

Improving Fiscal Transparency in CESEE

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“...to protect the Treasury from being defrauded, let all money be issued openly in front of the whole city, and let copies of the accounts be deposited in various wards...”

Aristotle, Politics

Why is fiscal transparency important?

- **facilitates efficient allocation of public sector resources**
(de Renzio and Wehner, 2017)
- **reduces corruption vulnerabilities**
(IMF, 2019)

- 1. Fiscal transparency**
- 2. Fiscal transparency in CESEE**
- 3. Fiscal transparency and the IMF in Europe**

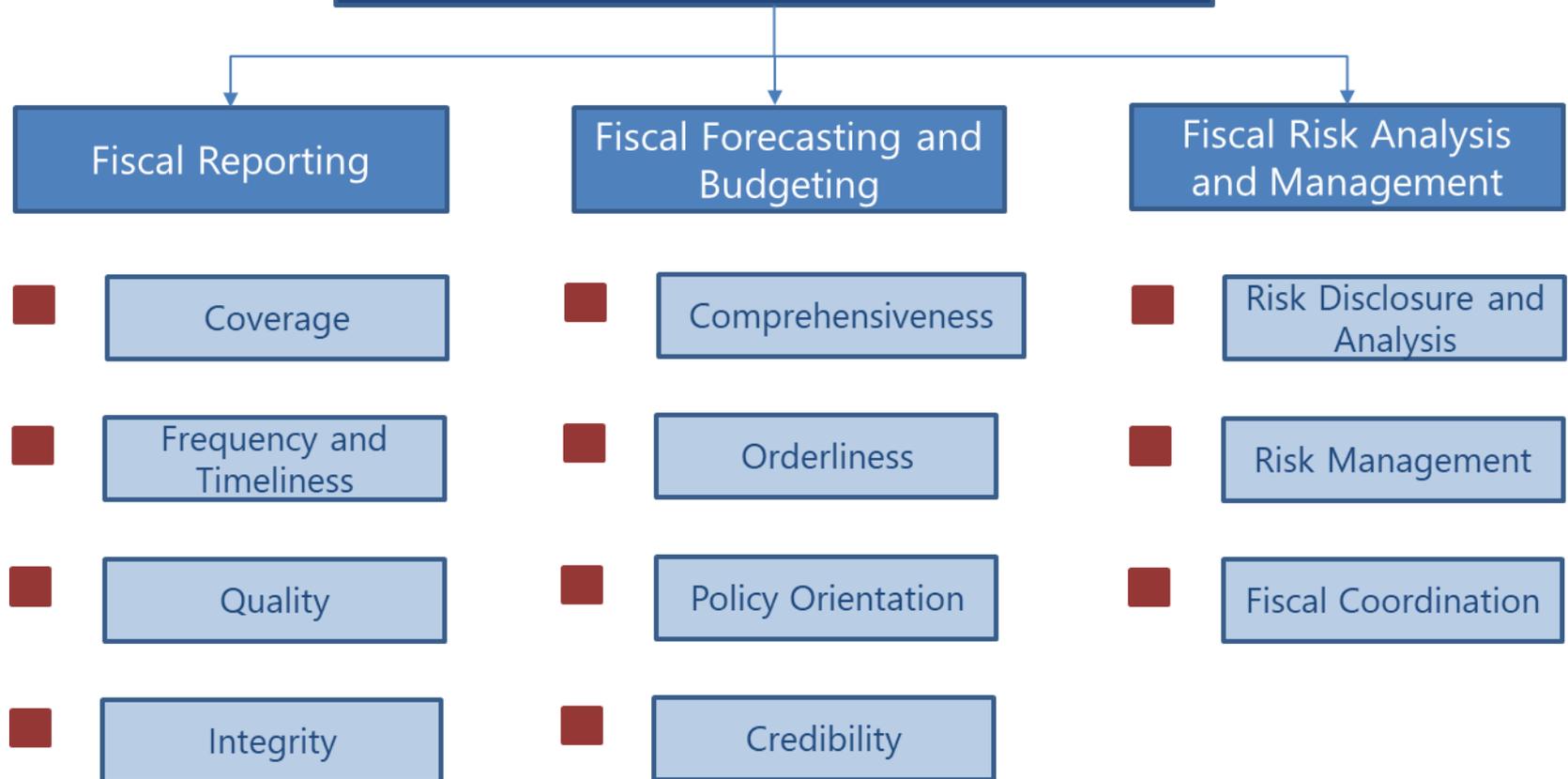
Fiscal Reporting

Fiscal Forecasting and
Budgeting

Fiscal Risk Analysis
and Management

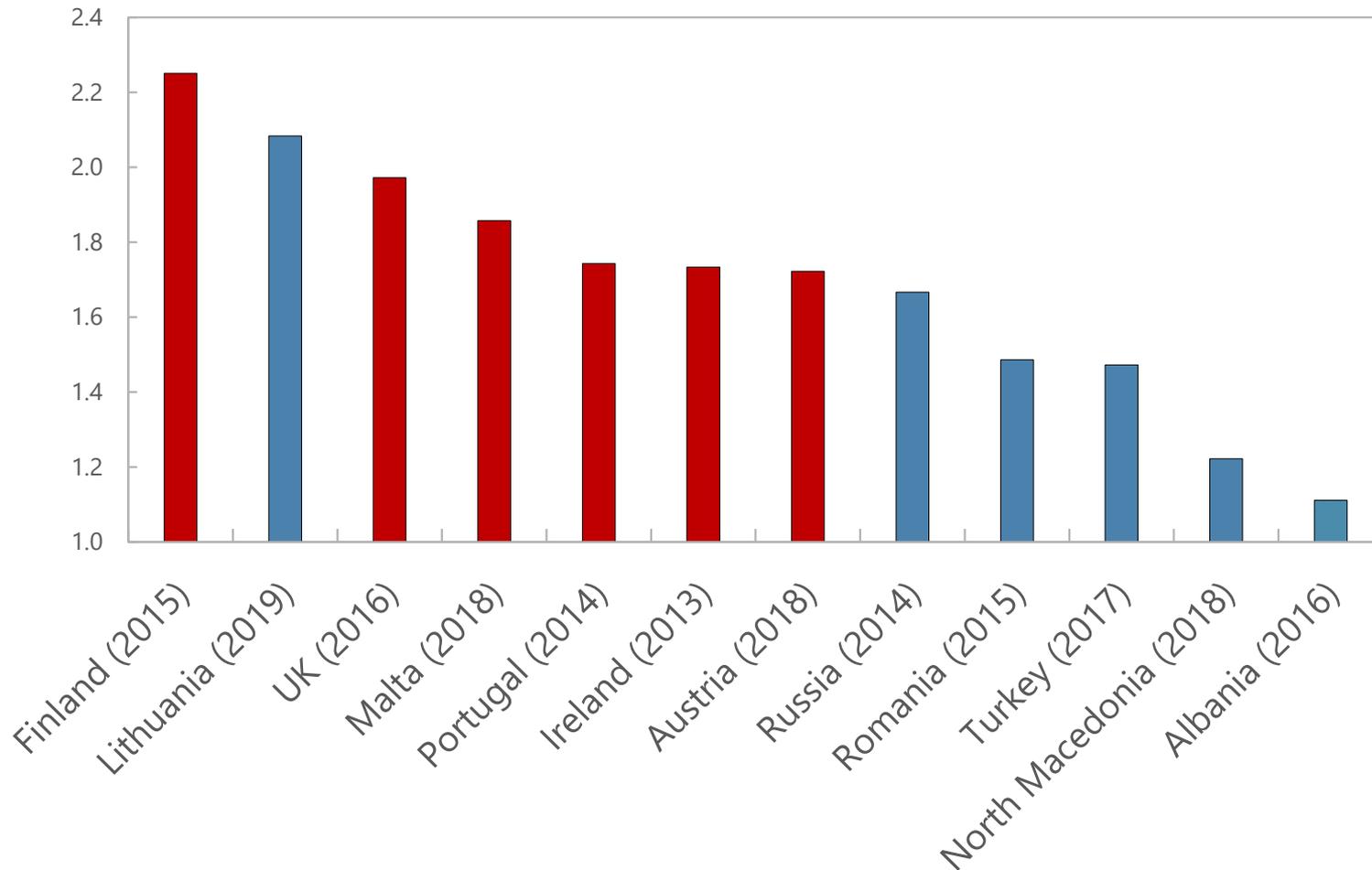
<https://blog-pfm.imf.org/files/ft-code.pdf>

Fiscal Transparency Evaluation



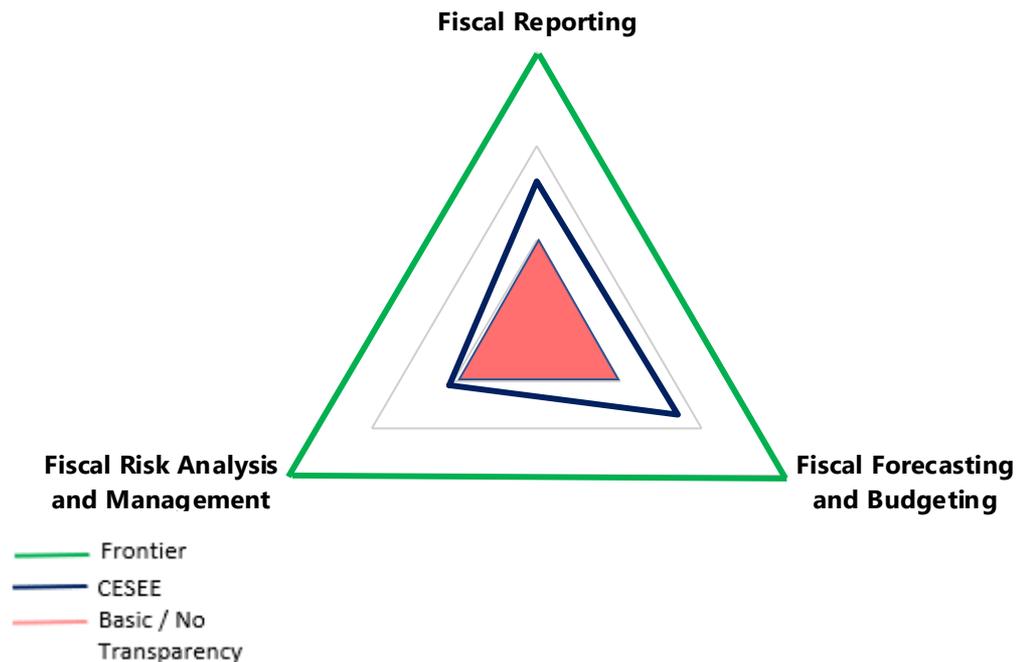
1. Fiscal transparency
2. Fiscal transparency in CESEE
3. Fiscal transparency and the IMF in Europe

FTE Ratings of European Countries



Source: IMF Fiscal Transparency Evaluations Database. Blue bars denote CESEE countries.

CESEE - Fiscal Transparency Pillars



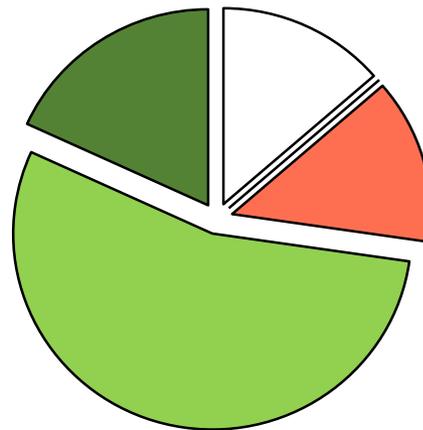
- CESEE far from fiscal transparency frontier
- Transparency particularly weak on fiscal risk analysis and management

CESEE Survey – Sample Result

Public Investment Management		Reply
A	Does the government require all major projects to be contracted via open and competitive tender?	YES
B	Following up on Question A, does this apply to the entire non-financial public sector, including projects undertaken by subnational governments and state-owned enterprises (SOEs)?	YES
C	Does the government regularly disclose the value of its total obligations under multi-annual investment projects?	NO
D	Does the government regularly subject all major projects to a published cost-benefit analysis before approval?	NO
Guarantees		
E	Does the government maintain a central registry of guarantees?	YES
F	Does the government publish the stock of outstanding guarantees?	YES
G	Does the government publish details of any new guarantees that are issued?	YES
H	Is there a central authorizing entity for guarantees?	YES
I	Is the maximum value of new guarantees or their total stock authorized by law?	YES
J	Does the government charge risk-related fees for guarantees?	YES
K	Does the government resort to partial guarantees?	YES
L	Does the government require collateral when providing guarantees?	YES
M	Do the authorities provision for expected calls of guarantees?	YES
N	Have the authorities established a buffer fund for guarantees?	NO
Subnational Governments		
O	Do the authorities (central government or parliament) monitor the financial performance of subnational governments against benchmarks, such as fiscal deficit or debt targets?	YES
P	Do the authorities have in place fiscal rules or limits on borrowing for subnational governments?	YES
Q	Do the authorities link the degree of financial autonomy of subnational governments to their performance, that is, do subnational governments with better fiscal performance enjoy more financial autonomy, and vice versa?	YES
R	Have the authorities imposed annual reporting requirements on subnational governments?	YES
S	Have the authorities established credible no-bail-out clauses for subnational governments?	YES
T	Do the authorities retain the authority to liquidate assets of subnational governments or appoint administrators for them?	NO

Sub-National Governments

Transparency Assessment
(Number of countries)

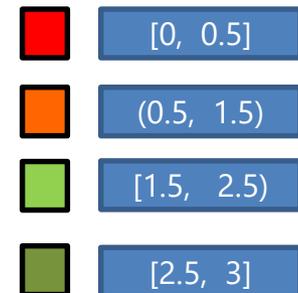


□ Don't know 1/ ■ Not met ■ Basic ■ Good ■ Advanced

1/ Includes countries with unsubmitted or incomplete survey responses.

Source: IMF staff calculations

Rating

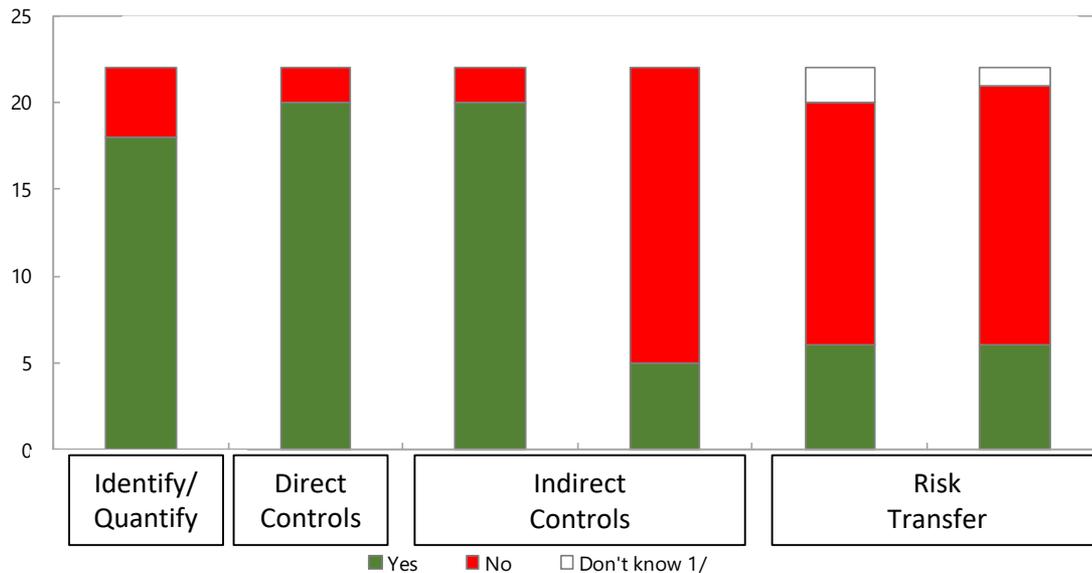


- About 2/3 have good or advanced transparency practices

Sub-National Governments

Subnational Governments - Best Practice Principles Applied?

(Number of countries)



1/ Includes countries with unsubmitted or incomplete survey responses.

Source: IMF staff calculations

Policy Gaps

Indirect Controls

Risk Transfer

Sub-National Governments

		Subnational Governments					
		Bench- marking?	Fiscal rules?	Performanc e linked?	Annual reporting?	No-bail-out clauses?	Authority to liquidate?
NMS	EST						
	LVA						
	LTU						
	CZE						
	HUN						
	POL						
	SVK						
	SVN						
	BGR						
	HRV						
ROU							
CIS + Turkey	BLR						
	MDA						
	RUS						
	TUR						
	UKR						
West Balkan	ALB						
	BIH						
	KOS						
	MKD						
	MNE						
SRB							

Source: IMF staff calculations

Sub-National Governments

Policy Gaps

Indirect Controls

Risk Transfer

Policy Options

- Link the degree of financial autonomy to performance reporting requirements

- Establish credible no-bail out clauses
- Retain authority to liquidate assets and appoints administrator

Sub-National Governments

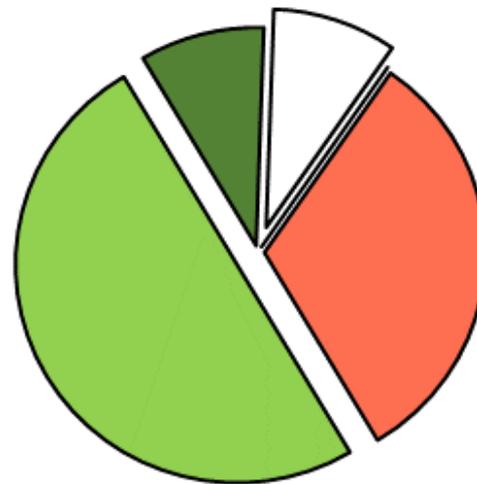
- Case Study: Russia -

- ✓ **Comprehensive and standardized monitoring**
 - ✓ **Limits on both debt and deficits**
 - ✓ **Degree of financial autonomy linked to their fiscal performance**
 - ✓ **Reporting requirements (at least annual)**
 - ✓ **Legal mechanism for temporary financial administration (untested)**
 - X No-bailout clauses**
-
- **Examples of countries with no-bailout clauses: Czech Republic and Slovakia (constitutional acts)**

Public Investment Management

Mostly Good/Basic Practices

(Number of countries)

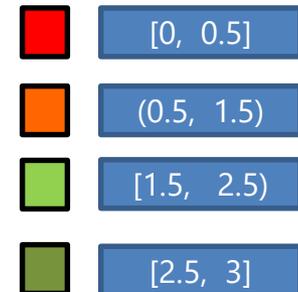


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1/ Includes countries with incomplete survey responses.

Source: IMF staff calculations

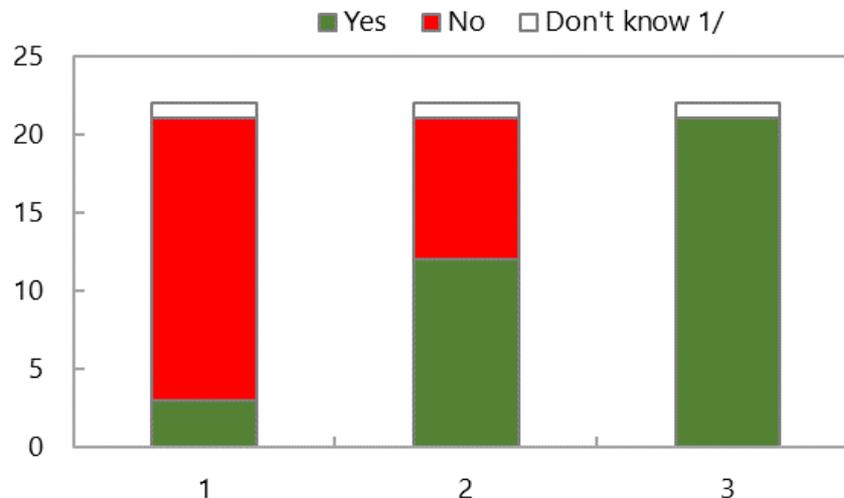
Rating



Public Investment Management

Public Investment Management - Best Practice Principles Applied?

(Number of countries)



Survey questions:

1. Publish cost-benefit analysis?
2. Regular disclosure under multi-annual projects?
3. Open and competitive tender for major central government projects?

1/ Includes countries with unsubmitted or incomplete survey responses.

Source: Country authorities and IMF Staff calculations

Policy Gaps

- **Cost-Benefit Analysis**
- **Disclosure of multi-annual projects**

Public Investment Management

	Public Investment Management			
	Open competitive tender?		Total obligations?	Cost-benefit analysis?
	CG	SOEs, local govts		
NMS	EST	Green	Red	Red
	LVA	Green	Green	Green
	LTU	Green	Green	Red
	CZE	Green	Red	Red
	HUN	Green	Green	Green
	POL	Green	Red	Green
	SVK	Green	Grey	Red
	SVN	Green	Green	Red
	BGR	Green	Green	Green
	HRV	Grey	Grey	Grey
	ROU	Green	Green	Red
CIS + Turkey	BLR	Green	Green	Red
	MDA	Green	Red	Green
	RUS	Green	Red	Red
	TUR	Green	Green	Red
	UKR	Green	Green	Red
West Balkan	ALB	Green	Green	Red
	BIH	Green	Green	Green
	KOS	Green	Green	Red
	MKD	Green	Green	Red
	MNE	Green	Green	Green
	SRB	Green	Green	Red

Source: IMF staff calculations

Public Investment Management

Policy Gaps

Policy Options

Cost-Benefit Analysis



- Prepare guidelines and criteria
- Provide training

Total obligations



- Publish total value of each multi-annual investment project
 - Expected total lifetime cost
 - Spending appropriated each year
 - Spending prior to the budget year
 - Total remaining costs

Procurement by SOEs and local gov't



- Apply open and competitive tender for non-financial public corporations

Best Practice-Investment: FINLAND

Strong institutional framework

- Quality of institution and public sector performance

Total obligations

- Publish total costs of multi-annual investment projects in the budget
 - Expected total cost, date of approval, expected completion
 - Actual spending and remaining cost
 - Payment plan

Procurement process

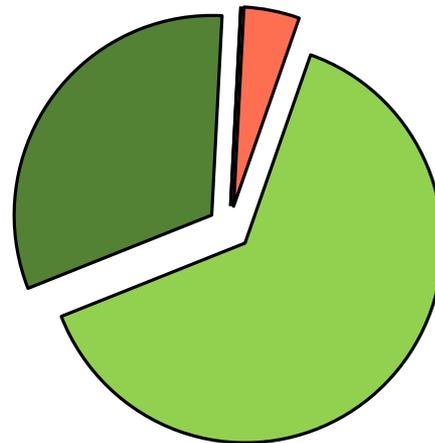
- Open and competitive tender (85 percent of all projects during 2016-18)

Guarantees

Mostly Good/Advanced Practices

Guarantees

(Number of countries)



Rating

[0, 0.5]

(0.5, 1.5)

[1.5, 2.5]

[2.5, 3]

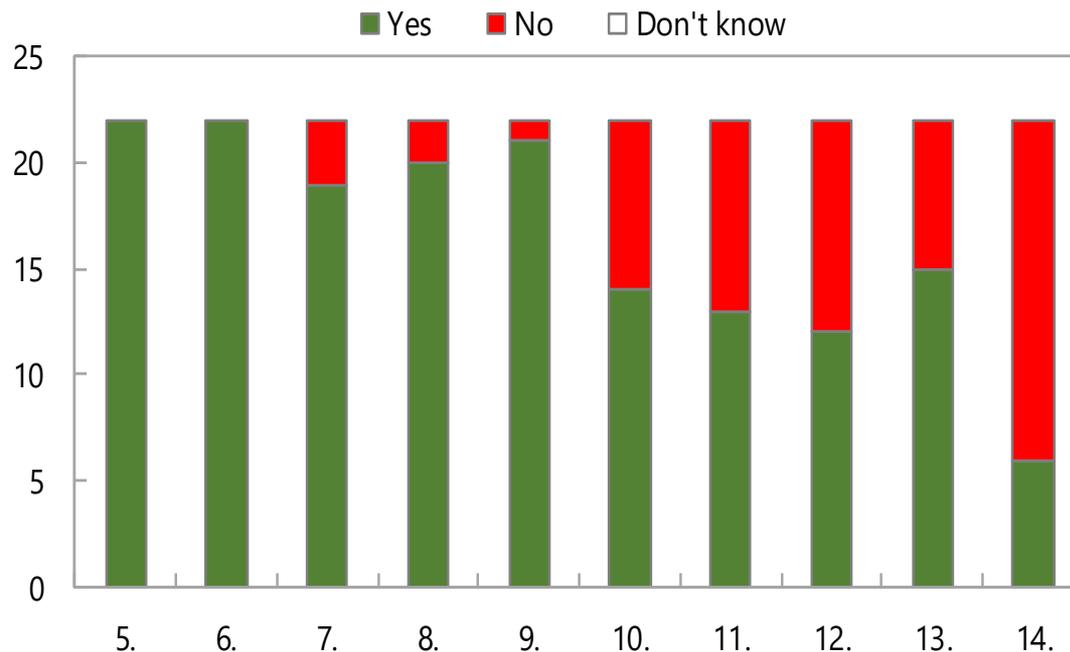
□ Don't know ■ Not met ■ Basic ■ Good ■ Advanced

Source: IMF staff calculations

Guarantees

Guarantees - Best Practice Principles Applied?

(Number of countries)



Source: IMF staff calculations

Survey questions:

5. Central registry?
6. Publish the stock outstanding?
7. Publish details of new issue?
8. Central authorizing entity?
9. Law on maximum stock/new issue?
10. Risk-related fees?
11. Partial guarantees?
12. Require collateral?
13. Provision for calls?
14. Buffer fund?

- More measures on direct control;
- Less so in indirect control, risk transfer, or provisioning

Guarantees

		Survey Results on Government Guarantees									
		Central registry?	Publish stock?	Publish info on guarantees?	Central authorizing entity?	Maximum cap by law?	Risk-related fees?	Use partial guarantees?	Require collateral?	Provisioning?	Buffer fund?
NMS	EST										
	LVA										
	LTU										
	CZE										
	HUN										
	POL										
	SVK										
	SVN										
	BGR										
	HRV										
	ROU										
CIS + Turkey	BLR										
	MDA										
	RUS										
	TUR										
	UKR										
West Balkan	ALB										
	BIH										
	KOS										
	MKD										
	MNE										
	SRB										

Transparency in Guarantees

Policy Gaps

Indirect control

Risk transfer

Provisioning

Policy Options

➤ Implement risk-related charge

➤ Require collaterals

➤ Establish provisioning fund and apply fiscal risk analysis

Best Practice-Guarantees: SWEDEN

Direct Control

- Parliamentary approval with annual limits

Indirect Control

- Integrate with budget and fiscal rule
- Reporting, risk analysis, and contingent liabilities
- Audit reports

Risk Transfer and Sharing

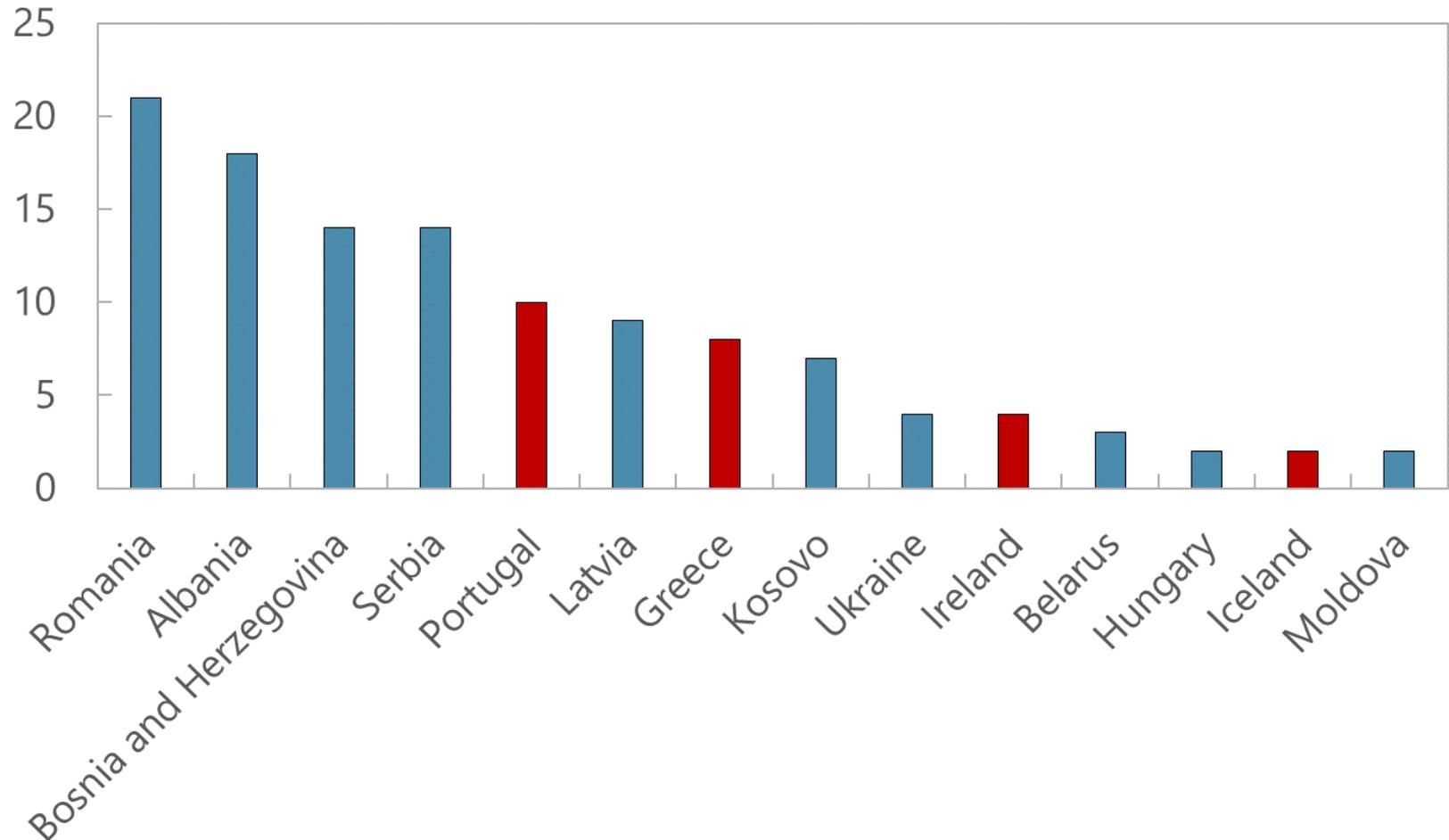
- Fee paid by recipient based on credit risk assessment for the specific project
- Collaterals and legal covenants for risk mitigation

Provisioning

- Called guarantees are covered by reserve

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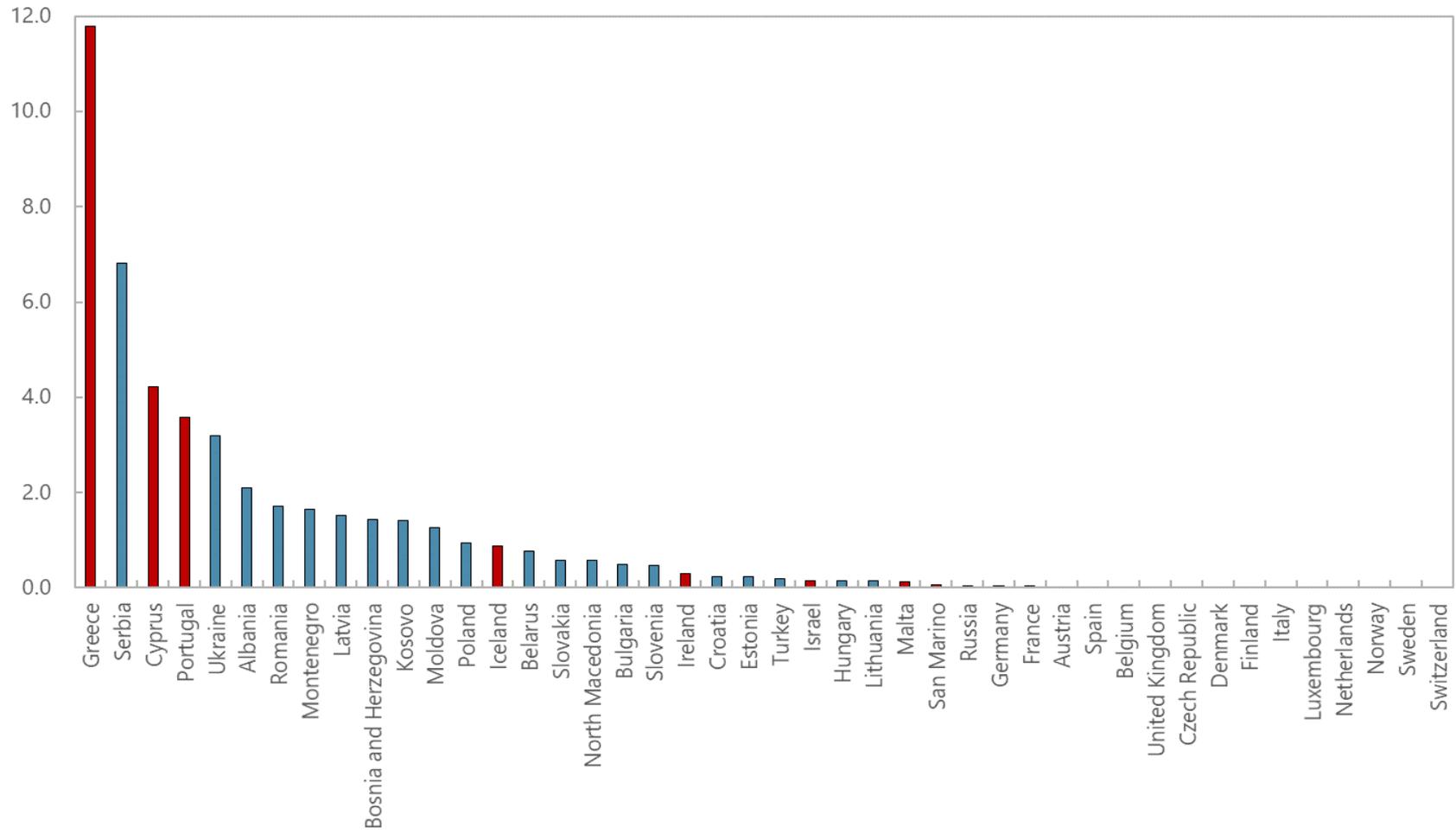
Number of Structural Measures Related to Fiscal Transparency Implemented Since 2008



Source: IMF MONA database.

PFM Technical Assistance to EUR Countries, 2008-19

(full-time equivalent, in years)



Source: IMF Fiscal Affairs Department.

Transparency during COVID

“Spend whatever you need, but keep the receipts”

Emergency lending

- Safeguard assessment

Surveillance

- Publish online crisis-related procurement contracts
- Publish beneficial ownerships
- Ex-post evaluation reports

Capacity Development

- Enhancing publication of procurement contracts (NIC, MDA, STP)
- Setting up COVID portal and tracking COVID spending (UGA, HND, MDG, NIC, SLV)