



# **Activities, Achievements and Priorities** ***Working Group on Governance of Public Finance***

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Good Governance for Development (GfD) in Arab Countries Initiative

**Steering Group Meeting at Ministerial Level**

**Hosted by the Arab Republic of Egypt**

CAIRO, EGYPT, 29 NOVEMBER 2007

This document provides an overview of the activities and achievements of the GfD Working Group on Governance of Public Finance. Further information on the Working Groups' activities is provided online at [www.oecd.org/mena/governance](http://www.oecd.org/mena/governance).

## FOCUS AND EVOLUTION OF THE WG ON GOVERNANCE OF PUBLIC FINANCE ACTIVITIES

**At its first meeting** (Cairo, 5-6 October 2005) the participating 10 Arab countries (Bahrain, Egypt, Lebanon, Morocco, Qatar, Saudi Arabia, Sudan, Tunisia, UAE, and Yemen):

- a) Decided to explore modes of collaboration within the group and with similar networks of Senior Budget Officials (SBOs) in OECD countries and elsewhere;
- b) Tentatively identified some themes and problems which seem of particular relevance for on-going or planned financial governance reforms. Among the themes retained were the implementation of medium term budgetary frameworks, implementing various forms of performance budgeting and improving forecasting in the medium and long term in order to reduce fiscal risks. Among problems, the needs for training experts and middle level civil servants in financial management was selected as the most significant constraint on the success and sustainability of reforms.
- c) Countries the most advanced in their financial governance reforms accepted to participate in the production of Country Action Plans which would inform each other and the GfD steering instances about their progress and strategies.

**The actions taken** to implement and refine this agenda were as follows:

**1. Addressing the expressed needs for specialised training**, the creation of a **MENA Financial Management Training Centre in Cairo** was proposed by Egypt and supported in principle by the other participating countries. The OECD produced a preliminary feasibility study for such a Centre in early 2006. This document was submitted to the delegates at the 7-8 May 2006 meeting of WG III in Cairo and at the Ministerial Steering Group meeting in Sharm-el-Sheik in June 2006. In both places it was unanimously approved.

The OECD organised a visit by the Chairman of the WG on Governance of Public Finance to the Slovenian Centre for Excellence in Finance which had been in operation in South eastern Europe since 2001 and invited its director to the Working Group on Governance of Public Finance meeting in May 2006. The OECD convened a donors meeting (Paris, 11 September 2006) to obtain financing for the Centre. All OECD countries were invited as well as relevant Arab countries and international/multinational granting institutions. Donors requested the feasibility study be complemented by a five-year financing and action plan for the Centre. The OECD prepared this action plan and submitted it in November 2006 to all stakeholders who had been invited to the donors meeting. The Netherlands promised support of 100 000 Euros / year conditional to other donors – from OECD and Arab countries – also contributing. As reported to the WG on Governance of Public Finance meeting in Istanbul (30 May 2007), the Government of Egypt is pursuing efforts for financial support from Arab countries and within the Egyptian government to establish the Centre.

**2. At the second WG on Governance of Public Finance meeting (Cairo, 7-8 May 2006;** participating countries: Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Yemen), the chairman reported on a) the functioning of Senior Budget Officials networks he had been invited to attend and on their relevance for Arab countries; b) on the progress made in designing and planning for the Cairo MENA Training Centre, particularly on the lessons learned from the successes encountered by and the expansion of the Slovenian “Centre for Excellence in Finance” used by countries of South eastern Europe. The chairman’s visit to the CEF had allowed him to gather practical information on the running of such an institution as well as on the types of training offered and their evolution. The director of the CEF, Ms. Mira Dobovisek had been invited to this WG on Governance of Public Finance meeting, and she gave detailed information on the Centre’s launch, its evolving focus and clients, and its modus operandi.

In conformity with the substantive priorities tentatively identified at the first meeting, two sessions with experts from ECORYS took place, thanks to the generosity of the Government of the Netherlands.

The first dealt with off-budget sources of expenditures and risks, including contingent liabilities associated with financial institutions and other government enterprises as well as ear-marked items and social funds. The focus of the presentation and ensuing discussions with delegates was on the forecasting of such risks and expenditures, on techniques to incorporate expenditures and financial risks presented to Parliaments in budget documents, and on methods used internationally to control such risks and expenditures while moving toward a situation where all state commitments are fully integrated into the budget.

The second dealt with multi-year expenditure frameworks (MTEF) and assimilated budgetary instruments, their structuring, their implementation and their use once they became established practices. The experts drew chiefly from OECD countries experiences in presenting the lessons learned from implementing and using these instruments. They stressed their key roles in preventing unpredicted drifts in expenditures, in early identification of threats to financial sustainability and in adequately budgeting in a correct time horizon for new policy initiatives. The delegate from Morocco, the country most advanced in implementing MTEF, presented his country's achievements, techniques and time-table on this score. A shorter presentation in the same vein was also made by the delegate from Tunisia, which is also completing its move to MTEF. The Arab delegates confirmed their interest in the subject by stating the intentions of virtually all their governments to implement or improve their multi-years budgetary frameworks.

**3. Exploring the modes of collaboration in financial governance within MENA and with similar OECD sponsored networks,** the Country Action Plans produced (June 2006) in collaboration by OECD and Arab countries included detailed information on reform actions underway and planned in the area of financial governance in 6 countries ( Egypt, Jordan, Lebanon, Morocco, Tunisia, UAE).

The Chairman of the WG on Governance of Public Finance and his collaborators were invited to the meeting of the Senior Budget Officials from Central Eastern and South eastern Europe in Brno, Slovenia (16-17 April 2006) and to conduct a study visit to the budget office in the Netherlands. These explorations of the possible benefits of contacts with other OECD sponsored networks in the field and of their complementary explorations of specific bi-lateral collaboration opportunities led to the special structuring of the third **WG on Governance of Public Finance meeting in Istanbul (30 May 2007:** participating countries: Bahrain, Egypt, Jordan, Iraq, Kuwait, Lebanon, Morocco, Qatar, Saudi Arabia, Sudan, Tunisia, UAE, Yemen).

**This third meeting of the WG on Governance of Public Finance was organised back to back with the OECD annual Senior Budget Official (SBO) meeting, to which the Arab delegates were invited.** The purposes were to familiarise the Arab delegates with the effective workings of a peer-to-peer network of practitioners in financial governance and to facilitate bi-lateral collaborations between OECD and Arab

countries. As well, Arab countries implementing financial management reforms in these areas have been invited to a special symposium organized for OECD SBO members: Market Type Mechanisms and Public-Private Partnerships (Madrid, November 2007).

Within SBO-OECD, a regularly used instrument of collaboration is the Country Review, an examination of one country's budgetary and financial management system conducted by OECD experts and subsequently presented to SBO with comments from peer practitioners from two other countries in the group. The Egyptian chairman of the WG on Governance of Public Finance has witnessed the results of such exercises at the Brno meeting in 16-17 April 2006 and all the Arab delegates witnessed them at the Istanbul SBO-OECD in 31 May-1 June 2007 meeting.

In addition the OECD provided Bahrain with the requested expert to carry out an experimental study of a similar nature focused on Bahrain's current re-examination of its budgetary system.

**In addition to its networking functions, the third WG on Governance of Public Finance meeting** also offered two sessions on themes previously identified as having high priority for Arab countries financial governance.

First, an OECD expert, Mr. Barry Anderson, presented his paper on "Long-term Budget Projections and Their Use in Assessing Fiscal Risks". It provided the basis for exchanges on the potential uses of such projections and the conditions required to affect such forecasts. The delegates were intrigued particularly with the possibility of using long-range demographic and resources exploitation forecasts for framing budget discussions in the medium term. Two Arab countries decided to explore the feasibility of conducting such long-range forecasts and establishing the teams to do so in the near future, in collaboration with two leading OECD countries in the field.

Another expert from OECD, Ms. Teresa Curristine presented the key results from a study of ten years of experimentation and implementation in OECD countries of performance measurement and budgeting. Her paper "Performance budgeting: OECD Countries Experiences of Developing and Using Performance Information in the Budget Process" was distributed and, following her presentation of key results, delegates discussed the lessons learned and their relevance to their own countries, particularly in dealing with the difficulties associated with using performance information within the budget allocation process as opposed to using it as an information and discussion framing instrument for parliamentarians and policy makers.

## OUTPUTS AND PRIORITY ACTIONS FOR 2008-10

**1. At their 30 May meeting in Istanbul**, the Arab delegates decided to establish a **permanent MENA Senior Budget Officials** network based on the same principles as SBO networks which have been established in Asia, Latin America and South eastern Europe on the model of the original SBO network made up of OECD countries. Its first regular meeting will take place in Cairo, early in 2008.

Arab delegates stressed that the key to the success of the SBO elsewhere has been a culture of informal professionalism and mutual support, within which participants have the confidence for frankness, disclosure and peer review. It is a forum of practitioners, with each meeting chaired by a budget director. The payoff to participants is the timely and objective reporting on innovations and alternative practices in budgetary and financial management. In addition, the meetings cover the practical approaches used to implement changes. It is in that perspective that MENA SBO will be launched in 2008, in collaboration with OECD. Regular contacts and collaboration with other SBO networks are part of the MENA SBO work plans.

As well, MENA SBO will organize from time to time, special thematic meetings on subjects which budget practitioners wish to examine in more depth. In spring 2008, a major symposium on the lessons learned in the design, use and regulation of PPPs (Public-Private Partnerships) will take place in an Arab country. Discussions are underway with 2 countries to finalise hosting arrangements. Also under discussion is the feasibility of inviting representatives of other working groups dealing with regulations and public service delivery to this event, given the multifaceted nature of PPPs, their design and their management.

**2. At their 30 May meeting**, Arab delegates ranked themes which the MENA SBO regular meetings and special seminars should address in the first two years of operations and decided upon methods which will be used to implement both the diffusion of expertise on those themes and the intra regional collaboration modes which shall be used.

In that framework, the **Country Reviews** which are a feature of all SBO networks established with OECD participation will be progressively used within the Programme. This involves a regional peer review process within system reviews incorporating international best practices in expenditure management. As well, specifically within the MENA-SBO group it is intended to launch and perfect **Change Implementation Reviews**. These reviews will use the same methods as Country reviews (expert analysis, peer comments, group discussions) but, instead of targeting whole financial management systems will focus specifically on change initiatives underway or recently carried out within Arab countries. For instance, building on preliminary presentations made on this subject by Morocco and Tunisia at the May 2006 meeting, one of the first subjects of those innovative Change Implementation reviews will be how a few leading countries have gradually implemented MTEFs in their budget process. WG on Governance of Public Finance delegates expressed that this emphasis on implementation techniques and lessons constitutes the most important comparative advantage to be exploited in a regional peer-to-peer network.

**As for thematic priorities, the ranking is as follows:**

- Performance measurement and performance budgeting

- MTEFs: setting it up and extracting a maximum of benefits from it (reducing fiscal risks, improving policy and budgetary integration, etc.)
- Improving the comprehensiveness of the budget and its processes in particular by better integrating investment expenditures, social funds and investment banks and similar institutions
- Using market mechanisms (including PPPs) in the delivery of public services and controlling their use and their budgetary consequences, short and long term
- Methods of cash management along two axes: a) traditional treasury functions and maximising yield on cash balances and b) improving mechanisms for allocating budgeted funds to ministries in a timely fashion commensurate with their operational responsibilities and sequencing imperatives
- Active debt management and its integration in fiscal risks analysis within the budget process
- Investing and controlling temporary revenues from depleting resources
- Legal frameworks for financial management reforms: sequencing, formulating, adapting
- Long-term budget projections: building/buying capacity to do them and incorporating their results in the budget process
- Post-conflict situations and budgeting for reconstruction

**The planned actions on these thematic priorities** will involve the following:

- All priority themes will be addressed (experts, papers, discussions) within SBO/WG on Governance of Public Finance regular meetings
- The first four priorities will also be addressed in specially organised seminars/symposia
- Network to network contacts within the SBO community will focus on these themes (participation of specially interested Arab countries in other networks activities, dissemination of documentation and identification of leading national sources of expertise)
- OECD efforts in promoting bi-lateral contacts between Arab countries and leading countries among OECD members and others will supply Arab countries with leads and assistance in securing contacts, advice and possibly technical assistance in these areas.

