United Nations E/C.16/2021/3

Economic and Social Council

Distr.: General
18 January 2021

Original: English

Committee of Experts on Public Administration
Twentieth session
12–16 April 2021
Item 6 of the provisional agenda*
Integrating the Sustainable Development Goals into national and subnational budgeting and financial management

Integrating the Sustainable Development Goals into national and subnational budgeting and financial management with a focus on Cabo Verde

Note by the Secretariat

The Secretariat has the honour to transmit to the Committee of Experts on Public Administration the paper prepared by Committee members Juraj Nemec and Linda Bilmes, in collaboration with Katarina Ott, Lamia Moubayed Bissat and Geert Bouckaert.

* E/C.16/2021/1.

21-00770 (E) 030221

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Summary

One consequence of the global coronavirus disease (COVID-19) pandemic is that countries are struggling to pay for the urgent expansion of medical care, even at a time when implementing the Sustainable Development Goals is more important than ever. To make progress on the Goals and avoid setbacks, countries need to integrate the Goals into their national budgets and their financial and planning frameworks. To date, few countries have been able to accomplish this.

In the view of the Committee of Experts on Public Administration, one of the most effective ways for countries to ensure funding for the Goals is to reorganize their budgets into programme performance budgeting systems. That makes it possible to embed the Goals in national budgets and makes it easier to monitor the performance in achieving them. The position of the Committee, as formulated already at its nineteenth session, in 2019, is that implementing the Goals by incorporating them into national budgeting systems requires a strategic decision by political leaders, as well as technical efforts.

The present paper highlights the case of Cabo Verde, which has made significant progress in its achievement of the Goals. It has been able to do this through effective governance structures and leadership, and by implementing a programme-based budget.

After reviewing the progress of countries to date, it is clear that one of the key limitations is a lack of political will to reorganize spending priorities around the Goals. Political will in that regard may be generated domestically, but there is also a role for international organizations, regional bodies and civil society to play in helping national and subnational governments to realize the Goals through budgeting and financial management mechanisms.

I. Background

1. Financing the achievement of the Sustainable Development Goals is an important concern for many countries, in particular during the current worldwide crisis caused by the coronavirus disease (COVID-19) pandemic. According to analysis carried out by the Department of Economic and Social Affairs, in many countries, the COVID-19 pandemic and the resulting global recession are undermining fiscal and external balances. Even before the pandemic, financing had emerged as one of the key challenges to the achievement of the Goals. Many countries in their voluntary national reviews at the 2019 high-level political forum on sustainable development had identified financing gaps as a major obstacle.[1]

2. Developments in the past eight months have only exacerbated that challenge. Countries confronted with the need to invest significant sums for immediate crisis response and recovery, as well as with a parallel major drop in their access to a wide range of financing sources, see their prospects of the timely achievement of the Goals imperilled. Many risks identified before the crisis, for example, relating to sovereign debt sustainability, are now materializing. Fiscal and balance of payments constraints hamper countries' ability to make urgently needed investments in COVID-19 response and recovery efforts. They provide a stark reminder that sustainable development strategies and associated financing policies must be risk-informed and oriented towards the long term.

3. Most of the concrete work on the financing mechanisms of the Goals includes activities connected with integrated national financing frameworks, which are intended to help countries to align financing policies with long-term development strategies and plans. They are country-owned planning and delivery tools that provide a framework for financing sustainable development at the national level and take into account a range of financing sources, such as public finance and tax, aid, borrowing and private investments, to support national sustainable development strategies and plans. Some 16 countries have been pioneering the design and implementation of such frameworks and around 60 countries are now working with United Nations country teams, the United Nations Development Programme and other United Nations system agencies to take the frameworks forward.

4. At its seventeenth session, in 2018, the Committee of Experts on Public Administration considered medium-term budgeting frameworks and the merits of linking performance budgets to outcomes related to the Goals. At its nineteenth session, in 2020, within the framework of discussions on budgeting for the Goals, the Committee stressed that the achievement of the Goals depended on whether they were embedded in budgets and whether those budgets were executed effectively. Integrating the Goals into national budgetary processes has advantages, including improved budget coherence, increased accountability and greater comparability of national budgets. Budgeting for the Goals is currently still in its infancy. While several countries have announced in their voluntary national reviews their intention to incorporate the Goals into budgetary processes, few have specified why it would be relevant or how to make it operational.[2]

5. The Committee went on to note that multiple factors created challenges for advancing budgeting for the Goals. There were technical challenges related to

[1] The first three paragraphs of the present paper are taken from United Nations, "Integrated national financing frameworks: a framework to build back better". Policy Brief No. 87, October 2020. Available at un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/PB_87.pdf.

[2] For a summary of the discussion, see the report of the Committee at its nineteenth session (E/2020/44, chapter III.D).

establishing a suitable budget classification and identifying expenditure categories that could be linked to the Goals or their targets. From an institutional point of view, better budgeting in the context of the Goals entailed participation, such as by informing and engaging legislatures, supreme audit institutions, civil society and the public. Budget transparency and literacy enabled public participation throughout the budget process.

6. In the view of the Committee, the simplest and potentially the fastest way for most countries to advance budgeting for the Goals may be to reorganize programme performance budgeting systems, wherever such systems are used. In countries that do not practise programme performance budgeting, the task may be a matter of establishing a new budgeting system linked to the implementation of the Goals. A longer-term approach could be to develop specific Goal-specific expenditure classifications. Since the Goals do not cover all of the functions of government, it may be advisable to adopt budget classifications for the Goals in addition to existing functional budget classifications or to redesign classifications to make Goal-related expenditures more visible.

7. Given the importance of the issue of financing the Goals, the subject of budgeting will again be taken up by the Committee at its twentieth session. In the present paper, the authors reflect on whether there is more to be said on the matter now and attempt to add value to the discussion by pointing out critical implementation factors that enable integration of the Goals into national and subnational budgeting and financial management. The case of Cabo Verde is presented as a good example.[3]

II. Aligning finance and financing policies with long-term development strategies and plans

8. Governments today spend up to 60 per cent of their gross domestic product (GDP) through public expenditure programmes. Most do not have firm data on the proportion of public expenditure devoted to the implementation of the Goals or on how those resources are allocated to specific Goals and targets. In such a situation, spending priorities are a purely political question and it is impossible to assess whether countries are spending enough, how much more may be needed to achieve national priorities with regard to the Goals or how most effectively to change current spending patterns to accelerate action.

9. From the point of view of financing the Goals, the Inter-Agency Task Force on Financing for Development indicated in its most recent report, released in 2020,[4] that the majority of national sustainable development strategies and plans do not spell out in detail how they will be financed. One study found that 79 out of 107 national plans are not costed. Since such plans are unfunded, they risk remaining a vision rather than a vehicle for change. While most countries have financing policies and strategic approaches in place for specific areas, those policies are not typically brought

[3] The Cabo Verde case is based on Cristina Duarte, "Policies and institutions: a matter of survival for the Sustainable Development Goals in Africa: explaining the Cape Verde experience", policymaking paper, version 4.22 (Harvard University, New York); Governo de Cabo Verde, *SDG Cabo Verde: Voluntary National Report on the Implementation of the 2030 Agenda for Sustainable Development*, June 2018 (available at sustainabledevelopment.un.org/content/documents/19580Cabo_Verde_VNR_SDG_Cabo_Verde_2018_ING_final_NU_280618.pdf); and United Nations Development Group, *The Sustainable Development Goals Are Coming to Life: Stories of Country Implementation and UN Support*, 2016 (available at undp.org/content/dam/undp/library/SDGs/English/SDGs_Coming_to_Life_rev_Oct2018.pdf).

[4] See *Financing for Sustainable Development Report 2020* (United Nations publication, 2020), chap. III.A, sect. 5.

together in a coherent strategy or fully aligned with national sustainable development priorities and the Goals.

10. According to the above-mentioned report, Governments have been honing their public financial management skills for decades.[5] While the procedures and tools of each Government might be slightly different, countries have standard ways to budget and spend resources. Many, however, are looking for new tools, instruments and innovations that could lead to expenditure that is more focused on the Goals.

11. The United Nations is working with several countries on the development of their integrated national financing frameworks. The Inter-agency Task Force on Financing for Development is further developing the framework-related methodology and guidance material. That complex tool is expected to link all potential financial sources to countries' sustainable development strategies. However, most countries today are far behind in their implementation. They do not have long-term strategic plans or implementation strategies for the Goals and do not know how much is spent on efforts to achieve each target nor, for that matter, how much is allocated to each area of the Goals.

12. A potential first and, relatively uncomplicated step towards budgeting for the Goals in countries that are not willing or not able to jump directly into and fully use the integrated national financing frameworks could be the medium-term programme budgeting. Such a step could be realized by properly redesigning existing medium-term programme budgets at the national and subnational levels in countries that already have schemes, or by establishing such systems in other countries, as the Committee had proposed at its nineteenth session. Below, it is argued that political will for such change, rather than technical know-how, is the critical success factor.

III. Technical aspects of implementing medium-term programme budgeting focused on the Sustainable Development Goals

13. As mentioned above, the Committee formulated the opinion at its nineteenth session, in 2019, that implementing the Goals by incorporating them into national budgeting systems was not a complicated task from a technical perspective. To confirm that, the Committee contacted several Ministries of Finance, which largely confirmed that incorporating the Goals into the national budgeting and strategic planning system was indeed feasible in that respect. Many countries already had programmes with goals, targets and financial allocations, and many targets of the Goals were already incorporated into them, although not necessarily in a systematic way.

14. In response to the question as to whether their country needed and wanted such a system and whether it would be considered a priority, Ministries stressed that the main limiting factor in the implementation of budgeting for the Goals was political will. They also emphasized the fact that it might not be feasible to copy and paste all of the Goals and all related targets into national systems for medium-term budgeting and strategic planning. Some of the Goals and targets might be less relevant or, in some instances, not consistent with national priorities.

15. One Ministry indicated that the Government had adopted a law on the system of strategic planning and development management defining acts of strategic planning and their interconnection in a comprehensive way and laying the foundations for overall strategic planning. That Government was currently adopting the 2030

[5] Ibid.

National Development Strategy as hierarchically the highest act of strategic planning in the country.

16. A short-term strategic planning system for matters of national importance is being implemented at the level of the State central administrative bodies for the first time. All such bodies are expected to prepare an institutional document describing their vision, mission and the scope of their work during the term of office of the head of that body. Those documents delineate measures that contribute to the Government's programmatic objectives and to the implementation of other medium- and long-term strategic planning priorities.

17. When central State administrative bodies were drafting an implementation programme, in addition to creating links to the objectives of the government programme and superior strategic planning acts, such as the 2030 National Development Strategy, they were also expected to create links to European Commission recommendations and the Goals.

18. Given that the implementation programme also required links to the programme in the State budget (i.e. to the source of funding in the State budget), that created better conditions for linking the budget to the Goals.

19. In the case of another country, it was reported that a lot of thinking went into budgeting for the Goals and that the budget preparation process could take into account the most relevant Goals and targets in the national context. Some of the Goals were already reflected in the budget, and the Government provided a list of them in the country's development strategy. Officials planned to incorporate other Goals into the existing process so that, wherever possible, each objective indicated in the budget could be linked to relevant Goals. That approach would make budget commitments related to the Goals more visible, while also encouraging those involved in preparing the budget to include other Goals that were not yet explicitly covered.

IV. Implementation of medium-term programme budgeting in Cabo Verde

20. Countries generally recognize that their national budgets need to be aligned with the Sustainable Development Goals in order for the Goals to be taken seriously and prioritized for funding. However, only a small number of countries have taken the critical step of fully embedding the Goals into national budgetary mechanisms and redesigning their annual and longer-term integrated financial plans around the achievement of the Goals. Even fewer have done that in situations in which the governance structure is effective and stable and can deliver results as planned.

21. One good example is Cabo Verde, which has explicitly prioritized the Goals in its budgetary, financial and accounting systems, building on previous actions taken over a period of some 10 years to support the implementation of the Millennium Development Goals. More recently, it has focused on integrating the Goals into its national planning and budgeting, with regard to goal-setting, expenditure and the monitoring of progress and outcomes. Those efforts have produced measurable results (see table 1). By increasing investment in education and health (and by lowering military expenditure), between 2001 and 2018, the country reduced extreme poverty by two thirds, increased adult literacy from 62 to 88 per cent and increased life expectancy from 69 to 73.7 years – the second highest level in Africa after Mauritius. Cabo Verde has improved its figures in a range of measures and has graduated from being a poor country to a middle-income country. It is the only non-extractive country in sub-Saharan Africa to have done so in a relatively short time frame.

Table 1
Key indicators of social development in Cabo Verde

Indicator	*1975*	*1990*	*2000*	*2005*	*2010*	*2015*
Population living in poverty (%)	≥70.0	50.0	39.0	26.6	21.0	25.0
Population living in extreme poverty (%)	≥30.0	..	20.5	..	12.0	..
Literacy rate, 15–24 years (%)	≤60.0	88.2	88.0	94.0	95.0	98.1
Literacy rate, 15 years and above (%)	36.0	62.8	75.0	81.0	85.3	86.7
Life expectancy at birth (years)	57.8	64.8	69.7	70.5	71.9	72.6
Mortality rate, 5 years and under (per 1,000 live births)	115.4	62.7	35.5	26.3	25.1	19.7
Literacy rate, 15 years and above in low-income countries (%)	43.4	46.4	50.7	53.2	54.8	59.8
Literacy rate, 15 years and above in low middle-income countries (%)	49.9	57.8	66.7	69.4	72.7	75.8

Sources: World Bank, United Nations Educational, Scientific and Cultural Organization and United Nations Children's Fund (UNICEF), Knoema, IndexMundi and the Encyclopedia of the Nations.

22. Cabo Verde has a number of distinct advantages and disadvantages. It benefits from democratic governance and strong economic and legal institutions that are able to support and deliver policies enacted by the Government. At the same time, it is a small country of 549,000 inhabitants, who are largely poor, has limited natural resources and infrastructure and must contend with geographical discontinuity because it is an archipelago. The economy is highly dependent on foreign aid and remittances from the country's diaspora. From 2015 to 2019, the debt-to-GDP ratio hovered around 125 per cent.[6]

23. There are three main features of the approach adopted by Cabo Verde that have enabled notable progress to be made in respect of the Goals. First, the country maintains robust institutions and has invested in strengthening its institutional capacity to promote sustainable and inclusive development in accordance with Goal 16. That has created an environment conducive to focusing on the Goals as a national priority. Second, Cabo Verde has adopted specific processes, systems, methods, techniques and standards that make the institutional support effective. For example, it has embraced planning, programming, budgeting and evaluation systems, cost accounting, performance budgeting, results-based management and financial tracking tools to enable the Government to set realistic performance goals, monitor spending, measure performance and make adjustments. Third, its leaders have been dedicated to those efforts and have embraced big data and intensive data analysis to track and monitor investment and performance. In addition, the efforts have been conducted transparently.

Robust institutions

24. The emergence of Cabo Verde as a middle-income country may be attributed to capable leadership, effective governance and close attention to institutional capacity-building. It is exemplary because policymakers have understood, from as early as 1975, that to overcome adversity and vulnerability, priority has to be given to intangible aspects, such as institutions, in order to ensure social development. Institutional infrastructure has been placed at a higher level of strategic importance than physical infrastructure, on the understanding that rising GDP on its own does not

[6] See tradingeconomics.com/cape-verde/government-debt-to-gdp.

ensure inclusive development and that the missing link is the role of public policies and institutions to promote sustainable and inclusive growth.

25. The institutional strength of Cabo Verde originated in State reforms introduced from the 1980s until 2010. Those reforms included increasing the focus on maintaining a stable macroeconomic environment; promoting transparency; encouraging and coordinating with civil society organizations; and creating a favourable business environment. In addition, the Government invested in human capital and civil service training, and carefully managed foreign aid and remittances.

26. The Government explicitly made decisions to adopt the Goals as its central organizing feature. In 2016, it received support from the United Nations to develop a road map placing the Goals at the centre of its national development planning process, including in the design of the planning, follow-up and review process.

27. With support from the Joint Sustainable Development Goals Fund, the Government rolled out a budgeting framework based on the Goals, entitled "Ambition 2030". In collaboration with various government, private sector and civil society stakeholders, it seeks through the framework to close existing gaps in the achievement of the Goals through its national planning system, which aligns budget and planning with the integrated national financing framework. The Ministry of Finance has led and coordinated the national efforts.

28. The achievements of Cabo Verde are grounded in political stability, sound economic policies and strong institutions that maintain the rule of law, underpinned by an open democracy and effective anti-corruption efforts.

Systems, processes and procedures to support implementation

29. A notable characteristic of the approach taken by Cabo Verde is that it has put in place a framework of budgetary and financial policies, procedures and techniques that have enabled its leaders to implement their vision and strategy for progress in the achievement of the Goals. That has included procedures to promote stakeholder participation and align government procurement, budgeting and auditing with the vision and strategy.

30. The country has also endorsed a planning, programming, budgeting and evaluation system that has provided a template for how resources are mobilized, allocated and reviewed. It includes very specific guidance on policies, programmes, subprogrammes and activities, in particular with regard to the level of public expenditure on education, health care, and social programmes for young people. The leaders have believed that this approach would be essential to the implementation of Goal 16.

31. The implementation of targets 16.4, 16.5, 16.6. 16.7 and 16.8 depends on strong planning, programming, budgeting and evaluation systems, which can help to ensure that attention is given to the transversal and cross-cutting nature of Goal 16. However, such systems can be leveraged only if: (a) information is gathered, processed, classified, organized, analysed and distributed in a way that facilitates policy integration and policy coherence; and (b) access to such information is institutionalized, so that all stakeholders are duly trained and empowered to understand their social and moral responsibilities in being part of such systems. The approach cannot be based on social media.

32. The main aim of these efforts has been to increase transparency about how resources are allocated through the use of cost accounting, including its derivative fields of activity-based budgeting and programme budgeting, in order to set goals and objectives and monitor them across the economy. That process has involved structuring clusters of related activities from different sectors, for example,

combining all sea-related activities into one sea cluster comprising shipyards, seafood processing, cruise ship stopovers, boating, marine life, cooling plants, energy infrastructure and other such hubs and activities. That has made it possible for the Government to understand overlapping and complementary expenditures across platforms, break down silos, consider the implications of private sector actions, gain better control over the government spending of different ministries and programmes, set realistic performance targets and estimate the amount of spending required to achieve those targets. It has also resulted in some programmes re-engineering their processes for greater efficiency. Above all, it has created accountability in each programme and linked the planning, spending, execution and review processes.

33. The country has also used the planning, programming, budgeting and evaluation system to integrate its strategic planning process and its short-term and long-term goal-setting, and to engage the private sector and civil society in that process.

Support from leaders and focus on data

34. The third pillar of the Cabo Verde approach is the use of data to track, monitor and deliver results, while holding leaders accountable for those results. The approach has partly been modelled on a public service target approach followed by the United Kingdom of Great Britain and Northern Ireland in the 2000s.[7]

35. Societies now produce an enormous volume of information, which can be captured, processed and distributed for use in public policymaking. In the context of Cabo Verde, that has meant collecting and analysing data on the performance of initiatives related to the Goals, such as by monitoring access to and the utilization of electricity, water and sanitation in rural areas, as well as tracking the use of illegal connections to central systems, with assistance from the private sector. That approach has helped the country to provide universal access to electricity and water for domestic consumption and also to reduce losses incurred by commercial energy and water companies as a result of illegal connections.

36. Data collection efforts have gone beyond what was necessary for official reporting purposes and been focused on the Government’s own specific objectives. For example, in relation to Goal 3, on ensuring healthy lives, the Government has tracked health spending per capita, which grew from $66.5 in 2015 to $83.9 in 2018. It has also narrowed its focus on objectives, such as the neonatal mortality rate for children under a week old. The neonatal mortality rate decreased from 11.2 deaths per 1,000 live births in 2010 to 7.6 in 2017 because of specific interventions, such as increasing the availability of skilled birth attendants during deliveries.

37. The lessons learned from the experience of Cabo Verde are that countries can use the Goals as a framework for public expenditure and, in certain conditions, be quite successful in that regard. Those conditions include the existence of strong institutional support, leaders dedicated to those efforts and a determination to collaborate across different sectors of the economy.

38. The story of Cabo Verde illustrates that, even if those prerequisites are in place, there is a need to adopt new systems and procedures to integrate the Goals into the planning, budgeting, and evaluation cycles and into national economic and financial frameworks. That in turn depends on Governments introducing systems and procedures for collecting and aggregating data on spending, performance and results, and being willing to monitor and readjust policies on the basis of that information.

[7] See Michael Barber, Andy Moffitt and Paul Kihn, *Deliverology 101: a Field Guide for Educational Leaders* (Corwin, Thousand Oaks, California, 2011).

Insights in that regard could be valuable to Governments in both developed and less developed contexts.

V. Conclusions and recommendations

39. The Committee appreciates the work carried out on the development of the integrated national financing frameworks. Many countries may, however, prefer to improve the alignment of financial management practices by achieving the Goals through a slower, step-by-step transformation of their national planning and budgeting systems.

40. The experience of Cabo Verde illustrates one successful approach to integrating the Goals into budgetary policy, led and coordinated by the Ministry of Finance and driven throughout the entire economy. There are, however, at least 23 countries that have announced their intention to integrate the Goals into their budgets, using several different models.[8]

41. Given the wide range of government financial structures, there is no single best approach. For example, some high-income countries, such as Finland, France and Norway, have for years already included some aspects of the Goals into their budget formulation and publish a report on the Goals when they present their budget. Their efforts currently involve requiring individual ministries to collaborate and using the Goals to spur national debate on topics like the national carbon footprint. By contrast, some national and subnational governments focus on performance measurement and spending audits. Colombia, Mexico, and the Indian state of Assam, for example, have applied budget codes to identify expenditure corresponding to specific Goals and tracked it using spider diagrams. The aim is to increase transparency by making it easy to visualize progress and spending shortfalls.[9] In some countries, the Goals have fostered experimentation with new ideas. Thailand, for example, has piloted the use of a subsidized "welfare card" to help lift the income levels of the poorest sector of society. To date, the programme has proved difficult to implement and it is unclear whether it will be effective at reducing poverty in the target population.[10] Nevertheless, it is one of many interesting measures being tried around the world in efforts to achieve the Goals.

42. We therefore find that incorporating the Goals into national budgeting and strategic planning systems is more than a technical issue. Many countries already have programmes with goals, targets and financial allocations, and have laid the groundwork for others to follow. Other countries should be able to create basic systems or be able to proceed directly to more complex systems of integrated financing frameworks.

43. The authors are of the view that the core factors for the implementation of budgeting for the Goals are political will, leadership, effective governance structures and a willingness to keep working at it. The responses from almost all Ministries of Finance contacted by the authors indicate that the basic ingredients already exist in many countries. If budgeting for the Goals is supported and promoted internationally, most countries should be able to quickly redesign their existing programme budgeting systems to reflect the Goals.

[8] Elisabeth Hege and Laura Brimont, "Integrating SDGs into national budgetary processes", Study No. 05/2018, Institute for Sustainable Development and International Relations, Paris, 2018.

[9] Ibid.

[10] Institute for Population and Social Research, Mahidol University, Thai Health Promotion Foundation and the National Health Commission Office, "The Thai welfare card: is it really inclusive growth?" in *Thai Health* 2018 (2018).

44. The question of how to generate the necessary political will is not simple to answer. The political dynamics and priorities in a country, as well as other sources of a country's motivation, are critical factors, as seen in the case of Cabo Verde. Another factor could be external motivation, which might be generated by the United Nations and other international organizations and regional bodies. Such efforts could involve systematic promotion of best practices and technical advice.

45. The story of Cabo Verde demonstrates that countries can use the Goals as a framework for public expenditure and, in certain conditions, be quite successful in that regard. Those conditions include, in particular, the existence of strong institutional support, leadership dedicated to those efforts and a determination to collaborate across different sectors of the economy. Using the Goals as a framework for public expenditure might be easier if the country is relatively small but committed; but for larger countries with more disparities, implementing the Goals at the subnational level might be the priority. By the same token, such processes may be more difficult to manage in low-income countries and/or wherever the financial and professional capacities are lacking. Those countries should be provided with international support.

46. Integrating the Goals into national and subnational budgeting and financial management is one of the steps towards realizing the principles of effective governance for sustainable development, developed by the Committee and endorsed by the Economic and Social Council in 2018. The principles and commonly used strategies associated with the 11 principles highlight the need for pragmatic and ongoing improvements in national and local governance capabilities in order to achieve the Goals. The following principles are critically connected with the content of the present report:

(a) Effectiveness: the principle of competence (inter alia, through results-based management, financial management, and the control and enhancement of revenue administration), and the principle of sound policymaking (particularly the use of strategic planning and foresight);

(b) Accountability: the principle of transparency (especially budget transparency);

(c) Inclusiveness: the principle of subsidiarity (with an emphasis on fiscal federalism and municipal finance); and the principle of intergenerational equity (associated with long-term public debt management).