APEC
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Economic Cooperation

**Advancing** Free Trade
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# APEC Economic Policy Report 2013

## Promoting Fiscal Transparency and Public Accountability

October 2013

Asia-Pacific
Economic Cooperation

Printed by:
Asia-Pacific Economic Cooperation Secretariat
35 Heng Mui Keng Terrace, Singapore 119616
Telephone:(65) 6891 9600 Facsimile: (65) 6891 9690
Email: info@apec.org Website: www.apec.org

 ISSN 0218-9763 APEC#213-EC-01.2

# Preface

Structural reform is an integral part of Asia-Pacific Economic Cooperation's (APEC) efforts to promote higher quality growth in the Asia-Pacific region. The momentum towards structural reform in APEC started in 2004 with the adoption of the Leaders' Agenda to Implement Structural Reform (LAISR), which identified five priority areas including public sector governance. Building on the work in these priority areas, APEC's structural reform agenda was expanded beyond the LAISR's priority areas through the APEC New Strategy for Structural Reform (ANSSR) initiative launched in 2010.

Public sector governance has been a key element in a wide range of structural reform work undertaken by APEC over the last 10 years. It is widely recognized that good public sector governance enhances public service performance as well as long-term economic competitiveness and the economic environment.

Against this backdrop, this year's *APEC Economic Policy Report* (AEPR), the annual publication by the APEC Economic Committee (EC), focuses on a key aspect of good public sector governance—*Promoting Fiscal Transparency and Public Accountability*. Greater fiscal transparency helps to improve fiscal performance as well as public accountability and credibility, which can, in turn, create greater public support and foster more favorable access to domestic and international capital markets. The recent global financial crisis has, among other things, served to reinforce the importance of fiscal transparency and the contribution that it can make to good governance and ultimately to sustainable economic growth.

Following the tradition of previous years' AEPRs, the 2013 publication contains three chapters. The first chapter outlines the rationales for enhancing fiscal transparency and highlights the development of fiscal transparency performance in APEC economies as well as future challenges in promoting fiscal transparency and accountability. The second chapter describes the scope of fiscal transparency as well as the four principles established by the International Monetary Fund to ensure fiscal transparency: clarity of roles and responsibilities; open budget processes; public availability of fiscal information; and assurance of integrity. The third chapter reviews individual economies' fiscal institutions as well as their key initiatives and challenges in promoting fiscal transparency and accountability.

In light of the increase in fiscal deficits and public debt in the wake of the recent financial crisis, this comprehensive assessment of fiscal transparency and accountability can be used as an important resource for APEC economies as they look to further reform in areas that will promote fiscal sustainability and good public sector governance.

This AEPR has been a collaborative effort of all member economies, the APEC Secretariat, and the EC Chair's Office. I would like to extend special thanks to Chinese Taipei for contributing the first and third chapters, Indonesia for drafting the second chapter, and Member Economies for submitting individual reports on their experience on fiscal transparency and accountability.

Raymond F. Greene

Chair, APEC Economic Committee

# 2013 APEC ECONOMIC POLICY REPORT

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NOTE:
*The terms "national", "nation" used in the text are for purposes of this report and do not imply the "political status" of any APEC member economy.*

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# Chapter 1
# Fiscal Transparency as a Key to Public Accountability

## I. Background

In 2011, as the progress of the Asia-Pacific Economic Cooperation (APEC) structural reform efforts entered the new 2011-2015 phase, the Public Sector Governance "Friends of the Chair" (PSG FotC) group of the Economic Committee (EC) was mandated to conduct activities in five priority areas[1] to help implement the growth strategy of APEC Leaders and the APEC New Strategy for Structural Reform (ANSSR) initiative. Among these priority areas, enhancing fiscal transparency and public accountability has received considerable attention by Member Economies. Therefore, the PSG FotC group has focused intensively on fiscal transparency and accountability and engaged in numerous related activities.

This report provides a summary of the key insights and innovative practices that economies shared in the related activities implemented by the PSG FotC group in EC to promote the importance of fiscal transparency and accountability in good governance and structural reform. Chapter 1 is divided into four sections, beginning with a discussion on the definition of fiscal transparency. It then outlines rationales for enhancing fiscal transparency, and highlights the development of fiscal transparency performance in APEC economies. The chapter concludes with a brief description of future challenges in promoting fiscal transparency and accountability.

### 1. Definition of Fiscal Transparency

"*Broadly defined, government transparency is the overall degree to which citizens, the media, and financial markets can observe the government's strategies, its actions, and the resulting outcomes…one important aspect of transparency [is] fiscal (or budget) transparency*."[2]

Government transparency refers to the disclosure of all governmental activities, records, and policy intentions in an easily understandable and freely accessible manner. From a micro perspective, it uncovers corruptions within the governmental system. From a macro perspective, transparency improves administrative performance, increases public trust, and enhances the legitimacy of public policies.

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[1] The Public Sector Governance FotC group focuses on five priority areas, including: (1) strengthening public administration for the future; (2) improving public service quality; (3) leveraging information and communications technology to strengthen public sector governance; (4) enhancing fiscal transparency and public accountability; and (5) strengthening trust, integrity, and ethics.

[2] J. E. Alt, D. D. Lassen, & S. Rose, 2005. *The Causes of Fiscal Transparency: Evidence from the American States.* Washington, DC, International Monetary Fund (IMF), p.1.

Government transparency involves various dimensions. Among them, fiscal transparency is highly valued by taxpayers because budgetary and fiscal policies not only address decisions on how much revenue to raise but also how to organize public expenditure, which affects the national economy and public life, in addition to fiscal sustainability for future generations.

Considering the importance of fiscal transparency, both academia and international organizations have devoted great efforts to its study. Several definitions of fiscal transparency can be found in the literature, but they mostly differ only in minor aspects.

A working definition that is popular among scholars states that fiscal transparency is "…*the openness towards the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities … so that the electorate and financial markets can accurately assess the government's financial position and the true costs and benefits of government activities, including their present and future economic and social implications."*[3]

According to the aforementioned academic definition, fiscal transparency is a state of governance that entails the full disclosure of budgetary and fiscal activities. However, budgetary and fiscal activities are usually too complex for the public to understand. Most people possess little knowledge or insufficient time to fully understand the impacts of fiscal decisions, or to discern correct information from incorrect information. Therefore, to achieve true transparency, the government is obliged to build mechanisms and institutions that help citizens reduce the transaction costs of staying informed, including the costs of acquiring and understanding timely and reliable information.

Another popular definition provided by international organizations is that of the International Monetary Fund (IMF) website, which defines fiscal transparency as follows—"*Fiscal transparency entails being open to the public about the government's past, present, and future fiscal activities, and about the structure and functions of government that determine fiscal policies and outcomes. Such transparency fosters better-informed public debate, as well as greater government accountability and credibility."*[4]

The IMF definition implies that the objective of fiscal transparency is to foster a better-informed public such that society can trust public officials or governments who form fiscal policies and implement budgetary programs, or hold them accountable for the outcome of their actions.

Fiscal transparency has recently drawn considerable attention because of the growing problems associated with government failure, primarily related to the lack of public accountability. A government that aims to achieve transparency must disclose complex and technical fiscal documents and data to facilitate informing the public, and ensure that the public has the power and means to reward or punish public officials, to motivate or enforce officials and organizations to adopt policy measures that meet citizen needs.

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[3] G. Kopits & J. Craig, 1998. *Transparency in Government Operations,* Washington DC: IMF, p.1.
[4] IMF, 2013. Available at: http://www.imf.org/external/np/exr/facts/pdf/fiscal.pdf [Accessed May 9, 2013].

The next section of this chapter presents a discussion on the relationship between fiscal transparency and accountability.

The conceptual definition of fiscal transparency from the IMF is largely qualitative and makes the measurement or quantification of the level of fiscal transparency a challenging task. Researchers have frequently proposed indices to measure the degree of fiscal transparency, which typically aim at capturing various dimensions of fiscal transparency identified in previous studies or international guiding principles. A common dimension involves the timely provision of comprehensive information on government policy intentions and operations, such as regularly published fiscal reports and medium-term budgeting and analyses that contain information on the general government and quasi-fiscal activities. Another popular dimension addresses institutional arrangements that encompass an open process for managing fiscal activities and an auditing mechanism for assuring the integrity of fiscal information. Chapter 2 of this report presents a detailed discussion of the various dimensions of fiscal transparency.

## 2. Linkages between Fiscal Transparency and Public Accountability

Since the concept of New Public Management gained prominence in the 1990s, governments worldwide have come to believe that public accountability leads to good governance.

In exploring the notion of public accountability, it is common to employ “agency theory” to illustrate the accountability relationship between a government and its citizens. Under this theory, a democratic society is built upon the agency relationship between citizens and the government, meaning that the government serves as an agent and citizens are the principal. Citizens choose the government through an election process, and the government acts as an agent to allocate public resources created by tax collection from citizens. Therefore, the government that serves as an agent is expected to appropriately allocate budgetary resources and implement policies to meet citizen needs. Citizens review the outcomes of resource allocation and the performance of fiscal management and decide whether to extend or lift the principal-agency relationship through the next election. Under the described public accountability, elections are the most powerful tool to achieve accountability in a democratic society.

However, using an election successfully to achieve public accountability requires informing voters of government policies and activities. Effective accountability is built on the assumption that both citizens and the government have equal access to information. Under the conventional principal-agent relationship, citizens and the government do not necessarily share the same goals, and the government has abundant incentives to conceal information from the public.

Government officials may aim at maximizing the discretionary budgets of their agencies, or try to earn votes by engaging in fiscally irresponsible logrolling politics, whereas the goal of citizens is to implement policies that achieve efficient and equitable allocations of public resources. Under these circumstances, public officials tend to focus on pursuing their own interests and pay little attention to the needs of the electorate. Because of information asymmetry between the principal and the agent, the public (principal) has insufficient information to judge whether to give vote of no confidence to the government. However, by deception or hiding vital information, the government can avoid losing support or being punished.

Such moral hazard typically occurs in principal-agent relationships. If the government does not require or strictly enforce fiscal transparency, government officials may deliberately deceive the public and sacrifice public interests in exchange for private benefits by leveraging information asymmetry. Interest groups may have no choice but to bribe officials to gain more privileges or public resources. Without information accessibility to the public and transparency, corrupt practices cannot be disclosed or ended.

In order to enhance public interests and to hold the government more accountable, numerous studies have focused on this issue and concluded that fiscal transparency strengthens fiscal disciplines, lowers government debts, and generates fiscal sustainability.[5] Greater fiscal transparency is expected to effectively reduce government malpractice, particularly in the area of fighting corruption. If the government is obligated to fully disclose fiscal information, government misconduct such as corruption and bribery can be prevented or reduced. This is the exact definition of public accountability; public officials and organizations are answerable for their actions and an opportunity exists for redress when public duties and commitments are not met.

Public accountability cannot be achieved if citizens lack free access and good understanding of relevant information. The World Bank once warned of the consequences of such information asymmetry and indicated that transparency is the key to overcoming public accountability crises and to ensure congruency of the government and citizens.

The right to fiscal information allows citizens to clearly examine policy outcomes, accurately assess the ability of elected officials, and avoid problems resulting from adverse selection. Consequently, citizens motivate elected officials and their subordinates to be more attentive to balancing public needs and overall fiscal discipline.

Fiscal transparency is full disclosure of all relevant processes and organizations concerning government budget information and fiscal policies, to give the “right to know” of fiscal information back to citizens. Free access to fiscal information eliminates malpractice and generates preferable outcomes in making and implementing budgetary and fiscal policies.

In summary, by helping voters stay informed, fiscal transparency pushes the government to share the same goal with citizens, because only elected officials who respond to citizen needs can win the next election. Therefore, fiscal transparency and public accountability are mutually reinforcing in that fiscal transparency is a necessary condition for achieving public accountability. Without fiscal transparency, holding the government and public officials accountable for budgetary and fiscal activities is unlikely.

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[5] Please see J. E. Alt & D. D. Lassen, 2006. *Fiscal Transparency, Political Parties, and Debt in OECD Countries*, European Economic Review, 8, 50(6), pp. 1403-1439; M. Marcel & M. Tokman, 2002. Building a Consensus for Fiscal Reform: The Chilean Case. *OECD Journal on Budgeting;* and J. M. Poterba & J. V. Hagen, 1999. *Fiscal Institutions and Fiscal Performance.* Chicago, The University of Chicago Press.

Although fiscal transparency is a prerequisite for public accountability, it does not always generate accountability. The empirical evidence of the effect of transparency on accountability is not as strong as expected[6] because answerability without consequences falls short of accountability.[7] If there is full disclosure of fiscal information and taxpayers know the exact level of government performance but have no power or tools to punish or reward the government, the impact of fiscal transparency will be limited. It means fiscal transparency is a necessary but not sufficient condition for public accountability. To ensure the realization of accountability, institutional arrangements which ensure answerability with consequences are required to support fiscal transparency.

Effective accountability institutions include free elections, governing regimes with appropriate checks and balances, independent social media, and a strong civic society. Only with these institutional arrangements in place can the linkage between fiscal transparency and accountability be sufficiently strong to empower citizens to change the behavior of public officials by holding them answerable and accountable in the glare of the public eye.

## II. Why Is It Necessary to Enhance Fiscal Transparency?

Fiscal transparency is not a new concept, but it has received increasing attention in the aftermath of the global financial crisis of the 1990s. The fiscal deficits and public debt in numerous nations have increased considerably in the wake of the financial crisis, leaving a risky and unsustainable fiscal environment. In this context, numerous governments have been forced to rebuild a sound financial management system that includes greater transparency in the various phases of budget preparation, execution, monitoring, and auditing. International organizations, such as the IMF, the Organization for Economic Co-operation and Development (OECD), have devoted themselves to promoting fiscal transparency. For instance, the IMF published the “Codes of Good Practices on Fiscal Transparency” in 1998, and the OECD developed the “Best Practices for Budget Transparency” in 2000. These well-received documents were published in the aftermath of the Latin American and Asian crises.

The following section presents a discussion of three major factors contributing to the recent global movement in fiscal transparency, including the global financial crises since the 1990s, the need to establish a sound fiscal management system, and international initiatives taken by influential organizations.

### 1. Worldwide Financial Crises since the 1990s

The financial crises that occurred in the 1990s, including the Latin American Crisis in 1994 and the Asian Financial Crisis beginning in 1997, significantly impacted the global market and highlighted the concept of fiscal transparency to a certain extent. A low degree of fiscal transparency is believed to be one of the causes of financial turmoil in these economies.

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[6] J. A. Fox, 2007. The Uncertain Relationship between Transparency and Accountability. *Development in Practice*, 1 August, pp. 664.
[7] J. A. Fox, 2007. op. cit., p. 668.

Financial crises refer to a government debt crisis and national economic instability and insecurity caused by a banking system crisis. A high probability of financial crisis exists when citizens' right to information is unprotected.

Taking public debt crisis as an example, fiscal illusion theory suggests that a public that does not correctly perceive the overall fiscal condition of the government is unable to monitor, reward, or punish officials in a timely manner through the voting mechanism. Consequently, long-term fiscal imbalances or credit bankruptcy may occur.

Similarly, a low degree of information transparency within the banking sector can cause insecurity and trigger a crisis. Lack of transparency within the banking system implies information asymmetry between financial regulators and the banks that they supervise; therefore, government supervision of the banking system is weak, which may result in a failure to maintain a healthy banking sector. Furthermore, when financial difficulty occurs in the banking system, the government is often expected to provide loans or bailouts; consequently, moral hazard emerges gradually in the banking sector, increasing the difficulty of resolving public accountability issues.

The financial crises in recent decades have been a driving force for APEC Member Economies and other nations to actively promote fiscal transparency. In this section, we provide insight into the major financial crises occurred since the 1990s from the fiscal transparency viewpoint.

*(1) Latin American Currency Crises in the 1990s*

Beginning in the 1970s, currency crises frequently occurred in Mexico and Argentina. In the 1990s, financial and currency problems continued to surface, resulting from unstable economic and political systems in Central and South America.

Mexico witnessed high economic growth and experienced the so-called "Mexican miracle" during the 1990 to 1994 period because of the Brady Plan[8] articulated in 1989, the North American Free Trade Agreement (NAFTA) initiated in 1993, and a fixed exchange rate system. However, the fixed exchange rate system eventually caused peso overvaluation, and the trade deficit widened and foreign reserves fell sharply.

In December 1994, the Mexican government decided to devalue the peso, which was later referred to as the "December Mistake" or the "Tequila Effect." The sudden devaluation of the peso cost foreign investors great loss and triggered fears of default. Mexico also experienced a large-scale account deficit, lax banking or corrupt practices, and unstable political disturbances. Consequently, the Mexican peso crisis quickly became a financial crisis which spread to other Latin American economies. Argentina and Brazil were affected heavily, with a sharp decline in investment spending and a loss of confidence in the banking sector.

The United States quickly intervened by buying pesos in the open market and granting loan guarantees. By 1996, the currency crisis in the region had ended.

[8] The Brady Plan, the principles of which were first articulated by U.S. Treasury Secretary Nicholas F. Brady in March 1989, was designed to address Latin America's debt crisis of the 1980s.

*(2) Asian Financial Crisis of 1997*

Prior to 1997, Asian economies, particularly those in Southeast Asia, had attracted considerable foreign investments because of cheap labor, high savings rates, and substantial economic development. American and European economies thus referred to these economies as “Asian Tigers.” These Asian nations were notable for maintaining exceptionally high economic growth.

However, an Asian financial crisis that affected much of Asia occurred in July 1997. The crisis started in Thailand with the financial collapse of the Thai baht. Facing a large long-term trade deficit and drops in its foreign reserves, the Thailand government was forced to float the currency. However, the devaluation of the Thai baht quickly turned into a financial crisis, which posed a severe impact to Hong Kong, China; Indonesia; Korea; and Malaysia, and raised fears of a global economic recession caused by financial contagion.

Many factors played a role in the occurrence of the Asian financial crisis. The moral hazard problem in international lending is certainly a serious one that cannot be properly addressed without greater fiscal transparency.

Transparency, which was often lacking in Asian economies, is a functional requirement of a successful market. Compared with the principles of fiscal transparency in the Anglo-Saxon model of capitalism, the so-called “Asian capitalism” is more relational, based on expansive family and ethnic networks, and regional ties. This absence of transparency represents a fundamental flaw in Asian capitalism and is one of the major reasons for the Asian financial crisis of 1997.[9]

The term “crony capitalism” has been used to describe Asian capitalism following the Asian financial crisis of 1997. Crony capitalism in this context refers to the model in which business success relies on the close relationship with government officials. Prior to the outbreak of the 1997 Asian financial crisis, opaque practices such as favoritism in granting governmental subsidies and legal permits, implicit government guarantees that helped to underwrite highly risky and unpromising investments, and dubious transactions such as direct loans from foreign banks to companies controlled by powerful politicians, were common in certain Asian economies.[10] Crony capitalism practices and lack of fiscal transparency in some economies, combined with other factors, eventually resulted in a financial-system collapse in the region.

*(3) United States Subprime Mortgage Crisis of 2008-2009*

Numerous economists have considered the United States’ subprime mortgage crisis that occurred in 2008 to be the worst financial crisis since the Great Depression of the 1930s. Wall Street bankers sold bundled derivative financial instruments, originally aimed at reducing risks. The crisis erupted primarily because these financial instruments became too complex, opaque, and risky. For example, collateralized debt obligations (CDOs) were used to collect corporate bonds to lower default risk. However, derivative

[9] G. Rodan, 2010. Asian Crisis, Transparency and the International Media in Singapore. *The Pacific Review*, 26 November, p. 218.
[10] P. Krugman, 2009. *The Return of Depression Economics and the Crisis of 2008.* New York: W. W. Norton & Company, Inc., pp.120-121.

financial instruments became so complex that even government financial regulators could not clarify how these instruments worked. Such a phenomenon eventually triggered a disastrous financial crisis.[11]

According to official documents reviewing the United States subprime mortgage crisis released by the Central Bank of Chinese Taipei, most derivative financial instruments sold in the financial market were traded through agreements signed privately between buyers and sellers. Although these products were highly customizable and flexible, a low degree of transparency made it difficult to see total exposure, exposure concentration, and the true values of contracts. Hence, when a substantial shock hit the financial market, a lack of transparency regarding the underlying exposure of financial institutes led to psychological self-defensive reactions and distrust among counterparts, which consequently triggered systemic risk, collapsing the entire financial system.[12]

The United States' subprime mortgage crisis has shown that a lack of information transparency in financial institutions prevents the market from knowing the actual financial conditions of these institutions. When information is not fully disclosed, investors are unable to correctly perceive financial risks, or have the opportunity to take precautionary measures or adjustments. Hence, to prevent financial crisis recurrence, bridging the information gap and reducing information asymmetry between financial regulators and financial institutes is necessary.

*(4) European Sovereign Debt Crisis Since 2010*

Beginning in early 2010, the Eurozone has faced a severe sovereign debt crisis, which poses enormous threats to global economic stability. Several Eurozone nations, including Greece, Ireland, and Portugal, have accumulated unsustainable levels of government debt. Among them, the opaque accounting practices of the Greek government have been a major cause of this debt crisis.[13]

According to the Maastricht Treaty, to enter the third stage of the Economic and Monetary Union (EMU) and adopt the Euro as their currencies, member states of the European Union (EU) are required to comply with the "deficit criterion" and "debt criterion" specified in the Treaty. Because the Greek government has experienced severe long-term public debt, to join the EMU successfully, the government resorted to creative accounting practices. Specifically, Wall Street bankers devised a type of cross-currency swap to help the Greek government hide the true extent of their loans and to mask the facts concerning their national debt, to successfully enter the Eurozone.[14]

However, the global financial tsunami caused by the United States' subprime mortgage crisis in 2008 had begun to weaken investor confidence worldwide. When it was later

[11] A. Greenspan, 2008. *The Age of Turbulence: Adventures in a New World.* Reprint edition. New York: The Penguin Group, p. 524.
[12] Central Bank of China, 2009. *The Report on Global Financial Crisis*. Taipei: CBC, pp. 192-193.
[13] The International Federation of Accountants has attributed the escalating sovereign debt crisis in the Eurozone, particularly in Greece, to opaque government accounting and has called for greater transparency in financial management. Please see ET Bureau, 2010. *The Economic Times.* Available at: http://articles.economictimes.indiatimes.com/2010-05-12/news/28384932_1_transparency-greece-eurozone [Accessed May 9, 2013].
[14] D. Case, 2011. Greece's Debt Crisis: Not Over Yet. *Global Post: American World News Site*. Available at: http://www.globalpost.com/dispatch/news/regions/europe/110629/greece-debt-crisis-Goldman-Sachs-US-Europe-banks?page=0,1 ,[Accessed April 10, 2013].

revealed that Greece had falsified financial data to hide its debt, this opaque accounting practice further increased Greek borrowing costs. By 2010, Greece faced a debt default risk which consequently created a snowball debt effect in the Eurozone.

The Greek government's default risk was not the only cause of the European sovereign debt crisis; demographic factors and social changes also played critical roles. European economies are known for their munificent social welfare programs. Baby boomers, born between 1946 and 1964, have begun to reach retirement age after 2010 and are beginning to claim lucrative pensions, exerting a direct influence on the fiscal condition of each European economy, and sharply increasing government debt.

Sluggish economic growth is another contributing factor in the European debt crisis. In a globalized world, as capital and labor forces are able to move freely, factories tend to migrate to regions with relatively low labor costs. Because labor costs in Eurozone nations are typically higher than in other regions, Eurozone nations have recently witnessed soaring unemployment rates. High unemployment rates have lowered tax revenues and raised public expenditure on unemployment benefits. Debt burden and the future fiscal outlook in European economies have worsened considerably, and the Eurozone debt crisis has not been fully resolved.

The European sovereign debt crisis has demonstrated that a low degree of fiscal transparency can cause financial crises and economic downturns. Governments facing ever-growing demand from citizens and a continually worsening fiscal outlook have no choice but to establish information transparency to prevent further financial crises generated by asymmetric information and fiscal opacity.

## 2. The Need for a Sound Fiscal Management System

A sound fiscal management system is characterized by fiscal transparency. Fiscal transparency generates positive effects on fiscal performance such as improving efficiency and the equity of budgetary resource allocation, controlling the annual budget deficit, reducing government debt, and creating a sustainable fiscal environment.

In contrast, a lack of transparency is detrimental to sound financial management and creates a haven for corruption in tax administration and public procurement. The corruption of tax officials is a severe problem in many less developed economies. Corrupt tax officials collude with those who try to evade taxes. Tax officials who fail to report such illegal practices in return for bribes severely erode the tax base and destroy the principle of fairness and justice in tax administration.

Public procurement, which is estimated to account for a minimum of 15 percent of GDP in many nations[15] is another hotbed for corruption. Numerous businessmen have admitted that in certain markets, bribery is simply "a normal way" of doing business.[16] However, left unchecked, corrupt practices in public procurement distort free markets and undermine public trust in the government and institutions, thus harming national competitiveness and economic development.

[15] OECD, 2007. *Bribery in Public Procurement: Methods, Actors and Counter-Measures.* Paris: OECD Publishing., p. 9.
[16] OECD, 2007. op. cit., p. 12.

Publicity and openness are crucial for combating corruption in tax collection, public procurement, and other fiscal management practices. Publicized and transparent procedures in the financial management system allow stakeholders to scrutinize the decisions and behaviors of public officials and force them to refrain from illegal activities.

Non-transparency breeds corruption and damages fiscal sustainability. Fiscal illusion theory suggests that when taxpayers cannot fully perceive the transparency or cost of a government program, the cost of the program is often seen to be less expensive than it actually is, such that taxpayers' demand for public spending increases. Non-transparency deteriorates fiscal sustainability by reinforcing the fiscal illusion of taxpayers. Citizens are accustomed to government spending and expect the government to continue to increase expenditures on public infrastructure and social welfare, with little consideration for fiscal sustainability. Elected officials who are only focused on winning the next election are likely to promote policies to satisfy electorate needs. Unless the government is legally forced to disclose readable and reliable fiscal information, the fiscal illusion and the endless desires of citizens cannot be effectively curbed.

## 3. International Initiatives

Fiscal transparency principles established by international organizations often serve as standards or benchmarks for economies to review and examine their own degree of fiscal transparency. In this section, we present a brief summary of the recent endeavors of the IMF, the OECD, the International Budget Partnership (IBP), and other international organizations in promoting transparency. The efforts by APEC members are discussed in the next section.

(1) International Monetary Fund

The IMF was one of the first international organizations to publish objective fiscal transparency standards. Following the Mexican and Asian financial crises of the 1990s, economies worldwide began to focus attention on fiscal transparency. "The Code of Good Practices on Fiscal Transparency: Declaration and Principles" (hereinafter referred to as "the Code") released by the IMF in 1998 attempted to promote the fiscal transparency assessment of individual economies, draw up improvement plans, and establish a solid fiscal environment. The Code was revised twice, in 2001 and 2007, to better reflect new developments in public sector accounting and auditing standards and other emerging issues in public financial management. The "Manual on Fiscal Transparency" was also released with the Code to serve as a detailed guideline for economies to follow.

The Code is based on four general principles (or four pillars), briefly stated as follows. Chapter 2 of this Report will give a more detailed description of each principle.

a. Clarity of roles and responsibility

The first pillar identifies those entities that conduct government functions, and discusses best practices related to government structure and functions, the role of executive, legislative, and judicial branches, the responsibilities of various levels of government, the relationship between government and state-owned businesses, and governmental involvement in the private sector.

b. Open budget processes

The second pillar of the Code covers practices on transparent budget preparation, execution, and monitoring. The Code suggests that budget preparation be guided by well-defined macroeconomic and fiscal-policy objectives, and emphasizes the importance of establishing clear procedures for budget execution, monitoring, and reporting.

c. Public availability of fiscal information

The third pillar suggests that governments provide the public with timely and comprehensive information on past, current, and projected fiscal activities and on major fiscal risks. The information should be presented in a manner that facilitates policy analysis and promotes accountability.

d. Assurances of integrity and public accountability

The Code requires that fiscal information meet acceptable quality standards. Its fourth pillar addresses ensuring fiscal data integrity and the need for an effective internal auditing and external oversight.

(2) Organization for Economic Co-operation and Development

Similarly to the Code, the “OECD Best Practices for Budget Transparency” (hereinafter referred to as “Best Practices”) released by the OECD in 2001, has also aroused considerable worldwide attention. The Best Practices consist of three parts: (a) Budget report: Part 1 lists all the primary fiscal reports that the government should publish and their general content; (b) Specific disclosures: Part 2 describes specific fiscal information that must supplement the general content of fiscal reports, including economic assumptions, tax expenditures, financial liabilities and financial assets, employee pension obligations, and contingent liabilities; (c) Integrity, control, and accountability: Part 3 highlights best practices for ensuring the quality and integrity of fiscal information, including accounting systems, parliamentary monitoring, institution auditing, and public scrutiny.

(3) International Budget Partnership[17]

In addition to the IMF and the OECD, the IBP also emphasizes promoting budget transparency. Collaborating with the worldwide civil society, the IBP aims to influence budget systems and fiscal policies to ensure that public budgets are more responsive to society, and to accordingly make budget systems more open, transparent, and accountable to the people to reduce poverty, fight corruption, and achieve good governance.

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[17] IBP, 2010. *International Budget Partnership.* Available at: http://internationalbudget.org/what-we-do/major-ibp-initiatives/open-budget-initiative/ [Accessed April 28, 2013].

The IBP has conducted the Open Budget Survey biennially since 2006, and has completed its fourth round of the Survey in 2012. The survey assesses what occurs in practice in 100 partner economies, rather than what the law or regulation requires. The survey evaluates the contents and timely release of eight key budget documents in each nation, including the pre-budget statement, executive budget proposal (EBP), supporting documents for the EBP, enacted budget, citizens' budget, in-year reports, mid-year review, year-end report, and audit report. The IBP believes it is necessary to issue key budget documents at various phases of the budget process, regardless of their budget systems and national income levels.

The results of the 2012 Open Budget Survey are based on a 125-item questionnaire. The questionnaire is composed of five sections and is built primarily on criteria drawn from the IMF "Code of Good Practices on Fiscal Transparency," the OECD "Best Practices for Fiscal Transparency," and the International Organization of Supreme Audit Institutions' (INTOSAI's) "Lima Declaration of Guidelines on Auditing Precepts."[18] The first three sections of the Survey assess the public availability and comprehensiveness of key budget reports throughout the budget process. Sections 4 and 5, which were newly added to the 2012 survey, measure the strength of legislature and supreme audit institutions in the nation, and civic engagement in the budget process.

(4) Other International Organizations

In addition to the fiscal transparency initiatives that are adopted and introduced globally, other international organizations strive to promote fiscal transparency by other means than creating a set of fiscal transparency-focused standards or principles. For example, Oxford Analytica, as commissioned by the IMF, releases fiscal transparency reports of each economy based on IMF standards. These reports serve as a major database to evaluate the degree of fiscal transparency of an economy and a platform for economies to share and learn from each other.

INTOSAI is an independent, non-governmental organization aimed to enhance government audit capabilities and promote experience-sharing among Member Economies to assist governments in improving audit efficiency. Through launching the Project on Transparency and Accountability and exchanges among Member Economies, INTOSAI has established a set of principles—the Principles of Transparency and Accountability—to guide supreme audit institutions in each economy to promote individual government transparency and accountability through external audits.

The Extractive Industries Transparency Initiative (EITI) is another international non-profit organization that actively promotes fiscal transparency. The organization was founded to prevent corruption and conflicts during the natural resource extraction process and to ensure that natural resource extraction brings beneficial results to help local communities achieve sustainable development and reduced poverty. Members of the EITI include governments and corporations (such as the mining industry and oil companies), and civic groups. The EITI focuses on information disclosure and

[18] INTOSAI was founded in 1953 and currently has a membership of 180 supreme auditing institutions. It adopted the "Lima Declaration of Guidelines on Auditing Precepts" in 1977, which provided the conceptual, philosophical and practical framework for INTOSAI's work. Additional information is available at: http://www.10iacc.org/content-ns.phtml?documents=102&art=176 [Accessed May 1, 2013].

transparency over resource extraction by governments or related companies. The organization believes that the public has the right to know and should be aware of the revenues and expenditures of such resource extraction activities.

Transparency International is a global, non-official organization focused on fighting government corruption and actively pursuing fiscal transparency. A similar non-governmental organization is the Corruption Perceptions Index (CPI) of the United States. The CPI has played a critical role in enhancing fiscal transparency by conducting numerous surveys on United States government institutions, which assess fiscal information disclosure.

The International Federation of Accountants (IFAC) is an international organization providing accounting and auditing standards. Because government accounting policies, such as formats and standards of fiscal reports and the classification and index of fiscal projects, serve as prerequisites to fiscal transparency and have considerable influence on fiscal information reliability, the activities that the IFAC promotes are closely linked with fiscal transparency.

The World Bank Group (WBG) focuses on fostering economic development in less developed economies; however, gaining a comprehensive understanding of the fiscal environment and the fiscal soundness of an economy necessitates information on government transparency, investment transparency, and anti-corruption. Such information is collected and presented on the WBG website, which also aims to facilitate experience-sharing.

A primary objective of the Asian Development Bank is to enhance fiscal and economic development in the Asian region. Therefore, the organization encourages public sectors in individual economies to enhance revenue information disclosure and transparency to fight corruption and build a sound fiscal environment.

# III. Promoting Fiscal Transparency in APEC Economies

Similar to other international organizations, APEC endeavors to promote fiscal transparency and foster accountability in both emerging markets and advanced economies. In the following section, we briefly summarize its endeavors and accomplishments.

### 1. Historical Review on Dialogues and Efforts to Promote Fiscal Transparency

The 1994 APEC Economic Leaders’ Meeting was held in Bogor, Indonesia. In the “Bogor Goals” issued at the end of the meeting, Leaders pledged to achieve free and open trade and investment in the Asia-Pacific region by 2010 for developed members and by 2020 for developing economies. The APEC Economic Leaders met in Osaka, Japan, in 1995 for the third time since the organization was created. The primary agenda was to initiate the mid- and long-term action agenda of the Bogor Goals, called the Osaka Action Agenda. In the agenda, the Leaders endorsed enhanced transparency as one of the crucial indicators of realizing the Bogor Goals.

In 1999, the Government Procurement Experts Group (GPEG) launched the "Non-Binding Principles on Government Procurement (NBPs)". The NBPs stated that individual Member Economies should allow public access to government policy contexts, procurement schedules, procurement requirements, and criteria of tender to facilitate cross-economy procurement or enable Member Economies to learn from one another.

In the Shanghai Accord released in 2001, Leaders reaffirmed the determination of Member Economies to promote transparency. The Shanghai Accord was drafted based on the previously released APEC Trade Facilitation Principles, and primarily promoted trade-related policies to reduce trade costs and enhance cooperation efficiency among APEC economies.

General transparency principles were announced in the 2002 APEC ministerial meeting held in Mexico, and the Leaders' Declaration of the meeting observed that transparency:[19]

- is a vital element in promoting economic growth and financial stability at the domestic and international levels;
- is conducive to fairer and more effective governance and improves public confidence in government;
- is a general principle in the Osaka Action Agenda, which requires its application to the entire APEC liberalization and facilitation process;
- is a basic principle underlying trade liberalization and facilitation;
- in monetary, financial, and fiscal policies, and in the dissemination of macroeconomic policy data, it ensures the accountability and integrity of central banks and financial agencies, and provides the public with needed economic, financial, and capital market data;
- is enhanced through well-targeted, demand-driven capacity building to assist developing economies to progress towards greater openness.

In 2003 and 2004, the general transparency principles were categorized into nine "Area-Specific Transparency Standards" according to various levels of trade policies. Furthermore, the general transparency principles have been included in annual reports of the Individual Action Plan since 2005. APEC initiated the "Trade Facilitation Action Plan" to lower trade costs among Member Economies, and in 2007, Member Economies began to promote transparency. However, during this period, Member Economies placed more value on trade policy-related transparency, including accessibility to tariff, export, and import data.

[19] APEC, 2002. *Asia-Pacific Economic Cooperation Leaders' Declarations.* Available at: http://www.apec.org/Meeting-Papers/Leaders-Declarations/2002/2002_aelm/statement_to_implement1.aspx [Accessed December 26, 2012].

The 19th APEC ministerial meeting held in Sydney, Australia promoted transparency as a key APEC principle fostering fiscal sustainability. APEC also encouraged Member Economies to adopt fiscal transparency standards launched by international organizations, such as IMF standards, and begin self-assessment. One of the most crucial and in-depth discussions on government transparency was the “Roundtable Discussion on Improving Public Sector Transparency: Good Practices and Reform Experience" held during the second APEC Economic Committee meeting, which took place in San Francisco in September 2011. The roundtable discussion was largely initiated because economies worldwide have acknowledged government transparency as a crucial factor to achieving good governance in the public sector. The event was organized by the “Friends of the Chair” group on public sector governance, hosted by Chinese Taipei. It is also the first policy discussion focusing on government transparency in EC since the establishment of APEC. The roundtable discussion was built on the outcomes generated by three previous workshops: Improving Public Consultations in the Rulemaking Process held in October 2009, Using Regulatory Impact Analysis (RIA) to Improve Transparency and Effectiveness in the Rulemaking Process, and Good Regulatory Practice, both held in March 2011. The aim of the discussion was to provide a platform for economies to exchange practices and experiences related to their improvements in public sector transparency. Canada, Indonesia, Japan, New Zealand, Russia, Chinese Taipei, Thailand, and the United States volunteered to present their experiences in the roundtable discussion. Each presentation centred on the following three parts: (a) brief presentations on current conditions concerning government transparency; (b) promoting government transparency, challenges, and experiences; and (c) future plans to persistently promote government transparency.

In the roundtable discussion, Hong Kong, China; Mexico; the Philippines; and Singapore, and the APEC Business Advisory Council also shared their practical experiences and provided innovative viewpoints. The roundtable discussion has generated fruitful results and raised economies’ awareness of the importance of transparency and accountability of the public sector. Hence, fiscal transparency and public accountability were chosen after the discussion as the major theme for the *2013 APEC Economic Policy Report*.

The following table shows major APEC progress in promoting fiscal transparency. Table 1 and the previous progress review indicate that in the early stage, the transparency concept primarily focused on the disclosure of information involving trade policies, export and import data, and other free-trade related information. The current focus has shifted to disclosing public sector information, particularly fiscal and monetary-related information.

**Table 1: APEC Progresses to Promote Fiscal Transparency**

| Year | Major Progresses |
|---|---|
| 2004 | Leaders' statement to implement APEC transparency standards:<br>▪ Transparency in monetary, financial, and fiscal policies and the dissemination of macroeconomic policy data.<br>▪ Three key standards focus on transparency: code of good practices on transparency in monetary and financial policies, code of good practices on fiscal policy, and general and special data dissemination standards. |
| 2007 | Report on the assessment of APEC economies' implementation of APEC transparency standards:<br>▪ APEC agreed to a set of templates to assess implementation of transparency standards in each economy.<br>▪ A total of 14 economies have submitted complete assessment reports, while six economies provided partial assessment reports. |
| 2010 | Finance Ministers' Process (FMP):<br>▪ One strategic goal of FMP: prudent public finance management.<br>▪ FMP also introduces project on promoting effective strategies to enhance fiscal sustainability and economic recovery, and the project has helped APEC economics to maintain mid- to long-term fiscal sustainability policies.<br>Finance Ministers' Meeting:<br>▪ Ensure stable fiscal management and formulation of reliable and growth-oriented fiscal plans.<br>▪ Improve efficiency of public fiscal management through mid- and long-term budgetary plans.<br>▪ Ensure increasing social welfare expenditures on senior citizens will pose merely minor impacts on mid- and long-term fiscal sustainability. |
| May 2011 | "Key Trends and Developments Relating to Trade and Investment Measures and Their Impact on the APEC" released by APEC Policy Support Unit:<br>▪ According to the IMF's Fiscal Monitor (FM), fiscal sustainability risks remain elevated in most advanced economies; while the fiscal outlook for emerging economies is more favorable.<br>▪ The FM asserts that advanced economies should start now to bring debt ratios to prudent levels.<br>▪ For emerging economies, the IMF's FM recommends that they use revenues to rebuild fiscal space rather than to increase spending.<br>▪ All economies should strengthen fiscal institutions and transparency. |
| September 2011 | Roundtable discussion on "Improving Public Sector Transparency: Good Practices and Reform Experiences" during the 2011 EC2 plenary meeting. |

| Year | Major Progresses |
|---|---|
| November 2011 | APEC High Level Policy Dialogue on Open Governance and Economic Growth:<br>▪ Re-affirm the importance to enhance public trust by combating corruption and by committing to transparent, fair, and accountable governance.<br>▪ Anti-Corruption and Transparency Experts' Working Group (ACTWG) aimed to uphold public integrity by developing principles related to financial asset disclosure. ACTWG was projected to report to Ministers on progress on these initiatives in 2012. |
| December 2011 | "Sovereign Debt Challenges in the Euro Area: Implications for APEC" released by APEC Policy Support Unit:<br>▪ Legislating fiscal rules to reduce future budget uncertainty;<br>▪ Introducing multi-year budgeting frameworks;<br>▪ Adopting or strengthening an objective and independent fiscal assessment body to monitor the adherence to fiscal rules and promote the transparency of fiscal policy. |
| 2013 | Selecting "Fiscal Transparency and Public Accountability" as the topic for 2013 AEPR. |

*Source: APEC released data, compiled by Chinese Taipei.*

## 2. Key Trends in Fiscal Transparency Development

In the roundtable discussion on improving public transparency held in San Francisco in September 2011, APEC members reported on efforts made to promote government transparency and shared their experiences on recent achievements. In the following paragraphs, we briefly summarize their efforts and the outcomes shared in the roundtable discussion.

The Canadian government is devoted to improving national fiscal sustainability. In addition to improving accountability and enacting laws to promote transparency and prevent political lobbying, the Canadian government has constructed a unified web platform characterized by Web 2.0 features to facilitate easy public access to government information.

The government of Indonesia began to promote information disclosure-related regulation, Keterbukaan Informasi Publik (KIP), in 2008. However, by September 2011, the promotion of government transparency received responses from only a few areas ruled by relatively open local governments. Several local governments founded the Transparency and Participation Commission, which helps local governments increase information transparency, and among them, the Lebak District has recorded the most substantial advances. However, the establishment of major institutions promoting transparency in other areas, such as the special region of Yogyakarta, has been based merely on announcements and executive orders issued by chief executives, and the operations of these institutions could be terminated by political turmoil. Therefore, one of the main obstacles in promoting government transparency in Indonesia is the absence of a unified law.

The Japanese government launched the Public Project Review in 2010 to allow the public to gain enhanced understanding of government resource allocation and work flows. The project is aimed to increase accountability and efficiency in the public sector.

The government of New Zealand has invested considerable efforts in enhancing government transparency. Since 2010, the government has released the Investment Statement of the Government of New Zealand, which shows all government assets, debts, and performance in detail. The Declaration on Open and Transparent Government published in 2011 requires government agencies to actively disclose high-quality information.

The Russian government has claimed that it would begin conducting a related modification of federal law to include government service disclosure (No 8-FZ and 210-FZ). Since 2010, the government has forced any government-related service information to be made public on the Internet. Additionally, local governments are required to establish a one-stop open information platform and release public service information on the Internet. According to statistics released by the government, the public now spends 65 percent less time on accessing public service because of the one-stop platform. What the government promotes is easy access to public services, rather than achieving information transparency. However, the government’s move is a crucial milestone in the pursuit of government transparency.

The Freedom of Government Information Law enacted in 2005 in Chinese Taipei, elevates government transparency to the legislation level. In accordance with the law, government information should actively be made available to the public (i.e., active disclosure) or provided as requested by any person (i.e., passive disclosure). Active disclosure refers to the official release of information regarding administrative measures directly related to people’s rights and interests, including administrative plans, budgets and audits, procurement documents, subsidies that are paid or accepted. Detailed information that the public is interested in and open information that is accessible to the public through application are categorized as passively disclosed information. The amount of information made accessible to the public by public agencies has exceeded the items prescribed in the Freedom of Government Information Law, and the disclosed information is frequently updated. Academic research groups commissioned by the government also conduct frequent reviews of government transparency. The government of Chinese Taipei readily acknowledges the importance of transparency.

The government of Thailand has been devoted to reducing corruption and has recently listed anti-corruption as a major objective of the economy. Private sector institutions, such as the Thai Bankers’ Association (TBA) and the Stock Exchange of Thailand (SET) have also aggressively assisted the government in promoting anti-corruption. Anti-corruption in the Public Procurement Initiative is expected to be signed between the government and the private sector and all government agencies are expected to voluntarily sign and abide by the rules regulated in the Initiative.

Open government became a major policy objective of the United States government after President Barack Obama took office. President Obama announced his first executive action, a Presidential Memorandum on “Transparency and Open Government,” in January 2009. Following the announcement, the Obama administration began actively promoting the open government concept. The Open Government Partnership (OGP) was formally launched by eight founding governments—including Indonesia, Mexico, the Philippines, and the United States—on September 20, 2011 to bring international attention to government transparency. A total of eight APEC Member Economies have joined the OGP initiative as of April 24, 2013, and annual improvement plans have been launched to gradually enhance transparency within individual governments. The United States has been promoting the open government concept from a domestic level to an international level, and firmly believes that transparency will not be achieved without exchanges, monitoring, and experience-sharing with other economies.

# IV. Future Challenges in Promoting Fiscal Transparency and Accountability

In this section, we analyze two primary challenges that have confronted APEC economies in striving to promote fiscal transparency and public accountability. The first challenge is how to shrink the existing gap between international standards and real practices of fiscal transparency in the APEC region. The other is to emphasize the importance of linking fiscal transparency to accountability and to effectively strengthen their linkage.

## 1. Bridging the Gap between Standards and Achievements

APEC Member Economies are at the forefront of fiscal transparency practices. However, if judged against the currently well-accepted international standards or best practices of fiscal transparency, a gap exists in numerous APEC economies between international standards and real achievements. For instance, even a fully developed economy may encounter difficulties in establishing and implementing a midterm budgetary framework as suggested in the international standards of fiscal transparency, let alone those who may not have a well-functioning annual budgeting process to begin with.

Although most international standards or best practices are universal and apply to enhancing fiscal transparency in any type and size of economy, certain standards are relevant to only certain types of fiscal environments. Because each society has its own unique political and economic system, certain Member Economies may not possess the required human resources or skills to maintain a fiscally transparent environment, and adopting best practices can be viewed as a continuous journey rather than a destination. Therefore, each Member Economy is encouraged to first assess its resource availability and skill level, identify the gap between where a government is and where it needs to be, and then develop its own priorities for adopting international standards of fiscal transparency. By assessing national strengths and weaknesses and focusing on the gap, economies can set priorities for improving fiscal transparency in a more efficient manner.

## 2. Strengthening the Linkage between Transparency and Accountability

Fiscal transparency alone is insufficient for holding governments accountable. Rather than an ultimate goal, fiscal transparency is a means to facilitate public accountability. The pursuit of fiscal transparency loses its legitimacy and support given the inability to move from fiscal transparency to public accountability. When government officials or agencies disclose the outcome of budgetary policies and fiscal activities, citizens should have the right and power to change the policy or activity if it fails to meet public demand. In the meantime, public officials or agencies should be rewarded or punished based on their actions and performances. Otherwise, they will lack the incentive to re-adjust their fiscal behavior in response to citizen demand, despite routinely disclosing all required fiscal information.

Fiscal transparency is a necessary condition for promoting public accountability, but is an insufficient condition. Therefore, urging more fiscal information and more openness is useless without simultaneously strengthening the monitoring and enforcement mechanism of public accountability, or the linkage between fiscal transparency and accountability.

Securing a strong linkage between fiscal transparency and public accountability requires well-established institutional arrangements. In addition to a check-and-balance mechanism that includes oversights, rewards, and punishments by legislative and judicial branches, institutional arrangements also refer to a well-functioning electoral system, an independent mass media, and a mature civil society.

On the premise of full information disclosure, elections are the most powerful accountability mechanism. The electorate can decide whether to vote for the ruling party or incumbents as a means to punish or reward candidates after reviewing the disclosed fiscal information. However, electoral fraud that interferes with election independence frequently occurs in less developed APEC economies, consequently damaging the effectiveness of the electoral system as an accountability mechanism.

Mass media is another powerful external accountability mechanism. In a modern society, people are accustomed to receiving summarized and disseminated information from the mass media. Hence, media can be regarded as a bridge between governments and civilians. Mass media transmits government information to the public to reduce information asymmetry. The media can interpret and disseminate complex and incomprehensible information, such as fiscal policies and budgeting data, to the public to compensate for its opaqueness. Hence, the media has a huge impact on society in shaping public opinion on fiscal and budgetary policies.

The public trusts the mass media to provide unbiased fiscal information. Consequently, governments are forced to focus more attention on what mass media report and respond quickly to their criticisms or suggestions on fiscal activities. Given the substantial impact of mass media on shaping public opinion and holding government accountable, the challenge lies in how to maintain a healthy competitive environment for the media to better foster independence and professionalism.

The market pressure for mass media in a globalized society has grown rapidly. In coping with fierce competitive pressure, certain media have displayed a tendency to mistakenly interpret or filter information to provide the public with eye-catching headlines, or they may yield to certain political or partisan ideologies if doing so is more profitable. In addition to market pressure that could interfere with the independent press, certain mass media in authoritarian regimes are particularly vulnerable to state control and fall short of their potential contribution to fiscal transparency. This situation could worsen if the electorate are misled and cast their votes based on biased or misinterpreted fiscal information disseminated by the media, causing a decoupled linkage between transparency and accountability and an ineffective accountability.

A mature civil society plays a vital role in reinforcing the effectiveness of election and mass media as a powerful accountability institution. Civil society refers to the wide array of non-governmental and non-profit organizations that have a presence in public life, which express the interests and values of their members or others, based on ethical, cultural, political, or philanthropic considerations.[20] Civil society contributes to the electoral process through its active involvement in civic and voter education, and election oversight. Civil society organizations, particularly those that aggressively defend freedom of the press, also contribute to mass media independence and professionalism by performing their duty as a mass media watchdog.

Although the civil society sector spreads over both developed and less developed economies in the APEC region, the development and maturity of civil society varies in different economies. To better serve societies and to facilitate a strong linkage between fiscal transparency and public accountability, the less mature civil society must be empowered by building expertise in election observation and oversight, foster dialogues between civil society organizations and mass media, and promote citizen capacity to participate in various civil society organizations.

[20] Please see the definition offered by The World Bank available at: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/CSO/0,,contentMDK:20101499~menuPK:244752~pagePK:220503~piPK:220476~theSitePK:228717,00.html [Accessed May 15, 2013].

# Chapter 2
# Key Elements of Fiscal Transparency and Public Accountability

## I. An Overview of the Scope of Fiscal Transparency

Fiscal transparency is highly valued by international organizations such as the IMF and OECD, which in recent years have published Codes of Good Practices on Fiscal Transparency (IMF, 1998) and Best Practices for Budget Transparency (OECD, 2000). The guidelines have been applied in the aftermath of the Mexican and Asian crises. It is believed that lack of transparency was among the causes of these crises and greater fiscal transparency has been advocated by multilateral institutions, including to transition economies, as a precondition for fiscal sustainability and good governance.

There are several interpretations of fiscal transparency. Kopits and Craig (1998) defined it as "openness towards the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities—whether undertaken inside or outside the government sector—so that the electorate and financial markets can accurately assess the government's financial position."

The IMF defines fiscal transparency as being open to the public about the government's past, present, and future fiscal activities, and about the structure and functions of government that determine fiscal policies and outcomes. Such transparency fosters better-informed public debate, as well as greater government accountability and credibility.

Focusing on non-transparent practices, Alesina and Perotti (1996) identified several practices that can reduce transparency, e.g., overly optimistic macroeconomic and fiscal assumptions; off-budget activities; and shifting of expenditures to future years in multi-year budgets. Other non-transparent activities may include not reporting government guarantees, ineffective audit, or delaying release of "bad" news.

On the other hand, there is also consensus that good governance is of central importance to achieving and sustaining macroeconomic stability and high-quality growth; and that sound fiscal management—including fiscal transparency—is a key aspect of good governance. Fiscal transparency facilitates better-informed debate, by both policymakers and the public, about the design and results of fiscal policy, and establishes accountability for its implementation. In strengthening credibility and public understanding of macroeconomic policies and choices, fiscal transparency fosters more favorable access to domestic and international capital markets. Furthermore, it highlights potential risks to the fiscal outlook, resulting in an earlier and smoother fiscal policy response to changing economic conditions, thereby reducing the incidence and severity of crises.

A high degree of fiscal transparency tends to provide benefits in terms of fiscal discipline and accountability. Lack of transparency is widely recognized in the literature in relation to the impact of budget institutions on fiscal performance as a key reason for procedural difficulties (Alesina et al., 1999). This is also confirmed in studies by Alesina, Mare and Perotti (1996) on Italy and by Tanzi (1995) on OECD economies. If governments are more transparent with respect to their fiscal accounts and intentions, their access to the international capital markets will be easier and, in turn, costs related to debt servicing lower (Petrie, 2003).

It was only recently, that development literature started to focus on so-called good governance. Bad governance, the antithesis of good governance, is now widely regarded as a root cause of macroeconomic instability and underperforming economies. Major donors and international financial institutions increasingly link aid and financial assistance to the condition that reforms to ensure good governance are undertaken.

The concept of “governance” is as old as human civilization. According to UNESCAP, governance means: the process of decision-making and the process by which decisions are implemented (or not implemented). Governance can be used in several contexts such as corporate governance, international governance, national governance as well as local governance. Given the fact that governance is the process that involves decision-making, and the implementation of those decisions, any analysis concerning governance should focus on the actors, both formal and informal, who are participants in the process.

The importance on fiscal transparency is reflected in The Code of Good Practices on Fiscal Transparency (the Code), as set out by the IMF. The Code describes the important principles widely acknowledged to ensure government effectiveness.

The Code is based on four general principles:

**Clarity of roles and responsibilities.** There should be a clear distinction between government and commercial activities, and there should be a clear legal and institutional framework governing fiscal administration and relations with the private sector. Policy and management roles within the public sector should be clear and publicly disclosed.

**Open budget processes.** Budget information should be presented in a way that facilitates policy analysis and promotes accountability. Budget documentation should specify fiscal policy objectives, the macroeconomic assumptions used in formulating the budget, and major fiscal risks—including those arising from government guarantees and contingent liabilities. Procedures for collecting revenue and for monitoring approved expenditures should be clearly specified.

**Public availability of information.** The public should be provided with complete information on the past, current, and projected fiscal activity of government and its major fiscal risks. This should be readily accessible. Economies should commit to the timely publication of fiscal information.

**Assurances of integrity.** Fiscal data and practices should meet accepted quality standards and should be subjected to independent scrutiny.

The implementation of these principles will greatly enhance the chance of achieving the long-term fiscal sustainability that is widely recognized as a precondition for economic development, stability, and resilience. In addition, sustainable fiscal policy enhances economies' resilience to external shocks, which in turn enables governments to appropriately focus policy development on broader economic and social priorities.

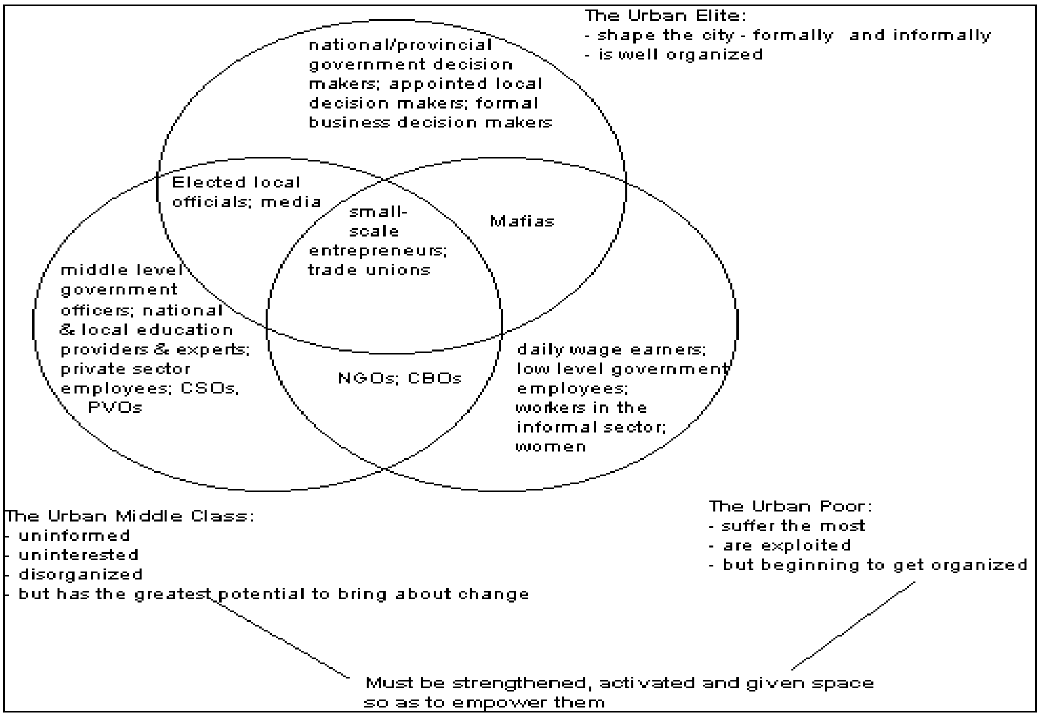
The IMF's Code of Good Practices on Fiscal Transparency was developed in response to a broad consensus that good governance is of central importance in achieving macroeconomic stability and high-quality growth, and that fiscal transparency is a key aspect of good governance. Greater transparency can improve the credibility of fiscal policy (in so doing garnering greater public support), provide more favorable access to domestic and international capital markets and reduce the incidence and severity of crises. Measures to improve transparency recognize that effective economic management depends on the relationship between the government and its stakeholders. For example, transparency can foster confidence and credibility in the eyes of financial markets by generating greater investment and lower borrowing costs for the government.

Improved fiscal transparency is a pressing imperative for many economies. Domestic and foreign investors will face greater risks in markets characterized by inadequate disclosure of accurate information and/or a limited history of such disclosure (Polackova 1998, p 10). The absence of credible information exposes the credibility of a government's fiscal position to the rumor-mill. Doubt and uncertainty will inevitably cause investors and creditors to question the robustness of government operations (Dornbusch 2002). These weaknesses can increase the risk of capital flight.

## II. Clarity of Roles and Responsibilities

Government is the key player when putting the concept of good fiscal governance into practice. Other players may also be involved depending on the level of government that is under discussion. In rural areas, for example, other actors may also include influential landlords, associations of peasant farmers, cooperatives, NGOs, research institutes, religious leaders, finance institutions, political parties, the military, etc. The situation in urban areas is even more complex (see Figure 1, United Nations Economic and Social Commission for Asia and the Pacific, UN ESCAP), with multiple interconnections between actors involved in urban governance. At the national level, beside those actors, there are also other influencers, including the media, lobbyists, international donors, and multinational corporations, all of which can play a role in decision-making or influencing the decision-making process.

**Figure 1. Actors in Urban Governance**

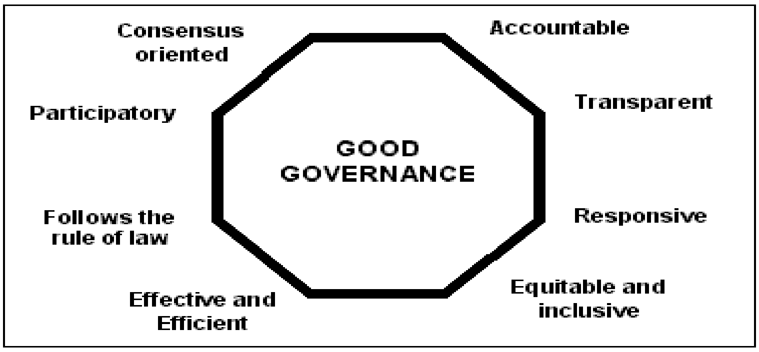



Source: UN ESCAP

All the relevant parties, other than government, comprise the component parts of "civil society." At the national level, although decisions are delivered and implemented by formal government structures, informal decision-making structures, such as "kitchen cabinets" or informal advisors may exist. Corrupt practices can be influential determinants of the more informal aspects of the decision-making process.

According to ESCAP good governance has eight determining characteristics (see Figure 2). Good governance is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. Good governance assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society. These characteristics are elaborated as follows.

**Figure 2: Characteristics of Good Governance**




Source: UN ESCAP

*Participation*

Equal participation by both men and women is a solid foundation to good governance. Participation could be achieved either directly or through legitimate intermediary institutions or representatives. It is important to note that participation does not necessarily imply the need for all the stakeholders to be included in decision-making processes.

*Rule of law*

To instill good governance, the rule of law is essential in addressing the needs of the relevant stakeholders. It also requires holistic law enforcement, independent judiciary and a clean police force.

*Transparency*

Transparency means that decisions are taken as well as enforced in a manner that follows established rules and regulations and that these are accessible to a well-informed public.

*Responsiveness*

Responsiveness has an explicit meaning: that institutions react rapidly and in a meaningful manner to the needs of stakeholders within a reasonable timeframe.

*Consensus oriented*

Consensus is a particularly Asian form of resolving differing interests in society, to reach common ground on what is in the best interests of the whole community, and how this can be achieved. It requires a broad and long-term perspective on what is needed for sustainable human development. Consensus generally requires a shared understanding of the historical, cultural, and social contexts of a given society or community.

*Equity and inclusiveness*

Equity and inclusiveness depends on ensuring that all members feel that they have a stake in, and do not feel excluded from, the mainstream of society. This requires that all groups, particularly the most vulnerable, have opportunities to improve or maintain their wellbeing.

*Effectiveness and efficiency*

To achieve effectiveness institutions must meet the needs of society; while at the same time ensure the best use of the resources at their disposal. The concept of efficiency also includes the sustainable use of natural resources and the protection of the environment.

*Accountability*

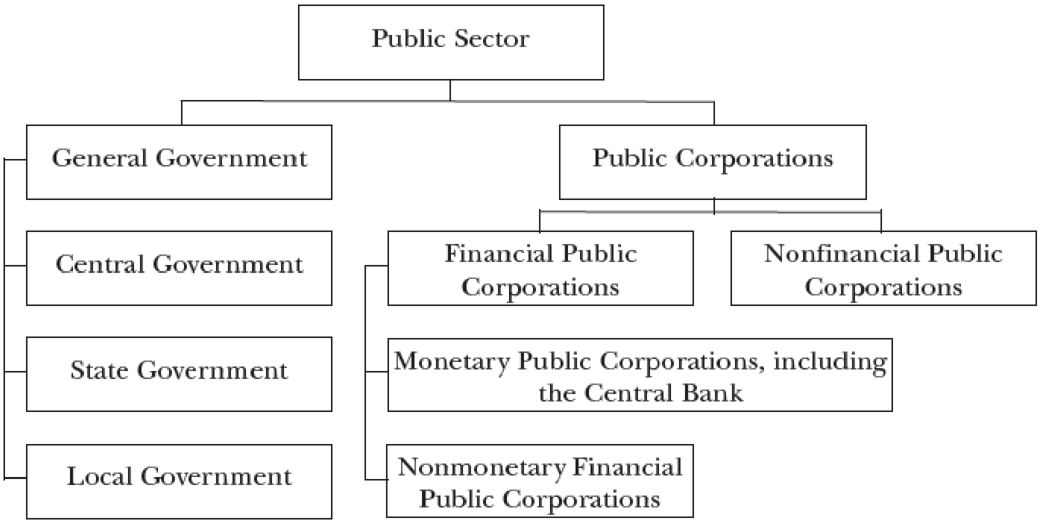
Accountability is a key requirement of good governance. Governmental institutions as well as private sector and civil society organizations must be accountable to the public and institutional stakeholders. Who is accountable to whom may vary depend on whether decisions or actions taken are internal or external to the organization. In general, an organization or an institution is accountable to those who will be affected by its decisions or actions. Accountability cannot be enforced without transparency and the rule of law.

The IMF categorizes the public sector into various constituents, as described in Figure 3 below. The public sector can be divided into general government and public corporations. The two main types of public corporations are nonfinancial public corporations and financial public corporations. The latter include the monetary authority (central bank) as well as nonmonetary financial corporations. The separation of government functions into commercial and monetary activities on the one hand helps to establish clear accountability for the conduct of these very different organizations and, on another hand, facilitates assessment of the macroeconomic impact of fiscal activities.

In order to develop fiscal transparency, a first and fundamental step is to identify those entities that carry out government functions. In this regard, government functions are defined as activities related to the implementation of public policies through the provision of nonmarket services and the redistribution of income and wealth, financed primarily by taxes and other compulsory levies on nongovernment sectors. However, defining the boundaries of government and of the public sector is a complex task, and a challenging issue for economies undergoing rapid change. Government units also encompass all national and subnational institutions that perform functions of government as their primary activity. This would include any entities that receive the majority of governmental funds through transfers, earmarked revenues, or other sources to carry out government functions, as well as any spending of public money for fiscal purposes, even if not covered by institutional arrangements.

Good governance dictates that government operations and decisions should be made openly, and with the active participation of the people influenced by them. The Budget is the primary economic policy document of governments, and transparency and participation are particularly important. Indeed, it can be argued that in a democracy the public has the basic right to information about the budget and to have its views considered in budget decisions, making it an end in itself. In other words, transparency is a prerequisite for democracy.

**Figure 3: Public Sector Constituents**




Source: IMF

A clear demarcation of roles within government is arguably essential for transparency. At the broadest level, it is necessary to clearly define the allocation of tax powers, powers to borrow or incur debt, and expenditure responsibilities between different levels of government. The intergovernmental structure varies widely among economies, ranging from unitary forms of government to federations in which individual states or provinces have considerable powers. At the local level, the inclusion of many informal as well as formal government structures may further complicate the picture. Even within governmental structures that look similar, the precise allocation of revenue and financing powers as well as expenditure responsibilities varies widely and substantially over time.

Fiscal transparency also requires that the allocation of powers and responsibilities are formulated and shared based on clear principles, stated within the law or constitution. The powers and responsibilities at each level of government should be exercised in an open and consistent way. Where they exist, shared revenues and intergovernmental transfers should be clearly specified, preferably based on stable criteria or formulas rather than discretionary criteria or negotiations. Unfortunately, it is common for transfers to be negotiated annually, an approach which is neither stable nor transparent. A formula with well-defined parameters provides the most transparent option for distributing intergovernmental fiscal transfers. Distribution, mostly based on “need” should be defined so as to ensure that subjectivity can be avoided. Project grants, for example, are more subjective in nature, but transparency can be enhanced if the criteria and basis for decisions are made public.

Fiscal transparency in subnational levels of government and the relationships between levels of government is especially important where economies have devolved fiscal responsibilities. Decentralization is an increasingly popular policy based on the premise that lower-level government units can better respond to local demands and needs, and at lower cost. Many economies have recently implemented legislation that assigns or reassigns the responsibilities of the different levels of government. Under these circumstances, there are opportunities for duplication of responsibilities and unclear assignment of revenue or expenditures. Furthermore, because of inequality across regions, most economies that pursue decentralization have introduced new legislation regarding tax sharing and intergovernmental transfers to address such inequalities. In turn, the effectiveness of this strategy critically depends on the ability of citizens to hold local government officials accountable. Numerous factors may impact local government accountability, but one critical factor is the quality and public availability of fiscal data at the local level. The more decentralized the revenue and spending decisions, the more important it becomes to ensure that lower levels of government also follow good practices of fiscal transparency.

Central governments need adequate information on the fiscal activities of lower levels of government in order to have a full picture of general government activities. This is particularly important where subnational governments have access to borrowing, including from international lenders. In many economies, central governments carry an implicit contingent liability on subnational government debt, and in these cases monitoring of subnational governments is accordingly important.

One of the fundamentals of fiscal transparency is the need to have rigorous tracking of the implementation of fiscal policies. This can be achieved through clarity of purpose and a comprehensive framework for fiscal management, including legislation, regulations, and administration. Fiscal transparency requires that the legal framework for fiscal activity avoids excessive complexity and opportunities for official discretion. There are at least three fundamental factors that can support optimal discretion for the government:

(i) **Explicit legal basis for revenue collection**. The constitutional framework of almost all economies embodies the principle that no tax may be levied unless it has a clear legal basis. It is fundamental to fiscal transparency that taxation be under the authority of law and that the administrative application of tax laws be subject to procedural safeguards. Tax laws should clearly establish the powers and limitations of the tax administration to search the premises of taxpayers, demand information from taxpayers and third parties (including banks), apply indirect methods to determine income and sales, and enforce the collection of tax arrears. Taxpayers should have the right to challenge property or wealth assessments or any other tax ruling. As with budget laws, however, the legal framework for taxation needs to be developed in a way that reflects administrative capacity;

(ii) **Fiscal regime for resource sectors**. According to the Guide on Resource Revenue Transparency, fiscal transparency requires that the government's policy framework and legal basis for taxation or production-sharing agreements with resource companies be clearly and comprehensively presented to the public. The more complex and discretionary the system, the more difficult to achieve fiscal transparency; and

(iii) **Use of public funds and resources**. The effectiveness of the budget depends on its being well grounded in law, with supporting regulations and administrative practices. Explicitly, spending should be approved by the legislature through an appropriation; the budget should be comprehensive, covering all central government transactions (albeit possibly through different funds); budget transactions should be shown in gross terms; a minister or other responsible authority for government finance should be given effective power of budget management; individual agencies should be held accountable for funds they collect and/or use; contingency or reserve provisions should specify clear and stringent conditions for use of such funds; and independently audited reports showing clearly how public funds have been used should be prepared for the legislature and the public.

## III. Open Budget Processes

The principles of open budget processes are credibility, flexibility, and political legitimacy. Rule of law creates credibility if the rule is widely known and well understood by the public. With credibility, it is easier to address any economic turbulence associated with the policy instrument controlled by the economic authority. Credibility is more effective when there is a transparent and accountable framework, which in turn strengthens political legitimacy. Effective policy is enhanced if policymakers have the ability to react promptly to every unprecedented shock. Credible policymakers are those who make the policy with respect for transparency. With the high level transparency, any economic shock is easily diminished. In contrast, without transparency, every policy with regards to economic target and fiscal rule becomes obsolete since the public could not compare between the target and the realization. Moreover, political legitimacy becomes important since the policies being made should reflect national consensus. This, in turn, creates balance of power and also general responsibilities which could reduce the negative effect from any uncoordinated policy.

Fiscal discipline is a basic condition for achieving national budget sustainability. While the national budget is the government’s most powerful discretionary tool, at the ministerial level, departments do not always follow the notion that funding should reflect needs. The motivation to raise budget allocations is not always because of the perceived need, but rather the desire to have a bigger budget than the previous one. Unchecked, this may cause budgetary planning to become imprudent and more vulnerable to external shocks. In this context, fiscal discipline requires that public expenditure is focused on sectors that can facilitate more equitable distribution of income: public infrastructure, healthcare and primary education. To ensure budget proposals are realistic, it is crucially important that the underlying macroeconomic framework is reflected in a set of mutually consistent assumptions that have a reasonable prospect of occurring, and are not prone to bias. This will provide a solid basis for projecting the budgetary cost of statutory obligations such as unemployment and other social benefits. Revenue projections should be in line with recent trends, and the assessment of the marginal contribution of any new policies or measures should be credible. The implications of both existing and new policies and programs should be fully reflected, as well as those of any extra budgetary funds, significant tax expenditures, and quasi-fiscal activities. Revenue and expenditure that are not included in the annual budget appropriations are referred to as “extra budgetary funds.” However, the use of extra budgetary funds is prone to corruption and should therefore only be implemented if there are no other options. In general, governments should have explicit plans covering short-, medium-, and long-term time horizons.

A team of researchers at the World Bank (Kaufmann et al., 2005) devised six indicators of the quality of institutions by comparing good governance across economies. These indicators cover basic elements of the open budget process. According to their classification, governance can be broadly defined as the set of traditions and institutions by which authority in an economy is exercised. These include: (1) the process by which governments are selected, monitored and replaced (as represented by two indicators, Voice and Accountability and Political Stability); (2) the capacity of the government to effectively formulate and implement sound policies (as represented by the indicators Government Effectiveness and Regulatory Quality); and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them (as represented by the indicators Rule of Law and Control of Corruption). Hence, the indicators describe informal and formal public institutional quality and address different dimensions of the overall government performance. The World Bank's six dimensions of governance can be described as follows:

- Voice and Accountability, representing different aspects of political rights and civil liberties, such as free and fair elections, the influence of the military in politics and the independence of the media.
- Political Stability, describing perceptions of the likelihood that the government in power will be destabilized or even overthrown by unconstitutional and/or violent means, due to, for example, ethnic tensions.
- Government Effectiveness, measuring perceptions of "inputs" that are required for the government to be able to produce and implement good policies, including the quality of government, bureaucracy and public administration, the competence of civil servants, the management time spent with bureaucrats, and the independence of the civil service from political pressure.
- Regulatory Quality, combining measures of the incidence of government intervention in the economy, such as wage or price controls, regulations on foreign trade, and legal restrictions on business ownership or equity by non-residents.
- Rule of Law, representing the extent to which agents have confidence in and follow the rules of society, that is, the enforceability of contracts, the prevalence of black market activities and the effectiveness and predictability of the judiciary.
- Control of Corruption, describing the exercise of public power for private gain, ranging from the incidence of improper practices, through effects of corruption on the attractiveness of the economy as a place to do business, to the likelihood that additional payments are required to "get things done."

The trend towards focusing on fiscal sustainability has been leading some governments to publish longer-term projections of their capacity to finance programs and service debt obligations (OECD 2006). Long-run projections generally focus on the possible fiscal consequences of key pressures to illustrate the need for changes in policy. The projections are not considered to be forecasts or targets, since the projections are made under explicit assumptions that are designed to exclude the impact of any remedial actions by government (Irwin 2006b). A good example is the New Zealand Treasury's projections which highlighted the need to either raise taxes or change policies and spending patterns to meet the sustainability challenges raised by population ageing. However, an important conclusion of this analysis is that only very small changes in the short term are needed to generate a very large improvement in the long-term fiscal position (New Zealand Treasury, 2007).

There is an important relationship between participation and the focus on transparency. Transparency is not only an end in itself. Transparency is desired as a means of achieving desired outcomes such as enabling participation. Meaningful transparency is not only about the availability of information, but its use. Meaningful transparency is inextricably linked to meaningful participation in the budgetary process by various interests. Therefore, the provision of sufficient opportunity for legislature and civil society input on budgetary processes is important, and for several reasons:

- Information may allow legislatures to monitor executive decisions and performance, but without sufficient opportunity to act using information they get, their oversight will remain ineffective. Similarly, governments will only be accountable if their constituencies are able and prepared to make use of the available information and hold them to account.
- While transparency itself engenders consensus to policy and allocation decisions, this consensus will be deepened if both the legislature and civil society are allowed significant inputs into the debate. The need for such participation opportunities is strengthened by the legislatures' and civil society's closer contact with communities and interest groups.
- Over and above the commitment-building role, involvement of these actors can improve policy and allocate decisions by bringing different perspectives and creativity to budget debates.

If governments want to reap the benefits of being transparent, governance systems must ensure that the incentives for making use of available information outweigh any obstacles to participation.

## IV. Public Availability of Fiscal Information

In 1998, a range of Asian economies, some of which had performed exceptionally well for more than a decade and attracted vast amounts of international capital, saw their financial markets unravel and their economies spiral downward. Few observers predicted the dramatic downturns in these economies as few understood the underlying structural weaknesses, including problems with their financial markets. This lack of understanding reflected the fact that fundamental information about these economies had not been readily available. In other words, these economies were not transparent. Many believe that the economic reversals would not have been so sharp if more complete information about the economies' financial markets and fiscal positions had been available. Economic risks would have been easier to assess and resources would have been better allocated. This would have meant smaller and more diversified market reactions, ones that could have triggered prompter policy adjustments. The belief that greater transparency would have helped prevent the Asian economic crisis contributed to the development of the IMF Code.

A fundamental requirement of fiscal transparency is the availability of comprehensive budget information. It should be provided in a timely way and in accessible formats. The basis for data calculation and aggregation should be well explained, as well as its coverage. The information should be reliable and based on credible information systems. This section briefly elaborates the key elements of fiscal transparency and public accountability with respect to the availability of fiscal information and to what extent it plays a role in accountability. Referring to Manual of Code of Good Practices on Fiscal Transparency (2007)[21] the explanations of the key elements are as follows:

1. ***Adequate and relevant fiscal information to the public: information on the past, current, and future fiscal activities, and on critical fiscal risk***

   The process of supplying information to the public is an essential feature of fiscal transparency. The principles and practices in this regard concern the provision of comprehensive information on fiscal activity and government objectives. Furthermore, the presentation of such information should facilitate policy analysis and promote accountability. Practically, this can be exemplified by publicly available and web-based fiscal information.

   Seven principles underpin the first element:

   1) The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extra-budgetary activities of the central government.
   2) Comparable information should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.
   3) Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.
   4) Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.
   5) The central government should publish information on the level and composition of its debt and financial assets, significant non-debt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.
   6) The budget documentation should report the fiscal position of subnational governments and the finances of public corporations.
   7) The government should publish a periodic report on long-term public finances.

2. ***Fiscal Information as a means to the ends of accountability***

   The second element of the Code includes good practices related to (1) citizens' guides; (2) reporting criteria; (3) fiscal indicators; and (4) reporting of the budget program. The objective of these four principles and basic requirements is ensuring that: *First,* the main proposals and economic background to the budget are explained clearly to the general public. *Second*, revenue, expenditure, and financing are reported on a gross basis and expenditure is classified by economic, functional, and administrative category. *Third*, results of central government programs are presented to the legislature.

   The following are the four principles of the second element.

[21] International Monetary Fund (2007), Manual on Fiscal Transparency.

Citizens' guides

1) A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.

Reporting criteria

2) Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.

Fiscal indicators

3) The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government's fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.

Reporting of budget program

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

The provision of comprehensive, accurate, timely and frequent information on a nation's economic conditions and its budget policies is desirable because:

- Transparency is a prerequisite for public debate. If budget information is not available, it is difficult to discuss it. Transparency also means that government budget policies can be assessed and analyzed, thus leading to improved programs and the more efficient use of resources. Transparency facilitates the identification of governmental weaknesses, thus facilitating the adoption of needed reforms.
- Transparent governments can be held accountable: legislatures and civil society will be able to hold governments accountable if they have information on government budget policies, practices, and expenditures. Elected office holders will also be more likely to make governance decisions in accordance with their mandate if those decisions are open to public scrutiny. Similarly, members of civil services will be more likely to act in a responsible manner if their actions are transparent. Holding governments accountable can provide a check on corruption.
- An adherence to transparency can increase faith in governments. This support can come from the public who can better understand what their governments are doing, and thus have more confidence in government. In this respect, transparency can contribute to building consensus and commitment to social trade-offs. This increased faith in and, therefore, support of a transparent government can appear from the international community and investors. With a clear understanding of a government's policies, they may be more likely to invest in an economy.
- Transparency contributes to macroeconomic and fiscal stability as it prevents the build-up of a crisis in secret, bringing about smaller adjustments sooner.

# V. Assurance of Integrity

A critical requirement of fiscal transparency in the context of democracy is the opportunity for the legislatures and civil society to assess the budget and its realization. This section elaborates the fourth code: it is essential for fiscal transparency that fiscal data reported to the government meet basic criteria that attest to their quality. Also, those mechanisms should be in place to provide assurances to the legislature and the public about data integrity. According to the Code, it states that internal oversight mechanisms are necessary for the conduct of public officials, public service employment, internal audit, procurement, purchases and sales of public assets, and national revenue administration. In addition, external oversight mechanisms provide assurances through an independent national audit body, a national statistical body, and engagement with external independent experts. The following describes the principles of the Code.

1. ***Control and data quality***

Fiscal data should always meet accepted data quality standards. The Code includes good practices relating to (1) realism of budget data, (2) accounting standards, and (3) data consistency and reconciliation. Basic requirements under this principle are to ensure that: (a) accounting policies meet generally accepted accounting standards; (b) final accounts are fully reconciled with budget appropriations, and fiscal aggregate outcomes are compared with previous forecasts; (c) economies subscribe to the GDDS (General Data Dissemination System) if they are not able to adhere to the SDDS (Special Data Dissemination Standard). To ensure control and data quality:

1) Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments;
2) The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data (generally accepted accounting standards should be followed); and,
3) Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.

*2.* ***Internal control and Risk Management***

The Code includes good practices relating to (1) ethical standards, (2) employment procedures, (3) procurement regulations, (4) purchases and sales of assets, (5) internal audit systems, and (6) national revenue administration. Basic requirements under this principle are to ensure that (a) standards for procurement, financial transactions involving the public sector, and the ethical behavior of public servants are clear, publicly accessible, and observed; and (b) internal audit procedures are clear and observed. The six principles of the internal oversight:

1) Ethical standards of behavior for public servants should be clear and well publicized;

2) Public sector employment procedures and conditions should be documented and accessible to interested parties;
3) Procurement regulations, meeting international standards, should be accessible and observed in practice;
4) Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified;
5) Government activities and finances should be internally audited, and audit procedures should be open to review; and,
6) The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.

*3.* ***External scrutiny***

To promote external scrutiny, the Code advocates good practices in relation to (1) a national audit body, (2) audit reports and follow-up mechanisms, (3) independent assessments of forecasts and assumptions, and (4) independence of data verification.

Basic requirements under this principle are to ensure that a national audit body, which is independent of the executive, provides timely reports for the legislature and public on the financial integrity of government accounts.The four principles of external scrutiny:

1) Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive;
2) The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions;
3) Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions; and,
4) A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.

# APPENDIX

## Selected Economies' Experience in Fiscal Transparency and Sustainability

### Box 1 Chile's contingent liabilities

Chile's Ministry of Finance and Budget Office recognizes that the main difficulties presented by contingent liabilities to accounting, statistical and, particularly, to the tax authorities are the uncertainties in the amount and timing of payments related to them. These difficulties first became present when the government gradually changed from direct financing and provision of services to private provision with guarantees in some contracts. Since such liabilities are not adequately accounted for in the budget and balance sheet under traditional accounting standards (i.e., cash-basis accounting), measures have been introduced to increase transparency and reduce the uncertainty of their impact on public finances in the medium and long-term.

Since 2000, the budget report to Congress has included a section on contingent liabilities and Chile's budget office (DIPRES) has developed criteria to determine and quantify contingent liabilities. The Fiscal Responsibility Law of 2006 represents a major milestone regarding the conduct of fiscal policy and management of fiscal finances in Chile. Under this law, the Budget Office must provide information annually on the commitments it has taken through the granting of fiscal guarantees, including an estimate of the legal and contractual financial commitments that lead to contingent liabilities.

The law also provides for the management of the minimum pension guarantee (a guarantee to cover private pensions that fall below a guaranteed minimum amount) and the payment of assistance pensions. Specifically, the law creates the Pension Reserve Fund, in which the effective fiscal surplus of the previous year must be deposited but without exceeding the equivalent of 0.5 per cent of GDP and a floor of 0.2 per cent. During the first 10 years, the fund only accumulates resources, and there are no withdrawals. The funds can be accumulated in domestic or foreign currency and can be invested domestically or abroad. The management of the portfolio will be allocated on the basis of public bidding.

*Source: Dickson and Lim (2007) in Chilean Ministry of Finance, 2007.*

### Box 2 China's long-term projections for pensions

China's long-term projections show that its ageing population is creating fiscal pressure in the form of higher pension expenditure. Government spending on pensions is forecast to increase from approximately 24 billion yuan in 2007 to over 40 billion yuan in 2030. While these projections highlight the potential consequences of maintaining current policies, the projections also demonstrate the benefits of potential solutions. For example, increasing the retirement age could reduce total estimated pension expenditure by over 24 billion yuan between 2007 and 2030. The key findings of China's analysis can applied to other longer-term fiscal risks and include the importance of: addressing long-term fiscal risks, such as pension liabilities; identifying risks to financial stability early in order to investigate and implement appropriate solutions before any problems emerge; and ensuring sufficient funds are available to meet significant liabilities.

*Source: Dickson and Lim (2007) in Chinese Ministry of Finance, 2007.*

**Box 3 Fiscal transparency and sustainability in the Russian Federation**

The Russian Federation adopted a number of measures to improve fiscal sustainability following the 1998 financial crisis. These include the introduction of controls on new government borrowing in foreign capital markets. The Russian Federation also adopted a number of budget rules which were incorporated into the Russian Budget Code. These rules regulated the preparation and execution of budgets at all levels of government, established controls for budget deficits and borrowing, and provided contingency plans in case budget revenues were lower or higher than planned. More recently, the Russian Federation is transitioning towards medium-term budget planning.

Russia also recently introduced a Register of Expenditure Commitments to enhance transparency and improve reporting. This register reflects budget obligations approved by laws and regulatory and legislative Acts, and may be used in the future to include the full value of obligations related to approved long-term programs and investment projects. These measures, including favorable oil prices have helped reduce public debt from over 100 per cent of GDP in 1999 to around 9 per cent of GDP at the end of 2006.

*Source: Dickson and Lim (2007) Russian Ministry of Finance, 2007.*

# Chapter 3
# Summary of Individual Economy Reports

This chapter summarizes APEC economies' key initiatives and challenges in promoting fiscal transparency and accountability, as noted in responding economies' Individual Economy Reports (IERs). A complete set of IERs can be found in Annex 3-1.

## I. Fiscal Institutions of the Central Government

A budget cycle consists of four major phases: budget preparation, budget review and approval, budget execution, and final account reporting. Although the length of a complete budget cycle varies among responding APEC economies, they all complete the budget cycle in accordance with a comprehensive legal framework. The legal framework typically encompasses the constitution, the basic law, the finance act, the budget law, the audit law, and several others. The legal framework not only establishes key fiscal rules for government officials to make budgetary and fiscal decisions, it also helps promote fiscal transparency and accountability. For instance, Chile enacted the Transparency Act in 2008, which created the Council for Transparency to promote transparency in the public sector. Similarly, Peru passed the Law on Fiscal Responsibility and Transparency to enhance the timely disclosure of relevant information.

In most APEC economies, the Ministry of Finance (MOF) or the treasury is the principal budget authority in charge of coordinating and preparing the budget of the central government. The MOF oversees the preparation of the annual budget proposal and submits it to parliament for deliberation. However, some economies, including the United States and Chinese Taipei, have a budget authority other than the MOF (or the Treasury) leading the process of budget preparation. In the United States, the Office of Management and Budget (OMB) is the hub of the federal budget process, whereas the Department of the Treasury assists with the preparation of revenue estimates. OMB assists the President by overseeing the preparation of the entire budget, and maintains liaison with the congress during the consideration of budgetary legislation. In Chinese Taipei, the MOF is responsible for tabling the available revenue, and the Directorate-General of Budget, Accounting, and Statistics (DGBAS) plays a greater role in the preparation and implementation of the annual budget. The DGBAS helps the cabinet prepare the annual budget by setting funding ceilings and assessing competing funding demands among agencies.

The annual budget has to gain approval from the legislature before it is implemented. The length of budget deliberation and approval phase varies among economies, in part because of the difference in the system of government. The United States, which is governed by a presidential system, appears to have the longest period of budget deliberation in the congress. The President typically transmits budget proposals to the congress between the first Monday in January and the first Monday in February, and the congress passes the appropriation acts by 1 October. Hence, the legislative review process spans from February to September in the United States. Conversely, for those who adopt a parliamentary system of government, legislative approval of budget is equivalent to a confidence vote for the government in power. Therefore, major amendments to budget proposals are not typically expected, and the time for legislative deliberation is shorter. For instance, New Zealand presents its budget to the House of Representatives after mid-May to take effect from 1 July. The time for legislative deliberation is less than two months, and in practice, no amendments to the budget proposal have been passed in recent years. Canada, which also adopts a parliamentary system, typically submits its budget to the House of Commons between the end of February and March and parliamentarians vote on the budget only a few days after its tabling.

After the budget gains approval from the legislature, APEC economies follow similar legal frameworks and procedures in the budget execution stage. Budget laws and internal control regulations associated with the government’s fiscal activities and public procurement are well-established. For example, Hong Kong, China stipulates a system of fiscal control and financial management in the Public Finance Ordinance (PFO) to guarantee the budget to be implemented within a legal framework. Indonesia established the Corruption Eradication Commission (KPK) in 2002. The duties of the independent commission included investigating and prosecuting corruption cases and monitoring the governance of the state.

All responding economies report the results of the budget execution to the legislature after the end of the fiscal year. In most economies, this final report is externally audited by an independent auditing authority. In many APEC economies, including Australia[22], Canada, New Zealand, Thailand, and the United States, the auditing authority is an office of the legislative branch and independent of the government. The Board of Audit of Japan and the National Audit Office of Chinese Taipei enjoy the status of “the fourth power” and belong to neither the legislative, nor the judicial branches. The Audit Commission of Hong Kong is accountable to the Chief Executive of the Hong Kong Special Administrative Region only. Nevertheless, as indicated by responding APEC economies, the audit office is independent when performing duties and exercising audit powers and is not subject to the direction or control of any other person or authority.

# II. Assessing Fiscal Transparency and Accountability

## 1. Open Budget Processes

Fiscal transparency requires budget processes to be undertaken in an open manner. The processes refer not only to the four phases in a typical budget cycle, but also to the adopted fiscal framework, fiscal policy, and projected fiscal conditions open to the public.

Responding APEC economies report that the budget processes in general follow a clear schedule. The budget authority typically submits the budget proposal to the legislature

[22] The Auditor-General of Australia is an independent officer of the legislative branch (the Parliament), however the Auditor-General’s staff are employed under the *Public Service Act 1999* and part of the Executive Government.

at least two months before the new fiscal year, allowing for legislative deliberations on the proposal. Budget implementation is internally controlled and most APEC economies have their final accounts externally audited within a few months after the end of the fiscal year.

Several APEC economies, such as Japan, Korea, Peru, and Chinese Taipei, adopt a top-down approach in the budget formulation stage to ensure the proposed budget is sufficiently funded by available revenue. Because the level of delegation and the method of determining the expenditure ceilings vary across economies, the Ministry of Finance or the authority in charge of budget allocation typically sets the overall expenditure ceiling and sub-ceilings in the early stage of budget preparation and delegates detailed resource allocation decisions to line ministries.

The responding economies place a high level of importance on ensuring that budget preparation are aligned with fiscal and other strategic objectives. Canada, for example, holds a retreat in the summer where members of cabinet discuss a broad strategy for the budget, based on the strategic objectives of the government. In accordance with the outcome of the cabinet retreat, central agencies and departments are provided with broad directions to guide them with budget preparations.

Most economies' annual budget is prepared in tandem with a medium-term framework. Reporting APEC economies state that the annual budget plans must not depart from the medium-term fiscal objectives. Since 2001, fiscal policy making in Chile has been guided by a pre-established goal of structural balance as a percentage of the GDP. Singapore's block budget framework also allocates projected expenditure allowances to each ministry in a medium-term framework. The ministry's budget is allowed to grow annually, at a rate pegged to a smoothened GDP growth rate. Additionally, in Singapore, unless the President's consent is obtained to draw on past reserves, each administration is required to balance its budget during its term of office, which typically lasts for five years.

APEC economies' have varied experiences in producing the economic forecasts that underlie fiscal projections. Numerous economies prepare economic forecasts in consultation with external experts or scholars. Certain economies establish a task force for this purpose; for instance, in the United States, the troika is responsible for forming economic forecasts. The troika is an interagency group led by the OMB Director, the Secretary of the Treasury, and the Chairman of the Council of Economic Advisers. A unique case is that of Canada; the economic forecast underlying Canada's fiscal projections is based on an average of the survey of private sector economic forecasts. More than a dozen forecasters provide their views on a number of key economic variables, which serve as the basis for the government's fiscal planning.

According to the IERs provided by certain economies, citizens are encouraged to participate in the budget process in person. In Malaysia, for instance, annual consultations are held with captains of industry, trade and industry groups, professional organizations and civil society to elicit their suggestions and concerns at the start of the annual budget preparation. In Australia and Hong Kong, China the governments invite families, individual citizens, businesses, and community groups to submit their feedback on the pre-budget. The Canadian government holds a series of regional pre-budget roundtables, directed by various ministers, and citizens are able to send their feedback through online pre-budget consultations every year. In the United States, congressional meetings regarding the budget are open to the public. In Brunei Darussalam, engagement in the budget process is directed through citizen's respective Legislative Council representatives.

## 2. Public Availability of Fiscal Information

Many APEC economies have embarked on efforts to improve the accessibility of information to the public. They publish their quarterly, semi-annual, and annual budget information, as well as annual final accounts on a regular basis. Most economies have their fiscal data updated at least on a quarterly basis. However, whereas certain economies disclose those budget-related documents in great detail, others may simply release expenditure and revenue tables. In economies where the government releases detailed budget documents, performance information is a non-separable aspect of the budget information, and the key performance indicators and measurements are attached to spending programs. Australia's reform agenda "Operation Sunlight," introduced in 2009, increased the focus on public sector budgetary and financial management and good governance practices, by requiring the publication of information about agencies' programs, including their planned financial and non-financial performance.

Information on public debt attracts widespread attention, and is reported to the public regularly in most responding APEC economies. Chinese Taipei, for instance, has set up a "National Debt Clock" to report the central government's long-term and short-term outstanding debts, and the per capita debt burden. Pension liabilities and tax expenditures are also published annually in many economies—either included in the annual budget reports or stated in single documents.

Certain economies have released vital fiscal information that can greatly increase public accountability. For instance, Australia releases a pre-election economic and fiscal outlook in election years and intergenerational reports every five years. Pre-election fiscal reports are considered a powerful accountability mechanism, it is released not by the government, but by the secretaries of the Departments of Treasury and Finance, and presents an updated and independent report on the fiscal position and economic outlook at the time of a general election being called, providing a common baseline that enables the public to assess each electoral candidate's fiscal plan. The intergenerational reports inform people about fiscal sustainability under demographic change. Another example is the United States, which has introduced the recovery.gov website to provide easily accessible information on how Recovery Act funds are being spent by the recipients of contracts, grants, and loans. The website also offers the public the ability to report suspected fraud, waste, or abuse related to recovery funding.

## 3. Assurance of Integrity and Accountability

To assure the integrity of fiscal data, the government accounting system should provide a reliable basis for tracking revenues, commitments, payments, liabilities, and assets. The IERs typically show that economies have established their accounting system either based on Generally Accepted Accounting Practice (GAAP), which is aligned with the

International Financial Reporting Standards (IFRS), or based on the International Public Sector Accounting Standards (IPSAS).

Additionally, APEC economies prepare their financial statements with accounting policies that are adapted to their specific needs. Economies such as Brunei Darussalam, Malaysia and Singapore apply cash basis accounting, and Canada, Australia, New Zealand and Chinese Taipei adopt accrual accounting. Most economies follow a modified accrual basis system or a mixed system to prepare their financial statements, including Chile; Hong Kong, China; Japan; Korea; Peru; Thailand; and the United States.

In addition to complying with accepted accounting standards, fiscal activities should also be subject to effective internal oversight and external scrutiny. Although nearly all responding APEC economies report that internal auditing is implemented within each agency to control and monitor governmental fiscal activities, priority has been assigned by certain economies to the task of external auditing. For instance, in Japan, the Board of Audit's authority was broadened and its relationship with the Diet was strengthened, whereas in Mexico and Chinese Taipei, the supreme auditing office has followed the international trend of actively promoting performance audits to provide enhanced performance information of expenditure programs, with the objective of correcting information asymmetry between the government and the public.

To strengthen the link between fiscal transparency and public accountability, the finance ministry should actively promote an understanding of the budget process by individual citizens and non-governmental organizations. Some APEC economies have developed innovative measures to fulfill this goal.

Canada; Hong Kong, China; Korea; New Zealand; Peru; Singapore; Chinese Taipei; and Thailand all indicate in the IERs that they have developed user-friendly layouts for budget documents. Certain of these also provide enhanced search functions and optimized navigation for traditional and mobile browsing on smart phones and tablets. Additionally, brief videos summarizing key elements of the budget are provided, and information flyers with illustrative graphics or cartoons are sent to the general public to help improve their understanding of the impacts and relevance of the budget measures.

Hong Kong, China has recently improved its budget website to ensure that the content disseminated is accessible to people with disabilities, particularly the visually impaired. Russia government has committed to publish the "budget to the public" report annually on a regular basis since fiscal year 2014.

For social media users, fiscal information and public opinions are collected through Facebook, Twitter and other websites in economies including Canada, Korea, New Zealand, and Singapore. The Parliament of Chinese Taipei has set up a "video on demand multimedia system," allowing citizens to view the progress of plenary sessions and committee meetings held in Parliament, by using the Internet.

Certain economies indicate that the government has implemented numerous citizen participation measures. For example, Korea holds a local finance conference and open forums to discuss policy issues, and the results of these discussions are published as press releases to the general public. In Singapore and Malaysia, where the populace are racially diverse, the key budget measures are communicated and discussed in various languages on television and radio forums by political office holders and senior civil servants to enhance public understanding of fiscal activities.

## III. Common Achievements and Challenges

Over the past two decades, APEC economies have made substantial improvements to the presentation and accessibility of fiscal information to the public. Although various economies may approach fiscal transparency differently, because of variations in resources and technology, common achievements are met by most APEC economies.

First, the institutional design for governmental budgeting is well established in APEC economies. In general, an effective legal framework is in place to guide each economy's budget process. Independent auditing is implemented to ensure the quality of reported data and to monitor governmental fiscal activities. Overall, the current budget process is open and transparent.

Second, major budget and fiscal documents are available to the public in most APEC economies. Many economies' budget websites allow for free browsing and downloading. Certain economies create interactive websites or mobile applications to collect feedback. A substantial development towards improved transparency and accountability is the use of information and communication technology. Most economies provide the public with improved access to government information through the enhanced web-presence of governmental agencies.

Two primary challenges are addressed by responding economies. The first is to provide fiscal reports that are easily understood by the general public. Certain economies have issued a budget or fiscal report, written in plain language without specialized terminology, to help people understand public budgets, such as Thailand's "Citizens' Budgets", or Peru's "Orientative Guide on the Public Budget." Nevertheless, it remains difficult to ensure that legislators and citizens read and understand the various kinds of fiscal information. Hence, improving the readability and comprehension of released information is a challenging task faced by many economies.

The second challenge raised by economies concerns effectively enhancing public engagement in budget processes. Although there remain debates over the exact forms of citizen participation, citizen input and feedback are crucial to the linking of transparency and accountability. Inviting public opinion on the budget proposal is popular in responding APEC economies, either through direct communication in the public meetings or by using social networking sites such as Facebook and Twitter.

Most APEC economies have made great progress on the level of fiscal transparency in recent decades, but it is uncertain whether the improvement in transparency leads to a more accountable public sector in practice. As mentioned in Chapter One of this report, fiscal transparency alone is insufficient for holding governments accountable. Unless we strengthen the link between the two, greater transparency will not necessarily generate greater accountability.

Securing a strong link between fiscal transparency and public accountability requires well-established institutional arrangements. The accountability institutions include a check-and-balance mechanism that monitors, rewards, or punishes public officials' fiscal activities through legislative and judicial branches. In addition, institutional arrangements refer to an effectively functioning electoral system, an independent mass media, and a mature civil society. However, not all APEC economies currently perform satisfactorily in establishing and maintaining these accountability institutions. Therefore, although not raised in the economies' IERs, improvement in the effectiveness of accountability institutions is considered to be APEC economies' third challenge.

## IV. Priorities for Future Reform

This section enumerates responding economies' priorities for future reform with respect to open budget processes, public availability of fiscal information, and assurance of integrity and accountability.

- Australia: The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) was passed by Parliament on 28 June 2013 and will provide Commonwealth entities and companies with a single piece of governing financial legislation from 1 July 2014. The legislation was the product of more than two years of consultation as part of a broad-ranging review of the Commonwealth's financial framework from first principles. The guiding principles underpinning this reform effort are about a modernized public sector, responsive to the changing needs of society, with an increased focus on performance and the management of risk in the delivery of services to the people of Australia.
- Brunei Darussalam: Brunei Darussalam is currently in the progress of implementing public finance management reform. Its top priorities include: (1) to achieve a functioning medium-term fiscal framework, (2) to introduce an audit based on the Financial Management Accountability Index, and (3) to implement risk-based auditing in the fiscal year 2014/2015.
- Canada: One of the key challenges remaining is to ensure that Parliamentarians and citizens are able to understand various fiscal reports. The Treasury Board Secretariat has recently launched a searchable expenditure database, which assists users to obtain and compare fiscal data more easily.
- Chile: A proposal has been submitted to the senate to modify the transparency law in aspects such as active transparency, access, and reporting rights of third parties, reserve and secrecy periods, and claims and remedies.
- Hong Kong, China: To enhance public accessibility of fiscal data, and to ensure that the disseminated content is accessible to people with disabilities, particularly the visually impaired, Hong Kong has recently improved its budget website.
- Indonesia: The proposed priorities include: (1) to strengthen the organization and presentation of fiscal policy formulation; (2) to strengthen the capacity of parliament to address the technical basis for the annual budget; (3) to improve the standard of fund management and accounts reconciliation; and (4) to strengthen both internal and external audits.

- Japan: Japan will continue: (1) implementing the “Program Review of Entire Public Activities” and further improving the methods for implementation; (2) promoting increased efforts for the information disclosure of budget execution.
- Korea: Korea will continue its efforts to further increase information accessibility and public understanding of the budget, including the use of broadcast media, establishing an online budget system, publishing information pamphlets, using interactive videos and cartoons, and using info-graphics.
- Malaysia: To further strengthen public finances to ensure long term fiscal sustainability, a Fiscal Policy Committee was set-up. The committee comprises key members of the Cabinet and heads of Central Agencies. Other major fiscal reforms currently underway which are expected to be realized at the federal level by end-2015 include: implementing outcome-based budgeting and accrual accounting; and in public finance, migrating from the current modified cash-based accounting system (GFSM 1986) to the accruals-based GFSM 2001.
- Mexico: Reform priorities are oriented towards the strengthening and consolidation of the “System of Performance Evaluation”, the PbR, and its natural evolution, to results-oriented management. The 2013-2018 National Development Plan includes a series of reforms to strengthen regulatory and operational aspects of the public audit, which is expected to result in developmental steps in the consolidation of accountability.
- New Zealand: New Zealand is currently implementing changes to its Public Finance Act (as well as the State Sector Act and the Crown Entities Act). The first half of these reforms focus on government fiscal management and strategy in its entirety. The second half of the PFA reforms focus on the financial governance of state sector agencies.
- Peru: One of the highest priorities is to expand the Integrated Public Sector Financial Management Information System (SIAF-SP) to include information on all public entities that are not covered in the budget.
- Philippines: The government should continue to sustain the pace of governance and public expenditure reforms, and make these irreversible—deeply embed good governance measures in the policies, institutions and processes in the entire bureaucracy.
- Singapore: The MOF will improve the historical coverage and usability of fiscal data available online, and promote even greater awareness and enhanced understanding among the public of how the government’s finances have evolved.
- Chinese Taipei: The continuing effort to render fiscal information more comprehensive, more reliable, and more readable remains the top priority of future reform, which includes: (1) introducing a “Transparency 2.0” website for all public records of the central government; (2) improving methodologies and techniques in the calculation and projection of contingent liabilities, potential debt, and tax expenditure; and (3) promoting performance audits, and enhancing audit methodologies and skills, to perform outstanding audit services.
- Thailand: The government will (1) continue increasing the availability of fiscal information to the public, including reports of budget performance; (2) enhance the

oversight and reporting of the extra-budgetary funds; and (3) assure integrity and accountability in Thailand.

- United States: The Chief Financial Officer (CFO) Council and the Council of the Inspectors General on Integrity and Efficiency advocate a continued focus on: (1) enhancing the role of CFOs to direct the entire budget process; (2) evolving the financial reporting model for increased accountability; (3) strengthening internal control and risk management activities; and (4) continuing to improve financial management systems.