The IMF Fiscal Transparency Code:

A Potentially Powerful New Anti-Corruption Tool

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Abstract

Fiscal policy – that is, government spending and revenue collection – is at the core of the exercise of government power, and is the source of much corruption. By any measure it should be regarded as a vital component of a national integrity system. Government budgeting has traditionally, however, been shrouded in secrecy, an environment in which corruption flourishes. The IMF's Fiscal Transparency Code and supporting material offer a potentially powerful new tool in the fight against corruption. The Code aims to strengthen accountability by building an integrity system based around strong domestic institutions. It is a public good available to civil society. Its impact will be maximised if civil society uses it to assess country performance, and to press governments to be more open and transparent in the way they conduct fiscal policy. Already a South African NGO, in co-operation with a US NGO, has used the Code to produce an assessment of fiscal transparency and participation in South Africa. Networking between civil society organisations appears a highly promising avenue for using the Code to achieve a sustainable reduction in corruption.

I Introduction

Fiscal policy – that is, government spending and revenue collection – is at the core of the exercise of government power. At both central and local government levels, it is perhaps the main vehicle for corruption around the world. All the familiar key problem areas - such as revenue and customs fraud, tendering and procurement, hidden guarantees, tax incentives for favoured groups, channelling of public funds to political parties - come under the ambit of fiscal policy. [1]

Spending and revenue programs are also the major instruments for poverty alleviation, social protection, and improving the health and education status of the poorest in society. Fiscal policy is a key ingredient in the quest for high quality growth. Consistently poor and corrupt fiscal policies represent perhaps the biggest lost opportunity in many countries to make meaningful gains in the position of the poor and vulnerable.

By any measure, therefore, fiscal policy should be regarded as a vital component of a national integrity system.

Government budgeting has traditionally, however, been a very non-transparent affair, cloaked in secrecy and mystery, and inaccessible to non-experts and the general public. Given the opportunities for corruption and rent seeking that spending and revenue programs provide politicians and bureaucrats with, this should not be surprising.

In most countries it is difficult for anyone outside the executive branch of government to gain access to meaningful information on the full extent and nature of fiscal activities, and the overall fiscal position. [2] Even within the executive branch often only a small number of politicians and civil servants have access to sufficient information required to make a reasonably informed assessment of how public resources are being used. [3]

In this type of environment effective accountability is simply not possible. With only limited public information on the objectives, costs and effects of fiscal policy, the executive can not be held to account for its performance. Corruption flourishes in such environments.

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[1] The TI Source Book notes that a survey of TI national chapters, conducted in 1995, suggests that corruption in the public sector takes much the same form and affects the same areas whether one is dealing with a developed or a developing country. "The areas of government activity most vulnerable to corruption were: public procurement; rezoning of land; revenue collection; government appointments; and, local government." See The TI Source Book, p. 10, Second Edition, 1997, edited by Jeremy Pope, Transparency International (TI), Berlin.

[2] The term 'fiscal position' is used to mean the full current balance (variously defined), including "off-budget" and "extra-budgetary" activities, and information on the government's financial assets and liabilities.

[3] In fact in most countries the government itself often lacks critically important information necessary to properly manage fiscal policy. This can mean chronic wasteful spending on programs that do not work, and the accumulation of hidden problems until they emerge as a massive shock to the budget and national welfare (for example, banking sector crises).

A key reason for this widespread lack of accountability is the lack of effective domestic institutions that require the executive to provide more public information. [4]

A contributing factor has also been the lack of an accepted framework or yardstick against which to assess the overall transparency of a government's financial management.

There are of course long standing elements of such a framework. [5] However, not all the key elements have been covered. For example, there are no internationally recognised accounting standards for the public sector, and governments routinely hide or misrepresent the true fiscal position with incomplete reporting or creative accounting. [6] And the various elements that do exist have not previously been drawn together into a coherent overall framework.

The result has often been a piece-meal approach to improving financial transparency and accountability, and reducing corruption. At different times different elements of the system have been the focus of attention, determined on occasions by the latest international budgeting fad.

There has also been a general tendency to underplay the difficulties of changing long-standing practices and institutions. Coupled with this has been a lack of attention to building the capacity of domestic accountability institutions so that advances in transparency and accountability can be sustained over time. [7]

There has, however, been increasing international recognition of these problems. The international financial institutions, as well as bilateral donors, have since the mid-1990s been increasingly emphasising the importance of good governance to growth and social equity. At the 1996 Annual Meetings of the World Bank and IMF the heads of the Bank and Fund announced a new focus on corruption and the quality of governance in their member countries.

The Asian crisis has added impetus to this. Many observers consider the lack of transparency of government policies and activities to have been an important cause of the crisis.

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[4] The word "institutions" is defined broadly here to include not just organisations, but also social and political traditions, customs and practices. For example, the institution of a free and open press, or of openly contested government elections.

[5] These include the various approaches to budgeting that try to impart a greater performance orientation (such as program-oriented budgeting and output-based budgeting); transparency standards for government procurement, revenue collection and so on; codes of conduct for civil servants; the IMF's Manual on Government Finance Statistics; and INTOSAI standards for auditing.

[6] The International Federation of Accountants (IFAC) is at present, however, working to develop such a set of standards. See IFAC (1998).

[7] For example, in an analysis of the failure of past efforts to reduce corruption on an enduring basis, TI identifies the causes as including a piecemeal, uncoordinated and unfocused approach to reform; too much reliance on the law and its enforcement; not enough focus on building institutional mechanisms to carry reforms forward after their initial proponents have passed from the scene; and focusing only on corruption at lower levels of the system. See The TI Source Book, op. cit., p.17.

These developments culminated in the adoption by the IMF in April 1998 of the Code of Good Practices on Fiscal Transparency. [8]

The Code is a highly significant development because it represents the first coherent attempt to set a framework of international standards for the conduct of fiscal policy. It aims to be supportive of existing standards and codes drawn up by bodies such as the UN and INTOSAI (The International Organisation of Supreme Audit Institutions). And it does so in a way that is intended to capture all the key elements of a high quality governance system for fiscal policy.

The rest of this paper is devoted to an outline of the Fiscal Transparency Code, and discussion of its potential as an anti-corruption tool for civil society.

II The Fiscal Transparency Code [9]

The principal aim of the Code – the full text of which appears in Annex 1 - is to make governments more accountable for the way in which they raise and spend public funds.

The assumptions on which the Code is based are that:

- Effective transparency will, over time, result in greater accountability, and
- Greater accountability will, over time, result in fiscal policies that are in general both more equitable and more efficient, and in particular involve less corruption.

These objectives are broader than the reduction of corruption. However anti-corruption efforts are generally aimed at achieving similar ultimate ends.

Furthermore, corruption is a symptom of poor governance. Successfully reducing and containing corruption requires strengthening the overall governance arrangements in which governmental action occurs.

This of course requires more than just strengthening accountability for the conduct of fiscal policy. Broader elements, such as an effective, independent judiciary, a free press with wide access to information, transparent monetary and regulatory policies, and civil service reform, are all critically important.

The Fiscal Code, however, draws together many at times disparate elements of a national integrity system, and, as noted, provides a framework for assessing transparency and accountability in a core area of government activity.

The Code itself is based on a hierarchy of principles and practices. The organisational framework for the Code is provided by four interlocking general principles that aim to

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[8] The Fund has since published for comment a draft Code of Good Practices on Transparency of Monetary and Financial Policies. It has also published experimental Transparency Reports on some economies, assessing their compliance with a range of international standards and codes covering both the public and private sectors. Details of these initiatives, together with country transparency reports on Argentina, the United Kingdom and Australia, are on the IMF's web site at www.imf.org.

[9] The full title is the "Code of Good Practices on Fiscal Transparency - Declaration on Principles", adopted by the Interim Committee of the Governors of the IMF on April 16 1998.

capture the essential elements of fiscal transparency. Specific principles expand upon these four general principles. The principles are outlined in Box 1 below.

Box 1. Summary of Main Principles of the Fiscal Transparency Code

I. Clarity of Roles and Responsibilities

- Roles and responsibilities within government, and between different levels of government should be clear, with a clear definition of the boundary between the government and the private sector.

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

II. Public Availability of Information

- The public should be provided with full information on the past, current, and projected fiscal activities of government.

- Governments should make a public commitment to the timely publication of fiscal information.

III. Open Budget Preparation, Execution and Reporting

- Budget documentation should specify fiscal policy objectives and the macroeconomic framework.

- Budget data should be presented in a way that promotes accountability.

- Procedures for the execution and monitoring of approved expenditures should be clearly specified.

- Fiscal reporting should be timely, comprehensive and reliable.

IV. Independent Assurances of Integrity

- The integrity of fiscal information should be subject to public and independent scrutiny.

- A national audit body should be appointed by the legislature with the responsibility to provide timely reports to the legislature and public on the financial integrity of government accounts.

The first general principle – *Clarity of Roles and Responsibilities* – is in some senses the logical foundation of the other three principles. The clear identification of a boundary between public and private sectors, and of roles within the government, together with a clear legal and administrative framework for fiscal management, are prerequisites for the transparent design and implementation of fiscal policy.

The second general principle – *Public Availability of Information* – covers the need for the timely provision of information. In order to make promises to provide information credible, the Code requires a specific commitment to transparency – for example in a budget law.

This latter requirement is an important element. Governments will always be tempted to release favourable information straight away, and to delay or withhold unfavourable information altogether. A credible commitment is required, backed by independent verification, to the systematic and routine public provision of all relevant information.

The third general principle – *Open Budget Preparation, Execution, and Reporting* – deals with budget process, and thus goes to the core of fiscal transparency. [10]

Finally, the fourth principle – *Independent Assurances of Integrity* – requires that fiscal information, including related statistical and macroeconomic information, is open to independent external scrutiny.

The Code then identifies more detailed good practices, which reflect practices adopted across a wide range of countries.

The coverage of the Code reflects a systemic approach to strengthening accountability. It allows for the interactions between different elements, and the effect that a change in one area of fiscal activity is likely to have on incentives and behaviour in other areas. Increasing transparency in one area may have limited effects, or even counterproductive effects, if action is not also taken in related areas.

For instance:

- If roles and responsibilities of individuals and organisations are not clear at the outset, it is very difficult to subsequently hold them accountable for their performance.
- A civil service code of ethics, or transparency standards for procurement, may have little effect on the overall incidence of corruption if the executive as a whole is not

[10] With respect to open budget preparation, the Code does not state that budget preparation should occur in public, in the sense that the legislature or public should have some formal input into the budget preparation phase. The implicit position adopted by the Code is that the executive should have the space to develop its proposed budget free from the glare of publicity. However, the Code requires full transparency in all respects from the point the budget is presented to the legislature. It requires transparency over the rules that apply to the role of the legislature in approving the budget, but does not state what those rules should be (e.g. whether and to what extent the legislature should have the power to amend the budget) .

effectively held to account to the legislature and the public for the proper collection of revenue and spending of public money.

- ♦ Strengthening the National Audit Office may have limited effect if there is no reliable accounting system and a weak internal control environment, meaning there is almost no "audit trail" to audit.
- ♦ Full transparency of on-budget activities will increase the incentive to shift spending off-budget.
- ♦ Bringing all spending on budget will increase the incentive to use tax incentives and guarantees to deliver resources to favoured groups.

Because it takes a systemic approach, the Code can be used as a tool to build up a picture of the baseline position in a country. This should facilitate the identification of priority areas for focussing efforts, and the desirable sequencing of actions. The initial baseline assessment can be used to monitor progress towards meeting the full set of standards in the Code. The baseline can also be used to make comparisons of fiscal transparency across countries.

Selected Requirements of the Code

From an anti-corruption perspective, the following selected requirements of the Code are of particular interest:

- 1.1.2 Government involvement in the rest of the economy (e.g. through regulation and equity ownership) should be conducted in an open and public manner, and on the basis of clear rules and procedures that are applied in a nondiscriminatory way.[11]
- 1.1.3 The allocation of responsibilities between different levels of government, and between the executive branch, the legislative branch, and the judiciary, should be clearly defined.
- 1.2.1 Fiscal management should be governed by comprehensive laws and administrative rules applying to budgetary and extrabudgetary activities. Any commitment or expenditure of government funds should have a legal authority.
- 1.2.2 Taxes, duties, fees and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.
- 1.2.3 Ethical standards of behaviour for public servants should be clear and well publicised.
- 2.1.3 Statements should be published with the annual budget giving a description of the nature and fiscal significance of contingent liabilities, tax expenditures, and quasi-fiscal activities. [12]

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[11] While regulatory activities are not generally considered to be fiscal in nature, the requirement for transparency of regulation is included in the Code because of the close substitutability of fiscal and regulatory instruments. For example, greater transparency in fiscal practices may result in politicians turning to discriminatory regulations as means of providing non-transparent assistance to favoured groups.

[12] Quasi-fiscal activities (QFAs) are defined as activities undertaken under the direction of government that are fiscal in nature. That is, their effects could in principle be replicated by a direct taxation or spending action by government. For example, assistance to a particular industry could be provided by a grant from the central government budget, by special tax concessions; by issuing a government guarantee; by directing the central bank or state-owned enterprises to provide services on

- 2.1.4 The central government should regularly publish information on the level and composition of its debt and financial assets.
- 2.2.2 Advance release date calendars for fiscal reporting should be announced.
- 3.2.1 Government transactions should be on a gross basis, distinguishing revenue, expenditure and financing, and expenditure should be classified by economic, functional and administrative category. Data on extrabudgetary activities should be similarly classified. Budget data should be presented in a way that allows international comparisons.
- 3.2.4 The annual budget and final accounts should include a statement of the accounting basis (i.e. cash or accrual) and standards used in the preparation and presentation of budget data.
- 3.3.1 A comprehensive, integrated accounting system should be established. It should provide a reliable basis for assessing payment arrears.
- 3.3.2 Procedures for procurement and employment should be standardised and accessible to all interested parties.
- 3.3.3 Budget execution should be internally audited, and audit procedures should be open to review.
- 3.4.2 Timely, comprehensive, and audited final budget accounts, together with full information on extrabudgetary activities, should be presented to the legislature.
- 4.1.1 A national audit body, or equivalent organisation, should be appointed by the legislature, with the responsibility to provide timely reports to the legislature and public on the financial integrity of government accounts.

Implementation of the Code

The adoption of the Code by the IMF placed no obligation on countries to adhere to it. Implementation is on a voluntary basis, although the IMF is encouraging its 181 member countries to improve fiscal transparency by meeting the requirements of the Code.

The Fund has taken a number of steps to support implementation. These include the preparation of a Manual on Fiscal Transparency, which provides detailed guidance to the implementation of the Code. The Manual illustrates the specific minimum practices which are required of countries if they are to adhere to the Code, and provides numerous references and web site addresses for more detailed information.

The good practices on which the Code is based are conceived, not as best practices, but as practices which all IMF member countries should seek to meet. At present it is likely that no country fully meets the standards in the Code, although a small number of industrial countries are close to meeting it.

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non-commercial terms. Of these only the first two are reflected in the government's budget at the time they occur (although tax concessions are typically less transparent than direct expenditures in that, once granted, they do not require annual appropriation by the legislature). Government guarantees are typically not reflected in the government's accounts until and if they must be honoured, and this lack of transparency had been a frequent source of problems. All the remaining activities have similar effects to direct fiscal activities, but their financial effects are hidden outside the government's budget, and they are therefore subject to much less scrutiny. This lack of transparency provides myriad opportunities for corruption.

The Manual also provides information and examples of best practice from a number of countries, to assist countries that are more advanced or aspire to achieve best practice standards rather than compliance with good practice.

For developing countries and countries in transition, however, a significant number of the good practices are not in place. For countries starting from a low base, the Manual identifies a sub-set of good practices that should form the core focus of initial efforts at increasing transparency. These appear in Annex 2.

The Fund has also prepared a fiscal transparency questionnaire, which can be used to assess how a country's fiscal management system stacks up against the Code. A summary self-evaluation report can then be used to highlight the strengths and weaknesses of the fiscal management system, and to provide the basis for formulating plans to improve transparency. The questionnaire is cross-referenced to the Manual, and both follow the structure of the Code. They are all available on the Fund's external web site dedicated to fiscal transparency (http://www.imf.org/np/fad/trans). [13] There is also an email address (fisctran@imf.org) where anyone seeking further information or technical support can address inquiries.

The Fund's expectation is that country authorities will be interested in completing the questionnaire and self evaluation report as a basis for developing country-specific plans to increase fiscal transparency, and to identify their need for technical assistance in this area. The United Kingdom was the first country to complete and publish an assessment of its level of compliance with the Code. Others to follow suit are Argentina and Australia. These assessments can all be found on the IMF web site.

III The Code as an Anti-Corruption Tool for Civil Society

The Code and supporting material is, in effect, a public good. Anyone can use the fiscal transparency framework developed by the IMF to conduct assessments of public sector financial transparency and accountability in any particular country.

Indeed, while the IMF will promote transparency in connection with its surveillance and technical assistance activities, the impact of the Code will be greatest if a wide range of official and non-governmental organisations and interests use the Code to assess country performance and bring pressure to bear for improvements.

Experience points to the necessity of involving civil society in anti-corruption efforts, and more generally in efforts to strengthen governance. "Any attempt to develop an anti-corruption strategy that fails to involve civil society is neglecting one of the most potentially useful and powerful tools available." [14]

Civil society has two key advantages in this respect. The first is its independence of government (and of other powerful vested interests). The second is its ability to tap

[13] The questionnaire and self-evaluation report can be downloaded. The Manual provides guidance and references to assist in their completion.
[14] The TI Source Book, op. cit., p. 20.

into highly dispersed information at grass roots level so that a richer set of perspectives is brought to bear.

A key factor handicapping civil society efforts in this key area to date, however, has been lack of access to information. Without information it is not possible for civil society to participate meaningfully in debate and decisions over how the government raises and spends its revenues. Nor can it monitor the quality of the overall governance environment for financial management, which is the key mechanism for bringing about a lasting reduction in corruption.

The Code could greatly assist civil society's efforts to gain access to the information required. The imprimatur of an official international organisation such as the Fund should add to the credibility of efforts of civil society to use the Code to press for greater transparency.

There is in fact already one example of the Code being used by NGOs. The Institute for Democracy in South Africa (IDASA), in conjunction with the Washington DC-based Center on Budget and Policy Priorities (CBPP), has produced a detailed and high quality assessment of the transparency of South Africa's fiscal management practices. [15]

The study concludes that, while there has been laudable progress in lifting the shroud of secrecy that obscured public finances in the apartheid years, there are important areas where progress has been insufficient. The study makes a number of specific recommendations aimed at increasing transparency and facilitating greater participation by the legislature and civil society.

The IDASA/CBPP study uses the IMF Fiscal Code as a basis, but modifies it somewhat by adding additional elements covering participation by civil society and the legislature in fiscal policy decision making.

[15] The CBPP is a Washington DC–based NGO. A draft of the South African study can be found on the CBPP web page (http://www. cbpp.org/info/html). The study is scheduled to be published in September 1999.

This raises a more general point. The IMF Code is aimed at the operations of central government, rather than sub-national government (although the principles and most of the good practices in the Code seem equally applicable at sub-national level). The Code also covers macro-fiscal issues more deeply than micro-fiscal issues, reflecting the macroeconomic role of the Fund, [16] and is designed to be applicable to the very wide range of political, administrative and budget systems found across the Fund's membership.

This means that NGOs wishing to use the Code to assess transparency in a particular country will likely want to modify and supplement the Code in order to capture the key elements in that particular country, and to reflect their own priorities.

The IDASA/CBPP study suggests this is quite feasible. Indeed, that study noted that the limits to the Code create an interesting opportunity for civil society to expand its framework to encompass broader principles of particular interest to civil society.

Question for Discussion

How can civil society best use the Code as an anti-corruption tool?

In some countries, where the government is interested in reform, it should be possible for civil society to work together with governments to assess fiscal transparency, and to identify priorities for reform.

In other countries civil society could take the lead in producing an assessment, and use it to bring pressure to bear on a reluctant government. The same government may well also be feeling pressure from international organisations and bilateral donors to increase fiscal transparency, against the same yardstick.

Because of the technical and at times complex nature of this area of public policy, creating networks between NGOs may be a good way to leverage expertise to maximum effect. The co-operation between IDASA and CBPP offers a good example of what is possible. The CBPP has set up an International Budget Project involving a network of NGOs working on fiscal policy issues in over 20 developing and newly-democratic countries (see the CBPP's web site at http://www.cbpp.org).

Whichever approach is adopted, the Fiscal Transparency Code appears to offer a promising new avenue for increasing the transparency of government financial management, and hence for creating environments much less conducive to corruption.

In the words of the IDASA/CBPP study:

"The efforts of civil society and of the IMF to promote fiscal transparency are complementary in several respects. Independent researchers and the IMF have access

[16] Macrofiscal issues are those relating to the aggregate fiscal position and the transparency of processes and elements that can impact significantly on the overall fiscal balance. Microfiscal issues are the detailed aspects of public expenditure and taxation programs – such as transparency over performance standards to be achieved for a particular social service to provide a basis for monitoring by the recipients of the service.

to different information and target different audiences. Using diverse information to reach diverse audiences is likely to broaden the scope of promoting transparency. Civil society can also act as an independent check on government reports. Independent research concerning budget transparency may also prod governments to undertake their own efforts at assessing transparency in their countries. Taken together, reports such as this one by independent researchers and the fiscal transparency efforts of the IMF may yield the most comprehensive and productive debate on these issues." [17]

[17] IDASA (1999), p. 3.

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ANNEX 1

Code of Good Practices on Fiscal Transparency - Declaration on Principles

The Interim Committee stressed the importance of good governance when it adopted the *Partnership for Sustainable Global Growth* in September 1996, and again at its September 1997 meeting in Hong Kong SAR. Fiscal transparency would make a major contribution to the cause of good governance. It should lead to better-informed public debate about the design and results of fiscal policy, make governments more accountable for the implementation of fiscal policy, and thereby strengthen credibility and public understanding of macroeconomic policies and choices. In a globalised environment, fiscal transparency is of considerable importance to achieving macroeconomic stability and high-quality growth. However, it is only one aspect of good fiscal management, and attention has to be paid also to increasing the efficiency of government activity and establishing sound public finances.

Because of its fiscal management expertise and universal membership, the IMF is well placed to take the lead in promoting greater fiscal transparency. The Interim Committee is therefore seeking to encourage IMF member countries to implement the following Code of Good Practices on Fiscal Transparency. The Code is based around the following key objectives: roles and responsibilities in government should be clear. Information on government activities should be provided to the public' preparation, execution, and reporting should be undertaken in an open manner, and fiscal information should be subjected to independent assurances of integrity. The Code sets out what governments should do to meet these objectives in terms of principles and practices. Theses principles and practices are distilled from the IMF's knowledge of fiscal management practices in member countries. The Code will facilitate surveillance of economic policies by country authorities, financial markets, and international institutions.

Guidelines to the implementation of the Code are to be provided in a supporting manual, which is currently being developed. The Code acknowledges diversity across countries in fiscal management systems and in cultural, constitutional, and legal environments, as well as differences across countries in the technical and administrative capacity to improve transparency. While there is scope in all countries for improvement with respect to some aspects of fiscal transparency covered in the Code, diversity and differences across countries inevitably imply that many countries may not be able to move quickly to implement the Code. Moreover, it is recognised that there may a need for technical assistance if existing fiscal management practices are to be changed, and the IMF must be prepared to provide technical assistance, in co-operation with other international organisations, to those countries that request it in connection with improving fiscal transparency. Modifications to the Code should be considered periodically, in light of the experience with its implementation.

I. CLARITY OF ROLES AND RESPONSIBILITIES

1.1 The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well defined.

1.1 The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well defined.1.1 The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well defined.**{**tc \l 3 "1.1 The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well defined."**}**

1.1.1 The boundary between the government sector and the rest of the economy should be clearly defined and widely understood. The government sector should correspond to the general government, which comprises the central government and lower levels of government, including extrabudgetary activities.

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

1.1.3 The allocation of responsibilities between different levels of government, and between the executive branch, the legislative branch, and the judiciary, should be clearly defined.

1.1.4 Clear mechanisms for the co-ordination and management of budgetary and extrabudgetary activities should be established, and well-defined arrangements vis-à-vis other government entities (e.g., the central bank and state-controlled financial and nonfinancial enterprises) should be specified.

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

1.2.1 Fiscal management should be governed by comprehensive laws and administrative rules applying to budgetary and extrabudgetary activities. Any commitment or expenditure of government funds should have a legal authority.

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

1.2.3 Ethical standards of behaviour for public servants should be clear and well publicised.

II. PUBLIC AVAILABILITY OF INFORMATION

2.1 The public should be provided with full information on the past, current, and projected fiscal activity of government.2.1 The public should be provided with full information on the past, current, and projected fiscal activity of government.2.1 The public should be provided with full information on the past, current, and projected fiscal activity of government.**{**tc \l 3 "2.1 The public should be provided with full information on the past, current, and projected fiscal activity of government."**}**

2.1.1 The annual budget should cover all central government operations in detail and should also provide information on central government extrabudgetary activities. In addition, sufficient information should be provided on the revenue and expenditure of lower levels of government to allow a consolidated financial position for the general government to be presented.

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

2.1.3 Statements should be published with the annual budget giving a description of the nature and fiscal significance of contingent liabilities, tax expenditures, and quasi-fiscal activities.

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

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

2.2.1 Specific commitments should be made to the publication of fiscal information (e.g., in a budget law).

2.2.2 Advance release date calendars for fiscal reporting to the public should be announced.

III. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING

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

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

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

3.1.3 The annual budget should be presented within a comprehensive and consistent quantitative macroeconomic framework, and the economic assumptions and key parameters (e.g., effective tax rates) underlying budget estimates should be provided.

3.1.4 Existing commitments should be distinguished from new policies included in the annual budget.

3.1.5 Major risks to the annual budget should be identified and quantified where possible, including variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g., financial restructuring).

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

3.2.1 Government transactions should be reported on a gross basis, distinguishing revenue, expenditure and financing, and expenditure should be classified by economic, functional, and administrative category. Data on extrabudgetary activities should be similarly classified. Budget data should be presented in a way that allows international comparisons.

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

3.2.3 The overall balance of the general government should be a standard summary indicator of the government's financial position. It should be supplemented by other fiscal indicators (e.g., operational balance, structural balance, or primary balance) when economic circumstances make it inappropriate to base judgements about fiscal policy stance on the overall balance alone.

3.2.4 The annual budget and final accounts should include a statement of the accounting basis (i.e., cash or accrual) and standards used in the preparation and presentation of budget data.

3.3 Procedures for the execution and monitoring of approved expenditures should be clearly specified.

3.3.1 A comprehensive, integrated accounting system should be established. It should provide a reliable basis for assessing payment arrears.

3.3.2 Procedures for procurement and employment should be standardised and accessible to all interested parties.

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

3.4 Fiscal reporting should be timely, comprehensive, and reliable, and should identify deviations from the budget.

3.4.1 During the year, there should be regular, timely reporting of budget and extrabudgetary outturns, which should be compared with original estimates. In the absence of detailed information on lower levels of government, available indicators of their financial position (e.g., bank borrowing and bond issues) should be provided.

3.4.2 Timely, comprehensive, and audited final budget accounts, together with full information on extrabudgetary activities, should be presented to the legislature.

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

IV. Independent Assurances of Integrity

4.1 The integrity of fiscal information should be subject to public and independent scrutiny.

4.1.1 A national audit body, or equivalent organisation, should be appointed by the legislature, with the responsibility to provide timely reports to the legislature and public on the financial integrity of government accounts.

4.1.2 Macroeconomic forecasts (including underlying assumptions) should be available for scrutiny by independent experts.

4.1.3 The integrity of fiscal statistics should be enhanced by providing the national statistics office with institutional independence.

ANNEX 2

Requirements of a Minimum Standard of Fiscal Transparency

Clarity of Roles and Responsibilities

- **General government should be defined as in the System of National Accounts (SNA, 1993) or the *IMF Manual on Government Finance Statistics*, (GFS, 1986).**
- **Government equity holdings should be identified.**
- **Extrabudgetary activities should be subject to government review and priority setting as part of the budget process.**
- **Significant quasi-fiscal activities (QFAs) of the central bank, PFIs, and NFPEs should be identified.**
- **A budget law or administrative framework, covering budgetary as well as extrabudgetary activities and specifying fiscal management responsibilities, should be in place.**
- **Taxation should be under the authority of law and the administrative application of tax laws should be subject to procedural safeguards.**

Public Availability of Information

- **Extrabudgetary activities should be covered in budget documents and accounting reports.**
- **Original and revised budget estimates for the two years preceding the budget should be included in budget documents.**
- **Budget documents should include statements of the main central government contingent liabilities and tax expenditures, and a statement of significant QFAs of the central bank, PFIs, and NFPEs.**
- **The level and composition of central government debt should be reported annually with a lag of no more than six months.**
- **A statement of fiscal reporting practices should be published.**
- **Advance release date calendars should be announced for the year ahead showing no later than release dates for annual reports and a range of dates for more frequent reports.**

Open Budget Preparation, Execution, and Reporting

- **A statement should be made of the medium-term macroeconomic framework for the budget, including the macroeconomic forecasts on which the budget is based. Key forecasting assumptions should also be reported.**

- **A statement of fiscal risks should be presented with the budget documents, covering the impact of variations in assumptions on fiscal forecasts, contingent liabilities, and the other main uncertainties about the costs of certain programs.**

- **All general government activities should be covered by the budget and accounts classification. Transactions should be recorded on a gross basis, and a classification by economic, functional, and administrative categories should be derived.**

- **The classification system should identify administrative responsibility for the collection and use of public funds.**

- **The overall balance should be reported in budget documents, with an analytical table showing its derivation from budget estimates.**

- **A statement of accounting standards should be presented with the budget.**

- **GDDS standards for periodicity and timeliness of central government reports (each quarter within a quarter) should be followed.**

- **Final central government budget accounts should reflect high standards of coverage and reliability, should be reconciled with budget appropriations, and should be audited by an independent external auditor. Audited accounts should be prepared within 12 months of the end of the fiscal year.**

Independent Assurances of Integrity

- **Mechanisms should be in place to ensure that external audit findings are reported to the legislature and that remedial action is taken.**

- **Standards of external audit practice should be consistent with international standards.**

- **Working methods and assumptions used in producing macroeconomic forecasts should be made publicly available.**