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GFS in AFRICA

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I. STYLIZED FACTS:

- 1.** Most African countries compile fiscal reports based on their national budget execution data, which generally follow national definitions not fully aligned with international standards in terms of principles and rules, mainly regarding sectorization, transaction and stock coverage, classification, and presentation. This limits the cross-country comparability in the region.
- 2.** A large number of these countries (70 percent) also compile and report government finance statistics (GFS) for the purpose of dissemination in the *Government Finance Statistics Yearbook (GFSY)* and the *International Financial Statistics (IFS)*; however, these data are mostly limited to the budgetary central government and do not include a financial balance sheet. Nevertheless, the countries are making efforts to compile GFS data in line with international standards and a gradual progress is being achieved in some regions.
- 3.** This paper aims to highlight the challenges to implement the GFS framework allowing compilation and dissemination of GFS, suggest the key elements to expand the coverage and harmonize fiscal reports, and propose a set of priorities for the region in the short and medium terms.

II. BACKGROUND INFORMATION:

A. Current Status of Government Finance Statistics in Africa

4. A majority of countries in Africa only compile and disseminate government finance statistics (GFS) for budgetary central government, usually based on their national budget execution data. Furthermore, the focus on fiscal analysis of the general government or what goes beyond budgetary central government is generally limited (see Section B).
5. The GFS data are usually compiled on a cash or modified cash basis and often exclude external donor funded grants and related expenditures. At best they might include partial information on stocks of assets and liabilities, usually limited information on debt in the form of loans and debt securities.
6. In recent years, political commitments to support better quality of fiscal reporting are being undertaken in the context of regional agreements. Prominent examples of these agreements are the monetary unions such as the West African Economic and Monetary Union (WAEMU), the Central African Economic and Monetary Union (CEMAC), and the upcoming monetary union of the East African Countries (EAC). The efforts to improve the quality of fiscal statistics are focusing mainly on producing GFS according to the methodology of the *Government Finance Statistics Manual 2001 (GFSM 2001)* and its update, the *GFSM 2014*.
7. Positive results of the efforts to compile GFS data in line with international standards can be illustrated by the recent achievements of the EAC countries. With the political support and commitment provided by the EAC Finance Ministers, countries are gradually achieving noticeable progress in implementing the *GFSM* framework with an aim to produce general government data by end 2017. Nowadays, all countries except one have developed a complete list of government entities and mapped their budget nomenclature to GFS codes. One country has already produced its first, preliminary general government data, and two other countries have started compilation of the general government data on a pilot basis. These countries have also started regular publication of debt statistics based on international standards.
8. Table 1 below presents a summary of the current status of reporting fiscal statistics by African countries for dissemination in the *GFSY*. Out of 54 countries,¹ 38 currently report GFS data for inclusion in the *Government Finance Statistics Yearbook (GFSY)*. In terms of institutional coverage, 68 percent report budgetary central government, while only 18 percent report general government data. As for the scope of coverage, only 16 percent report a financial balance sheet. These figures support the assertions made above about coverage of fiscal statistics in African countries.

¹ The reporting status covers the entire African continent, including the North African countries.

Table 1. Status of reporting GFS data for dissemination in the GFSY

Number of countries	BA	CG	GG	Total
Reporters of GFSY	26	5	7	38
Transactions only	24	5	3	32
Transactions and financial balance sheet	2	0	4	6

Source: 2013 edition of the *GFSY*

BA = Budgetary Central Government; CG = Central Government; GG = General Government

B. Challenges in Implementing the GFS Framework

9. As mentioned earlier, initiatives and reforms are being undertaken to implement the GFS framework which would improve the quality of data, expand the sector coverage, and produce financial balance sheet data for the general government. For a successful implementation of these initiatives, authorities need to take further steps to overcome the challenges described below.

10. The main challenges to expand the sector, transaction, and stock coverage of current fiscal statistics refer mainly to an insufficient legal framework, inadequate institutional arrangements and resources, fragmented source data not aligned with the *GFSM* requirements, dispersion of source data on stocks of assets and liabilities, and thereby lack of use of the GFS framework in fiscal analysis and policy making at the national level.

Insufficient legal framework

11. The availability of budget execution data for budgetary central government in most countries is generally linked to a national budget approved by the Legislature, which mandates periodic reporting on its execution. Legislation and regulations are in place to collect and process the information needed to prepare the reports. Similar arrangements are often missing for extrabudgetary units, social security funds, and state and local governments. Thus, data sources for these other institutional units need to be identified, and institutions persuaded to make them available.

Inadequate institutional arrangements and resources

12. In many instances, there is no unit formally assigned the responsibility of compiling GFS. The production of such data usually competes with other responsibilities, which often have higher priority. In many cases institutional arrangements for compiling GFS beyond budgetary central government are non-existent. In addition, scarce human and financial resources limit the ability to develop the compilation of GFS. Furthermore, communication and coordination between various source data providers and GFS compilers could be enhanced. The common practice in many countries of drafting a memorandum among the various parties involved in the production of data sources and macroeconomic statistics is largely absent.

Fragmented source data

13. Source data currently available for GFS compilation are often fragmented, and frequently heterogeneous in terms of definition, coverage, basis of recording, valuation and other characteristics. They are usually not aligned with the requirements for compiling fiscal statistics according to international standards. Moreover, in most of the countries, integrated and centralized databases do not exist to allow GFS compilers easy access to source data, and therefore, contribute to expanding the institutional coverage and the scope of data.

Dispersion of source data on stocks of assets and liabilities

14. In terms of producing a balance sheet, most countries are hindered by the dispersion of source data. Many countries disseminate data on external debt and on domestic debt in the form of loans and debt securities. These data are often the only information included in a balance sheet. However, it is generally the case that additional information is available on individual elements of the balance sheet, especially related to financial assets and liabilities, but it tends to be spread among various entities and, therefore, is not consolidated into an integrated balance sheet, which would provide a comprehensive view of government finances. Given the importance of balance sheet analysis, compiling a financial balance sheet should generally be a high priority to expand the coverage of budgetary central government flows and stocks.

Lack of use of the GFS framework

15. The GFSM framework is rarely used for policy making at the national level, where politicians tend to focus only on the budget execution data, which follow national concepts and use primarily the concept of deficit/surplus, and do not rely on broader concepts such as net worth. This lack of use of the GFSM framework is reinforced in many instances by the fact that fiscal targets for IMF program countries are often set on the basis based on the *Government Finance Statistics Manual 1986 (GFSM 1986)* concepts instead of *GFSM 2001/GFSM 2014* concepts.

C. Keys Elements to Align Fiscal Statistics with the GFSM Framework

16. Several keys elements and techniques could be considered in aligning fiscal statistics with the *GFSM* framework. The following paragraphs provide a brief discussion of these key elements.

Institutional arrangements

17. Among the most important elements in developing GFS are to establish a strong institutional arrangements and legal framework, reinforce human and financial capacity, and ensure political commitment for implementation of the *GFSM* framework.

Materiality

18. The *GFSM* framework covers all institutional units of general government, as well as all flows and stocks associated with these units. In order to set priorities to expand the coverage of fiscal

statistics, several indicators can be used to assess the materiality of individual government/public units and subsectors. Priority should be given to those institutional units that are most relevant in terms of understanding the financial position of the government. This could be assessed in terms of share of expenditure and revenue, eligibility to borrow, impact on deficit and debt, etc. Special attention should be given to loss making public corporations, entities established on a commercial basis that often undertake nonmarket activities, and which might have large impact on government finances.

Integrity

19. The *GFSM* framework would facilitate achieving consistency of stocks and flows through the use of a uniform classification and the same concepts in recording transactions and flows. Broadening the set of data on stocks of financial assets and liabilities beyond the existing statements on operations and debt would enhance internal integrity of GFS data and provide a comprehensive view of the government finances. The cross-sector consistency of the various macroeconomic statistics datasets is an additional key element; however it is seldom emphasized in these countries.

Analytical usefulness

20. The *GFSM* framework provides important data for fiscal surveillance, such as detailed information on taxes, breakdown and valuation of debt, and inclusion of noncash items. It focuses on a wider set of balances of fiscal performance rather than the deficit/surplus. This provides a broader and more nuanced picture of the fiscal situation. For example, the traditional approach of having the financing of a deficit linked just to debt is broadened by looking additionally to the link between net lending/borrowing to the net financial worth or the operating balance to the net worth. Also, the *GFSM* framework focuses on additional items that provide a better assessment of the fiscal risks that a government may face in the future and that would impact the fiscal situation, such as the contingent and pension liabilities.

Regional harmonization and comparability

21. The use of the *GFSM* framework is crucial for countries in monetary unions to provide cross-country comparable fiscal statistics, which allow evaluation of progress towards convergence criteria across the union. The regional harmonization can be facilitated through the uniform application of *GFSM* principles and rules, mainly regarding sectorization of institutional units, valuation of assets and liabilities, time of recording of transactions, and treatment of specific government operations.

D. Moving Forward—Priorities

22. Ultimately, the key objective of implementing the *GFSM* framework is to provide governments a comprehensive view of public finances that promotes good fiscal policy. However, taking into consideration the challenges many African countries face, priorities should be set for the gradual adoption of the *GFSM* methodology over time, with specific medium term goals.

23. The IMF undertakes significant technical assistance in African countries. So we would welcome the advice of GFSAC members, based on their practical experience, as to what priorities should be emphasized. Our suggestions, in order of importance, are:

- a. Produce good quality fiscal statistics on a cash or cash modified basis for the budgetary central government, by applying the *GFSM* guidelines.
- b. Prepare a financial balance sheet for the budgetary central government.
- c. Incorporate selected noncash items (such as accrued interest, detailed information on arrears, in kind grants, and debt restructuring operations) for the budgetary central government.
- d. Expand the institutional coverage of fiscal statistics, initially by incorporating the major units of the general government outside budgetary central government, possibly social security funds and selected extrabudgetary units. The materiality concept should be applied in the selection of these additional units to cover.

III. POINTS FOR DISCUSSION:

- Would you agree with the priorities suggested in section D?
- Should the focus be first on expanding the fiscal reporting statistics for the budgetary central government, by incorporating the financial balance sheet and selected non cash elements?
- Or should the focus be first on expanding the institutional coverage beyond budgetary central government?