This issue of the IBP Newsletter has a major focus on budget work in the Middle-East and North-Africa (MENA), in addition to articles and updates on budget work in other parts of the world. We have chosen to focus on the MENA region as this is one of the regions where civil society budget work has emerged more slowly. Yet, it is a region where public sector resource flows and accountability issues are particularly pressing. Several local and international civil society and donor institutions have recently started to focus on exploring avenues to enhance non-government participation in public resource monitoring in the region. NGOs in Egypt, Lebanon, Morocco, and Yemen have initiated budget work, and the Global Priorities Campaign will soon launch a resource monitoring initiative, focusing initially on children. This issue of the newsletter is designed to help us all think about how to overcome the obstacles and exploit the potential for budget work in the MENA.

In this Issue:

- Obstacles and Suggestions for Stronger Budget Oversight in MENA Countries by Edouard S. Aldahdah
- Budget Debate in Egypt by Mustapha K. Al Sayyid
- Challenges to Budget Transparency in Morocco by Abdellatif Ngadi
- Budget Work in Lebanon, the Role of LPHU by Mohammad Ali Loutfy
- Iran: Budget Controversy Reflects Deputies’ Local, National, and International Concerns by Bill Samii
- Saudi Arabia Budget 2006 by Saudi Commerce & Economic Review
- Chad-World Bank Oil Agreement in Crisis by Yacine Bio-Tchane
- Fighting Corruption in Kenya – Featured Activist John Githongo
- India Union Budget 2006 by Anurag, CBGA
- Anti-Poverty Perspectives on China’s Eleventh Five-Year Plan by Zhang Lanying
- The National Budget Group (NBG), Azerbaijan by Ingilab Ahmadov
- Public Participation Through Budget Literacy Project in Indonesia by Dedi Haryadi, BIGS
- New in the IBP Library
Obstacles and Suggestions for Stronger Budget Oversight in MENA countries by Edouard S. Aldahdah

Edouard Aldahdah is a Lebanese governance specialist currently working in France. In this article he lists five obstacles to stronger budget oversight by civil society, parliament, and the media in MENA (Middle East and North Africa) countries and proposes ways to overcome them.

a) Lack of empirical basis for budget debates.

While this essentially applies to all development topics, it is especially true of debates around public sector management issues, including the budget. This may seem like a paradox, as budgets are all about figures. Yet some steps of the budget process, such as budget deficits, are especially vulnerable to political “hijacking” by factional interests. Few MENA politicians understand the budget process, and even fewer are aware of the implications of the budget process for citizens’ welfare. This does not prevent them from making imprecise statements about budget issues with high potential for public mobilization — e.g., the size of the deficit — that in turn misleads the average citizen.

How to overcome this obstacle: "Budget 101" information sessions targeting MENA political parties at various levels are necessary if budget awareness is to become part of the political culture in the MENA region. Spokespersons for political parties, both inside and outside parliament, are a key audience for such information sessions.

b) Misperceptions about where budget expertise lies.

Budget debates in MENA are further skewed by the fact that while the average MENA citizen views budget work as the business of politicians and derives his or her information from them, the average politician sees budget work as the business of technocrats, too complicated for him or her to get involved in. Such differential perceptions about where legitimate knowledge lies can result in controversies between MENA budget experts and politicians. Politicians often have the upper hand in such controversies because of their access to media outlets and their ability to mobilize and shape public opinion.

How to overcome this obstacle: More direct linkages between citizens and budget experts are warranted to bring hard facts straight to the real stakeholders. Such linkages can take the form of (a) training programs targeting civil society organizations, such as those undertaken by the International Management and Training Institute in Lebanon for youth groups, women’s groups, sports associations, and so on, and (b) increased “air time” for budget experts on mainstream media outlets.

c) Weak relationships between knowledge producers and policymakers.

Knowledge of public sector management issues is concentrated in universities and research centers, while policymaking is the domain of government officials. In MENA, the relationship between those two constituencies is ad hoc at best, non-existent at worst. It is the occasional result of an academic taking up a post in government, or a current or former government official turning to teaching or research. This greatly impedes the flow of information between knowledge producers and knowledge users, as is illustrated by the widening rift between governments’ reform priorities and universities’ research and teaching priorities.
How to overcome this obstacle: Experience in MENA has shown that mixed bodies of academics and policymakers, such as Algeria's Economic and Social Council, can serve as a platform to translate knowledge into policy on budget issues and convey this knowledge to citizens.

Another positive example of collaboration between academics and policymakers is Lebanon's Institute of Finance, the training arm of the Lebanese Ministry of Finance. The Institute of Finance has succeeded in mobilizing around its team of government-affiliated trainers a large national network of academics and private experts to deliver budget training to staff of the Ministry of Finance and line ministries.

d) Monopolization of expertise by international donor institutions.

In public sector management issues in general and budget reform in particular, MENA governments rely heavily on the technical support and policy advice of international institutions such as the World Bank, the UNDP, and the IMF. Much of the knowledge and skills resulting from this close interaction tends to remain concentrated in the hands of the multilateral organizations and their direct senior counterparts in the ministries of finance and other government bodies. Often, these government officials then use those acquired skills to join the international organizations, which can provide better salaries and career incentives. As a result, the MENA country’s capacity remains limited and doesn't trickle down into the administration.

How to overcome this obstacle: A coalition of donors (the World Bank, the European Commission, the UK's Department for International Development, as well as the French, Norwegian and Swiss governments, the IMF, and the Strategic Partnership with Africa) has created the Public Expenditure Financial Accountability (PEFA) program, which seeks to strengthen recipients' (but also donors') ability to (a) diagnose the country's public expenditure, procurement, and financial accountability systems, and (b) develop a practical sequence of reform and capacity-building actions that encourages country ownership, reduces the transaction costs to countries, and ultimately leads to an improved impact of reforms. Similar initiatives with a strong in-country training and capacity building component need to be supported and mainstreamed in the MENA region.

e) Lack of government transparency and poor accountability.

Perhaps the most severe obstacle facing budget work in the MENA region is the lack of transparency of national budgets. Revenues from extractive industries (mainly oil and gas) and military expenditures (MENA has the largest military expenditures per capita in the world) are not shown in most MENA countries' budgets.

Beyond this problem, budget transparency differs widely across the region: in Iran, the full 1,500-page budget is made widely available to the public after its approval by the legislature, but Egypt only issues a two-page document with figures for generic budget categories. Nonetheless, the typical situation is one of weak government accountability to citizens and their elected representatives. For example, since 2003 the Egyptian government has made the full draft budget available to MPs only a few days before the discussion session in parliament, thus not allowing enough them time to study it.

How to overcome this obstacle: In the area of budget transparency, MENA is starting from scratch. One prerequisite is a set of awareness-raising campaigns by the media and watchdog NGOs (such as the MENA chapters of Transparency International, of which the
Morocco, Lebanon, Palestine, and Bahrain ones are the most active) explaining the importance of transparency and the need to muster the political will to institute transparency reforms. Where such political will exists, the capacity to implement such reforms (as well as the exposure to international good practice in such reforms) would then need to be fostered.

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**Budget Debate in Egypt by Mustapha K. Al Sayyid**

Earlier in April there was a public debate in Egypt in the wake of the submission of the report of the National Accounting Agency (NAA) on the closing account of the state budget for the fiscal year 2003-2004. The NAA is required by virtue of the Permanent Constitution of the Arab Republic of Egypt to present a report on the closing account of the budget to the People’s Assembly (PA) every year. The government has failed in the past to submit this closing account on time, thus the PA could not hold it to account as the ministers who were responsible for government finances were no longer in office when the report was discussed by the PA. The report presented observations related to the budget practices of the former cabinet led by Dr. Atef Ebeid who had resigned in July 2004. The report criticized the government for the aggravation of the budget deficit and for other violations of the rules of sound fiscal practices. Members of the PA - Egypt’s lower house which is constitutionally empowered to approve the budget as well as its closing account - took an active part in commenting the report of the President of the NAA. Those who took part in this debate expressed their critical views of the government including members of the opposition and the ruling National Democratic Party. The main observations formulated by Dr. Gawdat Al-Malt, President of the NAA included:

- Aggravation of the revenue-expenditure gap, which has reached fifty five billion pounds-close to nine and half billion dollars - accounting for 5.9-7.3 percent of the GDP depending on how this deficit is calculated.
- The NAA has also noted that the government postpones payment of its debts because of insufficient revenue. The debt burden is thus added to future obligations of the government. This practice further complicates the task of future management of state budget.
- The report also drew attention to the gravity of the situation of the domestic public debt which has escalated to 435 billion Egyptian pounds- $76 billion - or close to 90 percent of the GDP.

The gravity of the situation is further illustrated by:

- The accelerated pace of the increase in the domestic public debt, from 370 billion in 2003 Egyptian pounds to 435 billion in 2004, an increase of 14.7 percent in just one year.
- The major part of the increase in the domestic public debt was used mostly in financing the deficit of state budget and not in financing new investments.
- The cost of the domestic debt service eats up a large portion of national resources as it absorbs no less than 38 percent of all government revenue.

These observations were immediately noted by a large number of deputies who listened to this report given by the head of the NAA at the PA. A large number of deputies took the floor to applaud the head of the NAA for his candid observations and called on the
government to take them into consideration while preparing the budget of this coming fiscal year. These observations stimulated a wide debate in the Egyptian society reflected in newspaper articles, all commending the President of the NAA for his report and lamenting failure of the government to balance its budget and warning of the consequences for future generations if it does not rectify all the defects that this report has outlined.

The government has been asked to take these observations into account while preparing budgets for next fiscal year. This latter budget has not been submitted yet to the PA for approval, although a date was set weeks ago for its dispatch to the PA. A possible cause for this delay is the growing burden of government subsidies of petroleum products which increased from L E20 billion to over LE 40 billion in the span of one year, due to the increase in oil prices in the international market. It is true that Egypt is an oil exporting country, but it also imports a large volume of oil-related products.

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**Challenges to Budget Transparency in Morocco by Abdellatif Ngadi**

The countries of the MENA (Middle East and North Africa) region have experienced a number of difficulties since gaining independence. Today, civil society and public institutions in the region are looking for ways to combat corruption and lack of transparency inherited from the past, particularly in the budget process and in monitoring of public finances.

Civil society has gained increasing credibility among the public, and several NGOs have obtained expertise on fiscal and financial matters to help ensure that public resources are spent properly. Some groups are offering finance trainings at the local level, such as the Committee on Education and Communication of the National Federation of Teaching. However even groups that work on budget issues, such as Transparency Morocco, have difficulty obtaining budget information on a regular basis and generating timely budget analysis. (See [http://www.transparencymaroc.ma/actualite.php?Language=En](http://www.transparencymaroc.ma/actualite.php?Language=En).)

In Bahrain, discussions on the budget are recent and still modest, but legislators are lobbying for parliament's right to discuss the budget, participate in the preparation of the budget, and follow up on its implementation. In Algeria, Egypt, and Yemen, NGOs are making progress in fighting corruption linked to financial issues.

In Morocco, however, the issue of budget analysis has not yet sparked the creation of an NGO coalition as other issues have, such as the right for public goods or access to health care. This is despite the fact that the country's financial system has serious problems: corruption and tax evasion are common, and public officials lack accountability.

Moreover, it is difficult for civil society and parliament in Morocco to have a strategic vision of public finances. For example, there are no channels for civil society to participate in the budget process, and in the elaboration of the budget there is little transparency in recording revenues and expenses.

Despite these challenges, there have been positive signs towards greater budget transparency in Morocco. These include:
In its 2006 budget, the government presented a plan to address gender-equity priorities at the local and national levels. The creation of a gender budget report is critical to Morocco's efforts to achieve gender equality, promote women's rights, and make progress towards the Millennium Development Goals. Due to the importance of this initiative, it is crucial that gender-equity advocates monitor its progress and lobby for inclusion of a gender report in subsequent budgets. (See "Moroccan National Budget Includes Gender Report").

For the first time, NGOs examined the Finances Law and opened a debate on an issue that had been closed to the public. Seventy-five NGOs, including AMDH (Moroccan Association for Human Rights) and Transparency Morocco, organized a meeting to debate the law, assuring parliament that this initiative was meant not as an affront but as an opportunity for collaboration. Several deputies from both the majority and the opposition have been responsive to civil society’s input. In fact, a parliamentarian group from the majority has come out in favor of participatory budgeting, gender budgeting, and including input from different stakeholders in the budget process.

Morocco's General Manager of Taxes announced to the Casablanca stock market last year that "Morocco, the country of privileges, no longer exists. All taxpayers must conform to taxation regulations." Morocco has simplified its tax system by reducing the number of elements of the tax code by 40 percent and introducing electronic tax forms to increase tax collection and transparency.

Approximately 100 NGOs, together with several celebrities, created the Entreaty on the Rights to Public Goods, a network of associations whose national secretariat includes representatives of the Moroccan Association of Human Rights and Transparency Morocco. The entreaty was a symbolic protest against the State of Morocco for misappropriation and embezzlement of public goods throughout the 50 years of the kingdom’s independence.

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**Budget Work in Lebanon, the Role of LPHU by Mohammed Ali Loutfy**

After the Lebanese civil war ended in 1990, civil society faced major difficulties, such as the imbalance between the government's fiscal policies and the country's social development needs. Moreover, Lebanese civil society organizations (CSOs) lacked the skills to understand the main mechanisms by which the national budget is formulated, implemented, and evaluated. Among parliamentarians and other Lebanese stakeholders as well, there was a growing need both to understand the major issues surrounding the budget process and to learn how to translate general concerns and specific needs into concrete economic policies.

Hence, in 2003 the Lebanese Physical Handicapped Union (LPHU) and the Lebanese Transparency Association (LTA), in collaboration with the National Democratic Institute (NDI), developed a project to analyze Lebanon's budget.

The first phase of the project consisted of workshops and other activities designed to provide CSO representatives with the technical knowledge and methodologies to deal with budget related-issues. The goals of this phase included:

- outlining the basic components of the budget process
• highlighting the ways in which the budget process can be made more transparent
• identifying the mechanisms for increasing citizens’ participation in the formulation, implementation, and evaluation of the budget

In addition, an expert on Lebanese budget analysis prepared a report that provided guidelines on how to include human rights and development indicators in the budget.

As the activities conducted so far have shown, there is a core group of CSOs in Lebanon that are interested in pursuing applied budget work. The workshops allowed this group to come together and formulate a common understanding of the significance of developing a national budget that balances Lebanon's economic and social needs. The workshops also raised the possibility of engaging civil society in positive and direct debates with governmental officials.

During the project’s current phase, LPHU intends to build a national coalition consisting of representatives from diverse sectors of Lebanese civil society. Supplied with the technical training and materials developed in the first phase of the project, the coalition would propose an alternative budget to public financial stakeholders, including the Ministry of Finance and the parliament’s budget committee. This alternative budget would reflect an inclusive approach that takes into consideration the perspectives and needs of all Lebanese social groups. Ultimately, a partnership could emerge between government stakeholders and civil society on a variety of issues, enabling civil society to participate in the development of national policies and ensure that these policies reflect the needs of the nation as a whole.

The budget analysis report described above, which also underlines the serious deficiencies in Lebanon's social services, will be the foundation for this new coalition as well as proposals to overcome the social gaps that are reflected within the economic operations undertaken by the Lebanese government.

Because Lebanon's CSOs have little experience with budget analysis, training opportunities will be organized and needed tools and information will be provided. Strategies to raise public awareness on important issues will be discussed as well. It also is necessary to consult stakeholders, who have the capability to provide relevant experience and advice on budget issues. Their support could contribute significantly to the coalition’s success.

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Iran: Budget Controversy Reflects Deputies' Local, National, and International Concerns by Bill Samii

Iranian President Mahmud Ahmadinejad is facing his second crisis in the Iranian parliament. His budget for the Iranian calendar year 1385 (March 2006-07) is being criticized by both right- and left-wing deputies. Much of the criticism is focused on the attention given to religious institutions that fit the president’s conservative preferences. Another concern relates to excessive dependence on oil as the only source of revenue — something that they say could have an inflationary effect. Some also argue that the government is basing its figures on an unreasonably high price for oil. Debates in the parliament suggest that
Ahmadinejad’s sloganeering and populist approach could meet its match in the realities of running the country.

**Introducing The Draft Budget**

When Ahmadinejad submitted his draft budget to the legislature on 15 January, he said his governments' priorities are the promotion of "justice, kindness, public service, and national development."(1) The total budget is $217 billion, with $68 billion allocated to the public sector and $149 billion to other state enterprises such as banks and nonprofit organizations. This total is 27 percent more than in the budget for the previous year and indicates more attention to sectors considered less important by some deputies.

Mohammad Ali Hayati, a deputy from Lamerd and Mehr, said the budget has grown but it does not keep up with the needs of the education sector.(2) He added that funds allocated for education have been falling since 2001, and the Education Ministry will have a 33 trillion rial (about $3.67 billion) deficit by the end of the year.

The Management and Plan ning Organization should explain how it came up with its numbers, Tehran conservative deputy Imad Afruq said.(3) He added that the budget does not conform to the five-year (2005-10) development plan and that there are questions about the budget's compatibility with Supreme Leader Ayatollah Ali Khamenei's 20-year outlook. The budget reportedly allocates major funding for religious institutions, prompting Afruq - who heads the legislature's culture committee - to ask why the budget grew for "certain cultural institutes" when it remained the same for other institutions.

Another member of the culture committee, Jalal Yahyazadeh, was more blunt. (4) "Culture is not just for the Islamic Publicity Organization or the Seminary Publicity Office," he said. "There are other important sectors like theater, and music — that fit into the category of culture -- and unfortunately their budgets have not been given much attention."  

**Excessive Dependence On Oil Revenues**

Even before the draft budget was submitted, legislators warned that it depends too much on oil revenues. Adel Azar, who represents Dehloran, Abadan, and Darreh Shahr, said in early January that 70 percent of the budget is derived from oil sales, whereas in "advanced countries" only 35 percent of the budget comes from natural resources.(5)

Conservative legislator Mohammad Reza Mirtajedini said the budget's dependence on oil revenues increases every year.(6) In 2002-2003 it was $10.5 billion; three times higher in 2005-2006 at $34.9 billion; and $36.8 billion for 2006-2007. Other legislators and a Central Bank of Iran official feared that dependence on oil revenues will contribute to inflation, and an inflation rate of at least 20 percent is more likely than the projected inflation rate of 13.5 percent.

After the budget was submitted, complaints arose that it is based on an excessively high estimate of $40 per barrel. Hussein Kazempur-Ardabili, who represents Iran at the Organization for Petroleum Exporting Countries (OPEC), said, "oil's share in the budget must be reduced and oil must be priced lower."(7) Abadan parliamentary representative Mohammad Said Ansari asked how the government would finance a deficit if oil prices fall below the $40 rate.
These expressions of concern appeared to have an impact, and Ahmad Tavakoli, who chairs the legislature's research center, announced on 12 February that the parliamentary Economy Committee has decided to reduce the budget's dependency on oil revenues by 25 percent.

**Oil On Every Table**

Ahmadinejad's budget can be said to have remained true to some of his campaign pledges. One of Ahmadinejad's main campaign slogans was to bring "oil revenues to the people's tables," promising voters that they would benefit from oil revenues. Giving such a high priority to the role of oil in the budget could be said to represent the fulfillment of a campaign promise. Another campaign slogan was the creation of better living conditions for people across the country. When he introduced the budget, Ahmadinejad said spending in the provinces would increase by 180 percent, adding that he is trying to move jobs from the center to the periphery, and he emphasized rural development.

However, when the budget was submitted there was an outcry from several deputies about a lack of attention to the real needs of the provinces, such as projects that focused on reducing poverty in deprived areas. Over 100 parliamentarians threatened to hold a sit-in during the 17 January session. Heshmatollah Falahatpisheh of Islamabad-i Gharb said provincial funding will be distributed unevenly and can contribute to deprivation. He asked why no funds had been earmarked for infrastructure projects in western Iran, adding that the incomplete western railway project symbolizes poverty in Kermanshah Province. "You said the poor can place their hopes in your administration," Falahatpisheh asked, "but why do projects of the ever-prosperous provinces always receive funds three or four times more than the funds allocated to this international project?"

Another legislator, Morteza Tamadon of Shahrekord, asked on 17 January why the budget says nothing about the establishment of provincial water companies, although the parliament passed a law on this the previous year. Tamadon then threatened to stage a hunger strike and a sit-in, and legislators from the Gulistan, Kurdistan, and Chaharmahal va Bakhtiari provinces indicated that they would participate.

Iraj Nadimi, a deputy from Lahijan, spoke of the hardships faced by farmers in the northern Gilan Province. He said fishermen and rice, tea, olive, and orange farmers are facing difficulties in Gilan Province. He said insufficient funds have been allocated to build dams and water-supply projects, and 6,000 families do not have access to running water, electricity, or good roads. Not all provinces are equal in the administration's eyes, he said, and it pays more attention to places like Qom and Isfahan.

Bojnurd representative Musa Servati complained about frequent visits by officials to the provinces that bring few benefits. He said that every two weeks the cabinet meets in a different province and ministers meet with locals to learn about their problems and concerns. However, according to Servati, the budget should be based on regional development indices rather than these visits. Servati said Ahmadinejad has already spent in excess of the 850 billion rials ($94.44 million) allotted for provincial trips in the previous year's budget, and he is commingling funds allocated to different provinces to pay for the trips.

Rural residents get inadequate attention, Kermanshah representative Jahanbakhsh Khanjani said, and the budget for villagers' medical insurance has fallen by 600 billion rials ($66.67 million). Hussein Islami from Saveh voiced similar concerns — he asked why more
money is allocated to city-dwellers for medical care, criticized the lack of funding for rural road-building projects, and said these problems will encourage urban migration.

**New Concerns Arise**

The possibility of Iran facing economic sanctions due to international concern over its nuclear program has contributed to legislators' apprehensions about the budget. Tehran representative Mohammad Khoshchehreh said the government should have a "pessimistic" outlook that allows for unexpected events and for an unfriendly international climate. (14) He called for the adoption of a "shadow budget" and said the conservatives would support it. Khoshchehreh said the legislature is more realistic than the executive branch and explained, "It is possible that governments only think of their four-year term in office and all their efforts are geared toward flourishing in those four years."

Government spokesman Gholamhussein Elham tried to put a brave face on the impact of sanctions, saying Iran is in a strong position and the nuclear issue will not affect the budget. (15) He said the executive branch does not endorse creating a "shadow budget" and suggestions that to do so would amount to a propaganda campaign. This statement certainly reflects a desire to reassure the business community and investors. It is, however, quite likely that the government is preparing for the worst.

END NOTES

(1) Islamic Republic News Agency (IRNA)
(2) "Hambastegi," 23 January 2005
(3) IRNA, 24 January 2005
(4) "Aftab-i Yazd," 22 January 2005
(5) "Kayhan," 3 January 2005
(6) "Aftab-i Yazd," 24 January 2005
(7) "Aftab-i Yazd," 22 January 2005
(8) Fars News Agency, 12 February 2005
(9) "Sharq," 18 January 2005
(10) "Sharq," 18 January 2005
(11) "Gilani Iruz," 21 January 2005
(12) "Mardom Salari," 22 January 2005
(13) "Jomhuri-yi Islami," 25 January 2005
(14) "Aftab-i Yazd," 6 February 2005
(15) IRNA, 6 February 2005


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**Saudi Arabia's 2006 Budget by Saudi Commerce & Economic Review**


The Saudi economy experienced nearly ideal conditions in 2005: oil revenues were the highest in the country's history, and growth was robust (GDP grew 6.5 percent, with inflation of just 0.4 percent). While government spending grew, so did the budget surplus, and the trade balance was strong.
In its 2006 budget, the Saudi government maintains its focus on the use of oil revenues for debt reduction and spending on education, health care, and basic infrastructure. Government debt was reduced by more than 29 percent in 2005 and now stands at 41 percent of GDP, compared to 199 percent of GDP in 1999.

At the same time, the government will continue its economic and social reforms by earmarking more funds to fulfill the social needs of a rapidly growing population. To spur economic growth and job creation in both rural and urban areas, the budget will fund infrastructure programs in the following sectors:

- Education and human resource development: 4,673 primary and secondary schools will be build or rehabilitated; 3 technical colleges and 15 vocational training centers will be built.
- Health and social affairs: 24 new hospitals will be constructed, and more funds will be provided for public housing projects.
- Water, agriculture, and infrastructure: new water, sewage, and desalination projects, industrial projects, and agricultural projects will be initiated.
- Municipal services: funding will be provided for urban roads, street lighting, city bridges, and cleaning services.
- Transportation and telecommunications will be upgraded.

The governments policies to reduce debt and institute economic reforms are designed to foster private-sector growth and consumer confidence throughout Saudi Arabia.

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**Chad-World Bank Oil Agreement in Crisis by Yacine Bio-Tchane, IBP**

The $3.7 billion project financed by the International Finance Corporation and the World Bank to generate oil revenues for poverty-reduction programs in Chad and Cameroon is in crisis.

Earlier issues of the IBP Newsletter reported on the concerns expressed by civil society regarding whether the governments of Chad and Cameroon would fulfill their commitments to invest project revenues in poverty-reduction programs such as health, education, and rural development. (See [http://internationalbudget.org/newsletters/newsletter20/](http://internationalbudget.org/newsletters/newsletter20/).) Also of concern, weaknesses in the Chadian government’s budget processes impede efforts to ensure that oil revenues are spent efficiently to alleviate poverty. Elected officials have little time to discuss the budget proposal with their constituencies, for example, and no needs assessments or planning discussions take place at the regional or local levels. Chad also lacks the capacity to spend its new revenues promptly because its economy is underdeveloped and its procurement procedures are long and complicated. (See [http://internationalbudget.org/newsletters/newsletter26/](http://internationalbudget.org/newsletters/newsletter26/).)

Recent developments have threatened Chad's experiment in oil revenue management. On December 29, 2005, Chad’s national assembly adopted amendments to the Petroleum Management Law (Law 001); President Deby promulgated the amended law on January 11. The amendments eliminated the Future Generations Fund (ten percent of the oil's direct revenues are set aside and invested for future use deposited in an escrow account, established at Citibank in London) and allocated 15-30 percent of oil revenues to the
government's general budget. (See "Deputies adopt the revised Law 001," and "Modification of the Law 001: Are the gods of international finance attacking Chad?" both in French.)

In a message to the national assembly, President Deby said that the World Bank is misinterpreting the government's decision to revise the Petroleum Management Law. The government has justified the amendments by the need to implement immediate poverty-reduction initiatives. The government also argues that because improvements in justice, security, and territorial administration are needed to improve the socioeconomic environment, Chad is justified in diverting oil revenues for these purposes. As Communication Minister Doumgor stated, "we need these funds now in order to ensure peace and development in the country." (See a related article in French: http://www.ialtchad.com/economierapatriementdesfonds.htm.)

Following Chad's action, which the World Bank considered a breach of the agreement, the Bank suspended grants to Chad on any future loans or donations and deferred disbursements under eight ongoing operations led by the International Association for Development. In addition, the Bank froze the government's oil revenues in its Citibank account in London.

The International Monetary Fund (IMF) declared its full support for the Bank's decisions, as the Chadian government failed to comply with the commitments of the Poverty Reduction Growth Facility (PRGF) under which the IMF is supporting Chad's economic policies. Similarly, the European Investment Bank announced that it would suspend cooperation on all new projects with Chad's public sector. (See "Chad and World Bank: PWYP urges all stakeholders to resume talks to end current stalemate over oil revenue management law dispute.")

The Bank's actions have significant consequences for the Chadian economy. The suspension of development programs could slow economic growth, for example. (Chad's GDP grew 31 percent in 2004, according to the World Bank.) There are indirect consequences as well, such as the country's ineligibility for further debt reduction, the loss of foreign direct investment, and the risk that other international organizations will suspend assistance. This last outcome would be costly, as one-third of Chad's budget comes from international donors and the rest comes mainly from oil revenues, which are only partially accessible because of the freeze on Chad's oil revenues in London. (See related articles at http://internationalbudget.org/newsletters/newsletter29/.)

According to the Group of Alternative Research and Monitoring of the Oil Project Chad-Cameroon (GRAMP-TC), a Chadian NGO, the result could be deeper poverty and rising social unrest in a country that already faces turmoil due to clashes between the Chadian army and alleged Sudanese rebels in eastern Chad. With presidential elections scheduled for May 3, 2006, rebels have vowed to put the president "down by means other than the ballot vote." (See "Capital City Deserted after Shooting near Presidential Palace Triggers Panic.")

Civil society groups in Chad gave sharply differing reactions to the disagreement between their government and the World Bank. On one hand, groups close to the government organized rallies and issued communiqués supporting the president. (See "Chad-World Bank: Chadian women support the president." The Coordination of Civil Society and Human Rights Association (CASCIDHO) congratulated the national assembly for revising the Petroleum Management Law. (See "The Civil Society Coordination asks President Deby to promulgate the revised law on oil revenue management."
In contrast, a myriad of civil society groups came together to oppose the government's breach of its agreement with the Bank. The Commission of Peace and Justice (CNJP), the Collective of Association defending Human Rights (CADH), the Cell of Liaison and Information of Women Associations (CELIAF), and other groups called on the government to enter into a dialogue with the Bank. GRAMP-TC declared that the government had dishonored its relationship with the Bank and should accept the consequences of its acts.

In an attempt to resolve their disagreement, a World Bank delegation and a delegation from the Chadian government held three days of discussions in Paris starting January 30. The government refused to reverse its modification of the Petroleum Management Law, focusing instead on the impacts of the Bank's previous loans on the country's development in the past few years. According to the Minister of Economy, Planning and Cooperation, Mr. Mahamat Ali Hassan, there is a need to question the motivations behind the Bank's interventions through the so-called development projects meant for the destitute population. (See "The Government questions the World Bank's motivations through its so-called development projects.")

In addition, the government asked the Bank to consider freezing only 50 percent of the oil revenues in the London account, but the Bank refused. Gilbert Maoundonodji of GRAMP-TC noted that the focus of interest has shifted: it is no longer a matter of preserving the integrity of the oil revenue management system but about the effectiveness of the World Bank's projects in Chad.

Subsequent rounds of discussions between Chad and the World Bank took place in late March and early April. While the Bank is seeking to preserve the integrity of the oil revenue management system, Chad’s main concern is to obtain access to its London account, and Chad may not agree to further negotiations until it obtains this access. Maoundonodji believes that the situation will move forward only if the Chadian government, the Bank, and civil society organizations base their dialogue on the original Petroleum Management Law, which the government currently refuses to accept.

Fighting Corruption in Kenya - Featured Activist John Githongo

Some have argued that an increase in foreign aid to African countries would generate capital savings, thus spurring economic growth. Others have countered that foreign aid can increase corruption, which is a disincentive for economic growth. The relationships among foreign aid, development, and corruption merit special attention given the fact that Africa has grown poorer in recent decades. Africa's GDP per capita shrank by 11 percent between 1974 and 2003.

John Githongo has been featured in several recent articles and was recently giving presentations in Washington, D.C. Githongo was appointed anti-corruption czar in 2002 by the president of Kenya but resigned three years later and moved to the United Kingdom. Githongo has implicated Kenya's vice president and three senior ministers in a corruption racket that has cost Kenyan taxpayers hundreds of millions of dollars.

Kenya's 2002 elections led to a peaceful transition from an autocratic regime to a democratic one as the National Rainbow Coalition's (Narc) leader, Mwai Kibaki, came into
power. Kenyans voted for "change, for a more accountable and transparent government," according to Githongo. "They were hungry for something new, something better."

Yet the new government's authoritarian nature soon became apparent, as a group of officials (the so-called "Mount Kenya Mafia") came to dominate all key decisions. In addition, Githongo said, he quickly realized that his selection as anti-corruption czar was "designed more as an artful ploy to protect the corrupt than as a device to root them out." (See "Exile Battles Kenya's Climate of Corruption.")

Githongo stated in one example of corruption, in 2004 the government gave a 32-million-euro contract to a non-existent entity, only a fraction of which has been recovered. The country's anti-corruption commission also uncovered evidence of money paid "to legitimate firms for goods that were overpriced, or for contracts awarded to companies with nonexistent finance companies offering fictitious loans...[O]fficials and members of the country's elite received personal kickbacks as well as using the money for political campaigning,"

In February 2006 Githongo released a report on the scandals he was investigating (available at http://www.africafocus.org/docs06/git0602.php), which forced the resignation of three ministers and implicated other senior government officials, businessmen, companies in Britain, France, and Switzerland, and an American consultant. Githongo stated that he is continuing his anti-corruption campaign from the United Kingdom and declared that the fight against corruption is just starting. Only 30 percent of the instances of corruption have come to light so far, he estimates.

Others within Kenya are carrying the anti-corruption fight forward as well. They include the anti-corruption commission, which is investigating possible corruption related to security-and defense-related contracts worth up to US$350 million - civil society, the media, and Kenyan youth. Many young Kenyans, seeking alternatives to foreign aid, have demanded accountability for the government's decisions.

Furthermore, a legislative committee recently issued a report calling for an investigation of top government officials and former cabinet ministers regarding the Anglo Leasing scandal, in which the Kenyan government paid large fees to a non-existent firm. (See "Kenya: A Case to Answer.")

This case has already generated substantial upheaval in the Kenyan government with the resignation of the Minister of Finance David Mwiraria. Mwiraria was one of four cabinet ministers named in the so-called Anglo Leasing procurement scam, which involved the government awarding lucrative contracts to fictitious companies. In addition the World Bank said it was withholding $260 million in loans to Kenya because of corruption concerns. (See World Briefing | Africa: Kenya: Finance Minister Resigns In Graft Scandal.)

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**India Union Budget 2006 by Anurag, CBGA**

The Indian national budget presents a welcome increase in revenues as a share of GDP, a ratio that has declined or stagnated for nearly 15 years. However, the budget forgoes opportunities to collect greater tax revenues (especially direct tax revenues), indicating that
the present government is unwilling to mobilise resources from wealthy individuals and the corporate sector to any greater extent.

As for spending, CBGA (Center for Budget and Governance Accountability) observes that allocations to the education sector are not going to fulfil the government’s stated goal of spending 6 percent of GDP on this sector. The same is true of the health sector. Moreover, food subsidies have declined from 4.6 percent of total budget expenditures last year to 4.3 percent this year. Overall government spending will decline as a share of GDP as well. In addition, the government is seeking investment from the private sector for a flagship scheme called the National Urban Renewable Mission, which will privatize several urban services and increase user charges for consumers.

Expenditures for rural development will increase only marginally as a share of total expenditures — not nearly enough to address the problems faced by India’s toiling farmers and rural populations. As a proportion of GDP, proposed allocations remain below their 2002-03 level.

Similarly, the budget does not seem to provide any significant boost to welfare programs directed to children, except perhaps those pertaining to children’s education. Children’s needs relating to nutrition, development, health, and protection have been neglected in recent years. In fact, child protection has received little resources for the last six years. In the new budget, the amount for the Reproductive and Child Project (RCH) Program has been reduced to Rs. 1765.83 from Rs. 1814.27 this year.

Looking at the new budget through the lens of gender, we find that women remain a low priority in the allocation of resources, as can be seen in the lack of funding for areas like rural development, secondary and higher education, and police, all of which need to be stepped up significantly. The government started undertaking from this year onwards a gender budgeting exercise, but this exercise is based on several highly questionable assumptions that will undermine government efforts toward creating a gender-sensitive budget unless they are rectified. For instance, there are programmes like condom distribution, nutrition, and housing where women are recipients of 100 percent of the funds but these services are shared with men and children by the government department that handles them and it makes no sense to place women as the only targets because they are not the only users of these services.

Finally, regarding the indigenous Dalits and Adivasis peoples, CBGA observes that the government has presented useful information regarding the priorities given to disadvantaged communities. However, total expenditures for the development of low income groups, castes, and tribes would decline as a share of total government expenditures, from 2.26 percent this year to 2.23 percent next year. It also is of serious concern to see the low priority given to development of Dalits and Adivasis in crucial departments such as rural development, elementary education and literacy, secondary and higher education, and women and child development. The government must expand the scope of this year’s budget exercise to other important sectors, most notably the department of health and family welfare.

For further reading also see: Government of India and Indian Ministry of Finance
Anti-Poverty Perspectives on China's Eleventh Five-Year Plan by Zhang Lanying

The Director of ActionAid China Zhang Lanying shared some views on China's development and observed that through a series of reforms over the past 30 years, China has gradually transformed itself from a planned economy into more of a market economy. GDP is growing by 10 percent per year, and per capita GDP has jumped from $250 in 1978 to $1,700 in 2005.

Also, with its accession to the World Trade Organization (WTO), China has become an important member of the international trade system. In each of the past five years, China's trade has grown by an incredible 30 percent.

Rural poverty has been drastically decreased as a result of rural reforms, rapid GDP growth, and a comprehensive poverty alleviation program. Between 1978 and 2005, the number of poor rural residents decreased from 250 million (31 percent of the total rural population) to 26.1 million (3 percent of the total rural population). See http://www.china.org.cn/english/features/poverty/95871.htm.

However, poverty and injustice issues are still quite serious. One hundred million rural Chinese, or more than 10 percent of the total rural population, live under the UN poverty line of one dollar of income per day. Also, the pace of poverty reduction has slowed: in China's first ten years of reform and opening, the poor population decreased by 14 million; in the second ten years, it decreased by just 6 million.

In addition, the marginalization and social exclusion of the rural poor remain obvious. The gap between the rich and the poor is widening, even among the farmers themselves. The ratio of the income of poor farmers to that of ordinary farmers grew from 1:2 in 1992 to 1:4 in 2004. And in China's poorest province, Guizhou, the per capita GDP is one-thirteenth as large as in China's richest place, Shanghai.

In its Eleventh Five-Year Plan (economic and social development blueprint that covers the years 2006-2010) China is replacing the theme of "efficiency first" with "efficiency and justice." This indicates that extra effort is being put into rural development, public services, and environment rehabilitation. The government has promised to dedicate additional resources to compulsory education, public health, social security, social relief, job creation, poverty reduction, disaster protection, and public security.

In addition, in developing the plan the Chinese government took important steps toward a more democratic policymaking process, such as following legal procedures and holding public hearings to bring more people into the planning process.

The plan's emphasis on the issue of poverty and injustice can at least mitigate the trend of widening gaps between the rich and the poor in China. Though overall government spending on rural development and public services remains small, the increase in spending for these areas will promote social justice.

The plan does not, however, explicitly address an important related issue: equal opportunity. China suffers from significant disparities among regions and between urban and rural areas in terms of access to medical care, education, and vocational training and employment.
Moreover, China’s poor population still has little opportunity to take part in the decisions of government. There is no clear requirement that minorities, women, landless farmers, unemployment workers, or other groups have a voice in the creation, implementation, or review of government policies.

Finally, while the plan predicts annual economic growth of around 7-8 percent over the next five years, it did not indicate how this growth could best be utilized to help the poor. Future budgets will need to dedicate more resources to training, employment, education, and medical care. See People's Daily Online.

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**National Budget Group (NBG) Established in Azerbaijan by Ingilab Ahmadov**

The National Budget Group (NBG) was established on February 2006 in Baku, Azerbaijan as a coalition of non-profit budget groups to promote the efficient and transparent use of public resources. NBG consists of the Public Finance Monitoring Center, the Economic Research Center, the "Ekspert" Economic Journal, the Center for Economic and Business Researches and Education, the Center for Economic Innovation, Independent Economic Center, the "Intellect" Public Association, the Center for Debate in Civil Society, the Public Association of Students in Sumgait, and the Free Economy Center "Free Person" Association.

The goals of NBG are to increase public access to budget information, promote budget literacy, strengthen public oversight and public participation in the budget process, improve budget legislation to ensure transparency and accountability, promote the implementation of socioeconomic rights through the budget, and address inadequate budget performance indicators and the lack of institutional cooperation to achieve budget revenue transparency and improve citizen participation.

NBG members have begun collaborative projects in pursuit of the coalition's goals. For example, the Khazar University and the Center for Economic and Business Researches and Education are developing a teacher's manual on budget transparency for institutions of higher education. The Center for Economic Innovation has started a capacity-building project for local NGOs in western Azerbaijan’s Nachchivan Autonomic Republic to work with the media and monitor state-level expenditures. The Independent Economic Center is monitoring budget allocations for road projects, and the Public Finance Monitoring Center is offering capacity building to NBG members and training trainers.

For more information, contact Ingilab Ahmadov at the Public Finance Monitoring Center at ingilab@pfmc.az.

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**Public Participation through Budget Literacy Project in Indonesia by Dedi Haryadi, BIGS**

At the local level in Indonesia, there is a lack of public participation at every stage of the budget process: planning, approval, implementation, and auditing. The limited public availability of budget-related information is only part of the problem; Indonesia also suffers
from corruption in revenue collection and expenditures. During the last three years, at least 325 members of local parliaments have been accused of corruption, resulting in financial losses to the government amounting to $42.5 billion.

According to the Bandung Institute of Governance Studies (BIGS) increasing public participation in the budget process is a key factor in improving Indonesia’s level of budget transparency. For this reason, BIGS has started a project to improve citizens’ understanding and awareness of local government budget management, develop citizens’ capacity to participate in local budgeting processes, and encourage citizens to think of ways to promote a more transparent, participatory, and accountable budget process. The project will include a series of workshops on the budget's structure and content, the local budget process and the politics around it, promoting a pro-poor budget, gender budget analysis, principles of budget advocacy, and working with the media and the local assembly.

For more information, contact Dedi Haryadi at bigs@bdg.centrin.net.id.

New in the IBP Library

*State Budget and Public Accountability in MENA Conference Materials*
By Partners in Development (PID)
Partners in Development (PID) with the International Budget Partnership (IBP), the Institute for Democracy in South Africa (Idasa), the Open Society Institute Revenue Watch (OSI), and the Ford Foundation (FF) organized a seminar to stimulate greater engagement of civil society organizations in budget processes in MENA. This website includes the presentations and a description of the seminar's goals.

*What are the Compliance Costs of Taxation in Croatia for Individuals?*
By Vjekoslav Bratie/Institute of Public Finance
This study, based on face-to-face interviews with Croatian citizens, concludes that the procedures for submitting income-tax returns could be made simpler and more efficient. The study calls for a more stable tax system, clear and precise tax regulations, greater cooperation between taxpayers and tax officials, affordable tax assistance, and a reduction in the number and complexity of tax forms.

*Assessment of the Draft 2005 State Budget in Light of the Fiscal Decentralization Reform Program*
Decentralization Team of the Local Government Initiative
This paper covers different aspects of fiscal decentralization in Bulgaria. It reviews municipalities’ financial conditions in 2004, evaluates the draft budget for 2005, and gives an overview of the 2005 budget process.

*National Budget 2006/07: Continuity Tinged with Change*
By Robin Sherbourne/ Institute for Public Policy Research
While this year’s Namibian budget envisages a small surplus, a close look at the budget shows that this primarily reflects a windfall in Southern African Customs Union (SACU) revenues, which has allowed the government to balance the budget and increase spending without raising taxes. A return to deficits is forecast for coming years.

*Involving Citizens in Public Budgets: Mechanisms for Transparent and Participatory Budgeting.*
By Ben Reames and Melissa Lynott/The Center for Civil Society at Partners of the Americas

The publication is a compilation of case studies from the Transparency in the Americas grant program, which worked with ten Latin American civil society organizations to implement new and innovative projects aimed at opening public budgeting processes to citizen participation and creating mechanisms for greater budget transparency. The book includes valuable lessons learned, as well as a substantial introduction to participatory and transparent budgeting, a tool used to ensure that citizens are informed and involved in their local government's spending.