



**THE MUNICIPAL DEVELOPMENT PARTNERSHIP
Eastern and Southern Africa**

-A Partnership Enabling Local Government Capacity-

**OPERATIONAL PRINCIPLES OF BUDGET TRANSPARENCY AND
DEMYSTIFICATION
BY**

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Learning Objectives

This paper provides an overview of key operational issues to implement mechanisms and processes to improve transparency and citizens' understanding of municipal public expenditure management. We will discuss ways of demystifying the Local Government Budget and the strengthening of budget transparency, participation and independent oversight provided by an informed Civil Society Organizations. The focus will be on how to remove the mystery surrounding the Municipal budget and how to effectively manage the Fiscal and Public expenditure management process while incorporating participation by different stakeholders. By the end of the paper, readers will be able to understand the following issues that need to be addressed in the process of promoting budget transparency and demystification:-

- The key principles, benefits and challenges in promoting transparency in Local Government Public Expenditure Management (fiscal policies, resource generation, current and capital investment planning)
- The role of Local Government and Civil Society Organizations (“CSOs”)in the demystifying the Local Government budgeting process
- Various forms of legislative and institutional arrangements to ensure demystification of fiscal policy, revenue generation and expenditures
- Designing Municipal Finance information systems to ensure reliable revenue and expenditure information, and public access
- Organizing public campaigns and Civil Society actions to promote budget transparency and demystification

EXECUTIVE SUMMARY

The key operational issues to implement mechanisms and processes to improve budget transparency and citizens' understanding of Municipal Public Expenditure Management are discussed in this paper within the contexts of decentralization, social accountability and independent oversight. Transparency is the main element for good governance and refers to openness about policy intentions, formulation and implementation. The Local Government (LG/LA) budget is the single most important policy document of LGs where policy objectives are reconciled and implemented. Budget transparency is the full disclosure of all relevant fiscal information in a timely and systematic manner. Demystification or the simplification of the budget document makes it easy for taxpayers and policymakers to determine who pays how much and who receives the benefits and at what cost. The budget statement, unlike the budget process does not provide a strong instrument of control. The annual budgetary process and the approval of income and expenditure enables the rate (property tax) and the various tariffs and charges to be fixed; provides the base for the control of income and expenditure; ensures that expenditure is not incurred without proper authority; and a yardstick for measuring implementation of policy. There are challenges to ensuring transparent budget processes. Budget preparation is expensive both in time and money. Legislation requires that LGs must keep proper books of accounts and this requires the use of computers. The majority of LGs do not have adequate computers and appropriate software as well as qualified personnel. LG Accounting is complex and specialized. Constraints in capital investment planning include:- the non-availability of finance to meet the initial capital expenditure; the inability or non-willingness of the Ratepayers or consumers to meet the subsequent annual costs; stringent statutory approvals and control; the non-availability of land; and the shortage of professional and technical staff (including the private sector). Proposed solutions include targeted State Governments grants and donor agencies support of LGs through capacity building programs such as the USAID funded Local Government Support Program (LGSP). The LGSP in Zimbabwe focused on training, installation and documentation of the PROMUN Accounting program with the beneficiaries being LG financial staff. The LG itself could ensure that adequate time is provided to prepare, review, evaluate and adopt the budget in order to meet statutory requirements. The design of Municipal Finance Information Systems to ensure reliable revenue and expenditure information and public access requires that LGs focus on these areas: (i) Principal Budget Reports –the budget in brief; pre-budget report; Monthly reports; Mid year reports; year-end report. In South Africa, the municipal budget should be drawn up and implemented in accordance with the Municipal Finance Management Act (MFMA) whose stringent reporting requirements include in-year and year-end reports accompanied by supporting documentation. (ii) Specific Disclosures-economic assumptions, financial and non-financial assets and liabilities, contingent liabilities (iii) Integrity, Control and Accountability- Accounting Policies, systems and responsibility, Audit, Public scrutiny. All reports referred to be made available to the residents and the Civic Society Organizations (CSO). Other ways to improve information flow and communication to promote budget transparency and demystification include:-Civic awareness workshops, joint budget analysis workshops, exchange visits with other LAs/CSOs, regular community planning workshops, joint residents and LA meetings, Newsletters/circulars, posters at public places, the print and electronic media. Lessons learnt from different experiences underscore that it is feasible to transfer knowledge from the LG to enhance CSOs understanding of the budget using a common framework but country-specific application. There is a need to strike a balance between disclosure and availability of critical information. Opportunities for constructive engagement exist, albeit at a cost and in a limited form.

1. INTRODUCTION

Broader Context

Open and democratic societies require an informed citizenry, public participation and governing processes that are transparent. The jargon and specialized formats of budget reports prepared by the Finance Departments of Local Governments in Africa make it difficult for citizens to understand them, let alone participate in the decision-making processes. Legislative and institutional frameworks that would make it possible (and feasible) to simplify (demystify) and improve public access to these budget reports, are some of the initiatives that both developed and developing countries are taking.

Whilst it is true that some Local Government budgets lack transparency and demystification, significant strides have been made in the last decade to improve transparency in Local Government Public Expenditure Management. South Africa leads the pack in Africa in the area of budget transparency by legislating for greater availability of budget information. Uganda and Tanzania have successfully introduced Public Expenditure Tracking Surveys (PETS) which have received and continue to receive a lot of attention. Sierra Leone has introduced legislation aimed at improving its Public Financial Management Systems. Zimbabwe benefited from the USAID sponsored Local Government Support Program (LGSP) which emphasized the importance of transparency, accountability, participation and responsiveness, among some of its strategic objectives. Other countries are in the process of adopting public sector reforms that will strengthen independent oversight of Local Government Public Expenditure Management.

Strengthening budget transparency and demystification in the Local Government sector should be viewed in the broader context of public reform as a pre-requisite for public participation and social accountability. Transparency and demystification are inter-dependant variables. For budget transparency to be achieved, the budget documents must be demystified, that is, understandable and accessible. The budget process must be open. Research and tools to promote budget transparency are available for both State Governments and Local Governments; thus this input will use the results of the broader social research and tools to enable Local Governments of Africa to take significant steps to make their budget processes, as well as their budget-related documents, more accessible to the public.

Budget Demystification

It is important to note at the outset that effective engagement in the budgetary process can only happen when adults have been enlightened on the contents of the budget. The technical language and the jargon used in Local Government Budgets is often difficult to understand. In most cases, the pages are many and as a result, there are rarely enough copies for interested citizens. Demystifying the budget through the distribution of information translated into layman's language and terms is an important contribution to budget review and analysis, a process requiring that citizens should understand the budget allocation. This is often combined with the development of manuals and training to help interpret the budgets. Budget guides are also used in the process. An example of such a course is one held by a Canadian NGO over three days.

The course outline was as follows:

- The political and legal context in which the budget is negotiated
- Reviews of the operational framework of the budget

- Providing tools for analyzing the macro-economic and socioeconomic implications of the budget and for assessing the effectiveness of current budget policies.

The Malawi Economic Justice Network recommends that demystification of policies and budget documents should be done *through translating* the Poverty Reduction Strategy Papers and the budgets into local languages.

B.S. Raghavan writing for the Business Line of India, on March 06, 2006, made relevant suggestions on how budget demystification could be done in India, which is also applicable to Africa. He wrote:

“In India, fifty years ago, there was and still is, a fetish attached to the contents of the (Local Government) Budget. It was supposed to be kept top secret, and even a whiff of suspicion that any bit of it was divulged before it was actually presented led to the rolling of heads. Deregulation and liberalization, the lightning speed at which information is available has led to the “demystification” of the Budget. The budget should be made a **short** and **crisp** document, taking not more than 30 minutes to read, *containing a brief description* of the policy framework within which it has been prepared. It will then facilitate participation by a much larger number of people than at present based on a clear understanding of the implications of the contents.”

Budget Transparency

Transparency refers to openness about policy intentions, formulation and implementation. Budget transparency is defined as “full disclosure of all relevant fiscal information in a timely and systematic manner” in the OECD Best Practices for Budget Transparency. The basic idea behind budget transparency is that Local Governments become more accountable when the individual citizen, with average knowledge in (Local Government) financial/ accounting, some computer skills(if appropriate), can peruse the Local Government budget to learn how his/her taxes are being spent down to the individual program, contractor/ supplier and contract levels.

The IMF Code of Good Practices on Fiscal Transparency provides a coherent framework to assess the transparency of public finances. It sets transparency standards in these areas:

- i. Clarity of roles and responsibilities in public finance
- ii. Public availability of information
- iii. Open budget preparation, execution and reporting, and
- iv. Independent assurances of integrity (external audit)

Evaluation of Local Government Budget process and documents

According to a research on Budget transparency in the education sector in the USA, opaque budget processes, off-budget activities (i.e. outside the formal budget), weak and poorly managed expenditure systems and a lack of public control provide manifold opportunities for corruption. As a result of a lack of financial accountability in public spending on crucial public services, resources disappear. The quality of life for citizens is negatively affected. The same can be said of the situation in most parts of Africa: there is not much budget transparency, with budget documents that are neither user-friendly nor accessible.

By reading these estimates of planned expenditures and revenues, the ordinary citizen and the policy makers should be able to determine who pays how much and who receives the benefits

and at what costs. But, are those funds spent on the intended purposes? Is the budget process open, understandable, and accessible to the citizens? How demystified is the budget, that is, how understandable are the available budget documents? How easy is it to follow the decision making process and provide meaningful input and comments? What mechanisms and processes can be applied in order to improve Budget transparency and demystification of fiscal policy, revenue generation and expenditures?

Rationale for Transparency in Local Government Budgets

Many Local Government Budgets are indecipherable, that is, numbers are all over, do not make much sense, voluminous documents, difficult to understand even for citizens with above average accounting and financial skills. Unfortunately, because of that, to much of the general public, Local Government Budgets conjure up pictures of strings of figures which are totally meaningless, shrouded in mystery and of no relevance to their day to day lives. In addition, it is difficult to analyze them, hence a general conclusion is reached that the Local Government Officials, both elected and appointed are corrupt and crooks who are bent on cheating the poor citizens out of their hard earned income. The common belief is that in the Budget documents they will have juggled the figures to cover up how much they are or already have defrauded the community and government. Their budgeting processes are viewed as being opaque and they have weak and poorly managed expenditure systems. Such beliefs are corroborated by the evident poor public service delivery in most parts of Africa where Local Governments are perceived as institutions that suffer from indecisiveness; fear change; lack law and order; preside over a disgruntled society which is suffering from great injustice; there is poor governance and corruption is rife; there is insecurity (of self and property); the personnel lack professionalism; weak human resource base and there is no proper institutional framework to support efficiency.

2. KEY PRINCIPLES OF BUDGET TRANSPARENCY: LOCAL GOVERNMENT PUBLIC EXPENDITURE MANAGEMENT

Measures to promote budget transparency

If the LG budget was open to public and effective legislative scrutiny, there would be less scope for deviation from policy decisions and reversal of budget allocations. These reversals are sometimes called “virements”. They provide an opportunity for the manipulation of the budget. There are a variety of measures and tools that enhance budget transparency in Local Government expenditure management:

- i. ***Avoid off-budget activities***- these relate in most cases to funds from donors which are not accounted together with other revenues. Donor funded expenditures are not included in the main budgets and no-one is informed about the programs except, the Project Coordinators. Off-budget activities can also be created if, on the revenue side, for example, the returns from some sources, e.g. grants, natural resources, etc, are not included in the budget. In some cases, even State Government grants are not shown on the budget.
- ii. ***Donor co-ordination***:- The co-ordination of donor funding and expenditure is crucial, especially during the budget formulation stage. It has been institutionalized in such countries as Tanzania, Malawi and Uganda. The modalities for that govern the Uganda Poverty Action Fund require that all releases of PAF be published and discussed at quarterly meetings. NGOs and the media are invited to these meetings so that they can obtain first hand updates on public spending.
- iii. ***Sound budget and expenditure management systems***:- The budget system should be built in such a way that it is transparent and open to public scrutiny. Currently, a

number of developing countries have put in place Poverty Reduction Strategies (PRS) that are part of an overall “reform package” and appear as some of the conditions attached to World Bank lending and debt relief. The Local Budget, therefore, needs to be synchronized with the country’s PRS.

- iv. ***Making information available:-*** The Public Expenditure Management approach (PEM) to budgeting is often associated with the Medium Term Expenditure Frameworks (MTEF) . These frameworks attempt to strengthen the links between planning, policy-making and budget at an early stage in the budgeting cycle. The establishment of MTEF is usually preceded by a Public Expenditure Review (PER), a methodology used primarily by the World Bank and UNDP and other donors to assess the allocation and management of public expenditure in a given country region or sector. Local Governments can learn from this methodology when making information on expenditures available to their citizens. The budget system must produce comprehensive and timely information. Some Local Governments have not produced audited accounts in the last two to five years. Communication technology (Integrated Financial Management Systems) can play a crucial role in promoting transparency. Electronic records of all the transactions-i.e. expenditures and revenues can be made available on the internet. However, only a small percentage of Local Governments in Africa have a website. But, this should not be a deterrent as information can still be made available even without the internet. These include, word of mouth, posting notices, giving school children letters to take to their parents, among other measures.
- v. ***Build Budget Literacy:-*** Understanding and analyzing budgets is not an easy task. It also takes a lot of time. If citizens are to hold Local Governments accountable, there is need for a broad base of knowledgeable observers to be created. Building budget literacy has been recognized as a prerequisite to engaging citizens in the budget process. There are NGOs and institutions that offer specialized courses in Local Government Public Financial Expenditure and budgets. These include Institute for Democracy of South Africa (IDASA), Urban Development Corporation (Zimbabwe), Kenya’s Institute of Economic Affairs, World Bank, among others.

(*Source:* adapted from <http://www.u4.no/themes/education/educationbudgettransparencyintro.cfm>)

Quantitative control over expenditure

Sound control over expenditure is vitally important. This includes both quantitative and qualitative control. Control should be carried out on a continuous basis and should try to avoid errors and fraud rather than discover it.

Control of expenditure is only possible if the LG’s accounting books, records and estimates are accurate. This may seem an obvious point, but it is nevertheless often lost sight of in practice. For effective control to take place the books must be substantially accurate throughout the year, and up to date as well. Accountants at LGs tend to concentrate on closing books at year end and compliance with statutory requirements and ignore accuracy of current expenditures. Current expenditure is just as important, because this is the expenditure which can still be controlled.

The need for accuracy and clarity of accounting records

The accurate classification of expenditure is a primary consideration. The meaningful use of a line item budgeting system as a means of controlling expenditure presupposes:

- i. The existence of a sufficient number of clearly distinguishable line items, and
- ii. A system which ensures, as far as is humanly possible, that any expenditure actually incurred is shown under the line item to which it relates.

If these two conditions are not substantially met expenditure control becomes at best a haphazard exercise and demystification cannot happen.

On the accounting side it is of course vitally important that the person who is entrusted with the duty of coding the expenditure incurred understands its nature clearly and is able to assess accurately to which subjective it must be coded. A sufficiently detailed and lucidly described system of subjectives makes this operation that much easier. But in practice, because of the monotony of the work involved, the coder is usually a very junior person, and accordingly one whom the accountant cannot always expect any great powers of discretion. Too often then expenditure is posted to the wrong subjective due to wrong coding. If that be the case, effective budgetary control is lost. No doubt a simple line item system minimizes this risk, and as the number of subjectives increases, the risk of miscoding becomes proportionately greater. Where a computerized coding system is in use certain checks do of course exist, but these will never prevent a coder from mistakenly posting expenditure A to subjective C: the best it usually does is to ensure that expenditure is posted to a valid subjective.

How then can it be ensured that a sound system of classification is not seriously undermined by inaccurate coding?

- The answer lies in having an accurate budget.
- The easiest way of determining whether a department is spending too much on printing and stationary is by having a sound yardstick to measure this expenditure and that yardstick is the relevant budget provision. It is thus of crucial importance that each departmental budget must be done in sufficient detail to make this type of control possible.
- Efficient control over expenditure is only possible if both the subjective and objective budgets are scrutinized, and if the accountant concerned has at his/her disposal all the information necessary to make such scrutiny meaningful.

In more complex systems, performance budgets of one kind or another, the need for control must not be lost sight of. The performance budget, by making vastly more information available, certainly affords in theory a much more extensive means of controlling expenditure, but whether in practice such elaborateness hampers or facilitates control is certainly open for debate.

Benefits of Transparency in Local Government Budgeting

The Local Government Budget is the single most important policy document of a Local Government where policy objectives are reconciled and implemented in concrete terms. It is a formal quantitative statement of resources allocated for planned activities over a stipulated period of time, usually a year in the case of operational budgets. The budgets indicate the expenditures, revenues, surpluses for some future date. They are widely used as one of the Local Government's control tools because they are stated in monetary terms, for example, in Rands, Shillings, Pula, Kwacha, USD, ZWD, etc. In addition, the budget is a fundamental part of the Local Government's control programs.

The main functions of the annual Local Government Budget are the following:

- i) enables the rate (property tax rate) and the various tariffs and charges to be fixed;
- ii) Assists in policy making;
- iii) authorizes annual expenditure excess when the financial provides otherwise;
- iv) It provides the base for the control of income and expenditure; and
- v) Provides a yardstick for measuring implementation of policy.

By reading the LG Budget, it should be easy for the taxpayers and policymakers to determine who pays how much and who receives the benefits and at what cost. The budget should exhibit the ends that the LG intends to accomplish and the means to achieve those ends.

In order to hold government accountable and make informed electoral choices citizens need to engage with the budget. Budgets, and citizens' interest in budgets and their implementation, are crucial to the practice of democracy. Transparency is an important means of achieving participation and democratic control of budgetary processes- it allows an engaged and informed citizenry to have an input into the budget process, and to monitor whether policies and political commitments have indeed been translated into action. This is important for public officials- Councilors who can be voted out of office!

Citizens, including the vulnerable and marginalized groups will be empowered with vital information. Thus, they will be able to meaningfully participate in decision and budgetary making processes including the identification of development projects. What separates the rich from the poor, in most cases, is information.

Through the budget and budgetary process, the public is informed on what the money they pay in taxes is used for and how. The more transparent or clear the process, the more benefits accrue as a result of budget transparency. Some of the benefits arising from transparency in Local Government public expenditure management include the following:

- **Increased understanding and appreciation:** Citizens begin to understand previously unclear issues such as ownership of public assets: what the Local Government owns. Also, they will be able to demonstrate care for public investments. The results include: better management of resources, reduction in vandalism, increase in voluntary support and services e.g. provision of free labour, raw materials and equipment as well as other forms of in-kind contributions for implementing identified projects, willingness to pay charge fees, and timely payment of tax dues. This will result in the development of positive attitudes towards local government and improved revenue collection;
- Leads to greater understanding of expenditures and revenues of the Local Government and which in turn could result in additional sources of revenue being proposed and supported by the citizens.
- **Facilitates capacity building:**-citizens will begin to understand how their local government works since they will be exposed to the skills and knowledge related to budgets and budgeting. They will also get to know their rights and obligations as citizens.
- **Enhances political legitimacy and support from voters:**- the engagement of citizens in the decision making process enables the council to respond to needs that

are relevant to communities. The citizens are in a position to understand the capacity and constraints of the council with regard to provision of services and development. This reduces demonstrations and payment boycotts. Increased legitimacy also enhances the possibilities of the creation of lasting partnerships between the council and stakeholders that leads to good rapport and working relationships between council and stakeholders. In other words it helps to establish an atmosphere of trust and confidence between the local government and its citizens.

- **Increased interest in monitoring and evaluation of development projects:-** Where citizens are not part of the decision making process, they often lack interest in getting to know the results. Where they are involved, they will be the ‘eyes and ears of government’ with regard to progress and results of development programs. This ensures that: (a) project implementation is on target, (b) resources are applied in accordance with agreements, and (c) quality control is in place. This ultimately assists in guarding against abuse of public office and resources.
- The citizens who are the customers, will be motivated therefore, to pay for these services, which in turn will lead to increased revenue generation for the local government, thus, enabling it to continuously improve its service delivery.

Challenges in promoting Budget Transparency

Certain potentially negative effects of the budgets can be traced to the mechanics of budgets and the budgeting process. Budgets are not prepared in minutes. The procedure takes a considerable amount of time and is spread over several months of the preceding financial period. Estimates are prepared in accordance with specific guidelines. Unless great care is exercised in budget construction the result will be of little value. For example, there are expenses involved in installing and operating a budget system; if these costs outweigh the benefits obtained by the system, the LG may not prioritize the project.

Because budgets are forecasts, they cannot always be accurate. There is nothing more calculated to cause despondency than targets that are set in the full knowledge that they cannot be attained.

In the absence of any absolute performance standards (the existence of which is possible presumably in an ideal world) comparative yardsticks become of paramount importance. To be able to compare one’s service levels with those of local government in general and similar municipalities in particular is the only means available of assessing whether one is giving one’s ratepayers (property tax payers) at least relative value for money. Such comparisons are possible only if there is a substantial degree of standardization in the accounting procedures employed by LGs. Standardization, however, presupposes much more than a comparable presentation of one’s accounts. It postulates the use of a consistent and logical system of expenditure classification, and, somewhat more problematically, a commonly acceptable costing system. The latter is widely used in private enterprise, but despite its formidable value in any expenditure control operation, it is not yet enjoying the attention it deserves in Local Government. In industry one is readily able to discern unacceptable variances in expenditure levels simply by comparing actual unit costs with standard costs. This is of course impossible in municipal accounting simply because such standard costs do not exist.

Although the importance of quality control is readily evident there is often confusion as to the merits of budgetary (quantitative) controls. Non-Financial officials do not always see the need for keeping within their estimates as a whole, let alone any reason to control their

expenditure on individual subjectives, and it is not infrequently found that such officials consider the Finance Director/ Treasurer 's quantity controls as unwarranted interference. A transparent budget process may increase the workload and pressure on employees. In some cases, conflicts may be heightened as people jostle to protect or expand their turfs.

Differing perceptions of LG budgets held by the different members of the Civil Society may influence their reactions to the budget details.

It may be difficult to achieve some budget goals if resources allocated are inadequate or too restrictive.

3. THE ROLE OF LOCAL GOVERNMENT AND CIVIL SOCIETY ORGANIZATION IN DEMYSTIFYING THE LOCAL GOVERNMENT BUDGETING PROCESS

Problems faced by CSOs in budget demystification

Civic Society Organizations (CSOs) generally lack the following key elements required to understand the Local Government Budget:

- a. Organizational knowledge- services, structure, resources, expenditures
- b. Knowledge of the environment – internal and external that impacts on the Local Government's current and future performance
- c. Confidence-in themselves as well as in the Local Government.

What can be done to help the CSOs overcome the impediments to effective analysis and input into the budgeting process?

Some of the answers are implied by the problems as highlighted above.

- CSOs that lack knowledge of the LG or its external environment need assistance through the development of a viable information system that can be provided in a variety of ways. For example, during Councilor Induction Training Programs, include the executive members of all CSOs within the LG area. This will help participants establish informal contacts with people from different departments within the LG and specialists from outside. This in turn, not only fills the knowledge gap, but also raises the CSOs executive members' confidence both in others (LG-Councilors and officials) and in themselves. Recognition and reward for successful induction of Councilors and CSOs executive members is a second step; providing constructive and supportive responses when occasional misunderstandings occur constitutes a vital third step that is too often overlooked.

Under the LGSP- Zimbabwe, the following experiences provide examples on how LGs can demystify their budgets in a practical way, thus enhancing transparency, eliminating suspicions, and building confidence and trust in their commitment to improving service delivery:

- “A number of participating local authorities had initiated a process of drawing Service Charters or social contracts with their stakeholders during the previous phases of the Program. The City of Bulawayo was one of them and they held a workshop to finalize this exercise in May 2006. The workshop was well attended by the local CSOs and it achieved its purpose of agreeing on expected service levels and standards.

- An innovative way of engaging stakeholders emerged during this phase of the LGSP whereby some LAs took stakeholder representatives on tour of some municipal works in order that they observe first hand some of the challenges faced by the council. The City of Masvingo and Chipinge Town Council conducted such workshops and in both cases the stakeholders toured Waterworks due to water supply problems facing both towns. The tours proved to be eye openers for the stakeholders. Constructive input and suggestions arose from these visits.
- The Municipality of Gwanda expanded its areas of consultation to include town planning. It held a workshop to obtain citizen's as well as investors' views on the lay-out plan of a proposed shopping mall in the CBD. Stakeholders who attended the workshop were able to suggest alterations to the plan which were accepted by the LA and the town planning experts." (Source: Report by PACT)

The Local Government's role is to provide correct and timely information. The CSO's represent the interests of the broader civil society- which interests are in ensuring that resources are appropriately allocated to meet their needs.

4. LEGISLATIVE AND INSTITUTIONAL ARRANGEMENTS TO ENSURE DEMYSTIFYING OF FISCAL POLICY, REVENUE GENERATION AND EXPENDITURES

Strengthening Legal Framework

The majority of Governments in Africa consider that transparency and responsible fiscal management are crucial to reducing the opportunities for corruption. They have demonstrated a clear political will to promulgate new legislation that would promote transparency and public responsibility such as the following:

- (i) In countries where a specific law on Fiscal Responsibility and Transparency is not in place, it is suggested that it be established so as to provide a framework for improved management of public finances. This law would establish the rules governing the annual budgetary process and would set the minimum level of service delivery and resultant expenditures; annual expenditures, and public indebtedness. It would also establish the basic budgetary framework for regional and local governments.
- (ii) Implement regulations that call for the creation of Internet Sites of all Local Governments; these sites would give citizens access to a variety of public information, including: general descriptive data on the LG (organization structure, services, legal frame, administrative regulations, etc.); budget information (budgets executed, investment projects, salaries, high ranking officials, and personnel benefits); procurement of goods and services (providers, quantity, and quality); and official activities performed or to be performed by high ranking officials (foreign trips, events, etc.).
- (iii) Each LG must update these websites every month. Financial information is entered periodically.
- (iv) The law could also require that the Minister responsible for Local Government publish on a monthly basis a Bulletin on Fiscal Transparency, which includes information on Local Governments operations.
- (v) The law governing procurement/ contracting of goods, services, leases needs constant attention. Contracting should be an open process, and should include the obligation of LG to publish and communicate their annual contracting plans. There is need to make some critical improvements in LG contracting regime, such as

simplifying and reducing the diversity of regulations covering the procurement of goods, services, labor and leasing; harmonizing administrative and contracting regulations; expanding the range of cooperation between LGs and suppliers; and creating a network of oversight institutions at the regional and national levels to police the system.

Institutional Capacity Development

Developing regional and local government resource management capabilities, with a special would require that technical support and training be provided for. The Local Government Support Program (LGSP) contributed to USAID/Zimbabwe's Participation Strategic Objective: "Manage Crises and Promote Stability, Recovery and Democratic Reform. Under this strategic objective the intermediate result to be achieved by the LGSP was: Inclusive Governance; Support Local Government and Decentralization". (Extracted from Report-PACT) The LGSP 2006 program focused on strengthening democracy in ten Local Authorities, namely, the cities of Bulawayo, Gweru, Kwekwe Masvingo and Mutare, the Municipalities of Gwanda, Kariba and Victoria Falls, Chipinge Town and Mutoko Rural District Council through promoting stakeholder participation in the decision making processes of the Local Governments.

The LGSP objectives were to assist local authorities (LA) in Zimbabwe to implement mechanisms for improving democracy through good local governance. This was achieved through the following integrated package of activities:

- Supporting LA/CSO participatory strategic planning and budgeting including periodic budget reviews.
- Supporting LA, local CSOs and private sector stakeholder dialogue on various municipal issues to deepen transparency and accountability.
- Supporting improved LA utilization of the PROMUN Accounting system for improved financial management and disclosure to citizens.
- Providing technical assistance and training to grassroots CSOs to build their institutional capacity and advocacy skills.
- Supporting LA-CSO efforts on publication of periodic newsletters on municipal issues to improve information flow and communication.

Learning from the successes of the LGSP, it is therefore, important that there be institutional support that will:

- a. Strengthen Local Government capacity to comply with the principles and mechanisms of public awareness, transparency and accountability provided under the proposed legislation on Transparency and Access to Public Information.
- b. Facilitate coverage through publicly broadcasting the system of laws that guarantee the public's right to be informed and to demand accountability, so that Local Governments can report regularly on the way they are using their financial resources and authorizations for natural resource concessions and leases as well as their evaluations of these funds.

5. DESIGNING MUNICIPAL FINANCE INFORMATION SYSTEMS TO ENSURE RELIABLE REVENUE AND EXPENDITURE INFORMATION AND PUBLIC ACCESS

The budget should provide solid information on what taxpayers will pay and what services they will in turn obtain for their money. The budget reports should:

- (a) Utilize the principle of exceptions where possible;

- (b) Be simple to understand and contain only essential information;
- (c) Be presented promptly;
- (d) Be accurate- but not extremely accurate at the expense of promptness;
- (e) Adopt a standardized layout;
- (f) Fit in with the organization structure;
- (g) Be drafted in terms suitable for the needs of the user, the CSOs and their level of understanding.

5.1 Principal Budget Reports

There are several reports that are critical in ensuring a transparent budgetary process. These are considered to be the principal reports. Principal reports include budget reports, monthly reports, mid-year reports and year-end reports. These are discussed below:

Budget Reports

In RSA, the municipal budget should be drawn up and implemented in accordance with the Municipal Finance Management Act (MFMA). The MFMA was introduced to transform financial planning and management, and maximize capacity within Local Government to achieve better performance in service delivery. It has stringent reporting requirements, which aim to foster accountability and transparency. Requirements include in-year and year-end reports accompanied by supporting documentation. Non-compliance is viewed very seriously and a range of penalties is outlined in the Act.

As a key policy document of the LG, the budget report should be comprehensive, encompassing all the Municipality's revenue and expenditures to enable ease of budget analysis and policy option assessment by CSOs. Included in this document should be a detailed commentary on each revenue and expenditure program. Non-financial performance data, including performance targets, should be presented for expenditure programs where practicable. The budget should include a medium-term perspective illustrating how revenues and expenditures will develop during, at least, the two years beyond the next fiscal year. Similarly, the current budget proposal should be reconciled with forecasts contained in earlier fiscal reports for the same period; all significant deviations should be explained. Comparative information on actual revenue and expenditure during the past year and an updated forecast for the current year should be provided for each program. Similar comparative information should be shown for any non-financial performance data.

Expenditures should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately. The budget should contain a comprehensive discussion of the LG's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities.

Monthly Reports

Monthly reports show progress in implementing the budget. They should contain the amount of revenue and expenditure in each month and year-to-date. A comparison should be made with the forecast amounts of monthly revenue and expenditure for the same period. A brief commentary should accompany the numerical data. If a significant divergence between actual and forecast amounts occurs, an explanation should be made.

Mid-Year Reports

Many LGs undertake as a matter of course a mid-year revision of their operating budget, and the merits of this exercise in inflationary environments cannot be sufficiently stressed. The

mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the current fiscal year and at least, the following two fiscal years. The economic assumptions underlying the budget should be reviewed and the impact of any changes on the budget disclosed. This makes it easier for the Municipality if it has to apply for a supplementary budget.

Year-End Report

The year-end report is the LG's key accountability report. It should be audited by external auditors. In some countries, the Auditor General, a state employee, is responsible for the audit of all LG accounts whereas in others, private firms of auditors (of their own choice) are retained for that purpose by the LGs.

The Year-end report or related documents should include non-financial performance information, a comparison of performance targets and actual results achieved where practicable. Comparative information on the level of revenue and expenditure during the preceding year should be shown for any non-financial performance data. Expenditure should be shown in gross terms. The year end report should contain a comprehensive discussion of the Local Government's financial assets and financial liabilities, non-financial liabilities, employee pension obligations and contingent liabilities.

5.2 Specific Disclosures

Economic Assumptions

- Deviations from the forecast of the key economic assumptions underlying the budget are the LG's key fiscal risk.
- All key economic assumptions should be disclosed explicitly. This includes inflation and interest rates.
- A sensitivity analysis should be made of what impact changes in the key economic assumptions would have on the budget.

Financial Liabilities and Financial Assets

- All financial liabilities and financial assets should be disclosed in the budget, the mid-year report, and the year-end report. Monthly borrowing activity should be disclosed in the monthly reports, or related documents.
- Borrowings should be classified by the currency denomination of the debt, the maturity profile of the debt, whether the debt carries a fixed or variable rate of interest, and whether it is callable.
- Debt management instruments, such as forward contracts and swaps should be disclosed.
- In the budget, a sensitivity analysis should be made showing what impact changes in interest rates and foreign exchange rates would have on financing costs.

Non-Financial assets

- Non-financial assets, including real property and equipment should be disclosed.
- A register of assets should be maintained and summary information

5.3 Integrity, Control and Accountability

Accounting Policies

- A summary of relevant accounting policies should accompany all reports. These should describe the basis of accounting policies applied in preparing the reports and disclose any deviations from generally accepted accounting practices.

- If a change in accounting policies is required, then the nature of the change and the reasons for the change should be fully disclosed.

Systems and Responsibility

- A dynamic system of internal controls, including internal audit, should be put in place to assure the integrity of information provided in the reports.

Audit

- The traditional external audit is largely a verification process involving the independent appraisal of the organization's financial accounts and statements. The year end reports should be audited by an independent external body, which could be the country's Auditor General or private audit firms.

Public Scrutiny

- Civic Society should have the opportunity and the resources to effectively examine all these reports that it deems necessary.
- All reports referred to here should be made publicly available and in sufficient numbers. This includes the availability of all reports free of charge on the internet.
- The LG should actively promote an understanding of the budget process by individual citizens and NGOs and Civil Society Organizations.

(Source: extracted from OECD Best Practices for Budget Transparency 2001)

6. Organizing Public Campaigns And Civil Society Actions To Promote Budget Transparency And Demystification

The importance of enhancing communication and information sharing between the Local Government and Civil Society can not be over emphasized. Channels of communication can be enhanced through feedback meetings. Councilors take information from communities to the council. Information is also shared through outreach programs, newsletters, suggestion boxes, periodic budget reviews and therefore engagement ceases to be an event but a continuous process.

Publicity is a general term which embraces press, radio, and television advertising, posters, exhibitions, window displays, postal circularization, and door-to-door distribution of simplified LG budgets.

The total expenditure on publicity is often fixed by the Council as a matter of policy. This will depend on how much the LG is prepared and able to spend during the budget period. In the early days of promoting budget transparency and demystification, the cost of publicizing this in relation to the Municipality's revenue might be significant. Later, when transparency is firmly established, the extent of publicity and advertising will be relatively lower as will be the costs relative to revenue.

The joint LA-CSO meetings under LGSP in Zimbabwe identified a number of ways to improve information flow and communication. Some of the ideas raised were :-

- Civic awareness workshops.
- Joint budget analysis workshops.
- Exchange visits with other LAs/CSOs.
- Regular community planning workshops.
- Joint residents and LA meetings.
- Newsletters/circulars.
- Posters at Public places

- The print and electronic media.

7. Conclusion

Democracy requires that the citizens be informed. But the jargon and specialized formats of budget reports prepared of Local Governments in Africa make it difficult for citizens to understand them, let alone participate in the decision-making processes. A budget that is inaccurate, not user-friendly and shrouded in mystery, will not make it possible for the citizens to scrutinize it and make meaningful contributions. Budget transparency and demystification are pre-requisites to participation and social accountability. Expenditure management should promote adherence to the budget and allow for public scrutiny. Lessons learnt from experiences of a selected number of African countries underscore the importance of making information available as a means of forcing behavior change as was the case in Uganda. Legislation and institutional frameworks are important in ensuring that transparency is entrenched in the budgetary process as a pre-requisite for participation.

The majority of countries in Africa seem to have a genuine belief in the goals of transparency, and some of them have taken meaningful actions to help their citizens better understand their Local Government budgets. Best Practice in Budget Transparency requires reports that have all the necessary details, such as economic assumptions made and specific disclosures of a financial and non-financial nature. If possible, the Local Government Budget could be posted on the internet to enable individuals to follow through on what resources are available and what services are provided by the Municipality.

We are optimistic that change is coming and has come to Africa.

This paper relied pre-dominantly on the information provided on the excellent websites of the Colorado Fiscal Policy Institute, Oxfam/TENMET publication, Education budget transparency, United Conservatives of Virginia: Budget Transparency and OECD Best Practices for Budget Transparency, The Urban Institute, and a report by PACT/Zimbabwe.

