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## Beyond Government: Compiling Data of State-Owned Enterprises

Prepared by Albert A. Musisi

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## I. INTRODUCTION AND BACKGROUND

State-owned Enterprises (SOEs) or Public Corporations are commercial entities owned or controlled by the Government. However at a country or political level the definition and classification of State-Owned Enterprises may not be in line with international standards. Hence they are often given different names, and can be largely or entirely engaged in non-commercial activity. In some cases SOEs are considered to include both the Extra-budgetary units (EBUs) which are non-market producers and Public Corporations (PCs) which are market producers. This lack of clarity causes compilation issues and misunderstandings in fiscal policy analysis and decision making processes.

A number of compilation issues and challenges arise in the compilation of SOEs data partly because of weak government controls, lack of transparency as well as accountability systems and mechanisms which are different and separate from the budgetary central government.

Despite the fact that the SOE sector in Sub-saharan Africa is small due to large scale privatizations that were undertaken in the 1980s, substantial fiscal risks can still arise. This especially so, in SOEs involved in infrastructure development, such as rail, roads, energy e.t.c.. as they control substantial amount of resources. Furthermore, countries with natural resources like oil and gas that have or plan to create national resource companies, e.g. National Oil Companies can be large in size in comparison to national economies. This makes SOEs key players in the Government's activities, contribute to public investment policies and can have a major impact on Government's fiscal and budget frameworks.

Hence Compilation of SOEs fiscal data according to international standards (e.g. GFSM 2014), is critical as it facilitates:

- a deeper understanding of the operations of SOEs,
- assessment of their vulnerabilities from the balance sheet point of view (liabilities or debt)
- assessment of their performance which is important for governments as key share holders
- assessment of both explicit and implicit (e.g. pensions, banks going under) contingent liabilities and the fiscal risks that might arise from them.
- Compilation of public sector debt statistics
- Compilation of overall public sector statistics (GFS)
- determination of fiscal policy stance e.g. on lending, and role of public corporations on fiscal policy stance
- determination of investment policy such as in equity and Non-Financial Assets (NFA)

## **II. KEY ISSUES AND CHALLENGES IN THE COMPILATION OF STATE-OWNED ENTERPRISES DATA ACCORDING TO GFSM 2014 FRAMEWORK.**

The key issues and challenges in the implementation of GFSM 2014 Framework, in regard to the compilation of data of state-owned enterprises can be grouped in the following categories; (a) Problems associated with source data, (b) Insufficient Coverage, (c) Inadequate legal and institutional framework.

### **Problems Associated with source data**

- SOEs use chart of accounts that are sometimes inconsistent with GFSM 2014 framework, yet accounting systems provide source data for GFS compilers. However, in some cases, SOEs follow different accounting systems which are different from those used by the Budgetary Central Governments (BCGs). In many countries, BCGs use a mixture of cash and modified cash, while SOEs mainly use accrual accounting system which makes compilation and consolidation of SOE data within the overall public sector data difficult.
- Lack of interfaces between BCG IT systems like the Integrated Financial Management System (IFMIS) and accounting systems run by SOEs, causing significant time lag in data collection.
- Consolidation challenges arising from data on intra public corporations transactions, e.g. loans or interest payments between non-financial public corporations and public financial corporations.
- Data capture and compilation in most SOEs is only by economic classification. This makes it difficult to consolidate SOE data within the overall public sector by functions (COFOG).
- Level of instrument coverage-details of instruments not fully provided in some SOE source data. Financial Reports of SOEs do not always have the level of disaggregation needed to compile SOE data suited for GFSM 2014 framework.

### **Insufficient Coverage**

- Differences in reporting period between SOEs and BCG causing difficulties in consolidation. In a number of countries, whereas, a

financial year runs from July to June, some SOEs run a calendar year, Jan - December.

- Availability/access to data of some the SOEs. Some of the data from some SOEs is not covered due to weak government controls, monitoring and enforcement. In addition, IT data capture systems used by BCG which would be used to manage the accounting, budgeting and reporting processes of SOEs do not cover or are not linked with SOEs systems.
- Lack of comprehensiveness of the Public sector Institutional Unit Tables (PSIUT).
  - i. Not all SOEs are included on the PSIUT both at national and sub-national levels due to lack of information and weak controls
  - ii. Challenges in implementing the criteria for deciding on whether SOE is part of public or private sector due to insufficient information available with the compilers. Not all SOEs under the control of government (in terms of shareholding, Board Appointment, etc.) are included in the PSIT

### **Inadequate Legal and institutional framework**

- There is inadequacy in existing laws and regulations vis-à-vis standard requirements, for example in SOE's financial reporting in regard to:
  - i. required frequency
  - ii. standardization of financial reporting formats

In Uganda for example, the PFMA (2015) requires Public Corporations (SOEs) and other agencies to provide annual reports to the Accountant General and Secretary to the Treasury in the Ministry of Finance, Planning and Economic Development (MFPED). However, agreed standard dissemination requirements may require higher frequencies. e.g. quarterly or even monthly. However, SOEs are not obliged to compile data as required. This presents a lacuna in the legal framework especially for compliance with high frequency data.

In most cases, the legal framework (through regulations) would give mandate to the ministries of finance to prescribe financial report formats to facilitate collection of necessary data and information. Although this has been achieved in some countries, e.g. Kenya, in

most other countries the reports provided by SOEs are a summary statement of financial performance with inadequate data to enable GFSM 2014 framework compilation.

- There is also Inadequate enforcement and compliance with existing legal and regulatory frameworks.

**From an institutional perspective, there a number of challenges which complicate SOEs data compilation, these include:**

- Insufficient appreciation of the need to adopt GFSM 2014 framework within Ministries of Finance and across government entities, which results into little attention given to ensuring that SOEs keep the required data and provide necessary reports in a timely manner to allow public sector data consolidation. Hence current institutional set-ups are not conducive for GFS data compilation.
- Capacity gaps in regard to the ability of GFS compilers (mainly economists and statisticians) to understand financial reports of SOEs and mapping data therein into GFSM 2014 frameworks. On the other hand, accountants in Accountant Generals' offices maybe equipped to handle financial statements of SOEs but need support to understand and appreciate GFSM 2014 frameworks.
- Lack of a strong coordinating entity, with reporting and compilation responsibilities in different government institutions, for example Accountant General's office, division responsible for monitoring of SOEs in ministry of finance or line ministry and privatization units. This makes coordination and standardization of reporting difficult and complicates compilation of SOE data.
- Differences in understanding of the criteria of sectorization (i.e. what belongs to EBUs and PCs, and issues of control and ownership) between accountants in Accountant Generals' offices and GFS compilers. This results in omissions and differences in PSIT that GFS compilers use compared to accountant general offices in the compilation and consolidation of public sector accounts.

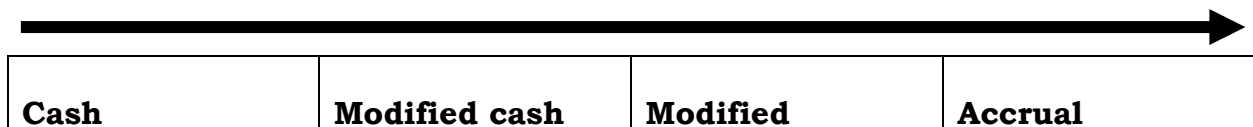
### III. POSSIBLE REMEDIES TO OVERCOME MAJOR COMPILATION CHALLENGES



## Improving Source Data

- To improve source data, it is important to develop a harmonized or standardized financial reporting template to facilitate data capture by SOEs according to the GFSM 2014 data requirements.
- Accounting reforms are needed to support the migration from cash basis to accrual for BCG to facilitate consolidation with SOEs data. This requires that budgets of BCGs transition from being on cash basis to accrual budgeting. With that in place, the transition from cash accounting to accrual accounting, as shown in figure 1 below can be achieved.
- In addition, a holistic approach is required not only to improve SOE source data, but to improve the finance function as a whole in order to influence resource allocation and other strategic decisions. This requires coordination among the various stakeholders, that is, International bodies, like IMF's Government Finance Statistics Advisory Committee (GFSAC), International Public Sector Accounting Standards Board (IPSASB), and macro-fiscal experts, etc.. in setting international standards and best practices. Joint and coordinated introduction of new standards would facilitate consistency and similar definitions which would improve source data with a similar objective of providing a comprehensive view of the government's financial position.

**Figure 1: Possible Path from Cash Accounting to Accrual Accounting**



<b>Accounting</b>	<b>Accounting</b>	<b>accrual accounting</b>	<b>accounting</b>
Cash payments and receipts are recorded as they occur.	Cash receipts and disbursements committed in the budget year are recorded and reported until a specified period after year-end.	Accrual accounting is used but certain classes of assets (e.g. fixed assets) or liabilities are not recognized.	Transactions and economic events are recorded and reported when they occur, regardless of when cash transactions occur.

Source: Modified from PWC Global survey on accounting and reporting by central governments 2nd edition (2015) “Towards a new era in government accounting and reporting”.

- There is need to improve Information Technology (IT) capacity in SOEs and public sector as a whole. This requires expansion of coverage of IT systems, like IFMS and creating interfaces with other software systems as required to capture GFSM 2014 data. This enables timely reporting of data as well as disaggregation and classification of data in different formats, i.e. economic or functional classification.

**Reforms in the Legal, Regulatory and Institutional Framework**

The following reforms are required:

- Improve legal and regulatory frameworks to improve corporate governance of state-owned enterprises to ensure that principles of transparency, accountability, and ethics are adhered to. In addition, the laws and regulations should impose clear and strict timelines as regards SOE data provision to facilitate timely compilation and dissemination.
- Improve monitoring to ensure strict implementation of the legal and regulatory framework.
- To improve institutional effectiveness, it is important that:
  - i. Coordination among players specifically accountants in Accountant General’s offices, GFS compilers, SOEs monitoring units and debt departments, and macro-fiscal units to facilitate

financial information flow and sharing. This could either be done through formation of GFS Technical Working Groups comprising all the relevant institutions or having a strong coordinating entity for SOEs that can work with GFS compilers on SOE data.

- ii. Apart from the above, the capacity of GFS compilers, accountants, economists and statisticians from the various entities needs to be collectively enhanced. This will enable clear interpretation and links between accounting and statistics standards.

### **Improving Coverage**

- In terms of coverage, there is need for a comprehensive list of all SOEs within the overall PSIT which should regularly be updated.
- Technical Assistance to understand the proper classification of Institutional Unit tables according to the GFSM 2014 sectorization is critical.

### **Advocacy to secure commitment for reforms by stakeholders**

- Increased advocacy of the need/usefulness of the GFSM 2014 in fiscal and budget analysis among the following stakeholders:
  - i. Ensure that the top management of the ministries of finance appreciate that GFSM 2014 framework provides more transparency and consistency across all macroeconomic statistics.
  - ii. SOE managers – to ensure buy in to implement the reforms
  - iii. Economic policy makers and politicians – to ensure utilization of the data for policy analysis and decision making which would make it relevant in operations of government, and hence provide demand for SOE data compilation.
  - iv. To achieve the above, GFSAC can play an important role. GFSAC should ensure that IMF staff migrate to the use of the GFS2014 framework during their surveillance missions and staff visits and impress it upon member country authorities the importance of the new standard not only in assessing performance, but also in long-term planning and forecasting. This will compel country authorities to appreciate and adopt the new framework.

## **IV. COUNTRY/REGIONAL EXPERIENCES – UGANDA AND EAST AFRICA COMMUNITY COUNTRIES (EAC)**

In recent years, especially after the signing of the Protocol on the Establishment of the East African Community Monetary Union (EAMU), significant efforts have been made by Uganda and other EAC Partner States to improve the quality of statistics in general and fiscal statistics in particular. The main reason was to enable monitoring of the set macroeconomic convergence criteria necessary for entry into the single currency. The agreement was to ensure production of comparable data across Partner States using the methodology of the Government Finance Statistics 2001 and later GFSM 2014.

Initially, the aim was to produce data up to the level of general government and later progress to the public sector which would include the SOEs. To date, a number have progressed and produce general government data albeit with a lag of slightly over one year for annual data. It may be necessary to revise EAMU requirements in the measurement of public debt from general government to public sector to encourage further and faster progress.

- Four countries of the EAC, i.e. Uganda, Kenya, Rwanda and Tanzania are at different stages in expanding institutional coverage to the entire public sector. Rwanda and Kenya have made their first attempts to compile annual public sector data while Uganda is advancing and plan to have coverage extended to entire public sector by end of FY 2019/20.
  - Nevertheless, a major area of slow progress has been the transition to accrual accounting. Although EAC countries are progressing on adopting International Public Sector Accounting Standards (IPSAS), it is only Tanzania which has made significant progress. Other countries have developed road maps for transition.

With support and technical assistance from the IMF AFRITAC East, a number of initiatives are facilitating progress in the compilation of SOE data and its inclusion in the overall public sector data. These include:

- Sharing experiences among EAC Partner States especially through regional workshops which have facilitated peer to peer learning. For example, Uganda is planning to study and adopt a standard template for financial reporting for EBUs and SOEs/PCs that has been developed by Kenya. The Kenya report provides the necessary SOE data required

for GFSM 2014 compilation(see Annex II for Kenya report) while Uganda's current financial report that is in use does not provide the necessary detail and is limited to economic classification (see Uganda's form in Annex I).

- Attachments of compilers from one to another has helped in sharing experiences.
- The EAC as a region has developed guidelines on fiscal and public sector debt data that have domesticated the GFSM 2014 to country perspectives. Although it is still work in progress, nine chapters have been so far developed and help to guide on harmonized approach to border line cases.
- Clear GFS migration work plans with clear milestones and target dates have been developed. With the work plans in place it is easier to monitor progress and planning in migration to GFSM 2014. IMF East Afritac helps to put pressure on EAC Partner States by way of monitoring migration workplans.

## **V. POINTS FOR DISCUSSION**

- 1) How would you increase appreciation of the need to include SOEs in GFSM 2014 framework especially by policy makers?
- 2) What has been your experience in adopting full accrual accounting system by Government to enable ease of consolidation of Public corporation data?
- 3) What are your experiences on high frequency financial data reporting by SOEs such as quarterly financial reports?
- 4) How have you resolved difficulties of disaggregation of SOEs data by function of Government (COFOG)? Given that SOEs use economic classification.

- 5) What type of institutional framework (set-up) would facilitate SOE data compilation and its consolidation into the overall public sector data as required under the GFSM 2014 framework?
- 6) What are your view points on the challenges, recommendations and remedies highlighted in section (II) and (III)?

## REFERENCES

1. PWC Global survey on accounting and reporting by central governments 2nd edition (2015) “Towards a new era in government accounting and reporting”.
2. IMF, Government Finance Statistics Manual, 2014
3. <http://www.treasury.go.ke/publications/other-publications/category/38-financial-reporting-templates.html?download=639:temp-b1-ipsas-accrual-quarterly-reporting-template-for-scs-and-sagas>

## ANNEX I

**Government of the Republic of Uganda**  
***(Name of the Reporting Entity)***  
**Summary Statement of Financial Performance**  
**For the Period ended 30 June 2016**

	<b>30 June 2016</b> <b>Shs</b>	<b>30 June 2015</b> <b>Shs</b>
Total Operating Income		
Total Operating expenses		

Surplus/deficit from operating activities		
Other expenses		
Other Comprehensive Income		
Net surplus/(deficit) for the period		
Dividends declared		
Retained Earnings		
Share Capital		
Total Shareholders' funds		
Total Assets		
Total Liabilities		
Net Assets		
Total Net worth		

Signed:

-----  
**Chief Executive Officer (CEO)/  
Accounting Officer**

-----  
**Head of Finance**

Date:-----

**ANNEX II**

Kenya’s financial reporting template “IFRS report for State and Corporations” contains the details that GFS compilers can use in SOE data compilation. It has 37 pages in total including annexes. It can be accessed on the link below.

<http://www.treasury.go.ke/publications/other-publications/category/38-financial-reporting-templates.html?download=639:temp-b1-ipsas-accrual-quarterly-reporting-template-for-scs-and-sagas>