Syrian Arab Republic

Modernization of Public Financial Management

March 2010

Dimitar Radev, Manal Fouad, John Gardner, Pierre Messali, Murray Petrie, and David Webber
INTERNATIONAL MONETARY FUND

THE WORLD BANK

SYRIAN ARAB REPUBLIC

MODERNIZATION OF PUBLIC FINANCIAL MANAGEMENT

Dimitar Radev, Manal Fouad, John Gardner, Pierre Messali, Murray Petrie, and David Webber

March 2010
The contents of this report constitute technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of Syrian Arab Republic in response to their request for technical assistance. This report (in whole or in part) or summaries thereof may be disclosed by the IMF to IMF Executive Directors and members of their staff, as well as to other agencies or instrumentalities of the TA recipient, and upon their request, to World Bank staff and other technical assistance providers and donors with legitimate interest, unless the TA recipient specifically objects to such disclosure (see Operational Guidelines for the Dissemination of Technical Assistance Information—http://www.imf.org/external/np/pp/eng/2009/040609.pdf).

Disclosure of this report (in whole or in part) or summaries thereof to parties outside the IMF other than agencies or instrumentalities of the TA recipient, World Bank staff, other technical assistance providers and donors with legitimate interest shall require the explicit consent of the TA recipient and the IMF’s Fiscal Affairs Department.
Abbreviations and Acronyms .................................................................4
Preface........................................................................................................5
Executive Summary ..................................................................................7

I. Progress Review and Action Plan ..........................................................9
   A. FAD/World Bank Involvement in the PFM Reforms .........................9
   B. Overall progress in the PFM area ......................................................10
   C. Mission’s assessment .......................................................................11
   D. Action Plan for PFM Reform ............................................................12

II. Policy Context and Medium-term Orientation of the Budget ................20

III. Budget Integration and Management Reforms ......................................23
   A. Situation and progress to date .........................................................23
   B. Expanding the Pilot Project—Next Steps ........................................25
   C. Refining and Improving Program Design ......................................27
   D. Integration of Governorate Funding Allocated Through the Budgets of Line
      Ministries and MoLA .....................................................................31

IV. Public Economic Entities ......................................................................36
   A. Current status ................................................................................36
   B. Budget Coverage ..........................................................................39
   C. Budget Transfers ...........................................................................42
   D. Broader Enterprise Governance Arrangements ...............................42

V. Treasury Reforms ..................................................................................45
   A. Introduction ..................................................................................45
   B. Public Banking Arrangements ......................................................45
   C. Cash Management .........................................................................49
   D. The Budget Execution Process ......................................................51
   E. Budget Classification System .......................................................52
   F. Public Accounting and IT Systems ...............................................57
   G. Conclusions and Recommendations .............................................58

Tables

Figures
1. Standard Coverage of the Public Sector in Syria ..................................41

Boxes
# Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BFL</td>
<td>Basic Finance Law</td>
</tr>
<tr>
<td>CBS</td>
<td>Central Bank of Syria</td>
</tr>
<tr>
<td>CACI</td>
<td>Central Authority for Control and Inspection</td>
</tr>
<tr>
<td>COFC</td>
<td>Central Organization for Financial Control</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FAD</td>
<td>Fiscal Affairs Department, IMF</td>
</tr>
<tr>
<td>GFMIS</td>
<td>Government Financial Management Information System</td>
</tr>
<tr>
<td>GoS</td>
<td>Government of Syria</td>
</tr>
<tr>
<td>ITD</td>
<td>IT Directorate</td>
</tr>
<tr>
<td>LM</td>
<td>Line Ministry</td>
</tr>
<tr>
<td>METAC</td>
<td>Middle East Technical Assistance Center</td>
</tr>
<tr>
<td>MoA</td>
<td>Ministry of Agriculture</td>
</tr>
<tr>
<td>MoE</td>
<td>Ministry of Education</td>
</tr>
<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MoLA</td>
<td>Ministry of Local Administration</td>
</tr>
<tr>
<td>MTFF</td>
<td>Medium-Term Fiscal Forecasting Framework</td>
</tr>
<tr>
<td>PDD</td>
<td>Public Debt Directorate</td>
</tr>
<tr>
<td>PDF</td>
<td>Public Debt Fund</td>
</tr>
<tr>
<td>PFM</td>
<td>Public Financial Management</td>
</tr>
<tr>
<td>SPC</td>
<td>State Planning Commission</td>
</tr>
<tr>
<td>STA</td>
<td>Statistics Department, IMF</td>
</tr>
<tr>
<td>TA</td>
<td>Technical Assistance</td>
</tr>
<tr>
<td>TD</td>
<td>Treasury Department</td>
</tr>
<tr>
<td>TSA</td>
<td>Treasury Single Account</td>
</tr>
</tbody>
</table>
PREFACE

In response to a request from Dr. Mohammad Al-Hussein, Minister of Finance of Syria, an FAD technical assistance mission with World Bank and METAC participation visited Syria during the period January 18-31, 2010. The mission comprised of Mr. Dimitar Radev, head, and Mr. John Gardner (both FAD); Mr. Pierre Messali and Mr. David Webber (both METAC); and Ms. Manal Fouad and Mr. Murray Petrie (representatives of the World Bank). Mr. Mark Ahern (World Bank) participated in the initial discussions with the authorities and coordinated the Bank’s participation in the mission. Dr. Iman Abdulrahim, Dr. Nayef al-Yasin, and Mr. Saad Wafai assisted the mission with interpretation and translation services. The main task of the mission was to review the status of the public financial management (PFM) system of Syria and assist the ministry of finance (MoF) in developing an action plan for its further modernization.

The mission met with His Excellency, Dr. Mohamad Al-Hussein, Minister of Finance; Dr. Mohamad Hamandoush, Deputy Minister of Finance; and senior officials of the MoF, including Mr. Mohamad Issa, Director of International Cooperation; Mr. Salim Dabbagh, Director of Treasury; Mr. Ghassan Fakhani, Director of Economic Enterprises; Mr. Maarouf Haffez, Director of Public Debt; Mr. Manhal Hinnawi, Director of Budget; Mr. Mutaz Al-Khatib, Director of Information Technology; and relevant staff of the Budget Department in charge of Program Budgeting and Fiscal Forecasting.

The mission also met with Mr. Ahmad Al Zeitoon, Chairman, Central Organization for Financial Control (COFC); representatives of line ministries, including Mrs. Mona Jubaili, Director of Finance, Ministry of Local Administration; and relevant staff from the Ministry of Education, and Ministry of Agriculture; as well as representatives of the Central Bank of Syria, including Mr. Yazan Al-Hesary, Assistant Director of the Government Commission; Mr. Abd Al-Aziz Taha, Deputy Director of Development and Research; Mr. Kinan Yaghi, Head of Government Securities; and Mr. Firas Al-Qaed, Assistant Director of Damascus Branch.

The mission also held discussions with senior officials of the Damascus Governorate, including Mr. Nasouh Al-Nabulsi, Director of Financial Affairs; and Mr. Hisham Akkawi, Financial Director at Secretariat; and the Suwaida Governorate, including Dr. Malek Mohamad Ali, Governor; Mr. Anwar Zein Eddin, Deputy Governor; Mr. Hasan Al-Atrash, Financial Director; Mr. Fadi Hdeifi, Member of Executive Bureau for Education; Mr. Akram Zghaier, Director of Education; Mr. Shhadeh Murad, Director of Education; Mr. Hasan Badiesh, Deputy Director of Agriculture; and Mr. Badie Al-Halabi, Accounting Officer.

The mission also had meetings with representatives of the European Commission, including Mr. Angel Gutierrez Hidalgo, Counselor, Head of the Economic Cooperation Section;
Mr. Jean-Marie Frentz, Program officer, Economic Cooperation Section; and Mrs. Paula Martinez Lopez, Program officer, Social and Human Development; as well as with Mrs. Sylvie Sturel, Counselor, Head of Economic Section (UBIFRANCE), French Embassy in Syria.

The mission is grateful to the Syrian authorities for the frank and open discussions, warm hospitality, and excellent cooperation.
EXECUTIVE SUMMARY

The authorities have made good recent progress in important public financial management (PFM) areas. They have strengthened the overall regulatory framework of the budget process by adopting a new basic finance law, and further deepened budget integration by transferring the responsibilities for the capital budget from the State Planning Commission (SPC) to the Ministry of Finance (MoF). They have also improved the budget presentation by providing information to parliament for selected ministries on the base of a simple program structure.

The main purpose of this report is to assist the authorities in advancing their reform agenda for modernization of the PFM system. To this end, the report:

- Develops an action plan for PFM reform. The plan sets out specific activities in a selection of reform areas identified as priorities in discussion with the Minister of Finance,\(^1\) as well as the suggested timing and possible requirement of technical assistance (TA); and

- Elaborates, in detail, actions that need to be undertaken in four broad PFM areas as identified in the plan: (i) medium-term orientation of the budget; (ii) budget integration reforms; (iii) budgetary treatment of public economic entities; and (iv) treasury reforms.

Key recommendations of the report include:

- Prepare a three-year fiscal forecast and link fiscal projections to an approved debt sustainability and fiscal strategy framework;

- Present as part of the budget documentation information on the revenues and expenditures of the public economic entities; and progressively strengthen governance of the sector;

- Gradually extend the use of programs for presentation purposes in the budget by adding up to five to six new ministries in 2010, including the MoF and the ministry of local administration (MoLA);

- Further integrate the management of the recurrent and capital budgets by the budget department in the MoF;

---

\(^1\) The reform areas included in the action plan reflect initial priorities and are not an assessment of all areas in which the PFM system in Syria might be improved.
• Strengthen the government banking arrangements by introducing a treasury single account (TSA) system;
• Develop accounting and cash management functions at the MoF, by establishing accounting and cash management units in the treasury department; and
• Introduce new budget classification and chart of accounts (CoA) to be integrated into a new integrated financial management information system (GFMIS).

The report refers to PFM areas that may require further TA, and identifies the potential roles of the IMF, the World Bank, and other relevant donors, including the European Commission (EC), in providing such assistance. The possible modalities for providing further TA from the Fiscal Affairs Department (FAD) of the IMF include missions each year for the duration of the action plan and TA support from the IMF’s Middle East Technical Assistance Center (METAC) in Beirut through expert visits and training activities.

The coordinated reform Action Plan is presented in Section I. The sequencing develops cross-cutting issues which arise when implementing reforms. Most of these reforms, particularly relating to GFMIS program budgeting and medium-term budget formulation, will continue for many years and the plan should not be interpreted as stopping or concluding in 2013. For example, international experience suggests that the procurement and implementation process for an effective integrated GFMIS is often eight years or more, and this is also likely to apply to such a project for the Government of Syria.

It should be understood that, in most areas of reform, capacity building in the MoF and across government agencies is an ongoing activity even though not specifically shown in the Action Plan. The main pillars of PFM reform making up the Action Plan should not be construed as independent areas but rather as complementary activities which need to be implemented in a coordinated manner in order to support and strengthen each other.
I. PROGRESS REVIEW AND ACTION PLAN

A. FAD/World Bank Involvement in the PFM Reforms

1. An FAD/World Bank mission on public financial management (PFM) visited Damascus in January/February 2006. This was the first full-scale public financial management (PFM) diagnostic mission to Syria. The mission reviewed the overall status of the PFM system and recommended that the authorities focus initially on a few key initiatives that are of major importance and pillars of subsequent reform efforts. The recommendations included: (i) revision of the basic finance law; (ii) integration of capital and recurrent budgets; (iii) reorganizing the public debt department and treasury department of the ministry of finance (MoF); (iv) establishment of a macrofiscal unit in the MoF; (v) completing basic reforms of budget classification and accounting; and (vi) development of a conceptual design for GFMIS.

2. There have been five further missions from the Middle East Technical Assistance Center in Beirut (METAC) to follow up on the recommendations of the 2006 FAD mission. In May 2006, FAD staff conducted a workshop in Damascus to provide advice on drafting the basic finance law. In May 2007, a METAC mission provided advice on budget integration and the transfer of responsibilities for the capital budget from the State Planning Commission (SPC) to the MoF. In April 2008, a further METAC mission held technical discussions with MoF staff on PFM issues. In March and July 2009, METAC missions visited Syria to advise mainly on integrating the budgets for capital management and recurrent spending.

3. The World Bank’s recent involvement in the PFM issues in Syria flows from work with the authorities on a broad governance agenda that started in late 2008. The work culminated in the Government of Syria organizing a “Governance Symposium” in May 2009 from which a reform action plan was developed—that included specific recommendations in the PFM area. The action plan is being agreed as a formal government document.

4. Since the May 2009 symposium, a mission in October 2009 identified follow-up activities to the initiatives identified in the action plan. The first activity was to provide support for the new fiscal forecasting team established in the budget department. In December 2009, a Bank fiscal expert made the first of a series of visits to Damascus aimed at

---


3 The 2006 report provided a comprehensive assessment of the PFM system and included recommendations on a range of issues not covered in this report including: procurement, internal and external audit, and payroll management.
building team capacity. The Bank is involved in the program budgeting reform and is about to launch a public expenditure review (PER). It is also completing a Country Procurement Assessment Report (CPAR) and proposes to follow this with support for steps to develop the procurement system.

B. Overall Progress in the PFM Area

5. The authorities have made a number of positive steps in the PFM area in line with certain recommendations of the 2006 and subsequent TA missions. These include:
   - Adoption of a revised Basic Finance Law in 2006 reflecting some of the suggestions of the 2006 mission;
   - Transferring in 2008 the responsibilities for the capital budget from the SPC to the MoF, though the SPC still participates in the preparation and monitoring of the capital budget;
   - Establishment of a Fiscal Forecasting Division (FFD) in 2009 at the budget department to develop a simple medium-term fiscal forecasting framework (MTFF); and
   - Development of a program for integrating the current and capital budgets, and applying it on a pilot basis for the presentation of the 2010 budget for two ministries: ministry of education (MoE) and ministry of agriculture (MoA).

6. Despite positive recent developments, overall progress in implementing the recommendations of the 2006 mission has been modest. One reason for this has been that the MoF has in recent years given priority to revenue administration reforms. The situation has now changed and the minister has indicated that he is now keen to move forward on reforms in the expenditure area. For this reason he welcomed the timing of the mission.

7. The minister informed the mission that budget integration is the main priority of his PFM reform agenda. For the purposes of the reform process, budget integration is considered to be a broad concept that does not only include the integration of current and capital budgets, which was the main focus of the budget integration reform so far, but also measures for strengthening the budget coverage, including by providing more information on public economic entities. The budget integration measures include the further extension of the program budgeting approach. The authorities envisage extending the current pilot project to all line ministries in the context of the 2011 budget cycle.

8. The minister is also keen to improve the effectiveness of the work of the expenditure departments within the MoF. He is proposing to restructure the departments by integrating the public enterprises and budget departments, and the public debt and treasury
departments, and transferring the public debt department’s budget execution role to the treasury department.

C. Mission’s Assessment

9. In assessing the different aspects of the reform process, the mission took into consideration the following factors:

- overall progress in budget reforms since 2006;
- the minister’s priorities in the PFM area;
- the relatively limited capacity for reform within the MoF, and the Syrian public sector more generally;
- the status of PFM reform projects funded by donors; and
- the potential requirements for further TA from FAD and the World Bank.

10. While recognizing that certain progress has been made, the mission concludes that further modernization of the PFM system is needed. Many of the reform initiatives, including in the area of budget integration, are still at a very early stage. The main focus has been on budget preparation, while treasury reforms are lagging behind. As a result, important treasury functions, such as cash planning and management, remain rudimentary, and there is no proper monitoring of budget execution. The introduction of a new chart of accounts (CoA), budget classification, and a double-entry accounting system—key basic requirements for an effective PFM system—has been delayed.

11. The mission is encouraged that the minister is now giving priority to expenditure reforms and is supportive of the authorities’ approach to prioritize the reforms. The focus on budget integration reforms, as defined above, is appropriate and will help strengthen the transparency and accountability in the budget process. The budget integration reforms need, however, to be supported by further modernization of the PFM infrastructure. This includes the introduction of a new budget classification, CoA, and a double-entry accounting system, as well as strengthening government banking arrangements, cash planning and cash management.

12. There are various projects in the PFM area, funded by donors that include PFM reforms and the mission met with representatives of the EC and France to discuss their plans. The most comprehensive is the Public Finance Reform Program financed by the EC under the EC Multiple Framework Contract Beneficiaries. The EC mission has identified PFM areas for possible intervention through its project that will start in 2010, including budget preparation, and accounting and reporting. The EC plans to conduct a full PEFA-based PFM assessment prior to the formal start of the program and is also committed to
ensuring that the areas of focus are fully coordinated with other donors. France is also active in the PFM area, focusing mainly on the treasury reforms.

13. The leading role of FAD and the World Bank in the PFM reform process is recognized by the authorities and donors. This role could be further deepened within a well defined action plan for reform that also identifies areas that may require further technical assistance from FAD and the Bank, and other donors. The mission also discussed with the authorities the possible implementation of a programmatic approach in providing TA by FAD during the next three to five years. The potential modalities would include a follow-up HQ mission each year as well as TA support from METAC.

D. Action Plan for PFM Reform

14. The action plan presented in Table 1 covers the period 2010-2013. Its main objectives are to assist the development of a comprehensive, multi-year PFM strategy; and to be used by the IMF, World Bank, and possibly other donors, for monitoring with the authorities the progress in implementing the PFM reform agenda and identifying, in a coordinated manner, areas for future donor support. The plan is aligned with the PFM elements in the Governance Reform Action Plan—but goes into more detail, particularly in the area of treasury reform.

15. The action plan focuses on four reform pillars: (i) medium-term orientation of the budget; (ii) budget integration reforms comprising strategic planning and budgeting, the management of aid resources, and budget preparation and presentation; (iii) budgetary treatment of public economic entities; and (iv) PFM infrastructure reforms covering government banking arrangements, budget execution procedures, cash management, budget classification, and accounting and reporting.

16. Key reform areas and specific activities, as well as the suggested timing and possible requirement for source of technical assistance, are identified under each reform pillar. The final column in the matrix is used to highlight, where relevant, international good practice advice, issues of reform sequencing, and technical concerns about the course of action currently being followed. The framework does not set out detailed technical specifications and deadlines since it is recognized that in most cases these still need to be developed and specified and that the choices will need to be made about the approach to be followed and timing.

17. The action plan identifies existing and currently planned donor support. The list is not exhaustive of all donor support and the fact that a donor is currently supporting a particular reform does not necessarily mean that additional donor support is not needed. The main sources of such support are:
• The IMF with an annual mission from FAD to review overall progress on the PFM reform agenda, and two to three short TA missions a year from METAC to provide advice on specific technical issues related to PFM reform.

• The World Bank with regular missions both as part of the public expenditure review, the PFM components of the governance reform action plan, and follow up to the recently completed Country Procurement Assessment Report (CPAR). In the short term the focus will be on capacity building for the fiscal forecasting unit. While subject to available resources, future work is likely to focus on options for improving the integration of resources at the governorate level, and steps to improve the governance arrangements for state enterprises.

• The European Commission which is due to provide support under the Public Finance Reform Program. The most likely areas of focus are: (i) improving budget preparation based on a top-down approach; (ii) introducing a new CoA, and IFMIS; and (iii) strengthening budget coverage and fiscal reporting.

• France which is providing support to the development of a modern treasury system.
### Table 1. Syria: Action Plan for Public Financial Management Reforms

<table>
<thead>
<tr>
<th>Reform Measure</th>
<th>Activities</th>
<th>Timing</th>
<th>Responsibility</th>
<th>TA Required and Source</th>
<th>Comments/Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Medium-Term Budget Planning and Management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reform objective</td>
<td>To establish and develop a medium-term orientation for budget planning and management through sound fiscal forecasting and debt sustainability analysis.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>Provide suitable office and computing resources to the FFD and clarify and strengthen arrangements for reporting and supervision of the Division's work.</td>
<td>By end-April 2010</td>
<td>MoF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2</td>
<td>Prepare first three-year fiscal forecast.</td>
<td>By end-April 2010</td>
<td>MoF (FFD)</td>
<td>WB</td>
<td>Scenario basis, with ongoing assistance from WB advisor during March/April.</td>
</tr>
<tr>
<td>1.3</td>
<td>Prepare revised fiscal forecasts on a quarterly basis.</td>
<td>From July 2010</td>
<td>MoF (FFD)</td>
<td>WB</td>
<td>Introducing improved data and new policy or economic assumptions.</td>
</tr>
<tr>
<td>1.4</td>
<td>Link fiscal forecasts to an approved debt sustainability and fiscal strategy framework.</td>
<td>From 2011</td>
<td>MoF (FFD)</td>
<td>WB</td>
<td>Incorporate short and longer term debt sustainability objectives into the fiscal strategy.</td>
</tr>
<tr>
<td><strong>II. Budget Integration</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reform objective</td>
<td>Establishment of an integrated budget planning and management process that: (i) effectively links the policy and planning process to public resource allocation; (ii) brings together current, capital and development spending within a unified budget; and (iii) provides for the budgeting and recording of aid financed public expenditures.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reform Measure</td>
<td>Activities</td>
<td>Timing</td>
<td>Responsibility</td>
<td>TA Required and Source</td>
<td>Comments/Recommendations</td>
</tr>
<tr>
<td>---------------</td>
<td>---------------------------------------------------------------------------</td>
<td>-------------------------------</td>
<td>----------------</td>
<td>-----------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>A. Central budget preparation and management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Develop within MoF broader and deeper understanding, with implementation plans, for how these budget reforms should be linked to necessary and related developments in fiscal forecasting, top-down budgeting, budget classification changes and an up-graded government accounting systems.</td>
<td>From July 2010</td>
<td>MoF</td>
<td>METAC</td>
<td>Seminars and workshops with the relevant departments of MoF.</td>
</tr>
<tr>
<td>2.2</td>
<td>Continue current reform strategies for budget integration, top-down budgeting and improved expenditure planning.</td>
<td>2010-2012</td>
<td>MoF</td>
<td>METAC and WB</td>
<td>Will require regular technical assistance at the centre (MoF) from METAC and increasingly at line ministry level (WB).</td>
</tr>
<tr>
<td>2.3</td>
<td>Further improve the program budgets of the two pilot ministries by adopting the adjusted budget formats recommended by the mission.</td>
<td>2010</td>
<td>MoF</td>
<td>METAC</td>
<td>Recommended new formats were discussed and presented to MoF during mission.</td>
</tr>
<tr>
<td>2.4</td>
<td>Following 2.2 above, extend the program budgeting pilot project to at least an additional 5-6 administrative sectors during 2010, including MoF and MoLA.</td>
<td>March/April 2010</td>
<td>MoF</td>
<td>METAC</td>
<td>Recognizes GoS intention to start all administrative entities preparing program budgets in 2010, for presentational purposes only, subject to timing and resources issues.</td>
</tr>
<tr>
<td>2.5</td>
<td>Complete the institutional integration of current and investment budgets by re-organizing the Budget Department into integrated sector responsibilities.</td>
<td>February-June 2010</td>
<td>MoF</td>
<td>METAC</td>
<td>Organizational restructuring along lines already discussed with MoF, as recommended by METAC.</td>
</tr>
<tr>
<td>2.6</td>
<td>Request next group of pilot ministries to develop a basic performance management approach that helps explain their choice and definition of expenditure programs.</td>
<td>2011</td>
<td>MoF</td>
<td>METAC Adviser</td>
<td>Maintain, in parallel with the program budgeting initiative, specification of policy and program objectives and indicators.</td>
</tr>
<tr>
<td>B. Budget preparation in line ministries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.7</td>
<td>Develop a program-based budget for MoLA for the 2011 budget.</td>
<td>First half 2010</td>
<td>MoF (Budget Department) and MoLA</td>
<td>WB</td>
<td>Need to coordinate closely with development of program budgeting in other line ministries in 2010.</td>
</tr>
<tr>
<td>Reform Measure</td>
<td>Activities</td>
<td>Timing</td>
<td>Responsibility</td>
<td>TA Required and Source</td>
<td>Comments/Recommendations</td>
</tr>
<tr>
<td>----------------</td>
<td>------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>-----------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>2.8</td>
<td>Further analyse options for integrating spending in governorates funded through MoLA and line ministries.</td>
<td>First half 2010</td>
<td>MoF (Budget Department), MoLA and relevant line ministries</td>
<td>WB</td>
<td>Analyse in context of developing MoLA’s program budget.</td>
</tr>
<tr>
<td>2.9</td>
<td>Formally include relevant line ministries in discussions of governorate budgets for 2011.</td>
<td>Mid-2010</td>
<td>MoF (Budget Department), MoLA and relevant line ministries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.10</td>
<td>Include more detailed information with the 2011 budget on spending in governorates.</td>
<td>Q3/2010</td>
<td>MoF (Budget Department), MoLA</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### III. Public Economic Entities

**Reform objective**: Increase the degree of fiscal control over the economic entities sector through reviewing whether any should be reclassified as administrative entities and incorporated in the budget on a gross basis; by presenting decision makers with more information on the finances of the economic entities sector, and strengthening monitoring of individual entities; and by initiating a review of the broader governance arrangements for the sector.

<table>
<thead>
<tr>
<th>Reform Measure</th>
<th>Activities</th>
<th>Timing</th>
<th>Responsibility</th>
<th>TA Required and Source</th>
<th>Comments/Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Review/reclassify the list of economic enterprises against international standards.</td>
<td>First half 2010</td>
<td>MoF (Department of Public Enterprises/Budget Department)</td>
<td>WB/FAD</td>
<td>Requires detailed entity by entity analysis focusing initially on the largest and those not clearly commercial.</td>
</tr>
<tr>
<td>3.2</td>
<td>In the 2011 budget report annex show details of aggregate revenues and expenditures of the economic entities sector.</td>
<td>First half 2010</td>
<td>MoF (Department of Public Enterprises/Budget Department)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.3</td>
<td>Present an overview of the finances of the economic entities sector with the 2012 budget.</td>
<td>Second half 2010/2011</td>
<td>MoF (Department of Public Enterprises)</td>
<td>WB</td>
<td></td>
</tr>
<tr>
<td>Reform Measure</td>
<td>Activities</td>
<td>Timing</td>
<td>Responsibility</td>
<td>TA Required and Source</td>
<td>Comments/Recommendations</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------------------------------------------------------------------</td>
<td>--------------</td>
<td>---------------------------------------</td>
<td>------------------------</td>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>3.4</td>
<td>Review current mechanisms for providing fiscal support to individual economic entities and the treatment of surpluses and losses.</td>
<td>2010/2011</td>
<td>MoF (Department of Public Enterprises/Budget Department)</td>
<td>WB</td>
<td>Could complete as part of 4.5 below.</td>
</tr>
<tr>
<td>3.5</td>
<td>Initiate in-depth review of the broader governance regime for economic entities.</td>
<td>Second half 2010</td>
<td>Minister of Finance/Cabinet</td>
<td>WB</td>
<td>Initial diagnostic mission with follow-up TA.</td>
</tr>
</tbody>
</table>

### IV. Treasury Reforms

#### Reform objective

Modernization of the treasury system with reference to (i) government banking arrangements; (ii) cash management; (iii) budget execution; (iv) IT systems and government accounting; (v) government accounting; and (vi) a new budget classification structure.

These are not separate categories of reform. Many cross-cutting issues arise between all these treasury processes.

#### A. Government banking arrangements

| 4.1 | Produce regulations to ensure new bank accounts must have MoF approval. Close all inactive bank accounts. | 2010 | MoF/CBS | METAC       |
| 4.2 | On incorporation of PDD into TD, structure their two bank accounts under one umbrella account—TSA. | 2010-2011 | MoF/CBS | METAC       |
| 4.3 | During the roll-out of GFMIS to LMs, close bank accounts and transfer balances to TSA. | 2012-2013 | MoF     | France/EU/ Consultants |

#### B. Budget execution

<p>| 4.4 | Arrange for all revenue payments to be made to the TSA. Arrange for block payments to be made to LMs for their expenditures in governorates. Ensure balances are returned to TSA preferably on a daily basis. | 2010-2011 | MoF/LMs | METAC       |</p>
<table>
<thead>
<tr>
<th>Reform Measure</th>
<th>Activities</th>
<th>Timing</th>
<th>Responsibility</th>
<th>TA Required and Source</th>
<th>Comments/Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.5</td>
<td>Decide whether to configure the GFMIS for a centralized payments system in TD. Ensure all government payments are made from the TSA for payment orders sent through the GFMIS as roll-out is implemented.</td>
<td>2011-2013</td>
<td>MoF/LMs/CBS</td>
<td>France/EU/Consultants</td>
<td></td>
</tr>
<tr>
<td>C. Cash management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.6</td>
<td>Establish a CMU in the TD by regulation which provides it with authority to obtain government revenue and expenditure plans.</td>
<td>2011</td>
<td>MoF</td>
<td>METAC</td>
<td></td>
</tr>
<tr>
<td>4.7</td>
<td>Increase CMU capacity and training to ensure production of accurate government cash profile by week and month over fiscal year. Devise incentives for LMs to provide accurate plans.</td>
<td>2011-2012</td>
<td>MoF</td>
<td>METAC</td>
<td></td>
</tr>
<tr>
<td>D. IT and GFMIS development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.9</td>
<td>Take decision on procurement of GFMIS. Decide on procurement process.</td>
<td>2010</td>
<td>MoF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.10</td>
<td>Continue development of existing system. Run developing system in parallel with active system. Incorporate new budget classification coding in developing system.</td>
<td>2010-2011</td>
<td>MoF</td>
<td>France/EU/Consultants</td>
<td></td>
</tr>
<tr>
<td>4.11</td>
<td>Design contract/tender specification documents for GFMIS.</td>
<td>2010</td>
<td>MoF</td>
<td>France/EU/Consultants</td>
<td></td>
</tr>
<tr>
<td>4.12</td>
<td>Select GFMIS provider and sign contract. Commence implementation of basic modules to proof-of-concept stage. Pilot run in MoF and revenue agencies.</td>
<td>2011-2012</td>
<td>MoF/CBS</td>
<td>France/EU/Consultants</td>
<td></td>
</tr>
<tr>
<td>Reform Measure</td>
<td>Activities</td>
<td>Timing</td>
<td>Responsibility</td>
<td>TA Required and Source</td>
<td>Comments/Recommendations</td>
</tr>
<tr>
<td>----------------</td>
<td>------------</td>
<td>--------</td>
<td>----------------</td>
<td>------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>4.13</td>
<td>Roll-out GFMIS to LMs, governorates. Incorporate additional GFMIS modules as required.</td>
<td>2012-2015 Ongoing</td>
<td>MoF/LMs</td>
<td>France/EU/Consultants</td>
<td></td>
</tr>
<tr>
<td>E. Government accounting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.14</td>
<td>Establish accounting unit in TD.</td>
<td>2010</td>
<td>MoF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.15</td>
<td>Raise capacity of unit to prepare for IT ability to produce government in-year double-entry accounts from general ledger information.</td>
<td>2010-2011</td>
<td>MoF</td>
<td>METAC/EU</td>
<td></td>
</tr>
<tr>
<td>4.16</td>
<td>Unit to coordinate extensively with GFMIS project to produce system specifications.</td>
<td>2011-2014</td>
<td>MoF</td>
<td>France/EU/Consultants/METAC</td>
<td></td>
</tr>
<tr>
<td>F. Improve budget classification</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.17</td>
<td>Develop strategy of communication on new BC to MoF (Budget and Accounting), line ministries, and governorates. (See 4.10 above).</td>
<td>2010-2011</td>
<td>IT Directorate</td>
<td>METAC</td>
<td>The development of the BC has been done so far internally by the IT Department. It needs to be disclose and shared with other main operators.</td>
</tr>
<tr>
<td>4.18</td>
<td>Develop detailed mapping methodology for compiling items and data between old and new budget classifications.</td>
<td>2010-2011</td>
<td>IT and Budget Directorates</td>
<td>METAC</td>
<td>Shifting the old classification to the new one needs mapping tables in order to minimize breaks in historical data series.</td>
</tr>
</tbody>
</table>
II. POLICY CONTEXT AND MEDIUM-TERM ORIENTATION OF THE BUDGET

18. The 2006 IMF/World Bank mission had recommended the introduction of a “top-down” budgeting approach to be informed by a simple medium-term fiscal forecasting framework (MTFF). This approach, which is used in most OECD countries, would put more focus on the first phase of the budget preparation process by helping set an overall expenditure ceiling that is consistent with the medium- and long-term fiscal sustainability. In countries with developed top-down approaches to budgeting, the overall expenditure ceiling generated from the MTFF is used by the budget department to generate spending ceilings for line ministries during the budget preparation process consistent with the government’s priorities.4

Progress to date

19. A Fiscal Forecasting Division (FFD) was established in 2009 at the budget department reporting formally to the budget director. It has three permanent staff, all of whom are young graduates. Since January 2010, the World Bank is providing training to the unit in the form of weekly visits by an advisor. The training is based on the materials and spreadsheets prepared previously by the METAC advisor.5 The outputs of the unit so far have been to compile detailed revenue outturn data for the five years ending 2008 on the basis of final account data and converting them close to GFS 1986 classification. Work is still ongoing to compile historical expenditure data for the same period, and beginning to prepare three-year projections.

Main challenges

20. There are key constraints that hamper the production of sound medium-term forecasts.

- Access to budgetary information. This is one of the main issues faced by the FFD. Inadequate access to information is twofold: first, final accounts are considered confidential and building a historical time series by the FFD (especially for expenditure) has met with much difficulty. Second, the FFD has no access to interim up-to-date information on budget execution which is necessary for accurate forward-looking projections. Hierarchically, the staff of the FFD do not have the leverage to

---


5 Staff of the unit are also expected to attend an IMF financial programming course, and have attended a seminar on Computable General Equilibrium models offered by the World Bank. These trainings are important in familiarizing the staff of the unit with fiscal issues and widening their knowledge of public finance topics.
obtain the needed information and have to rely on ad hoc mechanisms and goodwill to obtain essential data.

- **Capacity issues.** So far the FFD staff lack dedicated offices and equipment. This slows down significantly their ability to work rapidly and produce timely data.

- **Organizational design.** The FFD is based at the budget department which the mission believes is the right place. Indeed, the budget department is in charge of budget preparation and, therefore, the setting of expenditure ceilings should naturally fall under the department’s purview. The budget director is the right person to represent the unit in all relations with the minister and other departments of the ministry. However, in view of the heavy demands faced by the budget director, he cannot be expected to manage the FFD on a daily basis. The mission believes that there should be dedicated managerial support/direction to the unit which currently relies on other more experienced staff of the budget department on an ad hoc basis. Given the short time span the FFD staff has spent at the ministry, it would be important for them to have more guidance in the form of formal supervision from more experienced staff.

- **Coordination.** The mission is concerned that there may be duplication of work between the FFD and other units at the ministry regarding data compilation. In particular, there should be more coordination with the economic policy unit, which is doing important analytical work but perhaps should not be in charge of preparing fiscal data.

- **While building technical capacity will necessarily be a longer term task, the above challenges are able to be met in the short term through a managerial response from MoF.** Taking immediate action in these areas would send a positive message of intent that would encourage both staff and donors working on the PFM reform agenda.

**Recommendations**

21. **Looking ahead, the focus should be on raising the capacity of the FFD, its visibility, and setting up a standard work process to allow the unit to be more effective in formulating medium-term fiscal forecasting.** Some of these steps will take more time to set up and depend on other prerequisites in PFM reform.

- **Supervision.** A senior and experienced staff member from the budget department should formally be appointed as unit head or supervisor. Their role would be to: (i) provide day-to-day guidance as needed on the content of the budget to familiarize the FFD staff with the substance of the budget; and (ii) be responsible and accountable for data provided in terms of guaranteeing its confidentiality. This may facilitate internal flows of information.
• **Offices.** The FFD should be provided as soon as time permits with offices and equipment that allows an effective conduct of their tasks. Given that the work of the unit is one of the main areas of modernization of the PFM system, their offices should be well integrated within the budget department and close to the budget director.

• **Fiscal information flows.** Setting up historical data for 2004-2008 will be a major one-off investment. When this is completed, there should be a work process by which the FFD is provided routinely with budget execution data. This includes timely estimates of the year t-1 outturn and within-year quarterly estimates for budget execution. This will allow the unit to assess and revise the estimated current year outturns which would provide a more accurate basis for the preparation of the forecast for the year t+1. Transmission of such data to the FFD should be endorsed by higher-level authorities. However, setting up such routine information flows may not be feasible immediately because of weaknesses in within-year expenditure execution data. Reform in financial reporting will be a prerequisite for setting up routine budget execution information.

• **Macroeconomic projections.** There is still no strategy as to which institution would provide a consistent and up-to-date macroeconomic framework. The SPC and the Central Bank of Syria (CBS) are natural candidates, but there are still no formal mechanisms to set up such collaboration. In the meantime, the mission suggests using the projection approach used by IMF staff.

• **Collaboration with other MoF departments.** The FFD should build up relationships with other departments where collaboration would be mutually beneficial. Discussions of revenue projections by the revenue administration department would help the FFD refine and assess their own projections. Interactions with the newly-created debt department would also be very important as the debt department could use the MTTF to assess financing needs and debt sustainability which could in turn feed into the MTTF exercise. Similarly, fiscal forecasts should be useful to the economic policy unit in formulating fiscal policy recommendations to the minister.

22. **The FFD should gradually expand its outputs.** The FFD should start with a simple medium-term fiscal framework for the next budget exercise and gradually translate it into expenditure ceilings in the following exercises. As expertise is developed, more advanced models can be developed. The mission proposes the following timeline:

• Prepare a three-year forecast by early-April 2010, with a baseline for the deficit under a current policy scenario, and a proposal for a deficit/overall expenditure ceiling, with a short descriptive note. In addition, simple scenarios for expenditure trends could also be added. The report (consisting of the note and tables and charts) should be sent by the budget director to the minister of finance. The report should then be sent to the
cabinet at least for information, with the circular for the 2011 budget. This will prepare the grounds for the implementation of a binding expenditure ceiling in the 2012 budget.

- As of the second half of 2010, prepare revised fiscal forecasts every quarter based on any new information on changes in the fiscal (e.g., revenue collections) and economic environment (e.g., inflation, growth, commodity prices). In coming years, and as information becomes readily available, base the quarterly forecasts on any new and detailed revenue and expenditure execution data.

- For next year, refine projections and include financing data to determine sustainable ceilings.

- In coordination with the newly-created policy unit within MoF, the FFD should start preparing a long-term debt sustainability analysis. Ultimately, the desirable (sustainable) debt path should become one of the anchors for fiscal policy and determine the expenditure ceilings that are consistent with debt targets. This should be an iterative process by which the baseline fiscal projection would determine the required financing of the deficit. In turn, given available sources of financing, its terms (maturity, interest, etc.) there might be a need to revise deficit (spending) ceilings to make them in line with the desired debt level.

III. BUDGET INTEGRATION AND MANAGEMENT REFORMS

A. Situation and Progress to Date

23. Since February 2008, progress has been made towards integrating the management of the current and investment budgets. A METAC expert in budget management and PFM reform has worked with the budget department to begin implementing these reforms. Specific achievements have included:

- The transfer of functions and responsibilities for preparation and management of the annual investment budget from the SPC to the budget department of MoF.

- The integration of these responsibilities into the work of the budget department.

- The development of a proposed program budget structure within two ministries (Agriculture and Education) as a basic model for other sectors to follow (see below).

- The design and pilot application of a basic performance management framework for budget management in the two pilot ministries.
Discussions with the deputy minister and budget department staff concerning (i) the present separation of budgetary responsibilities between line ministries, affiliated entities and local administrations, and (ii) necessary improvements to the budget classification system.

Key considerations in the design of these reforms

Several important constraints have been identified including:

- The existing laws of Syria relating to the management and operation of the budget and the governance arrangements and regulations applying to budget institutions; the current mandates and specific policy objectives of the relevant institutions;
- The specific budget allocations of the pilot ministries and their affiliated entities, including the need to ensure clear, consistent and transparent correlation between existing and new budget formats;
- The capacity of relevant officials for technical understanding and acceptability of these reforms within their unique operating environments; and
- Recognition of the need, associated with each of the above factors, for these reforms to evolve over a number of years in ways consistent with existing capacities and resources for effecting change management within these organizations.

These factors continue to restrict the implementation of further reforms in public financial management in Syria.

Future challenges

There remain several significant challenges to building on recent achievements in budget integration and improved budget management. These challenges, to which possible responses are detailed in various sections of this report, can be summarized as follows:

- Overcoming the current deep and long-standing separation—at conceptual, legal, institutional, and technical levels—between current and investment expenditures, at nearly all stages of the budget process.
- Securing a broader and deeper understanding amongst Government of Syria officials of the technical and managerial requirements for these reforms, including the extent to which reform measures may be inter-related and therefore contingent on parallel and complementary changes in government policies and organizational practices.
• Building individual and organizational capacities for implementing reforms, from basic computerization skills to more complex budget analysis and performance-assessment methods.

• Experience has shown that the design and communication of proposed reforms must be clear, consistent and extremely practical in the Syrian context. This will continue to require pragmatism in the approaches to be taken.

B. Expanding the Pilot Project—Next Steps

Program budgeting

26. Recent progress with the pilot ministries in the development of partially integrated budgets, within a program budgeting format, has encouraged the authorities to extend this reform to other administrative entities during 2010. Draft program budgets for the two pilot ministries were appended to the FY2010 Budget and the mission understands these met with approval at higher levels of government and with the national assembly. An instruction has since been promulgated that all other administrative entities should prepare budgets for FY2011 in both the traditional and new program formats.

27. Ultimately, the program budget approach will enable the authorities to achieve a much more effective integration of current and capital expenditures. The authorities’ immediate focus on budget preparation and presentation based on programs is appropriate. However, the use of the programs in the appropriations process and budget implementation should be considered a medium-term task. It will require, among other things, legal changes and a major revision of the accounting system. The mission encourages the authorities to consider the following two proposals:

• A further modification to the draft program structures approved in 2009 is necessary. This involves incorporating the current budgets of administrative entities as a separate sub-program within each program—i.e., taking these current expenditures from the program to sub-program level. However, each entity will still be able to identify, manage and report current and investment expenditures.

The mission proposed this revised presentation to the authorities and provided examples, in both Arabic and English, of the proposed changes this will require in the program budget format. Further guidance on this issue is provided below and

---

6 The proposed program structure follows the existing administrative classification. Therefore the proposal to present current expenditures as a distinct sub-program retains the current link between current expenditures and administrative units and does not change the existing procedures for executing the current budget.
technical support will be provided in the course of the proposed next METAC expert visit (March-April 2010).

- Over time, this program structure should further develop so that the current expenditures of an administrative unit are split and integrated with related investment expenditures and managed jointly at the Sub-program level. However, current and investment spending should remain separately budgeted and fully identifiable at the Activity level.

The requirement for all administrative entities to prepare their budgets on both the traditional and new program basis for FY2011 may place considerable pressure on the budget department. Detailed guidance will need to be given during the period March to May 2010, and this will be followed by a need for careful scrutiny and discussion of these program budget proposals during July to September (in addition to the normal negotiation of budgets in the traditional format). By including all administrative entities in the roll-out of this program budget approach, there is a risk that the quality of some program presentations may be low.

The authorities could consider whether a partial roll-out—involve five or six additional ministries—may be more manageable during 2010. This could provide more time for supporting and refining proposed formats. However, this step may extend the total period over which this reform is introduced across the budget institutions. Given the time that will be required to implement supporting reforms—such as changes to the budget classification—the mission considers that an approach involving only a “partial rollout” may be more effective, at least for 2010.

Combining fiscal forecasting and budget preparation

28. It is hoped that an initial output from the FFD—in the form of a three-year projection of revenues and expenditures—may be available in April 2010, to provide some context for the preparation of the FY2011 budget. Although the mission does not expect that this output will be comprehensive and accurate so soon after the unit’s establishment, it could nevertheless provide the MoF with an indication of how future budget policies and allocations might be better informed by medium term fiscal forecasting and analysis.

29. The first aim, therefore, should be for these medium-term fiscal forecasts to provide a set of overall fiscal scenarios that indicate the responsiveness of fiscal

---

7 The following administrative sectors have been suggested: health, local administration, higher education, economy and finance, and transport, and telecommunications.
conditions and budgetary constraints to changes, or alternative assumptions, concerning government policies and in the outlook for the economy as a whole. The mission understands, and expects, that for FY2011 the information and guidance contained in these fiscal scenarios may be used by the budget department to help select an affordable overall “expenditure ceiling” for preparation of the FY2012 budget. In subsequent years, an extension of this top-down approach may be achieved by combining budget ceilings with the newly developed program budgets.

30. Combining these two elements of the budget reforms should enable the authorities to achieve improved rationalization of expenditure (e.g., across sectors) and more explicit and transparent reallocations within sectors, in line with shifts in the government policies and priorities. Future technical assistance will require good coordination between METAC and the World Bank in assisting the authorities to integrate the forecasting activities and outputs into a much-strengthened budget preparation process. Top-down ceilings, marginal cost-benefit analysis of expenditures and baseline budgeting methods, and associated institutional and legal frameworks are likely to be important components of this coordinated approach.

C. Refining and Improving Program Design

31. METAC and the budget reform working group have worked closely to develop a two-stage process for the design and implementation of the program budget approach. The mission recognizes that this two-stage process reflects essential pragmatism in the scope for reform within the present institutional environment and practical limitations on available technical assistance. The two stages of this process involve:

- The design and development of a basic three-level program structure that will have essential applicability and acceptance amongst the pilot institutions. The additional refinement to program structures, as described above, is the final (but essential) step in implementing this first stage. With this adjustment, the pilot program structure developed over the last two years will be adequate as a basic model for expansion of the reform to other administrative entities in 2010.

- Over time, the mission recommends that a number of further improvements are made to the basic program and performance approach. This process of gradual refinement is not only desirable, but consistent with experience in many other countries in which improving this aspect of modern PFM systems is an evolving, ongoing process. Nonetheless, the mission suggests there are a number of specific areas for improvement that should be addressed in the operation of this proposed program format during the second stage—during the period 2010 to 2012. These include:

  - further and more effective integration of current and investment budgets and spending operations across administrative entities;
• a more effective budget framework for rationalizing and allocating expenditures;

• consolidation of the current and investment budget sections of the Budget Department into sector-based groups, with budget officers responsible for both current and investment spending in their respective sectors of responsibility; and

• an improved platform for relating budget allocations and expenditure management to the government’s objectives for greater relevance and quality in public spending.

Extending the integration of budget expenditures

32. The inclusion of budget allocations for current expenditure as a sub-program of administrative entities—alongside their allocations for investment sub-programs—will be a useful step forward. However, the real task of budget integration involves the line ministries and affiliated entities taking a fully integrated view of their spending plans. In this way, both current and investment spending activities can be designed, and implemented, in coordination in order to implement and address common government policy objectives and operational (resourcing) needs.

33. The mission recognizes that there currently exist some institutional constraints on a fully integrated budgeting process. For this reason, further development of integrated sub-programs will help to ensure that the relevant officials, in the line ministry, affiliated entity and governorates (where applicable) are all involved in a single expenditure setting process for each sub-program. In this regard, there will be significant benefits from the ongoing public expenditure review undertaken by the World Bank and the quality assessment provided by the review should facilitate extending the adoption of the program budgeting approach.

34. The further extension of the integration of budget expenditures should be supported by an increased focus on the quality of the investment projects. In many respects, it is a prerequisite for effective budgetary integration. Improving investment project quality is not a short-term challenge. It requires actions in several fronts, including strengthening the institutional framework for public investment decisions and programming, and improving budget coverage. In this context, the mission is supportive of the minister’s recent decisions to expand budget coverage and restructure the MoF’s expenditure departments.
Improving program coverage and definition

35. A major benefit of the program approach that is being developed for budget management in Syria is the assistance this will provide to officials for examining and comparing expenditure opportunities and needs. This could usefully complement the analyses of expenditure options based on institutional and chapter allocations. There needs to be a framework within which programs and sub-programs provide a well-organized and clearly understood framework for expenditure choices and decisions.

36. The programs and sub-programs of the two pilot ministries are an important step in this direction. However, more work is necessary to ensure that these categories of expenditure provide comprehensive and informative coverage of spending operations. Further improvement in the definition of programs and sub-programs will not only provide better information, but should also increase the range of potential interventions (spending options) which the government has for implementing its policies. METAC should work with the MoF during 2010/11 to improve the coverage of these programs.

Internal organization of the budget department

37. The third major improvement proposed above involves the internal organization of the budget department. This will ensure that there is increased understanding and coordination within MoF concerning both current and investment spending activities, including their policy objectives and expected results. Moreover, administrative entities will be required to deal with only one section of the budget department in negotiating both their current and investment spending plans.

38. This component of the budget integration reform was described and recommended by the METAC budget adviser on previous visits. However, further technical assistance will be required to assist the authorities to combine these functions successfully and, in particular, to identify and develop the new roles, responsibilities, and skills required of the budget officers.

Improving the relevance and quality of spending decisions

39. A major aim of the PFM reforms, as reflected in the second of the two recommendations cited above from the 2006 FAD mission, is to improve the relevance, quality and impact of public spending. The initiatives taken by the authorities during the last two years to integrate budgets and develop a program structure, initially only for budget presentation, are major steps in this direction. However, these steps alone will not be enough; they need to be linked to the decision-making process in ways that place much greater emphasis on expenditure objectives and results. The work begun with METAC on developing a performance framework for the two pilot ministries should ultimately generate a need and capacity in those sectors for more and better information about spending
decisions. At the very least, a basic set of objectives and indicators for each program should prompt some important and helpful questions about the quality and integrity of current expenditures.

40. **The mission considers that achieving more effective integration of current and investment expenditures across the administrative entities is one of the current priorities in the PFM area.** Nonetheless, the good work done by officials in MoF and the pilot ministries on developing performance information should be sustained and extended to other sectors and administrative entities as capacity and resources allow. Information and experience gained from this approach will be valuable for developing strategies to improve revenue and expenditure performance across the public sector more generally.

**Recommendations**

**It is recommended that the MoF**

- Improve the program budgets of the two pilot ministries by adopting the adjusted budget formats recommended by the mission in which current and investment expenditures are both included at the sub-program level.

- Extend the program budget pilot project by five to six administrative sectors during 2010 with specific support from METAC for the budget department in the preparation of guidance materials and training of sector budget officials during March/April 2010.

- Ensure each of the central administrations in these sectors develops programs and sub-programs, based on the structures, guidance materials and budget preparation procedures developed during the pilot phase.

- Reorganize the budget department into integrated sector responsibilities in order to complete the institutional integration of current and investment budgets at the MoF.

- Reform the budget preparation process for the 2011 budget to better integrate the decision making processes for the current and investment budgets, i.e., holding joint meetings, issuing common instructions. If this is not considered feasible for all ministries it should at a minimum occur for the pilot ministries.

- Maintain, in parallel with the program budgeting initiative, a requirement for the next group of pilot ministries to start work in 2011 on a basic performance management approach to their expenditure activities through specification of policy and program objectives and indicators.

- Develop the capacity to link these budget reforms to needed developments in fiscal forecasting, budget classification, project selection and preparation, and the
government accounting system through seminars and workshops with the relevant departments.

D. Integration of Governorate Funding Allocated Through the Budgets of Line Ministries and MoLA

41. Funding for government functions conducted in the governorates is split between the budgets of relevant parent line ministries, on the one hand, and the budget of the MoLA. This arrangement reflects a long-standing mechanism for the financing of local public services in Syria, but it complicates budget preparation, presentation, and execution. The development of program budgets for the two pilot ministries, which as a consequence of the dual funding incorporate only part of the spending conducted by their subordinate units in the governorates, has highlighted some deficiencies in the current arrangements. As recommended by previous missions, this report identifies some broad options for better integration of the funds flowing through the MoLA budget with those of the relevant sector ministries, but recognizes that further analysis is required given the complexities of the current arrangements.

Current status

42. In each case where government functions are carried out by ministry directorates, part of the funding is in MoLA’s budget. For instance, in each of the 14 governorates, the directorate of agriculture (the deconcentrated unit of the ministry of agriculture) is funded through two sources: the budget of the ministry of agriculture; and MoLA’s budget. This arrangement applies across eight administrative “sectors”: education, agriculture, health, internal trade, technical services, social affairs, transport, and governorate administration (“secretariats”).

43. In general, the parent ministry funds investment projects implemented by its directorates, while MoLA’s budget funds their current spending. This is the case, for example, in the agriculture sector. The MoLA’s budget is largely confined to investment projects, while current costs in its directorates are largely funded through MoLA’s budget. In either case, actual current and capital spending are both actually paid by MoF, but the issue here is through which ministry budget authority to spend is channeled.

---


9 Where there is no central ministry with oversight of particular expenditure, all the funding is allocated through MoLA’s budget. The mission was informed that this is the case, for instance, for funding for technical services, construction, and culture (starting in 2010).
44. **However, there are important variations to this general practice.** For instance, in the education sector, construction of schools is funded through MoLA’s budget, not through the MoE’s budget. On the other hand, teacher salaries are funded from both budgets. In general, the salaries of secondary school teachers are funded from the ministry of education budget, while salaries of primary school teachers are funded from the MoLA budget. Salaries of teachers in preparatory schools (intermediate level) are funded to a significant extent from both budgets.\(^{10}\)

45. **In MoLA’s budget presented to parliament, investment spending allocated to governorates is authorized as one total for each governorate.** There is, however, only a single line item in the MoLA budget for the current spending of all governorates financed through MoLA (amounting to SYP80 billion for current spending, equivalent to approximately 11 percent of total government spending). That is, a one line item incorporates current spending across all sectors and institutional units, and across all governorates. There is no other information presented with the budget showing the allocation of total current spending between sectors and across governorates. These allocations are initially assessed by MoF and MoLA, after detailed discussions with the relevant directorates in each governorate (but without the involvement of the relevant parent line ministry). The initial allocations are then submitted to the minister of finance for approval.

**Assessment of current situation**

46. **In practice, the current arrangements mean that decision makers are not presented with information on total budgeted spending on key policy functions,** such as total spending on general education (or total spending on basic education and secondary education). Similarly, there is a lack of data on actual spending. For instance, a consolidated picture is not presented some time after the end of the budget year on actual total spending on, say, agriculture research or primary education, across line ministry and MoLA budgets.\(^{11}\)

---

\(^{10}\) In fact, the source of funding for teachers’ salaries is understood to depend on the grade of the individual teacher, rather than being determined by the type of institution in which they teach. Teachers/staff at Grade 1—those with a university degree—are paid from the Ministry of Education budget, while teachers/staff without a university degree are paid through the MoLA budget. In practice, teachers in secondary schools generally have a university degree, teachers in primary schools generally do not, and preparatory schools have a mix of staff with and without a university degree. The mission was advised that a similar rule, in which the budget source of funding for staff salaries is determined by individual staff member qualifications, applies across all other ministries.

\(^{11}\) It is possible in practice to compile a complete picture of how the budgets are actually implemented, although this must be done “off-system” by combining data from different sources. For instance, the MoE is able to calculate total spending on basic education (and also calculates the cost per student), inter alia, from the year-end reports of the Central Organisation for Financial Control.
Such consolidated reporting is useful for policy and statistical analysis, and for expenditure forecasting.

47. **The dual funding mechanism also complicates budget execution.** MoLA officials referred to the fact that dual accounting and reporting systems are required to separately monitor and to account for spending from each funding source. This can be particularly complex where the source of funding for expenditure under the same chapter varies within an institutional unit, as in the education sector (as described above with respect to individual schools). Dual budgets can also constrain management flexibility in implementing the budget.

48. **As noted, the budgets of the central ministries predominantly comprise investment spending** (although this is much less the case for the Ministry of Education). Therefore, while program budgeting was conceived as a key mechanism to help achieve integration of current and capital spending, the dual funding prevents definition of fully integrated expenditure programs within the budget of each ministry.

49. **The dual funding mechanism also constrains the ability to define programs that reflect the main policy responsibilities of each ministry.** Over time, this will make it harder to identify performance indicators that measure the contribution of each ministry to the achievement of relevant government policy objectives as articulated in the Five-Year Plan.

50. **It is clear that the way in which funding is split between line ministries and MoLA creates a lack of transparency in budget preparation, presentation, and execution; and that it complicates budget execution, reporting and management.** It also constitutes a challenge to the introduction of a greater performance focus to budgeting in Syria, including through program budgeting. It has, for instance, prevented the two pilot ministries from defining their programs the way they would like to.

**Options for better integrating ministry and MoLA funding**

51. **There are a number of options for bringing about improved integration of ministry and related MoLA funding.** All options should as far as feasible respect the current position and role of the governors in the public finance system. They therefore attempt to take as given the current allocation of roles and responsibilities between the central government and governorates. More analysis is required, however, of the current arrangements for inter-governmental fiscal relations, in order to properly assess the impacts of the different options.

52. **The following options appear to represent the main broad approaches to achieving improved integration.** They are generally presented in order of increasing departure from the status quo.
(i) More integrated aggregate budget presentation and reporting, while retaining the current dual funding mechanism. This includes the development of a program-based budget for MoLA.

(ii) Integration of funding under some selected line ministries.

(iii) Integration of funding under all relevant line ministries.

(iv) Integration of all funding under MoLA.

53. The first option retains the current funding arrangements, but aims to achieve a more integrated presentation and reporting of spending through the two channels. First, this would entail presentation to decision makers for the 2011 budget of a more detailed breakdown of budgeted spending in the governorates than is shown in the current budget. This would include a breakdown of MoLA’s total funding of current spending in governorates across each governorate. This would then be combined with MoLA’s funding of investment spending in each governorate (currently shown in the budget), together with line ministry funding of investment spending in each governorate, to show total budgeted spending in each governorate funded by MoLA and each relevant line ministry in 2011. Second, this option also includes a more integrated approach to budget preparation through the formal inclusion of parent line ministries in the annual budget discussions between each governorate, MoLA, and the MoF. Finally, the first option also involves the development of a program-based budget for MoLA for 2011, again within the constraints of the current dual funding mechanism—although this is separable from the other components of this option and could be implemented on its own.

54. Given the importance of this issue for the successful introduction of program budgeting, the mission recommends the development during 2010 of a program-based budget for MoLA for 2011—whether or not the program budgeting trial is extended to all ministries for preparation of the 2011 budget, or only to some additional ministries. Development of a program-based budget for MoLA is likely to involve the definition, within MoLA’s funding to governorates, of sub-programs mirroring to the extent feasible the sub-programs in the relevant line ministry budget. For example, MoLA’s funding of school construction could be included in a general education sub-program in MoLA’s budget, mirroring the general education program in MoE’s 2010 program budget. Work on MoLA’s program structure in 2010 would commence in the two sectors where program budgeting has already been initiated (agriculture and education), and would then expand to incorporate the other ministries being added to the program pilot in 2010, once some initial work on their program structures had been completed.

---

12 Depending on whether final decisions by the minister of finance on the allocation of current spending across governorates is taken prior to parliamentary approval of the budget, this may require a change in the timing of allocation decisions by the minister.
55. **The second option involves integration of some of the funding currently channeled through MoLA’s budget with related funding in some parent line ministries.** This option would confine integration of funding to only a sub-set of ministries, perhaps three to four of the most important ministries. Specifically, funding would be removed from MoLA’s budget and integrated with the sub-program to which it is most closely related in the relevant line ministry. Funding for the remaining spending in governorates would remain in MoLA’s budget as at present.

56. **Under the second option, the line ministry would participate directly with governorates and MoF during budget preparation**—although MoLA would still need to be involved, given their role in managing/monitoring local governorate structures, personnel policies, and population needs. This option represents an attempt to secure much of the gains from better integration of the two funding streams, while limiting somewhat the disruption to the status quo.

57. **Under the third option, all funding currently channeled to governorates through MoLA that relates to an existing line ministry’s responsibilities, would be integrated with funding in the relevant line ministry budget.** MoLA would still retain funding for the local operations of MoLA itself (e.g., expenses of running the governorates themselves), and for functions where there is no parent line ministry (such as spending on construction, and on technical services).

58. **The fourth option is essentially the reverse of the previous one.** All spending in governorates currently funded by line ministries would be transferred to MoLA’s budget. In contrast to the third option, this would mean the full integration of all spending in governorates under one ministry (including expenditure on governorate administration, and spending in areas where there is no line ministry). This is the approach favored by MoLA, which has advised that it has already commenced work on the necessary legal changes to effect it. However, it is difficult to see the logic of having central government represented by MoLA in the preparation, management and implementation of budgets across all sectors when there are line ministries with much greater policy understanding, responsibility and expertise in their respective areas.

---

13 Source: MoLA memorandum No. 5054/Y/M/6/3 of December 1, 2009, to the prime minister’s office, commenting on the Draft Action Plan on Developing Governance in Syria as developed with the World Bank.

14 If this option was combined with greater decentralization of authority to local authorities to determine spending allocations according to local needs, this could potentially improve efficiency and effectiveness. However, the level of decentralization is in principle separable from the choice of MoLA or line ministry budgets as the mechanism for channeling funding to governorates. Greater decentralization could also be introduced for spending funded through line ministry budgets. In any case, changes to the current level of decentralization are understood to be outside the scope of this exercise.
Based on the above discussion, the mission recommends the following measures:

- Develop a program-based budget for MoLA for the 2011 budget.
- Further analyze and assess the options for integrating spending in governorates funded through MoLA’s budget with the related funding in relevant line ministry budgets, including in the context of developing MoLA’s program-based budget for 2011.
- Include additional information with the 2011 budget presented to decision makers showing a more detailed breakdown of budgeted spending in governorates than is shown in the current budget (as described in the first option).
- Formally include the relevant line ministry in the annual budget discussions between each governorate, MoLA and MoF during preparation of the 2011 budget.

IV. PUBLIC ECONOMIC ENTITIES

A. Current Status

Public economic entities are defined in Syria as public legal entities with financial and administrative autonomy that engage in economic activities. Law Number 2, 2005 sets out general provisions applying to the governance of all economic entities. It defines two types of public economic entity: public establishments, which both engage directly in economic activities and supervise and coordinate subsidiary public companies; and public companies or public facilities, which only engage directly in economic activities.

There are understood to be approximately 260 individual economic entities in total. Each is established by separate decrees setting out its functions. This contrasts with the smaller list of economic entities provided to the IMF Statistics Department mission in 2008.¹⁵ As explained to the mission, the difference between the two totals (approximately 55 entities) is partly due to whether or not “subsidiaries” of establishments are counted as separate entities. There are around 10 public establishments, with nearly 100 subsidiary public companies. An establishment groups entities engaging in related activities (e.g., separate establishments for chemical industries, for textiles, and for food processing). The establishment has authority to transfer capital allocations from the central government budget.

between entities within its group. Consideration is being given to allowing them also to transfer surpluses between entities within the group.

62. **Economic entities are incorporated in the budget on a net basis.** The Budget Law stipulates that the central government’s budget incorporates the gross revenues and expenditures of ministries and public administrative entities, but includes only the surpluses/losses of public economic entities, local administrative units, and religious endowment directorates (Decree 54, which entered force on January 1, 2008). This means that economic entities should be incorporated in the budget either as budget transfers if their budgeted expenditures exceed their revenues, or as revenues where they are budgeted to make a surplus. Transfers are included as part of the budget of the relevant ministry, while budgeted surpluses are grouped on a functional basis in the revenue section of the budget.

63. **In practice, the budgeted deficits of economic entities shown in the central government budget are not forecasts of actual transfers from the budget.** A forecast deficit is often not reflected in an actual payment to the entity during the budget year if the budget is judged unable to afford the payment. Where a deficit is due to the impact of administered pricing, there is more likely to be an annual government subsidy (e.g., from the Price Stabilization Fund).

64. **Economic entities also receive funding from the government budget for their capital expenditures,** as determined in the Five-Year Plan, i.e., their capital spending is integrated in the budget on a gross basis. Prior to the new Budget Law of 2008, entities transferred all their profits and “liquidity surpluses” (i.e., amounts allocated for depreciation) to the Public Debt Fund, managed by the public debt department. In return, they received financing from the Public Debt Fund for their investment (and other financing) requirements. From 2008, entities have been permitted to retain their liquidity surpluses and a proportion of their post-tax profits. The proportion of profit to be retained is not specified in the amended law, but is left to be decided by the minister of finance, taking into account the circumstances of the budget and of the individual entity. A small number of entities are able to borrow to finance projects and to service these debts themselves, although these loans are government guaranteed. For other entities the PDD on-lends.

65. **Finally, in addition to transfers and subsidies from the government budget, economic entities also receive considerable support from state-owned banks.** This results in a further softening of their budget constraint. Government-directed lending constitutes a significant source of quasi-fiscal activity. In addition, there is an annual inter-entity netting

---

16 Government “commissions” would appear to be an exception to this rule (examples include hospitals and universities). These are understood to be classified as a type of administrative entity, but receive some revenues from the sale of their output, enjoy additional independence, and are incorporated in the budget on a net basis.
exercise, reflecting in part the complex impact of administered pricing and subsidies at different layers of the production and distribution systems.

66. **Economic entities are responsible to the relevant line minister, and are monitored by the public enterprise department (PED) of the MoF.** The PED’s role is to review entity budgets and to estimate their surpluses/deficits, which are then forwarded to the budget department for inclusion in the budget. The PED also prepares the budget allocation for investment of the entities that will figure in Chapter 3 of the budget. During the year, each entity reports to the public enterprise department. At year-end, the PED examines final accounts and estimates their surpluses or deficits.

67. **The DPE does not play a role with respect to policy issues or other governance issues relating to economic entities**—with the exception of economic entities that are under the direct responsibility of the minister of finance (such as the six public financial institutions).

68. **All economic entities operate on an accrual accounting basis.** Their accounts are audited by the Central Organization for Financial Control (COFC). In addition to financial attestation audits, the COFC is authorized to conduct some performance auditing (including an attempt to identify and quantify reasons for any losses).

**Assessment of current arrangements**

69. **There are three main sets of issues with respect to the current arrangements:**

- **Budget coverage:** Are economic entities properly covered in the central government budget and final accounts? Is sufficient information on the economic entities sector presented to decision makers with the annual budget documentation?

- **Budget transfers:** Are current arrangements involving subsidies, transfers, and other fiscal support provided by government to economic entities well designed and implemented, so as to promote hard budget constraints for enterprises, and increase the government’s control over its level of fiscal risk in the short term?

- **Enterprise governance:** Is the broader governance regime under which economic entities operate well designed and effectively implemented, to increase the sector’s contribution to economic and social development and to allow the government to actively monitor and manage fiscal risks over time?
B. Budget Coverage

70. The authorities have indicated that they envisage changing budget presentation so as to provide information on all economic entities on a gross basis. The mission welcomes any steps that would improve transparency of budget presentation and allow better planning of financial flows between the budget and enterprises. Indeed, the IMF’s Code of Good Practices on Fiscal Transparency states in its Principle 3.1.6 that “the budget documentation should report the fiscal position of sub-national governments and the finances of public corporations,” further explaining that “it is ... important that information [on public corporations] be included in the budget documentation, including operating balances in a degree of detail that allows a proper evaluation of fiscal risks.”

71. The public enterprise department maintains a list of public enterprises and projects their surpluses and losses to be included in budget documents. On the basis of a preliminary examination of the list of economic entities it appears that some of the enterprises in the list carry out government functions (e.g., housing organization), or administrative functions (cadastre, free zone authorities, etc.) and should perhaps be treated as part of the central government.

72. Before changing the budget presentation there should be a comprehensive review of the economic entities to determine the boundary between the “general government” and the “public sector” according to international standards. The purpose of such an assessment would be to classify public enterprises currently covered under “economic entities” into: (i) those that should be reclassified as central government (i.e., those that are non-market, non-profit institutions, and any extra-budgetary entity that performs government functions); and (ii) those that should be classified as public sector entities. Public sector entities should be further classified as either nonfinancial public corporations or financial public corporations (e.g., the Central Bank of Syria, state-owned banks and insurance companies).

73. In addition, those economic entities that pose the greatest fiscal risk to the government budget should be subject to closer monitoring. These will often be entities that are not operating on a fully commercial basis. The IMF has identified a set of criteria to help assess whether a public enterprise should be subject to less intense government monitoring:17 (i) the extent to which there is managerial independence (pricing and employment policy); (ii) relations with the government (do they receive subsidies and transfers, what are their quasi-fiscal activities, the applicable regulatory and tax regime); (iii) their governance structure (whether they are subject to outside audits, publish

---

17 Country experience, however, shows that a vast majority of public enterprises in developing countries and emerging markets pose fiscal risk. See Public Enterprises and Fiscal Risk—Lessons from the Pilot II Country Studies, SM/07/368.
comprehensive annual reports, the shareholders’ rights); (iv) financial conditions and sustainability; and (v) risk factors (how important and vulnerable they are).

74. **The Government Finance Statistics Manual 2001 (GFSM 2001) provides a clear definition of the public sector (Figure 1).** On the basis of this classification, the mission is of the view that changes to the budget coverage and presentation should follow the categorization of the public sector consistent with the *GFSM 2001*:

- Any economic entities assessed to be primarily performing government functions should be reclassified as administrative entities. Transfers to and from remaining public economic entities should continue to be recorded transparently.

- Information on the fiscal position of public economic entities should be reported in an annex. 18

- The budget document should report on the consolidated budget for local governments (governorates and municipalities). This would cover the own revenues of local governments (their share of national taxes, plus any local taxes), their expenditures and their financing.

- The budget document should include a summary table with a consolidated fiscal position of the general government (central government + local governments). This would allow a better assessment of fiscal policy, the size of the government and improve transparency. Note that to do so, flows between the central government and local governments need to be netted out so as not to overstate the size of revenue and expenditure (for example, transfers from the central government to local governments should be subtracted from spending of central government, since they will appear as spending of local governments).

75. **The mission notes that improving the presentation of the budget should be accompanied by efforts to improve the monitoring of budget execution.** This is essential to (i) budget more accurately the flows between the central government and public enterprises on the basis of their most recent performance; (ii) have a better measure of quasi-fiscal activity; (iii) increase government oversight; and (iv) ultimately design reforms to reduce the direct cost to the budget and fiscal risks.

---

18 Jordan provides a good example for how “autonomous agencies” budgets are presented.
Figure 1. Syria: Standard Coverage of the Public Sector

Public Sector

General Government
(Central government + Local government)

Central Government
Line ministries
Administrative entities
Social Insurance Funds
Extrabudgetary funds
Nonmarket nonprofit institutions
Public authorities (e.g., duty free zone administration, cadastre,

Local Government
Governorates
Municipalities

Public Corporations
(Financial public corporations + Nonfinancial public corporations)

Non-financial Public Corporations
Social-pricing state owned enterprises
Loss-making enterprises
Enterprises presenting fiscal risk

Financial Public Corporations

Monetary Public Corporations
Central bank of Syria
State-owned banks (e.g., industrial bank, housing bank, etc.)

Nonmonetary Financial Public Corporations
Insurance companies
Housing companies
C. Budget Transfers

76. **There are a number of weaknesses in the current arrangements for transfers from the budget to economic entities.** First, many economic entities face a soft budget constraint. The mission was informed that perhaps as many as 200 entities are currently making losses. They have ready access to fiscal support from the government budget, as well as finance from state-owned banks. There appears to be little attempt to estimate the impact on individual entity finances of government policy restrictions on their operations—such as administered prices or controls on their employment—and to confine budget support to meeting the costs attributable to those restrictions. This approach would create stronger incentives for entities to perform efficiently (especially if, over time, performance indicators were developed reflecting the government’s expectations of what services/outputs it was funding). Second, using state-owned banks to finance the deficits of non-financial entities risks transferring the problems to the financial public sector (or weakening the balance sheet of the CBS where the CBS is directed to provide soft financing to economic entities using state banks as intermediaries).

77. **Thirdly, policy and practice are unclear on whether and when to provide fiscal support to economic entities.** While it is understood that some subsidies are paid annually, in many cases ad hoc decisions are taken on whether an entity’s losses will be met in a particular year or deferred until the government’s budget can better afford to meet them. Hidden deficits can accumulate in the sector, creating a risk of intermittent unexpected shocks to the government’s budget when fiscal support can no longer be deferred or avoided.

78. **Fourthly, there is a multiplicity of institutions with related responsibilities for setting expectations and monitoring the performance of state-owned enterprises (SOEs).** These include establishment boards, the line ministry and responsible minister, the SPC with respect to capital investment, the departments of public enterprises and public debt in the ministry of finance, and the COFC with respect to estimating the causes of any losses. It does not appear that the current arrangements create the necessary incentives for effective oversight of entity operations, or are providing the government with the information it needs to effectively manage the risks. In particular, the minister of finance does not appear to receive regular analysis of the overall performance of the economic entities sector, together with advice on the options that might be considered to improve the performance of the sector generally, or of individual entities in particular.

D. Broader Enterprise Governance Arrangements

79. **For many countries facing a legacy of numerous poorly performing SOEs a key element of the reform agenda is to introduce private ownership.** Among the many objectives are to reduce the fiscal risks to the government, address the performance of the entity and therefore support broader improvements in economic performance, and help to develop capital markets in the country. The minister indicated that in Syria the policy is to
retain full government ownership of SOEs. However, the way that this ownership is organized and managed can have a significant effect on the performance of the entity.

80. **In many countries the absence of well-designed governance and oversight arrangements for SOEs is posing significant risk to government finances, and compromising the quality of service delivery and the contribution of SOEs to economic growth.** Common SOE governance problems include the state exercising its ownership role through multiple institutions, setting conflicting goals, appointing insiders to boards with unclear roles, interfering in day-to-day management, and having weak performance monitoring systems. In many instances line ministries are responsible for both the design of sector policies and regulations, and for exercising shareholder rights, which can create conflicts of interest and dilute the ownership role.

81. **There are renewed efforts internationally to improve SOE service delivery and reduce the fiscal risk borne by the central government budget arising from weak performance by SOEs.** These include the development in 2003 of the *OECD Guidelines on the Corporate Governance of State Owned Enterprises*, provisions in the *International Monetary Fund’s Code of Good Practices on Fiscal Transparency*, and efforts by the World Bank in a number of countries to assist governments to strengthen SOE performance.

82. **Key approaches to improve SOE performance and reduce fiscal risk include:**

   (a) Developing external incentives through increased competition and market discipline to harden SOE budget constraints.

   (b) Identifying and financing non-commercial obligations directly from the government budget, as discussed in the previous section.

   (c) Strengthening the role of the state as owner and regulator of SOEs.

   (d) Improving corporate governance practices at the company level, including a more professional approach to board governance, greater transparency, and disclosure of the finances of individual entities and the sector as a whole.

83. **With respect to (d) above, the World Bank proposes to initiate a project with the Syrian authorities on corporate governance reform intended to improve the performance of state-owned nonfinancial and financial corporations.** Under the *Governance Reform Action Plan for the Syrian Arab Republic*, the Bank intends to provide assistance during 2010 with corporate governance reviews of SOEs, and of the banking sector, including the development of country action plans. The Bank also intends to assist with implementation of the action plans over the period 2010-2012.

**Recommendations**

- During 2010, the MoF should review the current list of economic enterprises against international standards, and reclassify any as administrative entities where appropriate.
(with follow-up work required on whether any reclassified entities should be established as a commission or a regular administrative entity). The initial focus should be on the larger companies, and those that appear to not be fully commercial. MoF should circulate the revised official list of economic entities within government and to the CBS to ensure consistent application of the classifications in fiscal and other reporting.

- Starting with the 2011 budget, the MoF should provide decision makers with details of aggregate revenues and expenditures of the economic entities sector in a budget table, alongside but separate from the summary information for the central government budget sector.

- The MoF should develop this presentation for the 2012 budget into an overview of the financial performance of the economic entities sector. Because the number of public enterprises is very large, the mission suggests focusing on the budgets of the biggest and most important enterprises contributing to fiscal policy (socially-priced enterprises). The budgets of these enterprises (particularly utilities, those providing subsidized foods, transportation, energy products), should be reported on an individual basis. For other smaller enterprises, operational balances could be enough.

- It is necessary for the MoF to review the current mechanisms for providing fiscal support to individual economic entities, financing of economic entity capital investment, and the treatment of economic entity surpluses. Starting with the largest entities, design new instruments that aim to provide a harder budget constraint, inject a greater focus on the performance of entities, and reduce fiscal risks. Where an economic entity is making losses due to government price and other operating restrictions, the budget transfer should be based on an explicit estimate of the financial impact of these restrictions, and subsidies should be placed on a more automatic, annual basis, to prevent the build-up of “hidden deficits” and the risk of periodic shocks to the budget.

- The MoF should initiate an in-depth review of the broader governance regime for economic entities, including a review of the market environment in which they operate, and the way in which the government carries out its roles of owner and regulator. The review should consider options to reduce the number of organizations

---

19 This will require an entity-by-entity analysis of the decree establishing it, relevant government policy objectives, its financial performance and position, the level and form of fiscal support it has received, and other information relevant to establishing the extent to which it is profit-oriented in practice and meets its expenditure requirements from sales. There will be some instances where similar entities exist in each governorate and can be assessed as a group e.g., water companies, electricity companies.
responsible for overseeing the economic entities in order to develop the specialist skills necessary to effectively implement the role of shareholder.

V. **TREASURY REFORMS**

A. **Introduction**

84. **This section looks at the treasury system in the government of Syria.** It describes the current system and considers issues relating to the existing differences from international standard practices. A treasury system is traditionally responsible for implementing, recording, and accounting for all financial transactions of the government. It should ensure that the cash resources of the government are managed efficiently and prudently.

85. **To this end, it is necessary to consider the individual elements of the treasury system.** These include the banking arrangements of each level of government and the efficiency of the bank account structure; the effectiveness of government cash management within the fiscal year; the operation of budget execution over the fiscal year; and the accounting and IT systems available for recording, controlling, and accounting for budget execution transactions within the institutional structure. A comprehensive description of the proposed new budget classification structure is also included.

86. **These elements together form the treasury system as a whole.** As such, the final section draws conclusions from the above and makes recommendations for reforming the system in order to become more effective. These conclusions are extensively based on international and regional good practice but also take into account the individual nature of the Syrian system.

B. **Public Banking Arrangements**

**Current arrangements**

87. **The institutional structure of the public sector is complex.** This complexity affects government banking arrangements. The structure dictates that budget execution comprises:

(a) central government transactions;
(b) governorate transactions involving the local directorates of the line ministries;
(c) transactions of administrative units (AUs);
(d) transactions of the economic units (EUs); and
(e) transactions of the governorate and municipality independent budgets.
88. **Of these groups of current revenue and expenditure transactions, only those of (a) generally appear to conform to a practical treasury single account (TSA) system.** The treasury directorate (TD) of the MoF receives all central government revenues into its account number 2501 at the CBS. Current expenditures made by the TD are paid from 2501 by cash, check or electronic transfer as required. Capital investment expenditures are managed from the Public Debt Fund (PDF) account of the MoF Public Debt Directorate (PDD) at the CBS. PDD also manages the “capital revenues” which are made up of annual surpluses taken from the operations of EUs—more usually classified as dividends.

89. **The MoF has seven accounts at the CBS.** Of these, three are small, relatively unused accounts: one is an account for the proceeds of treasury issued certificates of deposit (CDs), one is the PDD current account; one is the TD 2501 current account; and the last is an account which has been frozen for many years and contains a large surplus belonging to the government. The latter account holds about SYP160 billion which has been held in the CBS—with much unused for over 25 years. The mission was unable to determine the reason for this unutilized cash balance although the CBS believes that a significant amount is likely to be used for investment project expenditures in 2010. None of the government bank accounts at the CBS are remunerated for positive balances.

90. **The government is no longer allowed to borrow from the CBS.** Under the GFL 2007, the practice of the government taking loans from the CBS to finance its activities is not permitted. The CBS does not make loans to the governorates, the municipalities, or the EUs. CBS loans are made to the public banks, however, for on-lending to enterprises as directed by the government—at interest rates which were fixed in 1967.

---

20 The FAD 2006 and EU 2008 reports concentrated mainly on the central government (a) banking arrangements when concluding that the TSA structure was reasonably effective.

21 It appears that this issuance was used a number of years ago to finance cash shortages but does not occur now.

22 Approximately 8 percent of GDP.

23 Over SYP80 billion.

24 These figures have been verbally provided to the mission by the CBS but not confirmed. The balance of all government deposit accounts at the CBS was SYP367 billion at end-2008 (including non-financial EUs). (CBS Quarterly Bulletin.)

25 It is understood that a decree was issued which enabled such borrowing to continue into 2009 but that this will not be extended further. The practice has, however, led to the build-up of a substantial loan of about SYP320 billion at end-2008 owing to the CBS on which interest is payable. (CBS Quarterly Bulletin.)

26 Significant quasi-fiscal costs are associated with these loans.
91. There is considerable complexity and confusion regarding the transactions relating to (b) and (c) and their associated bank accounts. The CBS maintains about 2,500 accounts for government-related entities. Many of these are inactive and the CBS has recently undertaken a program to close accounts which have not been used for a long period and to transfer the balances to the 2501 account. About 140 non-MoF accounts are large, however, and have high transaction volumes. Despite these being actively utilized accounts, they maintain a steady positive aggregate balance of approximately SYP120 billion according to the CBS.

92. Major ministries have a directorate in each governorate and each has at least one bank account with the central bank, its local branch, or a public bank if there is no CBS branch. These accounts are independent of the TD central account and operate revenue and expenditure transactions on a net basis. Similarly, AUs hold operating and other bank accounts with the CBS. AUs which are branches of government directly associated with ministries, and also those AUs which are known as ‘commissions’ and operate with a relative degree of independence from their affiliated ministries,27 have bank accounts for their transactions.

93. EUs and municipalities are fiscally independent operations which maintain their own budgets. The ‘independent’ budgets of governorates also operate outside the state budget. Each of these entities owns banks accounts which are usually not at the central bank since the CBS pays no interest on their deposits. Most of these accounts are at state-owned banks.

94. The TD monitors all these bank account balances on a daily basis.28 It is able to withdraw funds from them if they are in surplus when the treasury requires extra cash resources. It also contributes resources to bank accounts when necessary. The TD coordinates bank account inflow information with the directorate of revenue in order to avoid the occurrence of overdrafts—which are prohibited by the CBS.

95. There are currently no laws which control the opening and operation of government bank accounts at the central bank or its branches.29 A ministry or government agency can ask the CBS to open an account for any reason without the approval

27 Such “commissions” include hospitals and universities.

28 The mission was informed that this includes the EU bank accounts. It is not clear whether the TD has discretion to withdraw surplus cash from these, but is expected to inject cash as necessary.

29 The General Finance Law 2006 requires a decree from the minister of finance for any public agency to open an account at a public bank.
of the MoF or other controlling entity. Many accounts have been opened for temporary uses and remain inactive once their need was fulfilled.\footnote{For example, the mission was told of a separate CBS account opened by a ministry for donations relating to a deceased employee.}

**Related issues**

96. **The government banking arrangements are a mixture of modern practice with the legacy systems of budget execution.** For the central government, a reasonably effective TSA system is being used to consolidate revenues and expenditures through a single account at the CBS—account 2501. At the PDD, investment and debt proceeds are used to finance the capital budget and debt servicing needs through a single account structure. Where communication and control difficulties have, in the past, forced distant agencies to operate independently, however, a multitude of individual bank accounts has emerged.

97. **A lack of centralized in-year accounting procedures has also contributed to the complexity of the banking arrangements.** Where a clear double-entry ledger and sub-ledger accounting system is lacking, it is often expedient to rely on a bank to keep transaction records for its clients’ use. Where many entities are making revenue and expenditure transactions, it is necessary to utilize many different bank accounts and rely on the bank statements to act as accounting ledgers.

98. **There are many problems in using such a system.** Without accurate recording of transactions by the government, the banking system cannot be checked or reconciled. In order to avoid fraud and error, it is vitally important to control the passage of cash resources through the government bank accounts. The primary mechanism through which this is normally achieved is by the accurate recording of each government transaction and reconciling these against bank account statements received. This process requires a comprehensive, centralized accounting system which, if computerized, can perform the reconciliation process automatically.

99. **A TSA structure which covers the whole government budget execution process is also an important pillar of effective cash management.** One of the main objectives of cash management is to know the total cash resources available to the government at any time in order that they are utilized efficiently. The existence of a comprehensive TSA covering all inflows and outflows of government transactions meets this criterion and ensures that the government reduces its borrowings to a minimum through time.

100. **Large unconsolidated cash balances are maintained in many CBS bank accounts of the government.** At the same time, a large loan is outstanding from the CBS to the government and the MoF and CBS are preparing to actively borrow in the nascent T bill
market. This means that the government of Syria is unnecessarily borrowing significant amounts of money to meet its expenditure needs. This is an additional cost to its operations since it is unremunerated for cash deposits. If cash deposits and borrowings are consolidated into a TSA structure, interest costs are minimized. It is often claimed that, since the excess interest charged for borrowing is payable to the central bank, this extra cost reverts to the government through central bank dividends. This argument is generally false in that the extra profit often leads to higher expenditures at the central bank.

101. The practical effects of no control on opening bank accounts at the CBS are very clear. The proliferation of accounts complicates a system which is already difficult to control, monitor, and report. The legacy effects of budget execution over large distances without the use of modern data transmission technology have led to a great many bank accounts. The opening of more, unjustified accounts, however, must be strictly controlled. The mission was informed that a draft new central bank act will contain measures to prevent the opening of further government accounts without the direct approval of the minister of finance. This action is to be commended but it would generally—in international experience—be the responsibility of the government to enact such a prohibition.

C. Cash Management

Current arrangements

102. As stated in previous TA reports of FAD and the EU, there is no active cash planning performed at the TD. The TD monitors government bank accounts on a daily basis and takes advice from the revenue directorates on the amount of cash resources flowing to the government. This enables it to ensure that the bank accounts do not fall into overdraft. Little in-year forecasting of expected revenues appears to take place either within the TD or the revenue directorates.

103. Similarly, there is a lack of understanding of future expenditures over the coming months. The TD is able to plan the payments of consistent items such as salaries and, therefore, is relatively confident regarding the majority of current expenditures over the near term. It experiences wide variations in other types of expenditures and revenues, however, which lead to short-term borrowings from the CBS—a practice being phased out—or from certain budgetary and extrabudgetary funds.

104. A further method used by the TD to ensure that sudden shortages in revenue collection do not lead to overdrafts is to allow agencies and finance directorates to maintain surplus cash balances in their bank accounts. As discussed above, this can be highly inefficient if the government is borrowing to fund these surpluses at the same time. Although the TD states that it withdraws these surpluses when they are required elsewhere, it is clear that in aggregate they amount to extremely large sums.
105. **The TD does request expected cash needs for the following month from all agencies—including administrative and economic entities.** This request is for a net requirement, however, and does not provide the breakdown between revenues and expenditures. This is because the agencies are entitled to keep the revenues they collect in order to meet expenditures. They, therefore, only provide forecast information if they expect to need a cash injection during the month.

106. **The government has long been planning to open a T-bill market through a primary auction process and the CBS believes that the necessary steps have been taken to enable borrowing using this method.** With the special decrees to permit continued government borrowing from the CBS over the past two years, there has been little incentive on the MoF to resort to a new and uncertain T-bill market. A relatively large expected budgetary deficit for fiscal 2010, however, and prohibition on CBS borrowing means that the T-bill market may be utilized for the first time this year.

**Related issues**

107. **Cash management cannot be achieved without the preliminary step of producing accurate cash forecasts or plans covering the fiscal year.** Without the capacity to withdraw cash financing from the CBS at very short notice, it will be necessary to rely on issuance into the T-bill market as and when cash shortages arise. This is not only problematic in a market that is new and untested and where participant investors may be reluctant to make bids at short notice. It also severely hinders development of the market. Investors expect to understand in advance the level and timing of demand from the sole supplier of bills—the treasury. In order to provide this information, the treasury must be able to forecast its cash requirements throughout the fiscal year and publish its expectations of T-bill auction volumes and calendar.31

108. **The TD is aware of the need for cash planning and its inherent difficulties relating to information gathering and uncertainty.** The mission understands that a pilot project is being started in two ministries whereby revenue and expenditure projections are to be provided on a regular basis. Computer software is being developed by the IT directorate which will consolidate forecasts and provide an expected cash requirement profile. It is anticipated that this pilot will be extended further across government next year. Several cash flow studies have also been made including within the Government Financial Securities Unit which is responsible for the activation of the domestic T-bill market.

109. **The capacity in the TD is not currently deemed sufficient to drive a project of this nature.** It is also unlikely that the TD will initially be provided with enough authority to ensure government agencies perform accurate, regular, and updated cash flow forecasts.

---

31 This is also important information for use in monetary policy operations of the CBS.
Without a proficient automated accounting system in place, the TD will also not be able to perform the calculations necessary to determine where errors in plans and forecasts are occurring and the means to rectify such errors in the future.

110. **Without a change in the bank account structure, the TD will find it difficult to make cash flow projections and determine how and when cash resources are to be raised or utilized.** With multiple bank accounts operated by a large number of autonomous and semi-autonomous agencies, the TD will be unable to forecast with any accuracy the overall aggregate cash balance of the government over future months—even should it be able to produce relatively accurate forecasts of revenues and expenditures. It will, therefore, not be able to project the cash borrowing requirements in the T-bill market. It will also not be able to know whether aggregate cash surpluses exist.

**D. The Budget Execution Process**

**Current arrangements**

111. **The budget execution process is also based on a legacy system derived from a lack of automated operations.** Budgets are run within governorates on multiple systems. Their “independent” budgets are funded from own-revenues, revenue-sharing arrangements, and central government transfers. The regional general expenditures are managed through the local directorates of the line ministries. Payment orders are then sent to the finance directorates in the governorates who make payments from their bank accounts. These accounts operate by netting current revenues and expenditures together without transferring monies to and from the center. When local revenues are insufficient to meet current expenditures, the TD and MoLA transfer cash to the regional bank account of the directorate.

112. **The government capital budget (Section III) is managed and funded by the PDD.** The PDF is funded from the profits of the EUs, loans, and, as necessary, from the TD. Project finance is also provided by foreign loans and grants which are managed by the PDD. Since only six EUs are able to raise their own project loans and service these debts themselves, on-lending to many EUs for investment projects is also managed by the PDD.  

113. **There are many instances of budget advances and funding of imprest accounts during the execution of the budget.** Whilst these are allowed by the Basic Financial Law

---

32 Regional offices of the MoF.

33 These transfers are officially borrowings from the treasury by the PDF but are, in practice, not repaid.

34 All non-central government loans—e.g., to municipalities and EUs—are explicitly government guaranteed.

35 These are petty cash accounts for small sundry items. Often these can be used as an excuse to utilize much larger sums and avoid regularizing these against budget appropriations.
2007, they are required to be regularized within 45 days. This often does not happen—further complicating treasury operations and the possibility of producing accounting records.

Related issues

114. **These multiple strands of budget execution—both revenues and expenditures—adversely affect the efficiency of the treasury system.** Difficulty in obtaining detailed up-to-date information of transactions from the governorates and AUs restricts the ability of the TD to modernize its operations and its accounting practices. The netting of transactions at the local level means that double-entry based accounting cannot be achieved and regular (e.g., monthly) reporting of full government accounts is not possible.

115. **The recently agreed institutional changes within the MoF are important to the modernization of the treasury operations.** The incorporation of the capital budget execution responsibilities of the PDD within the TD will be consistent with the objective of integrating the capital and current budgets—and is strongly supported by the mission. The changes will not, in themselves however, lead to greater efficiency in the control and reporting of budget transactions. The same degree of non-centralized netting of revenues and expenditures will remain in the system unless the TD becomes responsible for all budget execution transactions (subject to aggregation by agencies such as the revenue directorates and the MoLA), and a TSA structure is in place which controls all movements through regional bank accounts.

E. **Budget Classification System**

116. **The core principles of the current budget classification system were reviewed by the May 2006 FAD-WB report and have not been modified since then.** The system defined by the Basic Financial Law (Section III) and related decrees includes four criteria of classification as follows:

- **Functional** classification showing the expenditures on the basis of the main government functions (nine functions, plus one for unallocated expenditures), and constituting the so-called first level of the organizational structure (see below).

- **Administrative** classification showing the expenditures at the three subsequent levels of the organizational structure, starting with a top level representing a group of entities, a medium level representing in most cases the line ministry, and a lower level including all its subsidiary agencies or entities.\(^{36}\)

---

\(^{36}\) The English translation of these four levels varies a lot in different translated reports and may be confusing. The 2006 report uses the terminology sector, branches, divisions, and sections. The IT and budget departments use a terminology sometimes different. The term “sector” is also called “function” according to the translations. (Continued...)
• **Economic** classification showing the expenditures with a separate chapter for five types of expenditures (three chapters for current and capital expenditures, two chapters for transfers and debt-liabilities), each chapter being broken down into items and sub-items (called articles and paragraphs) to show the details.

• **Regional** classification showing the expenditures of central administration and those of the 13 governorates, plus 2 for governorate and District of Damascus.

117. **In practice, this budget classification is implemented through a budget coding and automated system that includes 10 digits as follows:**

• Administrative and functional classification with **5 digits** showing the 10 functions (coded by 1 digit, 0 to 9); top level (1 digit each, coded 1 to 9); medium level for the ministerial department (1 digit coded 1 to 9); and lower level (2 digits coded 01 to 99).

• Economic classification with **3 digits** showing the nature of the expenditures (5 chapters coded 1-5); and revenues (5 chapters coded 6-0) broken down into items, articles, and paragraphs.

• Regional classification with **2 digits** showing the expenditures in central (digit 0); and local governments units (digits 1-15).

118. **The review of this classification system was made in 2006 and indicated that it was not consistent with GFS and COFOG standards.** Both the IMF-WB 2006 analysis, mostly built on the review made by a July 2004 STA report, and a recent January 2008 EU report have detailed the main weaknesses of the classification against GFS and COFOG. The mission has confirmed and updated this analysis in agreement with the ITD as follows:

• The functional classification including 10 functions (or sectors) significantly diverges from COFOG standard. Mapping both classifications could be done, but a complete reshaping of main functions regardless the government’s structure is preferable.

---

37 Salaries and wages, administrative expenses, capital expenditures, transfers, and debt, and liabilities.

38 Taxes, real estate revenues, miscellaneous, investment revenues, and unexpected revenues.


41 The current first function “Social and Personnel Services,” includes most of the line ministries.
The economic classification also diverges from *GFSM 1986* and *2001* (wages and salaries, Chapter 1: classification does not provide sufficient details on their various components; capital expenditures, Chapter 3: classification includes some personal expenditures related to projects; debt and liabilities, Chapter 5: classification mixes interests payment with financing items).

The coding system (10 digits of which 3 digits for economic classification) is insufficient to capture all transactions, resulting in manual booking in extra classification tables, in particular for capital spending. Some administrative expenditures are coded unevenly according to their nature (e.g., fuel expenditures: 3 or 4 digits depending on the entity, hampering aggregation).

The coding system of tax revenues requires additional digits which are currently recorded on extra-tables manually.

The classification does not include a program classification (this is a new requirement not raised in 2006), nor a classification of origin of financing.

119. **A new budget classification, based on a project developed with the technical assistance of the European Commission in 2008,** is in the process of being submitted to the MoF’s authorities. The current project related to the new budget classification and its associated coding have been broadly reviewed by the mission. In line with the project developed by the European Commission in 2007, the new classification will provide a comprehensive coverage of the transactions (expenditure and revenue) and their full identification from the functional, administrative, economic, program, financing, and geographic perspectives. The system allows for double entry system to book transactions and direct linkage with the chart of accounts. The proposed coding of the expenditures is a 28-digit system broadly designed as follows:

- funding 3 digits
- functional, administrative and regional classification 8 digits
- activity (program-related classification) 8 digits
- economic classification 6 digits
- source of financing and associated bank account 3 digits

120. **The new draft budget classification is consistent with GFS and COFOG standards.**

The structure of the classification is constructed to meet the main requirements of *GFSM 2001* (economic classification) and COFOG (program classification with 10 functions). Although it is designed from the perspective of a full accrual accounting system, in line with *GFSM 2001*,

---

Box 1. Main Characteristics and Benefits of Government Finance Statistics (GFS)

GFS was established by the IMF in order to provide a standardized classification for fiscal statistics to be used for budget, reporting, and accounting purposes.

GFS includes two standards, GFSM 1986 and GFSM 2001. The main difference between both standards lies on the introduction of accrual concepts (regarding in particular assets and liabilities) for government accounting and the harmonization with other international statistical systems.

GFS recommends an economic classification of revenue and expenditure data, referring to the widely accepted economic nature of the data (wages and salaries, use of goods and services, etc.).

GFS also recommends a functional classification referring to the UN COFOG standard which includes 10 main aggregated functions for public government (general public services, defense, economic affairs, environment protection, etc.).

Using these standards facilitates comparison of budget statements between ministries and entities, and also international comparisons, as well as tracking the economic impact of the budget.

Using these standards also facilitates the issuance of financial statements and accounts in accordance with the international accounting standards (IPSAS in particular).

Classification of fiscal data using GFS also facilitates implementation of computerized budgeting and accounting systems (GFMIS) and their evolution overtime to meet new international requirements.

it is planned to be implemented, at least during the first phase, on a cash basis accounting system.\(^{43}\) In addition, the project includes a functional classification in line with COFOG (10 COFOG functions).\(^{44}\) The structure includes a segment on source of funding and bank account aimed at full reconciliation between fiscal and monetary data.

121. The new budget classification also includes a proper program coding to match the new program structure adopted by the MoF. The program coding (code with 8 digits of which 5 digits for identifying the transaction within the program structure) should allow integration of the program structure (program, sub-program or activity, project) into a consistent framework for fiscal reporting. However, given that the program structure is not finally adopted and that only two ministries are currently under a pilot trial, the program coding has not been fully tested.\(^{45}\) This will require much closer cooperation between the MoF (IT and budget directorates) and line-ministries, especially when attributing each

---

\(^{43}\) Chapters 1, 2, and 3 for cash transactions on expenditures and some items of the other chapters related to assets and liabilities based on cash accounting.

\(^{44}\) However, an additional eleventh function is planned for unallocated funds.

\(^{45}\) But the overall program is already developed in the classification coding.
appropriation (or portion of appropriation) to a specific component of a program, sub-
program, and project. Further work will also be needed to address the difficulties usually
encountered in a program environment when reporting on costs distributed among several
programs at the same time (disentangling costs center codes into administrative and program
codes).

122. **Implementation of the new classification for the preparation and execution of
the budget in its traditional way will first require establishing a mapping system.** This
will connect the current system (10 digits) and the new one (28 digits) in order to conform
the new database for budget execution, reporting, and accounting purposes. Ideally, the
mapping should be carried out both on classification items and associated data with transitory
measures to avoid or minimize breaks in the historical time series. The 2004 STA report\(^{46}\)
provided useful guidance and methodology in order to devise this mapping. TA may be
required at this stage although the extent of the complexity of the task is difficult to evaluate
at this early stage of the process. Once this first step is achieved, it will be important to
provide information and training to budget officers in charge of the preparation and
execution of the budget both at MoF, line ministries, and governorates.

123. **The new budget classification has been devised by the IT and budget
directorates of the MoF and needs to be communicated to other participating
institutions.** The MoF budget and treasury staffs need to be brought into the project. A lack
of proper administrative support to the project (training, guidance, information, technical
support) could jeopardize successful implementation of the whole project. This may need TA
to follow up on the work done so far in the program budgeting (METAC) and budget
classification (EC) areas.

124. **Implementation of the new budget classification is also closely linked to the
development of a GFMIS which has not yet been confirmed by the MoF\(^{\dagger}\) authorities
and which, in the best case, will not be operational before several years.** The EC project
on the new budget classification has been based on a full GFMIS implementation with
functionalities in the budgeting, accounting and reporting areas. The new budget
classification may not be implemented fully until GFMIS is fully deployed. This is discussed
in the following section.

\(^{46}\) See Appendix III.
F. Public Accounting and IT Systems

Current arrangements

125. As described above, at present double-entry accounts are not generally produced by the government—except those of the public debt directorate. Also, few in-year accounts are produced and reported. The TD and IT directorate produce monthly reports of transactions but these are not reconcilable accounting statements. The COFC produces public final accounts and simultaneously acts as the external auditor for the government accounts. These accounts are reported with up to one year delay.

126. The IT systems of the TD are currently basic but being improved and reformed. All central government transactions through the TD are input to the existing system on a single-entry basis, but this system only records this data and does not consolidate it to provide government reports. Monthly and quarterly transaction data is sent from the finance directorates to the TD. This is mainly transmitted electronically with all governorates now being connected to the IT center of the MoF. The ITD has developed its own recording and database systems to date.

127. Currently, the capital investment transactions of the PDD are independently recorded on their own system. This system is not linked to the TD system. The PDD also maintains its own database for recording debt stock, servicing and on-lending. These PDD systems are based on double-entry accounting in cost and accrual form.

128. TA has been provided to the MoF on the need and process for designing and implementing a GFMIS. There is very slow progress on this issue. The mission understands that a draft basic specification for a GFMIS, its procurement process, and a proposed new system of budget classification have been sent by the ITD to the senior management of the MoF for a decision to proceed.

Related issues

129. It is unlikely that any major modernization reforms to the treasury system can take place without a simultaneous upgrading of the existing IT systems. Currently, it would be a very onerous task to require the TD to produce full, double-entry accounts either manually or utilizing the existing central IT system—which would require considerably more development to accomplish this. Implementation of a GFMIS requires a prior comprehensive mapping of all existing business processes. The necessary and agreed reforms to be undertaken whilst implementing the GFMIS are consolidated with this map and the system configured accordingly. It is recommended that radical budget execution process reforms should not be made before this stage has been reached.
130. A full-scale GFMIS design and procurement process can take at least two years to complete. Once the reformed business processes have been designed and the system procured and configured, the proof-of-concept, and pilot testing of the system can take up to two more years to complete. This timeline suggests that a decision to commence the program should be taken as soon as possible.

131. It is important for the government to study all available options for the procurement of a modular GFMIS. While the IT directorate has been actively investigating a number of options, the mission considers that an open-bid tendering basis is the most cost-effective and transparent method for selecting a preferred supplier. There are drawbacks associated with choosing an IT partner which will develop a system specifically designed for one particular country’s needs. These range from a difficulty in determining the optimum pricing and duration of the system development, to the potential for the country to be held ransom by a single provider of a unique system design. A full analysis of all the options to procure an off-the-shelf or independently developed GFMIS is vital to ensure competent completion of such a major project and value for money.

132. Undertaking the GFMIS project and continuing development of existing IT systems are not mutually exclusive. The IT directorate is currently developing the existing system for use with an enhanced database. This will allow it to make a number of limited business process reforms and test these while running the existing system on a parallel basis. The mission suggests that, once confirmed, the new budget classification system and chart of accounts can be usefully incorporated into the developing system. A mapping structure can allow this development to be transparent to users who can be introduced to the reformed process once it has been fully tested. The long-term nature of a full GFMIS procurement stage means that a fully tested, functioning, and understood new classification system can be transferred directly into the general ledger module.

133. The proposed development of an accounting function in the TD would eventually have implications for the role of the COFC. As mentioned earlier, at present the COFC has a dual role of preparing and auditing the accounts. Once MoF assumes the role of government accountant the COFC should look to adapt and establish the skills required of a government auditor. To the extent that the budget execution systems evolve with the development of double entry accounting and the eventual use of program structures, there will be a consequent need for the COFC to enhance capacity to meet the needs of these developments.

G. Conclusions and Recommendations

134. The issues raised above do not fall into separate categories but are cross-cutting through all the processes involved in a treasury system. The sequencing of reforms is an important issue since these cross-cutting effects must be considered in conjunction with the change management process. For example, installing an operating TSA structure and
producing in-year government accounts must coincide with reforms to the way that transaction payments are made and recorded at the governorates. These will only be possible once an IT accounting system and data network is in existence.

135. The general conclusion of this chapter is that substantial modernization of the government treasury system is desirable but will need to be implemented within a planned and gradual timeframe. In order to provide a sense of the wide ranging nature of the necessary changes, the following paragraphs set out the recommended reforms without suggesting that they should or could be short-term priorities in Syria. For all the necessary reforms to be designed and implemented, significant levels of TA will be required to assist with the reform process and change management across all agencies of the government. This chapter is not concerned with institutional changes which may be necessary once the business process reforms are implemented, but it is important to note that the reforms will undoubtedly lead to rethinking the way that the government financial management structure is formed.

136. It is recommended that the banking arrangements of the government are restructured. This involves forbidding the opening of new accounts by government agencies which are not truly independent. It requires the closing of all inactive accounts at the CBS. Once the PDD capital investment budget operations are incorporated into the TD, the account of the PDD and the PDF should be consolidated with the 2501 account. Changes to the operating accounts of the ministry directorates should be made in conjunction with the budget execution process reforms (see below).

137. It is recommended that business process reforms are made to budget execution at the governorates. This involves ensuring that all revenues collected at the regions by the directorates of the ministries are remitted directly to the TSA at the CBS. All revenues collected on behalf of the government by the governorate offices must also be sent directly to the TSA. Additional “top layer” taxes levied by the governorates for their independent budgets should be retained in their own bank accounts and these transactions reported to the TD.

138. All expenditure payments to government employees, suppliers, and capital project contractors should either be made centrally by the TD or through an effective TSA structure controlling local payments. This reform requires that bank accounts of the finance directorates are either closed or their balances are transferred to the TSA on a regular basis—preferably daily. The former option would centralize all access to government cash resources and would require an effective communications network for payment orders

---

47 Such as municipalities and commercial EUs.

48 This will be as a sub-account to the TSA “umbrella” account at the CBS.
approved at the region to be transmitted to the TD. The latter option would require agreement with the CBS to zero-balance regional bank accounts at its branches electronically.

139. **It is recommended that a cash management unit (CMU) is established in the TD.** The unit would be responsible for obtaining revenue and expenditure plans from the requisite agencies and ministries. It should acquire the capacity to produce seasonal analysis of revenues and expenditures as in-year data on these becomes available from an enhanced database. It would use these data to produce a regular projected cash flow profile by week and month covering the fiscal year. The forecast would be analyzed against actual outcomes in order to establish reasons and sources of errors. The CMU would need sufficient authority to question agencies regarding their forecast accuracy and suggest means to continuously improve it. It would be expected to devise a system of incentives and sanctions to encourage accuracy.

140. **Once the CMU had shown capability in producing accurate, disaggregated fiscal year cash plans, it is recommended that it commence active cash management.** This would require the CMU to be given responsibility for managing the government cash resources at the TSA. The CMU would devise an adequate buffer level of cash balance at the TSA to be able to absorb unanticipated excess cash requirements. It would be responsible for auctioning T bills\(^\text{49}\) as required by the cash plan and indicating these demands to the market. It would need to discuss with the CBS and government senior management how surplus cash reserves in the TSA could be used to offset historic borrowings efficiently and it would negotiate with the CBS for cash deposits to be remunerated.

141. **It is recommended that a decision to commence the design and procurement process for a modular GFMIS is made as soon as possible.** Whether the proposed GFMIS is off-the-shelf or produced individually for the government, it is a very long-term project. The detailed planning stage for it should commence as soon as possible. The ITD should be given responsibility to analyze all available options and preferably conduct an open tender procedure to select a provider. It will be necessary for the government to obtain TA on this process and TA will also be necessary to provide quality assurance during the implementation stages of the system.

142. **It is recommended that the current development of the existing IT system continues.** The long timeframe for the design and implementation of a GFMIS suggests that it will not come on-stream for at least two years following the decision to proceed. Significant progress can be made during that time in extending the existing system to more users and incorporating more reforms (such as the new budget classification system). Parallel running of the systems in development alongside a proven existing IT system can act both as proof-of-concept for the new design and as familiarity training for users. Greater use of

\(^{49}\text{Using the CBS as the government fiscal agent.}\)
computerized systems and new coding structures by officials will significantly enhance
cchange management procedures necessary to adjust to a full-scale modular GFMIS
implementation.

143. It is recommended that the TD\textsuperscript{50} prepare for the general ledger, accounts
receivable, and accounts payable modules of a GFMIS by adding the capacity to
produce in-year government accounts. Although it would be currently too onerous for the
TD to produce such accounts,\textsuperscript{51} it is vital that it is directly involved with the design and
implementation of the GFMIS accounting functionalities. The GFMIS will utilize a modern
comprehensive classification structure and chart of accounts. This, coupled with an effective
report-writing module, will allow the TD to produce a complete set of accounts and reports
required by MoF and government senior management and government auditors. The TD
should be proactive in attaining the training, skills, and personnel to ensure that it has the
capacity for this task once the GFMIS and budget execution reforms allow.

144. It is recommended that the sequencing and cross-cutting issues for these reforms
be studied in detail. The action plan in this report goes some way in suggesting a timeframe
for this work. Greater analysis is required and significantly more TA needed for the reform
plan on the treasury system to be implemented smoothly and efficiently.

\textsuperscript{50} The full title of this office is the Treasury and Public Accounts Directorate.

\textsuperscript{51} It would assist this recommendation if the existing IT system could be developed in the interim period to
produce a basic set of government accounts in order that the TD could to gain valuable experience in this work.