

Initiative on Good Governance for Development (GfD) in the Arab Countries:

Theme 3: Governance of Public Finance¹

Governance of public finance is a core reform area that has a critical influence on promoting development in Arab countries. In this framework the budget, as one of the key economic instruments in allocating a significant share of a nation's gross domestic product, establishes policy priorities through the allocation of funding. The basic operations of government ministries and agencies are established in the context of the budget. Overall, the budget provides the architecture for decision-making and accountability in government. It is a key tool to promote market based economic growth and long term fiscal sustainability.

Challenges:

1. Improving transparency:
 - How to deal with insufficient budget transparency and inclusiveness with regard to budget planning and execution, fragmentation of spending, including tax expenditures and foreign aid?
 - How to deal with inaccurate asset inventories?
 - How to manage public resources with incomplete and inaccurate for-casting and decision making systems?
 - How to increase transparency with outsourcing schemes?
 - How to improve the weak parliamentary control of the budget process?
2. Improving accountability:
 - How to combat corruption with regard to budget resources?
 - How to increase the system's capacity for self-supervision in order to create internal credibility of control and audit mechanisms?
3. Improving Performance and development relevance:
 - How to link budgets to development plans and economic programming?
 - How to introduce the notion of performance in budgeting processes?

Policy priorities and actions:

1. Establish an appropriate sequencing of reforms to get the basics right first, based on effective legal and administrative systems, and then move towards more sophisticated financial management institutions and tools (including performance-based budgeting) that ultimately lead to institutionalization of budget reforms.
2. Improve Budget transparency and inclusiveness with regard to;
 - Legal framework for the budget system.

¹ *This Framework for Policy Dialogue* includes priority issues gleaned from international experience. [This is not an exclusive listing of issues; countries may change or add their own priority issues.](#) The purpose is to serve as a reference point, a guide for policy discussion. Working Groups in Arab countries may find them useful as they embark on the implementation of activities related to the six themes of the GfD Programme.

- Accounting, classification and reporting systems.
- Extra-budgetary expenditure.
- Foreign and international aid.
- Planning and execution.
- Tax expenditure.

3. Improve capacity:

- In parliaments to control expenditure.
- To use budget planning for programming and development purposes going beyond the accounting function
- In budget and economic planning to improve execution.
- To use modern cash-management systems.
- To use advanced systems for assets and inventory management and public procurement.
- For appropriate use of ex-ante and ex post controls.
- For turning budget process into an automated system.
- To delegated management of resources.
- For managing outsourced activities.
- To run multi-year budgeting.

3 Link budget process with development objectives.

4. Link budgeting to the fight against corruption.

5. Open the budget process to civil society.

6. Promote modern debt management practices.