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Fiscal Coverage in the Countries of the Middle East and Central Asia: Current Situation and a Way Forward

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Abstract

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This paper reviews some broad principles of fiscal coverage, building on cross-country experience. It discusses the level of coverage that would be appropriate to conduct good quality fiscal analysis, while striking the right balance between the costs and the benefits of expanding the coverage. In this context, the paper examines the current status of statistical fiscal coverage in the countries of the Middle East and Central Asia (MECA), and proposes operational approaches to improving it.

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Contents	Page
I. Introduction	3
II. Broad Principles of Fiscal Coverage.....	5
III. Current Fiscal Coverage in MECA Countries	9
IV. Considerations on Expanding Fiscal Coverage	14
V. Way Forward.....	18
 Tables	
1. Philippines: Operations of the NFPS	6
2. Jordan: Operations of the NFPS	8
3. Brazil: Operations of the Public Sector	9
4. MECA: Coverage of Fiscal Statistics	10
5. Middle East and Central Asia: Coverage of Fiscal Statistics	11
6. Jordan: Summary of Fiscal Operations of the Nonfinancial Public Sector	21
7. Turkey: Data Collected from SOE's	22
8. Sample Public Enterprise Data Request	27
9. Converting Enterprise Accounting into GFS 1986.....	28
 Figures	
1. Coverage of Fiscal Statistics in MECA Countries and Fund Staff Reports	10
2. Coverage of Fiscal Statistics in CIS and Non-CIS MECA Countries	12
3. Coverage of Fiscal Statistics in Oil and Non-Oil Producing Countries of the Middle East and Central Asia.....	13
4. Reported Reasons Against Expanding Fiscal Coverage in MCD Countries	24
 Boxes	
1. Statistical Fiscal Coverage Versus Policy Coverage	3
2. Selected Fiscal Risks that Could Be Posed by PEs.....	7
3. Monitoring State-Owned Enterprises in Turkey.....	15
4. Operational Guidance on Expanding Fiscal Coverage of PEs.....	20
 Appendices	
I. Criteria for Assessing Extrabudgetary Funds.....	23
II. Addressing Obstacles to Broader Fiscal Coverage	24
III. A Stylized Mapping of Corporate Accounting into <i>GFS 1986</i>	26
 References.....	 29

I. INTRODUCTION

Fiscal coverage is a critical component in the evaluation of fiscal policy. It helps to assess the size of the government and its contribution to aggregate demand, national saving and investment, the economy's tax burden, and the government's financial sustainability. An accurate assessment of the fiscal stance would require that all government operations that may impact these variables are accounted for in the analysis. This implies that fiscal coverage should be as comprehensive as possible. In practice, however, official statistics in many countries often exclude important parts of the public sector, although in some cases narrow statistical coverage does not necessarily imply a narrow policy coverage (Box 1).

Incomplete coverage may undermine the soundness of fiscal analysis and fiscal policy formulation. Inaccurate assessment of the government's impact on the economy may result in inadequate remedial actions, further exacerbating any existing fiscal imbalances and weakening financial stability. For example, a lack of comprehensive fiscal coverage may obscure the sources of fiscal pressure, leading policymakers to delay adjustment measures or to make budgetary cuts in areas where higher spending would generally be desired, while continuing with an expansionary policy in areas not subject to the same level of scrutiny. Partial fiscal coverage may also undermine transparency and accountability of government operations, by creating incentives to shift some activities outside the covered operations to

Box 1. Statistical Fiscal Coverage Versus Policy Coverage

The term *fiscal coverage* in this paper is used to describe the extent of compilation and presentation of public sector accounts as defined in the *Fund's Government Finance Statistics (GFS) framework of 2001*. However, it is important to note that some countries with relatively narrow fiscal coverage from an accounting perspective may have a broader policy coverage. For example, a country may only present or cover budgetary central government operations in its government statistics, but at the same time, monitor some operations or stocks of other public sector entities, such as problematic public enterprises (PEs) or extrabudgetary funds, for policy purposes.

While such monitoring could help identify and reduce fiscal risks, it is not always sufficient for a fully-informed conduct of fiscal policy. For example, some countries monitor the operations of PEs relying on information about their external and/or domestic financial liabilities. While such oversight is useful in detecting the level and composition of PE's liabilities, it does not provide information on other important aspects, including changes in arrears, the level of transfers from the central government, the level and quality of investment, or the type and extent of quasi-fiscal activities.

This lack of comprehensive information can inhibit the assessment of fiscal risks. For example, information on financial assets and liabilities may signal a healthy enterprise that would be fully recovering its recurrent costs with low indebtedness, but the same enterprise could be receiving large transfers from the government or sharply reducing investment in physical assets to keep its borrowing down. Such strategies are likely to be unsustainable over the longer term, putting the enterprise at risk for an eventual bail out by the state.

While it is important to acknowledge that statistical and policy coverage sometimes differ across countries, a wider policy coverage is usually not a good substitute for a comprehensive coverage of public sector accounts. This includes both the detection of fiscal risks and the adequacy of public sector governance. For example, in contrast to limited policy monitoring, fiscal accounts are scrutinized by the legislature in most countries, improving accountability and governance.

avoid scrutiny and control. This can be done, for instance, by shifting subsidies from the budget onto PEs, or by setting up extrabudgetary funds (EBFs). Counterpart officials have stressed to IMF staff that extension of fiscal coverage in their countries has had an important benefit of attracting greater attention from the government and other economic actors to financial outcomes—particularly those of state-owned enterprises (SOEs).

While the benefits of comprehensive coverage are clear, inevitably there are also the costs to consider. Quality collection, compilation, processing, and reporting of the necessary data will require that adequate capacity and resources are available to carry out these tasks. Data from various sources may be collected with different lags and may be collected using different accounting conventions, which may present difficulties in consolidation. In some cases, investment would need to be made in building capacity and training the relevant personnel to perform these activities. In other cases, efforts would be required to put in place a well designed legal framework to support a transparent and timely coverage of public finances. Notwithstanding these costs, having robust information systems and monitoring mechanisms for public sector operations is critically important, both to ensure appropriate stewardship of public resources and to support effective operational and financial management.

Sometimes the near-term costs may appear to outweigh the immediate benefits of expanded fiscal coverage. This could be the case, for instance, when certain parts of the public sector are not a source of fiscal risk and do not put pressure on aggregate demand and other relevant macroeconomic indicators. In other words, the assessment of the macrofiscal stance would likely not change considerably if these entities were included in fiscal coverage. In such cases, it may be practicable to retain for a time narrower fiscal coverage, while improving data compilation and monitoring arrangements and making periodic assessments of the adequacy of coverage, based on a set of well defined principles. The next section discusses such principles as identified in earlier research by the Fiscal Affairs Department (FAD) at the IMF (FAD 2000, 2004, and 2005; Allen and Radev, 2006) and illustrates through specific country cases why fiscal coverage matters.

This paper focuses on the countries of the Middle East and Central Asia for three reasons. First, the coverage of fiscal accounts in these countries tends to be more narrow than in other regions. Second, a substantial amount of public finance activity in many of these countries takes place outside of central government accounts and is not covered by official financial statistics (Section III). And finally, capacity for compiling and reporting the necessary data to expand public sector coverage tends to be weak (Section IV). As a result, while these countries could reap significant benefits from improving their fiscal coverage, they will also face potentially non-negligible costs in doing so. Based on earlier IMF research (IMF 2005 and 2007), this paper proposes an operational approach to expanding fiscal coverage in MECA that balances the benefits and the costs of broader fiscal coverage (Section V).

II. BROAD PRINCIPLES OF FISCAL COVERAGE

Generally, all government operations that have a measurable impact on macrofiscal indicators relevant for effectively conducting macroeconomic policy should be covered by fiscal statistics.² This would require identifying all government activities which take place outside the budget and reporting them in the government operations table. This may be a costly exercise in the short run, and at least the compilation of information on the operations of all entities big enough to have a sizable influence on fiscal policy should be a priority. This section considers each subsector of the public sector in turn and sets out some broad guidelines on determining an adequate level of fiscal coverage.

General government

General government encompasses the budgetary central government, EBFs, including social security funds (SSFs), and subnational governments. The central government constitutes the core of government operations and is usually fully covered in government statistics and in fiscal operations tables in IMF documents. On the other hand, the coverage of EBFs and subnational governments, despite their large share in government spending in many countries, is often incomplete, usually because of data limitations. A recent FAD Working Paper on managing and controlling EBFs estimates that for a group of 42 countries, these funds, on average, account for about 44 percent of total general government expenditures. It also identifies SSFs as the single most dominant form of extrabudgetary activities, accounting for more than 30 percent of total expenditures (Allen and Radev, 2006). Other studies put the median share of subnational government expenditure in total government spending at about 30 percent (IMF, 2000).

Extrabudgetary funds

As EBFs undertake fiscal operations, they should be fully covered by government statistics. EBFs can be broadly defined as activities or institutions that contribute to total public expenditures, but are not formulated or executed as part of the government's regular budget process. In addition to SSFs, examples of such funds include natural resource stabilization and savings, investment, or road funds.³ While the function and the institutional design of EBFs may vary widely, they often have wide-reaching fiscal and public financial management implications and therefore require careful monitoring and reporting.⁴ For example, full accounting for the activities of EBFs has revealed fiscal pressures in a number

² *GFS 2001* covers all entities that materially affect fiscal policies, including general government and government-owned or controlled enterprises (financial and nonfinancial public corporations). It defines the general government sector as encompassing all government units and all nonmarket nonprofit institutions that are controlled and mainly financed by government units.

³ For a detailed typology of EBFs, see Allen and Radev (2006).

⁴ Allen and Radev (2006) propose a set of criteria that can be used by governments to evaluate whether their EBFs should continue to exist, be changed in form through commercialization or privatization, or be abolished (Appendix I).

of countries, including with regard to pension funds in Turkey and Uruguay (see also Table 2 that covers the consolidated deficit of own-budget agencies in Jordan). For these reasons, consolidated EBF operations should always be reported in fiscal statistics and included in fiscal indicators, with large EBFs shown individually.

Subnational governments

As noted above, state and local governments may account for a significant share of total government expenditures. Ignoring subnational governments in fiscal coverage in some countries could result in a serious underestimation of government activity, particularly where subnational governments retain borrowing rights or have a history of arrears. Furthermore, excluding subnational governments from the coverage of fiscal targets may create incentives for countries to delegate activities without corresponding financing, to meet these targets (e.g., Argentina in the 1990s).

Where subnational governments play an important fiscal role, they should be consolidated into public sector accounts.

For example, in the Philippines, subnational governments account for a quarter of general government spending. As Table 1 illustrates, if the operations of local government units (LGUs) were excluded from the fiscal coverage in the Philippines, the reported nonfinancial public sector (NFPS) deficit would have been worse by about ½ percent of GDP in 2005. In fact, in 2005, the surpluses of the LGUs fully offset the deficits run by PEs. Examples of countries where subnational fiscal operations eventually had detrimental impacts include Argentina and South Africa (provincial finances in late 1990s).

Nonfinancial public enterprises

A distinction should be made between the coverage of the NFPS accounts and the coverage of fiscal targets and indicators. Very few countries (mostly in Latin America) have a complete NFPS⁵ coverage in their fiscal accounts. As discussed below, none of the MECA⁶ countries provide such coverage. While eventual broadening of fiscal coverage to

Table 1. Philippines: Operations of the NFPS, 2005

	Net Assets /	
	Balance	Debt (-) 1/
	(In percent of GDP)	
Nonfinancial public sector	-2.1	-86.3
National government	-3.0	-63.8
Social security institutions	0.9	0.0
Local government units	0.4	-1.0
Nonfinancial public enterprises	-0.4	-29.0

Sources: Philippines authorities; and Fund staff estimates.

1/ Debt of the subsectors of the NFPS is unconsolidated and includes inteselector debt holdings. Debt components therefore do not add up to total NFPS debt.

⁵ The NFPS encompasses general government and nonfinancial public enterprises.

⁶ MECA countries include Algeria, Armenia, Azerbaijan, Bahrain, Georgia, Iran, Iraq, Kazakhstan, Kuwait, Kyrgyz Republic, Libya, Qatar, Saudi Arabia, Sudan, Syria, Tajikistan, Turkmenistan, United Arab Emirates, Uzbekistan, and Yemen.

include all nonfinancial PEs is desirable, it may not be practicable in MECA countries in the short run. Nevertheless, there is a clear need for accurate assessment of the fiscal stance and the public sector's impact on the macroeconomy. One approach that addresses this need would involve a gradual broadening of the coverage of fiscal **targets and indicators**⁷ by including PEs that could have a sizable impact on the fiscal stance and other macrofiscal variables.

As laid out in a 2005 IMF Board paper, a key principle in determining whether a PE should be covered in fiscal indicators is whether the enterprise in question is a potential source of fiscal risk. This could be the case, for example, as a result of its own operations and financial structure or explicit or implicit guarantees provided by the government (Box 2).

Box 2. Selected Fiscal Risks that Could Be Posed by PEs

Consideration of the extension of coverage of fiscal targets to specific enterprises should consider, among other factors, the extent of:

- uncompensated QFAs;
- explicit or implicit government guarantees to borrowing;
- special tax or labor compensation regimes or pricing policy that undermine profitability;
- sizable contingent liabilities relative to operating balance or large off-balance sheet liabilities;
- currency mismatches between the enterprise's main sources of revenue and its debt; and
- opaque accounting and audit practices and lax government regulation and oversight.

It is important to note, however, that whether an enterprise is commercially run may bear little on the degree of fiscal risk that it poses. Commercially-run PEs (just like private sector companies) can be vulnerable to external shocks (e.g., commodity prices, exchange, or interest rates), possibly transmitting these vulnerabilities onto the government's balance sheet.⁸ The study also found that the most evident fiscal risks were associated with the presence of quasi-fiscal activities (QFA)⁹ (FAD 2007).

⁷ Fiscal targets and indicators typically refer to quantitative conditionality under IMF programs, but may also refer to the indicators used by country authorities to guide their own fiscal policies and economic programs.

⁸ At the same time, there may be legitimate reasons for governments to limit the managerial independence of PEs (e.g., regulated monopolies or provision of goods and services for social reasons, with transparent compensation from the budget).

⁹ QFAs are defined as activities (under the direction of government) of central banks, public financial institutions, and nonfinancial PEs that are fiscal in character—that is, in principle, they can be duplicated by measures, such as taxes, subsidies, or other direct expenditures, even though precise quantification can, in some cases, be difficult. Examples include subsidized bank credit and noncommercial public services provided by an enterprise.

The 2005 IMF Board paper proposed a set of criteria that could be used to assess fiscal risks posed by PEs. The criteria covered five major areas of enterprise operations, management, and finances: (1) managerial independence; (2) relations with the government; (3) governance structure; (4) financial conditions and sustainability; and (5) other risk factors. These criteria should not be seen as necessary or sufficient conditions for considering the inclusion of a PE in fiscal indicators, but as guidelines for making a judgment on the risk posed by an enterprise. The inclusion or exclusion of a PE in fiscal reporting for the purposes of setting fiscal targets or indicators should therefore be decided on a case by case basis, taking into account the degree of fiscal risk that it poses (see Box 2).

However, regardless of the degree of fiscal risk, the operations of all PEs should be monitored in order to ensure effective management and enable a timely detection of emerging fiscal risks. Robust monitoring arrangements for PEs are essential to financial and operational performance and management. A comprehensive coverage in fiscal accounts of the nonfinancial public sector should be a longer-term priority.

The case of Jordan clearly illustrates how broader coverage of fiscal indicators can make an important difference in the assessment of the fiscal stance. The extension of fiscal coverage to include extrabudgetary funds (or own-budget agencies as they are called in Jordan) and selected public enterprises would have resulted in a nonfinancial public sector deficit that, in 2003, was almost 1½ percentage points of GDP larger than the budgetary central government deficit by itself (Tables 2 and 6).

Table 2. Jordan: Operations of the NFPS, 2003

	Balance
(In percent of GDP)	
Nonfinancial public sector	-2.5
Budgetary central government	-1.1
Own-budget agencies	-0.4
Nonfinancial public enterprises 1/	-1.0

Sources: Jordanian authorities; and Fund staff estimates
1/ Central Electricity Generation Company, Electricity Distribution Company, National Electric Power Company, Royal Jordanian Airlines, Jordan Phosphate Mines Company.

Government financial institutions

Just like nonfinancial PEs, government financial institutions (e.g., state-owned banks and insurance and leasing companies) can present considerable fiscal risks. This is especially the case when they are engaged in sizable QFAs (e.g., directed or subsidized lending or other financial operations, such as provision of insurance or leasing services). Experience shows that debt generated by the QFAs of government financial institutions can be a significant contributor to debt crises, as was the case in Latin America in the 1980s. The treatment of these institutions in government statistics should be similar to that of nonfinancial PEs. If they present significant fiscal risks, they should be included in fiscal accounts and in fiscal targets and indicators. This principle of accounting for fiscal risks equally applies to the integration of central bank operations in the fiscal accounts, as is the case in Brazil.

Historically, Brazil’s central bank was consolidated into fiscal coverage to transparently account for its large losses stemming from devaluation and QFAs.

Brazil’s fiscal coverage consolidates the operations of the central bank and the NFPS. The debt sustainability analysis is carried out based on net debt for consolidated public sector, including all central bank assets and liabilities. During 2000–02, when the central bank incurred large losses associated with exchange rate devaluation, it accounted for about a quarter of the public sector deficit (Table 3). In recent years, the central bank’s contribution to the public sector balance has been relatively small.

Table 3: Brazil: Operations of the Public Sector 1/

	2000	2001	2002
	(In percent of GDP)		
Public sector balance	-4.5	-5.2	-10.3
Federal government	-2.3	-2.4	-3.8
State governments	-1.8	-1.9	-3.3
Municipalities	-0.3	-0.1	-0.6
Public enterprises	0.7	0.6	0.0
Central Bank	-0.9	-1.4	-2.6

Sources: Brazilian authorities; and Fund staff estimates

1/ Includes the impact of exchange rate volatility on interest payments.

III. CURRENT FISCAL COVERAGE IN MECA COUNTRIES

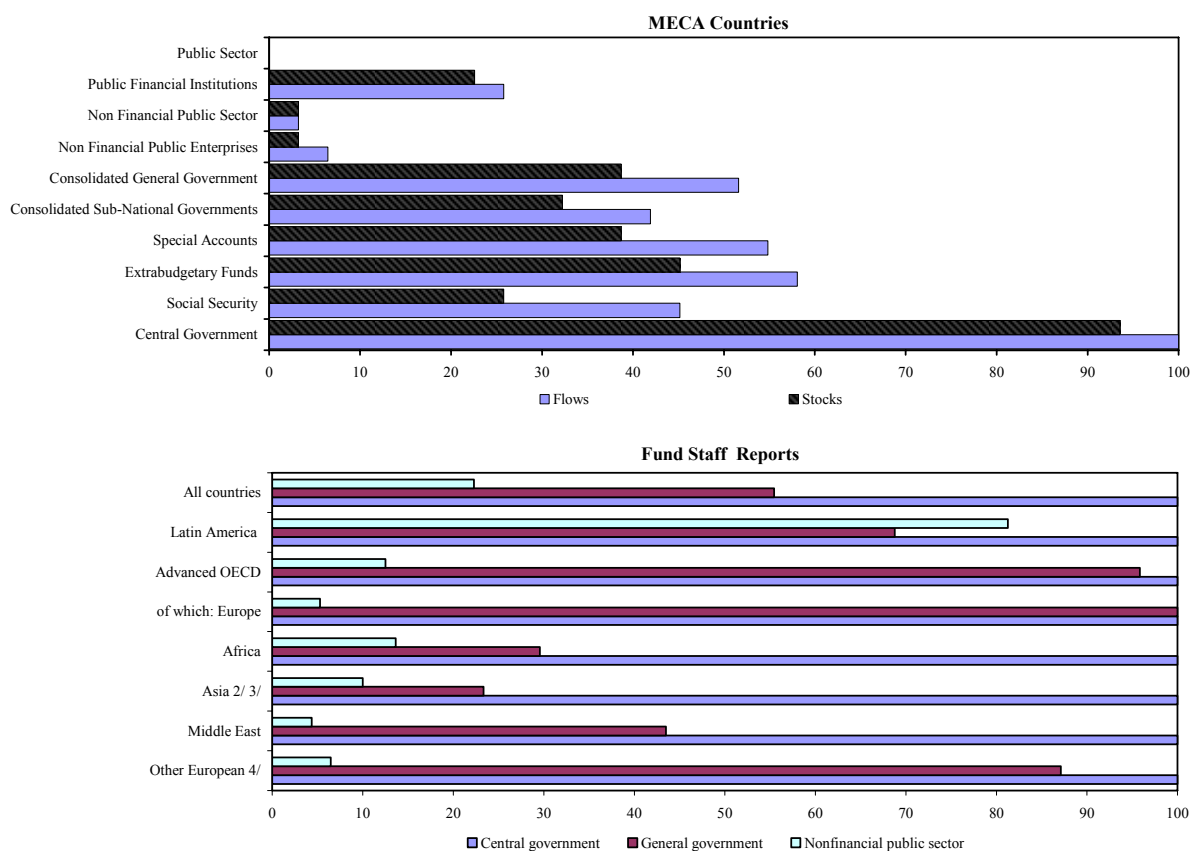
While fiscal coverage in MECA countries has expanded somewhat in recent years, it remains relatively narrow, compared to other regions. Figure 1 compares the coverage of fiscal statistics in Fund staff reports across regions. The broadest coverage can be found in Latin America. This partly reflects a history in that region of using both financial and nonfinancial public entities for fiscal purposes and allowing some of these institutions to build up excessive amounts of debt, requiring sizable bailouts by the central government. In contrast, coverage of PEs is less common for advanced OECD countries, usually because they are mainly commercially run and pose limited fiscal risk. Coverage in MECA countries is relatively narrow, with only about half of the countries reporting general government statistics and even fewer reporting on the financial position of PEs.

Many MECA countries provide only partial government statistics beyond the budgetary central government (Table 4).¹⁰ Less than 60 percent of MECA countries report on the activities of EBFs, and only about 45 percent cover social security operations.¹¹ While in some cases activities of subnational governments are reported separately, less than 42 percent of MECA countries consolidate subnational government statistics with central government operations. Less than a third of Fund staff reports for MECA countries present information on the operations of public financial institutions, and less than 7 percent report on the activities of PEs.

¹⁰ See Table 5 for a detailed list of countries.

¹¹ Reporting is discussed in the context of the IMF staff reports. The absence of formal social security systems in many MECA countries may partially explain the low EBF coverage in MECA compared to other regions.

Figure 1. Coverage of Fiscal Statistics in MECA Countries and Fund Staff Reports 1/
(In percent of relative country groupings)



Source: "Public Investment and Fiscal Policy," IMF Board Paper SM/04/93; and information provided by MECA country desks.

1/ Only MECA countries updated in 2006. All other countries as of 2004.

2/ Excluding Australia, Japan, and New Zealand.

3/ Excludes countries covered by MECA.

4/ Includes countries covered by MECA.

Table 4. MECA: Coverage of Fiscal Statistics, 2006
(In percent of respondents)

Coverage of Fiscal Statistics in Board Documents and Program Targets	Fiscal Table							
	Flows (e.g., deficit)				Stocks (e.g., debt or assets)			
	Yes	No	Components Reported Separately	N/A	Yes	No	Components Reported Separately	N/A
Central government	100	0	0	0	94	6	0	0
A. Including social security?	45	52	0	3	26	74	0	0
Including extrabudgetary funds (e.g., oil or investment funds)?	58	35	3	3	45	48	3	3
Including special accounts?	55	35	10	0	39	52	10	0
B. Consolidated subnational governments	42	45	10	3	32	58	10	0
C. Consolidated general government (A.+ B.)	52	48	0	0	39	61	0	0
D. Nonfinancial public enterprises	6	94	0	0	3	97	0	0
E. Nonfinancial public sector (C. + D.)	3	97	0	0	3	97	0	0
F. Public financial institutions 1/	26	68	0	6	23	71	0	6
G. Public sector (E. + F.) 1/	0	100	0	0	0	100	0	0

1/ Including the Central Bank.

Table 5. Middle East and Central Asia: Coverage of Fiscal Statistics, 2006

Coverage of Fiscal Statistics in Board Documents and Program Targets	Fiscal Table	
	Flows (e.g., deficit)	Stocks (e.g., debt or assets)
A. Central government	All MECA countries	AFG, ALG, ARM, AZE, BHR, DJI, EGY, GEO, IRN, IRQ, JOR, KAZ, KWT, KGZ, LBN, LBY, MRT, MAR, OMN, PAK, QAT, SAU, SDN, SYR, TJK, TUN, UAE, UZB, YEM
Including social security?	AZE, EGY, GEO, IRN, IRQ, KAZ, KWT, KGZ, SYR, TJK, TUN, TKM, UAE, UZB	AZE, EGY, GEO, IRN, KWT, KGZ, UAE, UZB
Including extrabudgetary funds (e.g., oil or investment funds)?	ALG, AZE, BHR, EGY, GEO, IRN, IRQ, JOR, KAZ, KWT, KGZ, LBY, MAR, OMN, SYR, TJK, TUN, UAE, UZB	ALG, AZE, BHR, EGY, GEO, IRN, IRQ, JOR, KAZ, KWT, LBY, MAR, OMN, UAE, UZB
Including special accounts?	ALG, ARM, AZE, EGY, GEO, IRN, IRQ, KWT, KGZ, MRT, MAR, OMN, SAU, SYR, TJK, TUN, WBG	ALG, ARM, AZE, EGY, GEO, IRN, IRQ, KWT, MRT, MAR, OMN, SAU
B. Consolidated subnational governments	EGY, GEO, IRQ, KAZ, KGZ, LBY, PAK, SAU, SYR, TJK, TKM, UZB, YEM	ALG, EGY, GEO, IRQ, JOR, KAZ, LBY, SAU, UAE, UZB
C. Consolidated general government (A.+ B.)	EGY, GEO, IRQ, KAZ, KWT, KGZ, LBY, PAK, QAT, SAU, SYR, TJK, TKM, UAE, UZB, YEM	ALG, EGY, GEO, IRQ, JOR, KAZ, KWT, LBY, QAT, SAU, UAE, UZB
D. Nonfinancial public enterprises	IRQ 1/, LBY 2/	JOR
E. Nonfinancial public sector (C. + D.)	IRQ	JOR
F. Public financial institutions 3/	AZE, KAZ, KUW, MRT, OMN, QAT, SAU, UAE	AZE, KAZ, KUW, OMN, QAT, SAU, UAE
G. Public sector (E. + F.) 3/	...	...

1/ The fiscal coverage of public enterprises in Iraq is only partial and limited to selected oil-related companies.

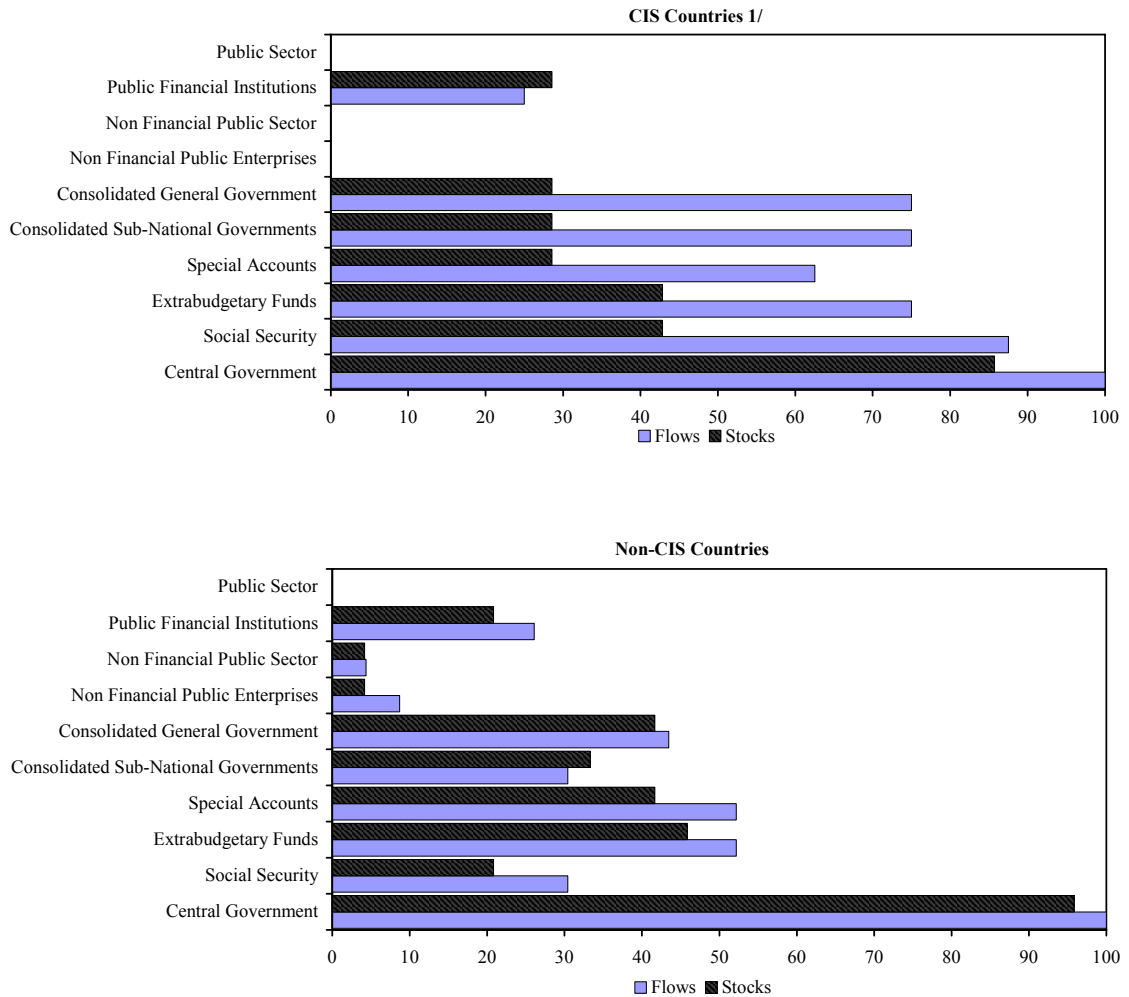
2/ Only two public enterprises are covered in the fiscal data: The National Oil Company (NOC) and The Great Man Made River (GMR).

3/ Including the Central Bank.

While MECA countries from the Commonwealth of Independent States (CIS) provide generally broader fiscal coverage than non-CIS countries, their coverage of nonfinancial PEs remains poor.¹² Seventy five percent of CIS countries present general government statistics, including subnational governments and EBFs (Figure 2). This compares with 43 percent of non-CIS countries. Better fiscal coverage by CIS countries

¹² See Figure 2 for a detailed list of CIS MECA countries.

**Figure 2. Coverage of Fiscal Statistics in CIS and Non-CIS MECA Countries
(In percent of relative country groupings)**



Source: Information provided by MECA country desks.

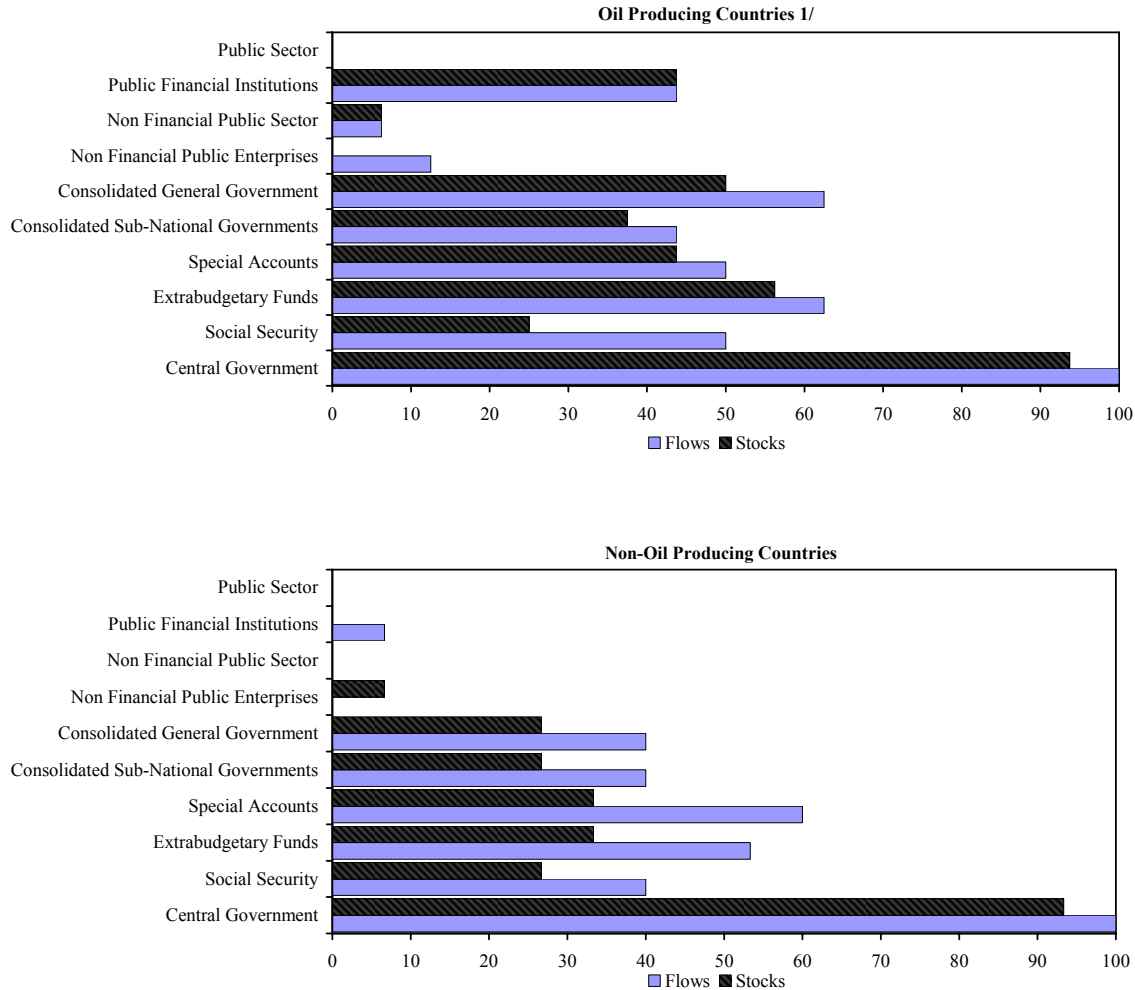
1/ CIS countries are: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

could stem from the legacy of close subnational government monitoring by the Soviet statistical agency Goskomstat. However, while 9 percent of non-CIS countries report on the balances of nonfinancial PEs, these enterprises are not covered in the fiscal statistics of CIS countries.

Oil producing MECA countries offer a more comprehensive fiscal coverage than non-oil producers.¹³ Sixty three percent of oil producers provide information on general government flows, compared to only 40 percent of non-oil producing MECA countries (Figure 3). Moreover, while 75 percent of oil producers provide information on the stocks (e.g., debt) of the consolidated general government, none of the non-oil countries report these

¹³ See Figure 3 for a detailed list of oil producing MECA countries.

Figure 3. Coverage of Fiscal Statistics in Oil and Non-Oil Producing Countries of the Middle East and Central Asia
(In percent of relative country groupings)



Source: Information provided by IMF country desks.

1/ Middle East and Central Asian oil producing countries are: Algeria, Azerbaijan, Bahrain, Iran, Iraq, Kazakhstan, Kuwait, Libya, Qatar, Saudi Arabia, Sudan, Syria, Turkmenistan, United Arab Emirates, and Yemen.

statistics. While both groups of countries suffer from less coverage of the nonfinancial PEs, oil producers offer a substantially broader coverage of public financial institutions, with 44 percent of the countries reporting on both the flows and the stocks of their operations.

An assessment of the scope of fiscal coverage in MECA countries should balance the costs and the benefits of broadening the coverage. While narrow fiscal coverage in the MECA region could signal potential shortcomings in assessing public financial positions in some countries, it could also simply reflect relatively centralized public sector operations or a historically low fiscal risk attached to parts of the public sector beyond the central government. Furthermore, policy coverage in these countries could be more comprehensive than the statistical coverage (Box 1) and reporting in IMF country documents. In order to

better understand the nature of fiscal coverage by MECA authorities, a questionnaire was circulated to the IMF country desks covering these countries (Appendix II).

A number of trends emerge from the responses to the questionnaire. One clear priority area for improving fiscal coverage identified by desks was the PE sector. However, in addition to inadequate technical capacity and staffing for monitoring and reporting on the operations of the PEs, a number of other important obstacles were identified. These included: lack of control over enterprise operations by central government; the perceived sufficiency of budgetary transfers to capture their quasi-fiscal impact; possible pressure to spend PE profits, if these were reported; and various legal obstacles precluding full reporting of their operations. These and other obstacles to broader fiscal coverage and possible ways to tackle them are discussed in the next section.

IV. CONSIDERATIONS ON EXPANDING FISCAL COVERAGE

Even when broader fiscal coverage is the recommended standard, there may be practical obstacles to expanding coverage in the short run. In such cases a gradual approach to broadening the coverage could be considered. This section suggests possible ways to address the most commonly cited reasons for retaining narrower-than-desired coverage as identified by MECA desk economists.

One of the most common obstacles to broader fiscal coverage in MECA countries is limited capacity to compile and report the required data. As discussed earlier, the complexity of compiling and consolidating public sector accounts and the lack of training and expertise may make the task of expanding fiscal coverage seem daunting. In some countries, weak information technology systems may increase the costs of monitoring and reporting on public sector financial statistics. However, if there is strong interest and commitment on part of the authorities to improve the coverage of fiscal indicators, the necessary training can be obtained through technical assistance from donors and multilateral institutions, including the IMF.

Some of the work in this area has already been undertaken by FAD in the context of pilot country studies on public investment and fiscal policy and public enterprises and fiscal risk. In the short term, the focus could be on the biggest enterprises that are likely already required to publish some accounts. These should be requested and analyzed by the ministry of finance (MoF), the legislation, and IMF teams. Some countries have set up a PE monitoring unit within the ministries of finance or planning (e.g., Brazil, Ghana, Turkey, and the Philippines) to gather and monitor PE information. If such a unit is not already present and there is a clear need to closely monitor high risk enterprises, establishment of a unit is recommended.

Another commonly cited reason for not monitoring the financial position of some subsectors of the public sector (e.g., local governments, PEs) is the lack of central government control over these subsectors. This argument is often raised in countries that can only promote stabilization or sustainability by offsetting the actions of the nondirectly administered parts. A case, however, can be made in favor of monitoring and reporting on the

position of the nondirectly administered parts of the public sector on two grounds. First, in order to devise an optimal policy response, policymakers need to gauge the fiscal pressures emanating from the nondirectly administered sectors, which requires transparent accounting of their operations. Second, reporting on the fiscal problems imposed by these sectors on the rest of the economy could raise public and policymaker awareness of these issues and support efforts to establish greater control of these sectors. The experience of Turkey (Box 3) suggests that a broad plan and a common vision for the public sector is important to motivate various stakeholders, be it PEs or subnational governments, to improve the monitoring and coverage of public sector activities. However, depending on the reasons for the ineffective control (some of which can be security or conflict-related), extending fiscal coverage to these sectors may not be practicable in the short term.

Box 3. Monitoring State-Owned Enterprises in Turkey

While the central government has been monitoring the SOE system for years, Turkey began systematic reporting on SOEs to the Fund under the stand-by arrangement in 2000. Financial and employment data were collected on eight companies that received sizable transfers from the central government. The eight SOEs were mainly in the energy, agriculture, and transportation sectors. The initial monitoring system was paper-based with SOEs mailing their financial and employment statements to the Treasury (UT) in hard copies. In 2002, the UT started collecting data via the Internet. SOEs directly upload standardized tables onto the UT website. The online data collection and monitoring system led to some cost-savings and allowed an expansion of the number of enterprises monitored from 8 to 27 by 2004. Subsequent privatizations reduced the number of monitored SOEs to 22 (out of 29 total). Nevertheless, current coverage is nearly universal with the 22 monitored SOEs covering 99 percent of total SOE sales, 95 percent of total transfers received from the central government, and 100 percent of total SOE primary balance.

At present, the UT carries an aggregation of data across SOEs. The type and periodicity of the collected data are presented in Table 7. In addition to better managing fiscal risks, a more focused oversight of SOEs has helped to improve the efficiency of their operations.

The initial setup and ongoing monitoring costs have been relatively low. The initial system setup required a relatively standard IT infrastructure within the UT. The number of personnel needed to process the data at UT is 4–5, but the SOEs are also required to have sufficient capacity to process and submit the required data and to procure the necessary software upgrades. The UT provided initial training on online data submission. These conditions may be more difficult in other countries with less advanced administrative capacity.

Some lessons from the Turkish experience:

- A strong commitment and joint buy-in from the MoF, line ministries, and SOEs are required for the monitoring to be effective. A common goal, such as risk management and eventual privatization of SOEs, can provide the necessary motivation.
- Monitoring should be carried out by a single responsible agency. Reporting to multiple agencies for multiple purposes can reduce the motivation and accuracy of data.
- Monitoring and reporting should be transparent and open to public scrutiny, including parliament. This will help generate a strong push to improve financial outcomes.
- Monitoring systems should be well integrated and sufficiently simple to expedite timely and accurate data submission. SOE accountants may need to be trained in the GFS application to understand the linkages between the corporate and government accounting.

Some parts of the public sector or individual agencies may be autonomous and not under the jurisdiction of central government authorities. Two questions may arise when deciding whether to press for including these agencies in fiscal coverage. First, is it appropriate for the agencies in question to be autonomous? And second, even if some degree of autonomy is deemed important for their proper functioning, should these agencies be monitored in fiscal accounts? The answer to the first question would depend on the degree of fiscal risk that these agencies pose and on how financially independent they are from the government. In most cases, a non-negligible degree of financial dependency of these agencies on the budgetary central government would call for fully integrating their operations into the budget. This is the case, for example, with the autonomous institutions in Armenia in the health and education sectors (Appendix I). This may require legal changes, although reporting data does not imply a change of control. The answer to the second question is “yes” when these agencies undertake significant operations and are seen to pose significant fiscal risks.

The presence of budgetary transfers that cover losses of some agencies (e.g., PEs or state banks) is sometimes viewed as sufficient to capture their quasi-fiscal activities. An argument may then be put forward that separate reporting on the operations of these agencies is not needed. While this argument may apply in the short run, it is not necessarily valid over the longer term. This is because when an institution makes losses, the subsidy element may be obscured for a long time if it can borrow abroad or domestically or run down physical and financial capital; that is, the government does not always finance the full extent of losses in the near term. These borrowings may eventually result in budgetary pressures, while running down capital may lead to a precipitous decline in operations. In addition, there may be a sudden, sharp shock from changes in fuel or food prices or exchange and interest rates.

A concern that including some well run PEs or financial institutions in the fiscal coverage may result in pressure to spend more, undermining fiscal discipline, has been advanced in support of narrower-than-desired coverage in some countries.

Alternatively, if broader fiscal coverage results in a higher reported deficit, there may be a concern that this would worsen investors’ perception of the country. However, concealing the true financial performance of the public sector can be a two-edged sword. On the one hand, as the argument suggests, it may afford certain flexibility in taking policy decisions. On the other hand, it may undermine accountability of fiscal managers to the legislature and the public, which goes against the principles of good governance. Moreover, if policymakers themselves lack full information, the resulting policy choices are likely to be suboptimal. There may also be the opposite illusion—that the need to adjust may be obscured or hidden until it is too late. Eventually, the lack of transparency and accountability may raise issues of corruption or deteriorating democratic institutions.

Legal provisions may preclude the authorities from reporting on the financial position of some subsectors of the public sector or individual agencies. Little can be done to address this concern in the short run. However, over the longer term prudent financial management would require a good grasp of the financial position of all parts of the public sector that impact the assessment of the macrofiscal stance. A number of MECA countries that cite legal obstacles to full fiscal reporting are resource-rich countries. For these

countries, responsible and prudent management of resource wealth is especially important if they are to mitigate “the resource curse.” A number of international initiatives have been launched to improve the reporting of oil wealth by these countries, including the Extractive Industries Transparency Initiative (EITI), in which a number of MECA countries currently participate.¹⁴ Therefore, given the importance of transparency in managing government resources and effectively conducting fiscal policy, strong fiscal monitoring and reporting are needed.

Fiscal coverage in some countries may be narrower-than-desired, because the authorities would prefer not to reveal the true size of the government or public sector’s wealth. In this case, the concern would be that an expanded coverage would lead to pressures for redistributing the wealth within a federal arrangement or sharing it with poorer neighbors through increased foreign aid and other international assistance. Alternatively, if the government or public sector’s wealth was previously understated, concerns may arise that foreign assistance to the country may be adversely affected. This is a commonly cited reason against reporting on the operations of state oil companies and investment funds among oil producing countries. The arguments for transparency and accountability and better governance discussed above would apply here as well.

Some authorities may be concerned that including PEs in fiscal accounts could adversely affect investment by these companies (e.g., to offset fiscal pressures in other areas). Such concerns prompted the two pilot country studies on fiscal policy and public investment, carried out by FAD in 2004–06.¹⁵ A number of Latin American countries that have a broad coverage of the public sector expressed concern that productive public investment at the PE level could come under pressure in order to meet fiscal targets. The pilot studies looked into possible improvements in the coverage of fiscal indicators and targets with a view to increasing public investment in infrastructure, while preserving macroeconomic stability and debt sustainability.

One of the outcomes of these studies was to suggest a more targeted approach to fiscal coverage. As discussed earlier in this note, the studies recommended that PEs be retained in the coverage of the fiscal accounts for monitoring purposes and proposed a number of criteria that could be used to determine whether a given enterprise should be included or excluded in the targets or indicators, with the overarching principle being whether the enterprise poses fiscal risks.

Finally, in some countries, the existing fiscal coverage may be sufficient for making an accurate assessment of fiscal policy. In such cases, the broadening of the fiscal coverage may not be an immediate priority. Time and resources may be more effectively applied

¹⁴ Under the EITI initiative, aggregate payments to the government are reported by companies (including state-owned resource companies) and aggregate payments received by the government from companies are published, thus making any discrepancies transparent. Azerbaijan, Kazakhstan, and the Kyrgyz Republic currently participate in the EITI framework.

¹⁵ See IMF (2005) and IMF (2007).

elsewhere. The authorities should still make an effort to improve reporting and periodically evaluate the adequacy of the coverage, particularly in light of changing economic conditions.

V. WAY FORWARD

The decision on whether to expand fiscal coverage should be made on a case-by-case basis. As noted earlier, the presumption is that the broadest possible coverage should be preferred for fiscal accounting purposes. However, if a country starts from a relatively limited coverage, expansion would require by desk economists a careful balancing of the costs and the benefits. In fact, as evident from responses to the questionnaire, many MECA countries would benefit from broader fiscal coverage, and in particular in the area of PEs. This section discusses various approaches to expanding fiscal coverage and their application to MECA countries.

Approaches to expanding fiscal coverage

Depending on the degree of complexity of monitoring and consolidating the data, three general approaches to expanding fiscal coverage can be suggested: (i) full line-by-line consolidation; (ii) incorporation of overall (or operating) balances of subsectors in public sector fiscal accounts,¹⁶ without further desegregation; and (iii) separate monitoring of individual agencies or enterprises, without consolidating their balances with the rest of the public sector.

As a general rule, it is recommended that fiscal operations of subnational governments and EBFs are fully consolidated with the operations of the central government. This is because these institutions are likely to undertake core government operations, underscoring the importance of improving the timeliness and quality of general government statistics.

On the other hand, line-by-line consolidation of PEs or government financial institutions may not be practicable.¹⁷ Accounting rules and the timing of data reporting may differ significantly between government and PEs operations, complicating the consolidation process.¹⁸ Moreover, depending on the size of the PE sector, full above-the-line consolidation of revenues and expenses of enterprises with the general government may

¹⁶ The concept of "operating balance" (e.g., of a PE) is not fully compatible with an overall fiscal balance as defined in *GFS 1986*. Consolidation of these balances would therefore require a careful mapping of corporate into government accounting. The ongoing migration of Fund member governments' accounting to *GFS 2001*, which is based on accrual accounting, should resolve most of these consolidation difficulties. A stylized mapping of corporate accounting into *GFS 1986*, which is based on cash accounting, is presented in Appendix III.

¹⁷ In some cases, however, line-by-line consolidation of central bank operations is appropriate and necessary, especially if it is not fully independent.

¹⁸ See Medas (2006) and O'Connor et al., *GFSM 2001 Companion Material* for examples of practical issues that may arise in the consolidation process (pp. 10–12).

obscure the size and scope of budgetary operations and complicate fiscal analysis. For this reason, it may be preferable to report only operating balances of PEs. A number of countries have opted for such simplified presentation of public sector accounts (e.g., the Philippines and Peru). In other countries (e.g., Turkey), the nonfinancial PE accounts are simply aggregated, although this likely leads to overstating revenues and expenditures of the PE sector, since intrasectoral transfers are not netted out. In some cases, separate monitoring of important above-the-line transactions by enterprises, such as the wage bill or public investment may be desirable for policy purposes.

Finally, if the lack of reliable data precludes the reporting of consolidated balances of PEs, separate monitoring of their activities should be considered. Until the time that such data become available and a standardized method for consolidation is developed, tracking and analyzing the income statements and balance sheets of these enterprises separately from the rest of the public sector can be a short-term solution.

Improving fiscal coverage in MECA countries

Based on the principles outlined above, in those MECA countries where broader fiscal coverage is desirable, a gradual approach to expanding the coverage may be a cost-effective option (Box 4).

- The near-term priority should be to obtain **a complete picture of general government finances**. In the MECA region, this would involve fully consolidating the operations of EBFs and subnational government into the general government accounts in a number of countries.
- As the next step, **large nonfinancial PEs** that present significant fiscal risks should be monitored (if not already done so) and their financial positions should be reported and analyzed. To expedite this task, the authorities may consider setting up a PE monitoring unit within a MoF.
- A regular and thorough reporting on key PEs that pose fiscal risks should enable eventual **consolidation of their operating balances** in the public sector accounts for the purposes of setting fiscal targets and indicators. While enterprises that do not currently pose fiscal risks can be excluded from fiscal targets, their financial position should nevertheless be monitored by analyzing their income statements, net worth position, and overall balances in order to support efficient operations and enable early detection of fiscal risks.
- A comprehensive picture of all **public sector** operations that may have measurable impact on macrofiscal indicators should be the ultimate goal of improving fiscal coverage. This would require that the national fiscal statistics are eventually expanded to cover all PEs.

Box 4. Operational Guidance on Expanding Fiscal Coverage of PEs

In countries where PEs are not regularly monitored by the authorities, the expansion of the fiscal coverage should begin by identifying a few important enterprises that could potentially present fiscal risks. These would include PEs that hold monopoly or near monopoly positions in strategic sectors (e.g., water, electricity, natural resource extraction, and processing), PEs that are large in some significant dimension (e.g., employment, customer base, transfers from to the budget, debt service, etc.), appear vulnerable to external shocks, or have sizable known contingent liabilities.

Once potentially risky enterprises are identified, key financial information should be collected, including audited accounts, profit and loss and cash flow statements, balance sheets, and annual reports, if available.¹ These financial statements can be used to assess financial conditions and sustainability risks. Appendix III provides a stylized table that can be used to bridge a company's financial statements with *1986 GFS* accounting classification.² Line items can then be adjusted to reflect country and enterprise specific circumstances. Enterprise overall balances can then be aggregated with the overall balance of the general government to obtain the NFPS balance. There may be a significant initial investment in obtaining this information, but the authorities should be urged to compile the information regularly thereafter. A step further would imply the consolidation of the PE accounts with the general government accounts by netting out intrasectoral transfers (as was done in Jordan, Table 6). Over time, risk assessment of PEs can be refined by analyzing an expanded list of fiscal risks criteria.³

The goal is to strive for a universal monitoring of PEs to ensure effective risk management. This does not necessarily require full consolidation of all PEs in government statistics. Partial aggregation at the level of overall balances or consolidation of a few large and most vulnerable enterprises, while periodically analyzing the financial statements of the remaining sizable PEs, can go a long way in detecting and managing fiscal risks. The authorities should be encouraged to improve their oversight of PEs and as their monitoring systems improve, produce their own analysis. Technical assistance may be required during this transition period.

¹ Other operational data would usefully be collected, including, for example, the level and cost of employment.

² Migration of government accounting to *GFS 2001* should resolve any mapping difficulties.

³ See Box 2 of IMF (2007). The figure for staff hours per enterprise cited in IMF (2007), footnote 15, refers to the full range of activities, from data provision and compilation to risk assessment.

In summary, fiscal coverage in a number of MECA countries could benefit from broadening, especially in the area of PEs. In countries where unmonitored parts of the public sector present significant fiscal risks, expanding fiscal coverage should be a priority.

However, this task is likely to be complicated by significant capacity constraints on collecting and reporting fiscal data beyond the budgetary central government. Dedicated technical assistance by the IMF and other multilateral and bilateral institutions could help alleviate some of these constraints. While existing coverage may be sufficient for making an accurate assessment of fiscal policy stance in some countries, the authorities and IMF mission teams should periodically evaluate its adequacy against the broad principles outlined in this paper and stand ready to broaden the coverage, particularly in light of changing economic conditions.

Table 6. Jordan: Summary Fiscal Operations of the Nonfinancial Public Sector, 2001-03

	2001					2002					2003				
	BCG 1/	OBA 2/	PEs 3/	Netted trans.	CPS 4/	BCG 1/	OBA 2/	PEs 3/	Netted trans.	CPS 4/	BCG 1/	OBA 2/	PEs 3/	Netted trans.	CPS 4/
	(In percent of GDP)														
Total revenue and grants	30.4	6.0	13.0	2.4	47.0	30.0	6.7	13.7	2.9	47.5	35.6	7.3	13.8	2.3	54.3
Revenue	26.1	5.6	13.0	2.4	42.2	24.9	6.1	13.7	2.9	41.8	23.6	6.0	13.8	2.3	41.0
Tax revenue	16.1	0.0	0.0	0.2	15.9	14.9	0.0	0.0	0.3	14.7	15.4	0.0	0.0	0.1	15.2
<i>Of which:</i> taxes from public enterprises	0.2	...	...	0.2	0.0	0.3	...	...	0.3	0.0	0.1	...	...	0.1	0.0
Taxes from own-budget agencies	0.0	...	...	0.0	0.0	0.0	...	...	0.0	0.0	0.0	...	...	0.0	0.0
Nontax revenue	10.0	5.6	13.0	2.2	26.3	10.0	6.1	13.7	2.6	27.1	8.3	6.0	13.8	2.2	25.8
<i>Of which:</i> from public enterprises	0.1	...	...	0.1	0.0	0.1	...	...	0.1	0.0	0.1	...	...	0.1	0.0
From own-budget agencies	0.7	...	...	0.7	0.0	0.9	...	...	0.9	0.0	0.7	...	...	0.7	0.0
Transfers from the central government budget	0.0	1.5	0.0	1.5	0.0	0.0	1.6	0.0	1.6	0.0	0.0	1.4	0.0	1.4	0.0
Grants	4.3	0.5	0.0	0.0	4.8	5.1	0.5	0.0	0.0	5.7	12.0	1.3	0.0	0.0	13.3
<i>Of which:</i> PSET grants	0.0	0.0	0.0	0.0	0.0	1.1	0.4	0.0	0.0	1.5	2.3	0.9	0.0	0.0	3.2
Total expenditures	34.0	6.5	13.9	2.4	52.0	34.9	7.5	14.0	2.9	53.6	36.6	7.7	14.8	2.3	56.8
Current expenditure	28.3	4.0	13.3	1.7	43.8	27.7	4.5	13.5	2.1	43.5	29.2	4.3	13.7	1.9	45.3
Wages and salaries	6.0	1.0	1.4	...	8.4	6.1	1.1	1.3	...	8.5	5.9	1.1	1.3	...	8.3
Interest payments	4.4	0.2	0.5	...	5.1	3.8	0.2	0.5	...	4.4	3.8	0.2	0.4	...	4.4
Maintenance	0.0	...	...	...	0.0	0.0	...	...	...	0.0	0.0	...	...	...	0.0
Transfers, of which:	7.1	...	...	0.8	6.4	7.5	...	...	0.9	6.6	8.2	...	...	0.9	7.3
own-budget agencies	0.8	...	...	0.8	0.0	0.9	...	...	0.9	0.0	0.9	...	...	0.9	0.0
public enterprises	0.0	...	...	0.0	0.0	0.0	...	...	0.0	0.0	0.0	...	...	0.0	0.0
Other	10.7	2.8	11.4	0.9	24.0	10.3	3.2	11.7	1.2	23.9	11.1	3.0	12.1	1.0	25.2
<i>Of which:</i> taxes paid to government	...	0.0	0.2	0.2	0.0	...	0.0	0.3	0.3	0.0	...	0.0	0.1	0.1	0.0
Transfers to government	...	0.7	0.1	0.8	0.0	...	0.9	0.1	1.0	0.0	...	0.7	0.1	0.9	0.0
Capital expenditure and net lending	5.1	2.5	0.6	0.7	7.6	6.8	3.0	0.5	0.7	9.7	8.8	3.5	1.1	0.4	12.9
Capital expenditure	5.1	2.5	0.6	...	7.6	6.5	3.0	0.5	...	9.3	8.5	3.5	1.1	...	12.6
<i>Of which:</i> PSET spending	0.0	...	...	...	0.0	0.9	0.4	0.0	...	1.2	2.5	1.2	0.0	...	3.7
Capital transfers	0.7	...	...	0.7	0.0	0.7	...	...	0.7	0.0	0.4	...	...	0.4	0.0
Off-budget spending	0.6	...	...	...	0.6	0.5	...	...	...	0.5	-1.3	...	...	...	-1.3
Current balance 5/	1.5	2.0	-0.3	...	2.5	1.5	2.2	0.1	...	3.1	7.5	3.0	0.1	...	10.1
Overall balance before transfers to government	...	0.2	...	0.7	...	...	0.0	...	0.9	...	...	0.3	...	0.7	...
Overall balance, including grants	-3.6	-0.5	-0.9	...	-5.0	-4.9	-0.8	-0.4	...	-6.2	-1.1	-0.4	-1.0	...	-2.5
Memorandum item:															
Primary balance (in percent of GDP) 6/	0.8	-0.3	-0.4	...	0.0	-1.2	-0.6	0.1	...	-1.8	2.8	-0.3	-0.6	...	1.9

Sources: Jordanian authorities; and Fund staff estimates.

1/ Budgetary central government.

2/ Own-budget agencies.

3/ Nonfinancial public enterprises include Central Electricity Generation Company, Electricity Distribution Company, National Electric Power Company, Royal Jordanian Airlines, Jordan Phosphate Mines Company.

4/ Consolidated nonfinancial public sector. Nets out transfers between sectors.

5/ Overall balance excluding capital expenditure.

6/ Overall balance excluding interest payments.

Table 7. Turkey: Data Collected from SOE's
(within the context of SOE monitoring system)

Type of Data	Timeframe	Scope	Explanation
Primary balances	Monthly	SOEs in CGS	Cash and deposit balances, debt and receivables used to derive primary balance from below the line.
Primary balances	Yearly	All SOEs	All financial data required to calculate primary balances of SOEs, including profit/loss statements, investment, change in stocks, net tax and interest payments, etc. and sources of these data, including balance sheets, income statements, cash flow statements, etc.
Cash flows	Monthly	SOEs in CGS	Used to determine change in cash, deposits and other cash-equivalent accounts of SOEs, sources of cash receipts within the period, whether from operational activities or borrowing, and the use of cash in terms of sales or administrative expenses or purchases of tangible assets, etc.
Bank credits	Monthly	All SOEs	The change in the bank credit balance of SOEs within the period and the source of that change in terms of new borrowing or credit payments, interest or exchange rate differential or commission fee accruals to existing credits.
Debts and receivables	Quarterly	All SOEs	All debt or receivables figures of SOEs in a detailed way to demonstrate the type of these debts, debtors, and creditors.
Employment level	Monthly	All SOEs	The number and type of personnel employed in SOEs, entrance and attrition figures during that period.
Employment costs	Monthly	All SOEs	The employment costs of SOEs in terms of wages and salaries, premiums, bonuses, severance pays, insurance and pension payments undertaken by the employers, and other personnel expenditures.
Company specific data	Varies	Varies	Weekly, monthly, quarterly, or yearly tables whether including sector or company specific data, such as agricultural purchases, energy prices, and sales.

Source: Turkish authorities.

Appendix I. Criteria for Assessing Extrabudgetary Funds

Allen and Radev (2006) identify five key criteria for evaluating the operations of an EBF:

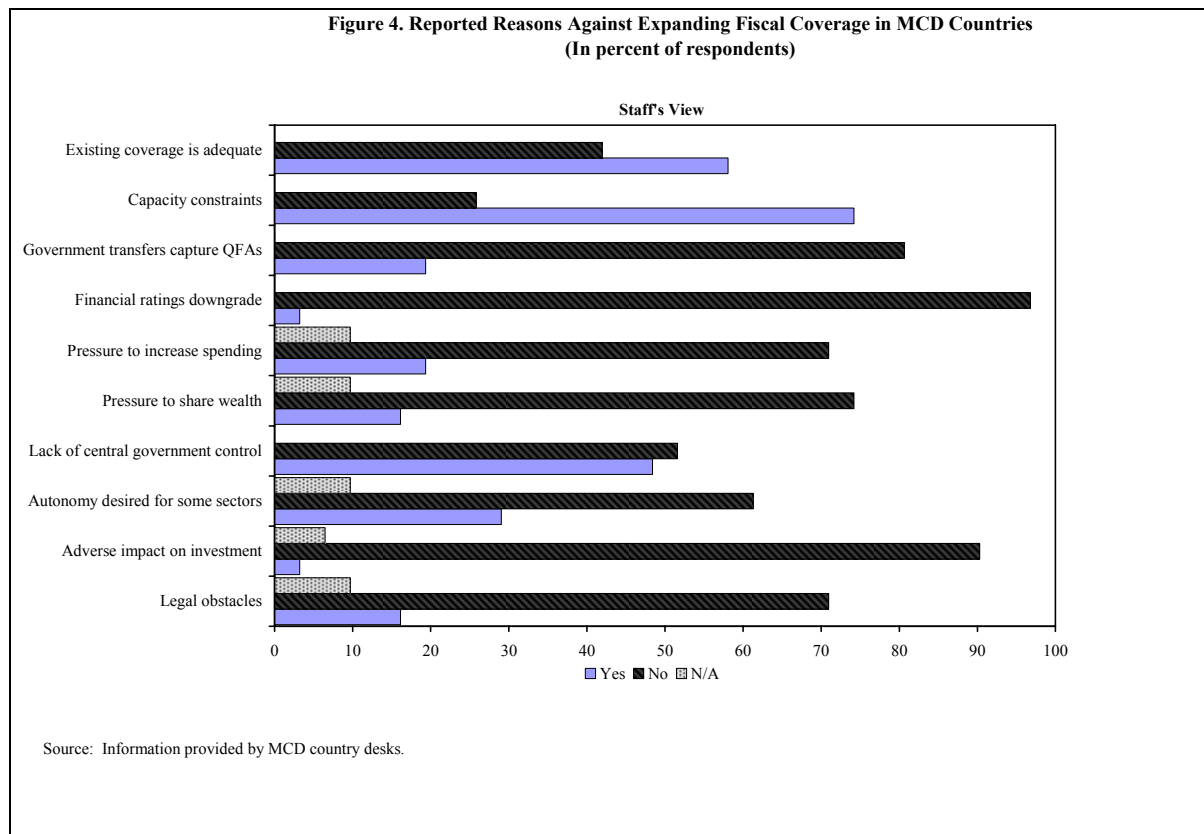
- First, there should be a satisfactory economic and governance case for the EBF. These could include linking the benefits of public goods provision (e.g., roads) to the costs (e.g., user charges), as in the case of some road funds. Transparency and good governance are key for proper functioning of such funds. The fund should be dedicated fully to the task in question and not simply used as a means of avoiding budget discipline.
- Second, EBFs should be properly structured from an economic and governance point of view. Their operations should be well coordinated with the rest of the public sector, integrated with the budget, and fully transparent and accountable. The government should ideally have access to the fund's cash balances for cash management purposes, avoiding cash earmarking for the fund.
- Third, the transactions of EBFs should meet basic public financial management requirements. They should be subject to parliamentary scrutiny and meet acceptable standards of accounting, internal control, internal and external audit, and reporting. As set out in the IMF's Code of Good Practices on Fiscal Transparency, all extrabudgetary activities of the central government should be presented in budget documents, final accounts, and other fiscal reports, and the consolidated fiscal position of the central government should be published.
- Fourth, the requirements for establishing and operating EBFs need to be supported by a sound regulatory framework.
- Fifth, should an EBF be financed through earmarked revenues, the accountability, transparency, and adequacy of the revenue collection function should also be addressed. There's a strong case for consolidating government collection responsibilities into the existing revenue collection agency.

These criteria may well stretch or exceed public financial management capacity in a particular country.

Appendix II. Addressing Obstacles to Broader Fiscal Coverage

IMF desk economists and MECA countries identified three top reasons for not expanding the fiscal coverage (Figure 4):

- Staff responses on 74 percent of the countries surveyed reported that the existing **capacity** to compile and report data and to convert it into the GFS format limits the country's ability to expand fiscal coverage. Staff responded similarly regarding capacity constraints in their assessment of the authorities' concerns for 61 percent of the countries. A number of countries are receiving technical assistance from the Fund to build capacity in this area.
- Fifty eight percent of country desks believed that **existing fiscal coverage is adequate** for making an accurate assessment of fiscal policy in their countries. Staff reported similarly regarding adequacy in their assessment of the authorities' concerns for 68 percent of the countries. However, staff notes that coverage can be improved in a number of countries, especially when it comes to reporting on the financial position of PEs and EBFs.



- Forty eight percent of country desks responded that there is **little central government control** over some subsectors of the public sector and therefore it cannot be seen as responsible for their financial position. Staff responded similarly regarding limited central government control over subsectors in their assessment of the authorities' concerns for 39 percent of the countries. These subsectors mainly comprise PEs and, in some cases, subnational governments.

The next three most common reasons against expanding fiscal coverage were identified by staff representing less than a third of MECA countries. Staff noted that in about 29 percent of countries, the authorities' believed that some parts of the public sector, including PEs, and in some cases, social security institutions, should be autonomous, and hence the central government should not be involved in compiling data on their activities. About a fifth of staff respondents deem that full reporting on some agencies, mainly PEs, is not necessary, because government transfers to cover losses of these agencies sufficiently capture their quasi-fiscal impact. Finally, for another one-fifth of the countries surveyed, staff respondents report that the authorities are concerned that including some successful PEs or other institutions in the fiscal coverage would result in pressure to spend more, undermining fiscal discipline. The remaining reasons received less than 17 percent of positive responses.

Appendix III. A Stylized Mapping of Corporate Accounting into *GFS 1986*

This appendix presents an example of how corporate accounting can be mapped into *GFS 1986*. Table 8 can be sent to the authorities to be filled out by an enterprise. Table 9 can be derived from the information in Table 8 and used to approximate the overall balance for each enterprise. These overall balances can then be aggregated with the general government balance to derive the NFPS balance, as is done in Turkey (Box 3). Revenue and expenditure information can be used to carry out full consolidation of the NFPS accounts, as was done in Jordan (see Table 6). An ongoing migration to *GFS 2001* should resolve most of the current consolidation difficulties.

Table 8. Sample Public Enterprise Data Request, 2003-07

	2003	2004	2005	2006	2007 Proj.
Income Statement					
1	Sales at purchaser's prices				
2	- Indirect taxes on sales				
3	= Revenues from sales				
4	- Total employee compensation				
4a	<i>Of which:</i> social security contributions				
5	- Purchases of goods and services				
6	- Rent				
6a	to government				
6b	to others				
7	Other expenditures (specify)				
8	- Depreciation and amortization				
9	- Miscellaneous fees/taxes (property, etc.) (please specify)				
10	= Income from operations				
11	- Interest payments				
11a	foreign				
11b	domestic				
12	+ Interest earned				
13	+ Foreign grants				
14	+/- Transfers/subsidies from government				
15	+/- Other income/losses				
16	= Profit before tax				
17	- Corporate income tax				
18	- Dividends paid				
18a	To government				
18b	To others				
19	= Retained earnings for the period				
Balance Sheet					
20	Current assets				
21	+ Long-term investments				
22	+ Fixed and other assets at cost				
23	- Accumulated depreciation and amortization				
24	= Total assets				
25	+ Current liabilities				
25a	Domestic				
25b	Foreign				
26	+ Long-term liabilities				
26a	Domestic				
26b	Foreign				
27	+ Equity and reserves				
28	= Total liabilities and equity				
Memorandum items:					
29	= Investment in fixed assets				
30	Financing				
31	Net external				
32	New loan obligations				
33	Amortization paid				
34	Domestic				

Table 9. Converting Enterprise Accounting into GFS 1986, 2003-07
(GFS classification)

		2003	2004	2005	2006	2007 Proj.
I	Total revenue and grants (A+D)					
A	Total revenue (B+C)					
B	Gross sales (1)					
C	Transfers from government (14)					
D	Foreign grants (13)					
II	Total expenditure (E+L)					
E	Current expenditure (F+G+H+J+K)					
F	Wages and salaries (4)					
G	Interest payments (net) (11-12)					
H	Taxes to government (2+4a+9+17)					
J	Other transfers to government (dividends, royalties, etc) (18a+6a)					
K	Other (5+6b+7+8)					
III	Current balance (I-E)					
L	Investment expenditure (29)					
IV	Overall balance (III-L)					
M	Discrepancy (IV+V)					
V	Financing = -(IV+M)					
N	Net external (31)					
	Loans (32)					
	Amortization (33)					
O	Domestic (34)					
	Memorandum items:					
P	Primary balance (A-II+G)					
Q	Total assets (24)					
R	Debt outstanding (Long-term) (26)					
S	Foreign loans (26b)					
T	Domestic loans (26a)					
U	GDP (value-added) (3-5-6)					
W	Gross domestic savings (8+19)					
X	Return on fixed capital (in percent) $[(10)/(22-23)]*100$					
Y	Gross return to equity (in percent) $[(19+18+8)/27]*100$					
Z	Net return to equity (in percent) $[(19+18)/28]*100$					
AA	Debt ratio (in percent) $[(25+26)/24] *100$					
AB	Debt cost (in percent) $[11/(25+26)]*100$					

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