Mokoro Ltd

Putting Aid on Budget

A Study for

the Collaborative Africa Budget Reform Initiative (CABRI)

and

the Strategic Partnership with Africa (SPA)

SOUTH AFRICA CASE STUDY – WORKING PAPER

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THE AID ON BUDGET STUDY

The Collaborative Africa Budget Reform Initiative (CABRI) and the Strategic Partnership with Africa (SPA) commissioned study of "putting aid on budget" has the following outputs:

- An ***Inception Report***, which defines the issues and research methodology.
- Ten ***country studies from sub-Saharan Africa***. Of the ten country studies, ***Ghana, Mali, Mozambique, Rwanda*** and ***Uganda*** were studied in depth, and separate country reports are available. The experiences of Burkina Faso, Ethiopia, Kenya, South Africa and Tanzania were also reviewed and summary information is included in the Synthesis Report annexes. Findings from all ten countries are included in the Synthesis Report.
- A ***Literature Review***, which (a) documents existing good practice guidance that is relevant to the incorporation of aid in recipient country budgets; (b) reviews the policies and guidelines of the major multilateral and bilateral agencies as these affect the incorporation of their aid into government budgets; and (c) documents relevant experiences of efforts to capture aid in government budgets, including desk reviews of some additional countries, including countries from outside Africa.
- A ***Synthesis Report*** which draws on all the other study components to develop overall findings and recommendations.
- A ***Good Practice Note*** which distils the lessons of the study and is aimed at donors as well as partner governments.

The reports can be downloaded from the CABRI website at http://www.africa-sbo.org/

The **South Africa case study** is a background working paper to the Aid on Budget study (not a separate country report). (The Section B matrix is used in the Aid on Budget Synthesis Report Annexes.)

Disclaimer

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This working paper was prepared by independent consultants. Responsibility for the contents and presentation of findings and recommendations rests with the study team.

The views and opinions expressed in the working paper do not necessarily correspond to the views of CABRI or SPA.

Table of Contents

A. Country Context

A1. Key Information Sources

Author	Name	Date
Government of South Africa		
National Treasury	Budget Review 2001, 2003, 2005, 2007	February 2001, 2003, 2005, 2007
National Treasury	National Estimates of Expenditure 2001, 2007	February 2001, 2007
National Treasury	Treasury Regulations	May 2006, updated December 2006
Department of Water Affairs and Forestry	Strategic Plan 2006/7; Annual Report 2004/5	
Department of Health	Annual Report 2005/6;	
Department of Justice and Constitutional Development	Annual Report, Strategic Plan	
Limpopo Department of Education	Annual Report, Strategic Plan, Budget Statement	
Free State Department of Health	Annual Report, Strategic Plan, Budget Statement	
Eastern Cape Department of Education	Annual Report, Strategic plan, Budget Statement	
Government of South Africa	Public Finance Management Act 1 of 1999 as amended by Act 29 of 1999	1999
Government of South Africa	Public Audit Act	2004
Government of South Africa	RDF Fund Act and RDP Fund Amendment Act	1994, 1998
Government of South Africa	The Constitution, Act of 1996	1996
National Treasury: International Development Cooperation Unit	A Policy Framework and Guidelines for the Management of Official Development Assistance	2003
Government of South Africa	Preferential Procurement Act	
Government of South Africa	Intergovernmental Fiscal Relations Act	1997
Latest PFM Assessments		
IMF	Report on the Observance of Standards and Codes – Fiscal Transparency Module	July 2004
Aid management assessments		
OECD	Paris Declaration 2006 Monitoring Survey – South Africa Country Chapter	2007

A2. Country Institutions

What is the structure of general government?

1. The 1996 South African Constitution, the outcome of the post 1994 election Constitutional Assembly, created the new unitary South African state, consisting of three autonomous spheres of government, national, provincial and local, and three arms of government, the legislative, the executive and the judiciary. Power is shared between the spheres and arms of government. There are nine provinces and 283 municipalities.

2. Each of the three spheres of government is elected separately. National and provincial government is elected through a proportional representation system, while local government is elected through a constituency-based system. Each sphere of government has legislative power over and responsibility for its functions. These are listed in the constitution.

3. The constitution provides a broad framework for intergovernmental relations. All three spheres are obliged to work together in a spirit of cooperative governance. The Intergovernmental Fiscal Relations Act established various intergovernmental forums to facilitate cooperation and resolve disputes. The constitution establishes the Financial and Fiscal Affairs Commission, which advises Parliament on the allocation of resources between the three spheres of government in line with their assigned competencies. Currently this positioning of the Financial and Fiscal Affairs Commission weakens its voice since Parliament's powers over the budget is limited (see below).

4. At national level the legislative branch comprise the National Assembly and the National Council of Provinces. The National Council of Provinces comprises delegated members of provincial legislatures and represents provincial interests at national level. For legislation to pass, both the Houses of Parliament have to cast a majority vote in support of it. The National Assembly passes legislation first. When the two houses differ with regards to a specific piece of legislation, a conflict resolution process is initiated. For legislation that concerns exclusively national functions, the process is balanced in favour of the national assembly. For legislation that concerns the joint competencies, the process gives more weight to the opinion of the National Council of Provinces.

5. At the provincial level the legislative branch comprises the provincial legislatures and at local level, local councils.

6. Examples of exclusive national competencies are defence, home affairs, foreign relations and tertiary education. Joint provincial and national competencies include primary and secondary education, health and social welfare, while exclusive provincial functions include provincial roads, abattoirs, motor vehicle licensing. Exclusive local functions include municipal roads, local electricity and water supply and waste management. In the joint national and provincial functions national government is generally responsible for setting policy with commensurate norms and standards while provincial government is responsible for implementation.

7. An imbalance exists between the expenditure mandate of lower levels of government and the financial resource they can raise on their own account. For most provinces income raised as own revenue (mainly from car and gambling licenses and fees) amount to less than 5 per cent of provincial budgets. The gap is filled through block and conditional transfers from national level. Local government is more independent with access to property taxes and fees from electricity and water supply.

8. Provincial and local transfers from the national level take the form of block and conditional grants. The distribution of the block transfer between provincial governments is decided through the use of a formula that allocates funds set aside for each of the main functions and a general grant by relevant population driven criteria. A formula is also in place for the distribution of the local government share of nationally collected revenues.

9. At national and provincial level the executive branch of government is structured into ministries and departments. The ministry is very small and consists of a minister, deputy ministers, administrative staff

and ministerial advisors. The departments are larger bureaucracies headed by a director general. The director general is a public official.

10. The policy process comprises a green paper, white paper and, if required, legislation cycle with compulsory public participation provisions. In practice policies are developed jointly by ministries and departments, with departments often taking the lead. Cabinet approves all white papers.

11. South Africa does not have a centrally developed policy framework such as a long-term development plan. Policy is developed and implemented on a medium term rolling basis. Each department is responsible for developing its own strategic directions. From time to time there are national priority strategies, such as the Accelerated Shared Growth Initiative for South Africa (ASGISA), towards which relevant departments are expected to contribute. Also, the Presidency runs a Government Programme of Action and the medium term strategic framework, a framework of key policies from departments which are identified in the President's annual state of the nation speech and tracked by the Presidency and reported on to Cabinet. Provinces have Integrated Growth and Development Strategies.

12. The institutions of the annual budget cycle provide a further mechanism for policy coordination towards central policy priorities and at departmental level. The budget cycle is initiated with the identification of the medium term policy priorities, in terms of which departments are expected to shape their medium term plans. Also, at both national and provincial level, departments are required to produce strategic plans, which are translated into budget submissions.

13. At local level municipalities are required to produce medium term Integrated Development Plans, which identifies their priorities and strategic infrastructure needs. National and provincial transfers to local governments are connected to their IDPs. The quality of IDPs differ across municipalities: not all municipal budget processes are connected well enough to medium to long term strategic planning.

14. South Africa's PFM system is decentralised. The National Treasury sets norms and standards for national and provincial budget planning, implementation, accounting and financial reporting, which each department is expected to operationalise through departmentally instituted and controlled PFM systems, including procurement, payment and accounting systems. Provincial Treasuries implement the national norms and standards, with additional requirements for provincial budget management.

15. The National Treasury plays a pivotal role in the allocation of resources. It undertakes the technical work of setting the medium term fiscal and budget framework and supporting Cabinet through technical recommendations for deciding the vertical division of revenue between the spheres of government. This division is not determined by formula, but is based on the medium term policy priorities and how these relate to national, provincial and local functions. It also supports the horizontal division of revenue between provinces by advising Cabinet on the division between the main functions of provincial governments (health, education, social welfare and others) and occasional changes to the formula to divide between provinces within each of the functions. It also convenes the various intergovernmental forums and therefore spearheads the intergovernmental budget process.

16. At the same time it runs the national budget process, which is integrated with the intergovernmental budget process. In this process the available funds for distribution in the national sphere of government is divided between national government departments on the basis of the cost and relevance of their ongoing programmes and the strength of their new policy proposals against national priorities.

17. The budget is fairly well contested through the budget process, run in tandem by the National and Provincial Treasuries. Although the instruments in use and the process pays some attention to spending on existing programmes, a lot of attention is focused on new policy proposals competing for new money. The process is disciplined, insofar as calendars are set out before hand and implemented without significant deviation (although the strength of the process differs across provinces depending on the capacity of the provincial treasury and the nature of politics in the province). The instruments used are the budget submissions – customised each year in line with current budget and policy issues – and the MTEC (medium term technical committee) hearings where departments defend their submissions. Final decisions regarding allocations are made by Cabinet at the national level and the provincial Executive Committees at the provincial level (and Councils at the local level). At national level a Ministers' Committee on the

Budget engages in depth with the recommendations made by the National Treasury on allocations, and makes recommendations to the full Cabinet.

18. The National Treasury and provincial treasuries have an important monitoring function and report to the national parliament and provincial legislatures on the implementation of the budget. National departments submit monthly financial reports to the National Treasury, which publishes them on the web and submits them to Parliament's Joint Budget Committee. At provincial level provincial treasuries provide monthly information to the provincial legislatures. On a quarterly basis reports on the implementation of the budget at provincial level is submitted to the national treasury by provincial treasuries. The National Treasury then submits a consolidated report to houses of the national parliament through the joint budget committee.

19. Parliament currently plays a limited role in the budget. While the Constitution gives it the power to amend the budget, it also requires that Parliament should set out a process for amending it through national framework legislation. This legislation has not yet been passed, resulting in Parliament debating the budget on the floor and in its various committees, but accepting it as submitted by the Minister of Finance.

20. On the oversight side Parliament has a stronger voice, with individual portfolio and select committees (respectively working in the national assembly and the council of provinces) looking at annual and in-year report. The Standing Committee on Public Accounts in turn considers the Auditor General's reports and makes recommendations to remedy weaknesses in financial management. However, these recommendations are not always followed up by departments and without power to amend the budget, Parliament is relatively powerless. In reality its main power is rooted in the transparency of parliamentary processes and the media's reports on its committee processes. The main locus of contesting the budget is therefore in the executive itself.

21. Administrative oversight of the public sector is provided by the Office of the Auditor General, who is independent and appointed by Parliament. The Auditor General reports to Parliament and is funded by charging departments for its services. The mandate of the Auditor General is rooted in the constitution – which establishes the office as an independent public institution – and given form in the Public Audit Act (2004). The legislation mandates the Auditor General to undertake financial, compliance and performance audits of all government departments, constitutional entities, and public entities funded through revenue from the central revenue fund at national, provincial and local level. The legislation also provides that the AG may audit any institution that receives moneys from another source for public purposes.

22. The fiscal year runs from April 1 to March 31.

A3. Aid Context

Overview of aid flows

23. ODA in South Africa comprises less than 1 per cent of the budget. In 2005 donors expected to disburse USD359 million to the government sector in South Africa, and disbursed USD351 million[1]. This includes disbursements to national, provincial and local government. The OECD official ODA commitments to South Africa for 2005 was USD700 million: this included per definition loans to public financial and non financial enterprises and commitments to funding of NGOs and concessional loans for development purposes (particularly by the IBRD and the French Development Agency) to commercial financial institutions.

24. ODA to the general government sector does not include any financial assistance (concessional loans and credit guarantees) and are mainly grants and technical assistance. This is a matter of policy by the South African government. All loans occur to public financial and non-financial enterprises, such as the

[1] 2006 Survey on Monitoring the Paris Declaration, SA Country Chapter, p29-7.

Development Bank of Southern Africa (which absorbs 6% of all official ODA to SA according to the database kept by the aid coordination unit at the South African National Treasury) and the National Development Agency which supports inter alia SMME development.

25. All ODA to the general government sector is in the form of cash grants and technical assistance support. The most common modality is project support. General Budget Support is not used at all and programme-based approaches comprise only 26% of total aid disbursed. Note that this statistic is from the OECD 2006 Survey on the Paris Declaration Implementation, which defines programme-based approaches as aid support that occur under the leadership of the recipient and uses a single comprehensive programme and budget framework, a formalised donor coordination and harmonization process and efforts to increase the use of local systems. A preliminary survey commissioned by the International Development Coordination Unit in the National Treasury in preparation for the OECD Paris Declaration survey found that less than one percent of donor funds can be said to be managed through the use of common procedures and arrangements. The only formalised SWAP in South Africa is operational in the Department of Water Affairs and Forestry. Sector Budget Support Programmes are however operational in the Departments of Justice, Health, Trade and Industry and in the Eastern Cape.

26. It is difficult to determine from available data what percentage of ODA to the general government sector is used at central government level and what is used at provincial and local levels. The DCIS database lists the implementing agency, which in some cases may be a national department but the activities are undertaking by provincial departments or provincial offices of the national department. However, if the implementing agency is taken as the defining data point, most ODA flows to national government. Active projects on the database that listed provincial departments were only 30 at the time of this study, while 372 grant and technical assistance projects were registered to national government. Only 8 projects were registered to local government.

27. By any measure on the available data the three biggest donors in sequence are the EC, the US and DFID. For official ODA commitments (as per the DAC definition) France is next, mainly on account of loans to public financial and non-financial enterprises and private sector financial enterprises. However, if ODA to the general government sector only is taken into account and actual disbursements are used, France is one of the smallest donors, replaced in the succession by Germany and the Dutch, followed by Japan, Denmark and Finland (see annex 1 for graphs). By both measures the top three donors account for more than 60 per cent of ODA. According to the OECD Aid statistics 72 per cent of aid to South Africa is bilateral.

28. Given South Africa's position as a high middle-income country, many donors are scaling down their aid programmes. Some have already prepared or are approaching the preparation of exit strategies, while others are looking towards switching the nature of their support from traditional aid programmes to supporting South Africa's role in the region and the continent, or looking at different forms of economic, technical and cultural cooperation.

A4. Aid Institutions

Government institutions

29. The International Development Cooperation Unit in the National Treasury coordinates all aid flows into the country, albeit to central, provincial or local government. A core objective for the unit is to ensure that donor assistance is utilised effectively and efficiently in support of the country's core strategic frameworks through coordination, monitoring and joint reviews of aid flows. The unit's activities include the establishment of and monitoring of adherence to guidelines for the management of ODA, the establishment of mechanisms for information sharing, including the establishment and maintenance of a database on ODA flows, the facilitation of intergovernmental linkages (both horizontal and vertical) on aid flows, training on ODA management and the undertaking of joint reviews with donors. In practice the unit is an important liaison point for donor representatives and plays a role in directing donor funds towards specific geographical areas and purposes. It undertakes its monitoring duties through maintenance of the database, joint reviews and routine annual meetings with donor agencies.

30. The unit is part of the budget coordination division of the National Treasury and is headed by a Chief Director. There are two directors, each with portfolio managers under them and various administrative staff. A portfolio manager currently looks after a grouping of development partners. The unit has some unfilled positions. Generally – as reported by Smith et al (2006) – both development partners and government aid coordinators are satisfied with the services provided by the unit. They hold that the unit has contributed to improved aid coordination and transparency around aid flows. There is however some confusion as to the exact role of the unit and it is not clear whether it is able to fulfil all its tasks with limited staff. The Smith study was done to establish a baseline for aid coordination in South Africa. Based on the findings and recommendations of the report the International Development Cooperation Unit has launched a number of initiatives to address the various shortcomings identified. For example a study on capacity development was undertaken, as well as a review of the ODA Guidelines, capacity building for ODA coordinators at national and provincial level and a study to look at the role of the aid coordinators in departments, why some departments are doing well and other not and to use this information to draw up a manual for establishing ODA units.

31. The quality of the data in the DCIS data base is uneven. Data fields include project title and number; start date and end date; donor, recipient (by type of recipient and name), sector and sub-sector; status; main activities, type of aid (loan, credit guarantee, grant, technical assistance, other), budget for donor contributions, counterpart funds, other funds and total budget, fund flows to and from the RDP Fund for the project, development partner and government contacts). The online database also provides standard reports, which inter alia record for funds that flow through the RDP Fund, donor disbursements and payments to the recipient department from the fund, interest earn and payment of interest either to donor or to the recipient department. For projects that are disbursed through the RDP Fund information is more complete. For many other projects the data sheets are incomplete.

32. At provincial and local central level there are supposed to be donor coordination units in the provincial premier’s offices and municipalities. In practice the capacity and profile of these units are uneven. In some provinces the units play a more active role in coordinating aid flows, directing donors to areas of need in line with the provincial growth and development strategies, making sure that duplication of support is avoided and monitoring implementation of projects through reporting procedures and regular meetings with departments. In other provinces the units have very weak capacity and act at best as a post office. It is important to note that not all provinces have an equal share in aid flows: Limpopo. KwaZulu Natal, the Eastern Cape and the Free State provinces – which have higher incidences of poverty and generally poorer capacity – receive almost all funding. Of the 8 projects that are classified as provincial projects currently on the DCIS website, not one is being implemented outside of these four provinces.

33. Most departments at national level and some departments at provincial level have donor coordination units or officers. According to the Smith, Brown and Nube Report (2006) donor representatives interviewed identified weak capacity in these structures as an impediment to alignment. Coordination unit staff are also often not senior, donor coordinators find themselves bypassed as donor representatives prefer to deal with programme managers, who has access to programme and project design processes.

Government/donor institutions

34. Two forums provide institutional structures for joint government-development partner discussions at the national level: the Development Counsellors’ Forum, comprising staff of the National Treasury IDC unit and Development Partners, and the Development Coordinators’ Forum, comprising staff of the unit and government development coordinators. In addition, the IDC unit meets annually with each development partner to review the effectiveness of their aid programme.

35. At sector or department level joint structures are set up, such as steering committees or donor forums. With some of the larger development partners cooperation is coordinated by mirroring the clusters as in the Government Programme of Action.

Donor structures

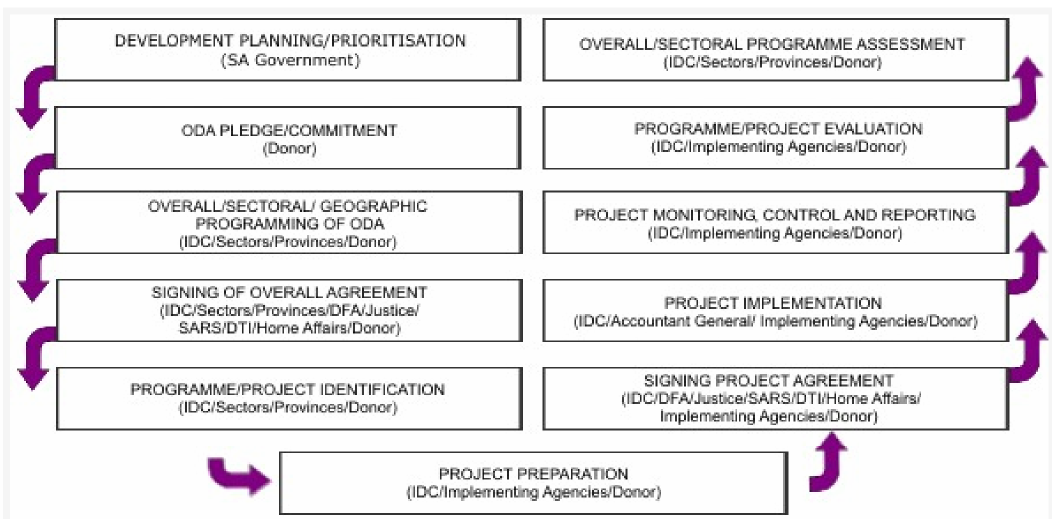
36. There are no institutionalised donor structures. The recent preparation of the Joint EC Country Strategy Paper was supported by a forum of representatives from bilateral EU member states development partners. However, a recent evaluation of the Irish Aid programme pointed out that there is far less donor activity in South Africa than in many other countries: informal coordination among donors is still an efficient way of coordinating.

37. However, it is worth noting that the harmonisation agenda, regarding joint missions and evaluations and procedures, has not made much progress in South Africa either. There is also some evidence of too little information sharing amongst donors operating in the same department. This is echoed by the low use of programme based approaches.

Aid procedures

38. The IDC Unit published a *Policy Framework and Procedural Guidelines for the Management of Official* Development *Assistance* in 2003.

39. In terms of these guidelines ODA management follows the cycle summarised in the diagram reproduced below. The diagram sets out the parties that could be involved at each step, although not all of them are necessarily involved. For example, if grants are not disbursed through the RDP Fund, but to project implementation unit (PIU), the Accountant General would not be involved in the project implementation phase. The guidelines also establishes a division of responsibilities between the IDC, ODA coordinators at national, provincial and local level, other central national departments and agencies that are party to agreements (such as the Department of Foreign Affairs and the Revenue Service), and donors and their representatives (see Annex 1 for more detail).



40. As provincial and local governments are autonomous, in the context of a decentralised model of decision-making and since there is not a statutory body that centralises aid allocation decisions, all spheres and departments are in principle free to approach donors for funding. However, guidelines published by the IDC Unit stresses the importance of coordination and the negative impact of a 'free for all'. It therefore establishes a system where all requests for funding need to flow through the IDC (programme or project proposals) and all donors need to approach work in South Africa also through the IDC.

41. Since provinces and local authorities may not sign international agreements (only national Ministers may be authorised to sign on behalf of the President) national sector departments need to be involved and effectively endorse funding requests from or funding to provincial and local authorities. The guidelines

also require that both the head of the relevant departments (Director General) and the political office bearer (minister or member of the provincial executive council) should sign off.

42. In practice, although some delegations have been put in place, the President signs off on all international agreements.

43. The main legal instruments governing aid is the Public Finance Management Act, the treasury regulations and the RDP Fund Amendment Act and the Constitution.

44. The RDP Fund is managed by the Office of the Accountant General.

A5. Legal and Practical Framework for Budgeting

45. Budgeting and financial management is governed by the following legislation

- The Constitution, which establishes in Chapter 13 the national and provincial revenue funds, national and provincial treasuries, the central bank and a framework for revenue assignment. In Chapter 3 the framework for cooperative governance is set out and Schedules 3 and 4 sets out the concurrent and exclusive provincial functions.
- The Public Finance Management Act of 1999: this act sets out the roles and responsibilities of the National Treasury, members of the executive, departmental accounting officers and the accounting boards of public entities in terms of budgeting and financial management. It also sets timelines for financial reporting and auditing and a framework for budgeting (including the requirement to have medium term estimates of expenditure). The Public Finance Management Act was amended, also of 1999, to specify similar structures and roles and responsibilities at the provincial level.
- The Municipal Finance Management Act sets the framework for municipal finance management in a similar manner, by setting out the role and responsibilities of councils, mayors, municipal officers and the treasury or finance unit of municipalities. It also specifies formats for municipal budgets and financial reports and regulates among other municipal debt and asset management, revenue funds and bank accounts. It also sets out procedures to manage financial failure.
- The Intergovernmental Fiscal Relations Act establishes structures and procedures to regulate fiscal, financial and budget relations between the spheres of government.
- The Preferential Procurement Policy Framework Act, which gives effect to the Constitutional Requirement that a policy in terms of which disadvantaged population groups can be given preference, must be implemented in terms of an act of parliament. In general procurement is regulated by the stipulation in the Constitutions, which states that procurement must be fair, equitable, transparent, cost-effective and competitive, the Public Finance Management Act which requires accounting officers to establish supply chain management systems that comply with the constitutional requirements and the Treasury Regulations. The National Treasury has also issued supply chain management guidelines.
- National and provincial treasury rules and regulations. The National Treasury is given the power in terms of the Constitution to establish a consistent classification framework, accounting standards and uniform treasury norms and standards.

The Constitution establishes the Auditor General as a Chapter 9 Institution (State Institutions supporting Constitutional Democracy), regulates his/her appointment and tenure and frames his/her functions. The Public Audit Act 2004 elaborates further on the mandate and appointment of the Auditor General.

Main problems in budgeting and PFM

46. South Africa has a reasonably strong MTEF system, integrating with some success national and provincial planning and budgeting. The system has shown particular strength in terms of achieving financial and fiscal targets, through improvement of financial controls and revenue reforms, and achieving high level shifts in budget allocation to priorities. However, the system has been less successful in improving service delivery performance. With the exception of a few sectors, reforms have not translated into improved outcomes despite increasing availability of funding – particularly for priority sectors and activities – since the early 2000s. Currently the system is experiencing a lot of underspending, with departments not having the capacity to spend their allocations, particularly for new projects and programmes. While some of the reasons for this lie outside of budgeting and financial management (for example skills deficits in the public sector and larger labour market shortages) some of it can be traced to weaknesses in the budgeting and PFM system.

47. A key weakness is weak capacity and weak demand for medium term planning, programming and budgeting at departmental level. While other countries have invested in the development of capacity (human resource and institutional) within sectors for translating policies into operational plans, realistic budgets and targets, South Africa has focused first on institutionalising reforms at the central level and at the interface between budget offices and line ministries. With the exception of a few departments at national and provincial level, the MTEF does not penetrate much further than sub-programme level and is –relatedly—not backed by thorough processes that involve all relevant programme and other managers in a continuing policy-budget cycle. For example, although there is a three year allocation horizon for provincial education departments, purchasing text books is done on an annual basis without utilising trade-offs that can be made as purchasing does not take a medium term horizon. This means that the quality of allocations at lower levels does not benefit from a stable medium term funding horizon. It also means that the quality of forward allocations is uneven. This weakness is echoed in Smith et al (2006) who reports that weak planning capacity in departments allows donors to push their own agendas.

48. Relatedly, the institutionalisation of the use of performance information is still weak, particularly for the bulk of spending. This means that the performance orientation of the budget overall has been low. The scrutiny of budget proposals by the Treasuries has had some effect in emphasising trade-offs between the expected results of new spending proposals while keeping an eye on efficiency and economy. However, until very recently the framework for required performance information was weak, allowing departments to put forward a jumble of objectives and indicators.

49. The costing of the forward expenditure estimates is weak. Although the budget submissions require detailed costing of new spending proposals over the medium term, and although these are interrogated in the budget process, forward costing of existing programmes and activities (ie the cost of the baseline) rarely occurs systematically. In the budget scrutiny process, budget analysts at the National Treasury do ask questions about savings that can be realised from within existing budgets, but – as is the case for departments – have no systematic base on which to evaluate departmental proposals in this regard. In the current context of revenue overruns and an expanding economy, this means that the spending base is not sufficiently interrogated.

50. A final related weakness is that the South African system does not allow for regular in depth reviews of spending, such as is made possible through PERs. Spending programmes are reviewed within the budget process, but the process is already highly congested and there is too little time and capacity. At the start of the MTEF technical joint Treasury and spending agency teams undertook reviews in key intergovernmental sectors. However, this mechanism has morphed to the 10x10 meetings, which do not allow the same technical scrutiny. The lack of periodic in depth reviews of spending programmes is a clear gap in the South African system.

51. Most of the big framework reforms have been put in place: for example the development of strong linkages between macro-economic planning and forecasting and budgeting, the implementation of the MTEF, the reform of the budget calendar and process, the reform of the PFM system and the legal framework that governs it, classification and chart of account reforms, introducing a new economic reporting format, streamlining programmes, establishing a functional intergovernmental fiscal system,

establishing norms and standards for expenditure controls, internal audit, accounting procedures and standards etc. What is still required however is the hard grind of translating the frameworks into nuts and bolts systems on the ground, department by department.

Budget calendar

52. The 2008 Budget Calendar looks as follows:

2008 Budget Calendar[2]

Milestone	Date
2008 MTEF Guidelines issued	**June 2007**
Letters to Departments / Ministers	**25 June 2007**
CFO Letters	**25 June 2007**
Submission of Infrastructure Funding Requests	**27 July 2007**
Information Sessions - with national departments	2 July 2007
Education 10X10	11 July
Health 10X10	12 July
Social Development 10X10	13 July
MinComBud: Discussion of spending and policy priorities	18 July 2007
Cabinet Lekgotla: Considers policy priorities and MTSF	23 July 2007
MinComBud: Fiscal Framework and Sector Policy Issues	8 August 2007
Budget Submissions	**10 August 2007**
Budget Council Lekgotla: Revised Fiscal Framework, Division of Revenue (DoR), and Policy Issues	August 2007
MinComBud & Finance MECs: DoR Discussion	4 September 2007
MTEC Discussions	**Late Aug–Mid Sept 2007**
MinComBud: Consideration of MTEC recommendations & MTBPS themes	Beginning of October 2007
Extended Cabinet: Approval of Division of Revenue	October 2007
National Assembly: Tabling of the MTBPS	30 October 2007
Cabinet: Approval of 2008 MTEF	November 2007
National Assembly: Tabling of the Budget	**27 February 2008**

Source: National Treasury, 2007. *MTEF Guidelines 2008*

2 (10X10: intergovernmental forums of officials from national and provincial sector departments and national and provincial treasuries; MinComBud – Ministers' Committee on the Budget; Lekgotla – strategic 'away' workshop; MECs – members of provincial Executive Committees; MTEC – medium term technical committee; MTBPS – Medium Term Budget Policy Statement)

Budget structure and classification

53. The budget is structured in line with the System of National Accounts categories. The main budget refers to revenue that is received in the National Revenue Fund and allocated to national, provincial and local government. The consolidated national budget refers to the main budget plus the RDP fund and other extra-budgetary funds such as the social security funds. The consolidated national and provincial budget refers to the consolidated national budget plus provincial own revenue. The consolidated general government accounts refer to the consolidated national and provincial budget plus local government own revenue plus extra-budgetary institutions. There is not a separate recurrent and development budget. Within a programme (or sub-programme) capital spending is distinguished from recurrent spending in terms of the economic classification.

Budget and accounts classification

54. Budget and accounts classification are consistent, with the latter allowing lower levels of detail. The budget classification is by vote (usually consisting of one department or institution), by programme and sub-programme and a GFS 2001 compliant standard economic classification. The accounts classification also allows for a costing centre classification, which maps expenditure to administrative structures. It also allows for the revenue source to be identified. In view of concern about the capacity of the system to track projects, a further dimension to the classification system is being introduced that will allow the tracking of projects.

Pending reforms

55. The operationalisation of the new performance information framework has commenced. This will provide more opportunity for joint assessment frameworks for aid and programmes and activities funded by domestic revenues. Classification reforms are on-going. South Africa does not currently have a full-fledged integrated financial management information system: departments across national and provincial government either use BAS or FMS, which are on-line accounting systems, but does not offer all the modules that an integrated system would have, for example personnel and payroll systems or procurement systems. Funds have been allocated for the development and implementation of an IFMIS.

B. Evidence and Assessment of Aid Capture

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B1	**On plan**	There is little evidence that aid is captured on what would be considered pure planning instruments. The main planning instrument used in the public sector is strategic plans. A check of 3 aid receiving departments' strategic plans at national level and 3 at provincial level (in different provinces) did not return any references to the aid received in the strategic plans. However, some Departments do: for example the Department of Environmental Affairs and Tourism does include aid in their strategic plan. Another important instrument is the annual budget submissions, although these are combined planning and budgeting tools. At national and provincial level these require a table that details foreign aid assistance received. However, in the narratives and programme plans no reference is made to aid. The SWAP in the National Department of Water Affairs and Forestry does have a separate strategic document for its Masibambane programme, which is the joint plan for external and domestic revenue. However, the 2006/7 strategic plan of the department does not make any reference to the programme, although the strategic plan and the Masibambane documents do share the same strategic framework. However, the Masibambane is an example of a department that has a strategic framework for ODA. The Department of Environmental Affairs and Tourism also includes aid in its strategic planning.	The capture of foreign financing in budget submissions is a minimum requirement for putting aid on the table in mainstream planning processes, but it is not very useful. The quality and completeness of the information is doubtful and it is not integrated against planning for domestic revenue. The integration of external and domestic financing in the Masibambane programme sets good practice standards for sectors that receive significant external funding.	The short answer is that the Treasury Regulations which frames the format, content and process of strategic plans and planning, does not require foreign assistance to be integrated at this phase. However, the more in-depth answer has to do with (the misconception of) the status of foreign assistance in the South African context. The lack of integration of aid into planning is symptomatic of how aid is treated in the South African context. The policy – as expressed by the provisions for aid management in the Public Finance Management Act – is that aid even when disbursed to the state is extra-budgetary and is too unpredictable (and insignificant?) to be included in the Medium Term Expenditure Framework. While the aid management system works fairly well in terms of coordination by the state and amongst donors, in its efforts to align aid with government's priorities and in the centralisation of monitoring information and strategic oversight, it runs largely separately from the core planning and budgeting system. It is however aligned to the Programme of Action and the departmental priorities. Most of the linkages are about using information from this system to inform aid choices, rather than the reciprocal using of aid information to inform budgeting choices. This is true at the national coordination level and at departmental strategic level, where donors would consult strategic plans to inform their spending choices, rather than much of the aid activities being integrated into the plans and budgets themselves. Another impediment is the lack of strategic planning capacity in many departments. There is also doubt as to whether departments would want to disclose full information on support received: there is a fear that it may affect their allocations negatively, or that they would have less discretion over the use of funds. At the same time donors benefit somewhat from weak integration: they are much more able to set their own agendas, or pick from strategic frameworks what aligns with their priorities. They are not pushed to consider what the departmental priorities are most in need of funding. On the other hand, departments, particularly those who receive more significant aid either in terms of volume or added value, are not pushed to consider their strategies and budgeting in the context of aid.

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B2	**On budget**	There is no reference to aid at national or provincial level, besides the inclusion of information on past, current and expected forward flows into the Reconstruction and Development Fund (RDP Fund, a Fund established at national level to receive aid flows) in aggregate in a couple of tables in the Budget Review. It is by dividing this number by the aid disbursed to central government that the OECD Monitoring Survey determined indicator 3.	The capture is not effective. It aggregates all flows into the Fund into one number. This number also differs from the audited financial statements for the Fund for the years that are already shown as audited outcomes in the published budget information. The difference is only explained if one traces the history of aid reporting back to the 2003 Budget Review, where a separate table is given which shows that the number for Foreign grants and assistance under the RDP Fund in the Budget book consists of the financial flows (equal to the audit report number) plus technical cooperation managed by donors. This is also the only budget review that offered a brief summary of a few paragraphs on aid flows, including mentioning a few high profile projects. The capture provides no effective information, for example who will be using the aid, for what purposes, with what consequences, or what kind of aid it is. The 2008 MTEF guidelines – just published – set out the expected issues and information required for the 2008 budget submissions and for the first time mentions that the integration of external assistance into plans and budgets is an issue.	Aid forms such a small proportion of the budget (less than one percent) that it does not feature significantly in central agency processes, including the budget office and parliament. These processes are congested already and have to manage, absorb and use large amounts of information: aid is all too easy to ignore. Although aid information is provided in the budget submissions, the decision is not to publish the tables because the quality of the information is thought to be too poor and the coverage too weak to be meaningful. However, it is true that (i) if social security spending and other more rigid items are taken out of the budget, and (ii) taking into account that aid is not spread across all departments and provinces but tend to be focused in a few, aid can be a considerable proportion of a department's discretionary funds. It then becomes important for the department, the relevant treasury and legislature to get a good picture of what aid is disbursed for what. Although both the International Development Coordination (IDC) Unit and the Public Finance and Budget Coordination units at the National Treasury have processes and mechanisms in place for their own purposes, there is very little communication between these units, which is both a symptom and a contributing cause of the separation of planning and budgeting for aid flows from planning and budgeting for domestic revenue. While the IDC makes use of the outputs of the other divisions (the MTEF) to update its strategic framework for aid, the Divisions are in turn not recipients of information from the IDC. A case in point is perhaps that when the IDC put out terms of reference in the last year for a consultancy to improve the incorporation of aid in budgets, the relevant divisions of the Treasury were not consulted, although the Deputy Director Generals of Public Finance and the Budget Office were requested to serve on the committee. The cause of this disconnect is not institutional structures: the IDC Unit is part of the Budget Coordination Division. Rather, it lies in the status accorded to aid in public finances, at least up to this point.

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B3	**On parliament**	Aid is not approved as part of the budget, or separately, by Parliament. The President in fact signs off on agreements. The National Parliament is informed either through the National Treasury or the Department of Foreign Affairs when framework agreements with donors are concluded and is sent the agreement for notice purposes, but neither it nor any of its provincial counterparts receives any information on individual programmes or projects within the agreements, unless a committee asks for information.	Aid is not approved as part of the budget, or separately, by Parliament.	All aid, even when managed through government systems, is defined as extra-budgetary in terms of the Public Finance Management Act, and therefore is not approved as part of the budget. There is no general budget support.

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B4	**On treasury**	Aid in South Africa flows through two channels. ODA in the form of grants or technical assistance is regarded as a donation to the state. In principle all cash grants have to be paid into the RDF Fund (Channel 1). In practice this is the case for all donations where the South African Government takes responsibility for the financial management of a project. The accounting officer (usually the Director General) has to approve and is accountable for the donation and the Chief Financial Officer (a position created in terms of the Treasury Regulations) has to keep a register of all donations. Most donations that are not cash grants paid into the RDP fund are technical assistance managed by the donor. However, there are some agreements which make available funds for activities of the implementing agency and which are not channelled through the RDP fund: for these the donor takes responsibility for financial management. The accounting officer still has responsibility pertaining to the project – eg for project effectiveness – but not for the financial management. In these cases (Channel 3 in the cross-country definition of terms for this study) the grant is managed through a third party such as a project implementation unit or – in the case of the Education Department in Limpopo – a trust which manages all donor funds on behalf of the department, or by the donor agency itself.	According to the OECD Paris Declaration Implementation Survey, 36% of aid disbursed to general government uses Channel 1. Of the three largest donors, DFID and USAID use Channel 3 exclusively, while the EC uses both Channel 1 and 3, with 42% of its aid going through Channel 1. Donors who use the RDP fund mechanism complain of long delays in getting projects off the ground, which means that by the time the project actually starts, its strategic relevance may have changed. This is not necessarily because aid disbursements from the centre to the line are unpredictable, but because the process gets tied up along the bureaucracy, often at the level of the recipient. In some cases delays are on account of donors not depositing funds on time, or do not follow procedure with regards to the notification of IDC or the recipient department. The DCIS database at a project level and the RDP Fund Annual report gives an overview of funds received from donors and funds disbursed. However, this information is not easy to trace to when it was supposed to be disbursed (unless individual project agreements and operational plans are traced), which leaves the accountability grey.	When donors and/or implementation agencies choose not to use the RDP fund mechanism (which would automatically mean disbursement through central treasury controlled mechanisms and financial management by the implementing agency) it is on account of one or a combination of the following reasons: 1) There are real or perceived delays associated with the procedures that need to be followed for disbursement through the RDP fund. 2) The recipient department's financial management capacity is too weak. 3) The donor is constrained by its own rules and regulations to use government systems. 4) The Department prefers a third party to manage the project overall because it perceives it to offer more value or perceives its own overall management capacity to be too weak. Also, in principle the procedures for transferring money from the RDP fund to the implementing agency once the donor has deposited the funds, should take about a week. However, using the RDP mechanism also means that project managers are not necessarily dedicated staff, but manage the donor funded project (or donor funded activities within a larger programme) together with another portfolio of work. Even though performance against donor funds should be part of such managers' performance agreement, delays still occur. Funds that are managed through a dedicated unit means that additional implementation capacity comes attached.

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B5	**On account**	All funds paid into the RDP account are managed through government systems, following standardised accounting procedures and according to common accounting standards. Funds that are managed through Channel 3 (see above) however, are not on account. Funds that are not disbursed through Channel 1, are accounted for by third party or donor systems. These	Due to GTZ, which is reported not using Channel 1 for disbursement and execution, but uses Channel 1 for financial reporting (which would imply use of the accounting system), the percentage is higher for on account than for on treasury, i.e. 41%. Generally donors will use government systems in departments that have the capacity to undertake the financial management of the funds. Therefore using the government systems is effective insofar as it provides timely and credible information on spending. However, not using government systems (or the RDP channel) because of perceived weaknesses in PFM capacity, has the same drawbacks as elsewhere, namely parallel delivery systems that provides services in the short term, but does not offer sustainable solutions (see discussion in next column). A drawback in terms of accountability whether funds are on account or not (but more for those who are not on account) is that financial reports on how funds were used rarely reach domestic stakeholders outside of the agency concerned and perhaps the IDC Unit.	Whether funds are 'on account' or not is a function of whether Channel 1 or Channel 3 is used for disbursement. Perhaps the issue in the case of South Africa is not why are projects not on account, but rather why or why not being on account makes them effective, or why not being on account makes them ineffective. In the South African context whether projects are effective arguably has less to do with the immediate outputs and outcomes of the project itself (for example the number of children exposed to alternative resource materials or condoms distributed) but more with whether it builds the capacity of the state to utilise its own domestic revenue effectively. A careful judgement therefore has to be made regarding the trade-offs between using state systems or alternative PFM systems. Mechanisms such as PIUs weaken long-term capacity building for PFM in countries that are aid-dependent and have weak institutions. In South Africa the issue is not as much PFM systems, but service delivery systems. If a project is managed through a PIU but successfully demonstrates innovative ways of delivering services and successfully builds delivery capacity in a state department, would it not be more beneficial to use a PIU that provides good project and financial management and provides a more timely disbursement and implementation mechanisms? The issue is perhaps not how projects and fund flows are managed, but rather how they go about their substantive business, in a parallel fashion or working through departmental staff and institutions. This is a good demonstration of why the Paris Declaration principles should not be applied blindly to South Africa. What is at issue is not the policy prescriptions of the Paris Declaration Principles, but the values and intent behind the directives. The questions are really what added value donors bring and what is the most effective way to extract that value efficiently? A Group B Report could have explored these issues in greater depth.

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B6	**On audit**	The use of funds that are disbursed through Channel 1 by law (the RDP Fund Act) must be audited by the Auditor General. This includes both the financial records and statements of the fund, and the financial records and statements of the spending agency to which funds have been disbursed. Channel 3 funds may be audited by the Auditor General in terms of his mandate, but can also be audited by third party auditors or the auditors of the donor. This is determined by the funding agreement regulating the donor's activities in South Africa, and the individual project agreements.	All Channel 1 Funds are audited as required. From the OECD Paris Declaration survey results it would seem that some channel 3 funds are also audited: 44 per cent of funds disbursed as ODA to general government is audited through country audit systems.	See above. Whether funds are on audit is largely a function of whether Channel 1 or 3 is selected. Aid flows that are disbursed through the RDP fund must be audited by the auditor general. However, aid that is channelled through third parties or managed by donors themselves, does not fall within his compulsory mandate. However, there are instances where departments and donors choose, specified in the project agreement, to have funds audited by the auditor general. This is because of the economies of scale that may result if the audit is done by a credible auditor already familiar with departmental organisation and weaknesses.

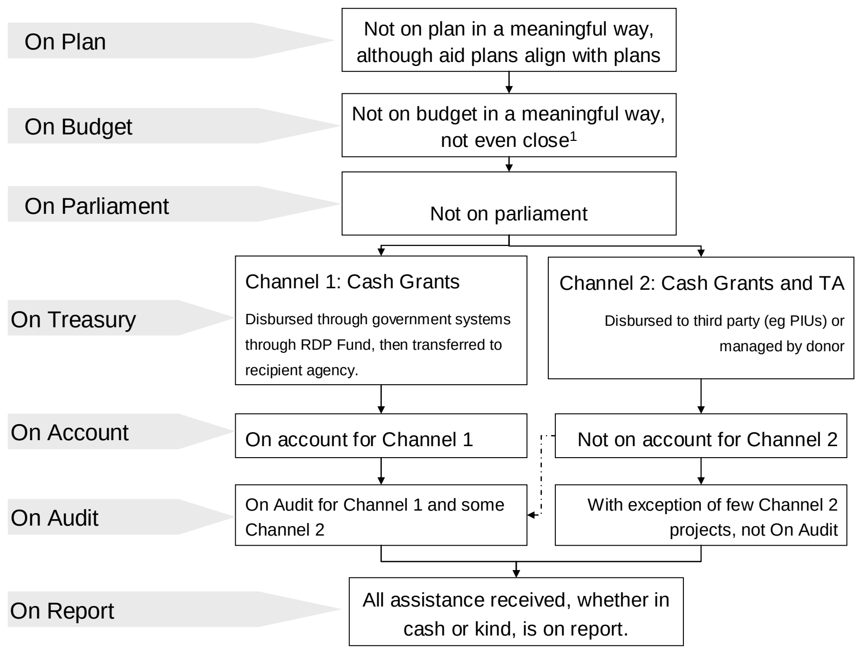
	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B7	**On report**	At departmental level the RDP Fund Act and the Treasury regulations require that foreign assistance received in cash and in kind is reported in the annual financial statements, attached to the annual reports, whether it is received through the RDP Fund or not. The three departments checked at national level and provincial level comply with these requirements: the report by the accounting officer includes reference to foreign assistance received, and the financial statements record the assistance both at aggregate level in aggregate tables and at project level in a separate table. The requirement that consultancies are reported separately, notwithstanding source of funding, also provides a bit of additional detail. The RDP Fund also publishes an annual report. This report includes an overview of the main recipients of and purposes for which aid flowing through the fund has been used and a detailed statement on transfers to recipient agencies. The Fund is not obligated to report on how those transfers were used by recipient agencies: that is by law the obligation of the accounting officers of the agencies. Another level of reporting is the financial and performance reports that are provided to donors, either by departments or third party implementing agents. There is very little substantial reporting at a project or programme level that is easily accessible for stakeholders: the only evidence of this is the Masibambane reports (Water sector). While the IDC Unit shares in reports generally, these are not commonly available.	The annual financial statements provide a high level comprehensive overview of donor assistance received by each department. However, the annual report itself does not report on the effectiveness and efficiency of spending of donor funds, as it does for domestic revenue, however incomplete. Not one of the annual reports scrutinised complied in full with the requirements of the Treasury Regulations (see next column). Parliamentary committees scrutinise annual reports. The current reporting is not effective. IT would be more effective if it follows the regulations in full. Another issue is the lack of transparency around the review and evaluation reports that are prepared for donors (in principle for donors and the SA Government). These are not commonly made available publicly. That undermines a balance of accountability to domestic 'external' stakeholders (ie parliament and the public) as against donors.	The annual report and financial statement formats are prescribed by the Treasury Regulations. While these regulations require that accounting officers 'report on the use of foreign aid assistance, detailing the source and intended use of the assistance (including the value of any aid-in-kind in rand), performance information on the institution's use of the assistance, and any pending applications for assistance. That departments – even the National Treasury – under-report is a matter of accepted practice against formal requirements. Part of the problem is that parliamentary committees do not demand fuller reporting on foreign funds: other institutions such as the IDC could also play a role as it is within the responsibilities of the Treasury to enforce the PFMA and the Treasury Regulations. That they are enforced more fully is particularly important for departments and provinces where foreign aid is more significant, either as a percentage of total budget or in terms of its added value. Reasons for under reporting on aid: • Some departments will argue that funds that does not come through the RDP Account are not their financial responsibility and therefore they do not report on it • They do not necessarily have the correct amount to report if the assistance is in kind as they have to get the info from the development partner. • If the funds do not flow through our system it is usually in the currency of the development partner and the departments have then difficulty in reporting in rand as they are not sure which exchange rate to use.

C. Reflections

56. Identifiable patterns in part B findings:

Commonalities

57. There are commonalities in the South African aid management environment. The diagram below sets these out:



58. Planning and budgeting for aid run on parallel tracks from planning and budgeting for domestic revenue spending. The most effective connection is from the aid management side, when the IDC Unit, donors and programming teams consult national, provincial and departmental strategic and/or development plans to facilitate alignment. There is very little evidence of aid making any impact in the planning, programming, budgeting and reporting cycle for domestic revenue. Aid is only reflected on budget and on report in aggregate and then only in financial terms.

59. Whether aid is reflected on account and on audit (largely) is a function of whether it is disbursed through government systems (only one channel legally possible: through the RDP Fund) or through third party arrangements or by donors themselves. When Funds are disbursed through the RDP Fund government accounting and financial reporting and auditing systems must be used. Which procurement system is used, it is worthwhile noting, is determined by the project agreement: these can be government systems, donor systems or systems established by the third party as per the agreement.

60. Reporting for aid is determined by the Treasury Regulations which requires all annual reports of departments (a requirement in terms of the PFMA) to include information on aid flows, whether in cash or in kind and whether through the RDP fund or not.

Other identifiable patterns and common issues

61. Planning and analytical capacity constraints at departmental level (both at national and provincial levels) is one underlying cause of the separation of aid flows from planning and budgeting for domestic revenue. These weaknesses also contribute to the under-performance of the PFM system.

62. Some of the Paris Declaration indicators show under-performance in South Africa against principles given the context, for example donor harmonisation and the use of PIUs and other third party arrangements against the use of country systems. However, there is a sense that in the South African context of low aid-dependency and technical capacity (although unevenly distributed across government) the targets should not be applied blindly. Rather there should be a more nuanced approach that looks beyond the indicators and prescribed good practice institutional arrangements, to the intentions behind the Paris Declaration, which are about aid effectiveness and enhanced accountability. Effective aid delivery in South Africa may not be as much about using government PFM systems, but about demonstrating value from innovative approaches, working with policy and delivery systems to build capacity or resolving bottlenecks (as stated by the IDC Unit's policy framework). Putting aid on budget in a meaningful way, needs to be done so that the potential for fulfilling these objectives are maximised, not in a way that blindly follows principles and as a result overburdens fairly effective processes for domestic revenue.

63. Having said that, aid is under-reported – both in terms of volume (although this is perhaps not significant) and in terms of the meaningfulness of the reporting. Common reasons are:

- Some departments will argue that funds that does not come through the RDP Account are not their financial responsibility and therefore they do not report on it
- They do not necessarily have the correct amount to report if the assistance is in kind as they have to get the info from the development partner.
- If the funds do not flow through our system it is usually in the currency of the development partner and the departments have then difficulty in reporting in rand as they are not sure which exchange rate to use.

64. Under-reporting aid may not have much of an impact on accountability systems and spending effectiveness and efficiency in provinces and departments that receive little aid. But for those sectors and provinces that have the lion share of aid flows, it is an issue. Aid should be incorporated much better in their planning and budgeting, should be an issue for discussion during the MTEC hearings and should be an agenda item for parliamentary processes.

65. The underlying cause of under-reporting lies essentially not with the aid management system (although it is not perfect, it has made progress towards effective coordination and management since early 2000), nor with the PFM system (which is not perfect either, but also comparatively functional considering systems in other aid-receiving countries), but in the interface between them.

Particular examples of good practice

66. The Department of Water Affairs and Forestry sector wide approach programme, Masibambane, is a good practice approach to coordinating aid with government spending sector wide in sectors that receive significant funds. The SWEEP project in the Department of Trade and Industry follows a similar approach. For the present study what is particularly relevant is the comprehensive reporting that occurs of the objectives, activities and use of funds within the Masimbambane programme. The internal flow of information to funds is also timely and accurate. The only negative is that the focus is too much on reporting to funding partners, and not sufficiently on reporting outside of the aid management context.

67. The Provincial Department of Education in Limpopo manages all external funds, whether local or foreign, through the Limpopo Education Development Trust. This is a financial management vehicle that forces some coordination between donors. It has also instituted a donor forum within which aid is coordinated between donors and the department. It however still has the drawback of being a parallel institution.

68. The IDC Unit plays a significant role in coordinating aid. Its guidelines are clear and sufficiently detailed. There appears to be some capacity gaps in terms of supporting training and evaluation and reviews, but in principle the model has had a positive effect on forcing greater aid coordination across the system.

69. The Treasury Regulations on annual reporting are the best practice in terms of how general rules and regulations pay attention to aid. They are the only place where departments are officially required to reflect their aid against their use of other funds.

Particular examples of bad practices or reforms that don't work

70. The weak (or lack of) information sharing between the divisions of the treasury that deal with budget and public finance planning and the sub-division that deal with international development cooperation is dysfunctional both for making aid effective and ensuring optimal allocative efficiency. The underlying cause of this is because aid is an almost insignificant portion of spending and competes for attention in a congested annual budget cycle with many other issues. Given the IDC unit's information base (although not always effectively formalised in its database) a simple line of communication would go a long way to bring aid into the budget process where it matters, for the provinces and departments that receive significant aid. It would also go a long way to ensure that where new approaches are successfully demonstrated through aid-funded risk taking, these become sustainable. There are signs that the issue is much more onto the aid and budget management agendas.

71. The requirement to include aid information in table form in the budget submission should be thought through properly. It would make more sense to have a blanket check for significance of aid with the IDC unit for example, and then require more meaningful information from a few departments, both at national and provincial levels. Also, there is little sense in including the information if it is not used: that disincentivises providing proper information that can be checked against the financial statements etc.

72. While there is some benefit from having aid coordination offices at departmental and provincial level even if they only act as local post offices for aid information and have courtesy protocol function to receive donors on behalf of premiers, or coordinate their visits to departments, these institutions would be much more effective if they have better capacity. Their ability to coordinate aid and ensure that aid is applied effectively for a department (or province) as a whole rather than at a programme or project level, is often undermined by lack of capacity to engage strategically with donors. This means that donors revert to speaking to individual departments (as against provinces) or programmes and projects (as against departments), allowing aid to flow to donor agendas rather than a more balanced approach or to individual projects that may not be optimal from a global view. Again: since aid is distributed unevenly not all provinces or departments need to be capacitated properly in this regard.

Where should information flows be improved (for aid effectiveness and budget effectiveness)

73. Information flows on aid spending should be improved throughout the budget cycle. Even where there is more information available, eg in annual reports, the information as provided in practice is insufficient.

74. However, while some routine information flows by all departments receiving aid should be compulsory, the system should rather focus on where aid is most significant.

75. The budget documentation should include more significant reporting on aid against similar parameters as domestic spending. It would be worthwhile at aggregate level to include in the Budget Review an overview similar to what is published in the RDP Fund Annual Report, both forward looking and backward looking. For departments that receive aid, this information should be included in their Expenditure Statements, against programme information. This would force departments to consider aid more carefully in terms of domestic spending, and bring it more to the attention of parliamentary committees.

76. Careful consideration should be given to the optimal arrangements for monitoring aid flows and implementation of aid programmes in-year. The need for monitoring should not outweigh the need not to overburden systems already under strain to manage domestic revenue.

77. The information on aid in the annual reports should be strengthened, at the very least in line with the requirements of the Treasury Regulations.

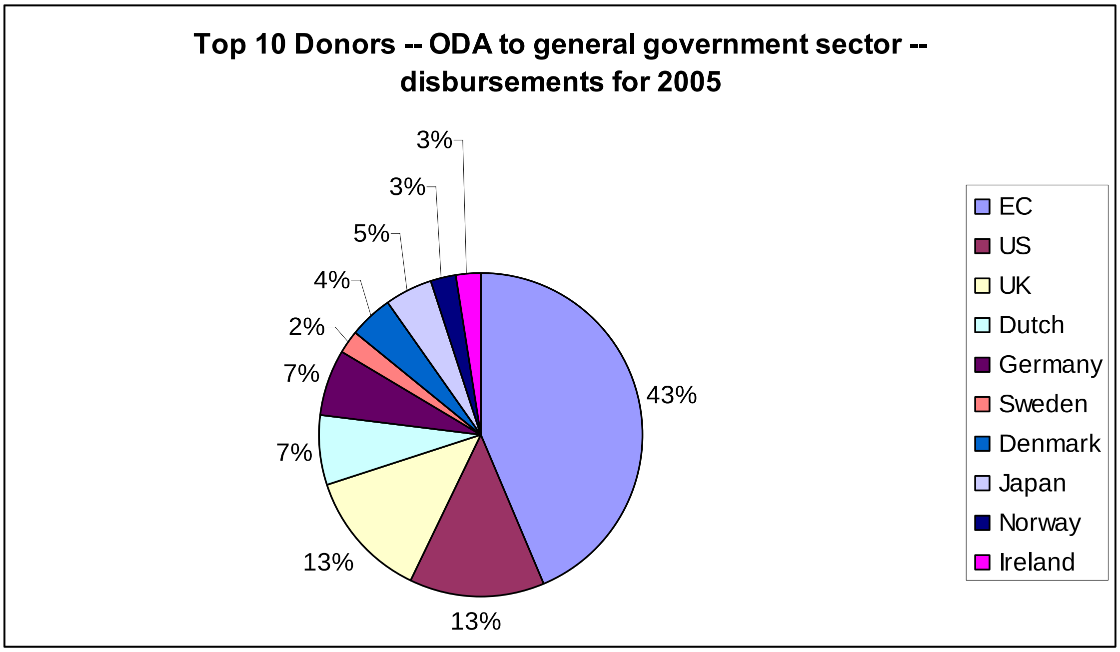
78. In looking how to improve information flows on aid so that aid can be utilised more effectively (to leverage domestic funds), the unique South African context (of low or non-existent aid dependency and relatively good but highly unevenly distributed capacity across the public sector) should be kept in mind at all times.

Annexes

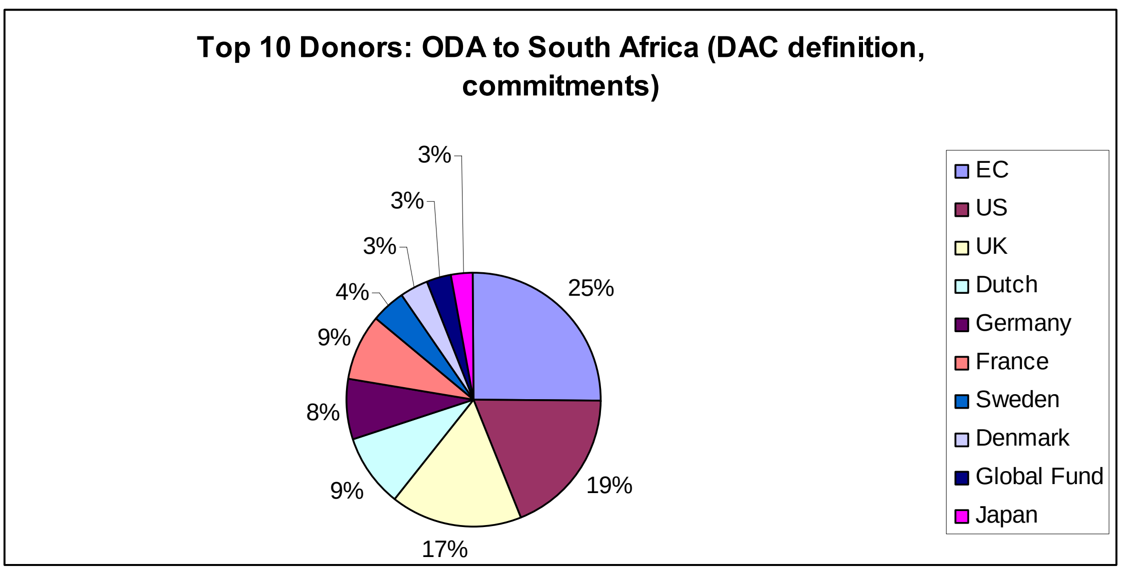
Annex 1: Elaboration and evidence

Section A: Country Context

A3: Top 10 donors



Source: SA Country Report, OECD 2006 Survey on Paris Declaration Implementation



Source: OECD Aid at a Glance South Africa Chart

INSTITUTION	ROLES AND RESPONSIBILITIES
Deputy Minister of Finance	Political responsibility for the overall management of ODA.Interpretation and articulation of overall development priorities.
IDC: National Treasury	Consolidation and articulation of core priority framework for ODA.Overall/macro-management of ODA (incl policies & procedures).Co-ordination of consultation and decision-making regarding ODA.Facilitating and strengthening sectoral ODA management.
Budget Office: National Treasury	Co-ordination of medium term expenditure planning/prioritisation.
Accountant- General	Financial management (PFMA) regulation for ODA funds.Accountable for RDP Fund.Transfer of RDP funds to implementing agencies as per agreement.
Department of Foreign Affairs: Desks	Ensuring that ODA is dealt with in accordance with the overall relationship with the relevant donor.Assisting IDC to process agreements and to co-ordinate ODA.
DFA: Chief State Law Advisor	Assessment of all agreements to determine whether they are in accordance with international law.
Dept of Justice: Legal Advisor	Assessment of all agreements to determine whether they are in accordance with domestic legislation.
Presidency	Provision of Presidential authorisation for the signing of agreements.Policy co-ordination
Cabinet/NCOP/MinCom Bud/BC/FOSAD	Strategic policy and expenditure prioritisationPolicy co-ordination
SARS	Approval of VAT and Income Tax exemptions, and administration of customs and excise duties.Determining whether tax provisions in agreements are acceptable.
Board of Tariffs and Trade	Consideration of requests for customs and excise duty rebates, and issuing of rebate certificates.Determining whether customs and excise duty provisions in agreements can be adhered to.
Department of Home Affairs	Issuing of work permits to technical assistants under Aliens Control Act.Assessment of agreements containing provisions on the status of technical assistants.
Accounting Officers of implementing agencies	Sectoral development planning/prioritisation – medium term expenditure planning/prioritisation.Accountable for their ODA supported programmes/projects.
Financial managers/Chief Financial Officers in implementing agencies	Medium term expenditure planning/prioritisationBudgeting for SA resource requirements on ODA supported projects.Financial management and reporting on ODA projects.
Line function officials in implementing agencies	Medium term expenditure planning/prioritisationNegotiations on inter- and intra-sectoral programming of ODA.Conclusion of programme/project agreements.Operational programme/project management (planning, implementation, monitoring) in accordance with agreements.
ODA Co-ordinators in implementing agencies	Consolidation and articulation of core development priorities for ODA at sector/implementing agency level. Sector/implementing agency level ODA co-ordination/monitoring. Sector/implementing agency level ODA information management.
Parliamentary officers	Submission of signed agreements to Parliament for information purposes.

Section A4

Roles and responsibilities as established in the 2003 Guidelines

Source: National Treasury, 2003. *Policy framework and Guidelines for the Management of ODA*