# Aid and the Budget - Programme

Aid is increasingly being delivered to recipient governments through sector-wide and budget support modalities. This emphasises the need for credible public financial management (PFM) systems that can ensure an effective and efficient allocation and spending of aid. The regional dialogue focuses on ways countries can strengthen their public financial management systems and emphasises the increasingly critical role budget officials play in managing aid flows. The discussions are structured in a way as to allow an in-depth analysis of the issues resulting in specific actions and recommendations.

**Thursday 17 May 2007**

| | |
|---|---|
| 08:30 – 09:00 | **Arrival** |
| 09.00 – 09.30 | **Welcome remarks** |
| 09.30 – 10.00 | Tea/coffee break |
| 10.00 – 11.30 | **Session 1: Putting Aid on Budget**<br>This session explores what recipient countries and development partners can do to move further towards putting aid on budget. |
| 11.30 – 12.00 | Tea/coffee break |
| 12.00 – 13.30 | **Session 1 continued** |
| 13.30 – 14.30 | Lunch |
| 14.30 – 16.00 | **Session 2: Budget Support and Performance Assessment Framework**<br>The session reflects on experiences of senior budget officials in developing performance assessment frameworks as a monitoring tool for budget support. |
| 16.00 – 16.30 | Tea/coffee break |
| 16.30 – 18.00 | **Session 2 continued** |

**Friday 18 May 2007**

| | |
|---|---|
| 09.00 – 10.30 | **Session 3: Aid and Fiscal Space**<br>The objective of the session is to explore the various approaches to managing fiscal policy in an environment of scaled-up aid. |
| 10.30 – 11.00 | Tea/coffee break |
| 11.00 – 12.30 | **Session 3 continued** |
| 12.30 – 13.30 | Lunch |
| 13.30 – 15.00 | **Session 4: Fiscal and Budget Transparency**<br>The session identifies feasible and practical ways for countries to improve budget transparency and explores the various challenges associated with opening up the budget process. |
| 15.00 – 15.30 | Tea/coffee break |
| 15.30 – 17.00 | **Session 4 continued** |

## Session 1: Putting Aid on Budget

**Objective:** This session explores what recipient countries and development partners can do to move further towards putting aid on budget and forms the basis for the 'putting aid on budget' study.

**Presenter:** Launch of SPA-CABRI project, Strategic Partnership with Africa

**Presentation:** Conceptual framework, Mokoro Ltd

**Discussion and country perspectives**

**Presentation:** Proposed work plan, Mokoro Ltd

**Discussion and country perspectives**

A credible budget is one that is affordable, sustainable and comprehensive, and which is implemented as planned, delivering on broad policy objectives.[1] These broad policy objectives should reflect a nation's priorities. A critical aspect of achieving a credible budget, is managing and using information on aid flows in the budget process, especially in countries where aid flows significantly augment domestic revenues.

Technically a **credible budget** consists of:

- Prudent macro-economic fiscal frameworks and realistic revenue projections
- Credible assessment of the existing cost of government initiatives and the cost of new initiatives
- A transparent and discipline budget planning process
- Robust systems of budget classification, execution, financial management and accountability
- Availability of good information on spending and service delivery

On the governance side, access to information internally and externally throughout the budget process are clear mechanisms for political oversight and are key to managing the tension between competing priorities.

Aid flows which exist outside the recipient country's budget planning process contribute to fragmented decision-making and hence a less than optimal allocation of resources. Revenue projections are not realistic, assessments of the costs of donor-funded initiatives are not always available or do not compliment to government's own resource allocation process and so forth. The Paris Declaration recognises the need for aid to be aligned with partner countries' priorities, systems, and procedures.

The session will consider the following issues:

- Conceptual framework, terminology and scope of "putting aid on budget" study
- Country information on how far aid flows are incorporated in the countries budget documentation and budget process
- Country experience with exploring initiatives to putting aid on budget
- Unpacking the pre-requisites for putting aid on budget both on the part of recipient governments and development countries

[1] 2004 CABRI Post-seminar resource book

**Material for session:**

- Relevant legislations procedures and regulations for most recent year for which budget was approved (Year N) and for most recent year that budget out-turn data is available (Year M) *(Including:*
    - *finance ministry circulars relating to what information should be submitted in the budget process*
    - *specific requirements for budget execution that may not be in the long-term standing regulations.*
    - *the budget and account classification structure*
    - *the structure of existing or future IFMIS system.)*

- Budgets as approved and supporting documents for Year N and Year M *(including any pre-budget statements)*

- Out-turn accounts (audited or unaudited) for Year M

- Full details of arrangements (electronic or hardcopy) for donors and line ministries to submit information ex ante or ex post for Year M and Year N

- Relevant reports produced by government or other bodies which address the issue of putting aid flows in the budget *(including information on parliament's engagement with aid flows.)*

- Any documentation (reports, procedures etc) prescribing, explaining or reporting on (i) how aid donors should provide planned aid disbursement information to feed into national or sectoral planning processes; (ii) how this information which is provided for national or sectoral planning processes is reflected in the processes to prepare the annual budget and is taken into account in central resource allocation decisions.
  *(Including:*
    - *documents relating to structure that manage aid (eg aid/donor coordination units/groups), their responsibilities, roles, structure, membership, placement,*
    - *examples of individual bilateral and multilateral grants and loan agreements.)*

**NB It would useful if countries could bring two sets of the above documentation. CABRI will make provision for excess weight allowance for this material. Receipts will be necessary for re-imbursement.**

## Session 2: Budget Support and Performance Assessment Frameworks

**Objective:** To support senior budget officials in developing performance assessment frameworks as monitoring instruments for budget support. **(Please refer to annex 1)**

**Presentation:** Stephen Lister, Mokoro Ltd, Team Leader of Joint Evaluation of General Budget Support, 1994 – 2004 (TBC)

**Country presentation:** Mauritius

**Country presentation:** Mozambique

**Discussion and country perspectives**

Budget support is increasingly becoming a preferred aid modality amongst recipient country governments, especially those which are actively attempting to strengthen public finance management systems. Budget support encourages recipient governments to take the lead in developing and implementing medium-term policies.

Common Performance Assessment Frameworks (PAFs) provide the basis for joint monitoring, by all budget support donors and recipient governments, and for management according to a set of predefined common principles, with budget support disbursement still subject to individual donor decisions. PAFs may be developed as alternatives to government monitoring processes; as high-level summaries of existing government reporting requirements; or, in addition to government systems, neither replacing them nor summarizing them.

The session will consider country experience in the following:

- Managing multiple objectives through one framework
- Selecting clear and appropriate indicators and targets and managing governance-related conditionality
- Aligning the PAF to government systems. In particular, how to strengthen Government's own processes for the management and monitoring of reforms and development actions.
- Nature of policy dialogue between donors and recipient governments and how this can be enhanced.
- Measuring performance against PAFs and linking the results to the delivery of budget support.

**Material for session:**

Countries are requested to bring their performance assessment frameworks, PRSP monitoring and evaluation frameworks and other government-wide frameworks.

**Recommended reading:**

Executive Summary of Synthesis Report, Joint Evaluation of General Budget Support (1994 – 2004), www.oecd.org

## Session 3: Aid and Fiscal Space

**Objective:** The session aims to explore, with SBOs, the prospects for creating and utilizing effectively additional fiscal space.

**Presentation:** Peter Heller, Independent Consultant

**Country presentation:** Ghana

**Country presentation:** Mali

**Discussion and country perspectives**

The purpose of the country presentations would be to provide a brief characterization of the fiscal space prospects for two of the represented countries. The discussion would illustrate the different types of challenges faced and allow lessons to be drawn for the other countries.

To make the discussion productive, each senior budget official should seek to provide very succinct answers to the following questions for his or her country. They are meant to clarify the alternative potential sources of fiscal space:

1. Is there scope to create additional fiscal space through **greater revenue mobilization**?
    a. Provide a brief description of the sources of tax revenue and the level of taxes to GDP? Is the tax structure elastic to GDP growth, such that one might anticipate a rising revenue share over time?
    b. Is there a reasonable prospect for specific tax policy measures to raise the revenue to GDP share over time, and if so, by how much?

2. Is there scope to create additional fiscal space by **rationalizing government expenditures, e.g. by cutting back on "unproductive expenditures?"**
    a. What share of expenditure is likely to be "nondiscretionary" in character, and thus difficult to cut back (e.g., wages and salaries or interest payments)? How buoyant are these nondiscretionary expenditure items to GDP (viz., can we anticipate a fall in the share of these expenditures with GDP growth?)
    b. Are there important expenditure items where the government can see room for future cutbacks (e.g., subsidies; spending on public administration or security)?

3. Can additional fiscal space be created by **changing the composition of government expenditure in a way that fosters higher growth**? Specifically, what are the prospects that the government can raise the economy's potential growth rate by additional spending on projects/programs that can remove or lessen key bottlenecks to an expansion in supply in the economy?

4. Can **increased borrowing** prove a potential source of fiscal space?
    a. What are the current ratios of domestic and external debt to GDP, respectively?
    b. What do current IMF-World Bank (WB) debt sustainability analyses for your country suggest might be the prospects for a higher annual external borrowing rate, consistent with keeping the net present value of debt within reasonable bounds?
    c. Can one distinguish, from these analyses, differences in the potential annual limits for the amount of concessional versus non-concessional borrowing?

d. What do the IMF-WB analyses suggest might be the limits on additional annual *domestic* borrowing, recognizing the risk that high domestic borrowing and debt levels can quickly result in a rise in domestic real interest rates (which can reduce potential fiscal space)?

5. What are the potential prospects for **higher aid flows** over the medium term (as a share of projected GDP)?
   a. What is the expected balance between grants and loans for new aid flows?
   b. Can these higher aid flows create additional fiscal space without creating macroeconomic policy management problems? Specifically
      i. Is there a reasonable prospect that these higher flows can be absorbed into the economy through a higher current account deficit (implying higher imports)?
      ii. Or, will the receipt of these flows put pressure on the nominal exchange rate or force the Central Bank to undertake sterilization efforts to limit the monetary impact of these higher flows?
   c. If higher aid flows are likely to be used to finance recurrent expenditure programs which cannot be easily cut back, once started, how confident is the government that these higher aid flows will be stable over the medium term? Should the government consider a higher level of foreign exchange reserves to provide an "insurance cushion" if aid flows were to fall?
   d. Does the government see any institutional absorptive capacity limitations to higher aid flows? Shortages of appropriate manpower? Limits on the government's capacity to manage and implement aid-financed programs? Significant distortions of the government's expenditure priorities arising from donor priorities on aid usage?

6. Some Western NGOs argue for a higher rate of seignorage creation—possibly implying higher inflation—as a means of creating fiscal space for additional productive spending?
   a. What is the current inflation rate?
   b. Is there scope for somewhat higher credit creation—financing additional government spending--consistent with a tolerable rate of inflation?

7. Is there scope for new public-private partnerships (PPPs) that can create infrastructure, financed by private investors with government guarantees? Is there scope for arguing that services under such PPPs will be produced more efficiently by the private sector, remembering that PPPs are often a source of contingent debt to the government?

**Recommended reading:**

Heller, P., 2005, "Understanding Fiscal Space," Policy Discussion Paper No. 5/4, International Monetary Fund, www.imf.org

Heller, P., 2006, "Making Fiscal Space Happen: Managing Fiscal Policy in a World of Scaled-up Aid Working Paper No. 06/270, International Monetary Fund, www.imf.org

## Session 4: Fiscal and Budget Transparency

**Objective:** To explore feasible and practical options for countries to improve budget transparency. **(Please refer to annex 2)**

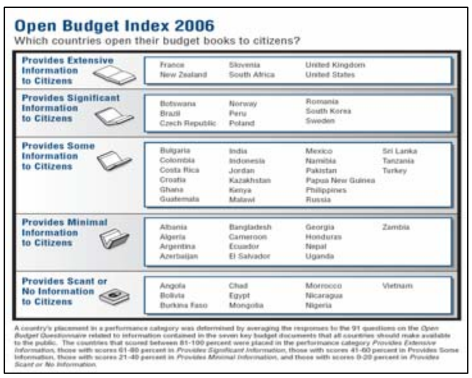
**Presenter:** Alta Folscher, Author of Transparency and Participation: Five African Case Studies IDASA, 2001

**Country presentation:** South Africa

**Country presentation:** Kenya

**Discussion and country perspectives**

The World Bank Public Expenditure Management Handbook (1998) considers transparency to be one of the core principles, which underpin good budgeting practice. Information about budget decisions must be accessible, clear and communicated to the wider community so that decision-makers can be held accountable for the exercise of the authority provided to them. The OECD defines budget transparency as full disclosure of all relevant fiscal information in a timely and systematic manner. The availability of this information plays a critical role in expenditure accountability and performance monitoring within and outside government.




The International Budget Project publishes an Open Budget Index each year.[2] The Index assesses:

- The dissemination of budget information;
- The executive's annual budget proposal to the legislature;
- The availability of other information that would contribute to analysis of budget policies and practices; and
- Accurate, timely and comprehensive information at each stage of the budget process.

The purpose of this session is to:

- consider the key elements of budget transparency at both national and sub-national levels;
- examine the boundaries and challenges countries face in opening up the budget process; and,
- explore feasible and practical options for countries to take forward in improving budget transparency.

**Material for session:**

Countries are requested to bring their budget legislation and budget documentation to this session.

**Recommended reading:**

International Budget Project, Country summaries and completed questionnaires, www.internationalbudgetproject.org

OECD Best Practices on Budget Transparency www.oecd.org

[2] Of the 59 countries surveyed, 16 were African countries. These were: Algeria, Angola, Botswana, Burkina Faso, Cameroon, Chad, Egypt, Ghana, Kenya, Morocco, Namibia, Nigeria, South Africa, Tanzania, Uganda and Zambia.

**ANNEX 1: Background material for session 2 on Budget Support and Performance Assessment Frameworks**

***Guiding Questions***

*The following questions should be useful for framing the country presentations as well as the general discussion of PAFs.*

**What is the overall framework for monitoring the PRSP?**

Aspects to consider include:

- what monitorable targets are included in the PRSP?
- types of indicators (input, process, output, outcome, impact)
- number and level of detail of indicators
- responsibilities for monitoring
- the calendar for review
- links between the PRSP and the budget

**Considering the Performance Assessment Framework(s) linked to Budget Support:**

- What types of indicator are selected?
- Who determines which indicators are included and the targets set?
- How practical and measurable are the indicators/targets adopted?
- How closely is the PAF linked to overall PRSP monitoring? How does it affect lines of accountability for performance? How does it affect capacity development for performance monitoring?
- How is performance against targets linked to disbursement conditions?
- How are governance targets and conditions reflected in the PAF and the management of budget support?
- What are the implications for predictability of budget support and medium term planning and budgeting?

**ANNEX 2: Background material for session 4 on Fiscal and Budget Transparency**

***Description of session***

The purpose of the session is to investigate practical and feasible ways in which the participating countries can make improvements to their level of fiscal and budget[3] transparency. The questions below centre on identifying the most important transparency gaps in participating countries' practices, particularly those that are usually within the competency of finance ministries. Participants will be encouraged to identify the underlying obstacles to closing these gaps and finally to begin conceptualising a medium to long-term programme of addressing shortfalls.

The questions address the following areas:

- Full set of documents
- Gaps in content of existing documents
- Timeliness of information
- Coverage of information
- Specific inclusions
- Improvements in the existing coverage of specific inclusions
- Clarity of roles and responsibilities
- Existence of a legal framework
- Identifying underlying obstacles to closing identified transparency gaps

***Background***

Fiscal transparency concerns being open to the public about the structures and functions of government, fiscal policy intentions and projections, budget formulation and implementation and public sector accounts. It requires

- *The public availability of accessible, accurate, timely and comprehensive information on government's fiscal activities*. This includes information about budgetary and extra-budgetary revenue and spending; all activities of government with a fiscal impact, including quasi fiscal activities; all financial obligations and assets of government, including contingent liabilities;
- *Open budget preparation, execution and reporting*. This includes presenting the budget within a macro-economic framework with sufficient risk analysis; presenting information on revenue and expenditure to facilitate policy analysis and accountability; the existence of clear procedures for the execution and monitoring of expenditures and revenue collection; and regular fiscal reporting on the outcomes of the budget to the legislature and the public.
- *The existence of a clear legal framework for government's fiscal activities*;
- *Clear information about roles and responsibilities*, including about government's role in the economy and the division of roles and responsibilities between the executive, parliament and the judiciary, levels of government and between institutions within the executive.
- *Independent assurances of the integrity of information*, including an independent auditing body and a statistical agency.

There are several frameworks that guide countries on fiscal transparency requirements. The IMF Code on Fiscal Transparency sets out the expected transparency outcomes of a good practice system for overall fiscal transparency. The OECD guidelines arrange a budget transparency framework in terms of

[3] In this document a distinction is made between fiscal and budget transparency in line with emerging usage of the terms. Fiscal transparency refers to openness regarding the wider set of public sector activities that affect public finances whereas budget transparency – as in the OECD guidelines – is often used more narrowly to refer to openness about the budget itself.

the key documents that need to be available in the budget cycle and their contents. The International Budget Project, a network of civil society organisations that engage in applied budget work, has developed an open budget index which measures countries with regards to the degree to which citizens can access information and the quality of accountability processes. The index is built around the timeliness and comprehensiveness of key documents and whether their contents are appropriate and accurate and the robustness of accountability practices of the legislature and the audit function. All these frameworks offer valuable guidance for countries to improve their transparency levels.

***Guiding questions***

In considering the questions below countries should take into account the issues that pose the greatest risk to the budget, albeit in terms of fiscal discipline or effective and efficient use of resources. If a country for example does not systematically disclose information about extra-budgetary funds, but only a small portion of total tax revenue is earmarked for extra-budgetary purposes while on the other hand the country has a history of significant quasi-fiscal activities through its public financial institutions, it should consider the quantification and reporting of the latter more important than full, detailed coverage of its extra-budgetary funds.

The questions deal first with improving the availability of information, and with key aspects of open budget preparation, execution and reporting. The assumption for the session is that this is a first area of pragmatic transparency improvements. Less attention is paid to issues of clarity of roles and responsibilities and the existence of a comprehensive legal framework. The questions also does not deal with opportunities for parliamentary and wider public participation or accountability processes, which are both necessary further necessary building blocks of a transparency and accountability system.

**1. Full set of documents**

*What are the gaps in the set of documentation around the budget that your country publishes? Arrange them from most to least important taking into account your most significant budget management problems.*

The OECD guidelines on best practices for budget transparency and the IBP open budget index identify the following documents:

| | **OECD** | **Open Budget Index** | **Why is it important?** |
|---|---|---|---|
| Pre-budget report | X | X | Encourages debate on budget aggregates and how they engage with economy; firms up aggregate ceilings. |
| The budget (or executive's budget proposal), including a budget summary and supporting documentation | X | X | The executive's key policy instrument setting out its finalised policy intentions for parliamentary approval. |
| The enacted budget | | X | Highlights changes made in parliamentary process. |
| A citizen's budget | | X | Makes budget accessible for population at large, allowing wider distribution and awareness. |

| | | | |
|---|---|---|---|
| Monthly reports on budget implementation | X | X | Shows progress of budget implementation; highlights problems timeously while corrective action still possible. |
| Mid-year report | X | X | Provides comprehensive update on implementation, including updated forecast of aggregates. |
| Year-end report | X | X | Government's key accountability document. Provides information on compliance with approved revenue and expenditure parameters, and achievement of policy objectives. |
| Audit report | | X | Details of audit findings; supports legislature accountability processes |
| Pre-election report | X | | Makes clear state of government finances just before an election for more informed debates |
| Long-term report | X | | Assesses the long-term sustainability of government policies |

**2. Gaps in content of existing documents**
*In your country's existing set of documentation, what are the content gaps? Arrange them from the most to least important, taking into account your significant budget management problems.*

The following table offers summary guidelines on content:

| Document | Content |
|---|---|
| Pre-budget statement | Should state government's long-term fiscal and economic policy objectives and government's economic and fiscal policy intentions over the medium term. It should contain an outturn of revenue, expenditure and debt aggregates over the past years and a forecast of the budget year and over the medium term. It should discuss the economic assumptions underlying the forecasts, and identify key areas of risk. |
| Budget and supporting documentation | Updated information on the fiscal aggregates, as for the pre-budget statement.<br>All revenue and expenditure, including extra-budgetary funds, external assistance and all government agencies (comprehensiveness)<br>Discussion of borrowing, by debt instrument and source of borrowing.<br>Discussion of debt, by debt instrument and source, with maturity profiles, currency denomination, variable or fixed interest rate and whether it is callable.<br>Detailed supporting documentation on each revenue and expenditure programme, including expected non-financial achievements. Major changes to expenditure programmes or new programmes should be highlighted, and their expenditure impact quantified and beneficiaries identified.<br>The source, type, extent and usage of external assistance should be reflected, where possible integrated with own revenue financed expenditure programmes.<br>A medium term forecast of all revenue and expenditure to show how budget proposals will develop.<br>Reconciliation with past forecasts and an explanation of deviations, including comparative information on actual revenue and expenditure for at minimum past year, plus an update on the current year disclosing the status of the information (audited, outturn, projected outturn). Actual performance on non-financial performance targets for past year and current year, where relevant.<br>Revenue and expenditure should be shown in gross terms; earmarked revenue, user-charges and inter-agency transfers should be accounted for separately |

| | |
|---|---|
| | All expenditure should be classified consistently by administrative unit, supported by economic and functional categories. A programmatic classification is recommended.<br>All expenditure arrears should be reflected, classified in line with expenditure.<br>All revenue should be classified by tax and non-tax revenue, and by type of tax or non-tax revenue. Major adjustments to tax policy should be quantified and the affected tax bases identified.<br>A comprehensive discussion of government's non-financial assets and financial liabilities and assets, contingent liabilities and pension obligations<br>All quasi-fiscal activities should be presented, as well as all tax expenditures.<br>A budget summary should be presented. |
| The enacted budget | Finalised approved tax and expenditure, classified as above. Changes in non-financial performance targets or supporting documentation. |
| Citizen's budget | Accessible information on the total level of expenditure, revenue and government's expected borrowing.<br>Accessible information on government's outstanding debt and medium term interest obligations.<br>Accessible information on sources of tax<br>Accessible information on the distribution of expenditure, particularly by functional category of expenditure, administrative and economic.<br>Information on major new expenditure programmes and their expected beneficiaries; information on major new revenue initiatives and the expected sources, or expected beneficiaries in the case of tax relief. |
| Monthly reports | The amount of monthly revenue and expenditure and year to date by major administrative unit; a comparison with the forecasted revenue and expenditure for the month and year to date by major administrative unit; an accompanying narrative, which should include an explanation of major divergence from forecasts; information on government's borrowing activity. |
| Mid-year report | Comprehensive update on budget implementation, forecast of the budget outcome for the year; review of economic assumptions and updated fiscal forecasts; update on non-financial assets and liabilities; contingent liabilities, extra-budgetary funds. Impact of government decisions on budget should be disclosed. |
| Year-end report | Presentation format should mirror format of budget; report should show compliance with original enacted budget and any adjustments in year should be shown separately; audited outturn; non-financial information including a comparison against initial performance targets where relevant; comparison with previous year for both financial and non-financial data; comprehensive discussion of non-financial and financial assets at year-end, contingent liabilities and pension obligations. Year end report can be provided separately for main government administrative units. |
| Audit report | As produced by an independent auditor general in line with INTOSAI standards. |
| Pre-election report | Similar to mid-year report. |
| Long-term report | Should look at long-term impact on budget of key variables, such as population change. All assumptions should be made explicit. |

**3. Timeliness of information**

*Considering the timeliness of the publication of the existing documentation in your country, what are the gaps? Arrange them from most to least important viewed against the most pressing budget management problems you face.*

| **Report** | **Guideline** |
|---|---|
| Pre-budget report | At least one month before tabling of Budget |
| Budget and supporting documentation | At least three months before the start of the financial year; supporting documentation must be published simultaneously. |
| Citizens budget | With Budget |
| Monthly reports | Within 4 weeks after month end |
| Mid-year report | Within six weeks of end of mid-year period. |
| Year-end report | Within 6 months of year end. |
| Audit Report | Within six months of year end. |
| Pre-election report | No later than two weeks prior to elections |
| Long-term report | At least every five years. |

**4. Coverage of information**

*Does your set of budget documentation cover at least all of central government's fiscal activities?*

The IMF Code on Transparency acknowledged that coverage of sub-national government fiscal activities in central government budget documentation is not always possible. The minimum standard therefore is that all central government activities should be covered and that transfers to sub-national government should be transparent. Central government refers to all ministries, departments and agencies that carry out government functions related to the implementation of public policy: this includes public sector agencies and extra-budgetary funds. A minimum requirement is that the revenue and expenditure and financial assets and liabilities of public sector agencies that carry out public policy objectives and are controlled or funded by government should be made transparent in the same way as core government units.

Further requirements are that if sub-national government fiscal activities are significant, their combined position and the consolidated fiscal position of general government should be published. The Code also requires that sub-national governments should publish a full set of budget documentation, including information on their arms length agencies, extra-budgetary funds and quasi-fiscal activities.

**5. Specific inclusions**

*What gaps exist regarding government activities with a fiscal implication outside of the main budget? Arrange the gaps from most to least important in terms of fiscal risk.*

The IMF Code and the OECD guidelines identify the following areas of risk. The Code and guidelines do not advocate the usage or non-usage of these instruments, merely that their usage should be transparent. Extensive use of instruments such as these without transparency leads to a significant reduction in overall transparency, leaving significant use of resources outside of the routine processes to consider trade-offs.

| Issue | Description |
|---|---|
| Extra-budgetary funds | Operations that are set up outside of the main appropriation process of government, often in terms of permanent legislation. They are usually financed through ear-marked taxes, user-charges or transfers from the main budget when revenue is less or expenditure more than expected. |
| Quasi-fiscal activities | These are activities that are carried out by non-government public sector agencies whose primary activity is monetary or commercial. Quasi-fiscal activities may for example involve operations related to the management of the financial system (eg subsidized lending and directed credit) or the exchange system (eg multiple exchange rates and import deposits). |
| Tax expenditures | Tax expenditures are the cost to tax revenue of preferential treatment of certain activities. |
| Employee pension obligations | Employee pension obligations are the difference between accrued benefits arising from past service and the contributions that the government has made towards those benefits. Key actuarial assumptions underlying the calculation of employee pension obligations should be disclosed and pension fund assets valued at market value. |
| Contingent liabilities | Contingent liabilities are liabilities whose budgetary impact is dependent on future events which may or may not occur. Common examples include government loan guarantees, government insurance programmes, and legal claims against the government. |

**6. Improvements in the coverage of specific inclusions**

*What improvements can be made in reporting on the specific inclusions already covered?*

| Inclusion | Requirements |
|---|---|
| Extra-budgetary funds | The revenue and expenditure, financial status, financial and non-financial assets and liabilities of extra-budgetary funds should be reported in all main budget documentation, with the same requirements regarding reporting against targets, classification and for supplementary narratives. |
| Quasi-fiscal activities | It is a basic requirement of fiscal transparency that a statement on quasi-fiscal activities should be included in the budget documentation which indicates the public policy purpose of each quasi-fiscal activity, its duration, and the intended beneficiaries. |
| Tax expenditures | Tax expenditures should be provided as supplementary information, where relevant integrated with a discussion of related expenditures.  The overall tax expenditure statement should indicate the public policy purpose of each provision, its duration, and the intended beneficiaries. Where possible, major tax expenditures should be quantified |
| Employee pension obligations | Key actuarial assumptions underlying the calculation of employee pension obligations should be disclosed and pension fund assets valued at market value. |
| | |

| | |
|---|---|
| Contingent liabilities | Where feasible, the total amount of contingent liabilities should be disclosed and classified by major category reflecting their nature; historical information on defaults for each category should be disclosed where available. In cases where contingent liabilities cannot be quantified, they should be listed and described. |

**7. Clarity of roles and responsibilities**

*What are the gaps in clarity on roles and responsibilities? Arrange these by importance given your most serious budget management problems.*

The IMF Code on Fiscal Transparency poses a number of standards regarding roles and responsibilities. Central to these is that:

- The revenue and expenditure responsibilities of national and sub-national government should be clear
- That the roles and responsibilities of the central bank should be clear, and that any functions it carries out on behalf of government should be clearly demarcated and reported on in its annual report.
- That the roles and responsibilities of different central government units and agencies should be clear. The Code requires the publication of an institutional diagramme of central government.
- That there should be clarity on the roles and responsibilities and responsibilities of the executive, the legislature and the judiciary.
- That the fiscal management responsibilities of various government units and arms of government should be clear. (Is an accessible document that specify the budget cycle and makes clear fiscal management roles and responsibilities publicly available?)
- That the boundaries of the public sector should be defined clearly and made explicit.

**8. Existence of a legal framework**

*Do you have comprehensive legal or administrative framework that governs the full budget cycle?*

The effectiveness of the budget depends on the strength of its basis in law and on supporting regulations and administrative practices. The relative importance of codified budget laws, regulations, and administrative practices varies considerably among countries and depends on whether a European tradition (where detailed procedures are codified in law) or an English legislative (where principles are legislated and details captured in lower order legal instruments) is followed. The important elements that should be embedded in a legal/administrative framework are: Public funds can only be spent by law; the budget should be comprehensive, covering all central government transactions (albeit possibly through different funds); budget transactions should be shown in gross terms; a minister responsible for government finance should be given effective power of budget management; individual agencies should be held accountable for funds they collect and/or use; contingency or reserve provisions should specify clear and stringent conditions for use of such funds; and independently audited reports showing clearly how public funds have been used should be prepared for the legislature and the public.

**9. Identifying underlying obstacles to closing identified transparency gaps**
*Reviewing the list of gaps identified through questions 1 to 8, what do you consider to be the obstacles to closing these shortfalls?*

By identifying gaps that can be closed easily, those that can be closed over the medium term (in line with public finance management reform programmes) and those that require longer term interventions, countries should look at setting themselves transparency improvement targets.

Opaqueness in governments' fiscal activities is not necessarily caused by unwillingness to disclose information. Often it is on account of existing practices still being based on an earlier belief that the budget should be shrouded in secrecy. Even in countries that have a high standard of compliance, improvements have only been realised in the past 10 to 20 years.

Other reasons for gaps in budget documentation are rooted in the absence or poor quality of underlying budget management systems. For example, it may be that the budget formulation process does not yet have sufficient formal instruments that extract information systematically from the various central government units and spending agencies. In many countries the financial management, accounting and financial reporting systems are not sufficient to support timely in-year reports. Or the capacity of agencies, including the audit function, may not be sufficient.

Some of these obstacles are easier to overcome than others. It is important that countries identify quick gains in transparency, where gaps can be closed by publishing existing information in line with good practice. However, it is equally important that countries also identify the medium to long term improvements that can be made by underlying system development and integrate these with their medium term public finance management reform programmes. One of the benefits of producing public documentation is that it creates an immediate demand for systems to develop and capacity to grow. Improving fiscal and budget transparency can therefore improve incentives for change in public finance management reform programmes.