



Governance and Democracy

Reforming Public Finance

The challenge

A country's public finance system is the backbone of the state. A functioning system makes sure that the necessary funds are available to finance public goods such as security, education and health. It also assures that funds effectively contribute to the sustainable development of the country.

Several goals of the Agenda 2030 for sustainable development highlight the importance of the public finance system. Goal 17 stresses domestic resource mobilisation as an important tool to implement the Agenda 2030. Setting up effective, accountable and inclusive institutions on the national and subnational level to manage public finances is part of goal 16. As considered in goal 10, redistributive policies like national tax and budget systems are central policy instruments to reduce income inequality.

Ideally, a country's revenue system is structured according to the consensus of society as a whole. It generates fiscal revenue through tax and customs revenues that are sufficient to finance the country's development goals. At the same time, the tax and customs system should create positive framework conditions for economic growth. In many countries, however, the revenue potential has not yet been fully utilised. The state loses its own resources through tax evasion, incomplete legislation and weak tax administrations. On the planning and spending side of government, the national budget functions as a central instrument for political control and reflects the government's priorities. A transparent and reliable budget system and effective internal control systems ensure that scarce government resources are used effectively according to political priorities and benefit the population to the greatest extent possible. This increases the legitimacy of government action and creates the basis for effective poverty reduction. Extensive budget reforms are necessary for this in many countries. Building on the internal financial control carried out by the public administration itself, the Court of Audit, as an external financial control independent of the government,

examines the use of state resources. Internal and external auditing therefore make an important contribution to the prevention of corruption. At the local level, too, efficient and accountable institutions ensure that policies are implemented. Municipal financial management and the strengthening of local institutions as well as the design of domestic financial relations, including the distribution of competences to the local level, are therefore also central issues in the system of public finances.

Our approach

We advise our partners following the principles of Good Financial Governance (GFG) (see BMZ Sector Strategy Paper 4/2014) and international standards and good practices in public finance. GIZ's main goal is to strengthen the capacities of people, organisations and societies in partner countries (capacity development) and to enable them to pursue their own goals using resources in an effective, efficient and sustainable way. In practice, GIZ mainly works with national ministries of finance, tax administrations, audit institutions and parliamentary budget committees, but not only: Sectoral ministries and their budget departments, internal control units in public administrations and municipalities are other important partners. Further, GIZ supports collaboration and dialogue that public institutions entertain with companies and civil society in fiscal matters. Our consultants make often use of the knowledge of German and European experts from the relevant authorities, federal and state ministries.

Good Financial Governance (GFG) is central to all public finance processes to ensure development orientation, efficiency, transparency and legitimacy of public action. GIZ advises with the awareness that public finance reform is not just a technical matter. The political economy of a country needs to be taken into account and the implementation of reforms requires the consensus of various interest groups. GFG plays a role in the prevention of crises and after conflicts and is important for building the state.



Our services

A public finance system consists of several elements. The range of services provided by GIZ therefore comprises several areas of expertise:

- **Revenue policy and administration:** A high-performance revenue system ensures that tax revenues and customs revenue are sufficient to pursue the overall societal goals, and that suitable framework conditions for economic growth are created. Legal foundations and administrative performance in customs and taxation will be improved, thereby promoting transparency and legitimacy towards taxpayers and businesses.
- **Budget reform:** A transparent and reliable budgetary system and effective internal control mechanisms ensure that scarce public resources are used effectively in line with political priorities and maximise the benefit of the population. This increases the legitimacy of government action and creates the basis for effective poverty reduction.
- **External financial control/courts of audit:** Based on the internal financial control exercised by the public administration itself, the Court of Audit controls the use of government resources as an external, government-independent institution. With its reports and recommendations, the Court of Audit provides information to Parliament and citizens so that they can demand accountability from the government. Internal and external financial control therefore make an important contribution to the prevention of corruption. At the same time, the accountability of the public administration is promoted according to the principle of the separation of powers.
- **Shaping financial relations within the state:** Efficient and accountable institutions are also needed at the local level to ensure the successful implementation of policies. Local financial management and the strengthening of local revenue are central issues in the public finance system. Moreover, it is important to consider the design of domestic financial relations including the distribution of responsibilities to the local level

- **GFG in climate financing:** The advisory services aim at building up effective, transparent and participatory structures for the allocation of climate funds through the public financial system.

The benefits

With GFG, GIZ offers an integral approach whose components can be advised modularly and successively, based on individual needs.

The consultation always goes hand in hand with an analysis of the overall GFG framework in order to be able to adapt the consultation to the country-specific context and offer individual solutions. The solutions are based on 30 years of consulting experience in the field. We work on every continent, in developing and emerging countries and in the EU rapprochement process. We combine professional expertise with methodological knowledge about change management and know-how in policy consulting. With us, you gain access to a network of experts from national, European and international authorities, consulting firms and academia.

An example from the field

The GFG program in Ghana has been supporting the government of Ghana since 2003. The program works on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) and is co-financed by Switzerland (SECO), the Netherlands (EKN) and the USA (USAid). It addresses several areas of good financial governance, in particular tax policy and administration, public finances and financial control. Visible success was achieved: Tax revenues increased over time to a share of 17.5% of GDP in 2015.

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