

**TASK ORDER PROGRESS AND
COST REPORT**

MUNICIPAL REPORTING SYSTEM

SOUTH AFRICA

APRIL - JUNE 2001

Prepared for



Municipal Finance Database Monitoring System
U.S. Agency for International Development
Contract No. LAG-I-00-99-00036-00, Task Order No. 803

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As required by Section F.12 of the SUM IQC, a description of the progress of the last quarter is sent out as stated below.

Task Order Description

The Treasury's municipal budget reform program will mandate a new financial reporting regime for municipalities. Moreover, the Division of Revenue Act requires national departments to report on transfers to municipalities. The Treasury's goal is to capture all this data—along with demographic information from Stats SA and municipal debt information from the financial community—in one database. This resource will not only assist national departments in assessing the efficiency of municipal policies and transfers, but will also serve as a benchmarking tool for municipalities, and may help donor agencies monitor success of municipal programs.

The Urban Institute (UI) assisted South Africa's Department of the Treasury to design a database monitoring system and protocol for accessing ongoing data from municipalities and provincial and national departments. During 2001, the project evaluated existing municipal information sources, and received stakeholder input to inform the design of the database. This database will be used by the South Africa Department of Treasury to monitor municipal financial performance, monitor municipal adherence to budget and accounting norms and standards, track intergovernmental transfers to municipalities, benchmark municipal finances, and track infrastructure spending by type.

George Peterson and Burgert Gildenhuis, UI, local consultants, completed all work on this project before the scheduled project completion date of May 15, 2001. The final report on the recommended financial reporting system was submitted to Treasury and the intergovernmental commission established for this purpose. The final report incorporated comments received on the draft, which was circulated at the end of the first trip to South Africa. As required by the Terms of Reference, Peterson and Gildenhuis also prepared a detailed Scope of Work for the local contractor that would actually implement the financial reporting system, which involves having 286 municipalities submit quarterly financial information to Treasury via the Internet, and having the system automatically generate:

- Exception reports revealing municipalities that face warning signals by exceeding pre-established thresholds along different dimensions of financial condition.
- Budget implementation reports, showing how each municipality stands in terms of implementing its approved budget.
- Aggregate reports for key variables that Treasury and other government departments identified as critical to macroeconomic management. The system would also give



government officials access to the database and give the public at large access to those portions of the database that are in the public domain.

The UI team was instructed to carry out its work on the assumption that all of the data required for the new local budgeting system prescribed by the national government would in fact be generated. The timetable for converting to the new budget system starts with the largest metropolitan governments then proceeds to smaller local authorities over the next three years. However, the UI team advised both the government and the United States Agency for International Development that in its judgment that the new requirements create extremely demanding standards of financial reporting and budgeting for local authorities. Many of which do not presently have the capacity to meet these standards and would have to spend large proportions of their budgets to meet the standards.

Treasury and USAID accepted the final report.