



## Governance and Democracy

# Reforming public finance

### The challenge

The public finance system is of paramount importance for the political management of a country. Fiscal policy directives and the way these are put into practice determine how and to what extent public funds are made available to the state. The draft budget allocates these funds for specific political purposes. Internal and external monitoring mechanisms limit the errors and abuse of funds within the budgetary and financial system. Needs-driven financial relations within the state ensure that local government bodies at subnational level also receive the funds they need. Good governance is, in all these processes, crucially important in order to ensure legitimacy, predictability, transparency and efficiency within the system.

### Our approach

In close cooperation with ministries of finance, parliaments, audit courts and authorities at national and federal state level, we help partner countries reform their public finance system. We take our lead from the principles of **Good Financial Governance (GFG)**, which provide for transparent political decision-making processes and administrative procedures with appropriate citizen participation for the responsible tapping and utilisation of public funding. As well as cooperating with government actors, parliaments too are given the instruments they need to call their governments effectively to account.

### Our services

GIZ's range of services focuses on the following priority fields of advice:

- **Tax policy and administration:** Reforms aim to strengthen partner countries' self-financing capacity, by improving the legal foundation and the enforcement of

- tax and customs regulations, as well as fostering transparency and legitimacy.
- **Budget reform:** Transparency and reliability in the budget process lead to greater legitimacy for state actions and to an improved range of public services. This makes effective poverty reduction possible.
- **External financial control/courts of audit:** Strengthening external financial control, in particular supreme audit institutions, encourages public authorities to act in line with the rule of law and fosters a system of checks and balances. At the same time it boosts the pro-development capabilities of the government and thus the confidence of citizens in the state.
- **Shaping financial relations within the state:** The aim is to better link financial resources with the purposes for which the funds are used at all levels (principles of connexity), thus putting in place the preconditions for the appropriate provision of public goods.

These modules can be used step by step as required, successively generating an overall concept for the reform of the public finance system.

### The benefits

Reforming the public finance system helps foster sustainable development, provided it is geared to the imperatives of good governance. GIZ offers an integral approach, which makes the public finance system in developing countries and emerging economies transparent, rules-based and effective.

If you choose to cooperate with GIZ you will benefit firstly from our many years of experience as in-country advisers. We have deep-rooted technical and organisational experience in delivering policy advisory services. You will also gain access to a network of proven experts from national



and international financial authorities, consulting firms and the academic community.

### **An example from the field**

For many years, the public finance system in Ghana did not comply with the criteria of GFG. The system thus failed to fully exploit potential tax revenue and the budget was not transparent. Parliament was not sufficiently involved in decision-making and citizens were poorly informed. Inconsistencies in Ghanaian tax policy, growing resistance to paying taxes and patchy enforcement meant that tax revenue was inadequate to finance the planned political activities. Working on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), GIZ's aim is to bring the system of public finance into line with the imperatives of good governance.

Focussing on tax policy and administration, transparent state revenue from extractive industries, the budgetary and financing system, as well as accountability vis-à-vis parliament and civil society, the programme is one of the few examples of reforms tackling several points of the system simultaneously.

Within a very short space of time, the project has managed to achieve tangible results in the field of tax policy and administrative government advisory services. In 2008, Ghana's tax revenue increased and, at 4.3 billion Ghanaian cedi, surpassed the sum estimated in the budget. This seems

to confirm a trend. The taxation ratio in 2008 was 24.4%, which was above the previous year's figure of 23.6%. This is largely the result of changes in organisational forms and progress towards transparent tax collection. The automation of income tax management, for instance, had been successfully piloted in six internal revenue offices by the start of 2009.

Advisory services on budgeting helped make the funding allocations in the national budget transparent, and ensured that spending on poverty reduction was indicated separately. In 2008, the government also began to put in place monitoring instruments and to better monitor budget management. This makes it possible to identify the causes of deviations from the budget. To strengthen parliamentary checks and balances, the project is also fostering dialogue with parliament and civil society, in particular with a view to the oil revenues expected as of 2010. Workshops and training measures have given an initial impetus here.

### **Contact us**

Dr. Matthias Witt  
E: [Matthias.Witt@giz.de](mailto:Matthias.Witt@giz.de)  
T: +49 61 96 79 1643  
I: [www.giz.de](http://www.giz.de)

### **Imprint**

Publisher  
Deutsche Gesellschaft für  
Internationale Zusammenarbeit (GIZ) GmbH

Dag-Hammarskjöld-Weg 1-5  
65760 Eschborn, Germany  
T: +49 61 96 79 0  
F: +49 61 96 79 1115  
E: [info@giz.de](mailto:info@giz.de)  
I: [www.giz.de](http://www.giz.de)