Does Introducing Financial Statements Affect Local Public Sector Efficiency?
: Evidence from Japan

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Abstract

After international organizations such as the OECD advocated for national governments to adopt accrual accounting, in line with the precepts of New Public Management (NPM), more countries switched from traditional cash-based accounting to accrual accounting methods. NPM aims to enhance budget transparency, efficiency, and accountability of decision-making using business-like management tools such as double-entry bookkeeping. This study examines the impact of the local public accounting reforms on the efficiency of Japanese local governments using a stochastic frontier approach and panel data. Our results indicate that preparing accrual-based financial statements may increase local government efficiency.
Keywords: Financial statements, Accrual accounting, Efficiency, Fiscal transparency, New public management (NPM)
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