



# **DECLARATION**

## **on Good Public Financial Governance**

March 2011

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## A. PREAMBLE

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We, the African ministers of finance and economy, meeting at the 2011 Joint Annual Meeting of the Conference of Ministers of Economy and Finance and ECA Conference of African Ministers of Finance, Planning and Economic Development in Addis Ababa, Ethiopia, from 24 to 29 March 2011 –

**Recalling** the objectives of the African Union as set out in the African Union Constitutive Act;

**Reaffirming** the commitments made to sound economic governance by African heads of state in the 2002 Memorandum of Understanding on Security, Stability, Development and Co-operation, the 2003 Declaration on Democracy, Political, Economic and Corporate Governance of the New Partnership for Africa's Development, the 2006 African Union Convention on Preventing and Combating Corruption, and the 2007 African Charter on Democracy, Elections and Governance;

**Acknowledging** that good governance of public financial resources is an essential part of modern democratic and economic governance;

**Convinced**, moreover, that in Africa good public financial governance is a prerequisite to mobilising domestic revenues effectively, growing out of aid and providing the public infrastructure, goods and services that are necessary to eradicate poverty, provide opportunity to our citizens and engender development and economic growth;

**Recognising** that good public financial governance equates to the responsive, prudent, effective, transparent and accountable management of the continent's public financial resources and requires robust tax, budget, financial management, audit and oversight institutions that operate within the rule of law;

**Acknowledging** the renewed global focus on transparency and accountability to ensure integrity and prudence in the management of resources in both the public sphere and private business practices;

**Acknowledging**, also, the urgency of strengthening our ability to optimise resources in view of the changing role of emerging markets in the world economy;

**Noting** the findings and recommendations of the Status Report on Good Financial Governance prepared by the Collaborative Africa Budget Reform Initiative (CABRI), the African Tax Administration Forum (ATAF) and the African Association of Supreme Audit Institutions (AFROSAI);

**Acknowledging** the good progress already made by many African nations in establishing practices that promote good financial governance in the public and private spheres, and taking into account that the necessary reforms to build good public financial governance will differ from country to country;

**Resolve** to take action to realise progress against the following political, technical and reform commitments in respect of good public financial governance.

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## **B. COMMITMENTS**

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### **1. Governance commitments**

#### *1.1 Improving fiscal transparency*

We will take steps to significantly improve fiscal transparency, including the establishment of appropriate mechanisms to ensure that information is accessible to our publics. We will publish available information in relation to the next and all subsequent fiscal years on fiscal and budget policy intentions and projections, the state of public finances and on the structure, functions and financing of government and the wider public sector. We will publish the public accounts annually. We will take steps to publish the information necessary to result in value for money through, and integrity in, public procurement processes. Over time, we will take steps to extend the scope of published information and improve its quality, usefulness, accessibility and timeliness.

#### *1.2 Strengthening oversight institutions*

We will deepen our support for supreme audit institutions, legislatures and other constitutional accountability institutions, as well as the social accountability institutions of wider civil society, in their pursuit of an effective role in good public financial governance.

As is appropriate within our constitutional frameworks, we will take concrete steps to strengthen supreme audit institutions by:

- promoting the independence of supreme audit institutions in terms of conducting audits and issuing reports without undue influence from the executive government;
- promoting financial autonomy by establishing participative budget-setting processes to ensure the availability of appropriate human, material and monetary resources to conduct audits;
- facilitating the timely submission of financial and other information for external audit, prepared by using prescribed financial reporting frameworks;
- supporting supreme audit institutions in performing different kinds of audits, including performance audits; and
- facilitating co-operation and communication between supreme audit institutions and institutions of the executive, Parliament and other state institutions contributing to accountability.

We will support the strengthening of parliamentary oversight by:

- facilitating co-operation by executive institutions with the procedural and information requirements of legislatures;
- putting in place effective mechanisms within the executive to enable the regular follow-up of recommendations by the supreme audit institution and also by the legislature and its oversight committees; and
- resourcing Parliament optimally, taking into account other claims on public resources.

We will take steps to further develop social accountability as a mechanism of oversight by, amongst other measures, facilitating the meaningful participation of civil society institutions and the public at large in budget planning, allocation, oversight, audit and evaluation processes at all levels of government.

It is our hope that role-players within oversight institutions and at all levels of government will join us in taking action to strengthen effective oversight within our public financial governance system.

### *1.3 Formalising public financial governance practices*

We will continue progressively to formalise tax and budgetary practices. We will do everything within our power to enforce the rule of law in public financial governance by actively seeking to reduce informal practices, strengthening our monitoring and reporting systems and, within the executive, holding public actors to account for tax and budgetary decisions.

## **2. Technical commitments**

### *2.1 Strengthening a result orientation in public financial governance*

We will continue to build public financial governance institutions that are concerned with the socio-economic consequences of fiscal decisions, resource mobilisation and the expenditure of public funds. We will ensure that processes are oriented to facilitate the optimal use of resources for growth, equitable socio-economic development and the alleviation of poverty.

### *2.2 Strengthening tax governance*

We will improve tax governance and tax policy to enhance revenue mobilisation capacity and contribute to improved democratic governance. We will focus on providing attractive tax systems to investors to facilitate growth in our economies, based on a commitment to transparency, certainty and the predictability of tax treatment. Our tax systems must be fair, sustainable and more efficiently managed to engender public confidence and trust and ensure vertical and horizontal equity. In this regard, we will take individual and collective action as is required to:

- address deficiencies in our tax administration systems, including corruption, abuse and misapplication of provisions for tax exemption, political interference and the low capacity of tax administrations;
- address tax evasion in the formal and informal sector, by both small and large taxpayers, by developing fair procedures without favour to ensure tax compliance by all taxpayers;
- address illicit capital flows from Africa to tax havens and financial institutions by removing all opportunities that facilitate illicit capital flows, by imposing stringent control mechanisms through appropriate legislation and by addressing incentives;
- fight transfer pricing by developing specific legislative measures adapted to our legal systems and economic context, and by building the administrative expertise needed to enforce the measures;
- institute measures to build a taxpaying culture, through both educational campaigns and the invariable application of penalties, and by respectful treatment of compliant taxpayers; and

- build capacity to tax natural resource flows, including capacity to negotiate contracts for taxing extractive industries and to report transparently on the flow and use of revenues.

### *2.3 Strengthening budget preparation, execution and reporting*

We will address key technical challenges in budget preparation, execution and reporting that affect our ability to utilise available resources effectively and efficiently in pursuit of our goals. In this regard, we will take the necessary steps to:

- institutionalise timely, transparent, systematic and accountable political engagement with budgetary decisions throughout the public resource management cycle;
- strengthen revenue forecasting and the institutions that govern the development of our fiscal frameworks, including the use of pre-budget statements, and address the high use of opaque extra-budgetary mechanisms in the financing of public activities to enhance predictability and affordability in our key fiscal decisions;
- ensure that our systems continue to improve the quality of spending, by strengthening comprehensive and effective medium-term strategic budgeting at central and sector level, using performance information more effectively, and pursuing procurement reforms that ensure integrity, transparency and value for money in public procurement;
- ensure discipline, predictability and the rule of law in budget execution through improved and consolidated government cash management, improved cash planning and commitment practices and internal controls, and effective and risk-based internal audit systems;
- ensure further improvements in the coverage, quality and timeliness of internal fiscal information by regularising bank and other reconciliations, providing support for the implementation of consistent accounting standards across government and strengthening financial reporting practices. The development of integrated financial management solutions must be approached strategically, ensuring that the solutions are achievable, sustainable and built on efforts to improve the underlying incentives for improved processes in budget execution and transactional record keeping.

### *2.4 Managing aid for development*

Effective aid can make a positive contribution to the growth and development of African states. However, African states have the responsibility to take ownership of aid-funded activities to ensure that resources are harnessed in alignment with a country's own resources and do not disrupt country public financial governance, irrespective of aid modalities. While some aid is managed through country systems in line with the commitments of the 2005 Paris Declaration and 2008 Accra Agenda for Action, much aid is still managed through other arrangements and is opaque at country level, hampering the integration of the information into the budget process, disrupting public financial governance systems and undermining local accountability. In this regard, we call on our development partners to provide us with comprehensive, timely, reliable and useful information on all aid commitments and use, while continuing to expand their use of country systems. As partner countries, we will take steps, in turn, to improve our systems to bring all aid on budget, including the harmonisation of aid management structures, and the integration of comprehensive aid information in budget processes and its reflection in budget documentation.

### *2.5 Strengthening the management of public debt and financial assets*

We will strengthen the management of public debt and financial assets. In this regard, we will take action to strengthen our debt management practices, including strengthening legal frameworks, establishing clear mandates to issue debt, controlling and managing the risks associated with state guarantees and contingent liabilities, co-ordinating debt policy with macroeconomic and fiscal policy, and accurately recording and reporting debt and contingent liabilities. We will strengthen the transparent management of state financial assets.

## **3. Reform commitments**

### *3.1 Taking charge of public financial governance reforms*

We will take ownership of reform choices in the interest of the national good. We will ensure that reforms are realistic, sequenced and mutually reinforcing to develop and sustain the necessary institutions across the public resource management cycle for good financial governance. We will encourage the development of local capacity and initiative for reform design and promote the inter-orientation of all reform proposals within our institutions.

### *3.2 Matching technical reforms with implementation capacity*

We will take concrete steps to develop managerial and technical capacity for public financial governance in Africa. We will make the training, recruitment and retention of skilled personnel in the public finance arena a priority. We will also ensure that the development of systems to manage public resources takes into account capacity constraints and is matched by capacity-development efforts.

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## **C. FOLLOW-UP MECHANISMS**

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We will determine, in consultation with our senior officials, what concrete steps are required in terms of this declaration to make progress towards good financial governance in our individual countries and to orient our reform strategies accordingly.

We call on learning networks and institutions in public financial governance, whether in the tax, budgeting, accounting, procurement or auditing arenas, to orient their programmes of work in support of our reform programmes to achieve the general and technical objectives set out in this declaration.

We request the Economic Commission for Africa and the African Union Commission to agree with other regional and local institutions, as required, by March 2012, on processes to monitor and report progress to the Conference of Ministers of Economy and Finance against this declaration on a bi-annual basis from 2013 onwards, including through its inclusion in existing review mechanisms. In addition, we will review this declaration from time to time at future Conferences to assess progress and revise our commitments in view of changing priorities.