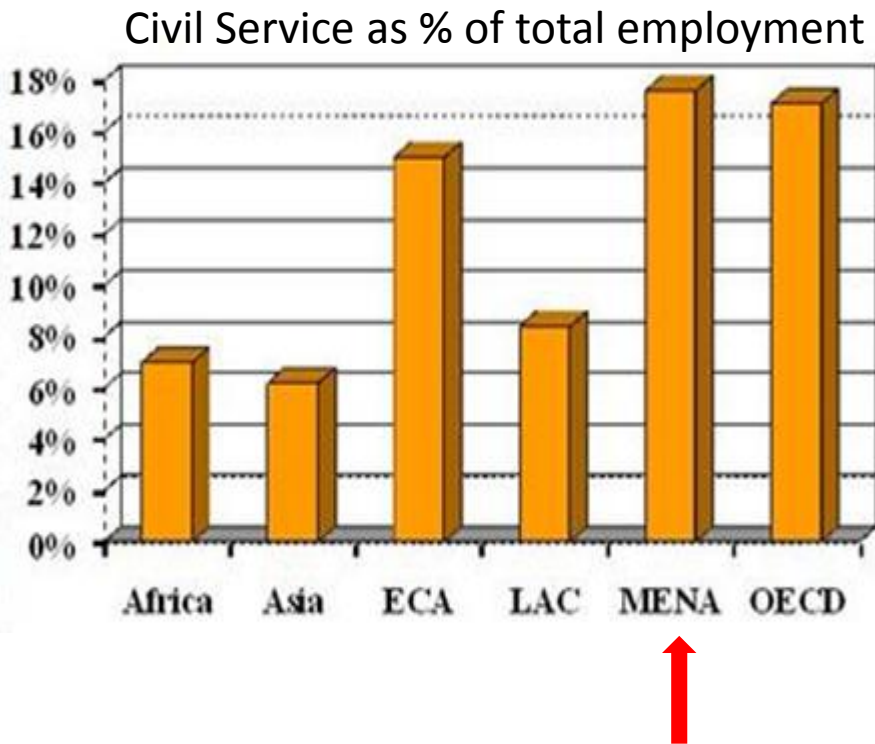


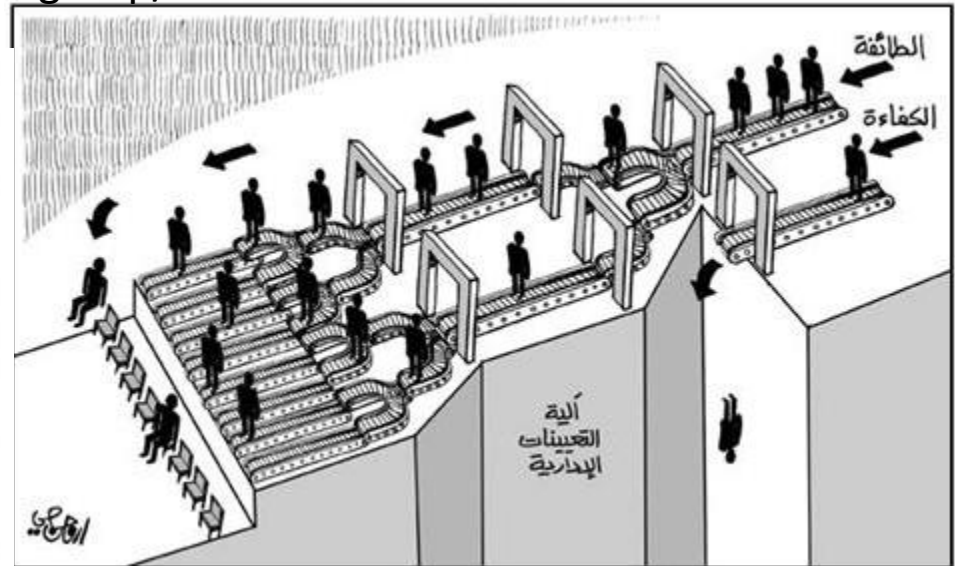
PFM Challenges: A Regional Perspective

Vito Intini
UN-ESCWA

The Public Sector in the Arab Region...



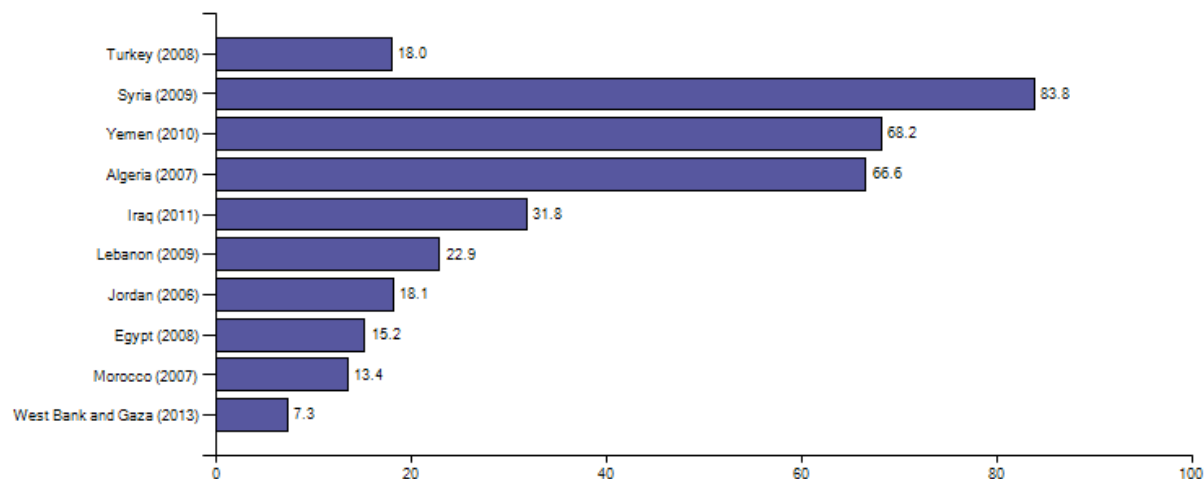
Appointments in the Public Administration:
group/network affiliations vis-à-vis merit



Source: An-Nahar Newspaper, January 2010

Multiple Countries

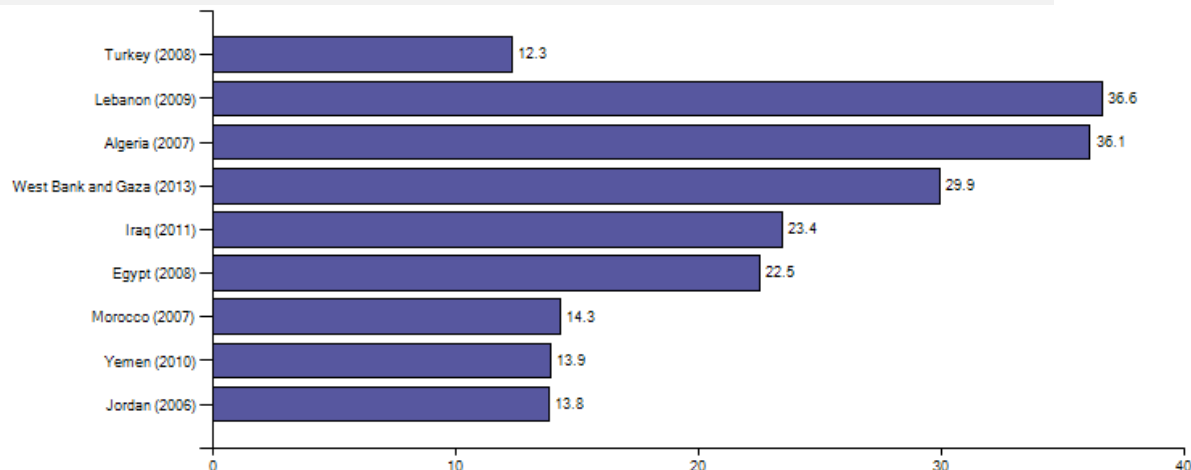
% of firms paying bribes to public officials



Source: Enterprise Surveys (www.enterprisesurveys.org), The World Bank

Multiple Countries

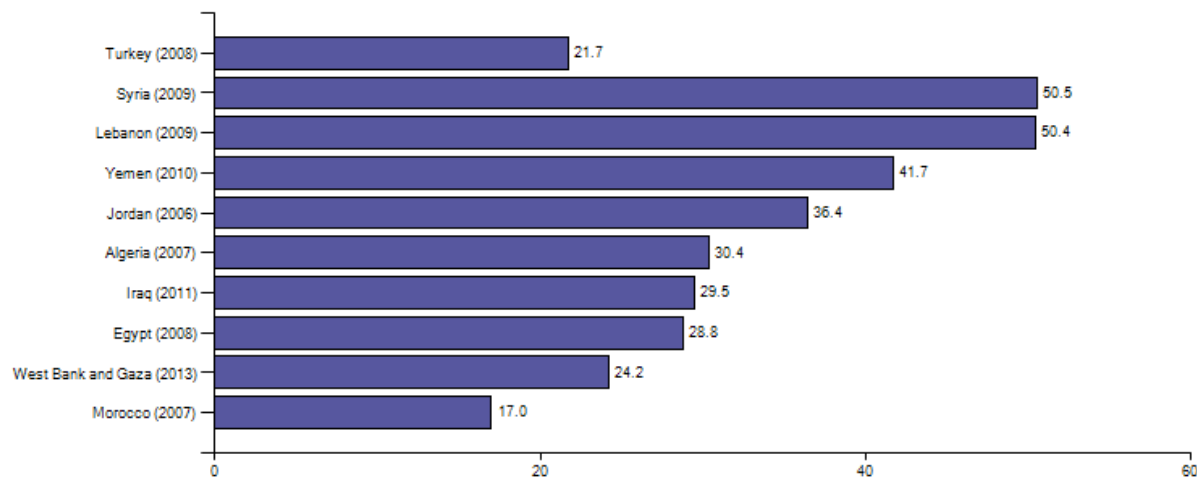
Customs and trade regulations as a major constraint



Source: Enterprise Surveys (www.enterprisesurveys.org), The World Bank



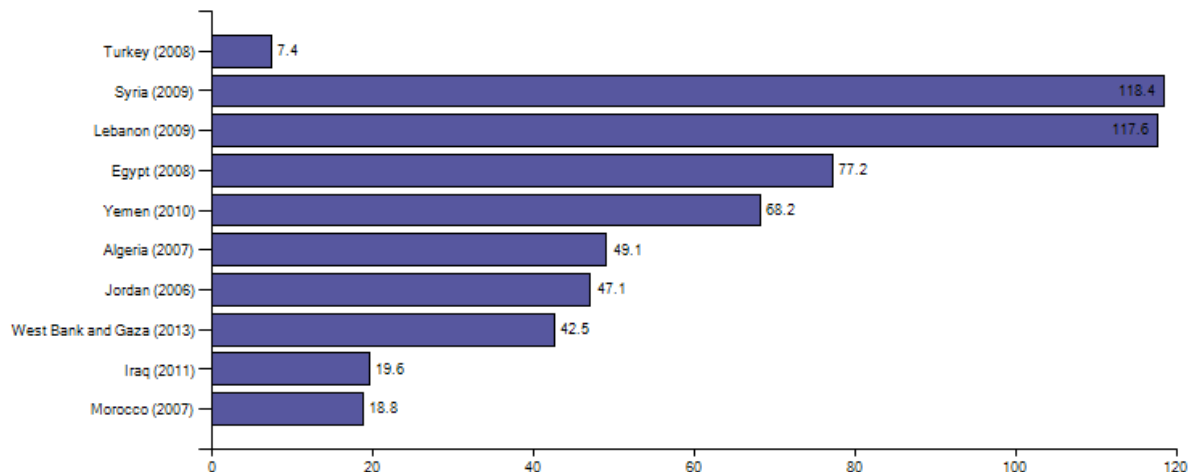
Tax admin as a major constraint



Source: Enterprise Surveys (www.enterprisesurveys.org), The World Bank

Multiple Countries

Days to get electricity connection



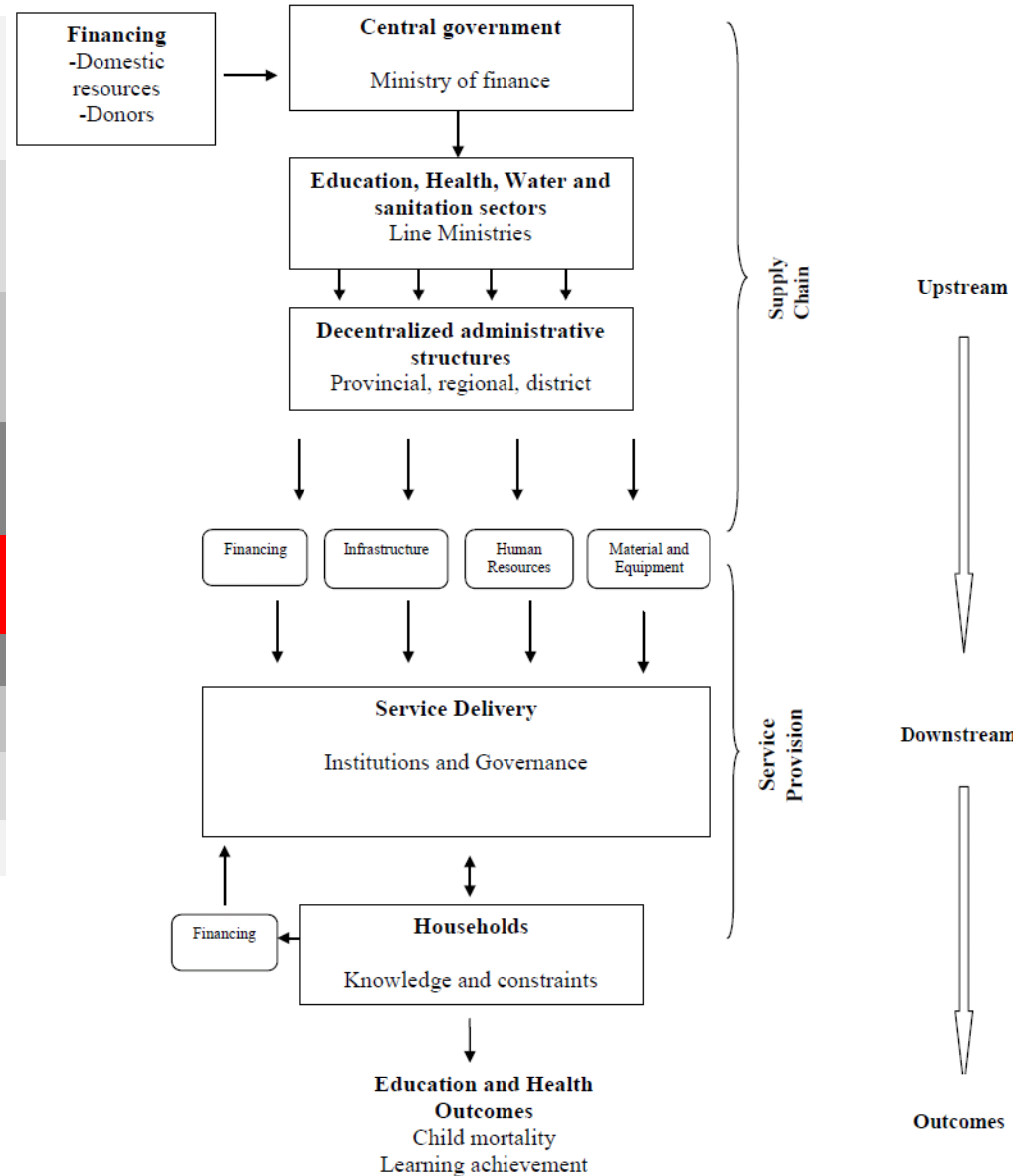
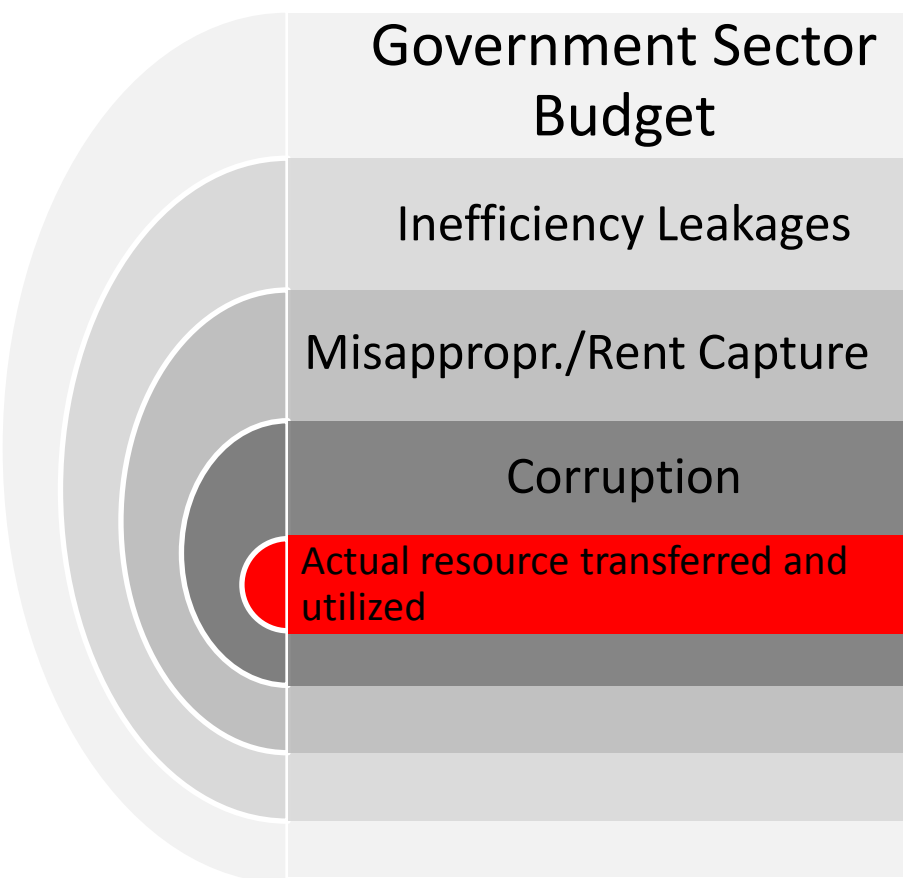
Source: Enterprise Surveys (www.enterprisesurveys.org), The World Bank

Impact of Governance on Fiscal Procyclicality

	Low to middle income						Upper-middle income		High income
$\Delta \log(Y)$	0.96*** (0.24)	0.94*** (0.19)	0.70*** (0.18)	0.82*** (0.20)	0.55** (0.23)	0.63** (0.25)	1.71 (2.77)	3.41 (2.64)	4.74** (2.15)
dltot	0.15*** (0.05)	0.13*** (0.05)	0.13*** (0.05)	0.10** (0.04)	0.14*** (0.05)	0.15*** (0.05)	-0.41* (0.24)	-0.12 (0.14)	-1.40** (0.67)
L.dltotexp	-0.20*** (0.05)	-0.21*** (0.04)	-0.22*** (0.04)	-0.18*** (0.05)	-0.24*** (0.05)	-0.24*** (0.06)	-0.37 (1.30)	0.36 (0.26)	-0.84* (0.47)
oilrevshare	0.56*** (0.08)	0.53*** (0.07)	0.54*** (0.05)	0.43*** (0.07)	0.39*** (0.08)	0.36*** (0.09)	0.09 (2.18)	-0.62 (1.46)	8.40** (3.79)
bureaucracy quality	-0.93*** (0.18)								
composite index							0.08** (0.04)		
corruption									
law and order		0.37*** (0.11)							
risk for international liquidity			-0.13*** (0.05)					-0.58* (0.34)	-0.65*** (0.21)
democracy				0.08*** (0.02)					
constraints on executives					-0.02*** (0.00)				
political competition						-0.02** (0.01)			
Observations	186	186	186	191	191	191	80	80	111
Number of id	13	13	13	14	14	14	6	6	7
AR(1) test-p	0.120	0.158	0.238	0.143	0.176	0.252	0.0545	0.291	0.442
AR(2) test-p	0.139	0.0551	1.48e-07	0.0410	0.0253	0.00352	0.457	0.446	0.411
Hansen test-p	1.000	1.000	1	1.000	1.000	1.000	1	1	1
Standard errors in parentheses									
*** p<0.01, ** p<0.05, * p<0.1									

Erbil, 2011.

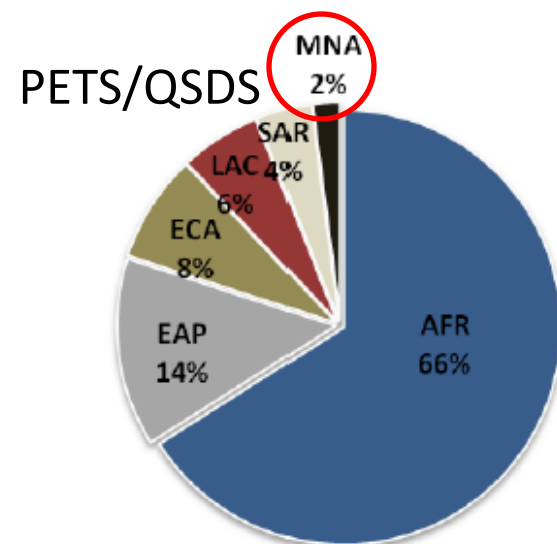
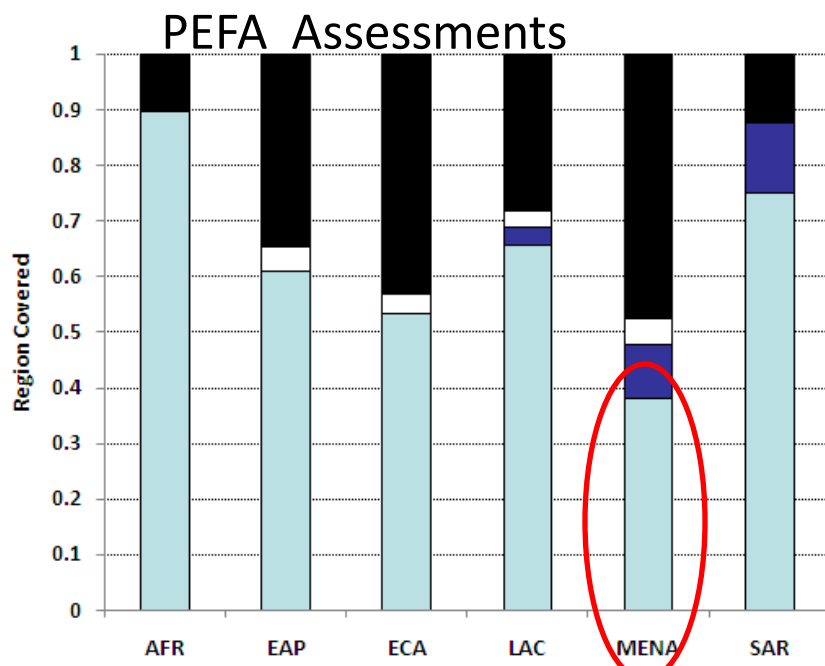
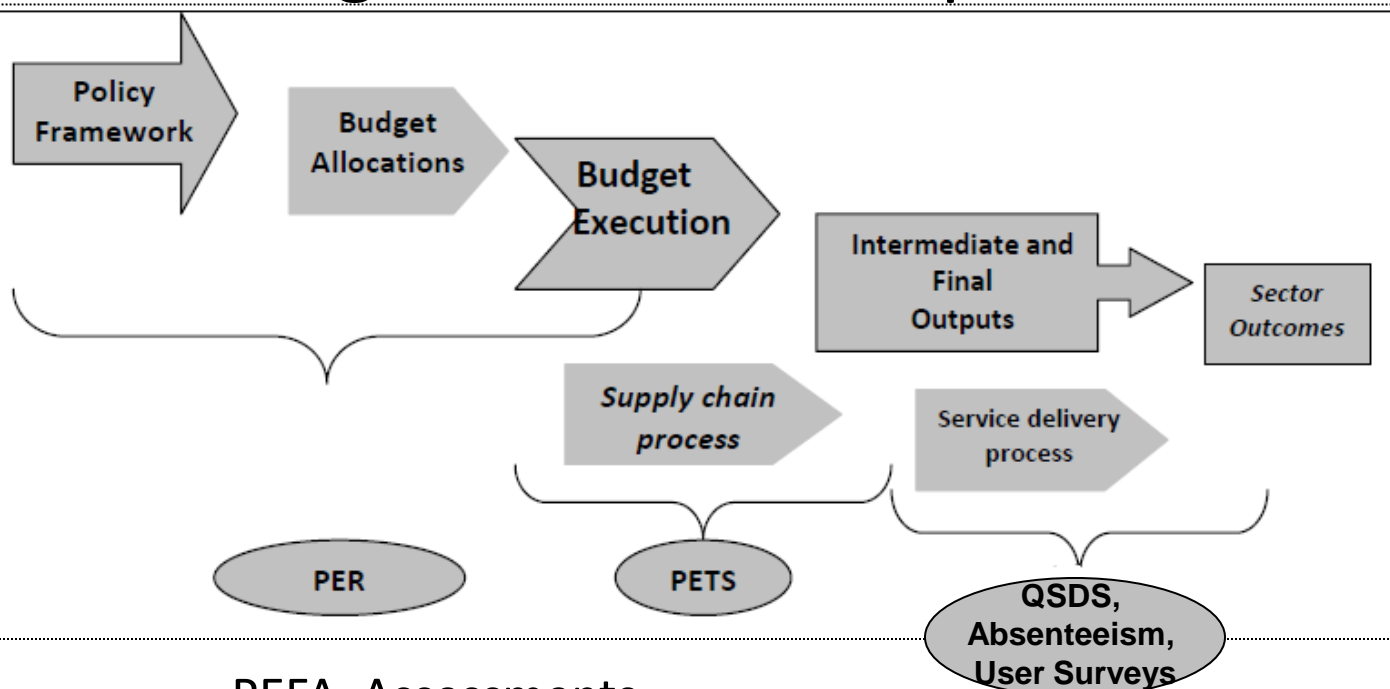
The Governance of Resource Allocation



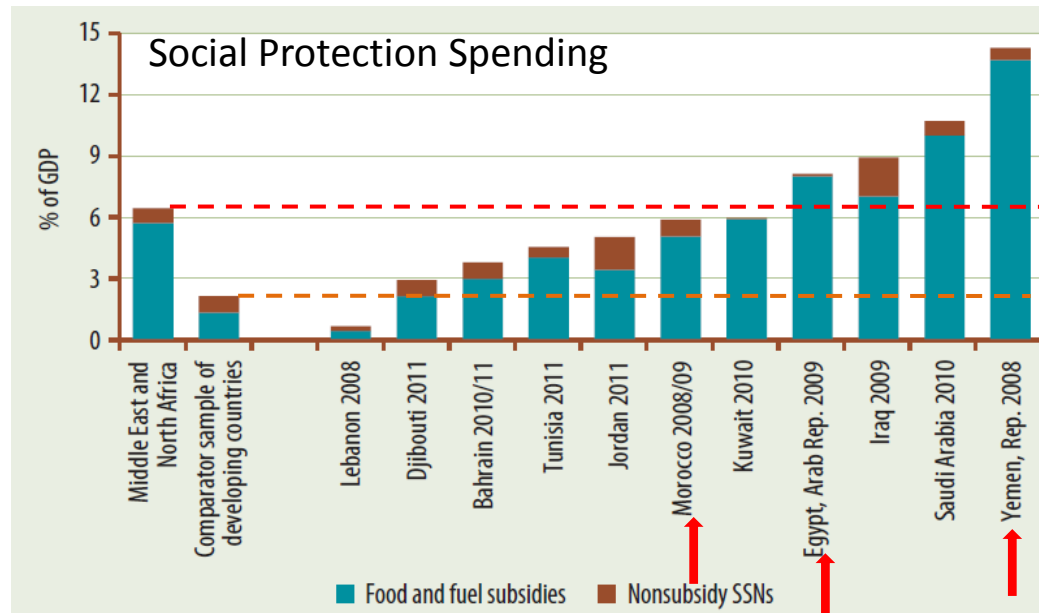
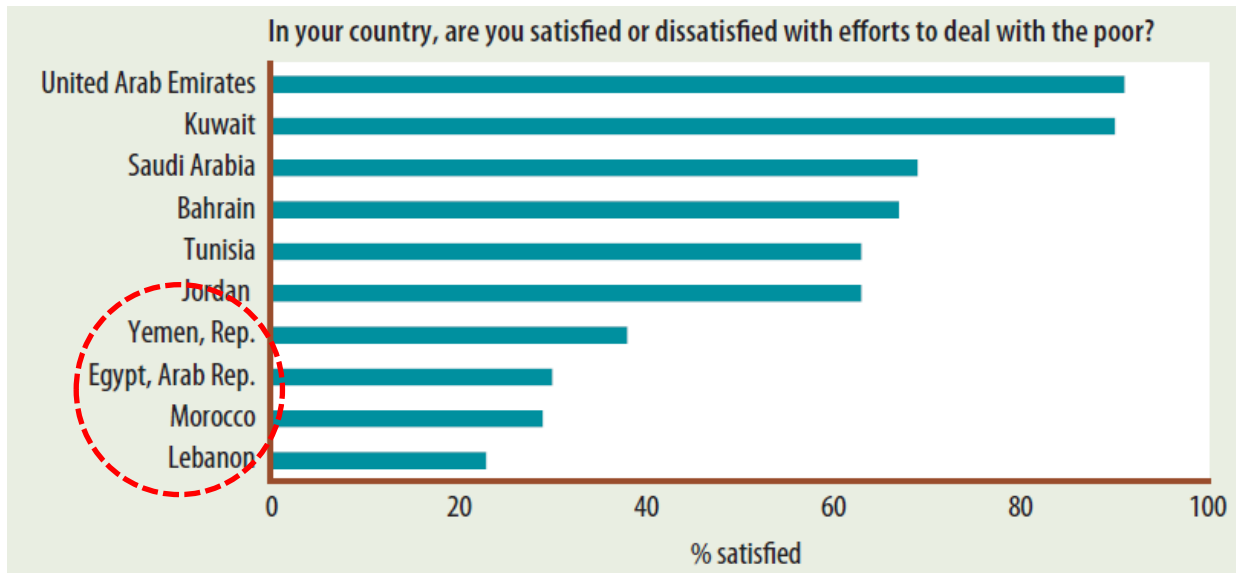
PFM, Public Services and Inequality

- Overall resource leakages in surveyed developing countries are usually in the range of 30-80%. This adds to delays in resource transfers (that can reach even one year) and to 20-40% of absenteeism of health care providers (32% in a study in Egypt) and 10-30% of teachers!
- Leakages and delays in resource transfers tend to penalize rural and remote areas. Bad quality services are regressive (disproportionally affect the poor and the marginalized groups because they rely on them the most)!

The Diagnostics of the Expenditure Side...



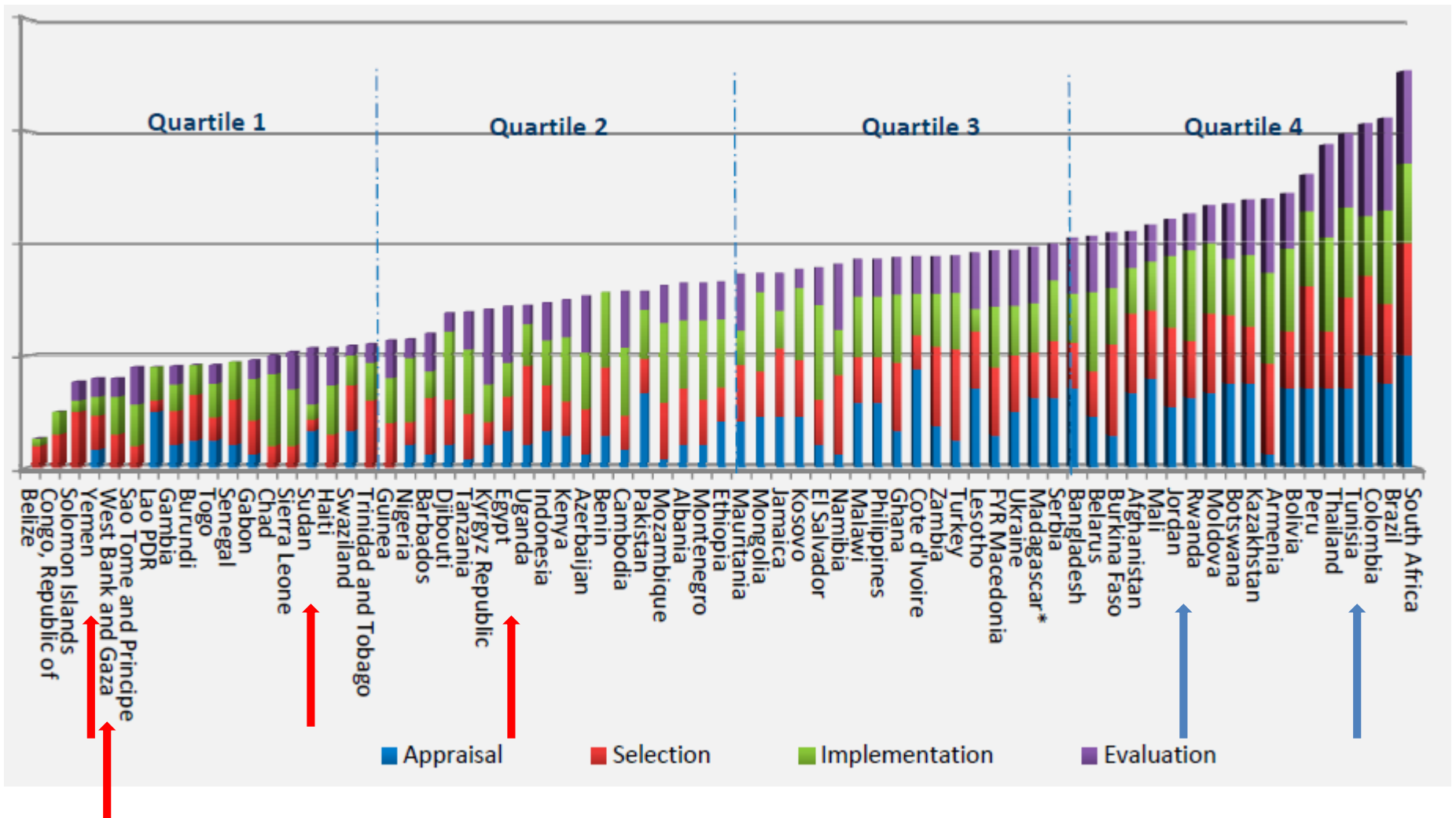
...Mixed and Costly Performance: Social Protection



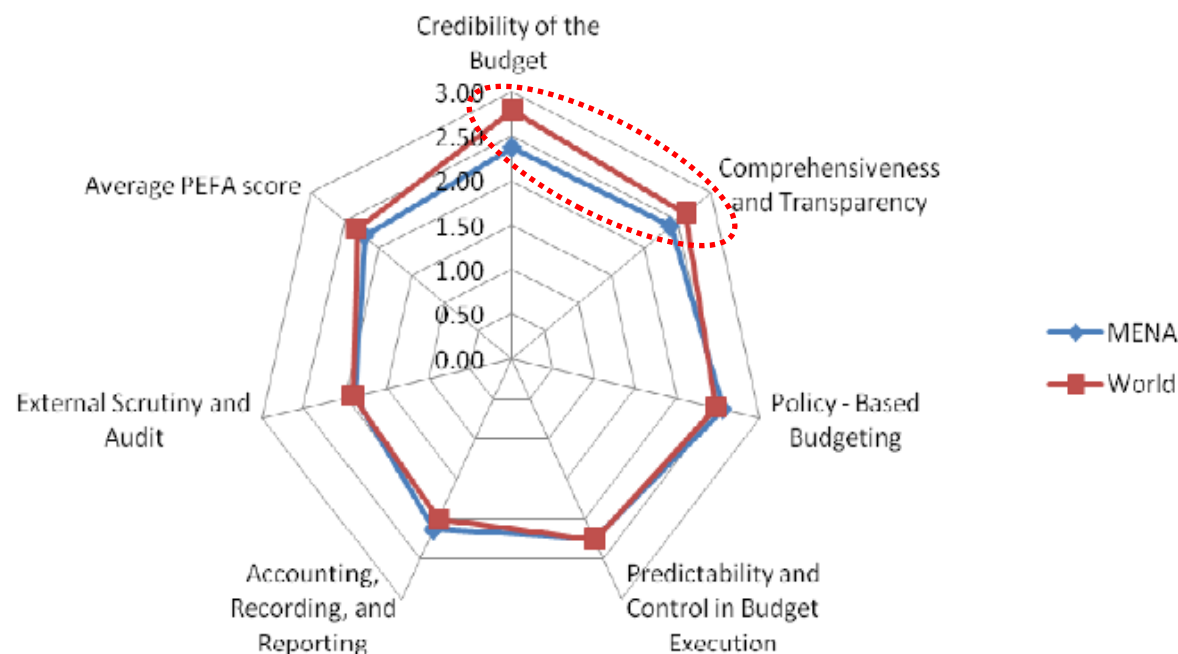
Source: Gallup and World Bank, 2012

Efficiency of Investment

Public Investment Mgmt Index



PEFA and PFM Reforms in the Region



Outcomes of Reforms by Country

	Partial Success	Partial Failure
Procurement	Jordan Morocco	Tunisia Yemen
Tax	Egypt	
Civil Service		Morocco Yemen Lebanon Jordan
Business Registr.	Egypt	
Customs		Lebanon

Source: review of various project documents

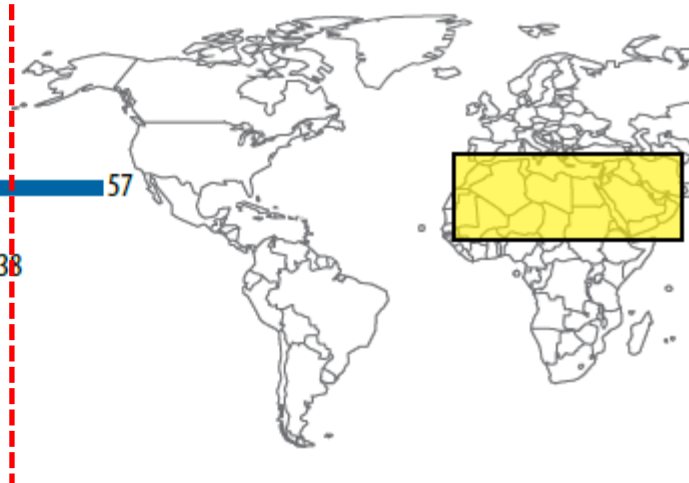
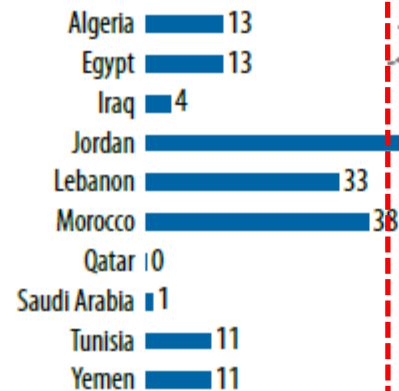
Outcomes of Reforms in MENA by Main Area

Successful PFM Reforms	Mixed	Challenging PFM Reforms
<ul style="list-style-type: none"> Improving budget classification Improving budget transparency Reforms in tax and customs <p>Source: World Bank, 2010</p>	<ul style="list-style-type: none"> Enhance macro-fiscal capacity Budget integration Streamlining ex-ante control processes Commitment control Payroll management Treasury operations Reform of accounting systems Internal and external audit 	<ul style="list-style-type: none"> Medium term sector strategies Improving budget scope and coverage Introducing performance into the budget Procurement reforms Large information technology projects

MENA Regional PEFA scores		Iraq	Jordan	Morocco	Sudan	Syria	Tunisia	Palestine	Yemen
Credibility of the Budget	Aggregate expenditure out-turn compared to original approved budget	0	1	1	0.34	0.34	0.68	0.68	0
	Composition of expenditure out-turn compared to original approved budget	0.34	0	0.34	0.34	0	0.34	0.34	0.34
	Aggregate revenue out-turn compared to original approved budget	1	1	1	0.68	0.68	1	0.68	1
	Stock and monitoring of expenditure payment arrears	0	0	0.51	0.17	N/A	1	0.17	N/A
Comprehensiveness and Transparency	Classification of the budget	0.34	1	1	0.34	0	0.34	0	0.34
	Comprehensiveness of information included in budget documentation	0	1	0.68	0.34	0	1	0.68	1
	Extent of unreported government operations	0.17	0.68	0.51	N/A	0.34	1	0.51	0.85
	Transparency of Inter-Governmental Fiscal Relations	0	0.85	0.34	0	0.51	0.68	0.17	1
	Oversight of aggregate fiscal risk from other public sector entities	0	0.85	0.68	0.17	0.34	0.85	0.17	1
	Public Access to key fiscal information	0	0.68	1	0.34	0	0.68	0.34	0.34
Policy-based Budgeting	Orderliness and participation in the annual budget process	0.34	0.85	1	0.68	0.85	0.68	0.51	1
	Multi-year perspective in fiscal planning, expenditure policy and budgeting	0.17	0.85	0.51	0.17	0.17	0.51	0	0.51
Predictability and Control in Budget Execution	Transparency of taxpayer obligations and liabilities	0.68	0.68	1	0.34	N/A	0.68	N/A	0.68
	Effectiveness of measures for taxpayer registration and tax assessment	0.34	0.51	0.85	0.17	N/A	0.85	N/A	0.68
	Effectiveness in collection of tax payments	0.17	0.68	0.85	N/A	N/A	1	N/A	0.17
	Predictability in the availability of funds for commitment of expenditures	0.51	1	0.51	0.17	0.17	0.51	0.17	0.17
	Recording and management of cash balances, debt and guarantees	0.34	0.85	1	0.17	0.51	1	0.34	0.85
	Effectiveness of payroll controls	0.17	0.68	0.85	0.17	0.17	0.85	0.51	0.17
	Competition, value for money and controls in procurement	0.17	0.68	0.68	0	0	0.68	N/A	0.17
	Effectiveness of internal controls for non-salary expenditure	0.17	0.68	0.51	0.17	0.85	1	0.17	0.17
	Effectiveness of internal audit	0.17	0.34	0.51	0.17	0.51	0.68	0.34	0.17
Accountability, Recording, & Reporting	Timeliness and regularity of accounts reconciliation	0.51	0.85	1	0.51	0.68	0.85	0.34	0.68
	Availability of information on resources received by service delivery units	0	0	0.68	0	0.34	0.68	0	0.68
	Quality and timeliness of in-year budget reports	0.17	0.34	0.85	0.17	0.17	0.85	0.68	0.17
	Quality and timeliness of annual financial statements	0.17	0.34	0.17	0.17	0.34	0.51	0.17	0.51
External Scrutiny & Audit	Scope, nature and follow-up of external audit	N/A	0.34	0.17	0.85	0.51	0.17	0	0.85
	Legislative scrutiny of the annual budget law	0	1	0.85	0.17	0.51	1	0.51	0.51
	Legislative scrutiny of external audit reports	0	0.34	0.17	0.68	0.17	0.34	0	0.17
Donor Practices	Predictability of Direct Budget Support	0	0.34	N/A	N/A	N/A	0.17	0	N/A
	Financial information provided by donors for budgeting	0	0	0.17	0	N/A	0.68	0.34	N/A
	Proportion of aid that is managed by use of national procedures	0	0	0.68	N/A	N/A	0.34	0.34	N/A
Average		0.20	0.59	0.67	0.28	0.34	0.70	0.30	0.53

OBI

OPEN BUDGET INDEX SCORE — OUT OF 100 —	
81-100	Extensive
61-80	Substantial
41-60	Some
21-40	Minimal
0-20	Scant or None



Country	Legislative Strength	SAI Strength	Public Engagement
Algeria	Weak	Moderate	Weak
Egypt	Moderate	Moderate	Weak
Iraq	Moderate	Strong	Weak
Jordan	Moderate	Weak	Weak
Lebanon	Moderate	Moderate	Weak
Morocco	Weak	Weak	Weak
Saudi Arabia	Weak	Moderate	Weak
Yemen	Weak	Strong	Weak
Qatar	Weak	Weak	Weak
Tunisia	Weak	Weak	Weak

Strong: average score above 66 of 100; **Moderate:** average score between 34 and 66; **Weak:** average score below 34

Source: OBI, 2012.

Public and Private Sector Governance Deficits

MENA Regional PEFA scores		Iraq	Jordan	Morocco	Sudan	Syria	Tunisia	Palestine	Yemen
PEFA Average		0.20	0.59	0.67	0.28	0.34	0.70	0.30	0.53
Governance Pillar Indicators	Competitive Environment	-0.7	0.9	0.2	-0.7	-1.3	-0.1	N/A	-1.3
	Investment and Business Climate	-0.4	0.2	0.6	-1.0	-0.3	-0.1	N/A	-0.6
	Red Tape and Regulations	-0.5	0.1	0.4	-0.5	-0.6	0.6	-0.2	-0.1
Average		-0.53	0.40	0.43	-0.73	-0.75	0.13	-0.18	-0.66

Av corr MENA

0.745

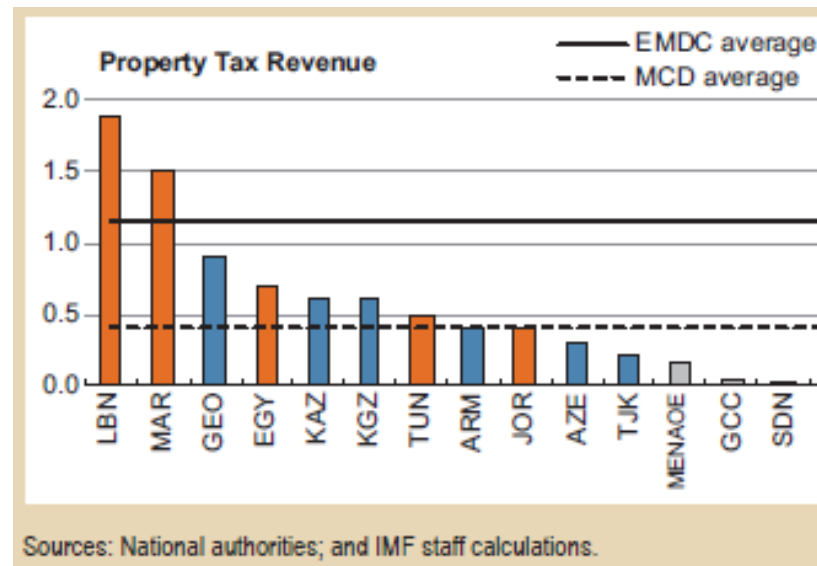
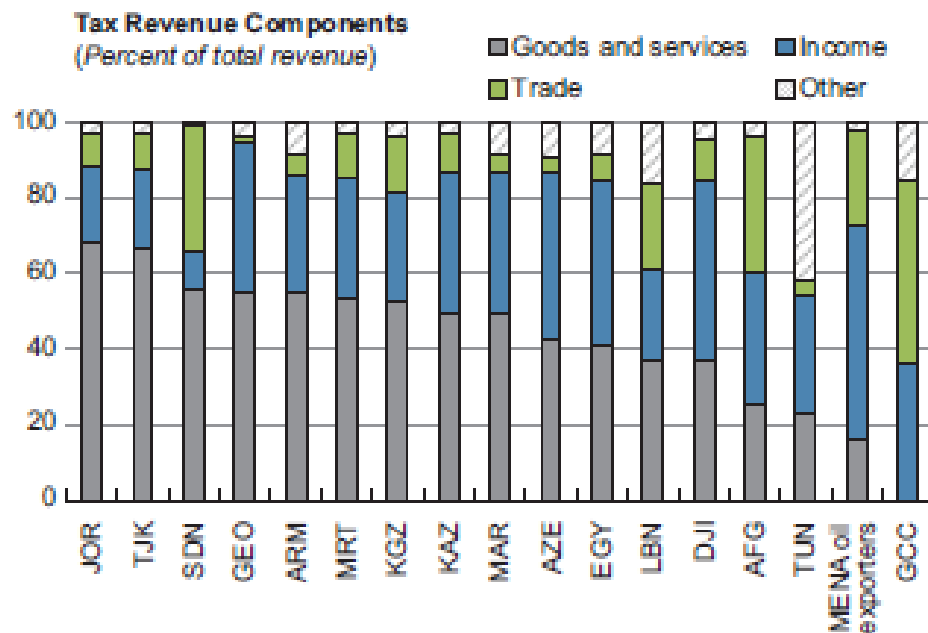
Av corr world

0.2

Institutional Quality and Tax Revenue

Dependent Variable: Tax Revenue in % of GDP			
	(1)	(2)	(3)
	1994-2009		
Constant	22.891 (26.96)***	14.423 (13.235)**	11.133 (9.218)***
GDP per capita (constant)	1.11 (5.126)***	0.503 (2.103)**	0.002 (0.008)
Population Growth	-0.883 (-4.283)**	-0.672 (-3.044)**	-0.854 (-3.896)***
Trade openness (% of GDP)	0.036 (8.099)***	0.024 (5.242)***	0.025 (5.609)***
Agriculture value added (% of GDP)	-0.243 (-11.855)*	-0.154 (-7.13)***	-0.067 (-2.794)***
CORRUPTION INDEX		-0.824 (-6.739)***	
BUREAUCRACY INDEX			-1.273 (-9.056)**
OBS	1322	1125	1125
Adjusted R2	0.58	0.65	0.66

The Revenue Side...



Note: MCD refers to countries of the Middle East and Central Asia Department; EMDC is Emerging Markets and Developing Countries; MENAOE is MENA oil exporters. Source: IMF, 2013.

...

	<u>Tax Effort</u>		<u>Tax Effort</u>		<u>Tax Effort</u>		<u>Tax Effort</u>
Papua New Guinea	1.66	Bolivia	1.13	Ukraine	0.96	Russia	0.81
Namibia	1.54	Norway	1.13	Moldova	0.96	Bangladesh	0.80
Jamaica	1.50	Slovenia	1.13	Senegal	0.96	Latvia	0.80
Morocco →	1.44	Hungary	1.12	Peru	0.95	Colombia	0.78
South Africa	1.43	UK	1.10	Egypt →	0.95	United States	0.77
New Zealand	1.42	Netherlands	1.10	Argentina	0.95	Canada	0.76
Malta	1.40	Zambia	1.09	Luxembourg	0.94	Armenia	0.76
Cyprus	1.40	Austria	1.09	Jordan →	0.93	Mexico	0.75
Trinidad and Tob.	1.36	Honduras	1.07	Botswana	0.93	Turkey	0.74
Togo	1.36	Sri Lanka	1.06	Philippines	0.91	Guatemala	0.74
Zimbabwe	1.36	Finland	1.05	Paraguay	0.91	Albania	0.74
Tunisia →	1.36	Belarus	1.04	Indonesia	0.90	Sudan →	0.74
Costa Rica	1.35	Syria →	1.03	Iceland	0.90	Bahamas	0.74
Uruguay	1.35	Portugal	1.03	Dominican Repu	0.90	Cameroon	0.70
Mongolia	1.35	Cote d'Ivoire	1.02	Spain	0.90	Guinea	0.68
Vietnam	1.31	Poland	1.02	Korea, Rep.	0.89	Azerbaijan	0.67
Ghana	1.30	Chile	1.00	Slovak Rep.	0.89	Madagascar	0.66
Kenya	1.29	Sierra Leone	1.00	Estonia	0.89	Yemen, Rep. →	0.61
France	1.29	Denmark	0.99	El Salvador	0.89	Switzerland	0.56
Brazil	1.26	Burkina Faso	0.99	India	0.88	Congo, DRC	0.55
Italy	1.25	Sweden	0.98	Uganda	0.88	China	0.48
Belgium	1.24	Czech Rep.	0.98	Lithuania	0.88	Japan	0.47
Croatia	1.18	Ethiopia	0.98	Germany	0.87	Congo, Rep.	0.46
Pakistan	1.17	Bulgaria	0.98	Lebanon →	0.86	Kazakhstan	0.45
Mali	1.16	Ireland	0.97	Panama	0.84	Oman →	0.35
Australia	1.14	Nicaragua	0.97	Romania	0.84	Bahrain →	0.16
Greece	1.14	Thailand	0.97	Malaysia	0.82		

Source: IMF, 2011.

Note: See Table A7 in annex for details. Tax effort is the ratio of actual tax revenues in percentage of GDP to predicted tax revenues in percentage of GDP (taxable capacity).

Some guiding questions

- What can we learn from the Arabosai experience?
- How can we replicate it to other crucial PFM areas? Which ones?
- Is there any role for ESCWA to support such initiatives?
- Given the limited resources, where should we focus on?