

INTERNATIONAL MONETARY FUND

**Assessing and Promoting Fiscal Transparency: A Report on Progress**

Prepared by the Fiscal Affairs Department

Approved by Teresa Ter-Minassian<sup>1</sup>

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<sup>1</sup> Supplement 2 of SM/03/86 *International Standards: Strengthening Surveillance, Domestic Institutions, and International Markets*

**ABBREVIATIONS AND ACRONYMS**

CalPERS	Californian Public Employees Retirement System
CBPP	Center on Budget and Policy Priorities
CFAA	Country Financial Accountability Assessments
DQAF	Data Quality Assessment Framework
EBFs	Extrabudgetary funds
EU	European Union
EU1	European I Department
EU2	European II Department
FAD	Fiscal Affairs Department
FSAP	Financial
GFS	Government Finance Statistics
HIPC	Heavily Indebted Poor Countries
IFIs	International financial institutions
IFMIS	Integrated financial management information systems
IT	Information technology
MEP	Memorandum on Economic Policies
NFPEs	Nonfinancial public enterprises
NGOs	Nongovernmental organizations
PEM	Public Expenditure Management
PFIs	Public financial institutions
PRGF	Poverty Reduction and Growth Facility
QFAs	Quasi-fiscal activities
ROSC	Reports on Observance of Standards and Codes
STA	Statistics Department
TA	Technical assistance
TAMS	Task Force for Assessment and Monitoring of Standards and Codes
UFR	Use of Fund resources

## Executive Summary

This paper reviews experience in assisting countries to implement the fiscal transparency code through their participation in fiscal modules of Reports on Observance of Standards and Codes (ROSCs). It also examines the ways in which linkages of fiscal ROSCs to surveillance, program and technical assistance (TA) activities of the Fund are being developed.

Assessing country practices against the code has presented a number of challenges with respect to the diversity of administrative capacity and fiscal management systems among Fund membership. Since initial approval of the Code of Good Practices on Fiscal Transparency in April 1998, the code and the accompanying manual and questionnaire have been refined and strengthened in light of experience. In parallel with these developments, the methodology and format of the fiscal transparency ROSCs have been developed from fairly summary “experimental reports” to thorough but succinct assessments against code practices and concise staff recommendations. As of February 24, 2003 54 fiscal ROSCs were completed and 48 were published on the IMF website.

Observations from completed ROSCs were examined for four groups of countries: advanced, emerging market, transition, and developing economies (each defined according to commonly applied Fund and World Bank criteria). Among the key points to emerge from these observations were:

- Most countries participating in the ROSCs have undertaken or are undertaking significant fiscal reforms;
- A high proportion of countries seeking market access have chosen or plan to undertake a fiscal ROSC;
- ROSCs provide an indication of a number of common problems that occur across a wide range of countries—in particular, problems of fiscal data quality, use of off-budget mechanisms, lack of clarity in tax policy and administration, and poor definition of intergovernmental relations were observed among many developing, emerging market, and transition economies; and
- Many of these issues are associated with a set of underlying institutional problems, also observed in the ROSCs—and these need to be addressed on a sustained basis.

These findings, which are being systematically recorded through the ROSC process, are of significance to Fund surveillance, program, and TA activities. There have been quite close linkages between ROSCs and other Fund activities in several countries. Future efforts will give considerable emphasis to strengthening these linkages and improving incentives and capacity of member countries to adopt transparent fiscal management practices.

## A. Introduction

1. **This report reviews progress to date in assessing and promoting fiscal transparency practices in terms of the *Code of Good Practices on Fiscal Transparency (fiscal transparency code)*.** The fiscal transparency code was first endorsed by the (then) Interim Committee of the Board of Governors of the International Monetary Fund in April 16, 1998. Revision to the code and manual were approved in March 2001. The process of participation in fiscal transparency ROSCs to assess practices relative to the Code has now become well established. As of February 24, 2003, 54 fiscal ROSCs had been completed, of which 48 were published on the IMF website. A number of others are in advanced stages of preparation.<sup>2</sup> This is an appropriate stage of development to examine substantive progress in the fiscal area in the context of the review of implementing standards and codes.<sup>3</sup>
2. **Fiscal transparency continues to be promoted through technical assistance (TA) provided by FAD as well as more generally by Fund surveillance and program activities, but ROSCs are providing a stronger focus.** Fiscal modules of ROSCs are being developed as a key instrument for coordinating the efforts both of individual countries and international and bilateral agencies in promoting fiscal transparency. This paper discusses developments in the process of implementing the fiscal transparency code; summarizes the substantive findings emerging from ROSCs; examines ways in which fiscal ROSCs are being linked to other FAD and Fund activities; and outlines next steps and future challenges.

## B. Development of the fiscal ROSC process

3. **The fiscal transparency code was developed, alongside other standards and codes, in response to the financial crises of the late '90s.** Inadequate or inaccessible information on key elements of public financial management was seen as an important factor that may contribute to vulnerability. Moreover, improving fiscal transparency is seen as a driving force for improving fiscal management.<sup>4</sup> Fiscal transparency ROSCs (see Box 1)

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<sup>2</sup> See summary overview of the fiscal transparency ROSC program in Annex I.

<sup>3</sup> Eleven areas and associated standards and codes are promoted by the IMF and the World Bank through the joint Fund/Bank Financial Stability Assessment Program (FSAP) and other activities (see *Assessing the Implementation of Standards—A review of Experience and Next Steps* (SM/01/11) and *Summing Up by the Acting Chairman* (SUR/01/13). In July, 2002, Fund Directors agreed conditionally to add Anti-Money Laundering to the list of areas where ROSCs will be produced

<sup>4</sup> See Kopits and Craig (1998) for a discussion of basic concepts and definition of fiscal transparency that provided a basis for development of the fiscal transparency code..

### **Box 1. Fiscal ROSCs: Main Features**

Fiscal ROSCs are not merely concerned with publication of fiscal data; they examine the overall clarity of fiscal management in a coherent framework, including such aspects as the relations between levels and branches of government and transparency and accountability of fiscal activities conducted outside the budget. As discussed in the text, many of the completed fiscal ROSCs have thus helped identify areas of priority for deeper institutional review and reform.

A wide range of countries have now participated in ROSCs and the reports have become much more standardized. Fiscal ROSCs now follow a standard template with the following key features:

- A description of country practices, which briefly compares country transparency practices with the 37 areas of good practice of the fiscal transparency code;
- A staff commentary that summarizes the extent of observance against the code and suggests priorities for improving transparency—the coverage is restricted to matters of fiscal transparency, and avoids recommendations on specific policies or efficiency and effectiveness of fiscal management; and
- Institutional detail and precise references to country laws and websites. These details substantiate comparisons with code practices and give guidance to others that wish to find out more about specific country practices.

By and large, ROSCs have proved an effective tool for communicating important weaknesses in fiscal transparency and have been well received by the authorities in countries at various stages of development. Nonetheless, the need to further develop the quality of ROSCs and to ensure an even-handed treatment across countries with due regard to differing levels of development and country specific factors is recognized. The survey of ROSCs carried out in preparation of this paper showed differing treatment of similar issues among ROSCs. As a result, the internal operational guidelines for FAD staff have been further refined by establishing clearer internal review processes (by FAD and the concerned area department) and giving more specific directions to improve general quality and consistency of assessments. Some key points emphasized in the revised FAD guidelines are as follows:

- Fiscal transparency ROSCs will generally be confined to around 20 pages of text, including staff commentary (but detailed annexes may also be provided);
- Where subnational governments play a significant role, ROSC missions should meet local government representatives and identify key transparency issues for general government fiscal policy and reporting.
- A strong emphasis is placed on the need for the authorities to complete the questionnaire and provide support documentation prior to a ROSC mission's visit; and
- ROSCs should, as a rule, be completed (circulated to the Executive Board) within three months after the preparation mission—allowing some latitude for full discussion with the authorities, particularly if the discussion involves translation of documents.

have been developed as the main instrument to assess country practices and to help the authorities identify priority areas for improvement. These embody a uniform<sup>5</sup> approach to

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<sup>5</sup> A number of “experimental reports,” precursors to the present ROSCs, were carried out in 1999 for a range of countries. In the first round, the countries were Argentina, Australia, Hong Kong Special Administrative Region of China, and the United Kingdom; a second round covered Cameroon, Czech Republic, Tunisia, and Uganda. Because of the different treatment (and, in some cases, lack of adequate factual observation), the first four experimental reports have not been included in the analysis. From these early ROSCs it became clear, first, that desk-based studies were inadequate to give assurance of due diligence from an IMF perspective; second, that

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assessment relative to “good” rather than “best” practices, which can be applied across the diverse range of fund membership and which avoids “pass/fail” judgments. They provide information on transparency, in the first instance, to countries themselves in the context of Article IV consultations, but also to the international community and the financial markets. As discussed further below, the private sector is making increasing use of fiscal ROSCs for financial risk analysis.

4. **Parallel with the development of the ROSC methodology, the underlying fiscal transparency code and manual have also been further refined.** Experience in implementing the code over the period 1998–99 suggested several changes in detail and some simplification. Accordingly, the code and the accompanying manual were reviewed during 2000 and the Executive Board approved a revised code and manual on March 26, 2001. Particular emphasis was given to the revision to data quality issues; and data quality was defined consistently with the data quality assessment framework (DQAF) established by STA.<sup>6</sup> In light of increasing concerns about the need to ensure that the public, the financial markets, and the IMF are provided with reliable and timely fiscal data, the main change was to expand the fourth general principle of the code giving specific emphasis to data quality.<sup>7</sup>

5. **For adequate surveillance of standards, ROSC updates must be prepared as part of the regular Article IV consultation process and, periodically, new ROSCs will be prepared.** Informational updates have been carried out for a number of countries, but this has still to be fully systematized and accommodated within available resources. Guidelines for a more standardized approach are being developed.<sup>8</sup>

6. **The fiscal ROSC program, as described in Annex I, is currently targeted at completing 18-24 ROSCs per year.** As the stock of completed ROSCs grows and some become outdated, it will be necessary to conduct new ROSCs for some of those completed. With current resource availability, these new ROSCs will have to be accommodated within an annual staff resource envelope of under 8 person years.

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the published assessments needed to provide enough institutional detail to substantiate any comparisons with the code of good practices; and third, that assessments would be better carried out by IMF staff rather than as self-assessments.

<sup>6</sup> See SM/01/77 *Revised Manual on Fiscal Transparency*, March 2, 2001.

<sup>7</sup> See Box 23 in the *Manual on Fiscal Transparency*. The revised code added a specific principle requiring assurances of data quality covering the following good practices: budget data should realistically estimate revenues and cover known spending obligations; statements of accounting policy should be in the budget document; and the fiscal accounts should be explicitly reconciled with banking records. Questions of data quality, however, were considered in sufficient detail in the original formulation of the code for observations made in earlier ROSCs to be examined against the revised code.

<sup>8</sup> See *International Standards: Strengthening Surveillance, Domestic Institutions, and International Markets* (SM/03/xx). Annex 1 to this paper discusses the issue of resource costs for fiscal transparency ROSCs and the approach being taken to updating for FY 2004.

### C. Observations on fiscal transparency from completed ROSCs

7. **Country transparency practices observed in the fiscal ROSCs have been examined in broad country groupings**—derived from standard Fund and World Bank classifications.<sup>9</sup> Some key observations are summarized in Box 2.<sup>10</sup> Several lessons appear to be emerging from the now significant number of countries that have participated in ROSCs.

8. **First, and perhaps not surprisingly, given the voluntary nature of the process, most countries participating in the fiscal ROSCs have undertaken or are undertaking significant fiscal reforms<sup>11</sup> that should lead to improved fiscal transparency practices.** ROSCs serve the important functions of highlighting such reforms, tracking progress over time, and promoting more widespread adoption of successful practices.

Major areas of progress noted in the completed fiscal ROSCs are as follows:

- In some developing countries, reforms underway were directly related to technical assistance or program commitments with the Fund or the Bank (for instance, measures to strengthen budget execution and reporting in Cameroon, Honduras, Nicaragua, Papua New Guinea, and Zambia). Many are reducing the scope of quasi-fiscal activities through privatization or through price liberalization (Nicaragua, Benin, Burkina Faso, Mozambique, Tunisia, Uganda, and Zambia).
- The leading candidates for European Union (EU) accession have been relatively successful in clarifying the role of government and improving transparency; in most cases, more rapidly than other transition countries and many other emerging market countries. Many transition countries have successfully introduced a treasury system that produces regular fiscal reports.
- Important reforms noted in the emerging market economies include the implementation of integrated financial information management systems (IFMIS) in

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<sup>9</sup> The analysis is based on those countries that completed a fiscal ROSC as of October 31, 2002 (excluding the four experimental ROSCs) grouped as follows: *Industrial economies* (high income, industrialized): Canada, France, Greece, Italy, Japan, and Sweden; *Emerging market economies* (upper-middle income countries, non-industrialized high income countries, and other non-industrial members of the G-20): Brazil, the Czech Republic, Estonia, Hungary, India, Korea, Mexico, Poland, Russia, Slovak Republic, Slovenia, South Africa, Turkey, and Uruguay; *Transition economies* (formerly planned economies other than those included under emerging market): Armenia, Azerbaijan, Bulgaria, Kazakhstan, the Kyrgyz Republic, Latvia, Mongolia, and Ukraine; and *Developing economies* (remaining low and lower middle income countries): Benin, Burkina-Faso, Cameroon, Egypt, Honduras, Malawi, Mali, Mozambique, Nicaragua, Pakistan, Papua New Guinea, the Philippines, Sri Lanka, Tanzania, Tunisia, Uganda, and Zambia.

<sup>10</sup> Noting that all observations relate to the status of practice at the time the ROSC or ROSC update was completed. Moreover, observations relate only to the countries that have participated in the ROSCs and not to the grouping as a whole.

<sup>11</sup> Many such reforms were initiated prior to the standards initiative.

Brazil (albeit initiated well prior to the standards initiative), Mexico (in progress), South Africa and Uruguay; program budgeting in Brazil, Mexico and South Africa; and progress in developing modern budget laws and medium term fiscal frameworks in South Africa, Brazil, the Czech Republic, Hungary, and Poland.

## **Box 2. Some Key Observations from Fiscal Transparency ROSCs**

### **Fiscal Data Quality**

- Weaknesses in all areas of data quality—weak external audit, unreconciled accounts data, lack of clarity in accounting policies, and lack of budget realism, were most common among the developing countries.
- Transition and emerging market economies have, for the most part, made progress in establishing timely and reconciled accounts; but many transition economies need to improve coverage.
- Unrealistic budgeting is a widespread phenomenon among all but the advanced countries.
- Weaknesses in internal controls and audit functions are also a widespread phenomenon.
- Budgetary arrears were associated with unrealistic budgeting as well as weak internal controls.

### **Off-budget<sup>12</sup> Fiscal Activities**

- Establishing a clear definition of government and identifying and handling quasi-fiscal and other off-budget activities constitute key strategic problems for transition economies and some emerging market economies, as well as being among the many issues facing developing economies.
- Weakness in reporting contingent liabilities and managing fiscal risk are barriers to transparency in a wide range of countries, including some emerging market and advanced economies.

### **Clarity of Tax Policy and Administration**

- Excessive discretion in tax administration and inadequate enforcement are common problems in many developing countries.
- Few countries, other than the industrial economies, examine or quantify tax expenditures in conjunction with the budget process.

### **Intergovernmental Fiscal Responsibilities**

- Establishing a clear definition of fiscal responsibilities among levels of government, non-discretionary transfer mechanisms, and timely reporting on general government are key areas for improvement in most countries.

- Some developing countries, for instance in Latin America, have also invested in IFMIS. Results so far have been mixed in Latin America (see Box 3), but the Tanzanian ROSC records a significant resulting improvement in data quality.

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<sup>12</sup> This term is used to designate fiscal activity outside the broadly defined general government budget—essentially using other elements of the public sector, or engaging in risk not captured in the budget to achieve fiscal objectives. Extrabudgetary funds (EBFs) and own-revenue accounts are treated as problems of inadequate budget coverage—a fiscal data quality issue.

- In the advanced economies, improvement in fiscal transparency was generally seen as an integral element of fiscal management reform—and several of these have published their own assessments against the code (Australia, Canada, New Zealand, and United States. Australia, Canada, and recently the United States, also participated in the fiscal ROSC process).
- Recent reforms in some advanced economies reflect a move toward adoption of government accrual accounting and balance sheets, and performance-oriented budgeting, though few have yet attained a high level of practice in these areas.

9. ***Second, countries seeking market access, in particular, have participated strongly.*** Over half of the 60 or so nonindustrial market access countries have chosen or plan to undertake a fiscal ROSC. This response indicates an acceptance by many countries of the importance of fiscal transparency in improving market perceptions. In part too, this response may be related to the increasing interest being shown in fiscal ROSCs by rating agencies and private sector analysts (see paragraph 32 below).

10. ***Third, the fiscal ROSCs provide an indication of a number of common problems that occur across a wide range of countries.*** A number of common issues were indicated particularly among developing, transition, and some emerging market economies. Problems of fiscal data quality, use of off-budget mechanisms, lack of clarity in tax policy and administration, and poor definition of intergovernmental relations are discussed in Box 2 and a more detailed listing of key findings from ROSCs is given in Annex 2. Regional groupings of countries, moreover, often share a common legacy manifested in similarities of fiscal management institutions. Many benefits can be gained from peer dialogue on common issues and there are potential efficiencies from regional approaches to address common problems—and these findings are likely to be of operational significance to Fund area departments. Some preliminary lessons emerging from ROSCs in Latin American countries are summarized in Box 3. FAD, together with STA and EU1 and EU2, has organized a seminar in February 2003 for EU accession countries, most of which have completed fiscal ROSCs. This seminar will examine ROSC findings in these countries as well as the application of the Government Finance Statistics Manual 2001 to fiscal reporting in the EU.

11. ***Fourth, many of the fiscal transparency weaknesses are strongly indicative of a set of underlying institutional problems that could lead to future fiscal or financial vulnerability.*** These weaknesses need to be addressed on a sustained basis by the Fund membership and the international community. Observed poor fiscal data quality, for instance, means that there are significant risks that a country's fiscal reports may not give a reliable guide to its past or projected fiscal policies. This lack of data transparency was frequently linked in the ROSCs to underlying institutional weaknesses:<sup>13</sup> in particular, failure to adequately enforce existing laws; failure to specify fiscal policy goals in an accountable way;

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<sup>13</sup> These observations are also generally borne out by the data quality assessment of GFS data carried out through the STA data ROSCs.

and lack of adequate watchdog institutions (inadequate capacity or support of the national external audit office was frequently noted). HIPC countries in particular need to tackle these problems to provide transparent and reliable accounting of both debt relief and poverty reducing expenditures.

12. **Recourse to various off-budget mechanisms gives rise to a “hidden deficit”.** Non-recognition of the risks associated with contingent liabilities and quasi-fiscal activity means that there is some misrepresentation of the true fiscal position—and, if such activities are extensive, a danger of future fiscal and financial vulnerability.<sup>14</sup> The use of such mechanisms is symptomatic of underlying governance and accountability issues—evident from many ROSC observations of a poor definition of the relative roles of general government and nonfinancial public enterprises and public financial institutions. Quasi-fiscal activities, particularly in the energy sector, have given rise to significant difficulties in a number of the transition economies,<sup>15</sup> and ultimately such pressures come to bear directly on the budget in future years.

13. **Other weaknesses in fiscal transparency are similarly based on underlying institutional weaknesses.** Excessive concessions and nonreporting of tax expenditures, discretion in application of tax laws, and noncompliance with existing tax law are indicative of poor fiscal discipline, which may give rise to future vulnerability. Defining intergovernmental relationships is also a pervasive problem, which, particularly in complex federated states, can lead to future fiscal pressures that are insufficiently recognized if general government reporting is inadequate.

14. ***Fifth, even among the industrial countries, there are significant areas where fiscal transparency can be improved.*** All published ROSCs have given suggestions for improving transparency, and weaknesses have been observed in some industrial countries. Staff have recommended improvements in timeliness of monthly reports, explicit treatment of extrabudgetary accounts, development of the legal framework, amending processes for in-year spending and carry-forward of unspent appropriations, better reporting on the use of contingency reserves, and more detailed analysis of fiscal risks in the budget documents.

15. **Fiscal ROSCs can thus provide useful signals both to individual countries and the market.** The assessments of compliance with the fiscal transparency code can be very helpful both to individual countries, as an indicator of the strength of their overall fiscal management system, and as an incentive to improve key management practices. Publishing a fiscal transparency ROSC provides a clear signal to the market and financial analysts that weaknesses are being recognized and addressed. For the Fund membership generally, a

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<sup>14</sup> See particularly the discussion of these issues in the fiscal ROSC for the Czech Republic (which, with World Bank assistance, had published details of previously hidden liabilities). Nicaragua provides another example where central bank domestic debt of almost 20 percent of GDP that was issued to address problems in the banking system may ultimately be transferred to the government.

<sup>15</sup> See Petri, Taube, and Tsyvinski (2002)

sustained emphasis by the international community of the importance of basic assurances of transparency in the key areas identified above will provide a strong incentive for governments both to seek help to address underlying institutional weaknesses and to demonstrate that steps are being taken to achieve adequate standards in these areas. ROSCs provide the Fund, and the international community more generally, with a potentially powerful instrument to provide the needed focus on these issues over the long term.

### **Box 3. A Regional Perspective: Fiscal ROSCs in Latin America**

Latin American countries, although diverse in terms of economic size and level of development share a number of common fiscal management and transparency characteristics. Five countries in the region have completed fiscal ROSCs (excluding the experimental report on Argentina) and a number of others are at advanced stages of ROSC preparation.

A common feature of Latin American countries is that economic and accounting statistics generally cover the entire public sector, and a broadly defined public sector balance rather than the overall balance of general or central government is the focal point for fiscal policy formulation and reporting. By the same token, however, all of the group completing ROSCs have exhibited (at least in the past) relatively weak definition of the relative roles of general government and commercial and financial operations of the rest of the public sector. Of the emerging market countries in the group, Brazil has taken major steps to reduce quasi-fiscal activity and was assessed as being broadly successful in this regard. Mexico and Uruguay have both recognized the magnitude of this problem—assisted in both cases by participation in the fiscal ROSC, and, in Uruguay’s case, by subsequent Fund TA to support a proposed reform program. For the developing countries ( Honduras, and Nicaragua), the staff commentary recommended action over the medium-term to improve definition of the role of general government vis a vis the rest of the public sector and steps to identify and quantify quasi-fiscal activity (as well as report on contingent liabilities and tax expenditures).

Many Latin American countries (including those that have done ROSCs) have invested substantially in developing IFMIS as well as more generally in information technology (IT) to improve transparency of government financial operations and procurement. Brazil has been a regional leader in these activities and the region generally has benefited from intra-regional dialogue on experience in implementing IFMIS and other IT initiatives. Except for Brazil, however, the ROSCs have seen the need for significant additional steps to strengthen these systems and, in the developing countries in Latin America, the quality of fiscal data and inadequate reconciliation practices remain a concern. All of the Latin American ROSCs have recommended some significant strengthening of external audit and most have also noted the need for improving internal audit practices.

For many Latin American countries the credibility of fiscal policies over the long term is a central issue. Establishing a transparent fiscal management system that provides assurances of fiscal sustainability is thus an important element of fiscal reform for most countries in the region. It is evident that piecemeal reform, even in such a vital area as IFMIS, is not by itself sufficient to provide this level of assurance. The Brazil ROSC demonstrates the importance of a comprehensive approach to fiscal reform. Nearly every element of the fiscal transparency code is being addressed, and transparency is given special emphasis through Brazil’s fiscal responsibility law. Of particular importance, given Brazil’s federal structure, this law is binding on all levels of government—and it is noted that the quality of fiscal information is significantly weaker at the state level. Of course, some aspects of Brazil’s reforms are relatively recent, and progress will have to be monitored over time. However, the importance of fiscal transparency is being explicitly recognized by the major countries in the region-and it seems likely that this recognition would result in tangible improvements in fiscal management and, eventually, in market perceptions of the region.

16. **These findings have implications for follow-up action for Fund program and surveillance work as well as for technical assistance (TA) from the Fund and other agencies.** Current practices to follow up ROSC findings, as well as some implications for future strategy are discussed in the following section.

#### **D. Fiscal ROSCs and other Fund activities**

17. **Fiscal ROSCs provide a means for systematizing fiscal management information of significance to Fund surveillance, program, and TA activities.** However, the modalities to follow up these linkages are still being developed. Some of these interactions are illustrated in Box 4, which describes activities in Pakistan in association with the completion and publication of the fiscal ROSC.

18. ***Surveillance: Article IV consultations have called attention to problems in fiscal transparency and led to interest in undertaking a ROSC to improve fiscal transparency.*** Completion of ROSCs has, in turn, allowed a stronger focus on some key structural and management issues in Article IV policy discussions (see SM/03/---). The practice of regular updating of ROSCs as an integral part of the Article IV consultations will help to consolidate the role of surveillance in this respect. Fiscal ROSC recommendations have received attention in some recent Article IV missions in non-program countries. For example, in Egypt, problems in monitoring the fiscal sector led to a data quality TA mission (2001), which was carried out in conjunction with the country's participation in a fiscal ROSC exercise. The fiscal ROSC recommendations were later picked up in the subsequent Article IV mission. The Czech Republic provides a good example of how surveillance has supported ROSC recommendations, and how the update process has highlighted both improvements and new problems in the area of fiscal transparency.<sup>16</sup>

19. ***Program conditionality: Fiscal ROSCs have contributed to the process of designing structural conditionality.*** ROSCs are undertaken voluntarily and agreement on priorities for improvement is reached as part of the discussion with the authorities. Where ROSCs indicate transparency weaknesses of significance to programs, however, steps to improve transparency or strengthen the underlying institutional framework have been incorporated in program conditionality.<sup>17</sup> Ownership of structural reforms carried out under

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<sup>16</sup> The ROSC updates show that the government has made significant progress in promoting fiscal transparency and in addressing the fiscal vulnerability related to the "culture of guarantees" noted in the original ROSC. However, the updates also note the creation of several extrabudgetary funds that may reduce transparency and control of public funds.

<sup>17</sup> Attainment of necessary systemic improvements (to improve effectiveness and efficiency as well as transparency) has often been a key focus of Fund structural benchmarks as part of conditionality. Some evidence suggests that when structural benchmarks are supported by sustained technical assistance, they can lead to lasting systemic improvements. Treasury system reform in transition economies may be one example where judicious use of structural performance criteria and benchmarks, combined with sustained technical assistance, has helped achieve a significant structural reform (see Potter and Diamond, 2000).

Fund-supported programs is vital to their effective implementation. The voluntary nature of the ROSCs should mean that such elements are more fully owned by the authorities.

#### **Box 4. Coordination of ROSCs, Program-support, and TA: the Case of Pakistan**

Where there are deep-seated institutional factors underlying transparency weaknesses, addressing these depends critically on a commitment by the authorities to sustained reform. A fiscal ROSC, combined with Fund and other agency assistance can play a vital role in supporting a long-term reform program when these conditions are met. In Pakistan's case, the new government in late 1999 sought technical assistance to address problems of inconsistent fiscal data that had led to misreporting of fiscal data to the Fund in 1998/99 and earlier years. With assistance from the Fund and the World Bank from that time, Pakistan is successfully implementing a number of measures to improve its accounting system and the reliability, timeliness, and accessibility of fiscal reports.

Fund TA (both FAD and STA) during 2000 gave a particular emphasis to measures to improve reconciliation of accounts and the quality of fiscal data through the establishment of Fiscal Monitoring Committees (FMCs) at federal and provincial levels. During 2000, Pakistan also participated in a fiscal transparency ROSC to assess its fiscal transparency practices against the IMF fiscal transparency code. These efforts, combined with parallel work by the World Bank, helped to overcome some institutional barriers that had hindered progress in separating the previously combined external audit and government accounting functions, and to revitalize the World Bank supported Pakistan Improvement of Financial Reporting and Auditing (PIFRA) project. The subsequent Fund-supported PRGF arrangement included prior actions, structural performance criteria, and structural benchmarks that emphasized continuing progress in addressing fiscal data problems as well as other aspects of transparency identified in the ROSC.

During 2002, the Fund and the Bank have carried out follow-up TA with a continuing emphasis on assisting the authorities to strengthen basic accounting and fiscal management institutions—and with particular emphasis on ensuring accountability at the local government level in line with the government's decentralization program. Significant enhancement of reporting, as well as other aspects of fiscal transparency, have been recorded since the ROSC was completed. These include:

- greatly improved performance in accounts reconciliation at both federal and provincial levels—although further strengthening is needed, particularly in some of the provinces and at the local level;
- separation of audit and accounting, and transfer of the Controller General of Accounts office to the executive branch of government;
- re-establishing Public Accounts Committees under executive order;
- publication of quarterly fiscal reports and poverty-reduction related expenditure data on the Ministry of Finance website (some provinces, for instance Sindh, also now provide quarterly fiscal data on their websites) ;
- publication of reports on contingent liabilities and tax expenditures; and
- preparation of a draft fiscal responsibility law (available on the finance website <http://www.finance.gov.pk/law/main.html#introduction> ).

Under the PRGF-supported program, the authorities are committed to continue improving fiscal transparency and data quality. An accountable fiscal management framework is being established—specifying a range of assurances of the quality of fiscal data to be attained and an action plan to put these permanently in place over the next 2-3 years. Technical assistance is being provided in key areas by the World Bank, with inputs from bilateral agencies (notably the United Kingdom, Department for International Development). Fund surveillance will play an anchor role: significant improvements will be recorded and published in ROSC updates in the Article IV consultations.

20. **A number of Fund programs have adopted measures to address problems of data quality based on fiscal ROSC recommendations.** As indicated in Annex 3, the programs for Pakistan, Honduras, Latvia, and Armenia had structural benchmarks covering numerous aspects of data quality. Even where conditionality did not cover fiscal transparency recommendations, a number of MEPs including for Benin, Bulgaria, and Uruguay mention measures taken directly from the fiscal ROSC such as independent audits, treasury improvements, and improvements in budget classification and expenditure procedures.

21. **The problem of quasi-fiscal activities has been central to performance criteria in both the Fund programs for Armenia (2001) and Azerbaijan (2002).** Annex 3 also lists a number of other countries where addressing off-budget activities has been highlighted in programs following ROSCs. For example, conditionality in the Fund program for Uruguay (2001 and 2002) required a study on quasi-fiscal activities in the financial sector and aimed to reduce them or bring them into the budget as explicit subsidies. In other countries, Fund programs have picked up recommendations from ROSCs and put structural benchmarks on publishing a statement of contingent liabilities with the budget and the requirement to estimate and report tax expenditures (measures to address both aspects have been implemented in Latvia and Pakistan).

22. **Many of the transparency weaknesses identified in fiscal ROSCs represent fundamental barriers to countries' capacities to implement fiscal programs successfully.** Monitoring the status of country practice in this regard through ROSCs could thus represent at the very least an important complement to program structural benchmarks for establishing country ownership and sustained commitment to structural reform. In the longer term, as countries become more committed to achieving sustained improvements in fiscal transparency, ROSC updates could replace the need for explicit structural conditionality related to fiscal transparency.

23. **Associated TA: Continuous monitoring of transparency provides the possibility of linking Fund TA more closely to program and surveillance interests.** Fiscal ROSCs address a range of key fiscal management practices (such as fiscal reporting, data quality, and audit and control) and structural issues (like privatization, resource funds, and quasi-fiscal activities). Although TA will continue to address specific technical issues as they arise, TA missions can draw attention to specific aspects of the fiscal transparency code, even where a ROSC has not been initiated. The code identifies a number of key objectives that can be taken up through fiscal TA, and many of these objectives, as noted, correspond closely to surveillance interests.

24. **Fund TA missions, and in some cases resident or short-term experts, have followed up on ROSC recommendations.** As indicated in Annex 4, TA of this kind has included treasury coverage and budget preparation (Bulgaria), treasury development and internal audit (Armenia) accounting and budget execution (Mongolia), improving the legal framework and budget preparation (Azerbaijan), and improving budget classification (Mali). Azerbaijan, in particular, has received a substantial amount of TA from the Fund and others,

much of which has supported fiscal ROSC recommendations.<sup>18</sup> In many of these cases, however, the TA was part of a continuing program of TA, or was geared as much to specific technical issues identified by the authorities as to improving transparency per se.<sup>19</sup>

25. **Other Fund activities: Fiscal transparency ROSCs are coordinated with a number of other Fund activities.** In several cases ROSC missions to highly indebted poor countries (HIPC) were carried out in conjunction with missions focusing on improvements for tracking poverty related expenditures (Benin, Burkina Faso, Honduras, Mali, Malawi, Nicaragua, Tanzania and Zambia). The recommendations of the ROSC and HIPC assessments were made in parallel and were mutually supportive. The Fund's work on safeguards assessment with members' central banks also complements ROSCs and other work to improve the quality of fiscal data.<sup>20</sup>

26. **There are areas of overlap between fiscal ROSCs and other standards and codes work carried out by the Fund.** The Government Finance Statistics (GFS) component of the data ROSC modules carried out by Statistics Department (STA) cover similar elements of data quality to those included in the fiscal ROSC (see paragraph 4 of this paper). Likewise, there are overlaps with the FSAP and financial sector ROSCs, particularly in relation to quasi-fiscal activities of public financial institutions. STA, MAE, and FAD coordinate and are aware of each other's programs through the Task Force for Assessment and Monitoring of Standards and Codes (TAMS). Cooperation in the field and subsequent internal review processes have generally proved sufficient to ensure that assessment and recommendations by different Fund ROSCs are mutually supportive.

27. **The range of transparency weaknesses discussed in section C are of fundamental concern to Fund activities.** Poor fiscal data quality may be a critical constraint in evaluating a country's fiscal policies. Likewise, extensive use of off-budget measures poses questions of the reliability of fiscal data as a measure of fiscal policy as well as deeper concerns about fiscal risks and future vulnerability. Nontransparency of the tax system and inadequate coverage of subnational government similarly can give rise to major fiscal and economic problems in the future. Where such problems are recognized in a ROSC or otherwise, Fund program and policy recommendations and TA need to be mutually supportive. FAD, STA,

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<sup>18</sup> A recent TA mission (Oct. 2001) to assist in designing an organic budget law followed up a large number of ROSC recommendations, and also stressed improvements in the budget preparation process to address weaknesses identified by the ROSC. TA in Azerbaijan and consultations with FAD were also important for the final design of the performance criterion to make quasi-fiscal activities in the energy sector more transparent. Other donors (Swiss, World Bank, USAID) are also providing TA and support to implement a government financial management information system that will improve fiscal monitoring and reporting on arrears.

<sup>19</sup> Moreover, several ROSC missions have been carried out following related TA—for instance in Pakistan and Egypt. In other countries (Korea, Tanzania, Turkey, Uganda), earlier TA missions supplied important inputs to the ROSC mission, or TA missions, with the prior agreement of the authorities, have provided a basis to initiate a ROSC mission at a later date (Georgia, Mauritania). Less frequently, ROSCs have been undertaken concurrently with a TA mission (Philippines, Mongolia, South Africa).

<sup>20</sup> See *Safeguards Assessments—Review of Experience and Next Steps* (EBS/02/27), 2/15/02, particularly Box 2.

and area departments will need to work closely together and actively assess the most effective set of instruments to apply to each situation.

28. **The relative emphasis to be placed on surveillance, program conditionality, and TA in helping countries implement the fiscal transparency code will vary according to the issue being addressed and from country to country.** There should be no presumption that TA will always be required to achieve the necessary improvements in transparency, nor that needed TA should be provided by the Fund. Strategic planning for improvement in fiscal transparency should consider all options in a process owned and led by the authorities in consultation with the Fund and other providers of TA. In some cases, the country's own actions and continuing monitoring will be adequate. Often an immediate improvement in transparency can be achieved simply by publishing information already available internally—many such possibilities are recorded in the fiscal ROSCs. Continuing recognition of the need to improve transparency standards as part of Fund consultation, and more generally by market analysts, NGOs, and the public, should also help to reinforce country incentives for reform.

#### **E. Linkages with other agencies and the private sector**

29. ***International Financial Institutions (IFIs) and bilateral agencies: Coordination with other agencies is needed both to avoid duplication and to follow-up fiscal ROSC findings effectively.*** For the reasons outlined above, fiscal transparency ROSCs will play an important role in aligning the TA activities carried out by FAD with the core interests of the Fund—and from this point of view, FAD would continue to take the lead role in all fiscal ROSCs. This should not, however, preclude participation of staff from other IFIs in Fund ROSC missions, and, more generally, there is a need to share information and schedule activities cooperatively to minimize duplication and avoid overburdening country officials with similarly scoped missions.

30. **Other agencies also carry out diagnostic studies that overlap with fiscal transparency ROSCs, and many agencies provide TA that can help improve fiscal transparency.** The World Bank carries out Country Financial Accountability Assessments (CFAAs) that overlap considerably with elements of a fiscal transparency ROSC. Other diagnostic and TA tools used by the Bank also overlap with fiscal transparency ROSCs. Numerous other donors, particularly the World Bank, also provide TA in support of ROSC recommendations (as discussed in Box 4 in relation to Pakistan). Other multilateral development banks and bilateral agencies participate in Bank-led CFAAs. The Asian Development Bank carries out governance missions, which cover some of the same ground as the fiscal ROSCs.

31. **The Bank and Fund are taking steps to improve collaboration on fiscal transparency.** As an area of shared responsibility, there is potential synergy between the Fund's fiscal ROSC and the Bank's Country Financial Accountability Assessments (CFAAs), which were introduced in FY2000 to address concerns of fiduciary risk. Steps to

improve collaboration on fiscal transparency and other public expenditure issues have been proposed in a recent Board paper on Bank/Fund collaboration on expenditure issues.<sup>21</sup> The steps to improve collaboration on CFAA/ROSCs include drawing more extensively on the work of the other institution, with a view to minimizing the burden on country authorities. As a standard practice, neither of the institutions would recommend to the authorities that a ROSC or CFAA take place within a year of the other. Were the authorities to make such a request, consultations would take place at the mission planning stage between staff teams to ensure a well-sequenced program of work.

32. ***The private sector and nongovernment organizations (NGOs): Private and nongovernment organizations are playing an active role.*** While there are concerns that private sector and NGO application of the fiscal transparency code (or other codes) could be based on inadequate data and/or expertise in the area, such use indicates its relevance and should over time add to the incentives to improve fiscal transparency. The private sector is displaying growing interest in fiscal transparency ROSCs and, in a number of cases, private sector analysts have directly applied the fiscal transparency code as a basis for their assessments of fiscal-related risks. Outreach activities by the Fund have received positive feedback on ROSCs by the private sector (which has emphasized the need for ROSCs to be concise and up-to-date). Some sovereign bond rating reports have explicitly referred to fiscal ROSCs (e.g., Fitch on Korea). In addition, the Californian Public Employees Retirement System (CalPERS) has established a framework for evaluating emerging markets, including fiscal and monetary transparency among the key country and market factors considered.<sup>22</sup> A Credit Lyonnais-linked group, CLSA Emerging Markets, has similarly made extensive use of the fiscal transparency code as a basis for assessment for market analysis—using the results of ROSCs when these are available, but applying the fiscal transparency code when these are not available.

33. ***Some NGOs are actively promoting fiscal transparency.*** The International Budget Project, which is led by a Washington-based NGO, the Center on Budget and Policy Priorities (CBPP) and involves a range of NGOs based in a variety of countries, has adapted the fiscal transparency code (mainly by adding material related to participation in the budget process) to review budget transparency in a number of countries. These studies are public and provide an independent view of fiscal transparency that should help promote standards over the long run.

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<sup>21</sup> *Bank/Fund Collaboration on Public Expenditures Issues (SM/03/73) 2/14/03.*

<sup>22</sup> The fiscal transparency code was applied (by Oxford Analytica) as the basis for evaluation of fiscal transparency. Some reference is made to fiscal ROSCs, but assessments are done when no ROSCs are available (for instance Egypt has been assessed, although the fiscal ROSC is not published).

## F. Conclusions and Future Challenges

### 34. **Several important conclusions emerge from the experience of implementing the fiscal transparency code over the past four years:**

- Surveillance of fiscal transparency is a potentially important mechanism for promoting reform in key areas of fiscal management of central concern to the Fund's mandate;
- Market access countries have exhibited a strong interest in demonstrating transparency and participating in fiscal ROSCs, and a number have benefited by strengthening their fiscal management reforms;
- Private sector analysts are showing increasing interest in assessing countries' fiscal transparency;
- Improvement of fiscal transparency in basic areas of reporting in developing, transition, and emerging market countries requires that deeper institutional issues be addressed in a coordinated and sustained way;
- Fiscal ROSCs have helped coordinate Fund surveillance, program support, and TA activities effectively to promote fiscal structural reform in a number of countries; and
- While the Fund should continue to play the lead role in fiscal ROSCs, active encouragement of follow-up and support by other agencies is being encouraged (see SM/03/xx).

### 35. **These conclusions represent a considerable degree of success in establishing fiscal transparency as an operational standard, as well as indicating further needs.**

Much remains to be done to realize the full potential of the code. In due course, there will be a need to further refine the code, the manual, and the ROSC process to reflect lessons learned. By and large, however, these aspects have been intensively reviewed relatively recently; the need for further revision can be revisited at the time of the next review of progress. The main questions to be addressed in the near future concern the size of the program and appropriate measures to establish priorities given resource constraints. These matters are taken up in SM/03/xx.

36. **Improved coordination of ROSCs with other Fund activities and other agencies is essential to effective and efficient promotion of fiscal transparency.** FAD is taking steps toward this end by cooperating closely with the World Bank in activities related to fiscal ROSCs. It has also taken steps to establish a clearer priority setting process for its TA activities and to align its TA program with ROSC findings where appropriate; albeit in the context of the continuing need to meet traditional TA requests. Some emphasis will also be given to encouraging countries to seek TA in areas that have been identified as issues in ROSCs. For instance, the Public Expenditure Management (PEM) divisions of FAD and the

GFS Division of STA would play a role in providing TA to carry out institutional reform leading to a sustainable improvement in fiscal data quality in countries experiencing significant problems in this area. A guidance note, based on the application of the DQAF to fiscal data and reflecting recent FAD and STA experience in this area, is in preparation.

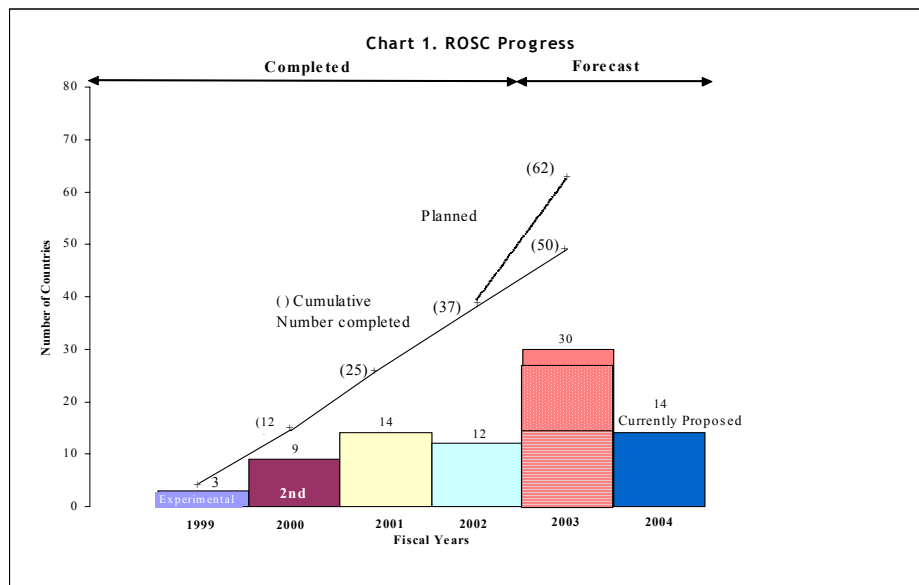
37. **Finally, while the private sector appears increasingly active in focusing on fiscal transparency, there is a need for further proactive dissemination of ROSCs themselves.** It is also necessary to continue to foster interaction with market participants and NGOs. A central argument for promoting fiscal transparency is that increased fiscal transparency will help bring market forces to bear on fiscal decisions and lead to sounder fiscal policies. There appear to be considerable benefits from more concentrated efforts to convey a clearer message to the financial markets on the value of information from fiscal ROSCs.

## Annex I

### Summary of the Fiscal Transparency ROSC Program

#### ROSCs completed or planned

Progress in implementing fiscal ROSCs is shown in Chart 1 by fiscal year.<sup>23</sup> In FY 1999, the first three experimental studies were undertaken. A second round of reports was carried out in the following year and the program in its current form carried on from FY 2001. The program targets from that time were to carry out 18-24 fiscal ROSCs per year, seeking participants through all Fund area departments. Full attainment of this target in terms of ROSCs completed has proved difficult for a number of reasons. The process, being voluntary, is subject to delays at various stages, from arranging missions to



Legend for FY 03

Initial Proposals (8)      In Progress (14)      Completed (12)

reaching agreement with the authorities on text for publication. For six countries (Egypt, Guyana, Kazakhstan, Russia, South Africa, and Zambia) the text, broadly agreed with the authorities, has been presented to the Board but the authorities have not yet agreed to publish the ROSCs.<sup>24</sup> In 2002, although the number of ROSCs completed was less than the lower

<sup>23</sup> Data for completed (that is, presented to the Board) ROSCs in FY 2003 and for missions completed (table 1.2) is as of October 31, 2002.

<sup>24</sup> In the case of Russia, a number of improvements have occurred after the ROSC completion that the authorities would like to see reflected in the text.

boundary of the target, a significant number initiated during that year were in an advanced stage of preparation and are shown under FY 2003. As of February 24, 2003, 54 ROSCs had been completed, of which 48 were published. It is anticipated that, by the end of FY 2003, around 62 fiscal ROSCs will be completed.

Table 1.1 below shows fiscal ROSCs completed by region, as well as those in progress and planned. As of February 24, 2003, 13 EU1 countries had completed fiscal ROSCs, 9 APD countries, 9 EU2, 10 AFR, 8 WHD, and 5 from MED. All regions are participating actively in the FY 2003 program. Table 1.2 shows the number of ROSC missions completed in each year from FY 2000-2002. Data on staffing of each mission plus estimates of expert costs and overhead costs were used to estimate staff resource costs.

Table 1.1 Number of ROSCs Completed and Proposed							
Region	Completed by FY 2000	Completed in FY 2001	Completed in FY 2002	Completed in FY 2003	Proposed for FY 2003		Total overall
					In Progress	Proposed	
Africa	2	1	3	4	1	3	14
Asia and Pacific	3	2	2	2	2	0	11
Europe I	5	4	1	2	2	3	17
Europe II	1	3	3	2	0	2	11
Middle East	1	1	1	0	2	1	6
Western Hemisphere	1	2	2	2	7	1	15
<b>Total</b>	<b>13</b>	<b>13</b>	<b>12</b>	<b>12</b>	<b>14</b>	<b>10</b>	<b>74</b>

Table 1.2 ROSC Missions Completed				
FY 2000	FY 2001	FY 2002	FY 2003	TOTAL
11	17	23	15	66
Includes multiple missions per country				

### Staff resource costs

Drawing on data from budget reporting system (BRS), and travel information system (TIMS), fiscal ROSC missions are estimated to have cost 4.65 person years in FY 2000, 6.7 in FY 2001, and 7.5 in 2002. For FY 2003, the costs for the approximately 21 missions that will be completed are estimated to be around 8.26 person years. Costs per ROSC increased somewhat in that year in particular because several were carried out in advanced economies and required a higher input of experienced staff.

Resources devoted to ROSCs in FY 2004 will be somewhat reduced (as will TA) to accommodate the planned updates of the HPIC assessments and action plans. Some resource savings will result from the completion of ROSCs for all of the G7 countries. However, FAD will have to apply resources in a number of ways to support area departments and help ensure high quality updates of ROSCs that have been completed. Some ROSCs, such as those for Russia and Ukraine, will be completely reviewed. This may entail a small reductions in the number of new ROSCs (to around 20). More efforts will also be made to make more effective use of ROSC findings for TA. It is anticipated that an overall staff resource envelope of 8 person years will be applied to ROSC activities over the medium term. However, it is also proposed to maintain cost data on updating and TA support activities associated with ROSCs. Any cost increases will be carefully assessed by FAD and appropriate adjustments made to activities in line with resource constraints. Cost estimates will be shared and discussed with OBP.

Sustainability of the fiscal ROSC program will also be enhanced by increasing cooperation with the World Bank in applying some of their diagnostic instruments with a similar coverage to fiscal ROSCs, particularly Country Financial Accountability Assessments (CFAAs). These efforts will involve closer coordination of ROSC and CFAA missions, sharing of data, and making more effective use of the institutional database being established by each organization. The fiscal transparency database will be further enhanced. Periodic regional seminars are being considered to encourage discussion of common issues that have been identified by ROSCs (and by other diagnostic instruments). The role of the private sector in applying data from ROSCs and promoting transparency is being assessed.

## Annex II: Observations on Fiscal Transparency

	Data Quality				Off-budget Fiscal Activity			Tax Policy and Administration	
	Budget Realism	Budget Execution Data	Coverage of Fiscal Activity	External Audit	Contingent Liabilities	Quasi-fiscal Operations Related to Financial Sector	Quasi-fiscal Operations Related to NFPEs	Report Tax Expenditures	Tax Administration
	<b>Unrealistic budgeting prevalent:</b> outturns differ greatly from original budget; obligations (e.g. utilities) not covered; overuse of supplementaries.	<b>Weak ex-post data and control procedures:</b> data not reconciled; non-clearance of suspense accounts; irregular procedures; arrears or netting out common and unreported.	<b>Coverage inadequate:</b> incomplete data on general government; MOF and central bank coverage differ; extrabudgetary funds excluded; foreign financed projects excluded.	<b>External audit is weak:</b> audit of the final accounts is absent or with long lags; inadequate resources and weak technical capacity; little or no follow up on findings	<b>Generally prevalent and not reported.</b>	<b>Quasi-fiscal activity prevalent and not reported:</b> interest rates, lending policies, loan guarantees and/or individual lending decisions subjected to political direction.	<b>Quasi-fiscal activity prevalent and not reported;</b> administratively determined (employment, price setting, or cross subsidizing); other non-commercial functions not covered by subsidies.	<b>Data on tax expenditures not published.</b>	<b>Generally subject to administrative discretion:</b> unclear rules; inadequate or bureaucratic appeal procedures; and/or poor observation of existing laws.
Benin	x	x	x	x	x	5/	5/	x	
Burkina-Faso	x	x	x	x	x	x	5/	x	
Cameroon	x	x	x	x	x	x	x	x	x
Egypt	x	x	x		x	x	x	x	x
Honduras	x	x	x	x	x	5/	x	x	x
Malawi	x	x	x	x	3/	x	x	x	x
Mali	x	x	x	x	x	5/	5/	x	
Mozambique	x	2/	2/	2/	x	5/	5/	x	
Nicaragua	x	x	x	x	x	5/	x	x	
Pakistan	x	x	x	1/	1/	x	x	1/	x
Papua New Guinea	x	x	x	x	3/	x	x	x	
Philippines	x	x	x	x	x	5/	x	4/	x
Sri Lanka	x			x	x	5/	x	x	x
Tanzania			x	x	3/	5/	x	x	*
Tunisia	x				x	x	x	x	2/
Uganda	*	x	x	1/	x	x	x	x	x
Zambia	x	x	x	x	x	x	x	x	

Source: Fiscal ROSC completed as of October 31, 2002 (based on practices noted at the time of the ROSC mission) for the respective countries. Observations do not reflect post-ROSC improvements unless they are noted in a subsequent ROSC update. x indicates that the heading applies substantially; blank or a footnote indicates that the practice is significantly better than the heading description. \* signifies observation not sufficiently detailed.

1/ Recent improvements (supported by TA) were noted in the ROSCs.

2/ Improvements noted in ROSC update.

3/ Contingent liabilities shown in annual accounts.

4/ Limited information provided with budget.

5/ Not reported but government involvement is limited.

## Annex II (Continued): Observations on Fiscal Transparency

	Data Quality				Off-budget Fiscal Activity			Tax Policy and Administration	
	Budget Realism	Budget Execution Data	Coverage of Fiscal Activity	External Audit	Contingent Liabilities	Quasi Fiscal Operations related to financial sector	Quasi-fiscal operations related to NFPEs	Report Tax Expenditures	Tax Administration
<b>Transition Economies</b>	<b>Generally not realistic;</b> under funded utilities a common issue.	<b>Generally sound public accounts data;</b> some have major problems monitoring of arrears as indicated below.	<b>Coverage has improved substantially;</b> some need to improve coverage of EBFs and own revenue accounts as indicated below.	<b>External audit is relatively recent and still weak:</b> inadequate resources or not yet fully operational	<b>Generally prevalent and not reported.</b>	<b>Quasi-fiscal activity prevalent and not reported;</b> politically directed noncommercial obligations, directed lending, and/or below market interest rates.	<b>Quasi-fiscal activity prevalent and not reported;</b> energy sector quasi-fiscal deficit a prevalent problem; below cost pricing; non-commercial service.	<b>Data on tax expenditures not published.</b>	<b>Negotiated taxes and discretionary practices in tax administration.</b>
Armenia				x	x		x	x	x
Azerbaijan	x	x	x	x	x	x	x	x	x
Bulgaria	x		1/	*	2/	2/	2/	1/	1/
Kazakhstan			x	x	4/	x	5/	x	x
Kyrgyz Republic	x	x	x	x	x		x	x	x
Latvia				x	3/	5/	5/	x	
Mongolia	x	x	x	x	x	x	x	x	x
Ukraine	x			x	x	x	x	x	x

Source: Fiscal ROSC completed as of October 31, 2002 (based on practices noted at the time of the ROSC mission) for the respective countries. Observations do not reflect post-ROSC improvements unless they are noted in a subsequent ROSC update. x indicates that the heading applies substantially; blank or a footnote indicates that the practice is significantly better than the heading description. \* signifies observation not sufficiently detailed.

1/ Improvements noted in ROSC update

2/ Data reported to legislature.

3/ Data published but incomplete.

4/ Regular reports on debt and guaranteed debt made available to the public.

5/ Privatization has reduced quasi-fiscal activity generally.

## Annex II (Continued): Observations on Fiscal Transparency

	Data Quality				Off-budget Fiscal Activity			Tax Policy and Administration	
	Budget Realism	Budget Execution Data	Coverage of Fiscal Activity	External Audit	Contingent Liabilities	Quasi Fiscal Operations related to financial sector	Quasi-fiscal operations related to NFPEs	Report Tax Expenditures	Tax Administration
	<b>Generally realistic budgets:</b> some continuing weakness as indicated below.	<b>Generally sound reporting:</b> some need to improve reconciliation and/or arrears monitoring as indicated below.	<b>Coverage of general government a common issue:</b> lack of timely data on subnational governments, EBFs or use of privatization proceeds; and/or general government data not properly consolidated.	<b>Generally sound external audit function;</b> some require more formal or systematic follow up on findings as indicated below	<b>Generally prevalent and not reported.</b>	<b>Frequent occurrence; and not reported:</b> politically directed noncommercial obligations: directed lending: and/or below-market interest rates.	<b>Frequent occurrence; and not reported:</b> non-commercial functions not fully covered by subsidies; and/or policy directives regarding price, input and employment decisions.	<b>Data on tax expenditures not published.</b>	<b>Excessive use of tax exemptions;</b> non-transparent tax laws that permit discretion; and/or limited taxpayer rights.
<b>Emerging Market Economies</b>									
Brazil	x		2/	x					
Czech Republic			x	x	1/	x	x	x	
Estonia		1/	1/	x		5/	5/	x	
Hungary		x	1/			4/	4/	4/	
India	x		2/			x	x	x	x
Korea	x		x		3/	x	x	4/	x
Mexico		x	x	x	x	x	x	3/	x
Poland	x	x			4/	5/	5/	4/	x
Russia	x	x	x	6/	x	x	x	x	x
Slovak Republic						5/	x	x	
Slovenia		x	x		x	5/	5/	x	
South Africa				x	x			4/	
Turkey	x	x	x	6/	x	x	x	x	x
Uruguay			x	x	x	x	x	x	x

Source: Fiscal ROSC completed as of October 31, 2002 (based on practices noted at the time of the ROSC mission) for the respective countries. Observations do not reflect post-ROSC improvements unless they are noted in a subsequent ROSC update. x indicates that the heading applies substantially; blank or a footnote indicates that the practice is significantly better than the heading description. \* signifies observation not sufficiently detailed.

1/ Improvements noted in ROSC update.

2/ Lack of timely subnational data is the main problem.

3/ Reported to legislature

4/ Partial data published

5/ Privatization has reduced quasi-fiscal activity generally.

6/ Main issue is to limit pre-audit functions and strengthen focus on ex-post audit

## Annex II (Concluded): Observations on Fiscal Transparency

	Data Quality				Off-budget Fiscal Activity			Tax Policy and Administration	
	Budget Realism	Budget Execution Data	Coverage of Fiscal Activity	External Audit	Contingent Liabilities	Quasi Fiscal Operations related to financial sector	Quasi-fiscal operations related to NFPEs	Report Tax Expenditures	Tax Administration
<b>Advanced Economies</b>	<b>Generally sound;</b> some need to move to higher standards on medium-term estimates, analyzing risks and developing performance indicators, as indicated below.	<b>Good monitoring of budget execution:</b> some need to improve timeliness of reporting within-year data, as indicated below.	<b>Generally sound:</b> some could improve reporting on general government, as indicated.	<b>Generally sound</b> Some could improve mechanisms to follow up on findings	<b>Most publish full information</b> on contingent liabilities.	<b>Generally not reported but limited:</b> some directed lending or lending at below market interest rates, as indicated below.	<b>Generally not reported but limited:</b> some social obligations funded by NFPE or regulation, as indicated.	<b>Most publish full information on tax expenditures with the budget document.</b>	<b>Tax legislation is clear and available to the public,</b> with clear processes for appeal.
Canada		x	x						
France	1/	1/		1/		x	x		
Greece	x	x	x, 1/			x	x		3/
Italy	x	x	x	x	2/		x		x
Japan	x	x	x		2/	x	x	x	3/
Sweden				x, 1/					3/

Source: Fiscal ROSC completed as of October 31, 2002 (based on practices noted at the time of the ROSC mission) for the respective countries. Observations do not reflect post-ROSC improvements unless they are noted in a subsequent ROSC update. x indicates that the heading applies substantially; blank or a footnote indicates that the practice is significantly better than the heading description. \* signifies observation not sufficiently detailed.

1/ Improvements noted in ROSC update.

3/ Clear rules apply to limited discretion.

2/ Partial information published.

**ANNEX III**  
**Program Conditionality and Fiscal ROSC Recommendations**

<b>Country</b>	<b>Performance Criteria</b>
Armenia (2001)	No primary deficit in the energy sector (made an indicative target in 2002)
Azerbaijan (2002)	The inclusion of subsidies and tax credits [in the energy sector] in the quarterly publication on the execution of the consolidated budget, not later than 30 days after the end of each quarter
Azerbaijan (2001)	The submission to parliament of a revised law on the Chamber of Accounts, giving this organization the authority to audit all government bodies, including all budgetary and extra-budgetary funds Adoption of regulations for the preparation of the annual oil fund budget, as described in paragraph 8.
Burkina Faso (2002)	The elimination of administratively set customs values and the appointment of magistrates to the Supreme Audit Court are structural performance criteria for end-June 2002. The government will not accumulate any domestic payment arrears on government obligations in 2002 (a performance criterion to be observed continuously).
Cameroon (2001)	Complete the link between the information system of the treasury and that of the budget department in the Ministry of Economy and Finance in order to follow all expenditures from the commitment to the payments stage carried out both at the central government level and by the local branches of the central government (March 2002) (this had been a structural benchmark for end Dec 2001)
Mongolia (2001)	Secure Parliamentary approval of amendment to Budget Law to clarify and strengthen the accountability of local government officials with respect to the control and reporting of bank accounts and the enforcement of Cabinet regulations and directives from the head of treasury, including by specifying the penalties for arrears accumulation and the misuse of public funds (end-December 2001). Require local governments to adopt the same reporting standards on bank accounts as the central government and to provide monthly reports on their account balances (end-April 2002).
Mozambique (2001)	Submit a new public accounting law to the National Assembly that regulates all stages of expenditure, including commitment and verification. (March 2001-observed Sept 2001)
Tanzania (2001)	Begin publishing quarterly budget execution reports drawn from the IFMS starting with a report for the first quarter of 2001/02 (July-June) (performance criterion; see para. 11) (Nov 2001)
Ukraine (2001)	Ceiling on noncash netting operations on consolidated government obligations arising after Dec 1999. (Equal to zero by March 2001 and thereafter.) Adoption of the formula-based transfers to local governments in the context of the 2002 budget (Dec. 2001)

<b>Country</b>	<b>Prior Actions</b>
Armenia (2002)	<p>No increase in the stock of budget or social pension arrears                      Submit draft treasury law to parliament                      Sign contract with external auditor to audit use of privatization proceeds                      Submit revised law on financial disclosure of public officials</p>
Cameroon (2001)	<p>Adoption of an action plan to introduce a fully integrated information system to manage central government revenue and expenditure, consistent with the recommendations of the Fund's FAD</p>
<b>Country</b>	<b>Structural Benchmarks</b>
Armenia (2002)	<p>The MFE will develop a plan for establishing an internal audit capability during 2002</p>
Azerbaijan (2001)	<p>Adoption of a comprehensive program to strengthen financial discipline in the energy sector, in consultation with the staffs of the World Bank and the Fund (end Sept 2001)</p>
Benin (2001)	<p>Reconcile the end-2000 account balances of the treasury, budget department, externally-financed public investment project, and agencies that are included in the financial operation of the central government. (Dec 2001)</p>
Bulgaria (2002)	<p>Further improve the Treasury Single Account (TSA) by ensuring that the funds of the autonomous budgets (BTV, BN Radio, judiciary system, and the HIF) as well as the suspense accounts in leva are also included in the TSA (paragraph 14). (Dec 2002 onward)</p>
Cameroon (2001-2)	<p>Finalize and validate the new budget classification (end Dec 2001)                      Adopt an action plan for the implementation of an audit body for external control of the State finance. (end March 2002)</p>
Honduras (2001)	<p>Develop action plan based on recommendations of recent ROSC mission (end-Sept 2001)                      Present detailed uses of the "global allocations" in the budget and monthly reporting to MOF on use of global allocations (end December 2001)</p>
Kyrgyz Republic (2001)	<p>Publish a quarterly fiscal bulletin reporting on budget execution including PIP, tax and expenditure arrears, and use of privatization proceeds. The bulletin should also include Social Fund budget execution. (March 2002)                      Regularize the financial relations between the National Bank of the Kyrgyz Republic and the Ministry of Finance (March 2002)</p>
Latvia (2001)	<p>The Cabinet of Ministers to adopt supporting regulations for the implementation of the Law on Public Agencies, as described in paragraph 16 of the MEP.                      Submit to Parliament the 2002 budget documents providing the information described in paragraph 15 of the MEP.                      Transfer all accounts of budget-financed institutions to the treasury single account.</p>

<p>Malawi (2000)<sup>25</sup></p>	<p>Pursuit by official investigators and prosecutors of all evidence of fraud, corruption, and misappropriation of public funds identified in the reports of the Auditor-General, particularly in the cases of the Petroleum Control Commission (PCC) and public procurement.</p> <p>Dissemination of quarterly reports on spending on priority (poverty-related) programs starting with the third quarter of 2000 and with target publication date of one month after the end of the quarter.</p>
<p>Pakistan (2000)</p>	<p>Complete and publish a special audit of the Central Directorate of National Savings</p> <p>Establish basic reconciliation processes in all provinces</p> <p>A statement of contingent liabilities should be published as an annex to the Economic Survey</p> <p>A schedule of tax expenditures should be published as an annex to the Economic Survey</p>
<p>Tanzania (2001)</p>	<p>Begin publishing the amounts and timing of budget transfers to local governments (Sept 2001)</p> <p>Require local governments to present quarterly reports of their revenue by source, and expenditure by sector, from the beginning of their next fiscal year (Oct 2001)</p>
<p>Turkey (2002)</p>	<p>To enhance fiscal transparency, in the draft 2003 budget to be submitted to parliament we will (i) include net lending as an appropriation, and (ii) extend accounting and coding reforms to all consolidated budget agencies, and to general government units on a pilot basis (October 2002).</p> <p>Submit to parliament a Law on Financial Management and Internal Control consistent with best international practices covering budgeting, accounting, transparency, and internal and external control. (end-June 2002)</p> <p>To continue the process of consolidating fiscal institutions, we will by end-March 2002, Close 548 additional revolving funds (out of 1,981 remaining), to achieve the target we originally set for end-2001 (March 2002). We will also, in the draft budget for 2003 to be submitted to parliament, incorporate the revenue and expenditures under Law 3418 (October 2002).</p> <p>Amend the governing legislation of EBFs to require passage of their budgets by parliament, external audit of their accounts (reported to parliament), and monthly reporting of their accounts, on a consolidated basis, with the central government's accounts (July 2002).</p>
<p>Turkey (2000)</p>	<p>Close another 21 budgetary funds and 4 EBFs in (Feb 2001). The closure of the 15 remaining budgetary funds and one EBF will be enacted by June 2001.</p> <p>Submit to parliament by a law on public finance and debt management that defines clear borrowing rules and limits for the public sector, and incorporates into the budget on-lending and debt guarantee operations of the treasury (end-June 2001)</p>
<p>Turkey (1999)</p>	<p>Close 20 budgetary funds, out of a total of 61 budgetary funds, by February 2000 (a structural benchmark for the first review); 25 more funds would be closed by August 2000 (a structural benchmark for the third review).</p> <p>By end-1999 the government will take stock of existing contingent liabilities, most notably government guarantees and make this information publicly available (a structural benchmark for the first review). By end-2000, the government will establish a public registry of guarantees and set explicit limits to issuance of new guarantees in the 2001 budget (a structural benchmark for the fifth review).</p> <p>We will reach understandings with the IMF staff on the list of EBFs to be eliminated.</p> <p>The elimination of these EBFs by June 2000 will be a structural benchmark for the third review.</p>

<sup>25</sup> From preliminary ROSC/HIPC work

<p>Ukraine (2001)</p> <p>Uruguay (2000, 2001)</p> <p>Uruguay (2002)</p> <p>Zambia (2001)</p>	<p>Provision of legally required information to parliament on privatizations in 2000 and placement of this information on the State Property Fund website. (March 2001)</p> <p>Implement the single account of the State Treasury of Ukraine (December 2001)</p> <p>Initiate a study of the quasi-fiscal operations of all public sector financial institutions and other entities. (June 2001)</p> <p>BHU (a mortgage bank) operations to start to be conducted on a commercial basis and subsidies included in the budget explicitly.</p> <p>Accountant General to submit to the Office of the Auditor General, accounts for 2000, to facilitate timely preparation of final audited accounts (Sept 2001)</p>
<p><b>Country</b></p> <p>Korea (1999)</p> <p>Pakistan (2002)</p> <p>Ukraine (1999)</p> <p>Uruguay (2001)</p>	<p style="text-align: center;"><b>Discussed in LOI/MEP</b></p> <p>The timeliness of the reporting of fiscal data is being improved through the introduction of a computerized reporting system. Starting with data for July 1999, monthly data on revenue, expenditure and financing of the consolidated central government have been made available publicly with no more than a 4 week lag</p> <p>In the interest of improving budget management and increasing the transparency of fiscal accounts, the government plans to introduce tax expenditure reporting as part of the budgetary process and to consolidate the number of special funds that are currently outside the scope of the budget. (Dec 1999)</p> <p>We will adopt shortly an Accountable Fiscal Management Framework (AFMF), seeking to improve fiscal reporting, accounting, medium-term budgeting, and a better legal and institutional framework.</p> <p>Having separated accounting and auditing last year, we are now strengthening the office of the Controller General of Accounts (CGA), including through additional staffing, while continuing the work of the federal Fiscal Monitoring Committee (FMC) and intensifying that of the provincial FMCs.</p> <p>With the 2002/03 budget, we intend to improve our disclosure of fiscal risks and off-budget fiscal activities (e.g., tax expenditures, contingent liabilities), and intensify work towards establishing a medium-term budget framework to better link asset creation with recurrent expenditures.</p> <p>We will continue the preparation of the fiscal responsibility law to be promulgated during 2002.</p> <p>Other measures include continued improvements in fiscal reporting and adoption of the New Accounting Model (NAM) to ensure consistency in local budgets.</p> <p>Extend the coverage of the treasury to all central government expenditures by end-September, closing all individual bank accounts of central government spending units, including all extrabudgetary accounts, and centralizing all payments and accounting arrangements through the treasury.</p> <p>Adopt a joint resolution of the Cabinet of Ministers and the NBU on establishing a TSA and establish a task force in the treasury for implementing the TSA, consisting of the cash management unit, TSA operations methodology unit, relevant IT units by September 15. Ensure appropriate funding and staffing of the task force.</p> <p>The Government will continue to publish on the web all quarterly reports mentioned above with a lag not exceeding ten weeks after the close of the relevant quarter; and the results of the annual independent audits and the annual reports of the public enterprises and banks with a lag not exceeding six months after the end of the calendar year.</p> <p>The Government will prepare a policy paper on the presence of quasi-fiscal operations in public sector enterprises and banks, with the objective of reducing them or bringing them into the budget.</p>

## Annex IV

## PEM TA Missions in Countries with Fiscal ROSCs

## 1999

Bulgaria	Developing the Treasury System and Accounting Framework	Dec 1999
Kyrgyz Republic	Improving Public Expenditure Management and Fiscal Transparency	Sep 1999

## 2000

Estonia	Revising the Budget Law	Feb 2000
Pakistan	Improving Fiscal Reporting and Budget Management	Apr 2000
Pakistan	Next Steps to Improve Fiscal Reporting and Transparency	Nov 2000
Slovenia	Budget Preparation and Treasury Reform	June 2000
Turkey	Review of Fiscal Transparency and Selected Public Expenditure Management Issues	July 2000
Ukraine	Implementing Public Expenditure Reforms	March 2000
Zambia	Improving Public Expenditure Management	June 2000

## 2001

Azerbaijan	Developing a Budget Systems Law	Dec 2001
Bulgaria	Continuing Budget Reform	May 2001
Egypt	Strengthening Fiscal Reporting and Fiscal Management	Oct 2001
Korea	Further Reforms in Fiscal Management	Apr 2001
Malawi	Improving Fiscal Data and Expenditure Control	Apr 2001
Mongolia	Improving Fiscal Reporting and Data Quality	Aug 2001
Mongolia	Improving Intergovernmental Fiscal Relations and Accelerating Budget Reform	June 2001
Mongolia	Modernizing the Fiscal Management Framework for Central and Local Government	Dec 2001
Philippines	Introducing a Government Financial Management Information System	Dec 2001
Russian Federation	Modernizing the Budgeting and Accounting Framework	Oct 2001
Tanzania	Improving Public Expenditure Management	Jan 2001
Tanzania	Fiscal Decentralization Issues	May 2001
Turkey	Issues in Fiscal Accounting and Reporting	June 2001
Ukraine	Refocusing Treasury and Budget Reforms	Aug 2001
Zambia	Strengthening Public Expenditure Management	June 2001