Social
Expenditure
Monitor
for Arab States

Toward making budgets more equitable, efficient and effective to achieve the SDGs

Lead Authors

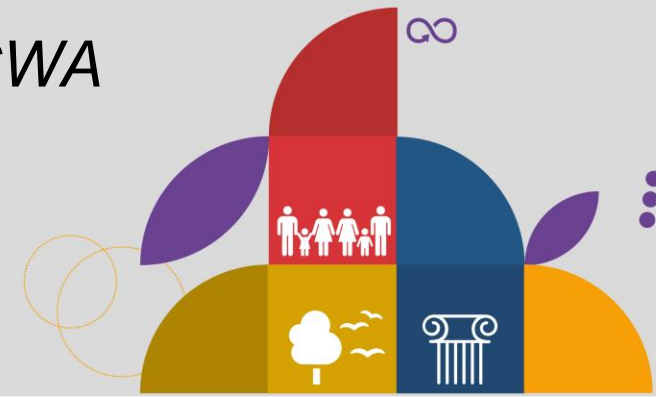*ESCWA Team: Niranjan Sarangi, Senior Economic Affairs Officer*
UNDP Team: Vito Intini, Regional lead Economist and Rania Uwaydah, Public Financial Management Expert
UNICEF Team: Samman Thapa, Regional Adviser for Social Policy

A Better Means of Measurement

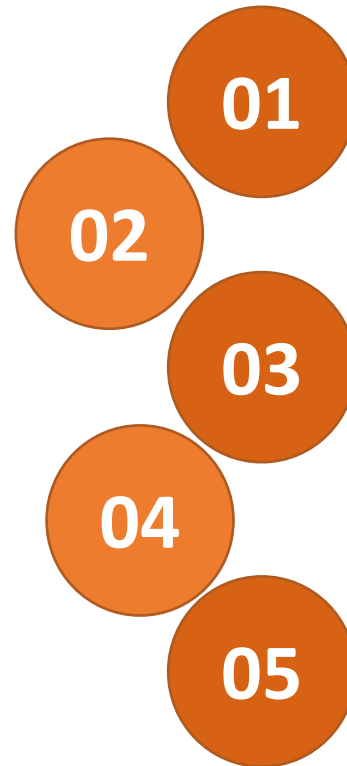*Niranjan Sarangi, Senior Economic Affairs Officer, ESCWA*

Contributions of the Report
Key Research and Policy Issues

Social Expenditure Monitor for Arab States

01 Why does public social expenditure matter? What are the important measures and trends for the region?

02 Do spending choices add up to equity-or stand in the way?

03 Efficiency of public social expenditure, making money work efficiently

04 Ways and means of enhancing public social expenditure and fiscal sustainability?

05 Managing public finances to achieve social goals with key public finance management reforms

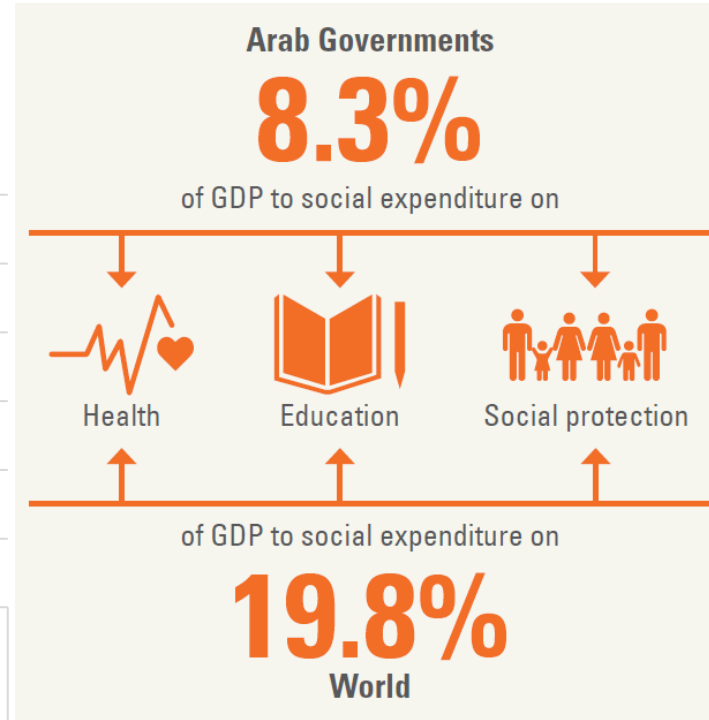# Social Expenditure Monitor (SEM) A Better Means of Measurement

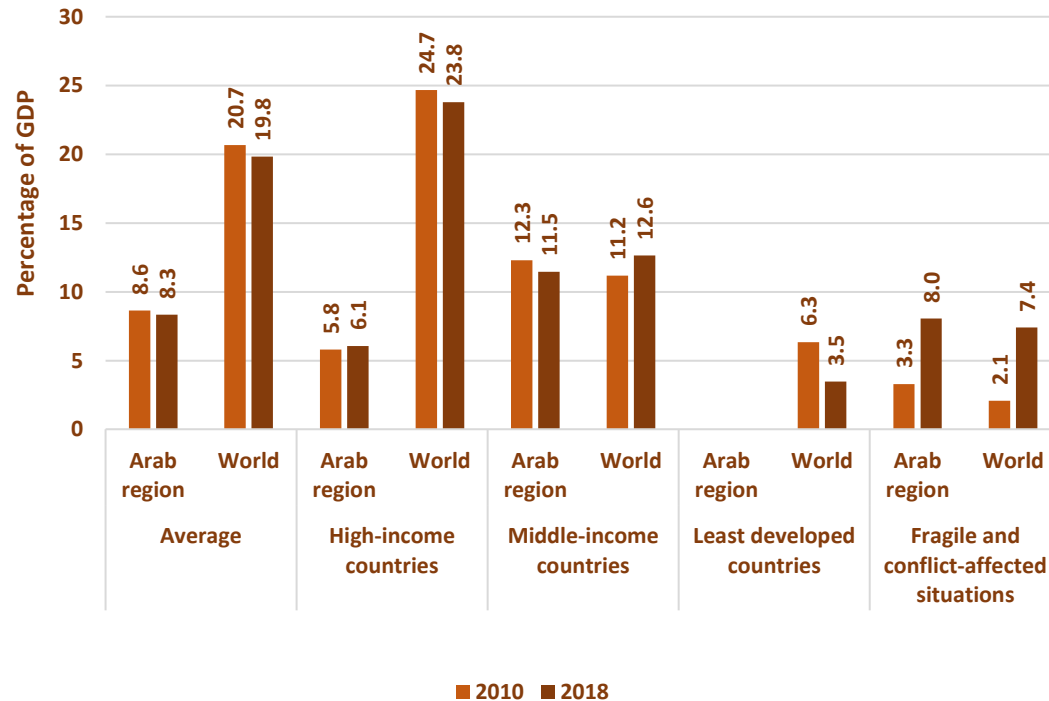**The SEM presents a new framework of measuring social expenditures aligned with the SDGs.**

The SEM has SEVEN Dimensions of Social Policy Expenditures.

SEM Dimensions — Alignment with SDGs

- Education
- Health & nutrition
- Housing, connectivity & community amenties
- Labour market interventions & employment generation
- Social protection, subsidies & support to farms
- Art, culture and sports
- Environmental protection

1. On average, public social expenditure in the Arab region on health, education and social protection, as a share of GDP, is lower than the global average.

Social Expenditure Monitor for Arab States

Public social expenditure as a percentage of GDP, based on health, education and social protection (HES)

Percentage of GDP

	2010	2018
Average — Arab region	8.6	8.3
Average — World	20.7	19.8
High-income countries — Arab region	5.8	6.1
High-income countries — World	24.7	23.8
Middle-income countries — Arab region	12.3	11.5
Middle-income countries — World	11.2	12.6
Least developed countries — Arab region		
Least developed countries — World	6.3	3.5
Fragile and conflict-affected situations — Arab region	3.3	8.0
Fragile and conflict-affected situations — World	2.1	7.4

■ 2010   ■ 2018

Arab Governments

8.3% of GDP to social expenditure on

Health   Education   Social protection

of GDP to social expenditure on

19.8% World

**Public expenditure as a share of GDP**

34.6% Arab region

<

35.7% World

2. Public Social Expenditure on all Seven Dimensions of SEM:
Shortfalls in critical areas of social spending that create capacity among youth, generate jobs, incentivize innovation, productivity and build climate resilience

In all seven dimensions of SEM, expenditure ranges between 10-20 per cent of GDP, largely due to subsidies.
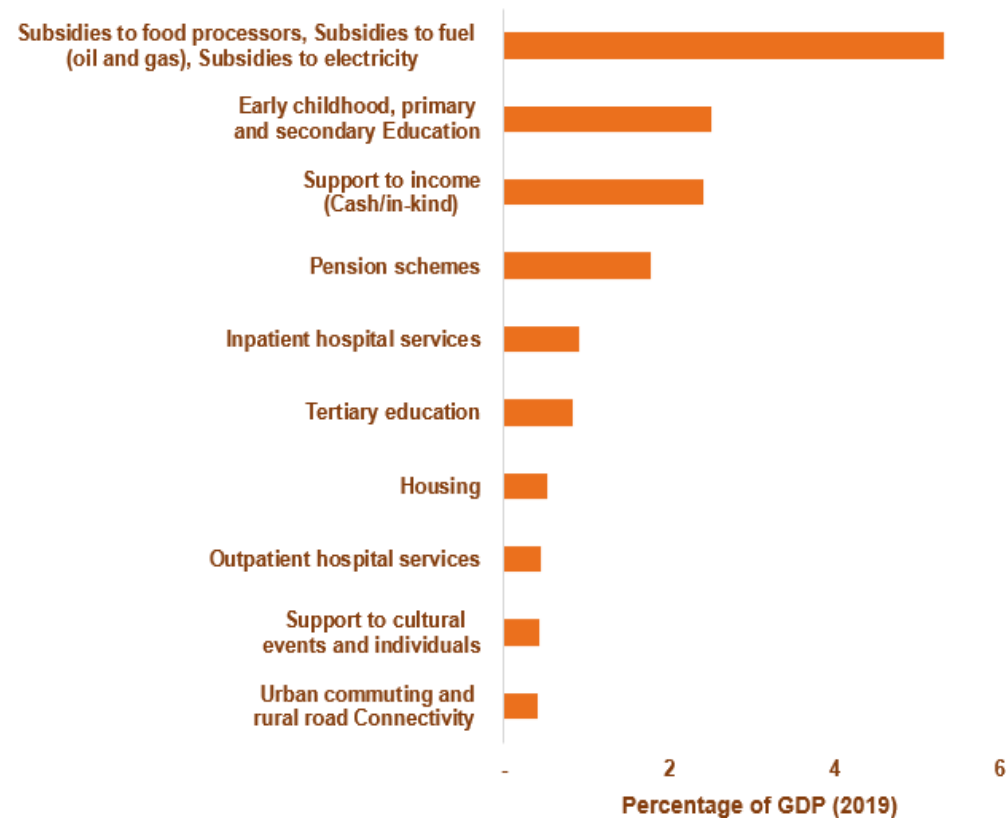
- Environmental protection: <1 per cent
- Labor market interventions: <1 per cent
- Arts, culture, and sports: <1 per cent
- Health: 1-2 per cent
- Housing: 1-8 per cent
- Education: 2-7 per cent
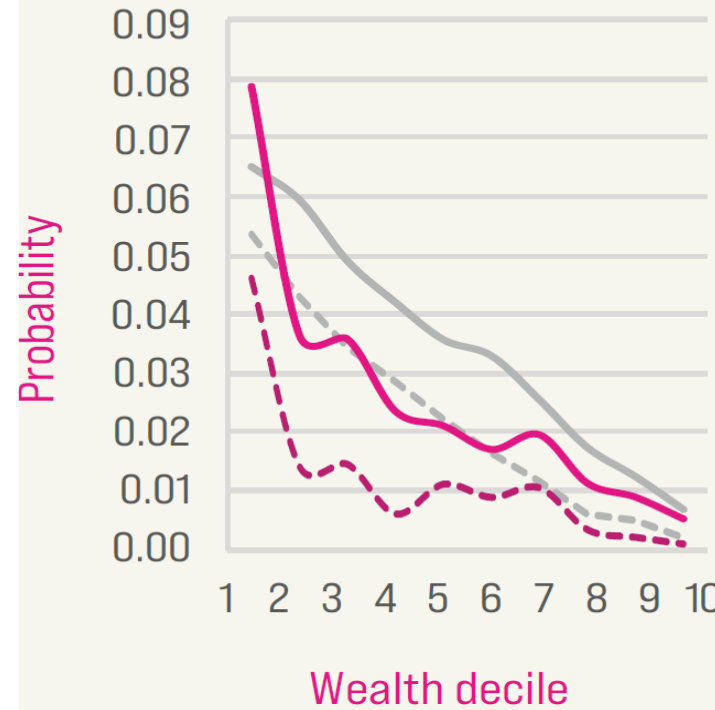- Social Protection, Subsidies and Support to Farm: 2-16 per cent

Legend:
- Education
- Housing and community amenities
- Social protection, subsidies and support to farms
- Environmental protection
- Health and nutrition
- Labour market interventions and employment
- Arts, culture and sports
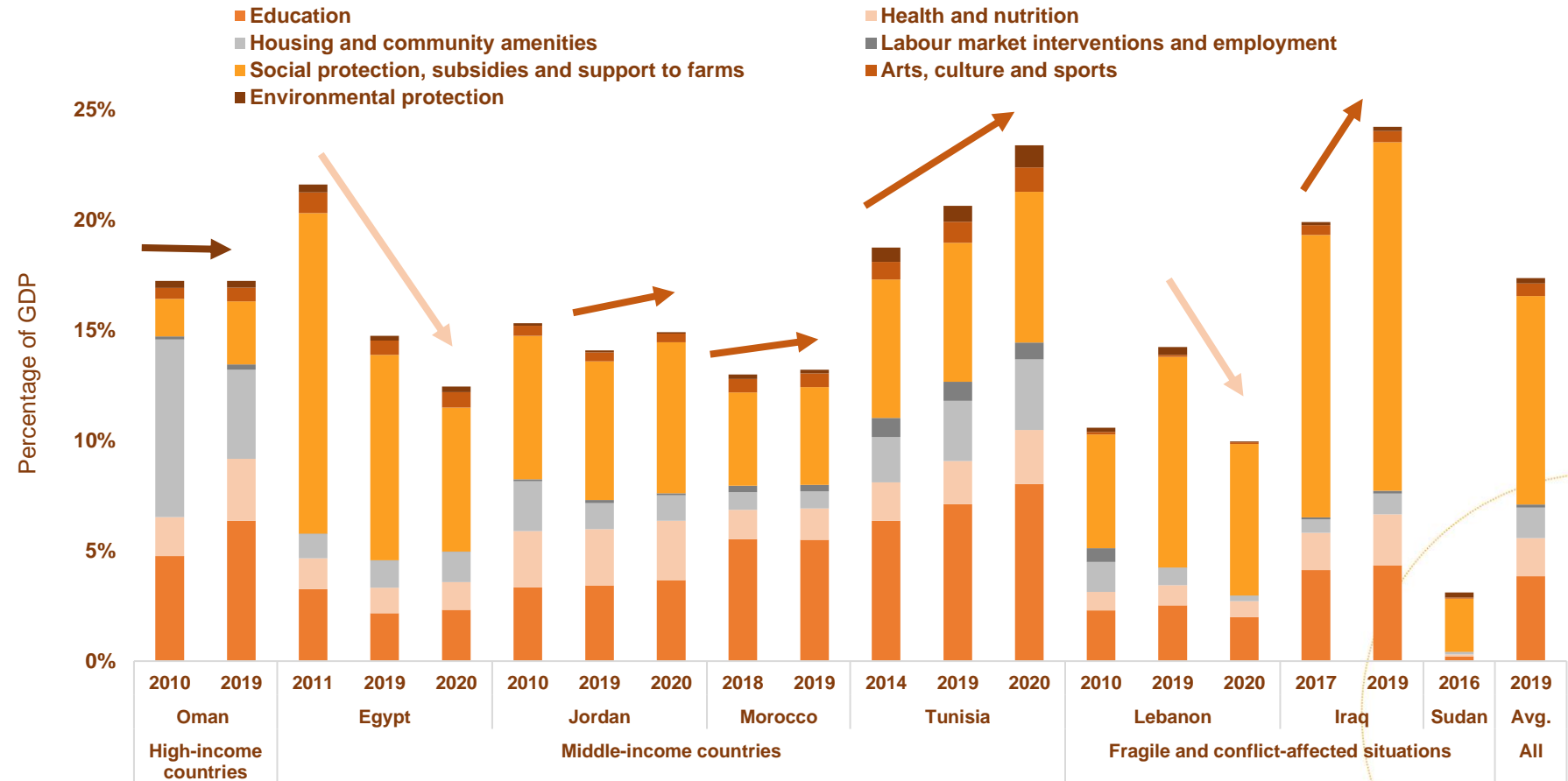
3. Human capital investments targeting workers' health and skills have positive long-term benefits, in addition to reducing vulnerabilities

Social Expenditure Monitor for Arab States

An Example

Subsidies top social policy expenditure, innovation and investment lag

Percentage of GDP (2019)

- Subsidies to food processors, Subsidies to fuel (oil and gas), Subsidies to electricity
- Early childhood, primary and secondary Education
- Support to income (Cash/in-kind)
- Pension schemes
- Inpatient hospital services
- Tertiary education
- Housing
- Outpatient hospital services
- Support to cultural events and individuals
- Urban commuting and rural road Connectivity

(i) Recipients of public vocational training compared to non-recipients

Probability / Wealth decile

(iii) Recipients of public financial assistance compared to non-recipients

Probability / Wealth decile
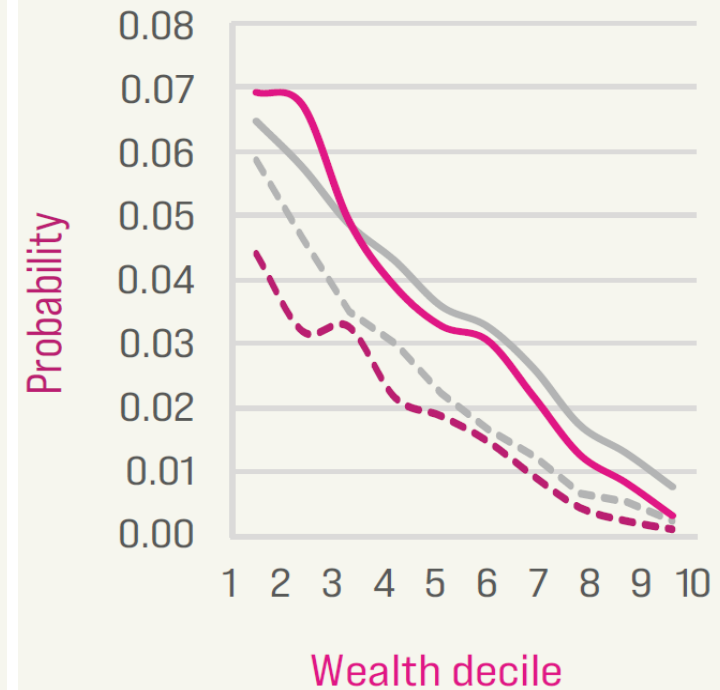
Legend:
- Assisted: rarely deprived
- Assisted: sometimes/often deprived
- Unassisted: rarely deprived
- Unassisted: sometimes/often deprived

4. Targeting Budgets to Women, Children and Vulnerable Populations have Remained a Challenge

Social Expenditure Monitor for Arab States

Households and families benefit particularly in countries with extensive subsidies
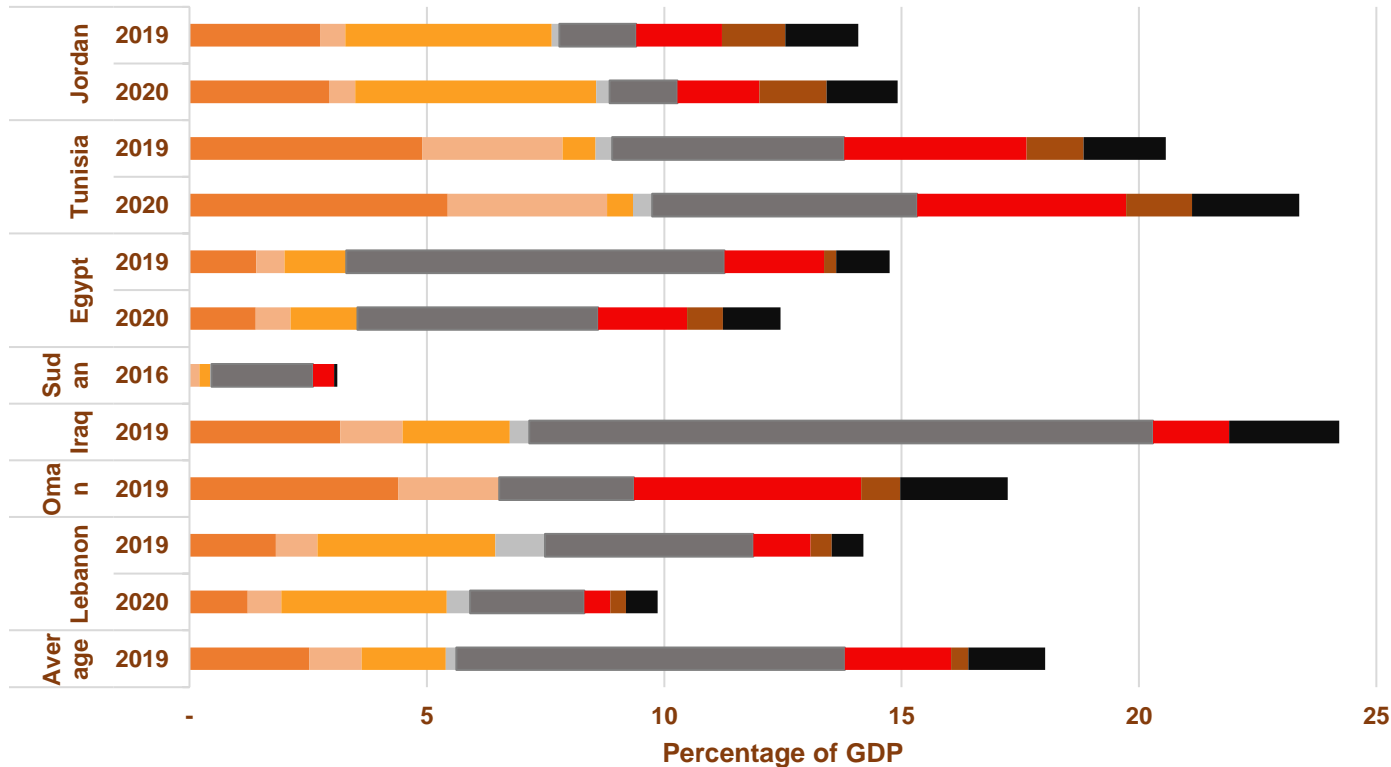
Targeted expenditures to:
Specific vulnerable populations (0.22% of GDP in 2019).

Youth and adults (1.1 % of GDP in 2019).

The older persons (1.77% of GDP in 2019)

Household and families benefit largely due to general subsidies; how equitable depends on type of intervention

Data on targeting budgets to beneficiaries is often unclear; SEM provides a framework of tagging budget lines to beneficiaries.

Social Expenditure Monitor for Arab States

5. Current expenditure takes a dominant share in social expenditures which undermines investments in infrastructure, productivity and job creation

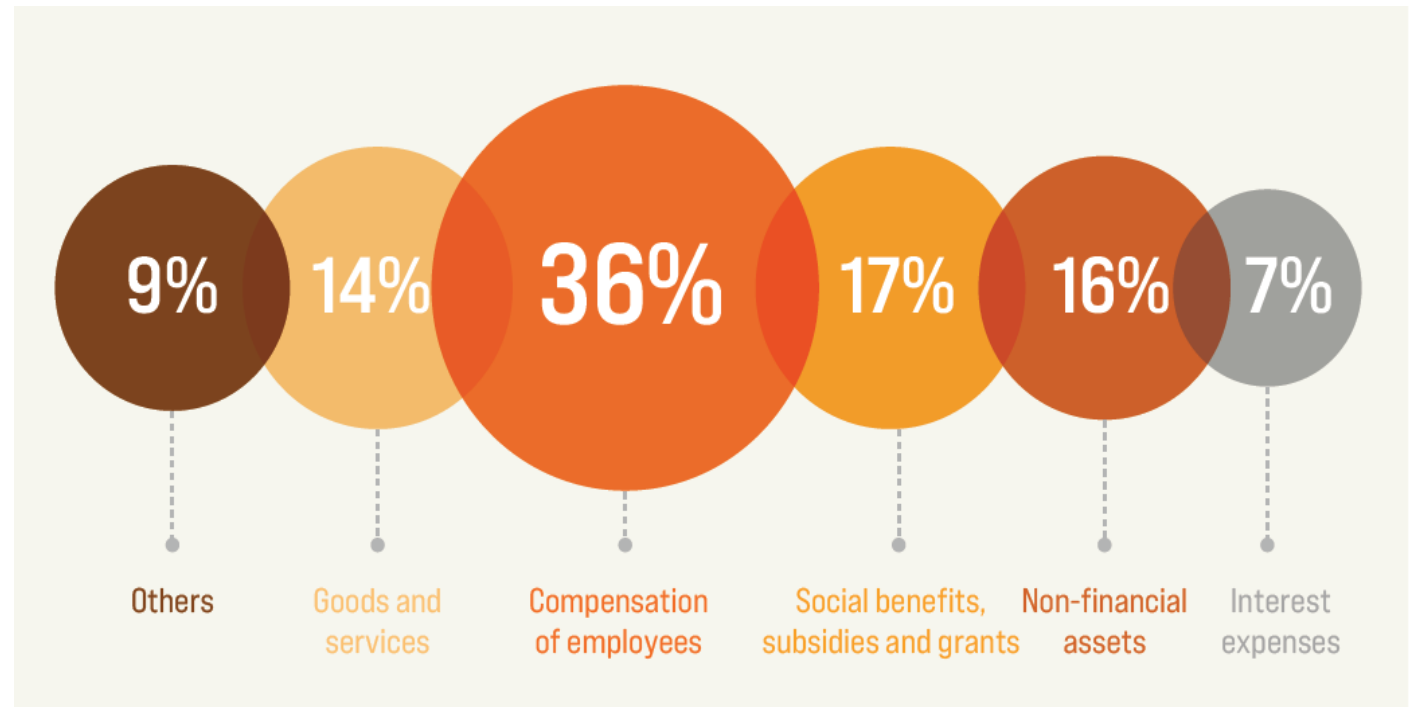**Capital expenditure made up only around 1/5** of social expenditure in 2019 in countries with SEM data

Current expenditure takes a dominant share 80% in social expenditures

The economic composition of public expenditure in the Arab region, 2019

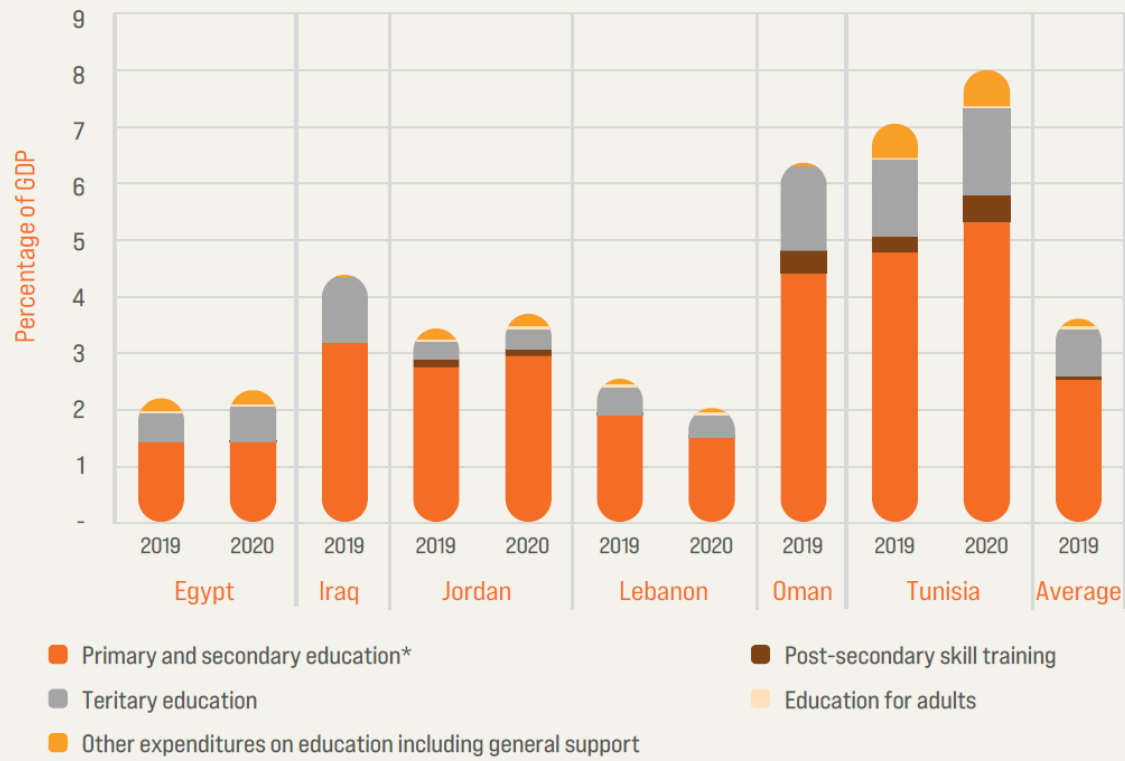| 9%	14%	36%	17%	16%	7%
Others	Goods and services	Compensation of employees	Social benefits, subsidies and grants	Non-financial assets	Interest expenses

Seven Dimensions of SEM

*Nathaniel Martin, Associate Economic Affairs Officer, ESCWA*

More than 20 per cent of social expenditure goes to education but shortfalls remain in several areas including quality of education

Major share of education expenditures are on primary and secondary education

Legend:
- Primary and secondary education*
- Teritary education
- Other expenditures on education including general support
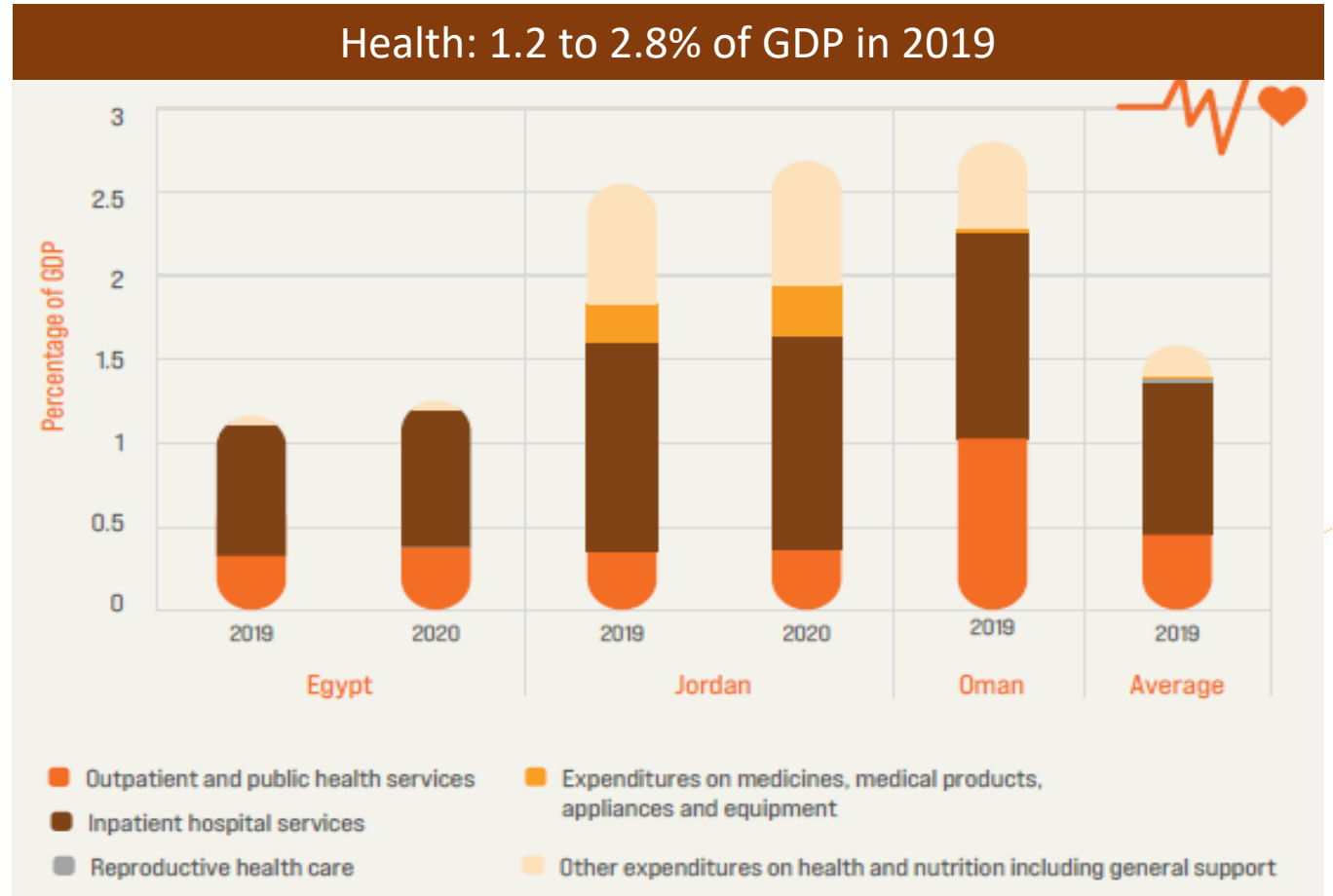- Post-secondary skill training
- Education for adults

- Countries with available data show low support for early childhood education

- Tertiary education expenditure varies from 0.3% to 1.5% of GDP but expenditure on research and development is 0.02% of GDP.

## Quality of education remained a challenge
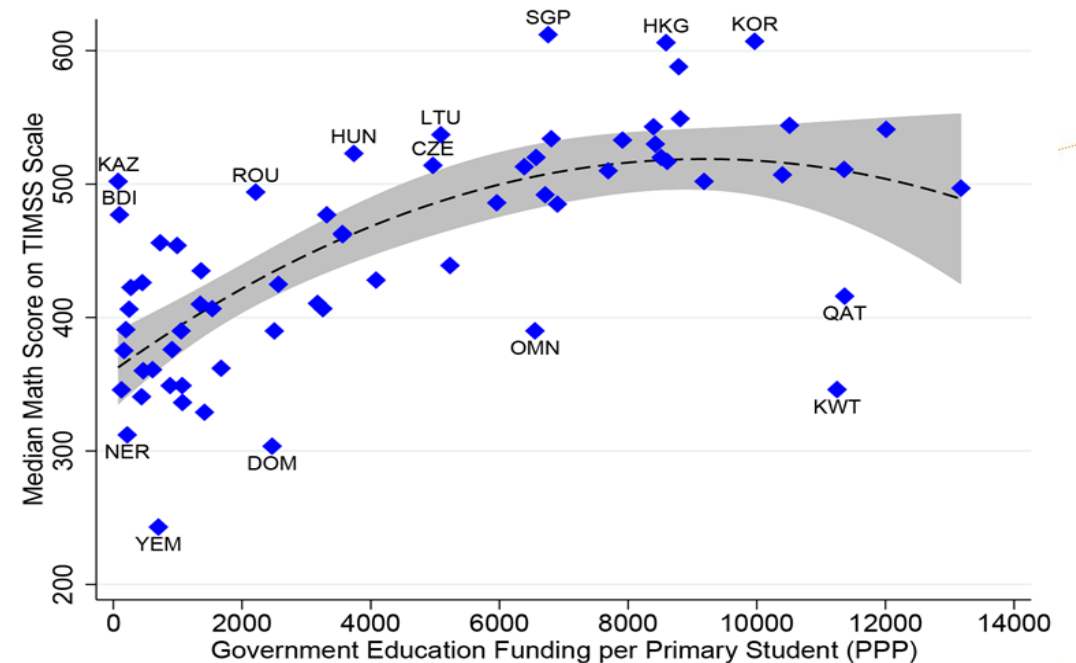
Health expenditures rose during the pandemic but remain low in countries with available data

- Outpatient expenditure is low: 0.45 per cent of GDP

- Better disaggregation needed between inpatient and outpatient

- Reproductive health care: 0.03 per cent of GDP

- Only four of eight countries of SEM had disaggregated data to show expenditure targeted specifically towards supporting women.

Health: 1.2 to 2.8% of GDP in 2019

Percentage of GDP

Egypt: 2019, 2020
Jordan: 2019, 2020
Oman: 2019
Average: 2019

- Outpatient and public health services
- Inpatient hospital services
- Reproductive health care
- Expenditures on medicines, medical products, appliances and equipment
- Other expenditures on health and nutrition including general support

Food and energy subsidies are prominent in spending on social protection, subsidies and support to farms
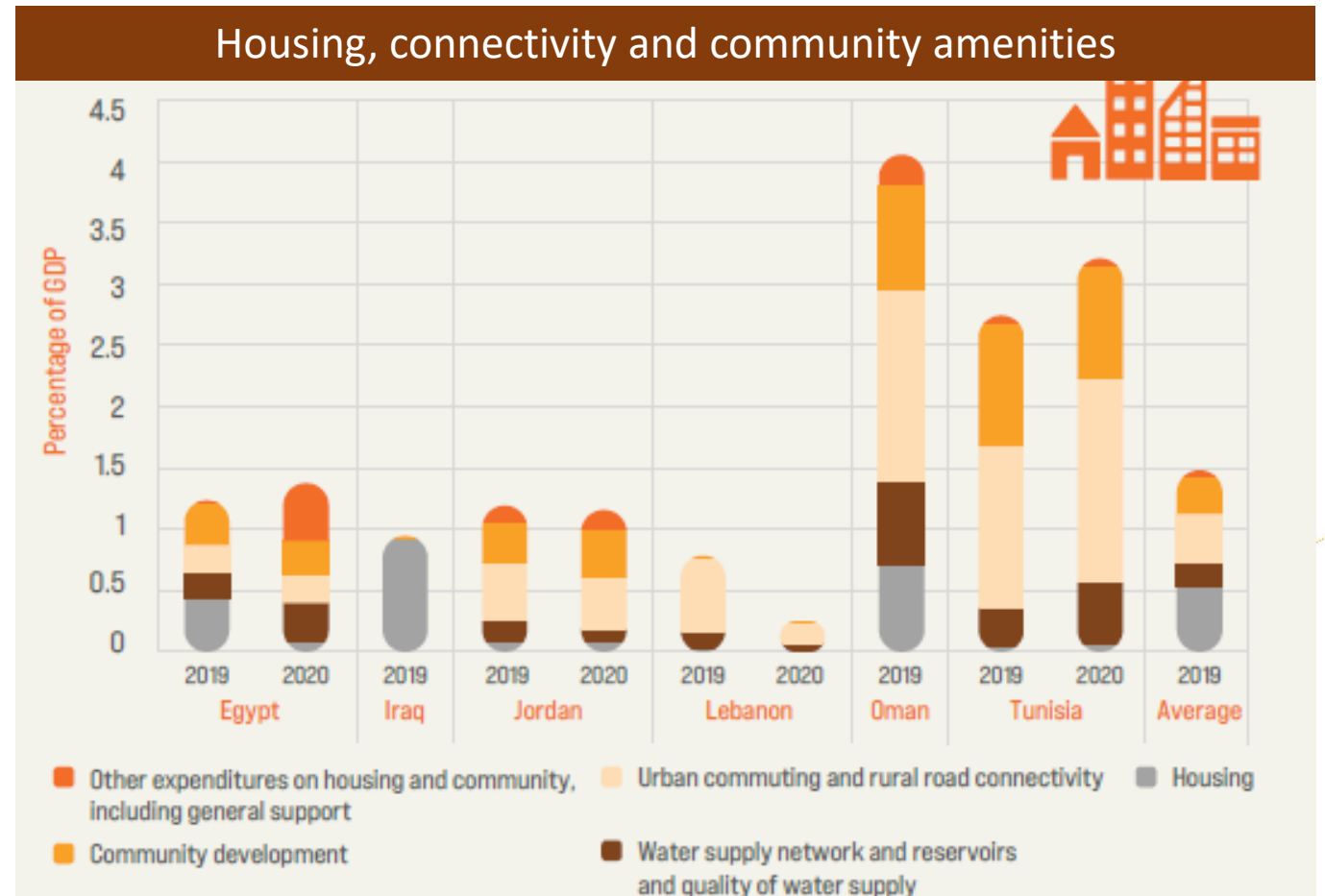
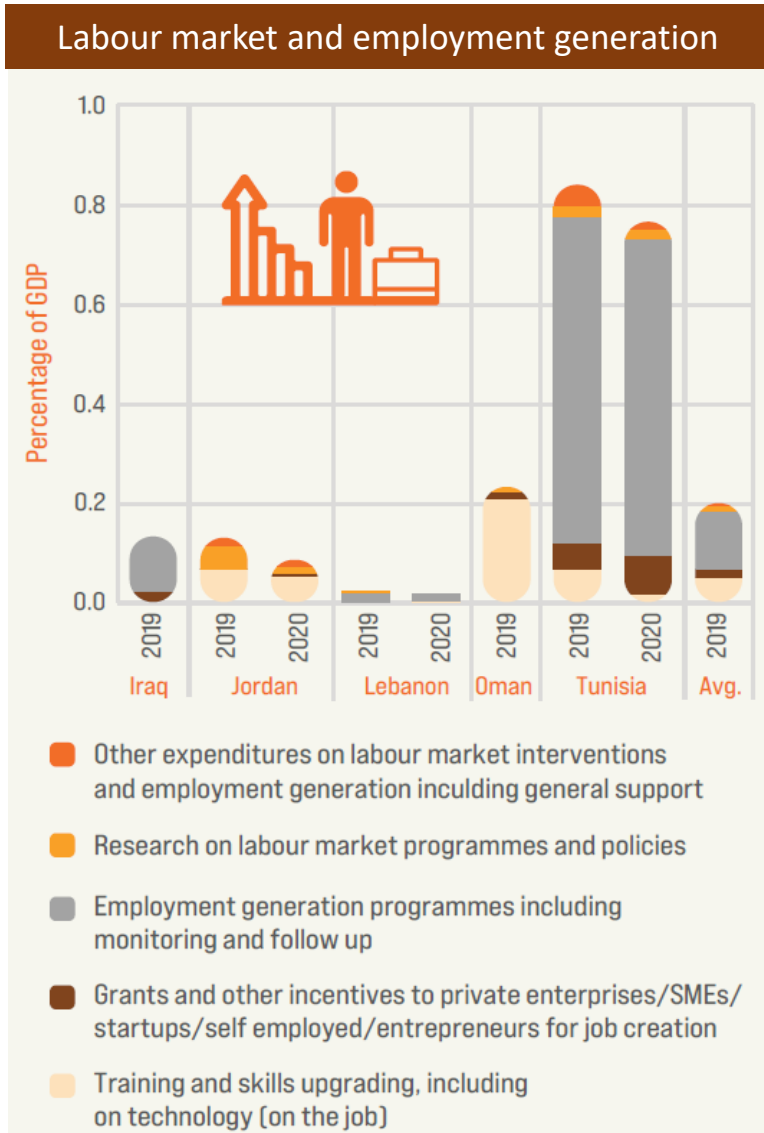## Social protection, subsidies and support to farms
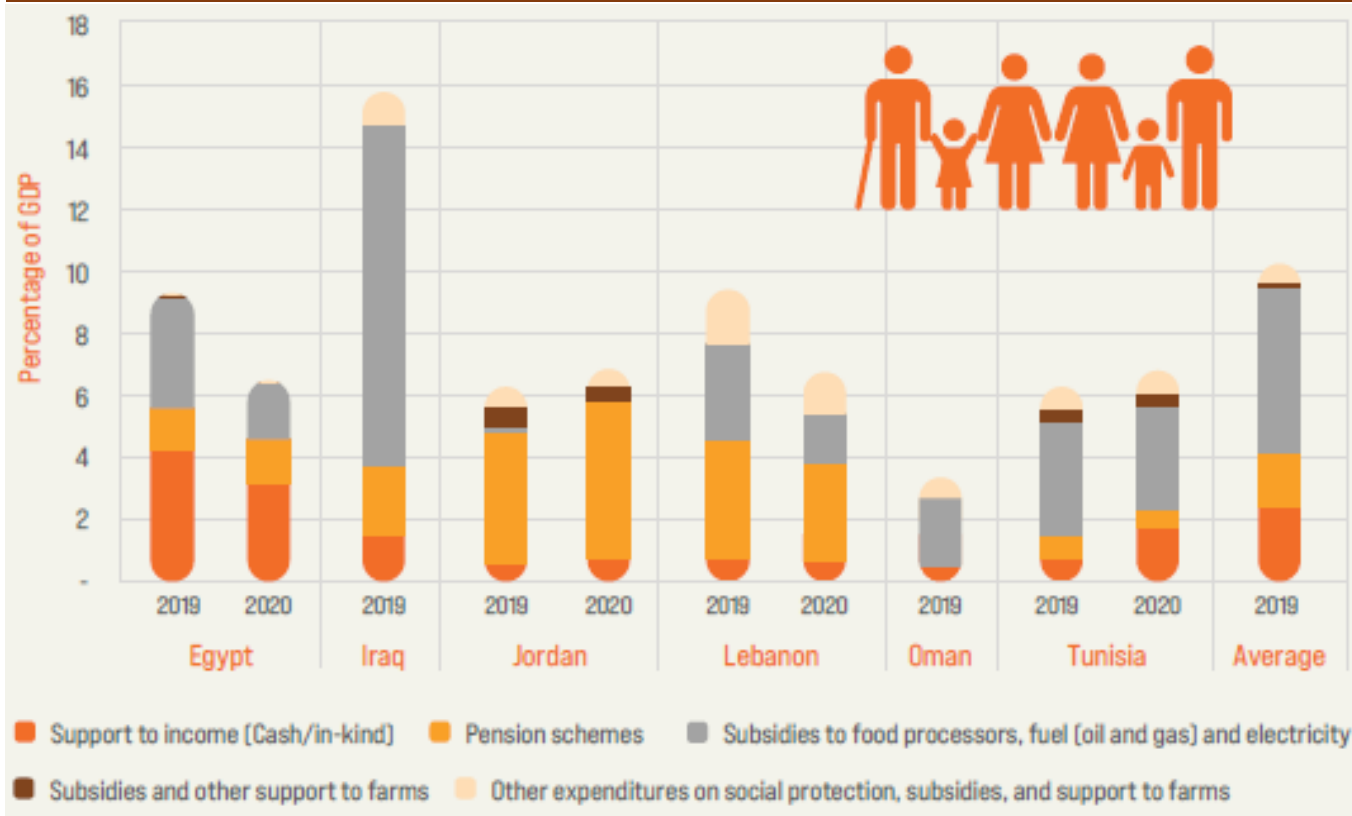
- Subsidies (food and energy) amounted to 5.3 per cent of GDP in 2019. Total for the dimension is about 10 per cent.

- Social assistance in terms of cash and in-kind: 2.5 per cent

- Social insurance, mainly pensions: 1.8 per cent

- Expenditures specifically targeting vulnerable populations are at the margins of public budgets (0.2 per cent in 2019).

Expenditure on housing and community development services have increased in some countries

- Housing is fundamental to education, employment and health in addition to its significant role in citizen identity and social belonging.

- Spending on housing, connectivity and community amenities averaged 1.5 per cent of GDP in 2019

- Public service on **water supply** is low, leading to privatisation of water supply services

- Progress in reducing the population living in slums over the last decade, but still higher than global averages

Housing, connectivity and community amenities

Legend:
- Other expenditures on housing and community, including general support
- Community development
- Urban commuting and rural road connectivity
- Housing
- Water supply network and reservoirs and quality of water supply

Public budgets to support labour markets are marginal in most countries

Social Expenditure Monitor for Arab States

Labour market and employment generation

Legend:
- **Other expenditures on labour market interventions and employment generation including general support**
- **Research on labour market programmes and policies**
- **Employment generation programmes including monitoring and follow up**
- **Grants and other incentives to private enterprises/SMEs/startups/self employed/entrepreneurs for job creation**
- **Training and skills upgrading, including on technology (on the job)**

- Low productivity and low growth → low employment generation and high unemployment rate

- Plus the demand–supply gap which is often due to lack of essential skills.

- Given this situation, public expenditure on employment generation is low: 0.2% of GDP on average

- Countries emphasize a variety of strategies for raising employment and improving labour market outcomes:
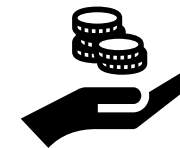
Research on programs and policies

Employment generation

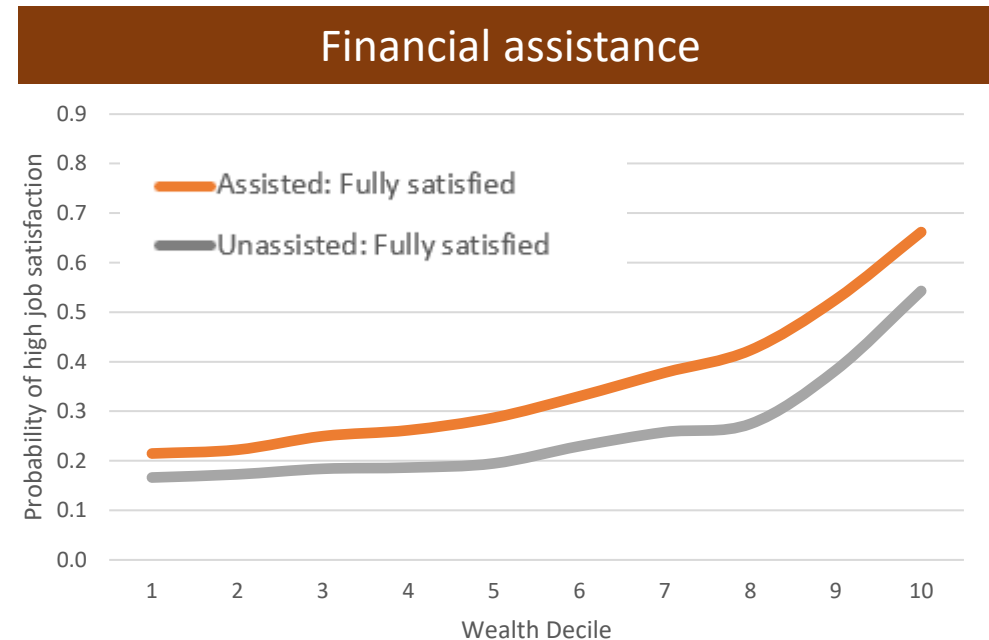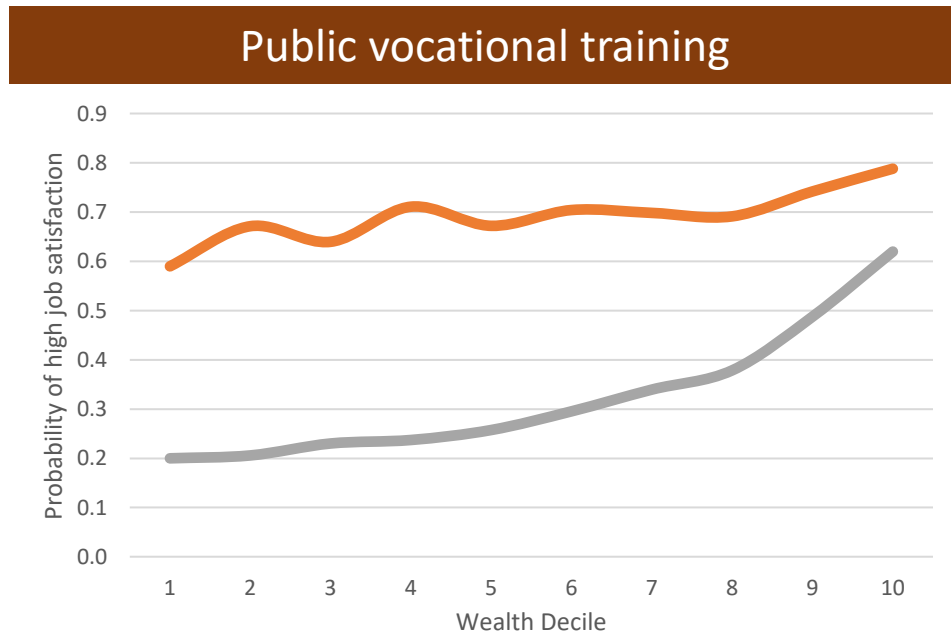Grants to enterprises for job creation

Training and skills upgrading

Investments in human capital, such as vocational training, tend to cost less and make more significant contributions to long-term welfare and lower vulnerabilities

Providing skills training to individuals is associated with a greater long-term increase in reported job satisfaction levels than other forms of support, such as financial assistance.

Public vocational training

Y-axis: Probability of high job satisfaction (0.0 – 0.9)
X-axis: Wealth Decile (1 – 10)

Financial assistance

Y-axis: Probability of high job satisfaction (0.0 – 0.9)
X-axis: Wealth Decile (1 – 10)

Legend:
— Assisted: Fully satisfied
— Unassisted: Fully satisfied

Balance financial assistance with programmes increasing human capital, skills and other capabilities with more sustainable impact.
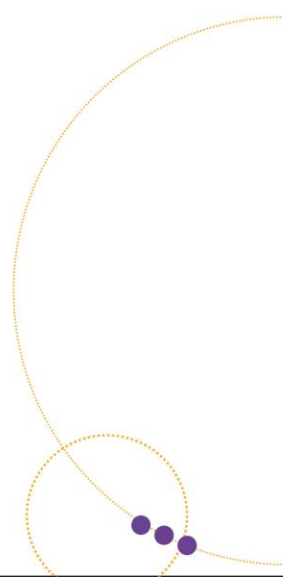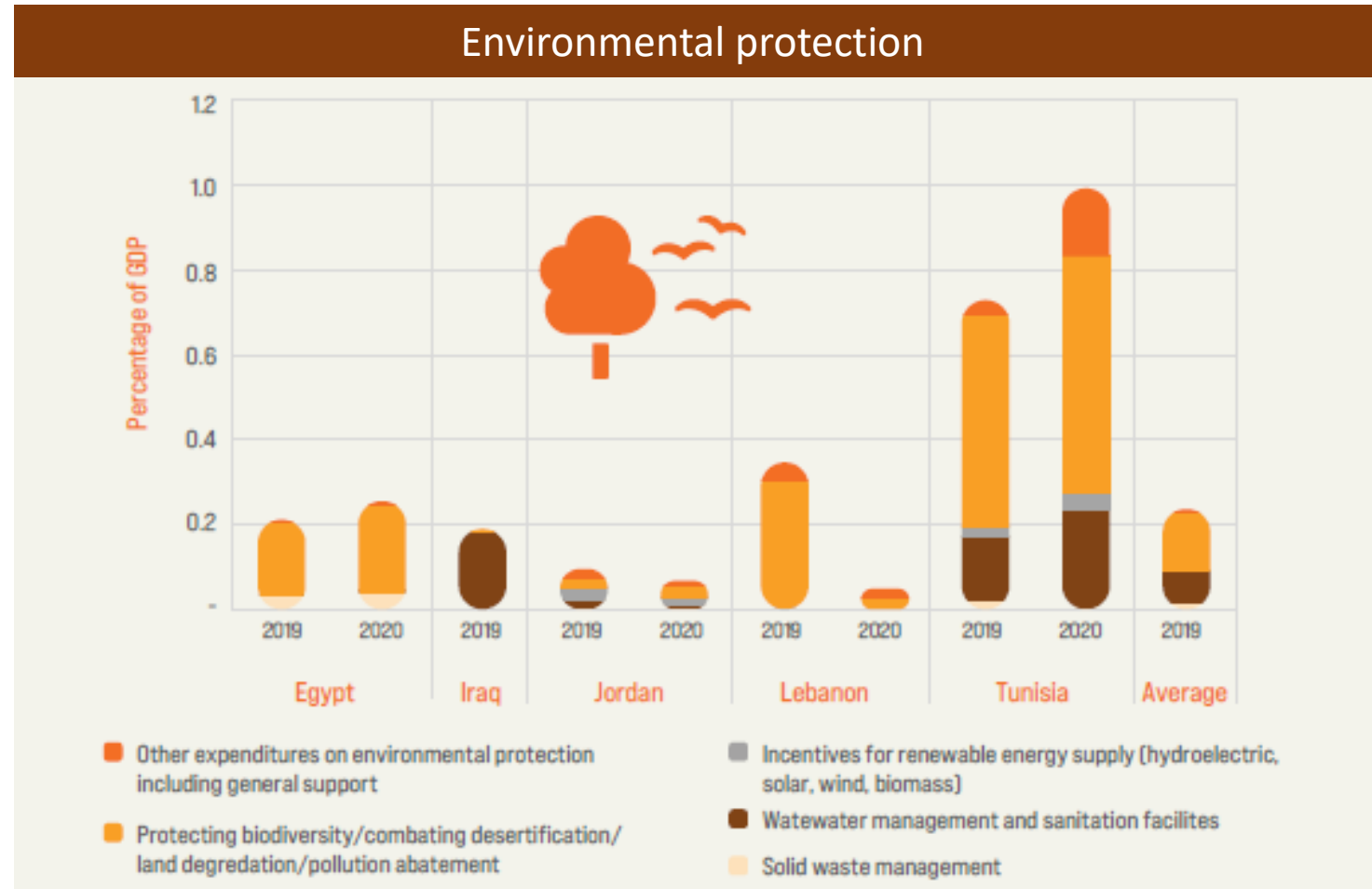
Overall environmental protection spending is very low and constrained

- Protecting biodiversity and combatting land degradation are top priorities since the region is the most water scarce

- Pressure on public budgets puts at risk commitments to finance climate action.

- Wastewater and sanitation: 0.1% of GDP

- Incentives for renewable energy are minimal

0.32% of GDP (2011) → 0.24% of GDP (2019)

Environmental protection

Legend:
- Other expenditures on environmental protection including general support
- Protecting biodiversity/combating desertification/land degradation/pollution abatement
- Incentives for renewable energy supply (hydroelectric, solar, wind, biomass)
- Watewater management and sanitation facilites
- Solid waste management

Public expenditure to promote arts and sports remained low to incentivize creativity and talent of youth

Arts, culture and sports
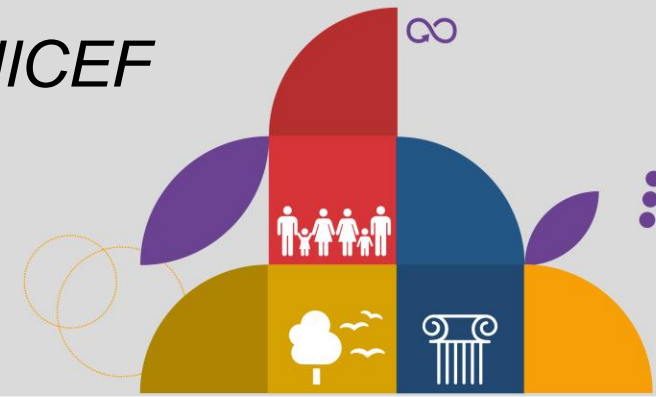
Source: ESCWA, n.d.a.
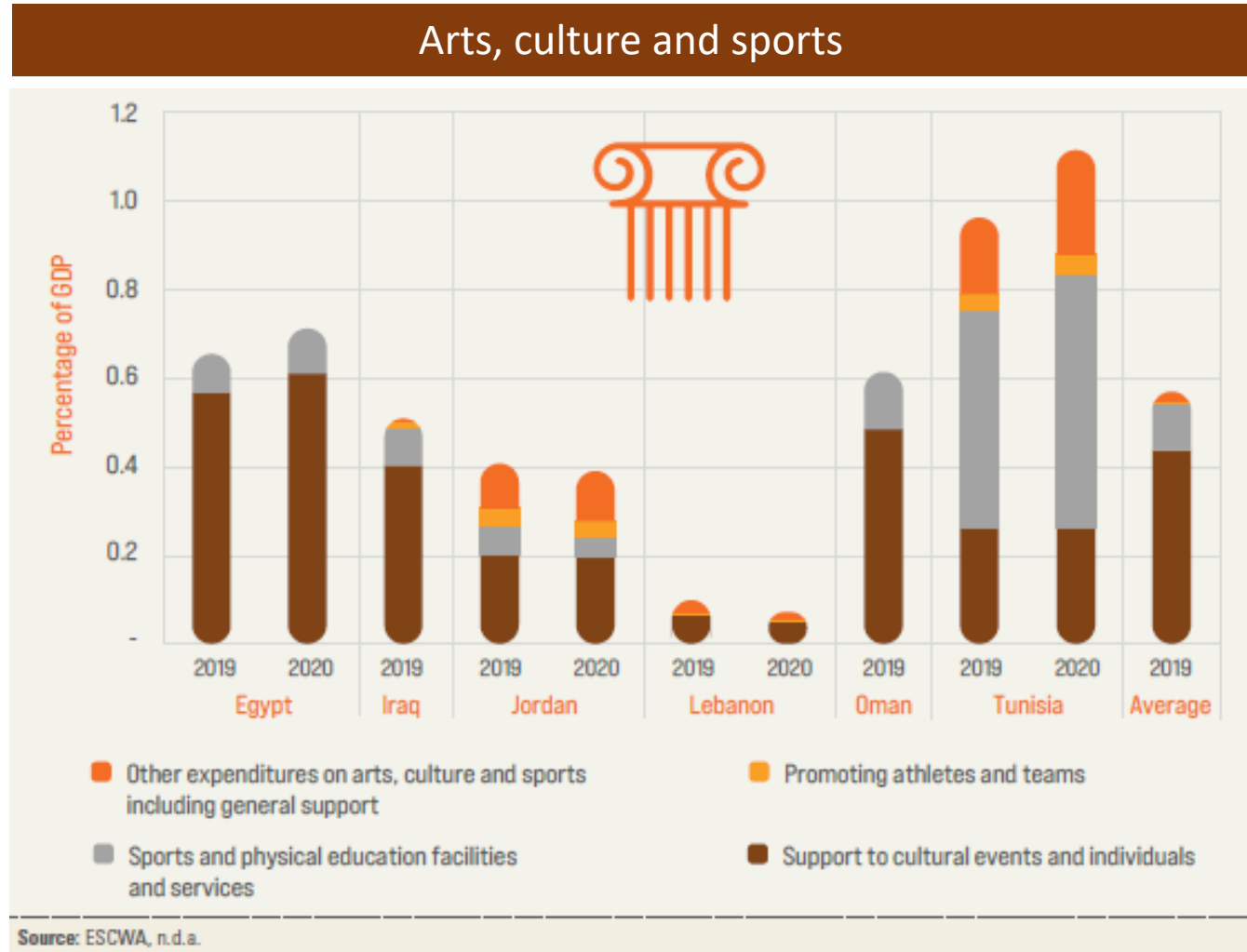
- Arts, culture, and sports help cultivate talent and creativity in youth

- Cultural events and individuals (0.4% of GDP)

- Sports and physical education facilities/services (0.1% of GDP)

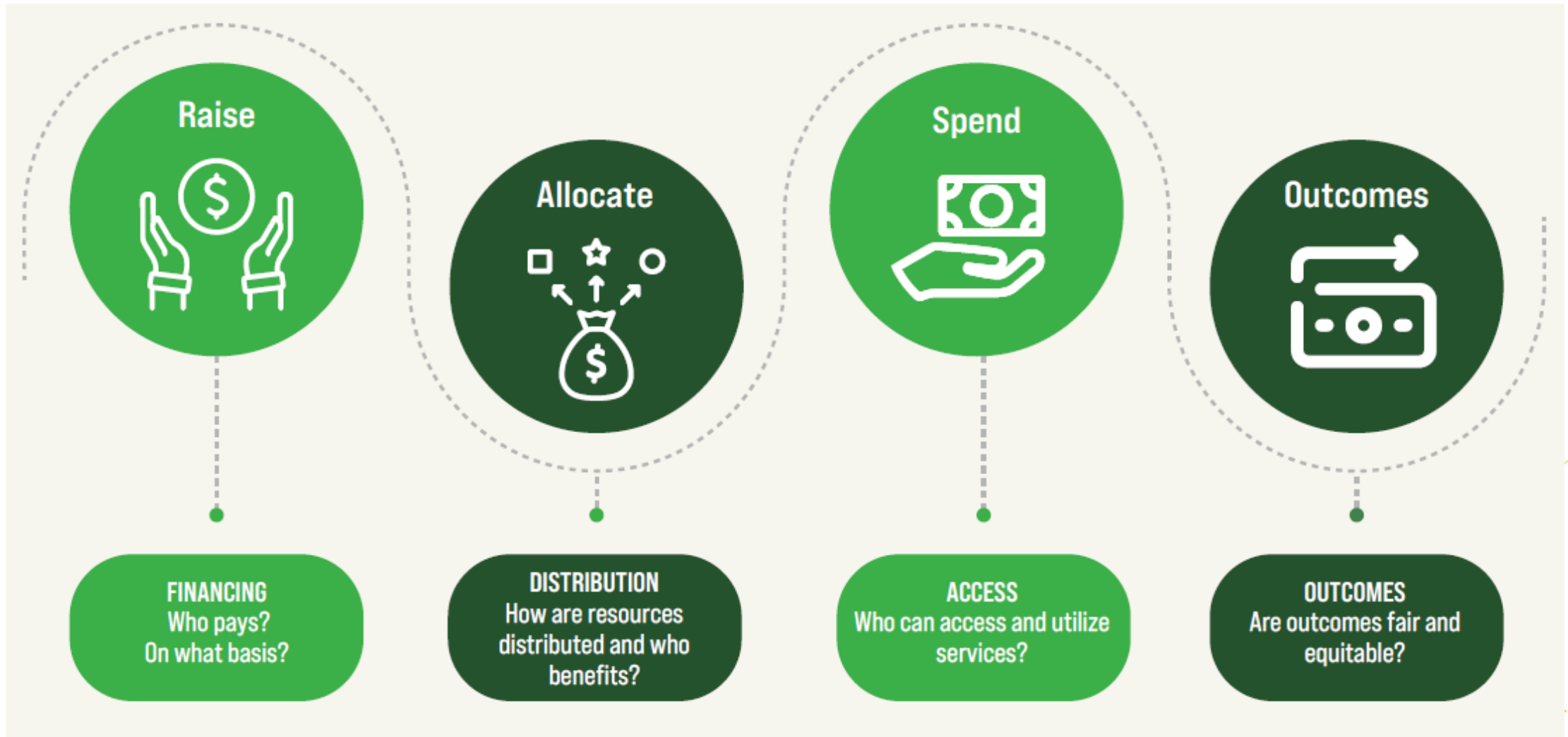- Expenditures have come under stress as pressures on public spending mount

0.80% of GDP (2011) → 0.64% of GDP (2019)
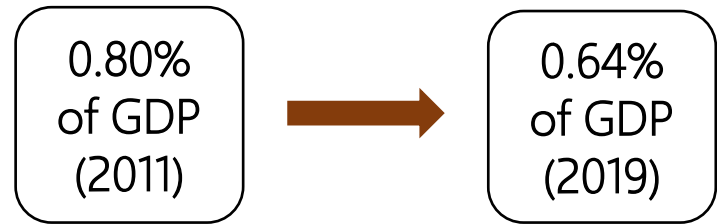
Do spending choices add up to equity – or stand in the way?

Samman Thapa, Regional Adviser on Social Policy, UNICEF
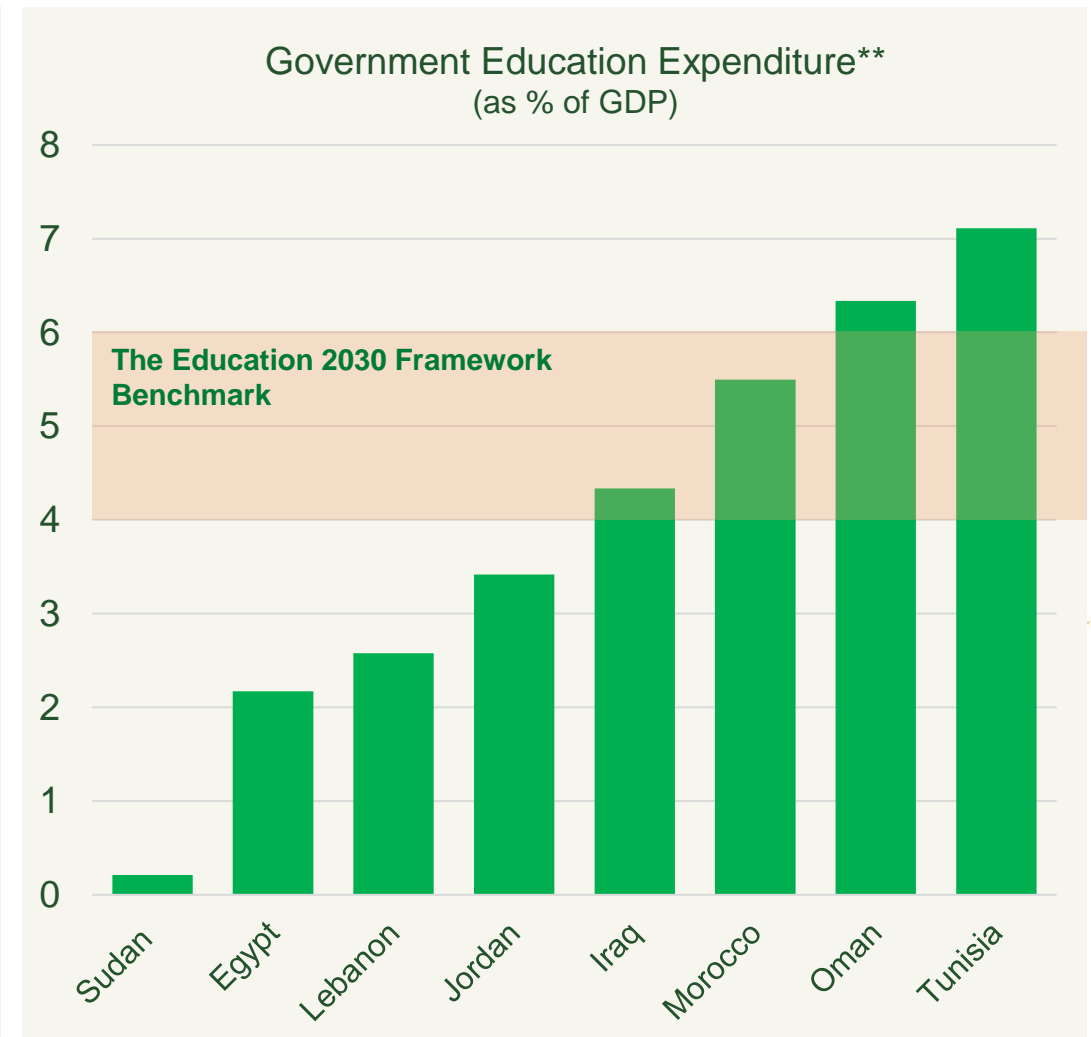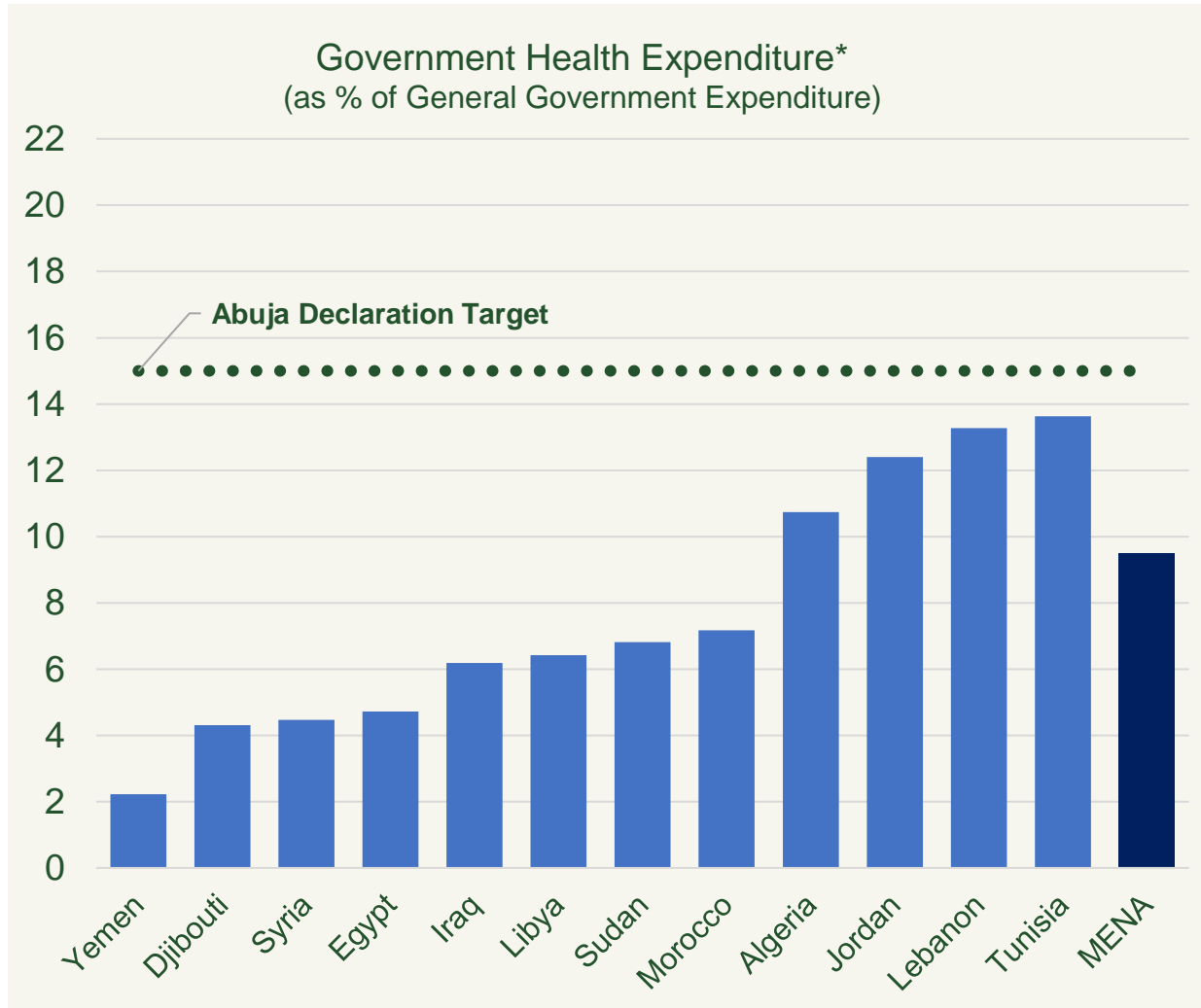*Ulugbek Olimov, Social Policy Specialist, UNICEF*

Assessing the equity of social expenditure

Raise

Allocate

Spend

Outcomes

FINANCING
Who pays?
On what basis?

DISTRIBUTION
How are resources distributed and who benefits?

ACCESS
Who can access and utilize services?

OUTCOMES
Are outcomes fair and equitable?

Source: Adapted from UNICEF's PF4C chain.

Social spending in the Arab states is lower than established international benchmarks

Social Expenditure Monitor for Arab States

Government Health Expenditure*
(as % of General Government Expenditure)

Abuja Declaration Target

Y-axis: 0, 2, 4, 6, 8, 10, 12, 14, 16, 18, 20, 22

Categories: Yemen, Djibouti, Syria, Egypt, Iraq, Libya, Sudan, Morocco, Algeria, Jordan, Lebanon, Tunisia, MENA

Government Education Expenditure**
(as % of GDP)

The Education 2030 Framework Benchmark

Y-axis: 0, 1, 2, 3, 4, 5, 6, 7, 8

Categories: Sudan, Egypt, Lebanon, Jordan, Iraq, Morocco, Oman, Tunisia

Sources: *WHO/GHED. All data points are for 2018 except from Yemen (2015), Syria (2012), and Libya (2011). ** ESCWA, n.d.a; UNDESA, 2019.

Public spending on children and youth

- Public social expenditure specifically supporting children, on average, accounted for 2.5% of GDP, which represents only 14% of total social expenditure in the Arab region

- The bulk of social spending targeted at children is represented by public expenditure on primary and secondary education. However, these remain below the international benchmarks. Early Childhood Education spending is particularly low.

- Education expenditure on youth and adults made up 1% of GDP and 5.5% of social expenditure; most of the spending went to tertiary education

- Employment generation programmes and grants for youth and adults saw $1.1 billion in support in aggregate for the countries (~73% came from Tunisia)

- Across the Arab region, social assistance expenditure on children is very low. This has consequences in terms of coverage (e.g., only 23% of children are covered by at least 1 social protection benefit, lower than the global average).

Fair or unfair, spending defines development outcomes

Higher out-of-pocket spending, higher maternal mortality

Source: World Bank, n.d.c.
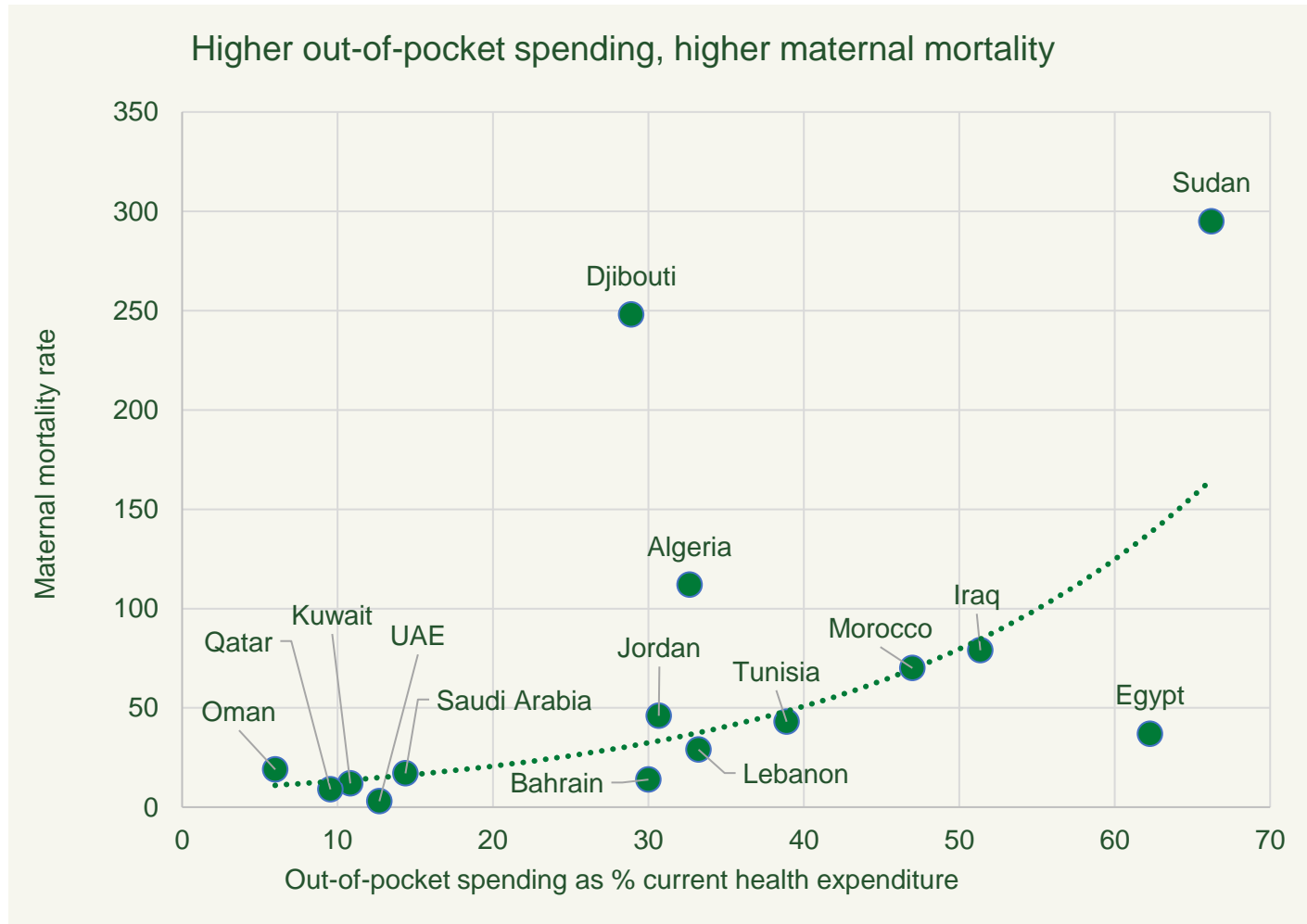
- About 27% of current health expenditure in the Arab region is raised through un-pooled out-of-pocket payments; the share is 46% when excluding the GCC countries

- Arab countries with the best maternal outcomes spend more per capita on health, draw a significant proportion of at least 50% of financing from public expenditure and maintain low levels of OOP spending

- Arab countries with the lowest current health spending per capita tend to have high (over 20%) or very high (over 50%) proportions of OOP spending

- The contribution of OOP spending to poverty levels tends to be considerable in most of the countries (pushing 8%-18% more households into poverty)

The Arab region broadly fails to allocate sufficient resources to early childhood education

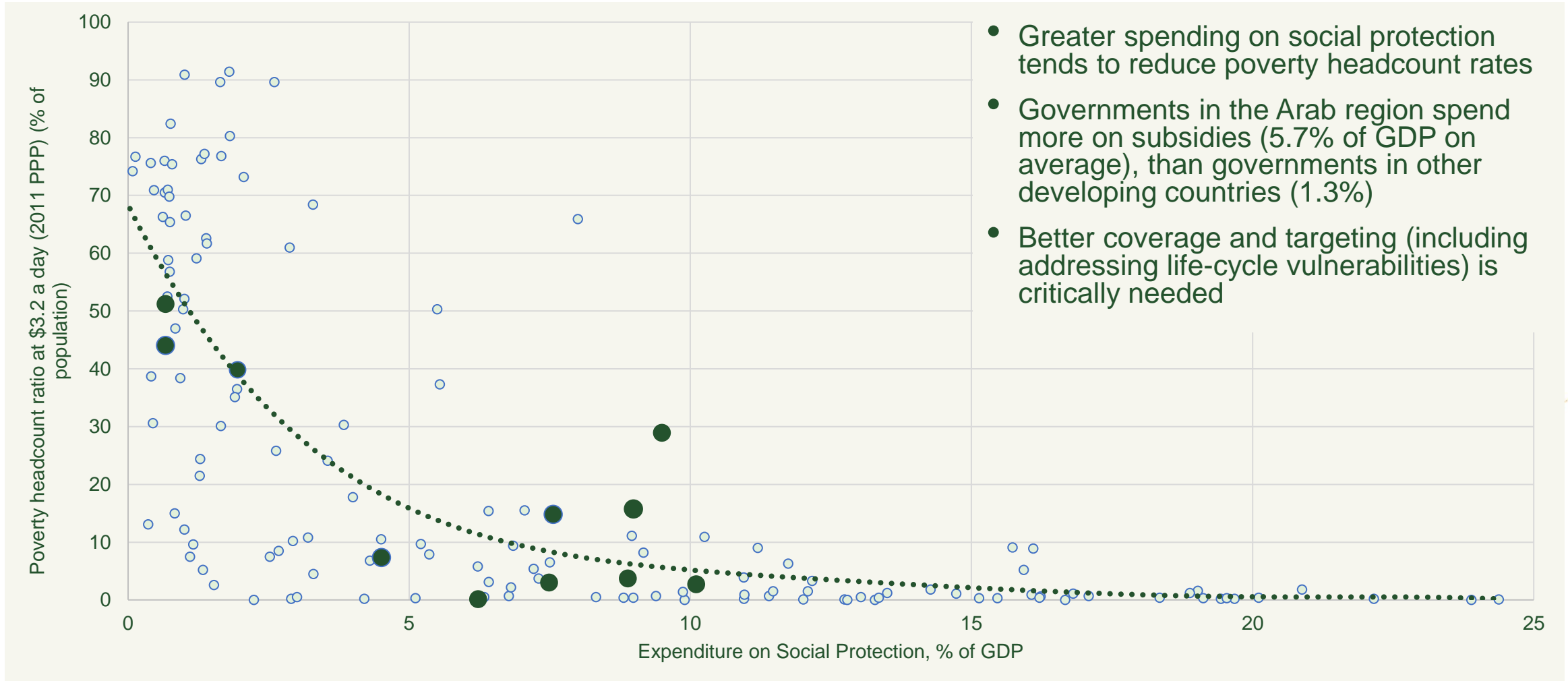| Offer at least one year of tuition-free pre-primary school	Public expenditure on early childhood education	Countries with legal provisions for free early childhood education	Average gross enrolment in early childhood education
25%	**<1%**	**1**	**<40%**

- In many Arab countries expenditure on ECE is less than 1% of that for primary and secondary education

- Due to underinvestment in ECE and limited access, children in the poorest quintile are less prepared for primary school

- Only 25% of Arab countries offer at least one year of tuition-free pre-primary school which is far lower than the world average (45%) or in comparable world regions; e.g., Europe & Central Asia – 70% and the Americas – 75%

- Of 19 Arab States, only Algeria had legal provisions for free pre-primary education, with none having compulsory provisions

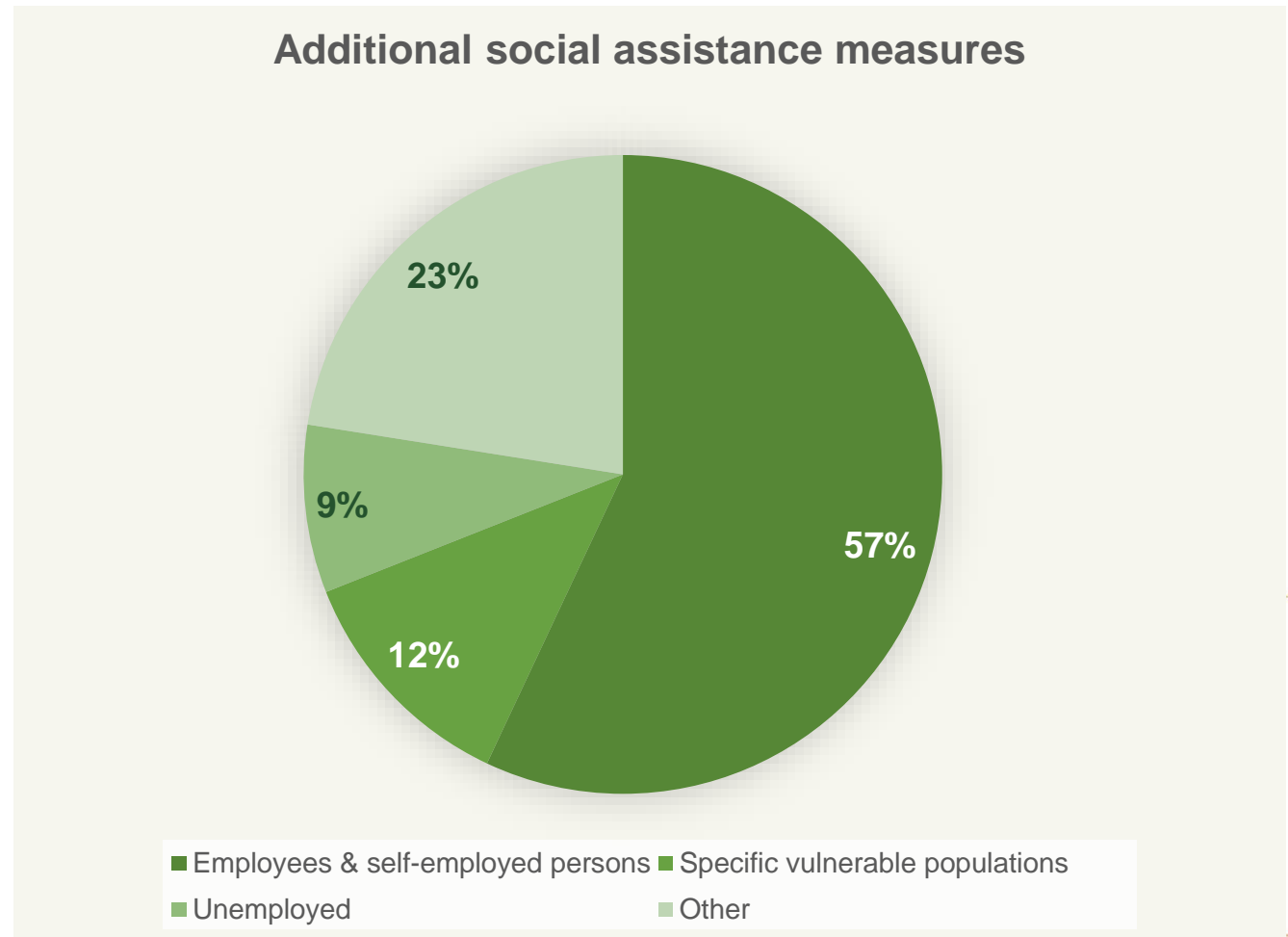- Average gross enrolment in pre-primary education in Arab countries is below 40%

Greater spending on social protection tends to reduce poverty headcount rates

- Greater spending on social protection tends to reduce poverty headcount rates
- Governments in the Arab region spend more on subsidies (5.7% of GDP on average), than governments in other developing countries (1.3%)
- Better coverage and targeting (including addressing life-cycle vulnerabilities) is critically needed

Source: ILO, 2021; World Bank, n.d.e. Note: Data are as of 2017 or the most recent available.

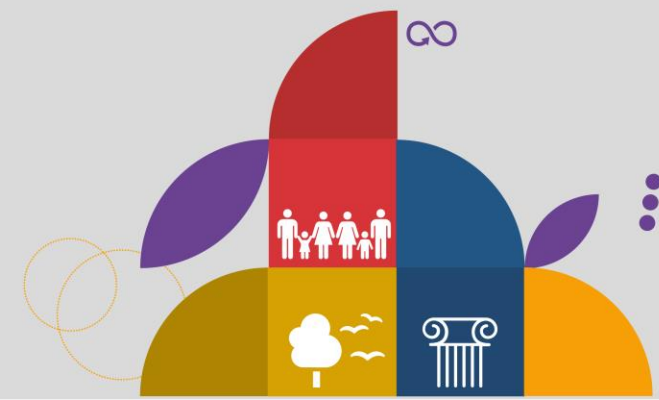# The COVID-19 fiscal stimulus packages changed social spending in the Arab region

- Unconditional cash transfers (pro-poor) were the most common single intervention among 200 COVID-19 social protection responses in the Arab region

- However, given a low amount of fiscal stimulus, just 11% of stimulus packages in the Arab region reached people through social protection and health measures

- About 21% of additional social assistance measures – aimed at specific vulnerable populations and unemployed – will likely contribute to equity or at least constrain further inequities as a result of the pandemic

- While in-kind vouchers ranked as the second most common policy measure globally, the Arab region relied more on waivers of utility bills

Additional social assistance measures

- Employees & self-employed persons — 57%
- Specific vulnerable populations — 12%
- Unemployed — 9%
- Other — 23%

ESCWA, UNDP and UNICEF, Social Expenditure Monitor for Arab States Toward Making Budgets more Equitable, Efficient and Effective to Achieve the SDGs, November 2022

Making money work efficiently

Jan Gaska, Economic Affairs Officer, ESCWA

How far does expenditure go in achieving social aims?

- The measurement of efficiency - how much outcome is achieved for given input is well rooted in the economic literature.

- Both the input and the output must be measurable.

- The input can be easily quantified – it is expressed in monetary terms, but it needs to be linked to the measurable outcome.

- There are few econometric techniques to measure efficiency.

Data is the biggest challenge

Table 3. Variables for assessing the efficiency of social expenditures

	Input variable	Output variable (performance measure)
Social expenditure	Total social expenditure	Inequality-adjusted Human Development Index
Education	Overall education expenditure	Expected years of schooling
	Primary and secondary education	Pupil-teacher ratio, primary
	Tertiary education	Pupil-teacher ratio, tertiary
	Research and use of technology in advancing education	Harmonized test scores
Health	Overall health expenditure	Life expectancy at birth, total years
	Outpatient services	Mortality from cardiovascular diseases, cancer, diabetes or chronic respiratory diseases between ages 30-70 (percentage)
	Hospital services	Infant mortality rate, infant deaths per 1,000 live births
	Public health services	Prevalence of anaemia among pregnant women (percentage)
Housing and community amenities	Overall housing and community amenities expenditure	Population living in slums (percentage of urban population)
Social protection	Overall social protection expenditure	Prevalence of undernourishment (percentage population)
	Older persons	Proportion of population above statutory retirement age covered by benefit
	Sickness and disability	Proportion of population with severe disability covered by benefits
	Families and children	Prevalence of anaemia among women of reproductive age (percentage of women aged 15-49)
Environmental protection	Overall environmental protection expenditure	Environmental Performance Index

- The choice of outcome indicators is based on the literature review and data availability.

- We could build efficiency for 14 indicators (out of 50 indicators of SEM) – significant room to improve with better data.
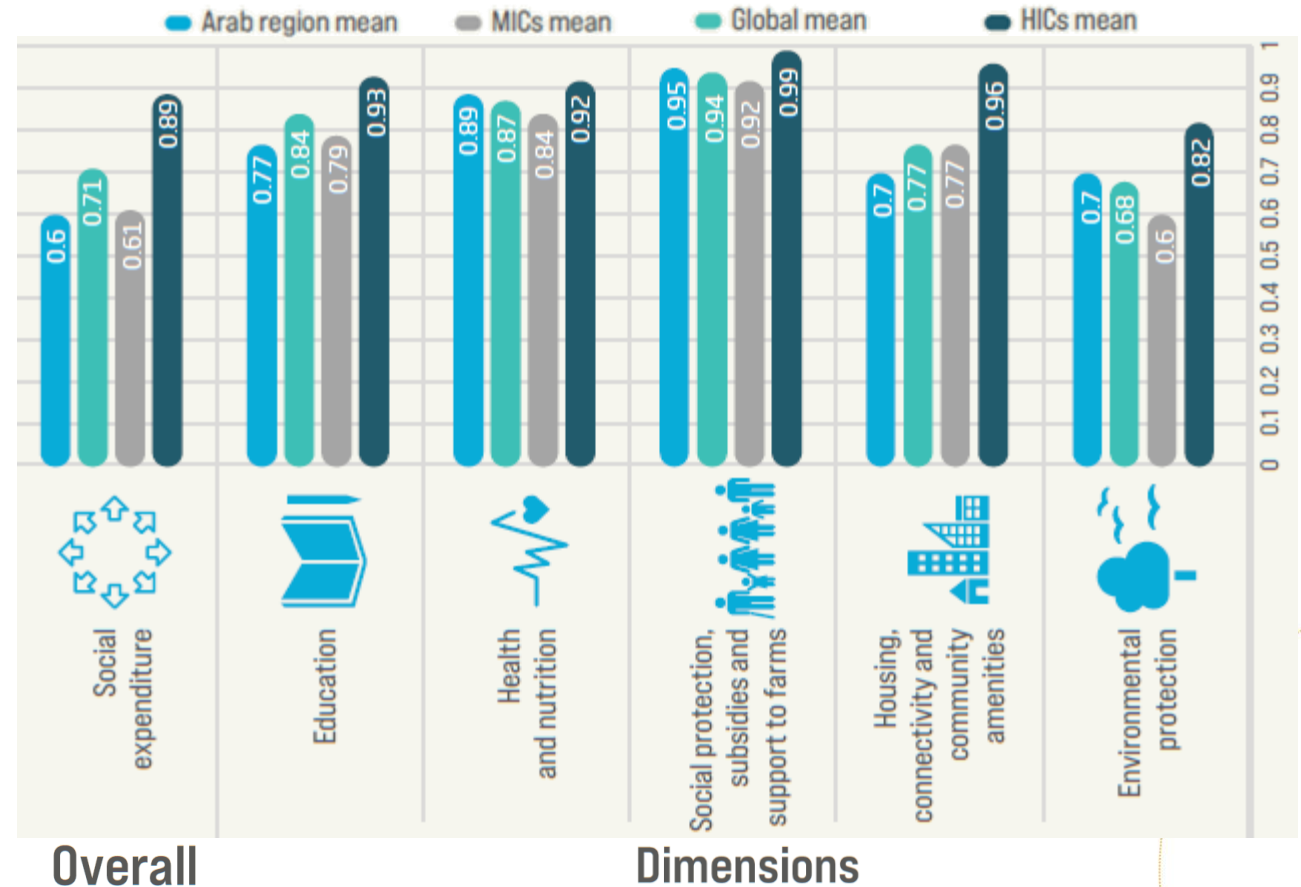
Measuring the efficiency can be diverse
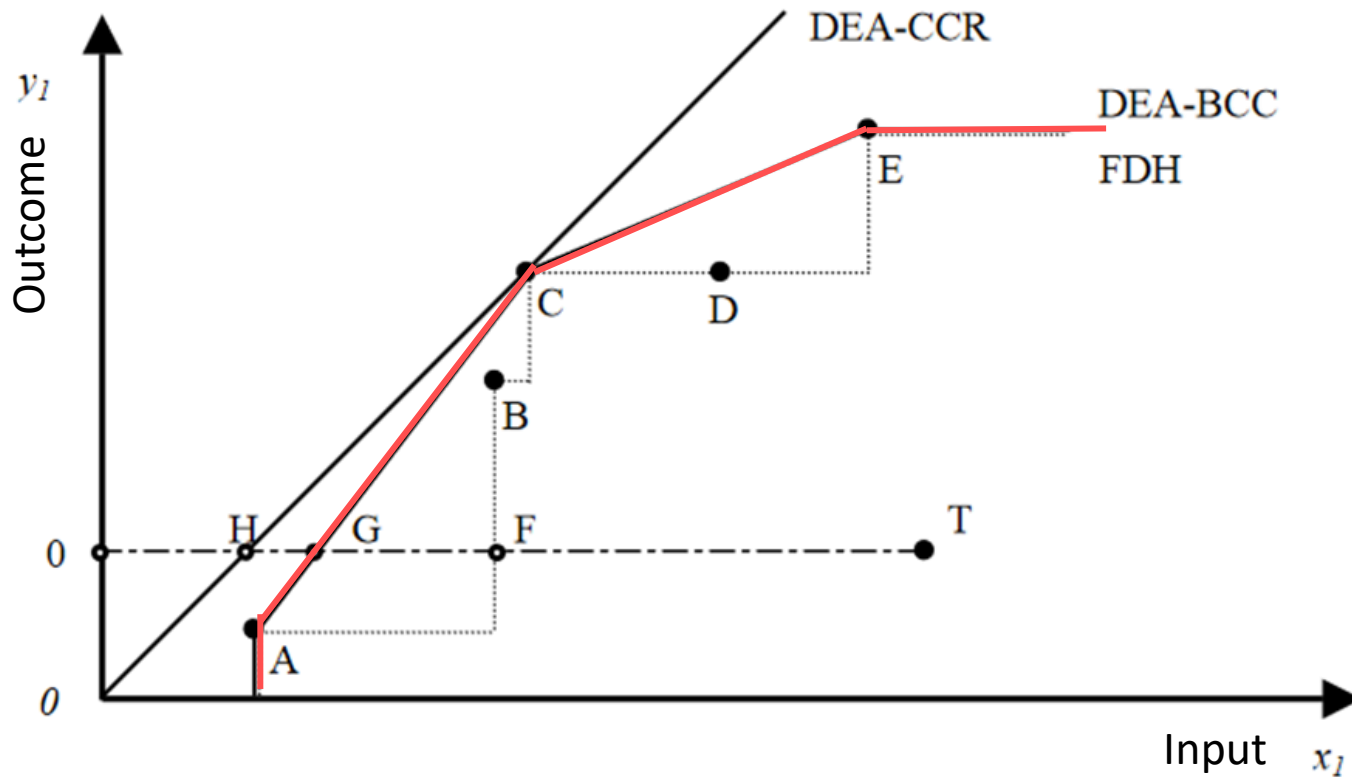
- We used the Data Envelopment Analysis with variable returns to scale.

- In such framework, countries that are on the frontier have scores equal to 1, countries that are below have proportionally lower efficiency.
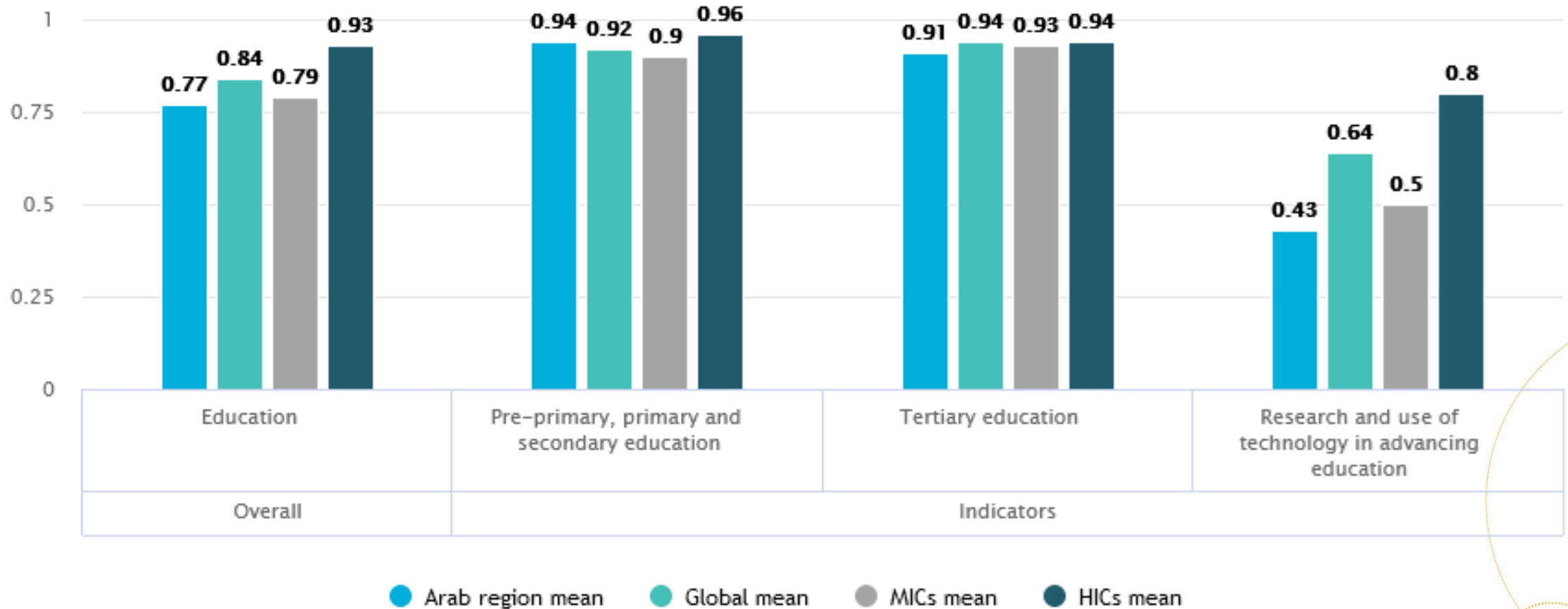
Falling behind on human development

Overall efficiency of social expenditures is low – lower than world or even MICs average.

This is driven by education and housing, where the efficiency is below global or MICs average.

In case of health, social protection and environment, this is relatively good lagging behind only HICs average.

Legend: Arab region mean · MICs mean · Global mean · HICs mean

Overall

Social expenditure: 0.6, 0.71, 0.61, 0.89

Dimensions

Education: 0.77, 0.84, 0.79, 0.93

Health and nutrition: 0.89, 0.87, 0.84, 0.92

Social protection, subsidies and support to farms: 0.95, 0.94, 0.92, 0.99

Housing, connectivity and community amenities: 0.7, 0.77, 0.77, 0.96

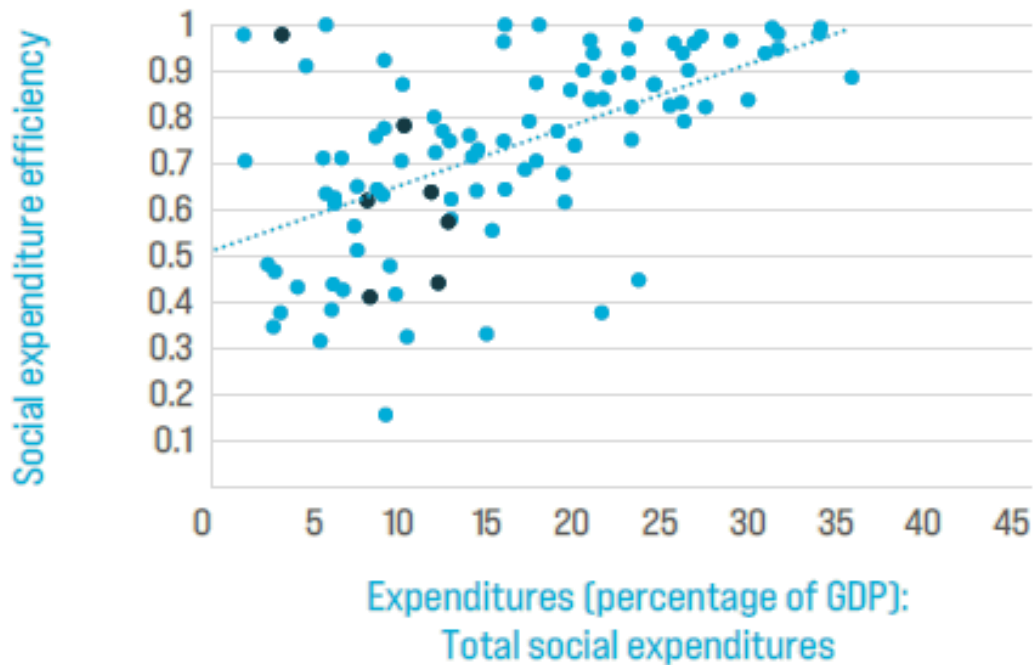Environmental protection: 0.7, 0.68, 0.6, 0.82
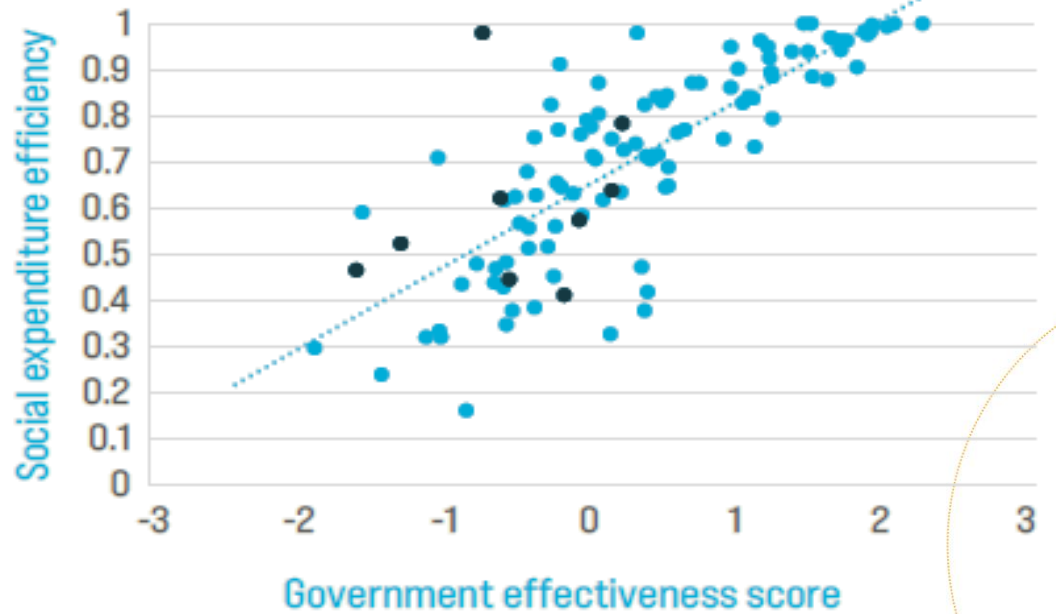
More schooling but lower performance

Context makes a difference

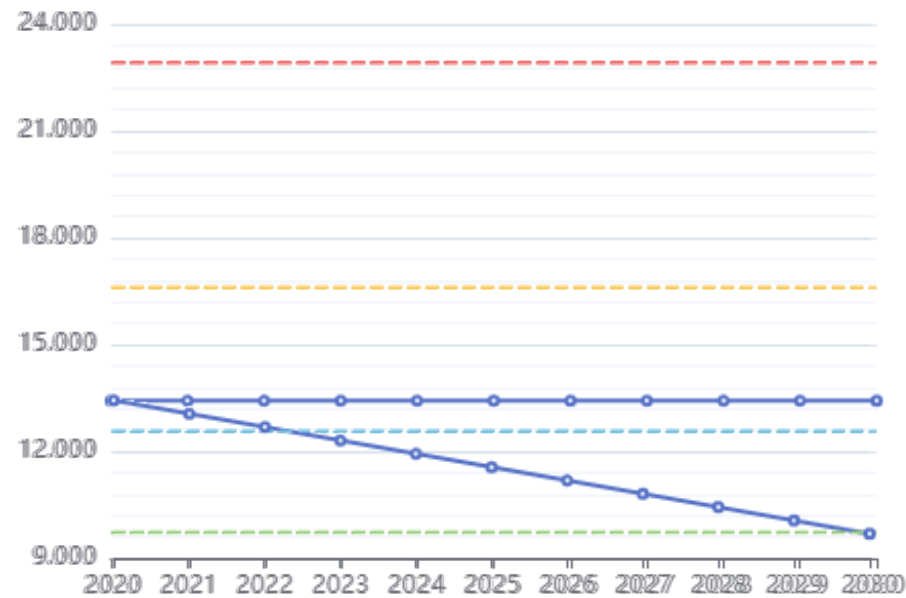(a) Overall efficiency of social expenditure and social expenditures (percentage of GDP)

(c) Overall efficiency of social expenditure and Government effectiveness score
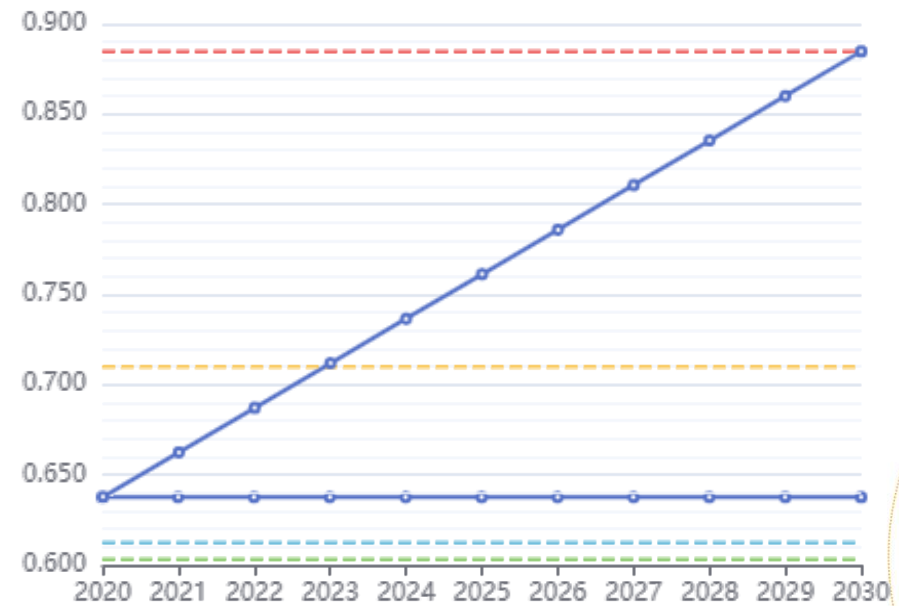
Efficiency and outcome simulations in Jordan

Jordan IHDI is 0.62, what gives 72nd place out of 152 countries

Overall social expenditures (% of GDP)

Overall social expenditures - efficiency

Conclusions

- The most significant challenge in efficiency analysis is data availability –many indicators lack of good spatial or temporal coverage.
- The overall efficiency of social expenditures in the Arab region is below global benchmark – there is a lot of space to improve the outcomes.
- In general, efficiency is linked to better institutions, but there are also other significant factors.
- The interactive SEM portal allows for the analysis of the relationships between efficiency, expenditure and outcomes for some Arab countries
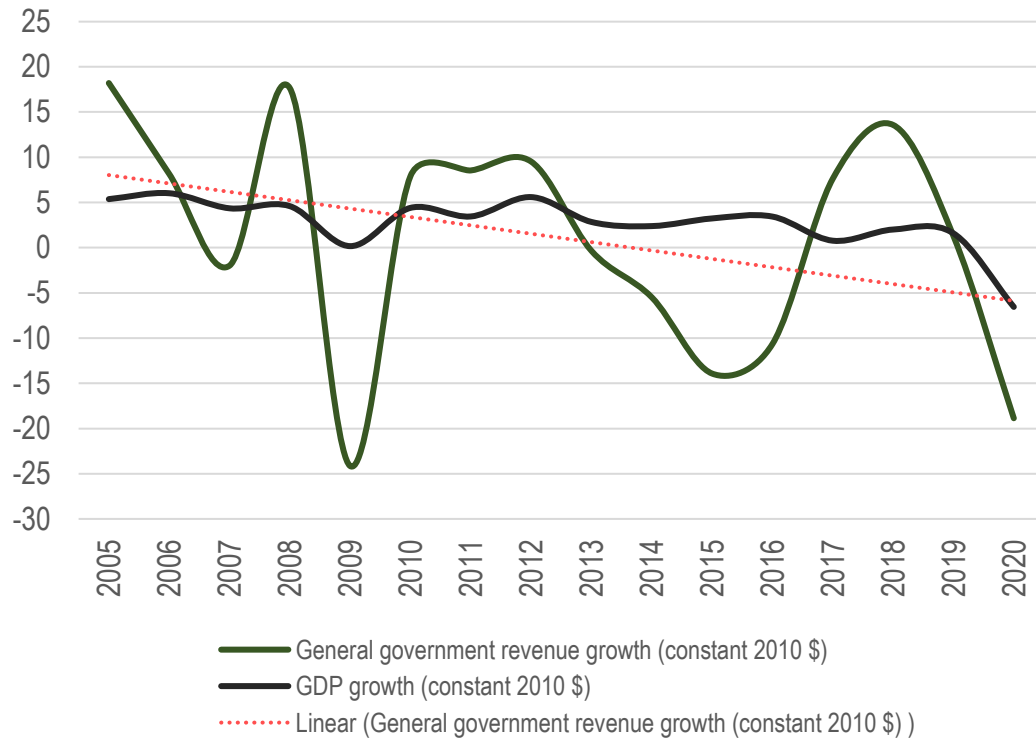
Enhancing Social Expenditure and Fiscal Sustainability

Niranjan Sarangi, Senior Economic Affairs Officer, ESCWA
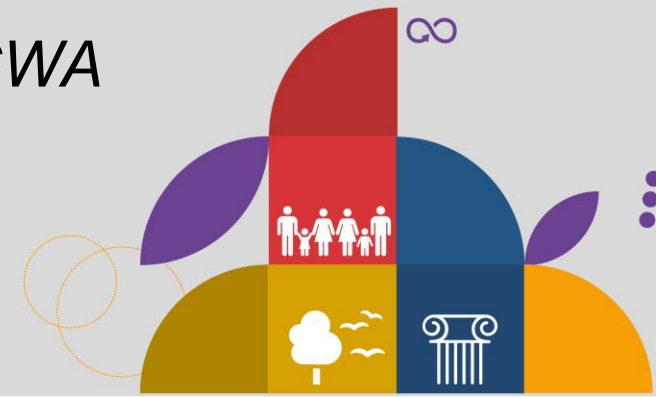
1. Regional GDP growth, on average, has remained sluggish and declined over the years; Growth of revenues shows high volatility due to oil price fluctuations; Public debt grew at a rapid pace -- It increased to 60% of GDP in 2020, up from 25% in 2008

Social Expenditure Monitor for Arab States

Growth of GDP and public revenues in the Arab region

- General government revenue growth (constant 2010 $)
- GDP growth (constant 2010 $)
- ⋯⋯ Linear (General government revenue growth (constant 2010 $))

GDP growth vs. growth of public debt in the Arab region
(year on year percentage changes)
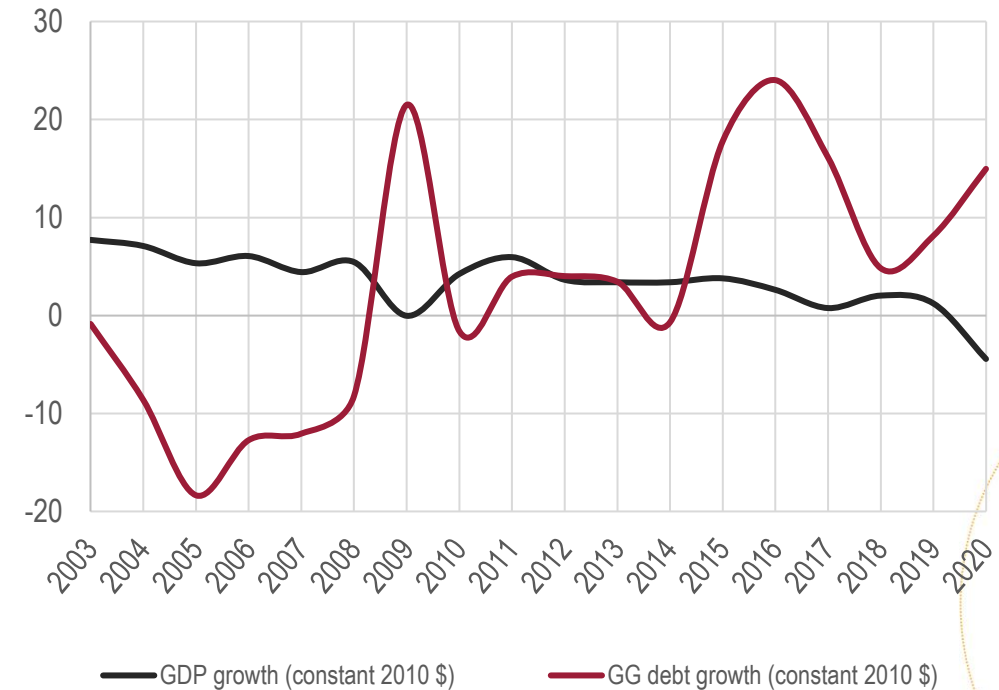
- GDP growth (constant 2010 $)
- GG debt growth (constant 2010 $)

Social Expenditure Monitor for Arab States

High fiscal deficit leading to increasing public debt

Primary balance in 2020

GCC	⬇	-11%
MICs	⬇	-3%
LDCs	⬇	-11%
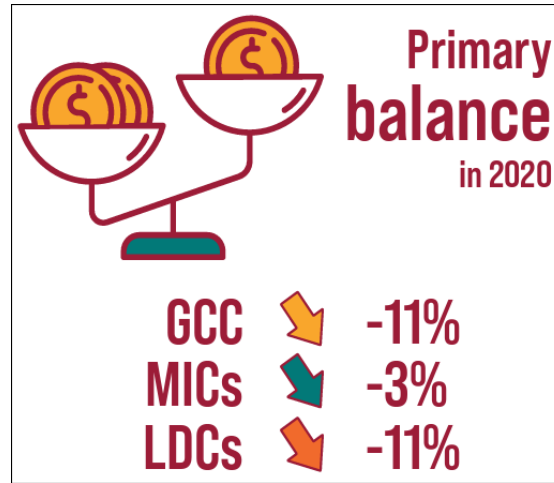
Foreign currency liquidity constrained

Current account balance (percentage of GDP)

GCC   MICs   LDCs
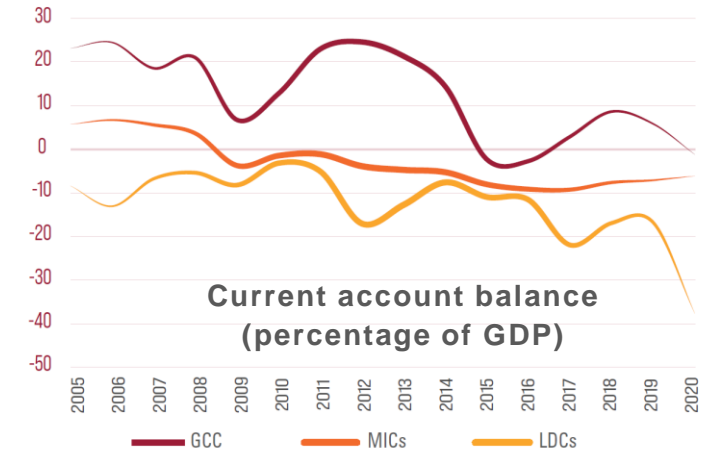
Low stimulus compared to global average

Government fiscal support ($ billions)
Global, by region

Region	Value
World	18674.5
Europe & Central Asia	8331.7
North America	4991.4
East Asia & Pacific	4577.0
Latin America & Caribbean	298.5
South Asia	282.3
Arab Region	94.8
Africa (without North Africa)	34.7
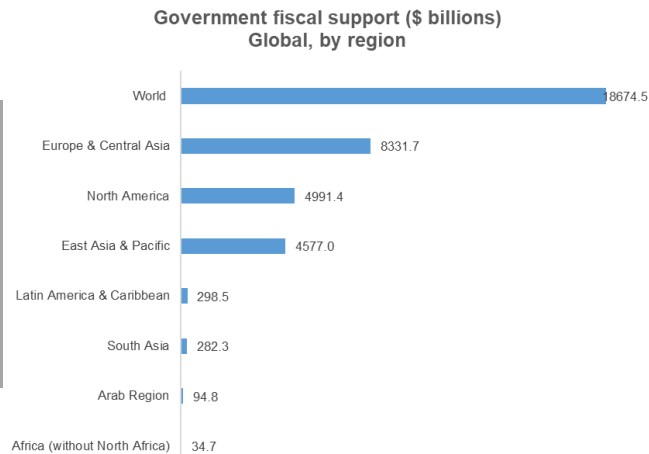
High and rising debt service of MICs, especially external debt service

■ External public debt service (% of Revenues)
■ External public debt service (% of Exports)
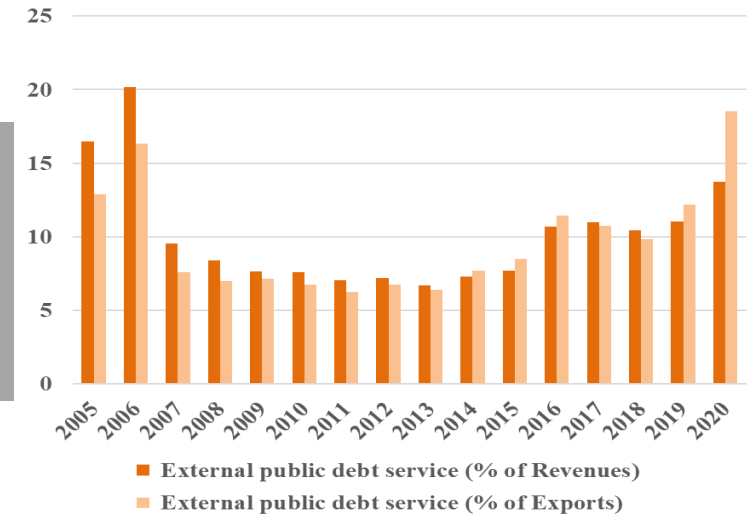
3: Increasing Revenue Mobilization with Improving Equity and Progressivity has Remained a Challenge

Social Expenditure Monitor for Arab States

Tax revenues (Percentage of GDP)

Arab Region, 2019

Legend: GCC, MICs, LDCs, Arab Region

Composition of tax revenues (percent share in total)

Egypt: 39.4 (2010), 40.2 (2015), 44.6 (2020)
Jordan: 68.8 (2010), 67.9 (2015), 70.8 (2019)
Lebanon: 53.7 (2010), 47.2 (2015), 38.9 (2019)
Morocco: 43.4 (2010), 42.6 (2015), 46.8 (2021)
Tunisia: 55.9 (2010), 53.3 (2015), 53.6 (2021)

Legend: Personal income tax, Corporate income tax, Goods and services tax, Property tax, International trade tax, Other taxes
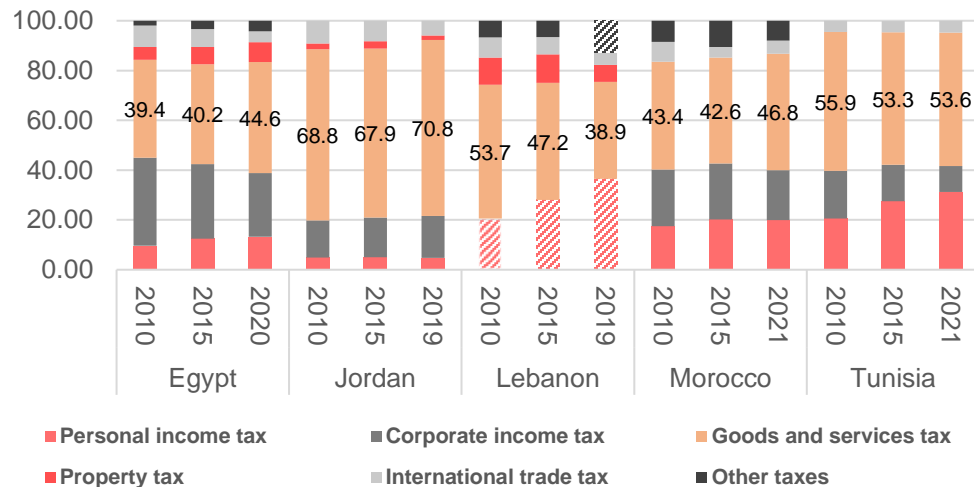

Arab Region: Average tax to GDP is about 8 per cent; Varies between 1 – 25 per cent across countries;

- **MICs tax to GDP is 19 percent in 2019;**

- **Median tax revenues for the world's middle-income countries is about 18 percent; for developed countries it is about 25 percent.**

High and increasing share of taxes are on goods and services, which tends to be regressive and imposes more burden on the low and middle-income population than the rich.

Several tax reforms have been undertaken across countries in recent years. Inefficiencies in tax collection and tax leakages undermine the efficiency of the taxation systems in the region.

4. Enhancing fiscal space: Options

❑Improving domestic revenue mobilization

❑Increasing public expenditure efficiency

❑Stabilizing debt to GDP in medium term

❑Debt swaps as innovative finance options

❑Debt restructuring

One way forward: Stabilizing debt to GDP in medium term

Scenarios

Scenario 1
Debt financing dynamics

Debt to GDP stabilizing above the target of the baseline in the near to medium term

Improved fiscal space and government expenditure

No sectoral targeting of expenditures assumed

Scenario 2
Debt finance and revenues dynamics

Fiscal space supplemented by increasing revenues through tax reforms (tax to GDP ratio improved)

Achieved through tax collection, expanding tax base and tax compliance (not necessarily increasing tax rate)

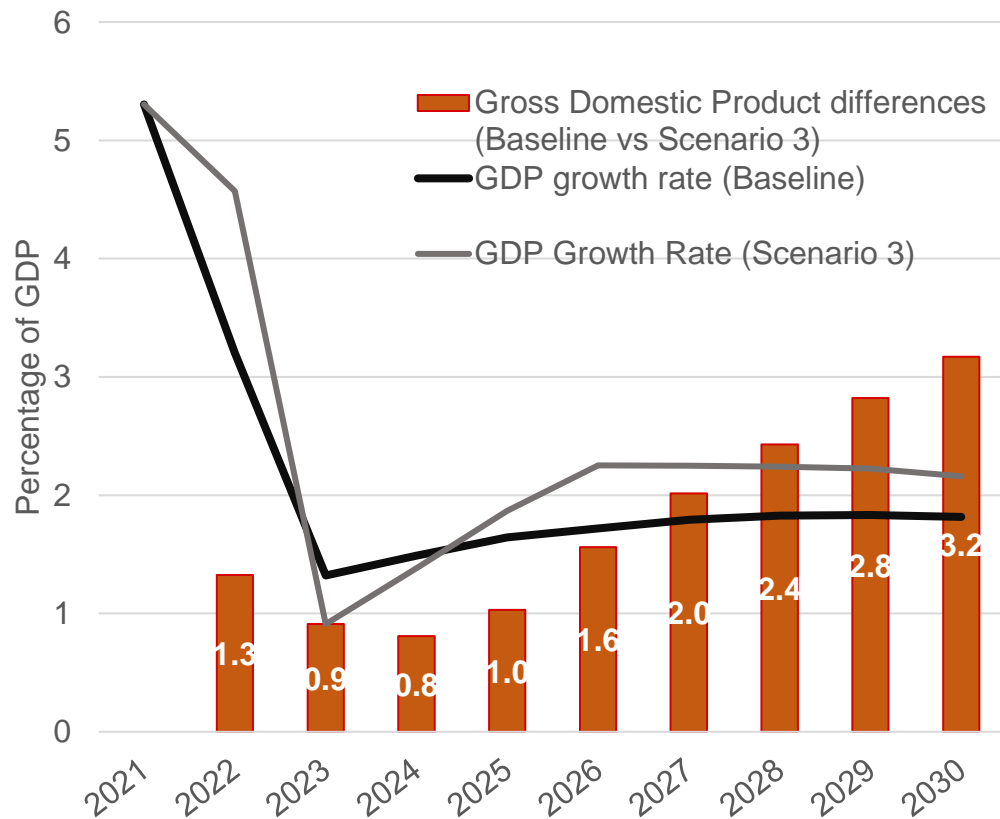No sectoral targeting of expenditures assumed

Scenario 3
Increased expenditures are targeted at social investments

Alternate to Scenario 2, the additional resources are channelled towards social investments (housing, health, and education). Data on other aspects of social expenditure monitor (SEM) are not adequate currently for the modelling exercise. A Total Factor Productivity (TFP) increase is modelled

5. Stabilizing debt to GDP in medium term and enhancing social expenditures can be growth-enhancing: Tunisia

GDP growth and level difference

Legend:
- Gross Domestic Product differences (Baseline vs Scenario 3)
- GDP growth rate (Baseline)
- GDP Growth Rate (Scenario 3)

Bar values: 1.3, 0.9, 0.8, 1.0, 1.6, 2.0, 2.4, 2.8, 3.2

3.2 per cent increase in output levels over baseline in 2030 in Scenario 3, against a 2.7 per cent increase in output in Scenario 2
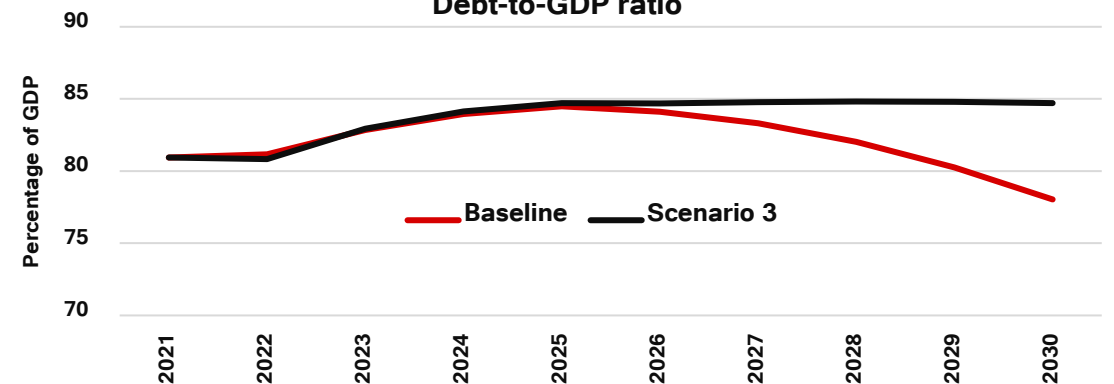
Target the increase in fiscal space to social investments (health, education, housing) as proposed in Scenario 3 vs NO targeting in Scenario 2

By stabilizing debt/GDP at 85 per cent and improving tax to GDP by 1 percentage point: About 40 billion TD additional fiscal space generated cumulatively during 2022-2030

Debt-to-GDP ratio

Legend: Baseline — Scenario 3

6. Policy Implications

❑ Emphasize greater efficiency in public expenditures to improve fiscal sustainability and deliver quality inclusive public services.

❑ Improve domestic revenue mobilization by increasing tax collection with equity and progressivity, addressing tax inefficiencies, and curbing tax leakages.

❑ Develop credible fiscal frameworks over the medium term for revenues and expenditures. Ex. Stabilize the debt-to-GDP ratio over the medium term

❑ Operationalize innovative debt relief instruments, such as climate and SDG debt swaps, to improve financing for public goods.

❑ International and regional support: ODA commitments; Regional solidarity fund.

Managing Public Finances to Achieve Social Goals

Vito Intini, Regional lead Economist, Inclusive Growth and Sustainable Finance Team Leader and Rania Uwaydah, Public Financial Management Expert, UNDP Regional Bureau for Arab States
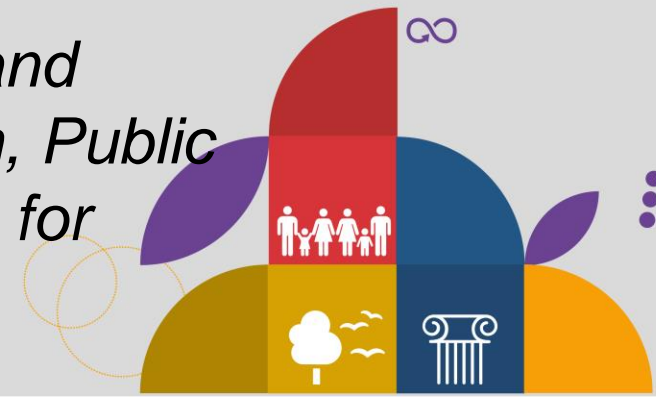
What is Public Financial Management (PFM) and Why is it Important?

- Pouring more funds into social sectors will not necessarily yield desired social outcomes:
    - → Funds need to be channeled towards **desired objectives** and related programs
    - → The budgeted costs of these programs need to be relatively **accurate**
    - → Programs and funds need to be **managed efficiently and effectively**.

- Therefore, while Arab countries seek to mobilize resources to move towards the SDGs, they also need to carefully consider **how** such finance is managed and therefore the **quality of their PFM systems.**

What is Public Financial Management (PFM) and why is it Important?

The purpose of a good PFM system is to ensure that the policies of governments are implemented as intended and achieve their development objectives.

- **Fiscal sustainability and discipline** requires effective control of the budget and management of fiscal risks.
- **Strategic allocation of resources** involves planning and executing the budget in line with priorities.
- **Efficient service delivery** requires using budgeted revenues to achieve the best possible levels of public services.

Advanced PFM system is necessary to fund more adequate, equitable, efficient social expenditures.
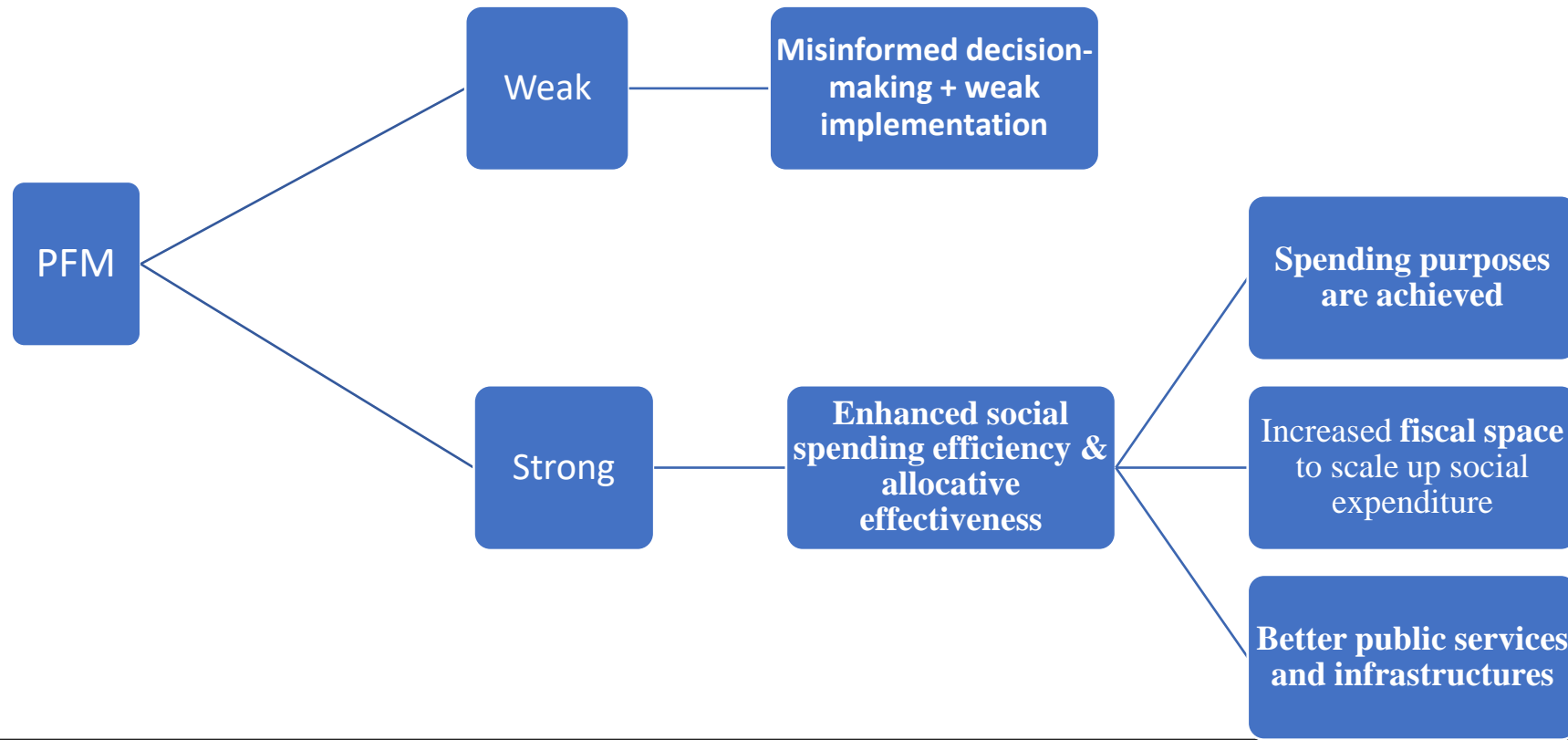
Results Based Budgeting

❖ RBB is not common in the region
❖ One initiative is Gender Responsive Budgeting (GRB) in Egypt
❖ Other examples: Chile, other OECD countries where success has not been easily determinable.

Some key requirements for successful transition to RBB:

• Constant learning / adjustments
• Alignment of expenditures with government priorities and strategic goals
• Flexibility to accommodate variability in government activities
• Investments in **human resources, data** and infrastructure.

BUDGET

| Strategic Objective (spending purpose) | Performance Objective | Expected Results | Activities | Resources Requirements |

Performance Indicators → Sources of information / Verification
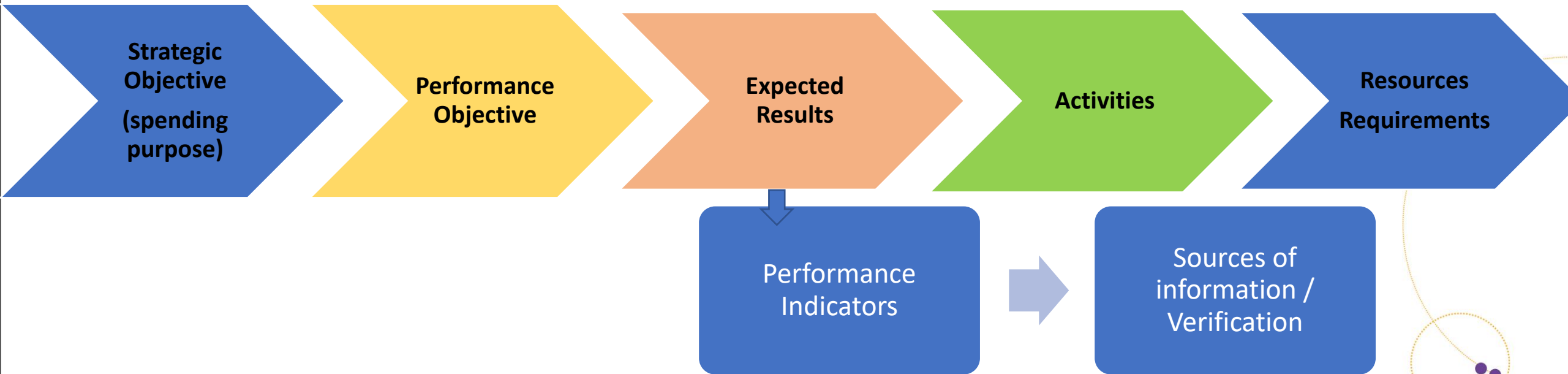
Evidence from the global literature

- The literature has shown that countries characterized by higher reliance on natural resources and political instability are associated with lower PFM quality

- Positive relationship between PFM and sovereign credit rating

- Improvements in PFM lead to improvement in perceptions of corruption

- It is estimated that 10 to 25% of public contracts' value may be lost to corruption (WB, 2019).

Social
Expenditure Monitor
for Arab States

Budget transparency and control of corruption as key to PFM

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

Budget transparency scores (Open Budget Index 2019).

Legend:
- Extensive (81-100)
- Substantial (61-80)
- Limited (41-60)
- Minimal (21-40)
- Scant or none (0-20)

Source: International Budget Partnership, 2019.

Correlation between control of corruption and PFM
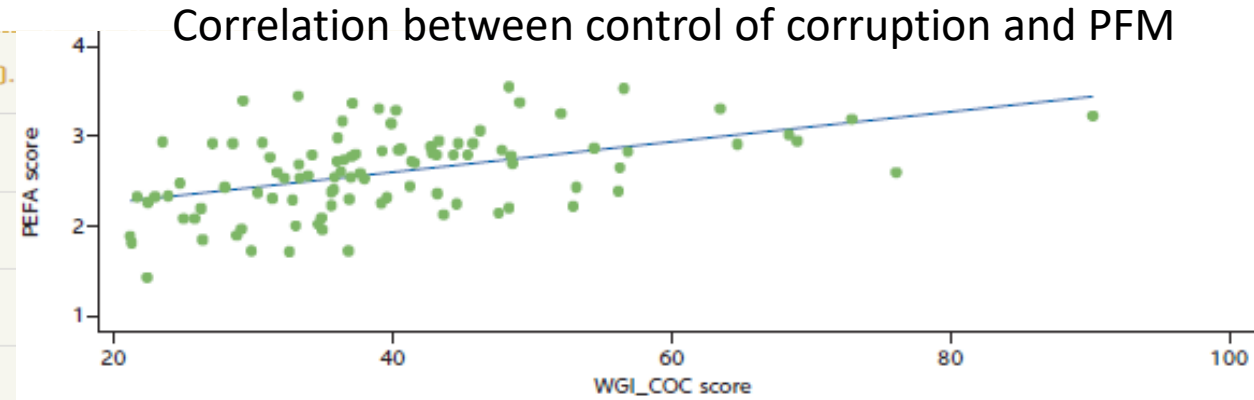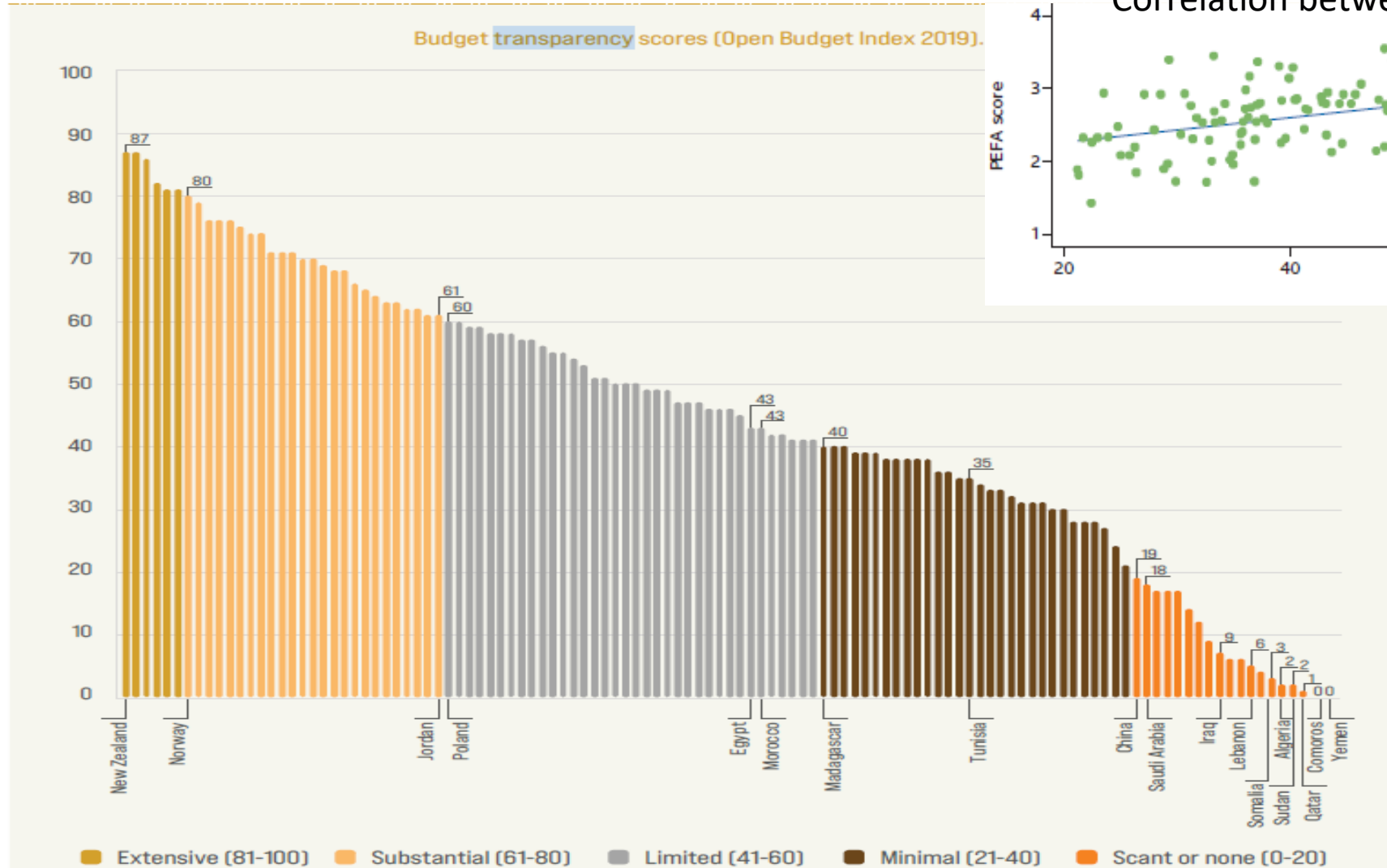
- 2/3 of the PEFA assessments worldwide are publicly available
- The average in the Arab states region is 62%

PFM Performance across the Arab States Region

- Analysis of the region's **collective** performance on PFM elements based on:
  - ❖ Publicly available PEFA assessments:
    - 2016 framework (5)
    - 2011 framework (9)
  - ❖ **Global**, **regional**, and **individual country** reports:
    - Public Expenditure Reviews (PER)
    - International Budget Partnership - Open Budget Survey 2019
    - IFAC & CIPFA - International Public Sector Accountability Index: 2021 Status Report 2021
    - Global Impact Map: Public Sector Financial Accountability Index (IFAC)
    - Global SAI Stocktaking Report 2017 (INTOSAI)
    - Supreme Audit Institutions Independence Index: 2021 Global Synthesis Report (World Bank)
    - 2020 Global Report on Public Financial Management (PEFA)
    - IMF Regional reports.

PFM Performance across the Arab Region

The Public Expenditure and Financial Accountability (PEFA) framework is the most common comprehensive diagnostic of PFM quality. It identifies 7 core PFM pillars within the budget cycle disaggregated into 31 indicators and 94 dimensions.

I. **Budget reliability.** Comparing actual revenues and expenditures with the original approved budget.

II. **Transparency of public finances.** Information on PFM is comprehensive, consistent, and accessible through budget classification, transparency of all government revenue and expenditure, published information on service delivery performance, and ready access to budget documentation.

III. **Management of assets and liabilities** ensures that public investments provide value for money, assets are recorded and managed, debts/fiscal risks are prudently planned and monitored.

IV. **Policy-based fiscal strategy and budgeting** are prepared with due regard to government strategic plans, and adequate macroeconomic and fiscal projections.

V. **Predictability and control in budget execution** ensures that resources are obtained and used as intended.

VI. **Accounting and reporting** of good quality and produced and disseminated at appropriate times.

VII. **External scrutiny and audit** for external follow-up on the implementation of recommendations for improvement by the executive.

Significantly weak PFM system components
Management of assets and liabilities, Pillar III

Table 5. Pillar III PEFA scores

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

Source: PEFA, n.d.a.

Significantly weak PFM system components
Management of assets and liabilities, Pillar III

- **Public investment management:**
  - Lack of total life cycle costing | insufficient rules or procedures for project execution | inadequate monitoring | absence of appropriate or clear guidelines for conducting economic analysis and project appraisals

- **Public asset management:**
  - Difficulties in financial asset monitoring | information on financial assets is only partially available | No clear regulations on the disposal of government-owned assets | no comprehensive lists of financial and/or non-financial asset holdings | Records of holdings in all (or at least, major) financial assets categories should be maintained and recognized at fair or market value | relevant information on the portfolio's performance should be published annually.

- **Fiscal risk reporting:**
  - Lack of systematic consideration/ reporting of adverse macroeconomic conditions, natural disasters and financial leverage and/or contingent liabilities of the activities of the central government, extrabudgetary units, subnational governments or public corporations.

- **Debt management:**
  - Debt levels up (past 10 years) by a higher rate than GDP | In many countries, gross public debt grew by more than 100% (2008-2018) vs 30% nominal GDP growth
  - Spending composition: short-term consumption | mostly public sector wages.

Significantly weak PFM system components
Accounting and reporting, Pillar VI

Table 6. Pillar VI PEFA scores

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

Source: PEFA, n.d.a.

- **Annual financial statements:**
  - submission of reports for external audits typically beyond 9 months of year end (should be within 3) | Accounting standards: Cash vs accrual; consistency with international frameworks and across government levels

- **In-year budget reports:**
  - coverage, classification, accuracy, and timeliness

- **Financial data integrity:**
  - weaknesses in the collection and processing of information, data gaps

Significantly weak PFM system components
External scrutiny and audit, Pillar VII

Table 7. Pillar VII PEFA scores

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

Source: PEFA, n.d.a.

Significantly weak PFM system components
External scrutiny and audit, Pillar VII

- **External Audit :**
  - Delays in submitting audit reports (~9 months rather than 3) |interference in deciding the timing and content of their reports | restricted access to documents and information | limited independence

- **Legislative scrutiny:**

  None *of the legislatures in the region meet the minimum requirements (a score of 61) as overseers of the budget cycle (OBS 2019)*

  - timing and transparency of audit report scrutiny | hearings on audit findings | recommendations on audits

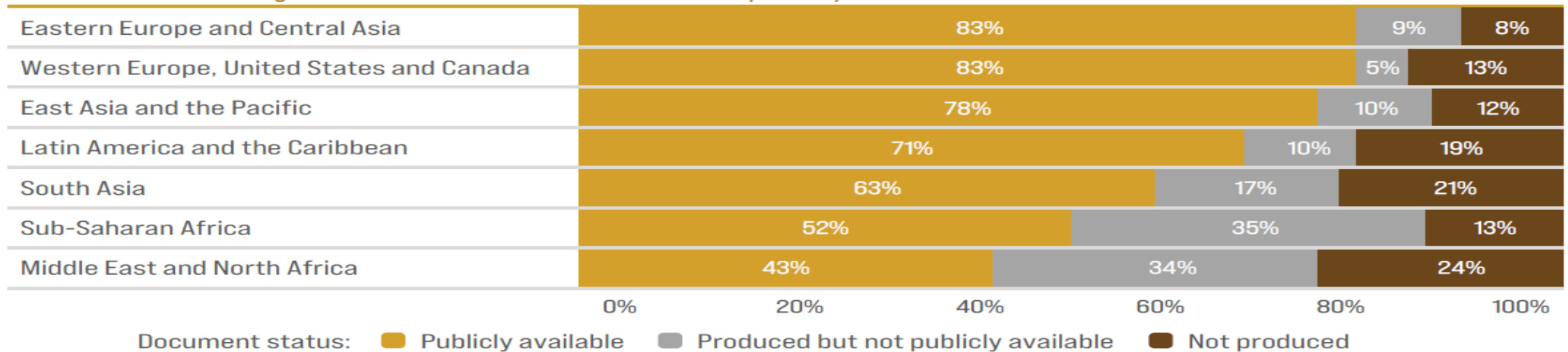# Weak PFM components have gaps on some indicators

- **Budget reliability, Pillar I:**
  - Expenditure composition outturns: significant variances (> 10%) between actual and budgeted expenditures at the sub-aggregate or functional level

- **Transparency of public finances, Pillar II**
  - Access to information: During 2008-2019, the region was the lowest scoring globally on budget transparency – with no improvement

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

	Publicly available	Produced but not publicly available	Not produced
Eastern Europe and Central Asia	83%	9%	8%
Western Europe, United States and Canada	83%	5%	13%
East Asia and the Pacific	78%	10%	12%
Latin America and the Caribbean	71%	10%	19%
South Asia	63%	17%	21%
Sub-Saharan Africa	52%	35%	13%
Middle East and North Africa	43%	34%	24%

Document status: ■ Publicly available ■ Produced but not publicly available ■ Not produced

Source: International Budget Partnership, 2019.

Weak PFM components have gaps on some indicators

- **Policy-based fiscal budgeting, Pillar IV**
  - Macro-economic and fiscal forecasting | medium-term perspective in expenditure budgeting | Legislative scrutiny of budgets

- **Predictability and control in budget execution, Pillar V**
  - Expenditure arrears beyond 10% of total expenditure | Weak monitoring

PFM weaknesses specific to countries with fragile and conflict-affected situations
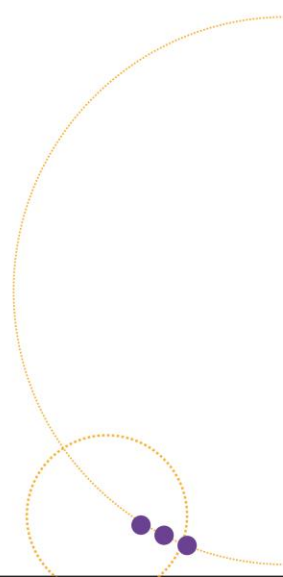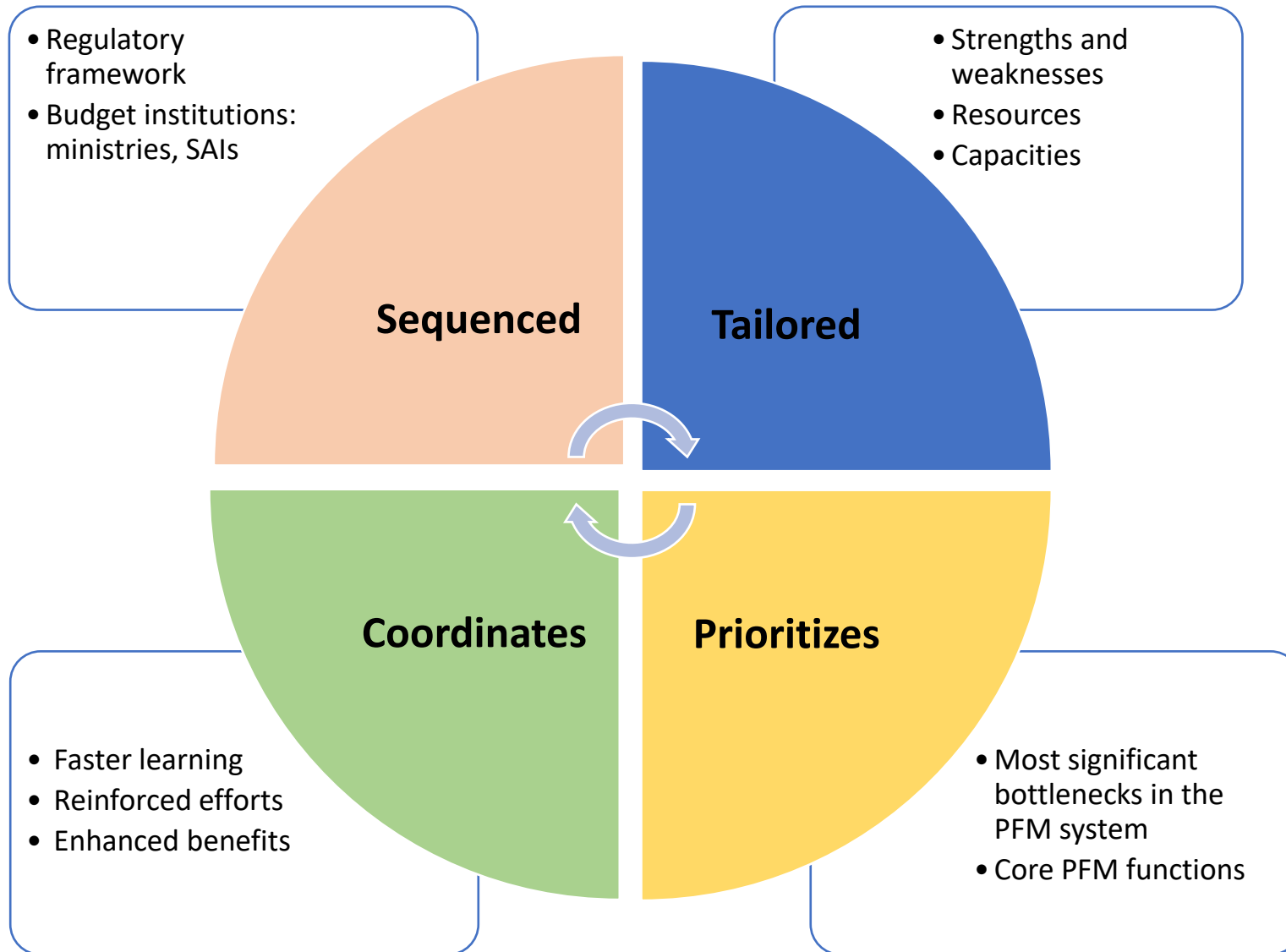
- **Payroll controls**
  - Managing public wages | maintaining personnel records
  - Risks of unwarranted growth in the wage bill | unmet payroll obligations | payments to ghost employees,
- **Procurement mechanisms**
  - Bottlenecks | fraud and corruption | quality of public goods and services

A roadmap to PFM reform is more vital than ever

Social Expenditure Monitor for Arab States

- Regulatory framework
- Budget institutions: ministries, SAIs

- Strengths and weaknesses
- Resources
- Capacities

Sequenced

Tailored

Coordinates

Prioritizes

- Faster learning
- Reinforced efforts
- Enhanced benefits

- Most significant bottlenecks in the PFM system
- Core PFM functions

Thank you!