Context

The governance of state-owned enterprises is crucial for the transparency of the budget process especially in the Middle East and North Africa where SOEs are such prominent contributors to government budgets but also a cost on the budget due to over employment in SOEs which is typical to the region.

The prevalence of SOEs and the large size of the SOE sector is indeed one common characteristic of MENA economies (except Palestine), where SOE sectors are large both in the Levant and the Gulf despite different economic makeup and political orientation of states.

While many hydrocarbon SOEs are the key source of the government budget (90% in Kuwait for example), subsidies to SOEs and the cost of overemployment in SOEs is an important budget item in many countries. Even in a country like Lebanon where SOEs are few in terms of number, their weight on the budget (EDL alone) is significant.

SOEs (though differently defined) are also a significant part of the public equity markets, where in the Gulf, governments are significant shareholders in listed companies which further expands their ownership in the corporate sphere.

Even defining an SOE or a government commercial or regulatory entity in the region is a challenge as many activities are in fact performed by ministries in an unincorporated format. A number of examples are interesting to examine such as the incorporation of the Healthcare holding companies in KSA where the entire public healthcare sector was recently restructured and corporatized.

Indeed, listing of SOEs has been a pivotal in terms of their governance and notably important from the perspective of budget transparency, their disclosure which has been brought in line with the reporting of other listed companies.

On the other hand, most countries in the region (bar Morocco which incidentally has also more developed and transparent budget process for SOEs and any subsidies they may require) have not developed governance codes or guidelines that apply specifically to state-owned companies.

Similarly, there are few sectoral approaches to improving governance in oil and gas SOEs which are critical from the perspective of the budget. In many instances, they remain a black boxes since they are not required to report to the public at large or even to the Parliament or state audit courts. GOVERN was recently involved to develop a code of corporate governance for oil and gas SOEs in Egypt.

In the meantime, specific companies have made significant reform efforts. Saudi Aramco has in recent years transitioned to a board a third of which is independent and has for the first time published its IFRS accounts publicly which allows for a more transparent understanding of the company’s finances, if not yet the full linkages between the Aramco budget and links to other government bodies.

Incidentally, the quality of state audit on SOE performance has been an important factor to their transparency and effectiveness more generally. The Moroccan SAI audits SOEs not only for their integrity, but also from other angles including their governance, spending effectiveness, etc. The Moroccan example is interesting to examine in this regard.
Benefits of budget transparency

Accountability

Clarity about the use of public funds is necessary so that public representatives and officials can be accountable for effectiveness and efficiency.

Integrity

Public spending is vulnerable not only to waste and misuse, but also to fraud. “Sunlight is the best policy” for preventing corruption and maintaining high standards of integrity in the use of public funds.

Inclusiveness

Budget decisions can profoundly affect the interests and living standards of different people and groups in society; transparency involves an informed and inclusive debate about the budget policy impacts.

Trust

An open and transparent budget process fosters trust in society that people’s views and interests are respected and that public money is used well.

Quality

Transparent and inclusive budgeting supports better fiscal outcomes and more responsive, impactful and equitable public policies.

Specific transparency mechanisms, very similar to CG mechanisms in fact: IFRS, accounting, audit committee, in fact Gulf bringing public governance closer to private (OECD budget transparency guidelines)

A summary of relevant accounting policies should accompany all reports. These should describe the basis of accounting applied (e.g. cash, accrual) in preparing the reports and disclose any deviations from generally accepted accounting practices.

The same accounting policies should be used for all fiscal reports. If a change in accounting policies is required, then the nature of the change and the reasons for the change should be fully disclosed.

Information for previous reporting periods should be adjusted, as practicable, to allow comparisons to be made between reporting periods.

A dynamic system of internal financial controls, including internal audit, should be in place to assure the integrity of information provided in the reports.

Each report should contain a statement of responsibility by the finance minister and the senior official responsible for producing the report. The minister certifies that all government decisions with a fiscal impact have been included in the report.

The senior official certifies that the Finance Ministry has used its best professional judgement in producing the report.
The year-end report should be audited by the Supreme Audit Institution in accordance with generally accepted auditing practices.

Audit reports prepared by the Supreme Audit Institution should be scrutinised by Parliament.

Parliament should have the opportunity and the resources to effectively examine any fiscal report that it deems necessary. Probably weakest point in the Middle East.

All fiscal reports referred to in these Best Practices should be made publicly available. This includes the availability of all reports free of charge on the Internet.

The Finance Ministry should actively promote an understanding of the budget process by individual citizens and non-governmental organisations. Again, not happening. But citizen consultations on regulatory reforms occurring in other areas.

A few comments specific to the region.

Interesting to see that - except in MENA and Sub-Saharan Africa, the level of data availed by the executives to the parliaments is moderate to high.

Legislatures generally are less accurate about the budgetary impact on socio-economic groups, such as the poor, women and private sector.

They are more informed about line items and the holistic fiscal trends. The knowledge of the legislatures in MENA about the financial data by line items and policy outcomes is lower than that of all the other legislatures worldwide.

Let’s put this in global context.

Recent developments

G20 countries with stronger budget institutions overall have tended to plan and deliver more fiscal adjustment in the wake of the crisis.

Countries with comprehensive fiscal reporting, forecasting, and risk disclosure seemed to have a better understanding of their post-crisis fiscal position and prospects.

Those with more credible medium-term frameworks, performance budgeting systems, and intergovernmental fiscal arrangements were quicker to announce their adjustment plans and better at protecting public investment within those plans.

Finally, countries with more unified and disciplined budget processes tended to more effectively implement their plans.

Many countries, including resource-rich countries, have been re-orienting their budget processes to lengthen the period covered by their fiscal frameworks.

Reform initiatives have included:

- a fiscal policy statement establishing a medium-term path for expenditure aggregates;
- medium-term macroeconomic forecasts;
requirements for ministries to maintain budget estimates beyond the budget year and explicitly cost new measures;

and hard cash budget constraints for ministries.

An MTFF (medium term fiscal framework) lays out medium-term fiscal targets and projections, based on a consistent set of assumptions and reflecting economic and development goals of the country.

Formally adopting a multi-year framework and integrating it with the annual budget process can set a direction for fiscal policy and enhance fiscal policy credibility.

In particular, an MTFF can help:

i) improve macroeconomic management by delinking expenditure from short-term volatile oil revenues;

(ii) anchor medium-term fiscal policy on goals of intergenerational equity and/or fiscal sustainability;

(iii) integrate medium-term fiscal policy with the country’s diversification agenda;

(iv) facilitate risk analysis and decision-making.

MTFFs have been developed in federations, including Brazil, India, Germany, Mexico, Switzerland, the United States.

In a number of cases, countries have introduced legislation on medium-term budget planning (e.g., Azerbaijan, Russia, Timor-Leste, and Norway). Some countries have introduced fiscal responsibility laws (e.g., Chile, Mexico, and Ecuador).

Most GCC countries have taken steps towards the introduction of MTFF including medium-term fiscal objectives and are making progress. Interesting disconnect between the development vision and the planning (Kuwait anecdote). Also SWF potential disconnect.

Generally consistent with the international experience shows that many resource-rich countries which have upgraded their fiscal policies

Rules and institutions were successful in saving a larger share of their resource revenue during the 2000s, while also scaling up public investment and social spending.

**How does this translate to the Middle East?**

From a transparency perspective...

The Arab world is not doing well on access to information when compared to other parts of the world. The International Budget Partnership’s [Open Budget Survey 2017](https://www.openbudgetsurvey.org) reveals that, with an average Open Budget Index score of 20 out of 100, the [Middle East and North Africa is the lowest scoring region in terms of budget transparency and accountability](https://www.openbudgetsurvey.org/country-region-mena). Lebanon has adopted an access to info law.
In addition to the lack of publicly available budget documents, most countries provide little avenue for effective oversight by accountability institutions such as Parliament and Supreme Audit Institutions, and limited opportunities for public engagement in the budget process.

Challenges also stem from legal and political restrictions that stifle the media and prevent pro-active information disclosure by governments, all of which limit an informed public debate about the role of government, its accountability, and service delivery.

A prevailing culture of secrecy and lack of transparency on the part of state actors were some of the main grievances expressed during the Arab Spring. In response, many governments have focused on promoting open government reforms.

In Tunisia, a new fiscal transparency portal acts as a single point of entry for all financial information, including data that is comprehensive, disaggregated, user friendly and fully accessible online.

In Morocco, efforts have been made to give citizens access to budget data through an easy-to-read 'Citizen's Budget,' published every year since 2011.

Jordan has pursued public financial management reforms and an anti-corruption strategy that includes transparency commitments.

In Egypt, a renewed commitment to establish transparency and disclosure frameworks has resulted in the country’s budget transparency score jumping from 16 to 41 points out of 100 on the Open Budget Survey for the first time in six years, nearing global averages.

In the UAE federal government adopted a five-year budgeting cycle for 2017–21. Its annual and medium-term budgets are approved by the UAE’s Federal National Council. The federal government’s MTFF is anchored by the goal of achieving a balanced budget on a consistent basis.

At the same time, many components of budgets (SOEs, etc) are a block box. No reporting by SOEs. Oil and gas revenue distribution of National SOEs.

A critical factor that restricts fiscal transparency in the MENA region is the considerable mandatory out-of-budget expenditures.

They are mirrored by expenses that are not voted on, as they do not require parliamentary approval within the annual budgeting process, e.g. wages and salaries, pensions, debt service, etc.

Such expenditures reduce budget flexibility and responsiveness to the dynamics of development.

This is mostly attributed to law-making legacies that accumulate over time, constraining the discretion of parliaments to respond to emerging needs.

RIAs also rare. Conducting comprehensive Regulatory Impact Assessments (RIAs) includes reviewing whether proposed policies match national priorities as well as whether they are affordable and meet value for money criteria is essential in protecting budget flexibility.

And yet, the budget law is an interesting example to which to apply the RIA framework. By nature, it is enacted annually by the parliament and promulgated by the head of state.
However, it has additional features in that it mirrors all the laws, decrees, and administrative orders in terms of their financial impact.

To investigate the budget law through a RIA lens, we need to know the budget law status for the RIA with respect to five dimensions related to transparency, consultation with the public, assessing the impact, accessibility to enacted budget laws, and capacity to review and amend figures in the budget law in future rounds of discussion.

Discussion points:

Budget allocation process not clear in many countries

Blurry boundaries between government, ruling elites, regulatory entities, etc.

What is considered an SOE, corporatized, etc.?


Connection to SWF! How assets of SWFs are being managed. Santiago principles.

How is the oil and gas sector proceeds transferred to the SWF and which SWF. What are the objectives of the SWF. Is there a matching of assets and liabilities?

Defense (both corporatized and uncorporatised) – both as an expenditure as a production angle. Oman example.

Also large procurement angle from SOEs – huge angle for corruption. Few investigations so far, in Oman. Etc.

Other issues to mention:

Municipal federal issues – apologies I missed yesterday conversation

Foreign aid flows – often unaccounted and unaccountable because lack of governance.

Tax revenues – introduced, push for and pushback

Subsidies ad hoc – Morocco example

Role of State audit courts – spoke about yesterday

Off budget mechanisms

Weak transparency at the level of ministries, gov’t entities and soes. Issue with how they are defined as SOEs, quasi SOEs, etc.

Real impact CEDRE!! Decrease in ODA and – CPI 28 for 3 years

Public corporations: control, subsidies, etc. (GFSM, GFS yearbook). 3000 entities in France.