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Strengthening Fiscal Transparency in METAC countries: Progress, Challenges, and Lessons Learned

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Established in October 2004, The Middle East Regional Technical Assistance Center is a collaborative effort between the International Monetary Fund, member countries, and bilateral and multilateral development partners. The Center's strategic goal is to help its members strengthen their institutional and human capacity to design and implement macroeconomic and financial policies that promote inclusive growth and reduce poverty.

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This note discusses the outcomes of three webinars on fiscal transparency organized during 2020 by the Middle East Regional Technical Assistance Center (METAC), the IMF's Fiscal Affairs Department (FAD), and the International Budget Partnership (IBP). The webinars followed the release of the 2019 Open Budget Survey (OBS) – an independent, comparative assessment of the three pillars of public budget accountability: transparency, oversight, and public participation. They targeted various stakeholders in METAC countries, including finance ministries, supreme audit institutions, and civil society organizations. The webinars had three objectives: (i) share good international practices in fiscal transparency, (ii) discuss how to achieve tangible results in fiscal transparency, including on budget execution and year-end reporting, and (iii) discuss current country experiences and the role of capacity development in fostering fiscal transparency. Although there has been some noticeable progress in improving fiscal transparency over the past decade, it is uneven across countries in the region and often lags international comparators. Countries can make better use of available and tested analytical tools and indicators of fiscal transparency, to design reforms that are achievable and sustainable. For this to succeed, better and timely data should be produced by ministries of finance, and the role of oversight institutions and civil society organizations should be strengthened through dialogue and a participative approach to budget making.

INTRODUCTION

Fiscal transparency is necessary for holding governments accountable for how public money is raised, allocated, and spent. Broadly, it refers to relevant, clear, reliable, frequent, and timely fiscal reports, and data that governments compile and disseminate to the public. It helps ensure that government decisions are informed by a shared and accurate assessment of the current fiscal position,

the costs and benefits of policy changes, and the potential risks to the fiscal outlook. Fiscal transparency provides legislatures, markets, and citizens with the information they need to make their own decisions.

Fiscal transparency is lagging in METAC countries. Over 2012-2019, the region has scored below comparators on the Open Budget Index (OBI)–the budget transparency measure of the OBS (Figure 1).¹

Figure 1. Regional trends in budget transparency since 2012



Source: Open Budget Survey.

¹ International Budget Partnership, *Open Budget Survey 2019* data. In the Open Budget Survey, Djibouti, Libya, West Bank and Gaza, and Syria are not assessed, while Afghanistan is considered to be part of the South Asia region and Qatar and Saudi Arabia are included in the MENA region. Here, Figure

1 shows scores for Afghanistan, Algeria, Egypt, Iraq, Jordan, Lebanon, Morocco, Sudan, Tunisia, and Yemen – the METAC countries assessed in the Open Budget Survey.

The OBS offers a snapshot of the levels of budget transparency in a given year. OBS 2019 assessed progress made by countries up to December 31st, 2018.

The COVID-19 pandemic has highlighted the importance of fiscal transparency for public trust. Comprehensive reporting, transparent procurement processes and expedited audits of crisis-related spending were promoted by the IMF,² the Global Initiative for Fiscal Transparency (GIFT), IBP³ and others,⁴ as essential to achieving adequate fiscal accountability during the crisis and beyond.

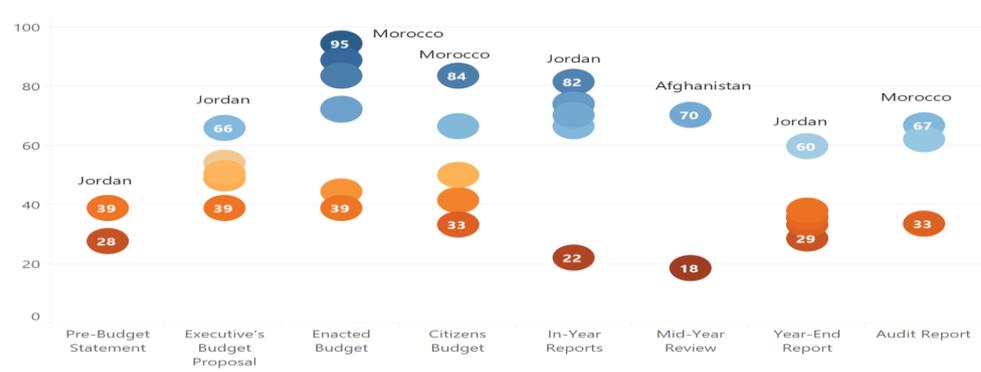
The case for improved fiscal transparency is stronger than ever. In the first six months after the WHO declared it a pandemic, governments worldwide spent USD11.7 trillion, or close to 12 percent of global GDP—with roughly half in budget spending and foregone revenue, and half in liquidity support (e.g. loans, guarantees, capital injections). With limited fiscal space, attracting external investors and ensuring effective institutional communication with markets will be key aspects of the

recovery from the fiscal response to COVID-19. Citizens' demand for more transparency in the conduct of fiscal policy is also likely to grow.

FISCAL TRANSPARENCY IN METAC COUNTRIES

There is some evidence of progress in transparency in the METAC region, but it is slow and uneven across countries. In 2018, Egypt and Iraq published year-end financial reports for the central government, and Lebanon's voted and published its budget law after a lag of twelve years. Some countries made progress that were not captured in any survey—for example, Yemen published its first budget in 2019 in five years. There are significant gaps between countries who made good progress on the OBI in recent years (e.g. Afghanistan, Egypt, Jordan, Morocco, Tunisia) and countries who have stagnated (e.g. Algeria, Lebanon, Iraq, Sudan).⁵ For many countries, the challenge in improving budget transparency is not just the publication of documents, but also their comprehensiveness (Figure 2).

Figure 2. Variation in the comprehensiveness of key budget documents in METAC countries



Source: Open Budget Survey

² IMF Fiscal Monitor, *Keeping the Receipts: Transparency, Accountability, and Legitimacy in Emergency Responses*, April 2020.

³ <https://internationalbudget.org/covid/>

⁴ <https://www.internationalbudget.org/2020/05/a-call-to-action-on-open-budgets-during-the-covid-19-response/>

⁵ Afghanistan's OBI score increased by 625 percent between 2008 and 2019, Jordan by 115, Morocco by 171, Egypt by 330, and Tunisia by 318.

METAC countries and the MENA region in general score low on the OBI, relative to other regions. This is due to a lack of publicly available budget information (Figure 3). OBI good practice on public financial management (PFM) recommends that governments publish eight “key budget documents” online, free, and in a timely manner—so that they are useful for decision making. The latest OBI release indicates that nearly half of budget information is not publicly available, with many documents only made available for internal use or published too late. Countries could achieve transparency gains by publishing the documents they already produce on government websites in a timely manner.

Figure 3. Number of budget documents published in METAC countries

Key budget documents	Number of countries (out of 10)		
	OBS 2017	OBS 2019	Net Change
Pre-Budget Statement	4	2	-2
Executive’s Budget Proposal	5	5	0
Enacted Budget	7	7	0
Citizens Budget	5	5	0
In-Year Reports	5	6	+1
Mid-Year Review	2	2	0
Year-End Report	4	6	+2
Audit Report	3	3	0
Total for all documents	35	36	+1
<i>Overall document publication rates</i>	44%	45%	+1%

Source: Open Budget Survey.

Other reform initiatives in the region over the past decade included the following:

- Afghanistan has published and disseminated detailed budget data and a citizen budget since 2011.
- Lebanon created an online dashboard for its citizen budget in 2020; this dashboard harvests the metadata from the Ministry of Finance (in particular the budget law and the Public Finance Monitor) and sheds light on main public spending categories. It allows users to navigate through different functions of spending in a visual and easily customizable way.

- Morocco achieved sizeable progress in improving transparency of public service delivery and improved opportunities for the public to participate in budget preparation. The *chafafiya* and *chikaya* portals, implemented in 2019 and 2020, can receive claims from citizens and answer questions and promote a direct channel of communication between public administrations and citizens, thus allowing for better accountability for public services delivery.
- Egypt improved the comprehensiveness of the citizen budget by including preliminary pre-budget statements, financial executive proposal, and briefs on COVID-19 government measures. The Ministry of Social Solidarity has rolled-out an accountability tool for local communities to provide feedback on social programs and better direct social funds and public service delivery.

The results of Public Expenditure and Financial Accountability (PEFA) and Fiscal Transparency Evaluations (FTE) are too scant to draw meaningful conclusions on progress.⁶

Only four out of fourteen METAC countries (Jordan, Morocco, Tunisia and West Bank and Gaza) performed at least two PEFA in recent years and agreed to publish their results, and only Tunisia (in 2016) and Jordan (in 2021) undertook an FTE.⁷ PEFA results show modest progress in financial data integrity, in-year and year-end budget reports; the Tunisian FTE shows weaknesses on fiscal reporting and fiscal risks management but satisfactory and advanced transparency practices regarding fiscal forecasting and budgeting.

⁶ PEFA, FTE and OBI approach fiscal transparency measurement with different, but complementary angles.

⁷ Source: IMF and PEFA. Tunisia published its FTE and Jordan is expected to publish it soon.

COMMON CHALLENGES FOR IMPROVING FISCAL TRANSPARENCY IN METAC COUNTRIES

The key challenge for governments in improving fiscal transparency lies in selecting and sustaining structural reforms that are aligned with their priorities and capacities. Some METAC countries struggle with protracted conflicts and social unrest, which makes it very difficult to deal with multiple priorities. Even when there is a momentum for broad reforms, the political commitment often occurs in specific areas only. For example, governments may want to improve central budget transparency, but do not invest in consolidating the public sector data in their fiscal statistics, which includes state-owned enterprises, social security funds, and other public entities—with potentially large fiscal implications. Sustainability of transparency reforms is another issue as evidenced by some OBI results—e.g. Algeria scored 19 in 2015 and 2 in 2019.

Availability of comprehensive, reliable, and timely fiscal data is another issue, particularly in fragile states:

- Credibility of the initial budget is often jeopardized by the difficulty to adequately forecast revenues (including from natural resources), and some countries lack proper budget execution monitoring or experience a high percentage of exceptional spending procedures that occur outside the budget process (e.g. Lebanon). Compliance of fiscal statistics with the Government Finance Statistics Manual of 2014 is also lacking in several countries.
- Lack of reporting on extrabudgetary funds, trust accounts and state-owned enterprises, which are often caused by weaknesses in collecting and centralizing fiscal data at the

level of ministries of finance, even when this is required by law.

- Difficulties in closing the fiscal accounts because of underlying weaknesses in the PFM system (e.g. long complementary accounting periods), and delays from supreme audit institutions in certifying government accounts in a timely manner.

The role of oversight institutions can be strengthened to hold governments accountable for fiscal transparency. According to the 2019 Open Budget Survey, no country in METAC has an adequate level of legislative oversight, and only one has an adequate level of supreme audit institution oversight. Available PEFA results depict a similar situation. Adequate oversight and publication of audit reports, as well as the scrutiny of budget documentation by parliamentary commissions, is critical to formulate recommendations, follow-up on implementation, and to shed light on the delivery of public services and the use of public funds.

The limited availability of regional analytical results on PFM diagnostics and peer-to-peer exchanges hamper benchmarking exercises. PFM diagnostics usually provide a strong focus on fiscal transparency practices and allow countries to compare their own reform experience. However, as shown above, the OBS has extensive coverage (120 countries) but does not assess all countries in the region, and the other diagnostics such as PEFA and FTE are rarely available—and are not always published or sufficiently shared with government agencies. Platforms to exchange good practices and peer-to-peer learning, such as the GIFT,⁸ can help countries to benefit from the experiences of others (e.g. success stories; pitfalls to avoid).

⁸ GIFT is a global network that facilitates dialogue between its stewards and partners from governments, civil society organizations, international financial institutions, and other stakeholders to find and share

solutions to challenges in fiscal transparency and participation.

HOW DIAGNOSTIC TOOLS AND CAPACITY DEVELOPMENT CAN HELP IDENTIFY WEAKNESSES AND MONITOR PROGRESS IN FISCAL TRANSPARENCY

Countries can take advantage of the various diagnostic tools available to assess fiscal transparency, which sometimes complement each other. For example, the OBS⁹ scores the publication of central government reports and provides no assessment of data quality, but it is frequent and publicly available.¹⁰ Governments can use the 145 scored questions in the survey to diagnose where they fall short and guide reforms; for example, if the previous OBS in a country found that core pieces of information on extra-budgetary funds were not available—like a policy rationale or estimates of income, expenditure and financing—the country can work to include this information in their budget for the following year.

The GIFT initiative provides government officials and civil society space to share experiences and solutions with peers across the world. The GIFT network of governments,¹¹ civil society organizations, and international financial institutions support countries technically (for example, in the launch of fiscal portals to enable the publication, visualization and analysis of budget data), and with comparative research to share knowledge and practical experiences.

The IMF's FTE¹² provides a quantitative assessment of government fiscal reporting, budgeting, and risks measured against the Fiscal Transparency Code—the international standard for disclosure on public finances. The code focuses on the quality of data, for

example by reconciling stock and flow of public debt data, comprehensiveness of fiscal reporting, and reporting on fiscal risks. FTEs also provide action plans to improve the credibility of budgeting and fiscal reporting, including on fiscal risks.

PEFA¹³ provides a comprehensive assessment of the PFM cycle. It allows for in-depth analysis of the root causes of the lack of transparency and draws a comprehensive PFM reform plan.¹⁴ It is the most largely available diagnostic tool (more than 420 PEFA assessments have been undertaken) with quantitative indicators to measure performance, progress in time and comparison with other country practices. It is complemented by the PEFA handbook Volume IV on how to use the diagnostic to support PFM reforms.¹⁵

Once the merits of each diagnostic tool are fully understood, governments can design plans that address the root causes of weak transparency. For example, the publication of timely budget execution reports is lacking in several METAC countries according to the latest OBI results; yet, it is considered as key information by donors, investors, and the public at large. Normally, these reports can be made available with a simple reporting module in Integrated Financial Management Information System. The root causes of timely reports often rest in lengthy and complex procedures to close the fiscal accounts (for year-end reports), or lack of recording and adequate tracking of budget execution (for in-year reports).

Capacity development (CD) can be a catalyzer for successful reforms. Most countries expressed specific CD needs during the webinar to tackle fiscal transparency issues, such as

⁹ <https://www.internationalbudget.org/open-budget-survey>

¹⁰ Since 2006, the Open Budget Survey has been run every two years.

¹¹ Egypt and Tunisia are GIFT Members (<https://www.fiscaltransparency.net/where-we-are/>)

¹² <https://www.imf.org/external/np/fad/trans/>

¹³ <https://www.pefa.org/>

¹⁴ In addition to these three key tools, countries can use the OECD budgeting principles and the Global Initiative for Fiscal Transparency, and they can create their in-house tools tailored to their own priority areas.

¹⁵ <https://www.pefa.org/resources/brochure-overview-handbook-volume-iv-using-pefa-support-public-financial-management>

implementing program-based and gender budgeting, medium-term fiscal frameworks, frameworks for monitoring fiscal risks, and integrity and quality of data (including consistency with GFSM 2014). To this end, the IMF, through METAC and the Fiscal Affairs Department, can tailor CD to meet feasible reforms given countries' objectives and capabilities, instead of aiming for holistic PFM reforms, which in some cases could end up being "on-paper" only reforms.¹⁶ Examples of this approach to CD includes the following:

- Building the capacity of macro fiscal units to produce tangible outputs to improve the credibility of fiscal policies (e.g. medium-term fiscal frameworks in Jordan and Libya).
- Producing fiscal risk statements, either broad or more targeted to key risk sources such as state-owned enterprises and public-private partnerships (e.g. Lebanon, Sudan, Egypt—see Box 1).
- Fiscal reporting and budget classification (e.g. Iraq) and compliance with IPSAS¹⁷ reporting for improved comparability of final accounts (e.g. Jordan, Lebanon)

Box 1. How METAC and Egypt Collaborated to Produce a Fiscal Risk Statement

Over 2017-2020, the Macro-Fiscal and Policy Unit (MFPU) of Egypt's Ministry of Finance initiated several actions to strengthen fiscal risks management, based on advice provided by the IMF Fiscal Affairs Department and a multi-year technical assistance program from METAC. These actions included the following:

- Creating a simple sensitivity analysis model to assess fiscal risks on state budget execution from three sources: global and domestic macro-economic changes, budget execution process, and the implementation of reform measures (date and budget impact).
- Drafting a section in the Annual Financial Statement of the Budget published by the Ministry of Finance at the time of budget submission, starting in fiscal year 2017-2018. This initially included a sensitivity analysis of macroeconomic assumptions (growth rate, global trade trends, exchange rate, inflation, and oil prices).
- Developing fiscal risks monitoring, starting in 2018. A fiscal risks presentation is drafted quarterly and presented by the Minister of Finance to the Cabinet, showing actual performance of the budget each quarter and evaluating risks on yearly fiscal targets. This promotes shared accountability and serves as a tool to consider mitigation measures.

Other departments in the Ministry of Finance also made progress in collecting data on fiscal risks, either for internal use (e.g. report on contingent liabilities) or publication (e.g. report on the financial performance of state-owned enterprises and other government agencies).

During the reform process, METAC provided targeted assistance to the Ministry of Finance to help them achieve key milestones, and ultimately meet their objectives. It shared good practices, assisted in improving the MFPU's analysis of fiscal risks, and provided hands-on support to draft the outline of the Fiscal Risk Statement.

Relative to the pre-reform period, Egypt has built the following capacities: Excel-based analytical tool to document, assess, and develop mitigation measures of fiscal risks; internal know-how to use the tools to produce various outputs to assist decision makers in monitoring and adjusting fiscal policy during the annual budget exercise and beyond; and, perhaps most importantly, the capacity to adapt the tools and their use to changing conditions—for instance, as it has been done with the assessment of the implications of COVID-19.

¹⁶ This is not to negate the importance of holistic reforms, but there are aspects of fiscal transparency

reforms, such as reporting, that can be done with a relatively narrow perspective and short time.

¹⁷ International Public Sector Accounting Standards.

These CD modalities from the IMF are built with flexibility. To sustain reforms, METAC's CD is almost always multi-year and programmatic: once a workplan is agreed with the authorities, the CD is usually delivered over 2 years (through a combination of country visits, remote assistance, and training); this is generally the case for specific and somewhat narrow reforms, such as producing a fiscal risk statement, or building tools for analyzing the fiscal risks of state-owned enterprises. Such delivery modality can be flexible, however, to account for absorption capacity—by including more hands-on training—, data limitations—by simplifying analytical tools so that they are useful without requiring significant country-specific data—, and volatile political commitment—by adjusting the pace of delivery and doing more outreach to policymakers.

LESSONS LEARNED

The past decade has seen limited progress on fiscal transparency in METAC countries, but there are notable exceptions. While some countries still struggle with institutional and political fragilities, some have forged remarkable progress—but sustainability of such progress remains fragile, as recent public discontent and demonstrations against the quality of public services and governance suggest. Institutionalizing fiscal transparency, like Egypt did with the creation of a Fiscal Transparency Unit, may help mitigate such risks and open doors of communications between government and citizens on fiscal management, but it is unlikely to be sufficient or substitute for more fundamental PFM reforms.

Difficulties that countries face are multifaceted, and the lack of sustained political commitment to advance fiscal transparency is often intertwined with technical constraints. The difficulty to navigate through complex reform agendas calls for targeted reforms while articulating priorities clearly. In that sense, diagnostics tools can help frame the issues analytically and develop options, but they are not a panacea. Technical assistance can also bring other

useful dimensions, such as international experience and good practices, and how tools can be tailored to country needs.

The role of oversight institutions is key to improving fiscal transparency and accountability. Supreme audit institutions, parliaments and other institutions will need to play a stronger role to promote fiscal transparency and push for reforms—for that, they need to be independent and adequately resourced. Lebanon provides a good example of recent progress: with capacity building provided by the Westminster Foundation for Democracy, the finance committee of the parliament improved fiscal oversight in recent years through detailed scrutiny of annual budgets of line ministries and identification of major loopholes in budget laws, such as treasury advances, subsidies and arrears to the national social security funds. The finance committee also successfully pushed to issue a Budget law—a first since 2006.

Other institutions and central statistics offices can help promote fiscal transparency reforms. They benefit from a good reputation and can act as a bridge between citizens and governments. There are many examples in the region such as the Institute of Finance in Lebanon, and the Fiscal Transparency Unit in Egypt— those institutions are also more active on social media and innovative communication channels for a more efficient and targeted outreach. Various central statistics offices conduct budget analysis and engage diverse stakeholders to strengthen fiscal practices. Integrity Watch Afghanistan, for example, performs analysis at all four phases of the budget process (i.e. formulation, approval, implementation, and evaluation), and works with stakeholders at all levels, including community monitors and state accountability institutions.

Over the medium-term, governments have to align priorities on fiscal transparency with growing demands from citizens for more accountability in the delivery of public services and

the use of public funds. While most METAC countries have embarked on an overhaul of PFM legal frameworks that include provisions toward transparency, implementation has lagged.

Governments now have an opportunity to drive forward reforms to meet bottom-up citizens demands for more transparency and accountability in times of crisis and beyond.



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