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**IMMEDIATE
ATTENTION**

SM/01/76

March 2, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Revised Manual on Fiscal Transparency and Revised Code of Good Practices on Fiscal Transparency—Staff Note**

Attached for consideration by the Executive Directors is a staff note on the revised Manual and revised Code of Good Practices on Fiscal Transparency and the text of the latter. The text of the revised Manual is being circulated as SM/01/77 (3/2/01).

It is not proposed to bring the attached paper to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Friday, March 23, 2001. In the absence of such a request, both the revised Manual and the revised Code of Good Practices on Fiscal Transparency will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter. Upon approval, the new version of the Manual also will be posted on the Fund's external website.

Questions may be referred to Mr. Hemming (ext. 38543), Mr. Potter (ext. 35669), and Mr. Allan (ext. 38542).

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Revised Manual and Revised Code of Good Practices on Fiscal Transparency

Prepared by the Fiscal Affairs Department

(In consultation with other departments)

Approved by Peter S. Heller

February 28, 2001

1. **The *Revised Manual on Fiscal Transparency* (SM/01/77) represents the first substantive revision to the explanatory document that accompanies the *Code of Good Practices on Fiscal Transparency—Declaration on Principles*.** Executive Directors discussed the *Draft Manual on Fiscal Transparency* (SM/98/199) on September 15, 1998. After taking into account comments from Directors, the draft Manual, together with the Code, a fiscal transparency questionnaire, and a summary self-evaluation report, were posted on the Fund's external website in November 1998.¹ Directors subsequently reviewed the *Revised Draft Manual on Fiscal Transparency* (SM/99/68), which reflected feedback on the draft Manual given during the initial stages of outreach on fiscal transparency. After incorporating further comments from Directors, the *Manual on Fiscal Transparency* was posted on the external website in April 1999.

2. **The cover note to the revised draft Manual indicated that further revision should be anticipated as the work program on fiscal transparency progresses.** In this connection, outreach activities have continued to be influential. Interactions with country officials, and representatives from other international organizations, nongovernment organizations, and the private sector have been a source of particularly useful comments on the Code, the Manual, and fiscal transparency in general. Advantage has also been taken of opportunities presented by numerous courses, seminars, and conferences on fiscal policy issues to discuss the Fund's work on fiscal transparency. In addition, there have been helpful responses to invitations to comment on the Manual from individuals and organizations with an interest in fiscal transparency.

3. **The lessons from using the Manual in connection with preparing ROSC (*Reports on the Observance of Standards and Codes*) fiscal transparency modules have also been instructive.**² These modules are assessments of fiscal transparency against the

¹ Fiscal transparency web pages are now part of a *Standards and Codes* website, <http://www.imf.org/external/standards/index.htm>.

² See *Assessing the Implementation of Standards: A Review of Experience and Next Steps* (SM/01/11).

requirements of the Code. For countries that volunteer for such an assessment, the first step is to complete the fiscal transparency questionnaire. In a few cases, this has been done entirely by the authorities, guided only by the Manual. The generally high quality of these responses suggests that the Manual does not have significant shortcomings in this regard. In other cases, where Fund staff and technical assistance experts have been involved in assisting with the completion of questionnaires, first-hand experience with using the Manual has been positive. The Manual has also proved of value to staff preparing the description of practices and commentary that make up a ROSC module, and in specifying action plans to address shortcomings.

4. **On the basis of the experience to date, only modest changes to the Manual would be called for. However, more significant revision is needed to reflect some proposed modifications to the Code.** The introduction to the current version of the Code notes that modifications should be considered periodically, and it has become clear that some reformulation of the Code is required to emphasize the importance of data quality. Specifically, recent concerns about data misreporting, and an increased emphasis on ensuring provision to the Fund of economic and financial information that is adequate for surveillance and program purposes, have led to closer scrutiny of fiscal reporting, and in some instances to questions being asked about the quality of data in fiscal reports. Since data quality is an important aspect of fiscal transparency, it should be properly covered by the Code.

5. **The principal modification to the Code is the identification of good practices which relate directly to the quality of fiscal data.** These good practices, which are distinct from those already included concerning the need for independent assurances of integrity of fiscal information, mainly consolidate and make more prominent aspects of data quality that are either explicitly covered elsewhere or implicit in the current version of the Code. There are also modifications to the Code which give more emphasis to the need for autonomy and openness in tax administration, and to reporting the public sector balance where quasi-fiscal activities are extensive. Taken together, these modifications are intended mainly to be a shift of emphasis within the Code, and not to add to the overall standard of fiscal transparency it represents.³ Other changes to the organization and drafting of the Code are mainly for clarification and do not alter its substance. The *Revised Code of Good Practices on Fiscal Transparency* is included as Annex I to this paper. The dropping of the term "Declaration on Principles" from the title of the Code should be noted. This part of the title is hardly ever used when reference is made to the Code, and it anyway provides a qualification that is no longer needed given that the purpose of the Code is now well understood and its content is generally accepted.⁴

³ It is therefore unlikely that any of the ROSCs completed to date would be substantively affected by the modifications to the Code. In any case, ROSCs are periodically updated, and the opportunity will therefore present itself to modify previous assessments to reflect the revised Code.

⁴ The revised Code will nevertheless be issued with an introduction that makes its status clear.

6. **In addition to reflecting the revised Code, the Manual has been changed in some other ways.** First, the original minimum standard has been replaced by basic requirements of fiscal transparency which focus on good practices included in the Code relating to fiscal reporting and fiscal data quality.⁵ All countries should attach a high priority to meeting the basic requirements. Second, there is some discussion of best practices of fiscal transparency which draws in part on guidelines produced by the OECD. Third, the revised Manual reflects recent developments in the areas it covers, in particular emphasizing ongoing work on public sector accounting standards. Fourth, references to country examples of good practice are drawn from ROSC fiscal transparency modules published on the external website.⁶ And fifth, an effort has been made to further streamline the presentation in the revised Manual, and to otherwise improve its user-friendliness.

7. **The fiscal transparency questionnaire will need to be revised to reflect the modifications to the Code.** Otherwise, the questionnaire has so far served its intended purpose well. However, the summary self-evaluation report has been made redundant by ROSC fiscal transparency modules, and it will be taken off the website.

8. **Finally, it should be noted that the fiscal transparency web pages have been invaluable in raising awareness about fiscal transparency in general, and in supporting the preparation of ROSC fiscal transparency modules in particular.** There has been an average of more than 8,250 external hits a month since November 1998, with an increase not only in hits but also in the length of user sessions during 2000 as the preparation of ROSC fiscal modules picked up pace. The intention is that the web pages will remain the principal means of disseminating material related to the Fund's work on fiscal transparency.

9. **Directors are asked to review and approve the revised Manual and the revised Code.** After taking into account any comments from Directors, the revised versions of the Code and Manual, and a revised fiscal transparency questionnaire, will be posted on the external website, and will thereafter provide the basis for the preparation of ROSC fiscal transparency modules. A full review of the fiscal transparency standard represented by the Code, and of the experience with implementing the Code, is planned for 2002, prior to the next Board review of the experience with assessing standards and using ROSCs more generally.

⁵ While the original minimum standard also emphasized the importance of good fiscal reporting practices, it has proved to be insufficiently focused to be of operational use in addressing fiscal transparency issues in countries with weaker fiscal management systems. The term "minimum standard" was also sometimes misinterpreted.

⁶ It is proposed to include additional references to good practices identified in ROSC fiscal transparency modules as more of these are completed. A particular effort will be made to increase the number of examples of good practice drawn from ROSCs for developing countries and transition economies.

Revised Code of Good Practices on Fiscal Transparency¹

I. CLARITY OF ROLES AND RESPONSIBILITIES

1.1 *The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.*

1.1.1 The structure and functions of government should be clearly specified.*

1.1.2 The responsibilities of different levels of government, and of the executive branch, the legislative branch, and the judiciary, should be well defined.**

1.1.3 Clear mechanisms for the coordination and management of budgetary and extrabudgetary activities should be established.**

1.1.4 Relations between the government and nongovernment public sector agencies (i.e., the central bank, public financial institutions, and nonfinancial public enterprises) should be based on clear arrangements.

1.1.5 Government involvement in the private sector (e.g., through regulation and equity ownership) should be conducted in an open and public manner, and on the basis of clear rules and procedures that are applied in a nondiscriminatory way.

1.2 *There should be a clear legal and administrative framework for fiscal management.*

1.2.1 Any commitment or expenditure of public funds should be governed by comprehensive budget laws and openly available administrative rules.*

1.2.2 Taxes, duties, fees, and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.

1.2.3 Ethical standards of behavior for public servants should be clear and well publicized.

II. PUBLIC AVAILABILITY OF INFORMATION

2.1 *The public should be provided with full information on the past, current, and projected fiscal activity of government.*

¹ Significant differences between the current and revised versions of the Code are indicated by * (redrafting of the current Code), ** (reorganization of the current Code), and *** (modifications to fiscal transparency requirements of the Code).

2.1.1 The budget documentation, final accounts, and other fiscal reports for the public should cover all budgetary and extrabudgetary activities of the central government, and the consolidated fiscal position of the central government should be published.*

2.1.2 Information comparable to that in the annual budget should be provided for the outturns of the two preceding fiscal years, together with forecasts of the main budget aggregates for two years following the budget.

2.1.3 Statements describing the nature and fiscal significance of central government contingent liabilities and tax expenditures, and of quasi-fiscal activities, should be part of the budget documentation.

2.1.4 The central government should publish full information on the level and composition of its debt and financial assets.

2.1.5 Where subnational levels of government are significant, their combined fiscal position and the consolidated fiscal position of the general government should be published.**

2.2 *A commitment should be made to the timely publication of fiscal information.*

2.2.1 The publication of fiscal information should be a legal obligation of government.

2.2.2 Advance release date calendars for fiscal information should be announced.

III. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING

3.1 *The budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.*

3.1.1 A statement of fiscal policy objectives and an assessment of fiscal sustainability should provide the framework for the annual budget.

3.1.2 Any fiscal rules that have been adopted (e.g., a balanced budget requirement or borrowing limits for subnational levels of government) should be clearly specified.

3.1.3 The annual budget should be prepared and presented within a comprehensive and consistent quantitative macroeconomic framework, and the main assumptions underlying the budget should be provided.

3.1.4 New policies being introduced in the annual budget should be clearly described.

3.1.5 Major fiscal risks should be identified and quantified where possible, including

variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g., financial restructuring).

3.2 *Budget information should be presented in a way that facilitates policy analysis and promotes accountability.*

3.2.1 Budget data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category. Data on extrabudgetary activities should be reported on the same basis.

3.2.2 A statement of objectives to be achieved by major budget programs (e.g., improvement in relevant social indicators) should be provided.

3.2.3 The overall balance of the general government should be a standard summary indicator of the government's fiscal position. It should be supplemented where appropriate by other fiscal indicators for the general government (e.g., the operational balance, the structural balance, or the primary balance).

3.2.4 The public sector balance should be reported when nongovernment public sector agencies undertake significant quasi-fiscal activities.***

3.3 *Procedures for the execution and monitoring of approved expenditure and for collecting revenue should be clearly specified.*

3.3.1 There should be a comprehensive, integrated accounting system which provides a reliable basis for assessing payment arrears.

3.3.2 Procurement and employment regulations should be standardized and accessible to all interested parties.

3.3.3 Budget execution should be internally audited, and audit procedures should be open to review.

3.3.4 The national tax administration should be legally protected from political direction and should report regularly to the public on its activities.***

3.4 *There should be regular fiscal reporting to the legislature and the public.*

3.4.1 A mid-year report on budget developments should be presented to the legislature. More frequent (at least quarterly) reports should also be published.*

3.4.2 Final accounts should be presented to the legislature within a year of the end of the fiscal year.

3.4.3 Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.

IV. ASSURANCES OF INTEGRITY

4.1 *Fiscal data should meet accepted data quality standards.****

4.1.1 Budget data should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.***

4.1.2 The annual budget and final accounts should indicate the accounting basis (e.g., cash or accrual) and standards used in the compilation and presentation of budget data.**

4.1.3 Specific assurances should be provided as to the quality of fiscal data. In particular, it should be indicated whether data in fiscal reports are internally consistent and have been reconciled with relevant data from other sources.***

4.2 *Fiscal information should be subjected to independent scrutiny.*

4.2.1 A national audit body or equivalent organization, which is independent of the executive, should provide timely reports for the legislature and public on the financial integrity of government accounts.

4.2.2 Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and all underlying assumptions.*

4.2.3 A national statistics agency should be provided with the institutional independence to verify the quality of fiscal data.*

