



FISCAL TRANSPARENCY AND ACCOUNTABILITY – WHY DID SO MANY COUNTRIES MEET IN MOSCOW RECENTLY TO DISCUSS IT?

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On 27-29 May 2014, 179 people including representatives from 18 PEMPAL¹ member countries met in Moscow, Russia to discuss fiscal transparency and accountability. The meeting was hosted by the Ministry of Finance of the Russian Federation in addition to the other key donors to PEMPAL, the World Bank and the Swiss Government's State Secretariat for Economic Affairs, SECO.



The key objective of the meeting was to share information about the concepts and tools of fiscal transparency and accountability and how these can be applied from a central government finance agency perspective. The topic was chosen due to its relevance to all three Communities of Practice (COPs) and its potential to improve governance. 'Empirical evidence on the beneficial effects of fiscal transparency range from improved budgetary outcomes, to lower sovereign borrowing costs

and decreased corruption.'²

Official welcome statements were provided by the Minister of Finance of the Russian Federation, Anton Siluanov; the Minister of Open Government of the Russian Federation, Mihail Abyzov; and the World Bank Country Director for Russia, Michal Rutkowski.

¹ The Public Expenditure Management Peer Assisted Learning network (PEMPAL) was established in 2006 with current membership of central finance agencies from 22 of the 30 World Bank classified Europe and Central Asia countries. The network provides learning events, workshops, study tours and resource materials in accordance with member driven action plans in the three distinct thematic areas of budget, treasury and internal audit. Only every three years are all COPs brought together in a 'cross-COP' meeting such as this.

² Wehner and Renzio, 2011



Different international organizations presented including IMF, OECD, the International Budget Partnership (IBP), and the Global Initiative for Fiscal Transparency (GIFT). IMF presented its new fiscal transparency code; OECD presented its draft principles for budgetary governance; IBP examined global performance of PEMPAL countries and GIFT presented its 10 high level principles on fiscal transparency, participation and accountability. Good practices from countries from within and outside the PEMPAL region were showcased, including Russian Federation, Turkey, Mexico and South Africa. The important roles of financial reporting; and internal and external audit were also presented, with a panel of Secretary-Generals (the highest administrative post in the government) from Albania, Kyrgyz Republic and Bulgaria discussing examples from their countries.

Group discussions were held on using budget and treasury portals, applying transparency frameworks, and country based plans to strengthen reforms, with portals demonstrated live by Russian Federation, Kazakhstan, Mexico, Romania, Turkey, Croatia, and Kyrgyz Republic. Most PEMPAL countries plan to ensure higher accessibility and transparency of budget information in the future. Some improvements had already been achieved through: IT and FMIS reforms; improving the quality of information through aligning information to international standards; and implementing program budgeting reforms to report on performance and results. The role of internal and external audit and legislative frameworks (Fol laws, Statements of Responsibility) were also being strengthened in many countries. Most countries had undergone some form of diagnostic assessments such as PEFA and OBI and acknowledged their value in identifying improvements and good practices. The challenges were also noted that not all indicators are representative or comprehensive across the region, and assessment reports are often dated by the time they are released. Some of the international standards also need to be harmonized although recent proposals by the IPSAS Board to do so with IPSAS and GFS were welcomed.



However, according to the OBI and other diagnostic assessments, the average performance of the region has slowed or declined in transparency in 2012 compared to 2010. Specifically the public provision of Citizens Budgets³ and Mid-Year Review documents could be strengthened and the comprehensiveness of the Executive’s Budget Proposal improved. Lack of sufficient coverage of institutions in the budget such as SOEs and off budget funds continues to also present serious fiscal risks and citizen engagement in the budget process is weak. (Global average for participation is very low at 19% with no country scoring above 50% in the PEMPAL region). IBP recommends that countries adopt good participation practices such as: providing multiple mechanisms throughout the budget process; involving all parts of government – Executive, Legislature, SAI, Ombudsmen; providing a legal basis for participation; publicizing purposes in advance; and providing feedback. (Source: Warren Krafchik, IBP).

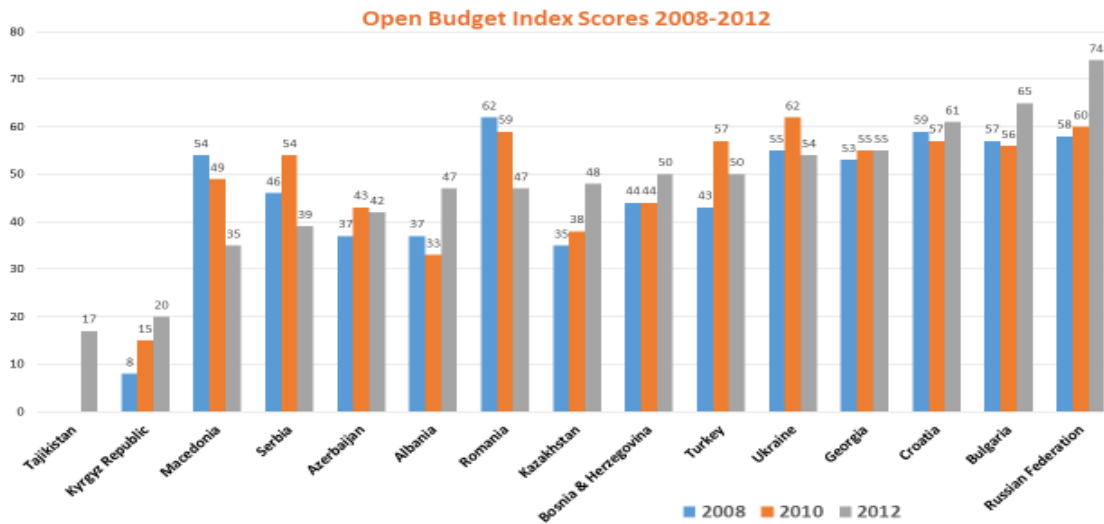
Country	Pre-Budget Statement	Executive’s Budget Proposal	Citizens Budget	Enacted Budget	In-Year Reports	Mid-Year Review	Year-End Report	Audit Report
Albania	●	●	●	●	●	●	●	●
Azerbaijan	●	●	●	●	●	●	●	●
Bosnia & Herz	●	●	●	●	●	●	●	●
Bulgaria	●	●	●	●	●	●	●	●
Croatia	●	●	●	●	●	●	●	●
Georgia	●	●	●	●	●	●	●	●
Kazakhstan	●	●	●	●	●	●	●	●
Kyrgyz Rep.	●	●	●	●	●	●	●	●
Macedonia	●	●	●	●	●	●	●	●
Romania	●	●	●	●	●	●	●	●
Russia	●	●	●	●	●	●	●	●
Serbia	●	●	●	●	●	●	●	●
Tajikistan	●	●	●	●	●	●	●	●
Turkey	●	●	●	●	●	●	●	●
Ukraine	●	●	●	●	●	●	●	●

● Available to Public ● Available for Internal Use ● Not Produced

Source: Warren Krafchik, International Budget Partnership, presentation to PEMPAL Cross-COP 29 May 2014
(Note: Only 15 of the 22 PEMPAL members participated in the survey)

However, significant improvements have been made by some countries in budget transparency, in particular the Russian Federation with other notable improvements from Kazakhstan, Kyrgyz Republic, and Albania.

³ Citizens Budgets are not common in the region with only Kazakhstan (and more recently the Russian Federation, Tajikistan and Turkey) producing them although the information is readily available in different forms.



Source: Warren Krafchik, International Budget Partnership, presentation to PEMPAL Cross-COP 29 May 2014 (Note: Only 15 of the 22 PEMPAL members participated in the 2012 survey)

The Russian Federation performed the best in the region in the 2012 OBI (coming 10th worldwide ahead of Germany, Spain and Italy).⁴ Russia's recent budget reforms have also brought most aspects of its fiscal reporting and budgeting into line with good or advanced practice and significantly improved the disclosure and management of fiscal risks, as assessed by IMF while piloting its new code in Russia.⁵ Further recommendations for improvement were also provided (see below).

III. New Fiscal Transparency Evaluation: e. Targeted Recommendations



Russia: Summary Assessment of Fiscal Reporting

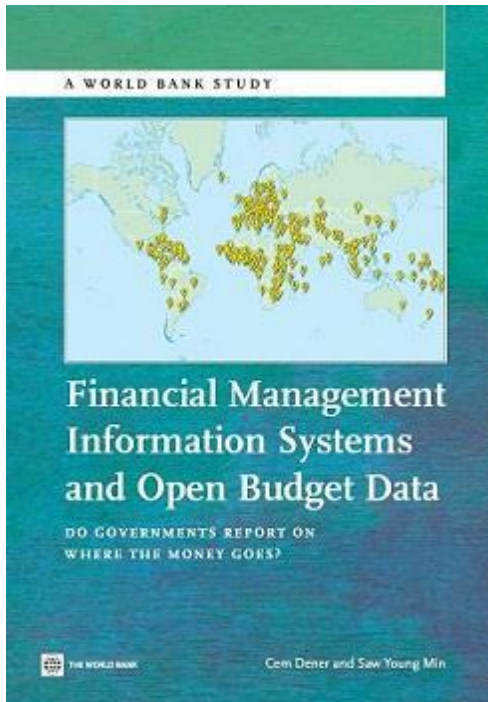
PRINCIPLE	ASSESSMENT	IMPORTANCE	REC
1.1	Good: Fiscal reports consolidate all general government units	High: Public corporations with expenditure of 28% of GDP in 2012 outside consolidated fiscal reports	1
1.2	Good: Fiscal reports cover all conventional financial and non-financial assets and liabilities	High: Subsoil assets of 200% of GDP and pensions liabilities of 285% of GDP not included in balance sheets.	2,3
1.3	Good: Fiscal reports cover cash and accrued revenues and expenditures	Medium: Non-recognized non-recoverable claims of 0.4% of GDP reduce reliability of the fiscal balances	3
1.4	Basic: There is annual disclosure of revenue loss due to some tax reliefs subsidies	Medium: Estimated 1-2% of GDP in annual revenue foregone due to tax expenditures.	4
2.1	Advanced: Cash-based budget execution reports are published on a monthly basis	Low: Monthly fiscal reports are published within 30 days	
2.2	Advanced: Annual financial statements are published in a timely manner	Low: Annual reports are published within 5 months of the end of the financial year	
3.1	Good: Fiscal reports include an administrative, economic and functional, classifications comparable with international standards	Medium: Inconsistent classifications of some transactions lead to different levels of the fiscal balances	
3.2	

⁴ source <http://internationalbudget.org/wp-content/uploads/OBI2012-Report-English.pdf> page 7

⁵ Source IMF October 2013 Fiscal Transparency Evaluation report



Source: Richard Hughes, 'IMF's New Fiscal Transparency Code and Evaluation', presentation made at PEMPAL Moscow Meeting, 27 May 2014



The Russian Federation also rated well in the World Bank's study on FMIS and Open Budget Data⁶. However, for most other PEMPAL countries, various FMIS platforms are operational, but there is little evidence on publishing timely public finance information from reliable FMIS databases on the web.⁷ In terms of current PEMPAL member good practices, only two countries scored 'highly visible', Russian Federation and Turkey. Survey results indicate that only a few countries are focused on publishing open budget data and FMIS platforms are not effectively used by the external audit organizations while monitoring the government's financial activities or auditing the budget results. While several 'citizen budget' websites exist, there still remain limited opportunities for participatory budgeting. The World Bank recommends that possible improvements could be made through publishing regular updates (monthly/quarterly) on

existing websites; promoting the publication of open budget data covering plans versus actuals for budget revenues and expenditures, and providing access to citizens and NGOs to monitor the budget performance (eg dissemination of budget performance and feedback on results/services through web sites and mobile applications).

Countries agreed to consider these recommendations and each COP also identified a proposed supporting work program under PEMPAL. BCOP are planning a study visit to a high performing country in the OBI and also plans to examine forms and methods of citizen engagement in the budget process within the context of strengthening citizen budgets. TCOP plan to continue its work on supporting reforms related to IPSAS implementation and IT solutions for treasury systems. IACOP plan to establish a financial management control working group and hold a case clinic on internal audit engagement in transparency processes.

In the closing summations, it was acknowledged that central government agencies can play an important role as one of the key stakeholders to promote and facilitate improvements in fiscal transparency and accountability, which has the potential to lead to positive development results for both government and citizens. Information systems have become the foundation for

⁶ Defined as being budget related information that is published online, is editable and reusable and is free.

⁷ The study examined good practice in areas such as dynamic query options, visibility of FMIS, reliability of public finance data, presentation quality, and effective use of open budget data from a review of 198 public finance websites.



information transparency and accessibility and engagement of citizens essential to assure trust in government and to improve the quality of decision-making and service delivery. Political will and allies within government and society are needed to champion reforms which are not one-off initiatives but require ongoing focus and efforts. Quality of information is essential, through aligning information to international standards, and ensuring processes and information are robust through internal and external audit. Usability of the information is also important with open budget data formats allowing reuse and analysis of the data, along with adoption of common reporting standards and easy to understand formats.

However, there are limitations on systems and capabilities and governments need to develop a strategy for such reforms including identifying and managing the risks and challenges such as lack of internet coverage and the potential low financial literacy of stakeholders. Learning from international good practices and sharing information between countries is a key tool and PEMPAL plans to continue to support this work.

All materials can be downloaded from <http://www.pempal.org/event/read/111>