

The copyright of this thesis vests in the author. No quotation from it or information derived from it is to be published without full acknowledgement of the source. The thesis is to be used for private study or non-commercial research purposes only.

Published by the University of Cape Town (UCT) in terms of the non-exclusive license granted to UCT by the author.

STRENGTHENING PERFORMANCE-BASED  
BUDGETING IN RESOURCE ALLOCATION FOR HIV  
AND AIDS:  
AN OVERVIEW

DISSERTATION SUBMITTED

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR  
THE MASTER OF PHILOSOPHY (MPHIL) IN PUBLIC  
POLICY

BY:

MOSES NHI ANHILA NDLOVU  
NDLMOS004

IN THE DEPARTMENT OF POLITICAL STUDIES

UNIVERSITY OF CAPE TOWN

JANUARY 2007



**Strengthening Performance-Based Budgeting In Resource  
Allocation For HIV And AIDS: An Overview**

Dissertation Submitted

In Partial Fulfillment of the Requirements for the Master of  
Philosophy (MPHIL) in Public Policy

By:

**Moses Nhlanhla Ndlovu**

NDLMOS004

In the Department of Political Studies

University of Cape Town

May 2007

# TABLE OF CONTENTS

<b>ABSTRACT</b>	<b>1</b>
<b>ACRONYMS</b>	<b>2</b>
<b>PART 1: PROJECT BACKGROUND</b>	<b>3</b>
<b>CHAPTER 1: OVERVIEW</b>	<b>3</b>
1.1 Introduction	
1.2 The problematic/ research question	
1.3 Study objectives	
1.4 Hypotheses	
1.5 Methodology: Literature review; Structured key informant interviews; Research limitations	
1.6 Structure of report chapters	
<b>PART 2: LITERATURE REVIEW</b>	<b>13</b>
<b>CHAPTER 2: BACKGROUND TO CONDITIONAL GRANTS AND EQUITABLE SHARE CHANNELS OF HIV AND AIDS FUNDING</b>	<b>13</b>
2.1 Introduction	
2.2 Understanding the current HIV and AIDS funding channels: HIV and AIDS allocations in the National Department of Health; The conditional grant system; The equitable share grant system	
2.3 Allocative and operational efficiency of CG and ES systems	
2.4 Concluding summary	
<b>CHAPTER 3: ILLUSTRATION ON THE COMPREHENSIVE PLAN FOR AIDS</b>	<b>28</b>
3.1 Introduction	
3.2 Objectives of the CPHA	
3.3 Specific activities of the CPHA	
3.4 The budget outlook and performance-based budgeting for the CPHA implementation	
3.5 Policy development and the health sector response to HIV and AIDS	
3.6 Concluding summary	
<b>CHAPTER 4: PERFORMANCE-BASED BUDGETING SYSTEM: AN IMPROVED FRAMEWORK</b>	<b>34</b>
4.1 Introductory background	
4.2 Concluding summary	
<b>PART 3: RESEARCH FINDINGS AND DISCUSSION</b>	<b>39</b>
<b>CHAPTER 5: PBS IN THE SOUTH AFRICAN BUDGET PROCESS</b>	<b>39</b>
5.1 Introduction	
5.2 Muradzikwa's approach to PBS	
5.3 Evidence of performance-based budgeting in South Africa	
5.4 Linking performance reporting with public finance regulations	
5.5 Lessons from the National Treasury's Medium Term Expenditure Framework	
5.6 Using performance to estimate expenditure	
5.7 Appropriateness of CGs and ES funding channels	
5.8 Western Cape findings	
5.9 Free State findings	
5.10 Mpumalanga findings	
5.11 KwaZulu-Natal findings	
5.12 Northern Cape findings	
5.13 Critical observations	
5.14 Concluding summary	
<b>PART 4: CONCLUSION</b>	<b>68</b>
<b>CHAPTER 6: RECOMMENDATIONS AND CONCLUDING DISCUSSION</b>	<b>68</b>
<b>BIBLIOGRAPHY</b>	<b>72</b>

## **ABSTRACT**

This minor dissertation provides an overview of the relationships between policymaking, budgeting and programme implementation in the field of HIV and AIDS policy in South Africa. In particular, the study examines to what extent gaps between strategic planning and budgeting have been identified and addressed.

Any Performance Based Budgeting System (PBS) is an effort to link budgeting with policy and implementation roadmaps to ensure that intended outputs and outcomes are produced. For this reason, a key question for this research has been to what extent governmental budgeting for HIV and AIDS in South Africa has been integrating the principles of Performance Based Budgeting. The research also sought to explain potential benefits and drawbacks of performance based budgeting in the public sector.

Key findings of the research are that the South African budget system does indeed integrate components of performance based budgeting which is simply about defining clear objectives and identifying their resource needs, funding them sufficiently and ensuring that they yield cost-effective and appropriate programmes. South Africa uses Annual Performance Plans and strategic plans to ensure that budget implementation is monitored to increase the efficacy and efficiency of spending. In addition, budgeting structures ensure that strong public finance principles are adopted to control expenditure and achieve desired budget goals.

Even though the budgeting process for HIV and AIDS is not wholly isolated, or fully independent, elements of reporting through indicators and annual reports of the health departments actually tell us how HIV and AIDS programmes are delivered in line with performance measures and output and outcome-based expectations. Notably, provinces are integrating PBS principles in their planning, resource allocation and implementation but they do not necessarily identify or explicitly label their practice as PBS.

## ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
APP	Annual Performance Plan
AR	Annual Report
ARV/ART	Anti-retroviral treatment/ therapy
BR	Budget Review
CFO	Chief Financial Officer
CG	Conditional Grants
CPHA	Comprehensive Plan for HIV and AIDS for South Africa
DOD	Department of Defense
DORA	Division of Revenue Act
ENE	Estimate of National Expenditure
ES	Equitable Share
GPRA	Government Performance and Results Act
HAART	Highly Active Antiretroviral Therapy
HIV	Human Immunodeficiency Virus
IDASA	Institute for Democracy in South Africa
IYM	In-Year Monthly Report
MBO	Management by objective
MinComBud	Ministers' Committee on the Budget
MTEC	Medium Term Expenditure Committee
MTEF	Medium Term Expenditure Framework
NDOH	National Department of Health
NGO	Non-governmental Organisation
NT	National Treasury
PBS	Performance Based Budgeting
PFMA	Public Finance Management Act
PHC	Primary Health Care
PPBS	Planning-programming Budgeting System
PPP	Public Private Partnership
QPR	Quarterly Performance Plan
SPP	Strategic and Performance Plan
STI	Sexually Transmitted Infection
TB	Tuberculosis
TBS	Traditional Budgeting System
TCF	Technical Committee on Finance
UNGASS	United Nations General Assembly
VCT	Voluntary Counselling and Testing

## **PART 1: PROJECT BACKGROUND**

### **CHAPTER 1: OVERVIEW**

*Monitoring and measuring performance enhances better budgeting and service delivery as “what gets measured gets done”. Performance information is not an end in itself - it is intended to ensure transparency and accountability for the use of public funds, help Government to make the correct budget decisions and contribute to service delivery improvement. National Treasury, 2004.<sup>1</sup>*

#### **1.1 Introduction**

There have been large increases in the funds going to HIV and AIDS activities in South Africa since 2000, showing improving commitment to fighting the epidemic, notably in the recent policy decision to provide ARV treatment with the concomitant resource allocations made by National Treasury. However there are concerns that increasing HIV prevalence rates may indicate that spending is not as efficient and effective as expected. That is, spending should produce tangible outputs and identifiable outcomes. Budget implementation should aim at reducing HIV and AIDS impact and infection rates thereby improving prevention, treatment and social support services. Contemporary budgeting theorists (McGill, 2001; Mercer, Undated; Matsinhe, 2005) argue that spending must be linked to specific and measurable objectives, inputs which are worth the outputs or end products, clear outcomes or impact, and value for money. In other words, spending must be linked to clear purpose and milestones to avoid resource wastage and ineffectiveness in goal attainment.

South Africa’s worsening HIV and AIDS situation raises questions about whether or not financial spending has an impact on the development of HIV and AIDS among South Africans. It is important that the outcomes of such spending are characterized by decreasing prevalence and incidence rates. Nevertheless, budgeting is not an answer on its own as it should be part of a comprehensive and well informed policymaking process.

---

<sup>1</sup> National Treasury. 2004. The Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2005 MTEF. Government of South Africa.

Equivocally, implementation theorists such as Lindblom (1979) say “policies are likely to fail, regardless of their rationality or resource availability.” Lindblom’s theory of “muddling through” tells us that the environment in which policymaking and implementation take place is very complex, increasing difficulties in implementation.<sup>2</sup> Thus budgeting is just one of many aspects that we need to look at in terms of HIV and AIDS interventions in South Africa.

**Table 1: Worsening HIV infection rates in South Africa**

PROVINCE	HIV pos. 95% CI 2003	HIV pos. 95% CI 2004	HIV pos. 95% CI 2005
KwaZulu-Natal	37.5 (35.2 – 39.8)	40.7 (38.8 – 42.7)	39.1 (36.8 – 41.4)
Mpumalanga	32.6 (28.5 – 36.5)	30.8 (27.4 – 34.2)	34.8 (31.0 – 38.5)
Gauteng	29.8 (27.3 – 31.5)	33.1 (31.0 – 35.3)	32.4 (30.6 – 34.3)
North West	29.9 (26.8 – 33.1)	26.7 (23.9 – 29.5)	31.0 (28.4 – 33.2)
Free State	30.1 (26.9 – 33.3)	29.5 (26.1 – 32.9)	30.3 (26.9 – 33.6)
Eastern Cape	27.1 (24.6 – 29.7)	28.0 (25.0 – 31.0)	29.5 (26.4 – 32.5)
Limpopo	17.5 (14.9 – 20.0)	19.3 (16.9 – 21.9)	21.5 (18.5 – 24.6)
Northern Cape	19.7 (11.9 – 21.5)	17.8 (13.0 – 22.2)	18.5 (14.6 – 22.4)
Western Cape	13.1 (8.5 – 17.7)	15.4 (12.5 – 18.2)	15.7 (11.3 – 20.1)
National	27.0 (20.8 – 28.9)	29.5 (26.5 – 30.5)	30.2 (29.1 – 31.2)

N.B. The true value is estimated to fall within the two confidence limits, thus the confidence interval is important to refer to when interpreting data.

Source: Department of Health, 2006. Report National HIV and Syphilis Antenatal Sero-Prevalence Survey in South Africa – 2005.

The thrust of this research is on the role of budgeting in limiting the spread and impact of HIV and AIDS in South Africa. Various budgeting methods have proven to yield different outcomes in different settings. Thus this study proposes to review existing materials on HIV and AIDS budgeting systems in South Africa. It also seeks to critically review the two main funding channels for HIV and AIDS: namely conditional grants (CGs) and equitable share (ES) “discretionary” spending. Strengths and weaknesses of each will be analysed to weigh the advantages and disadvantages of each. Critique of both CGs and ES funding will indicate that the South African government can take specific steps to move further towards effective and efficient resource allocation. This would help ensure that government spending yields results in line with the goals and objectives of HIV and AIDS interventions.

<sup>2</sup> Lindblom, C.E. 1979. Still Muddling, Not Yet Through. *Public Administration Review* 39(Nov/Dec): 517-526.

Traditional budgeting is concerned with control over money and whether or not it is spent. In contrast Performance Based Budgeting is more concerned about the end products of spending. It weighs the end products against the objectives and inputs made available for and at the beginning of a project or programme. Performance Based Budgeting is thus outcome oriented and measures efficiency by comparing inputs and outputs against stated objectives. Traditional budgeting is control oriented and is almost exclusively concerned with whether the money spent. Its efficiency is measured by how much of the allocation was spent (Muradzikwa, 2005).<sup>3</sup>

The outcomes of the review and critique of budgeting systems for HIV and AIDS in South Africa will include a clear view of the system's strengths and weaknesses and relevant tentative recommendations on how the Performance Based Budgeting system (PBS) or framework could be better applied and integrated into monitoring and evaluations systems. Fortunately the South African government has integrated PBS reporting through quarterly reports, which commendably include qualitative non-financial information on performance.

This research is complicated by the fact that performance-based budgeting is not a simple process. It is a multi-dimensional framework used to determine policy objectives, design programmes and/or plans, identify and provide inputs or resources, list costed outputs expected, and link all these with an ongoing monitoring and evaluation process. Findings indicated that singling out HIV and AIDS budgeting from the generic budget process would run a risk of isolating just one programme of action from a highly unified, comprehensive package of health service delivery. This means that budgeting for HIV and AIDS activities needs to be placed within the health sector budgeting framework. Notably the health sector itself also does not exist in isolation from other sectors. It is part of the social cluster of government together with the departments of social development and education which also provide budgets and programmes for responding to the epidemic.

---

<sup>3</sup> Muradzikwa, S. (2005). "Performance Budgeting". Work Document for the Public Finance Management Class (POL520Z). University of Cape Town: Cape Town.

## 1.2 The Problematic/ research question

### Research questions:

- What is Performance Based Budgeting System (PBS) and what are its advantages and disadvantages?
- How does PBS apply to South African government budgeting in general and budgeting for HIV and AIDS interventions in particular?

In the context of the research questions, it is important to outline HIV and AIDS spending channels to understand how PBS could strengthen budgeting for HIV and AIDS in South Africa. There are three main types of HIV and AIDS-specific allocations in the health sector. These are:

- The budget of the HIV and AIDS Directorate in the national Department of Health (coming from the national equitable share);
- Conditional Grants (CGs) for HIV and AIDS interventions coming from the national government to provinces; and
- HIV and AIDS-specific funds in provincial budgets, also known as the equitable share (ES) allocations.

The latter two categories are two funding channels for health related HIV and AIDS interventions delivered at provincial level. These spending categories are designed to proactively link objectives and budget inputs with costed outputs, outcomes and indicators at provincial level. Unfortunately, however, it is not clear to what extent provinces actually link their budget inputs with the designated objectives, outputs and outcomes.

Performance Based Budgeting defines clear goals and objectives, identifies and costs inputs and outputs, outlines outcomes and indicators, and assigns strict lines of accountability for any spending. In addition, PBS ensures that outputs and performance are measured and evaluated before a new budget is produced. The current HIV and AIDS budgets seem to be in line with the PBS principles because they follow these principles. However their practical application has not been well researched. That is, no research has

shown if spending is producing visible impact in containing HIV infections and in increasing or decreasing AIDS related deaths (Department of Health, 2005).<sup>4</sup>

To better understand the problematic, however, a clear distinction needs to be made between conditional grants and equitable share funding for HIV and AIDS. A concise application of the principles of PBS on each of the two funding mechanisms for HIV and AIDS will be offered to indicate how budgeting in this sector offers a potential of becoming truly performance-based.

### **1.3 Study objectives**

#### **Main objective**

The study seeks to provide an overview of PBS in order to lay a foundation for an informed debate about the potential role of PBS in budgeting for HIV and AIDS in South Africa.

The **specific objectives** of this study are as follows:

- To review and explain the concept and framework of performance based budgeting;
- To explore the appropriateness of the conditional grant and equitable share funding channels for HIV and AIDS;
- To highlight the strengths and weaknesses of these two funding mechanisms for HIV and AIDS policy implementation;
- To explore the potential benefits and drawbacks of Performance Based Budgeting in the public sector.

### **1.4 Hypotheses**

PBS seems to be a comparable alternative to traditional budgeting systems (TBS). Traditional budgeting is concerned with the control of financial resources already allocated, rather than clear cost-effective and cost-efficient outputs and outcomes, regulated through rigorous financial regulations. Performance Based Budgeting provides

---

<sup>4</sup> Department of Health. 2005. National HIV and Syphilis Antenatal Sero-Prevalence Survey in South Africa. Pretoria. Available from [www.doh.gov.za](http://www.doh.gov.za) (last accessed on 10 December 2006).

a comprehensive resource allocation and planning tool that ensures that inputs are linked to outputs (Matsinhe, 2005).<sup>5</sup>

A true Performance Budget is not simply an Object Class budget with some program goals attached. It tells you much more than just that for a given level of funding a certain level of result is expected. A real Performance Budget gives a meaningful indication of how the [money] is expected to turn into results. John Mercer, undated.<sup>6</sup>

## 1.5 Methodology

This research made use of available resources on budgeting frameworks that are applicable to resource allocation for HIV and AIDS. More specifically, triangulation was utilized as a means of collecting and analyzing primary data. Triangulation is defined as “a combination of methodologies in the study of the same phenomenon or construct; a method of establishing the accuracy of information by comparing three or more types of independent points of view on data sources (for example, interviews, observation, and documentation; different times) bearing on the same findings” (Centre for Programme Evaluation, undated).<sup>7</sup> In this case, the sources of information triangulated included a detailed literature review and structured key informant interviews. Purposive sampling was used through approaching relevant and specific individuals to participate in the research.

### *Literature review*

A broad body of literature already exists on budgeting for HIV and AIDS in South Africa. Since 2001, the Institute for Democracy in South Africa (Idasa) has performed detailed analyses of the HIV and AIDS expenditures in the public sector. Various conclusions and recommendations have been drawn on funding channels and resource utilization for HIV and AIDS in the country. A variety of audiences have been reached through various forums and dissemination activities. Idasa’s work on the HIV and AIDS budgets provides an excellent platform on which this study builds. Their work has specifically looked at the two funding mechanisms for HIV and AIDS interventions in

---

<sup>5</sup> Matsinhe 2005. ‘*Budgeting in South Africa*’. Lecture to the Public Finance Management Class. 30 September 2005. (University of Cape Town: Cape Town)

<sup>6</sup> Mercer, J. (Undated). “John Mercer on GPRA & Performance-Based Budgeting”. Available from [www.john-mercet.com](http://www.john-mercet.com) (last accessed 2 March 2006).

<sup>7</sup> Centre for Program Evaluation (Undated). Glossary of terms. Available from [http://www.ojp.usdoj.gov/BJA/evaluation/glossary/glossary\\_t.htm](http://www.ojp.usdoj.gov/BJA/evaluation/glossary/glossary_t.htm). (last accessed on 8 December 2005).

the public health sector. However, there remain challenges in terms of linking spending with appropriate outputs and outcomes or impact. This research report will critically review existing materials to inform a discussion on strengthening performance based budgeting for HIV and AIDS.

#### *Structured key informant interviews*

Various interview records exist on the advantages and disadvantages of conditional grant and equitable share expenditures on HIV and AIDS. Additional primary data was collected on the role of and benefits of the funding channels for HIV and AIDS services in the health sector. These interviews also helped highlight the achievements and challenges in the implementation of HIV and AIDS plans. In addition, the interviews attempted to collect new data on the understanding of performance-based budgeting by government officials. Notably, it became apparent that performance-based budgeting for HIV and AIDS is not independent of the broader health service budgeting, which takes HIV and AIDS as one of the programmes or plans to be funded and delivered.

The following is a list of government officials who served as sources of primary data for this research. Other relevant officials, especially the national officials, did not participate in this research because of the scope of research limited to the provincial level. Notably, some of these officials' interview or meeting records were recorded in 2005 prior to the design of this research but had relevant information to be applied in this report.

#### *Primary informants:*

1. Alison Hickey, Senior Manager: Budget Office – Western Cape Provincial Treasury.
2. Mark Blecher, Director: Social Services Cluster, National Treasury.
3. Zale Madonsela, Senior Manager: HIV and AIDS, STI and TB Directorate, Mpumalanga Department of Health.
4. Dumi Nkosi, Manager: ARV Treatment Programme, STI and TB Directorate, Mpumalanga Department of Health.
5. Mrs Carol Makobe, Manager: ARV Treatment Programme, Free State Department of Health.
6. Yolisa Tsibulane, Manager: TB Control Programme, Free State Department of Health.
7. Lumka Mahwetshane, PMTCT Coordinator, Free State Department of Health.
8. Mvula Shabalala, Manager: Comprehensive Care Management and Treatment, Free State Department of Health.
9. Adri De Bruin, Financial Support Cluster Manager, Free State Department of Health.
10. Ms Smuts, Acting Director: HIV and AIDS, STI and TB Unit, Western Cape Department of Health.

11. Dr. Neviline Slingers, ARV Programme Coordinator: HIV and AIDS, STI and TB Unit, Western Cape Department of Health.
12. Cynthia Modise, Programme Manager: HIV and AIDS, STI and TB Unit, Northern Cape Department of Health.
13. Thabo Molebatsi, Head: Informatics (Health Research Coordination), Northern Cape Department of Health.
14. Collett Booysen, Research Coordinator: Surveillance – Communicable Diseases Control Programme, Northern Cape Department of Health.
15. Mr Masego, Conditional Grant Financial Management: Northern Cape Department of Health.
16. Reverend D. Thango, Acting Manager: Faith Based Organisations, Provincial AIDS Action Unit (PAAU), KwaZulu-Natal Department of Health.

### *Research limitations*

The first limitation experienced in this research is that it relied upon a necessarily limited number of informants. Only specific people could provide the specific information that the research sought to gain. The primary focus of the research was on provinces that led to over-utilisation of information from provincial sources. National officials were not part of the primary sources and were thus excluded in the primary interviews. However information from national sources serves as the basis for secondary analysis of the results. Another limitation is that the number of interviews with government officials was limited by their busy schedules and time unavailability.

Thirdly, this report relied heavily on little available literature on traditional budgeting systems to critique them from an HIV and AIDS perspective. This resulted in a small number of resources being over-cited in the discussion of findings. However, the literature was relevant to begin an informed debate on the application of performance-based budgeting frameworks in the South African budget process. Nevertheless the study cannot provide conclusive recommendations or definite conclusions on the application of performance-based frameworks in HIV and AIDS as budgeting for HIV and AIDS is part of a comprehensive health care budget process and the larger South African budget process.

The research report will also present background information on South Africa's budgeting channels and processes, and how the current budgeting practice integrates the principles of Performance Based Budgeting.

## **1.6. Structure of report chapters**

Part 1 presents contextual background bringing rise to the project as well as project goals and objectives. It also introduces the key budget terms used in this report, i.e. PBS and TBS. To contextualize budgeting for HIV and AIDS in South Africa the chapter also introduces two funding channels for HIV and AIDS interventions, namely conditional grants (CGs) and equitable share (ES) allocations.

Part 2 provides a review of relevant literature. Chapter 2 will present a detailed background overview of funding channels utilized to disburse finances allocated to HIV and AIDS activities in South Africa. Basically this will analyse conditional grant and equitable share granting channels. These are important channels as they transfer the products of a comprehensive budget process down to implementing agencies. This chapter will also examine how efficient conditional grant and equitable share channels are in delivering and utilizing available HIV and AIDS funds.

Chapter 3 will provide a concise breakdown of the Comprehensive Plan for HIV and AIDS for South Africa. The basic backbone of this chapter is the presentation of goals, objectives and main activities of the comprehensive plan. This chapter will demonstrate how the comprehensive plan has been designed in line with comprehensive budgeting principles of PBS. It will also show that planning and budgeting should go hand in hand to attain identified goals and objectives.

Chapter 4 critically presents PBS as an improved framework or approach to budgeting. It outlines key factors characterizing PBS. It also presents both advantages and disadvantages of PBS as applied in general budgeting as well as in budgeting for the Comprehensive HIV and AIDS Plan for South Africa.

Part 3 provides a thorough presentation of research findings and a detailed discussion of results. Chapter 5 delineates PBS in the general budget process. It provides evidence of how South African budgeting processes draw upon the principles of PBS to produce appropriate and usable budgets. This chapter also attempts to explain budgeting for HIV and AIDS as a simple outcome based or performance based exercise. It also provides examples of how HIV and AIDS programme budgets are already aligned with PBS. It

draws heavily on empirical details from various provinces. It indicates that South African provinces are motivated and expected to spend available resources according to the financial guidelines of the finance ministry which explicitly enforce PBS principles.

Lastly, Chapter 6 provides a concise concluding statement and recommendations based on key findings and observations from the whole research project. The chapter re-emphasizes better application of PBS in the channeling of HIV and AIDS funds through conditional grants and equitable share allocations.

University of Cape Town

## **PART 2: LITERATURE REVIEW**

### **CHAPTER 2: BACKGROUND TO CONDITIONAL GRANTS AND EQUITABLE SHARE CHANNELS OF HIV AND AIDS FUNDING**

#### **2.1 Introduction**

The HIV and AIDS epidemic continues to be a threat to the lives of millions of people worldwide. Its impact is more visible in Sub-Saharan Africa where most people live in poverty and other non-conducive socio-economic conditions. Due to its effects, HIV and AIDS have been seen as a development issue which will take more than a health sector response to beat. Anecdotally, this is particularly important in South Africa where poor people are not only affected in medical terms, but also in socio-economic terms such as housing, education, employment, and social welfare. Failing to actively respond to HIV and AIDS will be detrimental to the implementation of public or social and economic policies of the country. “Through its broad economic impact, HIV and AIDS thus becomes an issue for macroeconomic analysis, and policies to prevent the spread of the virus have direct implications for key economic indicators such as economic growth and income per capita and for economic development more generally” (Haacker, 2004).<sup>8</sup>

Political leaders have also recognized and declared that rigorous strategies are required to contain the spread of HIV and AIDS (UNGASS, 2006). They also recognized that among other issues “HIV and AIDS constitutes a global emergency and poses one of the most formidable challenges to the development, progress and stability of our respective societies and the world at large, and requires an exceptional and comprehensive global response.”<sup>9</sup>

Such a rigorous strategy should be accompanied by sufficient and well costed human, information and financial resources. This point calls for the government to be proactive in responding to HIV and AIDS and also preventing deteriorating effects. For this purpose,

---

<sup>8</sup> Haacker, M. 2004. Chapter 2: *HIV and AIDS: The Impact on the Social Fabric and the Economy*. In: *The Macroeconomics of AIDS*. Bureau for Economic Research. University of Stellenbosch.

<sup>9</sup> United Nations General Assembly (UNGASS), 2006. Resolution adopted by the General Assembly: 60/262. Political Declaration on HIV and AIDS. 87<sup>th</sup> Plenary Meeting, 2 June. Available from [http://data.unaids.org/pub/Report/2006/20060615\\_HLM\\_PoliticalDeclaration\\_ARES60262\\_en.pdf](http://data.unaids.org/pub/Report/2006/20060615_HLM_PoliticalDeclaration_ARES60262_en.pdf) (last accessed on 3 October 2006).

it is essential to review current mechanisms and recommend appropriate systems used to allocate, distribute, and utilise resources for HIV and AIDS interventions in the health sector.

## **2.2 Understanding the current HIV and AIDS funding channels**

### ***HIV and AIDS allocations to the National Department of Health***

The first budget channel for HIV and AIDS is a direct and explicit resource allocation to the national department. These funds are spent on specific national programmes, such as distribution of condoms, funding for NGOs and government institutions, and management and oversight. Arguably if the direct national allocation channel is strategically linked to PBS, there would be a more cost-effective, and outcome-based budgeting which would have a spillover effect on provinces. For instance, some provinces still require stewardship, technical and strategic support and guidance from the national level for them to learn and improve provincial management and implementation. National best practice and direction would assist in influencing provincial methods of planning, management and implementation.

The national HIV and AIDS interventions are funded through the regular national departmental budget process via the Budget Council.<sup>10</sup> Nationally spent funds are sourced from the equitable share through the regular budget process. HIV and AIDS interventions form one of the Strategic Health Programmes in the national health budget and include the conditional grant component of funding which is sent to provinces. The remainder in the National Department's HIV and AIDS budget is from the health department's general budget and is spent by the national department on nationally managed activities such as procurement and distribution of condoms and funding for HIV and AIDS and TB non-governmental organizations (NGOs).

---

<sup>10</sup> The *Budget Council* is a consultative body of political office-bearers from the national and provincial spheres that make recommendations to the cabinet on the budget. The council has become a cohesive working group and the principal forum for consultation and debate in the months leading up to the official tabling of the budget in parliament.

### ***The conditional grant system***

Besides the budget of the HIV/AIDS and TB Chief Directorate in the National Department of Health (NDOH), conditional grants (CGs) are another category of funds *specifically designated* for HIV and AIDS interventions.

The conditional grants for HIV and AIDS serve as the financial backbone to provincial multi-sectoral responses to the AIDS epidemic in South Africa. *CGs are funds transferred to provincial departments by an administering national department conditional on the delivery of certain services or interventions as defined by national government.* That is, spending of the funds is limited to specific areas identified by the national government for which the provincial departments have to develop appropriate business plans. In the CG spending process, the role of the national departments is to provide technical assistance, co-ordination and programme support to the provincial social service departments; the provinces actually implement the programmes, using the CG funds.

The direct or earmarked health HIV and AIDS expenditures, including conditional grants, account for approximately 85% of total direct expenditure for HIV and AIDS in the country.<sup>11</sup> The rest of the funds are in the social development and education HIV and AIDS programmes (Ndlovu, 2005).<sup>12</sup> Notably the health allocations exclude provincial discretionary allocations sourced from provinces' own budgets. Provinces make their input into the budget allocation process through the Budget Council and other intergovernmental forums. Provincial departments may be invited by their national counterparts to submit budget requests or proposals to be considered in finalising a comprehensive national budget proposal to the national Budget Council. Provincial input into national and provincial policy priorities occurs mainly via the Budget Council, MTEC<sup>13</sup> hearings and the 10x10's.<sup>14</sup>

---

<sup>11</sup> Ndlovu, N. 2005. HIV and AIDS Allocations: A First Look at Budget 2005. Budget Brief No. 152. 25 February. AIDS Budget Unit – Idasa.

<sup>12</sup> Ndlovu, N. (2005). HIV and AIDS Allocations: A first look at Budget 2005/6. Budget Brief 152. 25 February. AIDS Budget Unit – Idasa.

<sup>13</sup> MTEC is a technical committee responsible for evaluating the MTEF budget submissions of national departments and making recommendations to the Minister of Finance regarding MTEF budget allocations to national departments.

Departments are also encouraged to cost-share with other departments of the same cluster. This means that departments have to work in clusters to support one another to implement joint or common objectives and goals. For example, in the HIV and AIDS area, the departments of health, social development and education are part of the social cluster which is primarily responsible for the implementation of government's integrated response to HIV and AIDS. These departments have to work closely with one another to ensure effective programmes. This is even more important to the health and social development departments as both departments implement the community/homed based care programme which requires close monitoring and interdependence. All these activities are characteristics of Performance Based Budgeting which compels departments to highlight and act on shared costs and joint ventures.

Through the MTEC process, the government identifies national and provincial policy priorities and makes funding proposals for new programmes (including costing), thus setting the fiscal policy for the three year period. The MTBPS provides forward estimates for the two outer years which are subsequently used as baseline estimates when finalising the annual budget the following year.

Inevitably the CG funding system has a number of challenges or potholes which could be better addressed by comprehensive and proactive budgeting processes, with PBS seeming to be a better method. The traditional budget process for HIV and AIDS in South Africa has encouraged a top-down budgeting approach where most final budget decisions are made at top-level management. Provinces are asked to produce business plans in line with somewhat predetermined and nationally-approved objectives and budgets. Nevertheless the provinces are given an opportunity to make their input into resource allocation via the MTEC and 10x10 but the ultimate budget decisions are made by the Budget Council.

Conditional grants for HIV and AIDS were introduced in 2000 to kick-start the HIV and AIDS programmes, and to ensure that financial resources were secured or ring-fenced for

---

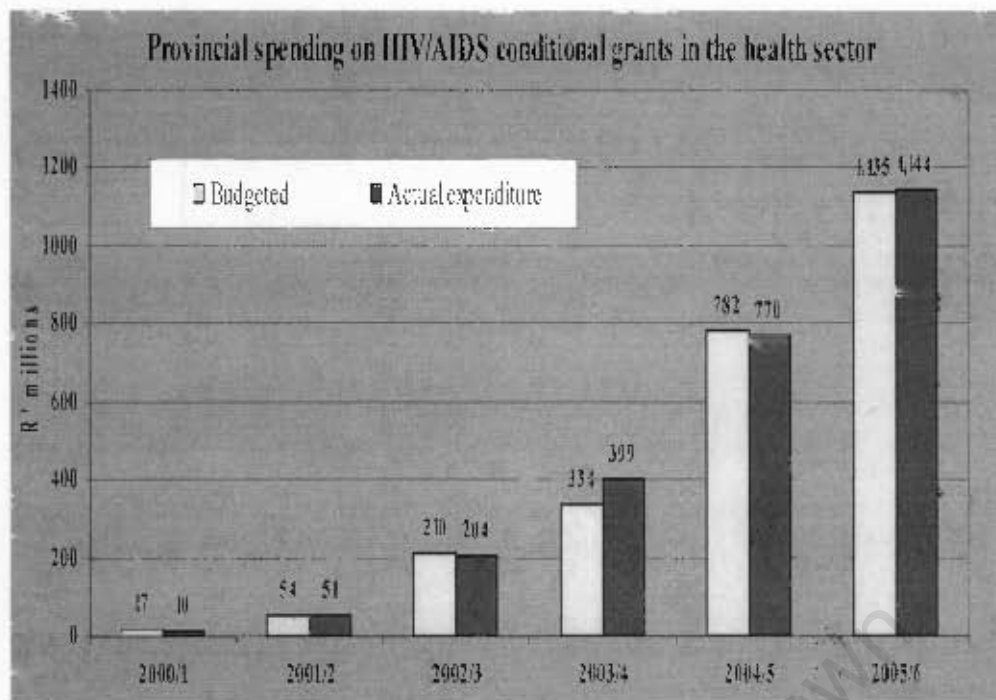
<sup>14</sup> The "10x10s" are intergovernmental sectoral fora that discuss spending pressures and policy priorities. They report to the Technical Committee on Finance (TCF) who in turn reports to Ministers' Committee on the Budget (MinComBud).

AIDS interventions. Hickey, Ndlovu and Guthrie (2003) reported that spending on conditional grants for HIV and AIDS was very poor in the early years of such funding. This, they report, was mainly due to conditions attached to the money and poor capacity of provincial departments to utilise the money. Further, the HIV and AIDS programme was a new initiative that had many start-up issues to sort out. The inadequacy of capacity was directly linked to poor financial management and project management skills of government officials who were responsible for HIV and AIDS spending expected to kickstart the new programme (Hickey et al, 2003).<sup>15</sup>

However, Hickey et al (2003) concluded that as the years went by, and the HIV and AIDS programmes got up-scaled, provincial departments acquired more experience and skills to manage the programmes. This was supported by a sharp increase in HIV and AIDS conditional grant spending, when provinces spent 85% of conditional grant allocations available in 2002/3, rising from a mere 36% in 2000/1. Spending figures have increased even more to 96% of total conditional grants available in 2004/5. Graph 1 below depicts improving spending of health HIV and AIDS conditional grants in line with rapidly increasing absolute amounts from year to year.

---

<sup>15</sup> Hickey, A. Ndlovu, N and Guthrie, T. 2003. Budgeting for HIV/AIDS in South Africa. Report on intergovernmental funding flows for an integrated response in the social sector. Idasa – AIDS Budget Unit. Also available at [www.idasa.org.za/bis](http://www.idasa.org.za/bis)

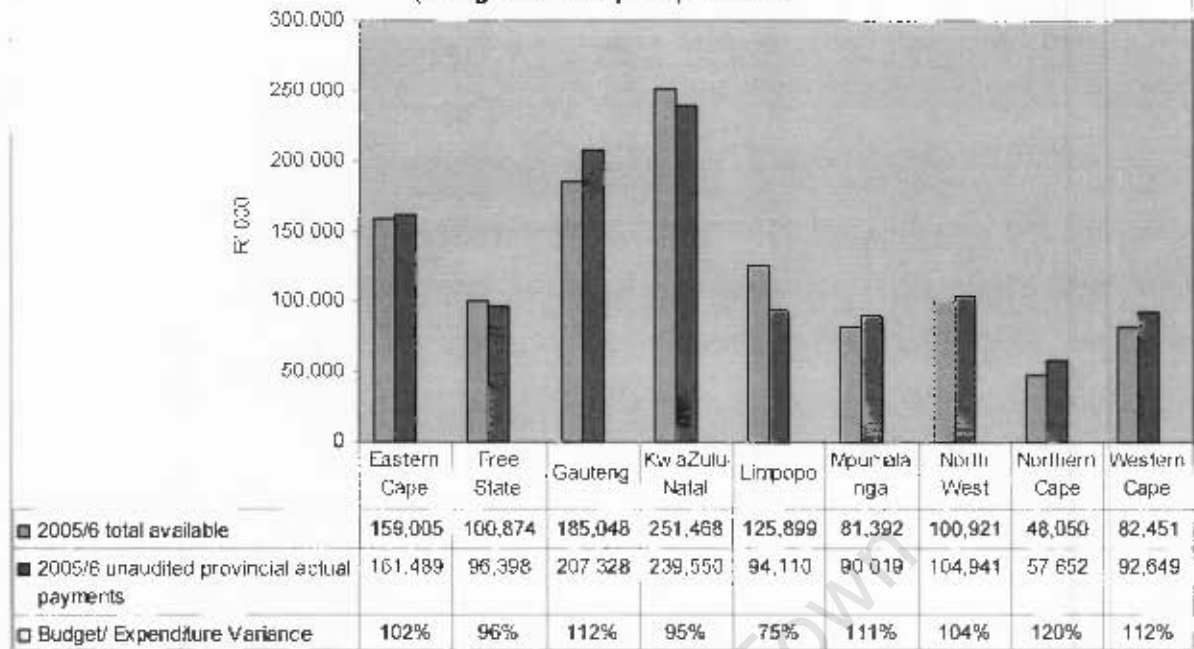


**Graph 1: 2000/1 – 2005/6 health HIV and AIDS conditional grant spending**

Source: Expenditure figures are based on National Treasury's Statements of the National and Provincial Governments' Revenue and Expenditure and National Borrowing as at 31 March 2005.

Hickey et al (2003) reported that in 2002/3 the Department of Health moved towards a looser, more flexible conditional grant for HIV and AIDS. Since then provinces are allowed to allocate the conditional grant funds between a set list of HIV and AIDS activities or interventions. Provinces have remarkably increased spending on their conditional grant allocations.

**UNAUDITED Health HIV and AIDS Conditional Grant Spending  
(budgeted vs spent) - 2005/6**



**Graph 2: 2005/6 health HIV and AIDS CG spending**

Source: Expenditure figures are based on National Treasury's Statements of the National and Provincial Governments' Revenue and Expenditure and National Borrowing as at 31 March 2006. Idasa calculations.

### *The equitable share (ES) grant system*

As South Africa attempts to move towards a more integrated approach, funding mechanisms are required that are broader than sectoral conditional grants, and that enable indirect spending which will support the HIV and AIDS response, particularly outside of the 'traditional social sectors'. Guthrie and Hickey, 2004.

The second approach to allocating financial resources for HIV and AIDS in the health sector is allocation of money from provinces' own equitable share (ES) discretionary budgets. Basically these allocations can be used at provincial departments' discretion as they are sourced from the equitable share (or from each province's own coffers). However, provinces need to support discretionary spending by laying out strategic objectives, outputs, performance measures or indicators. Provincial departments also need to bid for ES funds through their budget proposals to the provincial treasuries.

The equitable share allocations are mainly suitable for addressing the impact of HIV and AIDS for which the government has not proactively budgeted through conditional grants.

Hickey et al (2003) contend that when it comes to the widespread impact of HIV and AIDS on the public health budget, earmarked funds (including conditional grants – CGs) are not the right mechanisms for transferring funds to the implementing provinces, for two primary reasons. “[Indirect] costs are too intertwined with regular health care service delivery to use CGs to finance them. [For example] in a regular hospital or clinic setting, it is nearly impossible to make a distinction between HIV and AIDS-related services and non-HIV and AIDS related services” (Hickey et al, 2003). Therefore, “other aspects of HIV and AIDS-related expenditure which are difficult to isolate (such as medicines and treatment of opportunistic infections) are better funded via the equitable share” (Ibid.). Nevertheless, provinces need to be accountable for every cent they spend and they should be able to demonstrate what they have achieved by each spending.

Equivocally, despite the value of spending on indirect effects of HIV and AIDS, the equitable share budgeting approach for HIV and AIDS is not fully costed to determine the real need. Additional funds are allocated incrementally, to supplement conditional grants and to spend on areas which are not covered by conditional grants. Provinces have reportedly indicated that the equitable share amounts are thumb-sucked, usually linked to how much is left in the provincial budget after key provincial priorities have been funded (Ndlovu and Daswa, Forthcoming). Notably any allocation is part of a programme, whose objectives, indicators, targets etc are listed in the budget statement. However if such allocations are aimed at a particular outcome – e.g. that of reducing the impact of HIV and AIDS on people living and affected by HIV and AIDS, provincial departments should report this and try to set clear objectives, performance measures and indicators. That is, provinces need to ensure that equitable share allocations for HIV and AIDS are integrated into departmental strategic plans and budgets to fit in with overall departmental goals, objectives and indicators.

The equitable share (ES) funding stream works more flexibly than the conditional grant system. The South African Constitution provides that “a province's equitable share of revenue raised nationally is a direct charge against the National Revenue Fund.” Section 214 (1) determines that an Act of Parliament must provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government; as well as provide for the determination of each province's equitable share

of the provincial share of the revenue.<sup>16</sup> The equitable share is very important because it gives spending authorities or provinces power to decide how the money should be spent.

However, in the last two years national government has been increasingly directive towards provinces regarding the intended purpose of ES spending. Ironically the constitution gives provinces discretion to spend the ES funds independent of national interference. National government's directives on ES spending are not legally binding to provinces. Interestingly government's intergovernmental processes and forums are increasingly moving towards making ES spending less discretionary and more aligned with national priorities.<sup>17</sup>

Thus, provinces have to indicate how their provincially designed and implemented programmes and spending support key priorities identified by national government. Provinces usually first allocate ES funds to relevant programmes and strategies to support national priorities and then utilise the remaining money on province-specific priorities which may not have been adequately addressed through the intergovernmental priority-setting process. The intention of ES spending is that provinces spend on particular provincial priorities once they have indicated how their strategic plans and programmes are supporting the nationally identified priority areas. Provincial finance MECs are accountable to the national Minister of Finance via the Budget Council for how their ES funds were allocated.<sup>18</sup>

Determination of global ES budgets should be through rigorous budgeting systems to ensure that scarce resources are distributed cost-effectively and according to policy priorities. This practice would make the budget process more output and impact driven in line with a comprehensive and complete PBS process: that of monitoring and evaluation to assess cost-efficiency and desired results. Evidence from provinces shows that ES allocations for HIV and AIDS interventions are mostly thumb-sucked by provinces that usually rely on their nationally allocated conditional grant funds for HIV and AIDS (Ndlovu and Daswa, Forthcoming).

---

<sup>16</sup> Information sourced from a meeting with Alison Hickey, Senior Manager of the Budget Office, Western Cape Provincial Treasury. 15 March 2006.

<sup>17</sup> Information sourced from a meeting with Alison Hickey, Senior Manager of the Budget Office, Western Cape Provincial Treasury. 15 March 2006.

<sup>18</sup> Information sourced from a meeting with Alison Hickey, Senior Manager of the Budget Office, Western Cape Provincial Treasury. 15 March 2006.

The equitable share is understood as the application of the principles of justice to the recognition of equitable division of resources among, on one hand, governments in the same sphere in such a way that it takes into account local needs and fiscal capacity (horizontal equity), or on the other hand, between different spheres of government in such a way that it enables them to meet their obligations (vertical equity). FFC, 2003: 116 cited in Mase, 2003: 2.<sup>19</sup>

Through the provincial MTEC processes, provincial treasuries and provincial departments identify specific provincial priorities in addition to national priorities set via the intergovernmental process (Budget Council MTEC, etc.). The actual provincial budgeting process involves provincial treasuries sending allocation letters to provincial departments giving details of total allocations for the medium term, including both conditional grant funds and ES funds to be received by the provincial department. In these allocation letters, some provincial treasuries may earmark ES funds for specific purposes, or may simply leave the allocation of ES funds between programmes up to the Department itself. In addition, National Treasury directs spending of ES funds through budget circulars which outline national priorities and the rationale for the division. This assists provincial treasuries to direct ES spending by provincial departments.

At provincial level, treasuries scrutinise all budget proposals to see if they fit with broad objectives, rationales, per capita requirements, and costing, before any equitable share funding is approved and released to the implementing departments. Unfortunately there is insufficient reporting on spending of ES earmarked allocations as the financial reporting formats for ES funds is different from the easily traceable reporting format for conditional grants (Ndlovu, 2004).<sup>20</sup>

In addition, and in line with Performance Based Budgeting, government departments draft their budgets using annual performance plans which are yet to be fully implemented in all provinces and departments. The annual performance plans (APPs) have to provide a

---

<sup>19</sup> Fiscal and Financial Commission. 2003. FFC Submission: Medium Term Expenditure Framework 2004 – 2007. Cited in Mase, K. 2003. *Equitable Share? An analysis of South Africa's system of fiscal transfers to local government in terms of how it addresses vertical and horizontal fiscal imbalances*. Masters Dissertation. University of Birmingham.

<sup>20</sup> Ndlovu, N. 2004. *HIV/AIDS expenditure in the 2004/5 provincial budgets: Trends in budget allocations and spending*. Budget Brief No.147. Idasa – AIDS Budget Unit. Available at [www.idasa.org.za/bis](http://www.idasa.org.za/bis) (last accessed on 6 March 2006).

broad picture of policy priorities, inputs (systems and budgets), outputs and indicators which are then summarised into budget statements (National Treasury, 2006).

For the 2007 medium term expenditure framework (MTEF) the focus will be shifted from bidding for additional funding to examining past spending performance and assessing the achievement of programme objectives and targets. This focus will entail examination of both financial and non-financial information, which departments can present in a format that best describes the policy objectives and plans of spending programmes. (National Treasury, 2006).<sup>21</sup>

Furthermore, National Treasury (2006) reports that “the MTEF budget process is designed to match the overall resource envelope, with the estimation of the current and medium-term cost of existing departmental plans and expenditure programmes.”<sup>22</sup> Specifically, National Treasury (Ibid) highlights that the MTEF tabled annually in Parliament is guided by the following principles:

- ⇒ Within limited resources, affordable changes should be used to make trade-offs between and within spending programmes.
- ⇒ Resources should be reprioritised from low priority programmes and activities towards higher priorities and activities.
- ⇒ The allocation of new resources should be driven by the existence of credible implementation plans. This provides greater certainty that services will be delivered as planned.
- ⇒ An evaluation of past spending performance against measurable objectives and targets should be central to the discussion of future funding.

Treasury guidelines (National Treasury, 2006) also stipulate that each province must produce the so-called *Five-year Strategic and Performance Plan (SPP)* which is produced per election cycle and lays the foundation for the development of the *Annual Performance Plans (APPs)*. The purpose of the *APPs* is to set out what the provincial department intends to do in the upcoming financial year towards progressively achieving

---

<sup>21</sup> National Treasury. 2006. Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2007 MTEF. July. Available from <http://www.treasury.gov.za/document/guidelines> (last accessed on 29 September 2006).

<sup>22</sup> Ibid.

the full implementation of the *Five-year Strategic and Performance Plan*. This means specifying measurable objectives and performance targets that will ensure that the provincial department realises its strategic goals and objectives set out in the *Five-year APP*...

The *APPs* should inform and be informed by the *Budget* and the MTEF and should show how the provincial department's future service delivery plans link to its MTEF. The in-year implementation monitoring of the *APPs* is done through the *Quarterly Performance Reports (QPRs)*, while the end-year reporting is done in the departmental performance section of the *Annual Reports (ARs)* (National Treasury, 2006: 4). The four quarterly performance reports form the basis for the annual report.

The assessment of a department's performance against its strategic plan is performed through in-year monitoring reports (monthly and quarterly). This assessment will enable the department to determine whether quarterly performance is adequate to meet the projected targets at the end of the financial year. This may translate to an achievement of at least 25 per cent of the annual target on a quarterly basis. If less than 50 per cent of programme targets have been met by September for instance, this may necessitate increased focus on a particular program. The adjustments budget process is an ideal time to consider measures to accelerate performance to achieve annual targets. The adjustments budget formats will be communicated to departments around September. The annual reports, which include financial statements, as well as non-financial indicators allow for a further evaluation of performance, which may affect the strategic priorities and MTEF targets for the two outer years.

**Extracted from National Treasury (2006). Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2007 MTEF. Page 5.**

As will be shown later, these treasury guidelines or principles are in line with the requirement of Performance Based Budgeting which links policy priorities with inputs, outputs and outcomes. In summary, "*There are several interlinked key stages in the budget process, which include priority setting, the revision of departmental strategic plans and targets, evaluation of performance through in-year and annual reports, and where necessary, deciding on corrective action.*"<sup>23</sup>

[Furthermore,] performance indicators assist in monitoring and evaluating the efficacy of spending programmes and should form an important part of priority setting. Departmental measurable objectives must be informed by the strategic plan and should include appropriate performance indicators. Achieving the objectives that are set out in

<sup>23</sup> National Treasury. 2006. Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2007 MTEF. July. Available from <http://www.treasury.gov.za/document/guidelines> (last accessed on 29 September 2006).

the strategic plan requires solid linkages between planning and budgeting and a more rigorous evaluation of budget proposals. (National Treasury, 2006).

### **2.3 Allocative and operational efficiency of CG and ES systems**

Muradzikwa (2005) makes a clear distinction between allocative efficiency and operational efficiency. He explains that allocative efficiency analyses the public resource allocations at a policy level. It examines whether politicians and all the stakeholders involved are delivering the services which are of highest priority. On the other hand operational efficiency examines whether government departments are producing the maximum possible service delivery outputs with the resources available to them. Thus allocative efficiency is concerned with the *mix* of interventions funded, while operational efficiency is concerned with the ratio of inputs to outputs.

For efficiency measurement purposes, provinces produce In-Year Monthly (IYM) reports which are only provided at department level and by conditional grant, to weigh expenditures against ring-fenced budgets. Reportedly the National Treasury is using the In-Year Monthly (IYM) reporting system as a requirement of section 32 of the PFMA since 1 April 2000. The specified formats for monthly reporting require managers to indicate and explain variances between the actual result for the period and that budgeted, and a revised projection of expenditure to the end of the financial year.<sup>24</sup>

Conditional grants have pros and cons. By ring-fencing the funds, central government ensures that national priorities will be sufficiently resourced in provincial budgets and that provinces will implement these programmes. However the financial and programme regulations attached to conditional grant funds somewhat block the speed and efficiency of delivering provincial HIV and AIDS priorities.

Conditional grants are largely successful as funding channels for delivering funds to provincial departments for HIV and AIDS interventions identified as priority items by national government. In addition, conditional grants are vital in financing start-up programmes under national guidance and support until those programmes are integrated

---

<sup>24</sup> South African Human Rights Commission (SAHRC). Public Finance – Period: April 2000 – March 2002. Available from [www.sahrc.org.za/4th\\_esr\\_chap\\_13.pdf](http://www.sahrc.org.za/4th_esr_chap_13.pdf) (last accessed on 16 October 2006).

into regular departmental programme budgets. Alternatively, equitable share allocations help in funding indirect costs of HIV and AIDS related activities or interventions which are not funded through CGs. This makes CG and ES spending complementary for better allocative and operational efficiency.

## **2.4 Concluding summary**

It should be re-emphasised that CGs and ES are not budget processes or systems per se, but are mechanisms for sending the money to implementing departments. Provinces utilise the conditional grants from national government for ring-fenced and funded interventions but can also prioritise other spending areas in their own (equitable share) budgets,

Further, although the budgeting process for HIV and AIDS is not wholly isolated, or fully independent, elements of reporting through indicators and annual reports of the health departments actually tell us how HIV and AIDS programmes are delivered in line with performance measures and output and outcome-based expectations.

Actual expenditure analyses depend upon the type of funding channel used; disaggregated actual expenditure data is most readily available for funds sent as conditional grants to the provinces because of the requirement that provinces report quarterly to National Treasury on conditional grant expenditure. Funds for HIV and AIDS sent to provinces via the ES are very difficult to track as they are allocated via provincial budget processes. ES reporting happens via the QPRs and ARs,

Nevertheless, equitable share spending is more flexible because spenders decide how to use the money to simultaneously satisfy national requirements as well as their own provincial needs. This kind of spending blends effectively with conditional grant spending because it provides general support and discretion for flexible spending on more localised priorities. Conditional grants are spent only on specific pre-determined national needs and conditions.

The equitable share budgets for HIV and AIDS are intended to provide provinces with funds to strengthen their health care services generally, in order to respond to the added

burden created by HIV and AIDS.<sup>25</sup> Thus, in addition to the conditional grant funding stream, provinces are specifically allocating funds for HIV and AIDS interventions in the health sector from the equitable share.

University of Cape Town

---

<sup>25</sup> Hickey and Guthrie (Budget Brief No. 134; 2003) explained that each province receives an Equitable Share grant (each financial year) which is a lump sum of money which they can then allocate at their own discretion, via individual provincial budget processes. The Equitable Share is the province's share of the revenue raised by national government. In contrast, conditional grants are earmarked funds transferred from national government to provincial departments that must be spent for particular programmes or purposes.

## CHAPTER 3. ILLUSTRATION ON THE COMPREHENSIVE PLAN FOR HIV AND AIDS (CPHA)

### 3.1 Introduction

In July 2002 government established a Joint Health and Treasury Task Team (JHTTT) to investigate issues relating to the financing of an enhanced response to HIV and AIDS, based on the Strategic Plan as further elaborated in the 17 April 2002 Cabinet statement and the subsequent Cabinet statements of 9 October 2002 and 19 March 2003. A particular focus of the Task Team was on the second component of the Strategic Plan, namely treatment, care and support for those infected and affected by HIV and AIDS... The [JHTTT] report provided options to support the strengthening of the second component of the country's five-year Strategic Plan. This included scaling up current policy interventions, and integrating additional interventions, including the option of introducing antiretroviral therapy for people with AIDS. Department of Health, 2003a.<sup>26</sup>

### 3.2 Objectives of the CPHA

The key objectives of the CPHA<sup>27</sup> are outlined as follows:

- Stepping up the prevention campaign so that the 40 million South Africans not infected stay that way.
- A sustained education and community mobilisation programme to strengthen partnership in the fight against the epidemic.
- Expanding programmes aimed at boosting the immune system and slowing down the effects of HIV infection, including the option of traditional health treatments for those who use these services.
- Improved efforts in treating opportunistic infections for those who are infected but have not reached the stage at which they require anti-retroviral treatment.
- Intensified support for families affected by HIV and AIDS.
- Introduction of antiretroviral treatment for those who need it, as certified by doctors.

The CPHA is driven and financed from the national level, implemented at provincial level, with additional resources encouraged to be allocated from provincial budgets. It is aimed at benefiting both the infected and affected, with more treatment spending utilised

---

<sup>26</sup> Department of Health (2003a). Operational Plan for Comprehensive HIV and AIDS Care, Management and Treatment for South Africa. (Pretoria: RSA).

<sup>27</sup> Department of Health (2003a). Operational Plan for Comprehensive HIV and AIDS Care, Management and Treatment for South Africa. (Pretoria: RSA).

on people requiring ARV drugs. Other programme areas to be financed and implemented through this plan are prevention, care and support, research, and management. In the health sector the Chief Directorate for HIV and AIDS, STIs and TB in the DOH is the responsible office at national level whilst the provincial HIV and AIDS programmes or units are responsible for implementation and devolution of services to districts. The education and social development sectors are responsible for the administration, management and implementation of HIV and AIDS education and community and home based care services respectively.

Prevention of HIV infection remains the bedrock of Government's approach to halt the spread of HIV and the impact of AIDS. The plan seeks to ensure that those who are currently infected with HIV but have not developed AIDS progress as slowly as possible to this stage, through enhanced efforts in dealing with opportunistic infections, prophylaxis, improved nutrition and lifestyle choices. According to Nattrass's (2006) assessment of highly active antiretroviral therapy (HAART) in South Africa, approximately 800 000 people living with HIV will need ARV treatment in 2006.<sup>28</sup> Effective management is planned for the treatment of those HIV-infected individuals estimated to be needing ARVs, who have moved on to develop AIDS, through appropriate treatment of AIDS-related conditions (including using antiretroviral therapy in patients presenting with CD4 counts lower than 200, and suitable care where treatment has run its course). Further, the ARV treatment programme will help extend the lives of those who have reached the stage of AIDS through two goals:

- To provide comprehensive care and treatment for people living with HIV and AIDS; and
- To facilitate the strengthening of the national health system in South Africa.

Voluntary counselling and testing (VCT) is a crucial entry point. Once identified as HIV-positive, patients are assessed for the stage of their illness and referred into appropriate medical care. The South African Cabinet assured that more than half the proposed total

---

<sup>28</sup> Nattrass, N. 2006. "South Africa's 'rollout' of highly active antiretroviral therapy: a critical assessment". CSSR Working Paper No. 158. University of Cape Town: Cape Town.

expenditure will go toward strengthening the national health system; emphasizing prevention and; promoting healthy lifestyles (Government of South Africa, 2003).<sup>29</sup>

### **3.3 Specific activities of the CPHA**

The terms of reference for the CPHA (Department of Health, 2003a) outlined activities including:

- Procurement and/or production of necessary medications and consumables at the lowest prices as possible and an increase in the capacity and security of the drug distribution system.
- Upgrading of the national health laboratory system to handle a significant increase in diagnostic testing and monitoring of patient safety.
- Elaborating an integrated nutritional programme for people living with HIV and AIDS.
- Establishment of a robust system to monitor efficacy of the intervention, adverse drug events, resistance and improvement and coordination of patient information systems.
- Development of staffing norms and standards for the delivery of antiretroviral therapy and assessment of human resource needs, including health system managers, clinicians, nurses, pharmacists, nutritionists and counselors.
- Development of a detailed implementation schedule.

Before antiretroviral drugs could be administered safely and equitably throughout the country, there are a number of pre-implementation tasks that require accomplishing (Department of Health, 2003a). These include:

- Accreditation and strengthening of service points;
- Training of health workers;
- Procuring drugs;
- Strengthening drug distribution systems;
- Strengthening laboratory testing capabilities;

---

<sup>29</sup> Government of South Africa. (2003). Statement of Cabinet on a Plan for Comprehensive Treatment and Care for HIV and AIDS in South Africa. 19 November 2003. (Parliament of South Africa: Cape Town).

- Establishing proper patient information systems.

### **3.4 The budget outlook and performance-based budgeting for the CPHA implementation**

The CPHA is currently funded through the conditional grant system, which is theoretically linked to specific provincial objectives, needs and indicators. A long process of budgeting involving various players and stages of financial resource allocation ensures that priority areas are identified in the budget process and are also prioritized in the division of available resources. HIV and AIDS is one of the key areas that are proactively budgeted for and prioritized in both policy and budgets. With the two funding channels being used to deliver HIV and AIDS funds, both conditional grants and equitable share allocations require specific performance indicators to avoid wastage of resources. Operationally, provinces develop business plans based on the amount of funding available to them in conditional grant funding from the national department.

As mentioned before, equitable share allocations are usually spent on provincial priority areas which are not sufficiently funded through the national conditional grant. Despite the source or channel of funding used, the performance budgeting system requires that there is a link between objectives, activities, outputs, outcomes and budgets. The business plans are developed for the utilization of conditional grants. These plans have to identify clear objectives, strategies, inputs available as well as performance measures (outputs and indicators). Chapter 5 will indicate to what extent an HIV and AIDS programme budgeting fits the performance budgeting system.

### **3.5 Policy development and the health sector response to HIV and AIDS**

Looking at strategic objectives for HIV and AIDS, in line with improving management of communicable diseases of the Ten Point Plan of the Department of Health, the HIV and AIDS and TB Cluster comprises the Chief Directorate for HIV/AIDS and STDs, Government AIDS Action Plan (GAAP) and the Tuberculosis Control Programme in the national Department of Health. The overall objective of the cluster is twofold: 1. to reduce the number of new HIV infections (especially among youth) and; 2. To reduce the

impact of HIV and AIDS on individuals, families and communities (Department of Health, undated).<sup>30</sup>

The 2000 Strategic Plan for HIV and AIDS in South Africa provided an active response to HIV and AIDS in the early 2000's. However, the Strategic Plan did not address the role of government in providing AIDS anti-retroviral drugs (ARVs). In the context of the Strategic Plan, treatment referred to provision of medical care and services for sexually transmitted diseases (STDs) and opportunistic infections (OIs) only. However the Operational Plan for the Comprehensive HIV and AIDS Care, Management and Treatment (CPHA) in South Africa was passed in 2003.<sup>31</sup> The implementation of this plan placed a significant emphasis on health system strengthening and provision of anti-retroviral treatment for AIDS.

The Comprehensive Plan for HIV and AIDS for South Africa (CPHA) was rolled out starting in April 2004, which marks the start of the provision of ARV AIDS treatment in the public sector. The Plan seeks to “ensure that the great majority of South Africans who are currently not infected with HIV remain uninfected” (Department of Health, 2003a). The DOH started providing AIDS treatment in the public sector in April 2004. It was then estimated that about 500 000 South Africans had AIDS defining illness and were in need of anti-retroviral therapy (ART) in 2003 (Dorrington et al, 2004). By the end of 2004/5 42 000 had been placed on treatment, the programme falling short of its targeted total of 53 000 (JCSMF, 2005).<sup>32</sup>

“Significant progress has been made since the Department started implementing the Comprehensive Plan” (Department of Health, 2004a). The Department of Health (2004a) also emphasised the importance of prevention since HIV and AIDS is still incurable. Because of “the absence of a cure for HIV and AIDS, the Plan emphasises centrality of prevention in our national response to HIV and AIDS. It requires government to sustain and scale up prevention interventions...” In addition, the department increased the budget

---

<sup>30</sup> Department of Health, undated. Available from [www.health.gov.za](http://www.health.gov.za) (last accessed on 2 March 2006).

<sup>31</sup> The Operational Plan is commonly known as the Comprehensive Plan for HIV and AIDS.

<sup>32</sup> JCSMF (Joint Civil Society Monitoring Forum) 2005. *Resolutions of the 4<sup>th</sup> Meeting of the JCSMF* (JCSMF: Nelspruit).

for its HIV and AIDS communication campaign, Khomanani Caring Together - to ensure that prevention remains a priority (Department of Health, 2004a).<sup>33</sup>

The Plan also asserts that “comprehensive care and treatment for HIV and AIDS need to be delivered in an integrated fashion within a coherent overarching public health policy framework for the provision of basic social services as part of the continuum of care” (Department of Health, 2003a). Sufficient budgetary allocations were necessary to ensure that this assertion was delivered upon. However clear measurable objectives had to be devised to ensure feasible monitoring and evaluation of the programme. This is in line with the requirement of PBS where budgets are utilized on clearly defined projects or programmes and their outputs and outcomes measured against the inputs.

### **3.6 Concluding summary**

Reportedly, policy developments for HIV and AIDS activities in South Africa have improved the standard and coverage of service delivery. With the two funding channels being used to deliver HIV and AIDS funds, both conditional grants and equitable share allocations require specific performance indicators to avoid wastage of resources. Clear measurable objectives are required to direct budget operations towards attainable goals and objectives. Nevertheless conditional grants and ES funds are vital resources for the funding of HIV and AIDS activities.

---

<sup>33</sup> Department of Health. (2004a). Strategic Priorities for the National Health System, 2004-2009. (Government Printers: Pretoria).

## CHAPTER 4. PERFORMANCE-BASED BUDGETING SYSTEM: AN IMPROVED FRAMEWORK

### 4.1 Introductory background

A recent budgeting system (but identified to be in existence in the USA since the 1950s) is referred to as performance-based budgeting system (PBS). The Office of Financial Management (2003) highlighted three drivers of performance budgets which make PBS more attractive than the current conditional and equitable share granting types of budgeting:

1. *Outcome measures* which report the results of the service being provided. These measures are the most significant because they indicate the impact on the problem or issue the program was designed to achieve.
2. *Output measures* indicate how much work has been completed.
3. *Efficiency measures* show the relationship between inputs (dollars or FTEs) to output or outcome.<sup>34</sup>

### 4.2 Frameworks for performance budgeting

McGill (2001) provides an interesting comparative analysis of various budgeting frameworks utilised in various countries.<sup>35</sup> In the context of the Performance Based Budgeting framework 'pioneered' in the United States of America, McGill briefly outlines the following budgeting approaches which sought to improve government budgeting systems:

- The Planning-programming Budgeting System (PPBS) focused on a 'program' as the core structure of planning and budgeting. This system presented and analysed choices among long term policy objectives. McGill reports that PPBS ceased because of the "complexity of analysis required and the difficulties of incorporating political dimensions." McGill's report indicates that the PPBS was

---

<sup>34</sup> Office of Financial Management (2003). "Guidelines for Strategic Plans and Performance Measures", Operating Budget Instructions, Part 1. 2005 -07 Biennium. (State of Washington: Washington DC).

<sup>35</sup> McGill, R. (2001). Performance Budgeting. *The International Journal of Public Sector Management*. Vol. 14 No. 5, 2001, pp. 376 – 390. MCB University Press.

narrowly focused on programmes and neglected the political and socio-economic environment in which budgeting and planning took place.

- Management by objective (MBO) tried to link objectives with budgets. “It was designed to hold agency managers responsible for achieving agreed upon outputs and outcomes” (McGill, 2001). It is argued that MBO failed because it operated in isolation ‘from existing budget formulation processes and in problems of identifying and measuring objectives’.
- John Mercer<sup>36</sup> states that “the Government Performance and Results Act of 1993 (GPRA) has always envisioned the complete integration of the Annual Performance Plan with the budget – what is known as ‘Performance-Based Budgeting’ or simply ‘Performance Budgeting.’ This integration is perhaps the single most powerful tool for implementing comprehensive Performance Management within government agencies. In fact, it was a particular example of a sophisticated and very effective use of this form of budgeting that directly inspired the origination of GPRA.”
- Performance Based Budgeting poses to be more about prioritisation. In Sweden, McGill reports, PB resulted in improved annual reporting that showed clear achievements and points for improvement. In addition, PB assures us that future budget allocations will be influenced by performance-informed decisions. However, its four key measures are inputs, outputs, efficiency tests and impact assessment (McGill, 2001). McGill’s Tanzanian experience showed him that Tanzania utilised PB to re-orient its annual resource allocation process from incremental or input-based to output or target based budgeting.

McGill (2001) states that the PB framework was pioneered in the United States of America, designed “to better align spending decisions with expected performance.” The US Department of Defense asserts that it kick-started Performance Based Budgeting through US Congress’s first enactment of the National Security Act of 1949, which set Performance Based Budgeting requirements for the newly formed Department of Defense

---

<sup>36</sup> Mercer, J. (Undated). “John Mercer on GPRA & Performance-Based Budgeting”. Available from [www.john-mercerc.com](http://www.john-mercerc.com) (last accessed 2 March 2006).

(DOD). DOD recommends Performance Based Budgeting because “previous initiatives, such as Management by Objectives (1973) and Zero-Based Budgeting (1977) surfaced in an environment of increasing discretionary spending, while GPRA emerged during a time of declining budgets.” Only Performance Based Budgeting seemed attractive “to executive officials [who saw] performance information essential to justify current program performance [and] to legislative staff [who believed] performance information could be a valuable government tool to improve efficiency.”<sup>37</sup>

In addition, the United Nations sees Performance Based Budgeting as “an anti-corruption tool”. The United Nations Capital Development Fund (UNCDF) describes PBS as “the best approach to achieve a much more open and transparent system of planning, implementing and reviewing expenditure to achieve results.”<sup>38</sup>

PB has its own weaknesses. Firstly, OECD/PUMA/SBO (2001) admits that “spending agencies are uncomfortable with breaking down their work into standard unit, and also uncomfortable with the notion that the amount they get should depend expressly on the amount they produce.” This concern is reasonable. Using quantity as the measure of efficiency or achievement may undermine efforts of public managers to achieve high quality services which might impose higher unit costs than the standard services with small costs and less quality. However, as can be seen in this case, the weakness of PBS is not inherent in the PB system itself, but to the government systems and officials who are supposed to implement it. Muradzikwa (2005) questions the extent to which departmental processes are not integrated to link policy and planning, and budgeting. This is linked to McGill’s (2001) argument that “public managers and policy planners are painfully aware of the need to show the benefits of public expenditure.”

Looking at the South Africa experience, Abedian, Strachan and Ajam (1998) provided an interesting review of the ‘traditional budgeting’ framework of government.<sup>39</sup> Abedian et al (1998) explained that “the aim of the budget process was simply to keep control over all money spent by government. If all expenditures and revenue could be traced and

---

<sup>37</sup> Department of Defense (Comptroller ICenter). “Performance Budgeting”. Available from [www.dod.mil](http://www.dod.mil) (last accessed on 2 March 2006).

<sup>38</sup> IPPMedia, “UNDP: Introduce Performance Based Budgeting in local governments” By Guardian Reporter, 14 September 2005. Also available at [www.ippmedia.com](http://www.ippmedia.com). (last accessed on 2 March 2006).

<sup>39</sup> Abedian, I., Strachan, B. and Ajam, T. 1998. “Transformation in Action: Budgeting for Health Service Delivery: Chapters 2, 3, and 4, UCT Press. (Cape Town: South Africa).

accounted for, the budget process, it was believed, had worked effectively.” This statement alone shows that “budgeting [was] a work in progress” which required improvements “to adjust from time to time in its operating rules and procedures” (Schick, 2001). In addition, Abedian et al (1998) reported that the governments had been consistently performing poorly for which they acquired a reputation for inferior services. However the National Treasury and various other government budgeting structures have improved processes and systems to shift from traditional to more comprehensive, outcome based budgeting through treasury guidelines, Budget Council and the application of the whole Public Finance Management Act (PFMA) of 1999.

The South African National Treasury (2004) has specifically acknowledged this issue and noted that PBS requires a different mind-set and capacity on the part of managers. It says performance efforts “require an overhaul of information systems and information processing. It necessitates building of capacities and understanding new concepts and systems. And it calls for a different style of management across the public service. Successful implementation will take time, effort and a change of mindset within the public service.”<sup>40</sup>

Secondly, the PBS’s fixation on outcomes has one key shortfall. McGill’s New Zealand experience taught him that “impact measures are so often of a societal nature... Other factors may be involved in any one year...” This also applies in HIV and AIDS spending in South Africa where the direct link between spending and reduced or increased HIV infection rates is obscured and mitigated by a number of other societal and environmental factors. While output measures are directly linked to expenditure, outcome indicators may be affected by a host of other influences which distort or hide the effect of the programme expenditure and output. For example, failure to improve general health care systems and socio-economic conditions could still pose risks for people living with and affected by HIV and AIDS. More specifically, increased spending on HIV and AIDS interventions is not sufficient without increased resources and efforts to improve general socio-economic and health conditions. Consequently the aim of controlling infection rates and reducing AIDS related mortality maybe undermined by poor socio-economic conditions with make people living with and affected by HIV and AIDS more vulnerable.

---

<sup>40</sup> National Treasury. 2004. The Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2005 MTEF. Government of South Africa.

## 4.2 Concluding summary

Budgeting for HIV and AIDS in South Africa used to fall under traditional budgeting where “the focus of budgeting [was] on the control of funds” (Muradzikwa, 2005), without looking into cost-benefit issues and outcome-based spending. In the allocation of conditional grant funds to provinces, the national department may apply a more rational, strategic approach to budgeting, but this has to be well communicated to and integrated into the provincial plans for effective implementation. This method fits with Muradzikwa’s statement that “Performance Based Budgeting merely identifies the resource inputs needed to undertake activities to reach defined objectives.” The South African budgeting process or strategy for HIV and AIDS seems to be in line with Performance Based Budgeting and is linked with clear objectives, targets and indicators. Nonetheless, “the lack of strategy in a department almost always results in a budget-driven exercise” (Muradzikwa, 2005).<sup>41</sup>

Matsinhe (2005) highlighted some weaknesses of the traditional budgeting approach as ‘saying too little about what budgets are spent on’; ‘focusing on “inputs” not “outputs” or “delivery”’<sup>42</sup>; and failing to link budget utilisation and achievement of programme objectives.<sup>43</sup> The traditional budgeting patterns influenced resource allocation for HIV and AIDS as the total HIV and AIDS conditional grant envelope is not divided between the nine provinces based on planned provincial programme priorities and objectives. Instead, *various criteria such as HIV prevalence rates, population size, and 4th stage AIDS cases*, are used only to split predetermined funds (National Treasury, 2004/5; National Treasury, 2005/6).<sup>44 45</sup> Furthermore, there is very poor information on the impact of such spending on the people affected and infected with HIV and AIDS. With the lack of rigorous monitoring and evaluation systems in the public sector, it is difficult to discern if budget implementation has led to or failed to achieve specific targets.

---

<sup>41</sup> Muradzikwa, S. 2005. “Performance Budgeting”. Work Document for the Public Finance Management Class (POL520Z). University of Cape Town: Cape Town.

<sup>42</sup> Conditional grants ensure that budgets or inputs are reserved for HIV and AIDS work. However there is less emphasis on the outputs to be achieved from conditional grant spending. HIV and AIDS programmes funded by conditional grants do not publicly provide disaggregated information to indicate outputs or indicators for every cent spent.

<sup>43</sup> Matsinhe, T. 2005. ‘Budgeting in South Africa’. Lecture to the Public Finance Management Class, 30 September 2005. University of Cape Town: Cape Town.

<sup>44</sup> National Treasury. 2004/5 Division of Revenue Act. Government Printers: Cape Town.

<sup>45</sup> National Treasury. 2005/6 Division of Revenue Act. Government Printers: Cape Town.

## **PART 3: RESEARCH FINDINGS AND DISCUSSION**

### **CHAPTER 5: PBS IN THE SOUTH AFRICAN BUDGET PROCESS**

#### **5.1 Introduction**

This research has led to an understanding that conditional grants and equitable share funding channels are not budget processes in themselves. Alison Hickey, Senior Manager of the Western Cape Provincial Treasury Budget Office, explains, “Conditional grants and equitable share grants are not budget processes in themselves. Instead they are used as channels to transfer money to the provinces that are responsible for delivery of major HIV and AIDS interventions.”<sup>46</sup> The national and provincial budget processes are very closely linked, and in addition to the determination of policy priorities and the allocation of funds, the budget process includes decisions upon the most appropriate funding mechanism or channel for delivering funds to the provinces (conditional grant or equitable share).

This section will critically look at the funding channels for HIV and AIDS services; and question the extent to which performance-based budgeting is applied in resource allocation and service delivery for HIV and AIDS. This analysis is followed by relevant recommendations on the application of the performance-based framework in HIV and AIDS budgeting.

#### **5.2 Muradzikwa’s account of PBS**

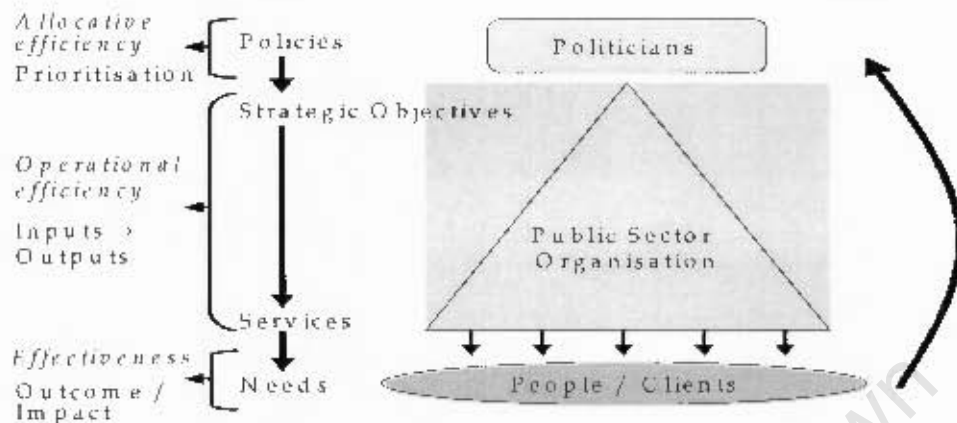
Muradzikwa (2005) argues that *“the main reason why government departments exist is to make a positive impact on individual citizens and communities (outcomes). In order to achieve these desired outcomes, a mix of goods and services (outputs) are produced. In order to generate these service delivery outputs, financial, human and other resources are required (inputs). In order to convert inputs into service delivery outputs, a number*

---

<sup>46</sup> Alison Hickey. 2006. Comments made at the UCT Higher Degrees Committee for Masters Research Proposal Presentations. 10 March 2006.

of processes have to take place within departments.”<sup>47</sup> Figure 1 below illustrates this argument.

**Figure 1: Performance Based Budgeting and policy implementation**



Source: Muradzikwa, 2005. Performance Budgeting: Work Document. UCT.

Figure 1 highlights the importance of objectives and strategies for realizing them. The simplest method of implementing and measuring objectives is by defining very clear and measurable indicators that are in line with government policy. Mark Blecher, Director of the Social Services Cluster in the National Treasury, confirmed that ‘government departments have a long list of indicators to report on as a measure of performance’. These indicators, as mentioned earlier, ensure that government spending is measured against achieved outputs and outcomes.<sup>48</sup> This is the core for performance budgeting. In addition, the so-called ‘Annual Performance Plans’ (APP’s) are used to link objectives with budgets and outputs. The plans outline strategic objectives, indicators, key activities, targets, budgets and actual expenditure. Reportedly provinces are also expected to provide adequate narrative data to support progress made and to explain to what extent the indicators list above were achieved (Hickey, 2006).<sup>49</sup>

Performance Based Budgeting requires that the following steps are followed in setting up a truly performance-based budget. This framework will be used to test how well

<sup>47</sup> Muradzikwa, S. 2005. Performance Budgeting: Work Document. Lecture Notes. School of Economics - University of Cape Town.

<sup>48</sup> Information sourced from a telephone interview with Mark Blecher, Director of the Social Services Cluster: National Treasury. 26 April 2006.

<sup>49</sup> Information sourced from a meeting with Alison Hickey, Senior Manager of the Budget Office, Western Cape Provincial Treasury. 15 March 2006.

budgeting for HIV and AIDS in the health sector in South Africa is aligned with the PBS framework. Muradzikwa (2005) outlined the PBS framework in the following seven steps.

### **Muradzikwa's 7 steps of a truly performance-based budgeting process**

#### ***Step 1: Develop programme structure***

The first step of a performance budget is to develop a programme plan and structure. This is a strategic function which involves directorate and/or programme managers. The aim of this step is to set up objectives which reflect the strategic plan of the Department. Set objectives are guided by the set outcomes, which can be found in a Department's strategic plan, the budget speech, the budget statement, fiscal policy and expenditure review. Government specifies the outcomes it is seeking to achieve in a given area.

#### ***Step 2: Define activities within each programme/sub-programme***

After designing a programme plan and structure public managers need to identify activities. These activities form part of their operational plans to achieve their programme objectives.

#### ***Step 3: Define and quantify outputs***

Outputs must be quantifiable. When outputs have been defined, an output plan which schedules outputs over 12 months must be developed. This helps government departments get indication of the extent to which desired outputs are produced.

#### ***Step 4: Develop performance measures and performance indicators***

Performance measures and indicators are designed to measure whether or not departments have achieved their objectives. The only way accountability can be enforced is through, mainly, performance measures and indicators.

#### ***Step 5: Identify inputs and cost the resources used in the activities***

The most critical step in performance budget preparation is costing. In order to have the closest accuracy with the budget it is most appropriate to cost all activities. Basically what this step tries to do is determine how much the plan will cost.

#### ***Step 6: Project and schedule cash flow***

This step is to project the cash flows for the activity or plan. The main issue in projecting cash flows is to spread the allocation budgeted for the activity for the whole year, into the amount of cash required in each month. This will translate into an output delivery plan, scheduled over twelve months.

#### ***Step 7: Develop a multi-year budget and delivery framework***

Although the costing focuses on the current activities in the first year of implementation, the cost information generated will inform MTEF period. For Performance Based Budgeting to be of relevance planners must determine what the costs of every activity are, and how those could be expected to change over time. This should include annual operating costs (such as personnel, transport) and capital costs (such as infrastructure in the form of buildings). This step requires planners to forecast costs by using cost drivers and forecast any potential revenue.

**Source: Adapted from Muradzikwa, 2005. Performance Budgeting: Work Document. UCT.**

### 5.3 Evidence of performance-based budgeting in South Africa

Examples from various provinces indicate that performance based budgeting is being actively practiced in South Africa. However very little information is available on the actual utilisation of PBS monitoring and evaluation phases which actually tell us if spending was effective in achieving specified objectives, outputs and outcomes. On the HIV and AIDS front, it is difficult to single out budgeting processes for HIV and AIDS interventions as they form part of a comprehensive health care budget process. Thus, most of the findings of this report fail to pinpoint HIV and AIDS specifically as budgeting for the epidemic does not happen in a vacuum, but is part and parcel of integrated departmental and sectoral systems and processes. However, some specific examples of how resources are allocated for HIV and AIDS will be given in relevant sections to follow.

Gauteng provides a good example of how PBS practices can be utilized for HIV and AIDS resource allocation. The Gauteng Department of Health 2004 Annual Report states that “Where possible, the specific strategic goal being addressed in a particular budget programme is indicated in the narrative... Additional information on finance, indicators and targets, as required in terms of National Health and Treasury requirements, is presented in the addendum of the annual report.”<sup>50</sup>

In addition, in the Gauteng Province while prevention remains a primary focus in the fight against HIV and AIDS, one of the significant achievements was the implementation of the comprehensive prevention, treatment and care programme, including anti-retroviral treatment (ART). Reportedly, the targets were exceeded for the number of people on treatment. The province reports that the 2004 HIV sero-prevalence rate amongst pregnant women in Gauteng is 33.1 %, an increase of 3% over the 2003 figure, and higher than the national prevalence rate of 29.6%. In April 2004 Gauteng commenced with the implementation of the comprehensive HIV and AIDS care and treatment including ART programme. By the end of the financial year the programme was implemented in 23

---

<sup>50</sup> Gauteng Department of Health 2004 Annual Report. Available from <http://www.finance.gov.za/documents/Provincial%20Annual%20Reports/GT/GP%20-%20Vote%2004%20-%20Health.pdf> (last accessed on 2 May 2006).

targeted health facilities and exceeded the target of 10 000 patients on ARV treatment (Gauteng DOH, 2004).

Below is an example of how the Gauteng health department links its objectives with budgets and output measures. In this way the province is able to measure performance against allocated and utilized financial resources.

**Table 1: An example of performance reporting for HIV and AIDS interventions (Gauteng)**

Description of output	Unit of Measure	2004/2005 Target	Progress made towards the achievement of the outputs 2004/2005
Strengthened HIV and AIDS programme implementation in all districts	Percentage of Regions and health districts with dedicated HIV and AIDS coordinators	100	<ul style="list-style-type: none"> <li>• 100</li> <li>• Target achieved</li> </ul>
Rollout of ARV in public health facilities	Number of health facilities offering comprehensive HIV and AIDS programme	23*	<ul style="list-style-type: none"> <li>• 23</li> <li>• Target achieved</li> </ul>
Maintaining full coverage of PMTCT	Percentage hospitals, large community health centres and clinics with maternity services implementing the programme	100 hospitals and CHCs and 65% clinics with ANC services	<ul style="list-style-type: none"> <li>• 100% Hospital and CHC's</li> <li>• 63% Clinics with ANC services</li> <li>• Target achieved in Hospital and CHC's</li> </ul>
Support for victims of sexual assault	The number of health facilities implementing PEP for victims of sexual assault	47	<ul style="list-style-type: none"> <li>• 52</li> <li>• Target exceeded</li> </ul>

Source: Gauteng Department of Health 2004 Annual Report.

The Western Cape experience also confirms that South Africa is ahead in applying the principles of performance-based budgeting in resource allocation for HIV and AIDS interventions. The Provincial Treasury Annual Performance Plan 2005/6 to 2007/8 indicates how the Western Cape Treasury applies annual performance reporting to its resource allocation, implementation and monitoring and evaluation.<sup>51</sup> The Provincial

<sup>51</sup> Western Cape Treasury. Available from [http://www.capegateway.gov.za/Text/2005/4/v03\\_pt\\_annualperf\\_plan.pdf](http://www.capegateway.gov.za/Text/2005/4/v03_pt_annualperf_plan.pdf) (last accessed on 2 April 2006).

Treasury's vision and mission as stated in its Annual Performance Plan focus on the following as some of the treasury priorities in budgeting and implementation:

- ✦ Producing a fiscal policy framework that will describe those socio-economic and service deliverable variables that will dictate the revenue and expenditure imperatives to be targeted;
- ✦ Improving budget management by aligning proposed allocations with desired outcomes, measuring post-budget allocation effectiveness and efficiency of resource expenditure, thereby making the vision of a "Home for All" a reality;

Notably, the Western Cape MTEC process in the provincial treasury requires departments to justify their new spending proposals based on analysis of the socio economic environment and needs, costing, and evidence of the efficacy of the proposed intervention. The MTEC process also interrogates departments about their spending capacity and service delivery for the past and current years before allocating more funds for the same programme.<sup>52</sup>

The third example of the utilisation of PBS practices in HIV and AIDS budgeting is the National Department of Health itself. The department also reports the importance of performance indicators not only at provincial and national levels but more so at district health level, that "a basic set of performance indicators is used to measure overall performance, and these indicators are required for the PSP."<sup>53</sup> They required that spending agencies, in this case the District Health Service providers, should report on their medium term performance with both financial and non-financial data, and that the narrative should analyse the performance of primary health care (PHC) services as a whole using specific indicators. To facilitate this analysis, the key indicators are grouped by type: input, process, output, quality, efficiency and outcome, to ask if the indicators have improved over the three year (medium term) period and if targets were reached, as follows:<sup>54</sup>

---

<sup>52</sup> Comments from Alison Hickey, Budget Manager, Provincial Treasury of the Western Cape. 16 January 2007.

<sup>53</sup> Department of Health, undated. Part 3: Reporting Elements. Available from <http://www.doh.gov.za/docs/factsheets/guidelines/dhp/part3c.pdf>. (last accessed on 3 May 2006).

<sup>54</sup> Department of Health, undated. Part 3: Reporting Elements. Available from <http://www.doh.gov.za/docs/factsheets/guidelines/dhp/part3c.pdf>. (last accessed on 3 May 2006).

- ✦ Were enough inputs provided to achieve the objectives (e.g. project funding available; nurses per population)?
- ✦ Were the processes in place to allow objectives to be achieved (e.g. transport provision; community committees)?
- ✦ Were the inputs used efficiently (e.g. tracking spending; nurse workload)?
- ✦ Have those inputs and processes produced the expected outputs (e.g. number of patients receiving ARV drugs; counseling sessions/ home visits conducted)?
- ✦ Is the quality of care satisfactory (e.g. improved patient treatment; doctor attendance)?
- ✦ Have the inputs, processes and quality changes resulted in the achievement of the expected outcomes (e.g. better health leading to reduced inpatients; tuberculosis cure rate)?

Table 2 below provides an example of performance indicators for the HIV/AIDS/STI/TB control programme over three years reported through the District Health Services.

University of Cape Town

**Table 2: Performance indicators for HIV and AIDS service delivery**

Indicator	1999/00	2000/01	2001/02	National target by 2005
<b>Input</b>				
1. Total dedicated expenditure on HIV/AIDS activities (sub-programme)				
2. Percentage of public PHC facilities** where condoms are freely available				100%
3. Percentage of provincial hospitals and fixed PHC facilities** offering VCT				
4. Percentage of facilities of all types offering syndromic management of STIs				
5. Number of health districts using Directly Observed Treatment Short-course (DOTS) (with names)				All districts
6. Number of TB/HIV health districts (with names)				
7. Percentage of TB cases with a DOT supporter				
<b>Process</b>				
8. HIV/AIDS plan formulated with stakeholders				
9. Percentage of TB cases reported on				100%
<b>Output</b>				
10. Number of people trained in syndromic management of STIs				
11. Smear positive PTB cases as percentage of all PTB cases				50-70%
12. New smear positive PTB cases as percentage of expected number of cases				70%
<b>Quality</b>				
13. Average TB specimen: non around time				< 45 hours
14. Percentage of TB cases who are being re-treated				6-8%
15. Percentage of new smear positive PTB cases who interrupt treatment				< 10%
<b>Efficiency</b>				
16. Percentage of dedicated HIV/AIDS budget spent				100%
<b>Outcome</b>				
17. Antenatal HIV seroprevalence rate				
18. Syphilis prevalence rate at sentinel sites				
19. PTB smear conversion rate at 2 months for new cases				> 85%
20. PTB smear conversion rate at 3 months for re-treated cases				> 80%
21. Percentage of new smear positive PTB cases cured at first attempt				> 85%
22. Percentage of TB cases that are MDR				< 1%

Source: Department of Health, undated. Part 3: Reporting Elements. Available from <http://www.doh.gov.za/docs/factsheets/guidelines/dhp/part3c.pdf>. (last accessed on 3 May 2006).

#### 5.4 Linking performance reporting with public finance regulations

##### *Fourie's analysis*

David Fourie (undated) of the School of Public Management and Administration, University of Pretoria analysed the essence of annual reports and the Public Finance Management Act (PFMA) with the purpose of understanding attempts made by the South

African government in ensuring good performance in resource allocation and utilization.<sup>55</sup>

In terms of Section 27(4) of the PFMA, the Department of Health is required to report on measurable service delivery objectives. In line with the PFMA, the revised budget format requires the Department to develop an indicator of service delivery for each output that is defined. It is important to distinguish between workload statistics and output or quantity measures. Workload statistics tell us about the inputs or activities of a programme. Output or quantity measures describe how well the programme is performing. This may refer to how much or how many of the outputs were achieved. It often includes criteria or benchmarks that may be used in measuring progress. Output or quantity indicators therefore are often expressed in terms of percentages, ratios and rates in certain cases, absolute numbers, and in many instances refer to a measurable time period. Fourie, undated.

Fourie argues that the PFMA adopts an approach to financial management that focuses on outputs and responsibilities rather than the rule-driven input approach as set out by the previous Exchequer Acts. According to the National Treasury Guidelines, departments have an obligation to inform the citizens of what they intend to achieve against pre-determined objectives. These pre-determined objectives are reflected in the departmental strategic plans and must be tabled in Parliament every year to complement the Minister of Finance's Budget Speech. Published strategic plans within two weeks of the Budget Day demonstrate to the legislatures and the public that the Department's operations are transparent.

Strategic planning cannot be developed in isolation but should rather be the result of thorough consultation with all relevant stakeholders. The reporting cycle begins with the strategic plan of the Department. During the strategic planning process, strategic objectives must be determined which must be in line with the vision of the Department. These objectives are reflected in the annual budgets and the performance of the Department will be measured against these set objectives...It should be noted that the strategic plan addresses the key areas on which the Department should focus in support of government's policy priorities, as well as the strategies to achieve them. Furthermore, it is an essential tool, enabling

---

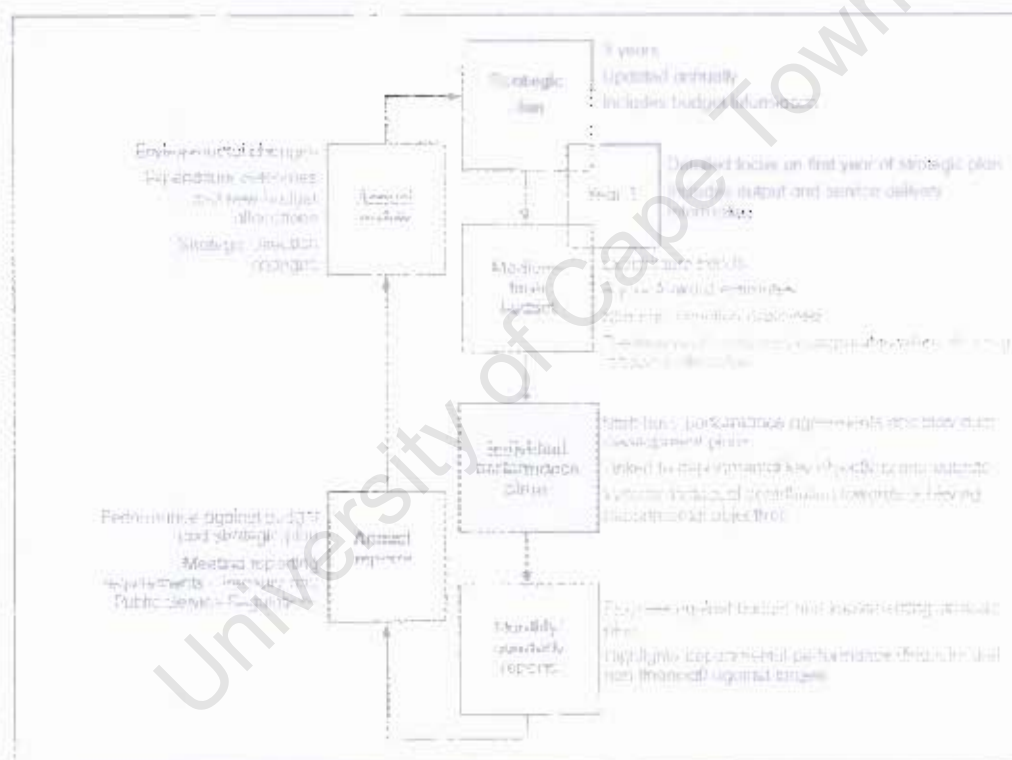
<sup>55</sup> Fourie, D. Annual Report and the Public Finance Management Act. Available from [http://www.hst.org.za/uploads/files/chapter7\\_01.pdf](http://www.hst.org.za/uploads/files/chapter7_01.pdf). (last accessed on 2 May 2006).

accounting officers and managers to achieve government's objectives, to address financial management and service delivery problems, and to ensure that services are delivered in the most economical, effective and efficient manner.

Fourie, undated.

In addition, "the strategic plans provide essential information for the legislatures to assess proposed programmes and funding. They also enable the legislatures to evaluate departmental performance when performance measures and indicators are published in annual reports" (Fourie, undated). Fourie (Ibid) clearly depicts the planning process to link planning, budgeting and reporting as follows:

### Illustration 1: Planning, budgeting and reporting cycle



Source: National Treasury: Guidelines for Annual Reporting, December 2000.

According to the cycle illustrated above, the National Treasury considers the following information to be important for scrutinising draft departmental strategic plans alongside budget submissions and departmental reports:

- ↓ Concise departmental aims, analogous to vision and mission statements;

- ✦ An indication of the key departmental objectives, based on constitutional and legislative mandates, as determined by the responsible Minister or MEC, which are outcome related and support government's priorities;
- ✦ The core and support activities (strategies and outputs) necessary to achieve each of these objectives;
- ✦ Service delivery indicators and milestones or 'targets' to measure the achievement of departmental key objectives;
- ✦ The resources needed for each departmental objective over a 3-year period, including investment capital and information technology expertise, special systems, skills development, a human resources strategy and the utilisation of fixed and moveable assets;
- ✦ Information on interdepartmental linkages, where two or more departments contribute towards the delivery of the same objective or project;
- ✦ Functions the Department will perform internally and those it may contract out, and;
- ✦ Any other factors relevant to the achievement of the objectives approved by the executive authority.

In addition, 'for the Department to be able to report intelligently and systematically on performance instead of just on their activities, supporting monitoring and evaluation systems and information systems are a prerequisite.' Notably, increased output does not always signal value for money. Other measures such as quality, efficiency, timeliness and sustainability are important. Fourie (undated) continues to argue that indicators should be simple, clearly expressed and specific. Developing service delivery indicators is not an end in itself. Setting targets and measuring progress towards those targets are the next steps in improving service delivery information in the budget. Service delivery indicators help the Department to set delivery levels and assess performance against the targets.<sup>56</sup>

---

<sup>56</sup> Fourie, D. Undated. Annual Report and the Public Finance Management Act. Available from [http://www.hst.org.za/uploads/files/chapter7\\_01.pdf](http://www.hst.org.za/uploads/files/chapter7_01.pdf). (last accessed on 2 May 2006).

### *NDOH's examples*

The National Department of Health (2005) also confirms the value of using performance measures or indicators in monitoring and evaluating strategic plans and the implementation of policy priorities.<sup>57</sup>

Whilst the Department of Health has instituted and had reported quarterly on achievement of targets in strategic plans for the past two years [2003 – 2004] the quality of the data was often poor. We have argued that it is through the use of the data for planning and management at all levels of the system that the quality of data will improve. Clearly additional capacity and skills are also required. From the first quarter of 2006/07 financial year the reporting of non-financial data against activities in the strategic plans (which we agreed should be called Annual Performance Plans) will become mandatory. In addition, there will be a requirement that the quarterly reports be published on the Department's website and therefore becomes public information. This represents another reason for urgent attention to improvement in data quality between now and the end of this financial year! Department of Health, 2005.

Table 3 below shows a detailed planning and budget cycle for 2007/08 to 2009/10. It re-emphasises the importance of linking planning to resource allocation as only through this joint process would a truly performance-based budget process be ensured.<sup>58</sup>

---

<sup>57</sup> National Department of Health. 2005. Strategic Planning Newsletter No 3, November 2005. Available from <http://www.doh.gov.za/docs/newsletter/stratplan/nov05.pdf>. (last accessed on 3 May 2006).

<sup>58</sup> Ibid.

**Table 3: Planning and Budget Cycle**

**Supplement to *Strat Plan Newsletter No 3: Planning and Budget Cycle for 2007/08 to 2009/10***

Time Frame	Planning Activity	Output
January – March 2006	The National Health Council meets in January 2006 and sets priorities for the National Health System (NHS) for 2007/08 to 2009/10	NHS Priorities for the 3-year planning cycle
	Provincial DoHs communicate the NHS priorities to Provincial managers. Provincial DoHs produce Part A of the Provincial Strategic Plans (PSPs) for 2007/08. Each develops a Draft PSP (extended Part A with the budget)	Draft PSP (extended Part A)
	Districts draft Operational Plans for 2006/07 (and ensure links to IDPs)	District Operational Plans
April-June 2006	Provincial DoHs submit their Draft PSP for 2007/08 to the NDOH (extended Part A) by the 30 <sup>th</sup> May 2006	Draft PSP (extended Part A)
	National DoH produces an integrated Annual Health Plan for the National Health System as required by the National Health Act of 2003	Integrated Annual Health Plan for 2007/08
	Annual National Health Plan informs budget discussions between health sector and National Treasury, particularly the first 10x10 meeting in June 2006	Health Sector Bid based on the Annual National Health Plan
	Districts conduct District Health Expenditure Reviews for 2005/06	DHER Reports
	Districts produce Annual Reports for 2005/06	District Annual Reports
July-September 2006	Health sector submits Ministerial Letters to Treasury by 01 July 2006	Health sector bid to Treasury
	Provincial DoHs finalise their PSPs (both Part A and Part B)	Final Provincial Strategic Plans
	Districts produce District Health Plans for 2007/08, due by the 30 <sup>th</sup> September 2006	3 year District Health Plans consistent with Provincial (and National) priorities
	MTEC Hearings take place in September 2006	Initial outcome of health sector bid to Treasury
	Provincial Annual Report for 2005/06 due by the 30 <sup>th</sup> September 2006	Provincial DoH Annual Report
October-December 2006	MTEC approved in November 2006	Final resource envelope for the health sector for 2007/08 to 2009/10
	Provinces review performance during 2006/07 and identify priorities for 2008/09	Provincial reviews and priorities
	Districts review performance during 2006/07 and identify priorities for 2008/08	Provincial reviews and priorities
January-March 2007	National Health Council meets in January 2007 and sets priorities for the National Health System (NHS) for 2008/09 to 2010/11, taking into account provincial priorities	NHS Priorities for the 3-year planning cycle
Quarterly	Assess implementation of plans and draft quarterly reports for discussion by management	Quarterly progress reports

Source: National Department of Health. 2005. Strategic Planning Newsletter No 3, November 2005.

In addition, the Department of Health (2003) has specific ‘Guidelines for District Health Planning and Reporting’ as published in April 2003.<sup>59</sup> These guidelines provide an understanding that preparing annual reports would help managers analyse and present:

- Background information, such as geographic, demographic and socio-economic information.

<sup>59</sup> Department of Health. 2003. Guidelines for Health Planning and Reporting. April. Available from <http://www.doh.gov.za/docs/factsheets/guidelines/dhp/index.html>. (last accessed on 2 May 2006).

- The current health situation, including basic health indicators, incidence and prevalence rates, and main causes of death.
- The distribution and condition of health facilities.
- Health expenditure, by budget sub-programme and standard item.
- Service delivery performance for each budget sub-programme, including the use of resources and key performance indicators.
- Key challenges, based on the situation analysis and performance review.
- Short-term actions.

### 5.5 Lessons from the National Treasury's Medium Term Expenditure Framework

The National Treasury describes the South African budget process as a comprehensive process which provides budget estimates for multi-year expenditure, being informed by inputs from both national and subnational (provincial) levels. This is encompassed in the Medium Term Expenditure Framework (MTEF) which details 3-year rolling expenditure and revenue plans for national and provincial departments. "The MTEF budget process is designed to match the overall resource envelope, estimated through 'top-down' macroeconomic and fiscal policy processes, with the bottom-up estimation of the current and medium-term cost of existing departmental plans and expenditure programme" (National Treasury, 2004).<sup>60</sup>

"Formulating an MTEF differs from annual budgeting. In annual budgeting, the amount allocated to spending programmes is adjusted incrementally, with hardly any alignment to policy priorities. An MTEF provides the 'linking framework' that allows expenditures to be 'driven by policy priorities and disciplined by budget realities'."

National Treasury, 2004

In addition, the budget process (National Treasury, 2004) allows Government to:

- strengthen and evaluate the alignment between medium and long-term plans and funding proposals;
- revise its policy priorities, macroeconomic framework and resource envelope;
- evaluate departmental plans and allocate available resources in line with policy priorities;

<sup>60</sup> National Treasury. 2004. The Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2005 MTEF. Government of South Africa.

- ↓ involve various role-players that provide political and technical advice when faced with trade-offs between competing spending priorities, and;
- ↓ obtain the required authority from Parliament and provincial legislatures to spend.<sup>61</sup>

The purpose of the budget process is to apportion resources in line with Government's policy priorities for the next few years. "The policy review part of the [budget] process is designed so that it informs departmental and agency planning and budgeting, and guides the National Treasury in the evaluation of budget proposals."<sup>62</sup>

Given the opportunity presented by the new term of Government, key enhancements are introduced in the planning and budgeting cycle of national and provincial governments. The main reform is to align the planning and budgeting cycle with the election cycle. This means that key policy priorities that the new Government will tackle in the next five years should form the basis of departmental planning and budgeting. Departments are therefore requested to prepare five-year strategic plans that will be formally presented to Parliament in February 2005, covering the period until 2009/10.

The budget proposals for the 2005 MTEF should be informed by the strategic planning process, particularly in terms of objectives, outputs and targets envisioned for the next five to ten years. In this way, budget proposals and strategic plans will speak directly to each other. The new strategic plan will stand for a five-year period but can be updated when needed. *Strategic plans will not be required in following years, but progress will be reported and material changes to targets noted in subsequent annual reports.* National Treasury, 2004.

The National Treasury confirms that the *Estimates of National Expenditure (ENE)* raises the level of Government's commitment to budgetary transparency and accountability through its consolidation of national department strategic policy priorities, spending and delivery plans. The ENE summarises the more detailed 3-year strategic plans that departments are required to publish, outlining programme measurable objectives and service delivery targets. It indicates how these plans are resourced through departmental MTEF allocations. It also provides the basis for departmental reporting on service delivery progress against plans in departmental annual reports, completing the

---

<sup>61</sup> National Treasury. 2004. The Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2005 MTEF. Government of South Africa.

<sup>62</sup> Ibid.

accountability cycle (Manuel, 2003).<sup>63</sup> Manuel (2003) assured that the National Treasury will continue to work in partnership with departments, enhancing and strengthening the measurable objectives, output measures and service delivery target information as set out in the annual ENE. The publication of measurable objectives for each programme, in line with the PFMA, reflects a commitment to improved service delivery, greater transparency and increased accountability.

In preparing the 2007/8 budget, the National Treasury requests national departments to advise their Ministers of key policy priorities and their financial implications in time for the submission of the Ministerial letter; submit copies of draft annual reports and draft financial statements for 2005/6; and to submit their 2007 MTEF budget proposals to the National Treasury. In addition, sector specific strategic plans together with the budget submission must be submitted to the respective provincial treasuries. Once the process has been conducted budget analysts (from June to August) from the National Treasury *are* available to work closely with departments in preparing their budget proposals and preparing for the MTEC hearings (National Treasury, 2004).<sup>64</sup>

*In summary, “planning and budgeting are closely related processes. Planning guides preparation of the MTEF budget proposals that are submitted to the relevant treasury. These proposals are evaluated against Government’s priorities and recommendations on medium-term allocations made to Cabinet, or the relevant provincial executive council.”*<sup>65</sup>

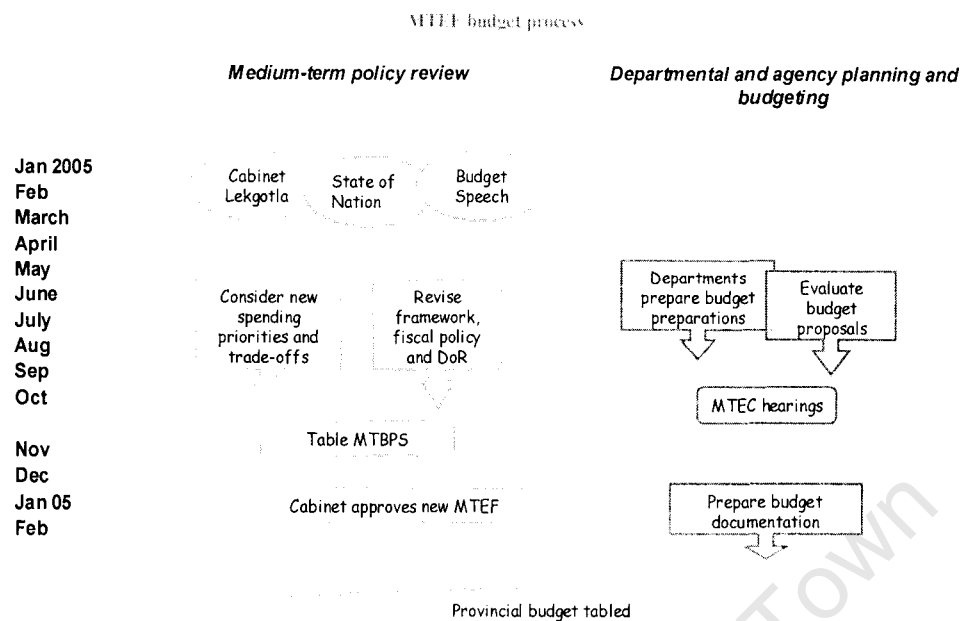
---

<sup>63</sup> Manuel, T. 2003. National Assembly: Introductory Remarks on Vote 8: National Treasury, the South African Revenue Service and Vote 13: Statistics South Africa. 9 June. Available from <http://www.treasury.gov.za/speech/2003060901.pdf>. (last accessed on 2 May 2006).

<sup>64</sup> National Treasury. 2004. The Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2005 MTEF. Government of South Africa.

<sup>65</sup> National Treasury. 2004. The Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2005 MTEF. Government of South Africa.

## Illustration 2: The Medium Term Expenditure Framework



Source: Adopted from Western Cape Treasury, 2006. "SA Intergovernmental Fiscal System: Provincial Perspective," Presentation to the Vietnamese Delegation, 31 March.

Illustration 2 depicts that the South African budget process is aligned to performance-based budgeting because it incorporates all the necessary stages or items applicable to the a true performance budget. The process is concisely described below.

The Western Cape Treasury (2006) reports that this country's budget process is 'at the heart of government' because it is 'guided by policies, priorities & making trade-offs', 'not a bean-counting process', and 'co-ordinates planning, budgeting, policy development and implementation'. The Budget is reportedly 'collectively agreed in Cabinet', and 'involves consultation with provinces and local government through Budget Council, Budget Forum and Extended Cabinet (Premiers and South African Local Government Association (SALGA)'. Finally, budget approval after tabling 'involves the role of finance committee, standing committees, Joint Budget Committee and portfolio committees'.<sup>66</sup>

<sup>66</sup> Western Cape Treasury, 2006. "SA Intergovernmental Fiscal System: Provincial Perspective," Presentation to the Vietnamese Delegation, 31 March.

The actual budget process attempts to link objectives with inputs, outputs, and outcomes, as recommended in the Performance Based Budgeting theory. The resource allocation process (budgeting) has various detailed stages or steps budgeters have to go through to finally reach certain amounts of resources allocated, as outlined by Muradzikwa (2005) above.

## **5.6 Using performance to estimate expenditure**

The National Treasury guidelines also provide a clear description of how planning and budgeting should be kept together to deliver policy priorities and programmes. Annual Reports are used as one of the tools for measuring or assessing performance, against the strategic plans and available budgets. National Treasury (2004) asks some key questions to determine to what extent government departments have met the policy goals. These include:

- Are departmental strategic objectives and planned outputs aligned with the core functions and mandates of the department?
- Are planned outputs and deliverables still relevant?
- Have service delivery commitments and targets been met?

National Treasury also stipulates that if the departments fail to align themselves with government priorities and spending plans they will have to take a much more extensive review of their delivery plans in relation to Government's medium-term policy and spending priorities. That is, the 2004/5 Annual Report would therefore serve as a key input for the 2005/6 budget process by reporting on what was achieved in 2004/05 and what outputs are foreseen in 2006/07.<sup>67</sup>

Furthermore, the medium term expenditure committee (MTEC) holds hearings, usually in August/September, to review departments' budget proposals. The budget proposals should be reviewed in line with National Treasury guidelines, namely:

- The proposed revisions to the department's medium-term plans and the link to Government's broad policy priorities and key challenges identified for each of the sectors;
- The credibility of the costing and affordability of the new proposals;

---

<sup>67</sup> Western Cape Treasury, 2006. "SA Intergovernmental Fiscal System: Provincial Perspective," Presentation to the Vietnamese Delegation, 31 March.

- The department's ability to implement their new proposals over the MTEF period based on past performance and expenditure trends, and;
- The outputs to be achieved in support of measurable objectives.

Outcomes of such proposals or discussions are reported to the Ministers' Committee on the Budget and Cabinet (Mincom Bud) who then consider each of the new policy proposals and their funding implications, in conjunction with the Treasury's own analysis. In case there are proposed changes to the MTEF programme allocations to national votes, and provincial and local government conditional grants, these will be communicated through Treasury allocation letters to departments and provincial treasuries. "Once final allocations letters have been received, departments are required to revise their plans for the [strategic plan] period and to pay particular attention to priority policies and strategies and to the affordability of their planned outputs" (National Treasury, 2004).<sup>68</sup>

To ensure that the budget process links with desirable performance a coherent system of planning, budgeting and reporting is maintained, including holding individuals accountable for their jobs in implementing the budget. All these characteristics of the South African budget process provide compelling evidence that the country's budgeting processes and systems are largely *performance-based*.

Nonetheless, despite the National Treasury's vital budget process, the Western Cape Treasury (2006) reports that there remain some challenges in the whole process. Some of these are:

- Improving capacity (systems, human – modeling, analysis, finance, etc)
- Strengthening the planning, budgeting and reporting links - moving further towards an output orientation
- Improving intergovernmental co-ordination further across and within spheres
- Poor performance (output) information in strategic plans

---

<sup>68</sup> National Treasury. 2004. The Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2005 MTEF. Government of South Africa.

**Table 4: Departmental and agency planning and budgeting based on 2005 budget process**

May – August	Departments prepare 2005 MTEF budget proposals
August - September	MTEC hearing
November	Cabinet approves 2005 MTEF
November	Allocation Letters to departments
November	Departments submit first draft of budget estimates
February 2005	2005 Budget is tabled
February/March	Tabling of provincial budgets

**Source: Adopted from the National Treasury (2004) Guidelines.**

The National Treasury admits that there are challenges, but emphasizes that “strengthening the link between Government’s priorities and spending plans is not an end in itself. The goal is to improve delivery of services and ultimately the quality of life of people throughout South Africa.”<sup>69</sup> From a Performance Based Budgeting perspective, the National Treasury reports that *“measurable objectives provide a basis for the formulation of sub-programme outputs and service delivery targets. Increasingly, measurable objectives and planned outputs will be used as the basis for budget allocation decisions, monitoring service delivery, and performance reporting on a quarterly and annual basis”* (National Treasury, 2004).<sup>70</sup>

Interestingly, the National Treasury (2004) is proactive in ensuring that resources are linked with plans and outcomes. This is taken in account when preparing new MTEF proposals by both national and provincial departments. The government departments are encouraged to improve ‘the alignment between Government’s priorities, departmental plans, existing medium-term allocations and expected service delivery milestones and targets’; ‘review the programme structure, purpose and measurable objectives’; ‘accommodate new priorities within the baseline allocation through reprioritisation’; and ‘consider public-private partnerships (PPPs) as a possible delivery mechanism for infrastructure and other large projects, and where it is found to be the preferred option, to include the relevant payment’.<sup>71</sup>

<sup>69</sup> National Treasury. 2004. The Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2005 MTEF. Government of South Africa.

<sup>70</sup> Ibid.

<sup>71</sup> Ibid.

## 5.7 Appropriateness of CGs and ES funding channels

Preliminary studies have reported on the appropriateness and effectiveness of conditional grant transfers and equitable share allocations for HIV and AIDS (Hickey, 2003a; Hickey 2003b; Hickey, Ndlovu & Guthrie, 2003; Hickey, 2004; Ndlovu, 2005).<sup>72 73 74 75 76</sup> Research has also shown how pivotal these funding channels are to the funding and implementation of HIV and AIDS interventions in South Africa. That is, the main question for this study was what PBS is and what are its advantages and disadvantages. The second question was how does this PBS framework fit in with budgeting for HIV and AIDS?

Information from provinces shows that conditional grants continue to be seen as appropriate for funding of HIV and AIDS services at provincial level. This is partly due to the fact that provinces are assured that they have resources ringfenced from National DOH to fund their HIV and AIDS programmes. This is more important in provinces where large demands such as infrastructural backlogs and poverty must compete with the delivery of health services for scarce resources in the budget process. Provincial demands other than HIV and AIDS may attract equitable share money away from HIV and AIDS programmes due to two main reasons:

- HIV and AIDS programmes already receive substantial allocations through conditional grants and thus provincial treasuries may argue that these priorities are already adequately funded and do not require additional allocations from the ES.
- Other provincial priorities need urgent attention from the provincial treasuries to allocate resources in line with other nationally identified policy priorities.

---

<sup>72</sup> Hickey, A. 2003a. What are provincial health departments allocating for HIV/AIDS from their own budgets? Budget Brief No. 135. 1 December. AIDS Budget Unit – Idasa.

<sup>73</sup> Hickey, A. 2003b. Provinces improve spending on conditional grants for HIV/AIDS health programmes. Budget Brief No. 136. 8 December. AIDS Budget Unit – Idasa.

<sup>74</sup> Hickey, A. Ndlovu, N and Guthrie, T. 2003. Budgeting for HIV/AIDS in South Africa: Report on intergovernmental funding flows for an integrated response in the social sector. AIDS Budget Unit – Idasa.

<sup>75</sup> Hickey, A. 2004. New allocations for ARV treatment: An analysis of 2004/5 national budget from an HIV/AIDS perspective. Occasional Paper. 31 May. AIDS Budget Unit – Idasa.

<sup>76</sup> Ndlovu, N. 2005. Budget allocations for HIV and AIDS in 2005/6 provincial social sector budgets: Implications for improved spending. Budget Brief No. 156. 5 August. AIDS Budget Unit – Idasa.

From a policy perspective, the Comprehensive Plan for HIV and AIDS in South Africa is seen as one of the best in the world, but its principle rigour is not sufficiently supported by required financial resources. Performance based budgeting requires that sufficient resources are made available in line with needs and costs. Nevertheless, this research found that on the whole provincial HIV and AIDS managers are happy with the way conditional grants have been allocated and used to fund their programmes. Moreover, “conditional grants for HIV and AIDS are best monitored and reported than any other conditional grant in the government system.”<sup>77</sup>

Anecdotally the HIV and AIDS issue has been politicized and prioritized both at political and social levels and government responses to the epidemic are continuously scrutinized by civil society, Parliament (to some limited extent) and the media, putting more pressure on provincial departments to spend more to achieve set targets. Other conditional grants are equally important in delivering government policy but most attention has been paid to HIV and AIDS implementation. For instance, provinces have been criticized for their slow implementation of their Hospital Revitalisation Grant but there is not much pressure put on the utilization of this grant by civil society, Parliament or media.

### **5.8 Western Cape findings**

The Western Cape experience of HIV and AIDS resource allocation indicates that even though spending is performance-based, the issue of sufficiency of funding is not well addressed as there are still many gaps in the delivery of HIV and AIDS services, such as waiting lists in the rollout of ARVs and high co-infection rates for tuberculosis.<sup>78</sup> Ms Smuts reported that the gap in service delivery gets bigger as the needs increase. Other gaps relate to high staff turnover, adherence, monitoring and evaluation, and a disjuncture between planning and funding.

The Western Cape experience challenges the performance-inclination of the South African budget by stating that HIV and AIDS allocations are not sufficient when recognizing the existing capacity to spend. For instance, the Western Cape proved that

---

<sup>77</sup> Information sourced from a telephone interview with Mark Blecher, Director of the Social Services Cluster: National Treasury. 26 April 2006.

<sup>78</sup> Information sourced from a meeting with the Western Cape HIV and AIDS programme Director Ms Smuts and ARV Programme Coordinator Dr. Neviline Slingsers. 6 April 2006.

they could deliver more ARVs to patients and required more resources to do so.<sup>79</sup> Unfortunately, no additional allocations were made through the conditional grants to expand the programmes and to go ahead with set targets. A truly performance-based budget process would have recognized Western Cape's capacity to deliver more services and to spend more, and provide them with necessary resources. Due to the formula utilized by NDOH, the conditional grant system did not reward WC for their ability to spend and deliver.

## **5.9 Free State findings**

According to the Free State experience, the allocation process of conditional grants has been viewed as 'unfair' as it is described as 'serving the needs of the bigger provinces' which are usually better off with regard to service delivery. Understandably so the bigger provinces such as the Eastern Cape, KwaZulu-Natal and Gauteng are characterized by a bigger burden of the AIDS disease in absolute terms. The HIV prevalence rates in the Free State have increased from 29.5% in 2004 to 30.3% in 2005. Free State shares only 6.2% of the total national population (2.9 million people). KZN and Gauteng have far higher HIV prevalence rates as well as population sizes than the Free State.

According to FS officials, spending of Equitable Share allocations is insufficiently monitored, resulting in unclear outputs produced through the ES spending.<sup>80</sup> Further, the Free State HIV and AIDS programme staff reported that it is very difficult to say where exactly the money is spent, especially where AIDS patients are presenting with various opportunistic infections which may not be directly linked to their HIV status.

On discretionary spending, the Free State also reported that "the ES is unable to cover the HIV and AIDS expenditure especially around indirect HIV and AIDS services." Given the fact that the ES money is discretionary, it means that some HIV and AIDS related services could still be missed out if they are not clearly targeted in the ES expenditure plans.

---

<sup>79</sup> Information sourced from a meeting with the Western Cape HIV and AIDS programme Director Ms Smuts and ARV Programme Coordinator Dr. Neviline Slingers. 6 April 2006.

<sup>80</sup> Meeting with the Free State health HIV and AIDS programme staff. 2005.

Fortunately, “Provinces through the Division of Revenue Act (DORA) may influence the budget process activities to meet the amount prescribed or required”<sup>81</sup> through consultation with budget decision-making structures with the Budget Council as the key structure. This gives the provinces the opportunity to directly link the policy priorities with budgets and implementation plans. This is a very important point in the performance based budgeting theory.

Reportedly, the ARV programme was designed to strengthen health services through provision of ARV treatment in the public sector. The programme is funded through conditional grants whose conditions do not allow the strengthening part of the programme because “unfair demands are made on CGs – things that couldn’t be funded from any other source are now forced to access CG spending and labeled as ‘strengthening items’ of the health sector.” Accordingly the Free State staff declared that this practice is contradictory to the whole purpose of the conditional grant allocations.<sup>82</sup> Basically this practice introduces too much flexibility in spending which may result in some priority activities, such as ARV rollout, being sidetracked because the money is shifted to other activities the province may see require more resources. This may be viewed as good practice but discredits the purpose of spending more on the ARV programme which automatically boosts the general health system.

### **5.10 Mpumalanga findings**

Mpumalanga health HIV and AIDS programme staff Mr. Dumi Nkosi (ARV Programme Coordinator) and Mrs Zale Madonsela (Senior Manager: AIDS, TB and STI Unit), presented an interesting picture of the whole process of spending HIV and AIDS money in South Africa. They challenged the ‘flexibility’ of conditional grants which they described as ‘still inflexible’ because the process of shifting funds between programmes or subprogrammes is very slow and difficult. They stated that to be able to transfer money from one area to another, or from one subprogramme to another, you need to go through a slow reporting and requesting exercise which is complex to get permission from their departmental head who then motivates to the national health department to have the funding shift authorised.

---

<sup>81</sup> Meeting with the Free State health HIV and AIDS programme staff. 2005.

<sup>82</sup> Ibid.

The allocation of equitable share funds to HIV and AIDS may be difficult where and/or when HIV and AIDS is not at the top of the provincial list of priorities. “Also, there is a problem of backlogs of infrastructure, clinics and hospitals which seem to be more important than specific services such as HIV and AIDS.”<sup>83</sup>

As mentioned before, the fact that HIV and AIDS already receives CGs from national government may reduce the chances of HIV and AIDS getting much attention in the allocation of the ES funds. Interestingly, “HIV and AIDS programme staff do not have power and platform to bargain for the needs of their programme. They only bargain through the provincial health department’s chief financial officer (CFO) who might have other priorities other than AIDS.”<sup>84</sup>

Thus, “CGs are still important as a mechanism for channelling funds for HIV and AIDS simply because it is difficult to get ES money.”<sup>85</sup> However to improve on resource allocation and spending on HIV and AIDS Mpumalanga programme staff recommended the following:<sup>86</sup>

- ⇒ National Treasury should stipulate how provinces should fund HIV and AIDS from the ES budget, e.g. by stipulating that a certain percentage be reserved for AIDS, TB and STI services;
- ⇒ In addition, National Treasury should alter the criteria for splitting the health HIV and AIDS conditional grant to allow conditional grant funds follow the ARV treatment demand;
- ⇒ Provincial treasuries should ensure that more spending follows the distribution of patients. For example, if more hospital/ clinic out-patients are accessing HIV and AIDS services it means more money should be allocated to the OPD departments, including increased HR support;

---

<sup>83</sup> Meeting with Mpumalanga health HIV and AIDS programme staff, Mr. Dumi Nkosi (ARV Programme Coordinator) and Mrs Zale Madonsela (Senior Manager: AIDS, TB and STI Unit), February 2006.

<sup>84</sup> Ibid.

<sup>85</sup> Ibid.

<sup>86</sup> Ibid.

⇒ National Treasury should recommend that some money be spent on awareness activities specific to the promotion of the ARV programmes. This would improve access to the programme as well as facilitate adherence and the comprehensiveness of the ARV rollout and all HIV and AIDS services. Nevertheless there are sufficient systems for monitoring – including transport services to track patients

National Treasury should increase resources for HIV and AIDS because great achievement/ serious strides are already made but thousands of AIDS patients still require HIV and AIDS general services prior to reaching the stage of swallowing the ARV pills. Most of the AIDS money is spent on people not swallowing the ARV pill. In this respect, money should follow the load of patients again: if more people are accessing VCT and STI treatment more than ARVs, then more money should be spent at these service points.<sup>87</sup> Notably the CG does not include specific allocation for prevention – so the National Treasury should look into this to make a balance between prevention and treatment (and balance the prevention activities at both national and provincial levels) (Ibid).

### **5.11 KwaZulu-Natal findings**

According to the KwaZulu-Natal experience, the devolution process has played a major role in determining and distributing required resources for HIV and AIDS. Basically the devolution process involves delegation of some planning, budgeting and management powers by the provincial health department to its district and/or lower level management structures. “The devolution process helps foresee programmes being unfolded – to avoid top-down processes – and to develop, cost and budget [for programmes and plans] consultatively.”<sup>88</sup> This is in fact an application of performance-based budgeting at sub-national level, facilitating the process between provincial and district levels.

---

<sup>87</sup> Meeting with Mpumalanga health HIV and AIDS programme staff, Mr. Dumi Nkosi (ARV Programme Coordinator) and Mrs Zale Madonsela (Senior Manager: AIDS, TB and STI Unit), February 2006.

<sup>88</sup> Meeting with Reverend D. Thango, Acting Manager: Faith Based Organisations, Provincial AIDS Action Unit (PAAU), KwaZulu-Natal Department of Health. 26 September 2005.

## **5.12 Northern Cape findings**

The Northern Cape staff of the HIV and AIDS, STI and TB programme<sup>89</sup> expressed how complex HIV and AIDS issues are in determining resources and planning a response. They challenged the extent to which spending matches up with outcomes. The outcomes identified included the increasing HIV prevalence rates which do not seem to be affected by increased awareness messages and spending. The notion of crowding out of other health services by HIV and AIDS spending was also highlighted, as the provincial officials reportedly noticed the shift in resources as more and more HIV and AIDS services were demanded.

The meeting with the Northern Cape staff also provided information that a truly multi-sectoral response is required to respond to HIV and AIDS, or else financial resources would be pulled to one direction, thereby enhancing crowding out of other services. A multi-sectoral approach would 'conduct weighting of HIV and AIDS responsibilities [between and within sectors] to decide on allocation'.<sup>90</sup> This would be ensured through a transparent and truly performance-based budgeting framework which could better weigh the demands and distribute resources accordingly.

## **5.13 Critical observations**

Western Cape government officials had expressed that the Comprehensive Plan has not been evaluated, at a national level, to see if what it calls 'minimum standards of quality' are met. Standards are set according to policy priorities and relevant theoretical frameworks. If standards are not reviewed timeously policy implementers may not know if they are still delivering on the right standards and priorities.<sup>91</sup> Ironically budget and policy monitoring and evaluations form a principally important part of a performance-based budgeting system.

The main concern for some provincial HIV and AIDS managers and coordinators is on how the actual amounts of CGs for HIV and AIDS are determined. In some instances

---

<sup>89</sup> Meeting with the Northern Cape HIV and AIDS, STI and TB Unit staff. 22 September 2005.

<sup>90</sup> Meeting with the Northern Cape HIV and AIDS, STI and TB Unit staff. 22 September 2005.

<sup>91</sup> Information sourced from a meeting with the Western Cape HIV and AIDS programme Director Ms Smuts and ARV Programme Coordinator Dr. Neviline Slingers. 6 April 2006.

such as in the Western Cape the HIV and AIDS business plans have demanded more resources to fund the growing provincial HIV and AIDS programme but the conditional grants to the province have not grown accordingly. Provincial officials say even though there is some transparency in the budget process, critical factors from the province's viewpoint are not taken into account. This leads to frustration where the demands for services is not met reportedly because the resources are not allocated according to the provincial business plans, but through pre-determined estimates from National Treasury for which the business plans are designed. This is contrary to the principles of PBS which require that resources are allocated according to need, objective and pre-determined outcomes. As mentioned before, National Treasury should alter its conditional grant formula to distribute financial resources adequately according to demonstrated provincial performance, need, spending capacity, previous achievements, etc.

#### **5.14 Concluding summary**

This chapter has provided a thorough orientation to the notion of Performance Based Budgeting and its applicability in the South African budgeting process. It has also shown that the South African National Treasury drives a thorough and comprehensive budget process for the better utilization of public finances. The National Treasury is concerned mainly with appropriate allocation and utilization of funds for maximum impact in line with government policy and legislation. Standards and systems put in place through the Public Finance Management Act (PFMA), medium term expenditure framework (MTEF), treasury guidelines and reporting requirements reinforce the principles of PBS. The overall objective of the National Treasury is to account for every cent spent through identification of proper, identifiable and measurable outputs and outcomes.

Resource planning, allocation, implementation and monitoring and evaluation for HIV and AIDS interventions seem to be strongly aligned with PBS. Examples from provinces indicate that budgets and expenditures are closely monitored through business and operational plans and expenditure reports. However in-year monitoring and evaluation must be strengthened to keep spending on track. That is, spending must be in line with departmental and programme HIV and AIDS goals, objectives and identified outcomes or impact. Most importantly, provinces are integrating PBS principles in their planning, resource allocation and implementation but they do not identify or explicitly label their

practice as PBS necessarily. Notably PBS stages and requirements are infused in various stages of budgeting for and implementation of HIV and AIDS activities housed in the broader health care system budget processes.

University of Cape Town

## **PART 4: CONCLUSION**

### **CHAPTER 6. RECOMMENDATIONS AND CONCLUDING DISCUSSION**

At this point it is very clear that performance-based budgeting is not a simple process. It is a multi-dimensional framework used to determine policy objectives, design programmes and/or plans, identify and provide inputs or resources, list costed outputs expected, and link all these with an ongoing monitoring and evaluation process. Findings indicated that singling out HIV and AIDS budgeting from the general budget process would run a risk of isolating just one programme of action from a highly unified, comprehensive package of health service delivery. This means that budgeting for HIV and AIDS activities needs to be analysed within the health sector budgeting framework. Notably the health sector itself also does not exist in isolation from other sectors. It is part of the social cluster of government together with the departments of social development and education (among others) which also provide budgets and programmes for responding to the epidemic.

Strategic plans and annual reports are the best sources of performance-based budgeting information as these documents tell us what the priorities are, how much is requested or made available to deliver the priorities, and how the implementation has fulfilled the policy objectives in the past. Specific indicators include output measures as well as expenditure data which tell us about operational and allocative efficiency. Through the Public Finance Management Act (PFMA) and treasury regulations, the National Treasury has compelled departments to budget, spend and report in line with PBS principles. Additional documents relevant to this notion are available from the National Treasury especially on expenditure figures and annual performance plans which are designed to improve utilization of scarce resources on governmental priorities.

The National Treasury is proactive in ensuring that resources are linked with plans and outcomes. The literature told us that the United Nations looks at performance-based budgeting as a corruption reduction tool. This is practically accurate as spending is directly linked to the satisfaction of objectives, with specific costed outputs measured. Vigorous systems such as the PFMA, treasury guidelines, and MTEF frameworks are in place to avoid corruption and wasteful spending of funds, including HIV and AIDS

monies. The lines of responsibility and accountability are not only set up for HIV and AIDS staff, but also for government officials in higher positions such as the heads of departments and chief financial officers. This means that there is pressure to spend according to set goals and in line with the formal regulations and systems. As reported from the Western Cape experience, “improved policy environment and improved performance better links policy, spending and delivery; [with] greater transparency – timely and larger coverage of public services” (Western Cape Treasury, 2006).<sup>92</sup> Furthermore, linking desirable performance with a coherent system of planning, budgeting and reporting holds individuals accountable for their jobs in implementing the budget plans.

In retrospect, policy developments for HIV and AIDS activities in South Africa have improved the standard and coverage of service delivery. With the two funding channels being used to deliver HIV and AIDS funds, both conditional grants and equitable share allocations require specific performance indicators to avoid wastage of resources. Clear measurable objectives are required to direct budget operations towards attainable goals and objectives. Conditional grants and ES funds are therefore vital channels for the funding of HIV and AIDS activities.

Special attention is still expected to be put on conditional grants and equitable share grants. Provincial information indicated that both these funding channels are essentially important, but there are some problems inherent in them. The main problem with conditional grants is that they serve as a disincentive in the allocation of provincially-sourced funds for HIV and AIDS. This simply arises from the fact that there are many competing demands attracting the attention in the allocation of provincial resources whilst HIV and AIDS already has some money allocated through national government’s conditional grants. The second problem with conditional grants is that HIV and AIDS provincial officials are not sufficiently involved and/or consulted to ensure that allocated grants are actually what is needed at provincial level. National Treasury should recognize variations in provincial needs and performance and incorporate these into their conditional grant allocation formula.

---

<sup>92</sup> Western Cape Treasury, 2006. “SA Intergovernmental Fiscal System: Provincial Perspective,” Presentation to the Vietnamese Delegation, 31 March.

On the equitable share, it is evident that at the provincial level most ES funds made available for HIV and AIDS are ‘guesstimated’ (negotiated as part of the regular provincial budget process which sees them competing with other provincial priorities through departmental bids). They are allocated according to the levels of competition between provincial priorities requiring funding from the provincial ES. Allocation of ES funds is somewhat confusing to the spending officials because serious planning starts once they know how much they will get from the ES, rather than the other way around.

It should be re-emphasised that CGs and ES are not budget processes or systems per se, but are mechanisms for sending the money to implementing departments. Where these channels deserve criticisms is on how they fail to deliver funds in line with performance budgeting. That is, the way in which amounts are determined and delivered to the implementing agent may prevent the delivery of sufficient outputs to catch up with the fast-growing epidemic. The Western Cape experience of failing to deliver more ARV drugs to AIDS patients simply because the budget is not enough proves that CGs and ES do not channel sufficient resources as required by the Western Cape HIV and AIDS programmes.

To answer one question of this research about advantages and disadvantages of PBS, firstly, it is important to make an assurance that the characteristics of PBS are already identified in the South African government budgeting system. The drawbacks are not on the framework per se, but on the speed and accuracy of channels used to transfer HIV and AIDS budgets to implementing bodies. To answer the second question on the extent to which general budgets and HIV and AIDS budgets are utilising the performance-based framework, it was made clear that HIV and AIDS budgeting forms part of a bigger comprehensive health care planning which already makes use of PBS principles and implementation in line with National Treasury regulations, the MTEF and the PFMA. Even though the budgeting process for HIV and AIDS is not wholly isolated, or fully independent, elements of reporting through indicators and annual reports of the health departments actually tell us how HIV and AIDS programmes are delivered in line with performance measures and output and outcome-based expectations.

Matsinhe (2005) highlighted some weaknesses of the traditional budgeting approach as ‘saying too little about what budgets are spent on’; ‘focusing on “inputs” not “outputs” or

“delivery”<sup>93</sup>; and failing to link budget utilisation and achievement of programme objectives.<sup>94</sup> The total HIV and AIDS conditional grant envelope is not divided between the nine provinces based on planned provincial programme priorities and objectives. This is clear evidence that the traditional budgeting patterns influenced resource allocation for HIV and AIDS. Further, with the lack of rigorous monitoring and evaluation systems in the public sector, it is difficult to discern if budget implementation has led to or failed to achieve specific targets.

Standards and systems put in place through the Public Finance Management Act (PFMA), medium term expenditure framework (MTEF), treasury guidelines and reporting requirements reinforce the principles of PBS. The overall objective of the National Treasury is to account for all spending through identification of proper, identifiable and measurable outputs and outcomes.

Finally, resource planning, allocation, implementation and monitoring and evaluation for HIV and AIDS interventions seem to be strongly aligned with PBS. Examples from provinces indicate that budgets and expenditures are closely monitored through business and operational plans and expenditure reports. However in-year monitoring and evaluation must be strengthened to keep spending on track. That is, spending must be in line with departmental and programme HIV and AIDS goals, objectives and identified outcomes or impact. Most importantly, provinces are integrating PBS principles in their planning, resource allocation and implementation but they do not necessarily identify or explicitly label their practice as PBS. Notably PBS stages and requirements are infused in various stages of budgeting for and implementation of HIV and AIDS activities.

---

<sup>93</sup> Conditional grants ensure that budgets or inputs are reserved for HIV and AIDS work. However there is less emphasis on the outputs to be achieved from conditional grant spending. HIV and AIDS programmes funded by conditional grants do not publicly provide disaggregated information to indicate outputs or indicators for every cent spent.

<sup>94</sup> Matsinhe, T. (2005). *'Budgeting in South Africa'*. Lecture to the Public Finance Management Class, UCT. 30 September 2005.

## BIBLIOGRAPHY

1. Abedian, I., Strachan, B. and Ajam, T. (1998). "Transformation in Action: Budgeting for Health Service Delivery: Chapters 2, 3, and 4, UCT Press. (Cape Town: South Africa).
2. African National Congress (ANC). 2003. "Update on the National HIV and AIDS Programme." 19 March.
3. Bollinger, L., Stover, J. 1999. The Economic Impact of AIDS in South Africa. The Policy Project.
4. Centre for Program Evaluation (Undated). Glossary of terms. Available from [http://www.ojp.usdoj.gov/BJA/evaluation/glossary/glossary\\_t.htm](http://www.ojp.usdoj.gov/BJA/evaluation/glossary/glossary_t.htm) (last accessed on 8 December 2005).
5. Department of Defence (Comptroller Centre). "Performance Budgeting". Available from [www.dod.mil](http://www.dod.mil) (last accessed 2 March 2006).
6. Department of Health (2000) Strategic Plan for HIV and AIDS in South Africa (Pretoria: RSA).
7. Department of Health (2003a) Operational Plan for Comprehensive HIV and AIDS Care, Management and Treatment for South Africa. (Pretoria: RSA).
8. Department of Health (2003b) Full Report of the Joint Health and Treasury Task Team Charged With Examining Treatment Options to Supplement Comprehensive Care for HIV and AIDS in the Public Health Sector (Pretoria: RSA).
9. Department of Health (2004b) Monitoring Review: Progress Report on the Implementation of the Comprehensive HIV and AIDS Care, Management, and Treatment Programme (Pretoria: RSA).
10. Department of Health 2003/4 Annual Report: Annexure 1A – Vote 16: Statement of conditional grants to provinces by national departments as at 31 March 2004.
11. Department of Health, undated. Part 3: Reporting Elements. Available from <http://www.doh.gov.za/docs/factsheets/guidelines/dhp/part3c.pdf>. (last accessed on 3 May 2006).
12. Department of Health. (2004a). Strategic Priorities for the National Health System, 2004-2009. (Government Printers: Pretoria).
13. Department of Health. (2005). "Presentation of National Department of Health Strategic Plan, 2004/05". 8 June 2005. (Parliament of South Africa - Cape Town).
14. Department of Health. 2000. HIV/AIDS and STI Strategic Plan for South Africa 2000-2005. Available at <http://196.36.153.56/doh/aids/index.html> (last accessed on 6 March 2006).
15. Department of Health. 2001. "An Enhanced Response to HIV/AIDS and Tuberculosis in the Public Health Sector - Key Components and Funding Requirements, 2002/03-2004/05." Available at <http://196.36.153.56/doh/aids/docs/response.html> (last accessed on 6 March 2006).
16. Department of Health. 2002a. HIV/AIDS Funding for the Health Sector in Budget 2002: Comparison of Funds Allocated and Funds Requested in the Department of Health's 'Enhanced Response' Budget Submission. 26 March. Available at <http://196.36.153.56/doh/aids/docs/funding.html> (last accessed on 6 March 2006).
17. Department of Health. 2002b. Presentation to Parliamentary Portfolio Committee on Health. 29 April. "Achievements and Budget Priorities 2002."
18. Department of Health. 2002c. Presentation to Parliamentary Portfolio Committee on Health. 29 April. "HIV/AIDS Conditional Grants 2001/2."
19. Department of Health. 2002d. Revising the Enhanced Response to HIV/AIDS and Tuberculosis in the Public Health Sector - Funding Requirements, 2003/4-2005/6. September.
20. Department of Health. 2003. Guidelines for Health Planning and Reporting. April. Available from <http://www.doh.gov.za/docs/factsheets/guidelines/dhp/index.html>. (last accessed on 2 May 2006).
21. Department of Health. 2003/4 Annual Report Presentation to the Health Portfolio Committee, South African Parliament. 12 October 2004.

22. Department of Health. 2003a. The Response to HIV/AIDS: A Parliamentary Briefing. Presentation to the Portfolio Committee on Health. March.
23. Department of Health. 2003b. Tracking Progress on the HIV/AIDS and STI Strategic Plan for South Africa June 2000-March 2003. Available at <http://196.36.153.56/doh/aids/index.html> (last accessed on 6 March 2006).
24. Department of Health. 2005. National HIV and Syphilis Antenatal Sero-Prevalence Survey in South Africa. Pretoria. Available from [www.doh.gov.za](http://www.doh.gov.za) (last accessed on 6 March 2006).
25. Dorrington RE, Bradshaw D, Johnson L, Budlender D (2004) *The Demographic Impact of HIV/AIDS in South Africa. National Indicators for 2004* (University of Cape Town: Cape Town).
26. Dorrington, R., Bradshaw, D. and Budlender, D. 2002. "HIV/AIDS profile in the provinces of South Africa: Indicators for 2002." MRC, ASSA, UCT Technical Report. National HIV Prevalence, Behavioural Risks and Mass Media. Household Survey 2002. Cape Town: HSRC Publishers.
27. Engelbrecht, B., Conradie H., Kitching, R., Neilson, P. and Makalima T. (2000) Financial management: Building muscle in Mount Currie, Kwazulu-Natal. ISDS Technical Report 12, Health Systems Trust, Durban.
28. Financial and Fiscal Commission. 2002. "Submission Division of Revenue 2003/4." 30 April.
29. Financial and Fiscal Commission. 2003a. "Submission on the 2003/4 Division of Revenue Bill." 26 February.
30. Financial and Fiscal Commission. 2003b. "Submission: Medium-Term Expenditure Framework 2004-2007, Towards a Review of the Intergovernmental Fiscal Relations System." April.
31. Fourie, D. Annual Report and the Public Finance Management Act. Available from [http://www.hst.org.za/uploads/files/chapter7\\_01.pdf](http://www.hst.org.za/uploads/files/chapter7_01.pdf). (last accessed on 2 May 2006).
32. Franklin, L., Desmond, C., Manning, R. 2001. The Costs of HIV/AIDS Care in South Africa: a literature review. Durban: HEARD.
33. Gauteng Department of Health 2004 Annual Report. Available from <http://www.finance.gov.za/documents/Provincial%20Annual%20Reports/GT/GP%20-%20Vote%2004%20-%20Health.pdf> (last accessed on 2 May 2006).
34. Gilks, C. 2000. Costing the Demands for HIV/AIDS Care and Managing Interventions. Paper presented at Kaiser Family Foundation AIDS Forum, KwaZulu-Natal.
35. Government of South Africa. (2003). Statement of Cabinet on a Plan for Comprehensive Treatment and Care for HIV and AIDS in South Africa. 19 November 2003. (Parliament of South Africa: Cape Town).
36. Haacker, M. 2002. The Economic Consequences of HIV/AIDS in Southern Africa. IMF working paper.
37. Haile, B. 2000. "Affordability of Home-based Care for HIV/AIDS" in *South African Medical Journal*. 90 (7):690-691.
38. Hickey, A. 2002. What Budget 2002 means for HIV/AIDS. Budget Brief No. 90. Cape Town: Budget Information Service-Idasa. Available at [www.idasa.org.za/budgetday/doc/hivaids/view](http://www.idasa.org.za/budgetday/doc/hivaids/view) (last accessed on 2 May 2006).
39. Hickey, A. 2003a. What are provincial health departments allocating for HIV/AIDS from their own budgets? Budget Brief No. 135. 1 December. AIDS Budget Unit – Idasa.
40. Hickey, A. 2003b. Provinces improve spending on conditional grants for HIV/AIDS health programmes. Budget Brief No. 136. 8 December. AIDS Budget Unit – Idasa.
41. Hickey, A. 2004. New allocations for ARV treatment: An analysis of 2004/5 national budget from an
42. Hickey, A. Ndlovu, N and Guthrie, T. 2003. Budgeting for HIV/AIDS in South Africa. Report on intergovernmental funding flows for an integrated response in the social sector. Idasa – AIDS Budget Unit. Available at [www.idasa.org.za/bis](http://www.idasa.org.za/bis) (last accessed on 12 August 2006).
43. Hickey, A., Whelan, P. 2001. Sources and Methods of Funding the Health Sector Response to HIV/AIDS. Cape Town: Idasa-Budget Information Service.
44. HIV/AIDS perspective. Occasional Paper. 31 May. AIDS Budget Unit – Idasa.

45. IPPMedia, “UNDP: Introduce Performance Based Budgeting in local governments” By Guardian Reporter, 14 September 2005. Available at [www.ippmedia.com](http://www.ippmedia.com). (last accessed on 6 March 2006).
46. JCSMF (Joint Civil Society Monitoring Forum) 2005. *Resolutions of the 4<sup>th</sup> Meeting of the JCSMF* (JCSMF: Nelspruit).
47. John Mercer on GPRA & Performance-Based Budgeting, available from [www.john-mercerc.com](http://www.john-mercerc.com) (last accessed on 6 March 2006).
48. Johnson, L.J., Dorrington, R.E. (2002). *The demographic and epidemiological impact of HIV/AIDS treatment and prevention programmes: an evaluation based on the ASSA2000 model*. Presented at the 2002 Demographic Association of Southern Africa Conference.
49. Johnson, S. *et al.* 2001. “Home-based Care for People with HIV/AIDS in South Africa – What will it cost?” Centre for Health Policy, Dept of Community Health, University of Witwatersrand.
50. Karstaedt, A., Lee, T., Kinghorn, A., Schneider, H. 1998. *Care for HIV-infected Adults at Baragwanath Hospital, Soweto*. “Part III: Management and Costs of Inpatients”.
51. Lindblom, C.E. 1979. Still Muddling, Not Yet Through. *Public Administration Review* 39(Nov/Dec): 517-526.
52. Lowenson, R., Whiteside, A. 1997. “Social and Economic Issues of HIV/AIDS in Southern Africa”. SA AIDS Occasional Paper Series 2. Harare.
53. Manuel, T. 2003. National Assembly: Introductory Remarks on Vote 8: National Treasury, the South African Revenue Service and Vote 13: Statistics South Africa. 9 June. Available from <http://www.treasury.gov.za/speech/2003060901.pdf>. (last accessed on 2 May 2006).
54. Matsinhe, T. (2005). *Budgeting in South Africa*. Lecture to the Public Finance Management Class. 30 September 2005. (University of Cape Town: Cape Town)
55. McGill, R. (2001). Performance Budgeting. *The International Journal of Public Sector Management*. Vol. 14 No. 5, 2001, pp. 376 – 390. MCB University Press.
56. Mercer, J. (Undated). “John Mercer on GPRA & Performance-Based Budgeting” (Accessed 2 March 2006). Also available from [www.john-mercerc.com](http://www.john-mercerc.com).
57. Muradzikwa, S. 2005. “Performance Budgeting”. Work Document for the Public Finance Management Class (POL520Z). University of Cape Town: Cape Town.
58. National Department of Health. 2005. Strategic Planning Newsletter No 3, November 2005. Available from <http://www.doh.gov.za/docs/newsletter/stratplan/nov05.pdf>. (last accessed on 3 May 2006).
59. National Treasury Estimates of National Expenditure 2005.
60. National Treasury. 2004. The Medium Term Expenditure Framework Treasury Guidelines: Preparing Budget Proposals for the 2005 MTEF. Government of South Africa.
61. National Treasury. 2004/5 Division of Revenue Act. Government Printers: Cape Town.
62. National Treasury. 2005/6. Division of Revenue Act. Government Printers: Cape Town.
63. Ndlovu, N. 2005. HIV and AIDS Allocations: A first look at Budget 2005/6. Budget Brief 152. 25 February. AIDS Budget Unit – Idasa.
64. Ndlovu, N. 2004. *HIV/AIDS expenditure in the 2004/5 provincial budgets: Trends in budget allocations and spending*. Budget Brief No.147. Idasa – AIDS Budget Unit. Also available at [www.idasa.org.za/bis](http://www.idasa.org.za/bis) (last accessed on 6 March 2006).
65. Ndlovu, N. 2005. Budget allocations for HIV and AIDS in 2005/6 provincial social sector budgets: Implications for improved spending. Budget Brief No. 156. 5 August. AIDS Budget Unit – Idasa.
66. Ndlovu, N. Daswa, R. 2006. (Forthcoming).
67. Ndlovu, N., Hickey, A. 2003. “How do the costs of an ARV programme fit into the SA national budget?” In *Budget Watch* June 2003. Cape Town: Idasa-Budget Information Service.
68. Office of Financial Management (2003). “Guidelines for Strategic Plans and Performance Measures”, Operating Budget Instructions, Part 1. 2005 -07 Biennium. (State of Washington: Washington DC).

69. Organisation for Economic Co-operation and Development (OECD)/ Public Management Service. 2001. "Does budgeting have a future?" 22<sup>nd</sup> Annual Meeting of Senior Budget Officials, 21 – 22 May 2001. (OECD/PUMA: Paris).
70. Poggenpoel, S., 2004. Provincial Comparative Social Development Brief. Budget Brief No. 142.
71. Social Sector Cluster. 2003. "Parliamentary Media Briefing by the Social Sector Cluster: Ministers of Health, Social Development, Water Affair and Forestry, and Home Affairs. 19 February. Available at [www.doh.gov.za/docs/sp/2003](http://www.doh.gov.za/docs/sp/2003) (last accessed on 7 April 2006).
72. South African Joint Treasury and Health Task Team. 2003. "Full Report of the Joint Health and Treasury Task Team Charged with Examining Treatment Options to Supplement Comprehensive Care for HIV/AIDS in the Public Health Sector".
73. Valentine, N., Tintelo, A., Thomas, S. and Engelbrecht, B. (1999). District Health Expenditure Review: Mount Currie Health District Kwazulu-Natal For The Year April 1997 To March 1998. Health Systems Trust: Durban.
74. Western Cape Treasury, 2006. "SA Intergovernmental Fiscal System: Provincial Perspective," Presentation to the Vietnamese Delegation, 31 March.
75. Western Cape Treasury. Available from [http://www.capegateway.gov.za/Text/2005/4/v03\\_pt\\_annualperf\\_plan.pdf](http://www.capegateway.gov.za/Text/2005/4/v03_pt_annualperf_plan.pdf) (last accessed on 2 April 2006).
76. Whelan, P. 2000. "A Review of the 2000/01 Provincial Health Budgets." Budget Brief No. 37. Cape Town: Budget Information Service-Idasa. March.
77. Whelan, P. 2001. "HIV/Aids Financing" in the South African Health Review 2001. Cape Town: Health Systems Trust.
78. Whelan, P. 2001. *Sources and Methods of Funding the Health Sector Response to HIV/AIDS*. Cape Town: Idasa-Budget Information Service.
79. Whelan, P. 2002. "A Review of Provincial Health Budgets 2002." Budget Brief No. 104. Cape Town: Budget Information Service-Idasa. March.
80. Whiteside, A., Sunter, C. 2000. AIDS: the Challenge for South Africa. Cape Town: Tafelberg.