

جمهورية مصر العربية



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# Budget Transparency Series: **A Guide to Egypt's State Budget**

Transparency Brief No.1



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## Acronyms

<b>ASA</b>	Accountability State Authority
<b>GoE</b>	Government of Egypt
<b>MoE</b>	Ministry of Education
<b>MoF</b>	Ministry of Finance
<b>MoHE</b>	Ministry of Higher Education
<b>MoP</b>	Ministry of Planning

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# 1. What is the State's General Budget?

The State's General Budget is the main **tool for the Ministry of Finance (MoF) to achieve citizens' economic and social objectives**. It presents MoF **plans and programs** for addressing current challenges and paving the way for a better future by maximizing revenues and reorganizing spending priorities to better serve society.

More importantly, the State Budget is an accountability and verification tool that can be used by citizens to examine whether the government's spending plans are aligned with their priorities.

## 2. The Budget Laws

The budget process in Egypt is governed by both **constitutional provisions** and **budget laws**.

**Egypt's 2014 Constitution defines Parliament's role in reviewing and approving the State Budget**. It also clarifies the role of the **Accountability State Authority (ASA)**, the State's central auditing agency, in **performing accounting and compliance checks**. More importantly, it specifies **minimum allocations** for specific line items, such as healthcare and education, that are required to increase over time in conformity with international standards (see Table 1, below).

**TABLE 1: SAMPLE MINIMUM MOF BUDGET EXPENDITURES (AS PERCENT OF GDP)**

Item	Expenditure (Percent of GDP)
Health	3
Education	4
University Education	2
Scientific Research	1

**Egyptian Law No. 53 for 1973** and its executive regulations constitute the rest of the legal framework regulating the budget process.

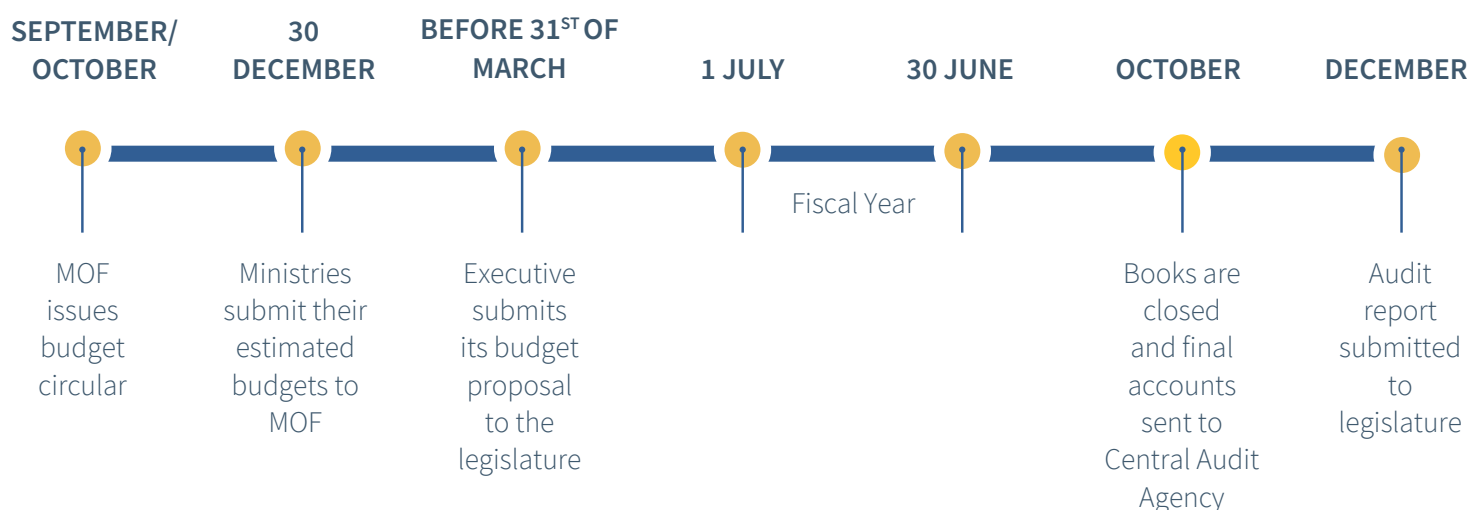
# 3. The Budget Process

As specified by law, the MoF budget process is divided into the following four phases:

1. **Formulation** (design);
2. **Discussion and Approval**;
3. **Execution** (spending); and
4. **Audit** (examination).

The budget process usually starts in August or September, prior to the start of the fiscal year, and the final phase takes place in December of the following year (see Figure 1).

**FIGURE 1: THE BUDGET PROCESS OVER THE FISCAL YEAR** Source (IBP,2015)



## 3.1 THE BUDGET FORMULATION PHASE

In the formulation phase, the government estimates the revenues, allocations, and expenditure of the next fiscal year based on assumptions made by the Ministry of Finance (MoF), the Ministry of Planning (MoP) and the Central Bank of Egypt (CBE). These assumptions take into account both national and international economic, political, and social conditions.

Based on these assumptions, in September or October, the MoF issues a **Budget Circular**, asking ministries and other government entities to formulate and submit their budgets to the MoF.

There are two different kinds of expenditures in a public budget:

- **Recurrent Expenditures** (that repeat over time, such as salaries or maintenance expenses); and
- **Investment Expenditures** which represent new expenses that do not repeat over time, such as those for reforms, or new infrastructure.

Expenses related to infrastructure projects (investment) are reviewed by the MoP, while the MoF reviews recurring expenses (such as salaries and maintenance). A compiled budget is submitted to the Cabinet following negotiation rounds between the MoF and the other ministries.

A **Pre-Budget Statement** is issued by the MoF six months ahead of the fiscal year to brief Parliament and the general public on the parameters of the budget.

Once the Cabinet reaches an agreement about the budget, it submits an **Executive Budget Proposal** to the President, who in turn submits it to Parliament for discussion and approval. The proposal is also published by the MoF in order to provide citizens with insights on the government's plans for the coming year.

### 3.2 THE BUDGET DISCUSSION AND APPROVAL PHASE

The discussion of the budget proposal takes around three months. Following its submission to Parliament, **the budget proposal is examined by the Plan and Budget Committee and reviewed by specialized committees** (such as the Health Committee and the Education Committee, among others)<sup>1</sup>. The resulting questions and recommendations are then discussed with the government. Parliament can make changes to the budget in consultation with the government, as long as the budget deficit is not increased. Finally, **the Plan and Budget Committee puts every budget line item to a separate vote in Parliament**, and once approved, the **Budget Law** is approved by the President and published in the Official Gazette.

Following publication of the Budget Law, the MoF issues the following two documents: the **Enacted Budget** and the **Citizen's Budget**. The Enacted Budget is the final budget version that will be implemented by the MoF; and the Citizen's Budget is a **simplified version released for clarity and transparency, and to offer the public a real opportunity to participate in budget processes**. Both documents can be found on the official MoF website.<sup>2</sup>

### 3.3 THE BUDGET EXECUTION PHASE

The MoF implements the budget by collecting revenues from various sources (including taxes, and grants) and spending funds to support budget programs. The MoF disperses funds on a monthly basis to the line ministries, which in turn maintain and submit records of revenues and expenditures to the MoF. **These records are reflected in in-year, mid-year and year-end reports published on the MoF website.**

A **Mid-Year Review Report** is published by the MoF and acts as a **benchmark by which mid-year results are checked and examined against budget assumptions**. Any required budget amendments must be discussed and approved by Parliament. Four months after the end of the fiscal year, ministries and government agencies submit their actual revenues and expenditures in a **Final Accounts Report** to the MoF. These reports are compiled and published in a **Year-End Report**.

### 3.4 THE BUDGET AUDIT PHASE

The final phase of the budget process is the Audit (or examination), which is the responsibility of the ASA, which **reviews budget results for accounting accuracy and compliance with laws and administrative regulations**. The ASA usually takes around two months to submit its **Audit Report** to the MoF and Parliament, where recommendations and suggestions for corrective actions are then discussed. Finally, the MoF's **Final Accounts Report** is passed by a law, signed by the President, and published on the MoF website.

**3** <sup>1</sup> Information on Parliamentary Committees is provided on the Official Egyptian Parliament Website [www.parliament.gov.eg](http://www.parliament.gov.eg)

<sup>2</sup> [www.mof.gov.eg](http://www.mof.gov.eg)

# 4. How to Read the Budget

State budgets are usually provided using the following three classifications: **Economic, Functional, and Administrative.**

Firstly, the **Economic Classification** breaks the budget down into **revenues and expenses**. It lists general categories from which money is collected and on which it is spent. Even though the economic classification tells people where the money comes from and on what it will be spent, it doesn't clarify the purposes and objectives for which the money is spent.

This type of classification is also **referred to as line item** because it details the source categories through which money is collected and the categories on which it is spent. For example, on the revenue side, citizens can find items such as tax revenue, grants revenue and non-tax revenue; while on the expenditure side, items include wages and salaries, purchase of goods and services, subsidies and social benefits, among others.

**FIGURE 2: THE ECONOMIC CLASSIFICATION OF THE BUDGET IN EGYPT**

## REVENUES

- **General revenues:** it includes taxes, grants, and other revenues.
- **Funding resources:** it includes receipts from lending and sales of financial assets and borrowing and sales of securities.

## EXPENDITURES

- **General expenditures:** it includes wages, expenditures of goods and services, subsidies and social benefits, and interest.
- **Acquisition of both domestic and foreign assets.**
- **Domestic and foreign loan repayment.**

Source  
(IBP,2015)

Secondly, the **Functional Classification** is where **citizens can learn about the activities that money will be spent on**. Egypt's State Functional Budget is made up of 10 functions (including healthcare, education, social protection, and environmental protection, among others).

This classification signifies the cooperation between the ministries in carrying out similar functions. For example, the MoF's education programme entails the cooperation of the Ministry of Education (MoE) and the Ministry of Higher Education (MoHE). **This classification divides costs per objective or project** and has the advantage of not considering other costs that are not related to an objective.

FIGURE 3: THE FUNCTIONAL CLASSIFICATION OF THE BUDGET IN EGYPT



CODE 701

**General Public Service:** it includes the budgets for legislative bodies, audit, executive, and economic institutions



CODE 702

**Defence and national security:** it includes the budgets of both the military and civil security.



CODE 703

**Public order and Safety:** It includes the budgets of police services, fire fighters, prisons, and the judicial system.



CODE 704

**Economic Affairs:** it includes the budgets of different type of economic services such as public economic and trade affairs, agriculture, irrigation, mining, industry, fuel, energy, and transportation.



CODE 705

**Environmental protection:** it includes the budgets of waste management, fighting pollution, and activities related to climate, soil, and groundwater.



CODE 706

**Housing and community amenities:** It includes the budgets of housing development, the provision of housing loan subsidies, the planning of new urban communities and developing public utilities, such as water supply and street lighting.



CODE 707

**Health:** it includes the budgets of the development of health services, and the development and implementation of standards for physicians, pharmacists, hospitals, and clinics.



CODE 708

**Youth, culture, and religious affairs:** it includes the budgets of sports, culture, arts, and religious services.



CODE 709

**Education:** it includes the budgets of the development, formulation, and delivery of education services for preschool, primary, preparatory, secondary, university and higher education.

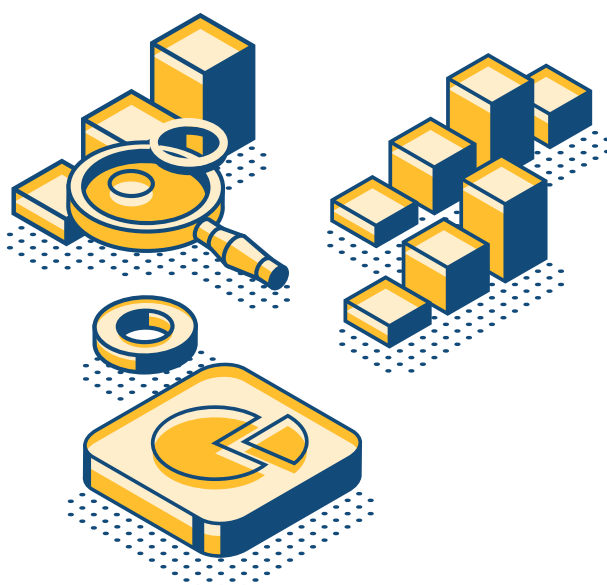


CODE 710

**Social Protection:** it includes the budgets of subsidies and social protection schemes.

Source (IBP,2015)





Notably, the GoE (through the MoF and the MoP) has recently begun meaningful steps towards the application of the **Function and Performance Budget** to **improve the budget process’s transparency and effectiveness**. The function and performance budget **divides costs by objective or project and assigns key performance indicators** to measure their achievement and success.

**TABLE 2: SAMPLE MINISTRY OF HEALTH BUDGET**

Line-Item Budget		Programme Budget	
Salaries & Wages	6,000	General Administration	462
Overtime	150		
Building Expenses	800	Primary Healthcare and Health Promotion	4,326
Transport	750		
Equipment	400		
Shipping	125	Hospital Services	2,817
Water & Lights	15	Training & Medical Research	692
Telephone	25		
Printing	20		
Consumables	12		
<b>TOTAL</b>	<b>8,297</b>	<b>TOTAL</b>	<b>8,297</b>

Finally, the **Administrative Classification** reports expenses by government entity such as ministries and departments. This is particularly helpful in knowing who is spending the money which allows for a degree of clarity, accountability and transparency.

It’s noteworthy that Egypt’s State Budget uses ‘**dual classification**’; presentations of the budget that **combine economic, functional, and administrative classifications in various ways**. The administrative classification combined with a functional classification enables a reader to see how much is spent by central and sub-administrations. For example, on the function ‘education’, and out of the total spent on education, one can see how much is spent by the MoE and MoHE Central Administrations, by schools, by universities, and so forth.

# 5. Citizen Participation in the Budget Process

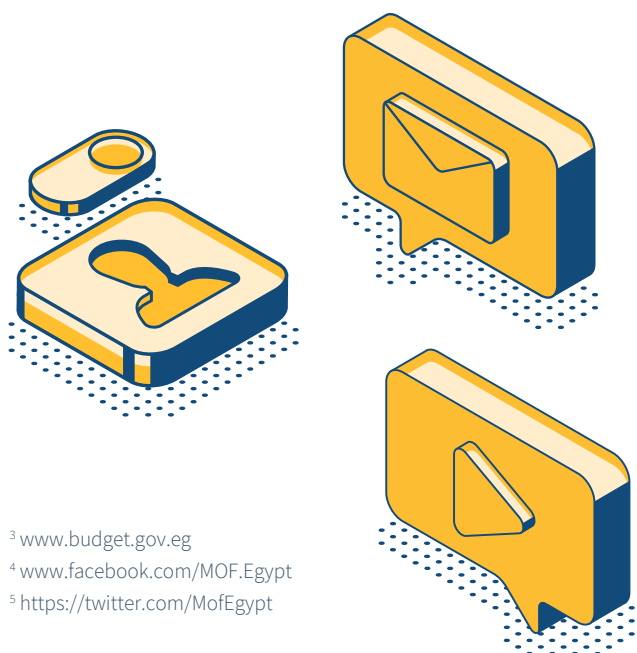
The MoF publishes a number of reports and documents to familiarize the public with the State Budget, the most relevant of which is the **Citizen Budget Booklet**. Published every September, it provides a simplified version of the State Budget that is designed to be accessible and easily understandable for the general public.

In addition to its official website, the MoF has also launched an interactive and informative **online platform<sup>3</sup> through which citizens can engage with budget processes** by sending questions, posting comments, and receiving relevant timely answers and replies.

Citizens can also **send their opinions** and **communicate their ideas** through the MoF social media pages, on Facebook<sup>4</sup>, Twitter<sup>5</sup>, Wordpress<sup>6</sup>, and Youtube<sup>7</sup>.

MoF is introducing and implementing a participatory budget process in Egypt. The participatory budget aims to enhance the efficiency of the public spending and is an instrument of governance and anti-corruption. It relies on cooperation, integration and creates a link between the citizens and the relevant government and non-government stakeholders, which improves citizen's daily life. In putting into practice the principles of participatory budgeting, the MoF aims at raising the awareness on the most important government plans and fiscal policies. Thus, the citizen becomes a genuine partner in the process of sustainable development and decision making through her participation in the preparation of the budget at the local level, which promotes transparency and elevates the level of citizen satisfaction that is one of the main axes in Egypt's vision 2030. The plan of the Ministry of Finance to implement the participatory budget over the next 3 years aims at gradually establishing a network of different actors such as: (civil society organizations, representatives of the governorates, ministries, parliament and some local authorities) and increasing awareness and knowledge of the concept of participatory budgeting in order to design a future Egyptian participatory budget model.

**SO STAY TUNED FOR THE NEXT EVENT THROUGH THE CITIZEN BUDGET INITIATIVE FACEBOOK PAGE BELOW, THE NEXT ONE MAY HAPPEN IN YOUR CITY.**



<sup>3</sup> [www.budget.gov.eg](http://www.budget.gov.eg)

<sup>4</sup> [www.facebook.com/MOF.Egypt](https://www.facebook.com/MOF.Egypt)

<sup>5</sup> <https://twitter.com/MofEgypt>



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