



Extractive Industries
Transparency Initiative

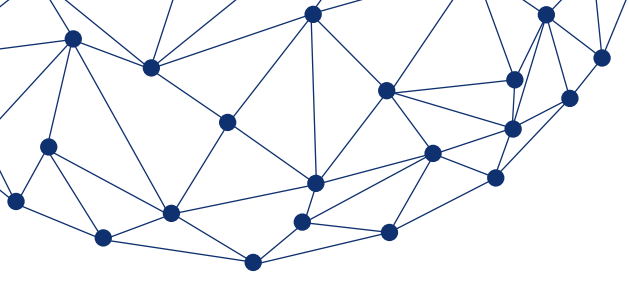
EITI REQUIREMENT 6.2

Quasi-fiscal
expenditures

Guidance Note



October 2020



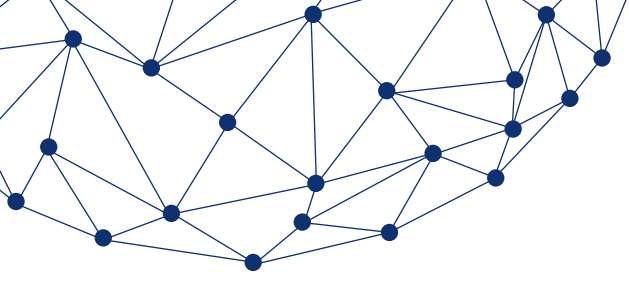
This note has been issued by the EITI International Secretariat to provide guidance to implementing countries on meeting the requirements in the EITI Standard. Readers are advised to refer to the EITI Standard directly, and to contact the International Secretariat to seek further clarification.

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Executive summary

Quasi-fiscal expenditures (QFEs) or off-budget expenditures can have a significant impact on the local and national economy, and on the government's fiscal position. In many countries, state-owned enterprises (SOEs) undertake QFEs on behalf of the state such as payments for social services, public infrastructure, fuel subsidies and national debt servicing, which are not recorded on the national budget. The IMF *Manual on Fiscal Transparency*¹ highlights the importance of identifying and quantifying quasi-fiscal activities.

Common governance challenges include opaque public spending (e.g. on defence), greater risks of fraud, lack of auditing of expenditures undertaken by quasi-public entities², and expenditures undertaken at a loss or below the usual rate of profit. QFEs are often considered sub-optimal compared to fiscal expenditures reported in the national budget, which usually has parliamentary oversight.

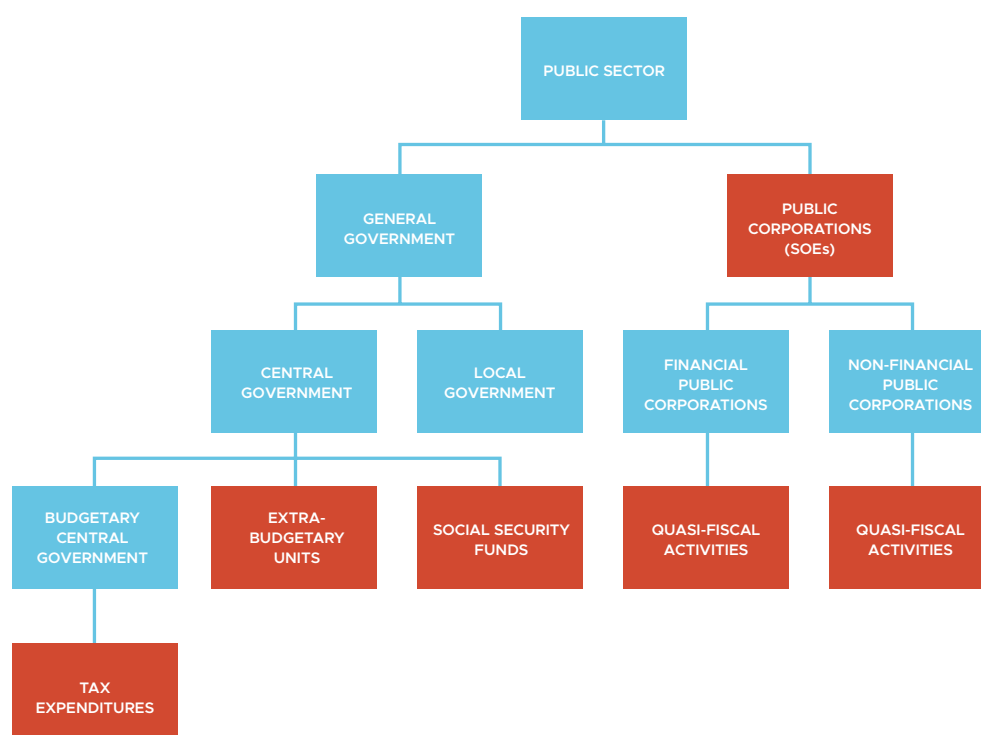
As Transparency International notes in its Public Financial Management guide³, *“off-budget activities pose problems in reporting and consolidating fiscal data and constitute a major transparency challenge. In terms of accountability, they are often submitted to less stringent requirements for reporting and public oversight.”* This can be particularly acute in the extractive industries, where there are often several government and state-owned entities involved in managing significant amounts of revenues.

One of the key aspects of the EITI Standard is the traceability of extractive revenues that are not recorded in the state's national budget. This note provides guidance to multi-stakeholder groups (MSGs) on how to address these issues as part of EITI implementation and offers examples of how implementing countries have reported on QFEs in the extractive industries.

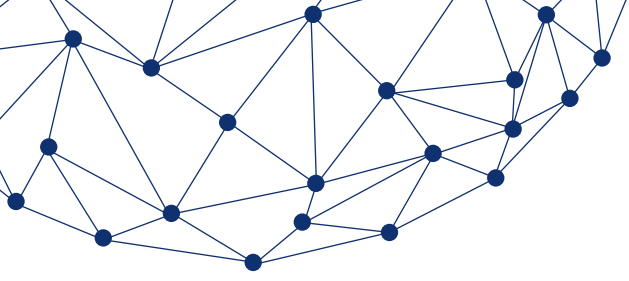
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1. International Monetary Fund (2007) Manual on Fiscal Transparency. <http://www.imf.org/external/np/pp/2007/eng/051507m.pdf>
 2. A quasi-government entity is one supported by the government but managed privately. See Merriam-Webster definition: <https://www.merriam-webster.com/dictionary/quasi-governmental>
 3. Transparency International (2014), 'Public Financial Management topic guide', https://www.transparency.org/files/content/corruptionqas/Topic_guide_on_public_financial_management_2014.pdf, pp.45-46

What can the data help answer?

- 1) Is the government undertaking expenditures outside the national budget, funded by extractive revenues?
- 2) Is there sufficient public oversight of off-budget expenditures, and how do they risk affecting the government's fiscal position?
- 3) Is the state providing off-budget subsidies for fossil fuel consumption through its SOEs? Are such subsidies accounted for?
- 4) What reforms can the government undertake to limit governance risks linked to quasi-fiscal expenditures undertaken by SOEs?



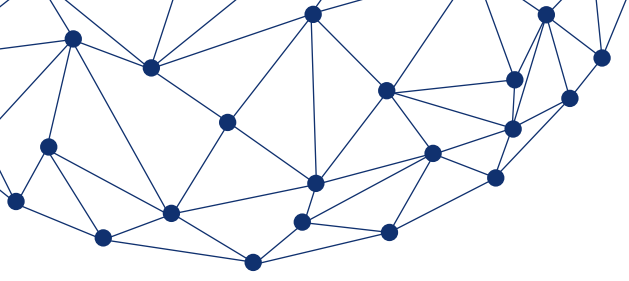
Source: *The International Budget Partnership (2014), 'The Hidden Corners of Public Finance'*, <https://www.internationalbudget.org/2014/06/the-hidden-corners-of-public-finance-where-can-csos-look-and-for-what/>



Overview of steps

Steps	Key considerations	Examples
<p>Step 1: Agree a definition of quasi-fiscal expenditures (QFEs)</p>	<ul style="list-style-type: none"> • What is the adequate definition of QFEs in the national context, taking into consideration the minimum definition in the EITI Standard? 	
<p>Step 2: Identify all expenditures from extractive revenues that are not recorded in the national budget</p>	<ul style="list-style-type: none"> • Is the revenue financing the activity/expenditure related to the extractive industries? • Is the revenue financing the activity/expenditure off-budget, i.e. not recorded in the state's annual budget (or funded by Treasury)? In the absence of a clear answer, the MSG is encouraged to include the revenue flow in the scope of its review. 	<ul style="list-style-type: none"> • Nigeria • Republic of Congo
<p>Step 3: Identify specific quasi-fiscal activities linked to off-budget extractive revenues</p>	<ul style="list-style-type: none"> • Is the expenditure a type of activity that would normally be expected to be undertaken by the government? • What are the different types of quasi-fiscal expenditures identified? 	<ul style="list-style-type: none"> • Côte d'Ivoire • Mongolia

Steps	Key considerations	Examples
<p>Step 4: Design a reporting framework for full disclosure of QFEs</p>	<ul style="list-style-type: none"> • Have the government/SOE entities with information about these quasi-fiscal activities been identified? • Do any of the entities already disclose any relevant information on QFEs through their regular reporting? • Have reporting templates for quasi-fiscal expenditures been agreed in consultation with reporting entities concerned? 	<ul style="list-style-type: none"> • Nigeria • Kazakhstan
<p>Step 5: Ensure comprehensive government and company disclosure of QFEs</p>	<ul style="list-style-type: none"> • Do disclosures include the value of payments for each type of QFE for the year under review, disaggregated by project, company, revenue stream and receiving entity? • Is that data subject to quality assurance mechanisms? 	<ul style="list-style-type: none"> • Mongolia • Ukraine • PNG • Madagascar



Requirement 6.2

Where state participation in the extractive industries gives rise to material revenue payments, implementing countries **must** include disclosures from SOEs on their quasi-fiscal expenditures. The multi-stakeholder group **is required** to develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams, and **should** include SOE subsidiaries and joint ventures.

Quasi-fiscal expenditures include arrangements whereby SOEs undertake public social expenditure such as payments for social services, public infrastructure, fuel subsidies and national debt servicing, etc. outside of the national budgetary process. Implementing countries and multi-stakeholder groups **may wish** to take the IMF's definition of quasi-fiscal expenditures into account when considering whether expenditures are considered quasi-fiscal.

Source: [EITI Standard 2019](#), pp.29-30.

See: [EITI Standard terminology](#)

How to implement Requirement 6.2

The EITI International Secretariat recommends the following step-by-step approach to MSGs for reporting on quasi-fiscal expenditures (QFEs) in the extractive industries. It is recommended that the findings from each step are documented in MSG minutes, scoping studies and as part of EITI reporting itself.

In line with the default [expectation](#) that EITI implementing countries systematically disclose data required by the EITI Standard,⁴ the MSG should work with SOEs and government entities to ensure publication of information listed under Requirement 6.2 by the custodian entities. The EITI reporting process should review publicly available information, address any gaps in the existing data and analyse the data to contribute to improving the transparency and management of the sector around QFEs.



Step 1

Agree a definition of quasi-fiscal expenditures (QFEs)

The MSG should first agree a definition of QFEs in line with the minimum required by the EITI Standard. Requirement 6.2 states that QFEs include “arrangements whereby SOEs undertake public social expenditure such as payments for social services, public infrastructure, fuel subsidies and national debt servicing, etc. outside of the national budgetary process.” It should clearly distinguish quasi-fiscal expenditures from social expenditures that are not undertaken on behalf of the state and infrastructure provisions undertaken in full or partial exchange for oil, gas or mining exploration or production concessions or physical delivery of such commodities (see Requirements [6.1](#) and [4.3](#) of the EITI Standard). In categorising an expenditure as quasi-fiscal, the MSG is encouraged to explain its rationale for considering an expenditure as being undertaken on behalf of the state.

The MSG may wish to consider the definition of quasi-fiscal activities in the **IMF’s 2007 Fiscal Transparency Manual**. The manual includes a typology of quasi-fiscal activities that MSGs

4. EITI Board Decision 2018-08/BM-39, February 2018, <https://eiti.org/board-decision/2018-08>.

5. The International Budget Partnership has also prepared a useful guide on quasi-fiscal activities. International Budget Partnership (2013) Guide to Transparency in Public Finances Looking Beyond the Core Budget: 3. Quasi-fiscal Activities. <http://internationalbudget.org/wp-content/uploads/Looking-Beyond-the-Budget-3-Quasi-Fiscal-Activities.pdf>

EITI REQUIREMENT 6.2

Quasi-fiscal expenditures

Guidance Note

Types of quasi-fiscal activities	Examples
Operations related to the financial system	<ul style="list-style-type: none">• Subsidized lending, where state-owned banks provide subsidized loans to state enterprises or the private sector;• Under-remunerated reserve requirements, where banks are required to hold reserves on which they gain a reduced profit from that which they could earn by investing the funds;• Credit ceilings, where banks are subject to a limit on the amount of credit which they are allowed to issue.
Operations related to the exchange and trade systems	<ul style="list-style-type: none">• Multiple currency exchange rates, where the central bank may use a series of different exchange rates for different transactions, for example, by giving a state-owned enterprise a better rate;• Import deposits, where companies may be required to pay a deposit to the central bank to cover the cost they will eventually pay on imports;• Exchange rate guarantees, where the central bank may provide government contractors with guarantees on the exchange rate they will be required to pay on imports;• Nontariff barriers, where imports of certain goods that compete with products produced in the country may be banned or restricted.
Operations related to the commercial enterprise sector	<ul style="list-style-type: none">• Charging less than commercial prices, where state-owned enterprises may provide, for example, electricity at a subsidized price to some or all consumers;• Provision of noncommercial services (e.g., social services), where state-owned companies may provide some services at less than full cost; for example, universities may not charge the full cost of tuition;• Pricing for budget revenue purposes, where state-owned enterprises may be in a monopoly position and so may be able to charge prices above what a competitive market might establish to raise revenue for the government;• Paying above commercial prices to suppliers, where local suppliers may be paid above the market rate as a form of protection for their industry.

Source: [IMF 2007 Fiscal Transparency Manual](#).

Step 1

Continued

may find useful and indicates how governments should cover quasi-fiscal activities in their budget documents. According to the manual, budget documentation should include statements on the purpose, duration and intended beneficiaries of each quasi-fiscal activity, based on information provided by those agencies that undertake such activities. Public corporations should include in their reports specific information on, for example, noncommercial services that the government requires them to provide or lending to other government-owned agencies.⁵ Where budget reports and SOE annual reports or financial statements are publicly accessible, these may be useful starting points for MSGs to understand the type of quasi-fiscal activities related to the extractive industries or revenues collected from the sector.

**Step 2****Identify all expenditures from extractives revenues that are not recorded in the national budget**

With reference to the definition of QFEs established in Step 1, the MSG should identify expenditures funded by extractives revenues not recorded in the national budget. The MSG should first undertake a comprehensive review of all extractive industry revenues that are collected by government or quasi-government entities,⁶ particularly SOEs. Then, it should review the detail of expenditures funded by extractive revenues that are not recorded in the national budget. Useful documents to review include budget documents and SOEs reports, such as annual reports and financial statements. In the absence of a clear categorisation of a revenue flow as off-budget, the MSG is encouraged to include the revenue flow in the scope of its review of potential quasi-fiscal expenditures.

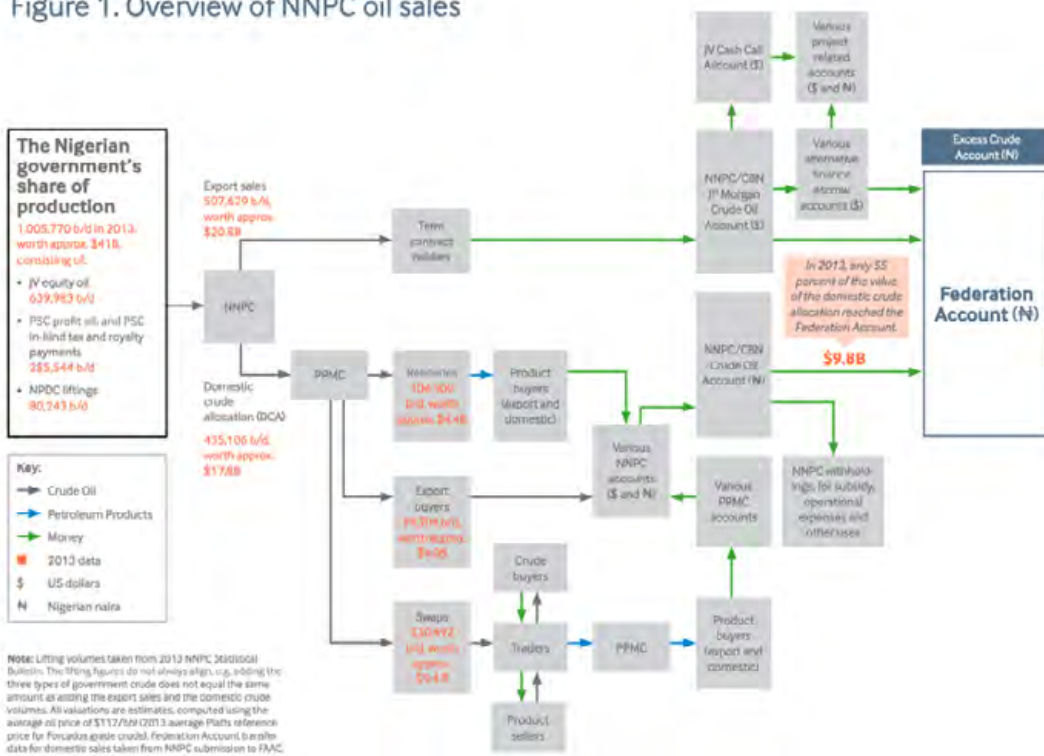
6. IMF (updated March 2017), Government Finance Statistics Manual 2014, <https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>.

CASE STUDY

Nigeria SOE deductions from government's share of production

Below, the retention of a share of domestic (Naira) crude oil allocations account to cover the share of the subsidy paid by NNPC (Nigerian National Petroleum Corporation) without being recorded in the national budget.

Figure 1. Overview of NNPC oil sales



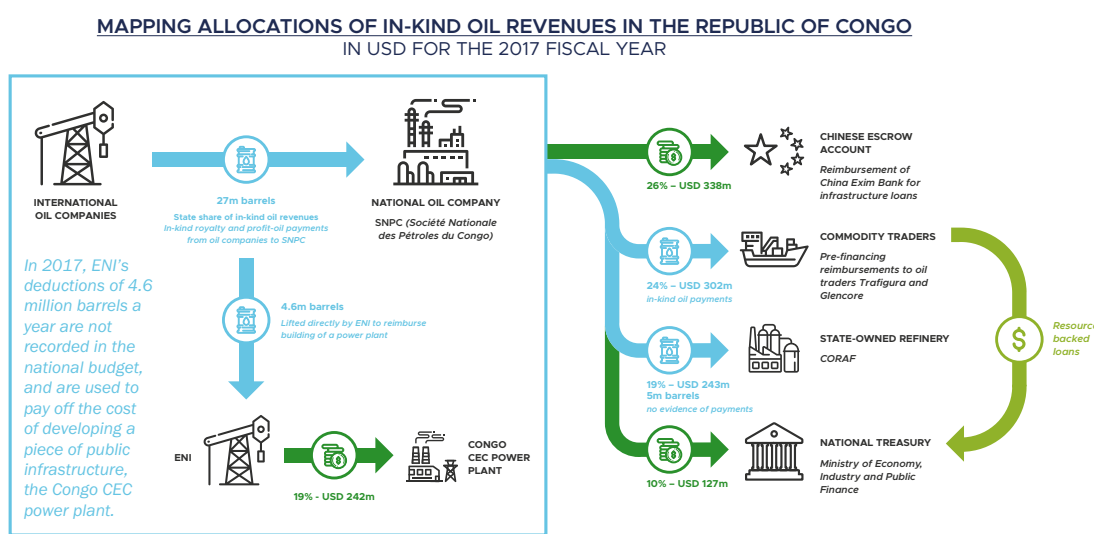
Source: NRG (2015), 'Inside NNPC Oil Sales', p.14.

CASE STUDY

Republic of Congo

Allocation of in-kind oil revenues

In recent years, SNPC (Société nationale des pétroles du Congo) has withheld a share of the proceeds from the sale of the state's in-kind revenues to pay off infrastructure loans without compensation from the national budget.



Source: International Secretariat, based on Republic of Congo's 2016 [EITI Report](#)



Step 3

Identify specific quasi-fiscal activities carried out using extractives revenues not recorded in the national budget.

The MSG should categorise off-budget expenditures using extractive revenues as quasi fiscal and distinguish from other types of social expenditures (e.g. mandatory or voluntary social expenditures). Social expenditures that are not undertaken on behalf of the state are covered under Requirements 6.1 of the EITI Standard. Infrastructure provisions undertaken in full or partial exchange for oil, gas or mining exploration or production concessions or physical delivery of such commodities are covered under Requirement 4.3 of the EITI Standard. The MSG should review the detail of expenditures funded by extractives revenues collected and retained by government-related entities such as SOEs. The categorisation should be consistent with the definition

EITI REQUIREMENT 6.2

Quasi-fiscal expenditures

Guidance Note

Step 3

Continued

agreed under Step 1. The MSG might wish to consider whether the expenditure is a type of activity that would normally be expected to be undertaken by the government.

The MSG is encouraged to consult with locally-based experts on the issue of quasi-fiscal expenditures, including representatives from the IMF, the Ministry responsible for the state budget, economic think tanks, public accountants, academics, etc. The MSG should document its discussions on the categorisation of QFEs in EITI reporting, including a summary of its approach to categorising specific expenditures as quasi-fiscal through EITI reporting. In categorising an expenditure as quasi-fiscal, the MSG is encouraged to explain its rationale for considering an expenditure as being undertaken on behalf of the state.

Examples of public or quasi-fiscal missions assigned to SOEs are also available in the Natural Resource Governance Institute's 'Guide to Extractive Sector State-Owned Enterprise Disclosures':

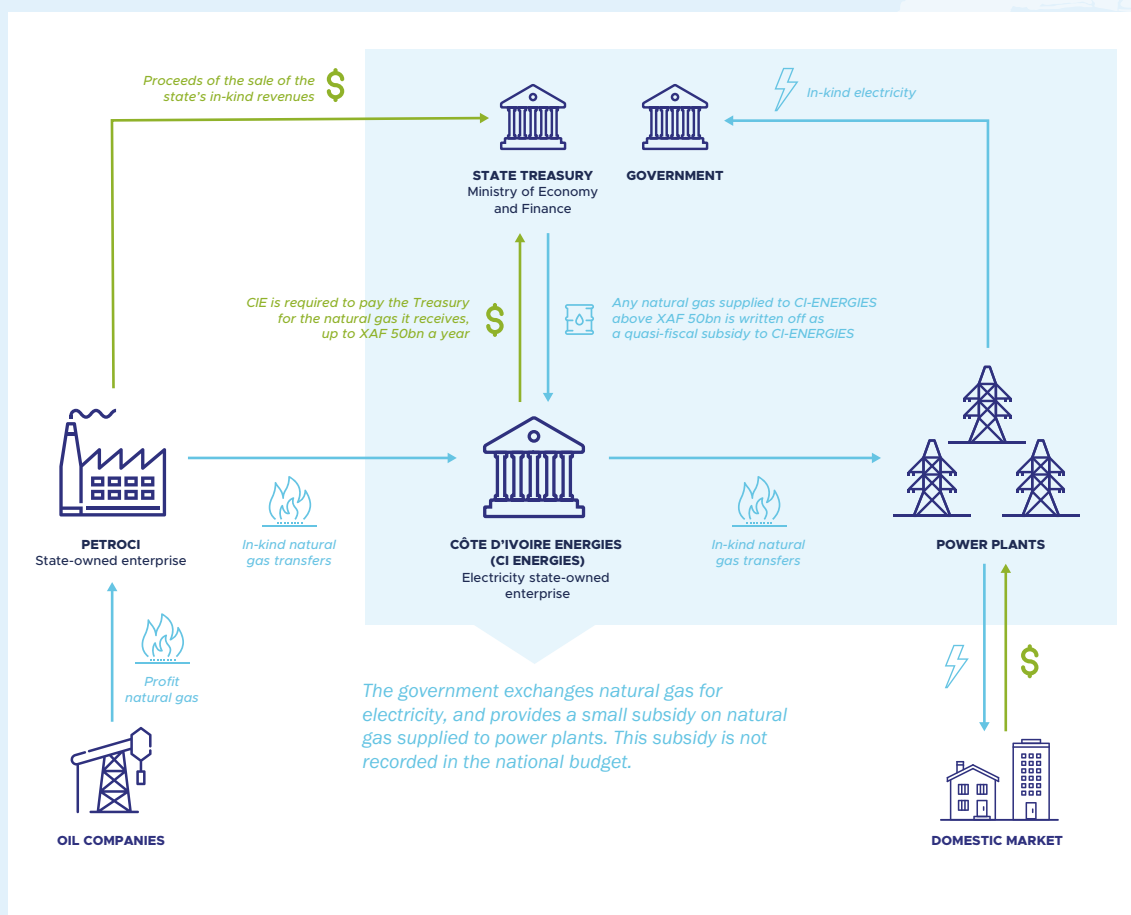
Types of quasi-fiscal activities	Examples
Regulatory activities within the extractive sector	<ul style="list-style-type: none">• Regulatory activities that benefit specific actors in the extractive industries;• Administration of subsidies on fuel or other commodities.
Activities outside the extractive sector	<ul style="list-style-type: none">• Public infrastructure construction or maintenance;• Education or healthcare services;• Borrowing on behalf of government and/or repaying government loans;• Other delivery of funds, goods or services on behalf of the government;• Other business activities outside of the oil, gas or mining sector.

Source: NRG (2018), ['Guide to Extractive Sector State-Owned Enterprise Disclosures'](#).

CASE STUDY

Côte d'Ivoire Natural gas subsidies

The government subsidises natural gas sales to domestic power producers for expenditures above XAF 50bn, without this being recorded in the national budget. The subsidies are drawn from the state's in-kind "profit gas" under PSCs, which are processed domestically for electricity generation.



Source: EITI International Secretariat, based on public disclosures.

CASE STUDY

Mongolia

Reporting quasi-fiscal expenditures

The 2016 inception report proposes a methodology for reporting quasi-fiscal expenditures, proposed by the IA for the MSG's approval.

Our approach

- All SOEs to report all available most recent financial statements along with the audit reports; where SOEs have both local audit reports plus international audit reports, MSG to request from such SOEs both audit reports
- Material payments from companies to SOEs: none identified so far; bonuses, royalties, taxes, in-kind revenues do not go through SOEs
- Quasi-fiscal expenditures discussed with SOEs during the SOE training: (i) distinction needed for payments for social services vs. social expenditures per Req. 6.1 and 6.2 not yet concluded by SOEs and MSG; but donations are material > MNT 40 bn (ii) infrastructures payments are material (iii) subsidies identified are mostly coal provided to power plants at regulated prices, which are below full-cost prices and market prices; unit price variances are large (13\$ < 29\$ < 38\$) applied to about MNT 5 mn (iv) national debt servicing: an ETT loan on behalf of the government guaranteed and reimbursable through coal delivery was identified; materiality to be determined
- SOEs suggested that the expense categories in the Budget Law can be used to distinguish quasi-fiscal expenditure vs. social expenditure on the social services category.
- Taking International Secretariat's comments and SOE's comments, KPMG suggests MSG following:
 - For expenditures related to social services, if the given payment or donation is categorized in the Budget Law, then only the part that is NOT recorded in the national budget execution report and is recorded in the SOE's FS, then it is considered as quasi-fiscal expenditures.
 - For infrastructure payment category of the quasi-fiscal expenditure (Req 6.2), following sub-category should be included in the quasi-fiscal expenditure and remaining types if infrastructure should be recorded under social expenditure (Req 6.1): Road constructions, power line constructions, bridges constructions, other heavy infrastructure constructions, ownership transfer of existing infrastructure to a government entity, could be classified in the § 6.2 category for their part that is NOT recorded in the national budget execution report; road repair & maintenance, bridges repair & maintenance, other infrastructure repairs & maintenance, could be classified in the § 6.1 category
 - For all other categories of quasi-fiscal expenditures (subsidies, national debt servicing), the only part of the payments that are NOT recorded in the national budget execution report and are recorded in the SOE's FS should be disclosed as quasi-fiscal expenditures.

Source: Mongolia 2016 inception report, p.15.



Step 4

Design a reporting framework for full disclosure of quasi-fiscal expenditures

The MSG should review the state of systematic disclosures of quasi-fiscal expenditures funded by extractives revenues.

Often, countries under support programmes from international institutions like the IMF are required to bring their quasi-fiscal expenditures and contingent liabilities on-balance sheet, for these to be recorded in the national budget overseen by Parliament.

CASE STUDY

India

Transparency of quasi-fiscal activities

The central bank, the Reserve Bank of India, publishes regular reports on fiscal transparency, alongside quarterly and annual reports on quasi-fiscal activities.



The most important extra-budgetary arrangement which has a significant fiscal impact but which is not included in the budget is the Oil Pool Account operated by the Oil Coordination Committee. The operation of the Oil Pool Account is described in Appendix III. It is difficult to determine whether this is an extra-budgetary fund, or a form of Quasi-Fiscal Activity (QFA) [see 1.1.4(c)]. It was originally meant to be a self-balancing account, created to manage the administered pricing mechanism (APM) in the petroleum sector. Under the APM, crude oil producers and refineries were paid administered prices. Consumers of petroleum products were charged administered prices and the revenue flow from consumers was expected to cover costs paid to domestic producers plus payments made for imports of crude oil and products. Administered prices for consumers were meant to be adjusted periodically to ensure that over time the revenue from sale of products covered payments to domestic producers and payments for imports. In earlier years, the Pool ran large surpluses which were not reflected in lowering of prices but were held as special deposits with the government, thus providing fiscal support for the central government. More recently, the Pool has run large deficits because of the failure to adjust consumer prices when international prices increased. These deficits have had to be made good by the government by issuing bonds to the oil companies, which were later cancelled from subsequent surpluses generated in the oil pool.

Source: Reserve Bank of India, 'Report of the Advisory Group on Fiscal Transparency'

CASE STUDY

Ghana

SOE management of petroleum revenues

The statutory Public Interest & Accountability Committee publishes twice yearly reports on the management and use of petroleum revenues. These clearly highlight quasi-fiscal expenditures by the national oil company GNPC (Ghana National Petroleum Corporation).

29. Expenditure analysis of the GNPC Foundation's programmes reveals a carefully thought through strategy, aimed at complementing government's development efforts, and at improving the socio-economic wellbeing of beneficiary communities. While most of the projects are concentrated in the frontline oil and gas communities, the Foundation makes some attempt to spread its activities to other parts of the country, especially in areas likely to be impacted by its onshore exploration activities. This makes the Foundation's CSI strategy assume a forward-looking character.
30. Total guarantees and loans provided by GNPC to other SOEs amounted to US\$325.39 million by the end of 2018.
31. There is consistent and disturbing pattern of interference in the affairs of GNPC, which has hindered its ability to operate effectively in accordance with good governance practices.

Source: Ghana's Public Interest & Accountability Committee, 2018 annual report, p.14.

Step 4
Continued

Based on the review of systematic disclosures, **the MSG should consider what additional information ot be reported and agree on reporting templates for each of the relevant entities deemed to have information related to QFEs linked to extractives revenues.** The reporting templates should be tailored to each of the specific types of QFE identified and to the individual reporting entities, such as for the Ministry of Finance and specific SOEs.

The reporting templates should be designed to ensure a level of disaggregation commensurate with other payments and revenues. [Requirement 4.7](#) of the 2019 EITI Standard requires disaggregation of data by individual project, company, government entity and revenue stream. Disclosures of QFEs should include the value of payments for each type of QFE for the year under review, disaggregated by project, company, revenue stream and receiving entity.

MSGs are encouraged to include appropriate and comprehensive guidance alongside the reporting templates when these are sent to reporting entities and organise capacity-building workshops where needed.

CASE STUDY

Kazakhstan
Social and quasi-fiscal expenditures

Appendix 4 of the 2017 EITI Report provides coverage of quasi-fiscal expenditures, both ad hoc and under commitments with local governments. However, there are concerns over the comprehensiveness and categorisation of disclosures.

Appendix 4 (national companies, subsidiaries and joint ventures with state ownership)

Quasi-Fiscal Expenditure Report

No	State share (%)	Region, city, district	Name of the Company with a state share in the ownership of the National company / holding	Assignment of expenses (social services, state infrastructure, employment, fuel subsidies, public debt service, etc.)	Name of the event (project, program, social object, etc.)	Deadline for completion	Planned amount (thousand tenge and (€) in kind)	Actually transferred amount (thousand tenge and / or) in kind	Recipient (organization / address / details)
1	2	3	4	5	6	7	8	9	10
1	100	Astana	LLP "Amangeldy Gas"	Annual commitment for 2016 and 2017 on deduction to the local budget for the socio-economic development of the region and the development of its infrastructure	Contract for combined exploration and production of hydrocarbons at the Amangeldy group of fields in the Zhambyl region	2031	2016r. – 125 866, 2017r. – 51 718	In 2017, 92,518.22 including: - for 2016 -66,890, - for 2017 -25,628.2 The balance of payments for 2017 is 17,189.66	State Revenue Department of Zhambyl region BIN 141140002347
Total:							51 718	92 518	
2	100	Aktau	LLP "KMG-Kanau Operating"	Annual commitments on deductions to the local budget for the socio-economic development of the region and the development of its infrastructure	Contract for the exploration of hydrocarbons in the Kanau site located in the Mangystau region	2019	4,530 with indexation at the rate of the US dollar to the tenge set by the NB RK on the day of payment	49,842 (the increase in the transfer amount is due to the change in the US dollar exchange rate)*	State Revenue Department for Mangistau Oblast, BIN 900340000028, BCC 206114
Total:							4 530	9 842	
3	100	Astana	JSC "NAC" "Kazatomprom"	State Infrastructure	Construction of a social facility "Kindergarten for 240 places along B. Momyshuly Ave., Astana"	July 2017	820 906 890	831 582 923	SI "Management of municipal property and public procurement in Astana"
				Employment	Payment under contracts for the provision of services related to the construction of a social facility "Kindergarten for 240 children in B. Momyshuly Ave., Astana"	February 2018	300 000	300 000	Bayramov E.B.
							300 000	300 000	Omarov N.W.
							300 000	300 000	Kalbacva Z.K.
							300 000	300 000	Alabasov E.M.
Total:							822 386 890	832 982 923	Anastasiadi E.M.

Source: Kazakhstan's 2017 EITI Report [Appendix 4](#).

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Quasi-fiscal expenditures

Guidance Note



Step 5

Ensure SOEs' and government entities' full disclosures of quasi-fiscal expenditures

The MSG should follow up with relevant reporting entities to ensure comprehensive reporting of all quasi-fiscal expenditures.

This could include undertaking capacity-building seminars with reporting entities on a needs basis. EITI reporting should include a comprehensive description of all arrangements whereby SOEs undertake quasi-fiscal expenditures. Close collaboration between the MSG and the management of SOEs is needed to ensure that a robust reporting process is designed.

CASE STUDY

Mongolia Quasi-fiscal coal subsidies

The 2016 EITI Report discloses the quasi-fiscal component of subsidies on thermal coal to domestic (state-owned) power plants.

Subsidies										
SOE	Subsidy type	Client	% of total coal supplies	Coal supply				Quasi-fiscal expenditure MNT m	Related law	Explanation
				Ton t	MNT m	Average coal price per ton	Average coal cost per ton			
Baganuur JSC	Sale of thermal coal to state-owned power plants below full-cost price.	CHP 4	50-60%	1,660	47,615	26,604	29,259	11.75	956	The Law on Energy SOEs producing thermal coal make sales to state-owned power plants at subsidised prices, below full-cost prices and market prices. Baganuur JSC did not take any subsidies from the state budget in 2016.
		CHP 3	100%	1,295	36,941	26,741	29,259	11.75	966	
		CHP 2	100%	244	6,580	26,376	29,259	11.75	557	
		Darkhan Power Plant	50-60%	107	2,929	27,381	29,259	11.75	201	
		Amgalan Power Plant	40%	39	1,193	29,014	29,259	11.75	10	
		Baganuur Power Plant	100%	53	1,349	26,502	29,259	11.75	199	
Total				3,388	96,555				2,588	

Source: Information provided by SOEs

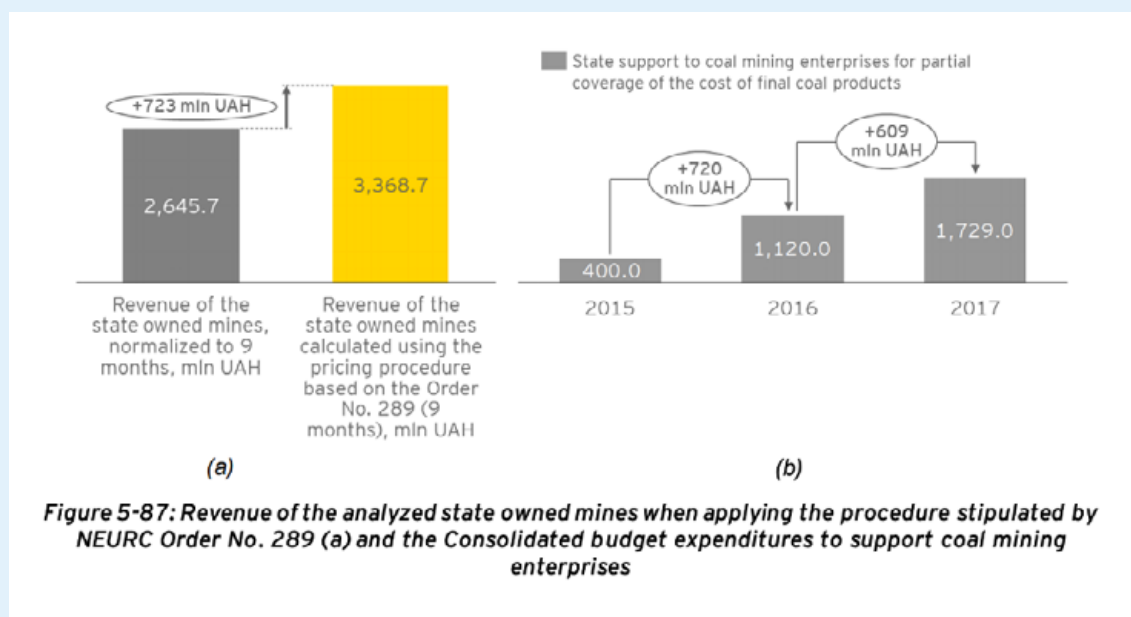
Source: Mongolia's 2016 EITI Report, p.125

CASE STUDY

Ukraine

Quasi-fiscal coal subsidies

The 2016 EITI Report calculated the implicit subsidy by state-owned thermal coal producers to (state-owned) power plants and compared this to the government subsidy to coal producers. The figures matched, meaning there was no quasi-fiscal subsidy.



Source: Ukraine's 2016 EITI Report, p.122.

EITI REQUIREMENT 6.2

Quasi-fiscal expenditures

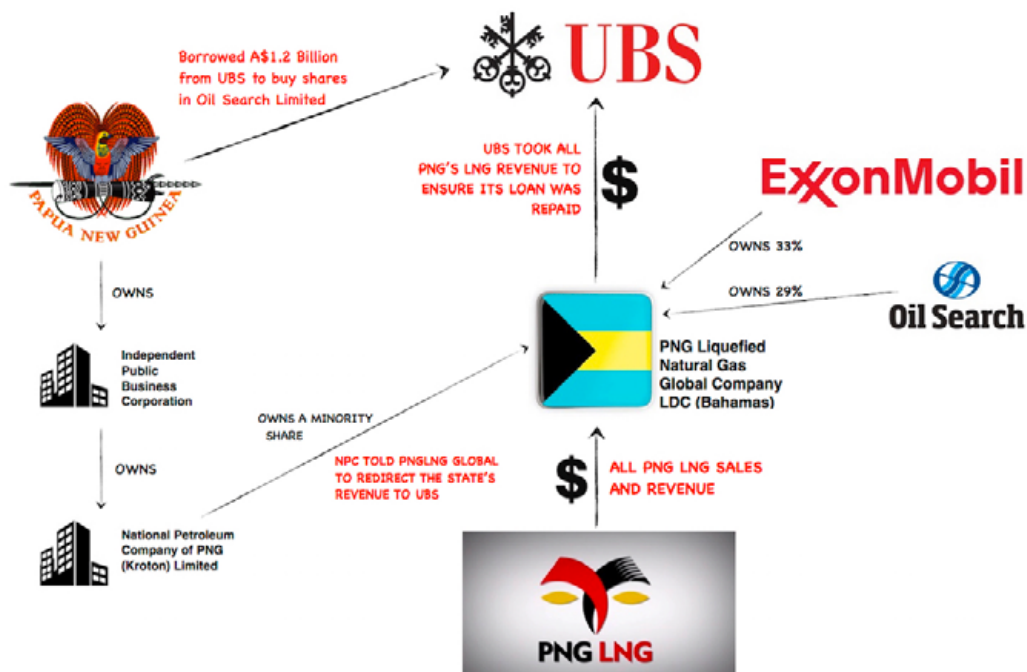
Guidance Note

CASE STUDY

Papua New Guinea SOE repayment of sovereign loan

While EITI reporting has yet to cover payment for national debt without it being covered in the national budget, the government transferred a USD 1bn sovereign loan to a subsidiary of its national oil company Kumul Petroleum Holdings in 2016-2017. It was repaid through withholdings of dividends from the PNG LNG project.

HOW UBS TOOK CONTROL OF PNG'S LNG INCOME



Source: PNGI, 'UBS and Oil Search'

CASE STUDY

Papua New Guinea (continued)

Although SOEs did not report any quasi-fiscal expenditures, the 2017 EITI Report includes a recommendation for a comprehensive review of all SOE expenditures to identify quasi-fiscal expenditures.

Recommendation 6: Quasi-fiscal payments within extractive sector

Observation	Recommendation
<p>No quasi-fiscal payments have been disclosed for the reporting period. However, we believe there may be some confusion around what actions qualify as 'quasi-fiscal' payments (see section 9.2).</p> <p>Further information relating to SOE subsidiaries was requested in the 2017 reporting templates to address this, and to better understand the potential for quasi-fiscal payments by SOEs. Entities were requested to provide contextual information relating to each subsidiary company. For example, Ok Tedi was asked to supply a reporting template for its 100% owned subsidiary, Ok Tedi Power as well as the 75% owned Ok Tedi Foundation. At the time this report was finalised, the IA had not received further information relating to either of these entities.</p> <p>There was also concern raised by some stakeholders during the validation process that there is evidence that KPH's off-budget repayment of sovereign debt through the novation of the UBS loan during 2017 could be classified as a quasi-fiscal payment. The KPH reporting template included a request to provide clarification around the sell-off of the Oil Search shares during 2017 so that this issue could be addressed thoroughly within the 2017 PNG EITI report. At the time this report was finalised, no reporting template had been received from KPH for the 2017 PNG EITI Report.</p>	<p>We support the recommendation of the International Secretariat following the validation process that, in accordance with Requirement 6.2, PNG should undertake a comprehensive review of all expenditures undertaken by extractives SOEs (and their subsidiaries) that could be considered quasi-fiscal.</p> <p>We encourage both KPH and Ok Tedi to make available the additional information requested during the 2017 reporting process, so that the materiality of any potential quasi-fiscal payments can be properly assessed.</p> <p>If there are any ongoing arrangements identified for any SOE or subsidiary that can be classed a quasi-fiscal payment, these should be incorporated in future reporting. This will enable a level of transparency commensurate with other payments and revenue streams.</p>

Source: Papua New Guinea's [2017 EITI Report](#), p.140.

CASE STUDY

Madagascar
Quasi-fiscal spending on infrastructure and ministry expenses

EITI reporting and online disclosures by SOE OMNIS (Office des Mines Nationales et des Industries Stratégiques) provided details of payments of officials' overseas travels and road rehabilitation undertaken by OMNIS.

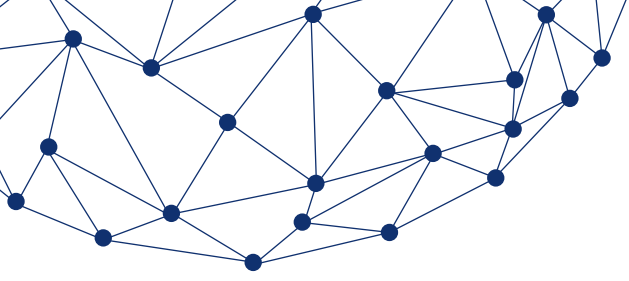
Dépenses quasi-fiscales

Les dépenses quasi-fiscales concernent les accords par le biais desquels les entreprises d'État entreprennent des dépenses sociales telles que les paiements pour des services sociaux, pour des infrastructures publiques, pour des subventions sur les combustibles ou pour le service de la dette nationale, extérieures au processus de budget national.

En obtenant, le rapport d'audit 2018 de l'OMNIS, nous avons constaté que certaines réserves mentionnées par le Commissaire aux Comptes concernent ce que la Norme EITI appelle « dépenses quasi-fiscales ». Il s'agit de dépenses qui ne concernent pas l'entité mais que l'Etat a demandé à l'OMNIS de prendre en charge en 2018 :

- ▶ la construction de la route entre le Bd de l'Europe et l'Aéroport d'une valeur 7 578 774 227,37 MGA d'une part,
- ▶ et d'autre part, des frais de personnes hors de l'effectif de l'OMNIS de 418 734 619,15 MGA.

Source: Madagascar's [2018 EITI Report](#), p.109.



Further resources

- IMF (2007), 'Fiscal Transparency Manual 2007', accessible at <https://www.imf.org/external/np/pp/2007/eng/051507m.pdf>
- International Budget Partnership, 'Guide to Transparency in Public Finances: Quasi-fiscal activities', accessible at <https://www.internationalbudget.org/wp-content/uploads/Looking-Beyond-the-Budget-3-Quasi-Fiscal-Activities.pdf>
- Natural Resource Governance Institute (2018), 'Guide to Extractive Sector State-Owned Enterprise Disclosures', accessible at https://resourcegovernance.org/sites/default/files/documents/guide-to-extractive-sector-state-owned-enterprise-disclosures_0.pdf
- Transparency International (2014), 'Public financial management topic guide, accessible at https://www.transparency.org/files/content/corruptionqas/Topic_guide_on_public_financial_management_2014.pdf



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