

## Annex II

# CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY<sup>1</sup>

### I. Clarity of Roles and Responsibilities

1. The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well defined.
  - The boundary between the government sector and the rest of the economy should be clearly defined and widely understood. The government sector should correspond to the general government, which comprises the central government and lower levels of government, including extrabudgetary operations.
  - Government involvement in the rest of the economy (e.g., through regulation and equity ownership) should be conducted in an open and public manner on the basis of clear rules and procedures, which are applied in a nondiscriminatory way.
  - The allocation of responsibilities between different levels of government, and between the executive branch, the legislative branch, and the judiciary, should be clearly defined.

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<sup>1</sup> Source: International Monetary Fund, Draft Manual on Fiscal Transparency, October 1998.

- Clear mechanisms for the coordination and management of budgetary and extra-budgetary activities should be established, and well-defined arrangements vis-à-vis other government entities (e.g., the central bank, and state-controlled financial and non-financial enterprises) should be specified.
2. There should be a clear legal and administrative framework for fiscal management.
    - Fiscal management should be governed by comprehensive laws and administrative rules applying to budgetary and extrabudgetary activities. Any commitment or expenditure of government funds should have a legal authority.
    - Taxes, duties, fees, and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.
    - Ethical standards of behavior for public servants should be clear and well publicized.

## II. Public Availability of Information

1. The public should be provided with full information on the past, current, and projected fiscal activity of government.

- The annual budget should cover all central government operations in detail and should also provide information on central government extra-budgetary operations. In addition, sufficient information should be provided on the revenue and expenditure of lower levels of government to allow a consolidated financial position for the general government should be presented.
  - Information comparable to that in the annual budget should be provided for the outturns of the two preceding fiscal years, together with forecasts of key budget aggregates for the two years following the budget.
  - Statements should be published with the annual budget giving a description of the nature and fiscal significance of contingent liabilities, tax expenditures, and quasi-fiscal activities.
  - The central government should regularly publish information on the level and composition of its debt and financial assets.
2. A public commitment should be made to the timely publication of fiscal information.
- Specific commitments should be made to the publication of fiscal information (e.g., in a budget law).
  - Advance release date calendars for fiscal reporting to the public should be announced.

### III. Open Budget Preparation, Execution, and Reporting

1. Budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.
  - A statement of fiscal policy objectives and an assessment of sustainable fiscal policy should provide the framework for the annual budget.
  - Any fiscal rules that have been adopted (e.g., a balanced budget requirement and borrowing limits for lower levels of government) should be clearly specified.
  - The annual budget should be presented within a comprehensive and consistent quantitative macroeconomic framework, and the economic assumptions and key parameters (e.g., effective tax rates) underlying budget estimates should be provided.
  - Existing commitments should be distinguished from new policies included in the annual budget.
  - Major risks to the annual budget should be identified and quantified where possible, including variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g., financial restructuring).
2. Budget estimates should be classified and presented in a way that facilitates policy analysis and promotes accountability.

- Government transactions should be on a gross basis, distinguishing revenue, expenditure, and financing, and classifying expenditures on an economic and functional basis. In addition, expenditure should be classified by administrative category. Data on extrabudgetary operations should be similarly classified. Budget data should be presented in a way that allows international comparisons.
  - A statement of objectives to be achieved by major budget programs (e.g., improvement in relevant social indicators) should be provided.
  - The overall balance of the general government should be a standard summary indicator of the government's financial position. It should be supplemented by other fiscal indicators (e.g., operational balance, structural balance, and primary balance) when economic circumstances make it inappropriate to base judgments about fiscal policy stance on the overall deficit alone.
  - The annual budget and final accounts should include a statement of the accounting basis (i.e., cash or accrual) and standards used in the preparation and presentation of budget data.
3. Procedures for the execution and monitoring of approved expenditures should be clearly specified.
- A comprehensive, integrated accounting system should be established. It should provide a reliable basis for assessing payments arrears.

- Procedures for procurement and employment should be standardized and accessible to all interested parties.
  - Budget execution should be internally audited, and audit procedures should be open to review.
4. Fiscal reporting should be timely, comprehensive, and reliable, and should identify deviations from the budget.
- During the year, there should be regular, timely reporting of budget and extrabudgetary outturns, which should be compared with original estimates. In the absence of detailed information on lower levels of government, available indicators of their financial position (e.g., bank borrowing and bond issues) should be provided.
  - Timely, comprehensive, and audited final accounts of budget operations, together with full information on extra-budgetary accounts, should be presented to the legislature.
  - Results achieved relative to the objectives of major budget programs should be reported to the legislature.

#### **IV. Independent Assurances of Integrity**

1. The integrity of fiscal information should be subject to public and independent scrutiny.
  - A national audit body, or equivalent organization, should be appointed by the legislature, with

the responsibility to provide timely reports to the legislature and public on the financial integrity of government accounts.

- Macroeconomic forecasts (including underlying assumptions) should be available for scrutiny by independent experts.
- The integrity of fiscal statistics should be enhanced by providing the national statistics office with institutional independence.

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