

*2 December 2011*

## Global Initiative on Fiscal Transparency

# **Defining the Technical Content of Global Norms: Synthesis and Analytic Review**

Revised Phase 1 Report

for the Advancing Global Norms Working Group

**Murray Petrie**  
Independent Expert

## Contents

	Abbreviations and Acronyms	4
	Introduction	5
Section I	Technical Mapping of Norms	
	(a) Definition of Key Terms	6
	(b) Mapping of Norms by Instrument	7
	(c) Mapping by Detailed Provisions	8
Section II	Overview of the Degree of Consensus Evident in the Current Normative Architecture	8
Section III	Current Country Patterns of Adherence to Norms	
	(a) The Budget Transparency Elements in the OBI	14
	(b) The IMF Fiscal Transparency Code	16
	(c) PEFA	19
	(d) Access to Information, and Participation	21
Section IV	Emerging Weaknesses and Gaps	22
Section V	Current Work Programmes	24
Section VI	The Phase II Report	26
	Annex 1: Table 1: Technical Mapping of Global Norms on Fiscal Transparency by Instrument	[separate file]
	Annex 2: Table 2: Technical Mapping of Global Norms on Fiscal Transparency: Timeliness, Periodicity and Graduation	[separate file]
	Annex 3: Table 3: Technical Mapping of Global Norms on Fiscal Transparency by Stage of the Budget Cycle	[separate file]
	Annex 4: Recommendations and Suggested Issues for Discussion from the draft Phase I report.	28
	Glossary	30

Box 1	The Different Dimensions of International Norms on Fiscal Transparency	9
Box 2	Observations from Fiscal Transparency ROSCs	17
Box 3	Transparency of Fiscal/Environmental Sustainability Issues	24
Box 4	Some Agency Current Work Programs on Fiscal Transparency Norms and Related Areas	25

## Abbreviations and Acronyms

AITI	Aid Transparency Initiative
CL	Contingent Liability
CoST	Construction Sector Transparency
CSO	Civil Society Organisation
EBF	Extra-Budgetary Fund
EITI	Extractive Industries Transparency Initiative
FT	Fiscal Transparency
FY	Fiscal (or Financial) Year
GDDS	General Data Dissemination System
GFS	Government Finance Statistics
GFSM2001	Government Finance Statistics Manual 2001
HIPC	Heavily Indebted Poor Country
IBP	International Budget Partnership
ICCPR	International Covenant on Civil and Political Rights
IFAC	International Federation of Accountants
IFMIS	Integrated Financial Management Information Systems
IMF	International Monetary Fund
IMF FTC	IMF Fiscal Transparency Code
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISO	International Standards Organisation
IT	International Treaty
MDP	Multi-Donor Partnership
MSI	Multi-Stakeholder Initiative
OBI	Open Budget Index
OBS	Open Budget Survey
OECD	Organization for Economic Cooperation and Development
OECD BP	OECD Best Practices in Budget Transparency
OGP	Open Government Partnership
OIG	Official International Guideline
OIS	Official International Standard
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
QFAs	Quasi-Fiscal Activities
ROSC	Report on the Observance of Standards and Codes
RTI	Right To Information
SAI	Supreme Audit Institution
SDDS	Special Data Dissemination Standards
SNG	Sub-National Government
SOE	State-Owned Enterprise
UNCAC	UN Convention Against Corruption

## Introduction

This report was commissioned by the GIFT Advancing Global Norms Working Group. It is part of the Group's mandate to mobilize stakeholders to work towards defining global norms by establishing and monitoring international standards and good practices on fiscal transparency, accountability and engagement.

The work stream comprises two phases. The first phase – the subject of this report – comprises an in-depth analytic mapping and review of existing norms. This includes a description of the study, the major findings from the mapping exercise, and the gaps identified through the exercise.

This report is a revised version of the draft Phase I report discussed by the Norms Working Group on 2 November 2011. It takes into account feedback on that draft, as well as further information obtained subsequent to the Working Group meeting, including information provided by GIFT participants. The main change is the addition of a new Section III describing country practices and the degree of adherence to the norms. There is also an expanded discussion of the definition of key terms on pp. 5-6, and Table 1 (the Technical Mapping of Norms), has been revised (five additional instruments have been included, and the instruments have been re-categorised). In addition, there are a few minor additions to Box 4 on current agency work programs on fiscal transparency and related areas.

This revised Phase I report is accompanied by and should be read in conjunction with the Phase II report.

The initial Phase I report contained a set of recommendations for advancing global norms on fiscal transparency, accountability and public engagement, and a set of critical questions for the Advancing Global Norms Working Group to consider. These forward-looking elements are now covered in the Phase II report. The original questions for discussion at the 2 November meeting of the Norms Working Group have been shifted to Annex 4 of this revised Phase I report for completeness.

This revised Phase I report has four main components:

- 1) Section I defines key terms, and then presents three technical mappings of global fiscal transparency norms - Tables 1-3 in the Annexes. The first is a mapping of norms by instrument; the second a mapping by stage of the budget cycle and main fiscal report; and the third is a mapping of norms by principle. The mappings should be viewed as working drafts, given the wide scope of the exercise. They require further review, development, and refinement.

- 2) Section II contains a discussion of the degree of consensus around fiscal transparency norms, and provides some preliminary comments on areas of overlap, gaps, and technical challenges.
- 3) Section III is a new section describing country practices and the degree of adherence to the norms.
- 4) Section IV identifies some key emerging weaknesses, gaps, and points of tension in the normative architecture.
- 5) Section V contains a link to the Phase II report.

## I. **Technical Mapping of Global Norms**

### *a) Definition of Key Terms*

Global norms are defined as broadly accepted principles and guidelines of appropriate conduct for governments and all relevant stakeholders with respect to fiscal transparency and participation in the budget process. The focus here is on international norms (global and regional), not norms/laws at the national level.

Fiscal transparency is wider than budget transparency: it includes all fiscal activities, including those undertaken outside the budget sector, and ‘quasi-fiscal activities’ (QFAs) undertaken outside the government sector by public corporations or the central bank (see the glossary for further definitions). It also includes all public assets and liabilities, as well as revenues and expenditures authorised in an annual budget.

Four main dimensions of fiscal transparency underpin the mapping of norms:

- (i) Public availability of information (disclosure, dissemination).
- (ii) Clarity of roles.
- (iii) Accountability.
- (iv) Opportunities for public participation.

Fiscal transparency sometimes refers just to the public availability of information. In other instances, it is used as an umbrella term that includes additional elements, such as clarity of roles (as in the IMF Fiscal Transparency Code), and accountability and participation (as in GIFT).

In general, to date fiscal transparency has been sharply contrasted with fiscal policy. That is, questions such as “What should the fiscal deficit be,” and “how much should be allocated to the health sector” are fiscal policy issues, and have been considered to be strictly outside the ambit of fiscal transparency.

However, once the span of fiscal transparency expands to include public participation in fiscal policy, the boundary between transparency and fiscal policy

needs to be revisited. Calls for greater public participation in fiscal policy are often directed at participation in discussions over policy decisions. In fact, the advocacy of a number of NGOs for greater budget transparency was to an important degree to make possible their informed engagement in policy debates over, for example, the level of funding or the effectiveness of poverty-reduction spending programs.

What participation means with respect to fiscal policy is discussed in more detail in the Phase II report.

Turning to accountability, an accountability relationship has three components: *standards, rules and norms* against which performance is assessed; *answerability*, or the obligation to report and explain conduct in terms of the standards; and *enforcement*, the capacity to impose sanctions if standards are not met.<sup>1</sup> Following the World Development Report 2004, public accountability can also for some purposes usefully be viewed as acting through two mechanisms: the long route, from citizen, to government, to public agencies; and the short route, from citizen direct to the agency delivering services to the public.<sup>2</sup>

Finally, some fiscal activities raise inherent concerns for effective accountability, no matter how well they are disclosed – for example, tax expenditures and QFAs. The requirement in the current leading fiscal transparency norms (e.g. the IMF, OECD and OBI instruments) is that they be disclosed, not restricted or abolished. Once an explicit accountability focus is incorporated, as it is in GIFT, the treatment of fiscal activities such as tax expenditures and QFAs in existing norms should be revisited.<sup>3</sup>

#### *b) Mapping of Norms by Instrument*

In an attempt to identify the full range of relevant norms and the instruments in which they are embedded, the first cut at mapping is by instrument. Table 1 (Annex 1) classifies 40 instruments by institutional “owner” and year of introduction; by type; purpose; scope; content; country coverage; whether it is graduated; whether it has specific timeliness and periodicity requirements; what the gaps in coverage are or might be seen to be; how performance against the norm is assessed (whether by an official sector entity(s) or a civil society entity(s); and the availability of assessment reports.

---

<sup>1</sup> Goetz and Jenkins, 2001, cited in Yilmaz and Beris, 2008.

<sup>2</sup> With respect to the latter, this is not to suggest that enforceable legal obligations might be created between public service providers and their “clients”. There is a range of non-legal accountability mechanisms, such as Citizens’ Charters, published service standards and outcomes, and public complaints mechanisms.

<sup>3</sup> Note that in one norm, The OECD Guidelines on Corporate Governance of State Owned Enterprises (2005), QFAs of SOEs are to be eliminated. See Table 1, item 19.

The rows of Table 1 group instruments by whether they are 1) comprehensive; specialized; sector-specific; relate to information access and/or participation; are directed at the private sector; or are instruments related to fiscal transparency.<sup>4</sup>

Entries in the “Gaps” column are not intended to imply criticism or a recommendation; they are often just noting what is not inside the scope of the instrument, which may be intended and/or appropriate.

There are undoubtedly still some gaps in Table 1, and issues for discussion and correction. There may be a need to add instruments from the revenue side of the budget, the environmental domain, and perhaps from deep regional integration agreements (such as the EC) and the WTO system.

Distilling from Table 1, it is possible to identify a number of more-or-less distinct dimensions along which the instruments vary. Box 1 contains a number of dimensions identified in the course of the mapping exercise. It is hoped that identification of these dimensions will assist in the analysis and re-design of the global normative architecture.

#### *c) Mapping by Detailed Provisions*

Two further layers of mapping are contained in the Annexes:

- a) Table 2 (Annex 2) drills down on the requirements for fiscal reports in the relevant instruments in Table 1, by stage of the budget cycle and main fiscal report.
- b) Table 3 (Annex 3) maps fiscal transparency norms by principle.

These mappings are intended to help identify the areas and degree of consistency in the detailed content of norms across the various instruments, the graduation of requirements (e.g. basic and best practices) where they exist, and the areas of gaps, inconsistency or tension. These issues are discussed in the next two sections.

## **II. Overview of the Degree of Consensus Evident in the Current Normative Architecture**

As is evident from Table 1, the international fiscal transparency normative space has grown rapidly since its emergence at the end of the 1990s, and now comprises a multiplicity of instruments.

---

<sup>4</sup> A related mapping exercise recently completed of PFM diagnostics for the OECD-DAC devised the following typology: (A) Broad diagnostic or analytical tools covering the whole of the PFM system, (B) Tools which focus in greater detail on individual PFM elements or institutions, and (C) Tools used by donors in order to assess fiduciary risk and/or the use of country systems. The focus in that exercise was on the information needs of governments and aid donors, not the wider information needs and oversight roles of legislatures, the private sector, markets, civil society, or the general public.



### Box 1: The Different Dimensions of International Norms on Fiscal Transparency.

- i. *Instrumental approaches* in which fiscal transparency is justified on the basis that it contributes to worthy ends such as social equity, economic growth, and/or environmental sustainability e.g. nearly all of the instruments in Table 1  
v *rights-based approaches* e.g. taxpayer rights in the IMF Fiscal Transparency Code (FTC) and Manual, and in PEFA; a right to prior consultation in environmental matters in the Aarhus Convention; an individual right to participation in the management of public affairs, in the Inter-Parliamentary Union Universal Declaration on Democracy,
- ii. *Transparency ex ante* (e.g. budgets) *and ex post* (e.g. in-year and end of year reporting) – for example, the OBI, IMF FTC, PEFA v *ex post transparency only* (end of year reporting) – e.g. IPSAS, EITI, GFSM2001.
- iii. *Comprehensive scope* e.g. OBI, IMF FTC v *partial approaches* e.g. IMF Resource Revenue Transparency Guide, EITI, CoST.
- iv. *Standard setting by single ‘entity’* (IPSAS, OBI, FTC, OECD Best Practices), or *multiple official entities* e.g. PEFA, or by a *multi-stakeholder initiative* spanning official sector, private sector, and civil society e.g. EITI.
- v. *‘Hard law’ code* e.g. UNCAC, or *‘soft law’ code or guideline* e.g. PEFA, IMF FTC, IMF Resource Revenue Transparency Guide, or *civil society norm* e.g. OBI.
- vi. *Standard with guidance and assessment* (PEFA, OBI, IMF FTC) v *standard only* (OECD Best Practices).
- vii. Assessments may be *descriptive only*, *descriptive and diagnostic* e.g. PEFA, and/or *prescriptive* i.e. containing recommendations e.g. Fiscal ROSC<sup>5</sup>
- viii. *Instruments that give formal standing only to official entities* (most of the instruments in Table 1) v *instruments that give formal standing to non-government parties and individuals* e.g. Aarhus Convention, IMF FTC (with respect to taxpayers), and PEFA (taxpayers, and entities taking part in public procurement) .
- ix. *A pass/fail* (ISO-type) approach to assessment, involving an assessment and endorsement e.g. EITI, or a *graduated assessment of different levels of performance* e.g. OBI, IMF FTC, PEFA.
- x. *Quantitative assessments* e.g. OBI, IMF FTC, PEFA v *qualitative only assessments* e.g. IMF FTC pre-2007.
- xi. *Centralised assessment* (Fiscal ROSC) v *decentralised assessment* (PEFA, EITI)
- xii. *International and national level institutions* e.g. OBI, IPSAS, EITI, CoST, v *International-level only institutions* (IMF FTC).
- xiii. Financing of assessment: *donor-financed* (PEFA, OBI) or *assessor-financed* (Fiscal ROSC) or *self-financed* (some elements of EITI, and sovereign debt ratings).

As recently as the mid-1990s, there was no recognized definition of fiscal transparency, let alone any international codification of what it comprised. Kopits and Craig (1998) defined fiscal transparency to include both disclosure of fiscal information and openness about the structure and functions of government. This approach was embodied in the 1998 IMF Code of Good Practices on Fiscal Transparency (IMF FTC), and was fleshed out in the first IMF Fiscal Transparency

<sup>5</sup> This three-way classification of descriptive, diagnostic and prescriptive is taken from the Stocktaking Study of PFM Diagnostics and Instruments, Volume 1 – Main Report, May 2011, OECD and PEFA.

Manual in 1999, the same year that the Fiscal ROSC program started. The OECD Best Practices in Budget Transparency (issued in 2001) was initiated in 1999 by the OECD Senior Budget Officers' Group, and focused on the narrower central government budget sector.

The IMF's Statistics Department issued a fully revised Government Finance Statistics Manual in 2001 (GFSM2001), which set the accrual basis of recording transactions, including a government balance sheet, as the standard for all countries for reporting analytical fiscal statistics. The International Federation of Accountants (IFAC) initiated the International Public Sector Accounting Standards (IPSAS) program around that time, and has since introduced two bases of public sector accounting: cash, and accrual.

Subsequently, the Extractive Industries Transparency Initiative (EITI) was launched in 2002, the IMF's Guide on Resource Revenue Transparency was issued in 2005, and latterly the civil society Natural Resource Charter has been published, all reflecting heightened concern and focus on the importance of fiscal transparency in countries dependent on extractive industries.

The PEFA reports that commenced in 2005 (and more recently the Aid Transparency Initiative (AITI), on the other hand, were aimed at strengthening PFM accountability and transparency amongst aid recipients and donors, and at reducing assessment costs through a common PFM diagnostic instrument. Detailed procurement instruments "drilled down" into the PEFA indicator and fleshed out transparency requirements in that area. UNCAC globalized the criminalisation of bribery of public officials in 2005, and also introduced some low-level treaty commitments to open budgets and procurement.

The first Open Budget Survey (OBS), conducted in 2006, reflected growing activism by civil society applied budget groups aiming to create pressure for greater transparency over the whole budget cycle, and more opportunities for direct public engagement in decisions over the allocation and disbursement of public resources.

There is some key long-standing 'infrastructure' supporting all the fiscal transparency instruments that contributes to a high degree of consistency across them. These include the definition of the government sector and the public sector (in the GFS system, see GFSM2001), which helps to define the domain of fiscal policy and differentiate it from the other main functions of government (regulation, and monetary policy). Revenue and expenditure classifications (e.g. administrative, economic, and functional expenditure categories), and classifications of public debt, are also widely accepted.

In addition to some common infrastructure, there has also been a degree of informal, decentralised coordination across the different norm-setting institutions involved. For example, the drafting of instruments and manuals (e.g. in designing the Open Budget Index (OBI), and drafting the IMF FT Manual) has incorporated or taken into account norms promulgated by other institutions, such as INTOSAI, IFAC, and the OECD. In some cases there has also been explicit low-level cooperation, in the form of discussions between different entities about their respective instruments e.g. discussions between the International Budget Partnership (IBP) and the IMF when the IBP was designing the OBI. In some cases, one institution has responsibility for multiple instruments, and internal coordination across different institutional units has addressed consistency issues e.g. the IMF with respect to consistency between GFSM2001, data dissemination standards (the SDDS/GDDS), the FTC and Manual, and the Code on Monetary and Financial Transparency. The IMF's Fiscal Affairs Department has also been able to ensure full integration between the FTC and Manual, on the one hand, and the Guide on Resource Revenue Transparency on the other.

Finally, there are also some multi-institutional fora where issues of consistency and cooperation have been addressed e.g. the PEFA multi-donor group that oversaw and approved the design of PEFA, and the Multi-Donor Trust Fund that finances PEFA assessments; and the OECD-DAC Taskforce on Public Financial Management. The latter is interesting for GIFT in that its aim was to take stock of the plethora of PFM diagnostic instruments that donors were using in 2004, to identify overlaps, and to rationalise the instruments. It led to the development of the PEFA tool, and it still plays a role monitoring whether PEFA is meeting the objective of a common donor diagnostic instrument.

There is a broad normative consensus apparent in the area of supply-side disclosure by governments. As can be seen from Table 2, the coverage and timeliness of budget documents, the timeliness of in-year reporting, and the scope, role, and timing of externally-audited final accounts are areas of broad normative consensus. Provisions relating to the independence of the SAI are consistently reflected across all the main instruments. Recent developed country trends towards pre-budget reports and long-term fiscal reports are now 'codified' in the IMF FTC and the OECD Best Practices (and the importance of long term forecasts is reflected in the IPSAS Board (IPSASB) recently publishing on Exposure Draft on reporting long-term sustainability of public sector finances).

In recent years there has been a trend towards requiring more active dissemination, more opportunities for public engagement, and working on strengthening the demand-side of fiscal transparency. The OBI built in provisions from the outset on public participation in budgeting, and the latest Open Budget Survey 2012 contains

an expanded set of questions on opportunities for public participation (see Table 3). It has also introduced detailed questions on a Citizens' Budget. The 2007 revision to the IMF FTC added provisions stipulating public consultation over policy or regulatory changes, sufficient time for legislative review of the annual budget, and wide distribution of a clear and simple budget summary (which in the IMF Fiscal Transparency Manual refers to as a Citizen's Guide to the Budget). Of all the instruments, only the OBS stipulates that the legislature should provide opportunity for public presence and participation.

However, there are some core areas of fiscal transparency that are technically difficult and over which there is not yet a consensus. For example:

- a) The appropriate basis of accounting for countries at lower levels of development, and transition paths from cash to accrual reporting.
- b) Good practice in the disclosure of fiscal risks is still evolving, and needs to be revisited in the wake of the global financial crisis. It is presently covered only in the IMF Instruments.<sup>6</sup>
- c) How to account for and disclose the likely and possible fiscal impacts of Public Private Partnerships (PPPs) and contingent liabilities (CLs). There are complex technical issues in determining when a PPP should be accounted for as public or private investment, and how the expected cost of CLs can be best reflected at the time they are entered into.
- d) The significance, quantification and disclosure of QFAs in practice, and whether to stipulate reporting only of QFAs, or whether transparency requires their elimination and replacement by fiscal instruments (e.g. subsidies, contracts) – as noted, the stance taken by the 2005 OECD Guidelines on the Corporate Governance of State-Owned Enterprises (SOEs).

There are also some areas where the basic meaning of terms is not consistent, creating confusion. For instance, the meanings of contingent liability, liability, and accrual have specific, well-defined meanings in accounting, but different, more varied, and looser applications by fiscal economists.

From Table 1 and Table 3 it can also be seen that there is (in some cases very) limited international normative content around some emerging and potential areas of fiscal transparency and accountability, including:

- a) A citizen's right to fiscal information.

---

<sup>6</sup> See also "Fiscal Risks: Sources, Disclosure, and Management", Cebotari et al, IMF Fiscal Affairs Department, 2009, which attempted to pull together norms and guidance on fiscal risk disclosure from a number of sources.

- b) How legislatures should be organised and resourced, and the key functions and activities they should perform in holding the executive to account for the management of fiscal activities and public resources.
- c) Mechanisms of direct external and civil society engagement in the management of public resources.
- d) Detailed transparency around the delivery of public services and the performance of public agencies in achieving social and other policy objectives.
- e) The interface between fiscal policy and environmental issues.

There is also some potential for emerging tensions between the different instruments. For example, whether the existence and extent of the legislature's authority to amend the executive's budget proposal is a transparency issue is not settled. The position taken by the IMF Code and Manual is that the transparency issue is confined to whether there is clarity around the legislature's authority; whether the legislature should have amendment powers goes beyond transparency.<sup>7</sup> The IBP's OBS implicitly takes the position – by the way it assigns scores to the different responses to the question – that legislatures should have wide-ranging authority to amend the executive's budget proposal.<sup>8</sup>

Finally, there are also considerable overlaps between some of the instruments. This is not such a problem where one of the instruments is not subject to assessment e.g. the OECD Best Practices – although having both the OECD Best Practices and the IMF FTC as official standards promulgated by different international organisations, rather than a graduated approach within a single, common standard, is perhaps potentially confusing, given their different scope and content.

There is also a large overlap between the OBI and the IMF FTC, although the former incorporates many elements relating to public participation in budgeting, produces detailed quantitative cross-country ratings, is conducted by independent civil society researchers in each country, and involves minimal compliance costs on the part of “host” governments. It is also updated every two years, which is in contrast to fiscal ROSCs, which are infrequently updated.

The more significant overlap is between PEFA and the Fiscal ROSC. It has been estimated that more than 60% of the good practices assessed in the fiscal ROSC are reported fully or partially in a PEFA assessment and 75% of the indicators in a PEFA assessment could be derived from material assembled for a fiscal ROSC.<sup>9</sup>

---

<sup>7</sup> See footnote 23 of the IMF Fiscal Transparency Manual.

<sup>8</sup> See Question 80 in the 2010 OBS.

<sup>9</sup> Note attached to the IMF blog posted by Mario Pessoa (IMF FAD) on May 25, 2010. <http://blog-pfm.imf.org/pfmblog/>

Sixteen countries have undertaken both a PEFA and a fiscal ROSC independently of each other between 2005 and mid-2009, often within a short period of time<sup>10</sup> – although the Bank and Fund did agree an operational protocol that attempts to ensure the two are not applied close in time in the same country. While the number of fiscal ROSCs has dwindled in the last few years, and only three were completed in FY2010, the possible small pick-up in the number of ROSCs in the short to medium term means this issue may re-assume some importance.<sup>11</sup>

However, the two instruments are currently quite different from each other. The PEFA's focus is on the information needs of donors and recipients, and therefore includes many PFM diagnostics that go well beyond transparency. Compared to the fiscal ROSC, it has relatively little coverage of transparency – although presumably this could be expanded. PEFA also produces detailed quantitative scores that are intended to help track progress in a country over time. The fiscal ROSC is aimed at countries at all levels of development, covers fiscal transparency comprehensively, and is more qualitative – although since 2007 Fiscal ROSCs contain a summary table providing a 4-level rating of country performance against each of the 45 elements in the Code (observed/largely observed/largely not observed/not observed).

### III. **Country Practices**

In this section summary information is presented on current or recent country practices against some of the normative instruments on fiscal transparency. The section includes summary information from the IBP's Open Budget Index (OBI); the IMF's Fiscal Transparency Code; PEFA; and information on country practices in access to information, and participation.

#### *(a) Country practices against the Budget Transparency Elements in the OBI*

The most comprehensive cross-country data on current practices with respect to fiscal transparency is that compiled by the IBP with respect to country scores on the OBI.<sup>12</sup> The OBI is not a representative sample of all countries. The 2010 OBI comprised 94, mainly developing countries, although it has a good geographic coverage. The IBP identifies the following main findings:

---

<sup>10</sup> Source: Stocktaking Study of PFM Diagnostics and Instruments, Volume 1 – Main Report, May 2011, OECD and PEFA, p. 41.

<sup>11</sup> In 2003 the IMF targeted the completion of 18-24 Fiscal ROSCs per year.

<sup>12</sup> This material is taken from an IBP document, "Summary on the Global State of Budget Transparency, Oversight, and Public Engagement as per the Open Budget Survey."

*Finding 1: The overall state of budget transparency is poor. Only a modest minority of countries can be considered to have open budgets while a large number of countries provide grossly insufficient budget information.*

- 40 of 94 countries release no meaningful budget information – these countries do not publish the majority of the key reports assessed in the Survey and half of them do not publish the executive’s budget proposal, arguably the most important budget report.
- 74 of 94 countries assessed fail to meet basic standards of transparency and accountability when it comes to their national budgets, with scores of less than 60 out of 100 on the Open Budget Index.
- The worst performers include China, Saudi Arabia, Equatorial Guinea, Senegal, and newly democratic Iraq, which provide little to no information to their citizens about how the government is spending the public’s money.
- Only 7 of the 94 countries surveyed release extensive budget information. Those top-tier countries are: South Africa, New Zealand, United Kingdom, France, Norway, Sweden, and the United States.

*Finding 2: The general trend toward open budgets is nonetheless favorable. Budget transparency is improving substantially, especially among countries that provided little information in the past.*

- There has been a nearly 20 per cent improvement in the average performance of the 40 countries that have been measured over three consecutive Open Budget Surveys. In many instances, improvements were simply a result of governments publishing reports that they already produced.
- Some of the most dramatic improvements came from previously low-scoring countries, such as Mongolia and Uganda, which still do not meet best practices but have improved over time.

The IBP’s initial investigation of what caused these changes suggests that a range of factors can lead to an increase in budget transparency, including changes in government officials after elections that result in a new government or the appointment of a new official committed to greater transparency; pressure within a country from civil society organizations and legislatures; and external factors like pressure exerted by donors and from specific initiatives like the Heavily Indebted Poor Countries Initiative and the OBI, and technical assistance provided to countries. More information on these factors is available in the Open Budget Survey 2010 report on IBP’s website

(<http://internationalbudget.org/what-we-do/open-budget-survey/full-report/>)

*Finding 3: Budget engagement by the audit institutions and the legislature is typically weak and is strongly correlated with the lack of budget information made available to these institutions and the public.*

- In 22 countries, legislators are provided with the Executive's Budget Proposal less than six weeks before the start of the budget year. In the implementation of the budget in 52 countries, the legislature does not have the power to prevent the executive from moving funds between administrative units, essentially overriding legislative intentions.
- The Survey finds that supreme audit institutions (SAIs) generally have some of the independence required, but many lack the full independence from the executive that is desirable, and half report that they do not have sufficient resources to effectively undertake their audit mandates. The 2010 Survey also reveals that the overall strength of SAIs is relatively weak. Among all 94 countries in the 2010 Survey, the average score for questions assessing the strength of SAIs was just 49 out of 100, up slightly from 2008.

*Finding 4: Governments can improve transparency and accountability quickly and easily by publishing online all of the budget information they already produce and by inviting public participation in the budget process.*

*(b) Country practices against the IMF Fiscal Transparency Code*

In 1999 the IMF commenced a program of assessing country performance against the FTC, in the form of a Fiscal ROSC (more formally, a fiscal module of a Report on the Observance of Standards and Codes). Fiscal ROSCs assess both the publication of fiscal data and the overall clarity of fiscal management.

In a 2003 report, the IMF assessed the findings from Fiscal ROSCs in 54 countries completed in the period to February 2003.<sup>13</sup> The key findings are summarised in Box 2. The main lessons drawn by the IMF at that time – which seem likely to remain broadly relevant - included:

First, and perhaps not surprisingly, given the voluntary nature of the process, most countries participating in the fiscal ROSCs had undertaken or were undertaking significant fiscal reforms that were expected to lead to improved fiscal transparency practices.

Major areas of progress noted in the completed fiscal ROSCs were as follows:

- In some developing countries, reforms underway were directly related to technical assistance or program commitments with the IMF or the World Bank. Many were reducing the scope of quasi-fiscal activities through privatization or through price liberalization.

---

<sup>13</sup> *Assessing and Promoting Fiscal Transparency: A Report on Progress*, The Fiscal Affairs Department, IMF, March 5, 2003. There are no more recent summary assessments of the findings across Fiscal ROSCs.



## Box 2. Observations from Fiscal Transparency ROSCs

### *Fiscal Data Quality*

- Weaknesses in all areas of data quality—weak external audit, un-reconciled accounts data, lack of clarity in accounting policies, and lack of budget realism, were most common among the developing countries.
- Transition and emerging market economies had, for the most part, made progress in establishing timely and reconciled accounts; but many transition economies needed to improve coverage.
- Unrealistic budgeting was a widespread phenomenon among all but the advanced countries.
- Weaknesses in internal controls and audit functions were also a widespread phenomenon.
- Budgetary arrears were associated with unrealistic budgeting as well as weak internal controls.

### *Off-budget<sup>14</sup> Fiscal Activities*

- Establishing a clear definition of government and identifying and handling quasi-fiscal and other off-budget activities constituted key strategic problems for transition economies and some emerging market economies, as well as being among the many issues facing developing economies.
- Weakness in reporting contingent liabilities and managing fiscal risk were barriers to transparency in a wide range of countries, including some emerging market and advanced economies.

### *Clarity of Tax Policy and Administration*

- Excessive discretion in tax administration and inadequate enforcement were common problems in many developing countries.
- Few countries, other than the industrial economies, examined or quantified tax expenditures in conjunction with the budget process.

### *Intergovernmental Fiscal Responsibilities*

- Establishing a clear definition of fiscal responsibilities among levels of government, non-discretionary transfer mechanisms, and timely reporting on general government were key areas for improvement in most countries.

- The leading candidates for European Union (EU) accession had been relatively successful in clarifying the role of government and improving transparency; in most cases, more rapidly than other transition countries and many other emerging market countries. More generally, regional groupings of countries often share a common legacy manifested in similarities of fiscal institutions. Benefits can be gained from peer dialogue on common issues and there are potential efficiencies from regional approaches to address common problems. For instance, many transition countries had successfully introduced a treasury system that produced regular fiscal reports; and some

---

<sup>14</sup> This term was used to designate fiscal activity outside the broadly defined general government budget—essentially using other elements of the public sector, or engaging in risk not captured in the budget to achieve fiscal objectives. Extra-budgetary funds (EBFs) and own-revenue accounts were treated as problems of inadequate budget coverage—a fiscal data quality issue.

developing countries in Latin America had invested in Integrated Financial Information Management Systems (IFMIS).

- Important reforms noted in the emerging market economies included the implementation of IFMIS; program budgeting; and progress in developing modern budget laws and medium term fiscal frameworks.
- Recent reforms in some advanced economies reflected a move toward adoption of government accrual accounting and balance sheets, and performance-oriented budgeting, though few had yet attained a high level of practice in these areas.

*Second*, countries seeking market access, in particular, had participated strongly. Over half of the 60 or so nonindustrial market access countries had chosen to or planned to undertake a fiscal ROSC. This response indicated an acceptance by many countries of the importance of fiscal transparency in improving market perceptions. In part too, this response may have been related to the increasing interest being shown in fiscal ROSCs by rating agencies and private sector analysts.

*Third*, many of the fiscal transparency weaknesses were seen to be strongly indicative of a set of underlying institutional problems that could lead to future fiscal or financial vulnerability. Observed poor fiscal data quality, for instance, meant that there were significant risks that a country's fiscal reports may not give a reliable guide to its past or projected fiscal policies. This lack of data transparency was frequently linked in the ROSCs to failure to adequately enforce existing laws; failure to specify fiscal policy goals in an accountable way; and lack of adequate watchdog institutions (inadequate capacity or support of the national external audit office was frequently noted).

Recourse to various off-budget mechanisms gave rise to a "hidden deficit" in a number of countries. Non-recognition of the risks associated with contingent liabilities and quasi-fiscal activity means that there was some misrepresentation of the true fiscal position—and, if such activities are extensive, a danger of future fiscal and financial vulnerability. The use of such mechanisms was symptomatic of underlying governance and accountability issues—evident from many ROSC observations of a poor definition of the relative roles of general government and nonfinancial public enterprises and public financial institutions. Quasi-fiscal activities, particularly in the energy sector, had given rise to significant difficulties in a number of the transition economies.

*Fourth*, even among the industrial countries, there were significant areas where fiscal transparency could be improved. Recommendations in ROSCs included improvements in the timeliness of monthly reports; explicit treatment of extra-budgetary accounts; development of the legal framework; better reporting on the use of contingency reserves; and more detailed analysis of fiscal risks in the budget documents.

An alternative approach to summarising the information in the earlier Fiscal ROSCs was taken by Hameed (2005).<sup>15</sup> Hameed developed 4 level ordinal indices of fiscal transparency based on the IMF FTC, and, using the information in 57 published Fiscal ROSCs, rated the level of fiscal transparency in these countries. He developed four sub-indices of fiscal transparency: data quality assurances; medium term budgeting; budget execution; and fiscal risk disclosure. Hameed found the following:

- The advanced economies as a group have higher fiscal transparency than the rest of the economies.
- EU accession countries have higher average transparency index values when compared to the rest of the non-advanced economies and the difference is statistically significant.
- In Latin America, a feature of PFM reform has been the introduction of IFMISs in a number of countries. Hameed suggests that this has resulted in a higher quality of data on budget execution when compared to their counterparts elsewhere, as evidenced by a higher mean value for the Budget Execution (BEX) sub-index.
- The sub-index on medium-term budgeting is statistically different and higher for HIPC countries. Hameed suggests that the reason for this is likely that participation in the HIPC Initiative required preparation of Poverty Reduction Strategy Papers, probably resulting in practices such as statements of medium-term policies, establishment of medium-term economic frameworks, and forward estimates, practices that are captured in the MTBF sub-index.

*(c) Country Practices from PEFA Assessments*

While the PEFA framework was not intended to generate cross-country comparisons, the data set of PEFA scores nevertheless contains some interesting information. A paper by de Renzio analysed the 57 PEFA

---

<sup>15</sup> Farhan Hameed, Fiscal Transparency and Economic Outcomes, IMF Working Paper WP/05/225, December 2005.

assessments completed as of August 2007.<sup>16</sup> It looks at comparative cross-country PFM performance across 28 PEFA indicators (it did not include the three donor indicators). It also analyses differences linked to certain country characteristics which might have an influence over PFM system performance, using both bivariate and multivariate analysis. It is based on a numerical conversion of the PEFA letter-scores (an A = 4, a D = 1).

The first result is that there is a large variation in overall average scores, ranging from a low of 1.46, to a high of 3.23 (excluding the score for Norway, which is the sole developed country in the sample). Secondly, 14 of the 57 countries fall below the 2.00 mark (i.e. whose average score is below C), including countries from a range of regions and with different levels of income.

A further finding is that average scores tend to deteriorate the further one moves downstream in the budget cycle, from formulation to execution, reporting and scrutiny. On average, the countries in the sample fare quite well with regard to general issues of budget credibility (2.74) and comprehensiveness and transparency (2.50), and with regard to policy-based budgeting (2.49), which looks at the initial stages of the budget process. However, their performance gradually deteriorates when one looks at predictability and control in budget execution (2.23), accounting, recording and reporting (2.15), and external scrutiny and audit (1.90). Lower averages in the 'downstream' phases of the budget cycle are substantially worsened by ineffective internal and external auditing processes.

de Renzio notes that many donor programs have focused more on 'upstream' budget formulation (e.g. macro-fiscal frameworks, Medium Term Expenditure Frameworks, budget classification, etc.). Moreover, reforms in budget execution, often linked to the implementation of an IFMIS, take longer to implement and are often fraught with failures. On the other hand, while issues of scarce capacity and donor focus may have played a role, other factors could also have prevented 'downstream' systems from being strengthened, possibly linked to the stronger political and bureaucratic resistance that they are likely to encounter.

Regarding income levels, de Renzio found that the main factors which are correlated to variations in the overall PEFA score in a statistically significant way are the level of income, country size as measured by the log of the total population, and the degree of aid dependency. Resource dependency,

---

<sup>16</sup> de Renzio, P. 2009. Taking Stock: What do PEFA Assessments tell us about PFM systems across countries? ODI Working Paper 302. Overseas Development Institute (May 2009). Table 3 on page 5 shows the average scores and the range for each of 28 indicators.

political variables (including press freedom) and administrative heritage are almost never statistically significant under the various specifications attempted. Regional differences are also mostly not significant.

Turning to donor performance, the IBP has analysed the pattern of scores on PEFA indicator D-2, which measures “financial information provided by donors for budgeting and reporting on project and program aid.” Of the 71 countries for which PEFA assessments were finalized and made public through March 2011, and for which indicator D-2 had been scored, 48 received a D or a D+ (the lowest possible scores), highlighting the lack of information provided by donors.<sup>17</sup> There are no significant regional differences, and donors fare only slightly better when it comes to providing estimates for future support compared to reporting on actual disbursements.

*(d) Country Practices on Access to Information, and Participation*

In 2011 a new rating of national right to information (RTI) laws was released, rating the legal framework in 89 countries.<sup>18</sup> The RTI rating is based on 61 indicators in seven categories: right of access; scope; requesting procedures; exceptions and refusals; appeals; sanctions and protections; and promotional measures. The findings show a significant variation in the quality of the legal framework, with scores ranging from 37 (Germany) to 135 (Serbia) out of a maximum of 150. More recent laws protect the right to know more strongly; of the 20 countries with scores above 100, 11 adopted their RTI laws since 2005. Europe overall accounts for 15 of the bottom 20 countries, primarily the older European laws - although these laws do not reflect the culture of transparency in practice.

The 2010 OBI generated data on de facto access to budget information. In 40 out of 94 countries, citizens are not able in practice to obtain any financial information on disaggregated expenditures for individual spending programs by ministries, and in 42 countries they cannot obtain similarly disaggregated non-financial information.

Access Info Europe and the Centre for Law and Democracy, in collaboration with the IBP, also coordinated an initiative in 2010-11 to monitor the right of access to budget information in practice – the *Ask Your Government! 6 Question Campaign*. A network of civil society organisations submitted 480

---

<sup>17</sup> This material is taken from an IBP Briefing Note, “Linking Aid Transparency and Budget Transparency for Development Effectiveness,” November 2011, p.2.

<sup>18</sup> Access Info Europe and the Centre for Law and Democracy (Canada). See <http://www.access-info.org/en/rti-rating>

requests for budget information in 80 countries. No information at all was provided in response to over half of the requests – in spite of the fact that requesters made multiple resubmissions of the questions and made other efforts to elicit a response. Only 12 of the 80 countries complied with RTI standards.

With respect to participation, the Open Budget Survey 2010 contained questions on opportunities for the public to participate in fiscal policy formulation and execution. Some findings from these questions include:

- In 71 out of the 94 countries, there were either no public hearings on the macroeconomic and fiscal framework for the annual budget (35 countries) or there were public hearings but no opportunities for testimony from the public.
- In 68 out of 94 countries there were no public hearings on the budgets of administrative units in which testimony from the public is heard.
- In 60 out of 94 countries, there are either no public hearing by Committees of the Legislature, or there are hearings but the Committees do not publish reports on them.
- With respect to SAIs, 44 out of 94 do not maintain any formal mechanisms of communication with the public.

An IBP Research Note investigated the prevalence of legislation requiring fiscal transparency, and public participation in the budget process.<sup>19</sup> About half of the 125 countries surveyed incorporated some mention of budget transparency in their laws. Fourteen countries provide very extensive coverage of budget transparency matters in their legislation. However, the inclusion of detailed transparency clauses in budget laws does not necessarily result in better practice; just as the lack of such laws or provisions does not inhibit good practice. Only seven out of 125 countries investigated include provisions for citizen participation and engagement in their budget-related legislation.

#### **IV. Emerging Weaknesses and Gaps**

A preliminary view on emerging weaknesses and gaps in the normative architecture is presented below. These are put forward to facilitate discussion

---

<sup>19</sup> Transparency and Participation in Public Financial Management: What Do Budget Laws Say? Paolo de Renzio, International Budget Partnership, Verena Kroth, London School of Economics. IBP research Note Number 1, September 2011.

and debate, and as an input to the development of the GIFT work programme beyond mid-December 2011.

- a) A proliferation of instruments that has the potential to create unnecessary transaction costs (if it is not already doing so), and some confusion. This reflects some overlapping institutional mandates, and insufficient coordination mechanisms. However, it would be good to get input from some 'host' government officials on how the multiplicity of instruments looks to them and impacts on them.
- b) The implications of the global financial crisis for fiscal transparency:
  - \* transparency of financial sector fiscal risks ex ante (financial sector regulation; comprehensive transparency of fiscal risks);
  - \* the specification and operation of fiscal rules, and assessment of fiscal sustainability;
  - \* transparency of interventions to resolve the crisis ex post (quasi-fiscal activities; consolidated reporting of overall fiscal impacts);
  - \* transparency of fiscal consolidation efforts.
- c) Expenditure classified by:
  - \* geographic locality within a country;
  - \* individual public investment project (as well as information on the overall portfolio of projects);
  - \* whether the expenditure is related to climate-change.
- d) Going beyond passive disclosure by the Executive branch, to:
  - i. Pro-active dissemination e.g. Citizen's Guides to the Budget/ end of your financial statements/Audit Report.
  - ii. Active engagement by Legislatures.
  - iii. Active participation by the public.
- e) Transparency of public services (outputs, outcomes), and the interface between public provider and service consumer.
- f) Transparency of a range of fiscal/environmental sustainability issues – as set out in Box 3.
- g) Consistency in the scope of coverage of fiscal activities: for example, central government v public sector v general government; and the need for consistency at the country level between the presentation of data in different budget, fiscal and financial reports.
- h) Fiscal transparency and accountability of sub-national governments; and of supra-national institutions and international organisations that conduct fiscal and quasi-fiscal activities.
- i) Linking aid transparency and fiscal transparency, and ensuring that aid information is compatible with recipient country budget classification systems.

- j) Insufficient coverage or authority of quantitative ratings of transparency and accountability.

**Box 3: Transparency of Fiscal/Environmental Sustainability Issues**

There is a wide range of issues at the interface between fiscal policy and environmental policy that could potentially be the subject of an initiative to improve transparency and accountability. These include:

- Climate change expenditures, funding and liabilities.
- Transparency of management of *renewable* resources e.g. forestry, fisheries.
- Transparency of fiscal support for the exploitation of natural resources, and for the consumption of fossil fuels.
- Transparency of outcomes in the public management of natural resources, as an element of performance-based PFM.
- Transparent mechanisms and recognized frameworks and protocols for estimating environmental costs and options for internalizing such costs through the use of economic instruments, including fiscal instruments such as “green taxes”.
- Transparency of Environmental Impact Assessments.
- Comprehensive “triple bottom line reporting” by governments.

## V. Current Work programmes

The mapping exercise has revealed that the normative architecture continues to be fluid. There are a number of recently completed reviews and transition points, with impending decisions on the future direction of a number of instruments, including the IMF Fiscal Transparency Code, PEFA, EITI, and CoST. IPSASB has a planned medium term work program for accounting standards development, while INTOSAI is working on initiatives such as the International Development Initiative measurement framework for Supreme Audit Institutions (SAIs). The Inter-Parliamentary Union (IPU) is focusing on how Parliaments can directly consult and engage with the public, and there are a number of initiatives underway in the climate change and environmental space.

Box 4 refers briefly to some of the initiatives currently underway, from information obtained in the course of research for this report.

Given the fluidity of the current norms, and the interdependencies between the possible development paths of different instruments, this is a good time for an initiative such as GIFT to attempt to provide an overview of the landscape and to strengthen consultation and coordination.



#### **Box 4: Some Current Agency Work Programs on Fiscal Transparency Norms and Related Areas**

*IMF* – the IMF has already initiated consultation with the GIFT network on a review of the FTC and FT Manual, the Resource Revenue Transparency Guide, and the fiscal ROCS process. There is also a joint work program with the World Bank following on from the recent wider review of the Standards and Codes initiative.

*International Budget Partnership* – is developing methodologies to assess budget transparency at the sub-national government level, and at the sector level, focusing on public service delivery. Also developing assessments of fiscal activities that generally receive less attention e.g. off-budget funds, tax expenditures and QFAs (“OBI-plus”). Provision of TA to its research partners, and to governments. Linkages between aid transparency and budget transparency. Piloting the expanded use of public engagement and participation mechanisms.

*Inter-Parliamentary Union* – In early 2012 the UNDP and the IPU will jointly publish the first Global Parliamentary Report, providing an assessment of the state of parliaments worldwide. The focus will be on pressures for greater public consultation and forms of direct democracy; and on how parliaments collectively engage with and represent the public in the course of their legislative, budgetary and oversight functions.

*International Integrated Reporting Committee* - The IIRC aims to forge a global consensus on the direction in which reporting needs to evolve, creating a framework for reporting which brings together material information about an organization’s strategy, governance, performance and prospects. The IIRC is comprised of a cross section of leaders from the corporate, investment, accounting, securities, regulatory, academic and standard-setting sectors as well as civil society.

*INTOSAI* – development of a single global performance measurement framework for SAIs, to replace the current multiplicity of donor and INTOSAI tools.

*IPSASB* – currently has a public consultation paper on ‘Reporting Service Performance Information’ and an Exposure Draft on ‘Recommended Practice Guideline, Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances’. A new ‘Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities’ is also being developed. The Framework will deal with financial reporting under the accrual basis (and possibly the cash basis), and will encompass such matters as objectives of financial reporting; scope of financial reporting; qualitative characteristics of financial information; characteristics of the reporting entity; definition and recognition of the elements of financial statements; measurement; and presentation and disclosure.

*OECD* – an Informal Taskforce on Tax and Development is considering reporting of financial tax data by multinational enterprises on a country-by-country basis. It is also looking at the role of taxation in increasing government accountability and wider state building. Specific topics include transparency in operating tax incentives, and the impact of tax literacy education. A Practitioners’ Guide to Using Country PFM Systems is also being prepared, and work is underway on PPPs, and on independent fiscal councils.

*PEFA* – the Steering Committee is considering a number of options for revising the framework for Phase IV (starting mid-2012), including minor or comprehensive fine-tuning of the indicators, developing optional add-ons for special country situations, and developing new drill-down

supplementary instruments e.g. for application at the sector level, to assess tax administration performance, or to drill down at the investment project level.

*Transparency International* – a comprehensive mapping and assessment is being undertaken of multilateral and bilateral climate finance mechanisms and institutions as part of the Climate Governance Integrity Programme; and an evaluation is underway of the Forest Governance Integrity Programme, a multi-stakeholder partnership. There is also an on-going program on defence sector transparency.

## VI. The Phase II Report

The Phase II Report that accompanies this report focuses on issues that have emerged from the work of the Advancing Global Norms Working Group. These are:

- What does participation mean with respect to fiscal policy? The public participation dimension of fiscal transparency has emerged only relatively recently, and it has become apparent that norms in this area are relatively undeveloped. This is in part a reflection of the fact that there is a variety of meanings of the term participation, and a lack of definition of what participation means with respect to fiscal policy. The Phase II Report explores these issues.
- A Rights-Based Approach to fiscal policy. The Phase II Report identifies existing international official and civil society instruments that contain provisions stipulating a citizen's right to information, and a citizen's right to participate in government. It also puts forward draft principles relating to a right to information and a right to participation.
- Following the decision at the Norms Working Group meeting on 2 November, the Phase II Report contains a suggested new set of High Level Principles on Fiscal Transparency, Accountability and Participation. It also identifies key gaps in the current normative architecture under the draft High Level Principles.
- The Phase II Report also assesses the IMF Fiscal Transparency Code against the High Level Principles in view of the Fund's review of the Code.
- Finally, it presents some issues on the way forward.

### **Annexes 1-3: In separate files**

Annex 1: Table 1: Technical Mapping of Global Norms on Fiscal Transparency by Instrument.

Annex 2: Table 2: Technical Mapping of Global Norms on Fiscal Transparency: Timeliness, Periodicity and Graduation.

Annex 3: Table 3: Technical Mapping of Global Norms on Fiscal Transparency by Stage of the Budget Cycle.

#### **Annex 4: Recommendations and Suggested Issues for Discussion for the Norms Working Group meeting on 2 November 2011 - from the draft Phase I report.**

The following four specific recommendations are made to the GIFT Advancing Global Norms Working Group, *all for action by mid-November*:

- a. GIFT participants should share current high-level summary data and perspectives on the levels and patterns of country compliance with relevant standards and norms, especially those implemented by GIFT-participant institutions.
- b. GIFT participants should share evidence and judgements on the effects and impacts of the different instruments on actual country practices. (This will feed into the Working Group on Design and Incentives).
- c. Representative 'host' country views should be obtained on the compliance and other costs arising from the multiplicity of fiscal transparency instruments.
- d. GIFT participants should share their current short and medium term work programs relevant to fiscal transparency, participation and accountability.

Finally, this report concludes with a set of six suggested issues for discussion, to focus Phase II of the norms work (November to mid-December), which is intended to generate the prototype content for a global norm/the global normative architecture. These pull together key themes and issues from the report, in particular the discussion of areas of technical difficulty, and areas where there is currently limited normative content (P. 10), and the list of key weaknesses and gaps (p. 12).

#### **Suggested issues for discussion:**

1. Where are there areas of (sufficient) consensus amongst the various normative instruments upon which the future global normative architecture can be built? What are the key gaps and/or weaknesses in the current instruments?
2. Should the focus of fiscal transparency and accountability include a detailed coverage of service delivery (outputs and outcomes) and the interface with the public as citizens and consumers, and/or be extended significantly beyond the financial sphere to include social and environmental domains?

3. Should consideration be given to expanding a rights-based approach to fiscal transparency norms, as part of “re-framing” the normative architecture?
4. How should GIFT approach the key issue of assessment of fiscal transparency norms? What type of assessment e.g. qualitative or quantitative? Who should do the assessment (external v in-country)? What is the role of self-assessment? How should the assessments be financed?
5. Should GIFT be aiming for a new overarching global norm/normative architecture, and/or rationalizing and strengthening the current decentralised and largely uncoordinated multi-standard setter and assessor approach?

What is missing from or inaccurate in this initial mapping exercise? What else needs to be done to establish a solid information base for the Phase I analysis?

## Glossary

**Accounting basis:** the body of accounting principles that determine when the effects of transactions or events should be recognized for financial reporting purposes. It relates to the timing of the measurements made, regardless of the nature of the measurement. IPSASB has identified two bases of accounting: cash, and accrual.

**Accrual accounting:** Accrual accounting systems recognize transactions or events at the time economic value is created, transformed, exchanged, transferred, or extinguished, and all economic flows (not just cash) are recorded.

**Appropriations:** Refers to an authority under a law (e.g. an Annual Budget Law) given by the legislature to the executive to spend public funds for a specified purpose.

**Cash accounting:** Cash accounting systems recognize transactions and events when cash is received or paid.

**Contingent liabilities:** Obligations that have been entered into, but the timing and amount of which are contingent on the occurrence of some uncertain future event. They are therefore not yet liabilities, and may never be if the specific contingency does not materialize.

**Functional classification:** The current *GFS Manual* refers specifically to the Classification of the Functions of Government (COFOG) developed originally by the OECD, which is the international standard for classifying expenditures of government according to their broad purpose. It is generally used to measure the allocation of resources by government for the promotion of various activities and objectives (such as health, education, and transportation and communication).

**General government:** Defined in the System of National Accounts as the following group of resident institutional units: (a) all units of central, state, or local government; (b) all extra-budgetary funds, including social security funds at each level of government; (c) all nonmarket, non-profit institutions that are controlled and financed mainly by government units.

**Government balance sheet:** A comprehensive statement of the assets, liabilities, and net worth (assets less liabilities) of government at a point in time—usually year-end. In practice, few governments prepare statements of their financial position that could be described as balance sheets. Adoption of accrual accounting reports and generally accepted methods of asset valuation are prerequisites for a reliable balance sheet presentation.

**Liability:** An obligation of an entity arising from past transactions or events, the settlement of which results in the transfer or use of assets, provision of services, or other yielding of economic benefits in the future.

**Non-debt liabilities:** Includes civil servant pension obligations, expenditure arrears (obligatory payments that are not made by the due-for-payment date) and other contractual obligations.

**Public Corporations:** A legal entity that is owned or controlled by the government and that produces goods or services for sale in the market at economically significant prices. All corporations are members of the nonfinancial corporations sector or financial corporations sector.

**Public-private partnership (PPP):** Arrangements whereby the private sector provides infrastructure assets and services that traditionally have been provided by government, such as hospitals, schools, prisons, roads, bridges, tunnels, railways, and water and sanitation plants. Cases where the private operator has some responsibility for asset maintenance and improvement are also described as **concessions**. While there is no clear agreement on what does or does not constitute a PPP, they should involve the transfer of risk from the government to the private sector.

**Public sector:** A classification drawn from sectors and subsectors of the System of National Accounts classification consisting of general government and nonfinancial and financial public corporations. It includes all entities that are either owned or controlled by government.

**Quasi-fiscal activities:** Activities undertaken by financial and nonfinancial public corporations, or the Central Bank, at the direction of the government, that are fiscal in character—that is, in principle, they can be duplicated by specific fiscal measures, such as taxes, subsidies, or other direct expenditures, even though precise quantification can in some cases be very difficult. Examples include subsidized bank credit and non-commercial public services provided by a public corporation.

**Tax expenditures:** Concessions or exemptions from a “normal” tax structure that reduce government revenue collection and, because the government policy objectives could be achieved alternatively through a subsidy or other direct outlays, the concession is regarded as equivalent to a budget expenditure. Precise definition and estimation of tax expenditures thus require definition of the normal base as well as determination of the most appropriate way of assessing costs.