

REGIONAL GFS WORKSHOP: IMPROVING GFS QUALITY AND EXPANDING THE *GUIDELINES*

International Monetary Fund's AFRITAC East and East African Community Secretariat



Kampala, Uganda
November 28 – December 2, 2016

TIMES	WORKSHOP SESSIONS AND TOPICS
DAY 1: Monday November 28, 2016	
8:30 – 9:00 a.m.	Registration
9:00 – 10.30 a.m.	<u>Session 1</u> : Welcome, Participants' Introductions, Recognize a Chairperson and Rapporteur, and Report on EAC Secretariat – AFRITAC East GFS Capacity Development Program (Michael Gitau and Brooks Robinson) [Plenary]
10.30 – 11.00a.m.	<i>Coffee/tea Break</i>
11:00 – 12.30 p.m.	<u>Session 2</u> : Interactive lecture on GFS Quality and Harmonization (Ismael Ahamdanech Zarco) [Plenary]
12.30 – 2.00 p.m.	<i>Lunch Break</i>
2.00 – 3.30 p.m.	<u>Session 3</u> : GFS “Quality and Harmonization” – Treatment of Grants Revenue: Compliance with treatment prescribed in the <i>Guidelines</i> (two country examples – Kenya, Rwanda, Tanzania, and Uganda) [Plenary]
3.30 – 4.00 p.m.	<i>Coffee Break</i>
4:00 – 5:00 p.m.	<u>Session 4</u> : GFS “Quality and Harmonization” – Treatment of Taxes: Compliance with treatment prescribed in the <i>Guidelines</i> (two country examples – Kenya, Rwanda, Tanzania, and Uganda) [Plenary]
DAY 2: Tuesday November 29, 2016	
9.00 – 10.30 a.m.	<u>Session 5</u> : GFS “Quality and Harmonization” – Treatment of PPPs: Reviewing existing treatment (one country example – Kenya, Rwanda, Tanzania, and Uganda) [Plenary]
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<i>9.00 – 10.30 a.m.</i>	<u>Session 9</u> : Discussion on completing new <i>Guidelines</i> chapters on “Debt,” “Public Private Partnerships” (PPPs), and “Above- and Below-the-Line Transactions” (Viera Karolova) [Plenary]
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<i>4.00 – 5.00 p.m.</i>	<u>Session 12</u> : Drafting of new <i>Guidelines</i> chapters on “Debt” and “PPPs” [Groups] { <i>Complete chapter on “Debt”</i> }
DAY 4: Thursday December 1, 2016	
<i>9.00 – 10.30 a.m.</i>	<u>Session 13</u> : Drafting of New <i>Guidelines</i> Chapters on “PPPs” and “Above- and Below-the-Line Transactions” [Groups]
<i>10.30 – 11.00 a.m.</i>	<i>Coffee/tea break</i>
<i>11.00 – 12.30 p.m.</i>	<u>Session 14</u> : Drafting of New <i>Guidelines</i> Chapters on “PPPs” and “Above- and Below-the-Line Transactions” [Groups]
<i>12.30 – 2.00 p.m.</i>	<i>Lunch break</i>
<i>2.00 – 3.30 p.m.</i>	<u>Session 15</u> : Drafting of New <i>Guidelines</i> Chapters on “PPPs” and “Above- and Below-the-Line Transactions” [Groups]
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TIMES	WORKSHOP SESSIONS AND TOPICS
DAY 5: Friday December 2, 2016	
9.00 – 10.30 a.m.	<u>Session 17</u> : Review of (status reports on) new <i>Guidelines</i> chapters on “Debt,” “PPPs,” and “Above- and Below-the-Line Transactions” (Group Leaders) [Plenary]
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12.00 – 1.00 p.m.	<u>Session 19</u> : Workshop Summary, Evaluation, and Awarding of Certificates (Facilitators*) [Plenary]
1.00 – 2.00 p.m.	<i>Lunch</i>
<i>Afternoon</i>	Departure

*--Facilitators for this Workshop include: Viera Karolova (IMF Economist and Back Stopper for the EAC Secretariat – AFE GFS Capacity Development Program); Brooks Robinson (AFE Regional GFS Advisor); Ismael Ahamdanech Zarco (IMF GFS Expert); and Francois Engelbrecht (IMF GFS Expert).




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Session 1: Workshop Scope

Improving GFS Quality and Expanding the GUIDELINES

EAC Secretariat – AFE Joint Regional GFS Workshop

Kampala, Uganda – November 28 – December 2, 2016

Brooks Robinson

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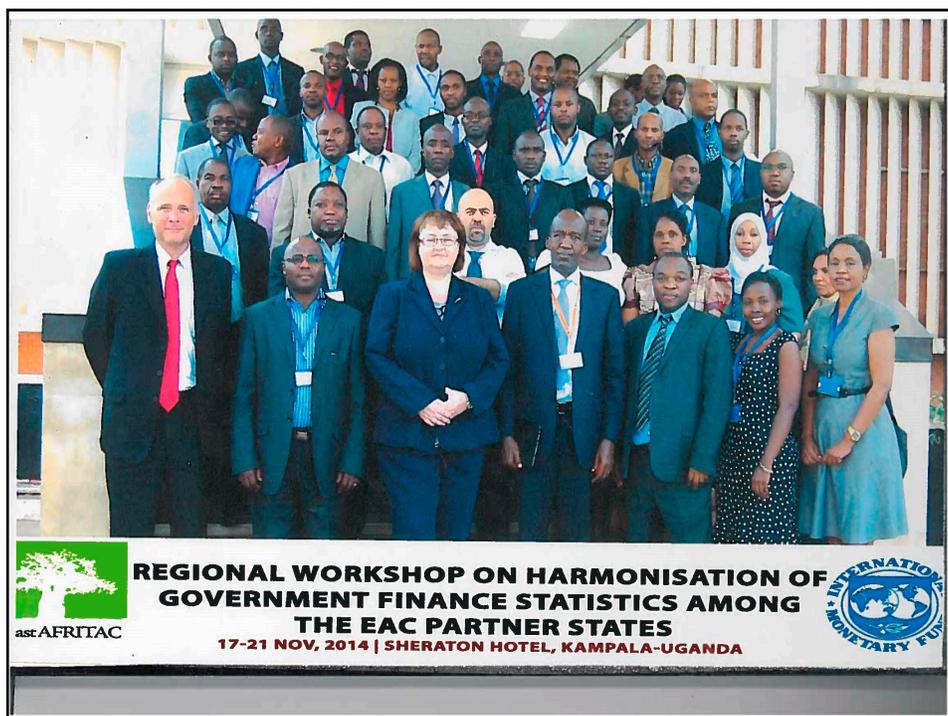


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Overview

- 1) EAC Secretariat – AFE Joint GFS/PSDS Capacity Development Program (CDP) Achievements So Far This Year.**
- 2) The Way Ahead.**
- 3) Expected Achievements for the Workshop.**
- 4) General Expectations.**
- 5) Workshop Outputs.**

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FY 2016/17 Achievements ¹

- Regional Workshops – 3**
(Stone Town, Dar es Salaam, and Kampala)
- GFS TA Missions – 8**
(Stone Town, Kigali, Lilognwe, Nairobi, Dar es Salaam, Addis Ababa, Arusha, and Kampala)
- National Trainings – 3**
(Zanzibar, Malawi, and Ethiopia)

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FY 2016/17 Achievements 2

Compiled and Disseminated FY 2014/15 GFS

Initiated Compilation of High-Frequency GFS

Published Public Sector Institutional Tables

Reconstituted GFS Technical Working Groups

Adopted New RBM-based GFS/PSDS Work Plans

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The Way Ahead

Mission Dates			National GFS Training		
Countries	Planned	Propose	Topic	Location	Date
Rwanda	Feb 6-17, 2017		GFS	Naivasha	Jan 2017 ?
Tanzania	Feb 6-17, 2017		???		
Zanzibar	Feb 20-24, 2017				
Malawi	Feb 20-24, 2017				
Ethiopia	Mar 20-24, 2017				
Uganda	Apr 10-21, 2017				
Kenya	Apr 24 – May 5, 2017				

Regional Workshops		
Topic	Location	Date
Data Quality and the <i>Guidelines</i>	Kampala	Nov 28 - Dec 2, 2016
???		

These missions will focus on determining that new work plans are in place; that the GFS TWG has been reconstituted; and that data dissemination (including public (press) event), high-frequency data production, and improvements in GFS/PSDS quality are evolving.

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Workshop Expected Achievements 1

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Workshop Expected Achievements 2

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Workshop Expected Achievements 3

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Workshop Expected Achievements 4

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Workshop Expected Achievements 5

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Workshop Expected Achievements 6

QUESTIONS THAT REQUIRE AN ANSWER

- **How Do I Know That My Estimates Are Correct?**
- **How Comfortable Am I With The Estimates That I Produce?**
- **Have I Documented My Estimate Procedures?**

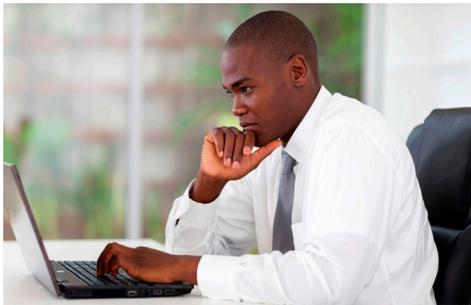
SAYING SOMETHING ABOUT QUALITY

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General Expectations



General Expectations:

- Highest Level of “Professionalism”
- Attentativeness
- Dedication
- Follow Through

What do you need from Facilitators?

Remember : “You Get Out What You Put In.” If you want to be GREAT, and if you want your country to be GREAT, then high-quality GFS/PSDS is a good starting point for making both of these important developments become a reality.

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Workshop Outputs

- Participants’ Enhanced Knowledge of GFS, PSDS, and the EAC Secretariat and IMF AFE Joint GFS CDP.
- Participants’ Enhanced Contacts and Synergy Across EAC Partner States and AFE Member States.
- Participants’ Renewed Conviction to Prepare High-Quality GFS and to Disseminate the Statistics.
- Addenda to *Guidelines* Chapters on “Taxes” and “Grants”.
- A Completed Chapter on “Debt” for the *Guidelines*.
- A Refined Draft Chapter on “PPPs” for the *Guidelines*.
- An Outline and Partial Text of a Chapter on “Above- and Below-the-Line Transactions” for the *Guidelines*.
- Workshop Proceedings.

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Questions?

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**REGIONAL GFS WORKSHOP: IMPROVING GFS QUALITY
AND EXPANDING THE GUIDELINES**
Kampala, Uganda. November 28 – December 2
Interactive lecture on GFS Quality and Harmonization

November 28th, Monday **Ismael Ahamdanech Zarco**
IMF Expert

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Overview

- Introduction
- Quality: some aspects to take into account
- Harmonization: the role of the *Guidelines* and Regional Workshops
- Discussion

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Introduction

- Two main aspects to consider always regarding Statistics in general and GFS in particular:
 - Quality: Statistical discrepancies, integration, timeliness, revisions,...
 - Harmonization: Specially important in the context of an Economic/Monetary Union.
- Main goal of this presentation:
 - Discuss briefly some theoretical concepts that should be already known
 - Discuss some applications in the EAC context
 - Set the framework for the current (and future) workshops developments

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Quality: some aspects to take into account

- **First priority – EAMU convergence criteria**
 - reliable estimates of deficit and debt
 - reliable data on grants and taxes
- **Second priority**
 - Structure of revenue/expenditure; transactions, stocks and Other Economic Flows (OEF) in assets (A) and liabilities (L), other than convergence criteria
 - Level of aggregates (complete consolidation – revenue/expenditure, A/L, other than convergence debt)

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Quality: some aspects to take into account

Cross-sector consistency – GFS versus NA, BoP, IIP, MFS

GDP components – government consumption, investments...

Consistency with the counterpart sectors

- Paid by one sector = received by another sector
- Asset of one sector = liability of another sector

Internal consistency within the GFS framework

- **Vertical consistency** (above versus below the line transactions; net change in bank accounts versus cash receipts and payments; sub-items versus aggregates; consolidation)
- **Horizontal consistency** (reconciliation of stocks and flows; opening/ closing b/s; consolidation)
- **Other**
 - Relationships between GFS indicators (e.g. debt and interest)
 - Time series (trends, % of total, % of GDP)

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Quality: some aspects to take into account

Vertical consistency quality checks

1. Reconciliation of above and below the line transactions
 - Applicable for both cash and accrual accounting
2. Reconciliation of bank accounts with cash in/out-flows
3. Aggregates versus their components
4. Consolidation (revenue=expenditure; assets=liabilities; transactions/stocks/OEF)

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Quality: some aspects to take into account

- Questions for debate on vertical consistency:
 - Current status
 - Plans to improve... how?
 - Worth to establish a threshold?
 - ❖ If so, which? % of GDP, total revenue...?

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Quality: some aspects to take into account

Horizontal consistency quality checks

1. Reconciliation of stocks and flows
 - Accrual accounting – full reconciliation
 - Cash transactions versus non-cash debt – full reconciliation via non-cash adj.
2. Consistency between closing (t) and opening stocks (t+1)
3. Consolidation (between subsectors)  Currently a main source of inconsistency is found in the consolidation between Grants Expense and Grants Revenue. *Need to check_{ij}*

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Quality: some aspects to take into account

- Questions for debate on horizontal consistency:
 - Especially important for financial assets/liabilities
 - Debt securities
 - Loans
 - More?
 - Analysis done in your countries?

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Quality: some aspects to take into account

Vertical / Horizontal consistency quality checks

Stock-Flow Adjustments:

Reconciliation of surplus/deficit and change in debt level

- Applicable to non-cash deficit and debt
- Applicable to cash deficit and non-cash debt

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Quality: some aspects to take into account

Surplus/deficit and change in debt

Quality check:

(-) NLB (deficit +/-surplus -) reverse sign

(+) Net Acquisition of FA

(+) Net Incurrence of Other than Debt Liabilities

(+/-) Revaluation of Debt

(+/-) Other Changes in the Debt Volume

(+/-) Discrepancy (?)

= Δ in Debt

} Transactions

} Other Economic Flows

Wrong debt? Wrong deficit? Wrong financing?

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Quality: some aspects to take into account

- Questions for debate on vertical/horizontal consistency:
 - Especially important in the context of an economic/monetary union:
 - ❖ Reflect the relationship and deviations between deficit (surplus) and increase (decrease) in debt as defined in the protocol
 - Analysis performed in your countries already done?
 - Need to develop a template that is transmitted to statistical authorities

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Quality: some aspects to take into account

- Other aspects:
 - Timeliness
 - Quality plans
 - Need to develop a revision policy

} Work on the proper application of Implementation Plans. They should include checks with estimates that are derived from alternative data sources.

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Harmonization: the role of the Guidelines and Regional Workshops

- Guidelines: four chapters already published
- Delineation of Public Sector Debt and Social Insurance Schemes → Discussion seems (relatively) clear and closed
 - *Institutional table published... Great Workjj... but needs to be reviewed from time to timejj*

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Harmonization: the role of the Guidelines and Regional Workshops

- Classification of Revenue and Treatment of Grants:
 - Still some issue to be fine-tuned... Will be discussed in this workshop
 - Possible review of correct implementation? → Peer review visits (i.e. experts of a country X visiting and checking compilation methods of country Y)

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Harmonization: the role of the Guidelines and Regional Workshops

- Guidelines: three chapters in progress
 - Debt: A second draft (close to final) should be finished
 - PPPs: Specially important due to complexity and impact on debt. Need to analyze carefully
 - Above- and Below-The-Line Transactions: Issues that can affect both deficit and debt

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Harmonization: the role of the Guidelines and Regional Workshops

- Workshops: Up to now, three per year with important success on regional harmonization
- Questions:
 - Is this framework optimum?
 - Could it be improved?
 - ❖ If so, how?

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LET'S DISCUSS

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Session 5: Public Private Partnerships (PPPs)

EAC Secretariat – AFE Regional Government Finance Statistics Workshop
Kampala, Uganda
November 28 – December 2, 2016

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Overview

- **What are PPPs?**
- **Debt Arising from PPPs**
 - The Issues
 - Statistical Treatment
- **Benefits of PPPs**
- **How Governments are Responding to PPPs**

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What are 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 transfers the asset to the second unit.
- Contracts are usually between government and private corporations, but other arrangements are possible.
- Types of PPPs:
 - PFIs: Private finance initiatives
 - DBOT: Design, build, operate, and transfer
 - BOTs: Build, own, transfer
 - BOOTs: Build, own, operate, and transfer

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Debt arising from PPPs

Introduction

- The issues are:
 - Who is the economic owner of assets during the contract period?
 - Are operating leases or financial leases involved?
 - PPP-related assets and liabilities—are they on the government's or the private enterprise's balance sheet?
- Frequently not obvious
 - Who controls assets over their service lives?
 - Which party bears the majority of the risks and benefits?

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Debt arising from PPPs

Types of PPPs

- **Funded by Public Sector**
 - For example, there are PPP contracts where the end-user is a public sector agency such as hospitals, prisons, or schools: The private part of the PPP constructs assets and provides services to the public sector in exchange for recurrent payments by the public sector. After some years the assets is handed over to the public sector
- **Funded by third parties**
 - On the other hand, PPP may involve toll roads, airports, ports, and sports stadiums: The private partner constructs assets and provides services in exchange for a payment by final users. After some years the assets are handed over to the public sector

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Debt arising from PPPs

Unit classification

- **Important to classify the unit involved as a PPP**
 - Often a separate legal entity – an SPE (special purpose entity)
 - Public or private?
 - Control indicators
 - ❖ For government-funded PPPs, government will be the dominant customer – **this is not sufficient for control over a PPP entity.**
 - For public units, are they market or nonmarket? Do they charge economically significant prices?
 - ❖ If nonmarket, then it may just be a government ancillary unit (extrabudgetary unit (EBU)).

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Debt arising from PPPs

Statistical treatment

- **Depends on economic ownership** of the assets involved (during and at the end of contract period)
 - ❖ Legal and economic owner is often different in PPPs.
- Economic owner is the unit that **bears the majority of the risks and benefits from the majority of the rewards.**
- Possibilities:
 - ❖ Public sector is economic owner during contract period and afterwards.
 - ❖ Private enterprise is economic owner during contract period and the public sector afterwards.

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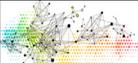
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Debt arising from PPPs

Risks and benefits

- Risks
 - Construction risk
 - Supply risk
 - Demand risk
 - Residual value and obsolescence risk
 - Availability risk
- Benefits
 - Profits and holding gains
- See *GFSM 2014* Box A4.4; and *PSDS Guide* Box 4.14

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PSDS Guide, Box 4.14

Box 4.14. Consideration of Risks Associated with PPP-Related Asset(s) to Determine Economic Ownership*

The factors that need to be considered in assessing economic ownership of PPP-related assets include those associated with acquiring the asset and those associated with using the asset. Some of the risks associated with acquiring the asset are:

- The degree to which the government controls the design, quality, size, and maintenance of the assets; and
- Construction risk, which includes the possibility of additional costs resulting from late delivery, not meeting specifications or building codes, and environmental and other risks requiring payments to third parties.

Some of the risks associated with using the asset in production are:

- Supply risk, which covers the degree to which the government is able to control the services produced, the units to which the services are provided and the prices of the services produced;
- Demand risk, which includes the possibility that the demand for the services, either from government or from the public at large in the case of a paying service, is higher or lower than expected;
- Residual value and obsolescence risk, which includes the risk that the value of the asset will differ from any price agreed for the transfer of the asset to government at the end of the contract period; and
- Availability risk, which includes the possibility of additional costs or the incurrence of penalties because the volume and/or quality of the services do not meet the standards specified in the contract.

The relative importance of each factor is likely to vary with each PPP.

*At the time of drafting this *Guide*, this approach is consistent with draft proposals by IPSASB which use considerations of risk to determine the control of the assets.

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PSDS Guide, Box 4.15

Box 4.15. Practical Applications of the Economic Ownership Concept

To operationalize the criteria for economic ownership (i.e., whether the risks and rewards accrue to government or to the private enterprise) countries have followed different approaches.

Under Eurostat's guidelines to its member states, a sufficient condition for a PPP to be excluded from government's accounts has been that the private enterprise bears the construction risk in the project and either the availability or the demand risks in using the asset in production. In 2010, Eurostat clarified how other elements (in addition to these three principal risk categories) should be analyzed to determine the distribution of risks between the public and private sectors; notably, the existence and scope of grantor guarantees, majority financing by the grantor of capital cost during the construction phase, and financial aspects of termination clauses (see *ESA95 Manual on Government Deficit and Debt, 2010 Edition*, section VI.5).

Some countries are following accounting standards (for example, IPSAS) applicable to financial leases (as explained in paragraphs 4.87–4.95). If a PPP contract is deemed to be a financial lease, an asset and liability are recorded on the public sector unit's balance sheet, interest and depreciation are recorded as operating expenses, and amortization is recorded as a financial asset transaction. IPSAS treat a lease as a financial lease to the extent that the following criteria are met: (i) the contract period covers most of the useful life of the asset; (ii) the asset is transferred to the lessee (the public sector unit in the case of a PPP) at the end of the contract; (iii) the lessee can purchase the asset at a bargain price at the end of the contract; (iv) the present value of payments prescribed in the contract is close to the fair market value of the asset; and (v) the asset is useful mainly to the lessee.

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Debt arising from PPPs

Risks and benefits

- Things to consider:
 - Public sector guarantees and contingent liabilities.
 - Public sector financing
 - Contract renegotiations
 - Profit sharing
- Compilers must analyze each case independently taking time to study each contract.

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Debt arising from PPPs

Statistical treatment

- **Public Sector** is economic owner during contract period
 - No explicit payment at the beginning of the contract - impute a transaction for acquisition of the asset
 - ❖ Just like a financial lease
 - All assets and related liabilities (e.g. debt) are on the balance sheet of the public sector
- **Private enterprise** is the economic owner during the contract period
 - Assets and related liabilities are on the balance sheet of the private enterprise
 - At the end of the contract, public sector obtains legal and economic ownership

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Debt arising from PPPs: Financial Lease Statistical Treatment

- Public Sector is the economic owner:
 - Obtains asset without payment
 - Impute a financial lease in the form of a loan
 - Payments to partner are petitioned into interest and principal payments
 - At the end of the contract, lessee accounts for residual value of the asset and assumes full legal and economic ownership of the asset
- See Boxes 4.11 in the *PSDS Guide* (pp. 71-72)
- **Debt on public sector's balance sheet during the contract period**

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Debt arising from PPPs: Capital Transfer Statistical Treatment (1)

- Private Sector is the economic owner:
 - Acquires asset using own resources
 - Receives payments from public sector through the sale of goods and services throughout the contract period
 - Builds up a liability through capital transfers (accounts payable)
 - Transfers asset to public sector at the end of the contract period (reduces liability)
- See Boxes 4.16 in the *PSDS Guide* (pp. 84-85)
- **Debt on private sector's balance sheet during the contract period**

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Debt arising from PPPs: Capital Transfer Statistical Treatment (2)

- Private Sector is the economic owner:
 - Acquires asset using own resources
 - Receives payments from public sector through the sale of goods and services throughout the contract period
 - Build-up or single capital transfer to the public sector, which finances the public sector's acquisition of the asset from the private sector
- See Boxes 4.16 (ex. 1&2) in the PSDS Guide (pp. 84-87)
- **Debt on private sector's balance sheet during the contract period**

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Debt arising from PPPs Further reading

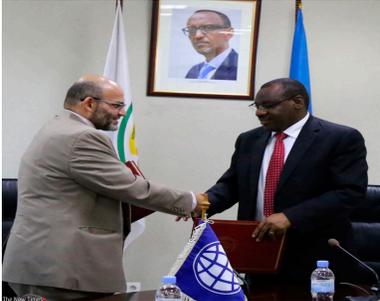
- *GFSM 2014*, Appendix 4
- *PSDS Guide*, Chapter 4
- IPSAS 32
- Eurostat Clarification Note: The Statistical Treatment of PPP Contracts
- Eurostat *Manual on Government Deficit and Debt (Implementation of ESA 10)* Part VI
- *SNA 2008*, Chapter 22

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Benefits of PPPs

- Can accelerate development
- Can increase economic efficiency
- Facilitates development without government financing
- Facilitates development without debt

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How Governments are Responding to PPPs

- Kenya's National Treasury has secured a consultant (Mr. Wohoro) to assist its Fiscal Commitments and Contingent Liabilities (FCCL) Unit within the Debt Management Department with managing public private partnerships (PPPs), classifying them properly within *Government Finance Statistics Manual 2014 (GFSM 2014)* guidelines, and reporting PPPs' debt properly.
- Uganda is now initiating a PPP Unit within the National Treasury – Ministry of Finance, Planning, and Economic Development. The leader of the Unit is Ms. Beatrice Florah Ikilai.
- Both Kenya and Uganda have enacted a PPP Act.

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QUESTIONS?

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Session 9: Completing New Guidelines Chapters

Above and Below the Line Transactions

EAC Secretariat – AFE Joint Regional GFS Workshop
Kampala, Uganda – November 28 – December 2, 2016

Viera Karolova

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Overview

- Statement of the problem
- Two quick tests
- How to distinguish between above and below the line transactions
- Statistical treatment
- Proposed outline of the new Chapter

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Above and Below the Line Transactions

Statement of the Problem

- In **practice**, it is **not always clear-cut** whether or not to record an event as an above the line operation (e.g. a transfer) or a below the line transaction in financial assets/liabilities
- Some economic **events require detailed assessment** to decide how NLB and NFW is affected and hence how to record the event
- Some events **require partitioning** to reflect economic reality
 - One flow element is considered a transaction in assets/liabilities
 - A different flow element is considered an operative flow (revenue/expense)
- **The treatment often has a critical impact on key fiscal headline indicators and, thus, is very important**

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Above and Below the Line Transactions

	Above the Line	Below the Line (Financing)
Economic categories	Revenue and Expenditure	Transactions in financial instruments (both counterparts)
Impact on NLB	YES	NO
Impact on NFW	YES	NO

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Above or Below The Line Transaction?

Quick test 1

How shall you classify the government operations?

Q1: Government invests its funds in equities issued by a public corporation

Q2: Government lends money to a public corporation

Q3: Government decides to swap its claim (loan) against a public corporation into equities

Q4: Public corporation pays dividends to government

Q5: Government pays on behalf of a corporation guaranteed debt

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Above or Below the Line Transaction?

Quick test 2

Would you reconsider the original treatment having available the additional information (in red)?

Q1: Government “invests” its funds in equities issued by a **loss-making** public corporation.

Q2: Government “lends” money to a public corporation on a **regular basis** to finance **operational activities**.

Q3: **Corporation has not been able to pay its debt (loan) to government for many years** and government decides to swap this claim into equities

Q4: Public corporation pays “dividends” to government from the **profit on holding gains** on non-financial assets.

Q5: Government pays on behalf of a corporation guaranteed debt, **which had been taken over for the full amount by government in the past.**

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Above versus Below the Line Transactions

Transactions should be recoded **above the line** (Revenue or Expenditure), **only if the NFW is affected.**

Transactions should be recorded **below the line, only when the NFW is not affected** (i.e. when both counterparts are transactions in financial assets/liabilities)

Examples of below the line transactions:

- *Exchange of one asset for another (e.g. acquisition of shares financed by cash)*
- *Acquisition of financial assets financed by new borrowing (increase in liabilities)*
- *Reduction in financial assets used to repay liabilities*

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Is Net Financial Worth Affected or Not?

If it is not clear whether a “transaction in financial instrument” affects or not NFW, one should check if

Something is given in exchange for something of equal value?

OR

Something is given in exchange for something of a different value?

OR

Something is given for nothing?

To clarify if something (cash or other assets) is given in exchange for something (claim), one should decide **if the “claim” is effective or not.**

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Above versus below the Line Effective Claim

Financial Claim

→

Definition

An asset that typically **entitles the owner of the asset (the creditor) to receive funds or other resources from another unit**, under the terms of a liability (unconditional).

Economic Substance over Legal Form !!!

- The **effectiveness** of a financial claim is often critical to assess
 - Some legally/formally defined claims may not be effective
 - Some informal claims may be effective
- Government acquires an asset only if the claim is effective
- Detailed assessment of the individual circumstances is necessary

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Effective Claim To be examined

Government acquires an effective claim if:

- The payment is not just a “gift” and government will get back the invested funds
- It is a real investment
- There are realistic expectations that government shall receive a market rate of return (e.g.in the form of dividends, interest) from the investment

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Above versus below the Line Statistical Treatment

Statistical Treatment

If the actual value of the claim acquired by government is...

= amount paid	<ul style="list-style-type: none"> Record below the line transaction (and respective change in stocks)
< / > amount paid	<ul style="list-style-type: none"> Record below the line transaction at the market/nominal value of the asset/liability involved, and Record above the line capital transfer (paid/received) for the difference between amount paid/received and the assessed value
Zero	<ul style="list-style-type: none"> Record above the line capital transfer received/paid at (estimated) value of the asset/liability involved

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Guidance: Capital Injections

Capital injections (equity injections, loans)

Recorded as Expense	Recorded as transactions in financial assets
<ul style="list-style-type: none"> To cover recurrent losses as matter of economic or social policy objectives -> Recorded as subsidy To cover accumulated deficit for reasons outside of the control of the corporation -> Recorded as capital transfer Investment without expectation of realistic rate of return / claim/asset -> Recorded as capital transfer A portion of investments with no expectation of realistic return -> Record this portion as capital transfer 	<ul style="list-style-type: none"> If government obtains an effective (recoverable) financial claim -> Record as acquisition of financial assets If the injected funds will increase market value of the assets and will generate a market rate of return -> Record as acquisition of equity asset The portion of investments on which realistic return can be expected -> Record as acquisition of equity asset (the residual = capital transfer)

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Guidance: Dividends/Super-dividends

Dividends/Super-dividends

Recorded as Revenue	Recorded as Withdrawal of Equity
<ul style="list-style-type: none"> • If paid out of operating surplus excluding profits from sales of assets and/or holding gains and reserves -> Recorded as revenue (dividends) 	<p>If declared dividends are disproportionately large relative to the recent level of dividends and earnings</p> <ul style="list-style-type: none"> • -> Record as withdrawal of equity (decrease in assets) <p>If paid out accumulated reserves, privatizations proceeds and other sales of assets, holding gains</p> <p style="padding-left: 20px;">-> Record as withdrawal of equity (decrease in assets)</p> <p>If interim dividends (pre)payments are not paid out of operating profit</p> <ul style="list-style-type: none"> • -> Record as withdrawal of equity (decrease in assets)

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Above versus below the Line

Practical implementation

Special questionnaires could be developed to examine large, challenging transactions, e.g.:

- Capital injections
 - ❖ Cumulated profit/loss
 - ❖ Profit /loss in the previous year
 - ❖ Amount of the capital injection paid by private company if applicable
 - ❖ Dividends paid during several previous years
 - ❖ Expected profit based on the business plan...
- Dividends/super-dividends
 - ❖ Operating profit/loss of the previous year
 - ❖ Impact of sales of assets or holding gains/reserves on the profit
 - ❖ Dividends paid to government during several previous years

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Proposed Outline

Introduction/ Statement of the Problem

Definitions

- General Principles
 - ❖ Above and Below the Line Transactions and Net Financial Worth (*including definition of effective claim*)
- Specific Government Operations
 - ❖ Relationships with public corporations (subsidies; capital transfers; acquisitions /sales of non-financial assets; acquisition of equities, loans) *Note: debt assumptions and debt cancellations are described in the chapter on Debt*
 - ❖ ??? Other specific operations and flows (privatization; transfer of pension obligations...) – could be elaborated at a later stage

Operational Guidelines

- Capital Injections
- Dividends/Super-Dividends
- Other???

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Questions?

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