The Public Financial System in Saudi Arabia: The Need for Reform

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Abstract

Managing the public financial system effectively and efficiently is one of the main responsibilities of the Saudi government, even with the movement towards privatization and public private partnerships (PPP). Yet, many financial plans have not been successful for a number of reasons, most notably the lack of a comprehensive institutional reform that is adapted to the economic and political structure of the country, which has resulted in inadequate outcomes of government work. That being said, many previous reforms by the Saudi government have not reached their goals because of the inability of the government to adopt good governance practices. This paper discusses the recent public financial reforms in Saudi Arabia as part of Vision 2030, and argues that improving the quality of institutions and implementing good governance are essential for the success of Vision 2030. Moreover, institutional quality is also necessary to achieve sustainable development.

Keywords: public financial management, Saudi Vision 2030, institution quality, good governance.

Introduction

The way in which governments manage public funds plays a major role in a country's development process. On the one hand, a well-managed public financial system supports public service quality and equity, enhances the efficiency and effectiveness of public programs and government work, and fights corruption. On the other hand, international donors (e.g. the IMF and World bank) seek the best use of the financial and nonfinancial aid they provide to countries in need; thus, they support effective management of public funds.

Consequently, a budgeting system is considered a keystone for any public financial system. According to Aaron Wildavsky, "Budget is the life blood of the government" (Wildavsky, 1961, p. 183). One could argue that public financial management (PFM) (a government's revenues, expenditures, and budgeting process) is the primary driver of all activities in any given country, regardless of its political, cultural, and economic systems. Additionally, the manner in which the public financial system is managed has a significant impact on all sectors (public, private, and nonprofit).

Therefore, many studies have explored the PFM concept, introducing recommendations and models in an effort to identify the best ways to manage public funds. One conclusion that all these studies have in common is that each country must consider its structure (political, economic, and cultural) in designing and managing the country's funds. Accordingly, the institutional aspect of any system must be considered in order to build a well-designed and well-managed financial system suited to the country's needs.

Saudi Arabia introduced Vision 2030 as a strategic plan to enhance and improve economic performance in the country. Although any such plan contains promising goals, such as economic diversification and supporting public sector productivity, it has been argued that the absence of a high-quality public financial system can impede a nation's achievement of such goals. Thus, this paper addresses the following questions: 1) how different/similar are the current government financial reforms, as part of the Vision 2030 of the Kingdom, compared to the previous public financial reforms that have been attempted? 2) is there a relationship between the quality of the public financial system and reaching the Vision 2030 goals? 3) what are the changes that must take place in order for the vision to be achieved? A methodology based on a combination of qualitative descriptive analysis will be applied to answer these questions. In doing so, this study will use financial statistics and the results of regional and international indicators in answering the research questions.

First, this paper presents an overview of public financial management (PFM) in general and PFM in Saudi Arabia in particular. Next comes discussion on institutional quality and PFS performance, followed by an analysis of recent administrative and economic reforms in Saudi Arabia. Finally, the conclusion will present recommendations on how to have a successful Vision 2030 and beyond.

1.0 Public Financial Management

Public funding of projects, programs, construction, and capital investments is the main driver of any economy. This is true especially in developing countries, where private sector shares of GDP are low. The duties of any government, regardless of the economic system in place, include managing public finance, collecting revenues, and allocating expenditures. Thus, improving the structure and management of the public financial system not only influences the public sector, in which regulations and laws are adopted by the government, but also supports the private sector in the economy. Consequently, a well-managed public financial system contributes positively to the effectiveness and efficiency of the economy, fighting corruption, supporting sustainable and comprehensive development, and improving the quality of public services and programs (Allen, 2009; Hélis & Sánchez, 2010). According to Ramady (2010), "[G]overnment expenditures and the manner and direction of such expenditures play a vital role in every nation's economic well-being, as such expenditures have a significant impact on the private sector's activities and overall GDP via the so-called 'multiplayer' effect'" (Ramady, 2010, p. 44).

The PFM system includes all regulations, rules, and systems that organize, direct, allocate, and control public revenues and expenditures. According to Ogujiuba and Okafor (2013), PFM refers to "the procedures, established by law or regulation, for the management of public monies through the budget process, which includes formulation, execution, reporting, and analysis" (Ogujiuba & Okafor, 2013, p. 5). Deeming it "a system of multiple role-players," Pretorius and Pretorius (2009) define PFM as "the overall taxing, spending, and debt management of government, which in turn influences resource allocation and income distribution" (Pretorius & Pretorius, 2009, p. vii). Further, Ogujiuba and Okafor (2013) assert that PFM plays a critical role in "the implementation of economic policy, and it works by influencing the allocation and use of public resources through the budget and overall fiscal policy" (Ogujiuba & Okafor, 2013, p. 1). Thus, it may be argued that good management of public finance involves managing public funds to make optimal use of available resources. Likewise, public management reform develops the current public financial system in order to optimize the use of available resources and achieve the economic and social objectives of the government.

While managing public finance is essential for any economy, it is particularly important for developing nations, which tend to rely heavily on only a few sources of income (i.e., a high percentage of the country's GDP comes from only a few sources, as in a rentier state). At the same time, improving the quality of management in the public sector (planning, accurate analysis of public needs and demands, and prioritization of projects and programs) has been introduced as an important tool for providing high-quality public programs, economic diversification, and sustainable growth (Diamond, 2003; Mottu & Ahmad, 2002). In developing countries, where the level of public participation (e.g., democracy) is low and governing process is lacking of maturity, these factors affect the efficiency and effectiveness of public financial management and lead to misuse of public funds and financial waste (Albassam, 2105; Garba, 2004; Schiavo-Campo & McFerson, 2014). After reviewing emerging economies' attempts to reform their public financial systems, Diamond (2003) argues that certain elements are essential for PFS reforms to be successful and effective:

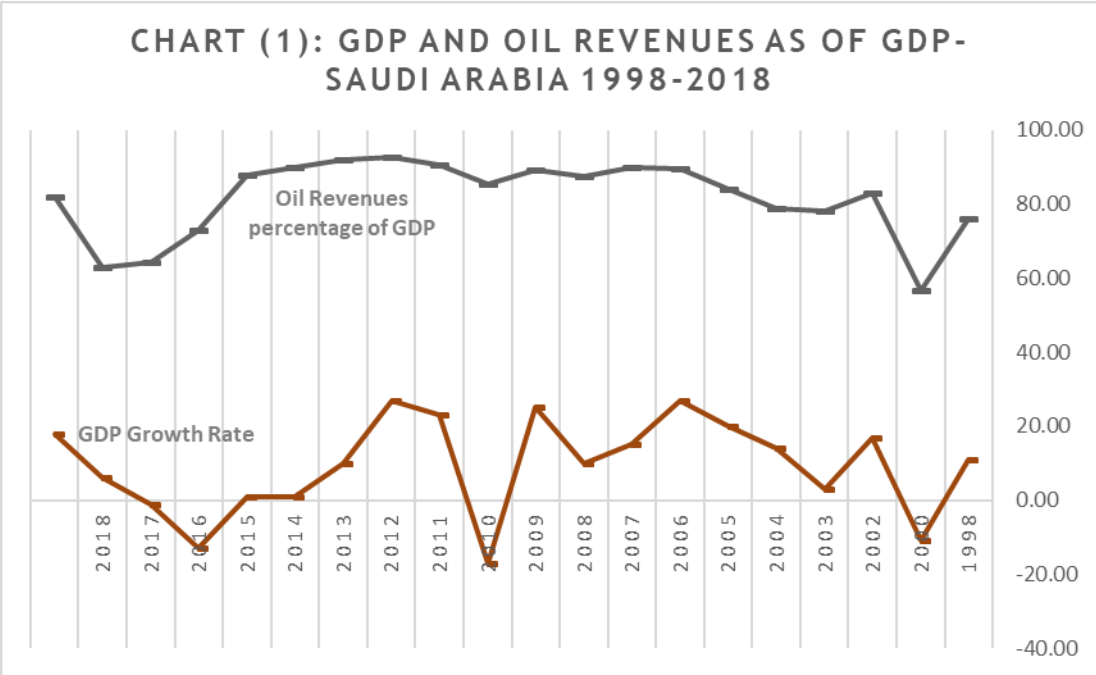
First, any existing program structure must be set in the wider context of strategic budget planning and medium-term budget framework. Second, this typically involves redesigning and refining existing program structure. Third, existing budget-costing systems and associated skills will probably need to be improved. Fourth, and perhaps most difficult, a new system of accountability and budget incentives needs to be introduced. (Diamond, 2003, p. 1)

2.0 Public Financial System in Saudi Arabia

Saudi Arabia is one of the world's largest producers of oil, and the Saudi economy is among the top 20 economies in the world (Saudi Arabia is part of the G-20 group, which includes the 20 largest economies in the world). Moreover, Saudi Arabia has the largest economy in the Middle East and North Africa (MENA) region. Thus, the country plays an important role in shaping the region and the world, both economically and politically.

The Saudi economy depends heavily on income from natural resources, such as oil and gas. Consequently, the Saudi economy is strongly influenced by fluctuations in the price of oil (World Economic Forum, 2019). Oil revenue accounted for 89.70% to 91.78% of the total revenue in Saudi Arabia from 2006-2017 (SAMA, 2018). Additionally, the private sector's contribution to the gross domestic product (GDP) is low, compared to other member nations in the G-20 group. For example, domestic credit to the private sector as a percentage of GDP in 2016 was as follows: Saudi Arabia, 58%; European Union, 95.3%; United States, 192.7%; OECD members, 147.7%; the world average was 132.4% (World Bank, 2017). Consequently, according to the Saudi Arabian Monetary Agency (SAMA), in 2017, at constant prices, the private sector accounted for only 39.45% of the Saudi GDP (SAMA, 2018). Additionally, the country's high dependence on oil income has a significant effect on other economic indicators, such as economic diversification and unemployment. For example, the unemployment rate among Saudis reached 12.8% in 2018, compared to 11.8% in 2014 when the price of oil was high (SAMA, 2018). These numbers highlight the significant impact of the oil income on all economic activities in the country.

In 2017, the oil sector accounted for 43.3% of the Saudi Arabia GDP, the government sector accounted for 16.9%, and the private sector accounted for 39.45%, at constant prices (SAMA, 2018; see Chart (1)); these numbers have fluctuated over time, depending on the price of oil in the global market. Additionally, government agencies adopt and apply rules and regulations that organize economic and administrative activities in the country. Thus, the government sector in Saudi Arabia plays a major role in directing the nation's economic and administrative activities.



Source: SAMA (2018).

A high-quality PFM contributes to the stability of government spending, especially in rentier states, since major national resources come from only a few sources that are sometimes inconsistent. For example, capital expenditures in the Saudi government budget fluctuated from 13.17% in 2004 (average oil price $36.68) to 30.15% in 2009 (average oil price $53.61) and 16.15% in 2016 (average oil price $38.13) (SAMA, 2018). These numbers illustrate the dependence of government spending on oil income as well as the absence of a long-term plan to stabilize government spending irrespective of oil price changes. As a result, the government changes public policies (e.g., education and health) every time oil prices change, making economic and social policies unstable and inconsistent.

Since the 1970s, the Saudi government has adopted market-based reforms such as privatization, outsourcing, and public-private partnerships (PPP) (Biygautane, Gerber, & Hodge, 2017; Looney, 1992; Ramady, 2010). Even though the results vary among sectors and services, the outcomes of these reforms did not meet expectations. The Saudi public sector's productivity and government effectiveness is still low (World Bank, 2108), economic diversification has not been achieved (Albassam, 2015), and the Saudi economy still depends heavily on its oil income (Aldukheil, 2013; Shamon, 2015).

The Saudi PFS is characterized by centralization, where the Ministry of Finance has full control over all budgeting process, with little participation from other government agencies. The kingdom's people have no voice in controlling or monitoring government spending. Also, the Council of Ministers has the final say on the budgeting system (e.g., allocations and revenues). Yet, other government agancies, such as the Shura council and General Auditing Bureau exercise only a supervisory role in the budgeting process. Accordingly, the Saudi budget scores very low on many indices that measure budget participation and transparency, such as the Open Budget Index, where it has scored 0 out of 100 since the OBI was launched 2006 (IBP, 2018). Thus, the new financial reforms (e.g. Vision 2030) include many projects such as financial sector development plan, privatization program, and fiscal balance program, where such programs promise to achieve what the previous plans have not.

3.0 Institutionalism and Public Financial Management

Institutions play a critical role in shaping public services, the way organizations work, and public policy implementation and outcomes. In addition, an institution's structure and design influence and are influenced by individuals' behavior and organizations' performance, which contribute to the success or failure of the government's approaches (DiMaggio & Powell, 1991; Hall & Taylor, 1996; North, 1991). With regard to PFM, understanding how institutions work, as well as the relationship between individuals and institutions, will contribute to the achievement of high-quality management of public finance (Albassam, 2013; Kaufmann & Kraay, 2002; North, 2009).

March and Olsen (1984) argue that older thinking in political science relies heavily on the effect of politics on individual behavior and society while neglecting the role of individual behavior in a political institution's performance and structure; they argue that, under new institutionalism, "the state is not only affected by society but also affects it" (March & Olsen, 1984, p. 738). In addition, according to new institutionalists, an institution's structure and design, as well as the relationship between them, help to explain the political process as well as do an organization's processes and outcomes (Furubotn & Richter, 2005; North, 2009).

Furthermore, there is a two-way relationship between governance and the structure and design of institutions (North, 1991; Stoker, 1998). Governance is a means of including all social and political actors in the decision-making process, while institutions can be seen as those who decide the rules of the game, controlling how the governance process takes place (Stoker, 1998). According to Bell (2011), "institutions are important because, as entities, they form such a large part of the political landscape and because modern governance largely occurs in and through institutions" (p. 1). Additionally, both governance and new institutionalism assert the importance of both formal and informal arrangements in shaping the political process and government work (Lane & Nyen, 1992; North, 1991).

Increasing the quality of institutions is an important step in taking advantage of state resources, enhancing the effectiveness and efficiency of the public sector, and diversifying the economy (Auty & Gelb, 2001; Hélis & Dabán Sánchez, 2010). Institutions are influenced by various facets of human development (e.g., level of education and health of individuals) and economic growth. In addition, institutional quality has a critical influence on developing countries' governing process. In rentier states, for example, the state income comes from one or a few sources, which makes the economy vulnerable to economic and political shocks (Auty & Gelb, 2001; Hélis & Dabán Sánchez 2010). Therefore, many studies on developing countries, concluded that countries that adopted good governance practices and implemented well-designed managing public financial systems tend to be more resistant to crises and more economically stable (Kaufmann & Kraay, 2002; Mauro et al., 2009; Stiglitz, 2010).

Accordingly, financial, budgetary, and administrative institutions play an important role in the outcome of PFM (Aidt, Dutta, & Sena, 2008; Allen, 2006). Allen (2006) states that "the development of a country's budgetary systems and procedures depends upon the evolution of its economic and political institutions" (p. 12). Aidt et al. (2008), who believe that the quality of institutions drives PFM and budget processes, raise a similar argument, stating:

Sound budget institutions are vital for a country's ability to design and implement effective fiscal policies. Such institutions help ensure government accountability and prevent the leakage of public funds, increase efficiency of scarce public resources, and improve the prospects of maintaining fiscal stability and meeting social development needs (p. 3).

Thus, from the PFM perspective, the structure of and interaction between institutions play important roles in the quality of PFM and economic development. Consequently, to manage public finance effectively, governments need to consider human behavior (behavioral economics), socioeconomic characteristics, and cultural aspects in reforming its economy.

3.1 Institutionalism and Public Financial Management: The Case of Saudi Arabia

The public financial system is the main engine of the economy, especially in developing countries. In addition, rentier states such as Saudi Arabia suffer from the "resource curse," which is defined as "a complex phenomenon in which, through several economic, institutional, and political economy transmission mechanisms, resource abundance may translate into stagnation, waste, and conflict" (Hélis & Dabán Sánchez, 2010, p. 9). In addressing the ways in which developing countries responded to the global crisis of 2009, many studies found that developing countries with high-quality institutional and well-managed public financial systems were more resistant to the crisis and suffered fewer adverse effects (Albassam, 2013; Garba, 2004; Mauro et al., 2009). Thus, being a rentier state, combined with the affliction of the resource curse, has an influence on the quality of institutions and sustainable development in Saudi Arabia. Hélis and Dabán Sánchez (2010) assert that PFM reform needs to be based on an institutional framework and aimed at "avoiding the development of a rentier mentality" (Hélis & Dabán Sánchez, 2010, p. 14).

A recent study by Albassam (2017) on the efficiency and effectiveness of the public budgeting system in Saudi Arabia shows that poor and outdated techniques and procedures, and low-quality institutional structures have all resulted in the misuse and misallocation of public funds and ultimately the failure to achieve the objectives of the nation's strategic plan (i.e., Vision 2030). Similarly, in a study of the budgeting system in Saudi Arabia, Joharji and Willoughby (2014) conclude that, depending on the current system in the preparation and implementation of the budget (e.g., relying on the exchange of former expenses, which are future allocations of expenses based on past levels of exchange and not based on actual need), all of these factors cause flaws in the budgeting system and contribute to the low quality of public services and increased corruption. In addition, they add that relying on oil revenues significantly leads to the inflation of expenditures in the long term and difficulty in obtaining accurate forecasts of revenues, due to fluctuations in world oil prices. According to Joharji and Willoughby (2014):

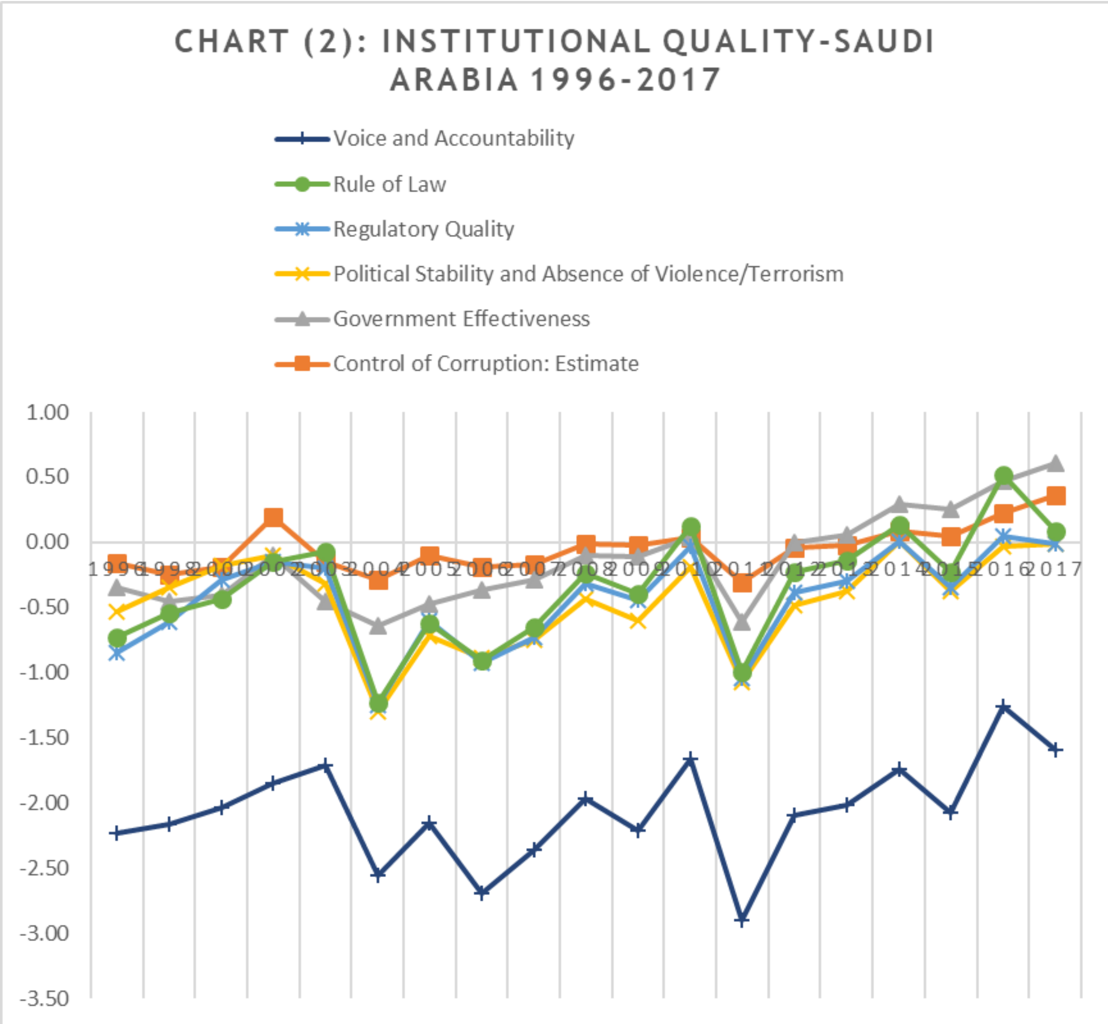
Failure to develop procedures that allow assessment of the various spending projects can lead to poor systematic distribution of resources. Therefore, the successful budget policies contribute to provide the community with public investments produced while ensuring the growth and stability of macro-economics (p. 63).

Albassam (2015) studied economic diversification in Saudi Arabia since the first development plan in 1970; after evaluating the performance and outcomes of the Saudi economy plans in diversifying the economy, the study concluded that the diversification goal had yet to be achieved, because of a lack of operational planning and ill-managed public finance. Thus, Albassam (2015) suggested that enhancing transparency, accountability, and responsibility and having clear measurements and goals to be achieved are the key factors necessary for diversifying the Saudi economy.

In studying the public financial controlling process in Saudi Arabia, Alzeban and Sawan (2013) found that there is an institutional structure problem that needs to be addressed in order to enhance the effectiveness and efficiency of the budget auditing process, since many public organizations either do not have an internal audit function or have one that has not been activated. Furthermore, Albatel (2005), upon investigating the influence of government economic policies on economic growth in Saudi Arabia, concluded that the fiscal and monetary policies in Saudi Arabia caused a "crowding out" phenomenon, wherein the government agencies manipulate and control major economic activities (e.g., oil and gas), resulting in a reduced ability of the private sector to grow and be competitive with government and semi-government agencies in carrying out public and private projects. Thus, the privatization and PPP plans that have been adopted by the government have not been effective in generating a diversified economy in which nongovernmental sectors contribute significantly to the country's GDP.

Additionally, the Saudi sovereign wealth fund (SSWF) and Saudi Arabia Monetary Fund (SAMA) both manage the assets of the government. While SAMA manages Saudi Arabia's foreign exchange reserves (among other functions), SSWF tends to be more of a wealth-managing agency for the government money reserve and budget surpluses. However, the Saudi sovereign wealth fund was established 40 years ago, and compared to similar SWFs, has not played a major role in supporting the Saudi economy or in supporting the political agenda of the government (Alsweilem, 2015). According to Alsweilem (2015), the absence of good governance practices such as transparency of the fund's work, along with the lack of a long-term plan regarding financing and investing strategy, caused the SSWF to be less effective than similar SWFs in supporting the deficit of the budget and in playing the role of a sovereign wealth fund.

On the other hand, institutional quality is not at its best in Saudi Arabia. According to the World Bank (2018) and as shown in Chart (2), governance indicators as a measure of institutional quality show that the country has yet to reach a good governance level in all six indicators (voice and accountability, rule of law, regulatory quality, political stability and absence of violence/tourism, government effectiveness and control of corruption). Considering these results and the performance of the Saudi economy, many studies argued that the low quality of institutions has a negative influence on the achievement of the goals of many development and diversification plans that the government has adopted since 1970 (Albassam, 2017 & 2015; Erkan & Yildirimci, 2015; Joharji & Willoughby, 2014; Kaufmann & Kraay, 2002). Thus, it is clear that a good plan will not be effective unless it is accompanied by a suitable framework, including high quality institutions and good governance practices.



Source: World Bank (2018).

Another sign of unstable and inconsistent government work is the performance of Saudi Arabia in the economic complexity index (ECI), a measure of the level of knowledge-based economy and economic diversification in countries, as shown in Chart (3). Economic complexity can be defined as "the composition of a country's productive output and represents the structures that emerge to hold and combine knowledge" (Erkan & Yildirimci, 2015, p. 524). Thus, ECI measures "the knowledge intensity of an economy by considering the knowledge intensity of the products it exports" (The Observatory of Economic Complexity, 2018).

Economic complexity is based on the theme that economies producing products that require advanced technology and a high level of knowledge have greater potential for economic growth. These economies are also thought to be more resistant to economic crises than economies that produce natural (raw) materials (e.g., natural gas and oil), which require less knowledge-based production and manufacturing. Additionally, economic complexity leads to high levels of economic diversification and economic development. Thus, when we consider the economic complexity index in Chart (3), we argue that the Saudi economy has yet to reach an acceptable and consistent level of knowledge-based economy and economic diversification, which constitute the main themes of the Saudi government's plans, including Vision 2030.

Source: The Observatory of Economic Complexity (2018).

This analysis conforms that the quality of institutions is a critical factor on the road to a successful financial reform in Saudi Arabia. Previous studies and the outcomes of indicators showed the importance of applying good governance factors to government work in order achieve successful financial reform. Accordingly, the unsuccessful reforms in the past have been connected to low-quality institutions and the absence of applying accountability, transparency, and public participation in the budgeting process.

4.0 Public Financial Management in Saudi Arabia: Reform Is Needed

Economic transformation must consider the social, political, and legal uniqueness of a country. Ramady (2010) stresses that the success of economic transformation in a country "depends on implementing appropriate regulatory and legal frameworks most suited to that particular country and then allowing the competitive pressures of free market forces to determine the optimum allocation of resources needed by society" (Ramady, 2010, p. 16). Furthermore, improving financial and nonfinancial institutions is necessary to achieve high-quality state budgeting, increase efficient and effective allocations of public expenditures, and advance public programs and services outcomes.

Many public financial reforms (PFRs) applied in Saudi Arabia from the 1970s to the present have not succeeded in fulfilling what was promised. For example, a main objective of the first development plan (reform) in Saudi Arabia, launched in 1970, was to diversify the economy through supporting non-oil industries, such as petrochemicals; however, after more than 40 years, oil is still the country's main source of income. In 2000, the Saudi government established the General Authority of Investment (GAI) as part of the investment law aimed at diversifying the economy by attracting direct and non-direct investment and supporting privatization; however, after 18 years, the share of the nongovernment sector is still below the target set at the time the investment law was issued: in 2017, the private sector share of GDP was 39.45%, compared to the target of 50% set for ten years after the launch of the 2000 plan (SAMA, 2018).

On the other hand, attempts have been made by the government to fight corruption by issuing the Anticorruption Law in 2011 and applying the Government Finance Statistics Manual (GFSM, a budgeting technique that has been issued by IMF and adopted by many countries) in 2014. However, none of these efforts succeeded in increasing public sector productivity, fighting corruption, or enhancing public finance performance as introduced by the government, and these issues continue to be challenges for the government (Alshahrani & Alsadiq, 2014; Eid, 2015; IMF, 2107; World Economic Forum, 2019).

4.1 Saudi Vision 2030

In April 2016, the Saudi government announced Vision 2030 as a strategic plan for the government, with improving and developing the public finance sector a major component of the plan. Vision 2030 contains programs such as a financial sector development program, privatization program, and fiscal balance program, all of which are aimed at improving the efficiency and effectiveness of the financial sector (private and public) in order to lead to efficient and effective government (Saudi Vision 2030, 2018). While this is considered good progress by the government, these programs nonetheless face many challenges, such as low quality of the institutions of government and semi-government agencies that are responsible from applying the plan, which have hampered the country's ability to reach the vision goals.

Although it has been three years since the new public financial reforms were launched as part of Vision 2030, the Saudi economy is still struggling with a high rate of unemployment (12.8% in 2018), slow economic growth despite the high price of oil, and no clear sign of reaching the economic diversification objectives set by the government when it launched the new plan (IMF, 2018; SAMA, 2018; World Economic Forum, 2019). Several reasons for this deficiency have been identified, including a lack of public sector productivity and the failure to adopt good governance practices, such as transparency and accountability (Albassam, 2017; Aldukheil, 2017).

Many studies have concluded that the lack of modernization of the relevant legislation, low institutional quality, and application of the market-based reform style without taking into account the organizational and institutional structure of Saudi Arabia all contribute to the lack of success of the country's economic development plans (Biygautane et al., 2017; IMF, 2017). In addition, when we examine the government management style in handling public finance and budgeting systems, it is understandable why the economic goals have not been achieved. One of the reasons is the absence of a suitable framework to help fix the structural and fundamental defects, such as unclear procedures, outdated regulations, absence of efficient public participation (democracy) in running the state's affair, and a lack of accountability and transparency concepts in the governing process.

With regard to the research questions, it is clear from the analysis that the financial reforms that the Saudi government has recently adopted are not significantly different from previous reforms in their objectives and implementation mechanism. Also, given the results of the previous plans and the outcome of the current plan, it is clear that the Saudi government faces a significant challenge to reaching the targeted results of the current financial reform (e.g., economic diversification, reducing dependence on oil as a primary source of income, enhancing the public sector productivity, and controlling unemployment); these challenges have been connected to low-quality government institutions.

Thus, institutional reform and adopting good governance practices are keystones to achieving effectiveness and efficiency in government work. So, adopting and implementing a well-developed plan for managing the public financial system is considered to be the most effective way to achieve sustainable and comprehensive development (Albassam, 2017; Mahamid, 2013; Shamon, 2015). Ramady (2010) argues that, in order for Saudi Arabia to reach its goals in developing the economy, the government must adopt a comprehensive reform that includes education, institutions (government agencies), and fundamental reforms in fiscal policies. In addition, Ramady (2010) argues that "any analysis of the Saudi Arabian economy must examine in depth the Saudi budgetary and public sector financing and how surpluses and deficits are invested and utilized" (Ramady, 2010, p. 42). Furthermore, after stating that the budget institution in Saudi Arabia is ill-managed and does not effectively utilize oil revenues, Eid (2015) found that supporting budget transparency, creating an independent process and agency for approving and controlling the budgeting process, and applying tools to increase revenues from sources other than oil (economic diversification), such as taxes, are all important tools to help enhance the effectiveness and efficiency of the public budget.

4.2 Reform Roadmap

Even though the Saudi government has launched a new strategic plan (Vision 2030), the institutional quality has not improved sufficiently for the plan to work. Many plans and programs have been adopted in the past regarding economic and financial development, including those in 1970, 1992, 2000, 2007, and 2016, but none of them have succeeded in reaching their objectives, due to a lack of institutional quality and inefficient and ineffective budgeting system. Thus, in this paper, we argue that developing the current public financial system and improving institutional quality are vital steps for Saudi Arabia to enhance government productivity, and to reach economic and political stability. In addition, reform in Saudi Arabia must be gradual, while remaining in line with the prevailing political and economic environment.

Thus, compared to best-fit practice prescriptions for countries at the same stage of development (Allen, 2009; Bahl & Wallace, 2005; Ramady, 2010; Schiavo-Campo & McFerson, 2014), many suggestions could be introduced to contribute to the development of an effective and efficient PFM system in Saudi Arabia. First of all, institutional design and structure are the key elements in PFM, especially in developing countries. Public financial reform (PFR) will not be successful or sustainable unless institutional changes and reforms are implemented in government agencies and government work process. Accordingly, good governance practices such as support for accountability in the government work, increased application of the rule of law, and enhanced budget transparency should be adopted. Secondly, increasing public participation in managing the public financial system, and implementing a decentralized financial system that enables local governments to manage their budgets will increase the efficiency and effectiveness of public programs. Thirdly, adopting a strong monitoring system where an elected and independent council (parliament) plays a role in controlling government spending, will result in effective government programs that lead to a successful Vison 2030.

To equip Saudi Arabia with a well-managed public financial system, other systems in the country must be reformed, such as civil service, government procurement, and the budgeting system. All government systems are interconnected; thus, reform must be inclusive of all systems. Likewise, investment in human capital is needed through supporting education quality, since human development plays an important role in managing public finance and executing government plans.

Nevertheless, having a long-term financial plan that addresses financial issues, such as setting a targeted inflation rate and deciding on the amount of capital investment to be spent in coming years, is a necessary step toward sustainable development. Also, a knowledge-based economy must be at the core of any government plan, as demonstrated through supporting knowledge transfer as an important tool for building a diversified economy. Finally, and most importantly, developing a planning and programming budget system is a key factor in having well-managed public finance, as this model of budgeting ensures financial planning and supports financial control of the government budget.

5.0 Conclusion

To meet the objectives of the Kingdom's strategic plans (Vision 2030), public financial systems need to be reformed; and in order to have an efficient and efficient public financial system, institutional reform and the principles of good governance should be adopted. The most important of these reforms is the adoption of a participatory budgeting system where citizens have a bigger rule in determination of the budget allocations and control over the budgeting process; activating the oversight role of the advisory governmental institutions, such as the General Audit Bureau, and enhancing the role of an elected council in monitoring budget and government activities (currently, the Shura Council is appointed by the king and has no authority over the state's budget); enhancing financial decentralization by involving local and government bodies in the budget process (the budget process is now under central control of the Ministry of Finance(, and promoting accountability and disclosure principles in the public budget. All this requires change in the Saudi constitution (Basic Law of Governance), especially with regard to the financial law (at present, the political authority has absolute power in managing the public budget process); where the change must promote the principles of good governance practices for the financial system in Saudi Arabia.

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