

Budget Comprehensiveness and off-Budget Transactions

- Main issues
- Causes for concern: lack of fiscal transparency, higher chance for misuse of funds, fiscal risks, sector policy distortion, and statistical shortcomings
- Some practical solutions for discussion

Scope of Public Sector and Government Budget

- 1. General Government:
 - 1.1. Central government
 - 1.2. State and local governments
- 2. Non-Financial Public Enterprises (PEs)
- 3. Public Financial Institutions (PFIs)

Main sources of off-Budget Transactions

- Extra-Budgetary Funds
- Earmarked departmental tax and non-tax revenues, special accounts/and or below-the-line accounts (BLAs)_
- Quasi-Fiscal Activities
- Contingent Liabilities

Extra-Budgetary Funds (General Features)

- Financed through earmarked tax or non-tax revenues outside government budget.
- Normally created by an act of law or an executive branch decision.
- Exist in many sectors depending on each individual country.
- Are not public enterprises (PEs) and are not subject to corporation laws.

EBFs: Pros. and cons.

- Pros.
- can simulate private market if financed by user fees
- consistent source of funds for maintenance expenditure where resources are sufficient
- Cons.
- control outside MOF
- distorts allocation of resources
- less transparent
- less efficient
- poor cash management

EBFs: Examples

- Several types under different names, but with same features mentioned on previous slide. Examples may include: Road Fund, Forest Fund, Fisheries Authority, Airport or Port Authority, Radio and TV organization, Post office, Institute of Housing, Red Cross, Olympic Committee, etc.

EBFs: Solutions

- Stock take and conduct a comprehensive study and incorporate unjustified EBFs into the government budget as part of ministerial functions.
- Include the budgets of remaining EBFs as part of budget documentation along with unified budget classifications used for government ministries.
- Unify accounting systems of the remaining EBFs and study the feasibility of entrusting their cash resources to the central treasury.

Earmarked Departmental Revenues and Expenditures (Special Accounts and BALs)

- Exist in many countries but in smaller scale than EBFs in terms of amounts.
- Like EBFs these should be incorporated into the budget as much as possible.
- In exceptional cases where user fees justify, include them in the ministerial budgets, but in a separate column.

Quasi-Fiscal Activities

Concept: Activities of the Central Bank or other state-owned financial or non-financial enterprises that are in nature similar to fiscal actions pursued by the government. Although undertaken at the direction of the government, they are usually financed by the banks or Public enterprises but are not included in the budget

QFAs: Examples

- Credit given by the Central Bank or government-owned commercial or specized banks at below market rates.
- Central Bank expenditures to bail out failing banks.
- When PEs have poor collection rates without penalty, amounts to indirect subsidy to users but not included in the budget unless the PE is loss maker which is financed by government.
- Central Bank (losses, multiple exchange rates, credit policy).
- When PEs “cover” losses with inter-enterprise arrears without threat of closure (subsidy paid by others in economy, not the budget)

QFAs: Solutions

Short-run “solution”:

Budget should contain a statement on QFAs and some attempt to estimate the cost of QFAs should be included.

Reporting such information will permit public scrutiny of these activities. It will also improve the ability of the government to assess the fiscal stance.

QFAs: Solutions

Long-run “solution”:

- Where possible, privatize PEs and government-owned banks.
- Significance of independence of the Central Bank from government budget operations is vital.
- Transform QFAs into explicit subsidies, transfers, etc. in the budget.

Contingent liabilities

“Contingent liabilities reflect existing *commitments*, the ultimate fiscal consequences of which are dependent on future events that may or may not occur”

Contingent liabilities: Examples

- **Quantifiable government guarantees:**
 - Borrowing of PE, PFI, subnational governments
 - State guarantees of student loans, mortgages, etc.
 - State insurance schemes (deposits, crop, flood)
 - Export insurance and exchange rate guarantees

Contingent liabilities: Examples

- **Unquantifiable contingencies**
 - litigation
 - indemnities on asset sales
- **Policy contingencies (implicit guarantees)**
 - bank failures, pension fund bankruptcy, subnational government default

Contingent liabilities: solutions

- **Explicit or implicit**
- **Can lead to increases in public debt**
- **Include in budget preparation**
- **Report, irrespective of accounting system**
- **Accurate reporting helps to assess fiscal risk**

Contingent liabilities: Solutions

- **Best practice: estimate cost of each liability and show in cash-based budget**
- **Minimum: budget document include:** (i) nature of liability; (ii) beneficiaries
- **No reporting:**
 - **incentive to use guarantees etc.**
 - **large potential fiscal risks and sector policy distortions**

Contingent Liabilities: Implicit risks

- A variety of “bail-out” risks may exist--but their acknowledgement creates moral hazard.
- Some may be covered in a general budget contingency provision--but strict control is necessary.
- As far as possible full market discipline should be encouraged.