

# **Measuring Economic Governance in the context of National Development Planning PFM Reforms**

Presented by  
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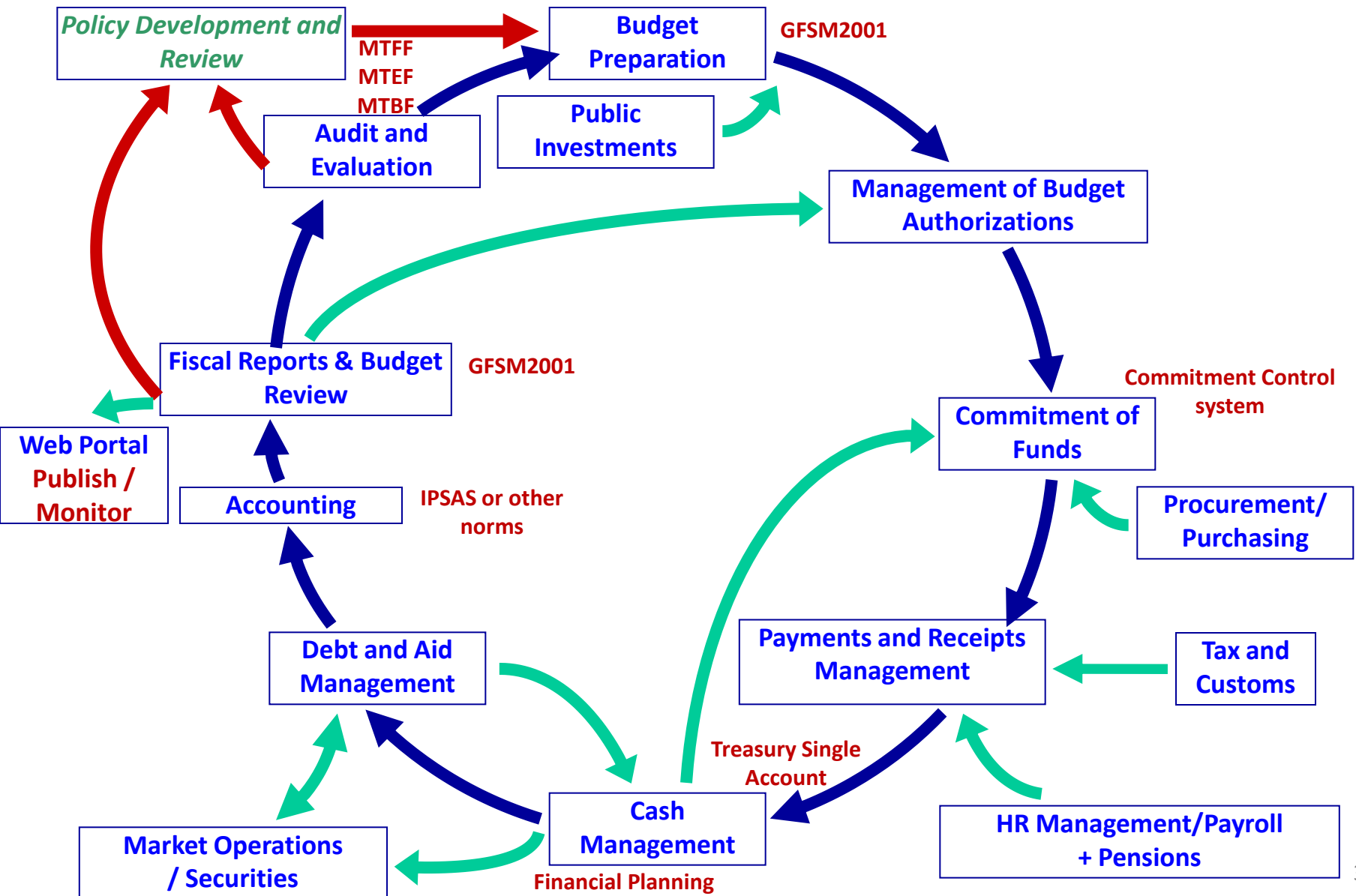
# Agenda

Presentation will address:

- PFM Cycle
- PFM Reforms: main challenges
- Fiscal Transparency
- Improving Fiscal Transparency
- Strengthening regional initiatives on PFM

# The Public Financial Management Cycle

International efforts aimed at improving the PFM Cycle



# PFM Reforms

## Main Challenges

- Focus is on what would be the most important PFM measures to take to improve countries' systems
  - Strengthening overall strategic planning and developing a medium term approach to budgeting
  - Strengthening budget execution and reporting
  - Integrating donor aid in the budget process
- Countries have to prepare/endorse a PFM Reform Strategy Plan that is well-structured, and realistic about the prospect for reform taking account of limited country capacity
- A critical element for effective fiscal policy-making and management of fiscal risks is the Fiscal Transparency

# Fiscal Transparency

Fiscal transparency is defined as the

■ Clarity

■ Reliability

■ Frequency

■ Timeliness

■ Relevance

of public fiscal reporting and the openness to the public of the government's fiscal policy-making process"

Is the detailed budget supplemented by summaries that can easily be understood by the public?

Are data reflecting the adequate coverage of the government's fiscal position, including operations outside central government, implicit liabilities that allow effective fiscal monitoring?

How often are reports updated and published?

How soon are updated reports published and disseminated?

Do published documents cover the appropriate information that allows the public to assess whether policy makers are taking effective decisions to meet the objectives intended?

# FISCAL TRANSPARENCY

## OVERALL: FOR FISCAL CREDIBILITY

Why Fiscal Transparency is Important as a mitigator of fiscal risk	Means to achieve Transparency	Did you know ?
1. Ensures government policy decisions are taken after accurate assessment of the most up to date fiscal position	<ul style="list-style-type: none"><li>➤ Assess macroeconomic conditions and the cost of government policies or off-budget activities (transactions) that may otherwise backfire later on ... therefore, encourages government to budget for them... ... and helps eliminate unexplainable inconsistencies between actual fiscal outturns and budget forecasts</li></ul>	Incomplete information on government's underlying fiscal position leads to bad (poor) policy framework and elevated probability risk [case: Greece, Portugal and Ireland where hidden or implicit obligations led to future crises]
2. Gives stakeholders (citizens, businesses and market participants, parliament, etc) necessary information to conduct financial decisions in the most efficient/effective manner;... therefore improves government accountability	<ul style="list-style-type: none"><li>➤ Publish audit reports to highlight government weaknesses e.g. regarding financial controls, therefore enabling the government to address them.</li><li>➤ Publish a citizen's budget [a citizen's guide to a budget]</li></ul>	Only 21 percent of countries currently publish a citizens' guide to the budget, only 28 percent of legislatures organize public hearings in which citizens can testify on budgetary matters. However, there is <u>a lack of cross-country data on fiscal transparency practices</u>
3. Eases surveillance of developments on the fiscal front at the global level... allows for mitigation of transmission of fiscal shocks/spillovers across countries	International efforts <a href="#">[next slide]</a> .	<i>Several institutions are already spearheading initiatives , including the IMF, WB, OECD and IBP</i>

# INTERNATIONAL EFFORTS / INITIATIVES AIMED AT IMPROVING FISCAL TRANSPARENCY

## IMF:

- Codes of Good Practices (Manual) on Fiscal Transparency
- Fiscal transparency Report on the Observance of Standards and Codes (Fiscal ROSCs – 111 in 94 countries)

Statistical front:

- GFSM 2001,
- IMF's Statistics Department 2008 *Guide on Consolidation of Non-financial Public Sector Statistics*,
- Forthcoming FAD technical note on the *Financial Oversight of Public Corporations*

## IPSAS:

- International Public Sector Accounting standards,-  
International Federation of Accountants

Fiscal  
Transparency

## WB:

- Fiscal Risk Management DPLs

## OECD:

- Best Practices for Budget Transparency

## IMF, World Bank, other international Partners:

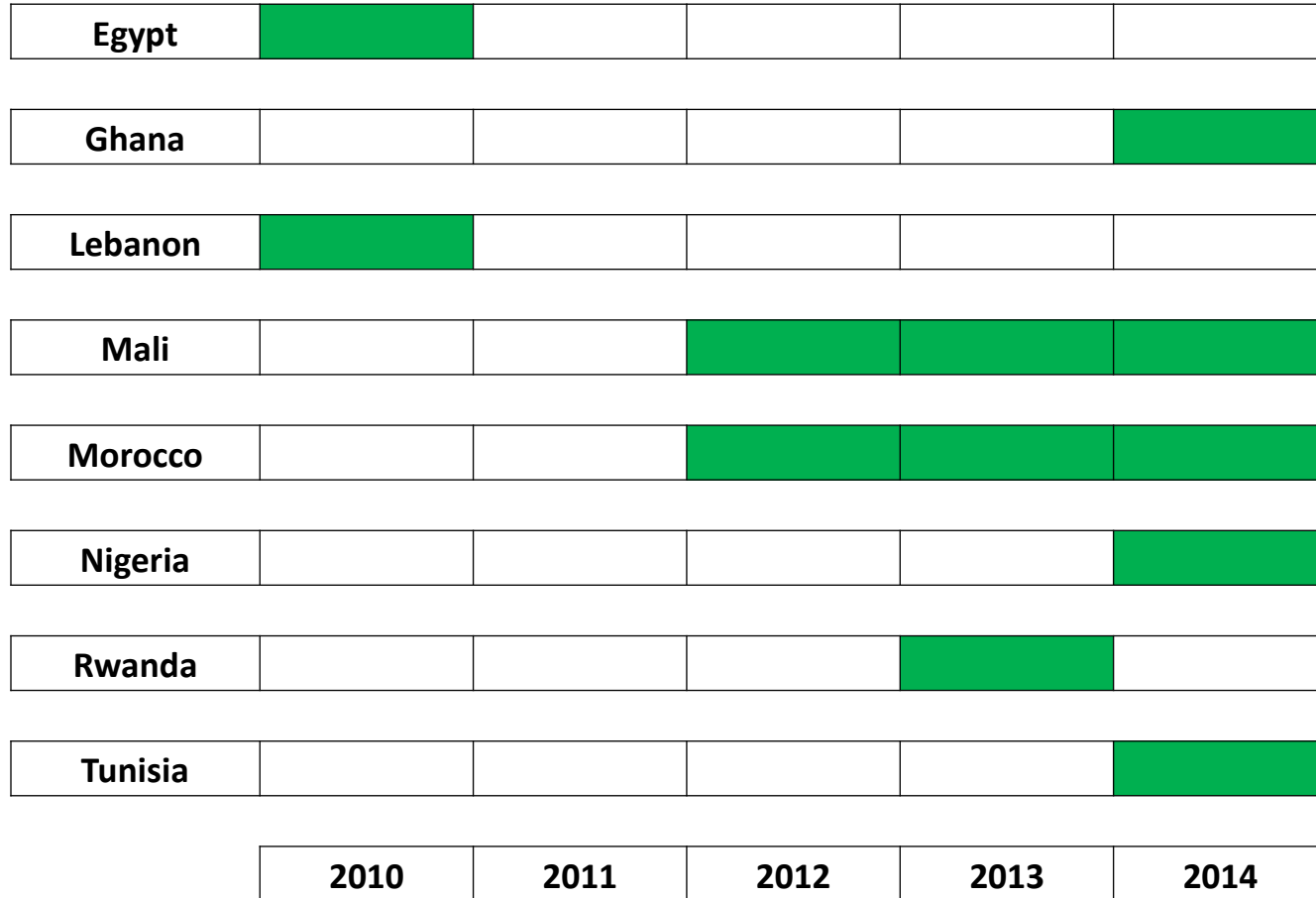
- Public Expenditure and Financial Accountability (PEFA) Report (285 reports covering 135 countries.)

## International Budget Partnership (IBP):

- Open Budget Survey (OBS) in over 100 countries

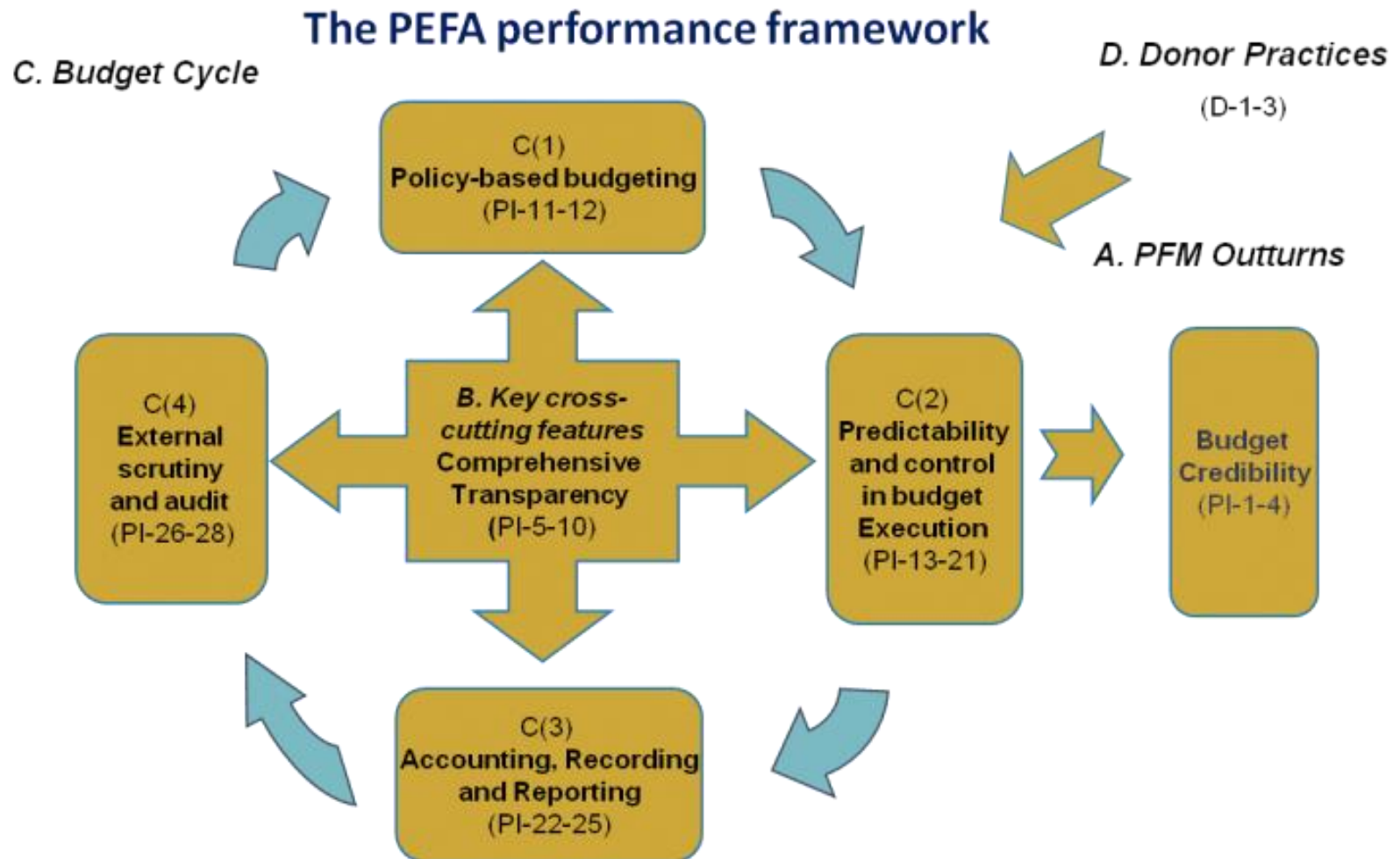
# Citizen Budget / Guide

## Good Initiative but often discontinued





# The Public Expenditure and Financial Accountability Program (PEFA)



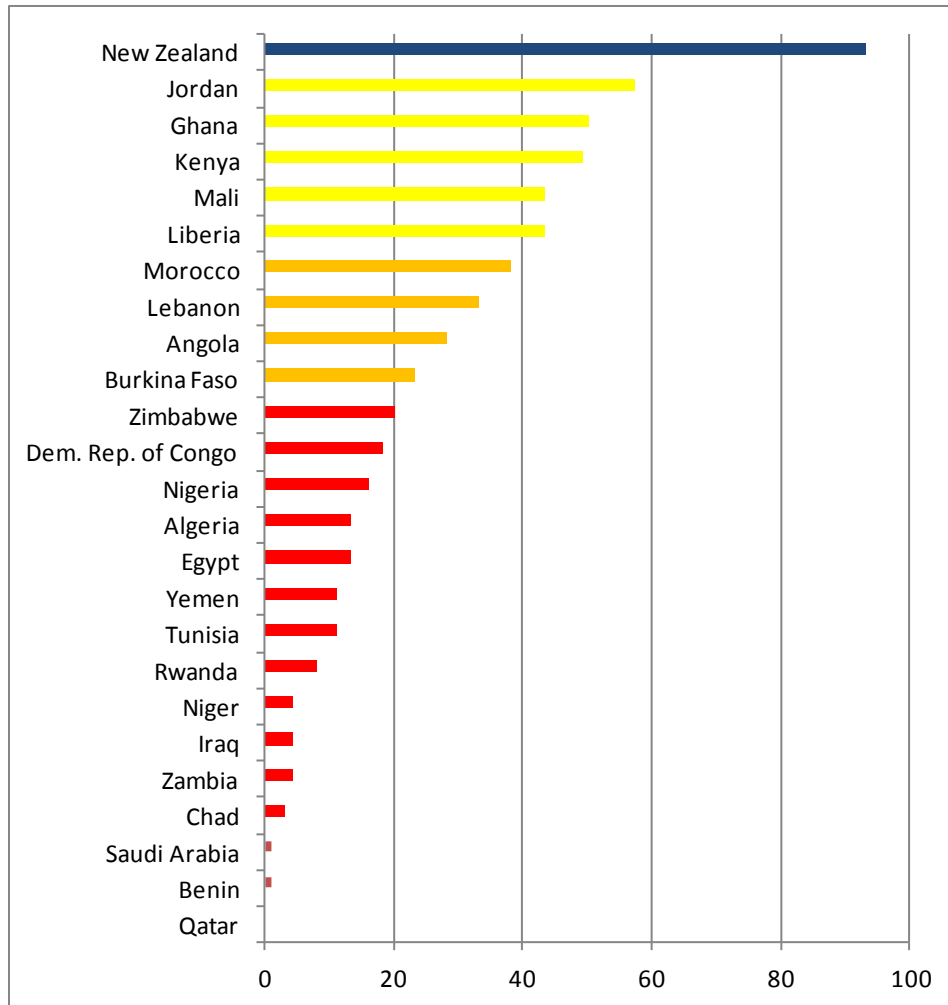
# PEFA in MENA Countries

## The Public Expenditure and Financial Accountability Program

<u>Country</u>	Type	<u>Date of Report</u>	<u>Lead agency</u>	Other agencies involved	<u>Status of Assessments</u>
<a href="#">Algeria</a>	National	Jul-10	EU		<a href="#">Final</a>
<a href="#">Egypt</a>	National	Oct-09	EU	WBG	<a href="#">Final</a>
<a href="#">West Bank and Gaza</a>	National	Mar-07	WBG		<a href="#">Public</a>
<a href="#">West Bank and Gaza</a>	National	Jun-13	WBG	EU , MFA France , UNDP	<a href="#">Public</a>
<a href="#">Iraq</a>	National	Jun-08	WBG	DFID , USAID	<a href="#">Final</a>
<a href="#">Iraq - Kurdistan Region</a>	Sub National	Nov-07	WBG	DFID , USAID	<a href="#">Draft-Version 2</a>
<a href="#">Jordan</a>	National	Apr-07	EU		<a href="#">Public</a>
<a href="#">Jordan</a>	National	Sep-11	EU		<a href="#">Public</a>
<a href="#">Kuwait</a>	National	Aug-10	WBG		<a href="#">Final</a>
<a href="#">Lebanon</a>	National	Jul-11	EU		<a href="#">Final</a>
<a href="#">Lebanon</a>	National		EU		<a href="#">Planned</a>
<a href="#">Morocco</a>	National	May-09	WBG	EU	<a href="#">Public</a>
<a href="#">Oman</a>	National	May-13	WBG		<a href="#">Final</a>
<a href="#">Syria</a>	National	Mar-06	IMF	WBG	<a href="#">Final</a>
<a href="#">Tunisia</a>	National	Jun-10	EU	AfDB , WBG	<a href="#">Public</a>
<a href="#">Yemen</a>	National	Jun-08	WBG		<a href="#">Public</a>

# OBI in MENA Countries

## The Open Budget Index – 2012



- According to the 2012 publication by the International Budget Partnership, the MENA region records by far the lowest scores on transparency in the Open Budget Index
- Only Jordan had a relatively good score of 57 in 2012, while Tunisia, Egypt, Algeria, Yemen are all in the bottom range of 0-20
- Egypt has seen a significant worsening in its rating from 49 in 2010 to only 13 in 2012

	Extensive Information (OBI Scores 81-100)
	Significant (OBI Scores 61-80)
	Some (OBI Scores 41-60)
	Minimal (OBI Scores 21-40)
	Scant or No Information (OBI Scores 0-20)

Source: <http://internationalbudget.org>

# The New IMF Fiscal Transparency Evaluation

## A more intuitive architecture for the Code & Evaluation

### Construction

### Three Pillars of the Revised Fiscal Transparency Code & Evaluation

**Pillar**  
(Type of Report)

**Analysis of Fiscal  
Vulnerability**

**Quality of Fiscal  
Reporting**

**Openness of  
Fiscal Decision-  
making**

#### I. Fiscal Reports

Size of unreported of  
fiscal flows  
Size of unreported public  
liabilities  
Average revisions to  
reported deficit

Institutional coverage  
Treatment of fiscal flows  
Treatment of assets and  
liabilities

Frequency & timeliness of  
reporting  
Independence of  
statistics agency  
Audit of annual accounts

#### II. Fiscal Forecasts

Average fiscal forecasting  
error  
Source of fiscal  
forecasting error  
Timing of fiscal  
forecasting error

Time horizon  
Clarity of fiscal  
rules/objectives  
Separation of baseline &  
new policies

Independent scrutiny of  
forecasts  
Top-down budgeting  
Supplementary budgets

#### III. Fiscal Risk Analysis

Size of contingent  
liabilities  
Impact of macro /  
exogenous shocks  
Average stock-flow  
adjustment

Fiscal sensitivity analysis  
Reporting of contingent  
liabilities  
Long-term fiscal  
projections

Approval of contingent  
liabilities  
Oversight of sub-national  
governments  
Surveillance of public  
corporations

# The New IMF Fiscal Transparency Evaluation

A more graduated & comparable assessment of country practices

## Revised Fiscal Transparency Code New Graduated Structure (Statistics)

Practices	Benchmarks		
	Basic	Good	Best
<b>Fiscal Statistics</b>			
Institutional Coverage	Central government	General government	Public Sector
Frequency	Annually	Quarterly	Monthly
Accounting Basis	Cash	Partial accrual	Full accrual
Balance Sheet	All financial liabilities	All financial assets and liabilities	All assets and liabilities
Classification	GFSM 1986 (Economic)	GFSM 2001 (Economic)	GFSM 2001 (Economic & Functional)

## Assessment of Country Practices Zimbabwe Sample Evaluation (Statistics)

Practices	Summary Country Assessment		
	Zimbabwe (2011)	LIC Average	All Country Average
<b>Fiscal Statistics</b>			
Institutional Coverage	Central government budget	Central government	Central government
Frequency	Monthly	Annually	Quarterly
Accounting Basis	Cash	Cash	Partial accrual
Balance Sheet	Some financial liabilities	All financial liabilities	All financial assets and liabilities
Classification	National presentation	GFSM 1986 (Economic)	GFSM 1986 (Economic)

Note: Red indicates country practices are below the basic benchmark

# The New IMF Fiscal Transparency Evaluation

A prioritized & sequenced fiscal transparency action plan

## Fiscal Transparency Action Plan Zimbabwe (2011) Sample Evaluation

Action	2012	2013	2014	2015	2016
<b>1. Expand institutional coverage of fiscal reports</b>					
<b>a. Consolidate extra-budgetary funds</b>	Consolidate NSSA, ZIMRA, DDF, and GMB	Consolidate remaining EBFs	Publish annual statistics for consolidated central government	Publish quarterly statistics for consolidated central government	Public monthly statistics for consolidated central government
<b>b. Consolidate local governments</b>	Publish annual data for aggregate local government sector	Consolidate Harare, Bulawayo, and Mutare	Consolidate remaining local governments	Publish annual statistics for consolidated general government	Publish quarterly statistics for consolidated general government
<b>c. Consolidate public corporations</b>		Publish annual data for aggregate public corporations sector	Consolidate ZESA, ZINWA, TelOne, NetOne	Consolidate remaining public corporations	Publish annual statistics for consolidated non-financial public sector
<b>2. Improve credibility of fiscal forecasts</b>					
...					

# Strengthening regional initiatives on PFM

Existing networks and platforms

**IMF - METAC**

**WB FMIS - CoP**

**OECD- SBO**

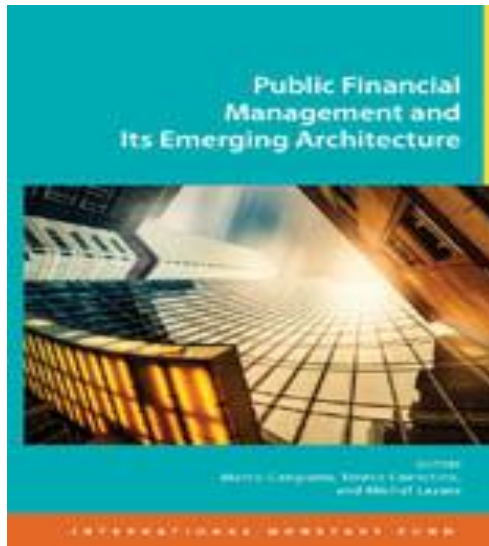
**GIFT- MENA**

**ARABOSAI**

**WB CV - MENA**

# Useful Materials

## Books and working papers



### Websites:

[www.imfmetac.org](http://www.imfmetac.org)

<http://blog-pfm.imf.org>

[www.pefa.org](http://www.pefa.org)

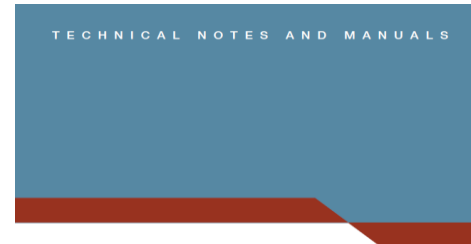
[www.cvmena.org](http://www.cvmena.org)

[www.gift-mena.org](http://www.gift-mena.org)

<http://www.oecd.org>

<https://etam.worldbank.org/FMIS>

## Technical Notes and Manuals



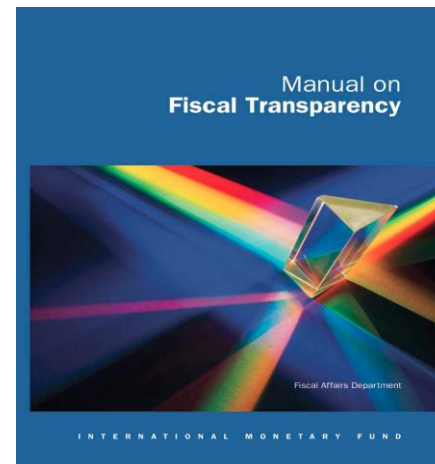
### Reforming Budget System Laws

Ian Lienert and Israel Fainboim  
*Fiscal Affairs Department*



### Treasury Single Account: An Essential Tool for Government Cash Management

Sailendra Pattanayak and Israel Fainboim  
*Fiscal Affairs Department*





# Thank You!



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