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Assessing Public Financial Management and Accountability in the Context of Budget Transparency in Africa

November 2005

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Acronyms

AG	Auditor General
AGR	African Governance Report
APRM	African Peer Review Mechanism
AU	African Union
BAD	<i>Banque Algérienne de Développement (Algeria)</i>
BEAC	<i>La Banque des Etats de l'Afrique Centrale</i> (or Bank of Central African States)
CBO	Community-based organization
CEMAC	<i>Communauté Économique et Monétaire de l'Afrique Centrale</i> (Central African Economic and Monetary Union)
CSO	Civil Society Organization
DFID	Department for International Development (UK)
DRC	The Democratic Republic of the Congo
ECA	Economic Commission for Africa
EITI	Extractive Industries Transparency Initiative
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
IDASA	Institute for Democracy in South Africa
IFC	International Finance Corporation
IMF	International Monetary Fund
MDG	Millennium Development Goal
MFDP	Ministry of Finance and Development Planning (Botswana)
MTEF	Medium-Term Expenditure Framework
NEPAD	New Partnership for Africa's Development
NFPE	Non-financial public enterprise
NGO	Non-governmental organization
OECD	Organization for Economic Cooperation and Development
PER	Public Expenditure Review
PFMA	Public Finance Management Act (South Africa)
PRSP	Poverty Reduction Strategy Paper
PSC	Production Sharing Contract
ROSC	Report on the Observance of Standards and Codes
SDDS	Special Data Dissemination Standard

SNA	System of National Accounts
STA	Special Treasury Accounts
TI	Transparency International
TOFE	Government Flow of Funds Table (Senegal)
UK	United Kingdom
UN	United Nations
WAEMU	West African Economic and Monetary Union

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The Experts who attended the above mentioned meeting do not necessarily share opinions expressed in the paper, nor do these opinions represent the official views of the Economic Commission for Africa (ECA). Errors of omission and commission remain those of the author.

Executive Summary

The policy goal behind the pursuit of fiscal transparency is to ensure that the objectives of fiscal policy, its legal, institutional, and economic framework, policy decisions and their rationale, data and information related to monetary and financial policies, and the terms of agencies' accountability, are provided to the public on an understandable, accessible, and timely basis.

Fiscal transparency is propagated as part of a larger policy goal of good economic governance pursued to achieve poverty reduction and attain the Millennium Development Goals (MDGs). Indeed, on the African continent, the calls for more openness in the budget processes is part of a set of endeavours aimed at solving the paradox of copious natural resources and increasing donor magnanimity, on the one hand, and seemingly intractable abject poverty, on the other hand. It is also aimed at addressing corruption and theft of State resources and money laundering, among many.

Against this background, this survey assesses the fiscal transparency practices in 15 African countries. It relies on published reports including those of the international financial institutions, theoretical literature, press reports, various websites to access laws, budget documents, reports, regional and international guidelines and case studies. The study looks at critical areas of transparency, namely: clarity of roles and responsibilities; public availability of information; open budget preparation, execution and reporting; independent assurances of integrity; and the extent to which these are practiced in Africa.

At variance with the views of a number of commentators, this study concurs broadly with the recent findings of the ECA African Governance Report (AGR), that, overall, Africa is making progress towards better economic management, and, it appears that the prodigious pace of reforms is likely to continue. A *mélange* of global and regional events discourage opaque budgeting processes, by supporting fiscal transparency and accountability specifically and better economic management in general.

These events include the end of the Cold War and cessation of support to corrupt regimes such as that found in former Zaïre; the revelations of stolen assets by officials entrusted with State funds; the ponderous attention devoted to the effectiveness of aid; the recent announcement by G8 countries of debt cancellation and other forms of aid to poor countries that are implementing good governance practices; the wave of democratization in Africa and the installation

of governments favourably disposed to exercising good governance; and Africa's own initiatives such as the New Partnership for Africa's Development (NEPAD) and the African Peer Review Mechanism (APRM).

Specifically, this study finds that a deluge of new laws and regulations of international standards in many countries indicates a commitment to fiscal transparency, supported by the Poverty Reduction Strategy Paper (PRSP) and multi-year budgeting processes to better link policy to budget and entrench fiscal discipline. On the negative side, the study finds seemingly insurmountable implementation shortfalls of these laws, partly reflecting lingering capacity constraints, susceptibility to the whims of weather, gyrations in commodity prices and anaemic foreign aid flows. Reinvigorated efforts are keenly needed to enhance transparency in procurement and privatization processes, ensure the integrity of budgeting data and documents, and to address auditing and critical deficiencies in the involvement of Parliaments and other independent oversight organs.

The most important constraint that Africa faces in applying good fiscal transparency practices is the lack of political will and commitment. Without this element at the core of economic reforms in general and fiscal reforms in particular, no amount of foreign assistance or legislation can extricate the continent and her peoples from the economic mismanagement, corrupt practices and the dire poverty plaguing the continent.

SECTION I

Introduction

1.1 Context

1. Against the backdrop of heightened realization that economic development and the fight against poverty can effectively be enhanced under an environment of good governance, and that fiscal (inclusive of budget) transparency is one of the key instruments for achieving good governance, a sharp focus is now on fiscal transparency. For poorer countries, donors, international financial institutions and civil society organizations (CSOs) are demanding transparency in the budgeting processes of recipient countries, emphasizing their right to know and, to some extent, determine how public and donated funds are collected and spent.

2. Impassioned calls for fiscal transparency are also increasingly being directed to countries richly endowed with natural resources, encouraging both governments and companies to detail sources of revenues, the exact amounts, how these revenues are spent, and the policies underpinning budget allocations.

3. The growing international focus on transparency is amply demonstrated by the proliferation in recent years of initiatives aimed at directly and indirectly promoting and enforcing transparency practices. These include the United Nations (UN)'s *Convention Against Corruption*, the International Monetary Fund (IMF)'s *Code of Good Practices on Fiscal Transparency*, the Organization for Economic Cooperation and Development (OECD)'s *Best Practices for Budget Transparency*, the Global Reporting Initiative, and the Global Transparency Initiative. Other initiatives are engaged primarily in transparency in extractive industries and include the Extractive Industries Transparency Initiative (EITI), the 'Publish What You Pay' NGO coalition (by *Save the Children UK*), the George Soros' Open Society Institute, the Global Witness, the Catholic Agency for Overseas Development (CAFOD), the OECD Project on Revenue Transparency in the Democratic Republic of the Congo (DRC) and the IMF *Guide on Resource Revenue Transparency*. Furthermore, there are also country initiatives and benchmarks such as the UN Economic Commission for Africa's *African Governance Project*, the Democracy Index of the Institute for Democracy in South Africa and the Worldwide Governance Indicators Dataset of the World Bank.

4. The transparency specificity hinges on ultimate objectives. Thus, on the one hand, objectives aimed at eliminating corruption, money laundering and fighting the financing of terrorism, such as those of the UN, would tend to be stated in broad language incorporating a number of other issues besides transparency, to achieve the ultimate objective. On the other hand, objectives such as those of IMF, OECD and EITI that are aimed at promoting sound financial management and accountability tend to contain narrower and more specific recommendations or prescriptions. The IMF published a *Manual on Fiscal Transparency* as a guide to implementing the Code. Non-country initiatives tend to be broadly articulated, allowing countries to generate specific initiatives suited to their own individual circumstances in line with these broad initiatives.

5. There is concern that a lot more remains to be done by countries on the issue of adopting transparency principles. The recently published *Transparency Index* from Save the Children UK, a charity organization, shows that transparency is the exception, not the rule.¹ A number of important oil- and gas-producing countries in Africa have yet to make even a gesture towards disclosure. Angola, Chad and Mauritania are among the countries being urged to sign on to one or more initiatives aimed at promoting transparency in extractive industries in particular. State-owned companies, which account for the bulk of global oil and gas production, are also under pressure to subject themselves to full disclosure.

1.2 Definition

6. ECA (2002) refers to fiscal or budgetary transparency as “*an environment in which the objectives of policy, its legal, institutional, and economic framework, policy decisions and their rationale, data and information related to monetary and financial policies, and the terms of agencies’ accountability, are provided to the public on an understandable, accessible, and timely basis.*”

7. In other words, “*a transparent budget process is one that provides clear information on all aspects of government fiscal policy. Thus, budgets that incorporate numerous ‘special accounts’ and fail to consolidate all fiscal activity into a single ‘bottom line’ measure are not transparent. Budgets that are easily available to the public and to participants in the policymaking process, and that do present consolidated information, are transparent*” (Poterba and von Hagen, 1999).

1 Report available at www.savethechildren.org.uk.

1.3 Rationale for fiscal transparency

8. At the macroeconomic level, many economic theorists and practitioners agree that fiscal transparency has large and positive effects on fiscal performance. Kopits and Craig (1998) observed, “*Transparency in government operations is an important precondition for macroeconomic fiscal sustainability, good governance, and overall fiscal rectitude.*” In a complementary study, Alt and Lassen (2003) confirmed that fiscal transparency is indeed associated with lower public debt and deficits, even taking into account other explanations for public debts and deficits. Simply illustrated, voters want competent politicians in office as they provide more public goods for given levels of taxation and private consumption. However, this creates incentives for incumbents to try to “*appear competent*” by issuing debt, providing more public goods by “*buying now and paying later.*” A higher degree of fiscal or budget transparency determines when and how far voters can observe debt, and the extent to which an incumbent can use debt to appear competent. A higher degree of transparency further increases the probability that ‘*creative accounting*’ practices will be revealed. In this regard, transparency energizes the oversight activities of Parliaments, CSOs and the international community over government’s management of public resources.

9. Kitunzi (2003), along the line of IMF, argues that fiscal transparency leads to better-informed public debate about the design and results of fiscal policy, makes governments more accountable for the implementation of fiscal policy, and thereby strengthens credibility and public understanding of macroeconomic policies and choices (Box 1). In a globalized environment, fiscal transparency is said to be of considerable importance for achieving macroeconomic stability and high-quality growth.

10. At the sectoral level, greater transparency over revenue flows between oil, gas and mining companies and resource-rich developing country governments is viewed as necessary to enhance accountability and to curb corruption. Countries that are rich in natural resources are often poor because of the “*resource curse*” associated with this natural endowment. With specific reference to the ‘*curse*’ of corruption, exploiting natural resources tends to take precedence over good government. Competing oil and mining companies, backed by their Governments, are accused of willingness to deal with anyone who can assure them of a concession. This has bred corrupt and repressive governments and armed conflict, leading to economic and social problems characterizing resource-rich countries in Africa today.

Box 1. Stakeholders and Benefits of Transparency

Improved transparency is ultimately to the benefit of all stakeholders:

- Civil society needs transparency in order to hold governments to account for the use of revenues;
- Governments can improve relations with their citizens and lower borrowing costs in the international financial markets for emerging market economies if they operate transparently;
- Companies are increasingly realizing the importance of transparency in ensuring a level playing field and in maintaining credibility with investors, consumers and local communities;
- Financial regulators, rating agencies and investors recognize that transparency in corporate and government affairs is a major factor in estimating financial risk; and
- International financial institutions are aware that transparency is a key condition for ensuring that loans are well managed.

Source: Save the Children, 2005

11. To avert this outcome, transparency is propagated as a fundamental first step to lifting the curse, enabling resource revenues to promote economic growth and poverty reduction. Investment in the extractive industries in Africa has failed to make large inroads into widespread poverty. This is amply demonstrated by Nigeria, an oil-rich country that remains at the bottom of every index of human development,² despite her potential to reduce poverty drastically. Thus, the first step towards helping Nigerians and other African citizens to escape the ‘*paradox of plenty*’ is by entrenching transparency, then ensuring accountability (Transparency International, 2003).

12. Budget transparency helps to strengthen government institutions involved in public service delivery so they function better. Weak institutions result in poor governance, which is regarded as perhaps the major impediment to growth, development and poverty reduction. To be sure, improving governance is complex, but almost everyone agrees that transparency makes institutions function better by rendering them publicly accountable. Accountability improves their service delivery; it will also bolster their functional independence, a virtue that is very important for institutions such as the revenue administrations and procurement agencies. Transparency helps institutions forge broad coalitions with government and civil society in support of their mandates.

13. One of the aims of the New Partnership for Africa’s Development (NEPAD) is to meet the objectives of the Millennium Development Goals (MDGs) of reducing poverty on the continent by half, by the year 2015. This should be achieved by, first, overcoming the problems of

2 The UN Human Development Index measures poverty, literacy, education, life expectancy, and adjusted real income. In 2003, Nigeria ranked 152.

weak State institutions that have plagued Africa since independence and, second, by promoting economic and corporate governance, focusing on public finance management. Given these objectives, civil society organizations, ordinary citizens, donors and international financial institutions see institutional development in African politics as a tool that can be used to engage their governments around the issues of transparency, accountability and good economic governance. Hence, the reasons that the call for better governance features so prominently in the UN's Millennium Project's report on *Investing in Development* and in the recent report of the UK's Commission for Africa.

1.4 Prerequisites for fiscal transparency

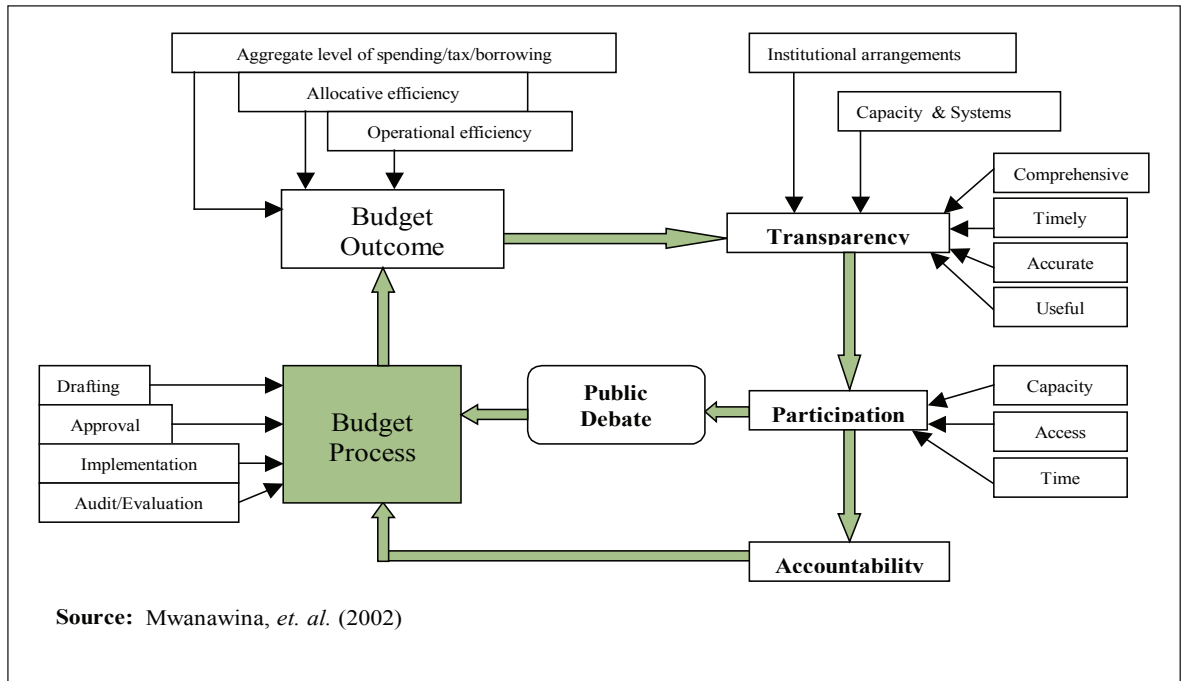
14. If fiscal transparency is to achieve its aims, it needs proper socio-political, legislative and economic settings. Furthermore, it must be understood clearly that it is a means not an end. In its proper context, fiscal transparency is a prerequisite for effective participation by the legislature and civil society; and it encourages better decision-making by governments and provides a check on the behaviour of policy-makers, that is, accountability.

15. As the following diagram points out, fiscal transparency is but one of the essential ingredients in a system for oversight, accountability, participation and sanction in pursuit of good economic management practices, and cannot survive or become effective on its own.

16. In brief, some of the prerequisites for successful fiscal transparency practices are:

- Political will and commitment. This includes ownership of the overall development agenda by leadership, rather than waiting for guidance from abroad. The State must create the legal and regulatory environment for fiscal transparency and accountability. Further indicators of will and commitment would be (a) setting the agenda to democratize the formulation of macroeconomic policy frameworks; (b) building up the capacity and knowledge base of the citizenry on issues related to budgets; and (c) institutionalizing regular access for social groups in decision-making (ECA 2005a). It is necessary that the leadership itself live by setting an example in how they conduct themselves and abide by the laws.
- Commitment to fighting corruption and mismanagement. There must be, *inter alia*, a strong resolution from the leadership and society at large for fiscal transparency to succeed. In cases where transparency unveils corruption and mismanagement of State

Figure 1: Budget Process Relations



resources (Box 2), but there is failure to take action, transparency fails to achieve its ultimate objective and fizzles out, replaced by opacity.

- Strong legal framework and enforcement mechanisms. Successful fiscal transparency principles need explicit constitutional, legal and regulatory backing. Additionally, enforcement mechanisms need to be in place and applied effectively. Investigative and judicial arms of a government must be independent and capable of prosecuting wrongdoing; otherwise, transparency will fail to counter some of the societal ills that it is called upon to unveil and contain.
- Citizen participation. The basic premise for citizen participation is that citizens, NGOs and CBOs have a right to know and determine how public revenues are collected and spent. Participation in decisions regarding budget allocation, spending patterns, and public service delivery is a key entry point for civil society and donor engagement in choosing public actions. Necessarily, participation and transparency lead to, and reinforce each other. In addition, representative institutions such as parliaments or district assemblies also have a role in the budgetary processes through parliamentary debates and

Box 2. Mismanagement of State Resources: The Case of Cabinda

The Provincial Government of Cabinda took the courageous step of publishing its expenditure (with no information about how this related to its budget), which showed just how resources are wasted.

In 2003, it spent \$US2,399,998 in Christmas gifts and \$US1,820,744 to buy cars from contracts totaling \$US6,011,000. The local public purse coughed up \$US120,000 to mow the tiny lawn of the Governor's residence, \$US449,000 in furniture for the local government's office, \$US80,000 in toys, and \$US85,000 for Miss Cabinda.

The authorities disbursed only \$US40,000 to support the communes and \$US87,000 to lend a hand to the province's municipalities.

Source: Marques, 2004

their votes on budget. However, sometimes the role of such representative institutions can be limited because of the type of governance framework of a country. Recent efforts towards devolution and fiscal decentralization mark a change towards the possibility of more broad-based participation in the budget-making processes.

- Addressing capacity constraints. Making information available to a public that does not understand it defeats the aims of fiscal transparency. Additional to making information accessible and understandable, government and CSOs need to ensure fiscal literacy of the intended recipients of the information. Training NGOs to engage in budget work is deemed important because of the role they can play in increasing government transparency and accountability to the electorate. Strengthening CSO capacity to engage in public policy and resource allocation debates provides checks and balances to ensure that government makes the right interventions in the most cost-effective manner.
- A learning culture. In the case of Africa, the best and most suitable lessons on fiscal transparency are those generated from the continent itself. It has been demonstrated that the wholesale adoption of guidelines on transparency from abroad are generally ineffective. For this reason, more use should be made of lessons from regional organizations such as the AU, APRM process, ECA, and others.
- Freedom of expression and of the media. The media's involvement in covering national budgeting processes and potential corruption also results in important avenues for citizen access to information. Although many reporters cannot make an informed analysis of budgetary policies, the media can be an effective ally in sparking debate among the general public and eliciting responses from the government.

- Access to information. This must have the backing of law and regulations. Indeed, leadership committed to transparency will entrench this element in the country's laws.

1.5 Measuring fiscal transparency

17. Transparency measurement problems are playing a role in limiting the development of literature around the subject, prompting Alesina and Perotti (1996) to observe that the “*results on transparency probably say more about the difficulty of measuring it, than about its effect on fiscal discipline.*” This paper adopts the view that the ultimate measurement of the success of fiscal transparency is to look at the budget from the viewpoint of the ordinary citizens or their non-government representatives and ask what information a person will need to engage meaningfully with budget and other decisions about public resources. In this regard, the forthcoming ECA *African Governance Report (AGR)* is instructive in that it seeks to gauge ordinary people's perception of economic governance in their respective countries. It has been found that the extent to which people and/or their representative organizations are able to express informed views about economic management determines their access to information and the clarity thereof.

18. Notwithstanding the difficulties in measuring transparency, a number of organizations have developed some objective, rigorous and technical ways of measuring fiscal transparency. These range from the *Save the Children UK* initiative (which stresses the need for access to information, overall government support for transparency, overall governance environment and disclosure of revenue payments to government) to virtual accounting approaches adopted by others. The Organization for Economic Cooperation and Development (OECD) approach, which seems to be in line with the virtual accounting approach, was modified in a paper by Alt and Lassen (2003) in which emphasis was placed on four distinct characteristics of transparency, namely, information access, independent verification, non-arbitrary language, and more justification. Essentially, these are embedded in the IMF Code used in Section III of this paper to assess fiscal transparency in Africa.

19. In the final analysis, transparency should enable citizens to exercise oversight functions over their national resources and how these are spent to meet their needs in an equitable manner.

1.6 Objectives of the study

20. The paper assesses the extent to which fiscal transparency principles are being adopted by a representative sample of 15 African countries. It aims to provoke a debate that could lead to the adoption of good budget transparency principles continent-wide, thus giving a sound basis for the ultimate achievement of the MDG of reducing poverty in Africa. Furthermore, this paper focuses on transparency in public financial management on the premise that a government is the key custodian of the welfare of the citizens; it has primary responsibility for ensuring that the benefits of national resources are shared equitably among the wider population, including its poorer and most vulnerable sections.

21. ECA contribution to the process of promoting fiscal transparency is manifold. Various studies have been carried out by the Commission and an effort is made here to present in one comprehensive document a number of separate studies, thereby enabling an overview of progress. Moreover, ECA, through its convening power and advocacy and outreach activities, is able to assemble a number of players from member States, to share best practices and experiences and find solutions to problems.

22. Section II reviews the international and regional guidelines on budget and fiscal transparency and the differences among them. Relying on secondary research, the main part of the paper, Section III, ascertains the extent to which a selected number of African countries meet fiscal transparency principles. Section IV draws lessons, makes recommendations and concludes the paper.

SECTION II

Fiscal Transparency: Some International and Regional Guidelines

23. The previous section identified a number of organizations and initiatives advocating fiscal transparency. Here, a few of these are selected based on their influence, relevance, and likelihood of having their recommendations adopted in Africa. The aim is to demonstrate that there is no single right way of conforming to transparency objectives, a fact acknowledged by the IMF publication, *A Manual on Government Finance Statistics*. Culture, history, fiscal practices and other factors determine which methods are closest to a country's own, and can most easily be adopted. The French-inspired public expenditure management practices in Francophone Africa demonstrates this variation in practices in terms of legal setting, rules, procedures, accounting, and other fiscal practices (Moussa, 2004).

2.1 The United Nations and the African Union Conventions

24. United Nations (UN) work on transparency is, as mentioned, an indirect one. Transparency is one of the UN instruments for fighting a vast array of crimes that include corruption, international money laundering and the financing of terrorism. In the *Convention Against Corruption*, articles 9 to 14, on public procurement and management of public finances, stress the need for transparency and accountability in the management of public finances (Box 3), having noted that opaque public financial management practices are the root causes of many finance-related evils. Included among these 'evils' is the ability of corrupt individuals, public officials and politicians to siphon off vast quantities of State assets, illicit or criminal acquisition of personal wealth and ability to launder this ill-gotten wealth in the local banking system or to transfer it abroad.

25. Although UN conventions appear at first sight to be overly general in terms of ultimate objectives, they are critical. First, the Organization encourages countries to develop their own laws in line and in pursuit of these conventions, taking into account the country's uniqueness; second, UN international treaties or conventions have the effect of law in a country once that country has signed and ratified them.

Box 3. United Nations Convention Against Corruption

Article 9 (2) & (3): public procurement and management of public finances

Article 9 (2)

Each State Party shall, in accordance with the fundamental principles of its legal system, take appropriate measures to promote transparency and accountability in the management of public finances. Such measures shall encompass, inter alia:

- Procedures for the adoption of the national budget;
- Timely reporting on revenue and expenditure;
- A system of accounting and auditing standards and related oversight;
- Effective and efficient systems of risk management and internal control; and
- Where appropriate, corrective action in the case of failure to comply with the requirements established in this paragraph.

Article 9 (3)

Each State Party shall take such civil and administrative measures as may be necessary, in accordance with the fundamental principles of its domestic law, to preserve the integrity of accounting books, records, financial statements or other documents related to public expenditure and revenue and to prevent the falsification of such documents.

Source: United Nations, 2003

26. Similarly, AU, and its predecessor, the Organization of African Unity (OAU), has adopted measures that encourage transparency among its member States. For example, in acknowledging that corruption undermines poverty reduction efforts as well as the socio-economic development of the continent, AU adopted “*transparency and accountability in the management of public affairs*” as one of its principles for combating corruption.³ The right of access to information is emphasized under article 9 of the above quoted Convention.

2.2 International financial institutions

27. As part of its work to promote sound macroeconomic policies and global financial stability, the IMF introduced the *Code of Good Practices on Fiscal Transparency* in 2001. This Code sets out key principles that governments can adopt to meet transparency objectives: the roles and responsibilities of government should be clear; information on government activities should be provided to the public; budget preparation, execution, and reporting should be undertaken in an open manner; and fiscal information should attain widely accepted standards of data quality and be subject to independent assurances of integrity (Box 4).

3 Article 3 (3) of AU *Convention on Preventing and Combating Corruption*; see African Union (2003).

Box 4. IMF Revised Code of Good Practices on Fiscal Transparency

Clarity of roles and responsibilities

- 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 with the public sector should be clear and publicly disclosed.
- There should be a clear legal and administrative framework for fiscal management.

Public availability of information

- The public should be provided with full information on the past, current, and projected fiscal activity of government.
- A commitment should be made to the timely publication of fiscal information.

Open budget preparation, execution, and reporting

- The budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.
- Budget information should be presented in a way that facilitates policy analysis and promotes accountability.
- Procedures for the execution and monitoring of approved expenditure and for collecting revenue should be clearly specified.
- There should be regular fiscal reporting to the Legislature and the public.

Assurances of integrity

- Fiscal data should meet accepted data quality standards.
- Fiscal information should be subjected to independent scrutiny.

Source: International Monetary Fund, 2001

28. The IMF Code is further aimed at facilitating surveillance of economic policies pursued by country authorities. The Fund has also issued *Guidelines* for implementation of the Code, taking note of the fact that countries are diverse in financial management systems and in cultural, constitutional, and legal environments. They also differ in technical and administrative capacity to improve transparency. The Fund also provides technical assistance to those countries that need help and that demonstrate commitment to improving fiscal transparency.

29. Section III uses the IMF Code as the basis for determining a country's transparency status, due to IMF's fiscal management expertise, universal membership, loans to Africa's poor countries, and its influence on the macroeconomic policies being pursued by many poor countries, including the vast majority of African countries.

30. Furthermore, there is the IMF-compiled Special Data Dissemination Standard (SDDS) to strengthen data compilation methods (Box 5). SDDS is a disclosure standard; that is, it focuses on encouraging the authorities to provide information to users, including information that will enable users to assess the data. It does not aim to assess the quality of data for any specific or

Box 5: Dimensions and Elements of the Special Data Dissemination Standard (SDDS)

Data dimension (coverage, periodicity and timeliness)

- The dissemination of 18 data categories, including component detail, covering the four main macro-economic statistical categories, with prescribed periodicity and timeliness.

Access information

- The dissemination of advance release calendars providing at least a one-quarter ahead notice of approximate release dates, and at least a one-week ahead notice of the precise release dates; and
- The simultaneous release of data to all users.

Integrity dimension

- The dissemination of the terms and conditions under which official statistics are produced and disseminated;
- The identification of internal government access to data before release;
- The identification of ministerial commentary on the occasion of statistical release; and
- The provision of information about revision and advance notice of major changes in methodology.

Quality dimension

- The dissemination of documentation on statistical methodology and sources used in preparing statistics; and
- Dissemination of component detail/or additional data series that make possible crosschecks and checks of reasonableness.

Subscribers are required:

- To post description of their data dissemination practices (metadata) on the IMF's Dissemination Standards Bulletin Board. Summary methodologies, which describe data compilation practices in some detail, are also disseminated on the Dissemination Standards Bulletin Board; and
- To maintain an internet website, referred to as the National Summary Data Page, which contains the actual data described in the metadata, and to which the Dissemination Standards Bulletin Board is electronically linked.

Source: IMF website (www.imf.org)

predetermined use. The number of African countries subscribing to SDDS has climbed recently and now includes Lesotho, Namibia, Senegal and South Africa.

2.3 Other region- and sector-specific initiatives

31. The OECD countries launched their own *Best Practices for Budget Transparency*, as a reference tool for member and non-member countries to use in order to increase the degree of

budget transparency in their respective countries (see Box 6). The *Best Practices* are organized around specific reports for presentational reasons only and are divided into three parts. Part I lists the principal budget reports that governments should produce and their general content. Part II describes specific disclosures to be contained in the reports. This includes both financial and non-financial performance information. Part III highlights practices for ensuring the quality and integrity of the reports (see Box 6).

Box 6. Some Elements of the OECD Best Practices for Budget Transparency: Integrity, Control and Accountability

Accounting policies

- A summary of relevant accounting policies should accompany all reports. These should describe the basis of accounting applied (e.g. cash, accrual) in preparing the reports and disclose any deviations from generally accepted accounting practices.
- The same accounting policies should be used for all fiscal reports.
- If a change in accounting is required, then the nature of the change and the reasons for the change should be fully disclosed. Information for previous reporting periods should be adjusted, as practicable, to allow comparisons to be made between reporting periods.

Systems and responsibility

- A dynamic system or internal financial controls, including internal audit, should be in place to assure the integrity of information provided in the reports.
- Each report should contain a statement of responsibility by the Finance Minister and the Senior Official responsible for producing the report. The Minister certifies that all government decisions with a fiscal impact have been included in the report. The Senior Official certifies that the Finance Minister has used its best professional judgment in producing the report.

Audit

- The year-end report should be audited by the Supreme Audit Institution (SAI) in accordance with generally accepted auditing practices.
- Audit reports prepared by the SAI should be scrutinized by Parliament.

Public and parliamentary scrutiny

- Parliament should have the opportunity and the resources to examine effectively any fiscal report that it deems necessary.
- All fiscal reports referred to in these Best Practices should be made publicly available. This includes the availability of all reports free of charge on the Internet.
- The Finance Ministry should actively promote an understanding of the process by individual citizens and non-governmental organizations.

Source: OECD, 2001

32. For the resource-rich countries, the Extractive Industries Transparency Initiative (EITI), launched by the British Government in 2002, seeks to increase the transparency of payments by extractive companies to governments in developing countries and to match that accounting process by increasing the accountability of those governments to their own citizens for the revenue received. The *Initiative* is a coalition of developing-country governments, oil and mining companies, civil society organizations, international organizations, donors and investors.

33. EITI also provides a platform for broader work and discussion on revenue management, gives hope that the negative impact of mismanaged revenues can be mitigated, and that these revenues can instead become an important engine for long-term economic growth. In pursuit of its objective, it has adopted a number of principles that countries ratify and implement. A number of African countries have ratified these principles, namely, Cameroon, Congo, Equatorial Guinea, Ghana, Gabon, Niger, Nigeria, and São Tomé and Príncipe. Democratic Republic of the Congo is planning to join soon.

34. To meet its principles and criteria, in 2003, EITI introduced a detailed *Draft Reporting Guidelines: Extractive Industries Transparency Initiative* aimed at ensuring consistent reporting while reflecting country-specific situations and requirements (Box 7). The Initiative places particular emphasis on transparency of current flows of revenue; aggregate payments to government reported by companies (including state-owned resource companies) and aggregate payments received by government from companies published, thus making any discrepancy transparent. These *Reporting Guidelines* contain reporting templates for both governments and companies, to be filled and handed to third parties for verification purposes.

Box 7. Extractive Industries Transparency Initiative (EITI) Guidelines

EITI implementation rests on six guiding principles:

- Publication of payment/receipt in a publicly and readily accessible form;
- Independent audit of payments/receipts by a reputable audit firm applying international auditing standards;
- Payments and receipts are reconciled by a credible, independent administrator, with publication of the administrator's opinion regarding that reconciliation;
- Extension of the above to all companies including national resource companies;
- Active engagement of civil society in the design, monitoring, and public debate around the implementation process; and
- Commitment to a work plan and timeline for implementation.

Source: Extractive Industries Transparency Initiative, 2003

35. EITI is not the only initiative deeply immersed in matters of transparency in extractive industries. IMF has published a draft *Guide on Resource Revenue Transparency* offering guidance to resource-rich member States on the receipt and management of extractive industry revenues. The World Bank too has committed itself to making revenue transparency a condition of all International Finance Corporation (IFC) loans and Multilateral Investment Guarantee Agency (MIGA) guarantees to extractive sector projects within two years. The United States Government has committed itself to pushing for a situation whereby all non-humanitarian financial assistance to resource-rich countries from international financial institutions (mainly the IMF and the World Bank Group) should be dependent on revenue transparency.

36. EITI is more detailed in a number of respects than the IMF's *Reports on the Observance of Standards and Codes* (ROSC)⁴ on fiscal transparency, but its focus is limited to resource revenue flows and integrity of reporting. These are covered broadly by elements of the Fund's fiscal transparency Code discussed above and which pertains to institutional roles, clarity of fiscal policy and budget implementation, debt and asset management to extractive industry-related transactions, and current revenue flows. In this sense, EITI guidelines and the Fund's fiscal transparency codes are mutually supportive.

⁴ The ROSC summarizes the extent to which a country observes certain internationally recognized standards, focusing on the areas of direct operational concern to the IMF.

SECTION III

Fiscal Transparency in Africa: A Brief Survey

“How can one understand that during the last three decades, the frequent start-up of oil wells, always important, has not been accompanied by any kind of visible sign of economic transformation or rectification of the social situation of our population? Our oil must be an instrument for the life and not the death of our people.”

Catholic Bishops of Congo (Brazzaville), 1999⁵

37. This main section of the paper takes a parenthetical look at previous studies on fiscal transparency, explains the study methodology, and makes a detailed analysis of a selected number of African countries under topics deemed key to assessing fiscal transparency.

3.1 Related surveys

38. A number of studies have directly or indirectly attempted to gauge where Africa stands on budget transparency and accountability. Broadly, these studies fall under two categories: those that find that the general economic governance situation is improving, including fiscal transparency, and those that conclude that economic governance is actually deteriorating on the continent.

39. Perhaps the leading study falling under the former category is the ECA *African Governance Report*.⁶ In so far as economic governance goes, that study discerned a pattern of improvement in the overall economic management of the continent, while highlighting challenges, most of which are economic. The study highlights tremendous advances made in Botswana, Mauritius, Namibia, Tunisia and South Africa in “*improving the transparency and accountability of their*

5 Available at www.caford.org.uk

6 Other studies under this general optimistic perception include Grindle (1996), and Fieldhouse (1982).

*fiscal systems.*⁷ In addition, the ECA study noted that, with new democratically elected political leaders, Africa now possesses the will and the zeal to implement the needed reforms, but that a speedier reform process could benefit from enhanced donor assistance.

40. Other studies draw different conclusions. For example, van de Walle (2001)⁸ found that, since the 1980s, African leadership has, at best, shown lukewarm commitment to reforms. He argues that African countries have manipulated data to project an effigy of improved economic management when the truth is otherwise. To keep adjustment programmes officially on track, for example, those related to budget deficits, some oil exporters, including Cameroon and Congo, have sold oil forward several years into the future despite this practice being forbidden. Also, countries such as Tanzania, Uganda and Zambia have managed “*controlled budget deficits*” by accumulating arrears on salaries and other major government expenditures and then excluding these arrears from fiscal statistics.⁹ Van de Walle concludes that “*successive attempts at reforms have been undermined by rent-seeking behaviour*” and that political leaders benefiting from “*the current unchanged policy mix*” are not likely to give in to pressure for reforms.¹⁰

3.2 Methodology

41. A desktop survey done for this paper considered transparency practices in 15 African countries, namely, Algeria, Benin, Botswana, Burkina Faso, Equatorial Guinea, Ghana, Malawi, Mali, Mozambique, Namibia, Rwanda, Senegal, South Africa, Tanzania and Uganda. These countries represent the five subregions of the continent, extractive and non-extractive countries, and countries emerging from conflict situations. To some extent, therefore, the selection represents the continent. The caveat to the survey is that all these countries have undergone the fiscal transparency assessment conducted by IMF, and the sample may veer the study toward those countries that are relatively more transparent or are moving rapidly in that direction. The conclusions may paint a rosier picture than the overall continental reality warrants. Another caveat to this study is that governance in Africa, according to the ECA *African Governance Report*, is in a rapid wave of evolution towards good governance. Therefore, the facts stated in this study may have been overtaken by new developments.

7 ECA (2005b).

8 These studies include Sekwat (1997), Mkandawire and Soludo (1999), Dumont (1966), and Leonard and Strause (2003).

9 Ibid, p. 72.

10 Ibid, p. 177.

42. This survey adopted transparency assessment tools from various sources, primarily those used by the IMF. As stated before, the reason for selecting the Fund criteria is that it embodies key principles, guidelines and criteria contained in those of other organizations. The IMF Codes are clarity of roles and responsibilities, public availability of information, open budget preparation, execution, and reporting, and assurances of integrity. Before exploring these in turn, it is well to note that the evidence produced in this paper has been discussed with national authorities and has been widely available to the public through the IMF and other websites. The key source of information in the next section is the IMF website unless otherwise specified. For easy reference and more information, an Annex is attached, which is not altogether based on the Fund's ROSCs. Lastly, conclusions drawn from the survey cannot be ascribable to the IMF or any other organization, but only to the author of this paper.

3.3 Clarity of roles and responsibility

43. According to the IMF Code, '*clarity of roles and responsibility*' means that the government sector should be distinguished from the public sector at large, and the rest of the economy. Policy and management roles within the public sector should be clear and publicly disclosed. There should be a clear legal and administrative framework for fiscal management. The next paragraphs look at the extent to which African countries conform to this general guideline.

44. The structure and functions of government are clearly specified but *general government* is poorly defined for budgeting purposes in many countries in the survey. In general, laws and regulations clearly define *general government* according to international norms. Clearly defining and incorporating the *general government* in the budget ensures that the entire picture of the government's financial position is captured, leaving no significant financial activities unrecorded. Thus, the 1992 Constitution and related laws in Mali provide a comprehensive legal basis for defining *general government* in conformity with the UN *System of National Accounts* principles. Basically, the term includes central government, autonomous administrative public enterprises and various tiers of local government. The laws are clear in this regard in a number of countries, including in Algeria, Equatorial Guinea, Ghana, and South Africa, but are not as clear in Malawi and Tanzania.

45. Notwithstanding the legislative comprehensiveness in many countries, these laws are not always followed in actual budgetary practices. Some governments carry a number of significant quasi-fiscal activities whose implications are not recorded in the budget. These include Ghana,

Equatorial Guinea, Tanzania, Malawi and Rwanda. The next paragraphs explain these activities in greater detail.

46. The Constitution of 1992 defines the general government sector in Ghana to include central government, including the Social Security and National Insurance Trust, and local government. Yet for budgetary purposes, budget reporting incorporates only the central government. The Government of Ghana carries out some quasi-fiscal activities through publicly owned enterprises, including its full ownership of a number of financial institutions, e.g. Agricultural Development and National Investment Banks. It also has a majority equity stake in Ghana Commercial Bank (GCB), the largest commercial bank. GCB acts as the principal financier of the state-owned Tema Oil Refinery and has built up an exposure that significantly exceeds prudent norms. These quasi-fiscal activities are documented in the GCB's annual report, but the associated risks are not discussed in the budget in the context of putting policies in place to deal with them. Besides the oil refinery company, other government-owned utility companies in the electricity and water sectors are subject to a regime of administered prices, the impact of which is not reported (Purfield, 2003).

47. In Equatorial Guinea, state-owned enterprises carry out some quasi-fiscal activities, but these are plagued by management inefficiencies that lead to budget costs. The State oil company, GEPetrol, was set up in 2002 with multiple roles: to manage the State's interests in the oil sector, including royalties, and other participating interests; to negotiate open acreage on behalf of the State; and to use petroleum revenues for development. GEPetrol also acts as an agent for the sale of the Government's oil share resulting from royalties, production shares, and equity interest in production-sharing contracts. It passes all revenue directly to the Treasury and finances only its operating expenses from its own resources. Thus, its current operations appear to be solely undertaken as an agent of government. If present practices were to be continued, GEPetrol could be treated as an autonomous agency financed by the budget and included as part of general government.

48. The definition of general government in Tanzania is not comprehensive, in part because the relationship between different levels of government is evolving due to increasing devolution of fiscal responsibilities to sub-national governments. The authorities define central government as comprising the central administration and regions; these are covered by the central government budget. The budget also includes subventions to local authorities. The role and responsibilities of various organs of the central government are defined in the Constitution. The political, administrative and financial mandates of sub-national governments are being further developed in the context of the Local Government Reform Programme.

49. The Constitution and its regulations in Mozambique provide a clear definition of the role and responsibilities of the central government and the sub-national governments. Government at the sub-national level consists of 33 independent municipalities (*autarquias*), each with its own budget, and 10 provinces, plus 124 districts belonging to the central government. The reform currently underway to disengage the State from the economy has clarified the role of the central government and its relationship with the private sector by liberalizing markets and prices and giving greater autonomy to State enterprises.

50. In Malawi, general government is not clearly defined. Government policy has generally been carried out by the central government and its field administration. At the local government level, a very restricted revenue base has limited the activities of the 39 local assemblies. The authorities are implementing a substantial decentralization initiative that will give operational responsibility for expenditure programmes to the assemblies. Policy responsibility will, however, remain with the central government Ministries. Some central government functions are also carried out through special Treasury funds. There are 16 special Treasury funds operating outside the budget with both commercial and development objectives. These funds are established through the Finance and Audit Act of 1966 and are under the direction or supervision of the relevant functional Ministry. In recent years, the operations of these special Treasury funds have not been reported to Parliament.

51. The accomplishments of Rwanda since 1994, including the programme-oriented budget framework now in use (Lienert, 2004) are a significant start (Box 8). However, a number

Box 8. Rwanda: Summary of Post-1994 Progress towards Fiscal Transparency

Rwanda's budget management system had to be reconstructed from a low base, following the devastating events of 1994. Since then, the authorities have taken a number of actions to enhance fiscal transparency. The Government's role in the economy has been clarified by the privatization process and improvements to the regulatory framework. The new Constitution specifies the roles of the Legislative and Executive branches of government. Budget preparation has been significantly strengthened: the budget is presented to Parliament in a timely manner, the classification was revised in line with international standards, planning takes place in the context of a medium-term expenditure framework, and a comprehensive background document is being prepared. More fiscal data are being published. Now that the new Constitution has been adopted (by referendum in May 2003), the Government is planning to update its legal framework, including introducing a new Organic Budget Law and revising the External Audit Act.

Source: IMF Country Report No. 03/223, July 2003

of improvements are necessary to achieve good practices in all basic fiscal transparency requirements. The coverage of government budget activities is restricted to central government excluding the pension fund (*Caisse Sociale Rwandaise*), the budgets of the 106 districts, the Fund for the Victims of the Genocide, among a number of other exclusions. Partial ownership of several commercial banks by the Government of Rwanda poses significant fiscal risks, which are also not reported in the budget documents.¹¹

52. Financial relationships between the various layers of government in Burkina Faso are evolving and the underlying principles have been clearly established in legislation. Government operations have historically been highly concentrated, with the central government generally delivering services directly to local communities. As a result, budgets for districts (*communes*) are small, and are not consolidated into a picture of general government. This is changing as the Government gradually implements a programme of deconcentration and decentralization of resources to local governments (provinces, communes) as mandated by legislation adopted in 1998.

53. The responsibilities of the Executive are relatively well defined in many countries, but the Legislature faces some legal restrictions in its oversight functions of the budget. Taking one example, the roles of the Executive, Legislative and Judicial branches are clearly defined in the Constitution of Malawi. The Executive initiates and is accountable for all spending. The Legislature is not allowed to proceed with any “*money bills*” without the concurrence of the Minister of Finance.¹² The Legislature can also not change the appropriation bill once it has been introduced. Under Parliament’s standing orders, there are two Parliamentary committees involved in the consideration of fiscal information. The Public Accounts Committee considers the annual accounts and other *ex post* reports, while the Budget and Finance Committee considers the budget and budget update reports. Although in recent years the Budget and Finance Committee has started taking an active role in monitoring the financial performance against the budget, the limited availability of fiscal data has inhibited the effectiveness of this role. It may be noted that the fiscal management is defined by a clear but outdated legal framework that focuses on financial processes and compliance rather than on transparency. The Constitution and the Finance and Audit 1966 provide the formal framework based on the post-independence Anglophone model. Thus all debt charges and some other statutory payments are directly authorized under the Constitution while other expenditures are approved annually by Parliament.

11 Weighted by total assets, to governments controls about 22 per cent of the banking sector through its shareholding after the privatizations, down from 45 per cent at the end of 2003 (see *IMF Country Report No. 05/309*, September 2005)

12 The Constitution of Malawi, section 57.

54. Clear mechanisms for the coordination and management of budgetary and extrabudgetary activities need to be established in a number of countries. In Ghana (unlike the case in Mozambique and Algeria discussed below), the Mineral Development Fund operations are administratively clear but are not well integrated in the national and local budgets. The Government of Ghana has set up a system whereby the consolidated fund receives 20 per cent of the royalties of the mining companies. Half of this fund supports the mining agencies (the Mines and Geological Survey Departments and the Minerals Commission). The other half is distributed in the mining communities.

55. Extrabudgetary activities are significant in Mozambique relative to the size of the budget, despite the fact that legislation requires universal coverage by the State budget. These activities are related essentially to external aid funds (grants) as well as the funds generated by budgetary entities that form part of their own resources (retained revenues). Some special funds (the Agrarian Fund and the Roads Maintenance Fund, for example) as well as resources of the Social Security Institute also fall outside budgetary procedures. Moreover, such extrabudgetary spending is not subject to systematic monitoring, control, and evaluation. Despite the fact that the Ministry of Planning and Finance is setting up a standardized financial control system to track all foreign sources of budgetary financing, the related expenditures are still made in non-compliance with budgetary procedures.

56. In Algeria, mechanisms for the coordination and management of budgeted and extrabudgetary activities are not sufficiently well defined or observed. Investment outlays, including externally financed capital expenditure, are recorded in the annual budget but are largely executed by specialized public financial institutions outside the budget, such as *Banque Algérienne de Développement* in the case of externally financed capital expenditures, or the National Agricultural Mutual Insurance Fund (*Caisse Nationale de Mutualité Agricole*) in the case of agricultural development assistance. Management of these expenditures partly circumvents government accounting requirements. Special Treasury Accounts (STA) (Box 9) transactions are subject to special terms and are barely subject to annual budget constraints. Envisaged in Law No. 84-17 as a means of getting round the annuality principle (the appropriations can be carried forward) or the principle that revenue cannot be earmarked for expenditure, STAs may only be established pursuant to a budget law, and transactions on those accounts are, in principle, recorded in the annual budget law. Strictly speaking, they are not extrabudgetary funds. In practice, these rules are not observed and the STA operations are not sufficiently transparent.

57. Clearer arrangements are needed in the relations between government and non-governmental public sector agencies (i.e. the central bank, public financial institutions, and non-

financial public enterprises) but progress is clearly visible in some countries. In Malawi, there are more than 100 parastatals (each with its own legislation), many of which undertake quasi-fiscal activities. For example, while the Agricultural Development and Marketing Corporation was established primarily as an agricultural marketing body, its interests now include a large portfolio of commercial enterprises (e.g. a bus company, a textile factory and substantial shareholding in a large commercial bank). Line Ministries, the Ministry of Statutory Corporations and, sometimes, the Ministers themselves, are actively involved in approving the budgets and business plans for parastatals, where such exist. Routine financial reporting by the parastatal sector has generally been weak, but has recently improved. The Legislative requirements are generally limited to the preparation of annual accounts and these are not produced on a timely basis. In some cases, the annual accounts are not produced at all. There is limited information provided in the budget, and there is no other performance agreement prepared by the parastatal and provided to Parliament prior to the start of the year.

58. There have been a number of special non-transparent financial transactions between the Reserve Bank of Malawi (RBM) and the Government of Malawi. The RBM has made various advances to the Government on a concessional or interest-free basis. The balance of special loans was MK1.6 billion for nine months from September 1999 to May 2000, but has been zero since October 2000. The authorities have advised that this programme has been discontinued. The Government has issued non-interest bearing promissory notes to the RBM to cover losses. The Government's accounts do not disclose the stock of these promissory notes although the full value of the notes is included in the RBM balance sheet.

59. In Algeria, public enterprises undertake a range of quasi-fiscal activities. The sale of petroleum products and natural gas in the domestic market by Sonatrach and its subsidiaries at prices far below international market prices is an implicit subsidy that is not shown in the Government's budget, but considerably reduces government revenue. Low-income consumers of electricity also benefit from implicitly subsidized prices through a cross-subsidization mechanism among households. Electrification in rural areas and electricity consumption in the south of the country are, however, explicitly subsidized through the budget.

60. The receipts, expenditures, and balances of the STAs (Box 9) are not recorded in the annual budget laws, though their monies are consolidated within the single Treasury account at the central bank. Thus, the Parliament in Algeria is not informed about the total amount of projected or actual expenditures and receipts on these accounts. While in principle outlays from accounts for specific appropriations or the special accounts for trading state services are limited

Box 9. Algeria: The Special Treasury Accounts

- Special accounts for trading services (comptes de commerce), designed to record the amounts involved in industrial or commercial transactions carried out in an incidental capacity by state services. Their expenditure projections are regarded as estimates.
- Special accounts for earmarked funds (comptes d'affectation spéciale), which record transactions carried out with earmarked funds. These resources may be supplemented by an appropriation from the general budget.
- Special accounts for the funding of advantages (comptes d'avances), which track operations related to the allocations or repayment of (under two years) advances from the Treasury.
- Special accounts for loans (comptes de prêts), which record operations related to the granting or repayment of Treasury loans.
- Special accounts for the transactions with foreign governments (comptes de règlements avec les gouvernements étrangers), which record operations carried out under duly approved international agreements.
- Special accounts for participations and obligations (comptes de participation et d'obligations).

Source: IMF Country Report No. 05/68, February 2005

to the amount of funds in them, no ceiling is set on the amounts of the advances and loans that the Treasury may grant.

61. Government involvement in the private sector (e.g. through regulation and equity ownership) is increasingly being conducted in an open and public manner, and on the basis of clear rules and procedures that are applied in a non-discriminatory way. In Equatorial Guinea, the Government's relationship with GEPetrol raises some concerns. Also, according to article 8 of the Ghanaian Minerals and Mining Law, the Government of Ghana is, without a financial contribution, entitled to a 10 per cent interest in the rights and obligations of mineral operations that have been licensed and can acquire up to a further 20 per cent interest on terms agreed with the mining leaseholder. The Government of Ghana equity holdings in selected mining companies is reported in the Comptroller and Accountant-General's Department's annual report and financial statements.

62. Taxes, duties, fees, and charges are yet to have an explicit legal basis. Tax laws and regulations are yet to be easily accessible and understandable, and clear criteria to guide any administrative discretion in their application are yet to be established in a number of countries. Specific legal arrangements apply to government revenue from the extraction of natural resources, notably in the mining and timber sectors in Ghana. For instance, the Minerals and Mining Law, 1986, and the Minerals Regulations, 1987, require mining companies to pay into the Consoli-

dated Fund royalties to the tune of, depending upon their profitability, at least 3 per cent of gross revenue. To improve transparency of resource revenues, the authorities have volunteered to participate in the EITI and are preparing a reporting template according to the latter's guidelines. The adoption in 2003 of a Competitive Bidding Law for concessions in the natural timber sector is expected to improve transparency in that sector as well. Local communities affected by extraction or logging activities are expected to receive a fraction of the government revenues from these activities through the Office of the Administrator of Stool Lands. The allocation is distributed in proportions that are specified in the Constitution (article 267), to the traditional authority, and the district assembly. In practice, however, these local institutions tend to use this allocation for general spending purposes.

63. In Equatorial Guinea, the 2005 tax code does improve transparency of the law, but dissemination of the law has been weak and an integrated plan and capacity to address implementation issues are lacking. A consolidated and revised tax code came into effect on January 1, 2005 (Law No. 3/2004). The new code provides an explicit legal basis for all taxes; greater accessibility to, and coverage of, tax laws, regulations and other explanatory material; as well as criteria for administrative application.¹³ There have been weaknesses in the design of the procedures, tax forms, and explanatory informational material. Considerable improvement in the mechanism of dissemination of the code is also required. Major taxpayers were unaware of the changes introduced and, consequently, had little input or time to prepare for its implementation.

64. The tax code of Equatorial Guinea helps clarify the fiscal regime for the petroleum sector and steps are being taken to make Production Sharing Contract (PSC) arrangements more transparent, but the regime is complex and some implementation issues require further clarification. The taxation of the whole range of petroleum sector activities – prospecting, exploration, operation, and commercialization – has for the first time been explicitly consolidated from past legal decrees into the Tax Code (articles 455-480). The Government's total oil revenue “take” is embodied in individual tax/royalty and PSC arrangements, which are not publicly released. As a step toward transparency, a new model PSC is under development and the broad fiscal terms proposed are available on the government website.¹⁴

13 The tax code harmonized Equatorial Guinea's tax system with its Central African Economic and Monetary Union partners. It has the general features found in a modern tax system comprising, *inter alia*: general derivative principles; a corporate income tax; a global personal income tax; general value added tax; a poll tax; a rural and urban property tax; taxes on property transfers; inheritance tax; taxation of income relating to the petroleum sector; and special excise-duty type taxes on the ownership of motor vehicles and vessels as well as on production, distribution, and consumption of alcoholic beverages.

14 The website is <http://www.equatorialoil.com/>.

65. In Algeria, the legal tax regime for the oil and gas sector is defined by amended Law No. 86-14 of August 1986. Prospecting, exploration, production, and transportation via pipeline may only be carried out by the Algerian public enterprise, Sonatrach, either directly or in association with foreign enterprises. The accounts of Sonatrach are audited by national audit companies and published on the company's website. Given the manner in which Sonatrach operates, it is the only entity responsible for payment of the above taxes, which it pays to the Treasury on its own behalf and on behalf of the enterprises with which it enters into partnerships. Control by the tax directorate over the tax declarations it submits has been weak so far, but should be improved once the Large Taxpayer Unit is established. Oil tax revenue, equivalent to 20-30 per cent of GDP and 60-70 per cent of government revenue, is mostly assigned to the central government budget (*budget général de l'Etat*). However, since the supplementary budget law for 2000, oil revenue recorded in excess of budget law projections (which are based on prudent price per barrel forecasts) is allocated to a newly created special account for earmarked funds, the Revenue Regulation Fund.

66. Ethical standards of behaviour for public servants appear to be clear and well publicized in almost all the countries in the study. Overall, surveyed countries are doing well in this area. A sample of good examples includes Tanzania, Mali, Botswana, Senegal and South Africa. Burkina Faso needs to strengthen this area, however.

67. The Government of Tanzania has recently stepped up its efforts to promote ethical standards for public servants. In addition to a number of laws enacted over the years to promote integrity, a Minister of State for Good Governance was appointed in 2000; a Good Governance Unit was formally constituted in the President's Office in late 2001; and the Ethics Inspectorate of the Civil Service Department has distributed more than 30,000 copies of the Code of Ethics and Conduct for the public service, in both English and Swahili. In addition, each Ministry has crafted its own anti-corruption strategy. It is envisaged that Ministries will submit quarterly reports on the implementation of their anti-corruption plans, including information on corruption cases.

68. This is the same in Mali as well. The civil service personnel regulations and wage scales are clearly defined and recruitment is on an open, competitive basis, without discrimination. These are described in the General Statute of the Civil Service (*Ordonnance 77-71/CLMN* of 1977, modified by Law 93-059 of 1993), and also in the Labour Code, wage bargaining agreements, the salary scale, and texts describing bonuses and indemnities.

69. In Botswana, guidelines for staff behaviour are in place and are well known to the staff. The compilation and dissemination of GFS are done by the Ministry of Finance Development Planning and are governed by a published *Finance and Audit Act 1970* that ensures that data are compiled and the results presented according to strictly professional considerations. Adherence to the ‘*code of conduct*’ is ensured by applying sanctions if the code is breached. Any officer or auditor, who knowingly certifies or verifies any false statement or account to the Permanent Secretary, shall be guilty of an offence. The sanctions are significant and made clear in the Financial Instructions.

70. In Senegal, the TOFE uses a methodology common to the entire West African Economic and Monetary Union and is based on accounting and budgetary sources that are themselves established by agents who must obey a strict ethical code, and who may be held personally and financially liable for any errors. These officers must answer to the Court of Account for performance of their duties, and their responsibility can be questioned.

71. In South Africa, guidelines for staff behaviour are clear and publicized. The Public Service Regulation 2001 provides a code of conduct governing the behaviour of officials at all government agencies, including the National Treasury and Stats SA. This code of conduct regulates access to information and the dissemination of information to the public. It recognizes the public right to access information within the limits of the public servants’ obligation to honour the confidentiality of information protected by law. Other agencies have similar codes of conduct for their staff.

72. In Burkina Faso, civil servants are not subject to a separate code of good conduct. While the Constitution establishes some general principles and obligations for higher officials, there is no specific code of conduct for government employees. However, in common with all the countries of French-speaking Africa, there are general and special civil service regulations (*Statutes de la fonction publique*), which establish the rights and obligations of civil servants and are used as a way to mandate ethical rules. Currently, there is no anti-corruption legislation.

3.4 Public availability of information

73. The general principle on ‘*public availability of information*’ is that the public should be provided with complete information on the past, current, and projected fiscal activity of government. Countries should commit to the timely publication of fiscal information.

74. The availability of complete information on the past, current, and projected fiscal activity of government needs serious improvement in most countries in the survey. In Benin, Burkina Faso and Mali where a clear need exists to comply with transparency norms, and the possibility of citizens to access information is slim. Among several countries, Rwanda, Senegal and South Africa are doing relatively well in this area.

75. In Benin, a limited amount of information is published on public debt management. However, formal commitments have been made to disseminate information more regularly. The National Institute of Statistics and Economic Analysis publishes fiscal information in its monthly and annual reports. However, this information is not very detailed and the monthly reports are produced infrequently. The General Budget Directorate produces a monthly budget execution statement, but this information is limited and not exhaustive. The Directorate also produces a quarterly report for the government. The General Directorate of the Treasury produces a monthly bulletin showing account balances. This bulletin is intended exclusively for the Minister of Finance. Furthermore, the presentation of the account balance is inaccessible to persons who are not familiar with government accounting. On the positive side, since the country embarked on the PRSP process in mid-2000, the Technical Secretariat of the National Committee to Monitor Implementation of the Structural Adjustments Programme has been strengthened and extended into a National Committee for Development and Fight against Poverty. Information is being published every month on past financial activities, imports, and exports, as performance indicators in the National Economic Performance Indicators. Annual fiscal information is also published in a document called *Fiscal Statistics*.

76. In Rwanda, information on public finances has become more available to the public. A number of documents, such as the PRSP, the Minister of Finance's budget speech, and quarterly budget execution reports are available to the public. Accompanying the annual budget law is a clearly written background document that provides Parliament with essential information on the orientation and objectives of the annual budget. This lays the basis for focused policy debates in the National Assembly. Both branches of the Government have a number of websites, resulting in an increasing amount of information being made available to the public. The computerization of expenditures, from appropriation to payment, has improved the availability of expenditure data.

77. In Mali, the public has limited access to information about the Government fiscal activities. Each quarter, the Ministry of Economy and Finance prepares a report for the National Economic Policy Committee, which provides a detailed statement of the fiscal position and

includes a quarterly statement on external and domestic debt. This report is not systematically disseminated to the public; the authorities take the view that a demand for such a document has not been expressed. Furthermore, information regarding government financial assets, the holdings of enterprises which are published in the official gazette (*Journal Officiel*) each year, is intended exclusively to meet the needs of the Ministry and certain donors.

78. In Burkina Faso, the public has access to some annual information on past and projected fiscal activity. No information is released to the public during the fiscal year. The public has access to the annual budget laws (published in the Official Gazette and available on the Ministry of Economics and Finance website), which include projections for the following two years, as well as estimated outturn data for the two previous years. Information on the final accounts has been subject to significant lags. For example, the final budget execution acts containing annual outturn data for 1995-1998 were presented to Parliament only towards the end of 2002.

79. In Senegal, statistics are presented in a clear and understandable manner, forms of dissemination are adequate, and statistics are made available on an impartial basis. An internal circulation takes place well beforehand among various agencies involved and between the authorities and international interest groups such as IMF. Non-published (but non-confidential) sub-aggregates are made available upon request.

80. In South Africa, the terms and conditions under which statistics are collected, processed, and disseminated are available to the public. Laws and regulations governing the compilation and dissemination of government finance statistics are widely disseminated through the government website as well as published sources.¹⁵ The amended Public Finance Management Act states that the objective of the Act is to ensure transparency, accountability, and sound management of revenue, expenditure, assets and liabilities of all government institutions.

81. The budget documentation, final accounts, and other fiscal reports for the public suffer from coverage problems with respect to budgetary and extrabudgetary activities of the central government, and the consolidated fiscal position of the central government needs to be publicized more. This is one key concern in the countries surveyed, as previously noted in the case of Ghana and Equatorial Guinea. Additionally, in Algeria, the budget documents cover most central government fiscal activities, except for the special Treasury accounts, but do not provide

15 Laws governing fiscal data are: The Constitution of the Republic of South Africa www.polity.org.za; the South African Reserve Bank Act www.sarb.org.za; the Public Finance Management Act www.Treasury.gov.za; Stats SA Act 1999 www.statssa.gov.za.

information on fiscal activities for the whole of general government. The annual budget law presents all general budget revenue by major categories, all outlays by ministry (in the case of current expenditure) or by sector (for investments), as well as the complete list of parafiscal taxes. Attached are booklets showing a breakdown of appropriations by ministry according to a detailed classification system and a presentation report summarizing the macroeconomic context and the main assumptions used. However, contradicting Article 68 of Law No. 84-17, no information is published on special Treasury account transactions. The only data provided refer to the general budget allocations to certain accounts for earmarked funds, along with a brief synopsis (in the presentation report) of past operations of the Revenue Regulation Fund. A list of accounts for specific appropriations is provided to the budget committees of the Assemblies when they are working on the budget law. However, that list is not published. No data are to be found in the budget documents on the fiscal activities of local governments, public corporations, or social security funds.

82. Statements describing the nature and fiscal significance of central government contingent liabilities and tax expenditures, and of quasi-fiscal activities, are generally not yet part of the budget documentation in a majority of countries. The survey indicates that major efforts are needed in this area. Quasi-fiscal activities are not identified in the budget of Tanzania, and the use of privatization proceeds is not divulged to the public at large. During the 1990s, prices were liberalized; government's holdings in non-financial public enterprises were mostly divested; and the Government disengaged itself from the oil sector – a source of quasi-fiscal activities in the past. However, the Government's continued involvement in the utility sector as well as its participation in the marketing of some agricultural products, might result in some quasi-fiscal activities. It has not assessed the extent of these activities – including their financial implications. Contingent liabilities are not reported in the budget documents; nor is this reporting a requirement under the 2001 Public Finance Act. However, the Act requires the Accountant General to prepare and transmit annual accounts to the Comptroller and Auditor General including a statement of the amounts guaranteed by the Government and a list of other contingent liabilities. The Comptroller and Auditor General's audit report is then presented by the Finance Minister to the National Assembly.

83. In Ghana, quasi-fiscal activities and social obligations of mining companies are identified, but excluded from the budget process. The annual reports of the major mining companies provide an overview of the social services provided to the mining communities. These typically involve educational and health care services, infrastructure and utilities, and the sponsoring of recreation and sport activities. The Chamber of Mines publishes a report on its members' envi-

ronmental and social activities in local communities. However, these elements are not considered as quasi-fiscal activities or implicit taxes in government budgets, and no aggregate quantitative information on social service spending by the mining industry is available.

84. In Algeria, quasi-fiscal activities are extensive and their estimated cost is not included in the budget documents presented to Parliament. Quasi-fiscal activities of public banks, which have given rise to several Treasury restructurings of these bank balances since the early 1990s, are not reflected in the government budget balance. Its surplus (or deficit) is therefore overestimated (underestimated) by that amount. Moreover, government entities of various kinds (*Sonelgaz*, *Banque Algérienne de Développement*, *Algérie Télécom*, and others) are carrying non-performing loans or claims possibly totalling over \$US1 billion, which will, at some point, have to be absorbed in whole or in part by the Treasury. No complete inventory of these non-performing loans exists. Furthermore, statements of contingent liabilities are not included in the budget documents presented to Parliament. Nevertheless, internal government documents on the external public debt include guarantees and identify them separately.

85. In Malawi, statements on contingent liabilities, tax expenditures, and quasi-fiscal activities are not routinely included in the budget documents. A statement of contingent liabilities is, however, included in the annual accounts. Information on public debt is not published in the budget. Indeed, although debt information is included in the annual accounts, the delay in publishing the accounts reduces the usefulness of this information.

86. Central governments are increasingly being open about their indebtedness and are publishing fuller information on the level and composition of their debt and financial assets. As in Malawi, information on gross public debt in Algeria is partially published, on an annual basis and for a limited audience. Information on financial assets is not published. The General Directorate of the Treasury makes data available on the public debt. A brief quarterly bulletin called *Informations trimestrielles – Marché de Valeurs d'Etat* (Quarterly data on the Government Securities Market), is published and covers the issuance programme for the year on the primary market, with information on the volumes placed and amounts outstanding, specifying the amount of the issue and the amount redeemed.

87. In the case of South Africa, government debt is recorded in line with the principles of the *Government Finance Statistics 1986*. Government debt is recorded at the time the borrowing takes place, i.e. when payment is made and maturing obligations are removed from the outstanding debt, when government payment or exchange for new obligations occurs. Non-cash

generation or extinction of debt is recorded when the debt is created or cancelled. Transactions in foreign currency are converted to local currency using the spot rate at the transaction point.

88. Where sub-national levels of government are significant, their combined fiscal position and the consolidated fiscal position of the general government are not published. In many countries, this shortcoming in publishing the consolidated fiscal position is linked to deficiencies in defining general government, as discussed. South Africa is one of few exceptions in this regard, with the central government, nine provinces and parastatals, social security funds and others, all being part of general government accounts.

89. More countries now acknowledge that the publication of fiscal information ought to be a legal obligation of government. Good examples for publishing fiscal information include Botswana, Namibia and South Africa. In Botswana, the responsibility for collecting, processing, and disseminating statistics is clearly specified, and is carried out by the Ministry of Finance and Development Planning in compliance with both the Finance and Audit Act (1970) and the Financial Instructions and Procedures issued pursuant to section 44 of that Act. The Budget Administration Division and the Accountant General Department, both of which are within the Ministry, are tasked with these responsibilities. According to the Statistics Act of 1967, the Central Statistical Office, also a department of the Ministry, collects statistics on *“public administrative, financial, industrial, and commercial activities of the Government and local authorities, and the activities of institutions established by them, or in pursuance of any law.”*

90. In Namibia too, the responsibility for collecting, processing and disseminating statistics is clearly specified. The Ministry of Finance collects and compiles central government finance data, in compliance with the State Finance Act No. 31 of 1991 and at the direction of the Permanent Secretary based on that Act. The Ministry then disseminates central government finance statistics, both independently and in conjunction with the Bank of Namibia, the central bank, and the Central Bureau of Statistics. Section 13 of the State Finance Act directs the permanent secretary to make, no later than six months after the end of the fiscal year, an annual accounting of the central government operations, and within seven months to provide these accounts to the Office of the Auditor General for his review. These certified accounts are to be submitted to the Parliament within twelve months of the end of the fiscal year for its approval, and as soon as available are included in the annual *Budget Statement*, which is submitted in conjunction with the Minister of Finance’s budget presentation to the Parliament.

91. South Africa meets the IMF's Special Data Dissemination Standard (SDDS) specifications for the coverage, periodicity, and timeliness of all data categories, and for the dissemination of advance release calendars (see Box 5). Three agencies are involved in the compilation and dissemination of the operations of general government. The National Treasury is responsible for the compilation and dissemination of fiscal data on operations of budgetary central government (national government), provincial government and central (national) government debt. The South African Reserve Bank, the central bank, compiles government financial statistics data according to the standard set in the *1986 Government Finance Statistics (GFS86)*, using administrative records of the Treasury. Following the GFS86 standard, the central bank disseminates quarterly and annual data on operation of budgetary central government, consolidated central government, and general government, and disseminates monthly central government debt. The central bank is also the SDDS disseminator of fiscal data. Statistics South Africa compiles and disseminates data on operations of central and provincial governments on an annual basis, as well as on the operations of local governments on a quarterly basis. Despite the spread of responsibilities across these three entities in the compilation of fiscal data, sufficient legal provisions govern each entity and regulations to produce fiscal data of good quality and the data sharing and coordination among them are adequate.

3.5 Open budget preparation, execution and reporting

92. The general guideline under '*open budget preparation, execution and report*' states that the budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis of the budget, and identifiable major fiscal risks. Budget information should be presented in a way that facilitates policy analysis and promotes accountability. Procedures for the execution and monitoring of approved expenditures and for collecting revenue should be clearly specified. There should be regular fiscal reporting to the Legislature and the public. Good progress has been made but reporting, in particular, requires significant improvements. These issues are examined in the next paragraphs.

93. A statement of fiscal policy objectives and an assessment of fiscal sustainability are yet to provide the framework for the annual budget. The annual budgets are not yet being prepared and presented within a comprehensive and consistent quantitative macroeconomic framework, despite the increasing use of Medium Term Expenditure Framework (MTEF) and PRSP processes. A budget is ideally a translation of policies into actionable and time-bound projects (ECA, 2005a). Progress is pronounced in countries undergoing the PRSP process and those

implementing the MTEF in a meaningful way. Notwithstanding this progress, linking policy to budget is a challenge stemming primarily from unrealistic policy goals and unduly up-beat assumptions underlying forecasts.

94. In Malawi, there are no clear fiscal targets stated in the budget documents and the MTEF is still in a state of development. There are no medium-term targets for fiscal policy and the short-term fiscal target is not made explicit. While the MTEF process envisages rolling medium-term estimates of revenue and expenditure, in practice, each budget is based on fresh ceilings for each Ministry and the revenue forecasts beyond the current year are not considered a sound basis for revised projections. A number of international donors are on hand to offer technical and other assistance. The Department for International Development (DFID), the World Bank and IMF have all been particularly active as providers of assistance, with DFID focusing on the MTEF, the Bank on the development of integrated financial management information system, and the Fund on aspects of expenditure management and control, including budget classification.

95. Benin's budget preparation, execution and reporting is characterized by several key weaknesses: the supporting documents for the draft budget does include detailed fiscal data, but a consolidated budget is not prepared; the budget get prepared on the basis of a macroeconomic framework, but the medium-term projections need to focus better on the link between resource allocation and economic and social development objectives; and there is only very limited analysis of fiscal risks in the budget. On the first point, for example, in the 2001 presentation, the general State budget covers current expenditure, capital expenditure, the annexed budget of the Benin National Pension Fund (FNRB), the budget of the Autonomous External Debt Management Fund (CAA), and the budget of the Road Fund. The budgets of local governments, national public establishments, and the Benin Social Security Office are not submitted to Parliament for approval. Extracts of the Budget Law are published in the press. A budget consolidated with the budgets of FNRB, the CAA, the Road Fund, the Social Security, local governments and public establishments, is not prepared. There is no specific information on public enterprises in the budget documents.

96. On the other hand, in Rwanda, new policies are clearly described in the medium-term budget framework paper. In the budget submission, spending ministries are invited to prepare a mission statement, a strategic overview, policy objectives, key issues facing the ministries, constraints to achieving objectives, and proposals for dealing with them. This may lead to the identification of new policies, which are discussed in Cabinet, then Parliament. Despite these

procedures, other new policies have been introduced late in the budget cycle, irrespective of whether they are in the budget framework. For example, in preparing the 2003 budget, the initial expenditure ceilings were overridden by 10 per cent.

97. While the budget process in Tanzania is open and well structured, it is more focused on financial compliance rather than performance. The budget process starts with the public expenditure review and issuance of budget guidelines. These guidelines provide the macroeconomic framework for the medium term; the key spending priorities and programmes; the proposed allocation of resources; and instructions for budget formulation. The resource envelope prepared under the MTEF is used as a basis for setting sectoral budget allocations. Performance budgeting was introduced in FY 1998/99 on a pilot basis in eight ministries to reorient resource allocation from an input-based approach to an output-based one. Ministries are required to report their performance against output targets and set such targets for the year ahead. Other indicators of an open budget preparation, execution and reporting in Tanzania include the strengthening of the participation of and oversight by the National Assembly over the budget process; a fairly comprehensive budget speech of the Minister of Finance; and significant improvements in the budget and accounts classification.

98. The medium-term fiscal policy objectives of Mali are stated in a supranational context. Within the West African Economic and Monetary Union, Mali has signed a stability and convergence pact. Nonetheless, the medium-term budget projections have yet to be developed. Although the annual budget law includes three-year projections for the projects in the Special Investment Budget, it does not include medium-term projections for current expenditures, nor for revenues. Nevertheless, annual estimates for spending in key sectors, including health and education, take into account long-term projections made for these sectors. There is no quantitative analysis of the sustainability of fiscal policy.

99. Fiscal policy in Uganda is set in the context of a medium-term budget framework, but no long-term scenarios are prepared. Moreover, there are no formal fiscal rules guiding the formulation of the fiscal policy. Technical capacity for macroeconomic forecasting is being built up with external technical assistance.

100. In Ghana, the budget is prepared and presented in the context of a three-year rolling MTEF. The development of the MTEF has helped to improve the presentation of the budget forecasts in the budget documents. In practice, medium-term expenditure plans and annual spending agency allocations reflect to a large degree the fiscal targets and priorities established

under the Ghana Poverty Reduction Strategy. The medium-term expenditure projections are mostly at an aggregate level, however, and do not reflect detailed budgetary adjustments arising from policy analysis or changing priorities.

101. Equatorial Guinea's Public Finance Law¹⁶ establishes systematic procedures for budget management and aims at consistency with sub-regional fiscal management practice. The law clarifies the roles of administrators, states that establishing fiscal equilibrium is an important objective (articles 2, 31 and 40), requires all cash balances of government institutions to be held by the Treasury (article 16), and establishes a requirement for audit of government accounts (articles 68-70). However, there are some important gaps that weaken it as an instrument of overall financial control, and its implementation needs strengthening in some areas. One area of key weakness is the lack of clearly stated medium-term development and poverty reduction strategy, which affects both resource allocation and performance evaluation of public programmes. Indeed, the budget documentation includes only very general statements about poverty reduction in infrastructure development objectives, and does not relate them explicitly to resource allocation in the budget proposal. Until 2001, the basic medium-term policy statement was the Medium-Term Economic Strategy 1997-2001 document. Until the proposed national poverty reduction strategy for 2005-2011 is in place, however, neither the current budget nor the investment budget (or its associated Public Investment Programme) can be assessed in terms of specific policy priorities or objectives.

102. In Algeria, budget preparation is an internal government affair, directed by the Minister of Finance. Budgetary procedures follow a regular timetable, setting the various steps necessary to the preparation of the budget. The Budget Directorate organizes the process and prepares the discussions on budget options with the various central government departments. The macro-economic framework for the budget preparation is worked out by the Economic Studies and Projections Directorate and is used to prepare the circular sent to all levels of government by the Budget Directorate. A statement on medium-term fiscal policy objectives is not included in the budget documents. Clear fiscal targets are not set and fiscal policy is not conducted according to predefined policy rules, with the exception of the ceiling on central bank advances. Three-years' projections are included in the report introducing the budget law, but they serve only as a rough guide, not to shape medium-term fiscal policy. They are not based on detailed analysis of expenditure programmes. The budget documents do not provide analysis of medium- or long-term sustainability.

16 Law 9/2003 of November 13, Regulating Government Finance of the State of Equatorial Guinea.

103. In South Africa, the MTEF was introduced in FY 1999/2000 for national and provincial governments. For local governments, the MTEF began in FY 2001/2002. Overall, the country has implemented the MTEF to a great success so far, and the benefits have been clearly shown by declining deficits, clear and predictable macroeconomic environment that facilitated decision-making in the market place and therefore enhanced the investment climate.

104. The Government of Mozambique prepares a five-year fiscal outlook, which is revised annually. This document presents an overview incorporating the main macroeconomic variables, investment plans, sector and social programmes, and annual budgetary forecasts. One objective of this exercise is to set a framework for determination of annual budgetary expenditure sustainability over the medium term. Forecasts of debt service and new financing are included, although there is no explicit analysis of the long-term sustainability of borrowing capacity. Despite the excessively optimistic forecast of the main macroeconomic variables (economic growth, among others) in the outlook, it is nonetheless a useful methodological exercise for defining and outlining the limits of long-term expenditure and new expenditure commitments, in particular capital spending. Although the document is used to guide preparation of the annual budget, it is neither presented together with the budget proposal nor is it published, and its macroeconomic assumptions and parameters are not subject to comparison against estimates and projections by other entities outside the government.

105. Major fiscal risks should be identified and quantified where possible, including variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g. financial restructuring). In countries susceptible to weather and commodity price fluctuation risks this is important, but not practiced to the extent necessary in a majority of countries studied.

106. Some countries report the budget data on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category. They also report data on extrabudgetary activities on the same basis. However, a number of countries still need to comply. In Burkina Faso, the use of extra-budgetary funds is limited for the recurrent budget but it is substantial, however, with regard to the capital budget. There is a considerable gap between total capital or development spending, and amounts captured in the central government budget.

107. In Botswana, concepts, definitions, scope, and sectorization in the GFS are broadly consistent with the *1986 GFS Manual*. The classification systems for central government are mostly in line with internationally accepted guidelines, with a few important exceptions. For example,

“*mineral revenue*,” which consists of royalties and dividends and of mineral tax, is classified as tax revenue; royalties and dividends should ideally be classified as non-tax revenue, according to international standards.

108. In South Africa, statistical reporting is ensured through legal mandate and/or measures implemented to encourage voluntary response. The Public Finance Management Act 1999 (PFMA) mandates the public reporting of fiscal operations of all public sector entities, including budgetary central government, extra-budgetary entities, social security funds, and provincial governments. These statements form the basis of the annual analysis for GFS purposes. In addition, sections 32 and 40(4) of the PFMA require submission of the public financial statements within a timeframe that allows GFS compilers to produce GFS data within the required timeliness of the SDDS. Furthermore, in South Africa, data collection employs sound statistical techniques. The Classification Committee oversees and ensures the quality of the data. The GFS source data are from actual and complete administrative records that are subject to internal and external audit. However, a small portion of data on the consolidated general government operations relies on sample survey for quarterly data. In this instance, the survey and estimation techniques are of internationally accepted standards. The survey covers extra-budgetary funds, social security funds and local governments (current expenditure only). The sample of local governments covers about 80 per cent of the total budget for the consolidated local government sector. Data are revised as soon as audited information is available.

109. In Malawi, budget classification, but not coverage, is largely consistent with international standards. There is a well-developed programme budgeting classification, which is also used as the basis for a functional presentation of expenditure. The introduction of the Estimates (Output based) in the 2000/2001 budget is a very useful step to introducing performance information, and to providing summary input information by programme in a more digestible form. In 2001, the detailed estimates amounted to five volumes (about 4,500 pages) with the estimates for Parliamentary vote on agriculture sector alone at 1,330 pages. The budget timetable is reasonably stable, although subject to compression. In the lead up to the budget, discussions are held with a range of public and private sector bodies. As the authorities do not prepare draft forecasts for these discussions, they are primarily an information gathering exercise rather than a check on the quality of the forecasts. Opportunities for civil society engagement in resource allocation decisions have increased as a result of the PRSP processes.

110. The overall balance of the general government still needs to be a standard summary indicator of the government’s fiscal position. It still needs to be supplemented where appropriate by

other fiscal indicators for the general government, such as the operational balance, the structural balance, or the primary balance. Defining general government properly in many African countries is compromised by difficulties. Problems remain with reporting and expenditure control in Benin. There is also a fundamental problem with all information with regard to its consistency. The information on a given period does not necessarily correspond to the period of the event generating the expenditure. Information on budget execution can be obtained in advance (appropriations assigned, imprest account advances); other information may be delayed, such as those related to payment orders. The Treasury account statement, which should reflect all fiscal operations, is incomplete. The balance brought forward needs to be updated to correct its irregular figures. Furthermore, many operations are carried out using the exceptional procedures when regular procedures should be used, and the amounts of the payment authorizations recorded are less than the amounts actually paid. Also, the current system is incapable of providing prompt and complete information on budget execution. However, since 1999, the reconciliation of the Treasury accounts and that of the budget department has been done systematically, although with several months of delay.

111. In Botswana, annual data on budgetary central government and each unit of local government are reported separately. The data cover the full range of financial stocks and flows, but with a 12-month lag for central government and up to a two- to three-year lag for local governments. These lags are due to lengthy reporting and auditing processes favouring accuracy rather than timeliness. The availability of data of these sub-sectors would allow the consolidation of data into a general government sector.

112. In Senegal, no data is available on the overall general government on annual basis, and in fact the alternative source (the complete general government account in the national accounts) has not been produced since 1990. Total public debt (of central administration) is published only on annual basis as a percentage of GDP, and only indirectly over the website www.izf.net. External public debt is published quarterly in the text portion of the “*memorandum on economic conditions*.”

113. There is no comprehensive, integrated accounting system that provides a reliable basis for assessing payment arrears in a number of countries. Many countries have done away with the practice of accumulating arrears on a massive scale. Indeed, this used to be a key source of non-transparency in the past, as noted by van de Walle (2001), and still remains a problem, albeit to a far lesser extent. One key example is that of Malawi where the internal control procedures are in place although their effectiveness is variable. Cash rationing is a prime means of expenditure

control. This contributed to a significant accumulation in expenditure arrears in 2000 (amounting to one per cent of GDP). Over the past year or so there have been substantial changes in the cash management system with the introduction of the credit ceiling authority and the commitment control system. While there have been some teething problems with the new systems the outstanding arrears have been reduced.

114. Procurement and employment regulations still need to be standardized and made accessible to all interested parties in some countries. There are clear rules establishing the transparency of government procurement in Mali. These are established in Decree No. 095-401/P-RM relative to the 1995 Public Procurement Code, which was strengthened by an amendment in 1999. The Code is publicly available, and competitive bidding and announcement of results are key features. The Procurement Directorate of the Ministry of the Economy and Finance (*Direction Générale des Marchés Publics*) is responsible for the implementation of the Code.

115. In Burkina Faso, shortcomings have been identified in the area of government contracts, including the practice of splitting up contracts in an attempt to bypass regulation. A number of abuses of power have also been identified recently.

116. The legal and regulatory provisions governing budget execution in Mali are not fully respected. Despite solid internal control and audit structures, some procedures for expenditure execution are not always followed, including for purchases that are not subject to the Procurement Code (expenditure below the ceiling for compulsory use of competitive bidding). The annual reports of the *Inspection des Finances* reveal irregularities by authorizing officers and public accountants. In 1999, a special unit was created in the Office of the President: it issues opinions on the recommendations made in the reports of the *Inspection des Finances* and the Public Services Internal Audit Office (under the Prime Minister's Office); exposes audit findings to the State Prosecutor's Office; and ensures follow-up to inspection reports.

117. Budget execution needs better internal auditing, and audit procedures need to be opened to review. Initiatives such as the EITI can be of significant assistance to budget execution. In Equatorial Guinea, accountability for budget execution is heavily centralized and internal audit is weak. Financial control largely functions on an *ex-ante* basis. The Directorate of Financial Control (DFC) in the Ministry of Finance and Budget (MFB) pre-authorizes payments on the basis of existing appropriations, but final payment authorizations lie with the Prime Minister or the Head of State, depending on the value of each payment. The *ex-ante* financial control system was introduced because of concerns with payment control and potential misuse of funds. The

DFC is also nominally responsible for *ex-post* auditing of the budget execution. However, once payments are released and made, no systematic mechanisms have been established for public managers to account for resources and for internal review of payments and implementation procedures. The General Finance Inspectorate and the Inspector General for Services carry out inspections. The DFC can carry out specific audits under direction from the Minister of Finance or the President.

118. Frequency of presentation to Parliament is getting better, but comprehensiveness, timeliness and other limitations impede meaningful Parliamentary oversight functioning. A mid-year report on budget developments should be presented to the Legislature. More frequent (at least quarterly) reports should be published. In Algeria, Parliament does not undertake a mid-year review. The Legislative authorities do not receive complete and systematic information mid-way through the fiscal year. As mentioned below, no draft budget review law has been submitted to Parliament since 1985. On the other hand, a document on budget outturn for the years n-2 and n-1 is presented to Parliament every year along with the draft budget law. That said, the Legislative authorities are sometimes asked to pass supplementary budget laws, naturally at the request of the Executive branch. In practice, members of Parliament frequently request specific reports from Ministry of Finance staff, especially from the Inspectorate General of Finance.

119. Final accounts should be presented to the Legislature within a year of the end of the fiscal year. In Ghana, there are clear rules for fiscal reporting to the Legislature, though the timeliness of the reports is unsatisfactory. The Financial Administration Act of 2003 sets a clear framework for fiscal reporting. This includes a requirement for monthly accounts of the government to be prepared and gazetted (within 15 days from the end of the month) and for final accounts to be presented to the Auditor General within 3 months of the end of the financial year. Parliament may also request special reports from the Accountant General from time to time. Neither the monthly nor the annual reports are submitted within the required timeframe, though the regularity of monthly reports during 2003 improved somewhat. The Government attributes these delays to three main causes: insufficient capacity amongst accounting staff; the remote locations of some Treasury and budget execution offices; and continued delays in the establishment of a comprehensive, computerized, financial accounting system.

120. In Algeria, closure of the accounts at the end of the fiscal year poses a problem, in as much as the budget review law is no longer presented to Parliament. The *Agence centrale comptable du Trésor* (Treasury's Central Accounting Unit) closes the books for a given year. Article 76 of Law 84-17 states that the budget review law establishes the income statement for the year but does not specify whether it is simply a law that records a given result or a law that definitively

brings a fiscal year to a close. Furthermore, no budget review law has been submitted to Parliament since the 1985 final accounts.

121. In Mali, according to the Organic Budget Law adopted in 1996, the prerogatives of the National Assembly in the budget matters are limited to introducing amendments that eliminate or reduce expenditures, or create or increase revenues. The National Assembly's Finance Committee does not currently have sufficient staff to fully oversee the financial operations of the Executive branch. However, it has initiated improvements in budget preparation and presentation. The Accounts Section of the Supreme Court is the entity responsible for reviewing the *loi réglement* and certifying the government's annual accounts that are presented to the National Assembly. The Accounts Section is financially dependent on the Judicial branch of government; it is not autonomous.

3.6 Assurances of Integrity

122. Fiscal data should meet accepted quality standards and should be subjected to independent scrutiny. There should be mechanisms in place, which provide assurances to the public about data integrity.

123. Some improvements are needed to ensure that the budget data reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments. In Malawi, the budget documentation is not a good guide to the actual fiscal performance of the Government. As a result of the deficiencies in the budget preparation and execution processes, variations in total expenditure have been marked. In addition to the aggregate variations between budget and outturn, there have been substantial variations in the economic and administrative components of expenditure. Expenditure arrears have also been a significant problem. While indicative costs for the next two years are provided in the estimates documents, an examination of out-year estimates suggests arbitrary costings are made in some circumstances.

124. There are significant improvements in assurance of integrity in Tanzania (Box 10), but weaknesses remain. Budget data have become increasingly reliable; albeit declining, differences between the budget estimates and the outturn continue to persist. The quality of fiscal data has improved as a result of regular account reconciliation, and external audit is legally independent of the Executive branch. However, the capacity to carry out and enforce audits is limited.

Box 10. Tanzania: Reforms Implemented to Enhance Transparency

- Strengthened budget management through:
 - o Public expenditure review process;
 - o Implementation and use of an integrated financial management system by all ministries and sub-treasuries;
 - o Use of MTEF; and
 - o Enhanced controls over commitments and expenditures.
- Increased consultation with various stakeholders in the context of in-country Consultative Group Meetings;
- Institution of a new legal framework for fiscal management; and
- Strengthened procurement operations.

Source: IMF Country Report No. 02/59, March 2002

125. In Namibia, statistics are compiled on an impartial basis. The Ministry of Finance strongly emphasizes a professional approach to its statistical operations, which encompasses the collection of revenue, grant, expenditure, and budgetary financing data, as well as maintaining the government debt register. To support these objectives, the Ministry was reorganized in September 2001 and the Treasury operations including data dissemination were incorporated as the Department of State Accounts, one of two departments at the Ministry, with the Accountant General designated at the Director level. This reorganization should promote the timely and independent collection, compilation, and dissemination of government public finance statistics, as supported by applicable laws and guidelines.

126. In South Africa, statistics are compiled on an impartial basis. Compilation and dissemination of GFS and fiscal data are supported by the Public Finance Management Act 1999 (as amended on April 1, 2000), the South African Reserve Bank Act 1989 and Statistics Act 1999, to ensure that the statistics are compiled on an impartial basis. Existing strong professional culture and ethics, as well as cooperation among agencies compiling fiscal statistics, result in the independence of GFS compilation.

127. In a majority of countries, the annual budget and final accounts do indicate the accounting basis (e.g. cash or accrual) but the standard used in the compilation and presentation of budget data calls for improvement. In Algeria, the stated basis of accounting is blurred by the uncertainties surrounding the length of the supplementary period. Operations are recorded on a modified cash basis that allows certain items awaiting payment or collection to be taken

into account. End-of-year budget execution operations employ a specific procedure, known as the supplementary budget period, of variable duration, which may last several months. This complicates the preparation of financial statements and impairs the transparency operations. The Government's general accounting system uses a specific classification system dating back to 1967. The double entry accounting system was fully in place by 1991 and the nomenclature underwent major updating up to 1998. It is still in use today, although a major reform is under way that will introduce a government chart of accounts in line with Algeria's national chart of accounts.

128. In Senegal, recording is done on an accrual basis. Data are established on a near-cash basis, in accordance with *1986 GFS Manual*. Expenditures, however, are recorded on the basis of payment authorization (*ordonnancement*) (except for externally financed investments, which follow more complex rules). Given the crucial role of "*Expenditures Committed but Not Authorized*," a pragmatic approach would be to use a commitment basis, which would also be more in line with the new *2001 GFS Manual* (the trigger could also be "*delivery*").

129. More specific assurances need to be provided as to the quality of fiscal data. In particular, countries need to indicate whether data in fiscal reports are internally consistent and have been reconciled with relevant data from other sources. A small number of countries are already doing well in the area of fiscal data quality. Data sharing and coordination among data-producing agencies in Botswana are adequate. Fiscal and financial information published in the Ministry of Finance and Development Planning's Annual Statements of Accounts has broadly the same scope as required by the IMF's *1986 GFS Manual*. This information is compiled by the Accountant General's Department using the computerized accounts system. The Ministry provides all the necessary information on central government finance to the Central Statistics Office and Bank of Botswana, the central bank. The Ministry compiles all central government financing statistics. There is good cooperation among the agencies, and since the role of the Ministry is clear, there is no duplication of effort or unnecessary respondent burden. A working group comprising representatives of the central bank and the Ministry, which meets quarterly on issues of mutual interest, including on GFS is the only example of a formal mechanism (e.g. working parties, task forces) to maintain close liaison between GFS compilers and users of the statistics. However, compilers in the Ministry are open to assist all users when required.

130. Also in Botswana, the staff resources dedicated to compiling GFS are adequate, and efforts are being made to encourage the retention of experienced staff through short courses and faster promotions. The accounting and GFS systems are not computerized and are not adequate

for accurate and timely reporting. However, initial steps have been taken to computerize these systems. Processes are not fully in place to monitor and improve the compilation and dissemination of GFS. Trade-offs among dimensions of quality are not acknowledged.

131. In Senegal, the government finance statistics are primarily compiled by the General Directorate of Government Accounting and the Treasury (DGCPT), and are disseminated by the Forecasting and Statistics Directorate (DPS) with both units part of the Ministry of Economy and Finance (MEF). The dissemination procedures could be clarified and formalized, and this would enhance transparency. The modalities for the coordination and exchange of source data, which are organized among the monitoring groups within the MEF, in coordination with the Central Bank of West African States, seem adequate on the whole. The two MEF units primarily responsible for GFS (the DGCPT for compilation and the DPS for dissemination) complement each other quite well in practice owing to an efficient division of labour. However, the DGCPT is hampered by serious staff shortages, and the DPS, by equipment shortages. This may explain why the procedures for checking the quality of data collection and processing are insufficiently systematized and documented. While the regulations specifically identify the DGCPT as being responsible for preparing the data on government operations (or TOFE), provision is not made for tracking of the public debt, which in practice is deficient.

132. In Namibia, the staff and other resources dedicated to compiling government finance statistics are not adequate, as evidenced by the fact that only four of ten positions are filled in the General Ledger Division of the Ministry of Finance, which has primary responsibility for data compilation. With the restructuring of the MOF, efforts are underway to address these shortcomings, including improving the training and other qualifications of existing staff. Current training of staff is provided on-the-job, but the Ministry is increasingly emphasizing external training as feasible.

133. A national audit body or equivalent organization, which is independent of the Executive, should provide timely reports for the Legislature and public on the financial integrity of government accounts. In Rwanda, the national audit body is currently not independent of the Executive, nor does it provide timely reports to the Legislature and the public on the financial integrity of Government's accounts. The 1991 Constitution endorsed the Court of Accounts – under the Judiciary branch of government – as the external body of the country. In 1998, law established the office of the Auditor General (AG). During 1998-2003, both external audit bodies were unable to perform their principal task of auditing the central government's consolidated annual accounts, since the Public Accounting Department of the Ministry of Economic

Planning and Finance has generally not prepared draft annual accounts. The 1998 Office of the Auditor General Law calls for the AG, who is appointed by the President of the Republic subject to the approval of the Cabinet, to deliver his/her annual report to the President of the Republic. There was no obligation to publish the report. The 2003 Constitution transfers the external audit function from being under the Executive/Judiciary branches to one primarily serving Parliament. In particular, Parliament is to become the primary recipient of the AG's annual report.

134. In Burkina Faso, external audit functions could be improved. Existing laws required that the budgetary accounts for the year be submitted to the Audit Court, then to the National Assembly. However, the delays encountered in submitting the accounts to the audit authority – currently the accounts division of the Supreme Court – have been so long as to render the auditor's examination meaningless. Furthermore, the Audit Court is not yet fully operational. Thus although the accounts division of the Supreme Court was converted to the Audit Court under the latest amendment to the Constitution, the Audit Court has only recently been officially installed and this allowed to legally operate. However, its human and physical resources – which are very limited – are insufficient to allow it to discharge its responsibility fully.

135. There are no independent experts to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and all underlying assumptions. Equatorial Guinea typifies a vast majority of countries in the survey. In that country there are no independent domestic organizations playing a role in reviewing the government's fiscal forecasts and policy assumptions. The government makes its budget documents available to the public (albeit not widely disseminated), but there is little capacity in the country for independent analysis (Box 11). Steps that are being considered for involvement of civil society, as required under EITI, could help achieve these elements of the fiscal transparency code encouraging some independent focus on budget practices and information.

136. National statistics agencies are still to be provided with the institutional independence to verify the quality of fiscal data. Choices of sources and statistical techniques are informed solely by statistical considerations in Botswana. There is no evidence that statisticians are subject to political influence in choosing the most appropriate sources and methods for compiling GFS. There is no evidence that changes to statistical processes are subject to political influence.

137. In Senegal, the independence of GFS compilers, who are subject to the general ethical standards applicable to Treasury Inspectors, would in principle be guaranteed if the TOFE was based on accounting sources (such as General Balance of Accounts) and established in accordance with

Box 11. Equatorial Guinea: Some Weaknesses in Budget Oversight

The most important barriers to progress in improving transparency are weakness in administrative capacity and poorly defined responsibilities and oversight mechanisms. Key weaknesses in oversight at many levels are:

- Failure to enforce payment of non-oil taxes, fees, and charges;
- Weakness in supervision of project implementation;
- Lack of accountability for management of government enterprises and non-observance of statutory reporting requirements;
- Absence of a clear linkage between the Medium-Term Economic Strategy and budget allocations; and
- Non-compliance with the aggregate fiscal constraints set in the annual budget law.

Source: IMF Country Report No. 05/144

strict rules and with a methodology used throughout the WAEMU. However, GFS are compiled from multiple sources. Transparency would be enhanced if the independence of the unit that compiles the TOFE were more formally guaranteed.

138. Finally, the national tax administration should be legally protected from political direction and should report regularly to the public on its activities.

SECTION IV

Findings, Recommendations and Conclusions

4.1 General findings

139. Section 3 provided evidence with regard to the status of fiscal/budget transparency in Africa, and finds that a number of fiscal reforms have been implemented since the mid-1990s. These findings on reforms are broadly consistent with the general conclusions of the forthcoming *African Governance Report* by the ECA that indeed the continent is improving its economic governance, including in the area of transparency. The pace, depth and breadth of fiscal reforms are particularly profound in countries that are emerging from conflict situations (Rwanda) and in countries whose economies are relatively well diversified (Namibia).

140. This study also finds that countries heavily depended on extractive sectors, especially oil and gas, are lagging behind on the implementation of fiscal reforms aimed at enhancing fiscal transparency. However, Equatorial Guinea and Nigeria have committed themselves to embarking on fiscal reforms, an undertaking supported by Legislative reforms and their signing onto the international instruments for transparency. Indeed, at the request of the Equatorial Guinean authorities, the World Bank is providing assistance regarding that country's participation in the EITI. Moreover, the IMF Article IV mission was able to reconcile the fiscal surplus with the movements in government account at the BEAC and government oil production share, exports and revenue.¹⁷ At this rate, the egregious gap between legislation and publicly announced intentions and practice seems to be narrowing rapidly.

141. On the basis of these findings that are at a variance with rather iconoclastic views about Africa's reforms efforts, namely that there is no real intention to implement them; that the assumed reforms "*have been carried out because there are official claims to that effect*,"¹⁸ and that the minimal reforms being implemented are aimed at pacifying donors and are subject to recidivism

17 <http://www.imf.org/external/np/sec/pn/2005/pn0561.htm>

18 Van de Walle (2001), *ibid.*, p. 286.

sooner or later, this study concludes that the process of reforms is well under way in the continent. An issue for debate is the tempo at which such fiscal reforms are being implemented. A number of national, regional and international events and initiatives support this conclusion of irreversibility of reform processes. The examples include the end of the Cold War and hence the waning of support to corrupt, albeit friendly, African governments (former Zaïre, now the Democratic Republic of the Congo); the humanitarian crisis directly linked to bad governance and the increasingly loud noise to address this human calamity; an increasing number of new governments voted on the platform to restore good governance; a relatively more vigilant donor eye against the misuse of resources and an increasing number of good governance conditionality attached to financial assistance; NEPAD's APRM; the unveiling of corruption practices such as those related to a corrupt relationship between some Equatorial Guinean officials and the USA bank, Riggs Bank;¹⁹ the pressure put to bear on companies from developed countries to '*publish what you pay*' to African governments, thus offering little room to siphon off State resources for personal gain; and the proliferation of watchdog initiatives and pressure NGOs that demand accountability and transparency (see Section I). Indeed, recent announcements of debt forgiveness by the G8 to poor countries practicing good governance and democracy add impetus to a process that is already well underway.

4.2 Specific findings

142. The paper noted a general trend towards better economic management and fiscal transparency in the African continent. However, on the specific issues of fiscal transparency a whole lot more remains to be achieved. This paper focused in particular on the main shortcomings in the current fiscal transparency practices in the 15 African countries, and the next paragraphs reiterates these pitfalls in a summarized form.

143. First, on *clarity of roles and responsibilities*, the overall picture is positive. The structure and functions of government are generally well specified in the countries surveyed, although some deficiencies in Algeria, Equatorial Guinea, Ghana, Malawi, Mozambique, Rwanda and Tanzania pertaining to quasi-fiscal activities exist, as these activities need explicit recording in the budget documents. Clear mechanisms for the coordination and management of budget and extra-budgetary activities have been established in many countries with the exception of Algeria. The definition of a general government is deficient in many instances, leaving out lo-

19 www.washingtonpost.com/wp-dyn/content/article/2005/05/26/AR2005052601746_pf.html

cal governments (Tanzania), social security funds (Ghana), and quasi-fiscal activities of parastatals (Ghana, Malawi).

144. Commendably, the vast majority of countries in the survey do not have quasi-fiscal activities with central banks, whose *de jure* operational autonomy and policy independence are of good international standards. The exception of Malawi was noted particularly with respect to the stock of promissory notes that are not recorded in budget government budget books. A rapid privatization process in Africa was noted, and the increasing transparency of the process was evident in countries such as Rwanda and Tanzania. The need to record contingent liabilities by a number of countries such as Malawi and Mali requires attention in many countries surveyed.

145. Overall, the legal basis for taxes, duties, fees and charges in many countries is sound, even in countries with significant extractive sectors, such as Algeria, Equatorial Guinea, and Ghana. Significant shortcomings were noted in implementation of the tax laws, with some of the countries, notably Equatorial Guinea, experiencing weakness in the dissemination of laws and acute capacity constraints to implement them. Giant strides in entrenching ethical standards of behaviour for public servants were taken by all of the countries with the exception of Burkina Faso, which relies on the code of conduct applicable to all the countries of French-speaking Africa.

146. The *public availability of information* requires strengthening in a vast majority of countries in the survey. Key shortcomings are related to partial availability of information (Benin, Burkina Faso, Mali), delayed availability to Parliaments (Ghana), or total lack of fiscal information (Algeria, Equatorial Guinea,). Some countries (Botswana, Namibia) encountered delays in disseminating budget information due to strict audit requirements, placing more emphasis on accuracy rather than timeliness. The proliferation of unrecorded and unpublished “*special Treasury accounts*” (Algeria, Malawi) and the government ownership of banks in Algeria serves to undermine transparency principles in that country, as do the vast quasi-fiscal activities and social obligations in Ghana that escaped recording in the budgets and public scrutiny. The same partly or non-availability of information related to government debt, with Algeria making the debt situation only partly publicly known.

147. In almost all the countries surveyed, there is a realization that it is the government’s duty to ensure public availability of fiscal information. This realization is underpinned by relatively clear legislation such as that found in Botswana and Namibia. Adherence to the letter and spirit of such legislation is a key shortcoming, highlighting capacity issues, including human resources in Namibia among other factors. Intentions to improve the situation were noted in Namibia and Rwanda.

148. On the issue of *open budget preparation, execution and reporting*, major improvements were noted, especially in countries undergoing the PRSP processes. These include Ghana, Tanzania, and Uganda, and where participation of civil society in budgeting processes is encouraged, more or less successfully. It was found also that a number of countries run multi-year budgeting processes (Benin, Ghana, Malawi, Mali, Rwanda, Tanzania, South Africa and Uganda) or some form of multi-year budgeting (Botswana, Mozambique). However, a vast majority of these countries are unable to comply fully with key requirements of this technical system that requires fiscal discipline and policy clarity. South Africa is a notable exception to this norm. Partly, the non-adherence to MTEF stems from capacity constraints and uncertainties surrounding donor fund flows, vagaries of weather conditions and volatility in commodity prices, given that these countries are heavily reliant on these sources for revenues and economic growth.

149. Some countries (Senegal, South Africa, Tanzania) are taking, or have taken, measures to ensure the efficient use of resources, but this is far from being the norm. The effectiveness of spending scarce resources remains weak with a deep cleavage existing between budget policy and ultimate budget outturns. This is the case even in countries tentatively applying the multi-year budgeting processes as was noted in the case of Benin. Indeed, in a majority of countries surveyed, no analysis is done on the fiscal sustainability of fiscal policy and the noted disconnection between policy and budget outturns (Mali, Malawi). In sum, in the vast majority of countries, the annual budget is not prepared within a comprehensive and consistent quantitative macroeconomic framework with clear and realistic underlying assumptions for economic performance. The prevalence of significant supplementary or adjustment budget in a number of countries (Ghana, Uganda) buttresses this conclusion.

150. Very few countries (Botswana, South Africa) in the survey have comprehensive reporting and auditing mechanisms in place, despite laudable efforts by some, for example, Tanzania, to produce reliable budget reports. The omission of key items such as local governments, parastatals, debt, contingent liabilities and others makes the assessment of overall government fiscal situation virtually impossible. Even separately, these entities are not required by law to produce audited annual financial statements, making monitoring of the effectiveness of expenditure impossible (Equatorial Guinea, Malawi).

151. The study noted a torrent of new laws and regulations governing government procurement systems (Mali), but raised alarm at the existence of some schemes designed to circumvent these regulations, thus raising questions about the commitment to apply them in practice (Burkina Faso, Mali).

152. Parliamentary oversight functions and involvement in the budgeting processes in countries surveyed have been undercut by the dearth of resources and capacity (Mali), the Executive delays in submitting, (or not submitting at all), budget reports and financial data (Algeria, Ghana, Malawi) and restrictive legislation (Mali, Malawi) in the participation of the Legislature/Parliaments. Rwanda and South Africa are two of the countries where Parliament gets full budget data on time, enabling informed debates on allocations.

153. The issue of *integrity assurance* of budget data is one of the key shortcomings in the current transparency practices in the countries surveyed. These range from the aforementioned deficiencies in policy realized in actual budget outturns (Malawi), blurred accounting practices due to extensive supplementary budgets (Algeria, Ghana, Uganda,), auditing not independent of the Executive (Burkina Faso, Rwanda,), and lack of independent domestic organizations to test fiscal forecasts and policy assumptions (Equatorial Guinea).

154. Notwithstanding, these shortcomings, a number of countries have taken steps to improve the integrity of their budget data, including in the area of better alignment of policy to the budget (Tanzania), the adoption of accrual accounting practices (Senegal), the maintenance of consistent data with other sources (Botswana) and ensuring the autonomy of national statistics agencies from the Executive.

155. In sum, many countries in the survey have sufficient laws and regulations to ensure fiscal transparency. A number of them suffer at the implementation stage of these laws; this is particularly the case with countries whose government revenue depends heavily on the performance of extractive industries. Non-implementation of sound laws reflects lingering capacity constraints in the form of skilled personnel, and of materials such as computers and financial resources. Susceptibility to erratic weather conditions and gyrations in commodity prices also play havoc with a country's best financial management plans. Indeed, for most of the continent, national incomes are still dominated by their primary sectors for growth. Moreover, the unpredictability of donor aid flows is a factor strongly influenced by economic developments and the frequently changing political priorities of the donor nations. Notwithstanding these constraints, political will and leadership commitment to sound economic governance will ultimately determine the pace, depth and breadth of economic reforms in Africa. No amount of foreign assistance will succeed in reducing poverty in Africa without leadership commitment at the core of sound economic reform and economic management.

156. These conclusions are to a large extent similar to the overall conclusions reached by the Institute for Democracy in South Africa (IDASA)'s African Budget Project in a similar study.²⁰ In the IDASA research, additional two transparency elements are stated explicitly in the methodology, namely, whether countries have systems in place to enforce transparency, and whether the civil society and legislative do participate in the budget process; and the role of donors. A further difference is that IDASA's study is limited to fewer countries, which are: Botswana, Burkina Faso, Ghana, Kenya, Namibia, Nigeria, South Africa, Uganda and Zambia. The gradual nature of the IDASA survey means that more countries will be added in future and updates made on countries already surveyed.

4.3 Recommendations

157. On the basis of the above conclusions, it would appear that some of the transparency deficiencies could be solved relatively easily and within a short period of time, while others are structural in nature, requiring enormous resources to implement changes. In this regard, some general recommendations are outlined in the next few paragraphs.

4.3.1 Recommendations: short-term

158. The short-term recommendations pertain to those aspects of fiscal transparency that can be effected with ease and little cost. These include:

Clarity of roles and responsibilities

- Expedite the enactment of and strengthen existing fiscal laws to, among other things, ensure clear rules of responsibility, the autonomy and professional independence of data-collecting bodies. Ensure clarity in defining government's role *vis-à-vis* the rest of the economy. The legal framework should be accompanied by clear financial regulations and accounting instructions. The legal framework for management of minerals should be clearly defined. The rule of law and regulations should be enforced.
- Adopt additional provisions clarifying and formalizing the responsibilities and modalities for an independent compilation and regular dissemination of government financial statistics.
- Monitor the execution of programme budgets.

20 IDASA's survey results are available at <http://www.idasa.org.za>

- Strengthen leadership campaigns against corruption; whistle-blowers should be protected and prosecution of infringements strengthened.

Public availability of information

- Improve public access to fiscal information, including of contingent liabilities and debt. In the interest of credibility, government should commit to publishing information regularly.

Open budget preparation, execution, and reporting

- Include all extrabudgetary activities of the central and provincial governments in their respect budgets, especially their own revenues from government agencies and entities, and the proceeds of external grants and of the autonomous institutions that depend on budgetary resources.
- Improve the information provided to Parliament and the public, overhaul budget documents and disseminate more broadly the fiscal data currently at the disposal of the Executive; Improve the timeliness of availability both to Parliament and to the general public, including through the government websites, and speed up the production of Treasury accounts and reports.
- Strengthen fiscal management, first and foremost by modernizing the budget classification system, the accounting framework, and fiscal audits.
- Ensure consistency between the macroeconomic framework, the budget objectives, and the annual budget law.
- Strengthen procurement operations.
- Provide fuller and more timely information to Parliaments.
- Improve transparency of the privatization process; reduce the quasi-fiscal activities of parastatals and make the cost of the remaining activities transparent.

Assurance of integrity

- Set up an aggregating body to oversee company/government reconciliation of data.
- Give equal priority to improving reporting of fiscal data, both through EITI-linked publication of petroleum receipts and strengthening overall reconciliation of government accounts.
- Ensure integrity by appointing an independent EITI aggregator, to help meet EITI compliance objectives and to constitute an important first step in establishing independent national audit capacity in countries heavily dependent on extractive industries.

4.3.2 Recommendations: long-term

159. The longer-term recommendations are those that are structural in nature, needing more resources and time to effect. These include the following:

Public availability of information

- Improve the quality of data for publication, in particular.

Open budget preparation, execution, and reporting

- Promote training in statistical methodologies, through staff courses and training; ensure that staff resources are available to undertake improvements and developmental work.
- Emphasize automation in the compilation of government financial statistics, while introducing computerization of the accounting and budget system.
- Prepare or improve the medium-term budget framework, covering revenue, expenditure, and the financing options and policies underlying the choices and priorities.
- Expend more efforts in meeting the fiscal transparency codes of treaties and initiatives acceded to.

Assurances of integrity

- Strengthen the Offices of the Auditor General and Parliamentary Committees.

Glossary

Accrual system:	Accrual accounting systems recognize transactions or events at the time economic value is created, transformed, exchanged, transferred, or extinguished, and all economic flows (not just cash) are recorded.
Appropriations:	This refers to an authority under a law given by the Legislature to the Executive to spend public funds for a specified purpose. Annual appropriations are made through annual budget laws.
Cash accounting:	Cash accounting systems recognize transactions and events when cash is received or paid.
Central government:	All government units that are agencies or instruments of the central authority of a country and that are covered by or financed through the budget or extra-budgetary funds at that level are part of the central government.
Contingent liabilities:	Obligations that have been entered into, but the timing and amount of which are contingent on the occurrence of some uncertain future event. They are therefore not yet liabilities, and may never be if the specific contingency does not materialize.
Extrabudgetary funds:	The term generally refers to sets of government transactions that are not included in the annual budget presentation.
General government:	Defined in the SNA as the following group of resident institutional units: (a) all units of central, state, or local government; (b) all social security at each level of government; (c) all non-market, non-profit institutions that are controlled and mainly financed by government units. The sector does not include public corporations, even when government units own all the equity of such corporations.
Multi-year budgeting or medium-term budget framework:	A framework for integrating fiscal policy and budgeting over the medium-term by linking a system of aggregate fiscal forecasting to a disciplined process of maintaining detailed medium-term budget estimates by ministries reflecting existing government policies. Forward estimates of expenditures become the basis of budget negotiations in the years following the budget and the forward estimates are reconciled with final outcomes in fiscal outcome reports.
Payment arrears:	Amounts that have not been paid by the date specified in a contract or within a normal commercial period for similar transactions. Payment arrears may arise from non-payment by government in such areas as bills due from suppliers, due salaries or transfers, or due debt repayment or service.

- Public sector: A classification drawn from sectors and sub-sectors of the *System of National Accounts* classification consisting of general government and the public sub-sectors of non-financial and financial corporations. The principle of classification is that of government ownership and/or control rather than function.
- Quasi-fiscal activities: Activities (under the direction of government) of central banks, public financial institutions, and non-financial public enterprises, that are fiscal in character – that is, in principle, they can be duplicated by specific fiscal measures, such as taxes, subsidies or other direct expenditures, even though precise quantification can in some cases be very difficult. Examples include subsidized bank credit and non-commercial public services provided by an enterprise.

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SUMMARY OF INDICATORS OF FISCAL TRANSPARENCY IN SELECTED AFRICAN COUNTRIES									
	Data Quality			Off-budget Fiscal Activity			Tax Policy and Administration		
	Budget realism	Budget execution data	Coverage of fiscal activity	External audit	Contingent liabilities	Quasi-fiscal operations related to financial sector	Quasi-fiscal operations related to NFPEs	Report tax expenditures	Tax administration
Selected African Countries	Unrealistic budgeting prevalent; outturns differ greatly from original budget; obligations (e.g. utilities) not covered; overuse of supplementaries	Weak post data and control procedures; non-reconciled data not clear; reconciliation of accounts; irregular procedures; arrears or netting out common and unreported	Coverage inadequate: incomplete data on general government; central bank coverage and central bank differ; extra budgetary funds excluded; foreign financed projects excluded	External audit is weak: audit of the final accounts absent with long lags; inadequate; MOF sources and weak technical capacity; little or no follow up on findings	Generally prevalent and not reported.	Quasi-fiscal activity prevalent and not reported: interest rates, lending policies, loan guarantees and/or individual lending decisions subjected to political direction	Quasi-fiscal activity prevalent and not reported: administratively determined (employment, price setting, or cross subsidizing); other non-commercial functions not covered by subsidies	Data on tax expenditures not published.	Generally subject to administrative discretion; unclear rules; inadequate or bureaucratic appeal procedures; and/or poor observation of existing laws
Algeria	x	x	x	x	x	x	x	x	x
Benin	x	x	x	x	x	5/	5/	x	
Botswana		*	x						
Burkina Faso	x	x	2/		x		5/	x	
Equatorial Guinea	x	x	x	5/	5/	5/	5/	x	2/
Ghana	x	x	x	x	x	x	1/		2/
Malawi	x	x	x	3/	x	x	x	x	x
Mali	x	x	x	3/	3/	5/	5/	x	
Mozambique	x	2/	x	2/	x	5/	5/	x	
Namibia		x	x	*	*			*	
Rwanda	2/	x	x	x	x	x	x	x	1/
Senegal		x	x	x	*	*	x	*	*

SUMMARY OF INDICATORS OF FISCAL TRANSPARENCY IN SELECTED AFRICAN COUNTRIES									
Selected African Countries	Data Quality				Off-budget Fiscal Activity			Tax Policy and Administration	
	Budget realism	Budget execution data	Coverage of fiscal activity	External audit	Contingent liabilities	Quasi-fiscal operations related to financial sector	Quasi-fiscal operations related to NFPEs	Report tax expenditures	Tax administration
	Unrealistic budgeting prevalent; outturns differ greatly from original budget; obligations (e.g. utilities) not covered; overuse of supplementary tariffs	Weak post data and control procedures; data not reconciled; non-clearance of suspense accounts; irregular procedures; arrears or netting out common and unreported	Coverage inadequate; incomplete data; general government coverage not clear; MOF and central bank accounts; irregular procedures; differ; external budgeting excluded; foreign financed projects excluded	External audit is weak; audit of the final accounts is absent with long lags; inadequate sources and weak technical capacity; little or no follow up on findings	Generally prevalent and not reported.	Quasi-fiscal activity prevalent and not reported; interest rates, lending policies, loan guarantees and/or individual lending decisions subjected to political direction	Quasi-fiscal activity prevalent and not reported; administratively determined (employment, price setting, or cross subsidizing); other non-commercial functions not covered by subsidies	Data on tax expenditures not published.	Generally subject to administrative discretion; unclear rules; inadequate or bureaucratic appeal procedures; and/or poor observation of existing laws
South Africa			x		x			4/	
Tanzania	2/	x			5/		5/	x	
Uganda	x	x	1/		x	x	x	x	x

Source: Adopted from IMF's ROSC. There may have been improvements in post-ROSC. X indicates that the heading applies substantially; blank or a footnote indicates that the practice is significantly better than the heading description. * Signifies observation not sufficiently detailed.

1/ Recent improvements (supported by IMF/World Bank technical assistance) were recently noted; 2/ Improvements noted in ROSC update.

3/ Contingent liabilities shown in annual accounts; 4/ Limited information provided with budget.

5/ Not reported but government involvement is limited.