Managing public finances to achieve social goals

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The shocks of the COVID-19 pandemic have left the Arab States facing the monumental task of spending heavily[181] on recovery while getting back on track to achieve the SDGs. For these countries to have a chance at shaping their future, they must pursue urgent reforms backed by well-run public financial management (PFM) systems. This chapter explores the relevance of such systems to achieving the SDGs. It demonstrates the significant PFM weaknesses that impede pandemic recovery and progress on the goals and underlines how reforms could accelerate momentum through greater spending efficiency and allocative effectiveness, freeing fiscal space to scale up and improve social expenditure.

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A. PFM steers social spending in the right directions

PFM makes fiscal policy operational. It extends to all aspects of managing public resources, including raising taxes and other revenues, and managing expenditure, debt, cash, and fiscal risks. It supports reporting and monitoring. A key aspect of strong PFM is its medium-term budget framework,[182] which offers "a natural institutional arrangement for prioritizing, sequencing, planning, and managing revenue and expenditure over a rolling period of three-to-five years".[183] Since a budget is a Government's primary fiscal policy document, it is central to PFM.

By making the best use of public finance, PFM enables sustainable development and inclusive growth. It is the basis for creating fiscal space to deliver on the SDGs, informing policymaking and providing instruments for implementation. Weaknesses in it will most likely result in misguided fiscal policy decisions, SDG-related or otherwise, and derail implementation plans, leading to less than desired outcomes. Given PFM's focus on resource management and allocation, it also has a central role in promoting equity in the collection and distribution of public resources. Checks and balances operate through fiscal reporting requirements, transparency standards and oversight mechanisms. These institutionalize accountability and build trust among citizens that money has been properly spent.

Direct relationships between specific PFM reforms and service delivery improvements in any sector are difficult to identify. The reasons include the fact that efficient and effective service delivery depends on a variety of public management processes, such as human resources, supply chains and policy development. It is also determined by how well these processes interact within the broader space of governance.[184] That said, recent research suggests a positive correlation between health service delivery and the strength of PFM.[185] There is substantial evidence that PFM is a significant driver of spending efficiency and is linked to transparency and accountability.[186]

Since spending efficiency and allocative effectiveness are two primary objectives of PFM, where it is practiced well, it enhances any form of public expenditure, including social expenditure. In health, for instance, sound PFM would channel funds from less to more cost-effective treatments. In education, it might shift some spending on salaries towards classroom materials, new programmes or new schools.[187]

Similarly, well-performing PFM guides better public investments in economic infrastructure such as airports, railways, water, electricity, and telecommunications, and social infrastructure such as schools and hospitals.[188] Investment in quality infrastructure is fundamental for sustainable and inclusive economic growth but returns on investments are critically contingent on how efficiently and effectively they are planned, allocated and implemented. Inefficiencies in public investment management generally cost a nation an average of 30 per cent of returns. Up to two-thirds of this efficiency gap may be bridged by appropriate public investment management reforms.[189]

Where PFM is weak, it constrains all areas of public policy and social spending, including climate action, gender equality, social protection, health,[190] and education. While significant attention has gone towards mobilizing resources for development, how such finance is managed and how well it achieves desired outcomes has drawn much less notice.[191] Outcomes will not necessarily be achieved with more money. In many cases, the primary issue is to use funds properly.[192] This thinking is behind a strong push to make PFM systems more sensitive to development priorities through "priority-based budgeting" linked to the SDGs, gender equality, children, and climate, among other examples.[193]

B. A challenging region for reforms

PFM systems reflect their context. Fragility and corruption typically undermine them, issues at work in many Arab States. Transparency International's 2020 Corruption Perception Index found that the oil-exporting countries are generally perceived to be the least corrupt in the region, followed by the middle-income countries and lastly by countries with fragile and conflict-affected situations, which rank as among the most corrupt countries globally.

High debt levels, fiscal deficits and lagging social outcomes also create challenging environments for PFM. COVID-19 hit at a time when most Arab countries were facing strenuous fiscal circumstances. By the end of 2019, except for Iraq and Mauritania, countries with fragile and conflict-affected situations, middle-income countries and four out of the seven oil-exporting countries (Algeria, Bahrain, Oman, and Saudi Arabia) had fiscal deficits, which have grown worse during the pandemic.

Even before the pandemic, the Arab region was grappling with economic and gender inequality, youth unemployment[194] and refugee movements, and had fallen behind on health and education outcomes. As a result, several Arab States launched efforts to create fiscal space for social spending. These included tax reforms (Mauritania), efforts to enhance tax administration and rationalize tax exemptions (Djibouti and Morocco), attempts to mobilize and diversify revenues (Bahrain, Saudi Arabia and the United Arab Emirates), and the better targeting of social safety net spending. The pandemic derailed many of these initiatives while imposing limits on essential services, increasing mortality and boosting unemployment levels and poverty. The ensuing hardships have fallen disproportionality on small firms, youth and women, among other vulnerable populations. The pandemic has brought to a halt and in some cases reversed prior progress, while amplifying pre-existing challenges.[195] Several countries that should be increasing their social spending, given their inadequate progress on the SDGs, have cut expenditure relative to pre-pandemic forecasts.

Significant budget deviations in terms of actual and estimated expenditures in social spending are a critical issue. In 2019, examples of large social expenditure variances, where spending does not always reflect the amounts originally approved, included 16 per cent for education in Lebanon; about 9 per cent and 12 per cent for health in Tunisia and Jordan, respectively; and about 33 per cent for environmental protection in Jordan and Tunisia.[196] These figures speak to the weak reliability of social expenditure budgets either because budgets are not realistic or are not implemented as intended.

Stronger PFM is clearly needed for the Arab region to secure adequate social expenditures and select the most strategic mix of investments. It can help open fiscal space by mobilizing additional revenue, through borrowing and/or via reallocations within existing budget envelopes that are more in line with development priorities.

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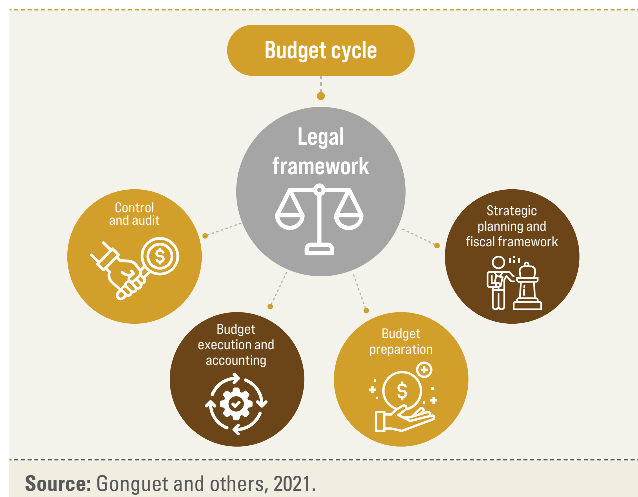
C. Breaking down the shortfalls in PFM performance

An annual budget law is the ultimate expression of a Government's political, economic, social, and other development priorities. The budget is a fundamental tool for planning, risk management, authorizing expenditure, assessing performance, communicating, transparency, and accountability (figure 103).[197]

Within the budget cycle, the Public Expenditure and Financial Accountability (PEFA) framework is the most common comprehensive diagnostic of PFM quality.[198] It identifies the following seven core components: budget reliability, the transparency of public finances, management of assets and liabilities, policy-based fiscal strategy, budgeting predictability and control in budget execution, accounting and reporting, and external scrutiny and audit. These pillars are disaggregated into 31 indicators and 94 dimensions to assess PFM performance.[199]

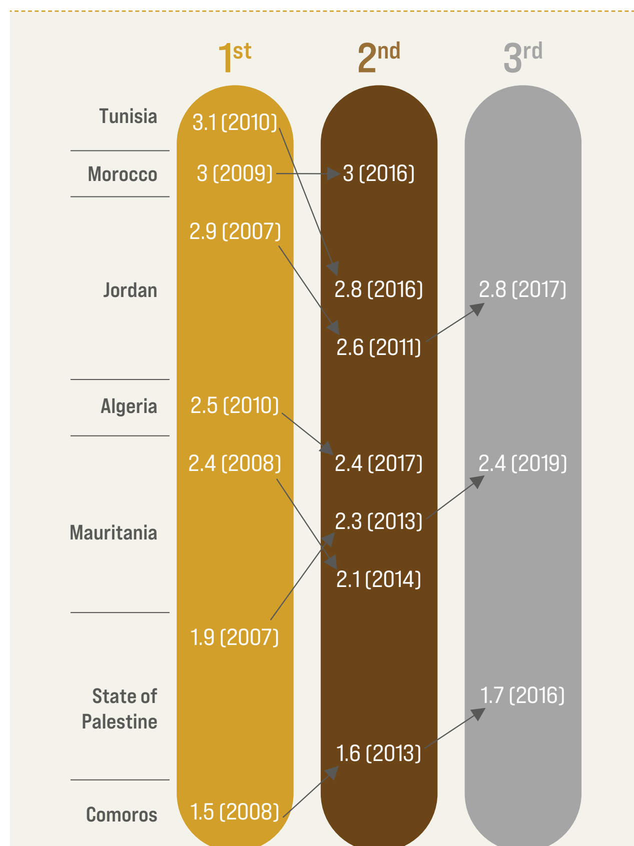
While the budget is typically prepared on an annual basis, a year is generally insufficient to make visible progress on a nation's strategic objectives. Medium-term planning is fundamental to strong PFM because it enables high-quality, forward-looking decision-making and risk management, and therefore enhances macroeconomic stability, sustainability and attainment of development objectives.

Figure 103. The key stages of the budget cycle



Source: Gonguet and others, 2021.

Figure 104. Repeat PEFA assessments in the Arab region, based on the 2011 framework



Source: PEFA, 2020a.

Note: These scores denote the overall aggregate PFM performance per country per assessment. The letter PEFA scores "D" to "A" were first converted into numerical scores from "1" to "4" respectively. The simple average of these numerical scores was then computed and used as a proxy for overall PFM performance notwithstanding certain limitations.

To develop an understanding of PFM performance in terms of broad social expenditure categories in the Arab region, this report drew on a set of diagnostic tools,[200] namely, PEFA assessments using the 2011 and 2016 PEFA frameworks,[201] relevant public expenditure reviews and the Open Budget Survey.

For the Arab region, there are five publicly available national PEFA assessments using PEFA's 2016 framework and nine others using PEFA's 2011 framework. Two of the eight countries with fragile and conflict-affected situations in the region have

never undergone a PEFA assessment (Libya and Somalia). The same applies to four out of the seven oil-exporting countries (Bahrain, Qatar, Saudi Arabia, and the United Arab Emirates). Seven countries have undergone repeat assessments, some of which suggested regressions in performance that may be explained by external shocks, governance changes and/or political economy factors (figure 104).[202]

Three main observations seem to apply to the region.[203] First, three PFM system pillars are significantly weak, where inadequate collective performance across indicators weighs down performance on each pillar as a whole.[204] Second, several pillars are undermined by weak performance on certain indicators.[205] Third, some indicator-level PFM weaknesses are specific to countries with fragile and conflict-affected situations. Observations by pillar follow. Given the sample size, there was little scope to identify discernible trends across country classifications unless otherwise stated.

D. Significantly weak PFM system components show multiple points of poor performance

1. Management of assets and liabilities, Pillar III

Within PEFA Pillar III, on management of assets and liabilities, public investment management appears to be a major challenge, primarily due to weaknesses in investment project costing (table 5). Ideally, major investment projects should be analysed based on cost projections across an entire life cycle. These projections should include both capital and recurrent costs, broken down by year and included in the budget documents. At the very least, projections of capital costs should be included in the budget documents in total and for the upcoming budget year. Only two of the five countries assessed meet basic levels of performance, however, while two out of five do not. For the fifth country, this indicator was not used.

Table 5. Pillar III PEFA scores

	Country	Year	PI-10	PI-11	PI-12	PI-13	Total number of scores	20
			Fiscal risk reporting	Public investment management	Public asset management	Debt management		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	D	NU	C+	D+	D, not applicable scores	55
	State of Palestine	2019	D	D+	D+	C+	C scores	25
Least developed countries	Mauritania	2020	D+	C	D+	D+	B scores	15
Middle-income countries	Morocco	2016	B	C	B	C	A scores	5
	Jordan	2017	B	D+	D+	A	Total	100

Source: PEFA, n.d.a.

Prevalent weaknesses include the lack of total life cycle costing (Jordan, Lebanon, Morocco, and the Sudan), insufficient rules or procedures for project execution (Jordan), inadequate monitoring (Lebanon), and the absence of appropriate or clear guidelines for conducting economic analysis and project appraisals (Jordan, Lebanon, Morocco, the State of Palestine, and the Sudan). In Mauritania, formal project appraisals are seldom conducted unless by a development partner.

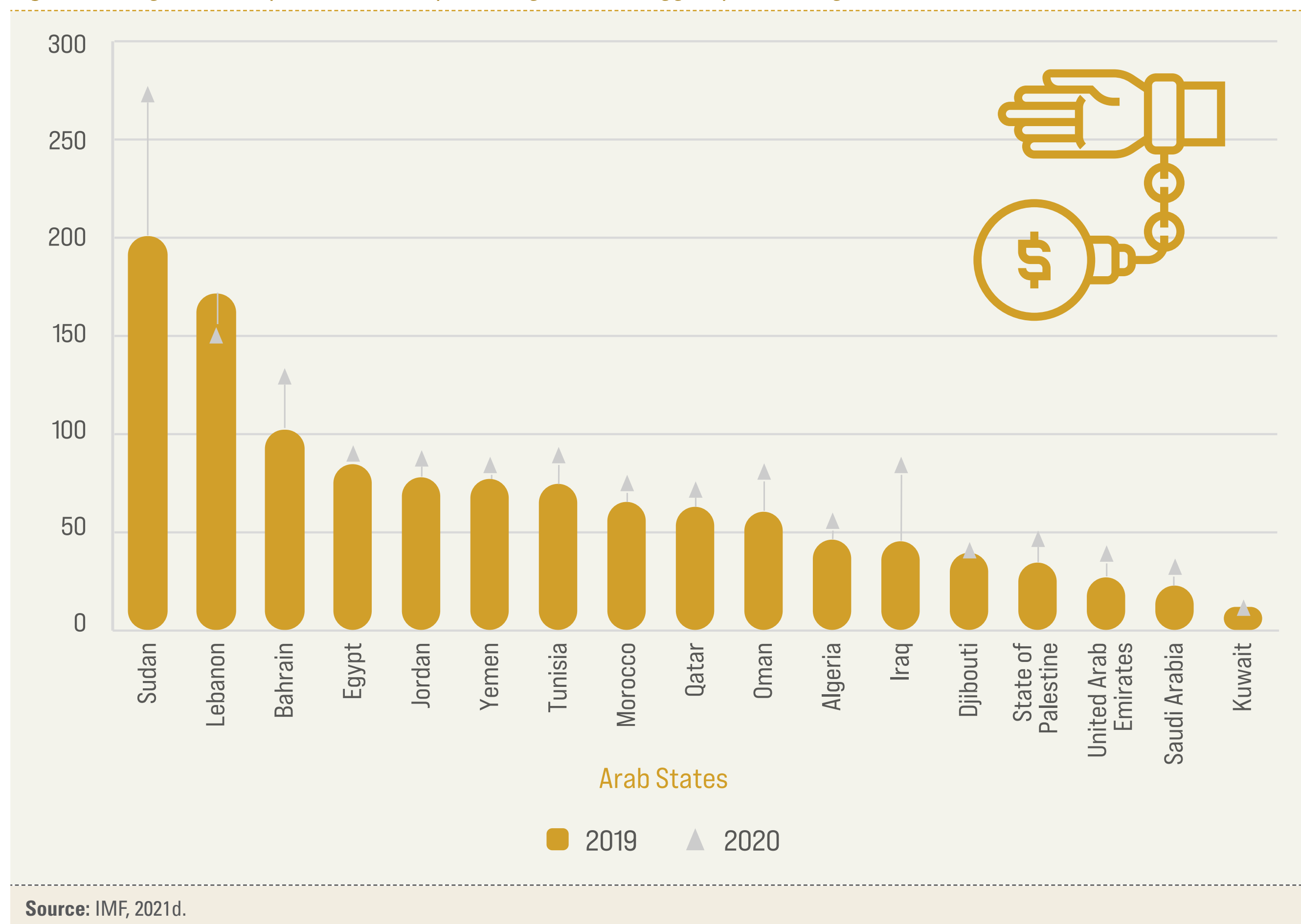
A second problematic area is public asset management given difficulties in financial asset monitoring. For example, in Jordan, information on financial assets is only partially available. There are no clear regulations on the disposal of Government-owned assets. In Lebanon, Morocco and Tunisia, there are no comprehensive lists of financial and/or non-financial asset holdings. Records of holdings in all financial assets categories should be maintained and recognized at fair or market value, in line with international accounting standards (a point that ties in with the discussion of accounting standards under Pillar VI). In addition, relevant information on the portfolio's performance should be published annually. At the very least, records of major financial assets should be maintained. Only one of the five countries assessed meets basic levels of performance, however, while three out of five do not. Morocco is the only country that scored "B" in this area, which implies that it maintains records of its major financial assets, recognizes them either at acquisition cost or fair value and publishes relevant information annually.

Fiscal risk reporting considers adverse macroeconomic conditions, natural disasters and financial leverage and/or contingent liabilities of the activities of the central government, extrabudgetary units, subnational governments or public corporations.[206] Performance on this indicator falls below the basic level for more than half of the assessed countries (Iraq, Mauritania and the State of Palestine). Jordan and Morocco perform just above the basic level. While Jordan identifies fiscal risks based on assessments conducted by international organizations such as the IMF, however, these risks are not systematically accounted for because they are not integrated in published financial reports. Similarly, Tunisia does not report on fiscal risks related to public corporations or contingent liabilities from Government guarantees, insurance programmes or public-private partnership projects.

Perhaps the best example of unreported fiscal risks is Lebanon's sizeable off-budget spending, which amounts to approximately 16 per cent of total expenditure. Hundreds of public entities operate independently and do not have their budget approved by Parliament, although they are required by the Ministry of Finance to report their spending as part of public accounting. The national electricity company, for instance, is not part of the annual budget and is financed through long-term treasury advances or loans. In the Sudan, information on the risk exposures of State-owned enterprises and State governments is not available.

Debt management is another weakness. Although it appears to be less so in the five 2016 framework assessments (the 2011 assessments did not evaluate assets and liabilities management), empirical performance suggests otherwise. Debt levels have grown over the past 10 years at a higher rate than GDP. In many countries, gross public debt grew by more than 100 per cent between 2008 and 2018, as compared to nominal GDP growth of 30 per cent (Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia).[207] By the end of 2019, more than half the countries in the region had public debt-to-GDP ratios above 50 per cent, with Egypt, Jordan, Tunisia, and Yemen closer to or higher than 70 per cent, and Bahrain, Lebanon and the Sudan with debt levels soaring between 100-200 per cent (figure 105). For Djibouti and Mauritania, debt distress is considered a high risk. Somalia, the Sudan and Yemen are already in debt distress. Lebanon has defaulted, while Somalia qualified for relief under the Heavily Indebted Poor Countries initiative.[208]

Figure 105. High levels of public debt as a percentage of GDP suggest poor management



Source: IMF, 2021d.

Trends in debt levels are affected by spending composition. When borrowing is coupled with asset accumulation that increases the country's net worth and productive potential, it creates growth. When it finances consumption spending, the added burden of servicing the debt without increased earnings potential will ultimately choke growth and render debt unsustainable. In many Arab countries, spending is oriented towards recurrent expenditures dominated by a very high public sector wage bill (Iraq, Lebanon, Mauritania, Somalia, the State of Palestine, and Tunisia). Such recurrent expenditures limit the space available for public investment, including in social sectors. In the Comoros, domestic funding of investments has generally been at approximately 1 per cent of GDP. In 2018, the debt service burden in Lebanon amounted to 42 per cent of revenue, and in Egypt, Jordan and Tunisia, debt financing covered, directly or indirectly, approximately one third of current expenditures.

Public social expenditure relative to GDP and growth in real per capita social expenditure have both been on a downward slope in the region. In Tunisia, creating more fiscal space to finance important development needs requires reducing the debt-to-GDP ratio from 70-60 per cent over a five-year period, which in turn requires reducing the primary balance (equal to the overall fiscal balance excluding net interest payments on public debt) by 3.5-4 per cent of GDP as compared to the recent historical average.[209]

Moreover, increases in social expenditure have often gone towards salaries and impromptu subsidies to quell public frustration and protests as opposed to strategic investments in health,

education or productive sectors that enhance growth and human development. For example, in Jordan, 2013 capital spending on education comprised a mere 5.7 per cent of total education spending, compared to the OECD average of 7.4 per cent. In Tunisia, while wage bill spending increased between 2012 and 2017 from 88 to 93 per cent, investment spending dropped to a mere 4 per cent. Such past and current inefficiencies will eventually be shouldered by future generations, which translates into intergenerational inequity.[210]

2. Accounting and reporting, Pillar VI

Within PEFA Pillar VI, two of the three indicators in the 2016 framework assessments appear problematic. Annual financial statements seem to be the primary issue, where three out of five countries do not meet minimum standards with a score of “D+” (table 6). A pervasive problem is the submission of reports for external audits typically beyond nine months of the end of the fiscal year. This ideally should happen within three months.

The accounting standards used to prepare financial statements are another significant concern with two dimensions. First, the accrual basis of accounting is far superior to a cash basis because it records the economic substance of transactions irrespective of when the cash settlement takes place. It systematically reflects a comprehensive, coherent picture of Government finances through an articulated set of financial statements. Accrual basis accounting is core to truly informed decision-making, transparency and accountability. Similarly, accrual-based budgeting enhances cost information and promotes discipline in budget execution as well as performance monitoring, particularly when accrual reporting has been adopted.[211]

By 2025, 50 per cent of jurisdictions globally are expected to be reporting on an accrual basis.[212] According to the International Public Sector Financial Accountability Index,[213] out of eight Arab States with available data, only the United Arab Emirates uses partial accrual as its reporting basis. By 2025, two others are expected to have shifted to partial accrual and another two to full accrual (table in the annex).

The second dimension is standardization. Harmonious accounting treatment across government levels, within and across countries, is a significant challenge. All financial reports should be prepared in accordance with accounting standards that are broadly consistent with international standards. If a national reporting framework is used, it should incorporate most international standards. Any remaining differences should be disclosed and explained, and in all cases, the reporting framework should be disclosed in the notes to the financials. The International Public Sector Accounting Standards (IPSAS) is the point of reference. According to the International Public Sector Financial Accountability Index, out of eight Arab States with available data, three use IPSAS with no modification (Jordan, Somalia and the State of Palestine), one uses national standards with reference to IPSAS (the United Arab Emirates) and the remaining four use their own national standards (Lebanon, Saudi Arabia, the Sudan, and Tunisia). While there are plans to move further toward IPSAS by 2025, the question of implementation remains (table in the annex).

Another issue in this pillar entails the coverage, classification, accuracy, and timeliness of in-year budget reports, as suggested by the fact that three out of five countries do not meet minimum standards with a score of either “D” or “D+” (table 7). These 2011 framework assessments also highlight accounting-related issues in the quality and timeliness of annual financial statements. They flag weaknesses in the collection and processing of information to determine resources, both cash and in-kind, received by the most common front-line service delivery units, namely, primary schools and primary health clinics. Weak accounting and recording functions have caused significant data gaps and unreliable financial reporting in the electricity sector in the Comoros.[214]

Table 6. Pillar VI PEFA scores

	Country	Year	PI-27	PI-28	PI-29	Total number of scores	15
			Financial data integrity	In-year budget reports	Annual financial reports		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	D	D+	D+	D, not applicable scores	60
	State of Palestine	2019	B+	B+	D+	C scores	20
Least developed countries	Mauritania	2020	D+	D+	C	B scores	20
Middle-income countries	Morocco	2016	B+	D	D+	A scores	0
	Jordan	2017	D+	C+	C+	Total	100

Source: PEFA, n.d.a.

3. External scrutiny and audit, Pillar VII

For PEFA Pillar VII, on external scrutiny and audit, performance is poor on both indicators. The legislative scrutiny of audit reports was assessed at either not applicable or “D+” for the majority of countries on both the 2011 and 2016 framework assessments (table 7). This means that legislative scrutiny is either not applicable to the government system or does not meet basic levels of performance. The main issues pertain to the timing and transparency of audit report scrutiny, hearings on audit findings and recommendations on audits made by the legislature.

These findings are consistent with the 2019 Open Budget Survey findings, which indicate that none of the legislatures in the region meet the minimum requirements (a score of 61) as overseers of the budget cycle. Their role ideally encompasses a spectrum of activities, including debating and approving recommendations on budget priorities prior to the drafting of the budget proposal, approving the budget, monitoring budget implementation, scrutiny of audit reports, and following up on the executive’s response to audit recommendations. The best performers are the middle-income countries with limited legislative oversight (scores from 41-60). All oil-exporting countries and those with fragile and conflict-affected situations except Iraq (score 58) show weak legislative oversight (scores from 0-40). Saudi Arabia’s score is zero suggesting that this critical function is non-existent in its PFM system (table 8).

As a whole, external audit function performance is relatively weak. Under the 2016 framework, three out of five countries do not meet overall basic levels of performance and have a score of “D+” (Iraq, Jordan and Mauritania). The State of Palestine just meets basic levels with a score of “C+”. The region scores the lowest globally on the submission of audit reports to the legislature (PI–30.2 dimension). Delays in submitting audit reports, generally close to nine months instead of three as an ideal, might be associated with the interference that Arab supreme audit institutions generally face in deciding the timing and content of their reports. Another important issue involves restrictions on accessing documents and information.[215]

None of the legislatures in the region meet the minimum requirements as overseers of the budget cycle.

Table 7. Pillar VII PEFA scores

	Country	Year	PI-30	PI-31	Total number of scores	10
			External audit	Legislative scrutiny of audit reports		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	D+	Not applicable	D, not applicable scores	70
	State of Palestine	2019	C+	Not applicable	C scores	20
Least developed countries	Mauritania	2020	D+	D+	B scores	10
Middle-income countries	Morocco	2016	B	Not applicable	A scores	0
	Jordan	2017	D+	C	Total	100

Source: PEFA, n.d.a.

Table 8. Transparency, public participation and oversight scores

	Country	Transparency (Open Budget Index)	Public participation	Oversight			Independent fiscal institution
				By legislature and supreme audit institution	By legislature	By supreme audit institution	
Countries with fragile and conflict-affected situations	Lebanon	6	0	18	14	28	No
	Iraq	9	0	63	58	72	No
	Yemen	0	0	7	6	11	No
	Sudan	2	0	33	22	56	No
	Comoros	0	0	35	28	50	No
	Somalia	3	2	28	33	17	No
Middle income countries	Morocco	43	6	44	44	44	No
	Tunisia	35	17	45	53	28	No
	Egypt	43	15	50	53	44	No
	Jordan	61	7	43	50	28	No
Oil exporting countries	Algeria	2	0	35	39	28	No
	Saudi Arabia	18	0	11	0	33	No
	Qatar	1	0	6	6	6	No

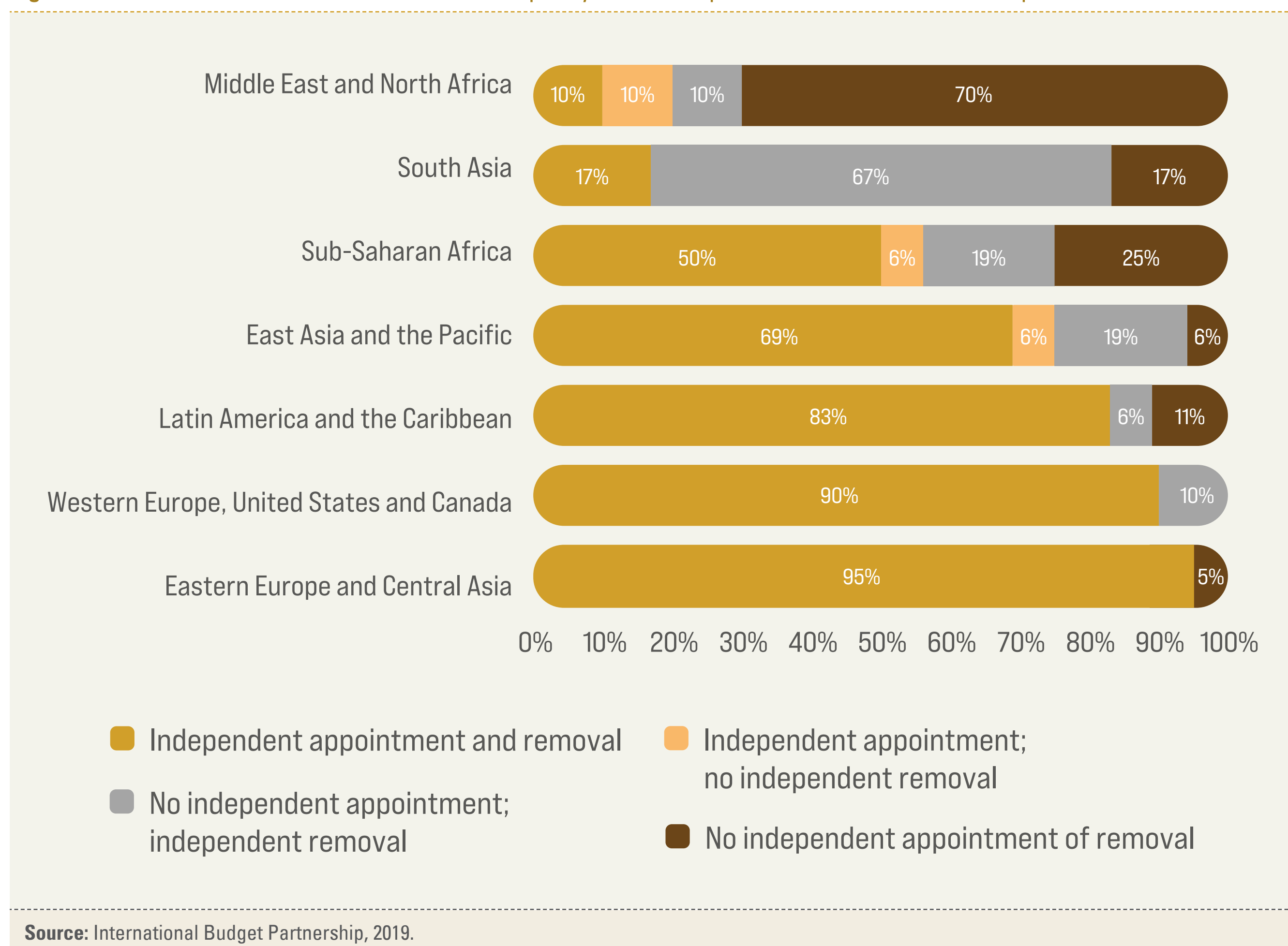
Source: International Budget Partnership, 2019.

According to the 2019 Open Budget Survey index, the only country that meets the minimum adequate level of budget oversight by the supreme audit institution, is Iraq, which scores 72. Countries with fragile and conflict-affected situations generally have weak oversight (scores range from 0-40), except the Sudan with a score of 58, indicating a limited level of oversight. The middle-income countries are equally divided between weak and limited. Oil-exporting countries are reportedly weak (table 8).

Another critical challenge is the limited independence of supreme audit institutions. They are generally among the lowest performers on the recently launched Supreme Audit Institution Independence Index. Eleven Arab countries have been assessed; only the Sudan enjoys a high level of independence. Morocco and Tunisia warrant a score of substantial. The rest are at a moderate (Djibouti, Iraq, Jordan, and the State of Palestine) or low level (the Comoros, Egypt, Lebanon, and Yemen).[216]

These findings are consistent with the 2019 Open Budget Survey findings, which show that in over two thirds of the countries in the region, supreme audit institutions do not have legal independence or the legal protection that comes from requiring an external body (typically the legislature) to approve the appointment or removal of the head of the institution. This share significantly exceeds those in other parts of the world (table 9).[217] In addition, during 2014-2016, more than half of Arab supreme audit institutions reportedly went through budget cuts, leaving them with insufficient resources, which adversely impacts their financial independence.[218]

Figure 106. The Middle East and North Africa score poorly on the independence of the head of the supreme audit institution



Source: International Budget Partnership, 2019.

E. Weak PFM components have gaps on some indicators

1. Budget reliability, Pillar I

Within the PEFA budget reliability pillar, expenditure composition outturns are the weakest indicator. Most countries score "D+" on this indicator in the 2016 framework assessments (table 10). This is due to relatively significant variances, above 10 per cent, between actual and budgeted expenditures at the subaggregate or functional level.

This issue is evident in the region's social spending. Health care is a good example, where budget deviations for Tunisia and Jordan amounted to about plus 9 per cent and minus 12 per cent, respectively, in 2019. In Iraq, budgeted-to-actual variances in fiscal health-care expenditure are significant between expenditure categories and over time.[219] Since 2015, Iraq's execution rate for investment in education has regularly been below 40 per cent of the budgeted envelope, with significant repercussions for performance in education. Lebanon's education spending was overestimated by 16 per cent in 2019.

In Mauritania, overspending of subsidies and transfers was as high as 266 per cent in 2011.[220] Reallocations among budget lines in the Comoros have typically been biased against economic and social sectors and in favour of "non-priority administrative and remuneration spending".[221] When funds are channelled towards different programmes and/or in different proportions than the budget stipulates, even if the bottom line remains the same, the budget is unlikely to achieve its goals. This effectively comprises budget reliability.

Table 9. Pillar I PEFA scores

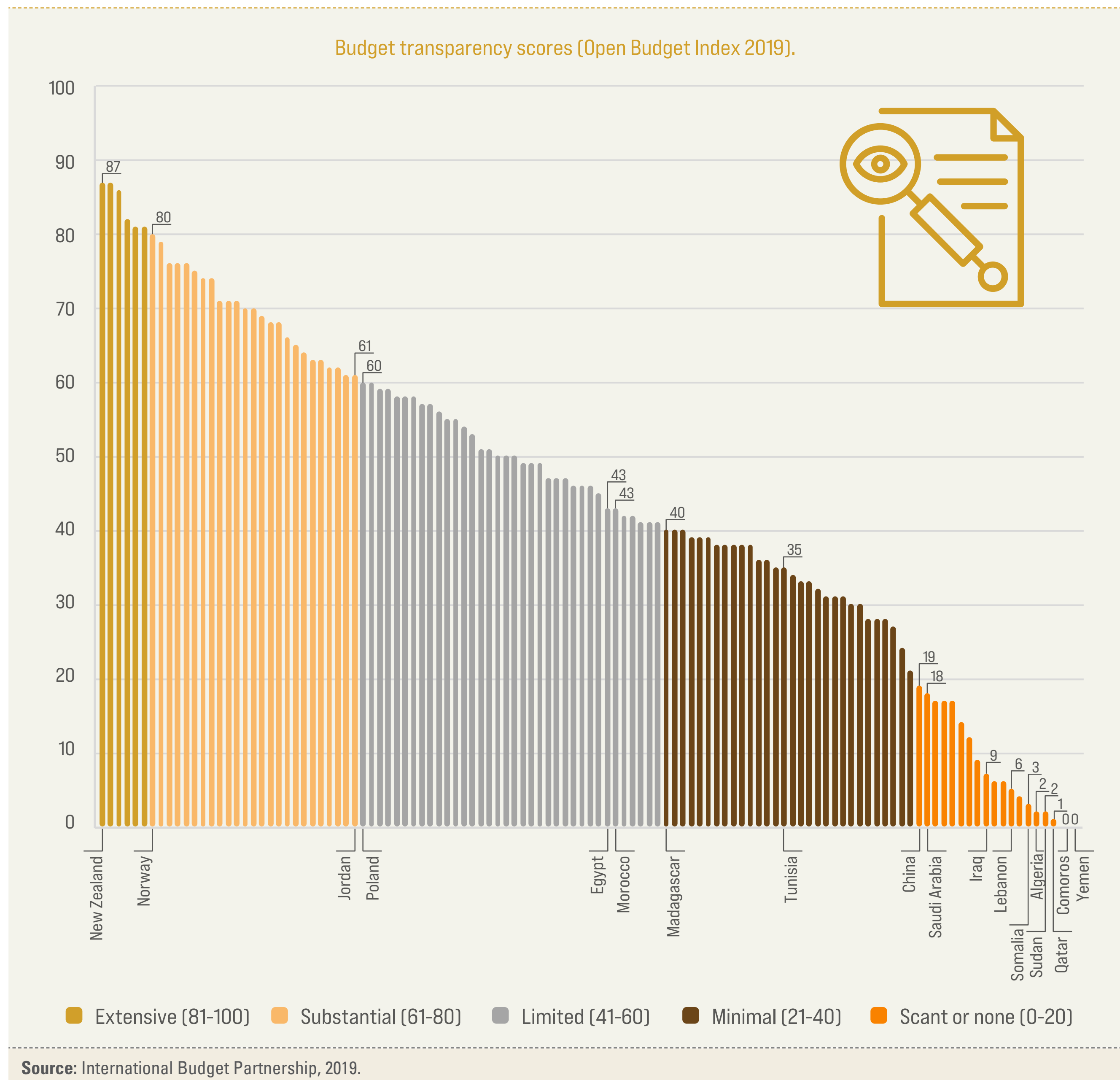
	Country	Year	PI-01	PI-02	PI-03	Total number of scores	15
			Aggregate expenditure outturn	Expenditure composition outturn	Revenue outturn		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	D	D+	D+	D, not applicable scores	33
	State of Palestine	2019	B	D+	C	C scores	27
Least developed countries	Mauritania	2020	B	D+	C	B scores	27
Middle-income countries	Morocco	2016	A	B+	B+	A scores	13
	Jordan	2017	A	C+	C+	Total	100

Source: PEFA, n.d.a.

2. Transparency of public finances, Pillar II

Public access to comprehensive fiscal information undermines transparency in the 2016 framework assessments. Three countries scored a “C” and the remaining two fell below “D” (table 11). A lack of transparency is even more blatant in the 2019 Open Budget Survey, which delves deeper into different aspects of budgets.[222] During 2008-2019, the region was the lowest scoring globally on budget transparency – with no improvement.[223] The oil-exporting countries and countries with fragile and conflict-affected situations tend to have “scant” transparency; all fall in the lowest-performing category (figure 107). Among the middle-income countries, Egypt and Morocco exhibit “limited” transparency and Tunisia shows “minimal” transparency. Jordan was the only Arab country with adequate budget transparency (a score of at least 61) in the 2019 survey.

Figure 107. Most Arab States fall on the low end of budget transparency scores



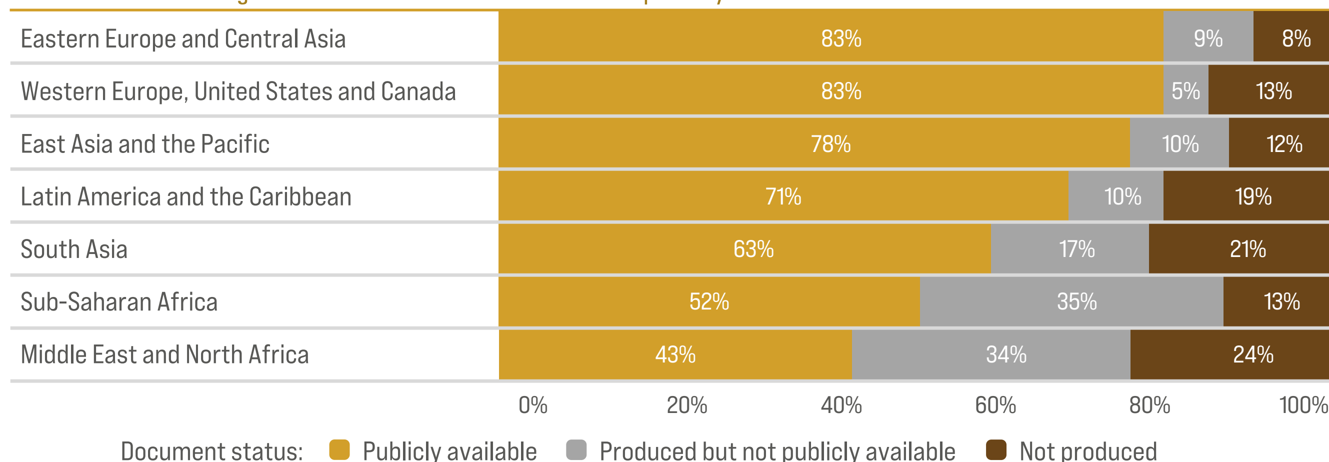
Source: International Budget Partnership, 2019.

Table 10. Pillar II PEFA scores

	Country	Year	PI-04	PI-05	PI-06	PI-07	PI-08	PI-09	Total number of scores	30
			Budget classification	Budget documentation	Central government operations outside financial reports	Transfers to subnational governments	Performance information for service delivery	Public access to fiscal information		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	C	B	D	C+	D+	D	D, not applicable scores	30
	State of Palestine	2019	A	B	A	C	B	C	C scores	37
Least developed countries	Mauritania	2020	C	D	C+	C+	D	D	B scores	20
Middle-income countries	Morocco	2016	A	D	B	D+	B	C	A scores	13
	Jordan	2017	D	B	C+	A	C	C	Total	100

Source: PEFA, n.d.a.

Table 11. The Arab region has the world's smallest share of publicly available documents



Source: International Budget Partnership, 2019.

Fully transparent budgets are an important stride towards mending social contracts and inclusive public participation, which is associated with effective public service delivery, increased willingness to pay taxes, enhanced oversight, and better accountability. Higher transparency correlates with enhanced PFM through lower deficits, borrowing costs, perceived corruption and inequality, among other factors, along with improved tax collection, resource allocation and accounting, all of which support development more broadly. A simple way to enhance transparency is to publish documents in a timely manner. The Sudan's 2018 approved budget was published online almost 11 months after its enactment, rendering it of little value in terms of public oversight or participation. Producing but not publicly sharing documents is unfortunately a common practice in the Arab region (table 11).

3. Policy-based fiscal budgeting, Pillar IV

On PEFA Pillar IV, out of five countries, Iraq, Jordan and Morocco are at a basic level of performance on the macroeconomic and fiscal forecasting indicator, with scores of “C” or “C+” (table 12). Mauritania and the State of Palestine scored a “D+”. Macrofiscal sensitivity analysis across the region typically entails a qualitative assessment of the impact of potential changes in economic circumstances. Ideally, a range of fiscal forecasts based on alternative macroeconomic scenarios is prepared and published, together with the main forecast. This speaks to the country’s potential to develop healthy forecasts that are core to a sustainable fiscal strategy and more predictable budget allocations.[224]

Iraq, Jordan and the State of Palestine scored “C” on the ability to develop and implement a clear fiscal strategy and develop and assess the fiscal effects of suggested revenue and expenditure policies. A key issue involves reporting on fiscal outcomes. Governments typically prepare an internal report on their performance on the fiscal strategy. Such reports should be submitted to the legislature and published with the annual budget. They should explain the reasons for variances and plans to address them.

In the 2011 framework assessments (table 13), the majority of countries scored between “D” and “C+” on the extent to which medium-term expenditure budgets are developed with explicit spending caps, and the extent to which the yearly budget derives from medium-term estimates and aligns with strategic plans. The main issue pertains to expenditure ceilings. A Government should approve, prior to issuing the first budget circular, both the aggregate and ministry-level expenditure ceilings for the budget year as well as the two following fiscal years. The trend in the Arab region is to secure such approval only for aggregate expenditure caps. Ministry-level ceilings are approved, if at all, only for the budget year. Other weaknesses involve costed sector strategies and links between investment budgets and forward expenditure estimates.

Table 12. Pillar IV PEFA scores

			PI-14	PI-15	PI-16	PI-17	PI-18	Total number of scores	25
	Country	Year	Macroeconomic and fiscal forecasting	Fiscal strategy	Medium-term perspective in expenditure budgeting	Budget preparation process	Legislative scrutiny of budgets		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	C+	C	B	B+	C+	D, not applicable scores	36
	State of Palestine	2019	D+	C	D	C	D+	C scores	36
Least developed countries	Mauritania	2020	D+	D+	D+	D+	D+	B scores	24
Middle-income countries	Morocco	2016	C	B	D+	A	B+	A scores	4
	Jordan	2017	C+	C+	B	B	C+	Total	100

Source: PEFA, n.d.a.

Table 13. 2011 framework PEFA scores of comparable indicators of policy-based budgeting

	Country	Year	PI-11 Orderliness and participation in the annual budget process	PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting
Countries with fragile and conflict-affected situations	Yemen	2008	A	B
	State of Palestine	2013	C	D
	Comoros	2016	B	C+
	Sudan	2010	B	D+
Least developed countries	Mauritania	2014	D+	C+
Middle-income countries	Morocco	2009	A	C+
	Tunisia	2010	B	C+
	Jordan	2011	C+	A
Oil-exporting countries	Kuwait	2010	C+	D

Source: PEFA, n.d.a.

An indicator on the legislative scrutiny of budgets examines its nature and extent. This is more of an issue in the 2016 framework assessments, where the primary weakness was the timing of the budget approval. This should happen before the budget year starts but that is not always the case in the region. The 2019 Open Budget Survey also detected weak legislative oversight throughout the budget process. In Lebanon, there was no budget approval during 2006-2016. In years where the budget was approved, delays of 4-11 months prevented the parliamentary Budget and Finance Committee from having sufficient time to analyse and properly discuss the proposals. In Iraq, the budget was not approved in 2014 and 2020.

4. Predictability and control in budget execution, Pillar V

Across both groups of assessments, the stock of arrears often goes beyond 10 per cent of total expenditure. The monitoring of such arrears is also weak (tables 14 and 15). Expenditure arrears are overdue obligations and effectively a form of non-transparent financing that masks the true size of Government debt. Their accumulation speaks to systemic budget execution weaknesses and/or a lack of budget credibility. This adversely impacts fiscal discipline and space because future budgets will have to shoulder the unauthorized or excessive obligations of prior years. Expenditure arrears also imply a liquidity problem and as such might slow economic growth, reduce or interrupt public service delivery or increase its cost. The 2013 arrears of the State of Palestine amounted to more than half the spending by the Ministry of Health. Large arrears owed to suppliers in part impaired the ministry's ability to negotiate lower prices and thereby increased costs for pharmaceuticals.[225]

Expenditure arrears are overdue obligations and effectively a form of non-transparent financing that masks the true size of Government debt.

Table 14. Pillar V PEFA scores

			PI-19	PI-20	PI-21	PI-22	PI-23	PI-24	PI-25	PI-26	Total number of scores	40
	Country	Year	Revenue administration	Accounting for revenue	Predictability of in-year resource allocation	Expenditure arrears	Payroll controls	Procurement	Internal controls on nonsalary expenditure	Internal audit		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	D	C+	C+	D	D+	C+	D+	C+	D, not applicable scores	30
	State of Palestine	2019	C+	C+	C+	D+	D+	D+	B	C+	C scores	30
Least developed countries	Mauritania	2020	D+	C+	B	D	D+	B+	B	D+	B scores	28
Middle-income countries	Morocco	2016	B	B+	A	D	B+	B+	A	C+	A scores	13
	Jordan	2017	C	A	B	B+	A	B	A	C+	Total	100

Source: PEFA, n.d.a.

Scores on the internal audit indicator in both assessments suggest that this critical function at best meets basic levels of performance (table 16). In Lebanon, this function is non-existent.[226] There are two main reasons for low scores. First, internal audits in the region are primarily focused on financial compliance so they overlook the adequacy and effectiveness of internal controls. Second, management responses to findings and recommendations tend to be insufficient. An internal audit, as a critical assurance and consulting function, should assist managers in discharging their duties by providing information on organizational risk management, control and governance processes. The scope of work should extend to all financial and non-financial operations and controls and is effective only if management appreciates and responds to recommendations. Anything short of this undermines budget execution as well as the implementation of plans and directives.

Predictability in the availability of funds for commitment of expenditures is another challenge in budget execution picked up by the 2011 framework assessments. Marginal performance stems from weaknesses in the extent to which cash flows are projected and monitored, the reliability and horizon of periodic in-year information on caps for expenditure commitment provided to spending units, and the frequency and transparency of budget allocation adjustments decided above the level of the spending unit's management (including ministries, departments and agencies). Weaknesses in budget execution impede progress towards outcomes. For example, Iraq's education budget has been substantially underexecuted (less than 40 per cent) since 2015.[227] In Jordan, actual expenditure on the social sector remains lower than budgeted expenditure.[228]

Table 15. 2011 framework PEFA scores of comparable indicators of predictability and control in budget execution

	Credibility of the budget		
			PI-04
	Country	Year	Stock and monitoring of expenditure payment arrears
Countries with fragile and conflict-affected situations	Yemen	2008	D+
	State of Palestine	2013	D
	Sudan	2010	D+
	Comoros	2016	D
Least developed countries	Mauritania	2014	A
Middle-income countries	Morocco	2009	C+
	Tunisia	2010	A
	Jordan	2011	D+
Oil-exporting countries	Kuwait	2010	D+

Source: PEFA, n.d.b.

Table 16. 2011 framework PEFA scores of additional comparable indicators of predictability and control in budget execution

Predictability and control in budget execution						
			PI-16	PI-18	PI-19	PI-21
	Country	Year	Predictability in the availability of funds for commitment of expenditures	Effectiveness of payroll controls	Transparency, competition and complaints mechanisms in procurement	Effectiveness of internal audit
Countries with fragile and conflict-affected situations	Yemen	2008	D+	D+	D+	D+
	State of Palestine	2013	D	B+	C+	C+
	Sudan	2010	D+	D+	D	D+
Middle-income countries	Morocco	2009	C+	B+	B	C+
	Tunisia	2010	C+	B+	B	B
	Jordan	2011	A	C+	C+	D+
Oil-exporting countries	Kuwait	2010	C+	B+	D+	D+

Source: PEFA, n.d.b.

F. PFM weaknesses specific to countries with fragile and conflict-affected situations

In the 2011 and 2016 framework assessments (table 14 and table 16), Iraq, the State of Palestine, the Sudan, and Yemen, all with fragile and conflict-affected situations, scored "D+" on payroll controls. This means that they generally do not achieve basic performance in managing public wages, maintaining the consistency of personnel records and handling changes. The Sudan has no reportage of direct linkages between personnel records and payroll data, and payroll changes are not implemented promptly. There have not been any payroll audits for the past couple of years. Control weaknesses are generally fertile grounds for error, waste, fraud, and corruption.

In the public sector, payroll costs are typically material, and therefore strong internal controls provide reasonable assurance that these large sums of public money are spent effectively and efficiently, in compliance with applicable laws and authorizations. This prevents unwarranted growth in the wage bill, unmet payroll obligations, payments to ghost employees, and others. In contrast, weak payroll controls adversely impact efficiency, effectiveness, budget execution, and budgetary outcomes.

In both groups of assessments, countries with fragile and conflict-affected situations[229] generally had less than adequate procurement mechanisms. Iraq was the only exception; it met the basic level of performance as of 2007. Even so, procurement bottlenecks are a major cause for the country's low execution rate for its education investment budget. In all countries, a sizeable share of GDP goes into public procurement, where the Government purchases private sector goods and services to deliver public services. The World Trade Organization estimates this share to be 10-15 per cent globally. Accordingly, public procurement is important not just in terms of the large sums of public monies that go into it and make it an inherently risky area for fraud and corruption, but also given its impact on the quality of public services and the creation of business opportunities for the private sector, including small and medium enterprises.

G. Steps towards greater inclusion and gender-responsive budgeting through PFM

While the Arab States face numerous challenges in PFM, social spending and the dynamics between them, there have been some efforts to use PFM instruments to enhance social spending that supports inclusive development. One example is gender-responsive budgeting. It seeks to bring gender concerns into public policymaking and implementation by evaluating the different effects of public expenditure and revenue policies on men and women, and the ensuing impacts on gender equality.[230]

In the Arab States

Efforts to use PFM instruments → Enhance social spending that supports inclusive development

One example is gender-responsive budgeting

Gender-responsive budgeting initiatives are in progress around the Arab region, although they are often limited to one aspect – sex-disaggregated performance information for service delivery – out of nine that align with the gender responsive PFM framework.[231] This tendency, grounded in the notion that it is enough to target women and girls with existing services, overlooks ways that budget processes, seen more comprehensively, may deliberately trigger measures to overturn gender discrimination. These might include choices to close gaps in care services so that women can earn an income or to create new forms of skills training in promising sectors of the economy to improve employment opportunities.

Gender-responsive budgeting initiatives are in progress around the Arab region, although they are often limited to one aspect out of nine that align with the gender responsive PFM framework.

All potential social expenditures can have gender implications, for better or worse; understanding these is the path to managing them. Reproductive health care, for instance, is not exclusive to women but they may be more likely to use it and face health consequences if this area of care is shortchanged in the health-sector budget.

The Arab region in general lacks important practices that would take it to a more robust application of gender-responsive budgeting, such as through gender audits, gender provisions in public finance and budget laws and ex-post gender impact assessments of budget expenditures. But some countries have moved forward, to varying degrees, on three stages of gender-responsive PFM. These include building awareness and knowledge, transitioning from analysis to allocations and mainstreaming to make budgetary systems gender-responsive.

Among the Arab countries that have adopted gender-based budgeting, Morocco was the first. In 2002, it began assessing women's needs in education, health, the judicial system, infrastructure, and employment. It then developed fiscal policies to ensure women's equal access to education and health care and expand their labour market opportunities. By 2014, Morocco had approved an organic finance law that requires considering gender equality across all budget lines and in defining performance objectives, results and indicators. Since 2009, a gender report has been part of the annual finance bill.

Similar efforts are underway in Tunisia, which created a gender-responsive budgeting pilot committee in 2015. Gender dimensions, such as the economic and social empowerment of women and the reduction of violence against women, were integrated in the 2016-2020 development plan. Tunisia also issued an organic budget law that institutionalizes gender-responsive budgeting and produces a gender report as part of the annual financial bill. Jordan included a gender lens in its budget circular and statement for the first time in 2013. It appointed gender focal points and developed capacities for designing gender-responsive plans and budgets.

Egypt established the Equal Opportunity Unit in the Ministry of Finance in 2005 to promote gender equality and monitor progress. Its first gender-responsive performance-based budgeting exercise took place in 2010-2011. Other efforts have included assessing services needed by women, mainstreaming gender in the 2002-2007 and 2007-2012 national socioeconomic plans and developing gender indicators. The main sectors

targeted by these initiatives have been education, health, water, human resources, food security, and social security.

While middle-income countries have evidently been gaining GRB momentum, GRB initiatives in oil exporting countries have been seemingly shy – at least based on the limited information in this regard. A few examples are Bahrain, which introduced GRB is in its budget circular in the 2011-2012 Fiscal Year, and the United Arab Emirates, which established the Gender Balance Council in 2015 to promote gender equality.

GRB initiatives which have been rolled out by countries with fragile and conflict-affected situations include: gender budgeting statements (Iraq), performance indicators relating to gender equality goals (the State of Palestine), national gender equality strategies (Lebanon and Yemen), parliamentary committee devoted to promote and strengthen gender equality (Lebanon and Yemen), establishment of female quotas in parliaments (Iraq and the State of Palestine).

Looking forward, the SEM could provide a valuable tool to enhance gender-responsive budgeting, helping to define and rationalize public expenditures most likely to realize gender equality. The SEM can be part of evaluating gender-differentiated impacts of policy choices, advocating for more and better sex-disaggregated data, tracking the alignment of expenditures with gender objectives and scrutinizing their impacts on actual advances.

Similar issues apply to child-budgeting, adopted by a few Arab countries to highlight and monitor budget allocations that benefit children directly or indirectly through allocations for their families. In Egypt, the 2019-2020 State budget recognized the importance of enhancing and monitoring child allocations. These are to be published annually by the Citizen Engagement and Fiscal Transparency Unit of the Ministry of Finance in its "Budget Transparency Series" report.[232]

Since 2012, Jordan has required accounts of expenditures benefiting children. Child-related allocations in the budgets of key ministries, particularly those pertaining to social sectors, are reported in the main budget law. Child allocations per se do not necessarily respond to all children's needs, however. Maximizing the benefits for children requires targeting spending to improve equity, inclusion and outcomes such as advances in learning.

H. A roadmap to PFM reform is more vital than ever

The policy reform path for the Arab region is a daunting one. It must continue to manage the pandemic recovery as an immediate priority and chart a course towards well-prioritized and more effective and efficient social spending to achieve the SDGs. PFM systems are fundamental in ensuring that sound systems and processes support informed decision-making.

Given that a PFM system integrates a number of elements, a roadmap for reforms should be well articulated and carefully orchestrated.[233]

PFM systems are fundamental in ensuring that sound systems and processes support informed decision-making.

The process of PFM reform requires:
the coming together of various endeavours including upgrading PFM institutions, overhauling the regulatory framework or upskilling budget institutions

Ministries

Supreme audit institutions

The staff within them

The process of PFM reform requires the coming together of various endeavours including upgrading PFM institutions, overhauling the regulatory framework or upskilling budget institutions such as ministries, supreme audit institutions and the staff within them, which normally cannot happen in the short-term especially where capacities are very limited. A published, well-designed reform plan should establish a sequencing process that factors in the strengths and weaknesses of existing systems, resources and capacity constraints, as well as the interdependence between policy design and implementation. No "one-size-fits-all" approach works. But three important points can guide reforms.

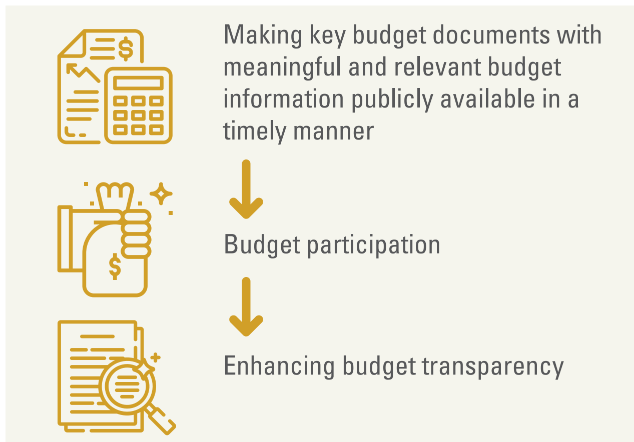
First, the plan should refer to the theory of constraints,[234] an approach that identifies the most significant bottleneck in the system, alleviates it and then moves on to the next most significant bottleneck. This is appropriate for PFM systems given their interrelated components. For example, there is little point in enhancing the external audit function as an added layer of control if the original system of operations and controls is impaired. An effective external audit function would certainly pick up on the problems but cannot fix them.

Second, core PFM functions should generally be prioritized. These focus on financial compliance (for example, for revenues, expenditures, assets, and liabilities), fiscal control (such as to ensure compliance with laws and regulations) and budget reliability. Operationalizing these functions lays the groundwork for all other PFM functions and reforms because they ensure that the Government can adopt a reliable plan and stick to it. After these core functions are in place, consideration may be given to more advanced reforms and innovative practices such as climate, gender-responsive and SDG budgeting.

Third, huge benefits may come from working collectively and coordinating efforts across the Arab States. Cooperation generates opportunities for learning and sharing experiences, saving time and effort, and avoiding the mistakes of learning single-handedly. Coordination reinforces efforts and awareness. For instance, if the entire Arab region decides to adopt accrual-based IPSAS, training centres, programmes and costs could be shared, needed skillsets would develop faster, and the comparability of financial reporting across the region would improve alongside stock market efficiency and liquidity.

One example of coordination is the Collaborative Africa Budget Reform Initiative. It works with finance and budget ministries in Africa, including North African Arab countries, to develop and implement PFM reforms.[235] Its programmes include a repository of published budget documents, a platform for sharing debt and debt management-related information, capacity development in collaboration with Harvard's Center for International Development and a peer learning platform for practitioners from finance and budget ministries and some line ministries.

A similar case could be made for coordinating investments in health care, education and climate adaptation and resilience. The returns of moving away from fossil fuels and investing in green projects would be far greater if these efforts were replicated and greenhouse gas emissions reduced across the region rather than a single country.



Several key PFM reform targets are priorities, keeping in mind that their relevance may differ by country. These start with the management of assets and liabilities (Pillar III), where there is a need to enhance investments in social development and climate-resilient infrastructure. Debt management and annual borrowing should be anchored in a debt management strategy that covers existing and forecast Government debt for at least three years; factors in interest rates, refinancing needs and foreign currency risks; and ensures debt sustainability.

The quality and timeliness of management and financial reporting should be enhanced in accounting and reporting (Pillar VI). The ultimate objective should be to increase coverage of reporting to include the general Government and to adopt accrual-basis IPSAS budgeting and reporting to enhance Government decision-making and monitoring. This would enable the Arab countries to improve comparability of financial information within the region and with other regions. IPSAS may be used[236] directly with no modifications, indirectly through a national endorsement process and with modification of the standards for any jurisdictional requirements, or as a reference point for developing national standards.

The role of the legislature through the budget cycle should be significantly strengthened. Legislative oversight should encompass debating and approving recommendations on budget priorities prior to the drafting of the budget proposal, approving the budget, monitoring budget implementation (Pillar VII), scrutiny of audit reports, and following up on the executive's response to audit recommendations (Pillar IV). Anything short of this undermines accountability. Moreover, inadequate scrutiny of audit reports and follow-up on recommendations undermines the entire audit function. After all, the auditor has no command authority – only the authority to advise. Given that auditing is a function that consumes resources financed by public funds, if its recommendations are not seriously considered, its presence risks to have limited impact.

Greater legal, financial and organizational independence of supreme audit institutions is imperative (Pillar VII). This implies legal protection, usually by the legislature, for the institution to hire or fire its head; sufficient financial resources; reviews of its processes and performance by external parties; unrestricted access to people, documents and information; and no interference in the discharge of its duties or the content or timing of its reporting.

Expenditure controls should be enhanced to limit variance in expenditure composition by programme, administrative or functional classification to ideally no more than 5 per cent (Pillar I) and the stock of expenditure arrears to preferably no more than 2 per cent of total expenditure (Pillar V). There should be an effective system to monitor, on a quarterly basis, data on the stock, age and composition of expenditure arrears.

Enhancing budget transparency (Pillar II) is a first step towards budget participation. It entails making key budget documents with meaningful and relevant budget information publicly available in a timely manner. Examples of documents include the pre-budget statement, the executive's budget proposal, the enacted budget, the citizens' budget, in-year reports, mid-year reviews, year-end reports, and audit reports.[237] A quick win would be to publish documents that have already been produced.

Expenditure budgets should be developed for the medium term (Pillar IV) in alignment with the Government's long-term strategy, with explicit medium-term expenditure caps. These budgets should set the terms for the annual budget.

A sufficiently resourced and organizationally independent internal audit function (Pillar V) should be in place and operational for all central government entities. Its scope of work should cover evaluations of the adequacy and effectiveness of internal controls and risk management. Management must follow up on audit recommendations.

For countries with fragile and conflict-affected situations specifically, controls for payroll and procurement processes (both in Pillar V) are a priority for greater predictability and control in budget execution. The payroll should be linked to the personnel database and the approved list of personnel. Personnel records and payroll should be updated at least monthly, and the authority to make these changes should be restricted and documented. Retroactive adjustments should be made only sparingly, and payroll audits should be conducted annually.

Procurement practices should be transparent, open and competitive and supported by a monitoring process based on properly maintained databases as well as a well-functioning complaints system.

In conclusion, given multiple shocks and levels of vulnerability in the Arab region, it is more vital than ever to have solid PFM systems. They can ensure that budgets efficiently contribute to SDG achievement and help prepare for future shocks in a time of fiscal constraints and increasing debt.

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Endnotes

181 The definition of social expenditure adopted in this chapter is the one put forth by the SEM, which aligns with the SDGs and comprises the seven areas of social development, as follows: education; health and nutrition; housing and community amenities; the labour market and employment generation; social protection, subsidies and support to farms; arts, culture and sports; and environmental protection.
182 The literature establishes three PFM objectives, namely, maintaining a sustainable fiscal position, allocating resources effectively and delivering public goods and services efficiently.
183 IMF, 2019b.
184 Public Expenditure and Financial Accountability (PEFA), 2020a.
185 Gurazada, 2019.
186 Rajkumar and Swaroop, 2008; Albino-War and others, 2014; IMF, 2018. World Economic and Financial Survey. Washington, D.C.; IMF, 2020a; IMF, 2021c.
187 PEFA, 2020b.
188 Robinson and others, 2021.
189 IMF, 2019b.
190 PEFA, 2020a.
191 Bird, 2015.
192 PEFA, 2020b.
193 SDG budgeting, gender-responsive budgeting, child budgeting, and climate budgeting evaluate different impacts of public expenditures and revenue policies on these issues.
194 AlAzzawi, 2021b.
195 Sachs and others, 2021; IMF, 2020a.
196 Boustany, Hatem and Salameh, 2022.
197 Underpinned by the legal framework, the budget cycle comprises four key stages. These start with strategic planning and a fiscal framework where fiscal policy is set based on which budget aggregates and borrowing targets are determined for the upcoming year. In budget preparation, the executive branch drafts coordinated budgets for the different ministries and departments and fleshes out spending composition based on consistent macroeconomic assumptions (for instance, inflation rates). The budget is then submitted for approval by the legislature. Budget execution and accounting entail implementing plans, effectively authorizing spending, managing cash, and collecting and reporting information on actual performance. Finally, control and audit are the stage when information is examined to assure its credibility and performance against the budgets for different budget entities as well as for the State as a whole.
198 PEFA, 2018.
199 PEFA, 2016.
200 To assess PFM in the Arab States, this research collected and analysed data from global, regional and individual country reports. The PEFA Secretariat's 2016 stocktaking identified 45 PFM assessment tools that may be classified as follows: those that are broad and cover "all aspects of the PFM systems"; those that are centred on "individual PFM elements, institutions or sub-systems"; and those that are "used by development partners to assess fiduciary risk" (PEFA, 2018).
201 PEFA is acknowledged as the primary tool for PFM assessments. Its institutional coverage includes both national and subnational governments. It uses an ordinal scale against detailed parameters and is supported by a central repository of assessments that are published based on the consent of concerned countries. The Open Budget Survey is similar to PEFA with some differences. Most importantly, it is focused on the transparency in all PFM, which is why it is classified as a broad tool despite its transparency focus. The added value of drawing on public expenditure reviews is the narrative that complements the ordinal evaluation of expenditure policies and administration, especially where they relate to social expenditures. As for the rest of the broad diagnostics, they have been excluded because they only apply to subnational governments, they are not common to the region and/or information is unavailable. This evaluation of PFM in the region also draws on other reports and indices, such as by the International Organization of Supreme Audit Institutions, International Federation of Accountants, Chartered Institute of Public Finance and Accountancy, and Transparency International. These have an institutional emphasis but pertain to a PFM function.
202 PEFA, 2020a.
203 The conclusions are drawn based primarily on the 2016 framework group of assessments and, wherever possible, the 2011 framework group of assessments.
204 At least 50 per cent of scores in the 2016 framework assessments are "Ds" and/or "not applicable".
205 At least 50 per cent of scores in the 2016 framework assessments are "Ds", "not applicable" and/or "Cs".
206 IMF, n.d.
207 ESCWA, 2020d.
208 World Bank, 2017a.
209 World Bank, 2020.
210 ESCWA, 2020d.
211 Dees, 2020.
212 International Federation of Accountants (IFAC) and Chartered Institute of Public Finance and Accountancy (CIPFA), 2021.
213 IFAC, 2020; 2021.
214 World Bank, 2017b.
215 World Bank, 2021b.
216 World Bank, 2016b.
217 The observations in the 2019 Open Budget Survey on the Middle East and North Africa are generally understood to apply to the Arab countries, including Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, the State of Palestine, Qatar, Saudi Arabia, the Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates, and Yemen.
218 World Bank, 2021b.
219 World Bank, 2021b.
220 World Bank, 2016b.
221 World Bank, 2017b.
222 The PEFA assessment of transparency (Pillar II) focuses on more technical aspects across six indicators pertaining to, for instance, the consistency of budget and account classification with international standards, budget doc-umentation relative to a benchmark list of 12 items and transactions outside financial reports. The sixth indicator within the PEFA transparency pillar, public accessibility to information, is most comparable to the Open Budget Survey Transparency Index as it also very specifically ad-dresses public accessibility to specific information within specified timeframes. It follows a different measurement process, however, which is focused more on form than on function

compared to the Open Budget Survey Index. The latter also evaluates the comprehensiveness of the information contained in the documents.

223 International Budget Partnership, 2019.

224 Independent fiscal institutions are non-partisan public entities set up in either the legislative or executive branch to evaluate and advise on issues such as the costing and sustainability of new policies prior to approval and the reasonableness of macroeconomic and fiscal forecasts. Effective institutions enhance the credibility of the budget and the budgeting process, which is why they are a burgeoning practice globally. Not a single independent fiscal institution was identified in the Arab States participating in the 2019 Open Budget Survey, however.

225 World Bank, 2016b.

226 World Bank, 2017c.

227 World Bank, 2021a.

228 ESCWA, 2022.

229 This observation is based on additional analysis of non-published PEFA assessments of Lebanon (2010) and the Sudan (2019).

230 Much of this section is drawn from ESCWA, 2021b.

231 Gender-responsive PFM, which is grounded in the PEFA framework, involves the following nine different practices: gender impact analysis of the budget proposal, gender-responsive public investment management, a gender-responsive budget circular, gender-responsive budget proposal documentation, sex-disaggregated performance information for service delivery, tracking budget expenditure for gender equality, gender-responsive reporting, evaluation of gender impacts of services delivery, and legislative scrutiny of gender impacts of the budget.

232 UNICEF, 2021.

233 Egypt and UNICEF, 2020; UNICEF, 2019.

234 Magnacor Mfg, 2021.

235 CABRI, n.d.

236 IFAC and CIPFA, 2021.

237 International Budget Partnership, 2019.

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