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# OPEN BUDGETS, SUSTAINABLE DEMOCRACIES: A SPOTLIGHT ON THE MIDDLE EAST AND NORTH AFRICA

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## SUMMARY

*Citizens in the Middle East and North Africa (MENA) region have loudly asserted their rights to sustainable livelihoods, societies free of corruption, and opportunities for engagement in public affairs. The poor state of economic governance in the MENA region has not gone unnoticed and has no doubt contributed to the current political instability.*

*The International Budget Partnership's Open Budget Survey 2010 reveals that, with an average Open Budget Index score of 23 out of 100, the Middle East and North Africa (MENA) region is the lowest scoring region in terms of budget transparency and accountability. In addition to the lack of public availability of budget documents, this region performs poorly with regard to the engagement of oversight institutions and the general public with the budget process.*

*The post-apartheid South African government drew heavily on existing international good practices on budget transparency and, in a short period, developed a system that the Open Budget Index ranks as the best in the world. Even though some MENA countries have begun to undertake public finance management reforms, they should use the Open Budget Survey results to emphasise budget transparency and accountability as an essential component of good governance.*

## Introduction

In the wake of the wave of citizen protests regarding corruption and persistent lack of economic opportunities, the role that economic governance plays in sustainable democracies requires attention.

The budget is the main mechanism by which resources are allocated in a country. A budget process can be extremely disempowering when used by conservative elements, particularly when it becomes an exclusionary event, reserved for those who have technical knowledge of the budgeting process; denying ordinary people the right to participate.

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The benefits of democratising the budget process are that it develops a sense of ownership of the process and its outcomes. Through collective decision-making, it promotes a sense of trust in elected representatives and political stability. It is also a deterrent to corruption as it provides a means for public scrutiny during the monitoring and evaluation phases. Finally, mechanisms that allow for engagement with citizens can support the fiscal objective of allocative efficiency and expenditures that are better directed towards pro-poor programmes.<sup>2</sup>

In the past three decades the expansion of democracy and global acceptance of the principles of good governance have created space for civil society to influence and monitor budget policies and programmes. However, this space can only be useful if civil society has access to timely and comprehensive budget information and if it has opportunities to participate in the budget process.

One of the internationally-recognised measurements of participatory and transparent budgets is the International Budget Programme's (IBP) Open Budget Survey, which evaluates whether central governments provide the public with access to budget information and opportunities to participate in budget formulation, implementation and evaluation processes. The survey also examines the ability of legislatures and SAIs to hold their governments accountable. Among the 94 countries included in the Open Budget Survey 2010, eight countries are in the Middle East and North Africa (MENA).<sup>3</sup>

The World Bank has also undertaken a review of the public finance management (PFM) system in the MENA region. At an aggregate level, MENA's PFM systems are roughly comparable to those of other countries at similar income levels. As a whole, the region tends to fare better on accounting, recording and reporting and worse on credibility of the budget. Further, those indicators measuring credibility had the lowest standard deviation, indicating commonality among MENA countries on this dimension, whereas the largest average discrepancies were found in the area of budget comprehensiveness and transparency.<sup>4</sup>

Somewhat paradoxically, the countries of MENA have received good reviews on the United Nations' Human Development Index (HDI). The HDI was introduced as an alternative to conventional measures of national development, such as level of income and the rate of economic growth. It represents a push for a broader definition of well-being and provides a composite measure of three basic dimensions of human development: health, education and income. Between 1980 and 2010, the HDI of Arab States, as a region, increased from 0.398 in 1980 to 0.590 today.<sup>5</sup>

The MENA region's dismal performance on the International Budget Partnership and World Bank indices, against the stellar performance on the United Nations' Human Development Index, points to the critical state of economic governance as fundamental to political stability. This brief examines the Open Budget Survey findings for MENA to reveal specific gaps in budget transparency, and uses South Africa's lead position on the Open Budget Index to provide recommendations on how countries in the MENA region can benefit from the South African experience.

## Findings of 2010 Open Budget Survey for MENA

### Dismal State of Budget Transparency

Without access to budget information, it is very difficult for the public, legislatures, audit institutions or the media to hold the executive accountable for the use of public resources. The Open Budget Index score for each country surveyed helps us to determine the overall commitment of each country to transparency and to allow for comparisons among countries. To assess budget transparency, the survey examines the public availability and comprehensiveness, as well as the timeliness of the release of the eight key budget documents that governments should publish as per international best practices for public finance.<sup>6</sup>

With an average Open Budget Index<sup>7</sup> score of 23 out of 100, the MENA region is one of the lowest scoring regions surveyed and presents a poor contrast to the mediocre overall average of 42 out of 100 for all of the 94 countries included in the survey. Six of the eight countries assessed in this region provide minimal to no budget information to their citizens.

**Table 1: Open Budget Survey 2010- Public Availability of Key Budget Documents in MENA**

	<b>Pre-Budget Statement</b>	<b>Executive's Budget Proposal</b>	<b>Enacted Budget</b>	<b>Citizens Budget</b>	<b>In-Year Reports</b>	<b>Mid-Year Review</b>	<b>Year-End Report</b>	<b>Audit Report</b>
Algeria	Produced, not available	Produced, not available	Published	Not produced	Not produced	Produced, not available	Produced, not available	Produced, not available
Egypt	Not produced	Published	Published	Not produced	Published	Published	Published	Produced, not available
Iraq	Produced, not available	Produced, not available	Produced, not available	Not produced	Produced, not available	Produced, not available	Produced, not available	Produced, not available
Jordan	Published	Published	Published	Not produced	Published	Produced, not available	Published	Published
Lebanon	Not produced	Published	Not produced	Not produced	Published	Produced, not available	Published	Not produced
Morocco	Not produced	Published	Published	Not produced	Published	Not produced	Produced, not available	Not produced
Saudi Arabia	Not produced	Produced, not available	Produced, not available	Not produced	Not produced	Not published	Produced, not available	Produced, not available
Yemen	Produced, not available	Published	Published	Produced, not available	Published	Not produced	Published	Produced, not available

Source: Open Budget Survey 2010 at [www.openbudgetindex.org](http://www.openbudgetindex.org)

The MENA countries typically fail to publish a Pre-Budget Statement, Citizens Budget, Mid-Year Review, and Audit Report. While in some instances lack of public availability of budget documents is due to limited or no capacity to produce these documents, unfortunately in several instances it is owing to the government's reluctance to provide the public with access to documents which are already produced for their internal use or for donors. A relevant example of this is Algeria which (as presented in Table 1), produces six of the eight documents (including the Pre-Budget Statement, Mid-Year Review and Audit Report), but only releases the Enacted Budget to the public.

Since none of the MENA countries in the survey produce a citizens' budget, the majority of the public in these countries is divested of means to discern the contents of the government's budget, nor is there a basis for meaningful dialogue between government and its citizens. Seven of the eight countries do not publish an Audit Report. Five of them (Algeria, Egypt, Iraq, Saudi Arabia and Yemen) produce them only for internal use, and two (Lebanon and Morocco) do not produce them at all. This implies that citizens have no means to evaluate the government's progress in achieving the policy goals of the Enacted Budget.

Budget documents in MENA are not always released in a timely manner. For instance, Yemen's In-Year Reports are released more than two months after the reporting period even though they should be released within one month of the reporting period.

Besides timeliness, the comprehensiveness of budget documents which are publicly accessible is also a concern. Even the best performing countries in the region, Egypt and Jordan, include just over half of the information in the Executive's Budget Proposal called for by the survey. Egypt publishes barely half of the information in the Year-End Report called for by the survey.

The survey also finds that, in general, those countries that are dependent on revenues from natural resource extraction and which are not democracies tend to have low budget transparency scores. This is also true for countries in the MENA region. For instance, Iraq has a budget transparency score of 0 out of 100 and its hydro petroleum sector accounts for roughly 95 percent of its budget revenues.<sup>8</sup> Similarly, the Economist Intelligence Unit's Democracy Index 2008 classifies six of these eight MENA countries as authoritarian regimes,<sup>9</sup> and not one of them provides substantial information in their budget documents. While there are exceptions to the relationship between budget transparency and dependence on revenues from hydro carbons (e.g. Mexico depends on oil revenues and has a relatively high budget transparency score), the direct correlation between autocratic regimes and low budget transparency stands resolute in the majority of instances.

### **Weak Budget Engagement by Oversight Institutions**

Democratisation of the budget entails not only uninhibited access to budget information, but also effective checks and balances to the executive branch's management of public funds by other branches of government, and citizen participation in the budget process. As presented in Table 2, overall weaknesses in effective oversight of the budget by legislatures and supreme audit institutions (SAIs) are reflected in low budget transparency scores. An extreme case is that of Saudi Arabia, which does not elect a legislature and which has a budget transparency score of 1 out of 100.

<b>Table 2: The Link Between Budget Transparency and Strength of Budget Oversight</b>			
<b>Country</b>	<b>OBI Score</b>	<b>Score for Legislative Oversight of the Budget Process</b>	<b>Score for SAI Oversight of the Budget Process</b>
Algeria	1	33	13
Egypt	49	42	30
Iraq	0	31	47
Jordan	50	36	27
Lebanon	32	31	13
Morocco	28	33	13
Saudi Arabia	1	0	23
Yemen	25	17	27
Regional Average	28	28	24
Global Average	42	44	49
<i>Source: Open Budget Survey 2010 at <a href="http://www.openbudgetindex.org">www.openbudgetindex.org</a></i>			

For the MENA countries, the average score for questions that assess the strength of legislative oversight of the budget process was just 28 out of 100. This means that legislatures in these countries have limited legal powers and poor access to budget information. For instance, when legislative oversight of supplemental budgets is inadequate, governments can hide controversial or unpopular spending. In Algeria, Iraq, Jordan, Lebanon, Saudi Arabia and Yemen, the legislature approves supplemental budgets after the funds are expended, or the executive implements supplemental budgets without ever receiving approval from the legislature. A similar study by the World Bank (2010) on public finance reform concluded that, throughout the region, parliaments have been growing in influence but still typically lack the staff and committee structures that would allow them to provide detailed scrutiny to budget proposals. In a number of countries, their ability to revise or change budgets presented by the executive is limited, and the information they receive can be partial and fragmented.<sup>10</sup>

The MENA region's average score of 24 out of 100 for the strength of SAI budget oversight attests to the limited role of SAIs in this region. Lack of complete independence from the executive branch hinders the SAI's ability to perform effective oversight of the budget. This is evident in Algeria, Egypt, Jordan, Morocco, Saudi Arabia and Yemen, where the executive can remove the head of the SAI from office without the final consent of either the legislature or the judiciary.

The countries surveyed also fall short with respect to public engagement in the budget process. In Egypt, Iraq and Saudi Arabia, the budget discussions are closed to the public altogether since no public hearings are organised. With the exceptions of Iraq and Morocco, citizens in the remaining six countries have no avenue to raise their concerns about corruption in public programmes or projects since no mechanisms have been established for them to communicate with their national audit institutions.

## Lessons from South Africa

It is useful to consider the strengths of the top-performing country in the Open Budget Index, South Africa, in terms of its efforts to mainstream participation, transparency and accountability in the budget process.

Seizing the opportunity of unprecedented and exhaustive change in the post-apartheid environment, South Africa adopted a human rights framework, which is entrenched in its constitution. Aside from the operational principles of transparency, accountability and participation, there are commitments to meeting the people's rights to housing, food, health and education. Further, adherence to the framework also entails the progressive realisation of those and other rights, which must be reflected in the budget allocations to those sectors.

Not unlike legislatures in other African countries, Parliament in South Africa was marginal to the planning and budgeting processes. Recent legislation<sup>11</sup> however, the enactment of which required a great deal of assertion and politicking on the part of parliamentarians, gives space to the legislative branch to rigorously review departmental plans and budgets, as well as the macroeconomic framework. Highlights of the role of the legislature in the budget process include the following:

- Portfolio committees produce reports which review the budget, with recommendations, for each department (ministry) before the adoption of the Medium Term Budget Policy Statement.
- Proposed allocations must be submitted five months before start of financial year, giving parliament time to react, assess and received submissions.
- Parliament approves the Division of Revenue Bill, which allocates resources to the lower branches of government, before the enacted budget.

Parliament has been given significant oversight of the budget. It receives submissions of proposed departmental allocations five months before the start of the fiscal year and recent legislation also gives space to the legislative branch to rigorously review departmental plans, budgets and the macroeconomic framework. It has the power to conditionally approve appropriations pending assurances that the monies will be spent effectively. There has also been established a Parliamentary Budget Office, which is not only a store of information but contains in-house expertise, from which parliamentarians can draw in order to reinforce their capacities to undertake their fiduciary responsibilities. Finally, Parliament may, and already has, commission the AG to investigate the efficacy of departments and/or particular programmes.<sup>12</sup>

Parliament has also become in practice, as it was intended in theory, the mechanism by which citizens give testament to their experiences regarding service delivery and the like. There are a number of dedicated spaces for citizen participation.<sup>13</sup> Citizens may engage with the legislative branch of government in the following ways:

- Most meetings of the national assembly and committees are open to the public.
- Parliament must also convene public hearings on policy issues and draft legislation.
- Citizens may raise concerns over existing legislation or policies by means of petition.

- Citizens may make interventions at various points of the budget cycle: on the fiscal framework and revenue proposals, the Division of Revenue (which allocates resources to the lower branches of government), and the Appropriations bills.

The scope and depth of consultations on the budget extend to local government.<sup>14</sup> The planning and budgeting processes at municipal level closely mirror and are in fact meant to feed into the national process. Once the budget is tabled at the municipal council, it is made public, in printed and electronic formats, and the local community is invited to make submissions. This is linked with the national budget process since the cabinet member responsible for local government reports the budget to Parliament and the Auditor General audits the financial statements and performance of municipalities.

The South African budget process contains several parallel processes, particularly during the formulation stage, which integrate various segments of civil society and lower levels of government.

- The Executive identifies spending priorities in conjunction with and throughout all levels of government in conjunction with the Budget Council, the Budget Forum, and the Ministers Committee on the Budget. The Budget Council is a consultative body, comprising the Minister of Finance and the nine provincial Members of the Executive Council for Finance, assisted by the provincial Heads of Treasury and Treasury advisors. The Budget Forum comprises the Budget Council plus local government representatives.
- The Financial and Fiscal Commission, an independent advisory experts commission which has the responsibility (and constitutional mandate) to advise and make recommendations to various government organs, in practice submits recommendations to the Budget Council, Parliament and the provincial legislatures.

In adherence to the right of access to information and in recognition of the fact that transparency reinforces participation, South Africa produces and publishes all eight key budget documents in a timely manner. Almost all eight key budget documents present comprehensive information. In addition to the availability of the budget in hard and soft copy, the government produces a citizens' budget. Within 30 days after the end of each month, the Treasury must publish a statement of actual revenue and expenditures for the month and for the financial year up to the end of that period. Annual Financial Statements are produced no later than 3 months after the end of the financial year. They must be audited no more than 7 months after the end of the financial year. Further, the Auditor-General (AG) is obliged to express an opinion/conclusion to Parliament on the reported information against the pre-determined departmental objectives annually. The AG must also make all reports available on its website.

In a nutshell, though there are still loopholes and shortcomings to be addressed, South Africa's budget framework creates disincentives at all levels of government for misappropriation and mismanagement of public funds and formalises the engagement and participation of citizens.

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## Policy Recommendations for MENA Countries

Most of the countries in the MENA region are ranked as high- and middle-income and therefore have substantial capacity to produce budget documentation and to institutionalise fiscal transparency. This makes it even more imperative that they demonstrate their good faith by immediately implementing such reforms. Following are some recommendations that would be useful for their efforts to commence with improving transparency and participation around the budget.

- **Make public all the eight budget documents they produce.** This would require virtually no additional effort or cost by the governments involved but would dramatically improve the openness of budgets in the MENA region where half of the budget documents produced are not made public. For instance, Yemen's score on the OBI more than doubled from 10 in the 2008 Survey to 25 in the 2010 Survey when the government released the previously unavailable Executive's Budget Proposal and Year-End Report.

- **Release accurate, freely available and timely budget information.** Governments can make budget documents widely available for free if they simply publish budget documents on their websites.

Further, those governments that have already begun to publish information on their websites should use easily downloadable formats and develop an archive system for previous years' budget reports. As in the case of Azerbaijan, countries should also make hard copies of budget documents available in national and local libraries and in information desks maintained in government offices.

- **Commit to the principles of oversight and engagement in the budget process.** The authority, independence and capacity of legislatures and audit institutions should be strengthened. South Africa provides a good example to follow since its legislature enjoys amendment powers, sufficient time to review the budget proposal, and authority to influence changes in the budget once it is enacted. In MENA, part of the reason why Egypt has managed to improve its budget transparency score is due to a major 2007 constitutional amendment that increased the time that the legislature has to consider the budget and which enabled the legislature to vote on the budget line by line.

To promote effective public participation, the legislature should convene open public hearings at each stage of the budget process and should allow civil society to provide testimony. Similarly, SAIs should engage with the public by establishing mechanisms such as the "fraud hotlines" South Korea has set up.

- **Produce a citizens' budget.** MENA governments can help to alleviate citizens' frustrations regarding transparency of economic issues by publishing a citizens' budget. This simplified version of the budget is easier to distribute and gives the public a broad understanding of each sector's priorities, as well as an indication of the levels of spending on social programmes. Consequently, it facilitates citizen engagement at various levels of government and relieves any intimidation felt regarding what is widely considered a technical issue.

- **Tighten the link between development plans and budgets.** To ensure a more enduring link between policy objectives and budgets, budgets should include

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performance information in the form of measurable objectives against which expenditures can be evaluated. In South Africa this is required by law and service delivery assessments must feed back into the budget cycle when allocations are reviewed. These include spaces for citizens to give testimony at public hearings organised at the municipal, provincial and national levels and studies commissioned by Parliament to be undertaken by the Auditor General.

- **Continue to progress towards adopting a Medium-Term Expenditure Framework (MTEF).** Morocco, Jordan and Lebanon have made efforts to incorporate MTEF reforms in their respective budget processes but this process is incomplete. Other MENA countries have yet to embark on adopting the MTEF framework. Such a framework is important because it helps governments make provision for the expenditure implications of policies in the coming years. South Africa's budget is framed within a medium term policy statement, and the MTEF enables any changes in departmental/ministerial planning to be reflected in sector allocations over time, so that the country can see the development path that is being taken.
- **Commit to building both institutional and citizen capacity in budgeting.** The decentralisation of public finances in South Africa has revealed a lack of capacity at national, provincial and municipal levels, which has affected participation. Idasa's Local Governance Barometer measures good governance, participation and civic engagement; in particular, community participation in the development, monitoring and evaluation of municipal governance processes, systems and policies. One of the main findings in the 2008 survey was that consultation with communities and citizens is usually limited to the compulsory consultations specified in the various acts and thus only done for compliance. One of the implications of participatory planning and budgeting is to facilitate participation by building the capacity of citizens to do so. Idasa has found that while it was documented that civil society has space to be heard in the planning process, it lacks detailed understanding of the workings of local government and does not know how to lobby and advocate effectively to influence decision-making.
- **Use political transition as an opportunity to promote budget transparency.** The current political situation and the zest for reform in the MENA countries present an opportunity that could be the harbinger of greater fiscal transparency. It is possible for these countries to use their existing political capital to make much more budget information public and to commence with the reforms that the public is demanding.

## Conclusion

Despite the low levels of budget transparency in the Middle East and North Africa, the 2010 Open Budget Survey also tells a positive story about the direction of change: over the course of three rounds of the survey, we can see that budget transparency in this region is slowly increasing. For instance, Yemen's Open Budget Index score increased from 10 out of 100 to 25 between 2008 and 2010 and Egypt's score improved dramatically from 19 out of 100 to 49 between 2006 and 2010. Since the release of Open Budget Survey, the governments of Lebanon and Egypt have published citizens' budgets for the first time. Therefore despite their weaknesses in budget transparency there is potential for MENA countries to improve. Now the question is whether they will choose to respond to their citizens' demand for reform by implementing such reforms to improve economic governance and promote political stability.

## Endnotes

- <sup>1</sup> Dubosse is Head of Research in the Economic Governance Programme, Idasa. Masud is a Programme Officer for the Open Budget Initiative, International Budget Partnership.
- <sup>2</sup> Thompson, Tiny. "Peoples Budgets in South Africa", Open Society Initiative in Southern Africa.
- <sup>3</sup> These countries are: Algeria, Egypt, Iraq, Jordan, Lebanon, Morocco, Saudi Arabia and Yemen.
- <sup>4</sup> The World Bank, "Public Financial Monetary Reform in the Middle East and North Africa: An Overview of Regional Experience", Report no.55061-MNA, June 2010.
- <sup>5</sup> United Nations Development Programme, Human Development Indicators, 2010, <http://hdr.undp.org/en/data/profiles/>, accessed on 04 April 2011.
- <sup>6</sup> These eight key budget documents are the Pre-Budget Statement, Executive's Budget Proposal, Enacted Budget, Citizens Budget, In-Year Reports, Mid-Year Review, Year-End Report and Audit Report.
- <sup>7</sup> The Open Budget Survey includes 123 questions which assess public access to the 8 key budget documents, opportunities for the public to participate in the budget process and the strength of budget oversight by legislatures and Supreme Audit Institutions. The Open Budget Index is based on the average of only 92 of the 123 questions that exclusively evaluate the extent of public access to the 8 key budget documents.
- <sup>8</sup> 'Iraq Finally Passes \$83bn Budget'. *Iraq Business News*. February 21, 2011. Retrieved from: <http://www.iraq-businessnews.com/2011/02/21/iraq-finally-passes-83bn-budget/>
- <sup>9</sup> These countries include: Algeria, Egypt, Jordan, Morocco, Saudi Arabia and Yemen.
- <sup>10</sup> The World Bank. 'Public Financial Management Reform in the Middle East and North Africa: An Overview of Regional Experience. Part I Overview and Summary', June 2010. Retrieved from: [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/12/08/000333038\\_20101208225947/Rendered/PDF/550610v10REVIS10MENA0Regional0PFM.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/12/08/000333038_20101208225947/Rendered/PDF/550610v10REVIS10MENA0Regional0PFM.pdf)
- <sup>11</sup> The Public Finance Management Act (1999) and the Money Bills Amendment (2009).
- <sup>12</sup> Verwey, Len et al. *Parliament, the Budget and Poverty in South Africa: A shift in power*, Idasa, 2009.
- <sup>13</sup> Lefko-Everett, Kate and Musa Zamisa. "Public Participation in Budgeting: opportunities presented by new amendment powers", *Parliament, the Budget and Poverty in South Africa: A shift in power*, Ed. Len Verwey, Idasa, 2009.
- <sup>14</sup> See the Municipal Systems Act (2000) and Municipal Finance Management Act (2003).



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