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UPDATE ON THE FISCAL TRANSPARENCY INITIATIVE

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IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The Staff Report on Update on the Fiscal Transparency Initiative, prepared by IMF staff and completed on June 16, 2014, has been released.

The staff report was issued to the Executive Board for consideration by July 11, 2014.

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International Monetary Fund
Washington, D.C.

UPDATE ON THE FISCAL TRANSPARENCY INITIATIVE

June 16, 2014

EXECUTIVE SUMMARY

This paper provides an update on staff's work on a new Fiscal Transparency Code (FTC) and experiences with the initial pilot Fiscal Transparency Evaluations (FTE), the ground work for which was laid in a 2012 paper "Fiscal Transparency, Accountability, and Risk." Both are part of ongoing efforts by the Fiscal Affairs Department, in cooperation with other departments, to strengthen the Fund's fiscal surveillance and capacity building. The new FTC and FTE reflect the lessons of the recent crisis, incorporate developments in international standards, and build on feedback from consultations with stakeholders.

The new FTC addresses the weaknesses of the existing FTC from 2007 and focuses on information needed for effective fiscal management and surveillance. Its 36 principles (i) concentrate on outputs rather than processes; (ii) differentiate between basic, good, and advanced practices to provide less developed countries with clear milestones toward international standards; (iii) stress the analysis and management of fiscal risks; and (iv) better complement other fiscal standards and diagnostics.

The FTC has a four-pillar structure: (i) *Pillar I on fiscal reporting* calls for fiscal statistics and accounts to provide relevant, comprehensive, timely, and reliable information on the government's financial position and performance; (ii) *Pillar II on fiscal forecasting and budgeting* emphasizes the need for budget documentation to provide a clear statement of the government's fiscal and policy objectives, and timely and credible forecasts for the evolution of public finances; (iii) *Pillar III on fiscal risk analysis and management* stresses the importance of comprehensive disclosure, analysis, and control of the key risks to the public finances; and (iv) *Pillar IV on resource revenue management* addresses transparency issues related to natural resource endowments and revenues. Work on the first three Pillars has been completed, with Pillar IV scheduled for completion later this year. A Fiscal Transparency Manual (FTM) will provide detailed guidance on implementation of FTC principles and practices.

Eight pilot FTEs have been conducted, of which four have been published so far. FTEs replace the traditional fiscal ROSCs and provide more rigorous and quantified analyses of the quality of published information and sources of fiscal vulnerability, an accessible summary of the strengths and weaknesses of country practices, and more targeted recommendations. FTEs also offer countries the option of a sequenced reform action plan and allow for modular assessments of individual pillars. Feedback from authorities, area departments, and stakeholders on FTEs has been very positive.

The Board is asked to approve the first three pillars of the new FTC and the replacement of the fiscal ROSC with the FTE. On this basis, the Fund will undertake up to five FTEs in FY2015, finalize the fourth pillar of the FTC, and finalize the FTM.

Approved By
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BACKGROUND

1. **This paper provides an update on the ongoing work on a new Fiscal Transparency Code (FTC) and the initial set of pilot Fiscal Transparency Evaluations (FTE) that use the FTC.** The groundwork for these efforts was laid in a 2012 paper on "Fiscal Transparency, Accountability, and Risk,"[1] which provided initial directions in this regard. The paper proposes that the Executive Board approve the first three pillars of the FTC and FTE to replace, respectively, the existing FTC that was last revised in 2007 (the 2007 Code) and the related Fiscal Module of the Reports on the Observance of Standards and Codes (fiscal ROSC).[2]

2. **The FTC and FTE will form part of the Fund's fiscal surveillance and broader codes and standards architecture.** The development of the FTC is integral to ongoing efforts by the Fiscal Affairs Department, in close cooperation with other departments, to strengthen this architecture in the light of the lessons of the 2008-09 global crisis, developments in international fiscal standards and practices, and feedback from a series of consultations with key stakeholders.[3] The FTC has a four-pillar structure, the first three of which have been fully developed and tested and focus on fiscal information required for effective fiscal policymaking and bilateral and multilateral surveillance. The fourth pillar, which will be finished later this year, covers natural resource management and integrates into the FTC the previously separate "Guide on Resource Revenue Transparency." This will be of particular benefit to the one-third of Fund's members with significant natural resource wealth.

3. **The overhaul of the Fiscal Transparency Initiative also aims to make it more relevant to the full range of Fund member countries and capacity building efforts in the fiscal area.** The FTC differentiates between basic, good, and advanced practices against each of its 36 principles, thereby offering countries at all levels of development a clear set of checks and milestones toward full compliance with international standards. These graduated levels of practice reflect recent developments in the public financial management (PFM) profession and have been harmonized with other standards and diagnostic tools in the fiscal area to ensure complementarity and consistency in analysis. By providing countries with more analytical, accessible, and targeted assessments and the option of a fiscal transparency action plan, FTEs also better support the prioritization and delivery of technical assistance by the Fund and other partners.

4. **This paper is structured as follows.** Section II describes the structure and content of the FTC. Section III summarizes experiences with the pilot FTEs conducted by staff on the basis of the FTC. Section IV outlines next steps and the related resource implications. Section V provides a proposed Board decision approving the first three pillars of the new FTC and the new FTE.

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[1] http://www.imf.org/external/np/pp/eng/2012/080712.pdf.

[2] http://www.imf.org/external/np/rosc/rosc.asp

[3] Through a consultation in December 2012, feedback on the revision of the 2007 Code was received from governments, civil society, academics, market participants, and the public. This feedback was reflected in a draft FTC, which was presented for a second round of public consultation in July 2013.

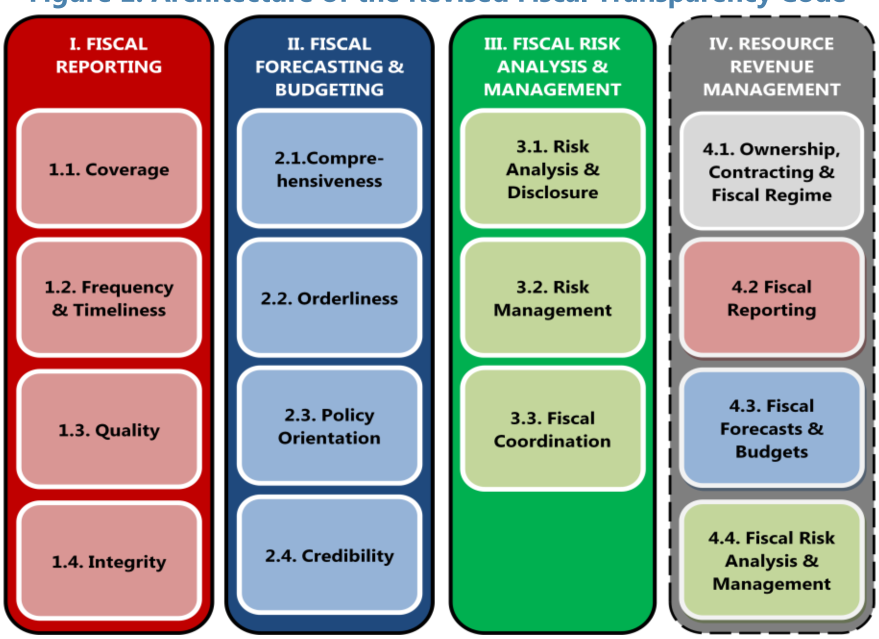
NEW FISCAL TRANSPARENCY CODE

A. Structure of the New Fiscal Transparency Code

5. The new FTC's four-pillar structure focuses on information required for effective fiscal management and surveillance. Work on Pillars I, II, and III—each comprising 12 principles—has been completed, while Pillar IV will be completed later this year. The FTC's four pillars (Figure 1) are:

- **Pillar I: Fiscal Reporting**, in the form of fiscal statistics and accounts, which should offer relevant, comprehensive, timely, and reliable information on the government's financial position and performance.
- **Pillar II: Fiscal Forecasting and Budgeting** which should provide a clear statement of the government's budgetary objectives and policy intentions, together with comprehensive, timely, and credible projections of the evolution of the public finances.
- **Pillar III: Fiscal Risk Analysis and Management** which should ensure that the risks to the public finances are disclosed, analyzed and managed, and fiscal decision-making across the public sector is effectively coordinated.
- **Pillar IV. Resource Revenue Management** which should provide a transparent framework for the ownership, contracting, taxation, and utilization of natural resource endowments. Completing the work on this pillar requires, among others, adapting the principles of the first three pillars to the particular circumstances of resource-rich countries.[4]

Figure 1. Architecture of the Revised Fiscal Transparency Code



[4] Pillar IV will be prepared later and will involve a separate consultation process with key stakeholders.

6. A revised two-volume Fiscal Transparency Manual (FTM) is under preparation that will provide more detailed guidance on the implementation of the FTC's principles. Volume I of the FTM will cover Pillars I, II, and III, while Volume II will focus on Pillar IV and integrate the previously separate "Guide on Resource Revenue Transparency."

B. Differences from the 2007 Code

7. The FTC differs from the 2007 Code in a number of respects. In general, it addresses the weaknesses of the 2007 Code (as brought out in the 2012 paper) and focuses on information needed for good fiscal management and decision-making. Specifically, the revised FTC:

- **focuses on outputs rather than processes.** The 2007 Code had a procedural focus, centered on four main areas: (i) clarity of roles and responsibilities; (ii) open budget processes; (iii) public availability of information; and (iv) assurances of integrity. This diverted attention away from analysis of the quality and adequacy of reported outputs. The FTC puts greater emphasis on the quality of published information as a more objective basis for evaluating the degree of effective fiscal transparency;[5]
- **takes account of different levels of country capacity.** The 2007 Code provided a single best practice standard for each principle. This made no allowance for different levels of institutional capacity or economic development. In contrast, the FTC differentiates between basic, good, and advanced practice. This allows countries to develop a sequenced path for reform by providing them with a clear set of milestones toward full compliance with international standards. The new approach also facilitates cross-country benchmarking. In particular, (i) basic practice would be viewed as a minimum standard that should be achievable by all IMF member countries; (ii) good practice provides an intermediate goal post that would require stronger institutional capacities; and (iii) advanced practice reflects relevant international standards and is in line with the current "state-of-the-art";
- **places greater emphasis on fiscal risk.** The 2007 Code devoted relatively little attention to disclosure and management of fiscal risks.[6] This became apparent in the wake of the recent economic crisis which revealed large contingent liabilities in advanced economies and contributed to a heightened fiscal volatility across the Fund membership. The FTC devotes a full pillar (with 12 principles) to the analysis and management of fiscal risks that are likely to be relevant to all countries. This includes risks arising from macroeconomic shocks, guarantees and other contingent liabilities, fiscal pressures from demographic and other long-term trends, budgetary contingencies, changes in asset and liability values, public-private partnerships, the

[5] Whereas 30 of the 45 principles under the 2007 Code were primarily procedural in nature or related to managerial issues, 31 of the FTC's 36 principles relate to quality and content of available fiscal information.

[6] The 2007 Code had only one principle devoted to fiscal risk disclosure with other dimensions of risk partially picked up in another five. Risks arising from the financial sector, public-private-partnerships, sub-national governments, and public corporations—some of which contributed to, or exacerbated, the fiscal impact of the recent crisis—were not adequately covered in the 2007 Code.

financial sector, natural resources, environmental factors, sub-national governments, and public corporations; and

- **reflects recent advances in fiscal management and international standards.** [7] Examples of new "advanced" practices include: (i) the publication of information on fiscal activities of the entire public sector; (ii) the preparation of full balance sheets, including all financial and nonfinancial assets and liabilities; (iii) monthly fiscal reporting of general government and publication of audited annual financial statements within six months; and (iv) the alignment of information provided in budgets, statistics, and accounts. The FTC also includes a new principle on public participation in budget deliberations, which was included in response to consultations with key stakeholders.

C. Complementarity with Other Standards

8. The FTC complements other standards in the fiscal area, and helps to anchor the work of other organizations in this area. The FTC places greater emphasis on fiscal forecasting and fiscal risk, reflecting the Fund's focus on macro-critical issues. Overlap with other standards and evaluation tools, particularly the Public Expenditure and Financial Accountability (PEFA)[8] framework, has been reduced, e.g., by dropping some more managerial indicators that relate to public sector employment, public procurement, tax administration, and internal audit procedures. For the most part, these are covered in the revised PEFA framework and the new Tax Administration Diagnostic Assessment Tool (TADAT).[9] Although the need for self-standing frameworks requires some areas of commonality between different fiscal standards (e.g., FTC, PEFA, and Open Budget Index), staff has worked closely with relevant stakeholders to minimize overlap, and ensure that standards are fully aligned and send a consistent and mutually re-enforcing message.

FISCAL TRANSPARENCY EVALUATIONS

A. Pilot Fiscal Transparency Evaluations

9. Over the past eighteen months, staff has been piloting FTEs to replace fiscal ROSCs as the Fund's principal tool for assessing country fiscal transparency practices. These pilot FTEs have been based on successive drafts of the FTC, and informed the development of its principles and practices to ensure their relevance and applicability to the full range of Fund member countries. Eight pilot FTEs have been conducted to date by joint FAD-STA teams, covering four regions (Bolivia,

[7] The IMF's Government Finance Statistics Manual (GFSM) in the area of fiscal statistics, International Public Sector Accounting Standards (IPSAS) in the area of government accounting, International Standards of Supreme Audit Institutions (ISSAI) in the area of external audit, and OECD Best Practices for Budget Transparency in the budget area.

[8] PEFA is a framework for measuring country PFM performance on the basis of 31 indicators that cover PFM systems, processes, and institutions. It was developed a decade ago by the seven PEFA partners, including the IMF and the World Bank. The framework has been applied mostly to developing and emerging market countries, with about 350 assessments (including repeat assessments) having been completed so far. With the participation of IMF staff, the PEFA framework is currently being revised to reflect emerging trends in the PFM profession.

[9] See www.tadat.org.

Costa Rica, Ireland, Mozambique, Philippines, Portugal, Romania, and Russia). Four of these reports have been finalized, circulated to the Board, and published to date.[10]

B. Differences with the Fiscal ROSC

10. FTEs, as described in Annex II, improve on the fiscal ROSCs in four key respects. Specifically, FTEs:

- **provide rigorous and quantified analyses of the comprehensiveness and quality of published fiscal data and key sources of fiscal risks.** These include, for example, measures of the coverage of fiscal reports, credibility of fiscal forecasts, and size of unreported contingent liabilities. Unlike the fiscal ROSC, which placed equal weight on compliance with all elements of the 2007 Code, these quantitative measures help to distinguish between shortcomings in fiscal transparency practices that are macro-critical;
- **provide an accessible summary of the strengths and weaknesses of country practices related to fiscal transparency, and their relative importance.** This is achieved through a set of summary heat maps (see Annex III),[11] which facilitate benchmarking against comparator countries, identification of reform needs, and the prioritization of recommendations;
- **offer countries the option of having staff recommend a fiscal transparency action plan which identifies the concrete sequence of steps involved in implementing the FTE recommendations.** A separate action plan may not be called for where FTE recommendations can easily be incorporated into existing PFM reform strategies or where countries need time to reflect on surveillance recommendations. It can be useful, however, where such reform strategies have not yet been elaborated and/or where countries want to request follow-up TA; and
- **allow for modular assessments of individual pillars of the FTC.** Modular FTEs would meet the need for more targeted evaluations aimed at addressing the most pressing transparency issues in a particular country.

C. Some Findings of the FTE Pilots

11. The eight FTE pilots conducted to date show that levels of fiscal transparency vary both across and within countries. As expected, the degree of fiscal transparency was positively correlated with the level of income. At the same time, even advanced country practices were rated as "basic" against more than one-third of the FTC principles and even failed to meet basic standards in some areas. Looking across the first three pillars of the FTC, countries performed best in the fiscal forecasting and budgeting areas (Pillar II), and did relatively well in the fiscal reporting area (Pillar I), while practices in fiscal risk analysis and management (Pillar III) lagged behind (Figure 2).

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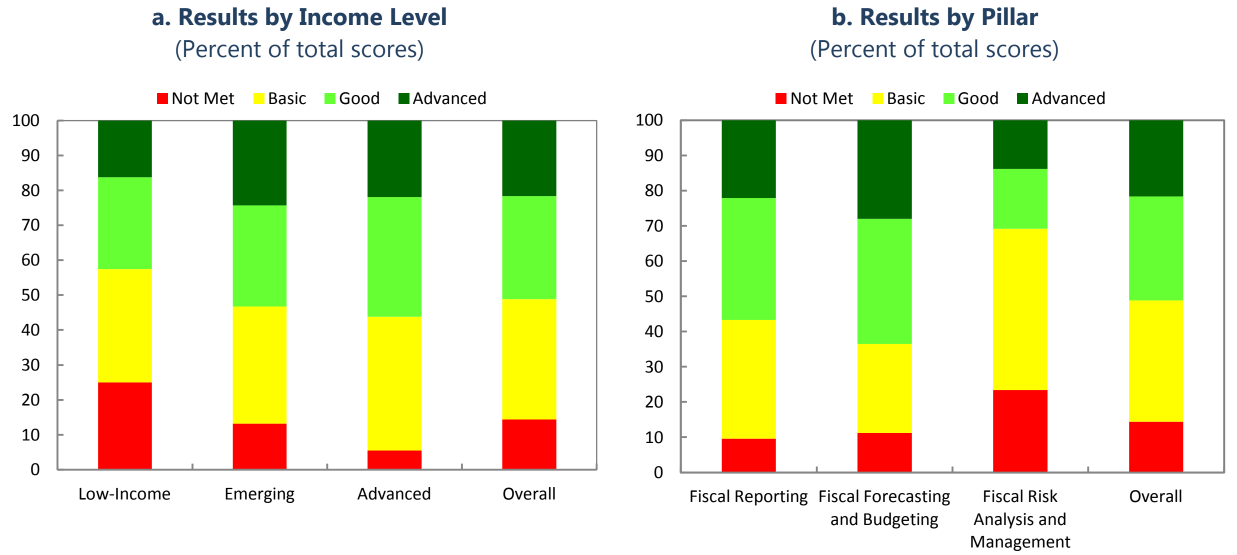
[10] Bolivia (IMF Country No. Report 14/77), Costa Rica (IMF Country Report No. 13/316), Ireland (IMF Country Report No. 13/209), and Russia (IMF Country Report No. 14/134).

[11] In contrast, fiscal ROSCs tended to be qualitative in presenting the results of an evaluation, and they lacked an accessible summary of a country's strengths and weaknesses both relative to the absolute standard of the 2007 Code and comparable countries.

Figure 2. Summary Results of Eight FTE Pilots



12. Notwithstanding the small sample of countries, some specific themes emerging from these initial eight pilots include (Figure 3):

- **Coverage of institutions:** The institutional coverage of fiscal reports varies considerably. While fiscal reports in Latin American pilot countries consolidate the entire public sector, those in Europe focus on the general government, and those in Africa are limited to budgetary central government. In most cases, significant fiscal activity remains outside of consolidated fiscal reports, as shown in the case of Ireland where 12 percent of GDP worth of public sector expenditure is unreported (Figure 3a).

- **Coverage of stocks:** While most pilot countries prepare financial balance sheets, these often exclude significant assets and liabilities. For example, Russia publishes a consolidated general government balance sheet which recognizes most conventional financial and nonfinancial assets and liabilities but excludes 200 percent of GDP in sub-soil hydrocarbon assets and 287 percent of GDP in liabilities from public pensions and public-private partnership arrangements.

- **Credibility of budgets:** Most countries produce detailed, medium-term economic and fiscal forecasts. However, these forecasts do not always provide a credible picture of the countries' fiscal prospects. For example, as shown in Figures 3c and d, the Bolivia FTE highlighted the government's tendency in recent years to under-forecast its annual revenues (by around 40 percent) which, in turn, contributed to significant but less pronounced under-budgeting of expenditures (by around 25 percent).

- **Fiscal risk reporting:** Disclosure of fiscal risks is improving but remains fragmented and incomplete. Of the eight pilot countries, only the Philippines publishes a comprehensive fiscal risk statement. Some other countries may have improved the disclosure of fiscal risks from specific sources such as government guarantees in Ireland (Figure 3e), and sub-national governments in Costa Rica (Figure 3f), but still do not provide a single consolidated overview of the main risks to their public finances.

Figure 3. Examples of FTE Findings

Figure 3a. Ireland: Coverage of Public Sector Entities (Percent of expenditure, 2011)

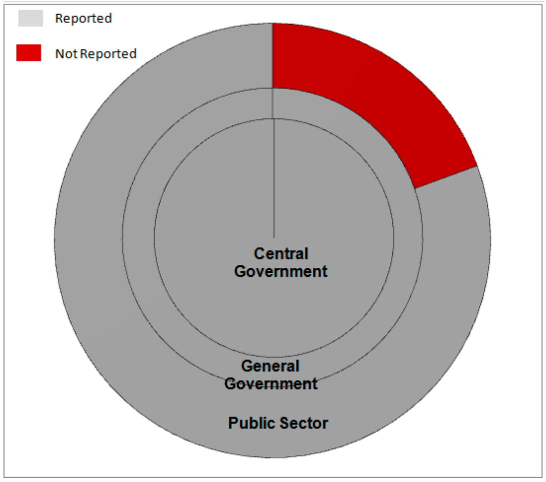
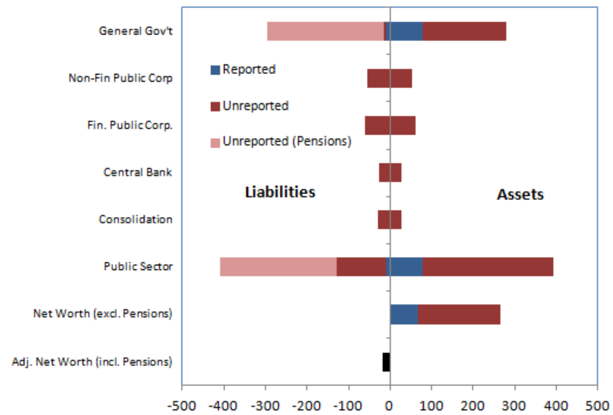


Figure 3b. Russia: Balance Sheet Coverage (Percent of GDP, 2012)



Note: Consolidation eliminates intra public sector assets and liabilities

Figure 3c. Bolivia: Year-ahead Revenue Forecast Errors (Percent of total forecast revenue, 2010-11)

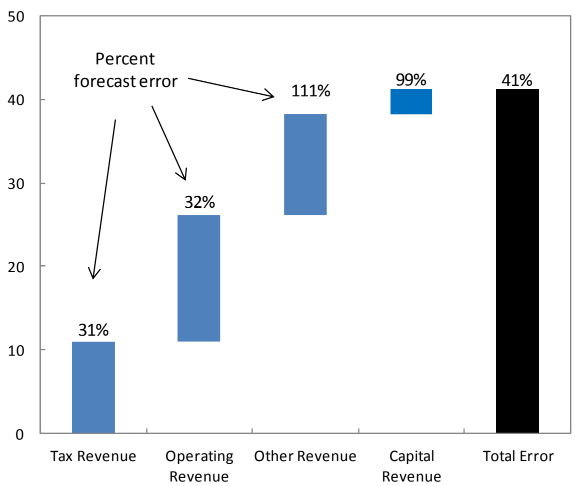


Figure 3d. Bolivia: Year-ahead Expenditure Forecast Errors (Percent of total forecast expenditure, 2010-11)

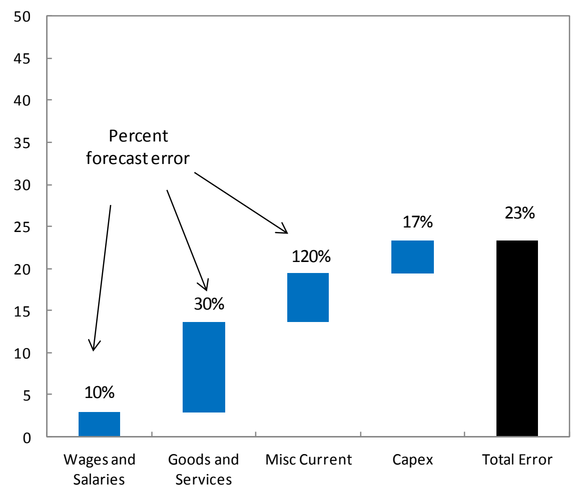


Figure 3e. Ireland: Government Guaranteed Liabilities (Percent of GDP)

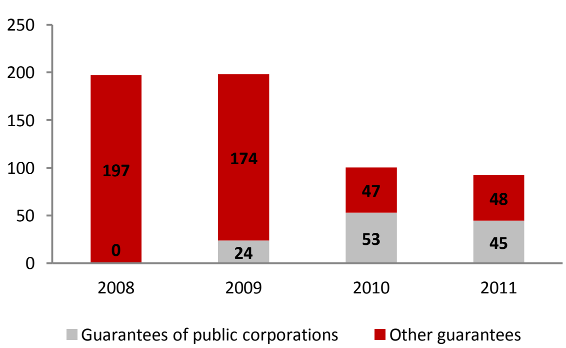
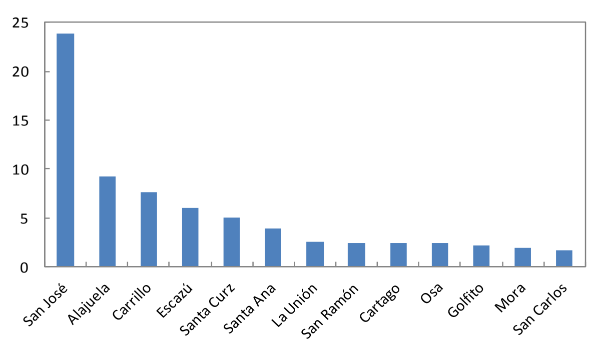


Figure 3f. Costa Rica: Distribution of Municipal Debt (Percent of total, 2012)



Sources: *Staff estimates, GFSY 2012, Bolivia Ministry of Economy and Finance, Ireland Ministry of Finance, and Costa Rica Comptroller General*

13. Feedback on pilot FTEs has been very positive. Both country authorities and area departments welcomed the greater output focus and relevance to country-specific contexts. They also appreciated the more analytical, accessible, and targeted assessments offered by the FTEs as a basis for developing or updating their PFM reform strategies. The four FTE reports that have been published to date attracted both international and domestic media coverage, with detailed discussions of their findings and recommendations. FTE recommendations have also provided a basis for follow-up TA in the fiscal area, informed the public debate on opportunities for enhancing fiscal openness, and formed the basis of further analysis in Article IV and program reports. At the same time, the FTE's greater analytical focus requires more preparation and cooperation from country authorities. In light of this positive experience with the FTE pilots, staff proposes that FTEs permanently replace fiscal ROSCs.

NEXT STEPS AND RESOURCING

A. Next Steps

14. Next steps in the overhaul of the fiscal transparency initiative include:

- publishing the first three pillars of the new FTC (Annex I) (summer 2014);
- undertaking up to five FTEs in FY2015 in countries of different regions and income levels;
- publishing Volume I of the revised FTM, covering the first three pillars of the FTC (summer 2015);
- submitting the full Fiscal Transparency Code, including the fourth pillar on natural resource transparency, for Board approval (summer 2015); and
- completing Volume II of the revised FTM, which covers the fourth pillar of the FTC (end-2015).

B. Resource Implications

15. The fiscal transparency work as a key element of the Fund's surveillance architecture in the fiscal area will be accommodated within FAD's budget. FAD's FY2015 resource allocation plan includes two country FTEs and an additional three FTEs will be carried out subject to availability of resources through prioritization. A further scaling up of FTEs in response to country demand is not contemplated at this stage and would require additional resources.

Annex I. The Fiscal Transparency Code

A. FISCAL TRANSPARENCY PRINCIPLES

I. Fiscal Reporting

Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.

1.1. Coverage: *Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its sub-sectors, according to international standards.*

1.1.1. Coverage of Institutions: Fiscal reports cover all entities engaged in public activity according to international standards.

1.1.2. Coverage of Stocks: Fiscal reports include a balance sheet of public assets, liabilities, and net worth.

1.1.3. Coverage of Flows: Fiscal reports cover all public revenues, expenditures, and financing.

1.1.4. Coverage of Tax Expenditures: The government regularly discloses and manages revenue loss from tax expenditure.

1.2. Frequency and Timeliness: *Fiscal reports should be published in a frequent, regular, and timely manner.*

1.2.1. Frequency of In-Year Reporting: In-year fiscal reports are published on a frequent and regular basis.

1.2.2. Timeliness of Annual Financial Statements: Audited or final annual financial statements are published in a timely manner.

1.3. Quality: *Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent.*

1.3.1. Classification: Fiscal reports classify information in ways that make clear the use of public resources and facilitate international comparisons.

1.3.2. Internal Consistency: Fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates.

1.3.3. Historical Revisions: Major revisions to historical fiscal statistics are disclosed and explained.

1.4. Integrity: *Fiscal statistics and financial statements should be reliable, subject to external scrutiny, and facilitate accountability.*

1.4.1. Statistical Integrity: Fiscal statistics are compiled and disseminated in accordance with international standards.

1.4.2. External Audit: Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.

1.4.3. Comparability of Fiscal Data: Fiscal forecasts, budgets, and fiscal reports are presented on a comparable basis, with any deviations explained.

II. Fiscal Forecasting and Budgeting

Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.

2.1. Comprehensiveness: *Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects.*

2.1.1. Budget Unity: Revenues, expenditures, and financing of all central government entities are presented on a gross basis in budget documentation and authorized by the legislature.

2.1.2. Macroeconomic Forecasts: The budget projections are based on comprehensive macroeconomic forecasts, which are disclosed and explained.

2.1.3. Medium-term Budget Framework: Budget documentation includes outturns and projections of revenues, expenditures, and financing over the medium term on the same basis as the annual budget.

2.1.4. Investment Projects: The government regularly discloses its financial obligations under multi-annual investment projects, and subjects all major projects to cost-benefit analysis and open and competitive tender.

2.2. Orderliness: *The powers and responsibilities of the executive and legislative branches of government in the budget process should be defined in law, and the budget should be presented, debated, and approved in a timely manner.*

2.2.1. Fiscal Legislation: The legal framework clearly defines the time table for budget preparation and approval, key contents of the budget documentation, and the powers and responsibilities of the executive and legislature in the budget process.

2.2.2. Timeliness of Budget Documents: The legislature and the public are consistently given adequate time to scrutinize and approve the annual budget.

2.3. Policy Orientation: *Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability.*

2.3.1. Fiscal Policy Objectives: The government states and reports on clear and measurable objectives for the public finances.

2.3.2. Performance Information: Budget documentation provides information regarding the objectives and results achieved under each major government policy area.

2.3.3. Public Participation: The government provides citizens with an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations.

2.4. Credibility: *Economic and fiscal forecasts and budgets should be credible.*

2.4.1. Independent Evaluation: The government's economic and fiscal forecasts and performance are subject to independent evaluation.

2.4.2. Supplementary Budget: Any material changes to the approved budget are authorized by the legislature.

2.4.3. Forecast Reconciliation: Budget documentation and any subsequent updates explain any material changes to the government's previous fiscal forecasts, distinguishing the fiscal impact of new policy measures from the baseline.

III. Fiscal Risk Analysis and Management

Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.

3.1. Risk Disclosure and Analysis: *Governments should publish regular summary reports on risks to their fiscal prospects.*

3.1.1. Macroeconomic Risks: The government reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic assumptions.

3.1.2. Specific Fiscal Risks: The government provides a regular summary report on the main specific risks to its fiscal forecasts.

3.1.3. Long-Term Fiscal Sustainability Analysis: The government regularly publishes projections of the evolution of the public finances over the long term.

3.2. Risk Management: *Specific risks to the public finances should be regularly monitored, disclosed, and managed.*

3.2.1. Budgetary Contingencies: The budget has adequate and transparent allocations for contingencies that arise during budget execution.

3.2.2. Asset and Liability Management: Risks relating to major assets and liabilities are disclosed and managed.

3.2.3. Guarantees: The government's guarantee exposure is regularly disclosed and authorized by law.

3.2.4. Public Private Partnerships: Obligations under public-private partnerships are regularly disclosed and actively managed.

3.2.5. Financial Sector Exposure: The government's potential fiscal exposure to the financial sector is analyzed, disclosed, and managed.

3.2.6. Natural Resources: The government's interest in exhaustible natural resource assets and their exploitation is valued, disclosed, and managed.

3.2.7. Environmental Risks: The potential fiscal exposure to natural disasters and other major environmental risks are analyzed, disclosed, and managed.

3.3. Fiscal Coordination: *Fiscal relations and performance across the public sector should be analyzed, disclosed, and coordinated.*

3.3.1. Sub-National Governments: Comprehensive information on the financial condition and performance of sub-national governments, individually and as a consolidated sector, are collected and published.

3.3.2. Public Corporations: The government regularly publishes comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity undertaken by them.

B. DESCRIPTION OF BASIC, GOOD, AND ADVANCED PRACTICES BY PRINCIPLE

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
1	**FISCAL REPORTING**	**Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.**			
1.1	***Coverage***	***Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its subsectors, according to international standards.***			
1.1.1	Coverage of Institutions	Fiscal reports cover all entities engaged in public activity according to international standards.	Fiscal reports consolidate all central government entities according to international standards.	Fiscal reports consolidate all general government entities and report on each subsector according to international standards.	Fiscal reports consolidate all public sector entities and report on each subsector according to international standards.
1.1.2	Coverage of Stocks	Fiscal reports include a balance sheet of public assets, liabilities, and net worth.	Fiscal reports cover cash and deposits, and all debt.	Fiscal reports cover all financial assets and liabilities.	Fiscal reports cover all financial and nonfinancial assets and liabilities, and net worth.
1.1.3	Coverage of Flows	Fiscal reports cover all public revenues, expenditures, and financing.	Fiscal reports cover cash revenues, expenditures, and financing.	Fiscal reports cover cash flows, and accrued revenues, expenditures, and financing.	Fiscal reports cover cash flows, accrued revenues, expenditures, and financing, and other economic flows.
1.1.4	Coverage of Tax Expenditures	The government regularly discloses and manages revenue loss from tax expenditures.	The estimated revenue loss from tax expenditures is published at least annually.	The revenue loss from tax expenditures is estimated by sector or policy area, and is published at least annually.	The revenue loss from tax expenditures is estimated by sector or policy area, and is published at least annually. There is control on, or budgetary objectives for, the size of tax expenditures.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
1.2	***Frequency and Timeliness***	***Fiscal reports should be published in a frequent, regular, and timely manner.***			
1.2.1	Frequency of In-Year Reporting	In-year fiscal reports are published on a frequent and regular basis.	In-year fiscal reports are published on a quarterly basis, within a quarter.	In-year fiscal reports are published on a quarterly basis, within a month.	In-year fiscal reports are published on a monthly basis, within a month.
1.2.2	Timeliness of Annual Financial Statements	Audited or final annual financial statements are published in a timely manner.	Audited or final annual financial statements are published within 12 months of the end of the financial year.	Audited or final annual financial statements are published within 9 months of the end of the financial year.	Audited or final annual financial statements are published within 6 months of the end of the financial year.
1.3	***Quality***	***Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent.***			
1.3.1	Classification	Fiscal reports classify information in ways that make clear the use of public resources and facilitate international comparisons.	Fiscal reports include administrative and economic classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic and functional classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic, functional and program classifications consistent with international standards, where applicable.
1.3.2	Internal Consistency	Fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates.	Fiscal reports include at least one of the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, or (iii) financing and the change in the debt stock.	Fiscal reports include at least two of the following reconciliations: (i) fiscal balance and financing; (ii) debt issued and debt holdings; or (iii) financing and the change in the debt stock.	Fiscal reports include all three of the following reconciliations: (i) fiscal balance and financing; (ii) debt issued and debt holdings; and (iii) financing and the change in the debt stock.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
1.3.3	Historical Revisions	Major revisions to historical fiscal statistics are disclosed and explained.	Major revisions to historical fiscal statistics are reported.	Major revisions to historical fiscal statistics are reported with an explanation for each major revision.	Major revisions to historical fiscal statistics are reported with an explanation for each major revision and a bridging table between the old and new time series.
1.4	***Integrity***	***Fiscal statistics and financial statements should be reliable, subject to external scrutiny, and facilitate accountability.***			
1.4.1	Statistical Integrity	Fiscal statistics are compiled and disseminated in accordance with international standards.	Fiscal statistics are disseminated in accordance with international standards.	Fiscal statistics are compiled by a specific government agency and disseminated in accordance with international standards.	Fiscal statistics are compiled by a professionally independent body and disseminated in accordance with international standards.
1.4.2	External Audit	Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.	An independent supreme audit institution publishes an audit report on the reliability of the government's annual financial statements.	An independent supreme audit institution publishes an audit report stating whether the government's annual financial statements present a true and fair view of its financial position and without a disclaimer or adverse audit opinion.	An independent supreme audit institution publishes an audit report consistent with international standards which states whether the government's annual financial statements present a true and fair view of its financial position and without major qualifications.
1.4.3	Comparability of Fiscal Data	Fiscal forecasts, budgets, and fiscal reports are presented on a comparable basis, with any deviations explained.	At least one fiscal report is prepared on the same basis as the fiscal forecast/budget.	Fiscal forecast/budget and outturn are comparable plus the outturn is reconciled with either the fiscal statistics or final accounts.	Fiscal forecast/budget and outturn are comparable plus the outturn is reconciled with both fiscal statistics and final accounts.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
2	**FISCAL FORECASTING AND BUDGETING**	**Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.**			
2.1	***Comprehensiveness***	***Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects.***			
2.1.1	Budget Unity	Revenues, expenditures, and financing of all central government entities are presented on a gross basis in budget documentation and authorized by the legislature.	Budget documentation incorporates all gross domestic tax revenues, expenditures, and financing by central government ministries and agencies.	Budget documentation incorporates all gross domestic tax and non-tax revenues, expenditures, and financing by central government ministries, agencies, and extra-budgetary funds.	Budget documentation incorporates all gross domestic and external revenues, expenditures, and financing by central government ministries, agencies, extra-budgetary funds, and social security funds.
2.1.2	Macroeconomic Forecasts	The budget projections are based on comprehensive macroeconomic forecasts, which are disclosed and explained.	The budget documentation includes forecasts of key macroeconomic variables.	The budget documentation includes forecasts of key macroeconomic variables and their underlying assumptions.	The budget documentation includes forecasts and explanations of key macroeconomic variables and their components, as well as their underlying assumptions.
2.1.3	Medium-term Budget Framework	Budget documentation includes outturns and projections of revenues, expenditures, and financing over the medium term on the same basis as the annual budget.	Budget documentation includes the outturns of the two preceding years and medium-term projections of aggregate revenues, expenditures, and financing.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing by economic category.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing by economic category and by ministry or program.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
2.1.4	Investment Projects	The government regularly discloses its financial obligations under multi-annual investment projects, and subjects all major projects to cost-benefit analysis and open and competitive tender.	One of the following applies: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; or (iii) requires all major projects to be contracted via open and competitive tender.	Two of the following apply: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; or (iii) requires all major projects to be contracted via open and competitive tender.	All of the following apply: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; and (iii) requires all major projects to be contracted via open and competitive tender.
2.2	***Orderliness***	***The powers and responsibilities of the executive and legislative branches of government in the budget process should be defined in law, and the budget should be presented, debated, and approved in a timely manner.***			
2.2.1	Fiscal Legislation	The legal framework clearly defines the time table for budget preparation and approval, key contents of the budget documentation, and the powers and responsibilities of the executive and legislature in the budget process.	The legal framework defines one of the following: (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; or (iii) the legislature's powers to amend the executive's budget proposal.	The legal framework defines two of the following: (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; or (iii) the legislature's powers to amend the executive's budget proposal.	The legal framework defines all of (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; and (iii) the legislature's powers to amend the executive's budget proposal.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
2.2.2	Timeliness of Budget Documents	The legislature and the public are consistently given adequate time to scrutinize and approve the annual budget.	The budget is submitted to the legislature and made available to the public at least one month before the start of the financial year and is approved and published up to one month after the beginning of the financial year.	The budget is submitted to the legislature and made available to the public at least two months before the start of the financial year and is approved and published by the start of the financial year.	The budget is submitted to the legislature and made available to the public at least three months before the start of the financial year and is approved and published at least one month before the start of the financial year.
2.3	***Policy Orientation***	***Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability.***			
2.3.1	Fiscal Policy Objectives	The government states and reports on clear and measurable objectives for the public finances.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is either precise or time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound and has been in place for 3 or more years.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
2.3.2	Performance Information	Budget documentation provides information regarding the objectives and results achieved under each major government policy area.	Budget documentation includes information on the inputs acquired under each major government policy area.	Budget documentation reports targets for, and performance against, the outputs to be delivered under each major government policy area.	Budget documentation reports targets for, and performance against, the outcomes to be achieved under each major government policy area.
2.3.3	Public Participation	The government provides citizens with an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations.	Government publishes an accessible description of recent economic and fiscal performance and prospects, as well as a summary of the implications of the budget for a typical citizen.	Government publishes an accessible description of recent economic and fiscal performance and prospects and a detailed account of the implications of the budget for a typical citizen, and provides citizens with a formal voice in budget deliberations.	Government publishes an accessible description of recent economic and fiscal performance and prospects, and a detailed account of the implications of the budget for different demographic groups, and provides citizens with a formal voice in budget deliberations.
2.4	***Credibility***	***Economic and fiscal forecasts and budgets should be credible.***			
2.4.1	Independent Evaluation	The government's economic and fiscal forecasts and performance are subject to independent evaluation.	Budget documentation includes comparisons between the government's economic and fiscal projections and those of independent forecasters.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts, and its performance against its fiscal policy objectives.
2.4.2	Supplementary Budget	Any material changes to the approved budget are authorized by the legislature.	A supplementary budget regularizes expenditure exceeding the approved budget.	A supplementary budget is required prior to material changes to total budgeted expenditure.	A supplementary budget is required prior to material changes to total budgeted expenditure or substantially altering its composition.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	**GOOD**	**ADVANCED**
2.4.3	Forecast Reconciliation	Budget documentation and any subsequent updates explain any material changes to the government's previous fiscal forecasts, distinguishing the fiscal impact of new policy measures from the baseline.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are shown at the aggregate level, with a qualitative discussion of the impact of new policies on the forecasts.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the overall effect of new policies and macroeconomic determinants.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the effects of individual policy changes, macroeconomic determinants, and other factors, such as technical or accounting adjustments.
3	**FISCAL RISK ANALYSIS AND MANAGEMENT**	**Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.**			
3.1	***Risk Disclosure and Analysis***	***Governments should publish regular summary reports on risks to their fiscal prospects.***			
3.1.1	Macroeconomic Risks	The government reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic assumptions.	Budget documentation includes discussion of the sensitivity of fiscal forecasts to major macroeconomic assumptions.	Budget documentation includes sensitivity analysis and alternative macroeconomic and fiscal forecast scenarios.	Budget documentation includes sensitivity analysis, alternative scenarios, and probabilistic forecasts of fiscal outcomes.
3.1.2	Specific Fiscal Risks	The government provides a regular summary report on the main specific risks to its fiscal forecasts.	The main specific risks to the fiscal forecast are disclosed in a summary report and discussed in qualitative terms.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude and, where practicable, their likelihood.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
3.1.3	Long-Term Fiscal Sustainability Analysis	The government regularly publishes projections of the evolution of the public finances over the long-term.	The government regularly publishes projections of the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 10 years.	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macroeconomic assumptions.	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macroeconomic, demographic, natural resource, or other assumptions.
3.2	***Risk Management***	***Specific risks to the public finances should be regularly monitored, disclosed, and managed.***			
3.2.1	Budgetary Contingencies	The budget has adequate and transparent allocations for contingencies that arise during budget execution.	The budget includes an allocation for contingencies.	The budget includes an allocation for contingencies with transparent access criteria.	The budget includes an allocation for contingencies with transparent access criteria and regular in-year reporting on its utilization.
3.2.2	Asset and Liability Management	Risks relating to major assets and liabilities are disclosed and managed.	All borrowing is authorized by law and the risks surrounding the government's debt holdings are analyzed and disclosed.	All borrowing is authorized by law and the risks surrounding the government's financial assets and liabilities are analyzed and disclosed.	All liabilities and significant asset acquisitions or disposals are authorized by law, and the risks surrounding the balance sheet are disclosed and managed according to a published strategy.
3.2.3	Guarantees	The government's guarantee exposure is regularly disclosed and authorized by law.	All government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually.	All government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually. The maximum value of new guarantees or their stock is authorized by law.	All government guarantees, their beneficiaries, the gross exposure created by them, and their probability of being called are published at least annually. The maximum value of new guarantees or their stock is authorized by law.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
3.2.4	Public-Private Partnerships	Obligations under public-private partnerships are regularly disclosed and actively managed.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life of the contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life of the contracts. A legal limit is also placed on accumulated obligations.
3.2.5	Financial Sector Exposure	The government's potential fiscal exposure to the financial sector is analyzed, disclosed, and managed.	The authorities quantify and disclose their explicit support to the financial sector at least annually.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and regularly undertake an assessment of financial sector stability.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and regularly undertake an assessment of financial sector stability, based on a plausible range of macroeconomic and financial market scenarios.
3.2.6	Natural Resources	The government's interest in exhaustible natural resource assets and their exploitation is valued, disclosed, and managed.	The government publishes annual estimates of the volume and value of major natural resource assets, as well as the volume and value of the previous year's sales and fiscal revenue.	The government publishes annual estimates of the volume and value of major natural resources assets under different price scenarios, as well as the volume and value of the previous year's sales and fiscal revenue.	The government publishes annual estimates of the volume and value of major natural resource assets under different price and extraction scenarios, as well as the volume and value of the previous year's sales and fiscal revenue.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
3.2.7	Environmental Risks	The potential fiscal exposure to natural disasters and other major environmental risks are analyzed, disclosed, and managed.	The government identifies and discusses the main fiscal risks from natural disasters in qualitative terms.	The government identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences.	The government identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences, and managing them according to a published strategy.
3.3	***Fiscal Coordination***	***Fiscal relations and performance across the public sector should be analyzed, disclosed, and coordinated.***			
3.3.1	Sub-National Governments	Comprehensive information on the financial condition and performance of sub-national governments, individually and as a consolidated sector, are collected and published.	The financial condition and performance of sub-national governments is published annually.	The financial condition and performance of sub-national governments is published annually, and there is a limit on their liabilities or borrowing.	The financial condition and performance of sub-national governments is published quarterly, and there is a limit on their liabilities or borrowing.
3.3.2	Public Corporations	The government regularly publishes comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity undertaken by them.	All transfers between the government and public corporations are disclosed on at least an annual basis.	All transfers between the government and public corporations are disclosed, and based on a published ownership policy, a report on the overall financial performance of the public corporations sector is published on at least an annual basis.	All direct and indirect support between the government and public corporations are disclosed, and based on a published ownership policy. A report on the overall financial performance of the public corporations sector, including estimates of any quasi-fiscal activities undertaken, is published on at least an annual basis.

C. GLOSSARY

Annual financial statements: These are a sub-set of year-end financial reports. Where accrual-basis accounting is used, the annual financial statements will include at least a balance sheet, an operating statement, a cash flow statement, and notes. Where cash-basis accounting is used, the annual financial statement is presented as a cash-flow statement and may include a year-end budget execution report. The annual financial statements are expected to follow the relevant accounting standards and generally accepted accounting principles. In general, the annual financial statements are audited and made public; however, in cases where they are not subject to audit, the final annual financial statements will be used.

Balance sheet: The balance sheet is a comprehensive and consolidated statement of assets, liabilities, and net worth of the government or the public sector at the end of the accounting period. This includes financial and nonfinancial, and domestic and external assets and liabilities, as well as further information relating to them.

Borrowing: All government borrowing, including bonds, T-bills, and bank loans, as well as indirect borrowing such as accounts payable, including expenditure arrears and unpaid tax refunds.

Budget documentation: All documentation published at or around the time of the annual budget including the budget book, budget estimates, fiscal strategies, medium-term budget frameworks, fiscal risk statements, finance or estimates bills, long-term public finance reports, and the budget, finance, or appropriation act.

Contingent liabilities: Contingent liabilities are payment obligations whose timing and amount are contingent on the occurrence of a particular discrete/uncertain future event or series of future events. Examples include guarantees, indemnities, and letters of comfort.

Distributional analysis: A quantitative assessment of the impact of a specific or overall government policy on different segments of the population, often differentiated by income, gender, or geographical groups. For example, the impact of a change in tax rates on different income deciles.

Expenditure arrears: Arrears are amounts that are both unpaid and past the due date for payment. It is the stock position of invoices that have not been paid by the date specified in a contract or within a normal commercial period for similar transactions. Payment arrears might arise from nonpayment by government in such areas as bills overdue from suppliers, overdue salaries or transfers, or overdue debt repayment or debt service payments.

Financial derivatives: A financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (e.g., interest rate risk, foreign exchange risk, equity and commodity price risks, and credit risk) can be traded in their own right in financial markets. Examples include futures, swaps, and options.

Fiscal aggregates: The key fiscal summary indicators, including on the flow-side total expenditure and total revenue, net lending/net borrowing or overall fiscal balance; and on the stock-side gross and net debt, total assets, total liabilities, and net worth.

Fiscal forecasts: Forecasts of the main fiscal aggregates, as well as the elements underlying them, including specific revenue heads; expenditures by either administrative, functional, or economic classification; and key assets and liabilities, including gross debt.

Fiscal legislation: Laws related to the formulation of fiscal policy; preparation, approval and execution of the budget; and/or accounting, reporting, and auditing of fiscal information. They include fiscal responsibility, organic budget, public financial management, and public accounting and audit legislation.

Fiscal reports: Retrospective reports on fiscal developments including in-year and year-end budget outturn/execution reports, fiscal statistics, and annual financial statements.

Fiscal statistics: Retrospective reports on the government's financial performance that provide fiscal data based on international statistical standards such as Government Finance Statistics Manual (2001 or 2014), or System of National Accounts (1993 or 2008) or European system of National Accounts (1995 or 2010).

General government: The general government sector consists of resident institutional units that fulfill the functions of government as their primary activity. The general government sector includes all government units of central, state, provincial, regional, and local government, social security funds, and non-market non-profit institutions controlled by government units (referred to as extra-budgetary funds), as defined by the GFSM2014. General government also includes enterprises legally established as corporations but providing goods and services primarily on a non-market basis.

Government guarantee: The most common type is a government-guaranteed loan which requires the government to repay any outstanding amount on the loan in the event of default by a third party. In some contracts—particularly relating to PPPs—the government may provide a revenue or demand guarantee that requires it to make up the difference if revenue or demand falls short of an agreed level. Other contracts may include exchange rate or price guarantees.

Independent body: An independent body for effective conduct of auditing or the preparation of fiscal statistics is one with a sufficiently broad mandate and full professional discretion in the discharge of its functions, the right and obligation to report on its work, unrestricted access to information, and the availability of appropriate human, material and monetary resources, all enshrined in the legal framework.

International standards: Internationally recognized standards for (i) government finance statistics, including Government Finance Statistics Manual (2001 or 2014), or System of National Accounts (1993 or 2008) or European system of National Accounts (1995 or 2010); and (ii) government financial statements, (including International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS)).

In-year fiscal reports: Budget outturn/execution reports and fiscal statistics that are produced on monthly or quarterly frequency within the financial year, but can include full year reports that are produced shortly after the end of the financial year.

Macroeconomic risks: Risks related to macroeconomic outturns differ from forecasts, such as when GDP, inflation, unemployment, commodity prices, or exchange rates turn out above or below the forecasts on which the budget is based.

Major audit qualifications: Major audit qualifications include any of the following: (i) disclaimer audit opinion; (ii) adverse audit opinion; and (iii) any other audit qualification the financial impact of which has been estimated by the auditor to be of the order of one percent of GDP or larger.

Major revisions: Revisions to historical fiscal statistics that are large enough to have a macro-critical impact on the key fiscal aggregates, and in particular, any revision of the order of one percent of GDP or larger.

Medium term: Three to ten years beyond the current year.

Multi-annual contracts: Contracts between the government and private sector with a term of more than a year, such as PPPs, long-term leases, and long-term procurement arrangements.

Long term: The period spanning ten or more years beyond the current year.

Public activity: All fiscal activity undertaken by units within the public sector.

Public corporations: Corporations owned or controlled by government units and/or other public corporations, as defined by the Government Finance Statistics Manual (2001 or 2014).

Public-private partnerships (PPPs): PPPs are long-term contracts between two units, whereby one unit acquires or builds an asset or set of assets, operates it for a period, and then hands the asset over to a second unit. In these arrangements the private sector provides infrastructure assets and services that have traditionally been provided by the government, such as hospitals, schools, prisons, roads, bridges railways, and water and sanitation plants. Cases where the private operator has some responsibility for asset management and improvement are described as concessions.

Public sector: The public sector consists of all resident institutional units controlled directly, or indirectly, by resident government units, that is, all units of the general government sector and resident public corporations (including non-financial and financial public corporations).

Quasi-fiscal activities: Government operations carried out by institutions other than the government units (such as central banks and other public corporations). Examples include concessional loans given by the central bank, directed lending by public corporations, and requirements on public or private corporations to provide services at below-market prices.

Semi-autonomous body: A semi-autonomous body is part of the government sector, but, in comparison to government ministries and departments, enjoys a certain degree of de facto or de jure operational and financial autonomy with regard to staffing, budget management, and internal organization.

Specific fiscal risk: A fiscal risk that is not directly related to macroeconomic factors. It is narrower and arises from specific sources and triggering events, such as the calling of a guarantee, a natural disaster, or rescue of a bank.

Sub-national governments: Sub-national governments include state, provincial, or regional governments, as well as local governments, as defined in GFSM2001 or 2014.

Tax expenditure: Tax expenditures are concessions, reliefs, rebates, or exemptions from a “normal” tax structure that reduce government revenue collections. Because the government policy objectives could be achieved alternatively through a subsidy or other direct outlays, they are regarded as equivalent to budget expenditure.

Annex II. Fiscal Transparency Evaluations

Like its precursor (i.e., the Fiscal Module of the Reports on Observance of Standards and Codes (fiscal ROSC)), the Fiscal Transparency Evaluation (FTE) will assess country practices against the standards set by the Fiscal Transparency Code (FTC). FTEs will improve upon the fiscal ROSCs in a number of important respects. Specifically, FTEs will:

- provide rigorous and quantified analyses of the comprehensiveness and quality of published fiscal data and key sources of fiscal risks;
- provide an accessible summary of the strengths and weaknesses of country practices related to fiscal transparency and their relative importance, through a set of summary heat maps;
- offer countries the option of having staff recommend a fiscal transparency action plan which identifies the concrete sequence of steps involved in implementing the FTE recommendations; and
- allow for modular assessments of individual pillars of the FTC.

Annex III. Sample FTE Heatmap for Russia*

LEVEL OF IMPORTANCE	LEVEL OF PRACTICE		
	1. Fiscal Reporting	**2. Fiscal Forecasting and Budgeting**	**3. Fiscal Risk Analysis and Management**
High Importance	1.1. Structure of Public Sector	1.2. Gross Budgeting	1.1. Macroeconomic Risks
	1.2. Coverage of Institutions	1.4 MT Budget Framework	1.2. Specific Fiscal Risks
	1.3. Coverage of Stocks	4.4 Fiscal Sustainability Analysis	2.2. Asset & Liability Management
	1.4. Coverage of Flows	5.2. Supplementary Budgets	2.3. Natural Resources
	3.2. Data Consistency	5.3. Forecast Reconciliation	3.2. Public Corporations
			3.4. Health and Social Security
Medium Importance	1.5 Coverage of Tax Expenditures	1.1. Budget Unity	1.3 Comparability of Fiscal Data
	3.1. Classification	2.1. Fiscal Strategy Report	2.1. Contingency Reserves
	3.3. Historical Consistency	4.3. Citizens' Budget	2.6. Financial Sector Exposure
	4.1 Statistical Integrity	5.1. Independent Evaluation	2.7. Major Contracts
			3.3. Quasi-Fiscal Activity
Low Importance	2.1. Frequency of In-Year Reports	1.3. Macroeconomic Forecasts	2.4. Financial Derivatives
	2.2. Timeliness of Annual Statements	2.2.Budget Submission	2.5. Guarantees
	4.2. External Audit	2.3. Budget Approval	2.8. Environmental Risks
	4.3. Statistical Dissemination	3.1. Organic Budget Legislation	3.1. Sub-National Governments
	4.4. Reliability of Financial Statements	3.2. Revenue Collection	
		4.1. Fiscal Policy Objectives	
		4.2. Performance Information	

LEGEND	LEVEL OF PRACTICE			
	Below Basic	**Basic**	**Good**	**Advanced**

* Based on July 2013 consultation draft of the Fiscal Transparency Code