



Parliaments and Revenue Transparency

A joint project by MENA RWI, ARPAC and AACO
Interim Report – Mapping and Diagnostics



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Foreword:

Many initiatives that aim at increasing the financial oversight of parliamentarians have been launched in the Arab region in the last decade. Improving transparency and control of expenditures is necessary for accountability and crucial to avoid corruption and minimize waste. Promoting financial oversight of government revenues is also just as vital to maintain sustainable democracy and separation of power between the different institutions in the state, mainly between the executive, legislative and the judiciary branches but still remains quite underdeveloped. Therefore, since the modern concept of democratic institutions is closely associated with government revenues, projects promoting parliamentary financial oversight of revenues are paramount.

It is in this spirit that Arab Parliamentarians Against Corruption (ARPAC) has launched a project that aims at promoting parliamentary oversight of government revenues in partnership with the Middle East North Africa at the Revenue Watch Institute (MENA RWI) and the Arab Anti-Corruption Organization (AACO). This program is comprehensive and involves not only preliminary research stages but also subsequent capacity building and advocacy stages as well. This document contains some key findings of the mapping and diagnostics stage of the project on promoting parliamentary oversight of government revenues. The first stage of the project which focuses on diagnostics and needs assessment was launched in February 2008. The project pilots in 5 Arab countries including Kuwait, Jordan, Lebanon, Yemen and Morocco. The project will be rolled out in other ARPAC countries and will include policy design and implementation, capacity building and public outreach. The three organizations (ARPAC, MENA RWI and AACO) provide both in kind and financial contributions towards the project. Further funding is provided by the Open Society Institute.

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This document depicts the preliminary findings of the aforementioned research.



Introduction

- Delegates during the global conference that was organized by the Global Organization of Parliamentarians Against Corruption (GOPAC) which took place in Tanzania in September 2006 resolved to “establish a parliamentary Task Force to seek changes to the international accounting and auditing systems and standards for sovereign nations so that revenues receivable by the states are easily verifiable by parliaments.”
- ARPAC is a leading international NGO that aims at increasing the capacity of the Arab parliamentarians to fight corruption and to increase transparency and accountability in governments.
- During ARPAC’s board meeting which took place in Jordan on December 2006, a decision was taken to create a regional task force to improve transparency in revenues with Mr. Abdullah Al Nibari as Chair.
- The Arab Anti-Corruption Organization (AACO) is a non-profit independent civil institution, which seeks to promote good governance and democratic values in Arab Society through a achieving the following objectives:
 - Create and promote social awareness.
 - Expose the detrimental effects of corruption on societal cohesion, civil peace and sustainable development.
 - Motivating the interests of citizens to participate actively in anti-corruption activities.
- The Revenue Watch Institute is a non-profit policy institute and grant-making organization that promotes the responsible management of oil, gas and mineral resources for the public good.
- With effective revenue management, citizen engagement and real government accountability, natural resource wealth can drive development and national growth.
- The main principle of this project is to promote collaboration and consensus building among the various stakeholders including parliamentarians, government officials, civil society and the private sector.
- The project pursues a case-specific approach embedded in the national and regional context and avoids ready-made solutions imposed from the outside.
- Effective oversight will depend on many factors, chief among them are the quantity, quality and timeliness of information provided. Follow-up mechanisms and procedures are as important as fact finding.



Objectives

- The project aims to advance legislative oversight of government revenues with a focus on resource revenues.
- The idea here is to develop the necessary tools which will assist parliamentarians in the exercise of revenue oversight and build parliamentary capacity to use these tools to effect.
- Budget oversight is a key element of democratic accountability. Authorizing government expenditure is key function of parliament – accurate revenue information is critical for the discharge of this function.
- The project seeks to promote continuous and regular parliamentary oversight. Extending revenue oversight beyond the annual cycle in both directions (medium term and intra-year)
- The project aims to build parliamentary capacity to monitor revenues in a way that ensures: 1) comprehensiveness and transparency, 2) credibility 3) consistency with declared government policies 4) predictability and control 5) effective auditing 6) external review

Approach

- The mapping exercise in the pilot countries is aimed at taking measure of the state of revenue transparency in general and legislative oversight in particular. The goal was to establish a baseline for policy improvements and capacity building.
- The mapping looked at the 'theory' of legislative oversight including the existing legal framework - constitutional provisions, public finance laws, budgetary rules and procedures, freedom of information legislation, relevant resource legislation such as oil laws, audit rules and procedures and other relevant policies and procedures.
- The mapping also explored the practice of legislative oversight or how all the laws, regulations and policies which exist in theory are practised and how the practice is perceived by the various stakeholders including: parliamentarians, government officials, civil society activists, petroleum executives from both the national and international oil companies where relevant



Key Findings

There are significant variations between the countries covered by the mapping exercise. From the highly diversified economies of Morocco and Jordan where governments are dependent on the tax paying public for their revenues to Kuwait and Yemen where governments are largely dependent on oil. Kuwait is one of the richest countries in the world while Yemen is one of the poorest. Some countries studied suffer from a tumultuous political experience while others are largely stable.

Lebanon, Morocco, Kuwait and Jordan are participating in the IMF General Data Dissemination System (GDDS) and are engaged with the IMF and World Bank in publishing a Report on the Observance of Standards and Codes (ROSC) for fiscal transparency. Yemen is also part of the GDDA but both IMF and the World Bank have withheld lending and support due to concerns over governance. Yemen is seeking candidate status of the Extractive Industries Transparency Initiative (EITI)

Yet and despite differences a number of similarities emerge among the pilot group:

- Parliamentary interest in revenue oversight is relatively new. Focus has traditionally been devoted to expenditures. Neither is the government accustomed to parliamentary scrutiny of revenue data, nor are parliamentarians fully aware of their rights and responsibilities in this area.
- Availability and quality of information on government revenues is on the rise. Economic reforms across the region are leading to improvements in public finances and more transparency.
- Data on government revenues is generally available either through regular publication or upon request by parliaments. However, quality, accuracy, timeliness and accessibility are variable and often low. This combined with the legislatures own lack of interest and/or expertise reduces oversight.
- While basic data such as tax or export revenues is generally available and largely accurate, other revenue data such as profits of state owned and independent entities, returns on government assets including investments remain scarce.
- Privatisation revenues and proceeds from the sale of state property are a source of concern in almost all cases. Parliaments often struggle to establish their authority to oversee these revenues.
- In most cases there is a dearth of qualitative and analytical revenue data. This includes multi-year and intra-year projections of revenues and the factors impacting them such as commodity prices, exchange rates and macroeconomic indicators. Weakness in this area affects both parliament and the executive.
- While audit and inspection institutions are generally trusted and perceived as allies, Parliamentarians struggle to operationalise their output. This is often the



result of delays in the production of audit reports and the lack of accessibility of the information for parliamentarians. Almost all countries have flagged issues of lack of follow up and implementation of audit and inspection reports.

Recommendations

5.1 General Recommendations:

The findings highlight the need to increase awareness and capacity of both the executive and legislature of the parliaments role in revenue oversight. This includes:

- Recognising the right of parliament to scrutinise all revenue data including profits of state owned and independent entities and returns on state owned assets and investments, privatisation and land sale proceeds, domestic and foreign borrowing and aid.
- Recognising the right of parliament to scrutinise qualitative and analytical information related to revenues and revenue generating activities including macro-economic projections, commodity prices, exchange rates, tax policies and key revenue generating sector policies.
- Building parliamentary capacity to obtain, analyse and act on information relevant to revenues including improving the work of budget and finance committees, establishment of budget offices, cooperation with academia and civil society and development of guides to revenue oversight
- Improving coordination and cooperation with other supervisory bodies including audit bureaus and inspectors general insuring their independence, timely delivery of outputs to parliament in an accessible and actionable format and coordination of follow up with the executive.

5.2 Country-Specific Recommendations

5.2a Yemen:

Oil is on the decline but it still accounts for one third of the economy. Aid and investment flows are also declining as reforms stall and instability grows. High prices mitigated the impact of declining output on government revenues but also resulted in growing share of government in the economy. The share of non-oil taxes in government revenues is also declining vis a vis increasing share of oil revenues which reached 70% in 2007.

State audit bodies have been able to track non-budgetary revenues totalling 7% of total but the real size of such revenues is thought to be higher. Tax collection remains low with numerous loopholes particularly for businesses.

Oil revenues are 'shrouded in secrecy' in particular there is no supporting data for government reports on revenues. It is not clear how much oil was produced and exported, how was the state share calculated. What were the prices used for export or domestic



consumption. The mystery deepens when it comes to cost oil calculations and the various tax breaks awarded to oil companies. All of the above has resulted in wide discrepancies included some identified by Yemeni Audit bodies.

Similar problems affect other state owned and independent entities including poor reporting (if any) inflated costs, misreporting of profits leading the study to label these entities as 'above the law'.

The Yemeni government often resorts to supplementary budgets which are presented usually after the additional resources are spent and can range from 20 to over 50% of the budget.

5.2b Kuwait

High oil prices over recent years have generated enormous windfalls and led to unprecedented growth in various sectors of the Kuwaiti economy. They have also deepened the economy's dependence on oil.

Oil windfalls are contributing to a pattern of private and public consumption and deepening dependence on imports and foreign labour. Domestic investment and capital formation continue to lag behind particularly in non-oil traded goods sectors.

Kuwait, however, is a major international investor. The Kuwait Investment Authority is one of the leading sovereign wealth funds pioneering effort aimed at converting oil windfalls into sustainable source of income.

Kuwait has a well established parliamentary system dating back to the constitution of 1962. The constitution vests parliament with extensive powers which have been sustained and implemented in contrast to some other countries in the region.

Even in instances when revenue related information is not published on a regular basis parliament can usually obtain the information upon request. This does not only apply to revenues included in the budget such as oil related revenues, taxes and fees but also to returns on investment and the sale of state property managed by the KIA.

There are however concerns with the quality and accuracy of revenue related information particularly discrepancies between output and export volumes, prices, exchange rates and production costs.

Parliamentarians also question the valuations of state assets offered for sale including land.

5.2c Jordan

Jordan witnessed rapid growth over the past five years despite the challenges posed by record oil and other imported commodity prices. Declining foreign aid and lending means



that an increasing proportion of the budget deficit is being financed by domestic borrowing, mainly through treasury bills.

Taxes constituted the bulk of government revenues led by sales tax followed by corporate and individual's income taxes. Economic growth as well as improved tax collection led to increases in all categories and especially sales tax accounting for almost 40% of revenues in 2006.

Unlike other countries in this study Parliament in Jordan has won the right to supervise state owned and independent revenue generating entities.

Parliament is also engaging the executive on qualitative data related to revenues including medium term fiscal framework and economic projections.

Parliament does not seem to have sufficient resources necessary to fully utilise the rights vested in it for overseeing government revenues including audits.

5.2d Morocco

Morocco's economic growth slowed down in 2007 due to drought's effect on agriculture. This was only partially mitigated by continued growth in other sectors particularly services and tourism.

Morocco continues to implement economic reforms and structural adjustments aimed at promoting export driven growth. The government is also pursuing aggressive tax policies aimed at improving tax collection by widening the tax base, closing loopholes and raising awareness.

Tax revenues account for almost 70% of government income.

Morocco has a complex budget structure with the actual budget only capturing recurring expenditures and the corresponding revenues. The budget law, however, includes other documents that capture some but not all other revenues and investment expenditures.

Some of the areas of greatest concern in Morocco are the revenues of state owned independent entities and companies which are either not captured at all by the budget or improperly reflected.

Either way these institutions seem to lie largely outside parliamentary control. Particularly interesting is the Phosphate establishment which a significant player on the global market. The establishment operates almost as a black box with very little transparency or accountability.

Another major area of interest is privatization revenues and generally revenues from the sale of state property and land.



5.2e Lebanon

Unlike the aforementioned Arab cases, the Lebanese context is a bit more complex. Due to the political stalemate which lasted for the past two years, the Lebanese parliament was unable to vote on the ratification of the budget proposal law for fiscal years 2006, 2007 and 2008 prepared by the executive.

The only sources of information on budget revenues are those published solely by the Ministry of Finance and were neither reviewed by the parliament nor audited by the Audit Court since 2006. As a result, the checks and balances structure of the Lebanese parliamentary system in this case is jeopardized and the information published by the Ministry of Finance may be subject to change.

Since 2006, Lebanon has witnessed an increase in revenues as well as an increase in public debt. Much like Morocco, revenues in Lebanon are not based on resource revenues such as oil and gas but rather on both direct and indirect taxes (approximately 70%). Lebanon spends about 50% of its revenues on public debt services and consequently, though a genuine attempt to fulfil services exists, social services, national development programs and other public service investments are marginalized.

Due to the fact that most revenues are gleaned from taxes, reform efforts led by the previous Lebanese government focused on tax, debt and expenditure management to ensure the efficiency of the tax collection process. Since the Lebanese state is under large service debt strain and is by nature a rentier economy, although these reforms are indeed essential, they may not be as beneficial or advantageous as initially expected.

Under normal circumstances, the parliament, through its budget and finance committee, must review the revenue estimations stipulated in the budget proposal law. However, due to the extenuating circumstances mentioned above, parliamentarians were unable to fulfil their task. Therefore, since the Ministry of Finance diligently publishes revenue development throughout the fiscal year, parliamentarians must from now on take ownership of their right to review the budget and do so regularly.

Next Steps

1.1 Benchmarking

The data obtained during the mapping exercise will be benchmarked against a set of international best practice criteria in this area including the Extractive Industries Transparency Initiative, the IMF Guide on Revenue Transparency, IMF Guide for Government Finance Statistics (GFS), Case studies from comparable countries in the region and outside.



The goal of the benchmarking exercise is to position findings within context of best practice

1.2 Target Setting

The information obtained through the mapping and benchmarking exercises will serve as the basis for target setting. Targets will be tailored to the requirements of parliamentarians who are the main beneficiaries of this project. They will be identified through dialogue with other stakeholders to insure realistic reflection of existing capacities within government as well as political expedience. Dialogue and buy-in by all stake holders into the set targets will also facilitate cooperation in implementation.

Targets will include: Proposals for policy improvements, Legislation, Regulations, Institutions, Proposals for Implementation and performance improvement, and Practical steps.

1.3 Gap Analysis

This stage of the project will focus on the identification of obstacles on the way to achieving set targets including: capacity building and technical assistance needs.

1.4 Development of Parliamentarian Toolkit on Revenue Monitoring

It is necessary to develop a toolkit for parliamentarians in order to give them a general understanding of revenue composition of their budget, who collects revenue in their state, and who controls these revenues.

1.5 Technical Assistance and Capacity Building

The first stage of the project will have a learning-by-doing capacity building and technical assistance component. The various stakeholders, particularly, parliamentarians, their staff and civil society activists are engaged in both the design and implementation of the project and will gain relevant experience in the process.

The project findings will be published as a regional and country specific guides/manuals to revenue transparency.

The projects will set out comprehensive capacity building and technical assistance agenda on the basis of research findings and gap analysis. Those will be carried out as follow-up by the project team in cooperation with other regional and international partners.

The capacity building agenda will include:



- training programs for Parliamentarians, their staff and activists on the basis of project findings and recommendations
- training programs for Supreme Audit Bodies and Government staff on compiling, producing and presenting revenue information
- joint sessions with Government, Parliament and Civil society on transparency mechanisms
- assistance in the establishment of a revenue/budget resource center (budget office) as a Parliamentary office or independent entity involving independent experts and civil society

1.6 Public Outreach

The project will have a strong advocacy and public outreach component which will include a number of activities including:

1. Kick-off workshops in each country involving local stakeholders - explaining the goals of the project and setting out the agenda (January- March 2009)
2. A Task Force meeting with regional and multilateral stakeholders seeking guidance and support (March 2009)
3. A Large regional conference to present the findings, conclusions and recommendations (September 2009)
4. The final findings of the project including country specific 'Capacity Building and Technical Assistance Agenda' 'Legislative Oversight and Revenue Transparency Guides' will be published in Arabic and English and disseminated through the networks of the organizations involved.

There will be follow up country by country workshops to promote the findings and plan implementation including country specific public engagement and outreach plans.