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Analysis of the Legal System of Budget Formulation in Iran in Light of the Principles of Good Governance

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ABSTRACT

The government's public budget, as the most important annual financial document, is regarded as the primary instrument for implementing public policies, allocating resources, and directing the government's economic and social activities. The budget formulation stage, as the starting point of the budgeting process, plays a decisive role in ensuring transparency, accountability, and efficiency within the public financial system. In the legal system of the Islamic Republic of Iran, this stage is regulated within the framework of constitutional principles—particularly Article 52—and financial laws, including the Public Accounting Law. However, the legal structure governing budget formulation faces challenges that may hinder the realization of good governance principles. The present study aims to examine and analyze the legal system of budget formulation in light of the principles of good governance and to identify the legal deficiencies affecting this process. Employing a descriptive-analytical method and based on the examination of legal sources, legislation, and higher-level policy documents, this research evaluates the extent to which this process conforms to principles such as the rule of law, transparency, accountability, and efficiency. The findings indicate that the major deficiencies include the expansion of the Budget Law's scope beyond its financial function through the incorporation of unrelated provisions, insufficient transparency in the formulation process, institutional centralization in budget preparation, and a lack of coherence between annual budgets and development plans. This situation has reduced the effectiveness of the budget as an instrument of financial governance. Ultimately, the findings demonstrate that reforming the legal framework of budget formulation and aligning it with the principles of good governance can play an effective role in enhancing transparency, strengthening accountability, and improving the quality of financial governance.

Keywords: *Public Budget, Budget Formulation, Budget Legal System, Good Governance, Transparency, Accountability, Public Finance Law*

Introduction

The government's general budget, as the most important financial document and a fundamental instrument of public policymaking, plays a central role in regulating the government's economic activities, allocating public resources, achieving development objectives, and ensuring the effectiveness of the governance system. In addition to representing the government's annual financial plan, this document reflects the manner in which sovereignty is exercised, the degree of adherence to the rule of law, and the level of accountability of public institutions. From this perspective, the budget may be regarded as one of the most important instruments of governance, and the quality of its formulation and preparation directly affects the efficiency of the administrative system and the realization of the government's macro-level objectives (1).

Within the theoretical framework of good governance, which emphasizes principles such as the rule of law, accountability, transparency, efficiency, and regulatory quality, the budgeting system occupies a fundamental position because the budget is the government's principal instrument for implementing public policies and managing public resources. The quality of public financial processes, particularly the manner in which budgets are formulated and prepared, is regarded as a key indicator for assessing the quality of governance and governmental efficiency (2). Moreover, a transparent and accountable budgeting system based on clear legal rules constitutes one of the essential pillars of good governance (3).

In this regard, the budget formulation stage is of particular importance because it represents the starting point of the budgeting process and forms the basis for the government's financial decision-making. At this stage, the government evaluates public revenues and expenditures, prepares the budget bill, and determines the financial framework for implementing public policies. Any legal deficiency or deviation at this stage may reduce the efficiency of the financial system, weaken accountability, and disrupt the realization of good-governance objectives (1).

In the legal system of the Islamic Republic of Iran, the framework for budget formulation is established at the highest level in Article 52 of the Constitution. Under this provision, the preparation and formulation of the country's annual budget bill fall within the exclusive competence of the executive branch. This arrangement is intended to ensure coherence in financial policymaking, promote governmental responsibility, and enhance efficiency in the management of public resources (4). Financial laws, including the Public Accounting Act, have also established specific legal frameworks for the preparation and submission of the budget. This legal framework has been designed to ensure fiscal discipline, uphold the rule of law, and prevent unregulated intervention in the government's financial processes (5). Furthermore, budgets ordinarily constitute the point of connection between policies and their implementation, as well as between political visions or plans and their realization. However, four decades of budgeting experience indicate that, in Iran, the budget document is neither a policy document nor even an accurate statement of revenues and expenditures, which is its traditional function (6).

Nevertheless, an examination of the performance of Iran's budgeting system indicates that the budget formulation stage faces numerous legal challenges and deficiencies. These include the incorporation of non-financial provisions into the budget text, the expansion of substantive provisions in annual budget laws, the weakening of the budget's estimative nature, and ambiguity regarding the boundary between financial legislation and substantive legislation. In addition to diverting the budget from its principal function, this situation may weaken the rule of law, reduce transparency, and undermine governmental accountability (1).

From the perspective of good governance, these deficiencies are particularly significant because a public financial system founded on clear legal rules, transparency in decision-making, and the accountability of executive institutions is one of the essential indicators of good governance (2). Any ambiguity or deficiency in the legal framework for budget formulation may reduce the quality of financial governance and weaken governmental efficiency.

Despite the fundamental importance of this issue, a review of the legal literature indicates that a considerable proportion of budgeting research has focused primarily on economic or managerial aspects, while legal examination of the budget formulation stage within the theoretical framework of good governance has received less attention.

This research gap highlights the need for a systematic study of the legal shortcomings of the budget formulation stage in light of good-governance indicators.

Accordingly, the principal question of this study is the extent to which the legal system governing the budget formulation stage in Iran conforms to good-governance indicators and what the principal legal deficiencies of this stage are. The research hypothesis is that certain legal deficiencies in the budget formulation process—including ambiguity concerning the legal nature of budgetary provisions, the incorporation of non-financial provisions, and inadequate observance of public finance law principles—have reduced the conformity of this process with good-governance indicators. Employing a descriptive–analytical method and drawing on legal sources, financial laws and regulations, and the theoretical framework of good governance, this study examines the issue and seeks to provide a basis for proposing measures to strengthen the conformity of the legal framework for budget formulation with the requirements of good governance.

The importance of this study lies in the fact that correcting the legal deficiencies of the budget formulation stage can effectively improve the quality of financial governance, enhance governmental efficiency, strengthen accountability, and facilitate the more effective achievement of development objectives. Therefore, legal examination of this stage within the framework of good governance is an essential step toward reforming the budgeting system and strengthening the foundations of financial governance in Iran.

Research Background

The study of the relationship between budgeting systems and the principles of good governance has been one of the principal areas of research in public governance and public finance law at the international level. Within this framework, numerous international organizations and scholars have examined the role of legal budgetary frameworks in realizing such principles as transparency, accountability, and the rule of law.

Studies of public governance have identified budgeting systems as among the most important instruments for achieving good governance. These studies emphasize that transparency in budget formulation, public access to financial information, and the existence of clear legal rules are among the principal indicators of good governance, and that deficiencies in these components lead to corruption, inefficiency, and diminished public trust (2). These studies demonstrate that the quality of the legal framework governing the budget has a direct effect on the quality of public governance.

The International Monetary Fund has likewise emphasized, through its Fiscal Transparency Code, the importance of transparent and predictable legal frameworks in the budget formulation process. It maintains that the existence of clear laws governing powers, responsibilities, and stages of budget formulation is essential for ensuring accountability and preventing the misuse of public resources (1). These findings indicate that the legal framework for budget formulation is a key component of good governance.

Similarly, research on budget governance has emphasized the role of legal rules in ensuring efficiency and accountability. Such research suggests that the legal budgetary system should be designed in a manner that enables effective oversight, participation by various institutions, and executive accountability (1). It further indicates that weaknesses in the legal framework of the budget may lead to excessive concentration of power and reduced accountability.

At the academic level, Allen and Tommasi, in their study of public financial management, concluded that legal budgetary frameworks play an essential role in ensuring fiscal discipline, transparency, and accountability. They argued that a budgeting system without strong legal support cannot achieve the objectives of good governance (1).

Likewise, Schick's study of budgetary reforms showed that the success of such reforms depends substantially on the quality of the legal and institutional framework. He emphasized that budget laws should be formulated in a manner that both defines governmental authority and guarantees mechanisms of accountability (1).

Overall, international studies indicate that the legal framework of budget formulation is one of the fundamental elements for achieving good governance, and that weaknesses in this framework may reduce the transparency, accountability, and efficiency of the governance system.

In Iranian legal and managerial literature, studies have also been conducted on the legal system of the budget and its relationship with good-governance principles. Although direct attention to the budget formulation stage and its analysis from the perspective of good governance has been limited, these works have each addressed, from particular perspectives, the nature of the budget, the principles governing it, and the legal and institutional requirements for its preparation and implementation.

In the field of public finance, Taheri Hashi and Taheri Hashi described the budget as the government's most important financial policy instrument and emphasized its role in resource allocation, income distribution, and economic stabilization. They regarded the budget not merely as an accounting document but as an instrument for achieving the government's economic and social objectives, emphasizing the need for its alignment with macro-level plans and the country's economic capacities (5). Dadashzadeh and Asgari, in *Budgeting from Theory to Practice*, explained the theoretical foundations of budgeting and emphasized the necessity of transparency, accountability, and fiscal discipline in budget preparation, considering deviation from these principles a cause of reduced financial-system efficiency (6).

In the field of constitutional law, Hashemi and Madani, through their analysis of Article 52 of the Constitution, considered the budget to possess a particular nature distinct from other laws. They described it as a financial document with specific legal features, the preparation, approval, and implementation of which are governed by special rules. These authors emphasize that the budget should be limited to determining revenues and expenditures and that the inclusion of non-financial provisions is inconsistent with the underlying rationale of the budget (4, 7). In the same vein, legal analyses of the nature of budget laws have emphasized the necessity of distinguishing budgetary provisions from permanent provisions and have identified the inclusion of provisions unrelated to the financial nature of the budget as a challenge facing Iran's legal budgeting system (7).

From the perspective of administrative law, Abolhamd and Tabatabaei Motameni regarded the budget as one of the most important instruments of governmental financial management and as the basis for the operation of executive agencies. They emphasized the importance of observing the principles of legality, accountability, and oversight in the budgeting process, considering weaknesses in this area to diminish the efficiency of the administrative system (8, 9). Rashidi and Ranjbar, in their examination of executive oversight mechanisms over the budget, stressed the importance of effective oversight in ensuring proper budget implementation and preventing deviations from established objectives (10).

In the field of financial law, Ranjbari and Badamchi explained the legal nature of the budget and described it as a document with both financial and planning functions, emphasizing the need to confine it to determining financial resources and expenditures. They regarded the introduction of non-financial provisions into the budget as weakening its principal function and stressed the necessity of observing legal principles in budget preparation (11). Ebrahiminejad and Farajvand, in *Principles of Budget Preparation, Formulation, and Control*, emphasized the importance of observing transparency, realism, and alignment with development plans in budget formulation and identified failure to observe these principles as a factor reducing budget effectiveness (12).

From the perspective of public-sector economics, Pourmoghimi considered the budget to be the principal instrument for implementing public policies and emphasized its role in achieving the government's economic and social goals. He maintained that budget efficiency requires an appropriate legal framework, transparency, and fiscal discipline, and that any deviation from this framework reduces the efficiency of the government's financial system (13).

In the area of good governance, Dabbagh and Nafari, in explaining the concept of good governance, emphasized indicators such as the rule of law, accountability, transparency, and governmental effectiveness. Their study indicates that the existence of a transparent and efficient legal framework is a prerequisite for achieving good governance and that weaknesses in the regulation of financial affairs may reduce governmental effectiveness and weaken the efficiency of the governance system (3).

In addition, laws and higher-order documents, including the Constitution of the Islamic Republic of Iran, the Public Accounting Act, and annual budget laws, have established the legal framework for budgeting in Iran and have emphasized the financial, temporary, and programmatic nature of the budget. These documents regard the budget as an instrument for achieving the government's economic and social objectives and consider adherence to legal principles in its formulation and implementation necessary (4, 11).

Overall, a review of Persian-language sources indicates that, although the budget occupies an important position in the country's legal and economic system as a financial document and an instrument of public policymaking, challenges such as the inclusion of non-financial provisions, inadequate alignment with development plans, and deficiencies in legal and institutional frameworks are among the principal shortcomings of the budgeting system in Iran. This issue demonstrates the need to reconsider the legal framework of budget formulation and align it with good-governance principles. From an institutional perspective, official reports also indicate that the concentration of the budget formulation process within the executive branch and weak oversight mechanisms are among the fundamental challenges of Iran's budgeting system (10, 12).

The review of the research background indicates that international studies have extensively emphasized the role of legal budgetary frameworks in achieving good-governance principles and have regarded transparent laws, accountability, and oversight mechanisms as requirements of good governance. In domestic literature, some studies have likewise examined Iran's budgeting system and its challenges.

However, the review of the research background reveals important gaps in this field:

- Most domestic studies have examined the budgeting system generally, while focused legal analysis of the budget formulation stage has been limited.
- The legal system of budget formulation in Iran has not been independently and systematically examined on the basis of the theoretical framework of good governance.
- The relationship between the legal rules governing budget formulation and the indicators of good governance has not been comprehensively analyzed.

Accordingly, by focusing on the analysis of the legal system governing budget formulation in Iran in light of good-governance principles, the present study seeks to address this research gap and provide a legal and systematic analysis of the issue.

Research Method

In terms of its purpose, the present study is applied research; in terms of its nature, it is theoretical–analytical research. It was conducted using a qualitative approach and a descriptive–analytical method. Given that the article examines the legal system of budget formulation in Iran in light of good-governance principles, an in-depth examination of theoretical foundations, fundamental concepts, legal frameworks, and relevant legal documents required the use of documentary and library research methods.

The nature of the research topic—which falls within the fields of public law and public finance—requires an analysis based on the examination of laws, regulations, official documents, governance theories, and previous scholarly studies. Accordingly, the present method is based on legal–institutional analysis and qualitative content analysis of documents. Within this framework, the collected data were evaluated not merely descriptively but also through a critical and analytical approach in order to assess the conformity of Iran’s legal framework for budget formulation with good-governance indicators.

The principal objective of the study is to explain and evaluate the legal system governing the budget formulation stage and to analyze it according to such principles as transparency, accountability, the rule of law, efficiency, and participation. By identifying the strengths and weaknesses of the existing legal structure, the study seeks to provide a coherent account of the legal status of budget formulation in Iran and to create a basis for reform-oriented analyses.

The selection of library research and documentary analysis for this study is fully appropriate in light of its theoretical nature. Because the present research is theoretical and requires a comprehensive review of the existing literature, this approach enables an in-depth understanding of theoretical foundations, key concepts, and previous research findings. Moreover, analysis of legal systems and evaluation of legal frameworks fundamentally require the examination of reliable written documents and sources; field and statistical methods do not possess sufficient effectiveness in this field.

Data were collected through a systematic search of scholarly sources in reputable domestic and international databases. In this regard, the researcher accessed university libraries and academic information databases to identify, examine, and systematically extract material from relevant sources. The information-gathering process included the following stages:

- Identifying the principal concepts and components of the research, including the legal budget system, budget formulation, and good governance.
- Extracting relevant keywords on the basis of the conceptual framework of the study.
- Searching for sources in reputable information databases.
- Selecting sources according to specified scholarly criteria.
- Taking notes, extracting relevant content, and categorizing data on the basis of good-governance indicators.
- Conducting comparative analysis and critical evaluation of the collected data.

The keywords used also included “budgeting,” “legal budget system,” “budget formulation,” “good governance,” “public finance law,” “fiscal transparency,” and “accountability,” together with their English equivalents, including *Budget Formulation*, *Legal Framework of Budget*, *Public Financial Management*, *Fiscal Transparency*, and *Good Governance*.

These keywords were selected on the basis of the central concepts of the study in order to comprehensively cover the legal and governance dimensions of the subject. Different combinations of these keywords were used across databases in order to broaden the search scope and comprehensively identify relevant sources.

For domestic sources, reputable academic databases, including SID, Noormags, IranDoc, and Magiran, were used. These databases provide access to scholarly research articles, theses, and specialized studies in the fields of public law and public financial management.

For international sources, searches were conducted in databases such as Google Scholar, ScienceDirect, and Springer. Reports and documents issued by reputable international institutions were also used because these institutions are among the principal authorities in the fields of public governance and public financial management.

The sources used were selected according to the following criteria:

- Direct relevance to the research topic.
- Publication in reputable scholarly journals or by official institutions.
- Possession of a clear theoretical and analytical framework.
- Academic credibility of the authors or issuing institution.
- Currency of the sources, particularly in the area of international studies.

The collected data were examined using qualitative content analysis and legal–institutional analysis. In this process, legal concepts and rules related to budget formulation were extracted and subsequently compared with good-governance indicators. Finally, through comparison and critical evaluation, the degree of conformity or nonconformity of Iran’s legal system of budget formulation with good-governance principles was analyzed.

Given the theoretical and legal nature of the subject, the present research method possesses logical coherence, scholarly validity, and methodological appropriateness, and it enables the provision of an in-depth, documented, and scholarly analysis of the legal system governing budget formulation in Iran within the framework of good governance.

In light of the statement of the problem and the objective of the study, the research questions are as follows:

Main Research Question

1. To what extent does the legal system governing budget formulation in Iran conform to the principles of good governance?

Sub-questions

2. What structure and characteristics does the legal framework of budget formulation in Iran possess?
3. To what extent does the legal system of budget formulation in Iran ensure the principle of transparency?
4. To what extent does the existing legal framework provide the basis for accountability in the budget formulation process?
5. To what extent does the legal system of budget formulation in Iran conform to the principle of the rule of law within the framework of good governance?
6. What legal challenges and deficiencies exist in the budget formulation process that may hinder the realization of good-governance principles?

The Theoretical Foundations of Good Governance and Its Requirements in the Budget Formulation Process

The Concept and Theoretical Foundations of Good Governance

The concept of good governance has been advanced since the 1990s as one of the most important analytical frameworks for evaluating the performance of governments and administrative systems. Going beyond the mere administration of public affairs, this concept emphasizes the quality of the exercise of public authority and the management of public resources within a framework of legal principles, transparency, accountability, and efficiency. Governance has been defined as the manner in which power is exercised in managing a country's economic and social resources for development, while good governance requires efficient, accountable, and transparent legal and institutional structures (2).

Good governance is also understood as a process through which public authority is exercised within legal rules for the purpose of securing the public interest, while observing such principles as the rule of law, accountability, transparency, efficiency, and participation (3). Accordingly, good governance is not limited to executive efficiency; it also requires appropriate legal frameworks, adherence to legal principles, and assurance that public institutions are accountable for their decisions.

In public-law literature, good governance has likewise received attention as a framework for ensuring the legitimacy, efficiency, and responsibility of governments. Within this framework, the government must not only act within the law but must also manage public resources through transparent and accountable mechanisms in a manner that best secures the public interest (2).

Indicators of Good Governance in the Public Financial System

Good governance has numerous indicators, each of which plays an important role in assessing the quality of the public financial system and the budgeting process. The most important indicators are as follows.

Rule of Law

The rule of law is one of the most fundamental indicators of good governance. It means that all public institutions—including the government—must operate within defined and predetermined legal rules. In the field of public finance, this principle requires that the budget formulation process be undertaken within specified legal rules, the statutory powers of institutions, and constitutional principles (2).

In the budgeting system, observance of the rule of law requires the government to formulate the budget solely within its statutory powers and to avoid including provisions unrelated to the nature of the budget. Any departure from this framework may weaken the legal order and reduce the legitimacy of the public financial system (5).

Accountability

Accountability means that public institutions are responsible for their decisions and actions and that their performance must be subject to oversight and evaluation. In the field of budgeting, accountability requires that the government's financial performance, as the institution responsible for preparing and implementing the budget, can be assessed (1).

The existence of a clear legal framework for budget formulation clarifies the government's responsibility for its financial decisions and enables the evaluation of its performance. Conversely, ambiguity in the legal budgetary framework may weaken accountability and reduce transparency in the public financial system (1).

Transparency

Transparency is one of the most important indicators of good governance and means access to accurate, clear, and understandable information concerning public decisions. In budgeting, transparency requires that information regarding public revenues and expenditures be presented clearly and accurately and that the budget formulation process follow specified and predictable rules (1).

Transparency in the budget formulation process increases public trust, improves oversight, and enhances the quality of financial decision-making. Conversely, opaque or unrelated provisions in the budget may reduce transparency and weaken financial governance (2).

Efficiency and Effectiveness

Efficiency refers to the government's capacity to make optimal use of public resources in order to achieve specified objectives. An efficient budgeting system is one in which public resources are allocated in such a way that public-policy objectives are achieved with minimum waste of resources (1).

The existence of an appropriate legal framework for budget formulation is one of the prerequisites for achieving efficiency in the public financial system. Any legal deficiency in the budget formulation process may result in inappropriate resource allocation and reduced financial-system efficiency (1).

Regulatory Quality

Another indicator of good governance is regulatory quality, which refers to the existence of clear, coherent, and enforceable legal rules for administering public affairs. In the field of budgeting, this indicator requires a defined and coherent legal framework for preparing and formulating the budget (2).

Ambiguity regarding the legal nature of the budget or the inclusion of unrelated provisions may reduce regulatory quality and weaken the legal order.

The Position of the Budget Formulation Process in Achieving Good Governance

The budget formulation process is the starting point of the budget cycle and one of the most important stages of the public financial system. At this stage, the government prepares the budget bill by evaluating public resources and expenditures. The quality of this process directly affects the realization of good-governance indicators.

If budget formulation is undertaken within a defined legal framework and in compliance with the principles of transparency, accountability, and the rule of law, it may strengthen financial governance and increase governmental efficiency. Conversely, legal deficiencies at this stage may weaken financial governance, reduce accountability, and disrupt the management of public resources (1).

Accordingly, examining the legal framework for budget formulation and its degree of conformity with good-governance indicators is especially important. Such an examination can assist in identifying existing deficiencies and proposing corrective measures to strengthen financial governance.

Discussion and Research Findings

The Legal Framework of Budget Formulation in Iran's Legal System

The Legal Status of the Budget in Iran's Public-Law System

Within the legal system of the Islamic Republic of Iran, the government's general budget is the most important annual financial document and one of the fundamental instruments of economic governance. In addition to its financial function, it possesses a legal nature that makes it one of the principal instruments for regulating relations among the government, Parliament, and other public institutions. Under Article 52 of the Constitution, the budget both represents the government's financial plan for achieving economic, social, and political objectives during a specified period and provides, as a legal document, the authorization required to collect revenues and incur public expenditures (4, 9).

The question arises whether the budget has a definition and indicators independent of other laws, such as the Islamic Penal Code or the Civil Code, or whether no distinction exists. In this regard, although the budget is formally regarded as a "law" in terms of legislative procedure, it has distinctive definitions and characteristics that differentiate it from other laws (7). More simply, the interdisciplinary nature of the budget and the collection of its definitions and characteristics give it an independent identity distinct from other laws, leading specialists in economics, management, and law to approach it differently.

Therefore, in public law, the budget is regarded not merely as an accounting document but as an instrument for implementing public policy and fulfilling sovereign functions. For this reason, its formulation and approval are subject to specific legal rules and procedures designed to ensure legitimacy, transparency, and accountability in the use of public resources (13). From this perspective, the budget may be regarded as the financial manifestation of the rule of law and one of the most important instruments of legislative oversight over the government's financial performance (2).

Article 52 of the Constitution of the Islamic Republic of Iran establishes the fundamental framework for budget preparation and provides that the annual budget of the whole country must be prepared by the government and submitted to the Islamic Consultative Assembly for examination and approval (4). This provision reflects several essential components: first, the exclusive competence of the executive branch to prepare and formulate the budget; second, the competence of the legislative branch to examine and approve it; and third, the binding nature of the legal framework governing any alteration to the budget's content. This structure reflects the principle of separation of powers and oversight mechanisms within Iran's public-law system (7).

The Competence of the Executive Branch in Budget Formulation

Under Iran's legal system, the preparation and formulation of the budget bill fall within the exclusive competence of the executive branch (10). This competence derives from the executive nature of the budget and its direct relationship with the government's executive functions. As the institution responsible for implementing public policies, the executive branch has more precise information regarding financial resources, economic capacities, and the country's operational needs and is therefore better positioned to formulate the annual financial plan (11).

The Public Accounting Act defines the national budget as "the government's financial plan prepared for one fiscal year, which contains estimates of revenues and other financing sources and estimates of expenditures for carrying out specified operations" (11). This definition emphasizes the programmatic and forward-looking nature of the budget and demonstrates that its preparation requires a precise analysis of economic conditions and executive planning—matters that inherently fall within the functions of the executive branch.

At the same time, this exclusive competence reinforces the government's responsibility for its financial performance because the government is not only the preparer of the budget but also responsible for its implementation and must be accountable to Parliament and other oversight institutions (1).

The Role of the Planning and Budget Organization in the Budget Formulation Process

Within the administrative structure of the Islamic Republic of Iran, the Planning and Budget Organization plays a central role in the preparation and formulation of the budget. As a specialized institution for planning and financial management, it is responsible for coordinating executive agencies, collecting financial information, examining budget proposals, and preparing the final budget bill (12).

The budget formulation process normally begins with the issuance of a budget circular. This circular specifies the frameworks, policies, priorities, and guidelines necessary for the preparation of budget proposals. Executive agencies estimate their financial needs and submit their proposals in accordance with these guidelines. The Planning and Budget Organization subsequently examines, evaluates, consolidates, and integrates these proposals to prepare the budget bill (13).

This process demonstrates the Organization's key role in ensuring fiscal coherence, coordination among agencies, and budgetary alignment with the country's macroeconomic objectives. In effect, the Planning and Budget Organization acts as the link between economic policymaking and financial implementation (2).

The Role of the Council of Ministers in the Final Approval of the Budget Bill

Once the budget bill has been prepared by the Planning and Budget Organization, it must be approved by the Council of Ministers. Approval by the Council elevates the bill from the level of an expert document to that of an official governmental document. This stage reflects the government's acceptance of political and executive responsibility for the content of the budget (7).

Under Article 52 of the Constitution, the Council of Ministers examines and finalizes financial priorities, executive policies, and resource allocations at this stage. Following its approval, the budget bill is submitted to the Islamic Consultative Assembly as the government's official proposal. This action marks the beginning of the legislative examination of the budget and parliamentary oversight of the government's financial performance (4).

Legal Characteristics of the Budget Formulation Process

Examination of the legal framework for budget formulation in Iran indicates that this process has distinct legal characteristics.

First, the power to prepare the budget is exclusively vested in the executive branch, which ensures executive coherence and efficiency in formulating the government's financial plan (4).

Second, once approved by Parliament, the budget acquires legal force, and its implementation becomes binding upon the government (9).

Third, the budget formulation process is subject to defined legal frameworks designed to ensure transparency, accountability, and fiscal discipline (1).

Fourth, budget formulation requires coordination among various executive, economic, and financial institutions, demonstrating the importance of coherent institutional mechanisms (2).

The legal framework for budget formulation in Iran is designed around a combination of executive and legislative competences, with the executive branch at its center. By assigning budget preparation to the government and budget approval to Parliament, the Constitution establishes a mechanism that ensures executive efficiency while also providing for legislative oversight. Within this framework, the Planning and Budget Organization performs the specialized function of budget formulation, while the Council of Ministers performs the final executive decision-making function. This legal structure provides an appropriate basis for analyzing the conformity of budget formulation with good-governance principles.

Legal Pathology of the Budget Formulation Process in Light of Good-Governance Principles

The Relationship Between Budget Formulation and Good Governance

The budget formulation process is one of the most important stages of the government's financial cycle and a fundamental component of economic governance. This stage not only determines the allocation of public resources but also reflects the extent to which the legal and administrative systems comply with the fundamental principles of good governance, including transparency, accountability, the rule of law, efficiency, and regulatory quality (1, 2). Indeed, the quality of budget formulation is an important indicator for assessing the extent to which good governance is realized within the government's financial structure (3).

Despite the existence of defined legal frameworks for budget formulation in Iran, examinations indicate that this process faces challenges and shortcomings that may limit the realization of good-governance principles. These challenges arise primarily from structural, legal, and institutional weaknesses in the budget formulation process. Although Iran is regarded as one of the early developing countries in the field of planning, and more than seven decades have passed since the adoption of its first development plan, the Iranian economy continues to face numerous problems despite its achievements. These challenges include an oil-dependent economy, political developments, post-revolutionary events, low and volatile economic growth, water and environmental crises, wars and regional developments in the Middle East, unfinished infrastructure projects, unemployment and its increasing rate, double-digit inflation, persistent annual budget deficits, multiple banking-sector challenges, sanctions arising from domestic and foreign policies, and the inefficiency of governments in addressing economic difficulties. These fundamental challenges are rooted in the legal system governing budgeting and in the absence of good-governance indicators such as government effectiveness and the rule of law in Iran (11).

Legal Pathology

Weakening of the Legal and Programmatic Nature of the Budget

One of the most important legal deficiencies in the budget formulation process is deviation from the budget's essential nature as a financial and programmatic document. Under the legal definition, the budget must include forecasts of revenues and estimates of expenditures for implementing specified programs during a particular period (11). In addition, under Article 52 of the Constitution, the budget is prepared, approved, and implemented within the framework of the country's macro-level policies and plans. This definition reflects the special and distinct nature of the budget as compared with other laws and emphasizes such components as its estimative character, the identification of revenues and expenditures, temporariness, and purposefulness. Nevertheless, practical budgeting in Iran indicates that these components are frequently disregarded, and annual budget laws—particularly through the single article and numerous notes—have become a vehicle for establishing legal rules and amending existing laws.

The first essential component of the budget is its estimative character, which reflects the predictive and non-final nature of this financial document. The relevant provisions of the Public Accounting Act also confirm the authorizing nature of the budget document (11). This characteristic requires budget provisions to avoid establishing definitive rules and mandatory obligations outside the framework of approved plans and to be formulated on the basis of economic realities. The expansion of mandatory provisions in the single article not only distorts the nature of the budget but also demonstrates weaknesses in financial regulation and an inability to preserve the boundary between annual financial decisions and general legislation. From a public-governance perspective, this situation reflects reduced efficiency of executive structures in safeguarding the legal framework of the budget and, consequently, weakened government effectiveness in financial policymaking.

It should also be noted that even where the revenues stated in the budget are forecast through a scientific and expert-based approach, they remain probabilistic. The contingent nature of revenues and expenditures cannot create binding obligations for citizens; rather, it authorizes the collection and expenditure of funds. Probability entails uncertainty, whereas an obligation is definitive in nature. Accordingly, society requires laws that create financial obligations, and the Budget Act cannot perform this role. Therefore, the budget is not a document that creates revenue for the government; rather, it is a financial plan for organizing revenues whose legal bases have been created in other laws. Consequently, the budget does not generate financial rights or obligations for the public or citizens (6).

The second fundamental component of the budget is the identification of the government's public revenues and expenditures. This component requires the budget to be limited to determining financial resources and the manner of their allocation and to refrain from amending or repealing permanent laws or creating new legal structures. The conflation of the boundaries between Article 52 and Article 71 of the Constitution causes numerous permanent provisions to be introduced through the single article of the budget. The consequence is the multiplication of legislative sources, conflicts and inconsistencies among laws and regulations, confusion and delay in budget implementation and the activities of executive agencies, and agencies' non-compliance with laws and regulations. These outcomes arise from the absence of the rule of law and accountability and constitute tangible deficiencies in the indicators of good governance in Iran's budgeting system (3). Nevertheless, the inclusion of provisions with legislative substance in the Budget Act conflates temporary financial laws with permanent laws and challenges the coherence of the legal system. In addition to reducing transparency, this situation limits effective accountability and conflicts with the principle of the rule of law (1).

The third essential component of the budget is its temporary nature. The budget is inherently a document limited to one fiscal year, and its effects should remain confined to that period. The inclusion of provisions with continuing effects extending beyond the fiscal period blurs the distinction between permanent and temporary laws and reduces the predictability of the financial system. This, ultimately, affects the efficiency of financial policies and the capacity for medium- and long-term planning (2).

The fourth fundamental component of the budget is its purposiveness. The budget should be formulated in pursuit of macro-level development objectives and on the basis of national priorities. However, the inclusion of scattered and non-financial provisions weakens coherence in resource allocation and reduces focus on programmatic objectives. In addition to reflecting the absence of a clear definition of budgetary indicators, this situation reveals deficiencies in aligning financial policies with development plans and, consequently, reduces the government's executive capacity to achieve specified objectives.

Overall, the expansion of the scope of the single article and the inclusion of non-financial provisions in the budget have distanced this document from its financial and programmatic nature and transformed it into an instrument of ad hoc legislation. In addition to weakening transparency and legal coherence, this practice conflicts with the principles of good governance—particularly the rule of law, accountability, and institutional efficiency—and demonstrates the necessity of revising the legal framework of budget formulation.

Lack of Transparency in the Budget Formulation Process

Transparency is one of the essential pillars of good governance and plays a significant role in ensuring governmental accountability (3). Nevertheless, the budget formulation process in Iran's legal system is largely conducted within the administrative structure of the executive branch and without effective participation by independent institutions, experts, or civil society.

This centralization limits public access to information regarding the manner of budget preparation and resource-allocation criteria. As a result, opportunities for independent evaluation of the government's financial decisions are reduced, and the level of accountability declines (1).

Moreover, the complexity of the budget structure and the lack of transparent standards for presenting financial information make it difficult even for oversight institutions to analyze and evaluate the budget. This is inconsistent with the principles of transparency and accountability (2).

Excessive Concentration of Budget Formulation Authority in the Executive Branch

Although assigning budget formulation competence to the executive branch is reasonable from the perspective of executive efficiency, excessive concentration of this authority, in the absence of effective oversight mechanisms at the formulation stage, may reduce transparency and accountability.

In Iran's legal system, the budget formulation process is conducted largely within the executive branch and under the management of the Planning and Budget Organization. In the absence of adequate oversight mechanisms, this institutional concentration may create the conditions for decisions that do not necessarily reflect actual development priorities or the public interest.

From the perspective of good governance, a balance between authority and accountability is a fundamental principle (1). The concentration of authority without strengthening accountability mechanisms may weaken the quality of financial governance.

Weak Linkage Between the Budget and Development Plans

Another important deficiency in the budget formulation process is the weak structural relationship between annual budgets and medium- and long-term development plans. Although the budget should serve as an instrument for implementing development plans, this linkage is not fully observed in practice in some cases.

As a result, instead of functioning as an instrument for achieving strategic objectives, the budget becomes a merely financial and short-term document. This is inconsistent with the principles of efficiency and effectiveness in good governance (2).

Weak Legal Frameworks for Ensuring the Quality of Budget Formulation

Although existing laws establish the general framework for budget formulation, in many instances they lack precise criteria for ensuring the quality of the process. For example, there are no specific criteria for assessing the quality of revenue forecasts or the method of resource allocation.

This legal gap increases the likelihood of inefficient or non-transparent decisions in the budget formulation process. From the perspective of good governance, the existence of precise and transparent legal frameworks is one of the essential requirements for ensuring the quality of financial governance (1).

An examination of budget formulation in Iran's legal system in light of good-governance principles indicates that, despite the existence of defined legal frameworks, the process faces challenges, including the weakening of the budget's programmatic nature, insufficient transparency, excessive concentration of authority in the executive branch, weak linkage with development plans, and legal gaps in ensuring the quality of budget formulation. These deficiencies may limit the realization of good-governance principles, particularly transparency, accountability, and efficiency.

Deviation of the Budget from Its Financial Nature in Iran's Legal System and Its Analysis in Light of Good Governance

The Legal and Financial Nature of the Budget in Iran's Legal System

Under Article 1 of the relevant national legislation, the government's general budget, as the most important annual financial document in Iran's legal system, has a dual nature: it is both financial and legal. From a financial perspective, the budget presents forecasts of government revenues and estimates of government expenditures for a specified period. From a legal perspective, it constitutes a statutory document that provides the authorization required to collect revenues and incur public expenditures (9, 11).

This dual nature transforms the budget into an instrument for formulating and implementing public policies while simultaneously defining its scope and functions. Accordingly, the primary function of the budget is to regulate the government's financial relations and establish the legal framework for public revenues and expenditures, rather than to enact permanent legal rules or establish new legal institutions (7).

Within the same framework, the structure of the budget in Iran's legal system also reflects its financial nature. A budget bill generally consists of a single article, notes, and financial tables that collectively determine the financial framework of governmental activities. The single article and its notes establish the budget's operational framework, while the budget tables provide details of financial resources and expenditures (12). This structure demonstrates that the budget is fundamentally designed to regulate the government's financial affairs.

The Emergence of Deviations from the Financial Nature of the Budget During Formulation

Despite the clear definition of the budget's nature within Iran's legal framework, annual budget laws frequently include provisions and regulations that are not financial in nature and extend beyond the framework for organizing public resources and expenditures. These provisions sometimes establish new obligations for executive agencies, amend existing regulations, or introduce new legal rules. However, budgetary provisions, as operational guidelines for the Budget Act, should reflect two considerations. First, the legislature may include certain guiding provisions alongside the budget's figures because doing so facilitates budget implementation and oversight. Including guidelines on the expenditure of resources and appropriations also facilitates the Guardian Council's review of parliamentary enactments for conformity with Islamic principles and the Constitution. Second, the authority responsible for implementing the Budget Act can, by following the guidance of the Islamic Consultative Assembly, realize budgetary resources and expenditures more effectively (8).

This situation has transformed the Budget Act from a purely financial document into an instrument for introducing legal changes and regulating public affairs. Such a transformation constitutes a departure from the budget's primary function because the budget should be formulated as a temporary financial document for a specified fiscal period rather than recognized as an instrument of general legislation (9).

From the perspective of public law, the conflation of the Budget Act with substantive laws weakens the coherence of the legal system because rules of a permanent nature are enacted through temporary legislation and a different legislative process. This may reduce the transparency of the legal system and create difficulties in the implementation of laws (7).

Legal Consequences of the Budget's Deviation from Its Financial Nature

The budget's deviation from its financial nature has significant legal and institutional consequences. First, it weakens the principle of transparency within the government's financial system. When the Budget Act contains non-financial provisions, identifying the government's precise financial framework becomes more difficult, and the possibility of effective oversight is reduced (1).

Second, this situation weakens the rule of law. One of the requirements of the rule of law is the existence of clear, stable, and predictable legal frameworks. The inclusion of non-financial provisions in the Budget Act creates instability and complexity within the legal system (2).

Third, this situation may reduce the efficiency of the budgeting system. When the budget becomes an instrument of legislation, its focus shifts away from its principal function—namely, the regulation of financial resources and expenditures—and the quality of financial planning consequently declines (3).

Analysis of Budgetary Deviation from the Perspective of Good-Governance Principles

From the perspective of good governance, maintaining a clear boundary between financial laws and substantive laws is an essential requirement for ensuring the transparency, accountability, and efficiency of the financial system (1). The budget should operate as an instrument for implementing public policies rather than as a means of creating new legal rules.

Deviation from this principle reduces transparency, increases the complexity of the legal system, and weakens governmental accountability. It may also reduce public trust in the government's financial system because it limits the possibility of accurately evaluating the government's financial performance (2).

Consequently, preserving the financial nature of the budget is an essential requirement for achieving good governance within Iran's legal system. An examination of the budget's legal nature indicates that this document is fundamentally designed to regulate the government's financial resources and expenditures. In practice, however, the inclusion of non-financial provisions in budget laws has caused the budget to deviate from its original nature. This situation has adverse consequences for transparency, the rule of law, and the efficiency of the financial system and may impede the realization of good-governance principles. Therefore, restoring the budget to its original nature is one of the essential requirements for reforming Iran's budgeting system.

Legal Measures for Reforming the Budget Formulation Process in Light of Good-Governance Principles

Strengthening the Legal and Financial Nature of the Budget by Restricting Non-Financial Provisions

One of the most important reform measures for aligning the budget formulation process with good-governance principles is to restore the budget to its original nature as a financial document. As previously explained, the inclusion of non-financial provisions and substantive regulations in budget laws weakens the legal nature and primary function of this document. This situation not only conflates permanent and temporary laws but also conflicts with the transparency and predictability of the legal system (1).

Accordingly, specific legal frameworks must be established to restrict the content of budget laws to financial provisions. This objective may be achieved by amending the Public Accounting Act or enacting a comprehensive budgeting law. Such a framework should expressly prohibit the inclusion in the Budget Act of provisions unrelated to public revenues and expenditures. This measure would enhance transparency, legal coherence, and fiscal discipline (2).

Enhancing Transparency in the Budget Formulation Process

Transparency is a fundamental principle of good governance and plays an important role in enhancing accountability and public trust (3). Accordingly, legal mechanisms must be established to increase transparency in the budget formulation process.

One of the most important measures in this regard is to impose a legal obligation on the government to publicly disclose information concerning the budget formulation process, including resource-allocation criteria, financial forecasts, and the bases of decision-making. Establishing specific standards for the presentation of financial information may also improve the capacity for oversight and evaluation (1).

Furthermore, strengthening the role of independent oversight institutions and enabling them to access budgetary information may increase transparency and reduce the likelihood of inefficient decisions (2).

Strengthening Accountability Mechanisms at the Budget Formulation Stage

One of the requirements of good governance is the existence of effective accountability mechanisms in public decision-making. Although the government is responsible for preparing the budget within Iran's legal system, accountability mechanisms at the budget formulation stage require reinforcement.

In this regard, statutory requirements for submitting explanatory reports with the budget bill may help enhance accountability. Such reports should explain the bases of revenue forecasts, resource-allocation criteria, and intended objectives. This measure would permit a more accurate assessment of the government's financial decisions (1).

Moreover, strengthening the role of expert and oversight institutions in examining the budget bill may improve the quality of decision-making and reduce the likelihood of deviations.

Strengthening the Legal Linkage Between the Budget and Development Plans

To increase the efficiency of the budgeting system, the structural relationship between annual budgets and development plans must be strengthened. The budget should function as an instrument for implementing development plans rather than merely as an independent financial document.

Accordingly, specific legal frameworks should require the government to align the budget with the objectives and priorities of development plans. This measure would enhance the coherence of financial policies and improve the effectiveness of the budgeting system (2).

Moreover, establishing mechanisms for evaluating financial performance according to the extent to which development-plan objectives have been achieved may improve the efficiency of the budgeting system.

Reforming the Legal and Institutional Structure of the Budget Formulation Process

Another necessary measure is the reform of the legal and institutional structure governing budget formulation. To this end, the roles and responsibilities of the various institutions involved in this process must be precisely defined, and coordination mechanisms among them must be strengthened.

The enactment of comprehensive and transparent budgeting legislation may reduce legal ambiguities and improve the quality of budget formulation. Furthermore, strengthening the institutional capacities of the Planning and Budget Organization and enhancing technical standards in the budget formulation process may improve the efficiency of this process (1).

Reforming the budget formulation process in Iran's legal system requires a set of legal and institutional measures designed to align this process with good-governance principles. The most important measures include restricting non-financial budgetary provisions, increasing transparency, strengthening accountability, improving the relationship between the budget and development plans, and reforming legal and institutional frameworks. The implementation of these reforms may improve the quality of financial governance, increase the efficiency of the budgeting system, and strengthen public trust in the government's financial system.

Conclusion

As the country's most important financial document, the government's general budget plays an essential role in directing public policies, allocating resources, and achieving governance objectives. As the first and one of the most decisive stages of the budgeting process, budget formulation directly affects the quality of public governance. Accordingly, the present study analyzed the legal system governing budget formulation in Iran in light of good-governance principles and examined the legal and institutional frameworks governing this stage.

In response to the principal research question concerning the extent to which the legal system of budget formulation in Iran conforms to good-governance principles, the findings indicate that, although the existing legal framework is formally based on constitutional principles and the country's financial laws, it faces considerable challenges and deficiencies in fully realizing good-governance indicators. In other words, Iran's legal system of budget formulation possesses the necessary legal capacities, but these capacities have not been fully employed to realize such principles as transparency, accountability, and the rule of law.

In response to the subsidiary research questions, the findings also demonstrated that the legal structure of budget formulation in Iran is based on the concentration of budget formulation authority within the executive branch. Although this concentration is justifiable from the perspective of executive coherence, it may reduce transparency and limit effective oversight. The examination of transparency further showed that the budget formulation process does not provide an optimal level of transparency and that public and institutional access to information concerning this process is restricted. From the perspective of accountability, the existing legal framework does not provide sufficient mechanisms to ensure the full accountability of the institution responsible for formulating the budget, which may affect the quality of oversight and responsibility. Furthermore, analysis of the rule of law showed that, although the budget formulation process is based on specified legal frameworks, excessive flexibility and the absence of precise standards may, in some instances, weaken predictability and legal coherence.

The findings also indicate that the principal challenges facing Iran's legal system of budget formulation include the structural concentration of the formulation process, limited transparency mechanisms, the relative weakness of accountability mechanisms, and incomplete conformity between the legal framework and the requirements of good governance. These challenges may affect the efficiency of the budgeting system and the quality of public governance.

Conceptually, the findings demonstrate that the quality of financial governance depends substantially on the quality of the legal framework governing budget formulation. The mere existence of legal frameworks is insufficient to achieve good governance; the design, transparency, and efficiency of those frameworks are also of fundamental importance.

The scholarly contribution of this study lies in its adoption of a legal–analytical approach to examining Iran's legal system of budget formulation within the theoretical framework of good governance. It thereby provides a coherent account of the extent to which the existing legal framework conforms to good-governance principles. The study demonstrates that improving the quality of financial governance in Iran requires stronger legal frameworks for budget formulation, greater transparency, and the development of accountability mechanisms.

Ultimately, it may be concluded that reforming and strengthening the legal framework of budget formulation is not only a legal necessity but also a fundamental requirement for achieving good governance and improving the quality of public financial management in Iran. Progress in this direction can play an important role in increasing transparency, strengthening accountability, and improving the efficiency of the governance system.

Research Recommendations

The analyses conducted in this study concerning the legal foundations, institutional structure, and budget formulation process in Iran demonstrate that, despite being founded on statutory principles, the existing legal framework faces challenges in realizing good-governance principles. Accordingly, the following recommendations are presented:

1. Establish More Precise Legal Rules for Budget Preparation and Formulation

The findings demonstrate that, although Article 52 of the Constitution and the relevant financial laws establish the general framework for budget formulation, the legal rules governing the internal stages of formulation, decision-making criteria, and the determination of financial priorities have not been defined precisely and transparently. This legal gap may permit discretionary decision-making and reduce transparency in the budget formulation process. Accordingly, the legislature should enact more precise regulations and establish a clearer legal framework for the stages, rules, and criteria of budget formulation, thereby strengthening the rule of law and predictability in this process.

2. Establish a Legal Obligation to Increase Transparency at the Budget Formulation Stage

The findings demonstrate that budget formulation is conducted primarily within the administrative structure of the executive branch and that public and institutional access to information concerning the foundations of budget preparation is limited. This situation may conflict with transparency as an essential component of good governance. Accordingly, the existing legal frameworks should require the government to disclose publicly information concerning the budget formulation process, including the bases for resource estimates, criteria for allocating appropriations, and financial priorities. This measure may enhance transparency, increase public trust, and strengthen oversight.

3. Establish Specific Legal Mechanisms to Strengthen Accountability in the Budget Formulation Process

Analysis of the legal structure governing budget formulation demonstrates that, although the executive branch is responsible for formulating the budget, specific legal mechanisms to ensure its full accountability at the formulation stage have not been expressly established. This situation may weaken the principle of accountability. Accordingly, the existing legal frameworks should be strengthened by establishing specific legal requirements for submitting explanatory reports, clarifying the bases of decision-making, and ensuring accountability regarding the manner in which the budget is formulated.

4. Establish a Legal Framework to Enhance Effective Oversight of the Budget Formulation Process

The findings demonstrate that the budget formulation process is concentrated primarily within the internal structure of the executive branch and that effective oversight mechanisms at this stage are limited. This structural concentration may affect the realization of transparency and accountability. Accordingly, legal frameworks should be amended to permit more effective oversight of the budget formulation process by competent institutions, particularly within statutory requirements. This measure may enhance transparency and strengthen accountability in the process.

5. Strengthen the Position of Good-Governance Principles Within the Legal Framework of Budget Formulation

The analyses conducted in Chapter Two demonstrate that the legal framework of budget formulation focuses primarily on formal and executive aspects and does not expressly recognize good-governance principles as legal criteria governing budget formulation. This may create a gap between the existing legal framework and the requirements of good governance. Accordingly, principles such as transparency, accountability, and the rule of law should be expressly recognized within legal frameworks as criteria governing the budget formulation process.

6. Increase Legal Coherence and Transparency in Institutional Relations Associated With Budget Formulation

The examination of the institutional structure of budget formulation in Chapter Two demonstrates that, although the roles of various institutions involved in the process have been identified, the precise boundaries of their responsibilities and legal obligations have not always been fully and transparently defined. This situation may reduce transparency and accountability. Accordingly, the existing legal frameworks should be strengthened to define more precisely the responsibilities, powers, and obligations of the institutions involved in budget formulation.

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Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

All ethical principles were adhered in conducting and writing this article.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

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