



**New Fiscal Transparency
Code and Assessment.
A brief comment**

**Carlos Scartascini
Research Department**

Washington, DC – September 18, 2014

The opinions presented here are entirely those of the author and thus do not necessarily represent the official position of the institution he belongs to or the countries it represents.



New Fiscal Transparency Code and Assessment

- A step forward
 - Focuses on outputs rather than processes
 - Pays close attention to different levels of country capacity (away from one size fits all)
 - Recommendations based on criticality/importance (focuses on what matters for each country; should improve targeting and efficiency)
 - *Will* provide a picture of the whole public sector
 - “While taking a few shortcuts, producing an approximate and preliminary balance sheet for the public sector is not impossible”

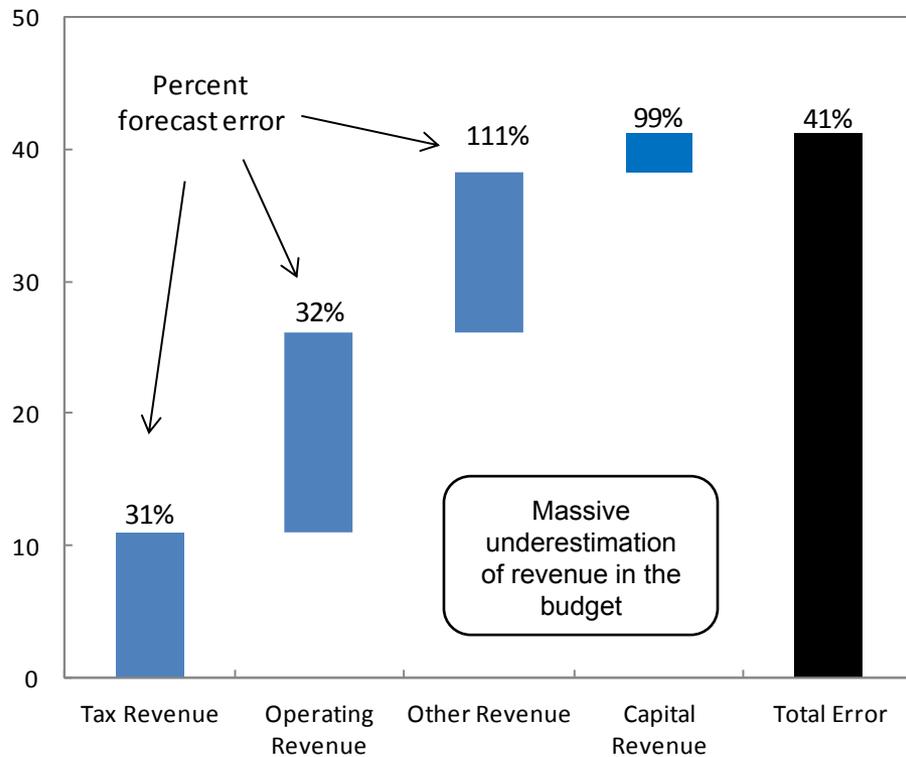
The value of transparency and information

- It has the *potential* to increase accountability
- It has the *potential* to lead to better policymaking
- It has the *potential*² to have an impact on welfare (“more stable economic growth”)
 - But, it assumes that:
 - Decisions are made in institutionalized settings (e.g., having a CBO matters only if Congress has any impact on decision-making)
 - Political parties internalize the inter-temporal costs of certain policies (*somebody cares about the longer term*)
 - Independence of the control entities (*somebody controls*)
 - Non-clientelistic, unbiased electoral system (*somebody cares*)
 - A working civil society reduces collective action problems (*those who care can get together*)
 - Etc...

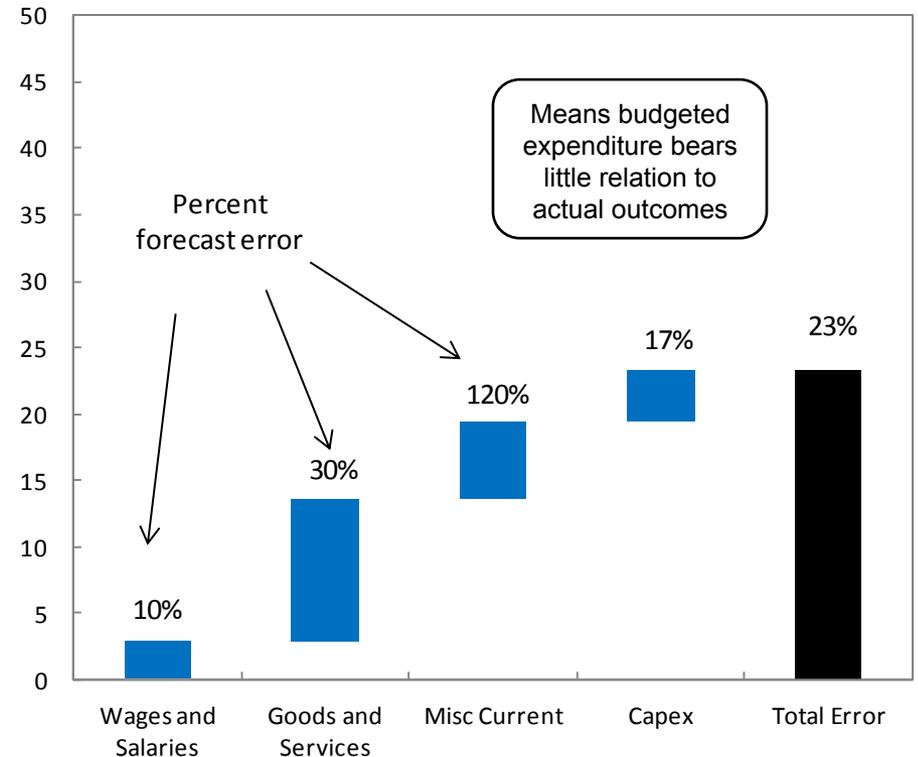
The value of transparency and information

- Sometimes more information does not necessarily lead to better outcomes (at least in the short run)
 - Does not necessarily lead to higher accountability
 - (e.g., voting behavior)
 - Does not necessarily lead to better policies
 - (e.g., inflation rate, monetary base, fiscal deficit, debt levels, interest rates, “being on default”)
- Still, if used correctly, data enables asking the right questions and focusing on what really matters
 - E.g., the reasons behind under/over estimation

Revenue Forecast Errors (Percentage point Contribution)



Expenditure Forecast Errors (Percentage point Contribution)



The value of transparency and information

- Under/over estimation
 - Usually, it is neither lack of data nor of capacities, but a political equilibrium
 - For example,
 - Underestimation (overestimation) when there is discretion to spend (cut) excess (shortage of) revenues
 - Political theatre/elections; Bargaining stance
 - Sometimes discretion serves clientelistic purposes and it should be reined in. Other times, it is the only way to build a coalition
- Therefore, it is important to manage expectations but even more important to understand what determines the outcomes
 - Hence, what we should and should not “ask/invite/suggest” countries to do

Moving countries forward

- Countries advances in fiscal transparency (and PFM in general) tend to be endogenous to incentives
 - The same way they decide to have (or keep) an independent Central Bank or reliable statistics
 - Transparency and outcomes tend to go together but not necessarily because of causation (and some countries would do as well without the “bells and whistles”)
 - Equilibrium: “forcing” them may have unexpected consequences (or may change little)
- Help to change incentives/equilibrium
 - FRL; capacity building; third-party enforcement; honest broker for intertemporal commitment

Summarizing

- A valuable effort and a leap forward
- Focuses on outputs
 - But manage expectations
 - (inflation data has been around longer than inflation targeting...)
- Acknowledges differences in country capacities
 - But diagnostic should be broader
 - Learn why the countries are where they are (capacities, political equilibrium, etc)
- Recommendations based on importance
 - Create the conditions for change (which may have little to do with “asking politely to do it”, providing accountants, or systems.)
- (and make available to researchers as much data as possible!!)



Banco Interamericano de Desarrollo / www.iadb.org