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Principal Agent Theory Means Fiscal and Budgetary Transparency: Egypt

If citizens are the principals and the government is the agent, then the agent should definitely be as transparent as can be about its sources and uses of funds. The Principal Agent Theory is a traditional conservative theory first utilized to describe the relationship between top level managers and shareholders in a private sector economic enterprise. The managers are contracted by the agents to manage their monies on their behalf. The theory was not without its own set of criticisms, where it was pointed out that the agent may not always be acting in the interest of the principals, but rather trying to pursue his or her self-interests instead. Things became more complicated when the Principal Agent Theory was used to explain relations in the public sector since there may be diverse principal (citizen) groups with various interests and each group may try to pressure the agent (government) in different ways. **To resolve the dilemma of an agent possibly deviating from the interests of the principals, several alternative solutions are proposed. The least challenging of which is asking the agent to be as transparent as possible about the national budget, deemed as the most important policy document.**

In the public budgeting context, there are a lot of advocacy efforts calling for greater budget transparency. How far have these efforts reached in different parts of the globe, including Egypt, and with what level of effectiveness?

International Budget Partnership's Open Budget Survey ranks countries based on the level of citizens participation in the national budget process. While OECD countries are top performers in that regard, MENA region countries are some of the worst performers. Amongst the requirements of full budget transparency are: the availability of budget information, accessibility of information that is understandable, the detailed explanation of each revenue and expenditure item, classification of expenditures by functional categories, and the issuance of a year-end report, getting it audited by the Central Auditing Body and then releasing it to the public within six months maximum.

If we look at the case of Egypt, we note that Egypt realized significant improvements in budgetary transparency over the years 2010-2019. Egypt is reportedly ranking 61/117 countries in the 2019 International Open Budget Survey, up from 65th place in 2017, and now together with Morocco occupies second place to Jordan in the MENA region. The Egyptian Ministry of Finance publishes a Budget Transparency Brief titled, "A Guide to Egypt's State Budget." The brief provides an explanation of the budget cycle, process and guiding laws. In the first paragraph, the brief states that the budget serves as an accountability tool that can be used by citizens to make sure the government is allocating resources in accordance with their designated priorities. Once the budget is finalized and published on the Ministry's website, a simplified version referred to as the, "Citizen's Budget," a practice started since 2010, is also made available, with the purpose of enabling citizens to understand how the budget is structured. Mention on the Ministry of Finance website is also made of a planned, "Participatory budgeting," process to be implemented gradually over the next three years with more space given to civil society, ministries, parliament and other stakeholders to have a say.

However, despite the improvement in Egypt in terms of budgetary transparency rankings, there are still problems related to full awareness of the sources and uses of funds for at least three different reasons:

- *Overall Low Budgetary Transparency Score:* In 2019, Egypt was scored 43/100 in terms of budget transparency. This is a score that reflects the extent of the public knowledge about how the government raises and uses funds and is different than the country's overall ranking. Any score below 61/100 shows that the public did not have timely access to necessary budgetary documents, either because these documents were made available after the fact, or were not

published at all. The Citizens' Budget gets to be published three months late and the Audit Report prepared by the Central Auditing Agency is not publicly shared.

- *Need for more Detailed Functional Breakdown of Budgetary Expenses:* Only recently has the government reportedly announced starting the preparation of functional budgeting reporting, where citizens can get to know how much is spent on health, education, social protection, etc. and this gets reported on in the Citizen's Budget. However, this functional reporting gives aggregate figures.
- *Need for more Fiscal Transparency about Off-Budget Accounts:* Fiscal transparency is a broader picture that includes all public monies, whether those included in the budget or not. In Egypt, a number of economic authorities, the National Investment Bank and several Special Funds lie outside the budget, yet these are all public monies and there needs to be more transparency in reporting on sources and uses. In the United States, the postal service fund and the disability trust fund are considered, "Off budget," the rationale being allowing them the use of surpluses realized. However, transparency of their budgets is ensured.

As an agent, the Egyptian government is obliged by its citizens to be more transparent about its sources and uses of funds, whether on-budget or off-budget.