Meeting of the IMF Government Finance Statistics Advisory Committee
Washington, D.C.

New Fiscal Transparency Code and Evaluations

Prepared by Richard Hughes

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New Fiscal Transparency Code and Evaluations

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IMF Government Financial Statistics Advisory Committee
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New Fiscal Transparency Code & Evaluations: Outline of the Presentation

I. Background and Context

II. New Fiscal Transparency Code

III. New Fiscal Transparency Evaluations

IV. Next Steps
I. Background and Context:

   • A concerted effort to improve fiscal transparency since the late 1990s
     – Asian crisis highlighted weakness in public and private financial reporting
     – Also underscored the risks associated with undisclosed linkages between the two

   • New fiscal reporting standards were developed
     – **General**: IMF’s Code & Manual on Fiscal Transparency
     – **Budgeting**: OECD Best Practices for Budget Transparency
     – **Statistics**: EU’s ESA 95, IMF’s GFSM 2001, & UN’s SNA 08
     – **Accounting**: IFAC’s International Public Sector Accounting Standards (IPSAS)

   • New tools for monitoring compliance with standards were introduced
     – **Multilateral**: Fiscal and Data ROSCs, GDDS/SDDS, & PEFA
     – **Regional**: Eurostat, WAEMU & CEMAC harmonization of fiscal reporting
     – **Civil Society**: Open Budget Survey and Index, GIFT Principles
I. Background and Context:
b. Weakness of Old Fiscal Transparency Code & ROSC

- **Code & ROSC evaluate clarity of reporting procedures not quality of reports**
  - Code’s 4 “Pillars” reinforce focus on formal laws, institutions, and processes
    i. Clarity of Roles and Responsibility
    ii. Open Budget Processes
    iii. Public Availability of Information
    iv. Assurances of integrity
  - ROSCs pay too little attention to the content of fiscal reports themselves

- **Code & ROSC adopt a “one-size-fits-all” approach to evaluating countries**
  - Do not take into account different levels of institutional capacity
  - Do not provide milestones to full compliance with international standards
  - Make it difficult to benchmark against comparator countries

- **ROSC assessments tended to be exhaustive rather than risk-based**
  - Place equal weight on all elements of the Code
  - Difficult to judge relative seriousness of different fiscal reporting gaps
  - Include a large number of unprioritized recommendations
II. New Fiscal Transparency Code

a. Architecture of the New Code

Four Pillars of the New Code

I. FISCAL REPORTING
   1.1. Coverage
   1.2. Frequency & Timeliness
   1.3. Quality
   1.4. Integrity

II. FISCAL FORECASTING & BUDGETING
   2.1. Comprehensiveness
   2.2. Orderliness
   2.3. Policy Orientation
   2.4. Credibility

III. FISCAL RISK ANALYSIS & MANAGEMENT
   3.1. Risk Analysis & Disclosure
   3.2. Risk Management
   3.3. Fiscal Coordination

IV. RESOURCE REVENUE MANAGEMENT
   4.1. Legal & Fiscal Regime
   4.2. Fiscal Reporting
   4.3. Fiscal Forecasting & Budgeting
   4.4. Fiscal Risk Analysis & Management
II. New Fiscal Transparency Code: b. Differences between 2007 and 2014 Codes

<table>
<thead>
<tr>
<th>Objective</th>
<th>2007 Code</th>
<th>2014 Code</th>
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<tbody>
<tr>
<td>Focus on outputs rather than processes</td>
<td>30 of 45 principles were procedural in nature</td>
<td>31 of 36 principles focus on quality or content of fiscal information</td>
</tr>
<tr>
<td>Take account of different levels of country capacity</td>
<td>“Code of Good Practices”</td>
<td>Basic, Good, and Advanced Practice</td>
</tr>
<tr>
<td>Greater emphasis on fiscal risk disclosure and management</td>
<td>1 principle on fiscal risk 5 others risk-related</td>
<td>12 principles focused on fiscal risk</td>
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## II. New Fiscal Transparency Code:
### c. More Graduated Set of Practices

<table>
<thead>
<tr>
<th>#</th>
<th>DIMENSION</th>
<th>PRINCIPLE</th>
<th>PRACTICES</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>BASIC</td>
</tr>
<tr>
<td>I</td>
<td>FISCAL REPORTING</td>
<td>Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government’s financial position and performance</td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>Coverage</td>
<td>Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its sub-sectors according to international standards</td>
<td></td>
</tr>
<tr>
<td>1.1.1</td>
<td>Coverage of Institutions</td>
<td>Fiscal reports cover all entities engaged in public activity according to international standards.</td>
<td>Fiscal reports consolidate all central government entities.</td>
</tr>
<tr>
<td>1.1.3</td>
<td>Coverage of Stocks</td>
<td>Fiscal reports include a balance sheet of public assets, liabilities, and net worth.</td>
<td>Fiscal reports cover all cash, deposits, and debt</td>
</tr>
<tr>
<td>1.1.2</td>
<td>Coverage of Flows</td>
<td>Fiscal reports cover all public revenues, expenditures, and financing.</td>
<td>Fiscal reports cover cash revenues, expenditures, and financing.</td>
</tr>
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</table>
III. New Fiscal Transparency Evaluation:
a. Differences with Fiscal ROSC

<table>
<thead>
<tr>
<th>Reform Objective</th>
<th>Fiscal ROSC</th>
<th>Fiscal Transparency Evaluation</th>
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<tbody>
<tr>
<td>More analysis of coverage and reliability of fiscal data</td>
<td>Focus on assessing reporting procedures</td>
<td>Quantitative fiscal transparency indicators</td>
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<tr>
<td>More accessible summary of strengths and weaknesses</td>
<td>Long narrative accounts of strengths and weaknesses</td>
<td>Summary Heatmaps highlight reform priorities</td>
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<tr>
<td>Identify concrete steps to address weaknesses</td>
<td>Unprioritized list of recommendations</td>
<td>Sequenced 5-Year Action Plan</td>
</tr>
<tr>
<td>More scalable product</td>
<td>Comprehensive, one-size-fits-all assessment</td>
<td>Modular evaluations of individual Code Pillars</td>
</tr>
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</table>
III. New Fiscal Transparency Evaluation
b. Piloting the New Evaluation

BACKGROUND

• 10 countries volunteered

• Wide range of income levels
  – 3 advanced economies
  – 5 emerging markets
  – 3 low income countries

• Variety of regions
  – 5 from Europe
  – 2 from Africa
  – 2 from Latin American
  – 1 from Asia-Pacific

• 3 iterations of the Code tested

• 5 FTE reports published so far
  – Bolivia, Costa Rica, Ireland, Russia, and Portugal
III. New Fiscal Transparency Evaluation:
c. Initial Findings: Fiscal Reporting

The “State” is bigger than we think…
…with a more extensive balance sheet

Ireland: Coverage of Fiscal Reporting
(Percent of expenditure, 2012)

Russia: Reporting of Assets and Liabilities
(Percent of GDP, 2012)
Bolivia: Year-ahead Revenue Forecast Errors
(Percent of total forecast revenue, 2010-11)

- Tax Revenue: 31%
- Operating Revenue: 32%
- Other Revenue: 111%
- Capital Revenue: 99%
- Total Error: 41%

Bolivia: Year-ahead Expenditure Forecast Errors
(Percent of total forecast expenditure 2010-11)

- Wages and Salaries: 10%
- Goods and Services: 30%
- Misc Current: 120%
- Capex: 17%
- Total Error: 23%

Budgets are not always a reliable guide to future revenues and spending.
Fiscal risks can come from a variety of sources

Portugal: Sources of Increase in General Government Debt
(Percent of GDP)
### Russia: Summary Assessment of Fiscal Reporting

<table>
<thead>
<tr>
<th>PRINCIPLE</th>
<th>ASSESSMENT</th>
<th>IMPORTANCE</th>
<th>REC</th>
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<tbody>
<tr>
<td>1.1 Coverage of Institutions</td>
<td><strong>Good:</strong> Fiscal reports consolidate all general government units</td>
<td><strong>High:</strong> Public corporations with expenditure of 28% of GDP in 2012 outside consolidated fiscal reports</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Coverage of Stocks</td>
<td><strong>Good:</strong> Fiscal reports cover all conventional financial and non-financial assets and liabilities</td>
<td><strong>High:</strong> Subsoil assets of 200% of GDP and pensions liabilities of 285% of GDP not included in balance sheets.</td>
<td>2,3</td>
</tr>
<tr>
<td>1.3 Coverage of Flows</td>
<td><strong>Good:</strong> Fiscal reports cover cash and accrued revenues and expenditures</td>
<td><strong>Medium:</strong> Non-recognized non-recoverable claims of 0.4% of GDP reduce reliability of the fiscal balances</td>
<td>3</td>
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<tr>
<td>1.4 Tax Expenditures</td>
<td><strong>Basic:</strong> There is annual disclosure of revenue loss due to some tax reliefs subsidies</td>
<td><strong>Medium:</strong> Estimated 1-2% of GDP in annual revenue foregone due to tax expenditures.</td>
<td>4</td>
</tr>
<tr>
<td>2.1 Frequency of In-year Fiscal Reports</td>
<td><strong>Advanced:</strong> Cash-based budget execution reports are published on a monthly basis</td>
<td><strong>Low:</strong> Monthly fiscal reports are published within 30 days</td>
<td></td>
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<tr>
<td>2.2 Timeliness of Annual Financial Statements</td>
<td><strong>Advanced:</strong> Annual financial statements are published in a timely manner</td>
<td><strong>Low:</strong> Annual reports are published within 5 months of the end of the financial year</td>
<td></td>
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<tr>
<td>3.1 Classification</td>
<td><strong>Good:</strong> Fiscal reports include an administrative, economic and functional, classifications comparable with international standards</td>
<td><strong>Medium:</strong> Inconsistent classifications of some transactions lead to different levels of the fiscal balances</td>
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<td>3.2</td>
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## Ireland: Fiscal Transparency Action Plan

<table>
<thead>
<tr>
<th>Action</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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</thead>
<tbody>
<tr>
<td><strong>1. Expand Institutional Coverage of Budgets, Statistics, and Accounts</strong></td>
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<tr>
<td><strong>a. Present all gross revenues and expenditures of central government entities in budget documentation</strong></td>
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<tr>
<td>Incorporate NPRF into budget documentation</td>
<td>Incorporate Non-Commercial Semi-State Bodies into budget documentation</td>
<td>Incorporate all central government entities in budget documentation</td>
<td>Integrate non-commercial semi-state bodies into departmental votes</td>
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<tr>
<td><strong>b. Combine Finance and Appropriation Accounts into a consolidated Central Government Financial Statement</strong></td>
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<tr>
<td>Combine the information in the notes to the Appropriation Accounts to produce a summary report</td>
<td>Combine Finance and Appropriation Accounts into a partial Central Government Financial Statement based on existing accounting policies</td>
<td>Incorporate SIF and NPRF into partial Central Government Financial Statement</td>
<td></td>
<td></td>
<td>Prepare comprehensive consolidated Central Government Financial Statement for audit by C&amp;AG</td>
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<tr>
<td><strong>c. Provide an overview of the gross revenues and expenditures of the general government and its subsectors</strong></td>
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<td>Reconcile gross revenues and expenditures of Exchequer and general government in budget</td>
<td>Provide summary of gross revenues and expenditures of central government in budget</td>
<td>Provide summary of gross revenues and expenditures of central, local, and general government sectors</td>
<td>Publish quarterly statistics on gross revenues and expenditures of central, local, and general government sectors</td>
<td>Publish monthly statistics on gross revenues and expenditures of central, local, and general government sectors</td>
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VI. Next Steps:

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACTION</th>
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<tbody>
<tr>
<td>October 2014</td>
<td>Consultation on Pillar IV on Natural Resource Management</td>
</tr>
<tr>
<td>Summer 2015</td>
<td>Finalization of Pillar IV on Natural Resource Management</td>
</tr>
<tr>
<td>Winter 2015</td>
<td>Consultation on Fiscal Transparency Manual Vol. 2 (Pillar IV)</td>
</tr>
<tr>
<td>Spring 2016</td>
<td>Finalization of Fiscal Transparency Code (Pillars I-IV) &amp; Manuals (Vols. 1 &amp; 2)</td>
</tr>
<tr>
<td>Ongoing</td>
<td>Fiscal Transparency Evaluations (including pilots of Pillar IV)</td>
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