



# IMF POLICY PAPER

## FISCAL TRANSPARENCY INITIATIVE: INTEGRATION OF NATURAL RESOURCE MANAGEMENT ISSUES

January 2019

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## FISCAL TRANSPARENCY INITIATIVE: INTEGRATION OF NATURAL RESOURCE MANAGEMENT ISSUES

### EXECUTIVE SUMMARY

**This paper integrates into the Fiscal Transparency Code (FTC) a new fourth pillar (Pillar IV) on natural resource revenue management.** This completes the pending update to the IMF's FTC, as set out by staff in 2014 (see IMF 2014a).

**Fiscal transparency and good governance are particularly important to help manage non-renewable natural resources in an equitable and sustainable manner.**

Transparency and governance issues loom particularly large in the natural resources (minerals and petroleum) sector, reflecting the large potential rents that make the sector prone to revenue leakages (e.g., from corruption); large-sized investments that place a premium on investor certainty; heavy involvement of large multinationals and state-owned enterprises; and the volatile and uncertain nature of revenues that make disclosure and mitigation of fiscal risks key for effective fiscal management.

**FTC Pillar IV is built around the key dimensions of natural resource management and is complementary to Pillars I–III.** Pillar IV focuses on resource rights and ownership; resource revenue mobilization; resource revenue utilization; and resource activity reporting and disclosure, complementing Pillars I–III which focus on fiscal reporting; fiscal forecasting & budgeting; and fiscal risk analysis & management. The development of Pillar IV has been informed by existing international norms in fiscal transparency, the lessons learned from several pilot evaluations, and extensive stakeholder feedback.

**Taken together, Pillars I–IV of the FTC provide a comprehensive picture of fiscal transparency in resource-rich countries.** Yet, each pillar can also be used in modular fiscal transparency evaluations (FTEs) to look at specific areas and aspects of fiscal transparency. The revised FTC also includes an update to the Pillar III principle on natural resource reporting (3.2.6) to reflect international practice on asset valuation.

**The Board is asked to approve the revised four-pillar FTC as a basis for carrying out subsequent FTEs.** Staff plans to prepare, in FY2020, an accompanying second volume of the 2018 Fiscal Transparency Handbook (FTH) to guide FTEs in resource-rich countries, and as a reference on fiscal transparency for natural resources.

Approved By  
**Gerd Schwartz**

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## CONTENTS

Abbreviations and Acronyms	3
<b>BACKGROUND</b>	<b>4</b>
<b>THE IMF FISCAL TRANSPARENCY CODE</b>	<b>7</b>
A. Structure of the IMF Fiscal Transparency Code	7
B. Overview of the New Pillar IV	9
<b>FISCAL TRANSPARENCY EVALUATIONS</b>	<b>18</b>
A. Observations from Pilot Assessments	18
<b>NEXT STEPS</b>	<b>20</b>
<b>BOX</b>	
1. Promoting Better Transparency and Governance in National Resource Companies	17
<b>FIGURES</b>	
1. Resource Revenues (2000-2013 and 2014-2017)	6
2. Petroleum Exports and Revenues in Resource-Rich Countries (2000-2016)	6
3. Fiscal Transparency Code Pillars I-IV	8
4. Worldwide Practices in Contract Disclosure	12
5. Resource Revenue and Price Volatility (2000-2016)	13
6. Natural Resource Fund Assets (2015/16)	14
7. Worldwide Prevalence of National Resource Corporations	16
8. Summary Results of FTE Pilots	19
<b>APPENDICES</b>	
I. The Fiscal Transparency Code	21
II. Public Consultations—Key Points	51
References	53

## Abbreviations and Acronyms

CD	Capacity Development
CNH	National Hydrocarbons Commission (Mexico)
EITI	Extractive Industries Transparency Initiative
FAD	Fiscal Affairs Department
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
FTH	Fiscal Transparency Handbook
IMF	International Monetary Fund
IWG	International Working Group of Sovereign Wealth Funds
MNRW-TF	Managing Natural Resource Wealth Thematic Fund
NRC	National Resource Corporations
NRGI	Natural Resource Governance Institute
ROSC	Reporting on the Observance of Standards and Codes
SEC	Securities and Exchange Commission (US)
SOE	State-Owned Enterprise

## BACKGROUND

**1. This paper updates the IMF’s framework on fiscal transparency for natural resource revenue management and integrates it into the IMF’s FTC as a new fourth pillar (Pillar IV).**<sup>1</sup> It explains the rationale for the new Pillar IV for resource-rich countries and how it has been formulated through a process of extensive public consultation with stakeholders and pilot evaluations in member countries. The paper proposes that the Executive Board approve the full FTC, including the new Pillar IV and minor adjustments to Pillar III.

**2. Fiscal transparency is a critical element of fiscal management and accountability.**<sup>2</sup> By providing a comprehensive picture of the government’s fiscal position and outlook, the impact of policy changes, and the potential fiscal risks, transparency can strengthen fiscal policy credibility. Transparency also fosters good governance by providing legislatures, oversight bodies, and citizens with information to hold governments accountable. Indeed, the new framework for enhanced Fund engagement on governance and corruption issues in member countries also stressed the crucial role of fiscal transparency in IMF surveillance and capacity development (CD).<sup>3</sup>

**3. The exhaustible nature of natural resources and the scale of economic rents raise fiscal transparency considerations at each stage of resource revenue management.** The one-time opportunity to extract non-renewable resources raises the bar for governments to use the resulting revenues for the benefit of both current and future generations. The large potential rents make the sector particularly vulnerable to corruption necessitating strong accountability mechanisms. Large front-loaded investments and long production periods place a premium on investor certainty. The volatile and uncertain revenues require transparent forecasting and budgeting processes, and disclosure of fiscal risks. Transparency may also help to better assess and manage fiscal risks around resource depletion and climate change-related policies, supporting the IMF’s work in these areas.

**4. Fiscal transparency practices in the extractive sectors have made significant progress over the last decade.** There has been a transition towards reporting of resource revenues by both governments and resource companies, and, in some countries, the publication of resource contracts and disclosure of the beneficial ownership of resource rights. The Extractive Industries Transparency Initiative (EITI) standard has gained recognition as an indicator of a country’s commitment to transparency (EITI 2017). Many ‘home’ country jurisdictions (notably in the European Union, Norway and Canada) where international resource companies are listed or domiciled now require companies to disclose worldwide fiscal payments by type and by project. The Santiago Principles present a sound basis for the transparency practices of sovereign wealth funds (IWG 2008).

<sup>1</sup> As indicated in IMF 2014a.

<sup>2</sup> Fiscal transparency refers to “the clarity, reliability, frequency, timeliness, and relevance of public fiscal reporting and the openness to the public of the government’s fiscal policy-making process”. See IMF 2012a.

<sup>3</sup> See IMF 2018a for further details.

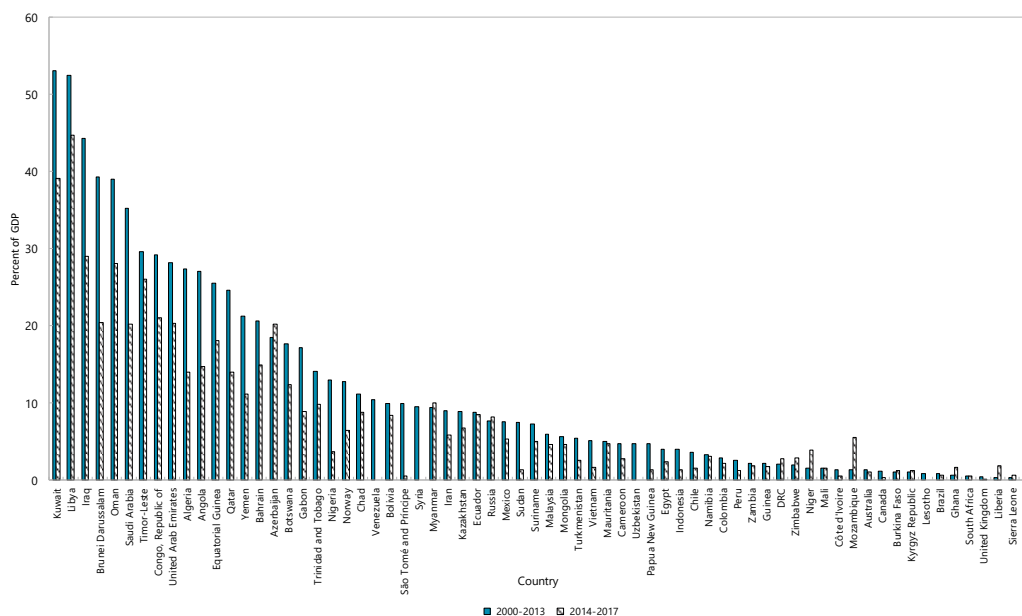
**5. Despite these improvements, weaknesses remain in current transparency practices in many countries.** Commodity price shocks have highlighted shortcomings in managing resource revenue volatility, reflecting partly the limited disclosure of fiscal risks and inadequate mitigation. Some countries have experienced revenue leakages through opaque quasi-fiscal activities, fuel subsidies, and extra-budgetary spending more generally. Lack of transparency and inefficient and corrupt procurement practices remain a significant challenge for many state-owned enterprises in the resource sectors. Challenges associated with the existing international corporate tax architecture have raised concerns around revenue erosion through transfer pricing practices of multinationals.

**6. Natural resource fiscal transparency issues remain a core part of the Fund's advice in many countries.** In about one-third of IMF members, natural resources provide an important source of export earnings and government revenues (Figures 1 and 2).<sup>4</sup> Countries with prospective resources also have an opportunity to put in place transparency measures in preparation for the future development of these resources.

**7. The paper is structured as follows.** Section II describes the revised structure of the FTC and the integration of Pillar IV and presents the Pillar IV principles. Section III summarizes experiences with the pilot FTEs conducted by staff on the basis of earlier drafts of Pillar IV, and Section IV outlines next steps for work in this area. Appendix I provides the complete four-pillar FTC for Board approval, and Appendix II sets out the main comments put forward by stakeholders during two rounds of public consultation.

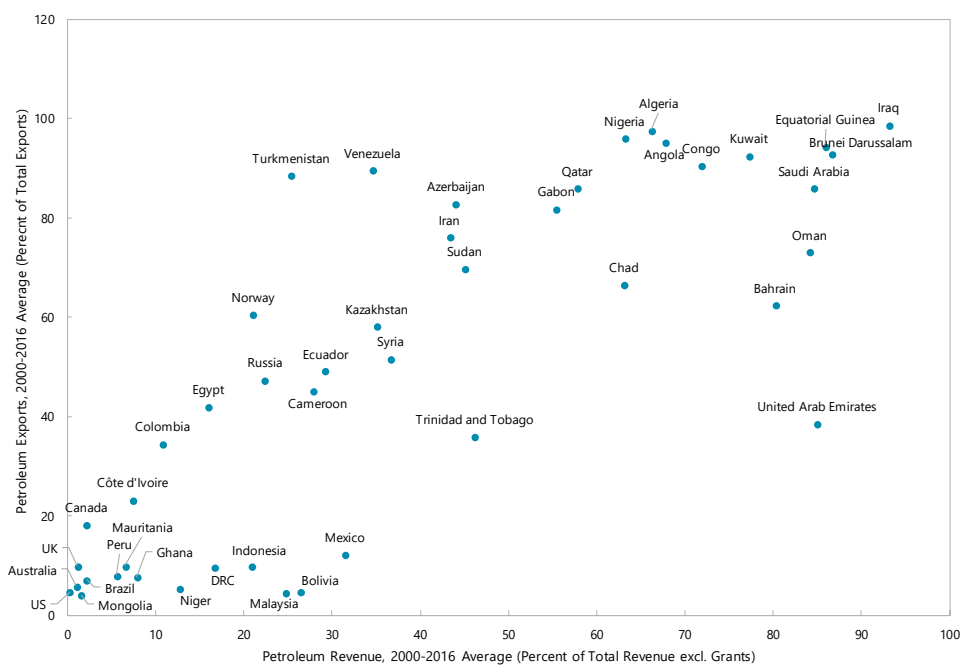
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<sup>4</sup> This figure reflects countries where resource revenues exceeded 1 percent of GDP over the period 2014-2017, based on statistics of the IMF World Economic Outlook.

**Figure 1. Resource Revenues (2000-2013 and 2014-2017)**

Source: FAD Resource Revenue Database

Note: The 2000-13 and 2014-17 periods are shown separately to highlight the effect of the 2014 commodity price shocks.

**Figure 2. Petroleum Exports and Revenues in Resource-Rich Countries (2000-2016)**

Source: IMF World Economic Outlook and FAD Resource Revenue Database

## THE IMF FISCAL TRANSPARENCY CODE

**8. The IMF's work on natural resource fiscal transparency began in the mid-2000s.** The Guide on Resource Revenue Transparency (IMF 2007a) was the first major IMF publication on the topic and applied the principles of the prevailing Code of Good Practices on Fiscal Transparency (IMF 2007b) to the unique set of transparency problems faced by countries with natural resources. The 2007 guide has served as a key reference for a broad group of stakeholders, including governments, academia, the natural resource industry, and civil society. Through the publication of the guide, the IMF has been an early promoter of key transparency practices such as project-level disclosure of resource revenues and the publication of contracts, which are now established as international norms.<sup>5</sup>

**9. The FTC was revised in 2014 to strengthen fiscal surveillance.** The 2014 FTC (IMF 2014a) and the Fiscal Transparency Evaluation (FTE) replaced, respectively, the 2007 code (IMF 2007b) and the related fiscal module of the Reports on the Observance of Standards and Codes (fiscal ROSC).<sup>6</sup> The rationale for the update was to (i) reflect the lessons of the 2008-09 global financial crisis and developments in international fiscal standards and practices; (ii) focus on fiscal information required for effective fiscal policymaking and surveillance; and (iii) make the FTC relevant to the full range of Fund member countries taking account of different country practices and capacity levels. The 2014 structure already indicated the need for further work on natural resource issues and outlined a pillar on natural resource revenue management.

### A. Structure of the IMF Fiscal Transparency Code

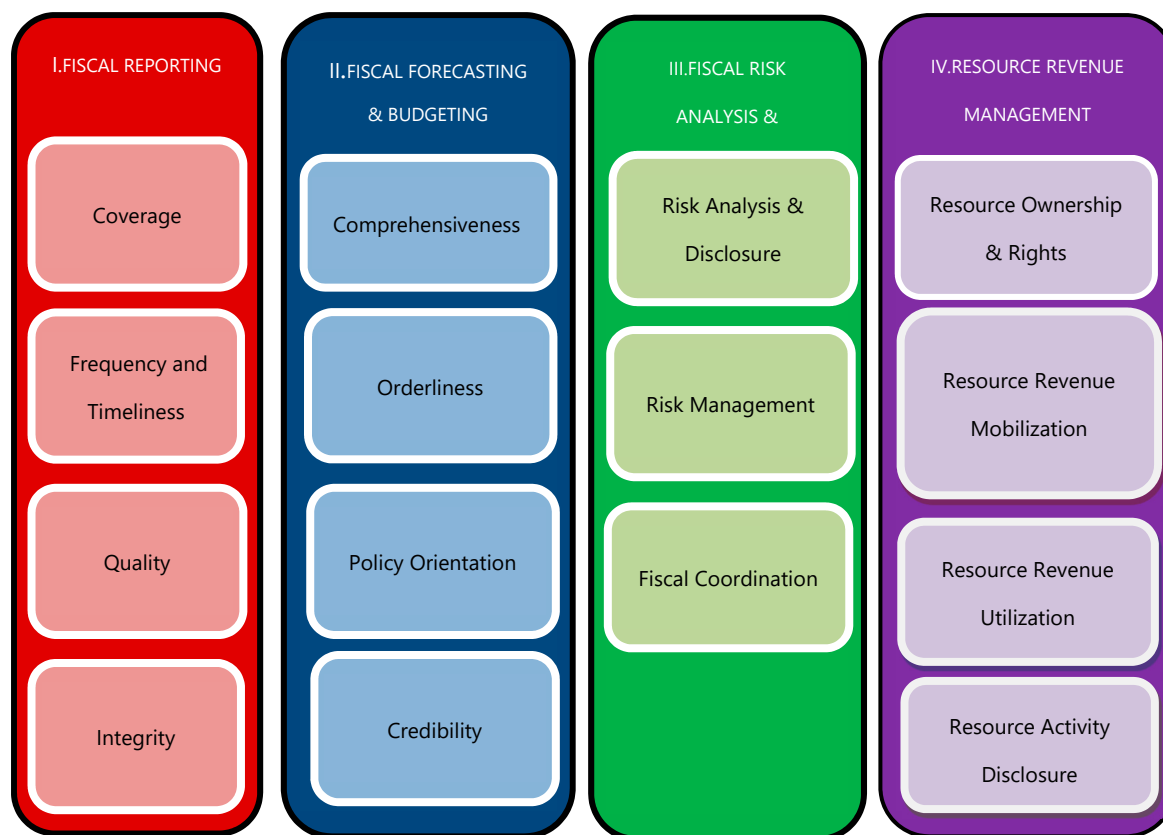
**10. The FTC is an international standard for disclosure of public finance information and fiscal transparency.** The FTC comprises a set of principles built around four pillars (Figure 3). For each transparency principle, the FTC differentiates between basic, good, and advanced practices to guide countries toward full compliance with the code and ensure its applicability to the broad range of IMF member countries.

- **Pillar I: Fiscal Reporting**, which should offer relevant, comprehensive, timely, and reliable information on the government's financial position and performance.
- **Pillar II: Fiscal Forecasting and Budgeting**, which should provide a clear statement of the government's budgetary objectives and policy intentions, together with comprehensive, timely, and credible projections of the evolution of the public finances.

<sup>5</sup> The guide also provided a framework for assessing the transparency of natural resource management practices in member countries through fiscal transparency modules of Reports on the Observance of Standards and Codes.

<sup>6</sup> IMF 2012a provides a detailed discussion and review of the fiscal ROSC, and IMF 2017a sets out subsequent changes to fiscal transparency standards and evaluation tools.



**Figure 3. Fiscal Transparency Code Pillars I-IV<sup>1</sup>**

<sup>1</sup> The first three pillars were finalized and approved by the IMF Executive Board in 2014 (IMF 2014a).

- **Pillar III: Fiscal Risk Analysis and Management**, which should ensure that the risks to the public finances are disclosed, analyzed and well-managed, and that fiscal decision-making across the public sector is effectively coordinated.
- **Pillar IV: Resource Revenue Management**, which should provide a transparent framework for resource ownership and extraction, and the collection and utilization of public revenue from natural resource endowments.

**11. The new FTC includes transparency principles for natural resource revenue management in a unified framework.** The consolidated FTC framework integrates assessments of natural resource revenue transparency within broader public financial management principles and processes. In conducting Fiscal Transparency Evaluations (FTEs) for resource-rich countries, all four pillars will typically be used. However, by addressing unique natural resource transparency issues across the revenue management chain, Pillar IV in some cases may be used on a modular basis for countries seeking an in-depth analysis of natural resource fiscal transparency.

**12. Pillar IV follows the same structure as Pillars I-III with graduated practices to take account of different levels of country capacity.** This allows countries to develop a sequenced path for reform by providing a clear set of milestones toward full compliance with international standards.<sup>7</sup> In some cases, these standards reflect long established international practice in the sector (legal and fiscal regimes, revenue administration), while others reflect recent norms (payment and contract transparency) or those that are emerging (reporting on beneficial ownership of resource rights).

**13. An accompanying second volume of the FTH will provide detailed guidance on the code's principles and practices for resource-rich countries.** Volume II will elaborate on the application of the FTC in resource-rich countries and complement the previously published FTH (IMF 2018b) covering Pillars I-III of the code. For each principle, the FTH will provide an explanation of its importance, and a detailed description of each practice level, with examples of country practices and relevant prevailing international standards.

## B. Overview of the New Pillar IV

**14. Pillar IV has been designed to cover the full spectrum of natural resource fiscal transparency issues.** It is composed of twelve principles organized by four 'dimensions' focused on (i) resource rights and ownership; (ii) resource revenue mobilization; (iii) resource revenue utilization; and (iv) resource activity reporting and disclosure.

**15. The revised FTC complements other standards and initiatives by providing a comprehensive and overarching fiscal transparency framework.** The FTC's broad scope, guiding principles, and roadmap of graduated practices distinguishes it from other standards and evaluation tools in this area, which focus on specific aspects of transparency or seek to rank countries.<sup>8</sup> By providing a comprehensive overview, the FTC helps governments to understand how specific standards relate to the broader fiscal transparency goals and identify priorities for reform. The FTC and accompanying FTEs also support IMF surveillance and CD activities.<sup>9</sup> Similarly, the FTC and FTEs can be used by other stakeholders (including other international organizations and civil society) to anchor their own work in this area.

<sup>7</sup> In particular, (i) basic practice would be viewed as a minimum standard that should be achievable by all IMF member countries with natural resources; (ii) good practice provides an intermediate goal post that would require stronger institutional capacities; and (iii) advanced practice reflects relevant international standards and is in line with the current "state-of-the-art".

<sup>8</sup> Examples of standards include those for reporting on and reconciliation of revenues (EITI), reporting on petroleum and mineral reserves (e.g., Society of Petroleum Evaluation Engineers, Committee for Mineral Reserves International Reporting Standards), sovereign wealth funds (Santiago Principles), and on environmental and social reporting (IFC Environmental and Social Performance Standard 1). The Natural Resource Governance Index (NRGI 2017) provides a periodic ranking of countries based on a range of fiscal and non-fiscal parameters.

<sup>9</sup> Supported by the Managing Natural Resource Wealth Thematic Fund (MNRW-TF), the IMF provides CD support for low and lower middle-income countries with natural resources in a range of areas covered by the FTC, including on fiscal regime design and implementation, revenue administration, macrofiscal management, and statistics. See <https://www.imf.org/en/Capacity-Development/trust-fund/MNRW-TTF>.

**16. The Pillar IV principles and practices have been piloted in several FTEs and benefitted from comments received during two rounds of public consultations on earlier drafts.** The initial draft of Pillar IV was released in December 2014 and received strong interest from stakeholders. Based on these comments, a revised draft was released for a second round of consultation in April 2016. Appendix II sets out the main comments put forward by different stakeholder groups. Five pilot FTEs using Pillar IV have been carried out since 2014 in a range of resource-rich countries (see Section III).

#### **Dimension 4.1 Resource Ownership and Rights**

**17. Pillar IV promotes a sound legal framework and disclosure practices for resource exploration and extraction.**

##### ***Principle 4.1.1. Legal Framework for Resource Rights***

**18. Fiscal transparency considerations arise when ownership over natural resources and rights to exploration and extraction are defined.** Particular emphasis is given to the clarity and comprehensiveness of the legal framework determining relationships between the government and investors. The principle stresses the importance of full publication of the legal framework, as well as the absence of any impediments to the disclosure of non-commercially sensitive information.

##### ***Principle 4.1.2. Allocation of Resource Rights***

**19. Open and clear procedures for allocating resource rights are fundamental to ensure resource endowments are developed efficiently and transparently.** Procedures for rights allocation should be designed to pursue clear objectives such as finding the most suitable investor to develop the resource (reflecting technical and financial criteria, and fiscal contributions), with adequate reporting on rights awarded. This principle applies to both competitive processes such as bidding rounds common in the petroleum sector, and non-competitive processes (e.g., first-come first served) which are more common in the mining sector.

##### ***Principle 4.1.3. Disclosure of Resource Rights Holdings***

**20. Disclosure of resource rights holdings is now internationally recognized as best practice.** This information makes the government and companies accountable to the legislature and the general public for the extraction of natural resources in accordance with the rights and obligations under licenses and contracts. Disclosure of resource rights should include details of the beneficial owner and the associated corporate structure (e.g., if there is a chain of intermediaries connecting the beneficial owner and license holder), to ensure complete transparency regarding the ultimate ownership of a resource right.

## Dimension 4.2 Resource Revenue Mobilization

**21. The design, implementation and administration of the fiscal regime consisting of tax and non-tax instruments is critical for collecting government revenue.<sup>10</sup>**

### *Principle 4.2.1. Fiscal Regime for Natural Resources<sup>11</sup>*

**22. The appropriate design and implementation of fiscal regimes for natural resources is essential to meet the government's revenue objective in a fair and efficient manner.** Clarity, consistency and completeness of the fiscal regime is achieved by having well-defined and published rates and bases for all fiscal instruments.<sup>12</sup> Transfer pricing practices, including commodity valuation, the widespread use of non-resident subcontractors, and capital gains arising from direct and indirect transfers of interest in resource projects introduce specific tax policy issues.

**23. Transparency of the fiscal regime should extend to both tax legislation and project-specific fiscal terms.** Governments should publish or disclose project-specific contracts, licenses and agreements. Indeed, contract disclosure is emerging as a norm in many resource-rich countries (Figure 4).<sup>13</sup> In general, there should be no legal impediments to publication of resource contracts, which do not typically contain commercially sensitive information. Where such impediments do exist (e.g., clauses requiring confidentiality of agreements themselves) an effort should be made to remove these by mutual agreement among the parties.

### *Principle 4.2.2. Resource Revenue Administration*

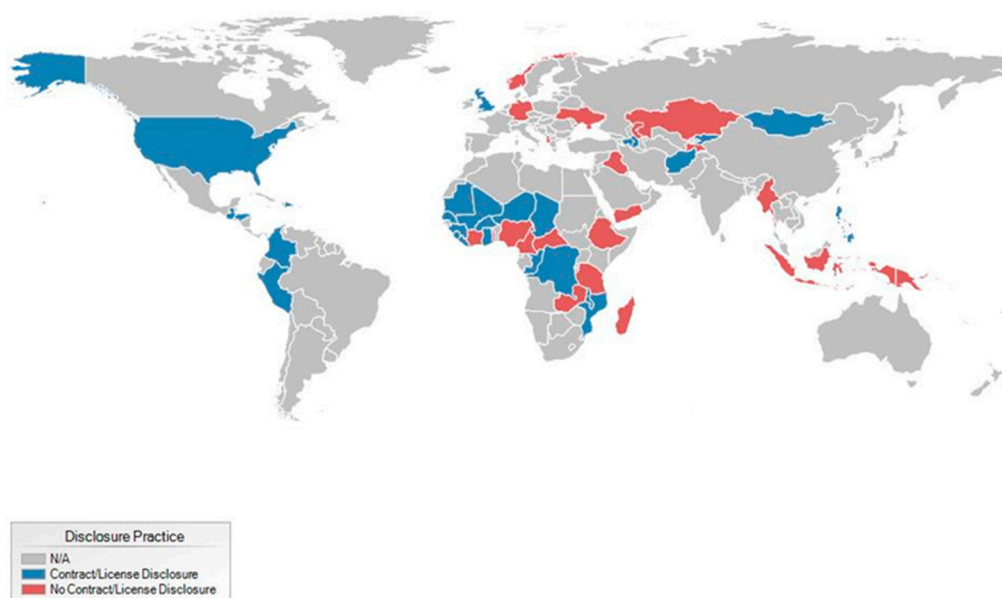
**24. Even with the best designed fiscal regime, the revenue potential can only be realized by having effective resource revenue administration.** The extractive sectors often have a fragmentation of revenue collection and administration responsibilities across ministries and agencies making coordination more challenging (IMF 2014b). In administering the regime, clear resource revenue collection, audit, and compliance procedures are critical elements of fiscal transparency. Having clear and impartial rules, procedures and published interpretations helps to increase predictability for both the government and taxpayers, and to establish trust and confidence in revenue collecting authorities and can thus improve revenue collection performance.

<sup>10</sup> Usually this covers mining and petroleum extraction or production within a license or contract area (the upstream) although for some projects the fiscal regime extends to pipelines, refineries, gas liquefaction plants, or other processing activities (the midstream).

<sup>11</sup> See (IMF 2012b) for a detailed discussion of principles for the design and implementation of fiscal regimes for extractive industries.

<sup>12</sup> This includes all payments to government (in cash or in kind), including bonuses, royalties and income taxes on profits (including resource rent taxes), payments to governments under contractual schemes (including production sharing or risk service contracts), as well as instruments of state equity participation.

<sup>13</sup> Of the 52 countries included in Figure 4, 29 countries have published contracts and licenses. Of the remainder, three countries have a legal commitment to publish contracts and licenses, although they have not yet done so.

**Figure 4. Worldwide Practices in Contract Disclosure**

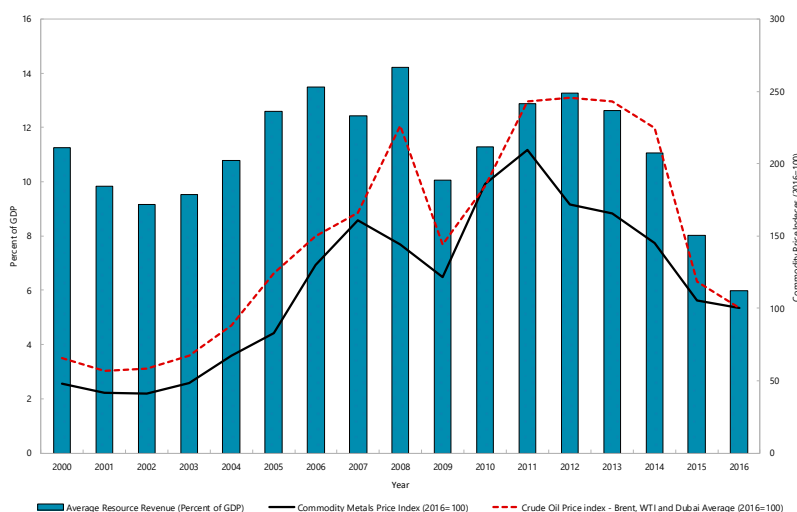
Source: NRG1 2017b

### Dimension 4.3 Resource Revenue Utilization

**25. Pillar IV provides a more in-depth focus on resource revenue forecasting and integration into the budget framework, and the management of natural resource funds.** This complements Pillar II and is justified by the unique features of resource revenue (i.e., their scale, volatility and exhaustibility). In FTEs, these Pillar IV principles will provide a detailed assessment of resource revenue forecasting and the integration of revenues into the budget framework, complementing the more general overarching assessment of macrofiscal forecasting and budgeting processes in Pillar II.

#### ***Principle 4.3.1. Resource Revenue Forecasting***

**26. The volatility of commodity prices and the transmission of shocks to resource revenues underscore the need for a credible forecasting framework (Figure 5).** The resource revenue forecasting framework must be credible and transparent, with accountability mechanisms to reduce the level of bias or discretion in the forecasting process. This includes publication of forecasts by revenue instrument under different price and extraction scenarios, disclosure of forecasting assumptions and methodology, and a yearly reconciliation of forecasts with actual revenue figures.

**Figure 5. Resource Revenue and Price Volatility (2000-2016)**

Source: IMF World Economic Outlook and FAD Resource Revenue Database.

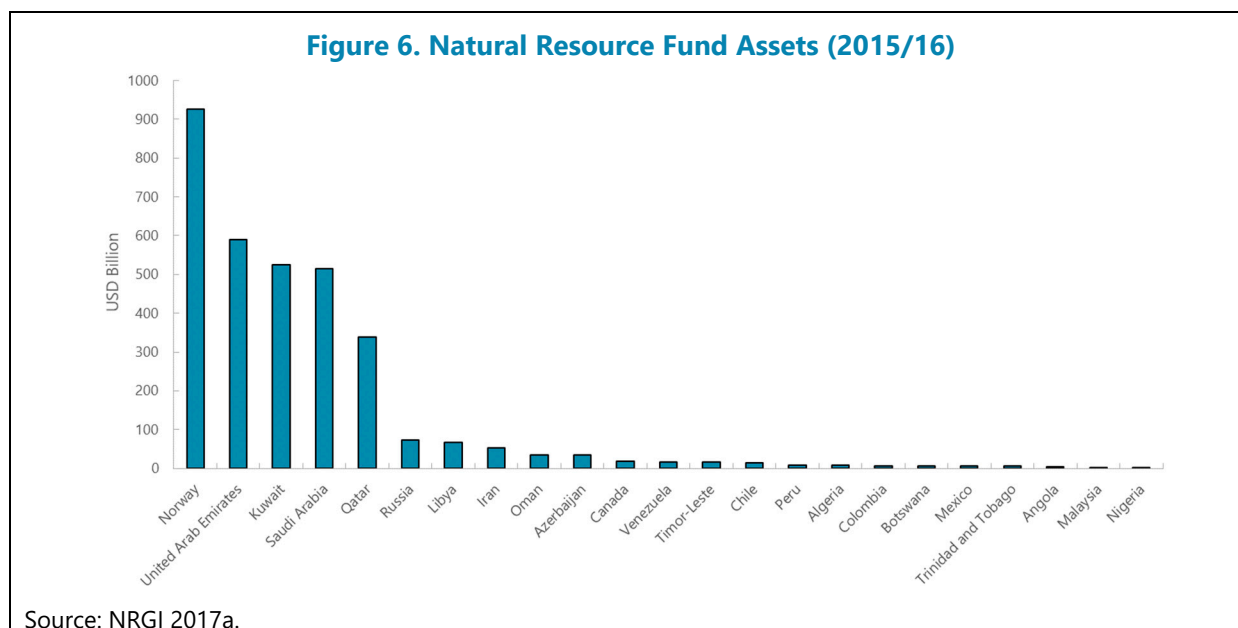
### ***Principle 4.3.2. Budget Integration of Resource Revenue***

**27. Given their exhaustibility and volatility, resource revenues should be transparently managed, in accordance with the government's fiscal policy objectives.** All use of revenues that accrue to the general government should be allocated through annual budgets to ensure the efficient and transparent management of public resources. Fiscal policy objectives may entail saving part of the annual resource revenue for stabilization purposes and future generations; any expenditure funded by resource revenue should be appropriated through the regular budget processes (IMF 2012c). Where a public corporation plays a key role in collecting resource revenue, transparency around the flow of these funds to the budget is fundamental.<sup>14</sup>

### ***Principle 4.3.3. Natural Resource Funds***

**28. Resource revenues often flow into a designated fund to support savings, stabilization and asset management objectives.** Natural resource funds can accumulate substantial assets (Figure 6). Such funds should have clearly stated objectives aligned with the country's overall fiscal policy objectives, be fully integrated with the budget, and reported in budget documentation. It is preferable that there is no extra-budgetary expenditure, with possible exceptions for the fund's own operational expenditure. Since these funds can accumulate large financial assets, they should be managed in line with clearly established rules and governance arrangements, and regularly report on operations and investment performance, with externally audited annual financial statements.

<sup>14</sup> Where a public corporation receives resource revenue, for example by being an equity participant in a resource project, the revenue should ultimately flow to the general budget through dividend payments. It is important that these arrangements between the budget and public corporations are guided by clear dividend policies. In other instances, the public corporation may collect revenue on behalf of the government and pass it on directly.



#### Dimension 4.4 Resource Activity Disclosure

**29. The revised Pillar IV emphasizes clear and comprehensive reporting on natural resource activity.**

##### *Principle 4.4.1. Reporting and Audit of Resource Revenues*

**30. Fiscal transparency requires clear and sufficiently detailed reporting on resource revenue receipts by governments.** Resource revenue covers all significant receipts from natural resource corporations. Revenue data should be reported on an annual basis while in-year fiscal reporting of revenue collections should be timely (preferably monthly).<sup>15</sup> The annual data should be externally audited.<sup>16</sup> The reporting coverage should encompass central and subnational government revenue, revenues to extrabudgetary funds, and cashflows to public corporations through state participation. The data should capture payments in cash and in kind (e.g., barrels of oil or other commodity volumes), and revenues realized from sales of commodity volumes by the government. Revenues should be reported at the project-level to the extent that this is feasible when considering the 'ring-fence' associated with each fiscal instrument.<sup>17</sup>

<sup>15</sup> The IMF has developed a template for reporting natural resource revenue statistics consistent with the Government Finance Statistics Manual 2014, which has been adopted by EITI as its global reporting standard (IMF 2017b).

<sup>16</sup> Resource revenue collections are generally audited under the authority of the Supreme Audit Institution (usually the Auditor General). Due to the specialized nature of their activities, sometimes the Auditor General may contract a private auditing firm to carry out an audit of national resource companies.

<sup>17</sup> Ring-fencing means a limitation on consolidation of income and deductions for tax purposes across different activities, or different projects, undertaken by the same taxpayer.

**Principle 4.4.2. Reporting by Resource Corporations**

**31. Open and transparent reporting of resource corporations' payments to government is an important element of transparency.** Governments can support this process by requiring that companies report on all payments to government, including payments in kind, on a project-by-project basis where possible. The disclosure requirement would extend to any corporate entity, including state-owned enterprises, engaging in natural resource exploration, extraction or commodity trading activity.<sup>18</sup> A reconciliation of government collections and company payments in line with the EITI standard can provide a further integrity mechanism to detect erosion or leakage at the collection stage.

**32. While Pillar IV is mainly focused on the transparency practices of resource-rich 'host' countries, 'home' countries also have an important role to play.** In recent years, legal provisions requiring global disclosure by resource corporations for payments to governments have emerged as an internationally accepted norm introduced in more than 30 countries, including the European Union, Norway and Canada, where some of the world's major petroleum and mining industry players are listed or domiciled.<sup>19</sup> A separate principle on worldwide reporting requirements was included in earlier drafts of the pillar. However, experience in FTEs showed that this was relevant only for a relatively small number of countries in which a large number of multinational resource companies are listed or domiciled. To maintain the FTC's streamlined structure, the principle on reporting by resource corporations will be applied on a "global basis" in countries with a high concentration of domiciled international resource companies.

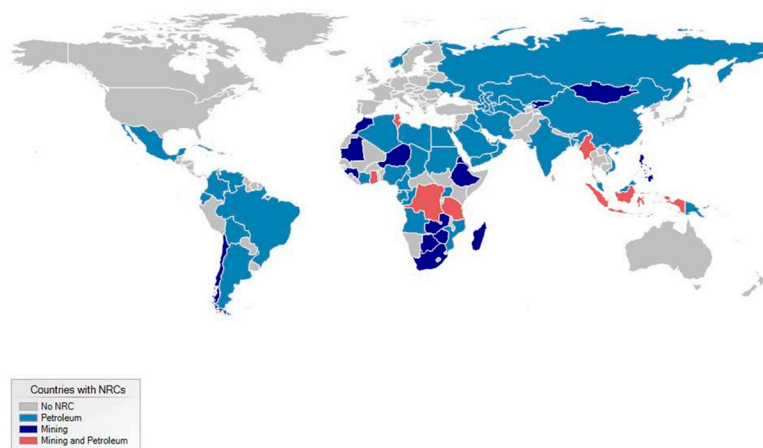
**Principle 4.4.3. National Resource Corporations**

**33. The reporting practices of public corporations involved in the resource sectors are a critical component of fiscal transparency.** While Pillar III assesses the overarching transparency of public corporations, Pillar IV considers the specific operational and financial reporting practices of national resource corporations (NRCs). Often the natural resource sectors involve one or two potentially large public corporations, justifying this separate focus. Figure 7 shows the prevalence of NRCs in resource-rich countries worldwide.

<sup>18</sup> As such, trading companies which purchase commodities from government or state-owned enterprises are also responsible for disclosing revenue payments to government.

<sup>19</sup> In the United States, Section 1504 "Disclosure of Payments by Resource Extraction Issuers" of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act required the Securities and Exchange Commission (SEC) to issue a rule mandating disclosure of worldwide payments by all SEC reporting companies. A final rule took effect in 2016, with first disclosures due in 2019, although this rule was later disapproved by the United States Congress under the Congressional Review Act in 2017.



**Figure 7. Worldwide Prevalence of National Resource Corporations**

Source: NRG1 2017a.

**34. Many studies have highlighted that weak oversight and inefficient management of public corporations can result in significant economic and fiscal costs (Box 1).** Pillar IV recognizes the importance of clearly defined governance arrangements, and regular, comprehensive and consolidated reporting on NRC operations and finances, along with external auditing. It also reflects the emerging practice for NRCs to issue regular governance reports to demonstrate prudent management of the corporation. Transparency can be further strengthened with detailed disclosure of quasi-fiscal spending and procurement contract awards, both common areas of mismanagement and revenue leakage.

***Principle 4.4.4. Social, Operational and Environmental Reporting***

**35. This principle emphasizes the importance of regular reporting on operational, social and environmental aspects of extractive industry projects.** Extraction activity often has large social and environmental costs in production areas, which must be publicly disclosed and managed. Regular reporting on operations and associated risks is also important for governments to assess potential fiscal risks. For example, unanticipated shutdowns and delays can have a significant adverse impact on production and fiscal revenues. Environmental risks may also have fiscal implications.

***Principle 3.2.6. Natural Resource Stocks and Flows***

**36. By providing a comprehensive Pillar IV, the need to modify Pillars I-III to accommodate natural resource revenue management is minimal.** However, it is proposed to modify the practices under Principle 3.2.6 on reporting of natural resource stocks and flows in Pillar III of the Code. The proposed change will move the requirement for reporting of monetary values of

natural resource reserves from “basic” to “good” practice. Valuation of reserves is an intricate exercise contingent on a range of assumptions and a sound valuation methodology and is undertaken by only a handful of countries at present. Indeed, of the 21 countries for which this principle has been assessed through FTEs, only two countries published values of their natural resource assets.<sup>20</sup> It is also proposed to move the practice of conducting and reporting on sensitivity analysis of extraction scenarios to the resource revenue forecasting principle (4.3.1). This recalibration of the code allows for adequate recognition of countries which publish other relevant and useful information on the resource sector, including the volume of reserves, as well as countries that publish the value of natural resource assets.

### **Box 1. Promoting Better Transparency and Governance in National Resource Companies**

State-owned enterprises (SOEs) play an important role in many countries in developing the extractive sector. They represent the government either through direct engagement in exploration and production, in commodity trading, or in managing the state’s equity participation.

As they often manage large public wealth, it is important that SOEs operate with a high degree of transparency and strong corporate governance. However, a recent study by the OECD indicated that SOEs in the petroleum and mining sectors had more reported incidents of corruption (OECD 2018). Transparency International has also highlighted the extractive sector as being vulnerable to corruption, and the NRGi resource governance index (NRGI 2017a) shows that many SOEs in the resource sectors have weak governance structures.

There is a growing awareness of the need to strengthen transparency and governance among SOEs, especially in the extractive sector. Transparency International has issued a call for SOEs to operate to the highest standards of integrity and transparency and has presented 10 Anti-Corruption Principles (Transparency International 2017) for SOEs. The 2016 EITI Standard (EITI 2017) outlines the requirements and recommendations applicable to SOEs from more than 50 participating countries, including disclosure requirements on beneficial ownership, commodity sales, revenue transfers and quasi-fiscal expenditures. The NRGi has also issued a Guide to Extractive Sector State-Owned Enterprise Disclosures (NRGI 2018) to help SOEs to achieve high transparency standards.

Several countries are adopting improved transparency practices. For example, Mexico is moving towards very high transparency standards in the extractive industry to overcome public distrust regarding the management of natural resources. Mexico’s National Hydrocarbons Commission (CNH) has made public disclosure a central part of its mandate to oversee both the operations of the state-owned company Pemex, and contract allocations to private investors in the hydrocarbon sector. CNH now seeks to increase transparency in its monitoring of both Pemex and private investor compliance with the obligations contained in the laws and agreements governing extractive rights. In Brazil, Petrobras has also moved towards strengthening transparency and integrity after recent corruption scandals. It has adopted anti-corruption policies and actions, strengthened internal controls and reporting, and given a greater voice to minority shareholders.

<sup>20</sup> Colombia and the United Kingdom both publish values for natural resource assets.

## FISCAL TRANSPARENCY EVALUATIONS

**37. Since 2015, the draft Pillar IV has been piloted as part of FTEs in resource-rich countries.** The Fiscal Transparency Evaluation is intended to identify strengths and weaknesses and make specific recommendations for improvements in transparency. Pillars I-III have formed the basis of FTEs in 28 countries to date of which 24 reports have been published. FTE recommendations have informed the public debate, supported analysis in Article IV and program reports, and provided a basis for follow-up CD in the fiscal area.

**38. The FTC has been designed to allow for both full assessments as well as modular assessments of individual pillars.** Modular FTEs may meet the need for more targeted evaluations aimed at addressing the most pressing transparency issues in a particular country. In most cases, an integrated approach is likely to be most suitable for countries with large natural resource revenues.

**39. Pilot assessments of Pillar IV principles have been based on the two successive drafts of the pillar.** These evaluations have informed the development of its principles and practices to ensure their relevance and applicability to the full range of Fund membership. Five pilot exercises have been conducted, covering three regions (Peru, Tanzania, United Kingdom, Mexico, and Trinidad and Tobago). A modular assessment was undertaken in Trinidad and Tobago, while the other pilots were part of integrated FTEs. Three of these reports have been published.<sup>21</sup>

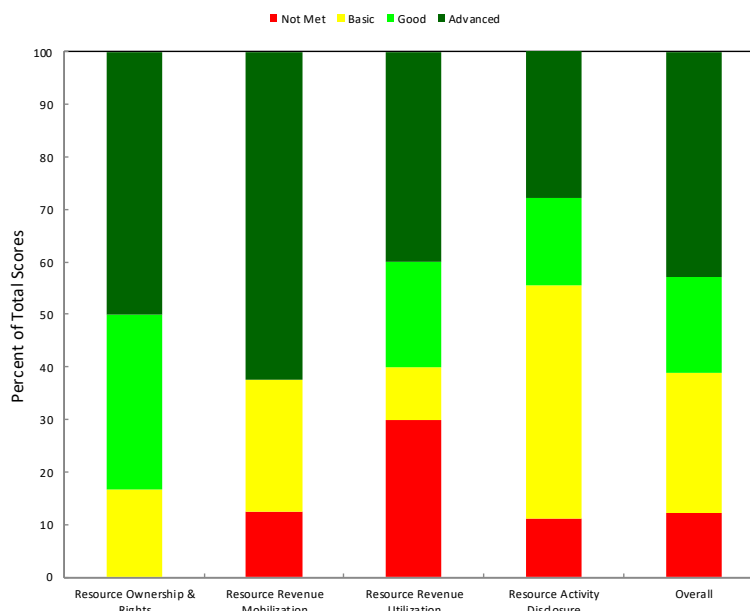
### A. Observations from Pilot Assessments

**40. The FTE pilots conducted to date illustrate that levels of natural resource transparency vary across and within countries.** Figure 8 shows how countries performed across the resource revenue management chain in the four pilot evaluations conducted in Peru, the United Kingdom, Mexico, and Trinidad and Tobago.<sup>22</sup> Countries performed best in defining and allocating resource ownership and rights, and also in mobilizing resource revenues, while practices in resource revenue utilization and reporting on resource sector activity lagged behind.

**41. The application of the earlier draft Pillar IV in FTEs prompted a number of refinements in principles and practices as well as some strategic questions about its application.** The testing has allowed for appropriate benchmarking of and further refinement of the practices. The application of Pillar IV also provided important insights about where and how it can be used in FTEs, which are both addressed below.

<sup>21</sup> See Palomba and others, 2015; Olden and others, 2016; and Pattanayak and others, 2018.

<sup>22</sup> Figure 8 includes scores of Pillar IV principles and Principle 3.2.6 on Natural Resources. Pilot FTEs were conducted on the two earlier drafts of Pillar IV, and principles have been broadly categorized according to the structure of the revised Pillar IV. The Tanzania FTE did not score Pillar IV practices against the FTC, and therefore is not included in the figure.

**Figure 8. Summary Results of FTE Pilots**

**42. Pilot evaluations demonstrate the relevance and applicability of Pillar IV in a range of resource-rich countries.** Pilot countries ranged from those with sectors at exploration or development stages (Tanzania’s petroleum sector), to long established but not resource revenue-dependent producers (Peru, United Kingdom), to large resource revenue-dependent producers (Mexico, Trinidad and Tobago). The approach in evaluating resource sector issues differed among these country types.

- Exploration Stage Countries (e.g., Tanzania):** For countries in early stages of exploration and development, transparency considerations are important and relevant, particularly in relation to the legal and fiscal framework, but a full assessment of the pillar may be premature. In this case, Pillar IV provides a framework that guides countries toward strengthening transparency in anticipation of new resource sector activity. In the case of Tanzania, a Pillar IV chapter of the FTE provided guidance on key transparency issues but did not score its practices against the FTC.<sup>23</sup>
- Established Producers—Non-Resource Revenue Dependent (e.g., Peru, United Kingdom):** These include countries where the resource sector is well-established, but the relative economic diversification means that natural resources do not account directly for a significant portion of budget revenues. As such, natural resource issues in these cases typically do not feature prominently in Pillars I-III, and therefore, if included, Pillar IV would provide the natural resource-specific transparency assessment. In this group of countries, including a natural resource-specific assessment using Pillar IV would be most beneficial and relevant in cases where major

<sup>23</sup> While Tanzania has an established large-scale mining sector and some gas extraction activity for domestic use, the assessment did not include these activities due to their modest revenue contribution, and instead provided a forward-looking assessment for the petroleum sector.

transparency issues are identified, or where natural resource transparency issues are of particular interest to the authorities.

- ***Established Producers—Resource Revenue Dependent (e.g., Mexico, Trinidad and Tobago):***

These are countries where the natural resource sectors dominate both the economy and public finances. The Mexico FTE provided the most complete assessment of natural resources. Consideration of the petroleum sector permeated the whole transparency assessment across Pillars I-IV. The FTE in Trinidad and Tobago took a different modular approach by specifically assessing transparency principles for the petroleum sector. The team found it necessary to augment the 2016 draft version of Pillar IV with five additional principles adapted from Pillars I-III to provide a complete picture of the natural resource management process.<sup>24</sup>

**43. The final Pillar IV now provides a comprehensive framework for modular assessments.** Drawing from the pilot assessments (particularly the assessment for Trinidad and Tobago), the final Pillar IV includes dedicated principles on resource revenue forecasting and on public corporations, improving its functionality in the standalone context. Therefore, while it is generally preferable to assess natural resource transparency practices in conjunction with an assessment of wider public financial management practices using all of the FTC principles, a modular assessment of Pillar IV can also provide valuable insights into fiscal transparency across the most critical elements of the resource management chain. This may be important in countries where the extractive industries play a dominant role and justify a more sector-specific focus, or as a sector-specific update—to assess progress in a cost-effective way—where a general FTE assessment using the first three pillars has previously been undertaken.

## NEXT STEPS

**44. To complete the overhaul of the fiscal transparency initiative, the next steps are:** to publish the full integrated four-pillar FTC, and, in FY2020 complete Volume II of the FTH that will focus on natural resource revenue management.

**45. The fiscal transparency work remains a key element of the Fund’s surveillance architecture and will continue to be accommodated within FAD’s budget through prioritization.** Further FTEs incorporating the new Pillar IV will be carried out at the request of IMF member countries. Staff welcomes interest from countries that wish to undertake an FTE using the new Pillar IV and will conduct outreach activities following the publication of the completed FTC and handbook to increase awareness among resource-rich member countries

<sup>24</sup> These included an assessment of macrofiscal forecasting practices, reporting on and by public corporations, macroeconomic risk and long-term sustainability analysis, along with the Pillar III principle on reporting of natural resource stocks and flows.

## Appendix I. The Fiscal Transparency Code

### A. FISCAL TRANSPARENCY PRINCIPLES

#### I. Fiscal Reporting

**Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.**

**1.1. Coverage:** *Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its sub-sectors, according to international standards.*

**1.1.1. Coverage of Institutions:** Fiscal reports cover all entities engaged in public activity according to international standards.

**1.1.2. Coverage of Stocks:** Fiscal reports include a balance sheet of public assets, liabilities, and net worth.

**1.1.3. Coverage of Flows:** Fiscal reports cover all public revenues, expenditures, and financing.

**1.1.4. Coverage of Tax Expenditures:** The government regularly discloses and manages revenue loss from tax expenditure.

**1.2. Frequency and Timeliness:** *Fiscal reports should be published in a frequent, regular, and timely manner.*

**1.2.1. Frequency of In-Year Reporting:** In-year fiscal reports are published on a frequent and regular basis.

**1.2.2. Timeliness of Annual Financial Statements:** Audited or final annual financial statements are published in a timely manner.

**1.3. Quality:** *Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent.*

**1.3.1. Classification:** Fiscal reports classify information in ways that make clear the use of public resources and facilitate international comparisons.

**1.3.2. Internal Consistency:** Fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates.

**1.3.3. Historical Revisions:** Major revisions to historical fiscal statistics are disclosed and explained.

**1.4. Integrity:** *Fiscal statistics and financial statements should be reliable and subject to external scrutiny and facilitate accountability.*

**1.4.1. Statistical Integrity:** Fiscal statistics are compiled and disseminated in accordance with international standards.

**1.4.2. External Audit:** Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.

**1.4.3. Comparability of Fiscal Data:** Fiscal forecasts, budgets, and fiscal reports are presented on a comparable basis, with any deviations explained.

## II. Fiscal Forecasting and Budgeting

**Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.**

**2.1. Comprehensiveness:** *Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects.*

**2.1.1. Budget Unity:** Revenues, expenditures, and financing of all central government entities are presented on a gross basis in budget documentation and authorized by the legislature.

**2.1.2. Macroeconomic Forecasts:** The budget projections are based on comprehensive macroeconomic forecasts, which are disclosed and explained.

**2.1.3. Medium-term Budget Framework:** Budget documentation includes outturns and projections of revenues, expenditures, and financing over the medium term on the same basis as the annual budget.

**2.1.4. Investment Projects:** The government regularly discloses its financial obligations under multi-annual investment projects and subjects all major projects to cost-benefit analysis and open and competitive tender.

**2.2. Orderliness:** *The powers and responsibilities of the executive and legislative branches of government in the budget process should be defined in law, and the budget should be presented, debated, and approved in a timely manner.*

**2.2.1. Fiscal Legislation:** The legal framework clearly defines the time table for budget preparation and approval, key contents of the budget documentation, and the powers and responsibilities of the executive and legislature in the budget process.

**2.2.2. Timeliness of Budget Documents:** The legislature and the public are consistently given adequate time to scrutinize and approve the annual budget.

**2.3. Policy Orientation:** *Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability.*

**2.3.1. Fiscal Policy Objectives:** The government states and reports on clear and measurable objectives for the public finances.

**2.3.2. Performance Information:** Budget documentation provides information regarding the objectives and results achieved under each major government policy area.

**2.3.3. Public Participation:** The government provides citizens with an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations.

**2.4. Credibility:** *Economic and fiscal forecasts and budgets should be credible.*

**2.4.1. Independent Evaluation:** The government's economic and fiscal forecasts and performance are subject to independent evaluation.

**2.4.2. Supplementary Budget:** Any material changes to the approved budget are authorized by the legislature.

**2.4.3. Forecast Reconciliation:** Budget documentation and any subsequent updates explain any material changes to the government's previous fiscal forecasts, distinguishing the fiscal impact of new policy measures from the baseline.

### III. Fiscal Risk Analysis and Management

**Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.**

**3.1. Risk Disclosure and Analysis:** *Governments should publish regular summary reports on risks to their fiscal prospects.*

**3.1.1. Macroeconomic Risks:** The government reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic assumptions.

**3.1.2. Specific Fiscal Risks:** The government provides a regular summary report on the main specific risks to its fiscal forecasts.

**3.1.3. Long-Term Fiscal Sustainability Analysis:** The government regularly publishes projections of the evolution of the public finances over the long term.



**3.2. Risk Management:** *Specific risks to the public finances should be regularly monitored, disclosed, and managed.*

**3.2.1. Budgetary Contingencies:** The budget has adequate and transparent allocations for contingencies that arise during budget execution.

**3.2.2. Asset and Liability Management:** Risks relating to major assets and liabilities are disclosed and managed.

**3.2.3. Guarantees:** The government's guarantee exposure is regularly disclosed and authorized by law.

**3.2.4. Public Private Partnerships:** Obligations under public-private partnerships are regularly disclosed and actively managed.

**3.2.5. Financial Sector Exposure:** The government's potential fiscal exposure to the financial sector is analyzed, disclosed, and managed.

**3.2.6. Natural Resource Stocks and Flows:** The government's interest in exhaustible natural resource assets and their exploitation is valued, disclosed, and managed.

**3.2.7. Environmental Risks:** The potential fiscal exposure to natural disasters and other major environmental risks is analyzed, disclosed, and managed.

**3.3. Fiscal Coordination:** *Fiscal relations and performance across the public sector should be analyzed, disclosed, and coordinated.*

**3.3.1. Sub-National Governments:** Comprehensive information on the financial condition and performance of sub-national governments, individually and as a consolidated sector, is collected and published.

**3.3.2. Public Corporations:** The government regularly publishes comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity undertaken by them.

## IV. Resource Revenue Management

**Government revenues from natural resource exploration and extraction activity should be collected, managed, and disbursed in an open and transparent manner.**

**4.1. Resource Ownership and Rights:** *Resource rights should be clearly defined, with open and transparent procedures for their allocation.*

**4.1.1. Legal Framework for Resource Rights:** The legal framework clearly defines resource ownership, rights, obligations, and responsibilities at all stages of natural resource development.

**4.1.2. Allocation of Resource Rights:** Resource rights are allocated through an open and transparent process.

**4.1.3. Disclosure of Resource Rights Holdings:** The government maintains an up-to-date public register of resource rights holdings.

**4.2. Resource Revenue Mobilization:** *Resource revenue generation and collection should be governed by clear and published rules and procedures.*

**4.2.1. Fiscal Regime for Natural Resources:** The fiscal regime for revenue generation from natural resource sectors is clear, comprehensive, and governed by law.

**4.2.2. Resource Revenue Administration:** There are clear and impartial policies and procedures for resource revenue administration, with regular reporting on administration activities.

**4.3. Resource Revenue Utilization:** *Resource revenues should be managed within the budget and macro-fiscal framework in accordance with clear fiscal policy objectives, and any natural resource fund should be operated in a consistent and transparent manner.*

**4.3.1. Resource Revenue Forecasting:** Resource revenue forecasts are based on clearly disclosed assumptions and methodology, on a time horizon consistent with the fiscal policy objectives.

**4.3.2. Budget Integration of Resource Revenue:** Resource revenues are managed through annual budgets in accordance with clear fiscal policy objectives for the use of volatile and exhaustible natural resources.

**4.3.3. Natural Resource Funds:** The governance of any resource fund is clearly defined, with regular reporting on fund operations, finances and investment performance.

**4.4. Resource Activity Disclosure:** *Fiscal, operational, environmental and social aspects of natural resource projects should be regularly reported on and published.*

**4.4.1. Reporting and Audit of Resource Revenues:** Resource revenues are regularly reported and audited.

**4.4.2. Reporting by Resource Corporations:** Resource corporations are required to report on resource revenue payments, which are regularly reconciled with reported government receipts.

**4.4.3. National Resource Corporations:** The governance of national resource corporations (NRC) is clearly defined, with regular reporting on operations and finances.

**4.4.4. Operational, Social, and Environmental Reporting:** The government reports regularly on overall sector activity and on the status of major projects, including social and environmental aspects.

## B. DESCRIPTION OF BASIC, GOOD, AND ADVANCED PRACTICES BY PRINCIPLE

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
1	FISCAL REPORTING	Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.			
1.1	Coverage	<i>Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its subsectors, according to international standards.</i>			
1.1.1	Coverage of Institutions	Fiscal reports cover all entities engaged in public activity according to international standards.	Fiscal reports consolidate all central government entities according to international standards.	Fiscal reports consolidate all general government entities and report on each subsector according to international standards.	Fiscal reports consolidate all public sector entities and report on each subsector according to international standards.
1.1.2	Coverage of Stocks	Fiscal reports include a balance sheet of public assets, liabilities, and net worth.	Fiscal reports cover government cash and deposits, and all debt.	Fiscal reports cover all financial assets and liabilities.	Fiscal reports cover all financial and nonfinancial assets and liabilities, and net worth.
1.1.3	Coverage of Flows	Fiscal reports cover all public revenues, expenditures, and financing.	Fiscal reports cover cash revenues, expenditures, and financing.	Fiscal reports cover cash flows, accrued revenues, expenditures, and financing.	Fiscal reports cover cash flows, accrued revenues, expenditures, and financing, and other economic flows.
1.1.4	Coverage of Tax Expenditures	The government regularly discloses and manages revenue loss from tax expenditures.	The estimated revenue loss from tax expenditures is published at least annually.	The revenue loss from tax expenditures is estimated by sector or policy area and is published at least annually.	The revenue loss from tax expenditures is estimated by sector or policy area and is published at least annually. There is control on, or budgetary objectives for, the size of tax expenditures.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
<b>1.2</b>	<b><i>Frequency and Timeliness</i></b>	<b><i>Fiscal reports should be published in a frequent, regular, and timely manner.</i></b>			
1.2.1	Frequency of In-Year Reporting	In-year fiscal reports are published on a frequent and regular basis.	In-year fiscal reports are published on a quarterly basis, within a quarter.	In-year fiscal reports are published on a quarterly basis, within a month.	In-year fiscal reports are published on a monthly basis, within a month.
1.2.2	Timeliness of Annual Financial Statements	Audited or final annual financial statements are published in a timely manner.	Audited or final annual financial statements are published within 12 months of the end of the financial year.	Audited or final annual financial statements are published within nine months of the end of the financial year.	Audited or final annual financial statements are published within six months of the end of the financial year.
<b>1.3</b>	<b><i>Quality</i></b>	<b><i>Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent.</i></b>			
1.3.1	Classification	Fiscal reports classify information in ways that make clear the use of public resources and facilitate international comparisons.	Fiscal reports include administrative and economic classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic and functional classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic, functional and program classifications consistent with international standards, where applicable.
1.3.2	Internal Consistency	Fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates.	Fiscal reports include one of the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, and (iii) financing and the change in the debt stock.	Fiscal reports include two of the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, and (iii) financing and the change in the debt stock.	Fiscal reports include all three of the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, and (iii) financing and the change in the debt stock.
1.3.3	Historical Revisions	Major revisions to historical fiscal statistics are disclosed and explained.	Major revisions to historical fiscal statistics are reported.	Major revisions to historical fiscal statistics are reported with an explanation for each major revision.	Major revisions to historical fiscal statistics are reported with an explanation for each major revision and a bridging table between the old and new time series.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
<b>1.4</b>	<b><i>Integrity</i></b>	<b><i>Fiscal statistics and financial statements should be reliable and subject to external scrutiny and facilitate accountability.</i></b>			
1.4.1	Statistical Integrity	Fiscal statistics are compiled and disseminated in accordance with international standards.	Fiscal statistics are disseminated in accordance with international standards.	Fiscal statistics are compiled by a specific government agency and disseminated in accordance with international standards.	Fiscal statistics are compiled by a professionally independent body and disseminated in accordance with international standards.
1.4.2	External Audit	Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.	An independent supreme audit institution publishes an audit report on the reliability of the government's annual financial statements.	An independent supreme audit institution publishes an audit report stating whether the government's annual financial statements present a true and fair view of its financial position and without a disclaimer or adverse audit opinion.	An independent supreme audit institution publishes an audit report consistent with international standards which states whether the government's annual financial statements present a true and fair view of its financial position and without major qualifications.
1.4.3	Comparability of Fiscal Data	Fiscal forecasts, budgets, and fiscal reports are presented on a comparable basis, with any deviations explained.	At least one fiscal report is prepared on the same basis as the fiscal forecast/budget.	Fiscal forecast/budget and outturn are comparable, and the outturn is reconciled with either the fiscal statistics or the final accounts.	Fiscal forecast/budget and outturn are comparable, and the outturn is reconciled with both fiscal statistics and final accounts.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
2	FISCAL FORECASTING AND BUDGETING	Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.			
2.1	Comprehensiveness	<i>Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects.</i>			
2.1.1	Budget Unity	Revenues, expenditures, and financing of all central government entities are presented on a gross basis in budget documentation and authorized by the legislature.	Budget documentation incorporates all gross revenues, expenditures, and financing by budgetary central government ministries and agencies.	Budget documentation incorporates all gross revenues, expenditures, and financing by central government ministries, agencies, and extra-budgetary funds.	Budget documentation incorporates all gross revenues, expenditures, and financing by central government ministries, agencies, extra-budgetary funds, and social security funds.
2.1.2	Macroeconomic Forecasts	The budget projections are based on comprehensive macroeconomic forecasts, which are disclosed and explained.	The budget documentation includes forecasts of key macroeconomic variables.	The budget documentation includes forecasts of key macroeconomic variables and their underlying assumptions.	The budget documentation includes forecasts and explanations of key macroeconomic variables and their components, as well as their underlying assumptions.
2.1.3	Medium-term Budget Framework	Budget documentation includes outturns and projections of revenues, expenditures, and financing over the medium term on the same basis as the annual budget.	Budget documentation includes the outturns of the two preceding years and medium-term projections of aggregate revenues, expenditures, and financing.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing by economic category.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing by economic category and by ministry or program.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
2.1.4	Investment Projects	The government regularly discloses its financial obligations under multi-annual investment projects and subjects all major projects to cost-benefit analysis and open and competitive tender.	One of the following applies: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; and (iii) requires all major projects to be contracted via open and competitive tender.	Two of the following apply: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; and (iii) requires all major projects to be contracted via open and competitive tender.	All of the following apply: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; and (iii) requires all major projects to be contracted via open and competitive tender.
<b>2.2</b>	<b>Orderliness</b>	<b><i>The powers and responsibilities of the executive and legislative branches of government in the budget process should be defined in law, and the budget should be presented, debated, and approved in a timely manner.</i></b>			
2.2.1	Fiscal Legislation	The legal framework clearly defines the time table for budget preparation and approval, key contents of the budget documentation, and the powers and responsibilities of the executive and legislature in the budget process.	The legal framework defines one of the following: (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; and (iii) the legislature's powers to amend the executive's budget proposal.	The legal framework defines two of the following: (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; and (iii) the legislature's powers to amend the executive's budget proposal.	The legal framework defines all of the following: (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; and (iii) the legislature's powers to amend the executive's budget proposal.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
2.2.2	Timeliness of Budget Documents	The legislature and the public are consistently given adequate time to scrutinize and approve the annual budget.	The budget is submitted to the legislature and made available to the public at least one month before the start of the financial year and is approved and published up to one month after the beginning of the financial year.	The budget is submitted to the legislature and made available to the public at least two months before the start of the financial year and is approved and published by the start of the financial year.	The budget is submitted to the legislature and made available to the public at least three months before the start of the financial year and is approved and published at least one month before the start of the financial year.
<b>2.3</b>	<b>Policy Orientation</b>	<b><i>Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability.</i></b>			
2.3.1	Fiscal Policy Objectives	The government states and reports on clear and measurable objectives for the public finances.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is either precise or time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound and has been in place for three or more years.
2.3.2	Performance Information	Budget documentation provides information regarding the objectives and results achieved under each major government policy area.	Budget documentation includes information on the inputs acquired under each major government policy area.	Budget documentation reports targets for, and performance against, the outputs to be delivered under each major government policy area.	Budget documentation reports targets for, and performance against, the outcomes to be achieved under each major government policy area.



#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
2.3.3	Public Participation	The government provides citizens with an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations.	Government publishes an accessible description of recent economic and fiscal performance and prospects, as well as a summary of the implications of the budget for a typical citizen.	Government publishes an accessible description of recent economic and fiscal performance and prospects, as well as a summary of the implications of the budget for a typical citizen, and provides citizens with a formal voice in budget deliberations.	Government publishes an accessible description of recent economic and fiscal performance and prospects, as well as a summary of the implications of the budget for different demographic groups, and provides citizens with a formal voice in budget deliberations.
<b>2.4</b>	<b>Credibility</b>	<b><i>Economic and fiscal forecasts and budgets should be credible.</i></b>			
2.4.1	Independent Evaluation	The government's economic and fiscal forecasts and performance are subject to independent evaluation.	Budget documentation includes comparisons between the government's economic and fiscal projections and those of independent forecasters.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts, and its performance against its fiscal policy objectives.
2.4.2	Supplementary Budget	Any material changes to the approved budget are authorized by the legislature.	A supplementary budget regularizes expenditure exceeding the approved budget.	A supplementary budget is required prior to material changes to total budgeted expenditure.	A supplementary budget is required prior to material changes to total budgeted expenditure or substantially altering its composition.
2.4.3	Forecast Reconciliation	Budget documentation and any subsequent updates explain any material changes to the government's previous fiscal forecasts, distinguishing the fiscal impact of new policy measures from the baseline.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are shown at the aggregate level, with a qualitative discussion of the impact of new policies on the forecasts.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the overall effect of new policies and macroeconomic determinants.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the effects of individual policy changes, macroeconomic determinants, and other factors, such as technical and accounting adjustments.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
3	FISCAL RISK ANALYSIS AND MANAGEMENT	Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.			
3.1	<i>Risk Disclosure and Analysis</i>	<i>Governments should publish regular summary reports on risks to their fiscal prospects.</i>			
3.1.1	Macroeconomic Risks	The government reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic assumptions.	Budget documentation includes discussion of the sensitivity of fiscal forecasts to major macroeconomic assumptions.	Budget documentation includes both sensitivity analysis and alternative macroeconomic and fiscal forecast scenarios.	Budget documentation includes sensitivity analysis, alternative scenarios, and probabilistic forecasts of fiscal outcomes.
3.1.2	Specific Fiscal Risks	The government provides a regular summary report on the main specific risks to its fiscal forecasts.	The main specific risks to the fiscal forecasts are disclosed in a summary report and discussed in qualitative terms.	The main specific risks to the fiscal forecasts are disclosed in a summary report, along with estimates of their magnitude.	The main specific risks to the fiscal forecasts are disclosed in a summary report, along with estimates of their magnitude and, where practicable, their likelihood.
3.1.3	Long-Term Fiscal Sustainability Analysis	The government regularly publishes projections of the evolution of the public finances over the long-term.	The government regularly publishes projections of the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 10 years.	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macroeconomic assumptions.	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macroeconomic, demographic, natural resource, or other assumptions.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
<b>3.2</b>	<b>Risk Management</b>	<b><i>Specific risks to the public finances should be regularly monitored, disclosed, and managed.</i></b>			
3.2.1	Budgetary Contingencies	The budget has adequate and transparent allocations for contingencies that arise during budget execution.	The budget includes an allocation for contingencies.	The budget includes an allocation for contingencies with transparent access criteria.	The budget includes an allocation for contingencies with transparent access criteria and regular in-year reporting on its utilization.
3.2.2	Asset and Liability Management	Risks relating to major assets and liabilities are disclosed and managed.	All borrowing is authorized by law and the risks surrounding the government's debt holdings are analyzed and disclosed.	All borrowing is authorized by law and the risks surrounding the government's financial assets and liabilities are analyzed and disclosed.	All liabilities and significant asset acquisitions or disposals are authorized by law, and the risks surrounding the balance sheet are disclosed and managed according to a published strategy.
3.2.3	Guarantees	The government's guarantee exposure is regularly disclosed and authorized by law.	All government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually.	All government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually. The maximum value of new guarantees or their stock is authorized by law.	All government guarantees, their beneficiaries, the gross exposure created by them, and their probability of being called are published at least annually. The maximum value of new guarantees or their stock is authorized by law.
3.2.4	Public-Private Partnerships	Obligations under public-private partnerships are regularly disclosed and actively managed.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life of the contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life of the contracts. A legal limit is also placed on accumulated obligations.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
3.2.5	Financial Sector Exposure	The government's potential fiscal exposure to the financial sector is analyzed, disclosed, and managed.	The authorities quantify and disclose their explicit support to the financial sector at least annually.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and regularly undertake an assessment of financial sector stability.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and regularly undertake an assessment of financial sector stability, based on a plausible range of macroeconomic and financial market scenarios.
3.2.6	Natural Resource Stocks and Flows	The government's interest in exhaustible natural resource assets and their exploitation is valued, disclosed and managed.	The government publishes annual estimates of the volume of major natural resource assets, as well as the volume and value of the previous year's sales and fiscal revenue, in line with international standards.	The government publishes annual estimates of the volume and value of major natural resource assets, as well as the volume and value of the previous year's sales and fiscal revenue, in line with international standards.	The government publishes annual estimates of the volume and value of major natural resource assets under different price scenarios, as well as the volume and value of the previous year's sales and fiscal revenue, in line with international standards.
3.2.7	Environmental Risks	The potential fiscal exposure to natural disasters and other major environmental risks is analyzed, disclosed, and managed.	The government identifies and discloses the main fiscal risks from natural disasters in qualitative terms.	The government identifies and discloses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences.	The government identifies and discloses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences, and managing them according to a published strategy.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
<b>3.3</b>	<b>Fiscal Coordination</b>	<b><i>Fiscal relations and performance across the public sector should be analyzed, disclosed, and coordinated.</i></b>			
3.3.1	Sub-National Governments	Comprehensive information on the financial condition and performance of sub-national governments, individually and as a consolidated sector, is collected and published.	The financial condition and performance of sub-national governments are published annually.	The financial condition and performance of sub-national governments are published annually, and there is a limit on their liabilities or borrowing.	The financial condition and performance of sub-national governments are published quarterly, and there is a limit on their liabilities or borrowing.
3.3.2	Public Corporations	The government regularly publishes comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity undertaken by them.	All transfers between the government and public corporations are disclosed on at least an annual basis.	All transfers between the government and public corporations are disclosed, and based on a published ownership policy, a report on the overall financial performance of the public corporations sector is published on at least an annual basis.	All direct and indirect support between the government and public corporations is disclosed, and based on a published ownership policy, a report on the overall financial performance of the public corporations sector, including estimates of any quasi-fiscal activities undertaken, is published on at least an annual basis.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
4	RESOURCE REVENUE MANAGEMENT	Government revenues from natural resource exploration and extraction activity should be collected, managed, and disbursed in an open and transparent manner.			
4.1	<i>Resource Ownership and Rights</i>	<i>Resource rights should be clearly defined, with open and transparent procedures for their allocation.</i>			
4.1.1	Legal Framework for Resource Rights	The legal framework clearly defines resource ownership, rights, obligations, and responsibilities at all stages of natural resource development.	The legal framework clearly defines rights, obligations and responsibilities of all participants in exploration, and extraction of natural resources, and all laws, regulations, and model licenses or contracts are published.	The legal framework clearly defines rights, obligations and responsibilities of all participants in exploration and extraction of natural resources, all laws, regulations, and model licenses or contracts are published, and there are no legal impediments to the full disclosure of non-commercially sensitive information.	The legal framework clearly defines rights, obligations and responsibilities of all participants in exploration and extraction of natural resources, all laws, regulations, and model licenses or contracts are published, there are no legal impediments to the full disclosure of non-commercially sensitive information, and public access to contracts and licenses is guaranteed by law.
4.1.2	Allocation of Resource Rights	Resource rights are allocated through an open and transparent process.	There is an open process for granting of resource rights with predefined and published qualification and evaluation criteria and publication of all rights granted.	There is an open process for granting of resource rights, with predefined and published qualification and evaluation criteria, and publication of details of all applications received and rights granted.	There is an open process for granting of resource rights with predefined and published qualification and evaluation criteria, publication of details of all applications received and justification of the final award.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
4.1.3	Disclosure of Resource Rights Holdings	The government maintains an up-to-date public register of all resource rights holdings.	The government maintains and publishes an up-to-date register of all resource rights holdings, including location, type and duration of the resource rights.	The government maintains and publishes an up-to-date register of all resource rights holdings, including location, type and duration of the resource rights, all signed contracts and licenses, and details of the beneficial owner(s) of resource rights.	The government maintains and publishes an up-to-date register of all resource rights holdings, including location, type and duration of the resource rights, all signed contracts and licenses, and details of the beneficial owner(s) and beneficial ownership structure of resource rights.
<b>4.2</b>	<b>Resource Revenue Mobilization</b>	<b>Resource revenue generation and collection should be governed by clear and published rules and procedures.</b>			
4.2.1	Fiscal Regime for Natural Resources	The fiscal regime for revenue generation from natural resource sectors is clear, comprehensive, and governed by law.	The fiscal regime defines in publicly available laws, regulations and model contracts/licenses the rates and methodology for calculating the base of all revenue instruments.	The fiscal regime defines in publicly available laws, regulations and model contracts/licenses the rates and methodology for calculating the base of all revenue instruments, including variations set out in project-specific contracts, licenses and agreements.	The fiscal regime defines in publicly available laws, regulations and model contracts/licenses the rates and methodology for calculating the base of all revenue instruments, including variations set out in project specific contracts, licenses and agreements, and any changes to the regime are made in an open and consultative way.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
4.2.2	Resource Revenue Administration	There are clear and impartial policies and procedures for resource revenue administration, with regular reporting on administration activities.	Resource revenue collecting authorities publish annual reports on resource revenue assessment and collection, taxpayer and contractor audit and compliance activities.	Resource revenue collecting authorities publish annual reports on resource revenue assessment and collection, taxpayer and contractor audit and compliance activities, and there is a clear and impartial dispute resolution process and annual reporting on disputes resolved and outstanding.	Resource revenue collecting authorities publish annual reports on resource revenue assessment and collection, taxpayer audit and compliance activities, there is a clear and impartial dispute resolution process and annual reporting on disputes resolved and outstanding, and there are published rulings and practice notes regarding administration of the fiscal regime.
<b>4.3</b>	<b>Resource Revenue Utilization</b>	<b><i>Resource revenues should be managed within the budget and macro-fiscal framework in accordance with clear fiscal policy objectives, and any natural resource fund should be operated in a consistent and transparent manner.</i></b>			
4.3.1	Resource Revenue Forecasting	Resource revenue forecasts are based on clearly disclosed assumptions and methodology, on a time horizon consistent with the fiscal policy objectives.	Budget documentation includes a forecast of resource revenue by instrument, with disclosure and justification of underlying assumptions.	Budget documentation includes a forecast of resource revenue by instrument on a time horizon consistent with the fiscal policy objectives, with disclosure and justification of underlying assumptions, and forecasting methodology.	Budget documentation includes a forecast of resource revenue by instrument on a time horizon consistent with the fiscal policy objectives, including sensitivity analysis in alternative price and extraction scenarios, with disclosure and justification of underlying assumptions, and forecasting methodology, as well as forecast reconciliation of the previous year's resource revenue.



#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
4.3.2	Budget Integration of Resource Revenue	Resource revenues are managed through annual budgets in accordance with clear fiscal policy objectives for the use of volatile and exhaustible natural resources.	Resource revenues accruing to the general government are remitted to the national budget and subnational budgets (if relevant) or to a natural resource fund and are allocated through the annual budget.	Resource revenues accruing to the general government are remitted to the national budget and subnational budgets (if relevant) or to a natural resource fund and are allocated through the annual budget, in accordance with any fiscal policy objectives for managing these volatile and exhaustible resources.	Resource revenues accruing to the general government are remitted to the national budget and subnational budgets (if relevant) or to a natural resource fund and are allocated through the annual budget, in accordance with any fiscal policy objectives for managing these volatile and exhaustible resources and with regular reporting on performance against those objectives.
4.3.3	Natural Resource Funds	The governance of any resource fund is clearly defined, with regular reporting on fund operations, finances and investment performance.	Any resource fund's governance arrangements and operational rules are specified in legislation, and the fund publishes an annual report on its operations, finances and investment performance.	Any resource fund's governance arrangements and operational rules are specified in legislation, and the fund publishes an annual report on its operations, finances and investment performance relative to strategy and benchmarks. Annual financial statements are externally audited.	Any resource fund's governance arrangements and operational rules are specified in legislation and the fund publishes quarterly and annual reports on its operations, finances and investment performance relative to strategy and benchmarks. Annual financial statements are externally audited.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
<b>4.4</b>	<b>Resource Activity Disclosure</b>	<b><i>Fiscal, operational, environmental and social aspects of natural resource projects should be regularly reported on and published.</i></b>			
4.4.1	Reporting and Audit of Resource Revenues	Resource revenues are regularly reported and audited.	The government publishes quarterly and externally audited annual reports on all resource revenues by instrument, in a timely manner, in line with international standards.	The government publishes quarterly reports on all resource revenues by instrument, and externally audited annual reports on all resource revenues by project and revenue instrument, in a timely manner, in line with international standards.	The government publishes monthly reports on all resource revenues by instrument, and externally audited annual reports on all resource revenues by project and revenue instrument, in a timely manner, in line with international standards.
4.4.2	Reporting by Resource Corporations	Resource corporations are required to report on resource revenue payments, which are regularly reconciled with reported government receipts.	As required by the government, resource corporations publicly report on resource revenue payments to government by revenue instrument.	As required by the government, resource corporations publicly report on resource revenue payments to government by project and revenue instrument which are reconciled with government receipts in line with international standards.	As required by the government, resource corporations report on resource revenue payments to government by project and revenue instrument, which are reconciled with government receipts in line with international standards, with no material unexplained reconciliation error.

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
4.4.3	National Resource Corporations	The governance of national resource corporations (NRC) is clearly defined, with regular reporting on operations and finances.	The governance arrangements of NRCs are defined in line with international standards in legislation or a published government document. The NRC publishes its budget, and a comprehensive and consolidated annual report in a timely manner.	The governance arrangements of NRCs are defined in line with international standards in legislation or a published government document. The NRC publishes an annual governance report, budget, comprehensive and consolidated quarterly and annual reports and externally audited annual financial statements in a timely manner. Reports include details on quasi-fiscal activities undertaken.	The governance arrangements of NRCs, including policies on procurement and subcontracting, are defined in line with international standards, in legislation or a published government document. The NRC publishes an annual governance report, budget, comprehensive and consolidated quarterly and annual reports and externally audited annual financial statements in a timely manner. Reports include details on quasi-fiscal activities undertaken, and details of major procurement and contract awards.
4.4.4	Operational, Social, and Environmental Reporting	The government reports regularly on overall sector activity and on the status of major projects, including social and environmental aspects.	The government reports annually on overall sector activity and on the status of major projects.	The government reports annually on overall sector activity and on the status of major projects, and publishes environmental and social impact assessments, and associated management plans and reports.	The government reports annually on overall sector activity and on the status of major projects, publishes environmental and social impact assessments and associated management plans and reports, and identifies the fiscal risks associated with operational, social and environmental aspects of major projects.

## C. GLOSSARY

**Annual financial statements:** These are a sub-set of year-end financial reports. Where accrual-basis accounting is used, the annual financial statements will include at least a balance sheet, an operating statement, a cash flow statement, and notes. Where cash-basis accounting is used, the annual financial statement is presented as a cash-flow statement and may include a year-end budget execution report. The annual financial statements are expected to follow the relevant accounting standards and generally accepted accounting principles. In general, the annual financial statements are audited and made public; however, in cases where they are not subject to audit, the final annual financial statements will be used.

**Balance sheet:** The balance sheet is a comprehensive and consolidated statement of assets, liabilities, and net worth of the government or the public sector at the end of the accounting period. This includes financial and nonfinancial, and domestic and external assets and liabilities, as well as further information relating to them.

**Beneficial owner:** The natural person(s) or publicly-listed legal entity(ies) which directly or indirectly ultimately own or control the holder of a natural resource right within the country, sometimes through a chain of related parties which may be held in different jurisdictions.

**Beneficial ownership structure:** The chain of intermediary entities connecting the beneficial owner with the holder of a resource right in the host country.

**Borrowing:** All government borrowing, including bonds, T-bills, and bank loans, as well as indirect borrowing such as accounts payable, including expenditure arrears and unpaid tax refunds.

**Budget documentation:** All documentation published at or around the time of the annual budget including the budget book, budget estimates, fiscal strategies, medium-term budget frameworks, fiscal risk statements, finance or estimates bills, long-term public finance reports, and the budget, finance, or appropriation act.

**Contingent liabilities:** Contingent liabilities are payment obligations whose timing and amount are contingent on the occurrence of a particular discrete/uncertain future event or series of future events. Examples include guarantees, indemnities, and letters of comfort.

**Contractor audit:** An audit conducted by, or on behalf of the government, to provide assurance that members of the contractor group or unincorporated joint venture, are in compliance with the terms and conditions of a resource contract including: maintaining adequate accounting records, satisfying obligations to all regulatory authorities and correctly reporting income, ensuring that cost recovery expenditures are allowable and supported by sufficient and appropriate audit evidence, that all sales of petroleum products respect the arm's length principle, and that production statistics are accurately collected and reported.

**Contracts/agreements:** Legal instrument issued by government, within the scope of the broader legal framework, granting rights to carry out exploration and extraction activity within a specified area and time period. Includes side letters and riders to the initial agreement. Types of contract typically include mineral development agreements and production sharing contracts.

**Distributional analysis:** A quantitative assessment of the impact of a specific or overall government policy on different segments of the population, often differentiated by income, gender, or geographical groups. For example, the impact of a change in tax rates on different income deciles.

**Expenditure arrears:** Arrears are amounts that are both unpaid and past the due date for payment. It is the stock position of invoices that have not been paid by the date specified in a contract or within a normal commercial period for similar transactions. Payment arrears might arise from nonpayment by government in such areas as bills overdue from suppliers, overdue salaries or transfers, or overdue debt repayment or debt service payments.

**External audit:** Audit activity under the mandate of an independent supreme audit institution (e.g., the Auditor General) which validates their reliability. More technical audits may be contracted by the Auditor General to a private auditing firm. In cases where public corporations are incorporated under company law, external audit of financial statements may be undertaken by independent private audit firms, in accordance with company law.

**Financial derivatives:** A financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (e.g., interest rate risk, foreign exchange risk, equity and commodity price risks, and credit risk) can be traded in their own right in financial markets. Examples include futures, swaps, and options.

**Fiscal aggregates:** The key fiscal summary indicators, including on the flow-side total expenditure and total revenue, net lending/net borrowing or overall fiscal balance; and on the stock-side gross and net debt, total assets, total liabilities, and net worth.

**Fiscal forecasts:** Forecasts of the main fiscal aggregates, as well as the elements underlying them, including specific revenue heads; expenditures by either administrative, functional, or economic classification; and key assets and liabilities, including gross debt.

**Fiscal legislation:** Laws related to the formulation of fiscal policy; preparation, approval and execution of the budget; and/or accounting, reporting, and auditing of fiscal information. They include fiscal responsibility, organic budget, public financial management, and public accounting and audit legislation.

**Fiscal regime:** The combined system of tax and non-tax instruments used to raise government (or more broadly State) revenue from natural resource extraction activity. It includes royalty and income tax on profits, and payments to governments under contractual schemes such as production sharing (i.e. state share of profit petroleum) or risk service contracts. The fiscal regime may also include bonuses, other taxes (e.g., export taxes, import duties, excise duties, and VAT net of refunds), fees, other levies and charges, and in-kind payments. The fiscal regime also includes instruments of state participation because these have fiscal effect on the division of revenues, even where held by a commercially operating state-owned enterprise.

**Fiscal reports:** Retrospective reports on fiscal developments including in-year and year-end budget outturn/execution reports, fiscal statistics, and annual financial statements.

**Fiscal statistics:** Retrospective reports on the government's financial performance that provide fiscal data based on international statistical standards such as Government Finance Statistics Manual (2014), or System of National Accounts (1993 or 2008) or European system of National and Regional Accounts (1995 or 2010).

**General government:** The general government sector consists of resident institutional units that fulfill the functions of government as their primary activity. The general government sector includes all government units of central, state, provincial, regional, and local government, social security funds, and non-market non-profit institutions controlled by government units (referred to as extra-budgetary funds), as defined by the GFSM2014. General government also includes enterprises

legally established as corporations but providing goods and services primarily on a non-market basis.

**Government guarantee:** The most common type is a government-guaranteed loan which requires the government to repay any outstanding amount on the loan in the event of default by a third party. In some contracts—particularly relating to PPPs—the government may provide a revenue or demand guarantee that requires it to make up the difference if revenue or demand falls short of an agreed level. Other contracts may include exchange rate or price guarantees.

**Independent body:** An independent body for effective conduct of auditing or the preparation of fiscal statistics is one with a sufficiently broad mandate and full professional discretion in the discharge of its functions, the right and obligation to report on its work, unrestricted access to information, and the availability of appropriate human, material and monetary resources, all enshrined in the legal framework.

**International standards:** Internationally recognized standards for (i) government finance statistics, including Government Finance Statistics Manual (2014), or System of National Accounts (1993 or 2008) or European system of National and Regional Accounts (1995 or 2010); and (ii) government financial statements, (including International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS)) (iv) revenue transparency including the Extractive Industries Transparency Initiative Standard (EITI), (including the IMF standard template for collecting data on government revenues from natural resources, consistent with GFSM 2014); (v) corporate governance, including the OECD Principles on Corporate Governance of State-Owned Enterprises.

**In-year fiscal reports:** Budget outturn/execution reports and fiscal statistics that are produced on monthly or quarterly frequency within the financial year but can include full year reports that are produced shortly after the end of the financial year.

**Macroeconomic risks:** Risks related to macroeconomic outturns differ from forecasts, such as when GDP, inflation, unemployment, commodity prices, or exchange rates turn out above or below the forecasts on which the budget is based.

**Major audit qualifications:** Major audit qualifications include any of the following: (i) disclaimer audit opinion; (ii) adverse audit opinion; and (iii) any other audit qualification the financial impact of which has been estimated by the auditor to be of the order of one percent of GDP or larger.

**Major revisions:** Revisions to historical fiscal statistics that are large enough to have a macro-critical impact on the key fiscal aggregates, and in particular, any revision of the order of one percent of GDP or larger.

**Medium term:** Three to ten years beyond the current year.

**Multi-annual contracts:** Contracts between the government and private sector with a term of more than a year, such as PPPs, long-term leases, and long-term procurement arrangements.

**National resource corporation:** A state-owned corporation or enterprise in the natural resource sectors (mining or petroleum) either directly engaged in exploration and production, in commodity trading, or in managing the state participation.

**Natural resources:** Non-renewable natural resources such as mineral ores, crude oil and natural gas.

**Natural resource funds:** An investment vehicle for the management of revenues from natural resource extraction (a subset of sovereign wealth funds).

**License:** Legal instrument issued by government, within the scope of the broader legal framework, granting rights to carry out exploration and extraction activity within a specified area and time period.

**Long term:** The period spanning ten or more years beyond the current year.

**Open:** A process which is given sufficient publicity and accessible to all qualified potential applicants (i.e. public call for expressions of interest).

**Production sharing contracts:** Fiscal scheme for petroleum in which production at a surface delivery point (profit petroleum) is shared between a state entity (the government, or a state-owned enterprise acting on behalf of the government) and a private contractor, which also recovers exploration, development and production costs (through cost oil).

**Project:** Operational activities (in the natural resource sectors) governed by a single contract, license, lease, concession, or similar legal agreements that form the basis for payment liabilities with



a government. Agreements with substantially similar terms that are both operationally and geographically integrated may be treated by the company as a single project.

**Public activity:** All fiscal activity undertaken by units within the public sector.

**Public corporations:** Corporations owned or controlled by government units and/or other public corporations, as defined by the Government Finance Statistics Manual (2014).

**Public-private partnerships (PPPs):** PPPs are long-term contracts between two units, whereby one unit acquires or builds an asset or set of assets, operates it for a period, and then hands the asset over to a second unit. In these arrangements the private sector provides infrastructure assets and services that have traditionally been provided by the government, such as hospitals, schools, prisons, roads, bridges railways, and water and sanitation plants. Cases where the private operator has some responsibility for asset management and improvement are described as concessions.

**Public sector:** The public sector consists of all resident institutional units controlled directly, or indirectly, by resident government units, that is, all units of the general government sector and resident public corporations (including non-financial and financial public corporations).

**Publish:** To disseminate information in location(s) and format(s) that ensure that it is widely available and accessible to the public.

**Quasi-fiscal activities:** Government operations carried out by institutions other than the government units (such as central banks and other public corporations). Examples include concessional loans given by the central bank, directed lending by public corporations, and requirements on public or private corporations to provide services at below-market prices.

**Resource corporation:** Any corporate entity or company, including national resource corporations, engaging in natural resource exploration, extraction or commodity trading activity.

**Resource revenues:** All public sector revenue raised from natural resource exploration and extraction activity. This includes all central and subnational government revenue, revenues flowing to extrabudgetary funds and cashflows to public corporations through state participation, as well as revenue from the taxation of realized capital gains from transfers of interest in resource rights. Fiscal payments can be in cash or in kind. Resource revenues also include revenue raised from government sales of commodity volumes received in kind.

**Resource rights:** Rights to explore for and extract natural resources, typically granted through licenses or contracts.

**Revenue collecting authorities:** A government body responsible for the intake of government revenue including either or both tax and non-tax revenue. Traditionally the term is used in connection with a revenue service, revenue agency or taxation authority which is also responsible for registration, filing, compliance and debt management. Natural resource revenue may be collected by the tax authorities, natural resource sector ministry or regulator, or the national resource company (e.g., a national oil company).

**Revenue instruments:** Tax and non-tax instruments used to raise resource revenue. Non-tax instruments include royalties, state participation, and contractual systems such as production-sharing. Fiscal payments can be in cash or in kind.

**Semi-autonomous body:** A semi-autonomous body is part of the government sector, but, in comparison to government ministries and departments, enjoys a certain degree of de facto or de jure operational and financial autonomy with regard to staffing, budget management, and internal organization.

**Sovereign wealth fund:** Special purpose investment fund or arrangement owned by the general government. Created by the general government for macroeconomic purposes, sovereign wealth funds (SWFs) hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports.

**Specific fiscal risk:** A fiscal risk that is not directly related to macroeconomic factors. It is narrower and arises from specific sources and triggering events, such as the calling of a guarantee, a natural disaster, or rescue of a bank.

**State participation:** The equity participation by the State in a natural resource project typically as a joint venture participation (either incorporated or unincorporated). The state participation can be either a fully-paid working interest, a carried equity interest, or a free equity participation.

**Sub-national governments:** Sub-national governments include state, provincial, or regional governments, as well as local governments, as defined in Government Finance Statistics Manual (2014).

**Tax expenditure:** Tax expenditures are concessions, reliefs, rebates, or exemptions from a “normal” tax structure that reduce government revenue collections. Because the government policy objectives could be achieved alternatively through a subsidy or other direct outlays, they are regarded as equivalent to budget expenditure.

**Taxpayer audit:** An audit conducted by the revenue authority to provide assurance that a taxpayer has reported income and deductions in accordance with provisions of the tax legislation.

## Appendix II. Public Consultations—Key Points

This Appendix sets out some of the key themes and comments from industry and civil society stakeholders during two formal rounds of public consultation. Full text of comments provided for each consultation are available online.<sup>1</sup> Comments included clarifications and edits to principles, practices and definitions, which have largely been addressed in the new pillar. In many areas, stakeholders called for further detail to be added to the principles and practices, for guidance on how Pillars I-III would be applied in resource-rich countries, and for country examples of compliance with each practice. In order to maintain the streamlined structure of the code, a number of these details along with country practices will be elaborated in the accompanying handbook. Guidance on cross-cutting themes such as public participation and stakeholder engagement will also be provided in the handbook.

### Civil Society Organizations

- **Legal Framework:** A transparent legal framework requires at the very least the publication of laws which define the rights, obligations and responsibilities of all those involved in exploration, development, production and sale of natural resources.
- **Allocation of Rights:** Specify that allocation of all licenses and contracts throughout sector should be through an open and competitive process.
- **Oversight Mechanisms:** Sufficient attention should be drawn to the importance of auditing and assurance and the role of Supreme Audit Institutions to assess the relevance and reliability of information reported by governments on the exploitation of a jurisdiction's natural resources. While it is identified in Pillar I (principle 1.4.2), the qualitative aspect of information is worth reinforcing in Pillar IV.
- **Accessibility of Data:** Pillar IV should reflect recent developments emphasizing public accessibility of data in machine-readable, open format.
- **Public Participation:** Pillar IV should include of specific practices on public participation in the implementation of fiscal policies, specifically to principles on environmental and social impact analysis; and with respect to the annual report of a Natural Resource Fund. References should be added to public hearings in the legislature, and at the local level where resource extraction takes place. These additions reflect international conventions establishing public participation as a right, as well as the increasing recognition of the instrumental value of public participation in international fiscal transparency standards.

<sup>1</sup> Full text of all comments are available at: [https://www.imf.org/external/np/exr/consult/2014/ftc/pdf/comments\\_PillarIV.pdf](https://www.imf.org/external/np/exr/consult/2014/ftc/pdf/comments_PillarIV.pdf), and <https://www.imf.org/external/np/exr/consult/2016/ftc/index.htm>

- **National Resource Companies:** There should be a separate principle for national resource companies. This should include publication of details of the NRC's resource sales, audited financial statements compiled according to international accounting and auditing standards with an unqualified audit opinion, key details of governance and senior management arrangements in the Annual Report, and the existence of low-cost mechanisms for redress available to members of the public with respect to the NRC's operational activities.
- **Project Level Reporting:** This should be 'basic' practice in line with the EITI standard and worldwide reporting requirements in EU, Norway and Canada.

### Industry Organizations

- **General:** The pillar should include an upfront statement of intent that the principles do not favor any particular policy regime, but rather are concerned with evaluating the transparency and accountability of the legal and fiscal regime already in place.
- **Allocation of Rights:** The reference to "an open and competitive process for the allocation of rights to explore for and extract and trade natural resources," alongside reference to "evaluation criteria for competitive tenders" implies a multi-party competitive tender process (akin to bids and auctions) which is not the usual practice in mining.
- **Company Reporting:** The pillar should point to current reporting practices and standards to meet requirements in the pillar, to ensure that costs and burdens on companies and governments are minimized wherever possible.

There are several areas where public disclosure is envisioned under the Pillars. Where such disclosures are not applicable in a comprehensive manner and to all potential investors, they create major competitive concerns. Thus, where countries are transitioning or have rules that do not apply to all investors, and therefore disclosure of only some contracts or payments by some taxpayers could result, the rules should permit disclosures that make the underlying information available, but in a manner that does not compromise—particularly on a selective basis—competitive positions or proprietary information. In these situations, the rules should embrace summarized reporting that does not disclose individual taxpayer or contract arrangements.

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