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**Article**

## Unlimited Possibilities for Fiscal Transparency Improvement

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# Unlimited Possibilities for Fiscal Transparency Improvement

Dear readers,

this special issue of the *European Financial and Accounting Journal* is a result of a joint initiative of the Faculty of Finance and Accounting at University of Economics, Prague and the Network of Institutes and Schools of Public Administration in Central and Eastern Europe (NISPAcee). The papers included in this volume were selected from the papers prepared in the framework of the NISPAcee Working Group on Fiscal Policy and presented in May 2011 at the 19<sup>th</sup> NISPAcee Annual Conference.

NISPAcee is a non-government, non-profit, international membership organization. It was established in 1994 with the aim to serve as a clearinghouse for information for the newly established schools and programs of public administration in post communist countries and to promote the development of public administration education and training in these countries. At present the membership of the organization includes 106 institutional members and 26 associate members. The Executive Secretariat of the organization is located in Bratislava, Slovakia. Main activities of the organization includes annual conferences, training programs, summer schools, high level meetings, specialized conferences and workshops, tailor-made seminars and study-tours, databases of institutions and experts, research programs, publication program, technical assistance and development programs.

During this autumn dozens of researchers around the world, including myself, compile the Open Budget Survey 2012, which is a biennial comparative research of budget transparency and accountability undertaken in more than 90 countries. The search of information and filling of the questionnaire make me think about many simple steps which would improve transparency. At the same time I am aware that there are unlimited possibilities for improvement in this area.

Fiscal or budget transparency gained increasing attention from international institutions, national governments and nongovernmental organizations in the last twenty years. This attention presented itself first

in the specifications how transparent budgets and public finances should look like and second in the attempts to measure and compare transparency across countries.

Fiscal transparency is often viewed as a tool promoting fiscal discipline which is accompanied with more credibility for financial markets and lower costs of debt. Frequently approved fiscal rules or fiscal caps can only lead to fiscal discipline if they are backed by transparent reporting. Otherwise they create various “perverse” incentives. Fiscal transparency is important to reduce incentives to be fiscally irresponsible.

Improved fiscal transparency is also important for engagement of citizens and civil society organizations in the decision-making process. Government fiscal activities should be subject to public scrutiny, which is impossible without timely disclosure of all relevant documents and information.

At the moment there are two major international norms of budget transparency: the IMF Code of Good Practices on Fiscal Transparency which was for the first time approved in April 1998 and the OECD Best Practices for Budget Transparency published in 2000.

The IMF Code of Good Practices on Fiscal Transparency states that there should be a clear legal and administrative framework for fiscal management. It is divided into four sections: (1) clarity of roles and responsibilities, (2) public availability of information, (3) open budget preparation, execution, and reporting and (4) assurance of integrity. The OECD Best Practices for Budget Transparency are narrower and are divided in three parts: part I lists the principal budget reports and their content; part II describes specific disclosures to be contained in the reports and part III highlights practices for ensuring the quality and integrity of the reports. These two international standards are of course not binding but can provide guidance for development of national budget laws.

At the same time we can observe attempts to measure budget transparency. In order to cover the entire spectrum of issues related to transparency construction of a transparency index seems appropriate. So far there have been developed several transparency indexes both in academic papers and by private nonprofit organizations, such as International Budget Partnership.

The International Budget Partnership undertakes since 2004 the Open Budget Survey, which is compiled from a questionnaire completed for each country by researchers who are not associated with the government. Each country's questionnaire is then independently reviewed by two anonymous experts and a government official. Based on the survey the Open Budget Index is computed.

Together with a few other researchers I have been involved in the elaboration of the Czech part of the survey since the very beginning and now it has been already the sixth time. While in 2004 I had to browse through the extensive budget documentation in the library of the Ministry of Finance which at that time was one of the very few places where it was available for general public. Today I can answer the questions from my home, as all the documents are on the web. This is definitely an improvement. The work with the budget documentation became over the years quite easy. I know the structure well now, so I can find the answers easily. Of course, only if the particular information is presented. The differences between the years are negligible, which means that we do not succeed to add the missing but required information into the budget documentation.

Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner, thus there are three aspects of the disclosure: complete, timely and systematic.

Evaluating the complexity, we have to admit that all the budget documents which are produced in the Czech Republic appear also on the web. However, a few documents required by the OECD Best Practices, such as Pre-election report, Long term report or Citizens budget are not produced at all. Especially the preparation and publication of the Citizens budget would show interest of the government in the budget transparency issue.

The time, which passes between completion of a particular document and its publication, differs significantly for the different documents. While the executive's budget proposal is available within a few days after its approval, the mid-year report is published with a significant delay, which is caused by the regulation in the law on budget rules. The law on budget rules requires that the quarterly and mid-year reports are published only after their acceptance by the budget committee or the Chamber of

Deputies, respectively. Due to this regulation the mid-year report for the year 2010 was published as late as in March 2011.

Disclosure in a systematic manner means for me publication at one place, most likely the web pages of the Ministry of Finance. The current practice, when some of the budget documents are published on the web pages of the Ministry of Finance and the rest on the web pages of the Chamber of Deputies is quite confusing.

Even when the Czech Republic is characterized as a country which provides significant information to the public in its budget documents, there are still many simple and cheap ways to improve budget transparency.

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Coordinator of this issue

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