**Comments on ‘Towards OECD High-Level Principles of Budgetary Governance’**

The OECD has issueda first consultation draft of proposed ‘Principles for Budgetary Governance’ which builds upon its existing work on budget transparency – principally the 2002 OECD Best Practices for Budget Transparency. The Principles for Budgetary Governance set the topic in a broader budgetary-management context, taking account of the work of the OECD Senior Budget Officials (SBO) Working Party and related analyses over recent years. The intention is that, after consultation and revision, the Principles will be brought to SBO for official OECD adoption during 2014.

The OECD has expressed interest in feedback on the draft Principles from a GIFT perspective, noting that the principles were not drafted primarily with a view to alignment with the GIFT High Level Principles or any other existing instrument, in the interests of generating genuinely independent principles grounded on the OECD corpus of work. However, in keeping with the spirit of GIFT (in particular the avoidance of confusion or mixed messages to countries), the OECD is now looking to incorporate alignment and coherence with other fiscal transparency norms more directly into its analysis as part of the consultation and finalisation phase.

This note:

1. Maps the draft OECD Principles against the GIFT High Level Principles.[[1]](#footnote-1)
2. Contains some observations on the OECD Principles.
3. *Mapping the draft OECD High Level Principles against the GIFT High Level Principles*

There are a total of 35 discrete elements in the OECD HLPs, organized into ten principles. For ease of reference, the individual bullet points within each of the ten principles have been numbered. For example, the first bullet point under *Principle 1: Fiscal policy should be managed within clear, credible and predictable limits*, has been numbered 1.1.

Table 1 on page 2 shows the pattern of ‘fit’ between the draft OECD Principles and the ten GIFT Principles. In brief, Table 1 shows that:

1. Most of the provisions in the OECD Principles fall within GIFT HLP 3 (‘The public should be presented with high quality financial and non-financial information on past, present and forecast fiscal activities….’). This reflects in part the fact that GIFT

**Table 1: Mapping the draft OECD High-Level Principles of Budgetary Governance to the GIFT High Level Principles on Fiscal Transparency, Participation and Accountability**

Note: for ease of reference, the individual bullet points in the OECD instrument within each of the ten high-level principles have been numbered e.g. the first bullet point under Principle 1 has been numbered 1.1, and so on.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **HLP 1: A Right to Information** | **HLP 2: Macro-fiscal policy** | **HLP 3: High quality data** | **HLP 4: Outputs and outcomes** | **HLP 5: Rule of law** | **HLP 6: Government and private sector** | **HLP 7: Clarity of roles and responsibilities** | **HLP 8: Legislative oversight** | **HLP 9: SAI** | **HLP 10: Right to direct participation** |
|  | No explicit provision. | 1.2  2.1  3.1 | 4.1  4.2  5.1  5.2  5.3  6.2  7.1  7.2  7.3  7.4  9.1  9.2  9.3  9.4  10.4 | 3.3  4.3  6.4  8.1  8.2  8.3  8.4  8.5  10.5 | 7.1 | 7.4  9.2 | 3.2  10.4 | 6.3 | 10.5 | 5.1  6.1  6.4  10.3 |

HLP 3 has a relatively wide coverage in the set of ten GIFT HLPs; it was also the case with the 2002 OECD Best Practices.

1. The draft OECD Principles contain a substantial number of provisions relating to the micro-effectiveness and performance of government spending – in contrast to the 2002 Best Practices, which contained little in this regard. For example, in addition to Principle 8 (with five discrete provisions), four other principles contain provisions in this area. These relate to GIFT HLP 4.
2. The draft Principles also contain a number of provisions relating to transparency of macro-fiscal policy (as did the 2002 Best Practices) – relating to GIFT HLP 2.
3. The draft Principles contain four explicit elements relating to a public right to direct participation in fiscal policy-making and implementation (GIFT HLP 10) - in contrast to the 2002 OECD Best Practices, which contained no explicit provisions in this area.
4. As with the 2002 Best Practices, there are no provisions in the draft principles that explicitly reflect a public right to fiscal information (GIFT HLP 1) – although a public right is hinted at in the two references to the budget being a contract between citizens and the state (in 7.1, and in the opening paragraph of the Introduction).
5. In contrast to the 2002 OECD Best Practices, which were silent on relationships between the government and the private sector, the draft Principles contains two elements in this area (7.4 and 9.2), relating to GIFT HLP 6.
6. Areas where the draft Principles contain only limited provisions include:
   1. Legislative oversight of fiscal policy (GIFT HLP 8). In fact the incorporation of the legislature in Principle 6 (‘the budget process should be inclusive, participatory and realistic’) alongside the role of citizens seems to downplay the importance of the legislature’s formal role in being required to authorise any and all taxation and spending, and to hold the executive directly to account for its management of public resources.
   2. The role of the Supreme Audit Institution (GIFT HLP 9) is covered only in 10.5, which also covers internal control.
   3. The overall legal framework for PFM (GIFT HLP 5).
   4. Clarity of roles for fiscal management (GIFT HLP 7)
7. *Some observations on the OECD High-Level Principles*

It appears that, as with the GIFT High Level Principles, the draft OECD High Level Principles are intended to sit above more detailed principles and recommendations on specific elements of the overall budgeting framework (see last paragraph of the Introduction to the Principles) – although they are relatively detailed in some areas for a statement of high level principles. It is not clear, however, whether it is intended that all the OECD’s existing detailed normative instruments on budgeting and public financial management will be ‘nested’ under the High-Level Principles, or whether/how the High-Level Principles will guide the architecture of the OECD’s work in this field. It does not appear that the Principles have been drafted with the intention of providing an organising framework for the existing set of OECD instruments, or of promoting their consistency and coherence.

There are areas where the draft Principles is narrower in coverage than the GIFT High Level Principles. These include:

1. The scope of the instrument is largely confined to the national government. Transparency of inter-governmental fiscal relations (IGFR) is not referred to (GIFT HLP 7) – although in contrast to the 2002 Best Practices, there is reference to the central government presenting a full national overview of the public finances, encompassing central and sub-national levels of government (element 7.2); and the Introduction to the Principles states that the Principles are relevant and should be applied as appropriate to all levels of government. Relevant dimensions of IGFR include clarity of roles for fiscal management between different levels of government; transparency and predictability in the intergovernmental transfer system; and fiscal reporting.
2. The scope of the OECD instrument is confined to the ‘budget’ rather than to the broader concept of fiscal policy. The only reference to public corporations in the Best Practices is in 2.3c requiring disclosures of financial assets, and there does not appear to be an explicit reference to extra-budgetary funds or social security, or to the relationships between the government and public corporations. Of relevance in this context is transparency in the exercise of the government’s ownership functions; transparency in imposing public service obligations on SOEs; and reporting of the financial position and performance of the public sector as well as its subsectors (the latter is included in the IMF’s Fiscal Transparency Code). GIFT HLPs 3, 6 and 7 contain elements that incorporate the public sector and the relationships between the government sector and the rest of the public sector.
3. Within the concept of ‘budgetary governance’, the draft Principles focuses on budget preparation and presentation, and contains relatively little on budget implementation or fiscal reporting. The draft Principles do not contain any explicit provisions on:
4. Classification of revenues and expenditures to facilitate reporting and promote accountability.
5. Accounting systems and financial management information systems to capture and aggregate budget and fiscal information and produce budget implementation and fiscal reports.
6. Allotment release, annual contingency appropriations, virement, or supplementary budgets.
7. Procurement.
8. The scope, content, periodicity or timeliness of reporting on budget implementation, or comparability between different types of budget and fiscal reports.

It would be worth considering adding a new principle on budget executing/implementation, in between Principle 7 (Budgets) and Principle 8 (Performance, evaluation and VFM), to pick up some of these budget implementation issues.

If the aim is to limit the principles to 10 in number, there appears to be some repetition and overlap with respect to medium term fiscal policy analysis and budgeting in Principles 1-4; some rationalisation of these 4 principles may be possible and a reduction to 2 or 3. If sufficient space was created, it would be worth considering elevating the role of the legislature to a separate high level principle (which might also include reference to the Supreme Audit Institution) – see A. vii, page 3 above – including reference to fundamental elements of SAIs such as independence from the executive, and adherence to international auditing standards.

It may also be worth considering setting out in one principle (Principle 5) a comprehensive list of the key information and reports that should be contained in the annual budget documents. This is an element that is somewhat underdone in the current set of international fiscal transparency standards. With respect to the draft OECD HLPs, additions to Principle 5 could include reference to information on the government’s fiscal policy objectives and performance against them, on the economic and fiscal forecasts,[[2]](#footnote-2) on fiscal risks and their management, on the MTEF, on public investment projects, information on social security schemes, on Extra-budgetary funds, a tax expenditure report, and a Citizen’s Guide to the Budget (currently referred to in HLP 6).

The draft Principles also focus more on flows rather than stocks, and on the expenditure side of the budget rather than the revenue side:

1. Principle 2.1 states that budget targets should be used to ensure that all elements of revenue, expenditure and broader economic policy are consistent; while 5.3 states that the budgeting process should bring together all the financial inflows and outflows of government. Integrating budgeting with the balance sheet and an asset-liability management approach would also be worth considering in an OECD context.
2. Principle 3.3 refers to the need for a periodic comprehensive review of expenditure but there is no explicit reference to the need for a periodic review of revenue policies. Similarly 4.2 refers to an MTEF but not to a medium term tax strategy, while 6.4, 8.3 and 8.5 refer to analysis of expenditures and tax expenditures but not to analysis of revenue policies.

Other points of detail:

1. The Introduction to the draft Principles refers to ‘…the Treasury/Ministry of Finance (“central budget authority”), although in many countries budget and fiscal management is the responsibility of more than one government department e.g. countries with a split between macro-fiscal issues and expenditure management, or, in the many non-OECD member countries where there is a dual budget system (current and development budgets). The relationships within government between two or more agencies with budget or wider fiscal management responsibilities would appear to be at least as important as some of the other internal relationships covered in the draft principles e.g. the relationship between the central budget authority and the prime minister’s office or cabinet office (principle 3.2).
2. In Principle 9 on sustainability and risk, references might be added to some important general categories of fiscal risk, such as risks from the financial sector, from natural resource depletion, and environmental risks.
3. In Principle 2.1 there is reference to ‘the setting of overall fiscal targets by the CBA.’ As CBA is defined, it is not perhaps clear that the setting of fiscal targets is a function of elected decision makers, rather than civil servants.

Finally, a distinctive aspect of the draft Principles (as with the 2002 Best Practices) is that some of the individual provisions are in the nature of definitions, or assertions of fact, rather than normative statements. For example, provision 1.1, 2.2, 4.1, 9.2, and 10.1.

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1. This mapping is similar in approach to the mapping of the 2002 OECD Best Practices for Budget Transparency to the GIFT HLPs, see draft note of 24 September 2013. [↑](#footnote-ref-1)
2. While principle 2.2 refers to the accuracy of economic and fiscal forecasts, Principle 5 on the content of budget documents could usefully refer to the need for them to contain detailed information and data on these forecasts. There should also be a revised macroeconomic and fiscal forecast presented in the mid-year report. [↑](#footnote-ref-2)