

ECONOMIC
RESEARCH
F O R U M



منتدى
البحوث
الاقتصادية

2016

working paper series

**FISCAL GOVERNANCE IN EGYPT:
STRENGTHENING BUDGETARY INSTITUTIONS
TO COUNTERACT POLITICAL FRAGMENTATION**

Mohamed Zaky and Sarah El khishin

Working Paper No. 1027

**FISCAL GOVERNANCE IN EGYPT:
STRENGTHENING BUDGETARY INSTITUTIONS
TO COUNTERACT POLITICAL FRAGMENTATION**

Mohamed Zaky and Sarah El khishin

Working Paper 1027

July 2016

Send correspondence to:
Sarah El khishin
British University in Egypt
sarah.elkhishin@gmail.com

First published in 2016 by
The Economic Research Forum (ERF)
21 Al-Sad Al-Aaly Street
Dokki, Giza
Egypt
www.erf.org.eg

Copyright © The Economic Research Forum, 2016

All rights reserved. No part of this publication may be reproduced in any form or by any electronic or mechanical means, including information storage and retrieval systems, without permission in writing from the publisher.

The findings, interpretations and conclusions expressed in this publication are entirely those of the author(s) and should not be attributed to the Economic Research Forum, members of its Board of Trustees, or its donors.

Abstract

The paper contributes to discussions on budgetary institutions and fiscal governance in Egypt. It explores the interrelationships between budgetary institutions, political factors and fiscal performance. We investigate the intricacies between the structure and quality of budget institutions and fiscal performance and the key weaknesses in budgetary institutions in Egypt. We also analyze to what extent these weaknesses aggravated adverse effects of political fragmentation on fiscal performance in Egypt. Finally, we highlight the major challenges in the institutional-political-fiscal paradigm in Egypt. Added to the known medium-term reforms in budgetary institutions, the paper recommends three urgent reforms in these institutions. The first procedure is applying a top-down approach during budget vote to be on two separate stages. In the first stage of budget vote, the parliament votes on the fiscal aggregates, while in the second stage the parliament votes on the allocation of resources to different sectors. The second procedure that should be urgently adopted is applying balanced budget rules or at least reactivating the golden rule to control the current budget deficit. The third procedure is related to off-budget expenses. Fiscal relations between budget and economic authorities should be transparent and documented explicitly in the budget to reflect the real annual values of public expenditure and the budget deficit. In this regard, however, since budget preparation and implementation are based on a fully cash accounting base, documenting the total values of transfers that accrued to economic authorities appears to be a crucial procedure.

JEL Classifications: H6, H7

Keywords: Budgetary institutions; fiscal governance; political fragmentation

ملخص

تساهم هذه الورقة في المناقشات عن المؤسسات الميزانية والإدارة المالية في مصر. وتستكشف العلاقات المتبادلة بين المؤسسات الميزانية، والعوامل السياسية والأداء المالي. نقوم بالتحقيق في تعقيدات هيكل ونوعية المؤسسات الميزانية والأداء المالي ونقاط الضعف الرئيسية في المؤسسات الميزانية في مصر. نقوم أيضا بتحليل مدى هذا الضعف وتفاقم الآثار السلبية للتجزئة السياسية على الأداء المالي في مصر. وأخيرا، نسلط الضوء على التحديات الرئيسية في نموذج المؤسسة والسياسية-المالية في مصر. بالإضافة الى أن الإصلاحات متوسطة الأجل في المؤسسات الميزانية، توصي الورقة بثلاثة إصلاحات عاجلة في هذه المؤسسات. الإجراء الأول هو تطبيق نهج من أعلى إلى أسفل أثناء التصويت على الموازنة ليكون على مرحلتين منفصلتين. في المرحلة الأولى من التصويت على الموازنة، يصوت البرلمان على المجاميع المالية، بينما في المرحلة الثانية يصوت البرلمان على تخصيص الموارد لمختلف القطاعات. الإجراء الثاني الذي ينبغي اعتماده على وجه السرعة هو تطبيق قواعد ميزانية متوازنة أو على الأقل إعادة تنشيط القاعدة الذهبية للسيطرة على عجز الموازنة الحالية. ويرتبط الإجراء الثالث بالنفقات خارج الميزانية. يجب أن تكون العلاقات المالية بين السلطات الميزانية والاقتصادية شفافة وموثقة بشكل واضح في الميزانية لتعكس القيم السنوية الحقيقية للإنفاق العام والعجز في الميزانية. في هذا الصدد، ولكن، بما أن إعداد الميزانية وتنفيذها يستند على قاعدة المحاسبة النقدية بالكامل، فإن إجراء توثيق القيم الإجمالية للتحويلات التي تراكمت على السلطات الاقتصادية يبدو أن يكون هاما وحاسما.

1. Introduction

Political economists identify two major problems evolving from political environment that affect fiscal performance. The first is the principal-agent relationship between voters (principals) and politicians (agents). The other is the common pool problem of public finances. Adverse consequences of the principal-agent problem and the common pool problem can be mitigated by appropriately designing the institutions that govern the decisions over public finances. Given the diversity of political systems in world countries, it becomes clear that different political systems will need different forms of budget institutions to avoid fiscal distortions resulted from political challenges.

Fiscal governance discourse is very crucial in Egypt nowadays. The political environment is fertile enough to aggravate both of principal-agent and common pool problems. Political fragmentation in post-revolutionary Egypt is very noticeable. In this regard, the current paper raises a key question: what are the key reforms in budgetary institutions that should be adopted to counteract the adverse impacts of political fragmentation on fiscal performance in Egypt? Accordingly, the paper aims to answer seven sub-questions. First, what are the interrelationships between the structure and quality of budget institutions and fiscal performance? Second, what are the adverse impacts of political fragmentation on fiscal performance? Third, how can properly designed budgetary institutions mitigate the adverse effects of politics on fiscal discipline? Fourth, what are the key weaknesses in budgetary institutions in Egypt? Fifth, to what extent do these weaknesses aggravate the adverse effects of politics on fiscal performance? Sixth, what are the different variables that shape the future path of fiscal performance in Egypt? Finally, how can Egypt counteract the inherent challenges in these variables and improve fiscal performance?

To answer these questions the paper is classified into seven main sections. The first section reviews interrelationships between the structure and quality of budget institutions and fiscal performance. The second section explores how budgetary institutions can be designed to mitigate adverse political effects on fiscal discipline. Section three presents the historical evolution of budget institutions in Egypt, and section four measures the quality of these institutions. Section five clarifies the interrelationships between budgetary institutions, politics, and fiscal performance in Egypt during the period (2000-2010), and section six assesses their current situations in post-revolutionary Egypt. Finally, section seven identifies the key variables that shape the future path of fiscal performance in Egypt in order to present policy implications and recommendations.

2. Budgetary Institutions: General Overview

The government budget is a record of the revenues and expenditures of a government during a given period of time. Ex ante, it shows what the government intends to do during that period and how it plans to finance these activities. Ex post, it shows what the government actually did, who had to pay for it and in what form. The budget itself is the result of a budgeting process; the way in which decisions about the use and funding of public resources are made during different stages of budget process (Von Hagen, 2006).

In any country, there are four stages of budget process: preparation, modification and approval from the legislature, implementation and reviewing and auditing. The institutions shaping the budget process during these stages are an important factor in determining that country's level of public deficits and debts.

Literature defines budget institutions as “the structures, rules, and procedures that govern the formulation, approval, and execution of government budgets” (IMF, 2014). Alesina and Pirotti (1994) similarly define budget institutions as “the rules and regulations according to which budgets are drafted, approved, and implemented (Alesina and Pirotti, 1994). They classify budget institutions according to their types into: laws that prescribe numerical targets on the

budget (balanced budget law for example), and procedural rules. In a close manner, Gollwitzer (2010) argues that budget institutions “comprise the policies, rules and procedures of the public revenue and expenditure process thus representing the most important macroeconomic commitment institutions for governments” (Gollwitzer, 2010). Dabla-Norris et al, (2010) define budget institutions as those that “incorporate the formal and informal rules that govern the budget process and the relative division of roles and responsibilities among the various actors at each stage of the process” (Dabla-Norris et al, 2010).

The literature investigated the interrelationships between the structure and quality of budget institutions on one side and fiscal performance on the other side. They generally analyzed the performance of budget institutions from two main perspectives: (1) main actors in the budgetary process and the interactions in the process of budget planning and execution (which included political dimensions discussed above in their analysis), and (2) quality measures of the budgetary process. Most of the literature, whether cross-country or for specific countries, bases its analysis on constructing indices to measure the performance of budget institutions according to designed criteria. The indices generally depended on legal documents; international databases (such as IMF and OECD) budgetary related information as well as standardized questionnaires across the examined countries. The constructed indices are then used in empirical investigations on the possible relation between the quality of budget institutions and the fiscal performance in the named countries. Examples of the constructed indices and their cross-country findings are found in IMF (2014), Alesina et al (1999), Wehner (2006), Dabla-Norris et al. (2010), Alesina and Pirotte (1994).

The indices (for example in Alesina et al (1999) Gollwitzer, (2010) Wehner, (2006); Gleish, (2003) and Fabrizio and Mody (2006)). These indices generally assess fiscal institutions according to some common criteria such as the degree of centralization, presence of budget rules, transparency measures, comprehensiveness and accountability measures.

The findings of these papers are consistent to a great extent. In general, countries with stronger fiscal institutions tend to have lower fiscal deficit and better performance. Centralization of the budget process was found to contribute positively to fiscal discipline (Gleish, 2003; Gollwizer, 2010). Countries with comprehensive fiscal reporting, forecasting, and risk disclosure seemed to have a better understanding of their post-crisis fiscal position and prospects. It also found that countries with more credible medium-term frameworks, performance budgeting systems, and intergovernmental fiscal arrangements were quicker to announce their adjustment plans and were better at protecting public investment within those plans (IMF, 2014). Hagemann (2011) found that the preparation of baseline macro forecasts and a current services budget, and verifying adherence to transparency standards and best budgeting practices, can reinforce the government’s capacity to comply with a numerical rule. Alt and Lowry (1992) and Poterba (1992) (cited in Alesina and Perotti (1994) argue that countries with “harder” numerical rules react more promptly and efficiently to negative revenue shocks or positive spending shocks.

To conclude, budgetary institutions that govern the decisions over budget process provide important protection against large deficits and debts. Several political economists highlighted the key role of appropriately designing budgetary institutions in mitigating the adverse consequences of the political environment and politics on fiscal performance. Therefore, these institutions are of significant importance for sound fiscal performance.

3. Political Fragmentation and Fiscal Performance: Literature Review

Budget is an expression of political rather than economic priorities. Political factors are core determinants of the fiscal performance. In this regard, several political economists highlighted the importance of political environment in determining fiscal outcomes.

Political fragmentation – resulting from political instability, conflicts, ethnic diversity and diversification of the political parties, and the structure of the electoral systems – has significant adverse impacts on fiscal performance. On the other side, the contemporary practice of democracy can increase budget deficits through not only ideological preferences but also more fragmented government coalitions and higher voter participation. Empirical evidence supports this argument widely (Fabrizio and Mody, 2006).

The general hypothesis and intuitive notion in a number of relevant literatures is that a more fragmented policy-making process will lead to a looser fiscal discipline. Perotti and Kontopoulos (2002) define fragmentation as “the degree to which individual fiscal policymakers internalize the cost of one dollar of aggregate expenditure.” They, as well as Wehner (2008), differentiate between two types of fragmentation: ‘size fragmentation’ (the number of decision makers: more precisely, coalition size and cabinet size) and ‘procedural fragmentation’ (the structure of the process in which they interact).

More precisely, the literature identifies two major problems that evolve from political fragmentation and affect fiscal performance significantly, especially when budgetary institutions aren’t strong enough. The first problem is the common pool problem of public finances. And the second problem results from the principal-agent relationship between voters (the principals) and politicians (the agents) (von Hagen and Harden 1995). It should be mentioned that Dabla-Norris et al., 2010 argue that principals – agents’ problem pertains to information asymmetry and incentive incompatibilities. They expand principals – agents’ and claim that it could evolve between the government and voters and within the government hierarchy (e.g., between the ministry of finance and line ministries) (Dabla-Norris et al., 2010).

A direct, empirically proven, consequence of these problems is larger fiscal deficits and higher debt levels (Haan et al., 2013; Velasco, 2000; Von Hagen, 2006). In much of Von Hagen, Alberto Alesina and other pioneering works, the impact of those two problems on fiscal performance was highlighted and investigated.

The common pool problem arises when the various decision makers involved in the budgetary process (legislators, the finance minister, line ministers, etc.) compete for public resources and fail to internalize the current and future costs of their choices (Dabla-Norris et al., 2010). The “common pool problem” was articulated in Perotti and Kontopoulos (2002) as the case where representatives in the fiscal policy decision-making process benefit from specific types of expenditures at the time that it is already hard to target taxation burdens because of basic constitutional principles – typically, taxation falls on large segments of the population and cannot be easily targeted. The “common pool problem” results when politicians take biased decisions to spend money in favor of their constituencies at the expense of the whole economy of tax payers. In this case, targeted individuals or constituencies just pay a fraction of the total costs of the provided service. This creates a high incentive for externalities where interest groups free-ride on each other’s contributions; thus indicating a bias towards overspending. This directly results in a spending bias and the net benefits for taxpayers become lower than the net benefits of the targeted groups.

On the other hand, Potrafke (2013), Perrson and Tabellini (2003) and Von Hagen (2005, 2006) argue that the principal-agent problem occurs when the demands and preferences of voters are not consistent with the priorities of their political representatives. This is a result of politicians’ biased actions that seek to extract rents from being in office and spend public money on projects other than those the voters desire and that serve their own interests. The consequence of the political principal-agent problem is political catering to special interests. Elected politicians usually use fiscal “redistributive policies” to influence the provision and distribution of targeted public goods. This is generally their strategic tool to guarantee their re-election or staying in office (Von Hagen 2006).

The possible outcomes of political fragmentation on the fiscal process vary. Initially, the older empirical literature examined the first dimension of size fragmentation and ranked “political strength” in descending order into three categories: single party majority governments, coalition governments, and minority / caretaker governments (for example Roubini and Sachs (1989)). Newer literature like de Haan et al. (1997) Perotti and Kontopoulos (2002) and Von Hagen (2006, 2007) added another dimension to size fragmentation related to parliamentary representation and the plurality of political parties. These works generally analyzed the causes and effects of the different structures of political representation and the role of electoral systems in political diversification and thus their impact on the problems of common pool and principal agent.

Literature like Fabrizio and Mody (2006), Persson and Tabellini (2003, 2004) and Aghion et al (2004), Alesina and Perotti, 1995; Alesina et al (1999); Hallerberg and Von Hagen, (1999) discussed the nature of the electoral system as a determinant of fragmentation. They argue that although having stronger electoral rules is healthy and desired for inclusiveness and democratic purposes, in many situations this comes at the expense of political and fiscal discipline; particularly in countries with high political diversification and high potential to compete over fiscal resources. Their empirical findings support the argument that a majoritarian system – a system where voters in a district elect one candidate to the parliament – is associated with more fiscal discipline than a proportional representation. Proportional representation systems are claimed to be more unstable, respond less efficiently to negative shocks, and result in coalition governments delaying fiscal adjustments as a result of strong veto powers in coalition governments (coalition governments are a direct result of proportional representation system). Representatives know that they are in power for a short time period and so hardly anticipate how to react with the consequences of their current spending targets and they tend to increase spending levels.

Persson et al., (2004, 2005) argue that the impact of electoral systems on fiscal outcomes can also be indirect through its influence on voter choices that in turn affect the composition of governments. The high tendency of proportional rules to create coalition governments will also lead to higher spending pressures more than single party majority governments. In other words, higher proportionality means more parties are involved in the electoral process and in the ruling coalition, which can turn into higher public expenditure. Although this finding implicitly has to do with the common pool issue, other papers traced the relation in a rather explicit way. Hallerberg (1996) and Hallerberg and Von Hagen (1996) found more plurality in the electoral system will lead to higher deficit as a result of the common pool problem. Highly fragmented parliamentary structures can result from applying a “proportional representation (PR) electoral system -- a system where voices for an individual voter increase as a result of the increased number of candidates per district. Hallerberg (1996) further claims that the severity of the common pool problem in plurality systems arises as a result of two main problems: (1) that candidates in the plurality systems tend to benefit more from the provision of specific goods to their electoral districts and (2) that political parties are expected to be weaker in the plurality systems as compared to the proportional systems.

Moreover, several papers such as Perotti and Kontopoulos (2002), Drazen and Grilli (1993) Velasco (1999), and Spolaore (1993) tackled the relation between size fragmentation and fiscal performance in times of crises. Arguments in these works indicate that more fragmentation in times of crises already has an added positive impact on the budget deficit. For example, Perotti and Kontopoulos (2002) found that deficit increases significantly with adding one more political party or spending minister during times of economic crisis.

4. Designing Budgetary Institutions to Mitigate the Effects of Political Fragmentation on Fiscal Discipline

As Dabla-Norris et al., 2010, argues, unless regulated by strong institutional arrangements, the common pool problem can result in a “deficit bias” in the form of excessive expenditures, deficits and debt levels. Strong core fiscal institutions can counteract this bias by ensuring that the budgetary consequences of policy decisions are appropriately taken into account. The literature suggests that both a top-down approach to planning the budget and cooperative bargaining are helpful in overcoming this problem. These approaches, combined with strong accountability mechanisms to minimize the principal- agents problem, and supporting structures that comprehensively and transparently monitor and enforce budget decisions, promote fiscal discipline (Dabla-Norris et al., 2010).

4.1 Budgetary institutions and common pool problem

Von Hagen (2006) and Haan et al. (2013) argue against fragmented government and support the argument that fragmented government increases the common pool problem. Their empirical findings indicated that fragmentation (proxied by the effective number of parties in government or the number of spending ministers) creates a more fertile environment for the common pool problem. Oppositely a centralized budgeting process already includes factors that help decision makers to “contain” the common pool externalities internally and taking rather comprehensive decisions in a collective manner, during the three stages of the budget process. In the planning stage, centralization helps setting strict budget constraints and resolve conflicts across government members before submitting the budget to the public. In the approval stage, where the common pool problem is at its fiercest stages, centralization and limitations on parliamentary actions to amend budget proposals can as well help minimize the common pool problem. And finally, in the implementation stage, centralization approaches already put strict limits to amend the budget during the year and strengthen the ability of the Minister of Finance to monitor and control spending flows.

However, a number of the reviewed papers (for example, Hallerberg (1996), Hallerberg and Von Hagen (1996) and Fabrizio and Mody (2006)) don’t generally undermine the positives of the pluralistic systems. They rather agree that in such systems, limiting common pool problems should be done through applying tight rules and legislative institutions that strengthen the government’s role as agenda-setter to overcome the plurality problems. For example, Fabrizio and Mody (2006) empirical tests on the role of electoral diversification on fiscal outcomes concludes although more pluralistic and diversified political structures are associated with higher deficits, this relation weakens in the presence of sound budget institutions and rules. They state that “budget institutions that create checks and balances have significant value even when the politics is representative but undisciplined, and when long-term structural forces are unfavorable” Fabrizio and Mody (2006). This finding goes in line with what Hallerberg (1996) and Hallerberg and Von Hagen (1996) have previously mentioned that electoral institutions just “pre-condition” the type of the institution needed to solve the common pool problems.

More precisely, the literature identifies two main approaches to manage the hierarchy of budget institutions and mitigate politics’ adverse effects on fiscal performance, delegation approach and contract approach (also called commitment) approach.

Under the delegation approach, the minister of finance is trusted to solve the common pool problem inside the cabinet and with the parliament during the enacting and approving stage of the budget processes. He is assigned the power to determine the broad parameters of the budget and enforce them using his fiscal powers over the spending ministers. The minister of finance under this approach has the power to monitor and control the flow of expenditure and prevent other ministers from overspending their appropriations (Von Hagen, 2008). The preparation phase of budget process under this approach is characterized by strong agenda-setting powers

of the finance minister vis-à-vis the spending ministers: the finance minister makes binding proposals for broad budgetary categories, negotiates directly with the individual ministries, approves the bids submitted to the final cabinet meeting, and acts as a veto player on budgetary issues in the cabinet.

In the legislative approval phase of the process, the delegation approach limits the rights of the legislature to amend the budget and gives the executive strong agenda-setting powers vis-à-vis the legislature. In the implementation phase, the minister of finance has strong monitoring powers regarding the actual use of budget appropriations by spending ministers; he also has the authority to prevent and correct any deviations from the budget plan (Raudla, 2010). Hallerberg and von Hagen (1999) show that delegation is the proper approach for single party governments or governments where coalition partners are close to one another ideologically and run together in elections.

Conversely, the contract approach builds on more even distribution of authority in the government. At the beginning of the annual budget cycle, all members of the cabinet negotiate multilaterally and commit themselves to a key set of budgetary parameters or fiscal targets (usually spending targets for each ministry) that are considered to be binding for the rest of the budget cycle. In other words, government members need to agree on a set of fiscal targets at the planning stage (such as medium-term expenditure frameworks). The finance minister's role under this approach is to evaluate the consistency of individual plans and targets without any further strategic powers. At the legislative stage, the fiscal contracts approach puts less emphasis on constraining legislative budgetary amendments and more emphasis on the legislature's role in monitoring the compliance of the executive's budget with the fiscal targets, by giving the legislature significant rights to demand budgetary information from the executive. In the implementation phase, the minister of finance has strong monitoring and control rights to prevent and correct deviations from the adopted budget (Raudla, 2010). As such, the parliament under this approach doesn't have strong amending powers.

It is clear that while the delegation approach mainly depends on assigning power to the minister of finance to overcome the coordination problem in the budgetary decision making, the contract approach rather depends on pre-established budgetary targets and rules as a remedy for the potential spending conflict problems (Hallerberg et al (2004)), and (Von Hagen (2005)).

The reviewed literature generally – such as Alesina et al. (1999), Mulas-Granados et al. (2009), Prakash and Cabezon (2008), Gleish (2003) – agrees on the fact that more hierarchical institutions (the delegation approach) tend to promote fiscal discipline and are usually associated with lower primary deficits, particularly in situations of high government fragmentation. Their writings confirm the positive impact of a strong finance minister on fiscal outcomes and budget procedures that seek to reduce collective action problems have been associated with more fiscal discipline. One important reason for that is that budget outcomes (particularly the deficit) are discussed and designed in the context of a binding macroeconomic program and definite rules and targets for the year. Also, such an institutional setting limits the autonomy of spending ministers and individual legislators to determine their own spending allocations without considering the fiscal implications for the collective.

Another possible reason for favoring the delegation approach is related to the link between the hierarchical structure of budget institutions and the common pool problem in particular, since giving the power to elected politicians, through the contract approach, could lead them to “extract rents from being in office” and spend money on projects not desired by the majority of the voters. Conversely, in the delegation approach, the finance minister is expected to take the most comprehensive view of the budget among all members of the executive, and, therefore, to internalize the common pool externality. Alesina et al. (1996), Harden and von Hagen (1994), Shah (2006), Hallerberg (1997) and Von Hagen (2007, 2008) agree that

delegation approach in budgetary institutions can lead to better handling and containment of the common pool problem. However, they still don't undermine the contracts approach. Rather, they agree that in the case of the contract approach, strong binding numerical fiscal targets can overcome problems resulting from the wide number of interest stakeholders.

Apparently, the contract approach is better implemented when there is no strong minister of finance supported by a ruling party. However, such an approach needs to be supported with the needed numerical and procedural rules that ensure the consistency of fiscal spending and containment of fiscal distortions. Additionally, the quality of other fiscal institutions, such as rules enforcing comprehensiveness, transparency, credibility, sustainability and accountability measures are important to ensure optimum fiscal outcomes.

To conclude, the reviewed literature agrees on the fact that more hierarchical institutions (the delegation approach) tend to promote fiscal discipline and are usually associated with lower primary deficits, particularly in situations of high government fragmentation. However, the contract approach is weaker than delegation in keeping fiscal discipline; yet it is sometimes preferable to absorb political diversity. It is difficult for a coalition government to work under a strong finance minister, since the latter necessarily comes from one of the coalition parties. Vesting him with special authorities raises concerns among the other parties about fair treatment of their spending preferences in the budget process. The obstacles to delegation are high when political preferences in a governing coalition are highly dispersed or when the process of government formation is competitive. This is particularly true when coalition partners are frequently changing, even if fractions of the previous coalition stay in power, after the election a new governing coalition possibly will be formed. As such, Hallerberg and von Hagen (1999) show that the contract approach is better suited for multi-party coalition governments (Hallerberg and von Hagen 1999, and Hallerberg et al, 2004).

4.2 Budgetary Institutions and Principal -Agent Problem

The delegation of power to elected politicians implies that politicians can extract rents from being in office and spend public money on projects other than those the voters desire. Voters might wish to limit these opportunities by subjecting politicians to strict and detailed rules that prescribe what they can and cannot do under specific circumstances. Von Hagen (2006) argues that the principal – agent problem is highly determined by and dependent of the elections and the nature of the electoral system through their effect on (1) the accountability of principals and (2) the degree of competition to the favor of agents (Von Hagen 2006).

Properly budgeting institutions can strengthen the accountability of political agents and the competitiveness of the political system and this will contribute to controlling the principal-agent problem of public finances. This paradigm suggests that rents can be limited by strict accountability and fierce competition. In that direction, transparency of the budgeting process is an important factor of political accountability. Transparency enables voters to understand a government's fiscal plans. The ability to compare between the actual performance of the government and the past plans they set.

Besides, focusing budgets and budget negotiations on numerical targets for the main budgetary parameters creates natural measures by which voters can assess the actual performance of a government. Similarly, the ability to understand the political bargaining process around the budget and to check whether individual policy makers kept the commitments they entered into during this process is an important condition for holding policy makers personally accountable in elections. On the other hand, comprehensiveness of the budget plays an important role in this regard. If government expenditures can be hidden in off-budget funds and shielded from democratic control, voters are unable to hold the government accountable for its performance.

In addition, research in this area has examined the effect of electoral institutions on public finances and has shown that they affect the size and the structure of public spending as well as the size of the deficit and the level of public debt. Von Hagen (2006) argues that large district magnitude, proportional representation, and fixed party list systems usually weaken personal accountability in favor of collective average performance of all the list candidates. Conversely, smaller districts and more pluralities and individual-based elections are perceived as more effective in limiting political rents and corruptive actions by the principals since they know their performance in person is what matters for their re-election or staying in office. Von Hagen (2006) also adds that competition, in addition to being healthier for mitigating the principal-agent problem, is stronger in proportional systems since new politicians can easily enter the parliament under the umbrella of a list. Conversely, plurality rules constitute high barriers to entry of new political parties or new politicians. As directly stated by Von Hagen (2006), the more competition and larger supply of principals, the more elastic the process of election and the better the voters can discipline governments by voting them out if their performance isn't up to expectations.

Simson & Welham, (2014) explore the principals–agents problem within the government hierarchy. In that direction they argue that a common response to principal-agent problems is to increase control by the principal and reduce the autonomy of the agent. This could mean requiring sign-offs from the Ministry of Finance before an agency can enter a spending commitment, centralizing payments through the treasury, or instituting a cash budget, which increases central control over the pace of expenditure. Such centralizing practices have efficiency costs, however, as they increase transaction costs, reduce the predictability of resource flows for spending agencies and limit the discretion of budget managers to respond to local circumstances lower down the chain.

On the other hand, reducing principal-agent problems might depend on increasing the information available to the principal about the performance of agencies and individuals. This information can be used to sanction or reward performance and thus better align incentives. Besides, information can be strengthened through additional reporting requirements, physical inspection of funded activities and better internal audit. Budget institutions that set clear lines of accountability for funds also enable the principal to more easily sanction any misbehavior (Simson & Welham, 2014).

Finally, given the diversity of political systems in countries, it becomes clear that different political systems will need different forms of budget institutions to avoid fiscal distortions resulting from political challenges. In other words, although strengthening the competitiveness and accountability of the political system, improving budget comprehensiveness, transparency and accountability measures are important in general, specific anti-spending bias measures should be designed according to the nature of each political system and the driving forces of the political-fiscal process.

5. Evolution of Budgetary Institutions in Egypt

Primarily, Egypt used to enact the budget law no. 73/1973 to impose strict rules on public spending. For example, the law included an article to effectuate the golden rule; that is, prohibit borrowing to finance current expenditure. Additionally, the law supported using the accrual basis of accounting in preparing and implementing the budget. According to this law, Egypt's budget follows a line items budgeting approach when it comes to both administrative and functional classifications. However, it is worth noting that these classifications were not transparent and totally inconsistent with Government Finance Statistics (GFS) system. Also, the law didn't impose economic classification to clarify economic effects of different budget items.

On the other hand, the Egyptian budget process was very centralized. The minister of finance used to control all stages of the budget cycle. Parliament didn't have any right to modify executive's budget draft. The time allowed to the parliament and the authorities to discuss and enact the budget was very limited and usually the law used to be passed without any modification (rubber stamping). Aggregated and undistributed appropriations used to be a significant item in enacted budgets. In addition, there were a lot of budget directives that gave finance minister unlimited authority to modify and increase public expenditure during fiscal year without getting prior approval from the parliament. Accordingly, a significant deviation between enacted budget appropriations and actual figures in final accounts was a norm.

According to law no. 79/1979, a large group of public entities were detached from the budget. However, these entities continued to be affiliated administratively to the line ministries in accordance to their functions. These entities, called general economic authorities, were the key arm of the government to provide different kinds of subsidies and financial support. Government used to control the prices of the majority of goods and services provided by these entities under the obligation of financing their annual deficit. As such, the activities of the majority of these economic authorities are nonmarket activities. These entities, to a great extent, are types of off-budget expenses that are provided through extra budgetary and Quasi-fiscal activities. However, one can't deny that in many cases there were some trade and business activities that took place in these entities.

The 1979's amendments also separated investment budget process from the rest of budget process, which was a clear contributor to the budget dualism problem that is still persistent until today. In this regard, the minister of planning is in charge of the investment budget while the rest of budget's chapters are under the authority of the minister of finance. And we can also argue that the minister of planning used to have the same unlimited authority towards the investment chapter just like the minister of finance. Both finance and planning ministers had discretionary authorities over public expenditure; they had the rights to make sharp cuts in public expenditure proposed from line ministers. Accordingly, line ministers used to conceal earmarked revenues during the preparation and negotiations stage of the budget to finance their expenditure during the fiscal year. In this regard, line-ministers constituted a lot of special funds inside their ministries to keep revenues out of the budgeting process. Finally, it should be mentioned that the 1979's amendments confirmed preparing and implementing all budget chapters based on a cash basis. However, it is worth noting that, later, the Government Accounting Law no 127/ 1981 stated the necessity of applying an accrual basis in investment budget.

In 1991 the government of Egypt started implementing the ERSAP program, which also included a further separation of public entities from the budget. According to law no 203 for the year 1991, the government established a public business sector to contain all public corporates that might be privatized. It also should be affirmed here that many of these firms were a financial burden on the budget due to their annual financial losses.

The second main milestone in the evolution of Egyptian budget institutions took place during the period 2005- 2007. This period witnessed the most important development in budgetary institutions in Egypt as a result of executing essential amendments to both the budget law and the constitution. Essential amendments to the budget law enacted by law no. 87/2005 contributed significantly and positively to transparency and credibility practices in the budget. Amendments to the budget law resulted in adopting a complete new economic classification, and modifying functional classification, to be consistent with GFS System.

The structure of budget presentation was noticeably improved in a way that shows more details and the aggregation process became rather easier. Based on data availability with international standards of classification and recording, the Ministry of Finance worked on capacity building

to prepare and publish quarterly and monthly follow up reports on budget operations. Aside from presentation reforms, that law also enforced numerical ceilings on contingency funds and aggregated appropriations in the executive's budget draft. Moreover, petroleum subsidies, which used to be an off-budget activity, were for the first time presented explicitly in budget documents since 2005/06. One can't deny that such procedures were a major achievement towards improving budget transparency.

However, in the midst of all the above positive achievements, the most striking amendment to budgetary institutions in 2005 was violating the golden rule and allowing for financing current expenditure through borrowing. Moreover, the law re-affirmed the continuation of the cash basis of accounting in all budget chapters including the investment chapter.

The 2005 law also introduced a number of practices that had to do with level of centralization and degree of delegation within the stages of the budget process. For the first time, the new law applied numerical ceilings on the authority of Finance and Planning Ministers in transferring budget appropriations between chapters during budget implementation. The parliament emphasized the necessity of restricting the role of budget directives in modifying budget appropriations during the fiscal year. Delegations between parliament, and Finance and Planning ministers resulted in a seen reduction the number of these directives sharply. Finance and planning ministers kept the directives related to flexibility purposes during budget implementation. To affirm this trend, the 2007 constitutional amendments granted the parliament the authority to amend the executive's budget proposal provided the agreement with the government on how to obtain required resources for finance. The constitutional amendments went further with the widening of the scope of authority of the parliament to give it enough time to modify and enact the budget and audit final accounts. In this regard, the amendments developed new submission dates for the executive's budget draft and final accounts (year-end report) to the parliament to be in accordance with best practices worldwide. Submission timing of executive draft budget to parliament were amended to three months prior to the end of fiscal year instead of two months and the submission timing of final accounts (year-end report) was amended to six months after the end of fiscal year instead of twelve months. In addition, amendments to the budget law and constitution prevented the government from increasing public spending during the fiscal year without obtaining prior approval from the parliament.

The final legislative milestone in the Egyptian budgetary practices was the 2014 constitution. The new constitution preserved the parliament's right to amend the executive's budget proposal, provided the agreement with the government on how to obtain required resources for finance (Egypt's Constitutions, article 124). However, it added a new condition to this article that prohibits any proposed amendments to the executive's budget draft that might place financial burdens on citizens.

Based on the above explained evolution of budgetary institutions in Egypt, an important question should be raised: To what extent are Egyptian budget institutions considered strong? To answer this question, we will assess the quality of these institutions in the next section.

6. Measuring the Quality of Budgetary Institutions in Egypt

The current paper depends on simple index in order to evaluate the quality of budgetary institutions in Egypt. The paper reviewed three pioneering papers that developed budget institutions indices: Gollwitzer (2010), Dabla-Norris et al. (2010), and Gleich (2003). We follow Gollwitzer (2010) methodology and scoring scheme with regards to each item in the index, which he derives based on benchmarking OECD best practices.

Like most reviewed literature; the paper classifies the budget process in Egypt into three main phases: planning and negotiation; approval and enacting; and implementation and monitoring.

The current paper also follows Gollwitzer (2010) and Dabla-Norris et al (2010) five assessment criteria previously mentioned for sub-categorizing our index. The criteria are: (1) centralization, (2) rules and controls, (3) sustainability and credibility, (4) comprehensiveness, and (5) transparency. The scoring scheme and the calculated index are detailed in annex (1).

The paper depends on three key data sources to answer the questions included in the index. The data sources are: Egypt's new constitution adopted in 2014, the most updated version of budget law, and standing orders of Egypt's House of Representatives that has been adopted at the beginning of March 2016.

6.1 Index aggregation

The paper relies on the equal weights method for the aggregation of the index. We define five sub-indices for the five main criteria classified above. Each sub-index is given a score from 0 to 1 and each variable included in the sub-index is given equal weight. We classify the indices both vertically and horizontally; vertically by criteria for the three stages and horizontally by stage for the five criteria.

6.1.1 The category index:

Each sub-index is a simple average of the number of questions at each stage. The centralization sub-index is as follows:

$$I^{Cent} = 1/3 \sum_{i=1}^3 C_i^{PN} + 1/4 \sum_{i=1}^4 C_i^A + 1/2 \sum_{i=1}^2 C_i^I ,$$

Where I^{Cent} the Centralization sub index is for the three phases: PN is the planning stage, A is the approval stage, and I is the implementation stage.

In the same manner the Rules and Controls sub-index is calculated as follows:

$$I^{Rules} = 1/2 \sum_{i=1}^2 R_i^{PN} + 1/2 \sum_{i=1}^2 R_i^A + 1/5 \sum_{i=1}^5 R_i^I ,$$

The Sustainability and Credibility sub-index is calculated as follows:

$$I^{SC} = 1/3 \sum_{i=1}^3 SC_i^{PN} + 1/2 \sum_{i=1}^2 SC_i^A + 1/5 \sum_{i=1}^5 SC_i^I ,$$

The comprehensiveness index is calculated as follows:

$$I^{Comp} = \frac{1}{4} \sum_{i=1}^4 CO_i^{PN} + 1/3 \sum_{i=1}^3 CO_i^A ,$$

And the transparency index is calculated as follows:

$$I^{Trans} = 1/5 \sum_{i=1}^5 T_i^{PN} + 1/2 \sum_{i=1}^2 T_i^A + 1/6 \sum_{i=1}^6 T_i^I ,$$

Finally, the aggregate category index is a simple average of the five category sub-indices.

$$I^{Aggregate} = \frac{1}{5} \sum I^{Cent} + I^{Rules} + I^{SC} + I^{Comp} + I^{Trans}$$

6.1.2 The stage index

Similarly, the stage index is calculated in the same manner, the paper defines planning and negotiation stage as S1, Approval stage as S2 and implementation stage as S3. The sub-indices of the three stages are as follows:

The planning stage sub-index formula:

$$S_1 = \frac{1}{18} \sum_{i=1}^{18} S_{1i}$$

Where i is the number of questions for stage 1 and S_{1i} are the scores of the questions. The index is weighted by the number of questions for each stage.

Similarly, the Approval stage sub-index formula:

$$S_2 = \frac{1}{13} \sum_{i=1}^{13} S_{2i}$$

And the Implementation stage sub-index formula:

$$S_3 = \frac{1}{18} \sum_{i=1}^{18} S_{3i}$$

The Aggregate stage index is a simple average of the three stage sub-indices

$$S = \frac{1}{3} \sum_{i=1}^3 S_i$$

6.2 Index results

The detailed scores of the index components are presented in annex (1). However, the overall scores are presented in table (1).

The above results indicate that the quality of budgetary institutions in Egypt is reasonable. Total phases score is 0.58 and total criterion score is 0.56. The two indices are highly correlated as mentioned in the literature. The strongest budgetary institutions in Egypt are: the centralization of budget process, and adopting sustainability & credibility criteria. However, the budgetary process in Egypt suffers from key weaknesses as a result of lack of sound fiscal rules; budget incomprehensiveness; and transparency challenges.

The index results clarify that the budgetary process in Egypt is very centralized. A top-down approach is applied. Level of centralization is still strong in different budgeting phases. However, 2005's amendments to the budget law restricted the finance and planning ministers' authorities throughout all budgeting phases. The 2007 constitutional amendments focused only on approval phase. Accordingly, index results clarify that the level of centralization in the approval phase is less than the other two phases.

Fiscal rules and control procedures are very weak in Egypt's budget process as indicated by the index results. There are no numerical targets for budgetary aggregates such as the annual deficit, total spending, and overall allocations for the individual spending ministries that can be a commitment device for fiscal discipline. As mentioned above, the most striking amendment to budgetary institutions in 2005 was violating the golden rule and allowing for financing current expenditure through borrowing.

On the other hand, the index results clarify that the key challenges in sustainability and credibility criteria are the preparing and negotiation phases of budgeting. Introducing elements of sustainability and credibility into the budgetary framework is important to reduce the problems associated with the time inconsistency of preferences. The main sustainability practice that has been given most attention in the literature is the medium-term expenditure framework (Gollwitzer, 2010). Public budgeting in Egypt depends on the annual budget system only -- there are no multiannual budget plans. Accordingly, public budgeting in Egypt lacks strategic planning, defined objectives, and expected output per sector and activity.

The Egyptian Budget is incomprehensive to a great extent. The index results identify that the essential comprehensiveness challenges are present in the first budgeting phase. Budget dualism is a key challenge in Egypt. The existence of two separate budgets for recurrent costs and investment is a frequent practice in developing countries that greatly facilitates hidden budgeting (Gollwitzer, 2010).

Moreover, despite the separation of economic authorities from the budget since 1979, they are still the key arm for the government in providing subsidies and financial support. As a result, these economic authorities, to great extent, created, and still create, types of off-budget

expenses through extra budgetary and quasi-fiscal activities. It should be mentioned here that the financial performance of the majority of these public entities continues to be very poor as a result of government controls over the prices of their goods and services on one side, and the insufficiency of governmental cash transfers to cover their annual deficit on the other side. In this regard, many of these entities are unable to cover their financial obligations.

We also confirm here that a significant ratio of fiscal deficit and public debt excluded from budget deficit is hidden inside the financial losses of these economic authorities, especially because of the differences in applied accounting bases. According to the law no. 97 for the year 1997, economic authorities have to prepare their budgets based on the accrual base of accounting. Accordingly, the budget's non-transparent financial relation with public economic authorities is believed to constitute a major source of fiscal risks. These vague relations usually give government opportunities to use fiscal gimmicks and *non-traditional* accounting techniques in public budgeting. Using such gimmicks exposes public finance to more fiscal risks.

Transparency of the budget process is the cornerstone of sound public budgeting. A transparent budget process provides the public with all relevant information in a timely and systematic manner. This should include complete information on policy objectives, the formulation and the implementation of these objectives, as well as the differences between the intended and the realized outcomes. Transparency throughout the entire budget process prevents hidden budgeting and corruption (Gollwitzer, 2010). The index results emphasize that the key weakness of budget transparency in Egypt is the approval stage of budgeting. During this phase there are no public hearings. However, sometimes short press statements for overall budget policy and individual budgets are made public. Additionally, standing orders of Egypt's House of Representatives prevent the broadcasting of parliament's sessions. However, the transparency of the budget process in the implementation phase is moderate, and non-publication of the performance target is the key weakness. The government doesn't comply with the budget law until now. Even though the law confirms the necessity of classifying budget based on programs, public budgeting in Egypt still lacks program-based budgeting, and clear performance indicators.

Based on the above analysis of the quality of budget institutions in Egypt and the noted weaknesses, we ask a second core question in this paper: To what extent did the political-fiscal interrelationships contribute to the fiscal performance in Egypt? We try to provide an answer to this question in the next section.

7. Budgetary Institutions, Political Fragmentation, and Fiscal Performance in Egypt (2000-2010)

First of all, the current paper claims that the sharp decline in budget deficit in Egypt during the period from 1979 to 91/1993 as shown in figure (1) is attributed to the separation of both economic authorities and the public business sector from the budget. Both actions could be seen as responding to international requirements of the IMF and the World Bank. They were part of establishing good governance for the public sector to curb deficit growth. The annual deficits and financial obligations of these entities were affecting the budget deficit significantly. Accordingly, separating them from the budget led to the obvious decline in the budget deficit. The period from 92/1993 witnessed stability in the budget deficit as a result of the adoption of financial stability programs. However, since 2000/2001 to 2009/2010 the budget deficit started to increase substantially. The Egyptian government adopted a set of reforms in different tax laws and regulations during this period, namely: sales taxes, custom tariff duties, income taxes, stamp taxes, and resources development duties; increases in taxes revenues didn't be sufficient to achieve stability in the budget deficit. To explain to what extent the above mentioned weaknesses in budgetary institutions were key factors in increasing budget deficit from

2000/2001 to 2009/2010, the paper has to clarify the effects of political environment during this period.

Since the second half of the 1980s and till 2010, Egypt was following a majoritarian run-off electoral system where candidates competed on 222 two-member constituencies and had to obtain 50%+1 of votes to win a parliamentary seat. This electoral system meant that majoritarian, candidate-based voting had dominated the electoral context before January 2011 revolution. Independents were allowed to contest 100% of elected seats along with party candidates, and in fact traditionally won a huge share of them. In the People's Assembly elections of 2000 and 2005 – which were held under judicial supervision and hence their results are considered reasonably representative – the share of seats of independent candidates exceeded the 50% mark. In fact, the same candidates used to win whether they ran as independents or as party candidates – and then join parties (usually the ruling National Democratic Party (NDP) after they become MPs. If this implies anything, it points out that voting in Egypt was mainly a candidate-based, not party-based system. For MPs, this meant that their own performance vis-à-vis their districts is what counts the most, not party support. A rationally-behaving MP would then seek to dedicate most of his/her time to serve the district's local interests and those of its constituents.

On the other hand, it is rather difficult to expect a MP who operates in such a context to devote significant time to promote, discuss, or hold the government accountable on public goods issues, or issues that expand beyond those that matter for his/her constituencies. It is worth mentioning that the fact that many MPs used to change party affiliations after they got elected (mainly from being independent to NDP) is strong evidence that the majoritarian electoral system in Egypt produced an extreme case of candidate-ballots where voters do not pay much attention to candidates' party affiliations but to their ability to deliver targeted constituency spending. And if that means that the respective MP crosses the plenary after being elected – just because being an NDP member guarantees greater ability to deliver particularistic goods – then there seems to be no problem for doing that as far as voters are concerned. Table (2) explains the political structure of Egypt's parliament in the 2000 and 2005 sessions.

How did such electoral system and parliament's structure that above mentioned in table (2) affect the allocation of public resources, especially in improving budget transparency in 2005? It should be mentioned here that reforms in transparency through constraints and procedural rules in 2005 were accompanied by legal provisions to enforce open records and disclosure¹. In addition to disclosure measures introduced through the amendment of the budget law in 2005 and the constitutional amendments of 2007, the MoF issued decrees requiring that many line items be presented in a much more detailed form. Petroleum subsidies, which used to be an off-budget activity, was treated explicitly since 2005/06, pushing the value of the subsidy items in the budget from LE13.7 billion in 2004/05 to LE55.5 billion in that year. However, the impact of these procedures on the allocation of resources in a way that curbs the attributes of the fiscal deficit were not realized. This fact is clearly reflected in the stability of the structure of budgetary allocations as shown in figure (2).

As Figure (2) shows, the structure is stable in its normal trends. Subsidies' weight increased as of the disclosure of the energy subsidy in 2005. Increase in expenditure of chapters I (wages), III (interest and debt repayment) and IV (subsidies) was absorbed partially by lower ratio for investment (targeted public good) of chapter VI; nevertheless, mainly by huge reduction in maintenance appropriations.

Using micro-data constructed from content analysis of budgetary discussions in the Egyptian parliament during the period 2000-2010, Abdullatif et al (2015) show that political incentives

¹ For references on the influence of budget procedures on transparency, see Fabrizio et al. (2006; 692).

determined by a majoritarian electoral system curbed the willingness to check government fiscal behavior, even among opposition MPs. This is because MPs still favored pork-barrel behavior to boost their re-election chances. Abdullatif et al (2015) conclude that there is no proven evidence for significant changes in fiscal accountability behavior due to improvement in fiscal transparency. The reason behind that is assumed to be the candidate-centered, individual-based nature of the majoritarian electoral system; because in such electoral systems, success depends on providing targeted goods to voters (Abdullatif et al, 2015).

To conclude, it is clear from the above analysis that during 2000-2010, weaknesses in budgetary institutions in Egypt, electoral system and dominance of ruling party (National Democratic Party) on the parliament were main factors in hindering political accountability and aggravating the budget deficit. During this period, weaknesses in budgetary institutions created many sources for both Principal-Agent and common pool problems. While the Principal-Agent problem evolved from government, common pool problem resulted from the parliament structure and practices. Key weaknesses in budgetary institutions that opened the floodgates to aggravate principal-agent problem were violating the golden rule and using off budget expenses. To improve public perception about the political regime, President Mubarak used to grant government employees and pensioners an annual increase despite consecutive increases in the budget deficit. Moreover, the government increased ration cards' subsidies and increased the number of beneficiaries from these subsidies. In addition, government didn't take counter measures to overcome the substantial increases on petroleum products' subsidy since 2000 as long Egyptian General Petroleum Corporation (EGPC) was able to finance it off budget. Based on these practices the current deficit witnessed a substantial increase from 3 billion EGP in 1998/99 to 33.5 billion EGP in 2003/2004 as shown in Figure (3).

On the other hand, from 2000 to 2004 petroleum product subsidy increased significantly, however this subsidy was financed from EGPC out of budget. When EGPC started to have significant annual loses, government was forced to reveal the real cost of petroleum subsidy in budget documents. The current paper claims that this procedure can be seen as a fiscal gimmick rather than a transparency procedure. However, the petroleum subsidy was revealed as an explicit item in budget documents since 2005. EGPC continued to finance this subsidy far from budget deficit. It should also be mentioned here that the method used in calculating the value of petroleum subsidy lacks transparency. Figure (4) shows development of annual values of petroleum product subsidies from 2005/2006 to 2009/2010 in billion EGP.

Based on the above analysis, we can then explicitly claim that the Egyptian government violated golden rule and adopted a fully cash base to finance substantial increase in current expenses from borrowing. It should be mentioned here that violating the golden rule resulted in classifying capital investment above the line of cash deficit within budget expenses. We argue that this treatment enables the government to finance increased current expenses (the nondiscretionary expenses) depending on borrowing. Substantial decreases in the investment budget (the discretionary expenditure) supports this argument strongly. Investment expenditures have decreased from 13.9 % in FY2003/2004 to only 6.1% of total expenditure in FY2014/2015 (Ministry of Finance database, 2015).

To conclude, violating the golden rule and applying a fully cash accounting base in budget preparation resulted not only in increase of deficit percentage to GDP, but also in substantial change in the structure of the budget deficit. In this regard, the operation deficit witnessed a substantial increase at the expense of public investment. Naturally, these structural changes in public expenditure and deficit expose public finance to more fiscal risks in addition to their effect on public infrastructure and capital expenditure.

Regarding the common pool problem, the paper argues that it was contained until 2005, at least from the parliament side, due to an effective top-down approach and strong centralization of

the budget process. During this period parliament didn't have the right to modify the executive's budget draft. On the other hand, the nondiscretionary authority of the ministers of finance and planning over the budget and their rights resulted in sharp cuts to the appropriations proposed by line ministers.

Procedural rules applied in Egypt until 2004/2005 took the form of delegation, whereby the Ministry of finance is the "agenda setter" and the minister of finance is vested with the power of determining of total spending and, hence, coordinating with all spending ministers to reach the total magnitude of spending as well as allocation. Budget directives were given whereby the minister of planning was granted authority to increase the capital envelop of a spending unit based on some conditions. The final outcome persistently adds up to a budget deficit.

Starting from 2005/2006 the level of centralization of the budget process started decreasing, especially during the approval phase, whereby procedural rules witnessed remarkable changes to become more of contract approach rather than a delegation approach. In this regard, budget directives and the budget by-law were amended to curb any possible addition to the deficit beyond the delegation framework. 2005's amendments to the budget law included restrictions on the executive's authority to expand spending. Nevertheless, they sustained its authority to shift public resources in the same line item. However, the constitutional amendments in 2007 granted parliament the authority to amend and increase public expenditure in the Executive's Budget Proposal, provided agreement with the government on sources of finance. These amendments also prevented the government from increasing public spending during the fiscal year before getting approval from parliament. However these constitutional amendments did not reflect in improved political accountability; they opened the door for the parliament to increase the common pool problem through collusion with government in order to increase targeted public goods and local projects, as illustrated in tables (4) and (5).

To conclude, we argue that the increased budget deficit during the period 2000-2010 is attributed to weaknesses in budgetary institutions and aggravated principal agents and common pool problems. The political environment during that period and electoral system were key factors in the intensification of the two problems.

The questions that should be raised here is: What about post-revolution Egypt? And, to what extent can we expect this trend to continue in light of recent constitutional and political changes? To answer this, the rest of the paper will evaluate the recent developments in the three interrelated variables: budgetary institutions, political fragmentation, and fiscal performance since the January 2011 revolution.

8. Political Fragmentation and Fiscal Performance in Post-Revolution Egypt

It should be mentioned that budgetary institutions in Egypt didn't witness fundamental changes since the January 2011 revolution. The new constitution adopted in 2014 keeps the parliament's right to amend the executive's budget proposal provided the agreement with the government on how to obtain required resources for finance (Egypt's Constitutions, article 124). However, it adds a new condition in this article that prohibits any proposed amendments to executive's budget draft that might place financial burdens on citizens. Nevertheless, we believe that substantial changes in the two other interrelated variables have been taking place, namely: the level of political fragmentation, and the deterioration in fiscal performance.

8.1 Remarkable political fragmentation

Following the January's 2011 revolution, Egypt's constitution was deactivated and the military council ruled Egypt for more than one year. In the beginning of 2012, legislative elections were held based on the new constitution that adopted a bicameral legislative system. The People's Assembly convened for just a few months before the Constitutional Court dissolved it. At the end of June 2012, President Mohamed Morsi was elected and ruled the country for one year.

Morsi tried to reactivate the People's Assembly; but he actually couldn't. As a result, the Consultative (Shoura) Council assumed legislative authority until the June 30 Revolution in 2013. The Military Council returned to rule the country and took on both the executive and legislative authorities from June 2013 to June 2014, until President Abdel Fattah El-Sisi was elected. The new constitution of 2014 had overridden the bicameral legislative system, and vested legislative authority in the House of Representatives. Based on the new constitution for 2014, the electoral districts law for 2015 divided Egypt into 205 electoral districts. The House of Representatives (the new name of parliament) joins a total of 596 members, from which 448 members are elected according to the individual seats system. Moreover, 120 members are elected based on the party-list electoral system. In addition, 28 members are appointed by the President of the Republic, representing 5% of the total number of parliament's seats.

It should be mentioned that the applied electoral list system is based on absolute electoral list not on relative one, whereby the party list that obtains 50 percent + 1 of a district's votes wins all the seats in that district. The majority of lists in the elections were composed of independent individuals and small ineffective parties. As such, the lists system in Egypt is similar to individual system and not list-based electoral systems which are applied in the advanced democracies. In addition, each list should include adequate representation of women, Christians, Egyptian who are working abroad, People with special needs, workers, and peasants which increase the correlation between candidates on those lists with voters and not allowing for the inclusion of a sufficient number of qualified people who are able to hold the government accountable (electoral districts law, 2015).

The above illustration clarifies that the absolute majoritarian electoral system applied in Egypt for both the individual and list seats does not differ from the system that was in place before January's Revolution. It is a kind of candidate – ballots' electoral systems not 'party-ballots' systems². The candidate – ballots' systems are based on political individualism and opportunism. Direct relationship between candidate and voters makes the top priority of MPs, is to increase public spending for their constituencies.

'Candidate-ballots' electoral systems tend to generate MPs who are highly responsive and accountable to local communities (Carey and Shugart, 1995). Such MPs have strong incentives to offer particularistic benefits, exemplified by the delivery of local services designed to strengthen their personal support (Norris, 2004; see also Cain, Ferejohn and Fiorina, 1987, Norris, 1997; Wessels, 1999). When checking the government's fiscal policy, this type of MPs would advance pork-barrel behavior³, prioritizing increased public spending on projects and infrastructure in their local constituencies at the expense of proper checking of overall budgetary performance, balance or credibility (see Stratmann and Baur, 2002; Lancaster and Patterson, 1990). In other words, their desire to get re-elected supersedes the desire – if it exists – to check the government. Such contexts would also create a situation where each MP tries to generate net benefits for the constituency by capturing on the total tax common pool under the imprecation of shared costs (von Hagen, 1998).

On the other hand, 'party-ballot' systems limit the relationship between candidates and voters. Once the personal connection between voters and MPs is loosened, MPs can be – in comparative terms – freed from the burden of constituency service and take up the task of checking government fiscal policies more efficiently. Table (3) summarizes total seats in parliament seats distributed among the categories of winners. The independents gained 54.5% of parliament's seats for both individual and list seats. The Support Egypt Coalition won 120-

²'candidate ballots' are electoral systems where voters cast a single ballot for an individual candidate). 'party-ballots' are electoral systems where voters cast a ballot for a party list.

³ An expression that indicates a particular type of constituency service which benefits the MP's geographic constituency (Ferejohn, 1974).

seats, 100% of the four lists nationwide. It is the block of independent public figures, as well as members of small parties that cannot compete on individual seats, in addition to a few number of members affiliated to the biggest parties such as Future of homeland, Liberal Egyptian, and the Nation's Guardians. Winners on the list of the Support Egypt Coalition include 74 independents and 46 affiliated to parties. The percentage of parties' seats is 40.8% distributed between 19 parties. Table (3) clarifies that the maximum percentage gained by Liberal Egyptians party. This percentage does not even constitute 11% of total parliament's seats.

The election results reflect that the parliament's structure is very fragmented in both structure and undesirable excessive in MPs. The Egyptian Parliament structure is individual based not party based. In this regard, the parliament standing orders of Egypt's House of Representatives adopted in March 2016 restricts constitution of parliament's coalitions. It states that the minimum requirement for MPs to constitute coalitions couldn't be less than 25% of parliament's total seats (standing orders of Egypt's House of Representatives, 2016). That condition constitutes a real obstacle to build any coalition other than the Support Egypt Coalition, which includes about 300 of MPs till now and which is perceived to replace the dissolved National Democratic Party (NDP) as a government supporter and promoter. However, we argue that the bad performance of this Coalition during the first two months of the ongoing session is remarkable in a way that weakens its probability to be a single-strong dominant coalition the way former NDP was. The one clear evidence was the failure of this coalition to pass the new civil service law. In addition, there are noticeable conflicts among the members in this coalition. Finally, the majority of MPs in this coalition were elected based on individual seats and have to be more aware of local services of their constituencies to be re-elected. Moreover, the parliament's performance during the very short ended period of the ongoing session identifies that the parliament prime is as well unable to keep discipline and control unacceptable MPs behaviors during sessions. On the other hand, we argue that the future cabinet wouldn't be consolidated as a result of lacking a majority party. This will exacerbate the problem of political fragmentation further and is expected to aggravate the common pool problem more and more.

8.2 Poor fiscal performance (2011-2016)

Since the uprising of 2011 and its successive economic and political adverse conditions, fiscal imbalances continued to exacerbate as a result of dramatic increases in: the non-discretionary expenses on wages and salaries (because of workers' strikes and demonstrations, appointment of temporary employees and applying minimum wage policy); subsidies and social benefits; and other social spending items. Figure (5) clarifies that that these expenses on wages and salaries; as well as subsidies and social benefits almost duplicated during the period 2008/2009-2014/2015. Their growth reached 97.4% during this period.

At the same time, taxes and public revenues declined significantly because of political and economic instability. Accordingly, overall budget deficit increased from 6.9% of GDP in FY2008/2009 to 12.8% of GDP for FY2014/2015 (Figure 6). As a result, the stock of budget entities' debt increased from 81% of GDP in June 2009 to 93.9% of GDP in June 2015 (Figure 6). Additionally, the share of interest payments increased from 15% of total expenses in FY2008/2009 to 28.2% in approved budget for 2015/2016 (Figure 8).

On the contrary, the most productive expenditure item (capital investment) as a discretionary expenditure, witnessed sharp decrease from 11.6% of total expenditure in FY2008/2009 to 6% FY 2014/2015 (Ministry of Finance, 2015).

In conclusion, economic and political instability resulted from uprising of two revolutions in Egypt (January's revolution 2011, and June's revolution 2013) during the last five years led to many adverse impacts on the budget deficit and fiscal performance.

9. The Future Path for Fiscal Performance in Egypt

As mentioned before, the three interrelated variables that shape the future path for fiscal performance in Egypt are: inherently weak budgetary institutions, substantial political fragmentation and already persistent poor fiscal performance. The important question that should be raised here is: To what extent will these interrelated factors affect potential fiscal performance adversely? In order to answer this question, we first analyze two socio-economic factors and two constitutional rights that constitute potential significant fiscal burdens. We argue that these factors and rights could lead to a substantial increase in public spending in the near future at the expense of the budget deficit.

9.1 Socio-economic factors

Aggravating poverty in rural governments is the first social factor that might affect budget deficit in Egypt. According to the national poverty line, the proportion of poor people has not witnessed a decline since 2004/2005 until 2012/2013 where the proportion of poor people rose from 19.6% in 2004/2005 to 21.6% in 2008/2009. This rise could be attributed to the economic, social, and political circumstances that were further reflected into a pressing financial and food crises, witnessed by the end of this period. With the outbreak of the events of January 25, 2011, the poverty rate jumped higher to 25.2% in 2010/2011 and then to 26.3% in 2012/2013, with a rise of 22% in the poverty rate compared to what it was in 2008/2009. This means that there are about 21.7 million people unable to obtain their basic food and non-food needs (UNDP and Ministry of Planning, 2014). Indicators clarify that rural poverty in Egypt is still aggravating, particularly in Upper Egypt. About 57 percent of Egypt's population lives in rural areas. Rural poverty is three times higher than urban poverty and more than 80 percent of the extremely poor live in Upper Egypt, which is home to about half of Egypt's population. By focusing on the poverty rates in the governorates data for FY2012/2013, it was revealed that the largest proportion of the poor is found in Assiut (60%), then Qena (58%), followed by Sohag (55%), then Luxor (47%), then Beni Suef and Aswan (39%), followed by Fayoum and Giza, Menya (63%) and (32%) and (30%), respectively. This confirms high rates of poverty in Upper Egypt governorates where all nine governorates in Upper Egypt are considered the poorest governorates in Egypt (The Central Agency for Public Mobilization and Statistics (CAPMAS, 2015)). Despite this aggravating poverty, there is a clear cut in local investments budget after the January 2011 revolution. As explained above, investment expenditures have been decreased from 13.9 % in FY2003/2004 to only 6.1% of total expenditure in FY2014/2015 (Ministry of Finance database, 2015). Accordingly, most of local investments projects stopped or witnessed noticeable delays in implementation process. Especially with the direction of government towards giving MEGA projects top priorities in the national plan. Figure (9) clarifies Public investment trends in FY 2014/15 *Plan.

Additionally, 2015/2016 national plan stresses the need to give priority to MEGA projects, as planned and promised in the Presidential Program; this includes, the Suez Canal, the development of a million acres in Toshkh, Farafra, west of Minya, and el Maghara, the completion of the fourth and fifth phases of the subway (Metro), and finally the development of the Western North Coast (Ministry of Planning, national plan for FY2015/2016). However, it is needless to say that the impact of all these projects is not directly reflected on the standard of living of poor people in the short run. Oppositely it usually comes at the expense of local social investments such as, drinking water, and sanitation projects in villages, improving irrigation networks in the Egyptian countryside, paving local roads and the development of slums and other necessary services that are more crucial to the improvement of the quality of life in rural areas.

9.2 Constitutional rights

The new constitution commits the government to allocation of an annual percentage of GNP not less than 3% for spending on health and increasing this percentage gradually so as to comply with international rates. It also commits it to the establishment of a comprehensive health insurance system for all Egyptians that covers all diseases. This is in addition to allocation of an annual percentage of not less than 7% of GNP for spending on education and scientific research and increases this percentage gradually so as to comply with international rates (Egypt's constitutions, 2014). Apparently, fulfillment of these rights adds financial obligation on annual budget appropriations.

On the other hand, the condition added to article no (124) of the new constitution forbids any proposed amendments on the executive's budget draft that might place financial burdens on citizens. Precisely, this condition forbids the parliament from proposing any amendments in taxes laws and duties regulations in order to finance proposed increase in public expenditure. Conversely, the mentioned article grants the annual budget law the right to amend any effective law to obtain revenues that achieve balance between resources and expenditure. We argue that this condition might lead to expanding borrowing as the only way to finance proposed increases in public expenditure in approval stage of budgeting.

To conclude, in addition to the inherent challenges in interrelated institutional- political- fiscal variables that shape future path for fiscal performance in Egypt, socio-economic factors and constitutional rights that could lead to an added substantial increase in public spending in the near future at the expense of budget deficit and fiscal sustainability.

10. Conclusion and Policy Recommendations

Political environment in Egypt during the last two decades has been fertile enough to aggravate both principal-agent problem and common pool problems. During 2000-2010 weaknesses in budgetary institutions in Egypt, electoral system and dominance of ruling party (National Democratic Party) on the parliament were main factors in hindering political accountability and aggravating budget deficit. In this regard, many sources of Principal-agent and common pool problems were created. Despite the fact that budgetary institutions in Egypt suffer from many weaknesses in transparency, credibility, and comprehensiveness' rules, the most striking weakness in these institutions that opened the floodgates to exacerbate fiscal imbalances was the violation of the golden rule in 2005. Moreover, while the principal-agent problem evolved more from the executive authority; the common pool problem resulted from the parliament system and practices. The principal-agent problem evolved since 2000 as a result of the expanding practices of using off-budget expenses and the lack of transparency in financial relations between budget and public economic authorities. Despite the separation of economic authorities from the budget in 1979, they are still the key arm for government in providing subsidies and financial support. We confirm here that a significant ratio of fiscal deficit and public debt that is excluded from the budget deficit is hidden inside the financial losses of these economic authorities, especially because of the difference in applied accounting bases.

On the other hand, the common pool problem was contained to a great extent until 2005, at least from the side of parliament, due to an effective top-down approach and strong centralization of the budget Process. During this period, the parliament didn't have the right to modify the executive's budget draft. On other side, ministers of finance and planning enjoyed nondiscretionary authorities over the budget and their right to make sharp cuts to the appropriations proposed from line ministers. Procedural rules applied in Egypt till 2004/ 2005 took the form of delegation, whereby the MoF is the "agenda setter" and the minister of finance was delegated the power of determining of total spending and, hence, coordinating with all spending ministers to reach the total magnitude of spending as well as its allocation.

Budgetary institutions in Egypt didn't witness fundamental changes since the January 2011 revolution. The new constitution adopted in 2014 maintains the parliament's right to amend the executive's budget proposal, provided the agreement with the government on how to obtain required resources for financing. However, it adds a new condition that prohibits any proposed amendments to the executive's budget draft that might place financial burdens on citizens.

On the other hand, the level of political fragmentation witnessed substantial change in post-revolutionary Egypt. Based on the parliamentary elections, the parliament's structure is very fragmented when it comes to both structure and an undesirable and excessive number of MPs. The parliament structure is individual based not party based. Added to high fragmentation of MPs is the bad performance of the parliament in general, whether related to discipline or related to the efficiency of outcomes of parliamentary sessions.

Naturally, fiscal performance in post-revolutionary Egypt witnessed remarkable deterioration. Economic and political instability resulted from two revolutions in Egypt (January revolution 2011, and June revolution 2013) during the last five years led to many adverse impacts on the budget deficit and fiscal performance as a result of dramatic increases in: the non-discretionary expenses on wages and salaries (because of workers' strikes and demonstrations, appointment of temporary employees and applying minimum wage policy); subsidies and social benefits; and other social spending items.

In addition to the inherent challenges in interrelated institutional-political-fiscal variables that shape the future path for fiscal performance in Egypt, there are socio-economic factors and constitutional rights that could lead to substantial increases in public spending in the near future at the expense of budget deficit and fiscal sustainability. In line with poverty aggravation, especially in rural Egypt, there is a clear cut in the local investments budget after the January 2011 revolution. Investment expenditures have been decreased significantly. Additionally, the new constitution commits the government to allocation of an annual percentage of GNP not less than 3% for spending on health and increases this percentage gradually so as to comply with international rates. It also stipulates the establishment of a comprehensive health insurance system for all Egyptians that covers all diseases. In addition, it allocates an annual percentage of not less than 7% of GNP for spending on education and scientific research and increases this percentage gradually so as to comply with international rates. Apparently, fulfillment of these rights adds financial obligation on annual budget appropriations. In addition, the new constitution forbids any proposed amendments to the executive's budget draft that might place financial burdens on citizens. We argue that these conditions might lead to expanding borrowing as the only way to finance proposed increases in public expenditure in approval stage of budgeting.

Based on this, fiscal policy in Egypt is a real puzzle that results from the inability of government and parliament to identify and coordinate priorities of public expenditure. When it comes to public investments that have seen a sharp decline in favor of current expenses, should investments be directed to local investments projects (parliament's priority)? or to MEGA projects (government's commitments)? In the same manner, should current expenses, which have already escalated at the expense of the budget deficit, be increased to alleviate poverty and fulfill constitutional rights for people ((parliament's priority)? or be decreased to control, the already poor, fiscal performance? On the other hand, should increases that might be proposed in approval stage of budgeting be financed by borrowing only (constitutional commitment on both parliament and government) and harm fiscal sustainability? or be tight to keep fiscal prudence (responsibility of both parliament and government)? In other words, In case of reconciliation between parliament and government, do the ongoing economic and political conditions necessitate adoption of expansionary fiscal policy or is it the right time for Egypt to adopt very tight fiscal policy to improve, the already poor, fiscal performance?

Furthermore, there are a set of economic challenges that expand the puzzle of fiscal policy in Egypt nowadays. In brief, foreign currency pressures external debt and government imports on the one hand and on exports and Egypt's foreign currency reserves on the other hand. In addition, the significant declines in tax revenues results from deterioration in both national investment and FDI.

How can government solve this puzzle? We recommend a set of urgent and medium term reforms to budget institutions that could maintain fiscal prudence in Egypt. However, the reviewed literature agrees on the fact that more hierarchical institutions (the delegation approach) tend to promote fiscal discipline and are usually associated with lower primary deficits, particularly in situations of high government fragmentation. It is apparent that the fiscal contract approach should continue to be applied in Egypt at the approval stage of budgeting to absorb political diversity. It is difficult for a coalition government to work under a strong finance minister, since the latter necessarily comes from one of the coalition parties. Vesting him with special authorities raises concerns among the other parties about fair treatment of their spending preferences in the budget process. The principal-agent problem emerging in coalition governments certainly increases the ideological dispersion of the government and the degree of competition in the process of coalition formation. The obstacles to delegation are high when political preferences in a governing coalition are highly dispersed or the process of government formation is competitive, with frequently changing coalition partners even if fractions of the previous coalition stay in power -- after the election, a new governing coalition could possibly form.

However, it should be emphasized here that the contract approach at the budgeting approval stage during 2005-2010 was effective in Egypt based on constituting the government from one party (NDP) that had the majority in parliament. During the period 2005-2010, the minister of finance placed a deficit ceiling and appropriated nondiscretionary spending items. Accordingly, and based on the ongoing political fragmentation in parliament and potential fragmentation in future government structure, applying a contract approach at approval budget stage without supportive fiscal rules would be very harmful for fiscal prudence.

As mentioned above, the fiscal contracts approach puts less emphasis on constraining legislative budgetary amendments and more emphasis on the legislature's role in monitoring the compliance of the the executive's budget with the fiscal targets, by giving the legislature significant rights to demand budgetary information from the executive. Accordingly, we propose three urgent procedures that could help in controlling the budget deficit and maintaining fiscal prudence. The first procedure is applying a top-down approach during the budget vote to be over two separate stages. We emphasize that this two-stage procedure in the budget vote is more relevant in case of applying the contract approach in approval phase of budgeting. In the first stage of the budget vote the parliament votes on the fiscal aggregates. And in the second stage the parliament votes on the allocation of resources to different sectors. The other important factor that emphasizes the necessity of modifying the budget vote is the administrative fragmentation in Egypt, which constitutes a substantial challenge for budget comprehensiveness. It refers to the excessive increase in the number of budget authorities. The budget in Egypt includes more than 650 budget authorities; each of these authorities has to prepare and discuss its budget with the Ministries of Finance and Planning. The increase in budget authorities leads to more fiscal fragmentation and inefficient use of public resources.

The other crucial procedure that should be urgently adopted is applying balanced budget rules or at least reactivating the golden rule to control current budget deficit. The third procedure is limiting off budget expenses. Fiscal relations between budget and economic authorities should be transparent and documented in the budget explicitly to reveal the real annual values of public expenditure and the budget deficit. In this regard, however, budget preparation and

implementation based on a fully cash accounting base, documenting the total values of transfers that accrued to economic authorities, is a crucial procedure.

In addition to urgent reform procedure, the paper emphasizes a set of crucial reforms to budgetary institutions in the medium term in order to enhance budget transparency, credibility and comprehensiveness. The first one is the necessity of complementing the line-item budgeting approach through adopting program-based budgeting and a medium-term framework of budgeting. Reforming administrative fragmentation is crucial in that regard. However, the budget dualism problem was insignificant with the delegation approach, and might be a major challenge with the contract approach. As such, government has to tackle this problem.

Finally, the efficient use of public resources requires that budgetary-institution reforms be in line with developing the electoral system in Egypt to more of a proportional system, in addition to activating the role of elected local councils.

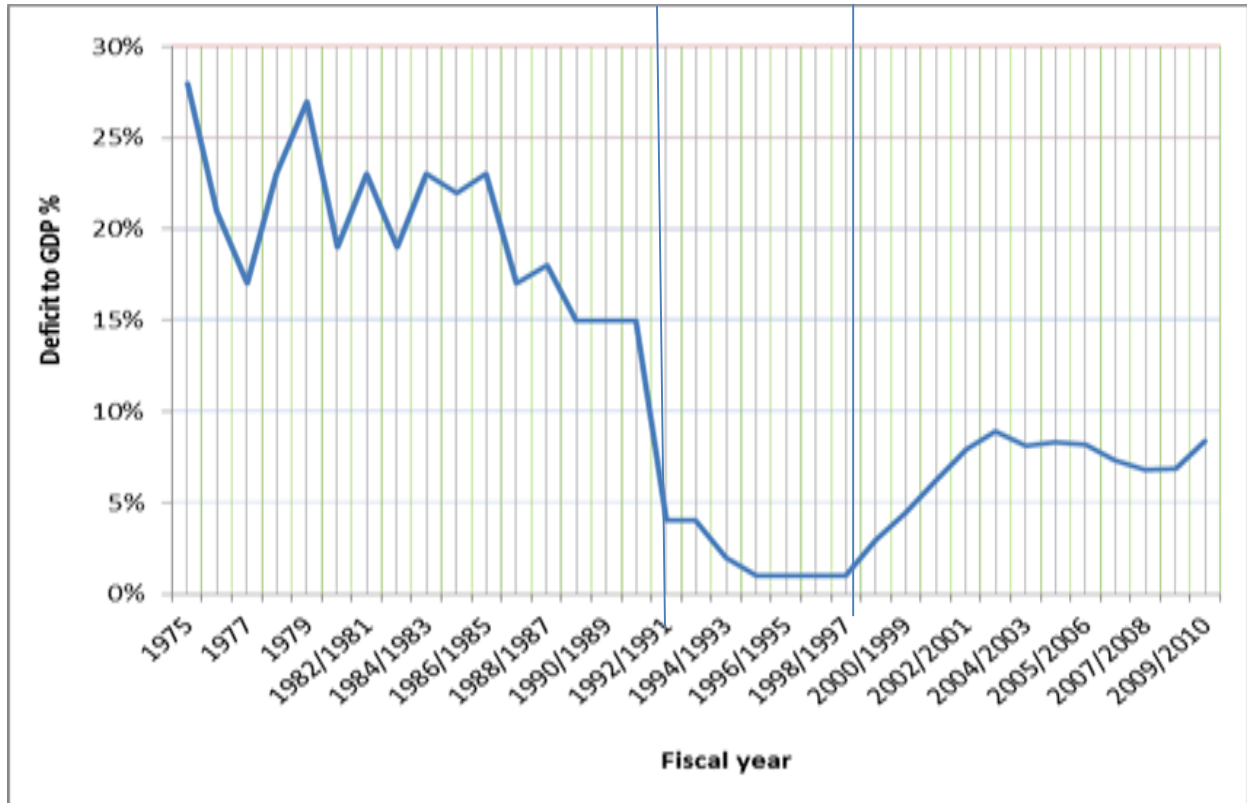
References

- Abdellatif, Lobna Mohamed Zaky; Mazen Hassan; and Noha Youssef. 2015. Transparency Puzzle: Applying a 3Ds' Approach for Tracking the Action Cycle in Egypt, Economic Research Forum for Middle East and North Africa (ERF), 2015.
- Aghion, Philippe, Alberto Alesina, and Francesco Trebbi. 2004. "Endogenous Political Institutions" *Quarterly Journal of Economics*, 119, May, 565- 612.
- Alesina Alberto and Roberto Perotti, 1994. "The Political Economy of Budget Deficits", *NBER working paper series*, WP 4637, National Bureau of Economic Research.
- _____, 1995. The Political Economy of Budget Deficits, IMF Staff Papers Vol. 42, No. 1.
- _____, 1999. "Budget Deficits and Budget Institutions", in: James M. Poterba and Editors, *Fiscal Institutions and Fiscal Performance*, NBER.
- Cain, Bruce, John Ferejohn, and Morris Fiorina. 1987. *The Personal Vote: Constituency Service and Electoral Independence*. Cambridge, MA: Harvard University Press.
- Carey, John, and Matthew Soberg Shugart. 1995. "Incentives to cultivate a personal vote: A rank-ordering of electoral formulas." *Electoral Studies* 14(1), pp. 417-40.
- Dabla-Norris, Era, Richard Allen, Luis-Felipe Zanna, Tej Prakash, Eteri Kvintradze, Victor Lledo, Irene Yackovlev, and Sophia Gollwitzer, 2010. "Budget Institutions and Fiscal Performance in Low-Income Countries" IMF *Working Papers*, WP 10/80, International Monetary Fund.
- Egypt's Budget Law No. 73 for 1973 and its Successive Amendments Enacted by Law No 79/1979, Government Accounting Law No. 127/1981, and Law No. 87/2005.
- Egypt's Constitutions for the Years 2007, 2012, 2014.
- Egypt's Electoral Districts Law, 2015.
- Egypt's Supreme Committee for Elections, 2015.
- Fabrizio, Stefania and Ashoka Mody, 2006. "Can Budget Institutions Counteract Political Indiscipline?", IMF Working Papers, wp/06/123.
- Gleich, Holger, 2003. "Budget Institutions and Fiscal Performance in Central and Eastern European Countries", Working Paper Series, WP 215, Central European Bank.
- Gollwitzer, Sophia, 2010. "Budget Institutions and Fiscal Performance in Africa", *Credit Research Paper*, no. 10/02.
- Haan, Jakob, Richard Jong-A-Pin, Jochen O. Mierau, 2013. "Do Budgetary Institutions Mitigate The Common Pool Problem? New Empirical Evidence for the EU", *Public Choice*.
- Hagemann, R., 2011. "How Can Fiscal Councils Strengthen Fiscal Performance?" *OECD. Journal: Economic Studies*, 2011(1): 75-98.
- Hallerberg ,Mark, Rolf Strauch and Jürgen von Hagen, 2004. The Design of Fiscal Rules and Forms of Governance In European Union Countries, European Central Bank, working paper series, no 419, December 2004.
- Hallerberg, Mark & Strauch, Rolf & von Hagen, Jürgen, 2007. "The Design of Fiscal Rules and Forms of Governance in European Union Countries," *European Journal of Political Economy*, Elsevier, vol. 23(2), pages 338-359, June
- Hallerberg, Mark and Jiirgen Von Hagen, 1999. "Electoral Institutions, Cabinet

- Hallerberg, Mark, Rolf Strauch and Jürgen von Hagen, 2004. "The Design of Fiscal Rules and Forms of Governance in European Union Countries", *Working Paper Series*, European Central Bank.
- Hallerberg, Mark, 1996. "The Common Pool Problem in European Parliaments: The Interrelationship of Electoral and Legislative Institutions", Mannheim Zentrum für Europäische Sozialforschung, Mannheim.
- Hallerberg, Mark, and Jürgen von Hagen. 1999. "Electoral Institutions, Cabinet Negotiations, and Budget Deficits within the European Union." in Poterba, James, and Jürgen von Hagen, Eds. *Fiscal Institutions and Fiscal Performance*. Chicago: University of Chicago Press, 209-232.
- Hallerberg, Mark. 1997. "The Common Pool Problem in European Parliaments: The Interrelationships of Electoral and Legislature Institutions." *European Community Studies Association Meetings*, Seattle, Washington.
- IMF, 2014. "Budget Institutions in G-20 Countries: An Update", *IMF Policy Paper*, International Monetary Fund.
- Kontopoulos, Yianos and Roberto Perotti, 1999. "Government Fragmentation and Fiscal Policy Outcomes: Evidence from OECD Countries", in: James M. Poterba and Editors, *Fiscal Institutions and Fiscal Performance*, NBER.
- Lancaster, Thomas, and William Patterson. 1990. "Comparative pork barrel politics: perceptions from the West-German Bundestag." *Comparative Political Studies* 22(4), pp. 458-77.
- Ministry of Finance, Financial Statement on Draft State's General Budget for the Fiscal Year/2016.
- Ministry of Planning, 2014, National Plane for FY 2014/2015.
- Ministry of Planning, 2015, National Plane for FY 2015/2016.
- Mulas-Granado Carlos, Jorge Onrubi, Javier Salinas- Jimannez, 2009. "Do Budget Institutions Matter?: Fiscal Consolidation in the New EU Member States" *Eastern European Economics*, M.E. Sharpe, Inc, Vol 47 (1), Page 60-91.
- Norris, Pippa. 1997. "The Puzzle of Constituency Service." *The Journal of Legislative Studies* 3(2), pp. 29-49.
- Norris, Pippa.. 2004. "*Electoral Engineering: Voting Rules and Political Behaviour*". New York: Cambridge University Press.
- Persson, T. and G. Tabellini, 2003. *The Economic Effects of Constitutions*. Cambridge, MA: MIT Press.
- _____, 2004. "Constitutional Rules and Economic Policy Outcomes" *American Economic Review*.
- Torsten Persson, Gerard Roland and Guido Tabellini. 2007. "Electoral Rules and Government Spending in Parliamentary Democracies", *Quarterly Journal of Political Science*: Vol. 2: No. 2, pp 155-188.
- Poterba, James M. and eds. 2008. "Fiscal Institutions and Fiscal Performance", NBER, PP 209-232. Prakash and Cabezon.
- Raudla, Ring, 2010. The Evolution of Budgetary Institutions in Estonia: A Path Full of Puzzles?, *Governance: An International Journal of Policy, Administration, and Institutions*, Vol. 23, No. 3,

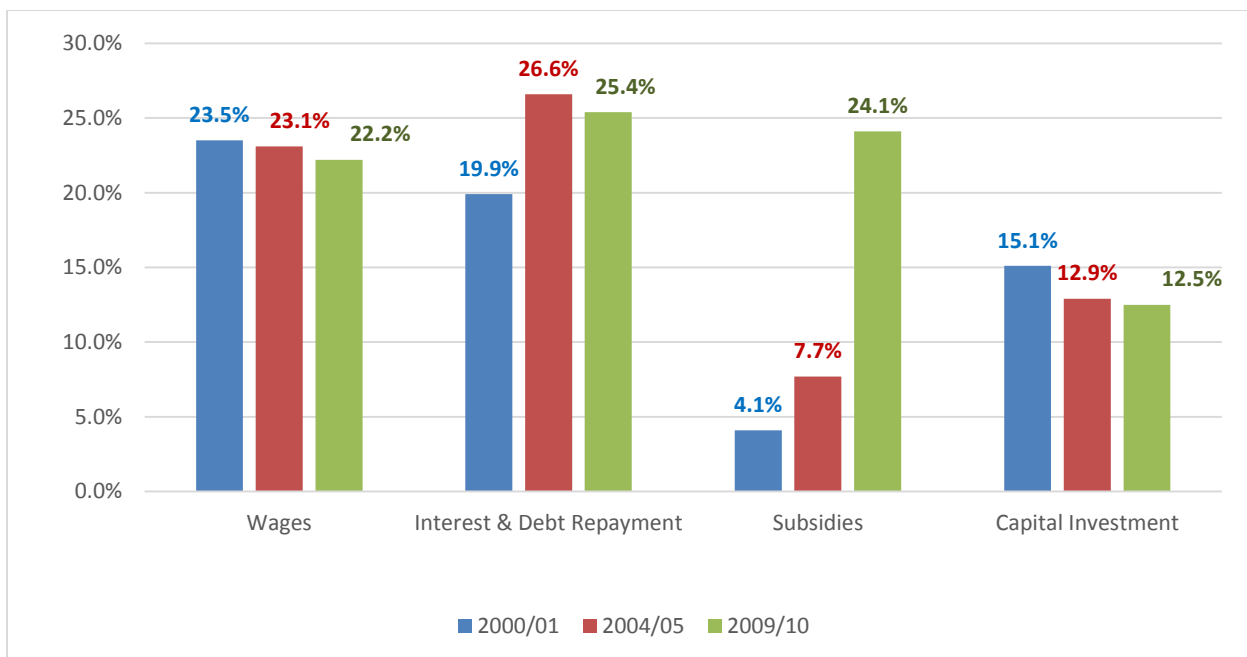
- Shah, Anwar, 2006. "Budgeting and Budget Institutions", *Public Sector Governance and Accountability Series*, The World Bank.
- Stratmann, T., and M. Baur. 2002. "Plurality Rule, Proportional Representation, and the German Bundestag; How Incentives to Pork-Barrel Differ Across Electoral Systems." *American Journal of Political Science* 46(3), pp. 506-14.
- The Central Agency for Public Mobilization and Statistics (CAPMS) Database, 2015. Egypt.
- UNDP and Ministry of Planning, 2014. Egypt's Progress Towards Millennium Development Goals, (www.printright.biz).
- Velasco, Andres, 1997. "A Model of Endogenous Deficits and Fiscal Reforms", *NBER Working Paper Series*, WP 6336, NBER.
- Von Hagen J. 2008. Political Economy of Fiscal Institutions. In Barry Weingast and Donald Wittman , eds., *Oxford Handbook of Political Economy*, Oxford: Oxford University Press.
- Von Hagen, 1998. "Budgeting Institutions for Aggregate Fiscal Discipline." ZEI Policy Paper No. B98-01, Bonn: Center for European Integration Studies.
- Von Hagen, J. 2007. Budgeting institutions for better fiscal performance. In A. Shah, (Ed.), *Budgeting and budgetary institutions*. Washington, DC: The World Bank.
- Von Hagen, Jurgen & Harden, Ian J., 1995. "Budget Processes and Commitment to Fiscal Discipline," *European Economic Review*, Elsevier, vol. 39(3-4), pages 771-779, April.
- Von Hagen, Jürgen, 2005. "Fiscal Rules and Fiscal Performance in the EU and Japan", *Discussion Papers*, No. 2005-E-5, Institute for Monetary and Economic Studies, Bank of Japan.
- Wehner , Joachim, 2006. "Assessing the Power of the Purse: An Index of Legislative Budget Institutions", *Political Studies: 2006 vol 54*, 767–785
- Wessels, Bernhard. 1997. "Germany." In Pippa Norris (Ed.) *Passages to Power: Legislative Recruitment in Advanced Democracies*. Cambridge: Cambridge University Press.
- Whener, Joachim, 2006. "Assessing the Power of the Purse", *Political Studies*, Vol. 54, 767-785

Figure 1: Budget Deficit Ratio to GDP



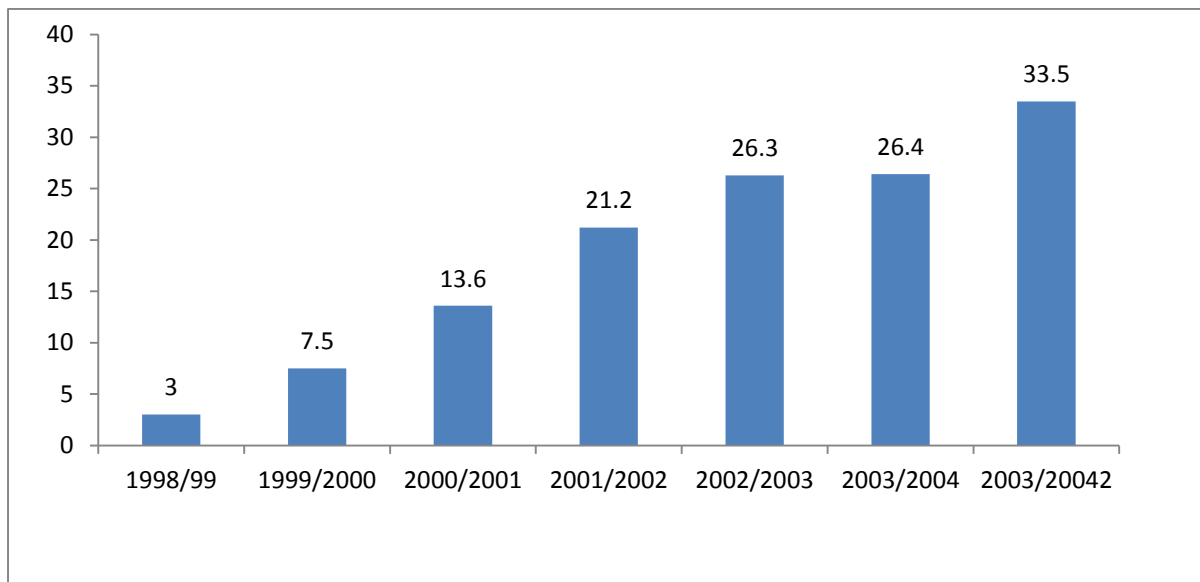
Source: Egypt's Ministry of Finance database.

Figure 2: Structure of Total Expenditures by Line Item (%)



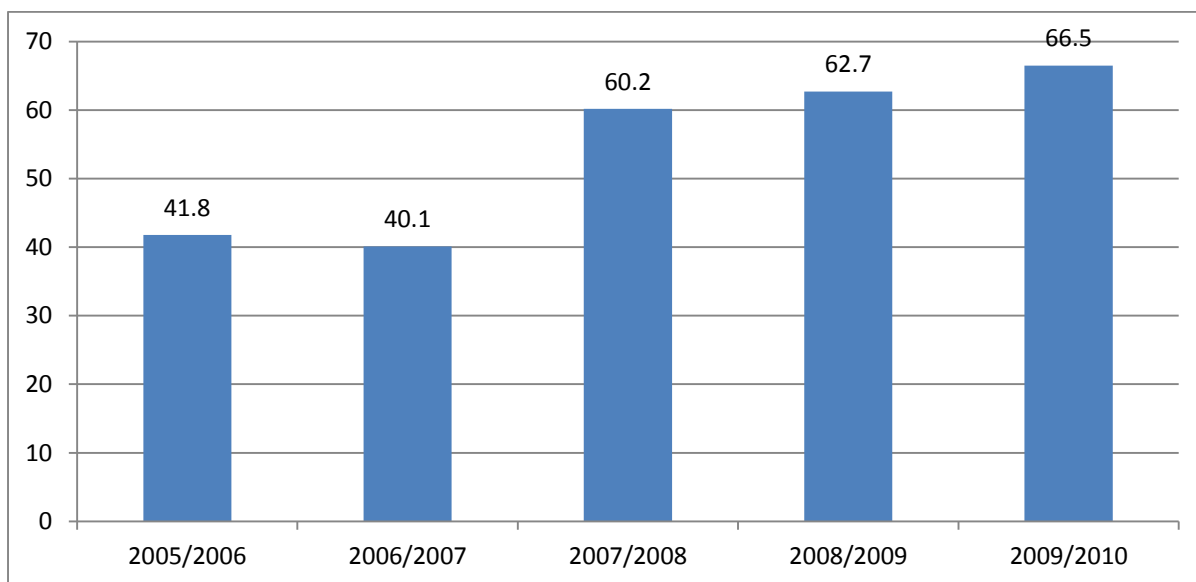
Source: MoF, Final Accounts, different years.

Figure 3: Budget's Operation Deficit in Egypt (1998/99-2003/2004)



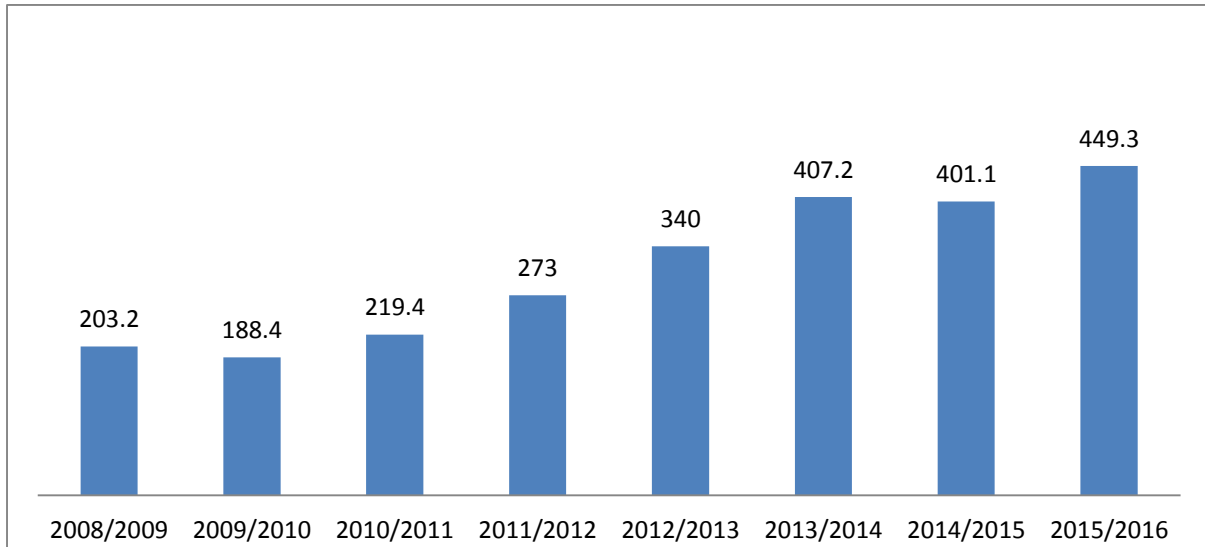
Source: Ministry of Finance Database.

Figure 4: Annual Values of Petroleum Product Subsidy (2005/2006 - 2009/2010)



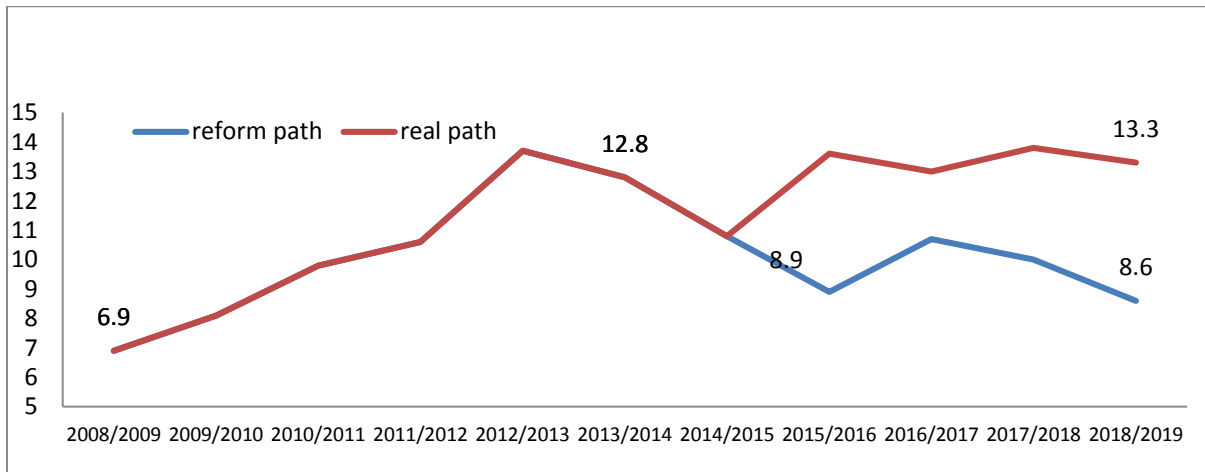
Source: Ministry of Finance Database.

Figure 5: Expenses on Wages and Salaries, Subsidies and Social Benefits



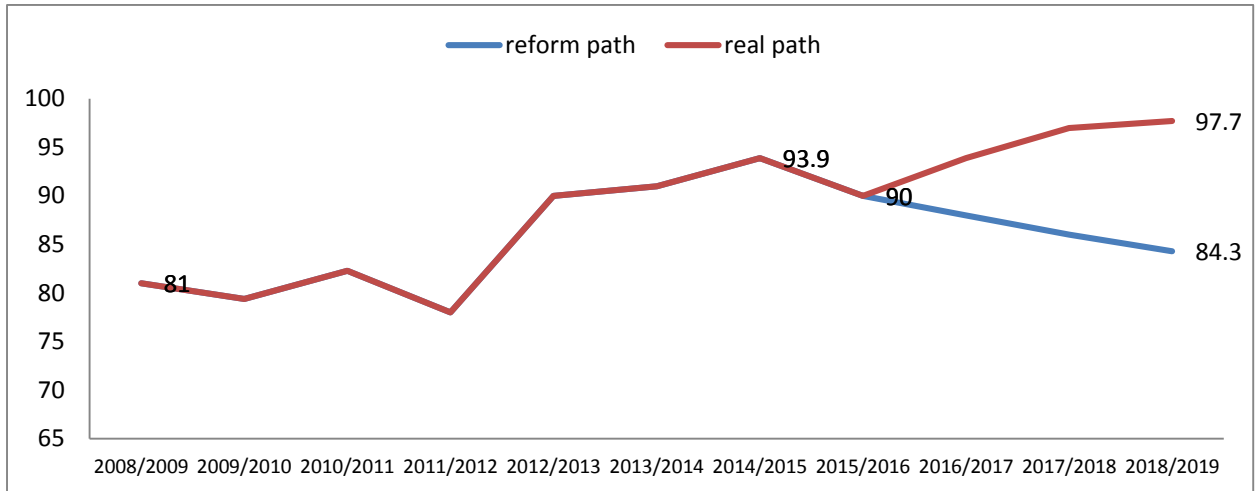
Source: Ministry of Finance; financial statement on draft state's general budget for the fiscal year 2015/2016.

Figure 6: Overall Deficit % of GDP



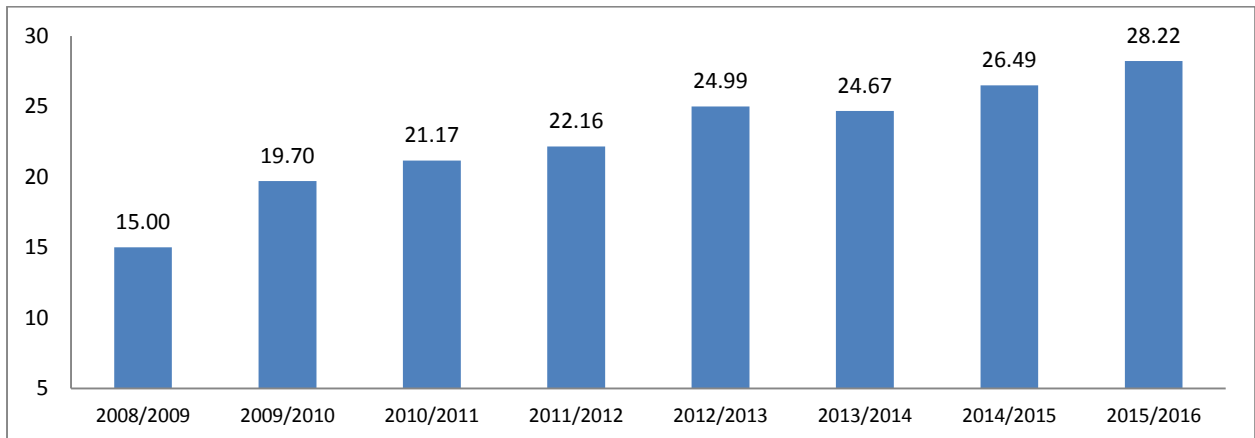
Source: Ministry of Finance; financial statement on draft state's general budget for the fiscal year 2015/2016.

Figure 7: Budget Entities' Debt % of GDP



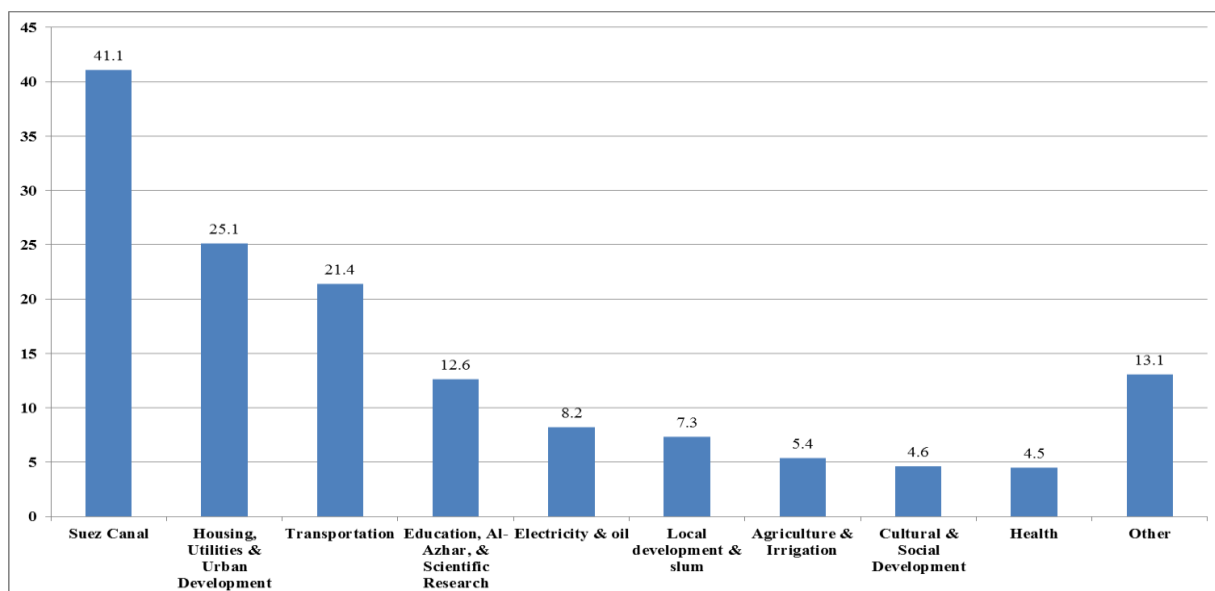
Source: Ministry of Finance; financial statement on draft state's general budget for the fiscal year 2015/2016.

Figure 8: Interest Payments % of Total Expenses



Source: Ministry of Finance; financial statement on draft state's general budget for the fiscal year 2015/2016.

Figure 9: Public Investments Distribution on Sectors in 2014



Notes: *Including government, economic institutions, and economic units' investments that do not follow Law No. 203 of 1991.
Source: Ministry of Planning, 2014.

Table 1: Budget Institutions Index Aggregate Results

Phases/ criteria	Centralization	Rules & controls	Sustainability & Credibility	Comprehensiveness	Transparency	Total phase index	
planning and negotiation	0.88	0.13	0.33	0.31	0.63	0.45	
Approval and enacting	0.75	0.50	0.88	0.58	0.25	0.59	
Implementation and monitoring.	1.0	0.50	0.75	non	0.50	0.69	
Total criteria index	0.88	0.38	0.65	0.45	0.46	Total phases score 0.58	Total criterion score 0.56

Source: authors calculations depending on Gollwitzer (2010) five assessment criteria.

Table 2: Political Structure of Parliament of Egypt in Sessions 2000 and 2005

Party	Seats 2000*		Seats 2005**	
	number	%	Number	%
National Democratic Party	388	85.8	330	72.7
<i>Al-Wafd</i> Party	7	1.5	5	1.3
<i>Tagammu</i> (Association) Party	6	1.3	1	0.2
Nasserist Party	3	0.7	0	0
<i>Al-Ahrar</i> Party	1	0.2	0	0
<i>El Khad</i> (Tomorrow) Party	0	0	1	0.2
Independents (Muslim Brothers)	17	3.8	88	19.4
Independents	20	4.4	19	4.1
Appointed MPs	10	2.2	10	2.1
Total	452	100.0	454	100

Source: Egypt's House of Representatives, Data for Members of Parliament in session of 2000 – 2010

Table 3: Total Seats of Parliament Distributed on the Categories of Winners

The Party	Individual seats	List seats	Total	% of Total
Liberal Egyptian	57	8	65	10.9
Future of homeland	43	10	53	8.9
New Wafd	27	6	33	5.5
The Nation's Guardians	10	8	18	3.0
Republican people	13	0	13	2.2
Conference	8	4	12	2.0
The Salafist Nour	11	0	11	1.8
Conservative	1	5	6	1.0
Modern Egypt	3	2	5	0.8
Democratic Peace	5	0	5	0.8
Egyptian Social Democratic	4	0	4	0.7
The Nationalist Movement	4	0	4	0.7
The Freedom	3	1	4	0.7
My Homeland Egypt	3	0	3	0.5
Reform and Development	1	2	3	0.5
Arab Democratic Nasserist	1	0	1	0.2
The Free Egyptian Edifice	1	0	1	0.2
The Tevolution's Guardians	1	0	1	0.2
Al Tagamoa	1	0	1	0.2
Total	197	46	243	40.8
Independents	251	74	325	54.5
Appointed			28	4.7
Total			596	100.0

Source: The Supreme Committee for elections, 2015.

Annex 1: The Budget Institutions Index in Egypt

Phase	Centralization	Egypt Score	Rules and Controls	Egypt Score	Sustainability and Credibility	Egypt Score	Comprehensiveness	Egypt Score	Transparency	Egypt Score	total phases index
Phase (1): Preparation and Negotiation Phase	Legal vesting of power: Presence of a single agency with responsibility of preparing the budget	1	Presence of fiscal rules	0	Multi-annual expenditure plans	0	Dual budgeting	0			0.454
	Agenda setting: presence of a top-down process of budget formulation	0.75	Sector budget ceilings: line ministries subject to expenditure ceilings	0.25	Macro-fiscal frameworks	0.75	Size of off-budget items/scale of extrabudgetary expenditures	0	Clarity of roles and responsibilities	1	
					Sectoral frameworks	0.25	Inclusion of aid	0.5	Publication of draft budget	0.5	
							Inclusion of debt	0.75	Publication of macroeconomic forecasts and assumptions	0.5	
									Information on macroeconomic risks	0.5	
Total phase 1 score		0.875		0.125		0.333333		0.3125		0.625	
Phase (2): Budget Approval	Limit of power of legislature to amend budget	0.5	Time limit on approval of budget	0.5	Scope of approval: extent of legislature scrutiny of fiscal policy and budget	1	Voting sequence	1	Public hearings on overall budget policy	0.25	0.592
			Procedure in case of failed approval	0.5	Capacity available for the budget issues at the legislature	0.75	Scope of budget documentation presented to legislature	0.5			
	Executive veto	1					Hearings/votes on individual budgets	0.25	Public hearing on individual budgets	0.25	
Total Phase 2 score		0.75		0.5		0.875		0.58333		0.25	
Phase (3): Budget Implementation	Disbursement specification: how detailed are the spending appropriations received by spending ministries.	1	Audit body	0.25	Re-allocation of funds between programs and units	0.75			in year report	0.5	0.75
	Authority of national president in the implementation of budget		controls on spending commitments						Detail of year-end report	0.75	
			Flexibility to increase	0.75							

Phase	Centralization	Egypt Score	Rules and Controls	Egypt Score	Sustainability and Credibility	Egypt Score	Comprehensiveness	Egypt Score	Transparency	Egypt Score	total phases index
					Inter-period transferability of funds	0.75					
			Sanctions for poor performance	0.5					Publication of performance targets	0.25	
Total Phase 3 score		1		0.5000		0.75				0.5	0.688
Total category index		0.875		0.375		0.653		0.448		0.458	
overall categories score											0.562
overall phases score											0.578