Fiscal Transparency around State Owned Enterprises- Issues and Practical Solutions: 
*The Developing Country Perspective*

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• **Conclusion**
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Fiscal Transparency

• Entails availability of information on how governments raise, spend and manage public resources.
• Provides a platform where Governments can be held accountable.
• Strengthens fiscal surveillance, policymaking, and accountability.
• Necessary basis for improving efficiency and effectiveness of fiscal management
• Provides further incentives for sound fiscal policies
Fiscal Transparency - Measurement

- Open Budget Index (OBI) is the Common Measure of Fiscal Transparency.
- According to studies undertaken in 2013, general performance on OBI was poor, an average of 43 out of 100, for 77 Countries.
- Aid dependent Countries generally rank well on the OBI
- Lack of website publishing is a major factor affecting the scores in many countries.
Fiscal Transparency - Driving Factors

- Democratization
- Fiscal and economic crises that force Governments to put in place mechanisms for enhanced fiscal discipline and independent scrutiny.
- Widely publicized corruption cases, demanding the need for public access to fiscal information.
- External influences that promote global norms and empower accountability.
SOEs- What and Why

- PFM Act, Malawi defines SOEs within Statutory Bodies.
- Thus, SOEs are corporations where Governments controls board composition or hold more than 50% share capital or voting power.
- They are established by separate legal instruments, as determined by Government.
- They are established to provide specific services as defined from their mandating instrument- e.g. Water Boards.
- Currently, there are 66 SOEs in Malawi: categorized as commercial, semi-subvented and subvented
SOEs in Malawi

SOEs Categorization

- Commercial
- Sub-vented
- Semi-Subvented
Fiscal Transparency in SOEs- Principles

• Disclosure of material information – In Malawi done through Performance Management Plans and Budgets
• Ensure that disclosure is in line with high quality accounting standards.
• Undertake annual audit by an independent, competent and qualified auditor.
• Ensure that channels for disseminating information provide for equal, timely, and cost-efficient access to relevant information by users.
Fiscal Transparency in SOEs

• SOE operates within a specific legal, institutional and economic context.
• Attempt to improve their governance needs to be tailored to those circumstances.
• SOEs are subject to varying degrees of enforcement and restrictions depending on their regulatory environment as well as the sector in which they operate
• Nevertheless, Just like listed corporations are accountable to shareholders, SOEs need to be accountable to general public.
Fiscal Transparency- Malawian SOEs

• SOEs are required to submit to MoF audited annual financial statements by 31 October.

• Law further requires submission of audited financial statements to Auditor General.

• Auditor General presents to parliament; where applicable Financial Statements are published.

• Prior to submission to Auditor General, the SOEs’ External Auditor presents the Financial Statement to respective Boards.
Practices promoting fiscal transparency – From Malawi and other countries
Institutional Set-up for Financial Oversight of SOEs

- Financial Oversight for SOEs requires Government Commitment
- In Malawi, a dedicated section, PERMU, is instituted within MoF.
- Analyses are done by the section to provide meaningful performance information to stakeholders.
- The Section is further coordinating reforms to promote transparency.
  - Reforms in regulatory environment and systems among others.
The power of motivation and Team Work
Legal Framework

- The Law, PFM Act, provides for the basis of fiscal transparency.
- SOEs are required to produce and submit externally audited financial statements to MoF.
- Compliance and administration of sanctions is an issue though significant improvements
Tools and Instruments For Fiscal Transparency

- To operationalize the laws, guidelines and regulations have been developed. (e.g. borrowings, preparation of PMPBs, and Dividends and Surpluses)
- They guide SOEs’ in: preparation of budgets and contracting loans and other facilities.
- Key information from SOEs performance is part of the Annual Economic Report, which is part of Budget Documents and publicly available.
- From the demand side, permissive legislation is in place to enable the general public access to information – case study from Paraguay, Brazil, Mexico and Korea support this.
Collaboration

- Collaboration is a key practice that fosters mutual understanding on operations of SOEs.
- Through budget reviews, and budget monitoring, SOEs closely interact with MoF, DSC, relevant line ministries and other stakeholders.
- Information is supplied in the process, which further promotes transparency.
- Signing ceremony of Shareholder Letters of Expectations held
Use of Agile Information Systems

- Fiscal transparency requires availability of fiscal information to the public.
- Malawi Government is developing a web-based database and website to encourage availability of fiscal information.
- Online platforms ensure availability of fiscal information is available at least cost.
- Management Information Systems, e.g. IFMIS, facilitate production of higher quality reports in a timely manner.
Conclusions
Issues and Challenges

- Resistance to change by some SoEs having been used to limited transparency.
- Misalignment between the PFMA and other legislation on how to address financial management issues.
- Conflicting roles between MoF and DSC on Financial Oversight Function.
- Investments in information systems and other reforms promoting fiscal transparency can be expensive,
Practical Solution

• Ensuring Government Collaborating with SOEs to enhance mutual understanding on the need for transparency
• Embarking on review of legal instruments with the aim of harmonizing
• Terms of Reverence for DSC and MoF developed to promote mutual understanding on responsibilities with regards to financial oversight of SOEs
Key Take Home Massages

- Transparency entails making available information to the public.
- Effective engagement and collaboration delivers fiscal transparency outcomes.
- Effective financial oversight function delivers fiscal transparency.
- Robust regulatory environment is key to achieving transparency.
- SOEs fiscal transparency is challenging as they are subjected to varying Governance and financial management arrangements.
Thank you!!