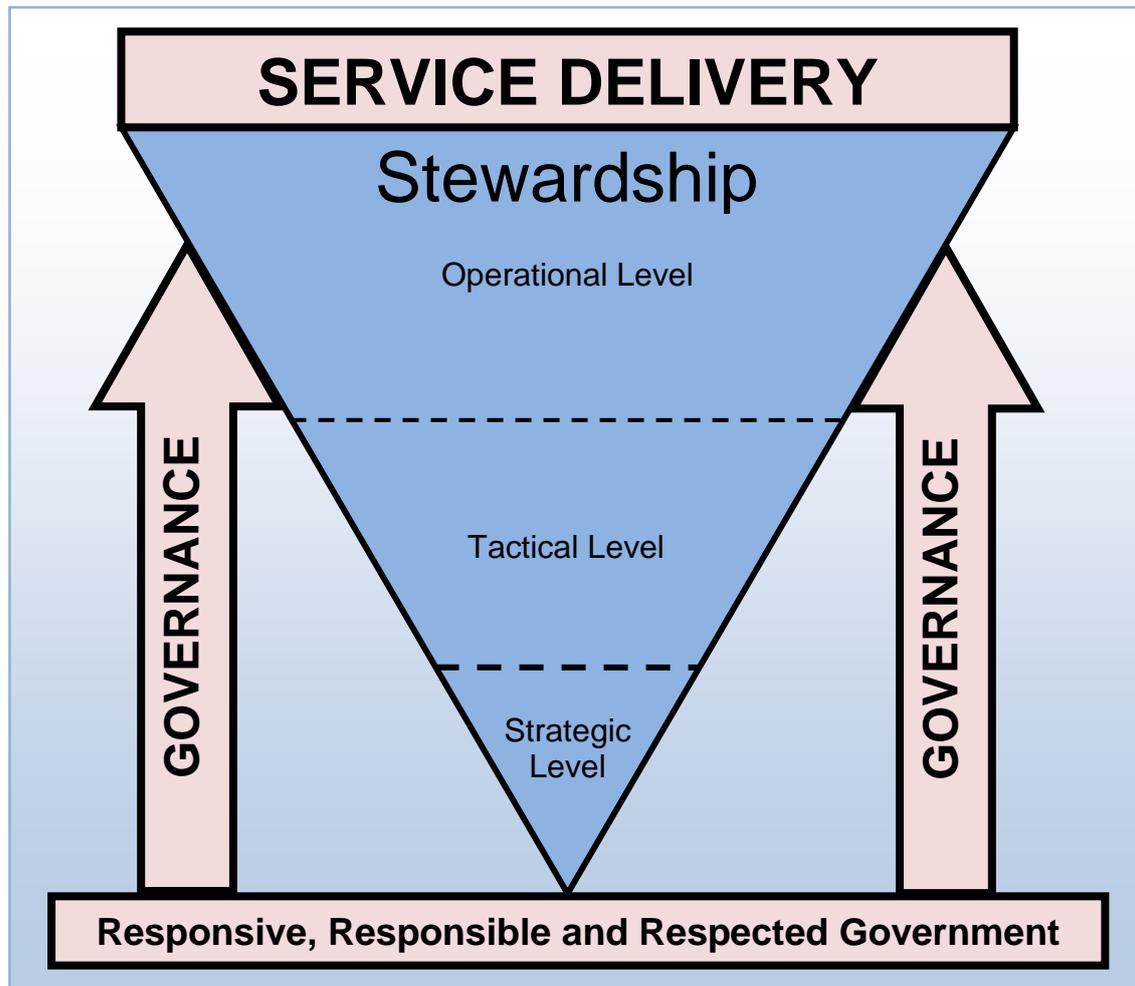
Key role players in public financial management refer to the line managers and administrative staff responsible for government operations derived from the division of responsibilities between the political executive and administrative executive. The success of financial management in government organisations depends to a large extent on the appointment of highly trained and competent and empowered line managers at operational level. These officials are the backbone of the functional management and administration of resources, which enable government organisations to attain their determined goals and objectives.

b) A fundamental approach to operational management: The Inverted Hierarchy

As stated in Chapter 5, valuable lessons for future management interventions in order to enhance organisational performance can be drawn from some of the management reforms of the past, namely to *get the basics right*. This implies fostering an environment that supports and demands performance and insisting on the efficient use of resources. The ignorance of *getting the basics right* has led to the implementation of financially specialised and advanced solutions, which have often proved ineffective and inappropriate at operational level.

The performance platform approach is based on the approach of what should happen before any advanced solutions could be discussed but with a more holistic approach to public financial management. It aims to establish a performance scenario at operational level designed to achieve increasing performance by line managers with specific reference to public financial management and accountability competence. The hypothesis behind the platform approach is that the strategic profile of the organisation is embedded in the concepts of *responsive, responsible and respected government* and that the strategic setting gives rise to the operational platform. Derived from these concepts are the characteristics of good governance as the anchor (empowerment) for the operational platform. Good governance implies an operational modification and the more effective use of the operational platform in order to enhance service delivery. Modification by means of the inverted hierarchy implies a shift from the traditional organisation as a typical triangle where the ultimate power and authority rests with one individual at the top of the organisation, and all others are subordinate to this person. The inverted hierarchy rejects this concept of the organisation and proposes an inverted triangle, symbolising the role of top management as empowering. This approach shifts the emphasis from less focus on command and control to a role of managers based on interaction and involvement aligned to service quality that provides value to the citizens. This approach is liberating and developmental in nature and allows for achievement and continuous improvement achieved by enabling, empowering and giving responsibility to the operational level of service organisations. The inverted hierarchy confirms existing convergence between the top-down and bottom-up approaches of policy implementation and highlights the close relationship between policy implementation and service delivery. Figure 7.2 provides an illustration of this approach.

Figure 7.2: The inverted hierarchy



The inverted hierarchy not only modifies the platform for service delivery, but also allows for a more effective use of a service delivery platform by shortening the distance between the operational level and the service beneficiaries. This situation creates the ideal environment for the application of the concept of *stewardship*.

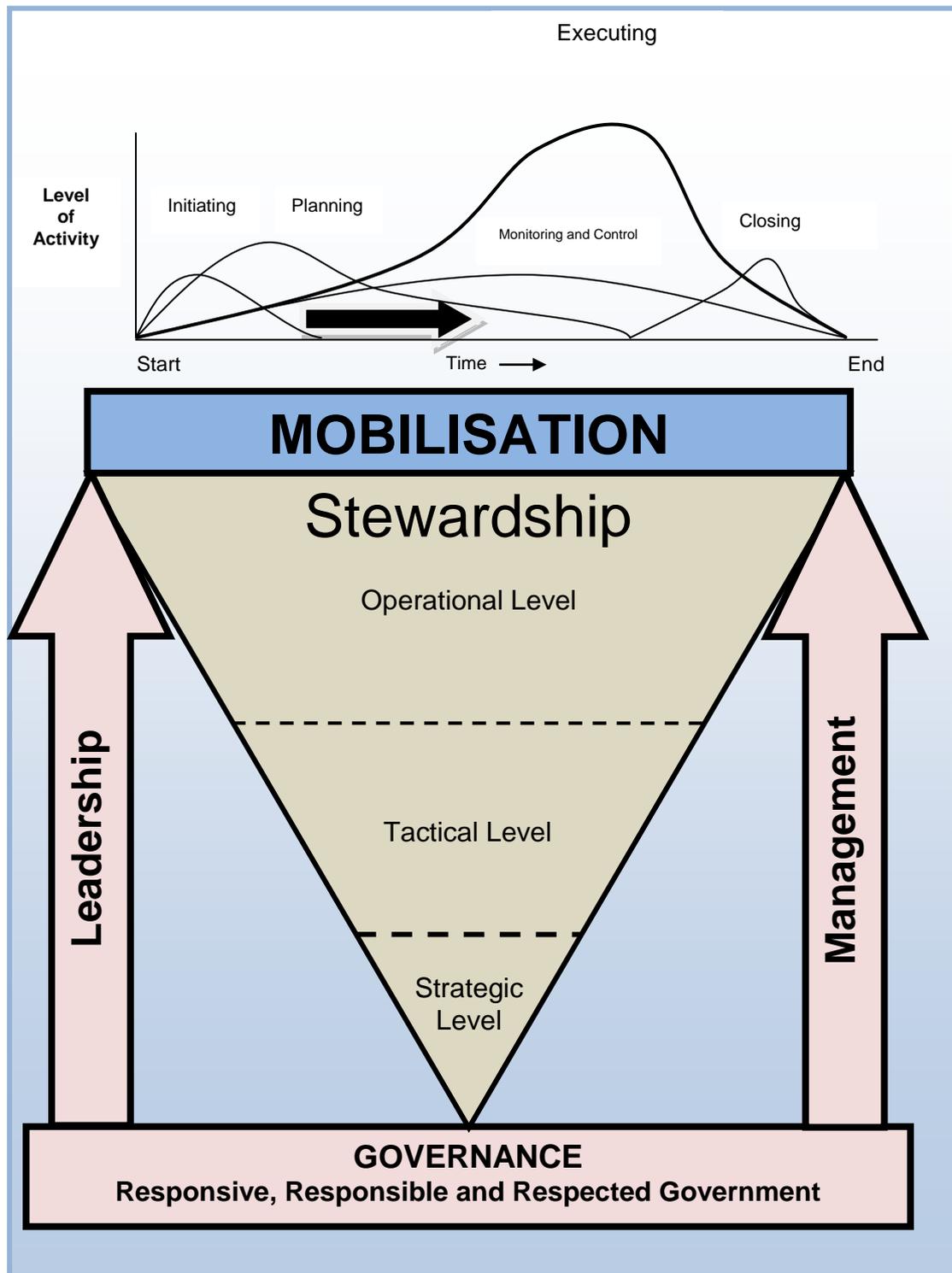
In support of the inverted hierarchy, it can be argued that in the traditional bureaucratic hierarchies, the aim of management is to define the best way to do a job, to set standards for compliance, and to monitor and control people to ensure that they comply. At its best, this approach results in efficient production when work is routine, repetitive and predictable. However, when there is much uncertainty, complexity, rapid change and high interdependence, the control-based approach loses much of its effectiveness. High-performing organisations have moved beyond bureaucracy to a commitment-based (platform) approach and are able to mobilise themselves within a complex and rapidly changing environment as portrayed in Chapter 4.

c) Performance management as an integrated framework

As stated in Chapter 6, performance management is seen as an integrated framework of systems and processes for the alignment of strategic intentions, decisions and activities across and within public service organisations. Performance management also aligns management frameworks of individual departments towards achieving improved effectiveness and for assessing its effectiveness both in terms of specific results and outputs and the impact of these on the lives of citizens (outcomes). Finally, performance management aligns human resource processes, systems and practices designed to recruit, retain, support and develop individual staff and set them up to succeed.

Based on the inverted hierarchy (see Figure 7.2) the ideal platform provides opportunity for the mentioned alignment and integrated framework. Figure 7.3 shows the integration where the operational role of managers is phased from initiation (needs requirement), planning as a management function, followed by execution, monitoring and control as a continuous function and finally closure. The figure illustrates the approach to mobilisation that provides the framework, processes, guidelines and techniques to manage a team and its responsibilities. The result is a well-defined scope and agreed understanding of intended outputs and provides for the management of risks, issues and timely decision-making supported by clear and short lines of reporting and also for ongoing commitment and support from senior management at tactical and even strategic level. Operational managers are now empowered to portray personal accountability and overall responsibility for the successful outcome of activities. The situation is characterised by appropriately trained and experienced public officials whose capabilities match the complexity of the activities and they are guided by defined management practices, processes and procedures.

Figure 7.3: The expanded inverted hierarchy



The stewardship theory recognises the importance of structures that empower the steward and offer maximum autonomy built on trust. It stresses the position of public managers to act more autonomously so that the shareholders' returns are maximised. The act of stewardship relies on a performance platform that is provided by the functions of public administration based on good governance for the

economic, efficient and effective delivery of goods and services, meeting the needs of society. At operational level, the success of the public service of the future will be its ability to balance continuity and change; and the need to devote significant intellectual energy to the subject of change and responsiveness is evident. The operational manager of the future requires vision, intelligence and influence in order to ensure that the best possible match of divergent resources is available. The expected outcome will be a high-performing public-sector organisation, which is results-driven with a culture of continuously improving performance. The organisation will be responsive to change; will encourage innovation by seeking a balance between risk and opportunity, will have a strong customer focus and will be highly transparent about its performance to its stakeholders.

A sound public financial performance management system allows government to make the best use of all available resources and resolve the quest to efficiently and effectively utilise public resources to meet the needs of the community in an equitable manner. The system requires adequate capacities for managing public finances in order to maximise the impact of public resources and improve the quality of life of society, which is essential for development and nation-building.

7.3 CONCLUSION

Outcomes-focused management and financial management actions such as budgeting and revenue management involve asking how to ensure that government decision-making and actions impact on the nation. The conceptual analysis of public financial performance management and the suggested financial performance management model provide solutions to how decision-makers in public financial management can give account of their performance with specific reference to the area of effectiveness and outcomes.

In the development of a public financial performance management model, important areas were highlighted. Since the start of human civilisation, the field of public administration has changed to a landscape of modern public administration unrecognisable to second-generation theorists and their normative theories. The comprehensive, functionally uniform, hierarchical organisations governed by strong leaders who are democratically responsible and staffed by neutrally competent civil servants who deliver services to citizens to the extent these citizens never existed are long gone. These organisations have been replaced by an organisational society

in which many important services are provided through multi-organisational programmes. These programmes are essentially interconnected clusters of firms, governments and associations, which come together within the framework of these programmes. These implementation structures operate within a notion of governance as a focus far broader than government. Public effectiveness now relies on public management practices by which governance theory is put into action and on networks as an alternative for collective action.

Public financial performance management must be viewed as the next logical evolution in the field of public management. Public financial performance management must be viewed as an essential component of successful management, leading to cultural, operational and human resource management change. The transition requires recognition that rationality (not politics) is the underlying force of financial performance management.

There are many things wrong with the South African Public Service. Most of the problems in the Public Service do not relate to remuneration. They relate to management, structure, incentives, rewards for good performance, penalties for poor performance and the relationship between political head and civil servant. If one wants the state to be an active participant in development and one wants to resolve the capability gaps among the poor, then one needs a better performing civil service.

The development of public financial performance management capacity is a means and not an end in itself; it is an integral part of the overall development agenda. Consequently, a capacity development strategy must be based on a broader vision of improved financial performance management and increasing organisational effectiveness leading to good governance. While country ownership is critical, the capacity development efforts have to be tailored to match the existing human resources, institutions, legal system, as well as the administrative and political culture. Furthermore, the motivation for capacity development should transcend the mode by which it is to be delivered.

Future research fields could deal with the people side of public financial management and the interrelated financial performance management interactions of operational managers. Public finance management is an essential part of the governance process and includes resource mobilisation. Rising aspirations of people are placing more demands on effective mobilisation of financial resources and the emphasis of

the citizenry is on value for money measured in terms of economy, efficiency and effectiveness, thus making public financial performance management increasingly vital.

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