Methodological Framework: Country Briefs on Fiscal Transparency

The paper below outlines the methodological framework for the preparation of country briefs focussing on the status of fiscal transparency. The key objectives of preparing the country briefs are to identify if there are gaps in macro-economic monitoring in public finances. The country briefs would thus focus on how countries report their finances, incorporating the classification of revenues and expenditures, whether the data is available on a central or consolidated basis, the frequency in reporting, transparency of budgetary assumptions, the availability of amortization and redemption schedule including availability of a debt sustainability analysis, the accounting system and availability of data to the public. The country briefs should incorporate details on the Open Budget Index, availability of fiscal rules and independent audit.

However, before getting into the methodological frame-work, below is a quick overview on fiscal transparency, which enables the researcher understand the rationale for highlighting certain fiscal parameters. It also includes the various data sources/website links where a researcher can obtain the data/information.

Quick Overview: What is Fiscal Transparency? In a paper titled "Through the Looking Glass[1]", GIFT states that raising, allocating and spending public resources are amongst the key functions and policy instruments of any government. However, there is a lack of transparency viz. (1) disclosure of government fiscal risks and positions, (2) inadequate public participation and consequently limited government accountability, which have contributed to fiscal crisis in many countries.

The IMF promulgated the first Fiscal Transparency Code post the 1998 Asian crisis. Since then, there have been various measures to improve fiscal openness including the OECD's Principles of Budgetary Governance, Open Budget Survey & Index, the IMF's revised Financial Transparency Code, the IMF Fiscal Transparency Evaluations and the UN Resolution endorsing GIFT's High Level Principles on Fiscal Openness.

Studies indicate that greater fiscal transparency could facilitate international surveillance of fiscal developments and mitigate the transmission of fiscal spillovers. Moreover, as noted by the IMF, the degree of fiscal transparency is an important predictor of a country's fiscal credibility and performance and that a higher degree of transparency likely to attract more foreign equity investment.

[1] Through the Looking Glass: Why Government Fiscal Openness Matters and What Should Investors Do? Global Institute for Fiscal Transparency – GIFT (www.fiscaltransparency.net) December 2014

Country Briefs: What is the objective? The key objectives of preparing the country briefs are to identify if there are gaps in macro-economic monitoring in public finances. Thus the questions that need to be addressed include:

I.A Budget Reporting:

(i) How do countries classify revenues and expenditure and how does this compare to the IMF standard?

IMF standard on Revenues: The questions that we suggest to be addressed are whether a country classifies revenues in line with the IMF standards. When available, one should first look at the IMF Fiscal Transparency Evaluations on the question. As per the Global Fiscal Statistics Manual (2014) General government units have four types of revenue[2]:

(i) Compulsory levies in the form of taxes and certain types of social contributions;
(ii) Property income derived from the ownership of assets;
(iii) Sales of goods and services; and
(iv) Other transfers receivable from other units.

IMF Revenue Classification *	
Taxes	**Grants**
Taxes on income, profits, and capital gains	From foreign governments
Taxes on payroll and workforce	From international organizations
Taxes on property	From other general government units
Taxes on goods and services	**Other revenue**
Taxes on international trade and transactions	Property income
Other taxes	Sales of goods and services
Social contributions	Fines, penalties, and forfeits
Social security contributions	Miscellaneous and unidentified revenue

Source: IMF (See Annex 1 for Detailed Breakdown based on IMF Govt Finances Manual 2014)

IMF Standard on Expenditures: Similar to understanding how revenues are classified, the country briefs should also address whether expenditures are classified in line with the IMF's Government Financial Statistics Year books. Briefly, as per the IMF, **t**he general government

[2] Compulsory levies and transfers are the main sources of revenue for most general government units. Public corporations do not levy taxes, but derive their revenue from all the other sources—of these, property income and the sales of goods and services are the main sources of revenue.

sector has two broad economic responsibilities: (i) to assume responsibility for the provision of selected goods and services to the community, primarily on a nonmarket basis; and (ii) to redistribute income and wealth by means of transfers. These responsibilities are largely fulfilled through expense transactions, which are classified in two ways in Global Fiscal Statistics: an **economic** classification and a **functional** classification.

Country Classification: To see how a country classifies its revenue and expenditure items, in addition to the IMF's Year book, it would be advisable to go to the specific country's budgetary documents. **Methodology:** Go to imf.org →E-Library → Fiscal Sector → GFS Yearbook. Once you're at the GFS home page, go to "**By Country**". In the same page below, you choose the "**sector**" and adjacent to it the tab on revenue or expenditure respectively.

In addition, one should look at the detailed country questionnaire available from the Open Budget Survey. Go to → http://survey.internationalbudget.org → Country Data sheet

(ii) Determine if the data is available on a state/central and consolidated basis?

Country briefs should state how a country reports its finances as some countries have no state or local government or no extra-budgetary funds.

The **first principle** in IMF's Code on Fiscal Transparency relates to the comprehensiveness of the coverage of public institutions. **Advanced practice**, according to the Code, is to publish data for the entire public sector. However, currently, this data is not available in the Government Finance Statistics Yearbooks. **Good practice**, is to prepare data on general government, and **basic practice** is to prepare data on central government.

Methodology: The key source is the **IMF's Government Finance Statistics (GFS)** Yearbooks. (Go to imf.org →E-Library → Fiscal Sector → GFS Yearbook. Once you're at the GFS home page, go to "**by country**". Here, insert the country name and once processed, gives you whether the country has data on (1) Central Government (2) State Government and (3) Local Government. This would also give you information whether data is available on a consolidated basis.

In addition, one should look at the detailed country questionnaire available from the **Open Budget Survey**. Go to → http://survey.internationalbudget.org → Country Data sheet

(iii) How does the country report its finances?

In order to make effective comparisons and analyze fiscal risks, two key observations that need to be made are (i) Has the country has reported data on revenues and spending on a cash basis, an accrual basis, or both and (ii) Whether it has reported a full balance sheet, a financial balance sheet, or only liabilities

The **second principle** in the Code relates to the comprehensiveness of the coverage of fiscal stocks. **Advanced practice** is to publish a full balance sheet, **good practice** is to publish a financial balance sheet, and **basic practice** is to report cash and debt.

Methodology: Go to imf.org →E-Library → Fiscal Sector → GFS Yearbook. Once you're at the GFS home page, go to "**By Query**". Choose the first option: GFSY – Main Aggregates and Balances

The **third principle** in the code relates to the comprehensiveness of the coverage of fiscal flows. **Basic practice** is to report cash flows, **good practice** is to report cash and accrual flows, and advanced practice requires the reporting of other economic flows as well.

Methodology: Go to imf.org →E-Library → Fiscal Sector → GFS Yearbook. Once you're at the GFS home page, go to "**By Query**". Choose the second option: GFSY – Statement of Sources and Uses of Cash

(iv) Is this data consistent with the Article IV Report?
Link to access the IMF Article IV reports, http://www.imf.org/external/country/index.htm

I. B. Budget Reporting – Frequency; Accounting System; Data Availability

The country briefs should incorporate details on (i) Frequency of the specific country reporting budgetary data (ii) Data accessibility – whether it is available on-line and can be exportable to excel and/or its availability in commercial data bases (eg Haver; CEIC) (iii) Accounting system being followed (iv) Data on contingent liabilities and (v) Does the country have a track-record of 'creative accounting'?

Methodology:

i. **Frequency** of the specific country reporting budgetary data – As mentioned in the section on open budget index, budget transparency as reflected in a country's OBI score reflects the timeliness and comprehensiveness of publicly available budget information in the eight key budget documents. These include Pre-Budget Statement, Executive Budget Proposal, Enacted Budget, In-Year Reports, Mid-Year Review, Year-End Report, Audit Report and Citizens Budget. To ascertain the availability of various budget documents at various stages of the process are available go to http://survey.internationalbudget.org/ and choose "document availability" on the tab bar.

ii. **Data accessibility** – whether it is available on-line and can be exportable to excel and/or its availability in commercial data bases (eg Haver; CEIC). To see if country specific information is available: Go to imf.org →E-Library → Fiscal Sector → GFS Yearbook

iii. **Accounting system** being followed – The Manual on Fiscal Transparency states that the best practice is that the accounting system have the capacity for accounting and reporting on an accrual basis, as well as for generating cash reports. Information on whether the country follows cash and/or accrual accounting is available in the IMF's Article IV reports available at http://www.imf.org/external/country/index.htm as well as the OECD reports available at http://www.oecd.org/gov/budgeting/seniorbudgetofficialcountryreviewsofbudgetingsystems.htm.

iv. **Data on contingent liabilities** - Contingent liabilities are costs that the government will have to pay if a particular event occurs. They are therefore not yet recognized as liabilities. They include explicit or implicit government guarantees, including uncalled capital and other potential legal obligations. Contingent liabilities complicate fiscal management because of the inherent uncertainty about their fiscal impact. In many countries, guarantees have proliferated, resulting in a large "hidden deficit" that is not reported. **As per the GFS Manual 2014**, this is available in GFA second supplementary statement, the Summary Statement of Explicit Contingent Liabilities and Net Obligations for Future

v. **Does the country have a track-record of 'creative accounting'** – This could possibly be referred to in the IMF Article IV country reports.

II. Availability of a "fiscal rule"/"fiscal responsibility law".

Fiscal rules and fiscal responsibility laws are a mechanism for improving fiscal discipline and policy outcomes. As stated in the IMF's Fiscal Transparency Manual, stand-alone fiscal rules seek to enhance the credibility of macroeconomic policies by limiting the scope for discretionary intervention. They encompass provisions such as balanced budget obligations, expenditure limits, and debt limits. A number of countries have enacted fiscal responsibility laws (FRLs) as permanent institutional devices aimed at promoting fiscal discipline in a credible, predictable, and transparent manner.

Transparency requires that fiscal rules be clearly defined, with well-specified reporting requirements from the outset such that noncompliance can be easily detected and addressed. The credibility of numerical rules and targets depends critically both on the realism of the budget and on the quality of the assessment of fiscal risks and sensitivity analysis. An equally important aspect for transparency concerns the need for a clear strategy in the event that unforeseen circumstances cause actual spending or deficits to breach numerical targets.

Methodology: Details on the availability of fiscal rules/laws can be found in the specific countries budget documents; the IMF's article IV reports at http://www.imf.org/external/country/index.htm

III. Open Budget Index Score[3]

[3] Source: Open Budget Survey 2015, International Budget Partnership

A defining characteristic of fiscal transparency is to ensure that fiscal data is freely available to the public. In this regard, the International Budget Partnership via its Open Budget Survey is the world's only independent comparable measure of budget transparency, participation, and oversight. Other public finance assessments mostly rely on government self-reporting, but the Open Budget Survey is implemented by independent researchers based in each of the countries surveyed who conduct analysis to determine the answers to 140 factual questions, and the results are reviewed by an anonymous expert.

The IBP's released its fifth Open Budget Survey 2015 of 102 countries in Sept 2015. It considers the current state of budget transparency and how it has changed over time; the degree to which opportunities for public participation in the budget process are present; and the strength of the two formal oversight institutions, the legislature and the supreme audit institution.

A key component of fiscal openness is 'budget transparency' which is measured by the Open Budget Index. The Open Budget Index (OBI) assigns each country a score from 0 to 100 based on the simple average of the numerical value of each of the responses to the 109 questions in the questionnaire[4] that assess the public availability of budget information. A country's OBI score reflects the timeliness and comprehensiveness of publicly available budget information in the eight key budget documents.
As stated in the Open Budget Survey, the budget documents in various stages of the budget process include a Pre-Budget Statement, Executive Budget Proposal, Enacted Budget, In-Year Reports, Mid-Year Review, Year-End Report, Audit Report and Citizens Budget.

Methodology: The latest OBI scores are available at Open Budget Survey 2015, International Budget Partnership at http://survey.internationalbudget.org/. If one needs data on time-line of rankings or OBI score, then go to http://survey.internationalbudget.org/#timeline

To ascertain the availability of various budget documents at various stages of the process are available go to http://survey.internationalbudget.org/ and choose "**document availability**" on the tab bar or http://survey.internationalbudget.org/#availability

[4] The Open Budget Survey measures the state of budget transparency, participation, and oversight in countries around the world. It consists of 140 questions and is completed by independent researchers in the countries assessed. 109 of the 140 questions deal directly with the public availability and comprehensiveness of the eight key budget documents that governments should publish at various points of the budget cycle.

The Survey also consists of 16 questions examining opportunities for public participation in budget processes, and 15 questions examining the strength of the two formal oversight institutions, the legislature and the supreme audit institution. The Survey does not reflect opinion. It measures observable facts related to budget transparency, accountability, and participation.

The 8 Key Budget Documents		
Budget Formulation Stage	1. Pre-Budget Statement	This should include the assumptions used to develop the budget, such as total expected revenue, expenditure, and debt levels, and broad sector allocations
	2. Executive's Budget Proposal	This should represent the government's detailed plans, in terms of policy priorities and budgets for each ministry and agency, for the coming budget year.
Budget Approval Stage	3. Enacted Budget	This is the legal document that authorizes the executive to implement the policy measures the budget contains
Budget Execution Stage	4. In-Year Reports	This includes information on revenues collected, actual expenditures made, and debt incurred at a given point in time, generally through monthly or quarterly publications
	5. Executive's Budget Proposal	This presents the government's detailed plans, in terms of policy priorities and budgets for each ministry and agency, for the coming budget year
	6. Mid-Year Review	This summarizes the actual budget data for the first six months of the year (revenues, expenditures, and debt), reassesses the economic assumptions upon which the budget was initially drafted, and adjusts the budget figures for the remaining six months accordingly.
	7. Year-End Report	This shows the situation of the government's accounts at the end of the fiscal year and ideally includes an evaluation of the progress made toward achieving the policy goals spelled out in the Enacted Budget.
Audit stage	8. Audit Report	Here, the supreme audit institution evaluates the financial performance of the government in the previous budget year; audits can also cover specific agencies and nonfinancial aspects of the executive's performance

Lastly, as laid out by the International Budget Partnership, in addition to these documents, governments should publish a **Citizens Budget**, a simplified version of a budget document that uses nontechnical language and accessible formats in order to facilitate citizens' understanding of, and engagement with, the government's plans and actions during the budget year.

(i) Availability of a year-end execution report?

This is a binary answer and an offshoot from Question 3 on reporting. This is available from the International Budget Partnership.

Methodology: Go to http://survey.internationalbudget.org/ and choose "document availability" on the tab bar.

(ii) Availability of an independent audit

One of the key pillars of the open budget approval process are procedures for budget reporting. The Fiscal Transparency Code states that audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year. (Best practice is that final accounts of central government be presented to the legislature within six months of the end of the fiscal year).

While government activities and finances should be internally audited, and audit procedures should be open to review, the Code states that public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive.

The OECD Principles of Corporate Governance on Disclosure and Transparency also state that an annual audit should be conducted by an independent, competent, and qualified auditor in order to provide an external and objective assurance on the way that the financial statements have been prepared and presented. Further, audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.

The open budget partnership states that good practice guidelines on public financial management recommends that all countries establish and empower a body independent of the executive to scrutinize the use of public funds; this body is generally referred to as the supreme audit institution (SAI). Key to note is that in addition to the legislature, the SAI is the second institution with formal budget oversight functions.

Methodology: Go to http://survey.internationalbudget.org/ and then the respective countries' Datasheet (Questions

IV. Fiscal Structure & Political process to approve budget(s) for upcoming year(s).

The Fiscal Transparency Code states that the fiscal powers of the executive, legislative, and judicial branches of government should be well defined but does not advocate a particular structure of government on the basis of fiscal management concerns.

As per the OECD, the two most important players in the budget process are the legislature and the executive budget office. Their respective role and power in the budget process differ from country to country and are influenced by many factors, including the wider historical, constitutional and political context as well as the legal and procedural aspects of the budget process itself and internal legislative structures and processes.

The OECD best practice guidelines suggest that a pre-budget report should be presented to the legislature and published no later than one month prior to the tabling of the annual budget. This report should state the government's medium-term economic and fiscal intentions, and highlight total revenue, expenditure, the deficit or surplus, and debt. Such a report can usefully facilitate legislative and public debate on overall fiscal policy objectives and strategy.

Once the draft budget has been formally submitted, the scope of the amendments that the legislature can make varies according to the type of political system. Nevertheless, as a general rule, the detailed budget proposals should be presented to the legislature in sufficient time to allow careful deliberation, including by committees and subcommittees where mandated, before any legal deadlines for adoption of the necessary legislation.

Methodology: The process of the legislature and executive (including the right to veto) could be obtained from (1) Role of the Legislature in the Budget Process: Recent Trends and Innovations by Paul Posner and Chung-Keun Park (ii) Role of the Legislature in Budget Processes Ian Lienert – IMF Fiscal Affairs Department (iii) OECD: http://www.oecd.org/gov/budgeting/internationalbudgetpracticesandproceduresdatabase.htm/

V. Summary - Checklist of items in this template that have a numeric or binary outcome

The concluding paragraph should be comprehensive starting with the country's strengths, weaknesses and areas for improvements. Lastly it should incorporate the credit rating and where it stands with respect to its peers.

Methodology: This should be largely based on the analysis done in writing the country briefs. To make it more comprehensive, it would be advisable to read up the latest IMF Article IV report on the country being covered. http://www.imf.org/external/country/index.htm

For sovereign ratings, register under both Moody's and S&P to get free access to a country's sovereign ratings. (https://www.moodys.com/ and http://www.standardandpoors.com/en_US/web/guest/home)

Country Snapshot		
Sovereign Rating		
Budget Coverage (General/Central govt)		
Open Budget Index Score		
Availability of Year End Execution Report		
Fiscal Rule/Fiscal Responsibility Laws		
Accounting Methodology		
Areas for Improvement		

ANNEX: IMF REVENUE CLASSIFICATION

Table 5.1 Summary Classification of Revenue

1	**Revenue**	**12**	**Social contributions [GFS]**
11	**Taxes**	121	Social security contributions [GFS]
111	Taxes on income, profits, and capital gains	1211	Employee contributions [GFS]
1111	Payable by individuals	1212	Employer contributions [GFS]
1112	Payable by corporations and other enterprises	1213	Self-employed or unemployed contributions [GFS]
1113	Other taxes on income, profits, and capital gains[1]	1214	Unallocable contributions [GFS]
112	Taxes on payroll and workforce	122	Other social contributions [GFS]
113	Taxes on property	1221	Employee contributions [GFS]
1131	Recurrent taxes on immovable property	1222	Employer contributions [GFS]
1132	Recurrent taxes on net wealth	1223	Imputed contributions [GFS]
1133	Estate, inheritance, and gift taxes	**13**	**Grants**
1135	Capital levies	131	From foreign governments
1136	Other recurrent taxes on property	1311	Current
114	Taxes on goods and services	1312	Capital
1141	General taxes on goods and services	132	From international organizations
11411	Value-added taxes	1321	Current
11412	Sales taxes	1322	Capital
11413	Turnover and other general taxes on goods and services	133	From other general government units[1]
11414	Taxes on financial and capital transactions	1331	Current
1142	Excise	1332	Capital
1143	Profits of fiscal monopolies	**14**	**Other revenue**
1144	Taxes on specific services	141	Property income [GFS]
1145	Taxes on use of goods and on permission to use goods or perform activities	1411	Interest [GFS][1]
11451	Motor vehicle taxes	1412	Dividends[1]
11452	Other taxes on use of goods and on permission to use goods or perform activities[1]	1413	Withdrawals of income from quasi-corporations
1146	Other taxes on goods and services	1414	Property income from investment income disbursements
115	Taxes on international trade and transactions	1415	Rent
1151	Customs and other import duties	1416	Reinvested earnings on foreign direct investment
1152	Taxes on exports	142	Sales of goods and services
1153	Profits of export or import monopolies	1421	Sales by market establishments
1154	Exchange profits	1422	Administrative fees
1155	Exchange taxes	1423	Incidental sales by nonmarket establishments
1156	Other taxes on international trade and transactions	1424	Imputed sales of goods and services
116	Other taxes	143	Fines, penalties, and forfeits
1161	Payable solely by business	144	Transfers not elsewhere classified
1162	Payable by other than business or unidentifiable	1441	Current transfers not elsewhere classified
		14411	Subsidies[1]
		14412	Other current transfers not elsewhere classified[1]
		1442	Capital transfers not elsewhere classified
		145	Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes[1]
		1451	Premiums, fees, and current claims[1]
		1452	Capital claims

[1]Indicates that a further breakdown may be analytically useful and is presented in detailed tables.

Source: Global Finance Statistics Manual 2014

ANNEX: IMF EXPENDITURE CLASSIFICATION

Table 6.1 Summary Economic Classification of Expense

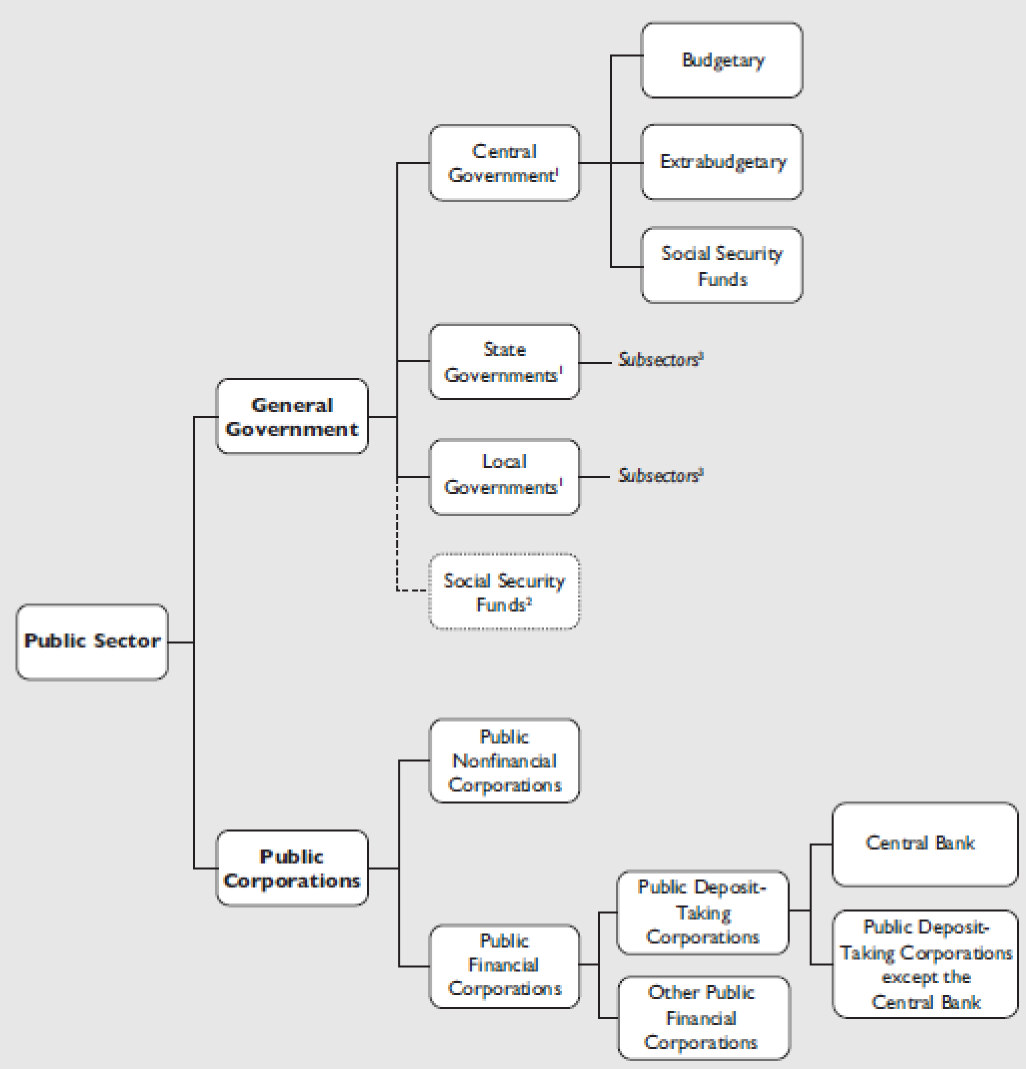
2	**Expense**	**27**	**Social benefits [GFS][1]**
21	**Compensation of employees [GFS][1]**	271	Social security benefits [GFS]
211	Wages and salaries [GFS]	2711	Social security benefits in cash [GFS]
2111	Wages and salaries in cash [GFS]	2712	Social security benefits in kind [GFS]
2112	Wages and salaries in kind [GFS]	272	Social assistance benefits
212	Employers' social contributions [GFS]	2721	Social assistance benefits in cash [GFS]
2121	Actual employers' social contributions [GFS]	2722	Social assistance benefits in kind [GFS]
2122	Imputed employers' social contributions [GFS]	273	Employment-related social benefits [GFS]
22	**Use of goods and services**	2731	Employment-related social benefits in cash [GFS]
23	**Consumption of fixed capital [GFS][1]**	2732	Employment-related social benefits in kind [GFS]
24	**Interest [GFS][1]**	**28**	**Other expense**
241	To nonresidents [GFS]	281	Property expense other than interest
242	To residents other than general government [GFS]	2811	Dividends[1]
243	To other general government units [GFS]	2812	Withdrawals of income from quasi-corporations
25	**Subsidies[1]**	2813	Property expense for investment income disbursements
251	To public corporations	2814	Rent
252	To private enterprises	2815	Reinvested earnings on foreign direct investment
253	To other sectors	282	Transfers not elsewhere classified
26	**Grants[1]**	2821	Current transfers not elsewhere classified
261	To foreign governments	2822	Capital transfers not elsewhere classified
2611	Current	283	Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes[1]
2612	Capital	2831	Premiums, fees, and current claims
262	To international organizations	2832	Capital claims
2621	Current		
2622	Capital		
263	To other general government units		
2631	Current		
2632	Capital		

[1]Indicates that further breakdown may be analytically useful and is presented in detailed tables

Source: Global Finance Statistics Manual 2014

ANNEX - STRUCTURE OF THE PUBLIC SECTOR

Figure 2.3 The Public Sector and Its Main Components



[1]Includes social security funds.
[2]Alternatively, social security funds can be combined into a separate subsector, as shown in the box with dashed lines.
[3]Budgetary units, extrabudgetary units, and social security funds may also exist in state and local governments.