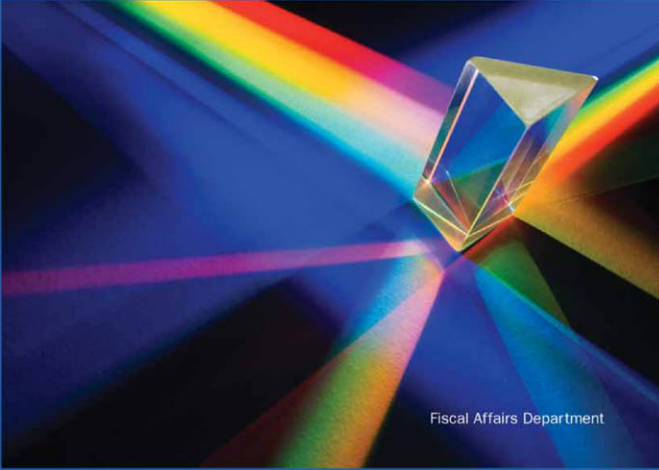


Manual on **Fiscal Transparency**



Fiscal Affairs Department

I N T E R N A T I O N A L M O N E T A R Y F U N D

Manual on **Fiscal Transparency**

Fiscal Affairs Department

2007 Revised Edition

I N T E R N A T I O N A L M O N E T A R Y F U N D

©International Monetary Fund. Not for Redistribution

© 2007 International Monetary Fund

Production: IMF Multimedia Services Division

Typesetting: Alicia Etchebarne-Bourdin

Cataloging-in-Publication Data

Manual on fiscal transparency/Fiscal Affairs Dept., International Monetary Fund—[Washington, D.C.]: International Monetary Fund, 2007—2007 rev. ed.

p. cm.

Includes bibliographical references.
ISBN 978-1-58906-661-8

1. Fiscal policy—Handbooks, manuals, etc. 2. Disclosure of information—Handbooks, manuals, etc. I. International Monetary Fund. Fiscal Affairs Dept.

HJ192.5.M35 2007

Price: US\$27.00

Please send orders to:
International Monetary Fund, Publication Services
700 19th Street, N.W., Washington, D.C. 20431, U.S.A.
Tel.: (202) 623-7430 Telefax: (202) 623-7201
E-mail: publications@imf.org
Internet: www.imf.org

Contents

| | |
|--|-----|
| Abbreviations and Acronyms | v |
| Preface | vii |
| Code of Good Practices on Fiscal Transparency (2007) | ix |
| Overview | 1 |
| I Clarity of Roles and Responsibilities | 10 |
| II Open Budget Processes | 35 |
| III Public Availability of Information | 61 |
| IV Assurances of Integrity | 91 |
| Appendix. Summary Table of Principles and Basic Requirements of Fiscal Transparency | 106 |
| Glossary | 108 |
| Bibliography | 116 |
| Website References | 120 |
| Index | 123 |
| Tables | |
| 1. Budget Documentation and Other Fiscal Reports | 63 |
| 2. Revenue Classification (GFSM 2001) | 72 |
| Figure | |
| 1. Public Sector | 11 |
| Boxes | |
| 1. Selected Transparency Initiatives | 2 |
| 2. Nonmarket Nonprofit Institutions | 12 |
| 3. OECD Principles of Corporate Governance: Principle V on Disclosure and Transparency | 18 |

| | |
|---|-----|
| 4. Characteristics of Transparent Regulations: OECD Policy Recommendations | 19 |
| 5. PPP Arrangements in Chile | 29 |
| 6. Authority over Natural Resource Assets and Resource-Related Borrowing | 33 |
| 7. Revenue Forecasting | 38 |
| 8. Medium-Term Budget Frameworks | 40 |
| 9. Fiscal Rules, Fiscal Responsibility Laws, and Fiscal Transparency Laws | 42 |
| 10. Poverty and Social Impact Analysis | 45 |
| 11. Contingent Liabilities | 48 |
| 12. Performance-Based Budgeting | 50 |
| 13. Extrabudgetary Activities and Fiscal Transparency | 52 |
| 14. Fiscal Transparency and International Public Sector Accounting Standards for Financial and Fiscal Reporting | 54 |
| 15. Stages of Payment and Payment Arrears | 57 |
| 16. Tax Expenditure Reporting | 65 |
| 17. Reporting of Guarantees | 66 |
| 18. Contingent Liabilities: Valuation and Balance Sheet Treatment | 67 |
| 19. Types of Quasi-Fiscal Activity | 68 |
| 20. Estimating the Fiscal Effects of Quasi-Fiscal Activities | 69 |
| 21. Statement of Fiscal Risks | 71 |
| 22. Government Balance Sheets: Some Issues | 73 |
| 23. Budget Law and Fiscal Transparency: Country Examples | 80 |
| 24. Freedom of Information Acts | 86 |
| 25. Fiscal Transparency and Data Dissemination Standards | 88 |
| 26. Data Quality Framework: Main Dimensions | 94 |
| 27. Code of Conduct for Public Officials | 97 |
| 28. INTOSAI Guidelines for Internal Control Standards | 99 |
| 29. INTOSAI Lima Declaration and Auditing Standards | 102 |
| 30. The UN <i>Fundamental Principles of Official Statistics</i> | 104 |

Abbreviations and Acronyms

| | |
|------------|--|
| COFOG | Classification of the Functions of Government |
| DQAF | Data Quality Assessment Framework |
| ESA | <i>European System of Accounts, 1995</i> |
| FSAP | Financial Sector Assessment Program |
| GAAP | Generally accepted accounting principles |
| GDDS | General Data Dissemination System |
| GDP | Gross domestic product |
| GFS | Government finance statistics |
| IFAC | International Federation of Accountants |
| IIA | Institute of Internal Auditors |
| IMF | International Monetary Fund |
| INTOSAI | International Organization of Supreme Audit Institutions |
| IPSAS | International Public Sector Accounting Standards |
| OECD | Organization for Economic Cooperation and Development |
| PRSP | Poverty Reduction Strategy Paper |
| QFAs | Quasi-fiscal activities |
| ROSC | Report on the Observance of Standards and Codes |
| SAI | Supreme audit institution |
| SDDS | Special Data Dissemination Standard |
| SNA | <i>System of National Accounts, 1993</i> |
| UN | United Nations |
| UNCITRAL | United Nations Commission on International Trade Law |
| The Code | <i>Code of Good Practices on Fiscal Transparency</i> |
| The Guide | <i>Guide on Resource Revenue Transparency</i> |
| The Manual | <i>Manual on Fiscal Transparency</i> |

This page intentionally left blank

Preface

The revised *Code of Good Practices on Fiscal Transparency* and the accompanying revision of the *Manual on Fiscal Transparency* mark important milestones in the Fund's promotion of openness and clarity in the presentation of fiscal policies and developments. In the decade since work began on the *Code*, it has gained acceptance across the Fund membership as the standard against which fiscal transparency should be judged, while the *Manual* has become the principal source of reference on approaches to improving fiscal transparency.

The *Code* has been the basis on which nearly half of the Fund's membership has completed a Report on the Observance of Standards and Codes (ROSC) fiscal transparency module, and has allowed for more effective Fund surveillance of fiscal policies and developments. The *Manual* provides detailed guidance on good practices of fiscal transparency and, in this revision, further examples have been added drawing on ROSCs and other sources. The *Manual* also forges close links with the *Guide on Resource Revenue Transparency*, which was first published in 2005, and has now been updated in line with the revised *Code* and *Manual*.

A broad public consultation process was undertaken for the revision of the *Code*, which greatly enriched its coverage and clarity. The consultation process embraced a wide range of stakeholders including country authorities, civil society organizations, international institutions, parliamentarians, academia, and the private sector.

I would like to acknowledge the team from the Fiscal Affairs Department responsible for revising the *Code* and *Manual*: Richard Hemming, Jon Shields, Janet Stotsky, Taryn Parry, Dawn Rehm, Lynn MacFarlane, Ezequiel Cabazon, and Nadia Malikyar. I would also like to thank the many IMF colleagues who contributed to improvements in the *Code* and *Manual*, including the additional country examples of good practices. Martha Bonilla in the External Relations Department edited and coordinated this publication.

Teresa Ter-Minassian
Director
Fiscal Affairs Department

This page intentionally left blank

- 1.2.5 Government liability and asset management, including the granting of rights to use or exploit public assets, should have an explicit legal basis.

II. Open Budget Processes

2.1 Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.

- 2.1.1 A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.
- 2.1.2 The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework. Fiscal targets and any fiscal rules should be clearly stated and explained.
- 2.1.3 A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.
- 2.1.4 The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.
- 2.1.5 There should be clear mechanisms for the coordination and management of budgetary and extrabudgetary activities within the overall fiscal policy framework.

2.2 There should be clear procedures for budget execution, monitoring, and reporting.

- 2.2.1 The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.
- 2.2.2 A timely midyear report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.
- 2.2.3 Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.
- 2.2.4 Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.

III. Public Availability of Information

3.1 The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.

- 3.1.1 The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extrabudgetary activities of the central government.
- 3.1.2 Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.
- 3.1.3 Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.
- 3.1.4 Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.
- 3.1.5 The central government should publish information on the level and composition of its debt and financial assets, significant nondebt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.
- 3.1.6 The budget documentation should report the fiscal position of sub-national governments and the finances of public corporations.
- 3.1.7 The government should publish a periodic report on long-term public finances.

3.2 Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.

- 3.2.1 A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.
- 3.2.2 Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.
- 3.2.3 The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.
- 3.2.4 Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.

3.3 A commitment should be made to the timely publication of fiscal information.

- 3.3.1 The timely publication of fiscal information should be a legal obligation of government.
- 3.3.2 Advance release calendars for fiscal information should be announced and adhered to.

IV. Assurances of Integrity

4.1 Fiscal data should meet accepted data quality standards.

- 4.1.1 Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.
- 4.1.2 The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.
- 4.1.3 Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.

4.2 Fiscal activities should be subject to effective internal oversight and safeguards.

- 4.2.1 Ethical standards of behavior for public servants should be clear and well publicized.
- 4.2.2 Public sector employment procedures and conditions should be documented and accessible to interested parties.
- 4.2.3 Procurement regulations, meeting international standards, should be accessible and observed in practice.
- 4.2.4 Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.
- 4.2.5 Government activities and finances should be internally audited, and audit procedures should be open to review.
- 4.2.6 The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.

4.3 Fiscal information should be externally scrutinized.

- 4.3.1 Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive.
- 4.3.2 The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.
- 4.3.3 Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.
- 4.3.4 A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.

Overview

Background

1. In 1998, the International Monetary Fund (IMF) introduced a *Code of Good Practices on Fiscal Transparency* (hereafter, the Code), which led to a voluntary program of fiscal transparency assessments called fiscal transparency modules of Reports on the Observance of Standards and Codes (hereafter, fiscal ROSCs). These developments reflected a clear consensus that fiscal transparency is a key ingredient of good governance, which is of central importance to achieving macroeconomic stability and high-quality growth. To expand and explain the principles of the Code, and to help guide the conduct of fiscal ROSCs, the first version of this *Manual on Fiscal Transparency* (hereafter, the Manual) was issued the same year.¹

2. The original objectives that guided the development of the fiscal transparency program remain valid today and underpin the 2007 revisions of the Code and Manual. First, fiscal transparency requires providing comprehensive and reliable information about past, present, and future activities of government, and the availability of this information informs and improves the quality of economic policy decisions. Fiscal transparency also helps to highlight potential risks to the fiscal outlook, resulting in an earlier and smoother fiscal policy response to changing economic conditions, thereby reducing the incidence and severity of crises. Second, fiscal transparency benefits citizens by giving them the information they need to hold their government accountable for its policy choices. Third, more transparent governments also benefit from improved access to international capital markets.² The greater oversight by civil society and international markets further reinforces the first objective by encouraging governments to pursue sound economic policies and achieve greater financial stability.

3. Fiscal transparency is a relevant goal for all countries. The Code therefore denotes good practices that are potentially achievable by countries at all levels of economic development. The Code is one of 12 financial standards that have been recognized by the international community and for which ROSCs are prepared.³ In addition to fiscal transparency, the Fund has developed standards covering data, and monetary and financial policy transparency, as an integral part of its surveillance objectives. Member country compliance with the transparency standards is complementary to surveil-

¹This version of the Manual (May 2007) replaces earlier versions posted on the IMF website in November 1998, April 1999, and March 2001.

²See Hameed (2005), Glennerster and Shin (2003), and Gelos and Wei (2002).

³<http://www.imf.org/external/standards/index.htm>.

Box 1. Selected Transparency Initiatives

IMF Fiscal Transparency Code

The Code, revised in 2007, is voluntary in nature. It provides a comprehensive framework for fiscal transparency and focuses on clear roles and responsibilities, transparent budget processes, public availability of information, and assurances of integrity.

OECD Best Practices for Budget Transparency

The OECD best practices were issued in 2001 and are to be used as a reference tool. They support the full disclosure of all relevant fiscal information in a timely and systematic manner and provide a series of best practices in the areas of principal budget reports, specific disclosures, quality, and integrity. <http://www.oecd.org/dataoecd/33/13/1905258.pdf>.

World Customs Organization (WCO) Arusha Declaration

The Arusha Declaration, revised in 2003, provides guidance on key elements needed to support effective national customs integrity programs. It has a specific section on transparency, which deals with customs laws, regulations, procedures, administration, review mechanisms, and performance standards. <http://www.wcoomd.org/ie/index.html>.

Open Budget Initiative

The Open Budget Index (2005) provides ratings of the openness of budget material in 59 countries to their citizens. It is based on a detailed and systematic survey of current practice by local experts. The Index assesses the availability of key budget documents, the quantity of information they provide, and the timeliness of their dissemination to citizens in order to provide reliable information on each country's commitment to budget transparency and accountability. <http://www.openbudgetindex.org>.

Extractive Industries Transparency Initiative (EITI)

The EITI is a multi-stakeholder initiative, launched in 2002, promoting the publication of regular reports of revenue received by the government and paid by the extractive industry sector with respect to specified natural resources. The EITI requires the involvement of civil society and a timetable for implementation of EITI requirements. Reports will be verified by an independent auditor, and a validation process will verify a country's status. On fulfillment of the EITI criteria, candidate countries may be judged EITI compliant. <http://www.eitransparency.org>.

lance, which entails monitoring and consulting with country authorities on a wide range of economic policies to assess economic vulnerabilities.

4. Interest in promoting fiscal transparency has grown considerably since the inception of the Code. A number of transparency initiatives in the fiscal area have been established, including the Organization for Economic Cooperation and Development (OECD) best practices for budget transparency, issued in 2001; the multi-stakeholder Extractive Industries Transparency

Initiative (EITI), launched in 2002, to address resource revenue transparency issues in resource-rich countries; and publication by the Open Budget Initiative of assessments of the information provided to citizens in key budget documents in 59 countries in 2005 (see Box 1). In addition, for countries that receive official development assistance, assessments under the multi-donor Public Expenditure and Financial Accountability (PEFA) program include a series of performance indicators covering aspects of fiscal transparency, crucial for effective public financial management, which are derived in part from the Code. The Code has also been used by the private sector as a framework for evaluating fiscal transparency.⁴

5. Reflecting the unique set of problems faced by countries that derive a significant share of revenues from natural resources, the IMF issued a *Guide on Resource Revenue Transparency* (hereafter, the Guide) in 2005. The Guide provided a summary overview of generally recognized good or best practices for transparency of resource revenue management consistent with the principles of the Code. The Guide, which gives a framework for the consideration of resource-specific issues as part of a fiscal ROSC, has been updated in line with the revised Code and Manual.

Fiscal ROSCs (Fiscal Transparency Modules of Reports on the Observance of Standards and Codes)

6. The purpose of a fiscal ROSC is to identify a country's fiscal strengths and vulnerabilities and to establish priorities for reinforcing its fiscal institutions in order to improve fiscal transparency.⁵ By identifying and raising awareness of important fiscal risks, fiscal ROSCs play a useful role in the surveillance process. The assessments and recommendations in fiscal ROSCs have proved helpful to governments in determining requirements for capacity building and have thus become an important resource for prioritizing possible technical assistance from the IMF and other providers. In some cases, countries may also seek technical assistance in public financial management, tax administration, or fiscal transparency, before undertaking a fiscal ROSC.

7. Fiscal ROSCs are carried out at the request of a country's authorities. Both a decision to undertake a ROSC assessment and a decision to publish the report are completely voluntary. The publication of the fiscal ROSC represents a commitment by the country to make improvements in fiscal transparency. These improvements can be periodically noted in published updates or reassessments of fiscal transparency, and may be reinforced by positive responses to fiscal ROSCs by private markets and donors. It is generally accepted that public trust in fiscal management is thereby enhanced, and a better informed civil society is able to make and promote better fiscal decisions.

8. Preparation and publication of a fiscal ROSC adheres to a set format. Following confirmation by Fund staff of a written request from a country's authorities, the participating country completes and returns a standard

⁴See Petrie (2003). One example of private sector use of the Code is Oxford Analytica's series of assessments for the California Public Employees' Retirement System, of monetary transparency and fiscal transparency against IMF standards, for 27 emerging market countries. <http://www.oxan.com/cr/projects/calpers.asp>.

⁵See <http://www.imf.org/external/np/ros/ros.asp?sort=topic#FiscalTransparency> for published fiscal ROSCs.

questionnaire on fiscal institutions.⁶ A Fund staff mission will then visit the country, normally for about two weeks, and prepare a draft report outlining observance of each of the good practices specified in the Code. In some cases, a resource revenue module is also completed by the IMF. A staff commentary in the draft ROSC will summarize achievements against the Code and provide recommendations for improving transparency. These recommendations are tailored for country-specific circumstances, with an indication of possible timelines and priorities. The draft report is discussed with country authorities and subject to internal IMF review before finalization.

9. By end-2006, about half the IMF membership had undertaken fiscal ROSCs and nearly all fiscal ROSCs had been published on the IMF external website. Participants represented all the major regions of the world and all levels of economic development. As countries strengthen their fiscal institutions and improve adherence to the Code's good practices, it is becoming increasingly important to follow up fiscal ROSCs on a systematic basis, either by undertaking further full ROSC exercises (known as fiscal ROSC reassessments) or by issuing a ROSC update, often completed in the context of a Fund surveillance or technical assistance mission. Publication of ROSC reassessments or updates on the IMF external website helps ensure that information remains accurate and gives recognition to countries for improving fiscal transparency.

10. Evidence from the fiscal ROSCs that have been undertaken to date suggests that some good practices of fiscal transparency are generally well observed across all countries. For example, data on the annual budget outturn are normally reported in a timely fashion. Comprehensive data on public debt are also regularly reported. Many countries, including developing and transition economies, use a uniform budget classification that is consistent with the *Government Finance Statistics Manual 2001* (GFSM 2001).

11. Other strengths and weaknesses in fiscal transparency tend to vary by region and by level of economic development.⁷ There is some indication that countries are learning from the fiscal reform initiatives of their neighbors. Countries involved in the European Union (EU) accession process showed an early interest in undertaking ROSCs and made considerable progress, which is documented in numerous updates for these countries.⁸ Interest has also been strong in Latin America and the countries of the Commonwealth of Independent States. For the latter, the area requiring most improvement is in defining the role of government and identifying and reducing quasi-fiscal activities (QFAs) of public corporations. Countries in all regions could improve fiscal transparency by improving budget realism, simplifying the tax system, and reducing discretion in tax administration. Many emerging market countries also need to improve reporting of contingent liabilities and quasi-fiscal activities, broaden coverage of the general government, and develop medium-term frameworks that fully inform the annual budget process. Low-income countries have more basic problems in producing quality data and developing stronger internal and external audit functions. Finally, those countries that are more decentralized tend to need to improve the transparency of intergovernmental relations.

⁶<http://www.imf.org/external/np/fad/trans/index.htm>.

⁷IMF (2003b).

⁸See Allan and Parry (2003) for a description of fiscal transparency in the EU accession countries.

The Revised Code (2007)

12. The revised Code (2007) is an updated version of the 2001 Code. It reflects several recent developments. In July 2005, the Executive Boards of the IMF and the World Bank evaluated the Standards and Codes Initiative, including fiscal ROSCs.⁹ IMF Directors noted that the Standards and Codes Initiative had been particularly successful in identifying vulnerabilities and establishing priorities for strengthening domestic institutions, but had not yet had a large impact on the actual implementation of reforms. At the same time, in assessing experience to date with fiscal ROSCs, Fund staff had observed that several improvements to the structure and content of the Code might facilitate ROSC assessments. For example, a different ordering of the pillars of fiscal transparency (with budget processes addressed before provision of information to the public) could reduce duplication of material during ROSC assessments. Also, making explicit in the Code certain material that was previously only in the Manual would enhance the transparency of the process. The Code could in addition be revised to support more explicitly the Guide, which contains good practices related to the particularly complex transparency issues faced by countries with substantial resource-related revenues, and to reflect developments in public sector accounting and audit standards and emerging issues in public financial management.

13. A draft of the revised Code was issued for public consultation in October 2006 and a questionnaire was sent to country authorities, development agencies, academics, public and private sector users of fiscal ROSCs, and nongovernmental organizations working in the area of budget transparency. All the material was made available on the Fund website.¹⁰ The Code was then further revised in light of the extensive comments received. Suggestions made during the public consultation process were also reflected in the revised versions of the Manual and Guide.

14. Public comments on the revised Code covered a broad range of issues. Respondents generally expressed substantial support for the enhanced references in the circulated draft Code to resource revenue, transparency of government contracts, and disclosure of the costs of government guarantees and other contingent obligations. In addition, suggestions were received during the consultation process that led to further revisions in the Code. These revisions included the need for a widely available summary, or “citizen’s guide,” to the budget, the broadening of long-term analysis beyond a focus on demographic change, and the inclusion in the Code of taxpayer rights. Other suggestions that were reflected in revisions to the Code were to provide estimates of the broader economic impact of new policies, to clarify the importance of accessibility to information and the actual implementation of policies, and to reinforce the role of the national audit office, including monitoring the response to audit findings. Some further topics raised in the public consultation process led to more extensive treatment of specific issues in the revised Manual, including problems related to giving notice of tax policy changes, increased coverage of tax administration, the importance of public-private partnerships, and the need to address fiscal transparency at the subnational level of government.

⁹Public Information Notice (PIN) No. 05/106.

¹⁰<http://www.imf.org/external/np/sec/pr/2006/pr06223.htm>.

How Has the Code Changed?

15. The original definition of fiscal transparency—which emphasizes being open to the public about the structure and functions of government, fiscal policy intentions, public sector accounts, and fiscal projections (Kopits and Craig, 1998)—continues to form the basis of the Code. The four pillars¹¹ of the Code also remain unchanged; the only difference is the order in which they are presented, and some reorganization to improve the overall coherence of the Code.

16. The first pillar of the Code—*Clarity of Roles and Responsibilities*—contains two core practices, on the clear distinction between government and commercial activities and on a clear legal framework governing fiscal administration. Supporting practices with respect to a clear legal framework have been extended or strengthened and treat more explicitly transparency issues regarding natural-resource-related activities and similar issues regarding contractual arrangements between the government and either public or private operators. The practice on extrabudgetary funds has been moved to the second pillar of the code.

17. The second pillar of the Code has been reordered and renamed—*Open Budget Processes*—and covers core practices on transparent budget preparation, execution, and monitoring. New elements in the second pillar include the requirement of adequate time for legislative consultation, and an increased emphasis on the importance for transparency of the quality of the assumptions and realism of the overall budget, as well as on the presentation of final audited accounts to the legislature. A few practices have been shifted to the third or fourth pillars of the Code.

18. The third pillar—*Public Availability of Information*—continues to emphasize the importance of publishing comprehensive fiscal information. This pillar now contains a more complete list of information requirements that may be found in either budget documentation or other fiscal reports, and encompasses a number of practices related largely to the provision of information that were previously covered under *Open Budget Process*. Good practices in fiscal reporting have been clarified or strengthened, and a new practice has been added to cover long-term assessments.

19. The fourth pillar—*Assurances of Integrity*—deals with the quality of fiscal data and the need for independent scrutiny of fiscal information. A number of practices from other areas in the original Code have been relocated to this pillar and grouped under a new core principle on internal oversight and safeguards for added emphasis.

20. The Code has been strengthened by the addition of some new good practices and the enhancement of others. Many of these changes to the Code were designed to permit a fuller treatment of resource revenue transparency (1.2.4, 1.2.5, 3.1.4) and transparent revenue administration (1.2.1, 1.2.2, 1.2.3, 4.2.6). New practices include

- a period of time for public consultation on proposed policy or regulatory changes (1.2.3);

¹¹The pillars were called “general principles” in the first edition of the Manual.

- contractual arrangements between the government and public or private entities that are clear and publicly accessible (1.2.4);
- a legal basis for liability and asset management practices, including rights to use or exploit public assets (1.2.5);
- a calendar for budget preparation that is followed in practice, allowing sufficient time for legislative review (2.1.1);
- supplemental revenue or expenditure proposals that are classified in a manner consistent with the original budget (2.2.3);
- separate identification of major revenue receipts, including from resource-related activities and foreign assistance, in budget documents (3.1.4);
- publication of a periodic report on long-term public finances (3.1.7);
- wide distribution of a clear and simple summary of the annual budget (3.2.1); and
- purchases and sales of public assets to be conducted in an open manner with major transactions separately identified (4.2.4).

21. Other revisions to the Code broaden some practices to incorporate additional requirements, such as presenting the budget within a medium-term fiscal framework (2.1.2); requiring an audit of the final accounts (2.2.4); specifying reporting on “significant nondebt liabilities,” including government guarantees and unfunded pensions (3.1.5); explaining historical data revisions or changes in classification (4.1.3); and a monitoring mechanism to ensure that recommendations of external audit reports are addressed (4.3.2).

The Role of the Manual

22. The Manual seeks to expand and explain the pillars and principles of the Code and to provide richer and more in-depth coverage of each good practice. Improvements in public financial management and tax administration usually enhance fiscal transparency, and in recognition of this positive relationship, the Manual contains relevant references to these important matters. However, it is not intended as a guide to good financial management. Similarly, the Manual avoids making general fiscal policy recommendations, while providing guidance on how to make certain activities more transparent. In a number of areas, such as public-private partnerships, extrabudgetary funds, and fiscal responsibility laws, the inclusion of transparency requirements should not be taken as an endorsement of the practices themselves. Although some good practices are relatively straightforward, others require more explanation. Therefore, the length of discussion in the Manual regarding each practice should not be interpreted as an indication of greater or lesser importance.

23. The Manual aims to inform a range of different audiences. First of all, country authorities with an interest in promoting fiscal transparency can

review the detailed descriptions, country examples, and research, and use them to guide the development of more robust fiscal transparency practices.¹² Second, the Manual is a comprehensive tool for the IMF itself, and assists staff in undertaking fiscal ROSC assessments and other country surveillance work. Third, civil society organizations have used the Manual to support and complement their efforts in promoting fiscal transparency. Complementary transparency initiatives are also referenced in the Manual. Fourth, it serves as a useful reference document for academia. Finally, and importantly, the Manual is a helpful tool to assist legislatures in holding the executive accountable for more transparent practices.

24. Fiscal transparency is important for all levels of government. Most of the Code can be equally applied to subnational governments, and their compliance with good practices should be encouraged. Similarly, many good practices also apply to public corporations, which should, in particular, operate in an open manner, publish annual reports, and be subject to an annual external audit. Although the Code is primarily focused on transparency practices for central government, it requires that reports on subnational governments and public corporations be available to the central government so that it can monitor general government and public sector finances. It is recognized that this could be a challenge for some countries, especially for those where the subnational levels of government have weak financial management systems. Therefore, the application of some elements of the Code may, in certain cases, be limited, at least in the first instance, to the central government. It is also recognized that the constitutional relationship between central and subnational governments in a few countries constrains the reporting by central government of general government activities and finances.

25. Implementation of all the good practices of the Code may be challenging for many countries because of weak capacity in public financial management. To assist such countries in setting priorities, the Manual sets out some basic requirements of fiscal transparency, which should help them build a sound foundation for fiscal transparency. These basic requirements should not be considered minimum standards, but rather a starting point toward fulfilling all Code practices. A number of complementary best practices are also highlighted in the Manual for countries that already meet good practice and are interested in improving fiscal transparency even further.¹³ Countries that have implemented many or most good practices are encouraged to view best practices as their ultimate goal for fiscal transparency.

¹²The Manual's discussion of how the good practices in the Code might be implemented is drafted to apply to most countries. It is recognized, however, that institutional, constitutional, and legal differences among countries will mean that the specific desirable implementation of good practices in a particular country may differ from what is described in the Manual.

¹³Some examples include OECD, the International Organization of Supreme Audit Institutions (INTOSAI), and the United Nations.

Revisions to the Manual

26. While the structure and much of the core contents remain intact, extensive changes have been made within various sections of the Manual. In part, these are the consequence of reorganizing and deepening some material to be consistent with the revised Code. But there have also been detailed revisions to the text to expand content, document additional country examples from ROSC findings, and add references. As before, the Code and the

Manual draw on the work of other standard setters, including the International Accounting Standards Board, the International Federation of Accountants, the International Organization of Supreme Audit Institutions (INTOSAI), and the work of international organizations, such as the United Nations, the World Bank, the European Union, the World Trade Organization, and the Organization for Economic Cooperation and Development. The Manual has been expanded to include links to the Guide and to address more specifically the unique set of challenges faced by countries that derive a significant share of revenues from natural resources.

27. The practical examples in the Manual of good and best practices in fiscal transparency to be shared with member countries have been updated to incorporate more recent information. The identification of basic requirements of fiscal transparency has also been simplified (Appendix): the aim now is to indicate broad principles that need to be observed, rather than to list specific good practices.

28. As before, the first chapter of the Manual discusses roles and responsibilities and sets out clear definitions of the public sector and its parts and other terms used throughout the Code and Manual. However, the discussion and definition of government has been expanded and is consistent with general government as defined in the IMF *Government Finance Statistics Manual 2001*. Additional material and boxes include nonmarket nonprofit institutions, intergovernmental relations, public-private partnerships, transparent debt and asset management, and issues related to resource revenue transparency.

29. The second chapter, which now focuses on the budget process, begins with new material on budget calendar requirements, the need for budget realism, and transparency of supplemental budgets. New boxes have been added covering topics on fiscal responsibility and transparency laws, poverty and social impact analysis, extrabudgetary activities, performance-based budgeting, and international public sector accounting standards.

30. The third chapter, which now discusses publication and reporting content requirements, includes new material on the separate identification of major revenue receipts, a citizens' guide to the budget, types of nondebt liabilities, transparency of natural resource assets, periodic reporting on long-term public finances, government guarantees, and freedom of information acts.

31. The fourth chapter continues to cover issues related to data quality and assurances of integrity, but now includes new information on accounting standards, transparency in revisions of historical data or reclassification, transparency requirements in the sale of public assets including privatization, the INTOSAI *Lima Declaration*, and INTOSAI guidelines for internal control standards.



Clarity of Roles and Responsibilities

32. This chapter discusses fiscal transparency principles and practices that concern the scope of government and the framework for fiscal management. They are crucial as a basis for assigning accountability for the design and implementation of fiscal policy. Identification of all those entities that provide a public good or service provides the public with an understanding of the true scope of government. A legal and administrative framework that clearly assigns the roles and responsibilities of government in the collection and use of public resources promotes accountability and good governance.

The Scope of Government

1.1 The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and be publicly disclosed.

33. The Code includes good practices relating to (1) structure and functions of government; (2) roles of the executive, legislative, and judicial branches of government; (3) responsibilities of levels of government; (4) relationships between government and public corporations; and (5) government involvement in the private sector.

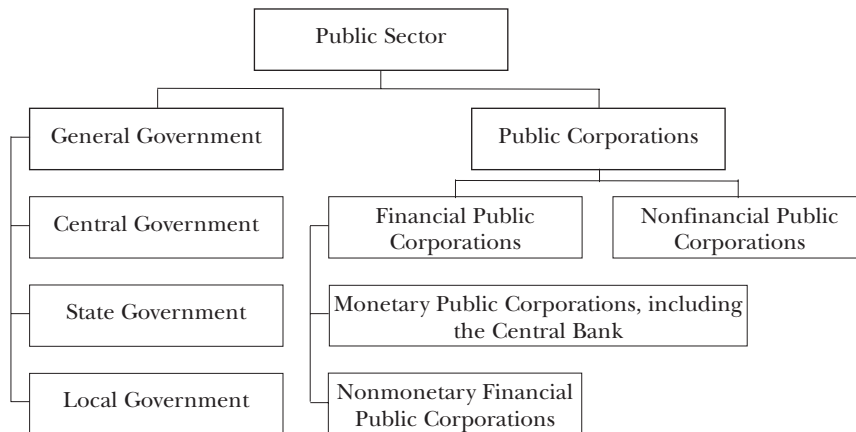
34. Basic requirements under this principle are to ensure that

- a published institutional table clearly shows the structure of the public sector, identifying all government entities by level of government, as well as public corporations;
- the extent and purpose of all quasi-fiscal activities is explained; and
- revenues and responsibilities are clearly assigned between different levels of government.

The structure and functions of government

1.1.1 The structure and functions of government should be clear.

Figure 1. Public Sector



35. The public sector consists of the general government sector and public corporations.¹⁴ The two main types of public corporations are nonfinancial public corporations and financial public corporations, which include the monetary authority (central bank) and nonmonetary financial corporations.¹⁵ Separation of government functions from commercial and monetary activities helps to establish clear accountability for the conduct of these very different activities and facilitates assessment of the macroeconomic impact of fiscal activities. To help achieve clarity in the description of the structure of government, the publication of an institutional table¹⁶ showing the structure of government and the rest of the public sector is a requirement of fiscal transparency. The institutional table should include entities that make up the subsectors of the public sector shown in Figure 1.

36. A fundamental first step in developing fiscal transparency is to identify all those entities that carry out government functions. Government functions are defined as activities related to the implementation of public policies through the provision of nonmarket¹⁷ services and the redistribution of income and wealth, financed primarily by taxes and other compulsory levies on nongovernment sectors. However, defining the boundaries of government and of the public sector is a complex task, and one that is particularly challenging for countries undergoing rapid change.

37. The Code uses the term “government” to describe the general government sector as defined in the United Nations (UN) *System of National Accounts*, 1993 (SNA) and the 2001 IMF *Government Finance Statistics Manual 2001* (GFSM 2001).¹⁸ The general government sector consists of all government units and all nonmarket nonprofit institutions (NPIs) that are controlled and mainly financed by government. Government units encompass all national and subnational institutional units that perform functions of government as their primary activity. This would include any entities that receive the majority of their funds through transfers, earmarked revenues, or other government sources to carry out government functions, as well as any spending of public money for fiscal purposes even if not covered

¹⁴The terms and concepts defined in this section are based on the definitions provided in Chapter II of the IMF’s *Government Finance Statistics Manual 2001* (GFSM 2001). Readers are encouraged to refer to this manual and companion material (<http://www.imf.org/external/pubs/ft/gfs/manual/index.htm>) for a more in-depth understanding.

¹⁵The GFSM 2001 uses the term “public corporation” uniformly to replace the terms “public enterprise” and “public financial institution,” and this practice is followed throughout this document.

¹⁶Examples of institutional tables for selected countries can be found in the annual *Government Finance Statistics Yearbook*.

¹⁷Output is defined as nonmarket if it is supplied free or at prices that are not considered economically significant to influence its demand or supply. The GFSM 2001 (p. 10) notes that it can be difficult to determine whether an entity should be classified as government or a public corporation when it sells its output. Although the main criterion for classifying a public corporation is that it sells most or all of its output at market prices, the market price can be difficult to determine for many public sector goods and services.

¹⁸See the GFSM 2001 at <http://www.imf.org/external/pubs/cat/longres.cfm?sk=15203>.

Box 2. Nonmarket Nonprofit Institutions

Identification of government entities is sometimes difficult. For example, entities may have a separate legal identity; substantial autonomy from the executive, including discretion over composition of their expenditures; and a direct source of revenue through a transfer or earmarked revenue. However, if they engage in nonmarket activities, are financed primarily by taxes (or other compulsory transfers), and/or are directed by a government entity, these entities are in fact government entities and should be included in the formal definition of government operations. These entities are nonmarket nonprofit institutions (NPIs) and should be included in general government operations.

Governments may choose to use nonmarket NPIs rather than government agencies to carry out certain activities because they may be seen as detached, more objective, and less subject to political pressure. Examples include institutions for research and development, and for the setting and maintenance of health, safety, education, or environmental standards. Sometimes nonmarket NPIs may be created for efficiency reasons, including where legal requirements that apply to government would otherwise impede their operations. Determining whether a government exercises control over the operations of an entity is a judgment call that is based on whether it has the ability to determine general policy, either by having the right to appoint the officers managing the NPI or through financial means. According to the GFSM 2001, an NPI is financed mainly by government when most of its operating funds are provided by a government unit or earmarked tax revenue.

Fiscal transparency requires that all nonmarket NPIs (also sometimes referred to as autonomous entities) be fully included in budget documentation and reports on general government activities. Evidence from fiscal ROSCs indicates that many countries currently fall short of this requirement. In some of these countries these types of entities undertake a substantial amount of fiscal activity, and their omission from general government statistics greatly skews the understanding of the size and scope of government and may lead to understating government involvement in key sectors, such as health and education. Furthermore, the existence of nonmarket NPIs and autonomous entities that carry out a mixed bag of activities, some market and some nonmarket, often leads to different official definitions of general government by different government agencies. This can make it particularly difficult to interpret and reconcile different statistical reports.

by institutional arrangements.¹⁹ Revenue and expenditure that are not included in the annual budget appropriations are referred to as “extrabudgetary” and may be associated with two types of institutions that can be found at all levels of government and should be included in the institutional table: “extrabudgetary funds” (see Box 13 in Chapter II for further details) and nonmarket nonprofit institutions. Nonmarket NPIs perform activities on a noncommercial basis and are financed mainly by government transfers or earmarked revenues, but may also have other sources of revenue. Extrabudgetary funds and nonmarket NPIs are both quite common, but the latter are more problematic for defining government, as explained in Box 2 (see also the GFSM 2001 for further details on nonmarket NPIs). As such,

¹⁹This includes ad hoc or regular expenditure of public money not appropriated by the legislature. For example, the expenditure of oil bonus revenue should be included in general government revenue and expenditure, even if it is not appropriated or included in the budget of any government entity.

the general government sector can be defined as all the public institutional units that are nonmarket producers. Government-controlled units that are market producers are not part of general government; they comprise the rest of the public sector.

38. Good practice for fiscal transparency requires that all of these types of activities be included when referring to government, not only conceptually by including them in an institutional table of government, but in budget documentation and fiscal reports.²⁰ Furthermore, the definition of general government and institutional table should be uniformly applied by all agencies reporting on government activities. An example of good practice in defining the boundaries of government is the application of the *European System of Accounts*, 1995 (ESA) to economic statistics in European Union countries.²¹

Roles of the executive, legislative, and judicial branches

1.1.2 The fiscal powers of the executive, legislative, and judicial branches of government should be well defined.

39. The Code requires that the roles of different branches of government in fiscal management be clearly defined but does not advocate a particular structure of government on the basis of fiscal management concerns. Relationships between different branches of government vary greatly across countries, and are often subject to change as political and administrative systems develop. A number of recent studies illustrate the important influence of budget institutions on fiscal outcomes.²² The authority of different branches of government at different stages of the budget process should be clearly defined in a budget system law or the constitution. For example, the executive may be given power to conduct fiscal policy when the budget for the fiscal year has not been adopted by the legislature before the start of the fiscal year to which it relates.

40. The powers and limits of each branch with respect to changes in the budget during the fiscal year should be clearly specified in the legal framework. In presidential (as opposed to parliamentary) systems it is more common for the legislature to introduce changes to the draft budget. Where this occurs, the draft budget submitted by the executive to the legislature as well as the final budget approved by the legislature should be publicly available to allow the public to hold each branch accountable for its part in the budget process.

41. The legislative and judicial branches should play an active role in ensuring the availability and integrity of fiscal information.²³ This would include having an active committee of the legislature to oversee the conduct of fiscal policy and to facilitate civil society input into budget deliberations (e.g., through receiving public submissions). With respect to the judicial branch, taxpayers as well as recipients of specific public services, public pensions, or other social insurance should be able to challenge the legality of a ruling by appeal to the courts. In some cases decisions by the courts can have significant fiscal impact.

²⁰An example of good practice is *Honduras*, where the new budget system law passed in 2004 defines general government and public sector in accordance with the GFSM 2001. This entailed budgeting and reporting for noncommercial decentralized agencies that were previously excluded (see *Honduras*, Fiscal ROSC-Update, 2005, paragraph 4). *El Salvador* is another country where there is a fairly clear distinction between decentralized public institutions performing noncommercial functions, which are included in the budget and government finance statistics, and those performing commercial functions, which are included only in statistics on the public sector. However, some extrabudgetary expenditures remain (see *El Salvador*, Fiscal ROSC, 2005, paragraph 2).

²¹See <http://www.europa.eu.int/comm/eurostat>.

²²See, for instance, Alesina and Perotti (1995 and 1999) and Stein, Talvi, and Grisanti (1998). These studies suggest that fiscal performance in Europe and Latin America is strengthened by budget procedures that concentrate power in the executive (and, within the executive, in the finance ministry) and are more transparent.

²³The Code is silent, however, on whether the legislature should have the power to amend the budget presented by the executive. This goes beyond transparency. See Alesina and Perotti (1999) for a discussion of the effects of different legislative budget amendment powers.

Responsibilities of different levels of government

1.1.3 The responsibilities of different levels of government, and the relationships between them, should be clearly specified.

42. A clear demarcation of roles within government is essential for transparency. At the broadest level, it is necessary to clearly define the allocation of tax powers, powers to borrow or incur debt, and expenditure responsibilities between different levels of government. The intergovernmental structure varies widely among countries, ranging from federations in which individual states or provinces have considerable powers to unitary forms of government. At the local level the inclusion of many informal as well as formal government structures may further complicate the picture. Even within governmental structures that look similar, the precise allocation of revenue and financing powers and expenditure responsibilities varies widely. It may also vary substantially over time. Fiscal transparency requires that the allocation of powers and responsibilities be based on clear principles, stated within the law or constitution. The powers and responsibilities at each level of government should also be exercised in an open and consistent way.

43. Where they exist, shared revenues and intergovernmental transfers should be clearly specified, preferably based on stable criteria or formulas rather than discretionary criteria or negotiations. Unfortunately it is common for transfers to be negotiated annually, which is neither stable nor transparent. A formula with well-defined parameters provides the most transparent option for distributing intergovernmental fiscal transfers. Distribution based on “need” where “need” is not well defined opens the process to subjectivity and reduces transparency. Project grants are also more subjective in nature, but transparency can be enhanced if the criteria and basis for decisions are made public.

44. Fiscal transparency of subnational levels of government and in relationships between levels of government is especially important where countries are devolving fiscal responsibilities. Decentralization has become a popular strategy based on the premise that lower levels of government can better respond to local demands and needs at lower cost. Many countries have recent legislation that assigns or reassigns the responsibilities of the different levels of government.²⁴ Under these circumstances, the opportunities for duplication of responsibilities and unclear assignment of revenue or expenditures are many. Furthermore, because of inequality across regions, most countries that pursue decentralization have introduced new legislation regarding tax sharing and intergovernmental transfers to address such inequalities. Finally, the effectiveness of this strategy critically depends on the ability of citizens to hold local government officials accountable. Numerous factors may impact local government accountability, but one critical factor is the quality and public availability of fiscal data at the local level. The more decentralized the revenue and spending decisions, the more important it becomes to ensure that lower levels of government also follow good practices on fiscal transparency.

45. For countries with significant resource revenues, the distribution of resources between levels of government has an added dimension.

²⁴*Mozambique* has recently set up a new institutional framework for intergovernmental relationships, with relatively clear and simple rules (see *Mozambique*, Fiscal ROSC, 2001, paragraph 5). In *Colombia*, legislation clearly and transparently establishes the amount of resources to be transferred, the rules of growth of the transferred resources, and criteria applicable for distributing resources among departments, districts, and municipalities (see *Colombia*, Fiscal ROSC, 2003, Box 1).

Arrangements to assign or share revenues from these resources between central and lower levels of government should be well defined and any modification of the system should be subject to clear rules and procedures.²⁵ There are a number of arguments that favor placing control of resources at the national level, such as the ability to control spending and save windfall revenues and to facilitate policy coherence for achieving macroeconomic objectives. But in many instances resource revenues are either under the control of subnational governments or are used to finance their activities. In countries where subnational levels of government enjoy a high degree of independence, it can be challenging to design a transparent revenue-sharing system that meets all objectives.

46. Central governments need adequate information on fiscal activities of lower levels of government in order to have a full picture of general government activities. This is particularly important where subnational governments have access to borrowing, including from international lenders. In many countries central governments carry an implicit contingent liability on subnational government debt, and in these cases monitoring of subnational governments is particularly important. This can be very challenging because many subnational governments do not provide good fiscal data in a timely manner. Furthermore, subnational governments may have hidden liabilities such as unmonitored arrears, or contingent liabilities for local public corporations. In some countries fiscal responsibility legislation includes reporting and other requirements for subnational governments.²⁶ In cases where subnational governments have become overindebted and central government bailouts have been required, the bailouts usually come with certain agreements with the subnational government to ensure that it improves its fiscal position and eventually repays the central government. When such agreements are made, their terms should be publicly available.

Relationships between the government and public corporations

1.1.4 Relationships between the government and public corporations should be based on clear arrangements.

47. Fiscal transparency requires that the financial relationships between the government and public corporations be clearly stated. In particular, because public corporations are owned in whole or in part by the government, there should be clear expectations of how profit transfers or dividend payments to the government will be determined. The annual report of the public corporation should provide details on total profit, retained earnings, any other uses of profit, and the amount transferred to the budget, and this information should also be included in the annual budget documentation. In some countries profits may be transferred to extrabudgetary funds, used directly to finance or purchase a public good, or even paid in kind for government use. For purposes of fiscal transparency, all payments by public corporations, including taxes, royalties, dividends, or profits, should be reported in the annual report of the corporation as well as in budget documentation. Any in-kind payments should be

²⁵*Nigeria* has reached agreement on revenue sharing formulas for oil- and gas-related revenues among federal, state, and local governments. Disbursements to all territorial entities are published every month at <http://www.fmf.gov.ng>. To manage the macroeconomic impact of the oil resources, consensus was reached to limit release of oil revenues to the budgets by saving revenues in excess of a budgetary reference oil price.

²⁶In *Peru*, the 2003 *Fiscal Responsibility and Transparency Act* requires that the central government guarantee external debt contracted by subnational administrations; such external debt is to be used only to finance public investment; the debt-to-current revenue ratio and annual debt service-to-current revenue ratio must be below 100 and 25 percent, respectively, for each subnational government; and the three-year average primary balance of subnational governments must be positive.

valued at their market value in the budget. Conversely, if the government makes transfers to the public corporation, they should be included in the annual budget. Again, both the budget and the annual reports of the corporation should identify transfers from the government to the corporation.

48. Some functions, referred to as quasi-fiscal activities (QFAs), are carried out on behalf of the government by public corporations or, more rarely, private entities. QFAs can have significant implications for public policy and the general government financial position, but these fiscal effects are not usually reflected in fiscal reports for the general government. For instance, financial or commercial institutions may be asked to undertake lending at subsidized rates, the subsidy component representing a loss to the institution. However, if the government had directly subsidized the activity, it would have appeared as a subsidy in the government's budget and the policy cost would have been transparent. Hence, QFAs are a nontransparent means of implementing a fiscal policy that introduces significant fiscal risk. The costs of QFAs will be borne by the budget either through smaller profit transfers or, eventually, through a need to subsidize or recapitalize the public corporation. A central feature of fiscal transparency, therefore, is the open conduct of all fiscal activity, no matter where and how it takes place.

49. Fiscal responsibilities should generally be carried out by government entities, but because public corporations may also undertake noncommercial activities on behalf of government, fiscal transparency requires that the annual reports of public corporations identify these activities. These QFAs could be eliminated by including their cost in the budget through either a well-defined budget transfer to the public corporation or direct budget subsidy for the activity.²⁷ The cost and associated transfer from the government should also be explicit in the financial statements and annual reports of the public corporation. These clear arrangements reduce the risk that the nongovernment public sector, particularly financial corporations, will require unexpected financial support as a result of being asked to carry out fiscal policy objectives.

50. The converse of this situation can also be found, where government agencies provide commercial services, and hence have income from commercial charges. This was particularly common in transition economies where central planning had previously blurred the distinction between public and private sector activities. If a government agency carries out either banking or commercial functions, fiscal transparency requires that they be identified along with the fiscal policy objectives of these activities. The agency's budget should state both income from and costs for providing commercial activities. In many cases the agency is assigned regulatory oversight of the commercial activities it performs. To avoid this type of conflict of interest, and to clearly establish the fiscal responsibilities of government, commercial activities of government entities should be privatized or assigned to a public corporation that does not have regulatory functions.

General government and the central bank^{28,29}

51. The primary responsibility of the central bank is to conduct the government's monetary policy. Increasingly, central bank responsibilities are

²⁷In *Azerbaijan*, fuel subsidies provided by the national oil company, SOCAR, were eventually put on budget by recognizing the amount of the subsidy in the budget, while SOCAR received credit for taxes owed for the same amount (see *Azerbaijan*, Fiscal ROSC-Update, 2005, Section II).
²⁸In the Code, and hereafter in the Manual, references to public financial corporations do not include the central bank. Given the particular significance of the central bank for fiscal analysis, it is important to distinguish it clearly from other public financial corporations.

²⁹The relationship between the central bank and government should be consistent with the principles of the International Monetary Fund's *Code of Good Practices on Transparency in Monetary and Financial Policies*.

being defined to give the bank as much autonomy as possible within a framework that ensures appropriate accountability.³⁰ In many countries, central bank laws emphasize the operational independence of the central bank and prohibit or restrict its direct financing of the fiscal deficit.³¹ In such countries, any activities carried out for the government are conducted on a commercial or at least cost-recovery basis.

52. In some countries, however, a number of activities carried out by central banks are quasi-fiscal in nature. Quasi-fiscal activities may involve operations related to the management of the financial system (e.g., subsidized lending and directed credit) or the exchange system (e.g., multiple exchange rates and import deposits). These operations may be used by governments as a substitute for direct fiscal action and will have similar economic effects. They will affect the operating balance of the central bank and hence should be taken into account in explaining and projecting the overall fiscal position. Fiscal transparency requires a clear definition of the institutional relationships between monetary and fiscal operations and a clear definition of the agency roles performed by the central bank on behalf of the government. See the *Code of Good Practices on Transparency in Monetary and Financial Policies* for more details.³²

General government and public financial corporations

53. Public financial corporations have often been set up to provide assistance of a quasi-fiscal nature, such as a development bank providing loans to specific sectors at below-market rates. Governments also use public financial corporations on a more ad hoc basis to provide quasi-fiscal assistance, for example, through policy-directed lending. Although an increasing number of state-owned banks have been privatized in recent years, they still account for a dominant share of the banking sector in many developing economies and may carry out QFAs.³³

General government and nonfinancial public corporations

54. Nonfinancial public corporations in many countries provide non-commercial services, usually by being required to charge less than cost-recovery prices (e.g., pricing electricity below cost to rural consumers). In a number of countries, nonfinancial public corporations have also been required to provide social services. These noncommercial activities may be financed by cross-subsidization between different groups of consumers and/or by incurring losses that are financed from the budget or by borrowing. In some instances, certain nonfinancial public corporations may charge excessive prices and transfer the supernormal profits to other corporations or to the budget. This practice confuses the fiscal responsibilities of government and the commercial role of nonfinancial public corporations, makes relationships between government and nonfinancial public corporations nontransparent, and creates difficulties in holding managers of nonfinancial public corporations accountable for their performance. Best practice

³⁰In *Sweden*, the central bank undertakes no quasi-fiscal activities, and its independence is assured under amendments to the 1997 *Sveriges Riksbank Act* (see *Sweden*, Fiscal ROSC, 2000, paragraph 5).

³¹Some examples include *Moldova*, *Mongolia*, and *Brazil*. Even if direct financing is prohibited, it is still possible for the central bank to buy government securities on the open market, or to influence the demand for such securities in other ways (e.g., by requiring their use in meeting reserve requirements).

³²For a detailed discussion, see <http://www.imf.org/external/np/mae/mft/index.htm>.

³³See Goldstein (1997).

Box 3. OECD Principles of Corporate Governance: Principle V on Disclosure and Transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

1. Disclosure should include, but not be limited to, material information on
 - the financial and operating results of the company;
 - company objectives;
 - major share ownership and voting rights;
 - remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships, and whether they are regarded as independent by the board;
 - foreseeable risk factors;
 - issues regarding employees and other stakeholders; and
 - governance structures and policies, in particular the content of any corporate governance code or policy and the process by which it is implemented.
2. Information should be prepared and disclosed in accordance with high-quality standards of accounting financial and nonfinancial disclosure.
3. An annual audit should be conducted by an independent, competent, and qualified auditor in order to provide an external and objective assurance on the way that the financial statements have been prepared and presented.
4. Channels for disseminating information should provide for equal, timely, and cost-efficient access to relevant information by users.

³⁴See the International Financial Reporting Standards (IFRS) (<http://www.iasb.org/Home.htm>) or the U.S. generally accepted accounting principles (<http://cpaclass.com/gaap/gaap-us-01a.htm>) as the primary examples. The Public Sector Committee of the International Federation of Accountants (PSC) has issued a Guideline stating that IFRS are applicable to government business entities.

³⁵In the *United Kingdom*, nonfinancial public corporations operate on a commercial basis, with the costs of noncommercial activities being compensated for and reflected in the budget. In some countries, such as *France*, *Chile*, *Honduras*, and *Brazil*, QFAs have been reduced considerably by making explicit budget transfers for certain noncommercial activities conducted by public corporations (see *France*, Fiscal ROSC, 2000, paragraph 2; *Chile*, Fiscal ROSC-Update, 2003, paragraph 5; *Honduras*, Fiscal ROSC-Update, 2005, paragraph 4; and *Brazil*, Fiscal ROSC, 2001, paragraph 11).

for fiscal transparency, in these cases, would be the inclusion of a direct budgetary transfer to public corporations that covers the costs of QFAs. In a few countries, the government is contracting with a nonfinancial public corporation to provide a noncommercial service in return for an explicit budgetary transfer that reflects the price the government is willing to pay for the service. Similar contracts could also be agreed upon with public financial corporations.

55. Although the Code was not written for public corporations, many of its practices can and should be applied to them. In particular, they should operate in an open manner and their audited financial reports should be presented by the executive to the legislature and be published. Public corporations should apply internationally recognized accounting standards³⁴ so that their accounts can be properly audited by international accounting firms. Best practice is that public corporations should observe the relevant disclosure and transparency requirements of Principle V of the *OECD Principles of Corporate Governance* (OECD, 2004b). Box 3 spells out these requirements.³⁵

**Box 4. Characteristics of Transparent Regulations:
OECD Policy Recommendations**

- Regulations should have clearly identified policy goals; should be expressed in clear, simple terms; and should have a sound legal basis.
- Public consultation on new regulations will often be desirable.
- Procedures for applying regulations should be open and nondiscriminatory. They should apply equally to the public and private sectors, and should contain an appeals process.
- Overlapping responsibilities among regulatory authorities should be minimized.
- Regulations and their impact should be reviewed periodically in published reports.

National resource companies

56. National resource companies (NRCs) are often responsible for both commercial operations and noncommercial activities, such as the provision of social or other services normally provided by the government; specific requirements for employment; and the provision of products for domestic consumption at less than cost recovery or below-market prices. Clarity of fiscal policy requires that the ministry of finance oversee such noncommercial activities. In addition, the cost of these activities in terms of lowering dividends and tax payments should be quantified and reported to the public. Clarity is also needed in defining the policy and regulatory role of the NRC vis-à-vis the sector ministry and ministry of finance. Good practice would be to clearly separate the commercial and noncommercial roles of the NRCs and leave oversight and policy decisions related to noncommercial activities to government ministries.

57. It is important to hold NRCs to the same corporate governance standards as other enterprises (see Box 4), including making audited accounting statements available to the public. Best practice statements would clearly identify all payments to the budget in the form of taxes, royalties, dividends, or any other form, such as in-kind payments.³⁶ Any transfers from the government to the NRC should also be disclosed. For instance, in some countries, the government has to make contributions to the production costs of joint ventures with private companies (*cash calls*) through the NRCs. The latter should be held accountable for the use of these government contributions.

Government involvement in the private sector

1.1.5 Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.

58. The government regulates the private sector in a variety of ways, and transparency in government operations may be of limited benefit if there is not clarity in all kinds of regulatory interaction with the private sector.

³⁶See the Guide for further discussion of these issues and additional examples of QFAs provided by national resource companies.

Regulation of the nonbank private sector

59. Governments have become increasingly aware of the need for transparency in regulatory practices. This aspect of regulation is explicitly recognized in the *OECD Policy Recommendations on Regulatory Reform*, which also address the efficiency of regulation.³⁷ Best practice is that these recommendations be fully implemented.

60. There are other activities that the private sector carries out under the direction of or in conjunction with government that should share the characteristics of transparent regulations. These include the imposition of compliance costs of collecting taxes on private businesses and individuals; compulsory contributions to private providers of old age pensions, health, and insurance; and privately financed infrastructure projects. If policy or regulatory changes impose significant compliance costs on citizens or taxpayers, they should be given appropriate time to comply with the new laws or rules. To this end, explanatory material for the application of new laws or regulations should be publicly available and mechanisms should be in place whereby citizens can have their queries answered (e.g., by setting up a dedicated office to do so). A recent development in some advanced countries is a requirement to accompany the publication of new or amended tax legislation with a statement of the compliance cost of proposed measures.³⁸

Government involvement in the banking sector

61. Government regulation of the banking sector—and the financial sector more generally—should also be based on clear policy goals. An appropriate framework for bank regulation, most notably that provided by the *Basel Core Principles for Effective Banking Supervision*,³⁹ and greater transparency in reporting government involvement in the banking system, including a rationale for each type of intervention, are essential components of a framework that promotes financial sector stability. The *IMF Code of Good Practices on Transparency in Monetary and Financial Policies* contains detailed good practices for government financial agencies responsible for regulation, supervision, and oversight of the financial and payment systems.

Direct equity investment

62. Governments also intervene by directly acquiring private equity in companies or commercial banks. All government equity holdings should be identified in the budget documentation. See practice 1.2.5 for a discussion of transparent asset management, and practice 3.1.5 for a discussion of reporting requirements for financial assets, including equity investment in private companies. The acquisition or sale of equity should be clearly explained in the budget documentation (see also practice 4.2.4), and the policy objectives served by government equity holdings should be explained.

63. Direct equity participation in projects to develop natural resources is common, but often not very transparent. As noted in the Guide, equity can

³⁷See http://www.oecd.org/topic/0,2686,en_2649_37421_1_1_1_1_37421,00.html for additional detail.

³⁸In *Australia*, these are referred to as “compliance cost impact statements.”

³⁹See Basel Committee on Banking Supervision (1997). This is one of the core standards promoted through the Financial Sector Assessment Program (FSAP). In the FSAP, staff of the World Bank and IMF consider observance of relevant financial sector standards as an input into a broader examination of financial sector stability.

be acquired under commercial terms or through concessionary purchases, including tax swapped for equity or other, often complicated, deals. As a general rule, favorable terms for government participation are usually offset elsewhere in terms of a lower share of profits or tax revenue. In these cases fiscal transparency requires not only disclosure of equity but an attempt to fully cost any offsetting concessions.

Framework for Fiscal Management

1.2 There should be a clear and open legal, regulatory, and administrative framework for fiscal management.

64. The Code includes good practices relating to (1) comprehensive laws, regulations, and administrative procedures; (2) revenue collection; (3) public comment on legislative or regulatory changes; (4) contractual arrangements; and (5) liability and asset management.

65. Basic requirements under this principle are to ensure that

- no public funds can be spent without publicly available evidence of appropriation by the legislature; and
- revenue collection is governed by clear and easily accessible laws and regulations.

Comprehensive laws, regulations, and administrative procedures

1.2.1 The collection, commitment, and use of public funds should be governed by comprehensive budget, tax, and other public finance laws, regulations, and administrative procedures.

66. One of the fundamentals of fiscal transparency is the need to have firm footing for the implementation of fiscal policies. This can be achieved by having clarity of purpose and a comprehensive framework for fiscal management, including legislation, regulations, and administration. Fiscal transparency requires that the legal framework for fiscal activity avoid excessive complexity and opportunities for official discretion. As noted in part 3.1.3, the framework should also require disclosure of fiscal activities and any quasi-fiscal arrangements. Although clear laws and regulations are critical for fiscal transparency, it is just as important for them to be followed in practice. Experience with fiscal ROSCs indicates that the key weakness is often in the effective implementation of the laws and regulations rather than in the laws themselves.

Explicit legal basis for revenue collection

67. The constitutional framework of almost all countries embodies the principle that no tax may be levied unless it has a clear legal basis (although there are some differences in the application of this principle).⁴⁰ It is fundamental to fiscal transparency that taxation be under the authority of law and that the administrative application of tax laws be subject to procedural safe-

⁴⁰The term “tax” in this section is used to refer to any compulsory payment under law, including customs duties.

guards, such as taxpayer rights and tax dispute procedures.⁴¹ Tax laws should clearly establish the powers and limitations of the tax administration to search the premises of taxpayers, demand information from taxpayers and third parties (including banks), apply indirect methods to determine income and sales, and enforce the collection of *tax arrears*. Taxpayers should have the right to challenge property or wealth assessments or any other tax ruling. As with budget laws, however, the legal framework for taxation needs to be developed in a way that reflects administrative capacity.

68. The practice of countries differs greatly in terms of where the administrative provisions of the tax laws are located. In some countries, each substantive tax law (e.g., for income tax or value-added tax) contains all the provisions necessary for its administration. In countries that organize all of their tax laws into one code, the tax administration provisions can be one or more titles of this code. Other countries have what may be called a tax administration law or a general law on taxation. Under this arrangement, the general law on tax administration contains those administrative provisions common to all tax laws, whereas each substantive tax law contains the administrative rules that are particular to that tax.

69. Tax laws should be well organized and include all elements needed to determine tax liabilities and to establish procedures for tax collection. To limit the size and complexity of tax laws, it is generally preferable that the explanation of a tax administration's powers be detailed in published administrative guidelines, policy statements, or rulings, rather than being embodied in detail in the tax laws (see practice 1.2.3 for further discussion).

70. Tax laws should provide taxpayers with the following rights or safeguards: (i) confidentiality—the right to have personal information accorded the greatest possible confidentiality with the tax authorities; (ii) notice—the right to be notified of an assessment, a decision on adjudication, or any collection action against the taxpayer's assets; (iii) explanation—the right to an explanation of why a tax is being assessed in the way it is and to an explanation of the reasons for a decision by adjudication; (iv) appeal—the right to an independent administrative appeal and a final judgment appeal; and (v) representation—the right to be represented by a qualified professional (attorney, accountant, etc.) in any dealings with the tax authority. These rights should be established in law and can also be incorporated in a taxpayers' charter or equivalent that is used to communicate taxpayer rights and to hold agencies accountable for their performance, including administrative discretion.

71. Collection of customs and non-tax revenues, such as duties, fees, and charges, should also have a legal basis. These laws should also specify the rights of citizens, dispute procedures, and the powers and limitation of the agencies involved in the collection of these revenues. These revenue measures should be easily accessible to the public and stable over time so that their existence and purpose are known to the public.

Fiscal regime for resource sectors

72. Governments raise revenue from resource companies by various means, including corporate income tax, as well as royalties, signature bonus payments,

⁴¹For example, in the *Republic of Korea* taxes are levied under strict legal authority, tax laws are accessible, and they contain details of taxpayers' rights, tax dispute procedures, and the application of tax laws. Taxpayers can contest rulings through internal dispute resolution procedures, recourse to the National Tax Tribunal, and finally by appealing to the judiciary (see *Republic of Korea*, Fiscal ROSC, 2001, paragraph 8).

and/or profit oil in the case of production-sharing agreements. The combination of instruments for raising revenue is referred to as the fiscal regime. At one end of the spectrum of fiscal regimes, resource companies are subject to the same regime as other industries, with the addition of royalty charges or their equivalent. Inclusion of corporate tax provisions for petroleum in the general tax law offers a high degree of fiscal transparency. At the other extreme, various instruments and rates are applied on a case-by-case basis. According to the *Guide on Resource Revenue Transparency*, fiscal transparency requires that the government's policy framework and legal basis for taxation or production-sharing agreements with resource companies be clearly and comprehensively presented to the public. The more complex and discretionary the system, the more difficult it is to achieve fiscal transparency.

73. Investors often seek to protect themselves from unfavorable changes in the fiscal regime, and therefore agreements with private companies often include fiscal stability clauses that “freeze” the tax system at the time of the agreement or guarantee some sort of compensation if there is a change in taxes. While reducing risk for investors and perhaps increasing the flow of investment, such clauses limit the flexibility of tax policy, and may have an impact on the overall design of the tax system. The existence of such clauses and their potential implications should be disclosed to the public.

Use of public funds and resources

74. The effectiveness of the budget depends on its being well grounded in law, with supporting regulations and administrative practices. Many countries have a budget system law that provides the legal framework for budget formulation, approval, and execution. In some countries, this is an organic law, which has higher status than ordinary laws. The relative importance of codified budget laws, regulations, and administrative practices varies considerably among countries.⁴² Despite these differences, certain important elements should be embedded in all legal/administrative frameworks. All spending should be approved by the legislature through an appropriation; the budget should be comprehensive, covering all central government transactions (albeit possibly through different funds); budget transactions should be shown in gross terms; a minister or other responsible authority for government finance should be given effective power of budget management; individual agencies should be held accountable for funds they collect and/or use; contingency or reserve provisions should specify clear and stringent conditions for use of such funds; and independently audited reports showing clearly how public funds have been used should be prepared for the legislature and the public.

75. It is common for basic principles of budget management to be embodied in a budget system law (which may have constitutional or near-constitutional status). Often, such laws are supported by specific laws governing treasury operations or the management of public debt. Where a comprehensive legal framework is not in place, its development should proceed at a pace that is consistent with policy and administrative capacity.⁴³ Weaknesses in institutional and administrative capacity often impede the enforcement of laws and regulations.

⁴²For more discussion on the legal traditions for budget systems, see OECD (2004a).

⁴³Many developing countries inherit their legal systems either from continental Europe, where the legislation for public financial management relies on budget principles and procedures that are codified in detail in the law, or from Britain, where the legislative model tends to legislate broad requirements, with the detailed budget procedures reflected in regulatory and administrative instructions.

Also, economies in transition are in various stages of developing a legislative basis for their budget processes, but many have difficulties implementing realistic fiscal policies and controlling budget execution in practice. The work of establishing a sound legal framework in these countries needs to be supported by development of the capacity to reflect that framework in realistic budgets.

76. Legal title to the nation's natural resources should also be included in the basic legal framework. Such rights are often established in the constitution but can also be covered in national or even subnational government laws. In most countries, resources in the ground are the property of the sovereign state, which can grant private parties rights to access them. As noted in the Guide, the power to grant rights to explore, produce, and sell these resources should be established in laws, regulations, and procedures that cover all stages of resource development. The clarity of the legal framework in this regard provides important safeguards for private investors and helps ensure that the exploitation of natural resources benefits the nation as a whole. Laws and regulations should give assurance that revenues and accumulated wealth are managed transparently through the budget process. Best practice legislation would provide standardized agreements and terms for exploration, development, and production with minimum discretion for officials; disputes would be subject to international arbitration; and individual agreements and contracts regarding production would be disclosed.

Revenue collection

1.2.2 Laws and regulations related to the collection of tax and non-tax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or non-tax obligations should be considered in a timely manner.

Accessibility and understandability

77. Revenue laws, regulations, and other documents relating to administrative interpretation of revenue laws should be accessible to the general public. In addition to being accessible, tax and other revenue collection laws should be understandable and avoid unwarranted complexity. Clear, understandable tax rules and regulations aid fiscal transparency by limiting discretion in their interpretation. However, tax and customs laws and their implementing regulations can be very complicated, particularly regarding corporate income tax and the calculation of profits. Therefore, it is critical to provide taxpayers with up-to-date explanatory materials (e.g., instructions and pamphlets), which are usually prepared by the tax agency. Tax administration staff should be able to offer professional advice and assistance to help taxpayers understand their rights, obligations, and entitlements under the tax laws. In addition, many countries find it convenient to provide taxpayers, on request, with advance rulings on how particular transactions that they are contemplating would be treated in a subsequent tax assessment. Where this practice is followed, it is important that the rulings be publicized.

78. Any exception to the application of tax laws should also be published. General tax exemptions, deductions, or special rates are normally a part of the tax law and hence, published and known to the public. However, the larger the number of exemptions, the greater the complexity and room for interpretation of the law, thus reducing transparency. Also, many countries offer (or negotiate) special tax treatment for new businesses. Transparency requires that all such tax incentives be made public—ideally with an estimate of the revenue forgone (see the discussion under practice 3.1.3).

Clear criteria for administrative application

79. A corollary to requiring that taxes be imposed under law is that administrative discretion in applying tax laws must be limited. Tax incentives that involve a high degree of administrative discretion and case-by-case negotiation of tax liabilities between officials and taxpayers should be avoided, because such practices lack transparency and have the potential for corruption. However, appropriate provision should be made for the treatment of taxpayers who cannot comply with complex rules, settlement of tax cases, agreement on installment payment schedules, and writing off of uncollectible amounts, all with procedural safeguards. Similarly, non-tax obligations should be transparently determined and nonnegotiable in their application.

80. Customs administration is another area in which transparency is critical, especially given the still high reliance on import duties in many developing countries. The *Declaration of the World Customs Organization (Customs Cooperation Council), Arusha* (revised 2003),⁴⁴ which sets out guidelines for a program to achieve integrity in customs administration, emphasizes clarity and precision of legislation as a means of promoting transparency and integrity, and fighting corruption with respect to customs. Other resources available from the Internet can also promote greater transparency in customs administration.⁴⁵ Transparency is frequently lacking in the formulation of import tariffs, where there may be several overlapping schedules that apply to any particular import, or a confusing combination of ad valorem and specific levies. In addition, customs valuation is often based not on an accurate assessment of the import value, but rather on some notional reference price or flawed assessment procedure. This creates a gap between the nominal and effective rates of ad valorem customs tariffs. It is thus important that customs have a clear statement of tariffs and how different tariffs applying to the same import relate to each other, and also have an accurate way of measuring import value. Similar considerations apply to exports, although export taxes have become increasingly rare and generally play a small role in revenue systems.

Judicial appeal for tax and regulatory impositions

81. Citizens and taxpayers should have access to clear regulatory and administrative procedures, including a well-functioning system of administrative review of decisions, as well as the opportunity to appeal to an independent judiciary. The proper administration of tax and customs matters,

⁴⁴See <http://www.wcoomd.org>.

⁴⁵<http://www.wcoomd.org/ie/en/recommendations/recommendations.html>.

through the articulation of clear procedures, is an important transparency matter. Adjustments to taxpayers' tax returns (e.g., following an audit) should be accompanied by clear and complete statements to taxpayers as to the reasons for adjustments. In most countries, these rights exist on paper; however, they often function imperfectly. In particular, the appeals system may fail to provide safeguards against arbitrary administrative action and to keep the tax administration within the bounds of the law.

82. An impartial mechanism for appealing and adjudicating decisions when the taxpayer is dissatisfied with the results of the administrative objection process should be established. This would include a full judicial process through the courts system to resolve matters of legal interpretation. The appeals process should not be overly difficult or onerous, appeals decisions should be made in a timely manner, and, subject to issues of privacy of all parties to the dispute, all decisions should be in writing. The legal and regulatory framework should be clear on the recovery of disputed debt, including that subject to appeal, and designed to ensure that tax debtors do not postpone payment by making frivolous objections or appeals. A number of countries require payment of up to half of the total sum due. Where the taxpayer has paid tax that is found on appeal not to be owed, it should be refunded with interest.

Revenue administration

83. Revenue administration should be organized in such a way as to minimize opportunities for collusion between taxpayers and officials. In this connection, administrative functions should be distributed across the administration, to provide a self-checking element whereby the work of staff engaged in one function serves as a control on the work performed by staff in other functions.

84. Reinforcing this, revenue administration should be supported by a strong headquarters responsible for the design of sound work processes and annual work programs, and for monitoring the performance of local offices in delivery. In modern tax systems, taxpayers assess their own tax liabilities with minimal intervention by tax officials, subject to ex post review by the tax administration on a selective basis. This extensive reliance on self-assessment combined with targeted enforcement is the basic strategy that permits tax administrations throughout the world to administer the tax system efficiently and to limit the opportunities for collusion between taxpayers and tax officers.

85. Information technology can also play an important role in eliminating opportunities for discretionary action as well as providing for effective monitoring of tax arrears, exemptions, appeals, and payments. Computer systems should be designed to provide a full audit trail of the information recorded in the taxpayers' accounts, by cross-referencing this information to original source documents and to the names of the staff who entered it into the system.

86. Computer systems should have the capacity to readily exchange information among revenue departments. But it should be made clear that all taxpayer information is subject to confidentiality provisions and country-specific legal restrictions. The sharing of taxpayer information for enforcement

