New Fiscal Transparency Code and Evaluation

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New Fiscal Transparency Code & Evaluation:
Outline of the Presentation

I. Background and Context

II. New Fiscal Transparency Code (Pillars I, II, & III)

III. New Fiscal Transparency Evaluation

IV. Natural Resource Management (Pillar IV)

V. Next Steps
I. Background and Context: Origins of the Global Fiscal Transparency Effort

- 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: 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>
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<tr>
<td>Take account of different levels of country capacity</td>
<td>“Code of Good Practices”</td>
<td>Basic, Good, and Advanced Practice</td>
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<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>
</tr>
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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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</thead>
<tbody>
<tr>
<td></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</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</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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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>
</tr>
<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>
</tr>
<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 America
  – 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)
III. New Fiscal Transparency Evaluation:
c. Initial Findings: Fiscal Forecasting and Budgeting

Bolivia: Year-ahead Revenue Forecast Errors
(Percents of total forecast revenue, 2010-11)

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

Fiscal risks can come from a variety of sources

Portugal: Sources of Increase in General Government Debt
(Percent of GDP)
III. New Fiscal Transparency Evaluation:

d. Targeted Recommendations

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>Good: Fiscal reports consolidate all general government units</td>
<td>High: 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>Good: Fiscal reports cover all conventional financial and non-financial assets and liabilities</td>
<td>High: 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>Good: Fiscal reports cover cash and accrued revenues and expenditures</td>
<td>Medium: Non-recognized non-recoverable claims of 0.4% of GDP reduce reliability of the fiscal balances</td>
<td>3</td>
</tr>
<tr>
<td>1.4 Tax Expenditures</td>
<td>Basic: There is annual disclosure of revenue loss due to some tax reliefs and subsidies</td>
<td>Medium: Estimated 1-2% of GDP in annual revenue foregone due to tax expenditures.</td>
<td>4</td>
</tr>
</tbody>
</table>

| 2.1 Frequency of In-year Fiscal Reports | Advance: Cash-based budget execution reports are published on a monthly basis | Low: Monthly fiscal reports are published within 30 days | |
| 2.2 Timeliness of Annual Financial Statements | Advanced: Annual financial statements are published in a timely manner | Low: Annual reports are published within 5 months of the end of the financial year | |
| 3.1 Classification | Good: Fiscal reports include an administrative, economic and functional, classifications comparable with international standards | Medium: Inconsistent classifications of some transactions lead to different levels of the fiscal balances | |
| 3.2 | | | |

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III. New Fiscal Transparency Evaluation:

e. Sequenced Action Plan

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>
</tr>
</thead>
<tbody>
<tr>
<td>1. Expand Institutional Coverage of Budgets, Statistics, and Accounts</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>a. Present all gross revenues and expenditures of central government entities in budget documentation</td>
<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>
<td></td>
</tr>
<tr>
<td>b. Combine Finance and Appropriation Accounts into a consolidated Central Government Financial Statement</td>
<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>Prepare comprehensive consolidated Central Government Financial Statement for audit by C&amp;AG</td>
<td></td>
</tr>
<tr>
<td>c. Provide an overview of the gross revenues and expenditures of the general government and its subsectors</td>
<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 in budget</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>
</tr>
</tbody>
</table>
IV. Natural Resource Management (Pillar IV):
a. Background

<table>
<thead>
<tr>
<th>2007</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Separate IMF “Guide on Resource Revenue Transparency”</td>
<td>• Pillar IV of Code dedicated to Natural Resource Management</td>
</tr>
<tr>
<td>• Companion to 2007 version of the Code</td>
<td>• 12 Principles evaluated according to Basic, Good &amp; Advanced Practices</td>
</tr>
<tr>
<td>• Adapted Code's principles for resource-rich countries</td>
<td>• New Guide on Resource Revenue Transparency and Accountability to accompany Code</td>
</tr>
<tr>
<td>• Basis for Natural Resource Module of Fiscal ROSC</td>
<td>• Natural Resource Revenue Statistics Reporting Template</td>
</tr>
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</table>

b. Approach & Principles

Guiding Approach

- Follows structure and approach of the first three pillars:
  - Measurable output rather than process
  - Take account of different levels of country capacity
  - Greater emphasis on fiscal risk disclosure and management
  - Align with recent advances in standards and practices (e.g. EITI)
- Provides unique Natural Resource-specific elements
- Used in combination with first four pillars to give a comprehensive picture

Pillar Structure

- Legal and Fiscal Regime
  - Legal framework
  - Allocation of resource rights
  - Fiscal regime
  - Assessment and collection of revenues
- Fiscal Reporting
  - Resource holdings
  - Company reporting
  - Integrity of data
- Fiscal Forecasting and Budgeting
  - Resource Revenue Management Objectives
  - Use of Revenues
  - Natural Resource Funds
- Fiscal Risks Analysis and Management
  - Social and Environmental Impact
  - Operational Risks
IV. Natural Resource Management (Pillar IV):
b. Approach & Principles

Pillar IV also aims to respond to developments since 2007:

1. Changing commercial structure of extractive industries
   - Increased recognition of commodity pricing challenges
   - New commodity sources (LNG, shale oil/gas, oil sands, rare earths)
   - Increasing role of trading companies, oil service companies

2. Changing International Fiscal Architecture
   - New work on Base Erosion and Profit Shifting (tax treaties, transfer pricing)
   - Increasing importance of transparency of Beneficial Ownership
     (e.g. for taxing indirect transfers)

3. New International Standards
   - Revenue transparency as a new norm (EITI), focus now on contract transparency
   - New standards for reporting on environmental, social and governance matters
   - New initiatives on EITI governance
   - Introduction on ‘home country’ reporting requirements

V. Next Steps:
c. Consultation Timetable

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2014</td>
<td>Consultation on Pillar IV on Natural Resource Management</td>
</tr>
<tr>
<td>Spring 2015</td>
<td>Finalization of Pillar IV on Natural Resource Management</td>
</tr>
<tr>
<td>Summer 2015</td>
<td>Consultation on Fiscal Transparency Manual Vol 2 (Pillar IV)</td>
</tr>
<tr>
<td>Winter 2015</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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