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The American University in Cairo

School of Global Affairs and Public Policy

**STATE BUDGET FORMULATION PROCESS AND GOOD GOVERNANCE
FRAMEWORK IN THE CONTEXT OF EGYPT**

A Thesis Submitted to the

Public Policy and Administration Department

in partial fulfillment of the requirements for the degree of

Master of Public Policy

By

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Supervised By

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Summer 2016

Table of Contents

	Page
List of Abbreviations	3
Acknowledgment	4
Abstract	5
Chapter One: Study Overview	
I. Introduction	6
II. Scope, Importance of the Study and Research Questions	10
Chapter Two: Conceptual Framework	
I. Budget Formulation Process	13
II. Budget Formulation and Good Governance	16
III. Legal and Political Contexts	23
Chapter Three: Literature Review	
I. Budgeting and Good Governance	27
II. Politics of the Budgeting Process	44
Chapter Four: Methodology	50
Chapter Five: Budget Formulation Process in Egypt	
I. Overview	55
II. State Budget Classification in Egypt	57
III. Actors Involved in the Budget Formulation Process and the Legal Framework	60
IV. Strategic Objectives of the State Budget In Egypt	64
V. Formal Steps of Budget Formulation Process In Egypt	66
Chapter Six: Analysis of Budget Formulation Process in Egypt	
I. Participation in Budget Formulation Process	71
II. Accountability in Budget Formulation Process	80
III. Transparency in Budget Formulation Process	88
IV. Effectiveness in Budget Formulation Process	93
Chapter Seven: Conclusion and Recommendations	
I. Conclusion	105
II. Recommendations	109
References	112
Annex	123

List of Abbreviations

BPC	Budget and Planning Committee
BHRO	Budgetary and Human Rights Observatory
CAO	Central Auditing Organization
CAOA	Central Agency for Organization and Administration
CB	Central Bank
CSOs	Civil Society Organizations
FY	Financial Year
GDP	Gross Domestic Product
GNP	Gross National Product
IBP	International Budget Partnership
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
MoE	Ministry of Education
MoF	Ministry of Finance
MoI	Ministry of Information
MoPMAR	Ministry of Planning, Monitoring and Administrative Reform
MoSS	Ministry of Social Solidarity
MoT	Ministry of Transport
MTEF	Medium Term Expenditure Framework
OBS	Open Budget Survey
OECD	Organization for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
SDS 2030	Sustainable Development Strategy 2030
TAIs	Transparency and Accountability Initiatives
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

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"قم للمعلم وفه التبجيلا ... كاد المعلم أن يكون رسولا"

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"من روضة الفكر تهب نسائم محملة بالعطير، وفي الغصن القريب زهر، لكن لا يكفي أن يكون ثارا لمن علمني"

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Abstract

Budget formulation process is the phase where the decisions are made regarding the allocation of resources. This process should reflect the objectives of the government, which consequently should mirror the priorities of citizens. Post January 2011 Revolution, Egypt witnessed economic, social and political challenges that affected the overall government performance. Due to the intrinsic role of the State budget at political, social and economic levels, specific attention was directed to its efficiency and effectiveness. Consequently, it is normal to question its ability to achieve the stated objectives, especially with the increasing demands of transparency, accountability and social justice. This attention paves the way for introducing reform initiatives for public financial management system in Egypt. Therefore, as a step to understand the foundation of the State budget process in Egypt, this research assesses the budget formulation process in Egypt within the framework of good governance in both the executive and legislative authorities against international standards. Also this research examines the significant factors affecting the process and the extent to which the legal and political contexts in Egypt help improve budget formulation process. Hence, this study provides a roadmap for the government, containing the prerequisites for enhancing budget formulation process in Egypt. In light of these prerequisites, the government should focus on the institutional aspects that include; moving to program-based budget, adopting fiscal decentralization, merging preparation of the recurrent and investment budget under one authority and applying monitoring and evaluation system. Nevertheless, concentrating on the institutional aspects should be inline with other legal and political ones.

Chapter One:

Study Overview

I. Introduction

Any private or public institution has to formulate its budget to adequately manage its resources and activities, with the target of achieving its intended goals. While the objective of the private sector is to allocate resources to maximize its profit, the goal of public sector is to ameliorate the welfare of the citizens. In other words, government works to allocate the recourses to meet citizens' needs (Veiga and Reza, 2015). Public budget should be a result of a planning process in which the identified priorities reflect the power of different actors involved, explicitly or implicitly, in the process. In other words, budget could be considered as a political instrument.

However, it is indispensable to perceive budget from the lens of political, economic, social and legal nature. This supports the identification of the characteristics of the decision-making process and the role of different political actors involved in budgeting process. During this process, degrees of conflict and trade-offs occur between different formal and informal actors to determine the allocation of resources.

Good governance and budgeting process are very much interlinked to each other. If some of the characteristics of the budgeting process are depicted in its effectiveness, efficiency, transparency and accountability. These mirror the good governance attributes, which affects the wellbeing of citizens. Theoretically, the allocation of resources should be for the benefit of citizens, not for serving other interests (Egbide and Agbude, 2012).

For promoting efficiency, effectiveness, transparency and accountability of the budgeting system, great attention was directed to Public Financial Management (PFM) to

enhance the quality of the outcomes of public service and also contribute to the governance of the public sector. PFM affects the way in which the government addresses its national and local priorities. Also it affects the performance of budget management and generates trust in the public sector as it stresses on the issues of transparency and accountability (ACCA, 2010). However, various countries adopted PFM reform initiatives to enhance their financial systems and specifically budgeting systems; including Middle Eastern countries such as, Iraq, Algeria, Jordan, Tunisia, Syria and Egypt (World Bank, 2012).

Budgeting process has four main phases, formulation; adoption; implementation; review and audit. Budget formulation is the process that witnesses the dynamics of decision-making and the trade-offs between different actors in order to allocate resources to achieve certain goals. During this process, many formal and informal actors are involved, hence, it is not only a technical process, but also a political one.

The formulation process is a complex process. It should have some attributes and characteristics to ensure the best allocation of resources. The formulation process should be attributed with good relationship between Ministry of Finance (MoF) and other government spending agencies, as well as Civil Society Organizations (CSOs). The information regarding the allocation of resources should be accessible, simple and comprehensive. Additionally, clear accountability mechanisms should exist to ensure the best allocation of resources. Moreover, the formulation system should be able to forecast for the coming years and provide clear information for decision makers. It should be harmonized with the overall goals and objectives of the country, as it should reflect the voices of those who participated in setting the priorities that reflect citizens' needs.

In many developing countries, the plans are set with the realization of its superficiality. Most of developing countries lack the resources, knowledge and power to formulate their budgets, therefore, their plans are always attributed with failures (Caiden & Wildavsky, 1974).

Egypt witnessed many attempts to reform its public financial management mechanisms. Different international agencies tried to support Egypt by transmitting the international practices and experiences in which the whole system could be enhanced. According to the World Bank (2012), notwithstanding the different attempts of public financial management system reform, the lack of clear overall strategy to reform was present. The World Bank also stressed on the fact that resources were directed to such reform initiative from various international organizations such as, European Commission, International Monetary Fund (IMF) and United States Agency for International Development (USAID).

Egypt has different actors involved in the budget formulation process. The MoF determine the macroeconomic assumptions and the expected government revenues and expenditures (IBP and BHRO, 2015). Ministry of Planning and Monitoring and Administrative Reform (MoPMAR) is responsible for preparing the investment chapter. Each ministry prepares its budget based on the guidelines included in the circular issued by the MoF. After completing the negotiations and combination process among the ministries and agencies, the President submits the budget proposal to the Parliament for adoption.

After January 2011 Revolution, Egypt witnessed political instability. This situation led to decline in the value of the Egyptian pound, withdrawal of many foreign

businesses and corporations, decrease in revenues, especially in specific sectors (Roushdy and Sieverding, 2015). Moreover, the budget deficit increased from 10.6% of the GDP in the 2012 to reach 13.7% in the 2013 with decline in the 2014 to reach 12.8% of the GDP. Furthermore, the national debt to GDP increased from 83.2% in the 2012 to reach 93.8% and 95.5% in 2013 and 2014 respectively (MoF, 2015b).

As a result of the deteriorated economic and political stability, Egypt witnessed exacerbation in its rank in many global indices. For instance, Egypt's rank in Open Budget Survey (OBS), which measures the budget transparency, engagement and accountability around the world, in years 2006, 2008 and 2010, reached 19, 43, 49 respectively (IBP, 2010). In 2012, its rank was decreased to reach 13 (IBP, 2012). In 2015, Egypt's rank reached 19 and it was classified as insufficient with scant or non-budget transparency, engagement and accountability (IBP, 2015).

With the deteriorated economic and political status of the country, as well as the changes in peoples' behavior in terms of expressing their demands, the quality of public services is no longer accepted. Therefore, public demands were increased to enhance the quality of public services and putting more responsibilities on the government to respond to those demands by applying real reforms in various sectors.

After 25th January 2011 Revolution, considerable attention was directed to the efficiency and effectiveness of the State budget and whether it achieves its intended objectives or not, as it plays an intrinsic role in political, social, economic and even security levels. Additionally, demands increased for more transparency in the spending patterns, budgeting process and for clear mechanisms to hold the government accountable (BHRO, 2014).

Moreover, people aspirations were manifested in translating their demands into actual programs within the frame of the State budget that guarantees a better allocation of resources. However, it seems that the echo of these aspirations did not find its way to those who are responsible for budget formulation in the country (BHRO, 2014).

Budget formulation process in Egypt is perceived as a “*taboo*” which no one can penetrate. According to Rudolf Goldsheld, who said, “budget is the skeleton of the State stripped of all misleading ideologies” (cited in Soliman, 2011), which stresses on the fact that investigating the budget formulation process is a key element to reforming different sectors such as, education and health. Therefore, the main purpose of this research is to study the dynamics of budget formulation process in Egypt with specific focus on the key actors - the executive and the legislative authorities - involved in the process.

II. Scope, Importance of the Study and Research Questions

a. Scope of the study

The scope of this research encompasses:

- Assessment of the budget formulation process within the framework of good governance in both the executive and legislative authorities against the international standards.
- Investigate the affect of political and legal context after January 2011 Revolution.

Based on the analysis the research indicates the extent to which the formulation system is in consistence with specific good governance principles, taking into account other political and legal factors, and attempts to draw a map in order to enhance the existing practices of the process.

b. Importance of the study

While budget is one of the most sensitive issues in Egypt, there is a dearth of research on the Egyptian budget, especially formulation phase. Since the budget formulation is the phase in which decisions are made regarding the allocation of resources and is considered as the nerve of the budgeting process as whole, studying such phase is imperative. This study gives an understanding on how the resources are allocated to reflect the plans and policies of the government, the different formal and informal roles of the actors involved in the process and the political and legal contexts in which such process takes place.

Therefore, the contribution of this research is depicted in filling the gap of literature regarding studying the formulation process within the context of Egypt.

Focusing on the formulation process helps the researcher to underline how this important process is performed and to provide a breakdown to propose recommendations or prerequisites for enhancing the budget formulation process in Egypt. Accordingly, these proposed policy recommendations bear significant influence on governmental sectors or agency, and its decision-making.

c. Research Questions

This research aims at tackling the budget formulation process in Egypt by answering the following questions:

1. To what extent are the existing Egyptian practices in budget formulation consistent with good governance framework?
2. What are the significant factors that affect the budget formulation within the executive authority and in the Parliament?

3. To what extent do the political and legal contexts in Egypt after January 2011 Revolution improve budget formulation reform?
4. What are the prerequisites for enhancing the budget formulation process in Egypt?

Chapter Two:

Conceptual Framework

This chapter provides the conceptual framework adopted in this research. The conceptual framework presents the base of the study to examine the budget formulation process in Egypt.

The **conceptual framework** of this research is threefold. The first part concentrates on the budget formulation process. The second is concerned with the budget within the framework of good governance. The third part focuses on the political and legal contexts of the budget formulation in Egypt. The following part provides how each element of the conceptual framework is operationalized.

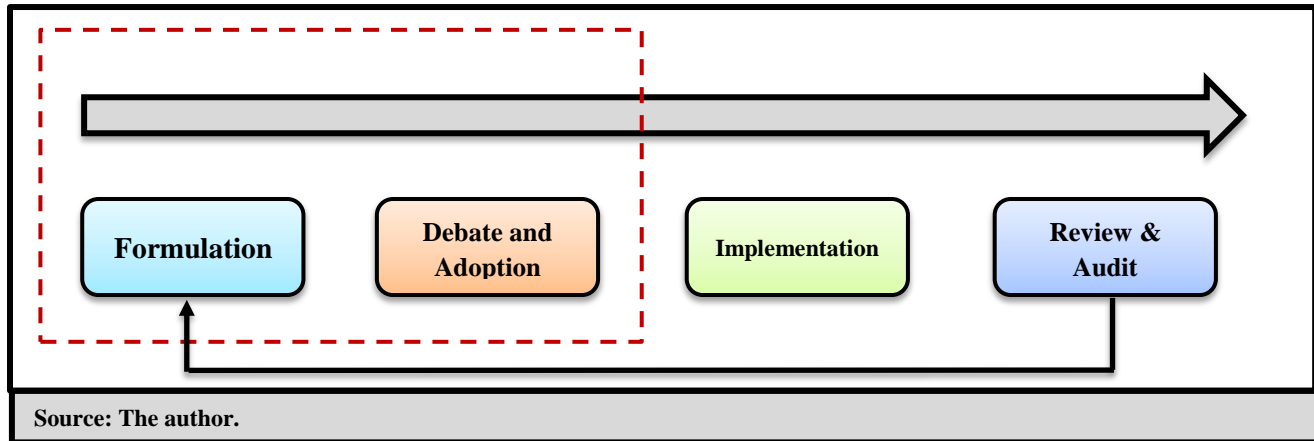
I. Budget Formulation Process

Before introducing the concepts, which will portray the output of this research, it is essential to know what public budget means. In their definition of the budget, International Budget Partnership (IBP) and Budgetary and Human Rights Observatory (BHRO) (2015) argue that budget:

Expresses the objectives and aspirations of the government in power. In a democratic society, these objectives and aspirations should, at least in theory, reflect those of the majority of the electorate. Government really has no money of its own. In the budget - in outlining its plans for spending money - it is explaining how it is going to spend money that belongs to the public. In a democratic society, citizens give the government a mandate via their votes. Politicians are obliged to translate that mandate into policies and plans that are, in part, reflected in the budget (p. 2).

In other words, budget should be a result of a planning process in which the identified priorities reflect the power of different actors involved in the process. In that sense, budget could be considered as a political instrument.

Figure 1: Budget Cycle



The budget cycle includes four phases illustrated in Figure (1). The **first** is the formulation phase, sometimes referred to as the preparation and submission phase. In this phase the executive authority is mostly responsible for the preparations of budget proposals in order to be submitted to the legislature for adoption. This phase witnesses flow of information regarding the spending agencies requests and forecasts of the resources available. Additionally, during this phase, decisions are made to meet public priorities and needs. The formulation process has both technical and political dimensions (Veiga et al., 2015). The **second** phase is the debate and adoption. In this phase the role of the legislature to debate on the submitted budget is presented. In this process the legislature reviews the budget and makes amendments on it. The adoption of the proposed budget is affected by power relations between the executive and legislative authorities. This phase ends with issuing the budget law (Santiso, 2005a).

The **third** phase in the budget cycle is the implementation or execution phase. After issuing the budget law, the executive authority takes the responsibility of implementing the budget as approved by the legislature. The executive authority is responsible for the expenditures and collecting revenues. During this phase, a degree of control is presented to assure the effective implementation of the existing rules and procedures (Veiga et al., 2015). The **fourth** and final phase is the review and audit phase. In this phase the legislature is responsible for holding the government accountable for its acts in implementing the budget and the extent to which the government abides, during the implementation phase, with the budget rules and procedures identified in the budget law (Santiso, 2005a).

Both the first and second phases are imparative and considered as the cornerstone of the overall process. The planning and decsion-making process regarding the allocation of resources are manifested in these two phases. Hence, power relations dynamics are highly presented in budget formulation and debate phases.

This research perceives the **budget formulation process** as the process in which the decisions are made regarding the allocation of resources, as well as the debate between both the executive and legislative authorities pertaining to the rationale behind the allocation of resources in order to achieve the country's objectives and meet the citizens' needs and priorities. Hence, budget formulation process is not only a technical process, but a political one as well. Budget formulation process should be attributed with participation, accountability and transparency to be effective for achieving the intended goals.

II. Budget Formulation and Good Governance

The issue of governance and good governance is widely used and recently become one of the main concerns of governments around the world, as well as the international and regional organizations that are concerned with public sector. Governance focuses on the processes and institutions of the public sector that work to achieve the aspirations of citizens. In its argument on governance, the United Nations Development Programme (UNDP) defines it as:

The exercise of political, economic and administrative authority in the management of a country's affairs at all levels. Governance comprises the complex mechanisms, processes and institutions through which citizens and groups articulate their interests, mediate their differences and exercise their legal rights and obligations. (p. 5).

In this vein, governance has three main dimensions; political, economic and administrative. All three are concerned with the decision-making process. The political dimension of governance focuses on policy formulation process, while the economic dimension puts great attention towards the impact of economic activities of the country. The administrative dimension is concerned with policy implementation. To this sense, good governance incorporates the structures and systems to guide the relationship between the three dimensions (UNDP, 1997).

Presumably, there is a debate on attributes or principles for good governance, but there are core principles provided by most of international organizations. As presented in Table (1), in 1994, the World Bank specified some principles of good governance that are; public sector management, accountability, legal framework for development and

transparency and information. In 1998, the International Development Association agreed on some attributes for the good governance that are; accountability, transparency, the rule of law and participation. In 1995, the Asian Development Bank specified the elements of good governance as, accountability, participation, predictability and transparency. Moreover, the African Development Bank in 1999 focused on some attributes of good governance that are; accountability, transparency, combating corruption, participation and legal and judicial reforms. The UNDP in 1997, defined specific elements for good governance that are; participation, rule of law, transparency, responsiveness, consensus orientation, equity, effectiveness, accountability and strategic vision (IFAD, 1999).

Table 1: Good Governance Principles in Different International Organizations

Organization	Year	Good Governance Principles
World Bank	1994	• Public sector management – Accountability - Legal Framework for Development -Transparency of Information
International Development Association	1998	• Accountability – Transparency - Rule of law - Participation
Asian Development Bank	1995	• Accountability - Participation – Predictability - Transparency
African Development Bank	1999	• Accountability – Transparency - Combating corruption – Participation - Legal and judicial reform
United Nations Development Programme	1997	• Participation - Rule of law - Transparency – Responsiveness -Consensus orientation – Equity- Effectiveness -Accountability - Strategic vision

Source: Extracted from (IFAD, 1999)

Noticeably, most of development and international organizations have some shared elements of good governance namely; participation, transparency, accountability and the rule of law. This research revolves around the core principles of good governance that are; participation, transparency and accountability. This research focuses also, as stated in the second part of the conceptual framework, on the role of existing legal framework in budget formulation process. Those core elements or principles of good governance are chosen because the researcher believes that those are the basic elements

to achieve the others. For example, if there is transparency in information, clear accountability mechanisms and participation among different actors in the community, then government responsiveness and combating corruption will be enhanced, as well as equity among citizens will be achieved.

As the research focuses on the budget formulation phase, that is mainly concerned with the decision-making process regarding the allocation of resources, to achieve social and economic goals, it is important to focus on another important principle of good governance, namely; effectiveness. The principle of effectiveness cannot be overlooked or neglected, as it is imperative when it comes to budgetary process. It relates the inputs with the outputs, or more widely the outcomes, and the extent to which the existing system, structure and processes contribute to achieve the intended objectives.

Indisputably, good governance principles affect budget in all its phases; starting from the formulation to the audit and evaluation phase. Therefore, with relation to budget formulation process, this research focuses on four principles of good governance; the core principles; participation, accountability and transparency in addition to effectiveness. The following part provides the operational definitions of each principle with focus on the budget formulation process.

a. Participation in Budget Formulation

Participation is seen as one of the Good Governance principles that represent part of democratic features. The UNDP (1997) defines participation as the means in which “all men and women should have a voice in decision-making, either directly or through legitimate intermediate institutions that represent their interests. Such broad participation is built on freedom of association and speech, as well as capacities to participate

constructively (p. 14). Bass et.al. (1995) refer to two main forms of participation; horizontal and vertical. Horizontal participation implies the needed relationships among different sectors, ministries, and other actors to guarantee that priorities are met across these sectors. Demos (2004) refers to vertical participation as the form in which citizens “organize or reorganized by others - in order to defend their interests or to collaborate with the public authorities” (p. 24).

With regards to budgeting, Wampler (2000), perceives participatory budgeting as the involvement of citizens in the decision-making process by having the opportunity to allocate resources, identify priorities and monitor public spending. The objectives of participatory budgeting are to enhance active citizenship, ameliorate the allocation of resources process to achieve social justice and to open the door for public administrative reform.

The World Bank (2007) defines participatory budgeting as a “process through which citizens participate directly in the different phases of the budget formulation, decision-making, and monitoring of budget execution. Participatory budgeting can be instrumental in increasing public expenditure transparency and in improving budget targeting” (P. 34). However, with regards to budgeting, it is important to shed the light on the role of horizontal participation side by side with the vertical one. It should be noted that the level of participation at the local level is different from the national level. Participation at the local level is more intense by the participation of CSOs and citizens.

In the budget formulation process, this research perceives budget participation from the lens of the level of involvement of other ministries, departments and agencies in the formulation process and procedures and approaches followed, whether top-down or

bottom-up. Additionally, participation in the budget formulation process mirrors the extent to which Civil Society Organizations (CSOs) are involved.

b. Budget Formulation Accountability

Accountability is one of the most contested concepts. This might be due to its various typologies such as, hierarchal, legal, professional and political accountability. Therefore, before shaping accountability mechanisms, it is crucial to identify and clarify ‘accountable to whom and for what’, in order to enhance the social outcomes. Furthermore, accountability often reveals harmony and integration with other governance principles such as, transparency and participation (Lu and Xue, 2011). The UNDP defines accountability as “clear and effective lines of accountability, legal, financial, administrative, and political, to safeguard judicial integrity, and to ensure honest and efficient performance by civil servants in the delivery of public services to women and low-income groups” (2009, P.20).

The concept of accountability contains two stages, answerability and enforcement. Andreas Schelder refers to answerability as the “obligation of public officials to inform about and to explain what they are doing” while he defines enforcement as “the capacity of accounting agencies to impose sanctions on power holders who have violated their public duties” (cited in Ackerman, 2005, p. 3). Nevertheless, the role of the legislature becomes within the form of horizontal accountability, in which the state institutions have the ability to “check on the exploitation that could be exercised by other public institutions through different administrative, fiscal, political and legal mechanisms” (Amin, 2015, p. 73).

While there is a lack of agreed upon definition of accountability in general,

similarly is the situation with defining the budgetary accountability. Lu and Xue (2001) perception of budgetary accountability lies on the “degree of participation in budgetary process by a representative legislature and the extent to which external control are sent upon the executive’s discretion” (p. 353). Additionally, Egbide and Agbude (2012) stress that budgetary accountability refers to the extent to which the officials responsible for budgeting are held accountable for how the budgetary allocation were used.

In relation to the budget formulation process, this research defines accountability as the degree in which the legislature is involved in the formulation process and holding the executive authority accountable regarding the allocation of resources that should represent the concerns of constituencies; the capacity of legislature to deal with such process, in addition to the role played by the external auditor regarding measuring any practiced exploitation or violations by the executive branch.

c. Budget Formulation Transparency

Transparency is one of the most important principles of good governance. Different studies perceive transparency as the disclosure of precise, accessible, related and timely information pertaining rules, actions, plans and processes (Folscher, 2010). Nevertheless, in the budget arena, Kopits and Craig (1998) perceive fiscal transparency as:

Openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities - whether undertaken inside or outside the government sector - so that the electorate and financial markets can

accurately assess the government's financial position and the true costs and benefits of government activities, including their present and future economic and social implications. (p. 1).

Moreover, budget transparency for the Organization for Economic Cooperation and Development (OECD) is related to the openness of policy objectives, formulation and implementation that is concerned with three features. The first is the required reports in the budget and its content, the second is the specific disclosure that should be included in the report such as, financial assets and the third feature is related to the integrity, control and accountability of the reports and the actions required to guarantee their existence (OECD, 2002).

However, this research approaches **transparency in the budget formulation process** as the openness to the public regarding fiscal priorities, plans and functions of the government. In this sense, the accessibility, clarity and simplicity of information in addition to the adequate time to publicize information are crucial. Another imperative element of transparency is the comprehensives, which refers to the extent to which the information included in the budget documentation submitted to the legislature provide a full, complete and accurate picture of the government budget that reflects the policies and priorities.

d. Budget Formulation Effectiveness

Effectiveness represents the vehicle of good governance principles. The UNDP (1997) combines both effectiveness and efficiency together and refers to them as the “processes and institutions produce results that meet needs while making the best use of resources” (p. 15). Within the budget arena, effectiveness is “the extent to which

objectives are achieved. It relates the input/output to the final objectives to be achieved: i.e. the outcome” (Egbide and Agbude, 2012, p. 51).

Effectiveness in budget formulation process is identified in this research as the degree in which the government takes into account the results of implementing the previous budgets, in addition to the existence of multi-year fiscal planning to support decision makers to make their policy choices based on real indications and forecast and to make strong linkage between budget and desired policies. Effectiveness in budget formulation also relies on the type of budget used to enable goals achievement. Moreover, predictability is a crucial aspect of effectiveness that is related to reliable information provided by the Ministry of Finance to other ministries, departments and agencies regarding the availability of funds in order to set their plans and priorities.

III. Legal and Political Context

Both legal and political contexts represent the formal and informal relation within the budget formulation process. Shedding the lights on legal and political context enhance the understanding of the dynamics of decision-making process regarding budget formulation.

Legal context in this research is concerned with the formal relationships that are depicted in the Constitution and Laws governing the budget formulation process. These formal relationships should play the role to regulate the relationship between different actors and at the same time guarantee flexibility and control.

Political context is seen as the informal relationship between different actors involved in budget formulation process and the extent to which the dynamics of power relations delineate the decision-making regarding the allocation of resources. In any

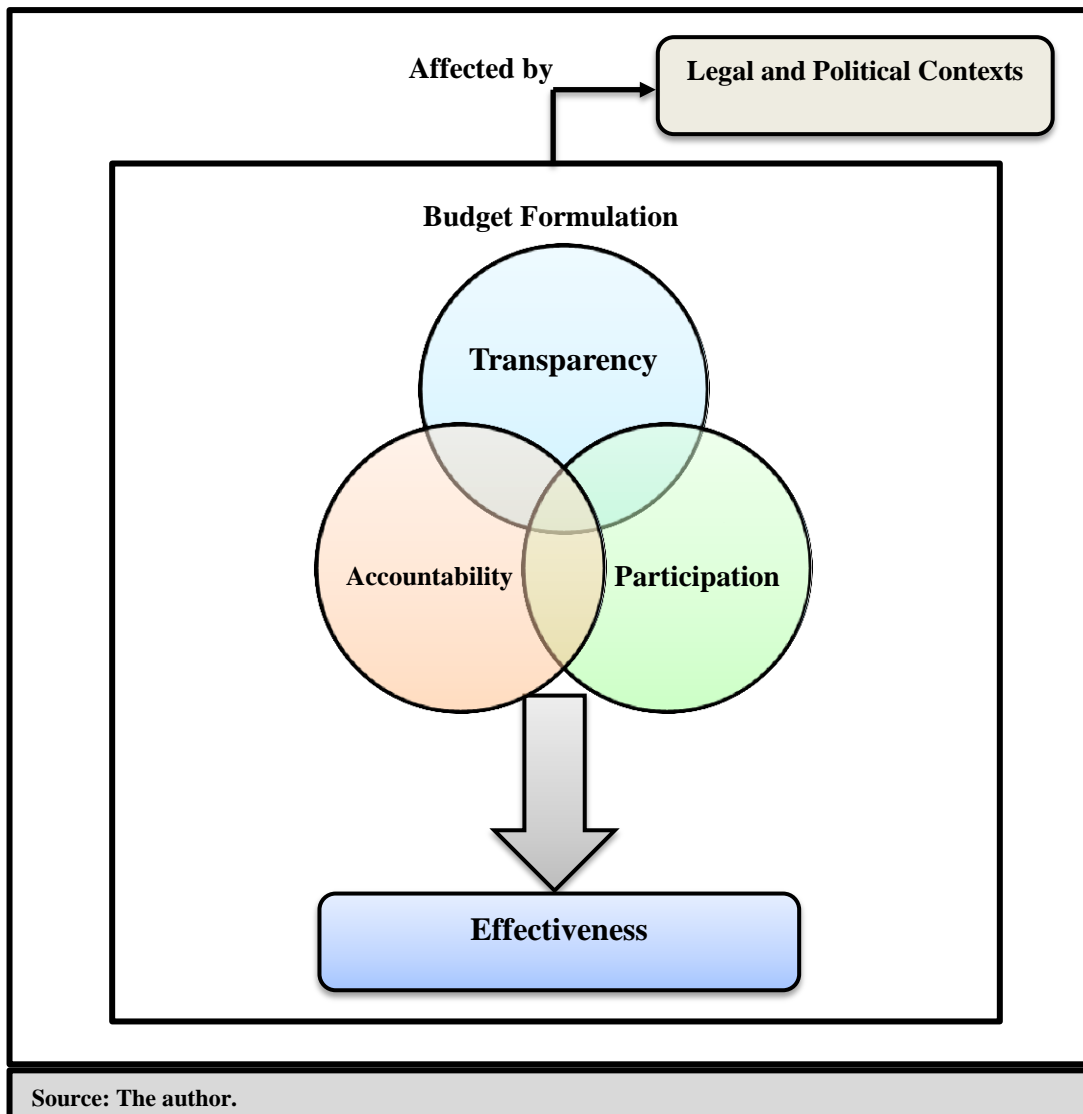
budget formulation process, the degrees of conflict and trade-offs occur between different formal and informal actors to determine the allocation of resources. Moreover, since the culture of the community affects and influences the decision-making and the politics of the budget, it is important to consider it under the political context. The political context is also concerned with the level of political stability within the government in terms of security and the stability of the Cabinet of Ministers (executive branch). Additionally, political context focuses on the relationship between both the executive (government) and legislative branches (Parliament).

The previous concepts portrayed the orientation of this research towards investigating the budget formulation process. Some linkages between the aforementioned concepts are drawn. Figure (2) shows these linkages and the relationship between the concepts. The three core good governance concepts of transparency, participation and accountability have a complementary relationship. The level of participation of spending agencies and CSOs in the formulation process enhances the accountability mechanisms and supports the legislature with the necessary information regarding citizens' needs and the extent to which the government is responsive. A strong legislature will ensure reflecting the real needs and priorities of citizens by involving CSOs in the process.

Moreover, providing reliable information regarding the allocation of resources and fiscal priorities open the door for both spending agencies and CSOs to express their needs and to monitor the implementation of their intended objectives. Also access to information allows for more information to legislature to practice more control and oversight over the executive branch of the government. By ameliorating participation, transparency and accountability and by more control over the allocation of resources

process the situation of effectiveness will be enhanced. The level of predictability and forecasts will be more reliable, as it will be based on clear information taking into consideration the existence of accountability mechanisms. Additionally, fiscal plans will be well articulated to reflect the real needs of participating spending agencies and CSOs that convey the citizens' needs. Moreover, the existence of clear accountability

Figure 2: Conceptual Map



mechanisms will regulate the allocation of resources process, as the legislature has the power to put the executive branch accountable for not achieving the overall objectives.

Nevertheless, the four principles of good governance do not work in an isolated environment. There is no doubt that these principles are affected with other legal and political factors. Both formal and informal roles play a significant role in the formulation process. The legal framework and the rule of law in which the formulation process operates contribute to a great extent to participation, transparency and accountability as well as to effectiveness of the process. For instance, the existence of freedom of information law will contribute to the transparency and will enhance the level of participation and accountability. Additionally, the informal relationships and power relations among the actors involved in the process impact the performance of the core principles and effectiveness.

It could be observed that the first and second parts of the conceptual framework are linked together. On one hand, no principle of good governance works separately without affecting the other elements. On the other hand, both legal and political contexts affect each of the good governance principles.

Chapter Three:

Literature Review

This contextual literature review is done with a view of drawing the main elements of the identified concepts in the conceptual framework and to situate the research questions within the body of literature. This portrayal is done through presenting the literature on the budgetary process, and specifically the formulation phase, within the framework of good governance, participation, accountability, transparency and effectiveness. Additionally, this review highlights the political aspect in the budgetary process and its impact. Hence, the researcher builds up on the literature and the different international experiences and practices to be reflected in the analysis of the case of budget formulation process in Egypt. In other words, the review is done with the aim of situating the budgetary process in Egypt within the global experience, established practices and discourse on budget formulation process.

This literature review is twofold; the first is budgeting within the framework of good governance highlighting the core principles and effectiveness. The second is the politics of the budgeting process.

I. Budgeting and Good Governance

There is a strong linkage or relationship between good governance and budgeting. The budgeting process in which resources are allocated is considered as a vital part of the governance system. In turn, good governance leads to enhancing the budgeting process, and the good management of budget ameliorates the governance system. If the budgeting process is characterized with effectiveness, efficiency, transparency and accountability, this reflects the good governance and consequently its positive effect on citizens, as the allocation of resources should be directed to different sectors, which enhances the living standards and wellbeing of citizens. In other words, the allocation of resources should not only benefit the interests of the political actors, (Egbide and Agbude, 2012) but also benefit the wider public.

The existence of mechanisms that support participation, transparency and accountability in budget process is imperative to enhance the effectiveness of such process. However, there are other institutional, legal, cultural and political factors that affect enabling good environment for enhancing and reforming budget process, which will be further explored in the review.

a. Participation in Budgetary Process

It is a common perception that participation in good governance principles is seen almost exclusively and consistently as the sole involvement of citizens or other organized groups, commonly known as vertical participation. It is seldom viewed from the perspective of horizontal participation that is concerned with the engagement of different sectors, ministries and other actors in decision-making process. This approach is commonly neglected. Therefore, the review of literature is concerned with drawing attention to issues related to the adopted definition of participation in budget formulation process that is related to horizontal participation in terms of the relationship between MoF and other spending agencies as well as the vertical participation regarding the involvement of CSOs in budget process.

1. The Relationship between MoF and Spending Agencies

In many developing countries the process of budget planning is not based on clear measurements. It is based on the rationale of satisfying everyone to avoid any kind of conflict between the actors involved in the process. It also relies on the ambiguity of its objectives that reflect big statements to satisfy citizens but without real substance and harmony. In those countries, the officials tend to “claim success in the face of failure” (Caiden & Wildavsky, 1974, p. 221).

In budgetary process, the relationship between the MoF or the central budget office and the other line ministries is sensitive and complex as the relationship between the executive and the legislature. Presumably, conflict emerges, especially during the formulation

phase, as each line ministry envisions its need for more allocation of resources. Some factors determine the budgetary decisions and the victor in this conflict such as, economic and the political power factors (Cox III et al., 2005).

Ensuring participation among different sectors and agencies in the government regarding budget formulation enhance the effectiveness of the budget. Many countries used to follow bottom-up budgeting system in the formulation process. It is known with its centralized nature in allocating resources. In countries with bottom-up system, MoF receives the budget requests from line ministries and spending agencies. Consequently, negotiations are made between MoF and line ministries to settle on agreement regarding allocation of resources. Afterwards, budget proposals are finalized in the cabinet. The centralized nature of such system comes from the control and domination of the MoF over the budget line items (Kim and Park, 2006).

Stressing the argument of Cox III et al., Ljungman (2009) claims that the formulation process is a game with defined rules between MoF and line ministries and spending agencies. In such game, line ministries and spending agencies previously know that MoF will subject their proposals to reduction, therefore, they amplify their requests for resources. On the opposite side, MoF knows that line ministries and spending agencies provided impractical requests, so it acts accordingly. The rounded negotiations in this system result in waste of time and there is no system for reallocation of resources (Kim and Park, 2006). In bottom-up approach, line ministries perceive the formulation phase as “one-sided” process, in which the MoF tries to reserve the existed levels of funding, so they are unable to propose new initiatives (Ljungman, 2009).

As a result of the financial crisis in 1990s, reform initiatives emerged to support public financial systems through its formulation process in order to enhance the management of debt and to achieve fiscal consolidation. One of these reforms is top-down budgeting

system that was emerged to support the government in putting more control over public expenditure for overall enhancement of the fiscal discipline. In top-down system, the allocation of resources is delegated to line ministries and spending agencies. They allocate resources for programs within specific spending ceiling, which allow for best use of resources to achieve specific policy goals within each sector. The role of MoF in this system is to set the expenditure ceilings, set rules and control other requests. In contrast with bottom-up system, top-down system is not time consuming and it allows for line ministries and spending agencies for having sense of ownership and to be real part of the process. For example, Sweden experienced a fiscal crisis in early 1990s and the fiscal deficit reached 11.4% of the GDP. Shifting to top-down system contributed to the Sweden success in reaching surplus in 1998 (Kim and Park, 2006).

It should be mentioned that the emergence of top-down budgeting system did not abolish the bottom-up system. In contrast, countries that adopted top-down system incorporate other elements from bottom-up system as a complementary method (Ljungman, 2009). There are many reasons behind the complementary system of both approaches. For instance, line ministries could introduce new initiatives, which should be reviewed, while MoF do not have the necessary information regarding fiscal implications on those initiatives, the line ministries should submit detailed proposals to MoF regarding those issues. Also MoF should guarantee that line ministries and spending agencies are following the fiscal rules. Therefore, especially in top-down system, MoF should establish good relationship with line ministries and spending agencies (Kim and Park, 2006). What really matters in this issue is the sense of ownership and trust between MoF and spending agencies. Whatever system used is, it should ensure high level of trust and harmony among the actors involved in the process.

It is worth noting that there is no specific system considered being the best for all countries, each country has its own political, social, economic and historical features that

articulate its budget system. Therefore, whether the country uses the top-down or bottom-up system, it varies from one country to another. For example, in top-down system some countries have level of delegation different from other countries (Kim and Park, 2006).

2. The Role of CSOs in Budget Process

Civil Society Organizations (CSOs) have an intrinsic role in the budgetary process. CSOs can act as a watchdog on the performance of the government, following up on the public expenditures and reveal any exploitation or misuse of authority by the government (Yapa, 2003). They act as an intermediate between citizens and government. In addition to CSOs role in providing citizens with clear understanding of budgetary issues, their healthy involvement can lead to enhance budget transparency and accountability (Tanaka, 2007).

In the formulation process, the role of CSOs is formally limited as they rely mostly on the informal relationships and networks with officials in different ministries. These informal networks represent an obstacle in assessing the impact of CSOs in such process and in its relationship with the executive branch of government. Through these networks, CSOs collect data on the government priorities in which they can influence and advocate for (Krafchik, n.d.). Nevertheless, the level of involvement is determined by the context in which the CSOs operates and the acceptance of officials to build a relationship with those organizations.

In terms of their role with the legislature, CSOs have fundamental role in supporting the legislature in the budgetary process, especially in enhancing the efficiency and accountability. CSOs convey the interests of different sectors to be well articulated during the approval process (Yapa, 2003). CSOs have the opportunity to influence budget decisions with the legislature. Different countries guarantee direct intervention of CSOs during the approval phase through conducting public hearing sessions (Krafchik, n.d.). Legislature benefits from the technical expertise of CSOs. Also, on one hand, CSOs could be considered as source of direct information and could provide support in analyzing budget proposals. On

the other hand, CSOs need to have access to information before submitting the proposal to the legislature and to have the link with different committees in the parliament to be able to analyze the information and to have the opportunity to provide the legislature with adequate analysis (Yapa, 2003). However, the level in which CSOs are involved in the process, rely to a great extent on the power of the legislature in budgetary process (Krafchik, n.d.). Furthermore, this level of involvement also depends on the strength of CSOs and their ability and capacity to provide and analyze information regarding budget process.

It is worth noting that in many developing countries, the perception of involving CSOs in budgetary process is negative. Besides dealing with budget formulation as sensitive and secret issue dominated by the executive body, those countries have preconceived notions of that the involvement of CSOs may harm the process. Also, in those countries, the legislature and CSOs serve the interests of specific groups not the interests of the whole country (Krafchik, n.d.). In most of developing countries CSOs are perceived as charity organizations rather than watchdogs on the work of the government and intermediate between government and citizens. Political will is needed to change such perception to enhance the relationship between CSOs and citizens. Also efforts are needed from the COSs side to build rapport with government officials.

b. Accountability and Budget Process

Accountability is a contested concept with no agreed upon definition. Accountability in budget process has many facets, some deal with internal accountability, others deal with external accountability, and others focus on the legislature accountability. While budget formulation process is the process of prioritization and allocation of resources, fundamental institutional arrangements are required to control such process. At this juncture, the legislature plays an intrinsic role in controlling the process of allocating resources and holding the executive branch accountable, as tremendous political interests are presented at

this stage. The literature review regarding accountability in budgetary process focuses on the concept of accountability defined in the conceptual framework. Therefore, this review of literature covers accountability from the lens of the role of legislature in the budget formulation process and the degree in which the legislature is involved and holds the executive authority accountable regarding the allocation of resources. It also presents the power relations between both legislative and executive authorities.

1. The Role of the Legislature and its Power Over the Budget Process

Budgetary accountability is one of the critical issues among the executive branch of government. Relying only on the executive branch regarding public expenditures may lead to less transparency and accountability (Lu and Xue, 2011). The budget is considered as a policy tool that incorporates the priorities of the government (Wehner, 2004) that reflects those of citizens. Legislature, in most countries, is, by the constitution, the responsible for the oversight on the government activities. Therefore, as citizens' representative, the legislature plays the role of the "*power of purse*" in budgetary process through practicing control over the expenditures of the executive branch to guarantee the effective implementation of the budget and to ensure that the national policies enhance the wellbeing of citizens (Stapenhurst, 2004). Hence, to guarantee good governance in budgeting process, checks and balances are imperative through the answerability of the executive branch to the legislature and the extent to which the legislature is willing to take necessary actions in case of low performance of the government (Wehner, 2004).

To articulate the role of legislature, Norton classified legislature's impact on budget policy into three categories. The first is the legislatures that make budget, as they have the required capacity to refuse or amend the budget submitted by the executive branch, and they also have the capacity of formulating the budget. The second category is the "budget influencing legislatures" in which legislatures have the capacity to reject or refuse the

submitted budget but they do not have the capacity for formulating budget. The last category is when the legislatures have limited or no influence on budgetary process in which they lack the capacity for amending or refusing the submitted budget as well as the capacity for formulation (cited in Wehner, 2004). Various legislatures do not have the ability to amend the budget proposals submitted by the executive branch, they may have the ability to cut or raise spending (Posner and Park, 2007). It could be noted that the ability of legislature to amend or refuse the budget is not only related to its capacity, as there are other factors that affect the influence of the legislature. Some of these factors are related to political and economic environment of the country.

It is important to note that before shaping accountability mechanisms, it is crucial to identify and clarify directions of the one accountable to whom and for what, in order to enhance the social outcomes (Lu and Xue, 2011). A quantitative assessment of the power of legislatures over the budgetary process was conducted in 36 countries in 2006. The assessment was based on amendment power, revisionary budget, the flexibility of executive branch during implementation, time for scrutiny and access to budget information. The assessment revealed that the United States Congress has a great power over the budgetary process. Also it showed that liberal democratic countries do not essentially have the power of purse, as some countries are using it to control the executive power, while others are using it as a “constitutional myth” (Wehner, 2006). This means that despite the status of the country from democracy, its internal characteristics, political economy and culture shape the power of the legislature.

The variation between the legislatures in terms of their power and effect on budgetary process is explained by Wehner (2004) for five main reasons. The first is the constitutional system of the country, for the presidential systems the relationship between executive and legislative authorities is mostly attributed with tension as the legislature has tendency to

critique the budget proposals. The second is the power of the legislature to amend the budget. The third reason is the “party political dynamics” in which the political facet of the budget is represented, as it incorporates the power relations among different actors. Political parties with majority in the legislature have influence of the budget decisions. If the party is attributed with stability; the votes regarding budgetary issues could be predictable, but if there is no majority in the parliament, the executive authority should lobby for the support of a number of parties. Access to information is the fourth reason, as the legislature should have the required and sufficient information to support the members in taking the right decisions. However, there are many legislatures that do not receive comprehensive information. The last reason is the research capacity as each legislature should have the appropriate research staff working on budgeting issues and provide the members with the necessary analysis. For instance, the United States has around 245 qualified staff working in Congressional Budget Office. Also Philippines has 50 trained staff working in Congressional Planning and Budget Office.

2. The Relationship between the Legislature and Executive Branch and the Legislature’s Institutional Capacity

In budgetary process, the relationship between the legislature and executive branches is complicated. The legislature tends to compete with the executive in influencing the budget decisions in the formulation process as well as in practicing control over the executive branch. Nevertheless, various legislatures do not have the required technical capacity to compete with the knowledge of the executive officials who prefer not to share information with the legislature (Posner and Park, 2007). In many cases the executive body dominates the power of budgetary process over the legislature branch. For instance, in China, the members of the People’s Congress lack the capacity of budgeting issues and they mostly depend on the officials responsible from the executive branch. Therefore, to enhance the budgetary

accountability mechanisms, it is important to ameliorate the institutional power of the legislature (Lu and Xue, 2011). The National Democratic Institute for International Affairs (2003) identified three main obstacles to legislature involvement in the budgetary process including the executive dominance over the budgetary process and the hesitance of the legislature to make decisions regarding the budget especially with the lack of capacity and other external factors that are related to the international pressure specifically with the prerequisites of the international organizations such as, the International Monetary Fund (IMF) in emerging economies. Additionally, Posner and Park (2007) noted that limited time specified for reviewing the budget submitted by the government is one of the obstacles that encounters the legislature.

Strengthening the role of legislature in budgetary issues requires political will, in addition to clear understanding of the political environment in which the legislature operates especially for donor organizations (Stapenhurst, 2004). However, the members of the legislature should have the appropriate knowledge and capacity related to the financial issues to deal with the executive authority and hold it accountable (Lu and Xue, 2011). Also to capacitate the legislature members, especially those in budget committees, is crucial (Wehner, 2004). It could be noted that checks and balances are improved by strengthening the role of the legislature. For example, Bolivia worked on capacitating its legislature members in order to be able to analyze the budget submitted by the government, this leads to improvement in the budget analysis and more engagement in the process (Stapenhurst, 2004).

The role of budget committee in the legislature is fundamental. Some legislatures rely on the committee in reviewing the budget submitted by the executive, which enhance the coordination among the legislature bodies, while others distribute the task on sectoral committees, which is important for reflecting the sectoral needs in the budget (Posner and Park, 2007). While budget committees are the cornerstone for understanding the submitted

budget and reviewing it, the role of other sectoral committees is important for the harmonization of the overall budget objectives.

c. Budget Transparency

Accessibility to budget information enhances accountability mechanisms and both vertical and horizontal participation. The review of literature concerning budget transparency articulates the concept of budget formulation transparency adopted in this research. The review of literature focuses on the accessibility, timely, clarity and simplicity of fiscal information as well as the comprehensiveness of budget information.

1. The Importance of Access to Comprehensive, Timely and Accurate Information

One of the many important and critical features of the budget system is transparency. The budget system transparency permits both citizens and public officials to examine whether the system achieves the intended goals or not. Access to information enhances and promotes for a culture of accountability (Norton and Elson, 2002). Also access to information on budgetary process leads to citizens' empowerment and improves the government response towards enhancing their lives. Budget transparency enables the oversight of citizens on the actions of the government. In other words, budget transparency empowers people to hold the government accountable in addition to ameliorating the efficiency of the budget (Carlitz, 2013).

In order to take appropriate and effective budgetary decisions, access to comprehensive, accurate and timely information is crucial. The executive domination over the budget information provided to legislature leads to lack of transparency (Wehner, 2006). Citizens in many countries, especially developed ones, are not part of the budgetary decision-making process as well as they do not practice any form of accountability. In those countries, budget is treated as a technical document, considered as a secret and the executive branch dominates the budget information with limited provision of information to citizens. Countries

with lack of budget transparency and accountability encounter misallocation of resources, corruption and increased levels of poverty (de Renzio and Krafchik, 2007).

The financial crises that occurred at 1990s had a direct impact on fiscal transparency. As a result of this crisis, attention was directed to enhancing fiscal transparency by different international organizations and governments. Consequently, different international standards on budget transparency were developed such as, the Best Practices of Budget Transparency by OECD in 2001 and the Open Budget survey by the International Budget Partnership (IBP) in 2006 (Rios et al., 2014).

Budget transparency has three main features; the disclosure of comprehensive and timely budget information, the role of legislature in scrutinizing the submitted budget, and the role of civil society and citizens in influencing budget decisions (Blondal, 2003). Obviously, the oversight role played by the legislature contributes to the provision of information for public debate on the allocated resources and priorities and control. It is worth noting also that the role of civil society is crucial, especially through the budget formulation and adoption stages (Santiso, 2005). However, the capacity of the CSOs and its real role in the community remain challenges. In their quantitative assessment on 93 countries surveyed in 2010 by IBP, Rios et al. (2014) examine the extent to which legislative oversight influences budget transparency. Their findings depicted in that the legislature oversight over budgetary process enhances budget transparency and this consequently affects the accountability. However, budget literacy is one of the great challenges that encounters many countries, therefore, efforts should be directed to provide budget awareness and education for citizens for better allocation of resources (de Renzio and Krafchik, 2007). Also effort should be directed for providing and supporting the parliamentarians with clear understanding for the budgeting process in their countries, as in many legislatures, the members of the parliament lack the basic information on the budget process and the deterrents that shape such process.

2. Factors Affect Budget Transparency

There are many factors that contribute to budget transparency. For instance, the legal system that guarantees access to information is one of those factors, which consequently affect the relationship between citizens and government (Matheson and Kwon, 2003). Another factor determining budget transparency is the political competition, which according to Messick, urged parties with less majority to acquire information from the executive in order to practice control and criticize them, opening the door for more transparency (Rios et al., 2014). However, Wehner and de Renzio (2013) argued that the existence of political competition might indicate less transparency, as government could favor not to disclose information avoiding criticism and scrutiny. Nevertheless, in their assessment on 85 countries regarding open budget, Wehner and de Renzio (2013) found that countries with “democratically elected” legislature have more budget transparency. In many developing countries, disclosing information and adopting laws that allow for access to information are perceived as national security issue not as a way for enhancing accountability and participation.

In its principles of budgetary governance, OECD (2014) stresses on the transparency and openness of the budget information. The budget proposal and reports should be available and accessible to legislature, civil society and all stakeholders. The information provided to citizens should be simplified, clear, user-friendly and reachable with all possible means.

As a response to enhance their fiscal transparency, many countries adopt Transparency and Accountability Initiatives (TAIs) in order to promote participation, accountability and transparency in the budget process from the formulation phase till the audit one. For instance, Uganda conducted the Public Expenditure Tracking Survey (PETS), which revealed the leakage in the system at 74%, however, after adopting public expenditure monitoring mechanisms the leakage was reduced to reach less than 20%. In addition to the

monitoring mechanism, the efforts exerted by the government through its reform initiatives led to positive results. Providing public with the necessary information could not only lead to institutional reform, but to legislative reform in which the participation process became legalized (Carlitz, 2013).

Noticeably, the three principles of governance; participation, accountability and transparency are very much related and complementing each other. Without transparency and the right to access information there will not be effective participation and consequently the mechanisms of holding officials accountable will be absent.

d. Effectiveness in Budget Process

Effectiveness of budget process relies to a great extent on the existence of accountability mechanisms and the transparency of related information as well as the degree of horizontal and vertical participation. The literature review regarding effectiveness in budget process elucidates the elements of the adopted definition of budget formulation effectiveness that revolve around the type of budget used, the existence of multi-year fiscal planning in addition to predictability in budget process and the existence of automated systems.

1. Program-Based Budgeting

Effectiveness in budgetary process depends on many factors. One of these factors is the type of budget. In the early 1990s the Program-Based Budget (PBB) emerged after the accelerated critics that was directed to line-item budget. The reason behind the emergence of PBB is to focus more on the outcomes of the budget and how these outcomes are inline with citizens' priorities and needs. PBB relies on the objectives that government wants to achieve through strategic plans in accordance with citizens' needs, performance measures to determine whether the intended objectives are appropriately achieved or not, and emphasizes on holding the responsible agencies accountable on how resources were allocated and

whether the outcomes are achieved (Hager et al., 2001). To alter to PPB, some countries changed its budget structure to be inline with the outcomes. Instead of using the well-known classifications of administrative and function, as they found the line-item budget classifications could not incorporate the performance information, they used more consolidated classification. However, applying such change in the budget structure not necessarily affects the decision making process. It is conventional wisdom that countries that alter its budget structure made some changes in its budgetary process (OECD, 2007). It could be noted that program-based budget is not the magic tool that will enhance the budget process solely. Other profound changes are needed such as, legal and institutional changes as well as real intentions towards change are crucial.

2. Multi-Year Budget and Dual Budget System

Multi-year budgeting is important to ensure the sustainability of government's plans. Multi-year budget is concerned with determining the government revenues and expenditures for multi-year period as well as ameliorating the budget process through the estimates of revenues and expenditures (Boex et al., 2000). In most developed countries the budget is not only for one-year but it is multi-year budget; for three or sometimes for five years (Spackman, 2002).

Multi-year budget provide consistency and continuity in government plans and priorities. Also projections and estimations in multi-year budget measure the implications of the existing policies and their compliance with fiscal plans. Multi-year budgeting improves the relationship between different actors involved in the process. It supports the efficient allocation of resources and improves the accountability and transparency of the budgetary process (Boex et al., 2000). Many countries adopted Medium-Term Expenditure Framework (MTEF) to enhance its budgetary process and to reach better allocation of resources to achieve the national objectives. The World Bank introduced MTEF in a standard toolkit to

support countries in developing their multi-year budget system. It is disappointing to state that developing countries adopted MTEFs in order to ensure their intentions toward multi-year planning to donor organizations. While developed countries adopted MTEFs to enhance the budgetary process and to ameliorate the performance of the government (World Bank, 2013).

There are different factors affecting the success of MTEF. These factors include the human and technical capacity of the institutions to uphold such reform. The degree of political commitment as well as the bureaucrats' willingness towards reform represents another factor. Another important factor is the relationship and communication between MoF and line ministries and spending agencies. Good relationship leads to harmony among different actors and it contributes to great extent in successfully applying and consequently achieve the intended goals (Kasek and Webber, 2009). Nevertheless, it is worth noting that each country has its own characteristics that delineate its institutions, formal and informal structures that determine and shape its reform plans (Spackman, 2002).

While developed countries stopped working with dual budget system¹, some of the developing are still relying on it. Dual budget system was introduced to prioritize development activities (Schiavo-Campo, 2007) and to support governments to guarantee that the borrowed resources go only for capital expenditures (Sarraf, 2005). In countries with dual budget system Ministry of Finance (MoF) is responsible for recurrent budget and Ministry of Planning is responsible for the investment budget. As a result of budget separation, a degree of tension occurred not only between the main two ministries but also in the line ministries as well (Schiavo-Campo, 2007; Sarraf, 2005). This tension also came from the overlapping issues and the separate management of the formulation process.

¹ Dual budget system refers to dual process, in which the formulation process is undertaken by two entities; one is responsible for the investment or development budget and the other is responsible for the recurrent one (Schiavo-Campo, 2007).

After realizing the importance of consolidated budget in terms of preparation and information, as well as perceiving both budgets as complements, most of developed and consequently developing countries merged their finance and planning ministries together. It is important to state that the merging process takes into account the political and cultural conditions of the country. The merging process in those countries witnessed real institutional and organizational transformation. However, for countries with dual budget system, the integration of both budget became imperative (Sarraf, 2005). Incontrovertibly, each country has its own conditions and culture, integration of the preparation of both recurrent and investment budget needs real reform initiatives that work on the institutional setup of the core ministries.

It should be highlighted that Schiavo-Campo (2007) emphasized on the “bad practices in budget preparations”. The first practice is the existence of incremental budgeting that includes line item budgeting, justifying that with the poor results of line item budgeting. The second bad practice is the “open-ended processes” that is related to the absence of hard budget constraints or budget ceiling. The third is the “excessive bargaining and conflict avoidance” in which the formulation process is more dominated by power relations that deviate and shift the basic budget programs. The fourth bad practice is the existence of dual budgeting in which two entities are responsible for preparing the investment and recurrent budgets.

3. Predictability in Budget Process and IFMIS

There are different principles of sound budget defined by the World Bank in 1998. Beside budget transparency, comprehensiveness, periodicity and contestability, another important principle of sound budget is predictability. The predictability of budget relies on effective planning through stable funding flows. Therefore, spending agencies should have information on the medium-term allocation in order to put adequate plans (Wehner, 2008).

Predictability is important for decision makers. The variability and fluctuating economy of any country make the estimations of revenues and expenditures vary as well. Without predictability decision makers are exposed to take uncertain decisions (Cox III et al., 2005), which could negatively affect the planning process of the country.

The Integrated Financial Management Information System (IFMIS) is one of the relatively recent management tools that is used to enhance the transparency, accountability, efficiency and effectiveness of budget process. According to Diamond and Khemani (2006), IFMIS is crucial for ameliorating the allocation of resources process, access to reliable data and information, financial controls and efficiency and effectiveness of the overall budget process. In addition to that, IFMIS is important for providing decision makers with accurate information as well as the Parliament, enhance the formulation process with the existence of historical data, open the door for fiscal decentralization and reduce the operation cost of public service by reducing the number of employees. Believing in its ability to enhance the budget process, many countries adopted IFMIS such as, Kenya (Selfano et.al, 2014) and Uganda that adopted IFMIS among many legal and institutional financial reform initiatives in accordance with its 2040 vision (Ministry of Finance, Planning and Economic Development, 2015). However, introducing such systems needs high qualified capacity to deal with analyzing and interpreting the information provided.

II. Politics of the Budgeting Process

The budget has main three functions, namely: economic, legal and political functions. The economic function is depicted in the way of balancing between revenues and expenditures through the application of planning, controlling and administrating activities as well as the efficient allocation of resources. During the fiscal period, public officials can understand whether the flow of revenues and expenditures appears as planned or some modifications are needed. The legal function of the budget comes from the nature of that

budget is regulated by laws, rules and regulations which generate restrictions on the actions and decisions of public officials. The political function of the budget is depicted in its nature. The executive branch of the government prepares the budget proposal and presents it to the legislative (elected) authority for approval (Veiga and Reza, 2015).

Hence, the approval of the legislative authority opens the door for the executive authority to move forward with its plans to achieve the intended goals of the government. Budgeting process is not an easy process and it is not a separate one, it is related to other political, economic and cultural factors. The resources allocation process to different entities and organization within the government is a political not a technocratic process. Additionally, budget allocation cannot be distant from macroeconomic policies in which the size of all resources is identified. Also taking into account the public expenditure system is important for further improvement and enhancements in the whole process (Norton and Elson, 2002). It is important to highlight that the credibility of policies and its formulation is influenced by the incentives and interests of different actors that are involved in the policymaking process (Abuelafia et, al., n.d.). The level of incentives is identified by the level of involvement of the informal actors.

For instance, the stage in which the conflict between MoF and the spending agencies occur regarding the allocation of resources is the stage of politics of the budget. In this stage preferences and priorities of politicians are presented (Cox III et al., 2005). Denhardt (1995) argued that spending agencies and line ministries should understand and know how to deal with the political environment in which the budget is articulated. Such understanding could allow for more allocation of resources or at least maintain the status quo.

There is no doubt that budget formulation is a political process because it manifests the distribution of power, which consequently affects the allocation of resources. In this context, power could be perceived as “formal structure” or as informal integration of values

and norms into the practice. In both budget formulation and implementation phases, uneven power relations are articulated. These unbalanced relations could be depicted in involving or excluding various groups or units in the decision making process. Also it could be represented in the determination of the groups who have the right to access information that directs the decision-making (Norton and Elson, 2002). In the formulation process, the allocation of resources is determined through the interaction between various institutions that have specific interests that affect the decision making process (Fozzard, 2001).

In an experimental design, Thurmaier (1992) attempted to identify the theoretical drivers of budgetary decision-making in Central Budget Bureaus in the United States whether following the incremental choice theory of decision-making or the technical-economic choice theory. Thurmaier argued that budgetary issues are always perceived as economic issues and therefore the decisions made are economic ones, however, the budget has other political, legal and social dimensions. He stresses on that the political dimension of budget is the most dynamic one, as its decision-making structure incorporates various perspectives and standpoints. In his experiment on 190 practitioners from state and local government budget offices and graduate students from economic and business schools to determine the effect of both economic and political rationalities on decision-making process, Thurmaier finds that decision makers use mixed rationalities mainly depending on political and economic ones. In his analysis, experienced decision makers are in favor to rely on the political rationality. This shows and emphasizes on that the existence of politics and informal relations in budgeting process and its importance to the key players.

The distribution of power in the budgetary process is shaped by the incentives of different actors such as the parliamentary structure and politicians. Therefore, identifying the actors involved in the process is crucial. Scartascini and Stein, highlight the importance of

understanding the incentives of different actors involved in the budgetary process in order to achieve fiscal reform (Santiso, 2005).

Good governance principles are bonded with the level of politics. Most politicians have the incentive to undermine the disclosure of budgetary information (Alesina & Perotti, 1996). The degree of participation, transparency and accountability in budgetary process is shaped by the political environment. On one side, people, in the game, who prefer to not disclose information and avoid exposing to scrutiny and control are mostly holding “powerful positions” and can easily protect their interests. On the other side, those who support transparency and prefer participation in budgetary process are not that organized and their interests are not well protected such as, citizens and government officials who are not included in the decision making process (Khagram et al., 2013).

This contextual literature review focused on the elements emphasized in the conceptual framework of this research. The literature is diversified between qualitative and quantitative studies. It covers different issues related to the public financial management such as, political issues. The literature also provides knowledge and experiences of specific-country and region-specific cases. Reflecting on the key issues highlighted by the review of literature, the examined works provide a foundation for understanding the budget process, and take into account the politics that shape the overall dynamics of the process, with specific focus on the formulation phase.

The literature review helped the researcher to have an overall understanding of the research area through different issues. **First**, by shedding the light on international experiences to enhance budgetary process, in particular the formulation process, within the agreed upon principles of good governance. The literature review supports the provision of context for the case of Egypt. For example, the principles of effectiveness and how it is correlated and directly affected by the application of the principles of participation,

transparency and accountability. **Second**, the review helps in stressing the important role played by the informal actors within the political context of budget formulation, and how they affect the allocation of resources process, ultimately affecting the outcomes of the budgetary process. **Third**, it informs findings with regards to the role of the Legislature in the formulation of the budget, and the degree of powers that the Parliament enjoys depending on the political structure of the country. Also it shows how the legislatures that possess a significant amount of power can have the leverage to strongly influence the outcome of the budget formulation process, to encourage the participation of civil society actors, and the extent to which budget committees can provide sound and evidence-based advice to parliamentarians, in order to strengthen their informed decision-making capacity vis-à-vis the often-dominant Executive Branch. **Fourth**, the review of literature provides insight and in-depth understanding of how Egypt is situated within the global established norms and practices of the budget making, taking into account the current political and legal situation, especially after the January 2011 Revolution.

One key finding that could be highlighted from the review of the literature is that budget formulation is a complicated process. Budgetary transparency, accountability, participation and effectiveness are crucial for enhancing the formulation process. Formulation process involves different actors who have various interests affected by the political environment within the country. Additionally, each country has its own social, political and economic attributes that shape the budgetary process.

Emphasizing on that budget is a translation of the overall objectives of the state, and the formulation phase is a significant process based on which other governmental acts, decisions and planning are carried out. There is a dearth of research on budget formulation process in Egypt.

Therefore, the contribution of this research is depicted in filling the gap of literature regarding studying the formulation process within the context of specific country, this study focuses on examining the formulation process in Egypt within the framework of good governance taking into account both legal and political contexts.

Focusing on the formulation process helps the researcher to underline how this important process is performed and to provide a thorough breakdown, in order to suggest potential recommendations or prerequisites for enhancing the budget formulation process in Egypt. Accordingly, these potential policy recommendations bear significant influence on any other governmental sector or agency, and its decision-making, carried out in consequence or as a direct result of the budget.

Chapter Four:

Methodology

This chapter focuses on the methodology used in the research. It also provides an overview on the data collection and data analysis to open the door for profound understanding to the budget formulation process.

I. Methodology

Since quantitative information about budget formulation process and decision-making regarding the allocation of resources is hard to reach in the Egyptian context, the methodology applied in this research is of qualitative nature. The qualitative research was applied to help the researcher to explore, describe and understand the dynamics of the budget formulation process after January 2011 Revolution.

In order to assess the budget formulation process in Egypt against the international standards, this research adapts the framework of Public Expenditure and Financial Accountability (PEFA)² with relation to the criteria related to the formulation process. This research enriches PEFA framework by adding other elements that emerged from the literature.

The reliability of this research is presented in that PEFA is widely used and conducted in many countries. The research uses six criteria and assigns each one under specific themes depicted in the good governance framework, namely participation; transparency; accountability; and effectiveness as defined in the conceptual framework. The themes and criteria are presented in Table (2) as follows:

² PEFA is a partnership program between the European Commission, French Ministry of Foreign Affairs, International Monetary Fund, Norwegian Ministry of Foreign Affairs, Swiss State Secretariat for Economic affairs, UK's Department for International Development and the World Bank. PEFA aims at assessing the conditions of the countries regarding their public financial systems and accountability (PEFA, 2016).

Table 2: Criteria and its Assignment under Good Governance Principles

SRL	Theme	PEFA Criteria
Good Governance Framework		
1	Participation	<ul style="list-style-type: none"> • Orderliness and Participation in the Annual Budget Process
2	Accountability	<ul style="list-style-type: none"> • Legislative Scrutiny of the Annual Budget Law
3	Transparency	<ul style="list-style-type: none"> • Public Access to Key Fiscal Information • Comprehensiveness of Information Included in Budget Documentation
4	Effectiveness	<ul style="list-style-type: none"> • Multi-year Perspective in Fiscal Planning Expenditure Policy and Budgeting • Predictability in the Availability of Funds for Commitment Expenditure

With regards to the legal and political contexts, the review of the existing bare acts and regulations provided the research with clear understanding of the existing procedures of the formulation process, as well as the formal actors involved in the process. The in-depth interviews completed the picture by providing comprehension of the informal relationship and the power dynamics related to the formulation process.

II. Data Collection

This research depends on both desk research and primary data. The desk research focused on reviewing the existing literature related to the area of investigation, books, different published and unpublished national and international reports with particular focus on those concentrating on PFM status of Egypt as well as Egypt’s Constitution and bare acts. Also, the desk research relies on the issued circulars and other publications from the MoF. Collecting the primary data depended on in-depth semi-structured interviews³ to deepen the understanding of the process and to probe the dynamics between the actors involved in the process.

III. Sample Design

This research uses a purposive sample for the in-depth interviews. Sixteen interviews were conducted with representatives of both executive and legislative authorities, each

³ Annex I: Interviews Questions

interview lasted at least two hours between 31 March to 18 May, 2016. The identity of the interviewees remains anonymous. The interviews were conducted with former and current officials in order to validate the data and to examine the variation in the process from Ministry of Finance, Ministry of Planning, Monitoring and Administrative Reform (MoPMAR), Ministry of Transport (MoT), Ministry of Information (MoI), Ministry of Social Solidarity (MoSS), Ministry of Education (MoE) and one current governor, in addition to former and current Parliament members. The following part encompasses the rationale behind selecting each unit of analysis:

a. Executive Authority at the Central Level

1. Ministry of Finance (MoF): since MoF is the main player and coordinator in the formulation process, the sample includes some of the officials who are responsible for dealing with the process. This helped the researcher to examine the actual procedures of budget formulation, how the resources are allocated and what are the different roles of various actors involved in the process. Hence, six interviews were conducted with:

- Former Minister of Finance
- Former Advisor to Minister of Finance
- Current Advisor to Minister of Finance
- Three Senior Officials at MoF responsible for the formulation process

2. Other Ministries: all the other ministries involved in the formulation process. In order to examine the role of each ministry, the relationship with MoF, MoPMAR, the dynamics of decision-making regarding the budget allocation of each ministry, the extent to which these decisions correspond to the plans and policies, the degree in which these ministries agree on the current procedures and how they perceive themselves in terms of participation; five interviews were conducted with:

- Former Minister of Information, as it is one of the Ministries that has a great attention in terms of its budget and overstaffing issues.
- Senior Official at MoPMAR, as this Ministry is responsible for the formulation of the investment chapter, which accounts for almost 10% of public expenditure, and works in close coordination with MoF and other spending agencies.
- Advisor to Minister of Transport, as his Ministry provides numerous services to citizens, and hence can contribute important views on the subject of the research.
- Senior Official at MoE, as it is one of the most important ministries that have direct interaction with citizens. For example, total public expenditure on education reached 12% in 2014/2015 (MoF, 2015).
- Senior Official at MoSS, as it is one of the major ministries that deal with a huge segment of people and CSOs. For instance, total public expenditure on social protection reached 27.5% in 2014/2015 (MoF, 2015).

b. Executive Authority at the Local Level

1. Governor: While the State budget in Egypt includes the local administration, it was crucial to understand the dynamics of the process and the relationship with both MoF and MoPMAR as well as the perception towards current procedures and systems. Therefore, the interview was conducted with the current Governor of one of the most major governorates in Egypt.

c. Parliament: before approving the budget, the Parliament reviews it and assures its accordance with the plans and policies. In the Parliament, the Planning and Budgeting Committee (PBC) is responsible for reviewing the State budget. In order to examine the relationship between the MoF and Parliament, the role of Parliament in the formulation process and for holding the executive branch accountable in addition to identifying the

capacity of the members to review the budget and propose amendments, five interviews were conducted with:

- Three parliamentarians from PBC. One of them was former parliamentarian before January 2011 Revolution.
- One parliamentarian from the Economic Committee.
- One parliamentarian from the Education Committee.

IV. Data Analysis

The researcher analyzed the records of the in-depth interviews, the different published and unpublished reports, bare acts, literature and MoF publications based on specific themes. The themes are; participation, accountability, transparency, effectiveness, other factors and recommendations. Data triangulation is used in this research by obtaining the data from different sources and conducting interviews with former and current officials and parliamentarians. Using data triangulation through different sources allowed for cross-checking and validating the findings of this research.

Based on thematic analysis, the data emerged from both primary data and desk research was synthesized together to provide clear and deep understanding of the budget formulation process in Egypt and the extent to which this process is affected by legal and political contexts as well as other factors.

Chapter Five:

Budget Formulation Process in Egypt

I. Overview

Egypt is one of the developing countries with specific and sensitive nature on regional and international basis. Before the January 2011 Revolution, Egypt's economy seemed to be on the right track with the increased economic growth. However, the positive levels of growth rate did not mirror the real situation of the increased levels of income inequalities, poverty and wide range of dissatisfaction, especially among educated people and youth (Noueihed and Warren, 2012). Despite economic growth, Egyptians were suffering, and the gains from the increased economic growth benefited specific groups such as, business elite and members of the ruling party. In 2010 the unemployment rate reached 9% (CAPMAS, 2015) and the percentage of population under poverty line reached 16.7% (UNDP, 2010).

The lack of good governance, clear accountability mechanisms, public and CSOs participation, political repression and lack of democracy accompanied by higher unemployment, increased level of poverty, poor education system and increased levels of illiteracy, among other social challenges led to 25th of January 2011 Revolution (Khattab, 2012).

After January 2011 Revolution, Egypt witnessed political instability. This situation led to decline in the value of the Egyptian pound, withdrawal of many foreign businesses, decrease in revenues, especially in specific sectors (Roushdy and Sieverding, 2015). For instance, tourism sector was greatly affected by the political situation in the country, as it was employing around 12% of the workforce before January Revolution (Noueihed and Warren, 2012), many of those people had to leave their jobs, which impacted the unemployment rates in the country and led to increased poverty rates. In other words, the political instability

pressured the Egyptian economy, to the extent to which great efforts are needed to recover (Hosny et al., 2014).

Due to economic and political instability, the budget deficit increased from 10.6% of the GDP in the 2012 to reach 13.7% in the 2013 with decline in the 2014 to reach 12.8% of the GDP (Mof, 2015b). In addition, the growth rate declined to reach 1.8 and 2.2 in 2011 and 2012 respectively, compared to 5.1 in 2010 (MoPMAR, 2013).

With the deteriorated economic and political status of the country as well as the changes in peoples' behavior in terms of expressing their dissatisfaction, the quality of public services is no longer accepted. Therefore, demands were increased to enhance the quality of public services, putting more responsibilities on the government to respond to those demands by applying real reforms in various sectors.

The Egyptian government found itself in a very difficult situation with the increased social demands of different sectors and regions. Some of those demands were responded to such as, increasing the wages of public sector employees. However, the government had to prioritize the rest of social demands taking into account the extent to which this response will affect the State budget (Khattab, 2012) and how it will be reflected in. Furthermore, peoples' aspirations were directed to the necessity of different legislative and constitutional amendments in which the living standards are enhanced, especially with the lack of efficient fiscal policy (El Husseiny, 2016). After 25th January Revolution, great attention was directed to the efficiency and effectiveness of the State budget and whether it achieves its intended objectives or not as it plays an intrinsic role in political, social, economic and even security levels. Additionally, demands increased for more transparency in the spending patterns, budgeting process and for clear mechanisms to hold the government accountable (BHRO, 2014).

Therefore, decision makers and experts in Egypt had to direct their attention to the budget formulation process. This process is the cornerstone and foundation for any reform in the country. By enhancing the allocation of resources process, most of people demands will be responded. In other words, reforming budget formulation process is considered as window for opportunity to build the trust between the government and citizens.

II. State Budget Classification in Egypt

Budget classification is imperative, as it is one of the important components of sound budget management system. Budget classification identifies how budget is recorded, presented and reported. Issues like budget transparency, unity and coherence are affected by budget classification (Jacobs et.al, 2009). The Egyptian State budget includes the revenues and expenditures of the central administration, local administration and service authorities. Central administration comprises ministries' *Dwawin*⁴ and other governmental bodies working at the central level. Local administration includes local administration units such as, governorates' *Dwawin* and service directorates and departments. The service authorities include entities that provide services at both central and local levels such as, General Authority for Educational Buildings (BHRO, 2016).

The MoF develops the State budget using different classifications; functional, economic, and administrative. In the functional classification, as illustrated in Table (3), public expenditures are divided by functions in which the government attempts to achieve its social and economic objectives. For example, the functional classification for educational sector includes all governmental bodies working on education at the central levels such as Ministry of Education and Ministry of Higher Education in addition to the directorates, service authorities and universities at the local level. This classification allows the MoF to

⁴ Headquarters of the ministry or the governorate.

analyze the extent to which the expenditures of different functions and sectors are equitably distributed (MoF, 2015a).

Table 3: The Functional Classification of the State Budget

Code	Function	Scope
701	General Public Service	<ul style="list-style-type: none"> Comprises bodies that have administrative, legislative, regulatory and information responsibilities such as, Parliament, Presidency, specialized national councils, MoF and Central Audit Agency.
702	Defense and National Security	<ul style="list-style-type: none"> Contains military and civil defense and it includes bodies such as, Ministry of Defense and Ministry of
703	Public Order and Safety	<ul style="list-style-type: none"> Includes police services, judicial systems and fire fighters. Bodies under this function include Ministry of Interior, Supreme Constitutional Court and prisons.
704	Economic Affairs	<ul style="list-style-type: none"> Comprises the functions related to the economy such as, agriculture, irrigation, trade, energy and other related functions. This includes different bodies such as, Ministry of Agriculture, Ministry of Water and Irrigation and Ministry of Trade and Industry.
705	Environment Protection	<ul style="list-style-type: none"> Includes the functions related to waste disposal, sewage, fighting pollution and groundwater. Bodies include Ministry of Environment and Cairo Cleaning and Beautification Authority.
706	Housing and Community Amenities	<ul style="list-style-type: none"> Contains functions related to housing and community development and public utilities development. Bodies include Ministry of Housing and New Urban Communities Authority.
707	Health	<ul style="list-style-type: none"> Includes public health services, hospitals services and research and development. Bodies contain Ministry of Health and directorates, public hospitals and universities hospitals.
708	Youth, Culture, and Religious Affairs	<ul style="list-style-type: none"> Comprises arts, sports and religious services. Bodies include governorates, Al-Azhar and Supreme Council for Journalism
709	Education	<ul style="list-style-type: none"> Includes all services related to education and higher education. Bodies contain Ministry of Education, Ministry of Higher Education, education directorates and General Authority for Educational Buildings
710	Social Protection	<ul style="list-style-type: none"> Comprises issues related to aging, disabilities and subsidies. Bodies include Ministry of Social Solidarity and the National Council for Childhood and Motherhood.

Source: (MoF, 2015a)

The economic classification of the budget provides information on the type of expenditures such as, salaries and good and services (Jacobs et.al, 2009). The economic classification in Egypt aims at tracking public expenditure to its lower levels in order to monitor and control public expenditures (MoF, 2015a). It is worth noting that the Government Finance Statistics Manual-2001(GFSM-2001) of the International Monetary

Fund (IMF) was adopted by MoF in the financial year of 2005/2006 for the economic classification of the budget (El Husseiny, 2016). As illustrated in Table (4), in this classification the budget is organized with two main categories; general revenues and general expenditures. General revenues have five chapters and general expenditures has eight chapters.

Table 4: The Economic Classification of the State Budget

Chapter	Category
Expenditures	
General Expenditures	
1	Wages and Compensation of Employees
2	Purchases of Good and Services
3	Interest
4	Subsidies, Grants and Social Benefits
5	Other Expenditures
6	Investment
Acquisition of Assets	
7	Acquisition of Domestic and Foreign Assets
Loan Repayment	
8	Domestic and Foreign Loan Repayment
Revenues	
General Revenues	
1	Taxes
2	Grants
3	Other (Nontax Revenues)
Funding Resources	
4	Receipts from Lending and Sales of Financial Assets
5	Borrowing and Sales of Securities
Source: (MoF, 2015a)	

The administrative classification reflects the entity responsible for expenditures and revenues such as, ministry and department. The administrative classification in the Egyptian budget is merged with the functional classification and it is not purely reflecting clear administrative classification (BHRO, 2016).

III. Actors Involved in the Budget Formulation Process and the Legal Framework

In order to have a clear picture on the budget formulation process, understanding the legal framework in which the budget operates is inescapable. The legal framework represents the formal relationships between key players and the rules delineated by the State to regulate the process.

a. Key Actors in the Executive Authority

The budget process is regulated through the State's General Budget Law No. 53/1973 and its amendments by Law No. 87/2005. The formulation process starts with the Ministry of Finance (MoF), which, according to Articles 13 and 15 of the Law 53/1973, sends the budget circular to all spending units and agencies. The circular provides all rules and procedures that all spending units and agencies should follow during the preparation of the budget. Each agency or entity should prepare its budget in accordance with the State policy and should submit the draft budget to MoF four months before the beginning of the financial year.

Generally, the MoF is responsible for preparing and implementing the fiscal policies (Allen et.al, 2004). The budget authorities that receive the circular include line ministries, governorates, directorates and public service authorities. The budget proposals of these budget authorities should be submitted to the MoF by December of the same year followed by rounds of negotiations and discussions between these authorities and both MoF and Ministry of Planning, Monitoring and Administrative Reform (MoPMAR). The discussions continue till January and then consolidated proposal is submitted to the Cabinet accompanied with rounds of discussions and then submitted to the President in February or March (El Husseiny, 2016). According to Article 124 of the 2014 Constitution, the draft budget should be submitted to the legislature at least 90 days (three months) before the beginning of the fiscal year; mainly in April.

The role of the MoPMAR, regulated by Law No. 70/1973 of Planning, is depicted in its responsibility of administrating the investment chapter. The MoPMAR prepares the investment budget alongside with the five-year socioeconomic development plan in addition to the annual plan extracted from the five-year plan that covers both public and private sectors. The MoPMAR issues an internal circular with all procedures to all spending agencies. Based on the negotiations of both MoF and MoPMAR, the size of the allocation of the investment chapter is determined (World Bank, 2005). The line ministries and spending agencies submit their investment proposals to the MoPMAR for review (Allen et.al, 2004). The MoPMAR review the proposal according to specific methodology related to enhancing the human development indicators, to guarantee its harmony with the overall five-year socioeconomic development plan (World Bank, 2005). It should be highlighted that the government of Egypt launched its Sustainable Development Strategy 2030 (SDS 2030) to shape the public policies of the country for the next fourteen years. Therefore, the MoPMAR is now reviewing the proposals of the spending agencies according to the indicators of SDS 2030. These indicators are covering wide range of social, economic and environmental issues. However, yet there is no evidence regarding following these indicators.

It is important to highlight the role of the Central Agency for Organization and Administration (CAOA) in the budget formulation process. According to Article 5 Para 5 and 6 of the Law No. 118/1964 of establishing CAO, it is responsible for proposing the policies of wages, emoluments and compensations (chapter 1 of the budget), in addition to studying the proposed budgets related to the public service employees, number of jobs and identifying its levels within the system according to entities needs. Article 6 from the same Law refers to the role of CAO in reviewing the aforementioned proposed budgets before submitting it to the MoF.

The role of Central Audit Organization (CAO) is explained by Articles 30 and 32 in the State Budget Law No. 53/1973. According to Article 30, the CAO should provide its report on final accounts for all units in the State Budget to MoF and those units no later than two months after receiving the budget. According to Article 32, the CAO is responsible for providing the MoF with its comments regularly, as well as providing the legislature with its final report on the final account no later than eleven months after the end of the fiscal year.

At the local level, the budget process is regulated by Law No. 43/1979 of the local administration and its amendments by Law No. 145/1988. According to Article 120 of Law No. 145/1988, each governorate prepares its budget and presents it to the Local Popular Council for discussion and approval prior to the beginning of the fiscal year with four months. After the approval of the Local Popular Council, each governorate sends the proposed budget to the Minister of Local Development in order to discuss it with the governor and accordingly send it with his comments to both MoF and MoPMAR. According to Article 121 of the Law No. 34/1979, the Minister of Finance in coordination with the Minister of Local Development and governors carries out the discussions on budget proposals in order to be presented to the the Council of Governors.

It is worth noting that Articles 176 and 178 of the 2014 Constitution guarantees the fiscal, economic and administrative decentralization and that local units will have its independent budget. This is considered a good step towards promoting effectiveness in achieving the intended plans and policies at the local level as well as it enhances the resource allocation process.

Moreover, the Constitution of 2014 came to put floor for specific sectors in order to enhance human development and living standards for citizens. According to Articles 18, 19, 21 and 23, the state will allocate a percentage of the government spending of at least 3%, 4%, 2% and 1% of the Gross National Product (GNP) to health, education, higher education and

scientific research respectively, taking into account the gradual increase in these percentages to be inline with the international standards. This is the first time to state such minimum expenditure, as the preceding constitutions did not specify such issue. Also the Constitution in Article 238, obliged the state to fully work with the previous minimum expenditures for the sectors of health, education, higher education and scientific research as of fiscal year 2016/2017.

b. Legislature

The Parliament or the legislature has crucial and significant role in the budget formulation process. Legislature scrutiny over the performance of the executive authority ameliorates both transparency and accountability, enhances the understanding of citizens towards the plans of the government and contributes to building the citizens' confidence in the plans provided by government (World Bank, 2008a). The role of the Parliament in Egypt is articulated in Article 101 of the Constitution of 2014, which stipulates that the legislature is “entrusted with the authority to enact legislations and approve the general policy of the State, the general plan of economic and social development and the State budget. It exercises oversight over the actions of the executive power” (Constitution of the Arab Republic of). Hence, the legislature is responsible for reviewing and approving the submitted budget taking into account that the government preserves citizens' rights and pays attention to country priorities in which the overall vision and plan of the country is achieved.

With regards to budgetary process, as previously mentioned, the Constitution specifies in Article 124 that the draft budget should be submitted to the legislature at least 90 days (three months) before the beginning of the fiscal year; mainly in April. Regularly, the budget is finalized by the end of June and in case of delay, “the monthly allocations of the previous year's budget are renewed on interim basis” (Allen et.al, 2004, p. 12). However,

there is no specific time limit provided to legislature for reviewing and approving the budget, but it should be approved before the beginning of the fiscal year.

The legislature has various specific or sector-related committees, each one is responsible for specific issue. The Planning and Budgeting Committee (PBC) is responsible for reviewing and studying the proposed laws and decisions in addition to all other issues related to the state budget, the budget of local administrative units in collaboration with the Local Administration Committee, the budget of independent councils and regulatory authorities. Moreover, the PBC is responsible for the annual and periodic reports of the Central Audit Organization (CAO), in addition to its reports on final accounts. Also PBC is responsible for all legislatives that are related to taxes, customs and fiscal systems. PBC reviews the Parliament's budget and its final accounts as well as all other issues related to planning and budgeting within the ministries (Gezzat, 2016). With regards to budgetary process, PBC is the focal point in the Parliament for reviewing the budget along with other sectoral committees (USAID, 2012). During the approval phase, the MoF and other line ministries are subject to deep questioning concerning budget items by the PBC (Allen et.al, 2004).

The previous part underlined the role of the actors involved in the formulation process according to the legal framework in Egypt. The extent to which the legal framework is properly enforced by each of those actors relies on the degree of the effectiveness of the system and the level of informal relationships that is in turn depending on the degree of accountability, participation and transparency in the formulation process.

IV. Strategic Objectives of the State Budget in Egypt

The objectives of the State budget reflect the overall orientation of the government towards its social and economic policies. The strategic objectives of the Egyptian State budget are usually stated in the circular issued by MoF. Before January 2011 Revolution,

those objectives were revolving around different specific objectives including; taking into account the social dimension as a constant strategy to implement fiscal policies that aim at social justice and supporting decentralization and expanding the role of localities (MoF: Circulars of FY2006/2007; FY2007/2008; FY2008/2009; FY2010/2011).

Seemingly, the lack of implementing those objectives is one of the reasons behind January 2011 Revolution. As a result of the accumulated frustration from the government acts, people expressed their dissatisfaction regarding economic and social inequalities, which indicate the failure of the State budget to achieve the strategic objectives set by the government, in addition to deficiency in the budget planning process.

Ironically, the strategic objectives of the country stated in the issued circular by MoF remain the same after January 2011 Revolution, till those of the FY 2015/2016 and FY 2016/2017. The objectives of the State budget in these two circulars changed to focus mainly on decreasing the public debt, budget deficit, supporting social justice and protection and job creation for enhancing the economic situation (Circulars of FY2015/2016; FY2016/2017). In other words, it is reflecting the situation the country encounters and the eagerness of the government to enhance its economic situation taking into account preserving decent levels of equality.

Another important issue to be highlighted is in the issued circulars before January 2011 Revolution till the issued circular of FY 2014/2016, one of the strategic objectives was supporting decentralization. However, despite the constitutional requirement of applying fiscal decentralization, the last two circulars did not refer to such objective. This implies that the government does not have the intentions to apply fiscal decentralization in the near future, which affect the formulation process especially at the local level. With decentralized system, the local administration will have the full discretion over its budget and allocation of resources.

Shedding the lights on the strategic objectives of the State budget is important to deepen the understanding of the philosophy of the government behind the formulation process in Egypt. The degree of coherence and consistency in the government acts, especially in the allocation of resources, reflects the seriousness and genuineness of the government towards following its philosophy portrayed in the circular.

V. Formal Steps of Budget Formulation Process in Egypt

The formulation process and how it should be applied according to the Egyptian system are described in this part, while chapter six identifies the gaps in this process according to the good governance framework.

The formulation process is illustrated in Figure (3). The process starts with issuing the budget circular by MoF that reflects the social and economic objectives of the government for the next financial year. The circular contains the procedures and standards that should be followed by the spending agencies. Each spending agency starts preparing its budget in accordance with the instructions of MoF provided in the circular. Spending agencies start preparing their budget by collecting the needs and priorities of all their affiliated units.

After collecting the needs and priorities of the affiliated units, each spending agency starts to develop its draft budget proposal. Accordingly, the spending agencies send the proposed budgets to MoF, a copy of the sixth chapter (investment) chapter to MoPMAR and should send a copy of the first chapter (wages and compensations) to the Central Agency for Organization and Administration (CAOA) by maximum first of December each year.

When the MoF receives the proposed budget proposals, the researchers in the Ministry start studying the proposed budget in order to develop a parallel proposal for the spending unit for discussion. Consequently, the MoF in coordination with the spending agencies sets a schedule for negotiations and discussions on the proposed budgets, then the schedule is distributed among all spending agencies. The discussions and negotiations last for

almost one month starting January. The negotiation committee includes representatives from both parts; MoF and spending agency. According to the proposed budget and the parallel one, negotiations are made in light of the expenditures of the previous year, the role of the spending agency, and based on some indicators such as, the inflation and unemployment rates. As a consequence, the negotiations on both recurrent and investment budgets end with an agreed upon preliminary proposal of the spending agency. After finalizing the negotiations process, the consolidated budget should be proposed to the Minister of Finance who can request any amendments and adjustments. After his approval, the budget should be presented to the Cabinet of Ministers for approval. Accordingly, the Cabinet sends the final proposed budget to the President who submits it, after approval, to the Parliament.

Once the Parliament receives the proposed budget, the specialized committee in the Parliament; the Budget and Planning Committee (BPC), discusses the proposed budget with the other sectoral committees. The BPC negotiates also with MoF and could ask for clarifications regarding the budget. Consequently, the BPC prepares its final report to be presented to the Parliament for adoption, rejection or amendment. Following that, the Parliament discusses and amends budget proposal in accordance with Law and Constitution. Finally, the Parliament adopts the proposed budget and issues the Budget Law in order to move to the implementation phase.

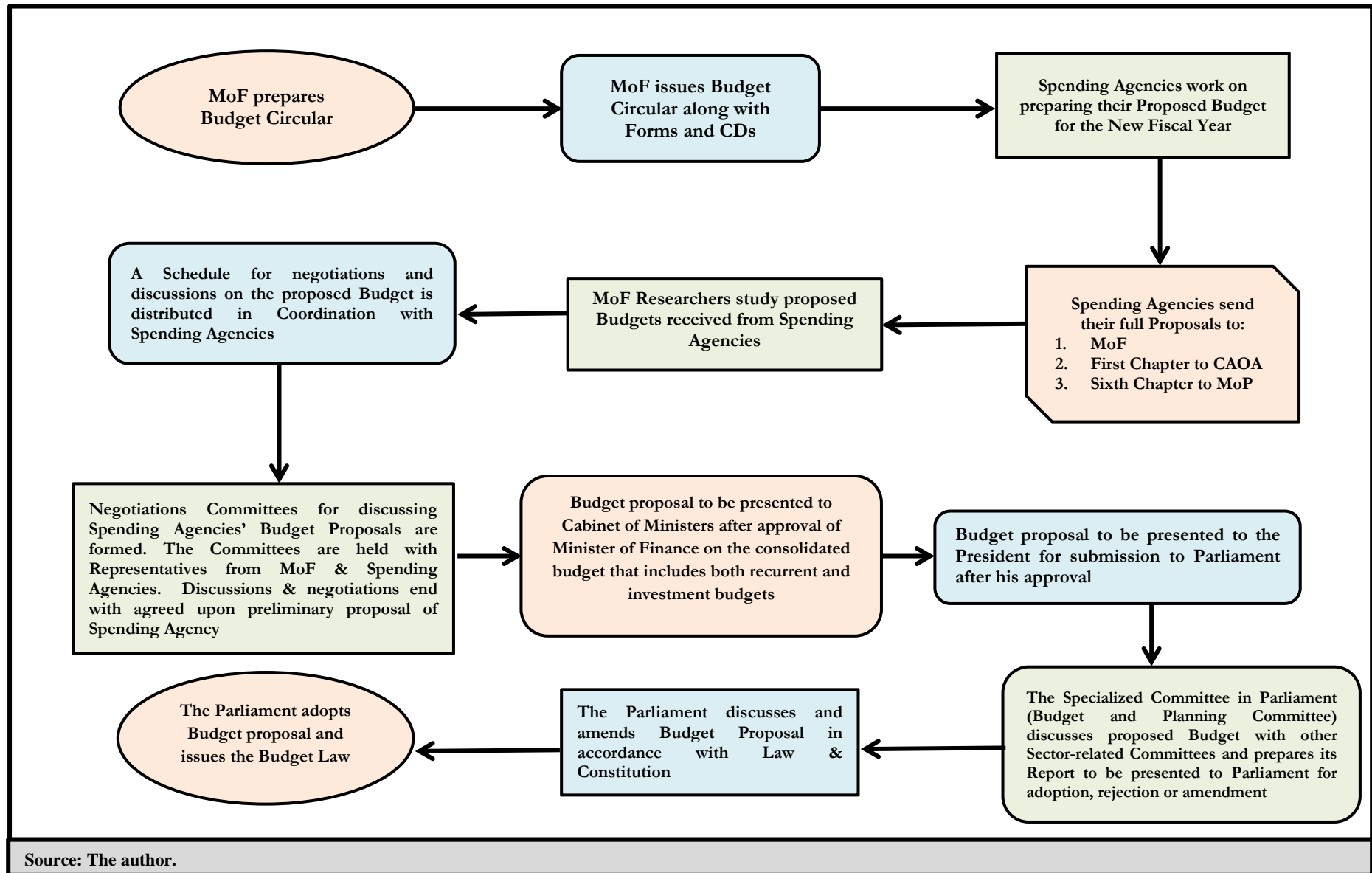
It is also worth highlighting where the budget formulation process at the local level starts before submitting the proposed budget to MoF and moves with the above mentioned process. Figure (4) shows the budget formulation process at the local level. After receiving the circular from MoF, financial units in each local unit, namely; governorate, district, city and village, prepare their budget proposal. After finalizing their proposals, the financial units submit them to the financial department in the governorate. Following that, the governor presents the consolidated proposal to the local elected council, for approval. Then, each

governorate sends the proposed budget to the Minister of Local Development in order to discuss it with the governor and accordingly send it with his comments to both MoF and MoPMAR. The Minister of Finance, in coordination with the Minister of Local Development and governors, carries out the discussions on budget proposals in order to be presented to the the Council of Governors.

Providing an overview on how the budget formulation process should be managed according to the Egyptian system and legal framework is important. Each aforementioned step has its own formalities that affect the overall effectiveness of the formulation process. This overview represents a base for analyzing the situation according to the real practices and identifying the gaps in the process.

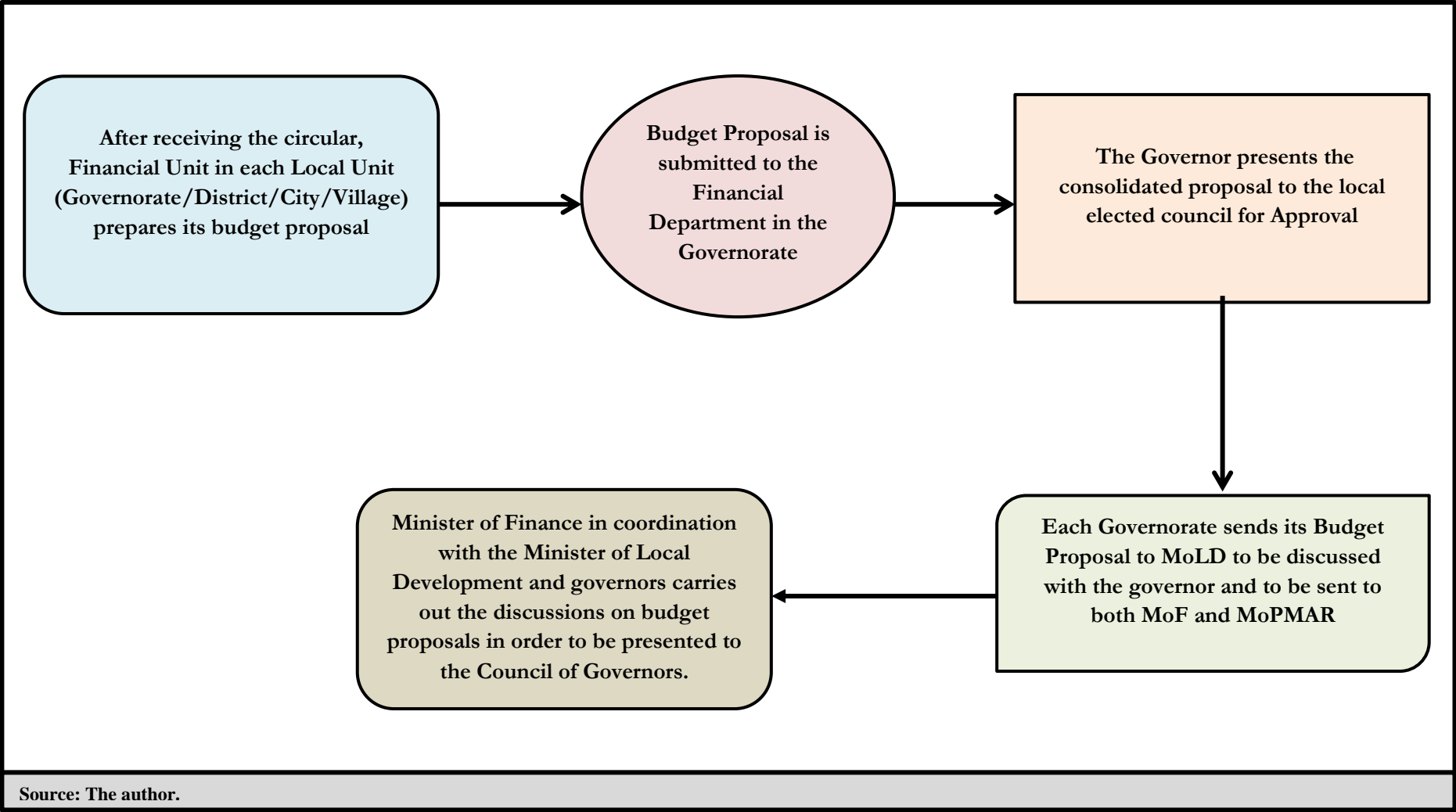
The following chapter provides analysis on the real practices of budget formulation process in Egypt, shedding the lights on the dynamics that determines the allocation of resources, the situation of Egypt according to international standards, the factors that affect the formulation process and the extent to which legal and political contexts affect the formulation process.

Figure 3: Budget Formulation Process in Egypt



Source: The author.

Figure 4: Budget Formulation Process at the Local Level



Chapter Six:

Analysis of Budget Formulation Process in Egypt

This chapter focuses on identifying the gaps in the budget formulation process, according to the good governance principles, in order to situate the practices of budget formulation process in Egypt within the body of the literature and to draw a map for the prerequisites needed to enhance the process.

The fiscal performance in Egypt witnessed a severe decline after January 2011 Revolution. Nevertheless, the public demands of more accountability and transparency open the door for reforming the public financial management system. Especially with the increased awareness regarding the important linkage between the budget and government's objectives and priorities (USAID, 2012). Therefore, understanding the dynamics of the budget formulation process and linking such understanding with the principles of good governance paves the way for fiscal performance reform initiatives.

I. Participation in Budget Formulation Process

There are many actors involved in the budget formulation process in Egypt. The relationship between those actors is a key factor in determining the allocated resources. Additionally, CSOs involvement in the process is crucial for conveying citizens' needs to the government. This part sheds the light on the situation of participation in budget formulation process.

a. The Relationship between Core Ministries and Spending Agencies

The executive authority in Egypt is attributed with organizational structure in which decisions are centralized. The intergovernmental (horizontal) relations between

levels of authority, within this structure, are distinct, inflexible and hierarchical. This organizational structure indicates insufficient level of horizontal coordination and communication (Sayed, 2004). Also the relationship between the actors involved in the budget formulation process is complicated and reflects different hierarchical and power factors.

Before issuing the circular, the Minister of Finance requests an assessment of the expected revenues and report on the deviation between the previous budget approved by the legislature and its final account. Based on those reports in addition to reviewing the previous revenues and expenditures, the budget of the next FY is prepared. Line ministries and spending agencies prepare budget proposals based on the allocations of the previous budget. They receive updates on the interest rates, price movement and other information from the MoF (Allen et. Al, 2004).

The top-down approach is solely adopted in issuing the circular by MoF. However, the circular is distributed without specific ceiling for spending agencies. The lack of budget ceiling contributes to the exaggeration in the submitted proposals by spending agencies, to be as a “wish list” rather than well articulated and reflective proposals. Paradoxically, those agencies are conscious that their proposals will be subject to major cuts by MoF during the negotiation process (European Commission and World Bank 2009; World Bank, 2005; USAID, 2012; Allen et. al, 2004; Al Husseuny, 2016). As clearly stated; spending agencies “*believe that we will make cuts on their estimations, and honestly we do that, they lack the capacity in which the budget is correctly estimated and forecasted*” (Senior Official 2 at MoF, April 2016). Such statement reflects the lack of trust in the capacity of spending agencies in setting their plans. Although all interviewees

reported that the relationship with the MoF is positive, the domination of MoF regarding the allocation of resources and the absence of budget ceiling indicate patterns of tension in the relationship and dissatisfaction from both sides.

The negotiation committee is formed from representatives of MoF and the spending agency, they negotiate and discuss the proposed budget of the spending agency and the amendments made by the MoF till they reach a preliminary agreement on the final allocated resources. Rarely, the spending agency refuses the preliminary agreement, but if so “*at the end what we said is what the agency will follow because we do not have other option*” (Senior Official 2 at MoF, April 2016). This means that the final decision is that of the MoF not the spending agency, which contributes to the unwillingness of the spending agencies towards achieving their objectives, as they do not have discretion over the resources.

The negotiations on budget chapters vary according to their importance, with the hardest being the wages and compensations chapter. For instance, “*we have lots of negotiations on the non-basic issues of the first chapter that is concerned with wages and compensations*” (Senior Official at MoE, April 2016). Also officials at MoF reported that most spending agencies are concerned with the wages chapter rather than the overall objectives of the spending agency itself. Such focus reflects the organizational culture of prioritizing the wages rather than the objectives. It also indicates how the economic and political situation of the country, especially with the increased prices, affect the negotiations process. Particularly after January 2011 Revolution, government officials encounter a huge number of factional demands to increase wages, which affect the performance of their agencies. Therefore, officials prefer pacifying the situation by

paying great attention to the allocations of the wages chapter. It is worth noting that due to the large amount of public employees, the first chapter has the largest allocation of the State budget, around 26% of the public expenditures in the FY 2015/2016. This consequently affects the allocation of resources process especially with the very limited fiscal space in which the country can invest in social and economic development activities.

Moreover, although the legal framework obliged the spending agencies with sending a copy of the first chapter to CAO, most of those agencies do not apply this process even if they have new staff or appointments. This reveals the lack of law enforcement, especially with the absence of accountability mechanisms, and monitoring and evaluation tools.

According to the current Advisor to Minister of Finance “*there are issues that are not reasonable, for example, if a spending agency asks for 10 and the MoF decides to give it 2, this is not a result of lack of data and analysis rather than the fact that the MoF does not want to accept the request of the agency*”. Indisputably, the power of those in-charge of the spending agencies, and their ability to negotiate for their needs are crucial factors affecting the formulation process. For instance, the spending agencies that have the prioritization of the leadership of the country may have more allocation despite the real needs of all other agencies. This could be emphasized by the current advisor to Minister of Finance who said “*some line ministries, rely on power, you cannot say no to some of these ministries and they do not allocate their resources based on priorities*”. This accentuates the argument of Al Hussein (2016) regarding claiming that the discretion over the budget decisions in the formulation process in Egypt, is more

dominant by power relations rather than following rules. In other word, power relations play an intrinsic role in the formulation process, especially with the lack of institutional thinking that is based on clear vision, objectives and priorities.

On one side, most of spending agencies interviewees reported that they are subject to cuts if they did not spend the whole allocated money in the previous FY, “*we try to spend the money even if we do not need it because we do not want to be subject to reduction in the budget of the next year*” (Senior Official at MoSS, May 2016). However, on the other side, the Former Minister of Finance states that “*if someone came and told me: I need 100 million pounds to do investments and I had 50 million I did not spend last year. I do not give him what he wants because he had the money and did not implement his plans*”. This situation reflects the fragile plans of spending agencies and their limited capacity to prepare and undertake their plans, in addition to the lack of MoF trust in the ability of those agencies to implement their plans. Nevertheless, the domination of MoF over the allocation of resources, despite the priorities of the agencies, may lead them to randomly spend money on non-planned issues to avoid any further cuts.

During the preparations of the investment chapter, the MoF role is considered more of an “observer” (Allen et. al, 2004). The budget department in MoF does not participate in the negotiations between MoPMAR and spending agencies. MoF and MoPMAR agree on the total financial envelope for the investment chapter and the MoPMAR sends the final allocation to MoF to be included in the State budget (USAID, 2012). The relationship between the two ministries is attributed with cooperation and coordination. However, both ministries perceive the inefficiency of the dual budget system, preferring merging the preparation of the two budgets under one ministry, which

will be explained in the effectiveness part. During the formulation process, the spending agencies negotiate with the MoPMAR on the investment budget, the situation here is not different from the negotiations on the recurrent budget. Spending agencies also tend to exaggerate in their requests, hence, MoPMAR reduces the requested amount as the Senior Official at MoPMAR stated “*definitely there are huge cuts in their requests because it is not reasonable*”. Despite imposed reductions, spending agencies are aware with the limitations of both MoPMAR and MoF in allocation of resources.

The lack of horizontal coordination is presented in the preparation process at the local level. The governorates send their proposed budget directly to the MoF and MoPMAR without sending a copy to the Minister of Local Development who does not discuss the governorates budget with the governors and the MoF. Also the Minister of Finance does not present the budget to the Council of Governors. This reflects a clear violation of law supported by the lack of accountability mechanisms. It also shows the lack of MoLD’s interest in following the plans and priorities of the governorates. Furthermore, the Governor stressed on that the consecutive governments after January 2011 Revolution resulted in weakening the role of the General Secretariat for Local Administration that is responsible for all governorates issues including the budget formulation. The Governor also emphasized on the lack of flexibility and the increased dominance of the central government after January 2011 Revolution, stating: “*we are heading towards more centralized system*”. This tendency towards centralization generates tension between local and central levels especially in the allocation of resources. The centralized system impedes the development activities of the local level, and contributes to increasing the gap of mistrust between citizens and government.

At the local level, the local elected council is mainly concerned with monitoring the performance of the local administration to ensure that the citizens' needs are reflected in the government's activities. The local elected council, during the revision of the governorate budget, directs more attention to the investment budget and may amend or adjust it. While the local administration units recognize that MoF will make cuts on their proposed budget, part of their overstating in the requested amount is to satisfy the local elected council. This could be attributed to the centralized fiscal system. If the local administration has the full discretion over its resources, it will reasonably perform only according to its available resources.

Line ministries prepare their budgets in isolation of the local budgets, "*we are working in isolated islands*" (Governor, April 2016). Also, as claimed by El Husseiny (2016), the negotiations between governorates and MoF not always include line ministries. Therefore, both budgets are not linked and integrated together despite that both are to be implemented at the local level. The central government mostly takes the responsibility of determining the expenditures with minimal role of local units. This means that central government is responsible for the acts and performance of the local units. Such cases allow the legislature to only hold the minister accountable with the absence of accountability mechanisms at the local level (Abdullatif, n.d.b). Despite the existence of the local elected council that acts as a watchdog on the governorate performance, there are no clear accountability mechanisms in which the council can hold the governor accountable. Also it should be noted that after the January 2011 Revolution, the local elected councils were dissolved and the executive council of the governorate

was responsible for approving the governorate’s budget. Such conditions gave more dominance to the executive authority over the local budget.

The budget should be submitted to the Cabinet of Ministers after the approval of the Minister of Finance. The role of the Cabinet in the formulation process is more of routine, “*the role of the Cabinet in the formulation process is very limited compared to other countries*” (Former Advisor to Minister of Finance, April 2016). This shows the degree of attention directed to the budgeting process in Egypt, especially with the perception of dealing with the budget as numbers rather than objectives. Additionally, this indicates that the budget could be very complicated to understand and hence not allowing for meaningful negotiations.

In the assessment of the indicator of orderliness and participation in the annual budget process in Public Expenditure and Financial Accountability (PEFA)⁵ report, Egypt received an overall score (B)⁶ as presented in the following table:

Table 5: Assessment of Orderliness and Participation in the Annual Budget in PEFA Report (2009)

Dimension	Score	Explanation
Existence and observance of a fixed budgetary calendar	A	A clear annual budget calendar has been established by tradition, is adhered to, and allows MDAs enough time to complete their detailed estimates on time.
Directives on the preparation of budgetary documents	D	The budget circular does not include budgetary ceilings approved by Cabinet which the budget entities can use as a basis for preparing their budget proposals.
Timely approval of the budget by the Legislature	A	Parliament has approved the budget before the start of the fiscal year during the last three years.
Source: European Commission and World Bank, 2009. P. 47.		

⁵ PEFA report in Egypt was prepared based on the government’s request in 2009. However, this report is not approved by the Government of Egypt and its dissemination was not permitted.

⁶ This score, and other PEFA related scores mentioned in this study are only suggested by PEFA team but not approved by the Government of Egypt.

It could be indicated that after January 2011 Revolution, no changes are made in the above mentioned indicator. There is a clear annual calendar that provides spending agencies with enough time. Also budget ceiling is not provided in the circular. For the last dimension, since the Revolution, with the political instability of the country and the absence of the legislature, the executive authority holds the responsibility of approving the budget even with the formation of the Parliament of 2012 that was dissolved before submitting the budget. The budget of the FY 2016/2017 is the first budget presented to the legislature after the January 2011 Revolution.

b. The Role of CSOs in the Formulation Process

Various studies on budgeting process in Egypt, stress on the importance of the role of CSOs in the formulation process, as they work on collecting information regarding the needs of local communities to be reflected in the budget (Khattab and Ahmed, 2008; Abdullatif, n.d.b; BHRO, 2015). Nonetheless, there is no clear representation of CSOs in the formulation process. The concept of involving such organizations in the formulation process is not acceptable by the officials. They have the believe of understanding all citizens' needs more than those organizations, ironically, both Former Minister of Finance and the Senior Official at MoE stated "*they will not know more than us*". The situation is not different at the local level, the CSOs do not have popularity in terms of formulation process, as they are perceived as "*having specific interests and they are not regulated*" (Governor, April 2016). The lack of involving CSOs in the formulation process could be attributed to the preconceived notion and entrenched belief that those organizations are working against the interests of the country and serving foreign interests. Also it could be related to the weak role of CSOs in Egypt

generally and in budgetary issues specifically that hinder their real involvement in the formulation process. However, it is worth noting that there are some of CSOs working on budgeting issues in Egypt. They publish reports and studies. Also some of these organizations are supporting the parliamentarians through different sessions with the understanding of the State budget nature in Egypt.

Participation in budget formulation process in Egypt is a dominated process by different power relations. The process is far from following rules and procedures. This norm stimulates tension between core ministries and spending agencies at both central and local levels. The process takes place with lack of monitoring tools and CSOs involvement. After January 2011 Revolution the situation remains the same with some deterioration, especially at the local level.

II. Accountability in Budget Formulation Process

The role of the legislature in budget formulation process is crucial. This role is depicted in reviewing the allocated resources and guaranteeing its accordance with the overall priorities and citizens needs. This part provides an overview on the role of the legislature in the budget formulation process.

a. The Legislative Scrutiny over the Budget

In Egypt, the legislature scrutiny over budgetary process is mainly divided into two main types; ex-ante and ex-post scrutiny. The ex-ante scrutiny, which is the focus of this study, is related to the oversight on the formulation process, when the government submits the budget proposal to the legislature for review and approval. During the review stage, the legislature aims at ensuring that the government does not impose new taxes on citizens and that the government proposed expenditures are in compliance with the

socioeconomic plan to meet the citizens' needs. The ex-post scrutiny is concerned with oversight after the implementation phase (Abdullatif, n.d.a).

Before the January 2011 Revolution, the MoF used to submit the budget first to the *Shura* Council for information. Sometimes, according to the Former Minister of Finance, the council provided very minor comments on the budget to be consequently submitted to the Peoples' Assembly for approval. However, after January 2011 Revolution, Egypt transformed from bicameral to unicameral system.

Before January 2011 Revolution, the ruling party, the National Democratic Party, was dominating the Parliament with no plurality of political parties. During that time, the process of discussing the budget for adoption was more of routine rather than real discussions and negotiations. After the January 2011 Revolution, the Parliament elected in 2012 was dissolved before submitting the budget. Afterwards, the executive authority dominated the responsibilities of the legislative authority and was in-charge of adopting the budget till the elections of the new Parliament in 2015. Therefore, the budget of the FY 2016/2017 is considered the first presented budget to the legislature after the January 2011 Revolution and presents the first test for the legislature power over the budgetary process. The Parliament of 2015 is attributed with plurality of political parties with different ideologies such as, liberal, Islamic, liberal socialism and centrist. There is no clear domination of specific party over the legislature decisions, even with the existence of "In Love with Egypt" coalition "*Fi Hob Misr*" that is related to the government. This coalition is yet not that strong to affect the decisions in the Parliament, also the political parties are somehow attributed with immaturity, which explains the reason behind the lack of the domination of specific party or coalition over legislature decisions.

Yet, the legislature power over the budgetary decisions is not clear. Parliamentarians assure that the variety and diversity in the Parliament is a positive issue and that they will practice more control over the budgetary process. However, some interviewees reported that the new Parliament is not that different from the one before January 2011 Revolution. *“The situation is not different than before, they come and ask for the same things, the parliamentarian comes and asks for things his governorate does not need, despite our plans, he just wants to satisfy his constituencies”* (Senior Official at MoSS, May 2016). Three issues could be presented to explain such situation. First is the reflection of the dominated culture of both people and Parliamentarians in which Parliamentarians have a magical stick to respond to any requests despite the preset plans and priorities of the country. The second is the anxiety of Parliamentarians regarding not responding to peoples’ demands, especially after January 2011 Revolution, as people are not scared to express their needs. The third issue is the lack of elected local council since 2011, which negatively affect the performance of the local administration to achieve citizens’ needs.

b. The Relationship with the Executive and Legislative authorities and the Capacity of the Legislature

The relationship between the executive branch and the legislature regarding the budget review and discussion was a sort of routine. El Husseiny (2016) stresses on that the incentives of the parliamentarians and the government, especially with the ruling party before the January 2011 Revolution, drove the public expenditure priorities, which led to the lack of sound fiscal performance. The relationship between the current Parliament and the executive authority or MoF is still ambiguous. The President sent the

budget of FY 2016/2017 to the Parliament on 31 March 2016. The discussion on the budget with MoF did not take place till conducting the interviews with the Parliamentarians. However, most of Parliamentarians reported that during the interim committees that were formed to review the legislations adopted by the executive authority, the MoF and MoPMAR as well as other executive bodies were cooperative and provided the Parliamentarians with the needed information.

Apparently, dealing with the Parliamentarians is different than with spending agencies, as with Parliamentarians there is a degree of caution and carefulness. Some Parliamentarians who previously were in-charge of spending agencies, reported that the MoF, by nature, is stricter with spending agencies than with the Parliamentarians.

Clearly, the Budget and Planning Committee (BPC) is the focal point of budget debate and review in the Parliament, and it coordinates with other sectoral committees. The existence of BPC in the Parliament is considered as a strength point. According to Pelizzo et al. (2005), the existence of responsible committee for ex-ante scrutiny is crucial to understand the fiscal policy submitted by the government, which is balanced and complemented by the role of the sectoral committees.

The amendments on the Parliament's executive regulations did not include any changes on the role of BPC. However, Parliamentarians reported that some amendments on BPC role were proposed but they were rejected, *"they do not understand that this is for the benefit of people, they do not want to hear. One of the proposed amendments was to allow the Head of BPC to directly communicate with the Minister for Finance instead of addressing him through the Speaker of the House, which could save a lot of time"* (Parliamentarian 3, May 2016). This could be alerting, the rejection of all proposed

amendments shows that the patterns of the new Parliament are somehow similar to the one before the Revolution. Rejecting changes and accepting the situation as it is will weaken the role of BPC and undermine its ability to practice more oversight on the MoF. Before January 2011 Revolution, many reports tackled the parliamentary oversight over the budgetary process in Egypt. In its report on Country Financial Management Accountability Assessment in 2008, the World Bank stated that BPC has many weaknesses including the lack of capacity of both BPC and parliamentary officials who provide support to the members of BPC (World Bank, 2008).

The new BPC has variety of experts; the Head of the committee is an academician in the commerce field, the committee includes other academician in the same field, expert in taxes, former employee at the Central Audit Organization, in addition to others who are not specialized Parliamentarians. Most of Parliamentarians stressed on the importance of the background of the members of BPC in analyzing and negotiating the budget with MoF. Also they stated that the researchers appointed at the Parliament are qualified and have the capacity to support the BPC. However, the interaction between the members of BPC and the researchers is not deep yet enough to identify the capacity of the researchers.

Each sectoral committee receives only its related part in the budget not the overall State budget. For instance, the Education Committee receives the budget of Education, *“I do not need the overall budget, I am only concerned with the budget related to my committee, but if I want to get the overall budget, I can easily get it. There is no need for providing sectoral committees with the overall budget”* (Parliamentarian 5, May 2016). Such statement shows the lack of perceiving the budget as one coherent document.

However, the BPC needs to provide the sectoral committees with a summary on the overall budget, in order to serve the coherence of budget objectives “*each sectoral committee should receive its related budget, but the BPC should have an important role in explaining the rest of the budget in light of the overall objectives of the country*” (Parliamentarian 4, May 2016). There are high expectations from Parliamentarians towards the role of BPC to support their understanding to the budget. Though, the capacity of the committee to endure Parliamentarians requests is still questionable.

There is difficulty in explaining the budget to the Parliamentarians, “*the budget is complicated and needs a long time to understand*” (Former Minister of Finance, March 2016). It is important to provide those Parliamentarians with simplified documents and information to help their understanding, “*they are not specialized, the problem is that they are perceiving the budget only as numbers*” (Parliamentarian 3, May 2016). which indicates the absence of the perception of dealing with the budget as a plan that corresponds to government’s objectives. This also emphasizes the argument of El Hussein (2016) who stresses on the fact that budget negotiations in the Parliament, before the January 2011 Revolution, were characterized with the concentration on the financial factors rather than the efficiency and effectiveness factors and the extent to which the proposed budget will meet the citizens’ needs. Seemingly, the new Parliament has the same perception and orientation.

The role of CSOs and think tanks in supporting the legislature is negligible. They are not involved in the process by any means. However, BPC members expressed their willingness and intentions to involve CSOs and think tanks, as they have considerable experience and knowledge in the negotiations of the next budget, as they cannot

guarantee this for this FY because of time constraints. However, it could be indicated with the session provided to Parliamentarians to understand the State budget from some CSOs that there is a limited informal role of those organizations in the process.

In 2009, PEFA report came to assess the legislative scrutiny of the budget law. The report emphasized that the review of the budget proposal by the Parliament is ostensible or superficial to just follow the formal rules, as it lacks the capacity and resources to review such complicated document. Therefore, the budget proposal submitted by the government were considered final with minimal amendments by the Parliament. Additionally, the PEFA report stressed on the lack of capacity of BPC referring to that the Parliament had to “outsource” the budget review for the financial year of 2007/2008. Also the report revealed that the time provided to the legislature for reviewing the budget by the Constitution is sufficient (three months) (European Commission and World Bank, 2009). The following table provides the PEFA assessment of the related dimensions to formulation process on the legislative scrutiny of the budget law⁷ which received an overall score with (C+):

Table 6: Assessment of Legislature Scrutiny of the Annual Budget Law in PEFA Report (2009)

Dimension	Score	Explanation
Scope of examination by the Legislature	C	The People’s Assembly review includes fiscal policy for the forthcoming year as well as selective estimates of expenditure and revenue, but at a stage when detailed proposals have been virtually finalized.
Degree to which legislative procedures are recognised and respected	B	Simple procedures exist for the People’s Assembly budget review and are respected.
Sufficiency of time for the Legislature to respond to the budgetary proposals.	A	The People’s Assembly has at least three months to review the budget proposals.
Source: European Commission and World Bank, 2009. P. 78.		

⁷ The table shows only the dimensions related to the budget formulation process in this indicator. There is other dimension related to the rules applicable to the budgetary amendments during the year which do not require the approval of the legislature.

After January 2011 Revolution, the role of the legislature remains the same with the Constitution of 2014, however, the capacity of the legislature to undertake full review is not clear yet. For the second dimension, the detailed procedures regarding the role of the Parliament in the budget review is not provided in the Constitution or in the Budget Law, but the norm and tradition of the procedures are presumably dominated. However, the extent to which these procedures are respected is still vague. For the third dimension the time provided by the Constitution of 2014 to the legislature is three months to review the budget, which is considered sufficient.

c. The Reports of Central Audit Organization

According to Law No. 53/1973 of the State Budget, the CAO is responsible for providing the legislature with its report on the final account no later than eleven months after the end of the fiscal year. In the formulation process, benefiting from such report is crucial. The legislature should take into account the results of such report to practice its accountability role and hold the government accountable for any deviation or exploitation. The performance of the government presented in this report provides insights to Parliamentarians during the formulation process. Parliamentarians reported that they requested the report from CAO but did not receive it till the date the interviews were conducted. However, the extent to which the report provides relevant and reliable information, and the degree of using this information to practice the accountability role are crucial “*the reports of CAO are repetitive, they do not provide anything new, especially with the lack of accountability*” (Parliamentarian 4, May 2016). This statement indicates the situation before the January 2011 Revolution, but it shows the expectations of the Parliamentarians from the CAO report. Moreover, the lack of CAO response to the

requested report accentuates the issue of dealing with the report as routine not a tool for accountability and for being a base for the debates with the government on the next FY year budget.

The situation of budgetary accountability in Egypt after January 2011 Revolution is still vague with the new Parliament. The legislature has limited role in the formulation process and needs the capacity to strengthen its role. The relationship between both executive and legislative authorities is attributed with explicit cooperation and implicit tension. Yet, the role of the new Parliament in overseeing the budgetary process is still unclear.

III. Transparency in Budget Formulation Process

Generally, transparency in Egypt is a controversial issue. Some believe in its importance for enhancing participation and accountability and others perceive it as a threaten to the national security. In terms of budget formulation transparency, the situation is not different. This part provides analysis on the status of budget formulation transparency.

a. Public Access to Key Information

Before January 2011 Revolution, the public financial system in Egypt witnessed many reforms that contributed to its status of transparency. Nevertheless, according to the Open Budget Survey (OBS), which measures the budget transparency, engagement and accountability around the world, in years 2006, 2008 and 2010, Egypt received ranks of 19, 43, 49⁸ respectively (IBP, 2010). In 2012, its rank decreased to reach 13 (IBP, 2012). In 2015, Egypt's rank reached 19 and was classified as insufficient with scant or non-budget transparency, engagement and accountability (IBP, 2015). However, the

⁸ 49 indicates better rank than 19.

deterioration in OBS could be attributed to the political and economic instability that Egypt experienced. In addition to the absence of the legislative authority for long time after the January 2011 Revolution, and the domination of the executive authority over budgetary process. Nevertheless, there are high expectations towards enhancing the rank of Egypt especially after the formation of the new Parliament.

While citizen budget is an output, it is important to shed the light on the government efforts towards such budget, as it indicates the government perception towards providing citizen with necessary information in the formulation process. In the financial year of 2014/2015, the MoF published the Citizen Budget as a step forward towards transparency and engagement. While issuing Citizen Budget is a positive output, involving citizens in budget formulation process needs more efforts, time and sustainability. Nevertheless, the government's efforts towards publishing Citizen Budget came with the pressure of international organizations and donors which have specific standards and criteria "*Citizen Budget is developed only to satisfy international agencies*" (Senior Official 3 at MoF, April 2016). The real intentions of the government here are questioned, whether they need actual and tangible citizens' integration or they are more likely to satisfy the donor community, which threaten the sustainability of the Citizen Budget.

For officials, providing citizens with key fiscal information is not important. Some of them believe that citizens are not interested in budget information and all what they want is better life. "*they do not care or interested to know*" (Senior Official 3 at MoF, April, 2016). They believe that a small segment of educated people is interested in such process.

The following table presents the assessment of PEFA, regarding the dimension related to the formulation process, in the indicator of Public Access to Key Fiscal Information⁹ that shows that the government does not provide a complete set of documents.

Table 7: Assessment of Public Access to Key Fiscal Information in PEFA Report (2009)

Dimension	Explanation
Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	No. Since the amendments to the Constitution in 2007, Article 115 requires that the budget be presented to Parliament no later than three months before the budget year begins. The budget is posted on the MOF website at the beginning of the new fiscal year.
Source: European Commission and World Bank, 2009. P. 44.	

In Article 68, the Constitution of 2014 guarantees the disclosure of information as right for all citizens, obliging the State to ensure transparency in providing information. Nevertheless, the budget Law No. 53/1973 does not oblige the government or the legislature to disseminate any reports related to the public budget. Article 32 compels CAO only to submit its report on the final account to the legislature and to send a copy of its regular observations to the MoF. Public and media do not have access to CAO report, even with the leakage of some information to media through the Parliament, it is not considered the most substantial information in the report. Both the executive and the legislative bodies in addition to CAO perceive the report as a confidential document (World Bank, 2008). To enhance the transparency, accountability and fighting corruption, clear legislation on freedom of information should be enacted (EIPR, 2014).

⁹ The table shows only the dimensions related to the budget formulation process in this indicator. There are other five dimensions. First is in-year budget execution reports. Second is year-end financial statements. The third is external audit reports. The fourth dimension is contract awards. The fifth is Resources available to primary service units.

The MoF publishes the circular on its website after distributing it among spending agencies, which is considered a positive step towards providing information to citizens on the overall objectives. However, the draft budget is not disclosed before the legislature approval (El Husseiny, 2016). Though the Constitution of 2014 ensures the freedom of the information, the status of obtaining a set of budget documentations when submitted to the legislature remains unchanged. The MoF does not publish any information regarding the submitted documents to the public. The entrenched belief in dealing with budget as a secret document is still dominant among the officials. Moreover, many interviewees stress on the importance of the existence of freedom of information law emphasizing on its importance for practicing accountability, *“freedom of information law is very important and will be very beneficial”* (Former Minister of MoI, April 2016). They also reported its importance on different levels not only for the budget; *“it is very important, providing information is imperative, especially when it comes to economy, we will discuss the law in the second regular Parliament session”* (Parliamentarian 1, April 2016). However, one Parliamentarian reported that not all information should be disclosed, *“we cannot disclose all information including the report of CAO, we have to be realistic, we are here representing the citizens and we can have the information from the government but it should not be for everyone”* (Parliamentarian 5, May 2016), stressing on that there are issues related to national security which should not be publicized, especially with the current political situation of the country. Nevertheless, the sense of most Parliamentarians and most senior officials towards the importance of such law articulates the prospect of both authorities to provide information to public, yet, the

nature of the law, the degree of its support to freedom of information, and the extent to which the government will abide to it are still questionable.

Moreover, many studies referred to the lack of information regarding extra-budgetary funds and contingent liabilities (EIPR, 2014; El Husseiny, 2016; World Bank, 2008). Additionally, there is a lack of information regarding the budget of specific entities such as, defense, which is provided as one number with no details. It should be highlighted that the defense spending could negatively affect the social spending, and consequently, the welfare of citizens. Such case could lead to increase in poverty rates and inequality (Ali, 2013). Still, the orientation of both government and legislature to work on freedom of information law is slightly ambiguous.

b. Comprehensiveness of Information Provided to Legislature

The comprehensiveness of budget information submitted to the Parliament and the extent to which the submitted information is complete and provide a complete picture on the State budget are important. In PEFA assessment Egypt received a high overall score (A) in the indicator of Comprehensiveness of Information included in Budget Documentation¹⁰, as presented in the following table:

Table 8: Assessment of Comprehensiveness of Information Included in Budget Documentation in PEFA Report (2009)

Dimension	Score	Explanation
Proportion of information mentioned below and contained in the most recent budgetary documentation published by the central government.	A	Recent budget documentation fulfils 8 of the 9 information benchmark
Source: European Commission and World Bank, 2009. P. 78.		

¹⁰ Information on nine main issues determine the score of this dimension. First is Macroeconomic assumptions, including aggregate growth, inflation and interest rate estimates, at the very least. Second is Fiscal deficit. Third is Deficit financing. Fourth is Public debt balance. Fifth is Financial Assets. Sixth is Results of previous budget exercise. Seventh is Results of the current budget exercise. Eighth is Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year. Ninth is Explanation of the budget implications of new policy initiatives.

As shown in the table, the budget documents submitted to the legislator include all relevant information such as, macroeconomic assumptions, fiscal deficit, public debt balance, deficit financing, result of previous budget exercise, summary on budget data for both revenues and expenditures and explanation of the budget implications of the new policy initiative. However, document on financial assets was the only required document that was not included. The status of the documentation submitted to the legislature is still unchanged with cooperation from MoF in providing any requested information from the PBC members or any other Parliament members.

The situation of budget formulation transparency after January 2011 Revolution remains the same with slight deterioration. Clearly, the citizens' aspirations for more transparency and disclosure of fiscal information are still not achieved, due to the perception of confidentiality and security. Yet, the role of the Egyptian legislature is crucial to translate the Constitutional requirements into effective laws.

IV. Effectiveness in Budget Formulation Process

There is no doubt that the degree of the effectiveness in budget formulation process is imperative for achieving the government's objectives. In Egypt, budget formulation effectiveness encounters many problems. This part sheds the lights on these problems.

a. Budget Ceiling, Medium-Term Expenditure Framework and Dual Budgeting

Putting hard constrains or budget ceiling transform spending agencies from following what they need to what is available for them to achieve their goals. Hard budget constrains enhance the level of ownership of spending agencies.

In the assessment of the indicator of Multi-Year Perspective in Fiscal Planning, Expenditure Policy and Budgeting in PEFA report, Egypt received an overall score (C+) ¹¹ as presented in the following table:

Table 9: Assessment of Multi-Year Perspective in Fiscal Planning, Expenditure Policy and Budgeting in PEFA Report (2009)

Dimension	Score	Explanation
Multi-annual fiscal forecasts and functional allocations	C	Forward estimates of fiscal aggregates are prepared for ten years but not linked to annual budget ceilings.
Existence of sectoral strategies with cost determination	C	Statements of sector strategies exist for several major sectors but not all are fully costed.
Links between investment budgets and future expenditure estimates	D	Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.
Source: European Commission and World Bank, 2009. P. 48.		

The status of such indicator did not change after January 2011 Revolution. The absence of budget ceiling affects the effectiveness of the budget. With the exaggerated demands of the spending agencies, they are faced with dramatic decrease by the MoF. On one hand, this decrease impacts their sense of ownership and affects achieving their objectives (World Bank, 2008; USAID, 2012;). On the other hand, the lack of budget ceiling hampers those agencies from well identifying their priorities (World Bank, 2005). According to Senior Official at MoE, “*we can overcome the budget ceiling problem by applying MTEF*”. While the goal of MTEF is to link expenditures with the desired social outcomes through linking medium-term planning and priorities with the annual budget (Allen et. al, 2004), the lack of MTEF in Egypt limits the capacity of the government to put strategic objectives linked with the available resources (El Husseiny, 2016). Apparently, “*we are applying MTEF only on paper, just to satisfy the international*

¹¹ The table shows only the dimensions related to the budget formulation process. There is another dimension related to the Scope and frequency of debt sustainability analyses.

organizations” (Official at MoE, April, 2016). Some initiatives are made to apply MTEF but the lack of institutional thinking that ensures the sustainability accompanied with the lack of monitoring tools led to the failure of such initiatives. Such situation shows that the government is reluctant to ensure the sustainability and continuity of such reform initiative. It also indicates that the real philosophy behind reform initiative is more of satisfying the donor organization rather than focusing on real reform for the country. Hence, most of the government’s attempts came to be superficial

According to the European Commission and the World Bank (2009), the MoF established the Macro Fiscal Policy Unit in 2005 to undertake the medium-term fiscal projections, however, the fiscal aggregate estimates are not linked to the annual budget ceiling. For sectoral strategies, there are some important sectors that have sectoral strategies such as, education and health however, their expenditures are not determined by multi-year framework.

Additionally, the budget is prepared by using dual budgeting system for both recurrent and investment budgets. The lack of integrated recurrent and investment budget preparation leads to some tension between both MoPMAR and MoF which is not involved in the negotiations process between MoPMAR and spending agencies (Allen et. al, 2004; European Commission and World Bank, 2009; El Husseiny, 2016). Both officials at MoF and MoPMAR, as well as most of other interviewees perceive the importance of preparing the budget under one authority. They report that there are some issues pertaining to the alignment between the creation of assets in the investment budget and the operation costs in the second chapter. Ironically, both officials stated “*sometimes you do not know where to put things, in the investment chapter or in the purchase of*

goods and services chapter” (Official 3 at MoF, April 2016; Senior Official at MoPMAR, April, 2016). Moreover, the dual budget system resulted in the lack of link between the consequences of fiscal changes in the investment budget with the recurrent budget, which weakens the oversight of the legislature, as they do not have an overall picture of the effect of medium-term investment (Allen et. al, 2004). It could be indicated that the dual budget system is not contributing to the effectiveness of the budget formulation process. The burden of dealing with two entities during the formulation process wastes the time of spending agencies, especially with the obscurity of the MoF in the negotiations between MoPMAR and those agencies.

b. Predictability in Formulation Process, Transfers and IFMIS

According to the European Commission and the World Bank (2009), the MoF has a specific department that works on forecasting the cash flow for the overall budget for year ahead at the start of the FY. The forecasts start after the legislature approval on the budget.

Article 24 of the Law 87/2005 of the State budget regulates the appropriations and transfers. Spending agencies in Egypt are using transfers to their previously allocated resources. Transfers may occur within the same entity from one chapter to another, which do not affect the deficit within the same entity. Also some transfers could occur between two entities and this could lead to changes in the deficit of both entities. The MoF approves the requests for transfers from spending agencies. According to Senior Official at MoPMAR “*transfers are evidence of weakness, I have a huge amount of transfers requests, it is more than the documents of the formulation process*”. All entities can apply for transfer request and they mostly get approval. The problem of transfers is that it

indicates errors in plans' setting and forecasting. *"The problem of budget deficit, in my opinion, is a result of forecasting error"* (Current Advisor to Minister of Finance, April 2016). Although the MoF has Economic Forecasts Unit, the MoF and other spending agencies lack the capacity by which they can set well developed forecasts and predictions. Since there are no mechanisms for holding the responsible for forecasting errors accountable, the transfers became norm.

Furthermore, different interviewees reported the existence of clear disrespect to the State budget in Egypt, *"how can I respect the budget with the huge deviation between the submitted budget and the final account"* (Parliamentarian 4, May 2016). This indicates the fragile predictability as well as the lack of enforcing laws and regulations.

In many cases, some entities found themselves with surplus and at the same time with limited achievement of their intended goals, *"the fiscal performance in Egypt is random, we do not have institutional thinking, we have individual thinking with lack of accountability"* (Senior Official 1 at MoF, April 2016). The situation in these entities could be attributed to the limited predictability and forecasting within the MoF and other spending agencies accompanied with the lack of capacity.

The importance of the existence of Integrated Financial Management Information System (IFMIS) is highlighted by some of interviewees, *"the process should be automated to open the door for monitoring the performance"* (Advisor to Minister of Transport, April 2016). They perceived the fact that the lack of IFMIS contributes to the inaccurate information and forecasts as well as reduces the ability for holding the responsible accountable.

The assessment of the indicator of Predictability in Availability of Funds for Commitment of Expenditure in PEFA report shows that Egypt received an overall score (D+)¹² as presented in the following table:

Table 10: Assessment of Predictability in Availability of Funds for Commitment of Expenditure in PEFA Report (2009)

Dimension	Score	Explanation
Degree to which cash flow forecasting and monitoring is carried out	A	A cash flow forecast is prepared for the fiscal year and is updated monthly on the basis of actual cash inflows and outflows.
Frequency and transparency of the adjustments made to the budgetary allocations available at a level higher than MDA administrations	C	Three significant in-year adjustments to budget allocations took place during FY 2007/08, but were done in a fairly transparent manner.
Source: European Commission and World Bank, 2009. P. 56.		

The process is the same after January 2011 Revolution, while the process of cash flow forecasting is carried out, the forecast errors are fatal. This affects achieving the preset goals and leads to distortion in implementing plans. The existence of a law regulating the transfers and appropriations issues is positive, though, the degree of using such transfers determines the extent to which the forecasts and predictions during the formulation process are effective.

c. Program-Based Budget and Decentralization

Egypt uses line item budget that has many problems affecting the effectiveness of the formulation process. A Parliamentarian starts his talk with “*our budget is sick*” (Parliamentarian 4, May 2016), which reflects the degree of problems in the State budget. The allocation of resources is not based on specific programs rather than items. “*The MoF allocates specific amount of money and I distribute this money among the*

¹² The table shows only the dimension related to the budget formulation process. There is another dimension related to the reliability and time horizon of the periodic information during the year providing the ministries, departments and entities with information about maximum limits and payment commitments

programs, not the opposite” (Senior Official at MoE, April 2016). The allocation of resources based on line item budget has drawbacks on achieving the intended goals.

The line item budget in Egypt contributes to a great extent to the lack of transparency, as it is not linked with clear objectives measuring the budget performance towards achieving the social needs. Moreover, different reports and studies accentuated on the importance of moving to program-based budgeting to enhance transparency, accountability and effectiveness (EIPR, 2014; USAID, 2012; Abdullatif, n.d.b).

The circulars of the FY 2015/2016 and FY 2016/2017 obliged some line ministries and its affiliated entities to prepare their budgets based on program based budget, as an initiative for fiscal reform to enhance the effectiveness of the resources allocation process and the overall budgetary process. The line ministries include MoE, Ministry of Transport, Ministry of Health, Ministry of Social Solidarity and Ministry of Higher Education (Circulars of FY2015/2016, FY2016/2017). Unfortunately, no real actions were taken towards such important step. Though the acknowledgment of moving towards program based budget is considered a positive step reflecting the government’s desire to reform and to allocate resources based on programs, the lack of implementation indicates its reluctance towards such reform. The government’s attitude negatively affects the effectiveness of the formulation process.

All interviewees stressed on the importance of moving to program based budget *“now we are drafting a report through which we are going to oblige MoF with clear framework to move towards program based budget”* (Parliamentarian 2, May 2016). This shows the eagerness of the legislature to enhance the budgetary process and to practice its role of overseeing the performance of MoF.

It is worth noting that the resources allocated for Mega projects in the country are out of the State budget, which negatively affect the effectiveness of the budget formulation process.

Moreover, the budgetary institutions have clear structure but they do not have clear and agreed upon vision to follow. For instance, after January 2011 Revolution the government changed for more than eight times. Because the budgetary institutions are not attributed with institutional thinking, the consecutive governments affect the decision-making regarding the allocation of resources. For example, in March 2015, the government decided to establish a new Ministry for Technical Education, however, the new government in September 2015 decided to cancel the Ministry. According to Senior Official at MoE *“the decision maker does not know how much time and effort we exerted in establishing the Ministry, starting from its organizational structure to allocation of resources. We lack institutional thinking”*. Floundering in decision-making indicates the lack of clear vision and that the government has mixed views about the country’s real needs.

The political instability of the country as well as the Arab region and globe led the government to increase the allocation for specific entities such as, Ministry of Defense and Ministry of Interior. Such increase does not affect the allocation of the other entities, rather it invests in increasing the budget deficit. However, the political situation of the country affects the allocation of other sectors, both senior officials at MoSS and MoE reported that terrorism, especially in Sinai, affected the allocation of resources with regards to compensations and re-building schools, as all these issues were not planned taking into account the limited fiscal space, *“we allocated around 15 million pounds that*

were not planned for North Sinai as a result of terrorist attacks” (Senior Official at MoSS, May 2016). Also, recently, the media in the recent cases played a major role in directing the leadership of the country towards allocating immediate resources for specific cases.

Additionally, the existence of new Parliament affects the plans of the ministries. According to the Senior Official at MoSS, *“in Takaful and Karamah program, we started in our plan with the poorest villages, parliamentarians have specific requests to satisfy their constituencies, therefore we started to respond to the political direction and we reduced the planned allocation for the basically targeted poorest villages”*. This emphasized that the political dynamics are clearly affecting the allocation of resources.

It should be highlighted that most of officials reported that there is a clear gap between what is stated in laws and the real practices. They also mentioned the huge amounts of laws and decrees that *“sometimes could overlap”* (Senior Official 3 at MoF, April, 2016). This shows that the formulation process is undertaken without any monitoring tools. Additionally, the overlap in the laws may hinder the officials in following the laws.

Another important issue is the extent to which the government is responsive towards achieving the constitutional requirements that will affect the formulation process such as, Articles 18, 19, 21 and 23 of the Constitution of 2014 regarding allocating specific percentage from the GNP to education, higher education, health and scientific research sectors. The government did not respond to such requirement till present, even with the submitted budget to the Parliament of FY 2016/2017. The overlapped structure

of the government and redundancy in many functions undermines the government ability to respond to such requirements.

Another important constitutional requirement is what came in Articles 176 and 178 of the Constitution that guarantee fiscal, administrative and economic decentralization and that local units will have independent budget. The government also did not move a step forward towards achieving such requirement. According to the Governor *“if we have decentralized system I will be responsible for the allocation of resources, before January 2011 Revolution the Minister of Finance was partially delegating me in some issues, but now there is no delegation anymore and no one helps you”*. Furthermore, the limited authority of governors in the Egyptian system influences the allocation of resources *“working as governor is the worst executive job, they are bounded with the available limited resources and at the same time they have to respond to all requests”* (Senior Official at MoPMAR, April 2016). Moving to fiscal decentralization will have direct effect on the existing formulation process, as the local administration will prepare its budget independently. The unwillingness towards achieving fiscal decentralization indicates that the central government wants to dominate the fiscal decisions of local administration, sticking to the centralized system. Most of interviewees at the central level argue that applying decentralization needs huge efforts and they believe that those at the local level lack the required capacity to move towards fiscal decentralization.

It should be highlighted that the period before and after January 2011 Revolution did not witness clear and real vision of the country. In February 2016, the government launched, for the first time, its Sustainable Development Strategy 2030 (SDS 2030),

which draws the public policies for the country for the next fourteen years. Launching SDS 2030 is considered a positive step and reflects the government's willingness to enhance the social, economic and political situation of the country. However, most of the interviewees do not perceive the SDS 2030 as a well developed, detailed and comprehensive strategy. They observe a huge amount of exaggeration and aspirations that does not deal with the real deteriorated situation of the country. Such perception could be attributed to the lack of horizontal or intergovernmental trust within the public sector. For many years the centralized system that lacks institutional thinking was and is still dominating the public sector. Despite the clear political will, changing the preconceived notions of the public officials needs a lot of efforts. Nevertheless, the existence of such strategy will guide the formulation process towards agreed upon goals and objectives for the benefit of the country.

Presumably, the situation of budget formulation effectiveness is critical and needs great attention. In terms of effectiveness, Egypt is still far from the international experiences that adopted the program based budget, merged dual budget system, applied fiscal decentralization and introduced MTEF and IFMIS. The situation of effectiveness in Egypt has drawbacks on the formulation process.

This chapter answers the first three questions of this research. In terms of the international practices, Egypt is still far from the international practices in which the formulation process could lead to more positive results in achieving the government's objectives and priorities. For instance, while most of developing countries dropped the dual budget system for more coherence, Egypt is still using it. Also despite the international transformation towards program based budget, the situation in Egypt

remains the same with the line item budget. Also it lacks the adequate tools and capacity for forecasts and IFMIS. There are many factors that affect the formulation process in Egypt such as, the institutional factors in terms of the overall institutional capacity and setup of the process that include; the lack of institutional thinking and the domination of the centralized system. Another institutional factor is the entrenched beliefs and culture of the actors involved in the process and citizens towards specific issues such as, transparency and the role of Parliamentarians. The situation of budget formulation process relatively remains the same after the January 2011 Revolution. However, in some cases there is deterioration in the process such as, transparency, participation and effectiveness. The legal framework governing the budget formulation process lacks enforcement, which negatively affects the formulation process. Moreover, the political instability that resulted in many consecutive governments as well as the security conditions led to instability in the decision making-process regarding the allocation of resources. Also the increased budget deficit affects to a great extent the allocation of resources. Nevertheless, there is fertile ground for starting reform initiatives, especially with the existence of SDS 2030 as a framework delineating the objectives of the country.

The following chapter provides the conclusion of this research and opens the door for answering the last question in this study by drawing a map to enhance the budget formulation process in Egypt.

Chapter Seven:

Conclusion and Recommendations

I. Conclusion

The analysis of budget formulation process in Egypt reveals its critical stage. Positioning the Egyptian case within the body of the literature illustrates the weakness of the budget formulation process. The adopted concepts in this research allow for shaping the understanding of the dynamics of the State budget formulation process in Egypt.

In terms of **participation** in budget formulation, the process of horizontal participation became a norm rather than a systematic process. The different actors involved in the formulation process deal with the process with reliance on power and personal relations. Except for issuing circular, budget formulation process in Egypt is more dominated by bottom-up approach, which, according to Ljungman (2009), is centralized and is more of a game between MoF and spending agencies. However, following such approach could be appropriate for the country's political, economic and social conditions, though a degree of delegation is required for more flexibility and better allocation of resources. Moreover, while Kim and Achachter (2013) emphasized on the importance of the role of CSOs in the formulation process as a cornerstone in promoting public participation and enhancing the accountability mechanisms, their role in Egypt is negligible. Obviously, the role of CSOs in the formulation process in Egypt came under the category of developing countries that perceive the role of CSOs as negative and may harm the process rather than support it as accentuated by Krafchik (n.d.).

The issue of budgetary **accountability** in Egypt after January 2011 Revolution is still vague with the new Parliament. However, the Egyptian legislature could be classified under the third category of Norton classification to the legislative influence on the budgetary process, which is the legislature with limited influence. This could be explained by embodying Egypt in the five reasons behind the variation of legislatures in influencing budget decisions as stated by Wehner (2004). First, the Presidential system in Egypt allows for more tension between the executive and legislative authorities, as with the new Parliament, some patterns of the relationship between the executive authority and legislature are presented but do not allow for shaping the overall picture of the relationship. Though, these patterns reveal some implicit tension and explicit cooperation. Second, the legislature power in Egypt to amend the budget is limited because of the limited fiscal space and other capacity and power relations issues, as well as the prevailing perception of the parliamentarians dealing with budget as numbers not as a document reflecting the plans and priorities of government and as consequence, citizens. Third, the “party political dynamics” in the new Parliament are still immature and their influence on budgetary decisions is ambiguous. There is no specific dominating party or coalition, as was the situation before January 2011 Revolution. Fourth, while the Egyptian legislature receives comprehensive information from MoF regarding the budget, using this information to well informed decision-making remains a challenge. Fifth, the research capacity in the Parliament seems to be efficient. However, the interaction between Parliamentarians and researchers is not yet deep enough to allow for judgment on their capacity. Nevertheless, it could be indicated that there is a limited informal role of CSOs with providing the Parliamentarians with the understanding of budget issues.

The status of budget formulation **transparency** could indicate that Egypt is under the same category of the developing countries described by de Renzio and Krafchik (2007) that consider budget information as a secret dominated by the executive body with limited provision of information to citizens. Moreover, Blondal (2003) accentuates on three main features for budget transparency that include the disclosure of comprehensive and timely information, the role of legislature in scrutinizing the submitted budget and the role of CSOs and citizens in influencing budget decisions. Except for the comprehensiveness and timely information submitted to the legislature, Egypt does not meet any of the other two features. Also the absence of freedom of information law and the lack of clear intention towards translating the related Constitution articles into clear laws as well as the entrenched beliefs of dealing with budget as confidential document are investing in the very limited role of CSOs and citizens in budget formulation process.

With regards to budget formulation **effectiveness**, the situation is critical. While Egypt witnessed many reform initiatives, the situation remained unchanged. With more public demands, and the critical political and economic situations, it could be observed that the effectiveness of budget formulation has deteriorated. Unfortunately, Egypt's practices in the formulation process reflect all the four "bad practices" in the budget formulation process identified by Schiavo-Campo (2007). First, Egypt uses the line item budget that is attributed with poor results. Second, the formulation process is an "open-ended process" with the absences of budget ceiling. Third, the process is affected by the power relations between the actors involved, which influence the allocation of resources. Fourth, Egypt follows a dual budget system that negatively affects the overall process.

Yet, Egypt is far away from all the international practices that contribute to better allocation of resources.

Axiomatically, effectiveness of budget formulation is highly affected by the level of transparency and accountability and the degree of cooperation among core ministries and spending agencies. The overall formulation process is affected by both **political and legal contexts**. The existing legal framework lacks enforcement and is attributed with overlaps. The political situation of the country affects to a great extent the allocation of resources process, especially with the consecutive governments and security conditions.

The indispensability of clear political commitment to enhance the formulation process is presented in the case of Egypt. Such commitment allows for achieving the objectives of the country through strong public financial management system. Hence, despite all critics, SDS 2030 with its agreed upon objectives, paves the way for reforming the formulation process to reflect those objectives.

Based on this study, further research is needed on the role of legislature in the budget formulation process, the role of local administration in the process and the effect of decentralization on the budget formulation process.

II. Recommendations

Presumably, the situation of budget formulation process is critical. The recommendations of this research presents synergy between the viewpoints of the interviewees regarding enhancing the budget formulation process and the literature that provides the researcher with the understanding of the various reform initiatives.

The set of recommendations provided in this part proposes considering important aspects by the government; institutional, political and legal aspects, to ameliorate the budget formulation process

I. Institutional Aspects

The institutional aspects reflect the institutional setup and the structure of the budget itself. The following points represent the features of the institutional aspects:

- The government should work on transforming to program based budget to ensure that the resources are efficiently allocated to achieve the preset goals and be inline with citizens' priorities. Moving towards applying program based budget will allow for more accountability, as opposed to the existing line item budget. Moreover, such transformation will open the door for applying METF to guarantee efficient allocation of resources during the formulation process, as well as continuity and consistency in government plans. In addition, it will enhance the transparency and accountability, not only for the formulation process, but for the overall budgetary process.
- In order to overcome the issues of alignment between the investment chapter and the second chapter in the recurrent budget pertaining to the purchases of good and

services, the government should work on merging the preparation of the recurrent and investment budget under one authority. This merge will also guarantee the harmonization and coherence of the budget, as well as avoid wasting time in negotiations with two different entities.

- Fiscal decentralization should be on the agenda of the government, not only to respond to constitutional requirement, but to open the door for the local administration to decide on its needs and priorities, as well as to independently allocate its resources. Moreover, applying decentralization may contribute to building the trust between government and citizens.
- The government should apply clear monitoring and evaluation tools to monitor the performance of the different actors involved in the process and to enhance the internal accountability for the decisions regarding the allocation of resources. Furthermore, adopting IFMIS is crucial to enhance the quality of budget reporting and support the decision-makers with needed and accurate information for the allocation of resources.

II. Political and Legal Aspects

Supporting the institutional aspects needs a strong legal framework, as well as political commitment. The absence of legal and political aspects will impede the achievements of the institutional aspects.

1. Legal Aspect

In terms of the legal aspect, some legislations are proposed to enhance the situation of budget formulation process in Egypt that include

- Introducing an Organic Budget Law that specifies all the budget process phases starting from the formulation to the review and audit with all its related determinants. Introducing such law will ensure clear division of responsibilities among all actors involved in the whole budget process, specifically at the formulation phase. This will in turn enhance the overall understanding of the process among the other actors involved in the adoption, implementation and review and audit phases.
- Introducing the freedom of information law is imperative to guarantee fiscal transparency, and ensure accountability, especially with regards to the budget information submitted to the legislature and the report of the CAO.
- Amendments should be made on the existing law regarding holding officials accountable for the fiscal decisions rather than holding only the Minister of Finance accountable for all fiscal decisions in the State budget.

2. Political Aspect

Indisputably, non of the above mentioned aspects will be achieved without clear political commitment from the leadership of the country. Such commitment will ensure the changes in the budget institutional aspects and the adoption and amendments of laws. While the SDS 2030 has many indicators and objectives to enhance the economic, social and environmental conditions of the Egyptian citizens, the government should deal with SDS 2030 as the cornerstone and the reference of its actions for the next fourteen years. It should promote horizontally and vertically to SDS 2030 to obtain the trust of the public employees first, followed by the trust of citizens.

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Annex I: Interviews Questions

1. Interview Questions with MoF¹³

SRL.	Questions
Participation	
1	Do line ministries participate in budget formulation process? If yes, what are the means of participation?
2	In terms of Investment budget, what are the limits of MoPMAR in formulating expenditure priorities? In case of conflict regarding the allocation of resources, how do you deal with this?
3	Do Civil Society Organizations (CSOs) participate in the formulation process? If yes, what is the mechanism through which they participate?
Accountability	
4	When submitting the budget proposal, what is the role of Planning and Budget Committee (BPC)? how does MoF deal with the PBC? What is the role of the sectoral committees? To what extent can the Parliament make substantial amendments on the proposed budget?
5	Do you think that the Parliament members have the capacity to review the budget?
6	How was the relationship with the Parliament before January 2011 Revolution? How did the domination of the ruling party affect the budget formulation process and the allocation of resources at that time? In your opinion, do you think that the plurality in the new Parliament will affect the budget review?
Effectiveness	
7	Do you think that line item budget is more effective to achieve the government's goals in comparison to other type such as, program based?
8	The Constitution guarantees fiscal decentralization, what do you think about that?
9	If the government wants to apply decentralization, according to the Constitution of 2013, how would this affect the budget formulation process in Egypt? Do you think it is more effective?
10	To what extent do transfers undertaken by MoF during the fiscal year, cause distortion on the previously allocated resources?
11	How can MoF assure that the reallocation not does affect the expenditures priorities and other sectoral strategies?
12	Does the MoF have the capacity to accurately predict revenues and expenditures? If yes, are these predictions considered during the budget formulation process?
13	Does the high percentage allocated to wages, debt payment and subsidies affect the ability of MoF or the Parliament to amend the expenditures' priorities or suggest other lines of expenditure? How does this affect achieving the budget objectives?
14	Does the MoF consider certain risk factors during budget formulation process, and how? What are the types of risks?
15	Did the government start applying the Article 178 of the Constitution allowing independent budget for the local unites?
16	Do the extra-budgetary funds weaken the budget effectiveness, as some revenues remain out of the budget?
17	How does the dual-budget system affect budget formulation process?
18	Did the MoF consider during the budget formulation process, the Constitutional requirements regarding Articles 18,19,21,23 pertaining to allocating specific percentage of the GNP on education, scientific research, health and higher education?
19	Do you think that the issuance of Sustainable Development Strategy 2030 will allow for better allocation of resources?

¹³ In the interviews with Former ministers, another question was included regarding the role of the minister in the budget formulation process.

Transparency	
20	Does issuing Citizen Budget lead to facilitate budget formulation and public participation?
21	What are the factors that affect budget transparency, whether political, legal, technical or structural?
Other Factors	
22	After January 2011 Revolution, the government changed more than eight times, how did this affect the formulation process?
23	What are the non-technical (political – procedural) factors that affect the allocation of resources? Examples
24	Before approving the budget, President Sisi sent the budget of Fy 2015/2016 to the MoF for amendments, do you think the new Parliament will be able to do that in the future?
25	Egypt, and the globe, are experiencing extraordinary conditions especially at the national security level, how does this affect the formulation process?
26	Is there any change in the budget formulation process, or is there sense of cautions from the plurality in the Parliament with the absence of a dominating party supporting the government?
27	Is there any change in the budget formulation process after the January 2011 Revolution during the period of scaf, Morsi, interim period and the current leadership?
Recommendations	
28	Do you think that there are any legal, structural, negotiations process, procedural amendments should be undertaken to enhance the budget formulation process?

2. Interview Questions with other Ministries and Governor¹⁴

Questions	
Participation	
1	What is the role of the ministry in budget formulation process? What are the departments that participate in the process?
2	How does the ministry intervene in the decisions of its affiliated bodies?
3	How do you perceive the relationship with MoF regarding the recurrent budget, and the MoPMAR regarding the investment budget?
4	Did MoF and MoPMAR consider the sectoral plans prepared by line ministries?
5	Do Civil Society Organizations (CSOs) participate in the formulation process? If yes, what is the mechanism through which they participate?
6	At the local level, after the absence of the Local Popular Council, who was responsible for approving the governorate budget before submitting it to the MoF?
Accountability	
7	Before formulating the budget, is there any discussion with the sectoral committee?
8	Do you think the existence of sectoral committee could contribute to the ability of the ministry to negotiate with MoF regarding the allocation of resources?
Effectiveness	
9	How do you deal with the absence of budget ceiling during the formulation process? How does this affect the ministry's plans?
10	Do you think that line item budget is more effective to achieve the government's goals in comparison to other type such as, program based?
11	How does the dual-budget system affect budget formulation process?
12	Did the MoF consider during the budget formulation process, the Constitutional requirements regarding Articles 18,19,21,23 pertaining to allocating specific percentage of the GNP on education, scientific research, health and higher education?
13	Do you think that the issuance of Sustainable Development Strategy 2030 will allow for better allocation of resources?
Other Factors	
14	After January 2011 Revolution , the government changed more than eight times, how did this affect the formulation process?
15	What are the non-technical (political – procedural) factors that affect the allocation of resources? Examples
16	Before approving the budget, President Sisi sent the budget of Fy 2015/2016 to the MoF for amendments, do you think the new Parliament will be able to do that in the future?
17	Egypt, and the globe, are experiencing extraordinary conditions especially at the national security level, how does this affect the formulation process?
Recommendations	
18	Do you think that there are any legal, structural, negotiations process, procedural amendments should be undertaken to enhance the budget formulation process?

¹⁴ Only the related questions were directed to the Governor.

3. Interview Questions with Parliamentarians

SRL.	Questions
Accountability	
1	Did the new executive regulations include any amendments on the role of BPC and other committees regarding the process of discussing the budget?
2	Do you think that the background (education/profession) of the BPC members is sufficient?
3	How does the Parliament coordinate with MoF during discussing the budget?
4	Are there any challenges in explaining the State budget for Parliament members? How does BPC work to simplify the fiscal information for those members, and does it ask for the support of MoF?
5	Is there any mechanism through which the Parliament can assure that the budget reflects citizens' priorities?
6	Does the Parliament conduct hearing sessions with CSOs regarding the budget? If yes, what is the contribution of CSOs?
7	Does the Parliament conduct hearing sessions with research centers and think tanks regarding the budget? If yes, what is the contribution of research centers and think tanks?
8	Do the existing mechanisms allow the Parliament to practice oversight over the government regarding the allocation of resources and the extent to which these allocations respond to citizens' needs?
9	To what extent do researches appointed at the technical secretariats of the committees have the capacity to provide the necessary support during discussing the budget?
10	What is the relationship between BPC and other sectoral committees? Do the sectoral committees receive a copy of the overall budget or only its related budget? How does this affect the review process?
11	Before January 2011 Revolution, there was one party dominating the decision-making process, how does the plurality in the new Parliament will affect the budget review?
12	How does the Parliament use the reports of CAO in discussing and amending the budget?
Effectiveness	
13	Do you think that the issuance of Sustainable Development Strategy 2030 will allow for better allocation of resources?
14	How do you perceive presenting the budget as lines without any linkages with the objectives? Is the Parliament will take any action towards moving to program based budget?
15	To what extent do transfers, undertaken by MoF during the fiscal year, cause distortion on the previously allocated resources?
16	Does the high percentage allocated to wages, debt payment and subsidies affect the ability of MoF or the Parliament to amend the expenditures' priorities or suggest other lines of expenditure? How does this affect achieving the budget objectives?
17	Did the MoF consider during the budget formulation process, the Constitutional requirements regarding Articles 18,19,21,23 pertaining to allocating specific percentage of the GNP on education, scientific research, health and higher education?
18	Do the extra-budgetary funds weaken the budget effectiveness, as some revenues remain out of the budget?
19	How does the dual-budget system affect budget formulation process?
Transparency	
20	Do you perceive any importance to the existence of freedom of information law? How does this will affect the budget formulation process?
21	Does issuing Citizen Budget lead to facilitate budget formulation and public participation?
22	What are the factors that affect budget transparency, whether political, legal, technical or structural?
Other Factors	
23	Is there any change in the budget formulation process, or is there sense of cautions from the plurality in the Parliament with the absence of a dominating party supporting the government?
Recommendations	
24	What are your recommendations concerning promoting the relationship between the Parliament and the

	government, think tanks and research institute to enhance budget formulation process?
25	Do you think that there are any legal, structural, negotiations process, procedural amendments should be undertaken to enhance the budget formulation process?