



**Asia-Pacific
Economic Cooperation**

Advancing Free Trade
for Asia-Pacific **Prosperity**

APEC Economic Policy Report 2013

Executive Summary





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Economic Cooperation**

2013 APEC Economic Policy Report
**Promoting Fiscal Transparency and
Public Accountability**

EXECUTIVE SUMMARY

APEC ECONOMIC COMMITTEE

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Executive Summary

In 2011, as the progress of the APEC structural reform efforts entered the new 2011-2015 phase, the Public Sector Governance “Friends of the Chair” group of the Economic Committee was mandated to conduct activities in five priority areas 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.

Why is it necessary to enhance fiscal transparency?

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. Therefore, 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 as well as reliable information.

By helping citizens stay informed, fiscal transparency reduces the possibility of asymmetrical information between the government and the public. It aligns the government activities with citizen needs. Therefore, fiscal transparency is a prerequisite and necessary condition for public accountability.

Fiscal transparency is not a new concept. It has received increasing attention in the aftermath of the global financial crisis of the 1990s. There are three major factors contributing to the recent global movement in fiscal transparency.

1. Worldwide financial crises since the 1990s

The financial crises in the 1990s 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 major causes of financial turmoil. Lack of transparency within the banking system implies information asymmetry between financial regulators and the banks which they supervise. Lacking solid and real-time banking data, regulators are unable to monitor the banking system and the risk of bank failures increases. 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, including the Latin American currency crises in the 1990s, the Asian financial crisis of 1997, the United States subprime mortgage crisis of 2008-2009, and the European sovereignty debt crisis since 2010.

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 by improving budgetary resource allocation efficiency and equity, controlling the annual budget deficit, 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.

Fiscal illusion theory suggests that when the true costs of government programs are not fully perceived by the public, taxpayers tend to underestimate the costs and demand increases in public spending. Therefore, 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. For instance, “The IMF Code of Good Practices on Fiscal Transparency: Declaration and Principles” which was released in 1998 attempts to promote the fiscal transparency assessment of individual economies, draw up improvement plans, and establish a solid fiscal environment.

Other international organizations striving to promote fiscal transparency include the OECD, the World Bank Group, the Asian Development Bank, the International Budget Partnership, the International Organization of Supreme Audit Institutions, the Extractive Industries Transparency Initiative, and the Transparency International,

An overview of the scope of fiscal transparency

The IMF defines fiscal transparency as a stance for 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. A high degree of fiscal transparency tends to provide benefits in terms of fiscal discipline and accountability. There are four principles established by the IMF to ensure fiscal transparency, which can be described briefly as follows:

1. Clarity of roles and responsibilities

The first principle discusses 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.

A clear demarcation of roles within government is essential for transparency. Decentralization has become a popular strategy based on the premise that lower government units can better respond to local demands and needs at lower cost. However, central governments need adequate information on fiscal activities of lower levels of government in order to have a full picture of general government activities.

2. Open budget processes

Fiscal transparency emphasizes the importance of establishing clear procedures for budget preparation, execution, monitoring, and reporting. 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 would be enhanced if policy makers have the ability to react promptly to every unprecedented shock.

Credible policy makers are those who make the policy with respect for transparency. With high level transparency, any economic shock is easily diminished. 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.

3. Public availability of fiscal information

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 also be reliable and based on credible information systems.

Transparency is a prerequisite for public debate. If budget information is not available to the public, it is difficult to discuss it. Transparency also means that fiscal and budget policies can be assessed and analyzed, thus leading to improved programs and more efficient use of resources. Transparency facilitates the identification of governmental weaknesses, thus facilitating the adoption of needed reforms.

4. Assurance of integrity

A critical requirement of fiscal transparency in the context of democracy is the opportunity for the legislature and civil society to assess the budget and its realization. It is therefore essential 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.

Internal oversight mechanisms are necessary for the conduct of public officials, public service employment, internal audit, procurement, purchases and sales of public assets, as well as national revenue administration. In addition, external oversight mechanisms also provide assurances through an independent national audit body, a national statistical body, and engagement with external independent experts.

Promoting Fiscal Transparency in APEC Economies

In the 1995 Osaka Action Agenda, the APEC Economic Leaders endorsed enhanced transparency as one of the crucial indicators of realizing the Bogor Goals. In 1999, the Government Procurement Experts Group 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.

General transparency principles were announced in the 2002 APEC Ministerial Meeting held in Mexico, and the Leaders Statement of the meeting observed that transparency is a vital element in promoting economic growth and financial stability at the domestic and international levels. In 2003 and 2004, the general transparency principles were categorized into nine "Area-Specific Transparency Standards."

Prior to 2004, APEC focused more on trade policy-related transparency. The transparency concept primarily emphasized 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 presents major APEC progress in promoting fiscal transparency since 2004.

Table 1: APEC progresses to promote fiscal transparency

Year	Major Progresses
2004	Leaders' statement to implement APEC transparency standards: <ul style="list-style-type: none"> ▪ Transparency in monetary, financial and fiscal policies and the dissemination of macroeconomic policy data. ▪ 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: <ul style="list-style-type: none"> ▪ APEC agreed to a set of template to assess implementation of transparency standards in each economy. ▪ A total of 14 economies have submitted complete assessment reports, while six economies provided partial assessment reports.
2010	Finance Ministers' Process (FMP): <ul style="list-style-type: none"> ▪ One strategic goal of FMP: prudent public finance management. ▪ FMP also introduces project on promoting effective strategies to enhance fiscal sustainability and economic recovery, and the project has helped APEC economies to maintain mid-term to long-term fiscal sustainability policies. Finance Ministers' Meeting: <ul style="list-style-type: none"> ▪ Ensure stable fiscal management and formulation of reliable and growth-oriented fiscal plans. ▪ Improve efficiency of public fiscal management through mid- and long-term budgetary plans. ▪ 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: <ul style="list-style-type: none"> ▪ 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.

Year	Major Progresses
	<ul style="list-style-type: none"> ▪ The FM asserts that advanced economies should start now to bring debt ratios to prudent levels. ▪ For emerging economies, the IMF’s FM recommends that they use revenues to rebuild fiscal space rather than to increase spending. ▪ All economies should strengthen fiscal institutions and transparency.
September 2011	<p>Roundtable discussion on “Improving Public Sector Transparency: Good Practices and Reform Experiences” during the EC2 plenary meeting. Member economies reported on efforts made to promote transparency, including:</p> <ul style="list-style-type: none"> ▪ Enacting or modifying laws to promote transparency; ▪ Constructing an unified, open information platform on the internet; ▪ Releasing documents indicating the government resource allocation and performance; ▪ Reducing corruption.
November 2011	<p>APEC High Level Policy Dialogue on Open Governance and Economic Growth:</p> <ul style="list-style-type: none"> ▪ Re-affirm the importance to enhance public trust by combating corruption and by committing to transparent, fair, and accountable governance. ▪ 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	<p>“Sovereign Debt Challenges in the Euro Area: Implications for APEC” released by APEC Policy Support Unit:</p> <ul style="list-style-type: none"> ▪ Legislating fiscal rules to reduce future budget uncertainty; ▪ Introducing multi-year budgeting frameworks; ▪ 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	<p>Selecting “Fiscal Transparency and Public Accountability” as the topic for 2013 AEPR.</p>

Future challenges in promoting fiscal transparency and accountability

APEC economies face two primary challenges in striving to promote fiscal transparency and public accountability.

1. Bridging the gap between standards and achievements

APEC member economies are at the forefront of fiscal transparency practices. However, if judged against the well-accepted international standards or best practices of fiscal transparency, a gap exists in most APEC economies between international standards and real achievements.

Though 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 accordingly 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 the actual position and the position it should be, and then develop its own priorities for adopting international standards of fiscal transparency. Assessing national strengths as well as its weaknesses and then focusing on this gap will enable economies to set priorities for fiscal transparency improvement in a more efficient manner.

2. Strengthening the linkage between transparency and accountability

Fiscal transparency is a necessary condition in promoting public accountability, but it alone is not enough. Without simultaneously strengthening the monitoring and enforcement mechanism of public accountability, simply urging for more transparency has only marginal, if any effect on promoting public accountability.

Securing a strong linkage between fiscal transparency and 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.

Mass media is another powerful external accountability mechanism. It transmits government information to the public to reduce information asymmetry. It interprets and disseminates complex and incomprehensible fiscal information to the public to compensate for its opaqueness. Hence, the media has a significant impact on society in shaping public opinion on fiscal and budgetary policies.

A mature civil society plays a vital role in reinforcing the effectiveness of election and mass media as a powerful accountability institution. Therefore, to facilitate a strong linkage between fiscal transparency and public accountability, a civil society must be empowered by: (1) building expertise in election observation and oversight, and (2) fostering dialogues between civil society organizations and mass media.

Summary of Individual Economy Reports

There are 19 Individual Economy Reports (IERs) submitted by member economies. They provide valuable information on economies' fiscal institutions and their key initiatives and challenges in promoting fiscal transparency and accountability.

1. 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.

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 have a budget authority other than the MOF (or the Treasury) leading the process of budget preparation.

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. 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.

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.

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.

2. Assessing fiscal transparency and accountability

a. Open budget processes

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 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.

b. 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. Information on public debt attracts widespread attention, and is reported to the public regularly in most responding APEC economies. Pension liabilities and tax expenditures are also published annually in many economies.

c. 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, which is aligned with the International Financial Reporting Standards, or based on the International Public Sector Accounting Standards.

In addition to complying with accepted accounting standards, fiscal activities should also be subject to effective internal oversight and external scrutiny. Nearly all responding APEC economies report that internal and external auditing are implemented to control and monitor governmental fiscal activities.

Furthermore, some economies have developed innovative measures to actively promote an understanding of the budget process by individual citizens and non-governmental organizations, such as developing user-friendly layouts for budget documents, and implementing citizen participation measures.

3. 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 due to 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 economies. A substantial development toward improved transparency and accountability is the use of information and communication technology. Many economies' budget websites allow for free browsing and downloading. Moreover, certain economies create interactive websites or mobile applications to collect feedback.

However, two primary challenges are addressed by responding economies. The first is to improve the readability and comprehension of released fiscal information. The second challenge concerns effectively enhancing public engagement in budget processes. Although there remain debates over the exact form of citizen participation, citizen input and feedback are crucial to the linking of transparency and accountability.

The third challenge, though not mentioned in the economies' IERs, is improvement of the effectiveness of accountability institutions. Securing a strong linkage between fiscal transparency and accountability requires well-established institutional arrangements, which include a well-established check-and-balance system in the public sector, 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, improvement in the effectiveness of accountability institutions is considered to be APEC economies' third challenge.



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