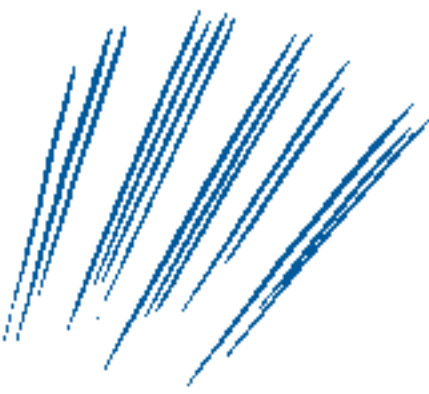


NOTHING TO DECLARE



REVENUE COLLECTION

There is perhaps no more notorious area for corruption than revenue collection—nor, perhaps, one where the consequences can be so grave.¹

In some countries (e.g. Peru and Uganda), corruption related to state revenues has become so endemic that the government has decided to close down the existing tax administrations and replace them with new ones. In a number of countries, poorly paid positions in tax and customs administrations are eagerly sought after since applicants know that these jobs create opportunities for considerable extra income. Indeed, in several countries, the jobs are so highly sought after that they are bought and sold.²

Corrupt customs officials also mean porous borders, through which not only untaxed goods can flow, but also arms and illicit drugs, illegal immigrants, goods which compete unfairly with local protected industries, and plants and species afforded protection by national and international law such as ivory. The damage to a country can extend well beyond the fiscal. In this age of international terrorist networks, corrupt officials (custom officers, border police, etc.), who act as de facto members of transnational organized crime groups, may seriously endanger national and international security.

Enormous losses can flow from the public purse. A handful of dollars to a customs officer means a container-load of cigarettes can escape duty payments of thousands of dollars. Recently, in Shanghai a single customs official was found to have successfully defrauded the state of \$ 145 million USD. He was simply buying up false sales tax receipts and selling them to local companies. Some 3,194 false invoices were seized.

As the World Customs Organization (WCO) has observed, corruption is most likely to occur where customs officials:

- *Enjoy monopoly power over clients*
- *Have discretionary power over the provision of goods or services*
- *The level of control or accountability is low*

The WCO adds that a number of additional factors need to be considered as contributing to the probability of administrative corruption. These include:

- *Salary levels for customs officials*
- *The degree to which the organizational culture and behavioral norms foster or actively discourage corrupt behavior. This includes penalties for violators of the law.*
- *The deterrence value of existing administrative controls*
- *The amount of face-to-face contact between customs officials and clients*

In addition, it matters little what anti-corruption strategies are employed if the risk of detection is low.³

Other issues can also contribute to a culture of corruption:

- *The laws are difficult to understand and can be open to differing interpretations.*
- *The payment of taxes requires frequent contacts between taxpayers and tax administrators.*
- *Acts of corruption on the part of administrators are either ignored or not easily discovered, and when discovered, are dealt with mildly, if at all.*
- *More broadly, controls exercised by the state over the officials charged with carrying out its functions are weak.*

Surveys have shown that it is the ineffective and discretionary administration of tax and regulatory regimes as well as corruption, that increases the size of a country's unofficial economy. This retards the development of the economy as a whole: Countries with a large unofficial, or shadow, economy tend to grow more slowly.⁴ Corruption both reduces government revenue and cripples economic growth. At the same time, corrupt officials are eager to increase government spending – and, subsequently, their opportunities for profit. This contributes to larger budget deficits.⁵

According to the United Nations Council on Trade and Development, the cost of complying with customs formalities in many countries can exceed the cost of duties paid on a shipment of goods. This points to a basic problem with complex customs procedures. Importers and exporters have complained for years that these create complexities and possibilities ripe for corruption.⁶

On the other hand, some countries practice dumping policies and openly encourage “suitcase trade.” In so doing, they can inflict serious damage on neighboring countries’ industries and encourage corrupt “partnerships” between custom officials and importers.

Minimizing corruption in revenue systems is important for several reasons:

- *It provides the state with revenues with which to finance expenditures, provide basic public goods and safety nets and funds for infrastructure development and maintenance.*
- *It facilitates economic efficiency, by reducing the distortions caused when businesses avoid tax.*
- *It fosters fair competition (among those who do pay tax and those who do not).*
- *It promotes economic growth and development by improving the investment climate for both domestic and foreign enterprises.*
- *It reduces external deficits and borrowing, and stabilizes the exchange rate. Corruption is often associated with high levels of capital flight.*
- *It protects the ordinary citizen who bears the cost of the negative consequences of corruption.*

EXAMPLES OF REVENUE REFORM

Among examples of reform given by The World Bank are Latvia and Guatemala.⁷

Latvia’s anti-corruption strategy for revenue administration was part of a broad national strategy. The organizational structure of the country’s State

Revenue Service was improved to integrate tax, customs, and social security collections and to create strong internal control and anti-corruption functions. A Vigilance Unit, operating independently from the tax police, was established to:

- *Monitor and educate staff based on a code of ethics*
- *Investigate cases of illicit enrichment*
- *Conduct disciplinary proceedings*
- *Develop guidelines for managers dealing with corruption*
- *Redesign business processes to reduce opportunities for unsupervised decision-making*
- *Develop incentives to foster integrity and good conduct*
- *Monitor declarations of income and assets by parliamentarians, ministers, and public servants*

Implicit in this was the need to ensure that tax assessments were simple to calculate, and that levied rates were realistic. A code of conduct, based on the WCO model, was developed over a period of six months. This code clearly explains external laws and regulations and relates them to the everyday work of customs staff. The guidelines include instructions on the proper response for staff when offered a bribe.⁸

Guatemala decided to merge its tax and customs agencies into a single autonomous agency. All staff were either replaced or had to reapply for their positions. This hiring process was contracted out to private recruitment firms and a local university. In addition, an integrated financial management system⁹ was introduced and procedures overhauled and simplified. A public information campaign was also launched to publicize the agency’s progress in improving customer service and in meeting its revenue targets.¹⁰

The Central Board of Customs in Poland has embarked on sweeping reforms for revenue collection which address the integrity of its staff and

a range of anti-corruption measures. Greater care is being taken on recruitment of customs officials. During a probationary period, new staff are assessed every six months to verify not only their competence, but also their susceptibility to corruption. Those permanently appointed to customs work are similarly assessed. Annual declarations of financial assets have been introduced; the director can require further declarations at any time. Internal controls have been strengthened and a customs ethics code introduced. In addition, an independent research company carries out surveys of clients and the public to gain feedback as to the reforms' success.

Three African countries (Ghana, Tanzania and Uganda) are also among those which have undertaken comprehensive reforms of their tax administration to increase revenue and curb corruption. In doing so, they have established special tax collection authorities outside the conventional public service as a way of increasing the salaries of staff beyond the levels of their counterparts in public service. Tanzania has also introduced a telephone hotline and a system of rewards for informants reporting tax evasion. However, after an initial spurt of success, problems have emerged in all three countries. First, the higher wage rates were not maintained vis-à-vis the remainder of the public service, with the result that the "elite" status was lost. Second, there was no effective internal strategy to establish and maintain a sound ethical framework.¹¹

Without effective management of government ethics, even with relatively high salaries and good working conditions, corruption has continued to thrive in Tanzania and Uganda. Salary increases have been shown to produce a highly paid, but, nevertheless, still highly corrupt tax administration. When corrupt officials have been identified and fired, they have tended to move into the private sector as tax consultants and have been able to exploit their internal networks to continue their corrupt activities. However, tax revenues have increased nonetheless.

The experience has led to the suggestion that one way in which to increase tax collection would be to strengthen – not weaken – the bargaining powers of tax collectors. This is based on the assumption that the tax collectors would collect more for the

state even as they collected more for themselves. The thesis is hardly tenable: What government could justify encouraging corrupt officials to feed on its citizens in this way? And what message would such a government send to the rest of its public service?¹²

A PROGRAM FOR REFORM

Anti-corruption programs can include the following measures:

- **Simplification of tax and customs regulations:** *These laws and codes are often highly complex and difficult to understand and give officials discretionary powers. To minimize corruption, rules should be simple and clear, with few exceptions, and the rules known to all. Information and documentation requirements should be minimized. The revenue administration can define their information and documentation needs in ways that minimize administrative requirements. The agency's clients and the public at large should be kept informed of new notices and important announcements. If customs duties and the tax system are perceived to be fair, citizens' incentives for corruption will diminish.*
- **Standardization of procedures and interpretations:** *Procedural manuals and electronic forms make revenue collection services more transparent, reduce officials' opportunities for unsupervised decision-making and strengthen accountability. Standardized procedures should limit one-on-one contacts between officials and customers and reduce the number of forms and/or approvals needed ("one-stop procedures"¹³). Interpretation of customs regulations must be consistent. Importers and tax payers can only be expected to declare their liabilities in an environment where the interpretation of the laws is consistent and procedures are standardized, with each transaction treated in the same way as the previous one.*
- **Professional standards:** *Experienced, highly trained managers should be recruited, instead of politically appointed heads of administration. Other staff should also be recruited and promoted based on merit, paid a living wage and*

given regular training. In addition, responsibilities should be separated according to function and mechanisms for processing complaints put in place. Hiring procedures should be rationalized, exemplary performance rewarded and staff disciplined who are found in violation of customs regulations.

- **Controls:** Both tax and customs services should be subject to regular internal and external controls. In order to make controls effective, performance standards (relating to revenue targets and service standards) as well as codes of conduct should be in place. These codes need to be backed up by effective sanctions, which should include internal disciplinary measures for minor offences and the involvement of law enforcement agencies for more serious cases of fraud and corruption. The establishment of special vigilance units can support internal controls.
- **Computerization:** Perhaps more than any other change, the introduction of computerized support for the processing of customs documents provides the opportunity to implement standardized procedures that leave little to the discretion of the officials. Such a system can also provide useful information such as identifying transactions that do not meet pre-set time limits. for processing or individual officers who undertake actions that are out of the ordinary (e.g., physically inspecting too many shipments).
- **Customer surveys and consultation with users:** Customer surveys are useful tools to diagnose problems and monitor the ongoing effects of reforms. Finally, there should be regular consultation with private sector groups, civil society, the media and other government agencies.¹⁴

The World Customs Organization's Self-Assessment Checklist¹⁵ covers the matters referred to in the 1993 WCO Arusha Declaration (discussed below). Among the questions posed for administrations to answer are the following:

- Are staff permitted to hold positions where they may be targeted by corrupt individuals or firms for long periods of time?
- Are staff expected to transfer or rotate at regular intervals?
- Is rotation or mobility a clearly understood condition of service?
- Are there established mechanisms in place to oversee the posting of staff at regular intervals? Is this process free of bias or favoritism?
- Does the working environment foster the development of an inappropriate relationship between staff and clients? If so, what mechanisms are in place to ensure suitable control, accountability and supervision of staff working in such environments?
- At points of interaction with the public, are there mechanisms in place to prevent it being known in advance which particular officials will occupy certain positions at certain times?
- Are functions segregated in areas that are vulnerable to corruption? For example is it possible for an individual official to initiate, check and authorize payments?

PRE-SHIPMENT INSPECTION

Pre-shipment inspection (PSI) takes place when a company is engaged to carry out an inspection of goods before they are transported and imported. Basically, the exporter makes a declaration to the PSI company, which then checks the goods and the invoicing and furnishes its own report to the customs service of the importing country. When the goods are imported, the two reports are reconciled with the shipment. The idea is to tackle over- and under-invoicing and misclassification of goods.

The PSI concept is contested by some on the grounds that the real need is to tackle corruption and inefficiency in the customs administration of the importing country. There is little hard evidence that PSI is effective in a situation mired by corruption in the importing country. Collusion between PSI inspectors and exporters is still a possibility, notwithstanding clear incentives for an inspection company to protect its reputation for integrity. There

has even been an instance where a PSI company in Europe was convicted of bribing a Pakistani government minister in order to win a PSI contract. PSI is also costly, although exporters generally contribute about a 1 percent fee for the service.

One of the reasons for this shipment control strategy's failure seems to lie with customs authorities often not being in control of their own borders. Thus, border clearances can be easily evaded. However, the more effective a revenue collection proves is, the greater is the incentive to smuggle to evade duty payments. The prime reason for the failure of PSI is that corrupt or inefficient customs do not corrupt one set of documents with another as a cross-check. This is known as a **reconciliation process** and is essential for the PSI system to work. Otherwise, its basis on which it operates can be undermined.

However, the view is now emerging that if an importing country's customs organization is reasonably reliable, there is, indeed, a place for PSI as an additional anti-corruption tool.¹⁶

CROSS-BORDER CO-OPERATION

Corruption can flourish in cross-border operations unless there is a substantial level of co-operation on both sides of international boundaries. Such co-operation is usually the subject of bilateral agreements between governments. This area is frequently neglected and periodic audits of the current range and suitability of a country's arrangements are necessary.

While monitoring events in their own country, civil society groups in Bulgaria have developed and implemented a means by which to measure the volume of imported and exported contraband. This is done by using so-called "mirror statistics." By comparing Bulgarian official data for export and imports with data from neighboring countries, the scope of the grey economy as a whole is assessed, and the main contraband markets in Bulgaria identified.¹⁷

THE ARUSHA DECLARATION OF THE WORLD CUSTOMS ORGANIZATION (WCO)

In 1993, the Customs Cooperation Council (now the World Customs Organization – WCO) issued a declaration that addresses good governance and integrity in customs.¹⁸ The Arusha Declaration, named after the Tanzanian city in which the WCO met, has since been supplemented by a Self-Assessment Guide that explains how to implement the Declaration's principles.¹⁹

The WCO's Arusha Declaration²⁰ stresses that the issue of integrity is of paramount importance if customs administrations are to develop and maintain public trust and confidence. The Declaration acknowledges the negative effect corruption can have on the efficient functioning of an administration and establishes ten key principles that should be used by customs administrations when developing their national integrity programs.

1. Leadership and Commitment

The prime responsibility for corruption prevention must rest with the head of customs and the executive management team. The need for high levels of integrity must be stressed and commitment to the fight against corruption maintained over the long term.

2. Regulatory Framework

Customs laws, regulations, administrative guidelines and procedures should be harmonized and simplified to the greatest extent possible. Customs formalities can proceed without undue burden. Customs practices should be reviewed and reformed to eliminate red tape and reduce unnecessary duplication. Duty on imported and exported goods should be moderated where possible and exemptions from standard rules minimized.

3. Transparency

Customs laws, regulations, procedures and administrative guidelines should be made public, easily accessible and applied in a uniform and consistent manner. The basis upon which discretionary powers can be exercised should be clearly defined. Appeal and administrative review mechanisms should be established to provide a mechanism for clients to challenge or seek review of customs

decisions. Client service charters or performance standards should be established which set out the level of service clients can expect from customs.

4. Automation

Automation or computerization of customs functions can improve efficiency and effectiveness and remove many opportunities for corruption.

5. Reform and Modernization

Customs administrations should reform and modernize their systems and procedures to eliminate any perceived advantages that might be obtained by circumventing official requirements.

6. Audit and Investigation

The prevention and control of corruption can be assisted by a range of monitoring and control mechanisms such as internal check programs, internal and external auditing and investigation and prosecution regimes.

7. Code of Conduct

A key element of any effective integrity program is the development, issue and acceptance of a comprehensive code of conduct which sets out in very unambiguous terms the behavior expected of all customs personnel.

8. Human Resource Management

Human resource management practices, which have proven useful in controlling or eliminating corruption in customs services, include:

- Providing a sufficient salary package to ensure that customs personnel are able to maintain a decent standard of living
- Recruiting and retaining personnel who have, and are likely to maintain, high standards of integrity
- Ensuring staff selection and promotion procedures are free of bias and favoritism and based on the principle of merit
- Ensuring that decisions on the deployment, rotation and relocation of staff take into account the need to remove opportunities for customs personnel to hold posts susceptible to corruption for long periods of time.

- Providing adequate training and professional development to customs personnel upon recruitment and throughout their careers to continually promote and reinforce the importance of maintaining high ethical and professional standards

- Implementing appropriate performance appraisal and management systems which reinforce sound practices and which foster high levels of personal and professional integrity

9. Morale and Organizational Culture

Customs employees are more likely to act with integrity when morale is high, when human resource management practices are fair and when there are reasonable opportunities for career development.

10. Relationship with the Private Sector

Customs administrations should foster an open, transparent and productive relationship with the private sector. Private sector clients should be encouraged to accept an appropriate level of responsibility and accountability for any customs problem and for the identification and implementation of practical solutions.

A ROLE FOR THE PRIVATE SECTOR

There is a clear role for the private sector in working to reduce corruption within customs services. In a growing number of countries, customs administrations regularly consult with importers and exporters on this topic through standing committees, both to determine where the problems lie and the degree of progress that is being made to resolve them.

The International Chamber of Commerce has developed its own Customs Guidelines directed towards developing modern, efficient and effective customs administrations. Their 54-point plan covers the processing of cargo, and the need for transparency and simplicity of administration and regulation, as well as automation, classifications, disputes, sanctions and passenger processing.²¹

TAX INSPECTORS AND THE OECD CONVENTION

Tax inspectors also have a role in countering bribery. The signatories to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1997) have made the bribing of foreign public officials a criminal offense. It is important that tax inspectors be aware of these provisions and of their role in implementing a Convention designed in part to protect the integrity of their country. In this context, the OECD has published the OECD Bribery Awareness Handbook for Tax Examiners.²²

REVENUE TRANSPARENCY

The view is widely held that revenue transparency is one of the keys for achieving good governance. Both the OECD and the International Monetary Fund (IMF) have codes that are relevant for achieving this end.

OECD BEST PRACTICES FOR BUDGET TRANSPARENCY

The budget is the government's key policy document. It should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policy options can be assessed.

The OECD "best practices" for budget transparency include a high degree of accountability and transparency. All of the documents referred to below should be published promptly:

- *The government's draft budget should be submitted to parliament far enough in advance for a thorough review. The budget should be approved by parliament prior to the start of the fiscal year. It should include a detailed commentary on each revenue and expenditure program. Non-financial performance data, including performance targets, should be presented for expenditure programs where practicable.*
- *The budget should include a medium-term perspective that illustrates how revenues and*

expenditures will develop and be reconciled with forecasts contained in earlier fiscal reports for the same period; significant deviations should be explained.

- *Comparative information on the past year's actual revenue and expenditure tallies should be provided for each program. An updated forecast for the current year should also be provided. Similar comparative information should be shown for any non-financial performance data.*
- *If legislation authorizes certain amounts of revenue and expenditure, the tallies should be shown in the budget for informational purposes.*
- *The economic assumptions underlying the report should be made public and the budget should include a discussion of tax expenditures. Both documents should be compiled in accordance with the OECD Best Practices.*

There should be a pre-budget report to encourage debate on the budget and how it will affect the national economy. As such, it also serves to create appropriate expectations for the budget itself. It should be released at least a month prior to the introduction of the budget proposal.

The report should state explicitly the government's long-term economic and fiscal policy objectives and the government's economic and fiscal policy intentions for the forthcoming budget and for at least the following two fiscal years. It should highlight the total level of revenue, expenditure, deficit or surplus, and debt.

A year-end report is the government's key accountability document. It should be audited by an independent watchdog institution and be released six months before the end of the fiscal year.

The year-end report shows compliance with the level of revenue and expenditures authorized by parliament in the budget. Any adjustments to the original budget should be shown separately. The report should contain a comprehensive discussion of the government's financial assets and financial liabilities, non-financial assets, employee pension obligations and contingent liabilities.

A pre-election report serves to illuminate the general state of government finances immediately before an election. This fosters a more informed electorate and serves to stimulate public debate. The feasibility of producing this report may depend on constitutional provisions and electoral practices. Optimally, it should be released no later than two weeks prior to elections and should contain the same information as the mid-year report. Special care needs to be taken to assure the integrity of such reports, in accordance with OECD best practices.

A long-term report assesses the long-term sustainability of current government policies. It should be released at least every five years, or when major changes are made in substantive revenue or expenditure programs. The report should assess the budgetary implications of demographic change, such as population aging and other potential developments over the long term (10 to 40 years). All key assumptions underlying the projections contained in the report should be made explicit and a range of plausible scenarios presented.

Specific disclosures required are:

- *Economic Assumptions: Deviations from the forecast of the major economic assumptions underlying the budget are the government's principle fiscal risk.*
- *Tax Expenditures: These are the estimated costs to the tax revenue from preferential treatment for specific activities. The estimated cost of key tax expenditures should be disclosed as supplementary information in the budget. To the extent practicable, a discussion of tax expenditures for specific areas should be incorporated into the discussion of general expenditures in order to inform decisions about the budget.*
- *Financial Liabilities and Financial Assets: All financial liabilities and financial assets should be disclosed in the budget, the mid-year report, and the year-end report.*
- *Non-Financial Assets: All such assets, including real estate and equipment, should be disclosed.*
- *Employee Pensions: These obligations should be disclosed in the budget, the mid-year report and the year-end report.*
- *Contingent Liabilities: These are liabilities whose budgetary impact depends on future events that may or may not occur. Common examples include government loan guarantees, government insurance programs, and legal claims against the government. All significant contingent liabilities should be disclosed in the budget, the mid-year report and the annual financial statements.*

A section of the OECD Best Practices document addresses "Integrity, Control and Accountability:"

- *A summary of relevant accounting policies should accompany all reports and the same accounting policies should be used for all fiscal reports.*
- *Any change in accounting policies should be fully disclosed and information for previous reporting periods should be adjusted, as practicable, to allow comparisons to be made between reporting periods.*
- *A dynamic system of internal financial controls, including an internal audit, should be in place to assure the integrity of information provided in the reports. Each report should contain a statement of responsibility by the finance minister and the senior official responsible for producing the report. The minister certifies that all government decisions with a fiscal impact have been included in the report. The senior official certifies that the finance ministry has used its best professional judgement in producing the report.*
- *The year-end report should be audited by an independent financial watchdog institution in accordance with generally accepted auditing practices. Audit reports prepared by the institution should be scrutinized by Parliament.*
- *Parliament should have the opportunity and the resources to examine any fiscal report that it deems necessary.*

IMF CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY

The IMF revised its Code of Good Practices on Fiscal Transparency in 2001. Although the basic principles remain the same as those of the original code, the revised version gives added emphasis to assurance of the quality of fiscal data.²³

The IMF shares the view that fiscal transparency can make a major contribution to the cause of good governance. It should lead to a better-informed public debate about the design and results of fiscal policy, make governments more accountable for the implementation of fiscal policy, and thereby strengthen credibility and public understanding of macroeconomic policies and choices.

In a globalized environment, fiscal transparency is of considerable importance to achieving macroeconomic stability and effective economic growth. However, it is only one aspect of good fiscal management, and attention has to be paid also to increasing the efficiency of government activity and establishing sound public finances.

IMF member countries are being encouraged to implement the Code of Good Practices on Fiscal Transparency (set out below), which has been distilled from the IMF's knowledge of fiscal management practices in member countries.

The Code asserts that the roles and responsibilities in government should be clear; information on government activities should be provided to the public; budget preparation, execution, and reporting should be undertaken in an open manner; and fiscal information should attain widely accepted standards of data quality and be subject to independent assurances of integrity. There is a manual to assist with implementation.

The IMF Revised Code of Good Practices on Fiscal Transparency provides for:

I. Clarity of Roles and Responsibilities

1.1 The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management

roles within the public sector should be clear and publicly disclosed.

1.1.1 The structure and functions of government should be clearly specified.

1.1.2 The responsibilities of different levels of government, and of the executive branch, the legislative branch, and the judiciary, should be well defined.

1.1.3 Clear mechanisms for the coordination and management of budgetary and extra-budgetary activities should be established.²⁴

1.1.4 Relations between the government and non-government public sector agencies (i.e., the central bank, public financial institutions, and non-financial public enterprises) should be based on clear arrangements.

1.1.5 Government involvement in the private sector (e.g., through regulation and equity ownership) should be conducted in an open and public manner, and on the basis of clear rules and procedures that are applied in a nondiscriminatory way.

1.2 There should be a clear legal and administrative framework for fiscal management.

1.2.1 Any commitment or expenditure of public funds should be governed by comprehensive budget laws and openly available administrative rules.

1.2.2 Taxes, duties, fees, and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.

1.2.3 Ethical standards of behavior for public servants should be clear and well publicized.

II. Public Availability of Information

2.1 The public should be provided with full information on the past, current, and projected fiscal activity of government.

2.1.1 The budget documentation, final accounts, and other fiscal reports for the public should cover all budgetary and extra-budgetary activities of the central government, and the consolidated fiscal position of the central government should be published.

2.1.2 Information comparable to that in the annual budget should be provided for the outturns of the two preceding fiscal years, together with forecasts of the main budget aggregates for two years following the budget.

2.1.3 Statements describing the nature and fiscal significance of central government contingent liabilities and tax expenditures, and of quasi-fiscal activities, should be part of the budget documentation.

2.1.4 The central government should publish full information on the level and composition of its debt and financial assets.

2.1.5 Where sub-national levels of government are significant, their combined fiscal position and the consolidated fiscal position of the general government should be published.

2.2 A commitment should be made to the timely publication of fiscal information.

2.2.1 The publication of fiscal information should be a legal obligation of government.

2.2.2 Advance release date calendars for fiscal information should be announced.

III. Open Budget Preparation, Execution, and Reporting

3.1 The budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.

3.1.1 A statement of fiscal policy objectives and an assessment of fiscal sustainability should provide the framework for the annual budget.

3.1.2 Any fiscal rules that have been adopted (e.g., a balanced budget requirement or borrowing limits for sub-national levels of government) should be clearly specified.

3.1.3 The annual budget should be prepared and presented within a comprehensive and consistent quantitative macroeconomic framework, and the main assumptions underlying the budget should be provided.

3.1.4 New policies being introduced in the annual budget should be clearly described.

3.1.5 Major fiscal risks should be identified and quantified where possible, including variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g., financial restructuring).

3.2 Budget information should be presented in a way that facilitates policy analysis and promotes accountability.

3.2.1 Budget data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category. Data on extra-budgetary activities should be reported on the same basis.

3.2.2 A statement of objectives to be achieved by major budget programs (e.g., improvement in relevant social indicators) should be provided.

3.2.3 The overall balance of the general government should be a standard summary indicator of the government's fiscal position. It should be supplemented where appropriate by other fiscal indicators for the general government (e.g., the operational balance, the structural balance, or the primary balance).

3.2.4 The public sector balance should be reported when non-government public sector agencies undertake significant quasi-fiscal activities.

3.3 Procedures for the execution and monitoring of approved expenditure and for collecting revenue should be clearly specified.

3.3.1 *There should be a comprehensive, integrated accounting system which provides a reliable basis for assessing payment arrears.*

3.3.2 *Procurement and employment regulations should be standardized and accessible to all interested parties.*

3.3.3 *Budget execution should be internally audited, and audit procedures should be open to review.*

3.3.4 *The national tax administration should be legally protected from political direction and should report regularly to the public on its activities.*

3.4 *There should be regular fiscal reporting to the legislature and the public.*

3.4.1 *A mid-year report on budget developments should be presented to the legislature. More frequent (at least quarterly) reports should also be published.*

3.4.2 *Final accounts should be presented to the legislature within a year of the end of the fiscal year.*

3.4.3 *Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.*

IV. Assurances of Integrity

4.1 *Fiscal data should meet accepted data quality standards.*

4.1.1 *Budget data should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.*

4.1.2 *The annual budget and final accounts should indicate the accounting basis (e.g., cash or accrual) and standards used in the compilation and presentation of budget data.*

4.1.3 *Specific assurances should be provided as to the quality of fiscal data. In particular, it should be indicated whether data in fiscal reports are internally consistent and have been reconciled with relevant data from other sources.*

4.2 *Fiscal information should be subjected to independent scrutiny.*

4.2.1 *A national audit body or equivalent organization, which is independent of the executive, should provide timely reports for the legislature and public on the financial integrity of government accounts.*

4.2.2 *Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and all underlying assumptions.*

4.2.3 *A national statistics agency should be provided with the institutional independence to verify the quality of fiscal data.*

THE FINANCIAL STABILITY FORUM AND THE 12 KEY STANDARDS FOR SOUND FINANCIAL SYSTEMS

Twelve standard areas have been designated by the Financial Stability Forum (FSF), a basis for sound financial systems and deserving of priority implementation depending on country circumstances.²⁵

The Financial Stability Forum brings together senior representatives of national financial authorities (e.g. central banks, supervisory authorities and treasury departments), international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank.

The FSF plays a central role in the multilateral effort to achieve sound financial systems. It was first convened in 1999 to promote international financial stability and promotes integrity through exchanges of information, international cooperation, and financial supervision and surveillance.

The Forum brings together national authorities responsible for financial stability in significant international financial markets, international financial institutions, international regulatory and supervisory groupings and committees of central Bank experts. From the outset, the FSF recognized the importance of developing and promoting international standards, both for the strengthening of domestic

financial systems and for the promotion of international financial stability and integrity.

While the key standards vary in terms of their degrees of international endorsement, they are broadly accepted as representing the minimum requirements for good practice.

Some of the key standards are relevant for more than one policy area, e.g. sections of the IMF Code of Good Practices on Transparency in Monetary and Financial Policies have relevance for aspects of payment and settlement as well as financial regulation and supervision. The Audit Office in the Czech Republic is one which has worked to implement these standards.²⁶

The twelve standards are:

Macroeconomic Policy and Data Transparency

1. *Monetary and financial policy transparency: Code of Good Practices on Transparency in Monetary and Financial Policies (IMF)*²⁷
2. *Fiscal policy transparency: Code of Good Practices in Fiscal Transparency (IMF)*²⁸
3. *Data dissemination: Special Data Dissemination Standard*²⁹ / *General Data Dissemination System*³⁰ (IMF)

Institutional and Market Infrastructure

4. *Insolvency (in preparation by the World Bank)*
5. *Corporate governance: Principles of Corporate Governance (OECD)*³¹
6. *Accounting: International Accounting Standards (IAS) (IASB)*³²
7. *Auditing: International Standards on Auditing (ISA) (IFAC)*³³
8. *Payment and settlement: Core Principles for Systemically Important Payment Systems (CPSS)*³⁴ and *Recommendations for Securities Settlement Systems (CPSS/IOSCO)*³⁵
9. *Market integrity: The Forty Recommendations of the Financial Action Task Force (FATF)*³⁶ and *Eight Special Recommendations Against Terrorist Financing (FATF)*³⁷

Financial Regulation and Supervision

10. *Banking supervision: Core Principles for Effective Banking Supervision (BCBS)*³⁸
11. *Securities regulation: Objectives and Principles of Securities Regulation (IOSCO)*³⁹
12. *Insurance supervision: Insurance Core Principles (IAIS)*⁴⁰

A ROLE FOR CIVIL SOCIETY

Despite the best efforts of parliamentarians, financial audit institutions and, at times, the executive branch of government, translating good auditing recommendations into effective policy and behavioral change has generally proven difficult. Cooperation with civil society organizations provides an opportunity to change this situation. In this context, the International Budget Project draws in civil society groups in many parts of the world, including a number of transition countries.⁴¹ The International Budget Project assists non-governmental organizations and researchers in their efforts both to analyze budget policies and to improve budget processes and institutions. The Project is especially interested in assisting with applied research that is of use in ongoing policy debates and with research on the effects of budget policies on the poor. The Project works primarily with researchers and NGOs in developing countries or new democracies. An “Open Budget” project is also being developed in St Petersburg.⁴²

Activity tends to focus on the legislative stage of the budget process, although budget groups are also active, where possible, in drafting legislation and in monitoring implementation. To date, civil society groups have been least involved in the auditing stage of the budget process, but there are some signs that this is changing. Cooperation with civil society organizations presents innovative possibilities for improving the auditing function and public oversight.

One reason why audit findings might not have greater resonance with the public is that people are often unaware of the role of a country’s financial watchdog institution and its potential impact on their lives.

To build an engaged citizenry interested in holding the government to account, it is necessary to demystify the institution's role and to raise the level of budget and audit literacy in the population.

Such an institution can fulfill this function itself, by developing an outreach campaign, or it can cooperate with civil society groups and the media, to assist. Budget groups have expertise in translating complex materials into timely, accessible documents and in designing and delivering training courses specifically targeted at non-technical audiences, an example is *The Citizen's Guide to Taxation and A Citizen's Guide to the Budget* prepared by the Institute of Public Finance in Croatia.⁴³

Civil society can assist in a variety of ways:

- *Civil society groups can help build citizen literacy on the financial watchdog institution's function and on issues of financial management and oversight.*
- *Civil society groups and the media can raise issues for the financial watchdog body to investigate based on their close contact with citizens.*
- *Civil society groups and the media can conduct initial investigations into financial mismanagement or further investigate the issues that arise from an audit report.*
- *Civil society groups can help monitor government's follow-up to an audit report and parliamentary hearings. Together with attention from the media, this can put pressure on government's executive branch to take corrective action*
- *Civil society can directly assist the financial watchdog's work through its involvement in tracking expenditure, assisting with local auditing and measuring program performance.*

The growth of budget groups may signal an important shift in public finance practice. In most countries, public budgeting has long been considered by politicians to be their own exclusive preserve. It is only recently that the value of opening budget processes to non-governmental inputs has been considered desirable in some countries. For many developing countries and countries in transition, a set of powerful negative myths continue to constrain the independent budget work of civil society, legislatures and the media. These can include the following misguided beliefs:

- *Budgets must be formulated in secret or they may upset financial markets.*
- *Non-government intervention can destroy the integrity of the budget.*
- *Legislators and civil society have a greater interest in advancing the interests of their constituents as opposed to the interests of the country as a whole.*
- *It is the government's mandate to produce the budget internally in a closed process and for it to be rubber-stamped by the legislature.*

Budget secrecy may encourage market speculation, but greater transparency may actually smooth market adjustments to known policy choices. Further, useful, accessible and timely budget information facilitates foreign and domestic private sector planning and investment.

The work of civil society groups in this area promises to be some of the most innovative and most useful of all the tasks assumed by civil society in its quest for good governance.

ENDNOTES

- 1 Public Expenditure Management Handbook (The World Bank) (1998): <http://www1.worldbank.org/publicsector/pe/handbook/pem98.pdf>; J. Crotty, Practical Measures to Promote Integrity in Customs Administrations: http://www.transparency.org/iacc/8th_iacc/papers/crotty.html; LINK A. Das-Gupta, An Anticorruption Strategy for Revenue Administration, World Bank PREMnote October 33, 1999: <http://www1.worldbank.org/publicsector/tax/documents/PREMnote33.pdf>; Sheetal K. Chand & Karl O. Moene, "Controlling Fiscal Corruption," International Monetary Fund, August 1997; World Bank, "E-Government: Philippine Customs Reform," Governance & Public Sector Reform. J. Gill, Customs: Developing an Integrated Anti-corruption Strategy, in: D. Kaufmann, M.G. de Asis, P. Dininio (2001), Improving Governance and Controlling Corruption: <http://www.worldbank.org/wbi/governance/pubs/improving.htm>; World Bank: Helping countries reform economic and sector policies: <http://www1.worldbank.org/publicsector/anticorrupt/corruptn/cor05.htm>; OECD website on taxation: http://www.oecd.org/topic/0,2686,en_2649_37427_1_1_1_1_37427,00.html
- 2 Vito Tanzi, Corruption Around the World: Causes, Consequences, Scope and Cures: <http://www.imf.org/external/Pubs/FT/staffp/1998/12-98/tanzi.htm>
- 3 World Customs Organization: <http://www.wcoomd.org/ie/En/en.html>. The WCO has a strategy and a program for building integrity in customs organizations. A model code of conduct for customs officials covers: personal responsibility; compliance with the law; relations with the public; acceptance of gifts, rewards, hospitality and discounts; avoiding conflict of interest; political activities; conduct in money matters; confidentiality and use of official information; use of official property and services; private purchases of government property by staff; the work environment.
- 4 Simon Johnson, Daniel Kaufmann & Pablo Zoido-Lobaton Corruption, Public Finances, and the unofficial Economy, World Bank Working Paper. 2169.
- 5 Tanzi, Vito (1997) Corruption in the Public Finances, Paper presented at the Eighth International Anti-Corruption Convention, Lima, Peru: http://www.transparency.org/iacc/8th_iacc/papers/vtanzi.html
- 6 The G8 countries seek to facilitate international trade, reduce costs for businesses and governments, and promote economic growth. To these ends, the G8 Customs Group has sought to simplify customs data requirements to the minimum consistent with effective administration of customs responsibilities, standardize the data requirements and standardize the format for reporting that data. See the G7 Initiative on Customs Standardization and Simplification Plain Language Description (KYOTO Customs Data Principles): http://www.wcoomd.org/ie/En/Topics_Issues/FacilitationCustomsProcedures/DataModeIG7Initiative.html
- 7 For a description of reforms in Morocco, see Best Practices in Customs Reform – Lessons from Morocco PREM notes No. 67 April 2002: <http://www1.worldbank.org/publicsector/tax/documents/PREMnote67.pdf>;
- 8 Latvian Customs Code of Conduct: <http://www.vid.gov.lv/eng/user/show.asp?ID=208&Cld=30>
- 9 See Transparency International Source Book 2000, Chapter 23 – Good Financial Management: <http://www.transparency.org/sourcebook/23.html>
- 10 See World Bank PREM note 33 (see above): <http://www1.worldbank.org/publicsector/tax/documents/PREMnote33.pdf>;
- 11 Michael Waller, Review of Integrity Management of Staff in the Ghana, Tanzania and Uganda Revenue Authorities (TI-CIR, London): http://www.transparency.org/working_papers/mwaller/integrity_management_review.html#summary
- 12 Fjeldstad, Odd-Helge (2003) Fighting fiscal corruption: Lessons from the Tanzania Revenue Authority in Public Administration and Development 23/2, p.165-175; and Fjeldstad, Odd-Helge & Bertil Tungodden (2003) Fiscal corruption: A vice or a virtue?, World Development, vol. 31 no. 8 pp. 1473-1475
- 13 In the case of customs reform, there can be a one-step process. A customs declaration can be presented to the customs office and the paperwork processed by the office's administration with no further need for contact.
- 14 Adapted from Practical Measures to Promote Integrity in Customs Administrations (above): http://www.transparency.org/iacc/8th_iacc/papers/crotty.html; and the Utstein Anti-Corruption Resource Centre FAQ: <http://u4.no/document/faqs1.cfm>
- 15 World Customs Organization: <http://www.wcoomd.org/ie/En/en.html>
- 16 José Anson, Olivier Cadot and Marcelo Olarreaga, Tariff Evasion and Customs Corruption: Does Pre-shipment Inspection Help? http://www.econ.worldbank.org/files/30442_wps3156.PDF and Noel Johnson, Committing to Civil Service Reform: The Performance of Pre-shipment Inspection under Different Institutional Regimes http://www.econ.worldbank.org/files/1714_wps2594.PDF
- 17 Corruption and Trafficking: Monitoring and Prevention: http://www.csd.bg/news/law/CorTREP_E.html
- 18 The 1996 Arusha Declaration on Burundi and the 1999 Arusha Declaration on the Rights of Indigenous Peoples.
- 19 World Customs Organization: <http://www.wcoomd.org/ie/En/en.html>
- 20 For the full text, see www.wcoomd.org/ie/En/Topics_Issues/FacilitationCustomsProcedures/Revised%20Arusha%20E-Print%20version.PDF
- 21 International Chamber of Commerce Customs Guidelines: http://www.iccwbo.org/home/statements_rules/statements/2003/customs_guidelines.asp
- 22 Second Evaluation Round: Training Seminar for GRECO Expert-Evaluators: Information and Working Documents: <http://www.greco.coe.int/evaluations/seminar/DocsE.htm>. Also available in Russian.
- 23 IMF Code of Good Practices on Fiscal Transparency: <http://www.imf.org/external/np/fad/trans/code.htm#code>

- 24** Extra-budgetary accounts are common in many countries. Some have legitimacy and are set up for specific purposes (pensions, road funds etc.). Others are designed to reduce the political and administrative controls that are more likely to accompany spending that goes through the budget. In some countries, foreign aid and the proceeds of sales of natural resources are also channelled into special accounts that tend to be less transparent and less controlled than money channelled through the budget, and often finds its way into illegitimate uses or into the pockets of officials. Vito Tanzi, Corruption Around the World: Causes, Consequences, Scope and Cures: <http://www.imf.org/external/Pubs/FT/staffp/1998/12-98/tanzi.htm>
- 25** Financial Stability Forum: http://www.fsforum.org/compendium/key_standards_for_sound_financial_system.html
- 26** Tenth International Anti-Corruption Conference: <http://www.10iacc.org/content.phtml?documents=102&art=177>
- 27** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_9.html
- 28** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_10.html
- 29** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_12.html
- 30** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_11.html
- 31** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_17.html
- 32** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_18.html
- 33** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_19.html
- 34** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_7.html
- 35** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_24.html
- 36** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_30.html
- 37** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_28.html
- 38** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_4.html
- 39** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_52.html
- 40** Financial Stability Forum: http://www.fsforum.org/compendium/compendium_of_standards_2_72.html
- 41** Warren Krafchik, What Role Can Civil Society and Parliament Play in Strengthening the External Auditing Function?: <http://www.internationalbudget.org/auditorgeneral.htm>
- 42** Open Budget Project: <http://www.pskov.org.ru/budget/>
- 43** The International Budget Project: <http://www.internationalbudget.org/groups/croatia.htm>