

Committee/Council: Special conference

Issue: Promoting transparency and accountability in public finance

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Introduction

Undeniably, the issue of promoting transparency and accountability in public finance is of vital importance due to the significance of public finance in nowadays-globalized economy. In our modern era, every economy is based on public finance. All financial activities are built around it depending highly on it. For the financial system, public finance is what the heart is to the human body, since its functions are essential for the existence of the economy. However, its importance is not only economic but also social. The reason behind that lies in the fact that it provides a secure financial environment and several services that contribute to the stability and coherence of the social structure. Thus, it is clear that poor efficiency of the public finance has negative economic and social consequences.

It is an indisputable fact that governmental accountability and transparency are two of the most basic features of democracy. Transparency and accountability in public finance are important since they allow “the electorate and financial markets to 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”¹. In other words, apart from their importance for financial decisions on a global and national level, they provide the necessary information to the people in order for them to fulfill their role as citizens. In addition, it is only through them that people can regain trust in the public financial management. Moreover, it has been proven that countries with high rates of public financial transparency and accountability have more efficient public spending, lower public borrowing costs and minimized corruption in comparison to others². On the contrary, corruption in the field of public finance has adverse effects since it does not only lead to loss of public money but also renders public policies for achieving social goals ineffective. All in all, accountability and transparency in public finance contribute to the minimization of corruption, greater financial stability and protection of the people’s interests.³

¹ George Kopits and Jon Craig (1998), Transparency in Government Operations, IMF Occasional Paper 158.

² Final Report of the Royal Commission on Financial Management and Accountability

Definition of Key-Terms

Public finance

Public finance is a branch of economics that primarily deals with governmental income and expenditures or, more generally, it is the management of governmental money. According to Adam Smith "The investment into the nature and principles of state expenditure and state revenue is called public finance".

The governments use public finance in order to accomplish a variety of different economic targets. Some of these targets include the achievement of sustainable economic growth, price stability and proper allocation of resources. In addition to that, governments are responsible for public expenditures, the control of the public debt and economic stability in general.

Accountability

Accountability is the state of being responsible. It can be defined as "the liability assumed by all those who exercise authority to account for the manner in which they have fulfilled responsibilities entrusted to them". Financial accountability consists of several different factors. It contains the prudent management of finances by the government, comprehensive financial reports and ethical behavior.

Transparency

Transparency can be defined as "the perceived quality of intentionally shared information from a sender". Financial transparency can be explained as the extent of access to information that somebody has. This information in reference to public finance may include reports and disclosures on financial liabilities, tax expenditures and different financial conditions.

Background Information

Reasons behind demand for accountability and transparency in public finance

The fundamental reason for demanding accountability and transparency in the field of public finance is trust. Trust between people and the government. Public managers are accountable for their actions because they manage public money, in other words, the people's money. Furthermore, in today's complex economies and accounting systems it is far more difficult for the people to understand and assess the economic policies. In addition to that, in recent years a change has been globally observed in the composition of public expenditures that now not only include public services but also debt payments, incentives for the private sector etc. Managing public finances and financial policy-making are getting more complex year by year. Transparency and access to information allow citizens to actively engage with policy processes and monitor government action, leading to improved accountability and better socioeconomic outcomes.

As it became obvious by several financial global crises, errors in policy-making and risk averted fiscal positions can have a massive negative impact not only on the economy but also on the society. The majority of countries all around the world are heavily indebted. Some of them are beginning now to struggle with the associated consequences, while others have already adopted a variety of different policies such as austerity measures in order to repay their lenders. However, it is vitally important to emphasize that the root of the problem is in every different case the immense public borrowing. If an efficient financial transparency system exists, it can outline potential dangers, leading to the adoption of proactive measures and thus minimizing the damage.

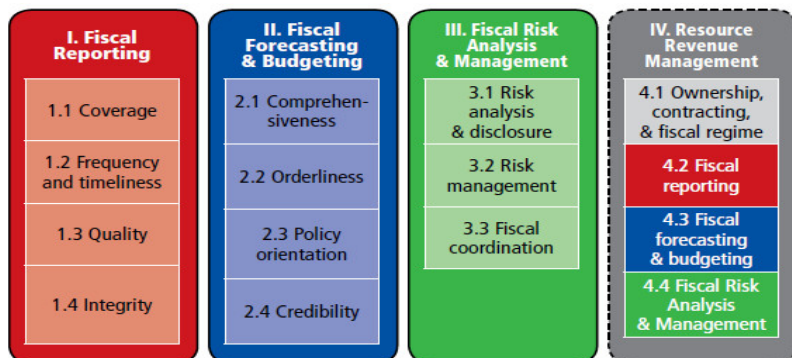
A great example depicting this situation is the Greek economic crisis. The state was getting large loans in order to sustain an unsustainable economy. However, people did not really care since they were not adequately aware of the situation. Thus, without any efficient public financial transparency, which could act as a protective financial shield, nothing really stopped Greek regulators and politicians to follow the aforementioned course. Anyhow, in the period 2008-2009, the now well-known Greek sovereign debt crisis was triggered by the global financial crisis, which resulted in the degradation of the Greek economy. In addition to that, none of the parties involved was really held accountable for its fatal mistakes. Not only did injustice prevail, but also future generations may now assume that they can act in a similar manner without being punished for it.

To sum up, increased transparency ensures, among other things, public accountability, thereby contributing to economic stability and upgrading decision making, which finally improve the quality of life of the people.

Transparency in public finance (fiscal transparency)

According to the International Monetary Fund and its Fiscal Transparency Code, which is an international standard for all governments to disclose information about public finances, there are four pillars, around which a set of principles has been formed.

1. “Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government’s financial position and performance. “
2. “Budgets should provide a clear statement of the government’s budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.”
3. “Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.”
4. The fourth pillar is Resource Revenue Management. It has been tested until now in several countries and is expected to be included for the first time in the Fiscal Transparency Code 2019. It should “provide a transparent framework for the ownership, contracting, taxation, and utilization of natural resource endowments.”



In other words, transparency requires the information to be accessible, relevant, timely, contextual, understandable and reliable.

Fiscal Transparency Evaluations (FTEs)

These are fiscal transparency diagnostic-evaluations conducted by the IMF and in order to be carried out there should be a request from the country to the IMF. FTEs provide among others a comprehensive report on the advantages and disadvantages

of the fiscal transparency of the countries, a comprehensive assessment based on the Fiscal Transparency Code and a proposed action plan to set specific priorities.

The first FTE⁴ was published in 2013 and until now 23 have been conducted and 19 reports have been published for: Albania, Bolivia, Brazil, Costa Rica, Guatemala, Finland, Georgia, Ireland, Kenya, Mozambique, Peru, the Philippines, Portugal, Romania, Russia, Tunisia, Turkey, Uganda, and the United Kingdom.

Dimensions of accountability

There are different types of accountability. The most common ones are internal and external accountability. In the first case, account is given from the lower ranks to the higher within an organization or a governmental body. In the latter, one department or body is accountable to an external one. Another dimension of accountability is political, which means that the actions of a governmental branch are accountable to the legislation. Accountability in public finance belongs to the managerial accountability and focuses on the delivery of services to the people by the government.

Stakeholders in accountability

The citizens of a democratic country are the most important stakeholders in an efficient system of accountability since they expect in return for their taxes certain services from the government. For this reason, they seek strong, fair and independent legislative bodies that hold the government accountable. Within the governmental bodies, the senior officers hold their direct inferior functionaries accountable for their performance and actions. Moreover, audit institutions, anti-corruption agencies and internal audit institutions exist, which focus on enforcing ethical conduct, discipline and maximizing the effectiveness of the system of accountability. Lastly, nongovernmental organizations and the media have the role of promoting accountability in public finance and researching the economic results in order to inform the citizens.

Principles of effective accountability⁵

- Clearly defined roles; the responsibilities and roles of each party should be clearly defined.

⁴ <http://www.imf.org/external/np/fad/trans/>

⁵ The joint discussion paper by Office of the Auditor General of Canada and Treasury Board Secretariat Canada

- Clear performance expectations; targets and performance of each party should be clearly defined.
- Balanced expectations and capacities; expectations should be balanced with the capacity of each party and the recourses provided to it.
- Credible reporting; reports on performance and the actions of each party should be provided on a regular basis.
- Reasonable review and adjustment; performance results and changes towards improvement should be considered.

Without all those, it is more difficult to find who exactly is responsible for an illegal action.

Who is accountable?

The heads of all governmental departments are accountable for the actions of their departments. However, they delegate much of this authority to their subordinates. In public finance, the heads of the different bodies have various responsibilities:

- Minimizing the cost of their programs, while considering the quality.
- Rationally basing all decisions on available financial information.
- Ensuring the creation of mechanisms to produce reports of the performance.
- Internal controls focusing on maximizing efficiency, combating corruption etc.

The public managers, whose work is connected to a specific sector of public finance, have various additional responsibilities. For example, the ones responsible for the budget need to manage and control it, allocating funds, making certain financial estimates, and providing information to other governmental departments. On the other hand, auditors are responsible for preparing financial statements and conducting internal controls.

Mechanisms of accountability in public finance

- Legislation —law should clearly define the limits of accountability (accountability laws), which vary from country to country.
- Supervision —by the ministry of finance. In most of the countries, it is the ministry of finance that is responsible for public finance. It can issue guidelines for its employees and conduct internal controls as well as demand performance reviews. Thus, its employees have the obligation to follow these guidelines and rules.

- Performance reports —by the different departments involved. People do not want only to see just numbers but also understand how well public entities manage their resources. These reports should be made available to the public on at least a regular monthly basis.
- Internal audit —internal auditors can review the operations of a governmental organization, conduct various controls and detect possible fraud and corruption. However, in order to fulfil their responsibilities, they need to be independent.
- Supreme audit institutions (SAI) —in most of the countries, SAI are independent and their task is to audit governmental financial statements in accordance with approved legislation and other rules.
- Access of the audit reports by the public —such actions have been proven very effective means for enforcing accountability in public managers since knowing that, both auditors and public managers work in a more responsible manner.

Along with all those mechanisms, incentives and additional instruments should exist in order to encourage employees to report on possible misconduct of their coworkers (corruption, bribes etc.). Furthermore, appropriate training courses should be provided in order for the employees to be familiar with all the rules they should follow.

Costs of transparency and accountability in public finance

Undeniably, implementing an efficient transparency and accountability system in the complex field of public finance has costs. Some of these costs include implementing the appropriate accounting techniques, buying the essential technical infrastructure, and creating a centralized information system. Furthermore, internal controls and committees can slow down decision-making and confine the scope of activities that can be taken into consideration in order to address a certain economic issue.

Major Countries and Organizations Involved

International Monetary Fund (IMF)

As it has been mentioned above, the IMF has published and is improving every year the Fiscal Transparency Code. It also conducts the Fiscal Transparency Evaluations, which are very important since they outline weaknesses of the accountability and

transparency systems in each country. The next steps of the IMF's fiscal transparency initiative include the incorporation of the fourth pillar in the Transparency Act, conducting more FTEs and finalizing the Fiscal Transparency Handbook.

World Bank

The World Bank is also very active in the field of transparency and accountability in public finance promoting many different relevant projects and publicizing reports. One of those projects is the Open Budget Portal (<http://boost.worldbank.org/>). At this point, it should be highlighted that budget transparency is very important for public finance as it is focused on public budget, which can be described as the core of public finance. For instance, budget transparency contributes to eliminating off-budget operations and budget loops.

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According to the World Bank "The Open Budgets Portal is the first effort to create a one stop shop to budget data worldwide with the hope of bringing visibility to countries' efforts in this field, facilitate access and promote use of spending data, and motivate other countries into action"⁶ including the BOOST initiative. This facilitates access to a collection of data about the budget of different countries. Until now, approximately 40 countries participate in this project and somebody can easily access different types of their own data. To sum up, this portal is designed to improve transparency, accountability, and decision-making. In addition, with more countries getting involved, it has a great potential.

I highly encourage you to visit the website in order to see the databases yourself and acquire a clear image of your country's financial situation, if available: <http://boost.worldbank.org/boost-data-lab>

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International Budget Partnership (IBP)

The target of the International Budget Partnership is to help making public finance more transparent and accountable through its work in four different areas: strengthening other organizations, analyzing and researching on budgets, collaborating with other entities engaged in budget issues, and producing case studies about it. Every year it also publicizes the open budget index ratings, which you are also encourage to study briefly (<https://www.internationalbudget.org/open-budget-survey/open-budget-index-rankings/>).

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Global Initiative for Fiscal Transparency (GIFT)

GIFT is a global framework that facilitates collaboration and dialogue between governments, civil society organizations, international financial institutions, and

⁶ <http://boost.worldbank.org/boost-initiative>

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other stakeholders. Participants are, among other countries, USA, Brazil, Argentina as well as some international organizations like the World Bank, the IMF and many others.

Its target is “to find and share solutions to challenges in fiscal transparency and participation. It works through advocacy and high-level dialogue, peer-learning and technical collaboration, research, and tech for participation.”⁷

Enhancement of collaboration is crucial for creating more efficient transparency and accountability systems. As for the countries, they should participate in the initiatives and organizations mentioned above in order not only to promote but also enhance transparency and accountability.

Relevant UN Treaties, Resolutions and Events

The Fiscal Transparency Code by the IMF 2018 <http://blog-pfm.imf.org/files/ft-code.pdf>.

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Fiscal Transparency Handbook 2018 by the IMF http://www.elibrary.imf.org/doc/IMF069/24788-9781484331859/24788-9781484331859/Other_formats/Source_PDF/24788-9781484348598.pdf.

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Both are guidelines produced by the International Monetary Fund in reference to transparency in public finance and how the states can enhance their existing mechanisms or create new ones.

Although there are no previous UN resolutions on our topic there are others that focus on specific subtopics:

Resolution A/66/209 of the UN General Assembly “Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions”.

Previous Attempts to solve the Issue

The issue of promoting transparency and accountability in public finance is certainly not a new one. As it was mentioned before, an international attempt towards addressing the issue is led by the IMF and the World Bank. The first one, by issuing

⁷ www.fiscaltransparency.net/.

its guidelines and country-specific reports, focuses on enhancing the transparency and accountability related mechanisms, while the last one, by using data collected from various economies, not only makes them available to everyone but is currently also trying to develop tech tools that could address the issue permanently.

Furthermore, many different countries have devised and implemented various action plans. Two of those are the US Federal Funding Accountability and Transparency Act (FFATA) and the Freedom of Information and Protection of Privacy Act (FIPPA) of Canada. Intent of the first one is to empower every American to hold the Federal Government accountable for each spending decision, while also providing access to public documents. The latter provides among others access to public information and enhances review processes. However, due to the complexity of nowadays-public finance and the need for economic stability and sustainable growth, the promotion, and thus enhancement of accountability and transparency in this field, is even more essential.

Possible Solutions

First, raising awareness about accountability and transparency in public finance is crucial. All citizens should be encouraged to access statistics and relevant data. This applies especially to the media, which need to collaborate with organizations, such as the International Budget Partnership, to promote their reports containing conclusions upon the financial statements made public from the different governmental bodies.

Enhancement of collaboration between organizations, such as the World Bank, the IMF, and the governments, is also crucial for more efficient transparency and accountability. Countries should participate in the initiatives and organizations mentioned above in order to promote transparency and accountability. Countries should be encouraged through various means to coordinate their efforts with the World Bank and share their relevant data. In the same manner, they should request the IMF to provide Fiscal Transparency Evaluations for all the reasons mentioned above.

Concerning accountability specifically, potential use of the infrastructure and the wide network of the UN should be considered in order for various countries to collaborate, send experts and devise an accountability management framework. This could include the issuance of guidelines and rules in a specific field of public finance. Moreover, this framework should enforce the enactment of accountability law in each country. Furthermore, a healthy environment should be promoted and the

appropriate structures should be created in order not only to promote debates upon policy making but also encourage public employees to report possible illicit conduct of co-workers. Lastly, internal audit institutions should be strengthened and the worldwide independence of Supreme Audit Institutions (SAIs) be guaranteed.

Finally, yet importantly, it should be highlighted that nowadays emerging technologies, such as big data and machine learning, could contribute to the enhancement of the transparency and accountability by simplifying accounting procedures, detecting fraud and inefficiencies in the budget. Countries should be encouraged to cooperate with tech companies and develop new products, which can contribute not only by detecting corruptions but also by finding out the most efficient way to allocate resources and funds.

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https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&cad=rja&uact=8&ved=0ahUKEWjdJu3wuzbAhVIOZoKHUy_Bv8QFgg_MAI&url=http%3A

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World Bank, Research Paper on Accountability
