



**Good Governance for Development (G/D) in Arab Countries Initiative**

**Steering Group Meeting at Ministerial Level**

**Hosted by the Arab Republic of Egypt**

**REGIONAL CHALLENGES, POLICY PRIORITIES /  
PROGRESS MADE**

**IN THE FIELD OF GOVERNANCE OF PUBLIC FINANCE  
(WORKING GROUP 3)**

**Sharm El Sheikh, Egypt,  
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This document provides a concise overview of:

1. **Key policy challenges and priorities of Arab countries in the field of governance of public finance.** This brief summary is based on the intensive country stocktaking that took place in the first phase of the Initiative. It aims at facilitating the identification of policy priorities that would benefit from an increased partnership and co-operation between Arab and OECD countries. Its preparation has been supported by country missions from the OECD/UNDP Technical Secretariat involving a range of OECD country policy practitioners, that drafted country-specific stocktaking reports.
2. **The progress made in Working Group 3 on governance of public finance.** Further in depth information on the Working Groups' achievements is provided in the 2005 progress report, that lays out in detail the outputs delivered as well as in the meeting reports (see [www.oecd.org/mena/governance](http://www.oecd.org/mena/governance)).

## 1. REGIONAL CHALLENGES AND POLICY PRIORITIES

1. MENA countries have become increasingly active in making reforms in the field of public finance—especially in budgeting and public expenditures. For example, reforms are ongoing in areas as varied as financial management (Jordan), public-private partnerships (Kuwait), procurement and privatization (Sudan), performance budgeting (Bahrain), risk management (Tunisia), and debt management (Lebanon).

2. Despite the variety of reforms begun by countries in the MENA region, many common challenges within the field of governance of public finance remain. These challenges revolve around three themes: ensuring sufficient budget transparency, comprehensiveness, and accountability and control. The national country action plans have been explicitly formulated to address these challenges. OECD member countries provide a wide range of relevant experiences with regard to implementing policy reforms to address these challenges, as many of the reforms they have implemented in the last two decades have addressed similar challenges.

3. The two meetings of the Working Group on governance of public finance that took place so far show the increasing demand for discussion on the several items in which reform plans have been formulated. The meetings have proven the necessity for cooperation, peer-to-peer review and twining with OECD countries and other MENA-countries. The formulation of the Country action plans has thus occurred in a context of growing relevance of exchange of knowledge and experience within the several topics concerned.

### *Transparency*

4. In many MENA countries, budgets are publicly available only on an aggregate level. The information value of these budgets can sometimes be limited: that is, information can be presented at too high a level of aggregation with too little detail. As such, it can be difficult to determine what services are provided and at what cost. Frequently, there is no information on outputs, results, or performance. Even information on inputs is not always complete. However, progress has been made in beginning reforms to improve the transparency of MENA country budgets:

- In several countries, projects have been established to improve the presentation of the budget (Bahrain), or to set up program-oriented (Kuwait, Qatar, United Arab Emirates) or results-oriented (Morocco) budgeting. Several countries (such as Egypt) have been improving their budget presentation by moving to internationally accepted budget classifications.
- Some countries have made progress in setting up medium term frameworks (Tunisia, Morocco). Other countries (Bahrain) use two-year budgets and several countries (Jordan, Lebanon, Egypt) have set up macro-fiscal units for preparing multi-year budget projections. Some countries (for example, Jordan) have formulated long term fiscal targets.
- Quarterly or half-yearly budget documents are increasingly available in several countries. Egypt, Jordan and Lebanon, for example, provide monthly bulletin with key fiscal indicators. These documents are usually widely distributed.

### *Comprehensiveness*

5. The budget does not always represent all public expenditures. Most countries do not have a completely comprehensive budget, either because several public entities are not included in the budget, or

because certain types of expenditures (such as military expenditure, capital expenditures, or revenue from donors) are excluded from the budget. Expenditures not represented in the budget can amount to several percentage points of GDP. However, some countries have recently improved budget comprehensiveness by bringing large amount of subsidies within the budget (for example, Egypt), but much needs to be done in several countries.

6. In some countries there are extensive off-budget accounts. Spending units are in these cases able to make payments from these accounts without a budget appropriation and the payments are not made through the normal Treasury payment system. This can pose a huge financial risk and can lead to substantial arrears. OECD countries have shared their experiences with MENA countries in the value of and the process of bringing accounts on-budget, but much remains to be done in MENA countries.

### ***Accountability and Control***

7. The Ministries of Finance in several MENA countries do not always get reliable information on budget execution from line ministries. In many countries the information flows are not computerized and time lags can occur. Sometimes line ministries do not even report to the Ministry of Finance. However, in many countries new information systems have been or will be implemented (for example, in Lebanon), although concrete design and implementation of their plans still needs to take place. The capacity within the Ministry of Finance and with financial officers in line ministries still has much room to improve despite explicit efforts to build staff capacity in some countries.

9. Almost all MENA countries have a national audit institution that should provide information to balance executive power. Although the degree of influence and the specific characteristics of the audit institution differ across countries, most of these institutions are involved in ex ante audits. In some countries (Jordan, for example) national audit institutions have become increasingly involved in ex post auditing. In several MENA countries, the audit institutions do not report to the legislature but to the executive. In some cases, this limits the availability of the reports of the national audit institutions.

10. The role of the legislature within the budgetary process in MENA countries differs. In some countries the role of the legislature is limited to accepting or rejecting the budget. In other countries the legislature can, under certain conditions, amend the budget. However, in most countries, the budgetary information available to the legislature and its capacity to analyze such information is very limited. Again, OECD countries have shared their experiences with MENA countries in improving the involvement of legislatures in the budgetary process.

## 2. PROGRESS MADE IN WORKING GROUP 3

4. The Working Group III of the Good Governance for Development (GfD)-initiative met in Cairo in October 2005 and May 2006. These meetings were attended by a majority of the MENA countries. The chair and co-chairs of the Working Group attended the meeting of Senior Budget Officials (SBO) from Central and European Countries on 16-17 February 2006 in Slovenia. Connected to that, they made a study visit to the Center for Excellence in Finance, based in Slovenia. The OECD secretariat carried out missions to 7 MENA-countries to facilitate discussions on stocktaking and country action plans. Moreover, in the framework of the regional working group also country-specific co-operation and capacity building has been started as for example with Bahrain in the area of budget formulation.

5. Momentum: Several MENA-countries are currently involved in various reforms within the field of public finance. The GfD-meetings provide a framework for exchange of experiences with reform efforts and a window of opportunity to gather momentum for further reform. In the regional meetings, several of the reform issues have been the core of critical discussions pointing out bottlenecks for reform progress and options to circumvent them. At the same time it is evident that several challenges remain. There is huge demand for dissemination of practical knowledge and experiences within the field of public finance. This stresses the need for further cooperation among MENA-countries and with OECD-countries.

6. Focus: it appears that many reform plans in MENA-countries have common elements. They also refer to issues in which OECD-countries have accumulated relevant policy experience over the last decades. This includes issues such as public private partnerships, privatization, performance budgeting, medium term budget frameworks, accountability and control and procurement. It has been agreed that OECD-work on these issues will be further disseminated and adapted to the local conditions. Cooperation on these and other issues could take place on a peer-to-peer country basis, on a regional basis and in the form of closer cooperation with the OECD.

7. Regional co-operation: there is broad support for organizing more thematic regional workshops and capacity building seminars, focused on exchange of policy experiences in several of the subjects mentioned before. These meetings could be organized within the MENA-region, in Paris or in one of the OECD-countries. Further regional co-operation could take place in a regional training centre on regional finance that will be established, as initiated by Egypt.