Clean Government and Public Financial Accountability

OED Working Paper Series ♦ No. 17

Vinod Sahgal
Deepa Chakrapani

Summer 2000
The World Bank
Washington, D.C.
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Acknowledgments

Vinod Sahgal, the task manager for this working paper, and Deepa Chakrapani would like to sincerely thank Paul Bermingham, Anthony Byrne, Malcolm Holmes, Graham Joscelyne, and Jules Muis for their interest in and the priority they give to financial accountability as well as for their guidance, support, and insightful comments. Mr. Sahgal and Ms. Chakrapani would like to acknowledge and sincerely thank Nagy Hanna and the management of the World Bank's Operations Evaluation Department (OED) for the opportunity to promote the debate on public financial accountability and for their constant encouragement and support. They also give many thanks for editorial support to Elizabeth Campbell-Pagé, editor-in-chief, OED Partnerships and Knowledge Group.

The Working Paper Series is published by the Partnerships and Knowledge Group, Outreach and Dissemination Unit, by Elizabeth Campbell-Pagé (team leader), including Caroline McEuen (editor), Kathy Strauss and Aichin Lim Jones (graphics and layout), and Juicy Qureishi-Huq (administrative assistant).

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Director-General, Operations Evaluation: Robert Picciotto
Director, Operations Evaluation Department: Gregory Ingram
Task Manager: Vinod Sahgal
Preface

Our purpose in presenting this paper is to emphasize the importance of building capacity for sound public financial accountability, not only in client countries but also in the Bank. It aims to provoke thought on what further guidance may be required to build borrower capacity for public financial accountability. In doing so, we question the appropriateness of the Bank’s traditional focus on borrowers’ accountability at the project level and its existing institutional framework for promoting capacity building at the country level. We also point to changes that may be necessary if the Bank is to avoid being associated with reports of corruption, waste, abuse, and fraud such as have recently been identified with Russia, Indonesia, Pakistan, and other countries.

The Bank has used the term “financial accountability” narrowly. Its emphasis has been on accounting for project expenditures rather than performance, on financial statements rather than on value for money, and on financial management rather than on overall organizational control. Financial Management Specialists have not focused on high-risk areas such as procurement, performance reporting, budgeting and ethics. We point out reasons why this must change and describe tools for making it change.

The Bank should supplement its support to the executive arm of government with efforts to promote the work of legislative oversight groups, to build capacity within institutions of public financial accountability, and to accommodate cultural sensitivities of developing countries. Donors must foster the will of country officials to embrace the benefits of accountability, support borrowing countries’ fiduciary relationships with their citizens, and forge new kinds of stakeholder alliances.

The future calls for a broader approach to control, one that stresses ethics and the practice of sound public financial accountability as critical aspects of organizational behavior across the entire government enterprise. The challenge will be to better integrate the work of the diverse financial and nonfinancial groups, both inside and outside the World Bank, whose interest is vested in the development of good governance and clean government.
Abbreviations and Acronyms

CAS – Country Assistance Strategy
CDF – Comprehensive Development Framework
CDS – Country Disclosure Statement
CTR – Office of the Vice President and Controller
FMS – Financial Management Specialist
IAD – Internal Audit Department
IDA – International Development Association
IMF – International Monetary Fund
LACI – Loan administration and change initiative
OCS – Operational Core Services
OED – Operations Evaluation Department
PMR – Project Management Report
PREM – Poverty Reduction and Economic Management
SEC – Securities and Exchange Commission
UNDP – United Nations Development Programme
WBI – The World Bank Institute
Chapter 1
Why Have Clean Government?

The first pillar of the Comprehensive Development Framework (CDF) calls for good and clean government. The CDF assumes that clean government promotes good governance. But good governance requires at minimum four elements: effective public financial accountability relationships between a country's governing bodies and its executive management, transparent decisionmaking, stakeholders' participation, and ethical practices. These elements are mutually reinforcing. For example, where there are effective relationships of financial accountability, performance is likely to be managed and reported fairly and honestly. This in turn minimizes systemic corruption; mitigates fraud, waste, and abuse in the use of public funds; and highlights breakdowns in the rule of law so that they can be dealt with appropriately and in a timely way.
Chapter 2

Why Have Public Financial Accountability?

Financial accountability is ultimately about promoting and reporting publicly on performance. Public financial accountability requires that governments manage finances prudently; that they integrate their financial and nonfinancial reporting, control, budgeting, and performance; that they report comprehensively on what they have achieved with their expenditure of funds; and that stakeholders behave ethically. Any organization—public or private—that manages and reports on its finances, mitigates the risk of malfeasance, builds good quality and openness into its financial and nonfinancial analyses, monitors the sustainability of benefits that accrue from its investments, and fulfills its performance reporting and fiduciary obligations to its constituents reflects sound financial accountability.

Manifesting financial accountability is therefore much more than building and maintaining accounting and auditing systems. It represents more than just the technical capability of financial managers. Accountability is not complete until it encompasses the wide-ranging activities, attitudes, and reporting relationships between all stakeholders. Therefore while the borrower’s fiduciary accountability to the Bank on the use of project funds is important, the country’s fiduciary relationship to its citizens on the use of all public resources (including donor funds) has greater significance. This public aspect of accountability is what differentiates the outlook of a commercial bank from that of a development bank. At the World Bank, a common framework for understanding the foundation and scope of public financial accountability and its relationship to governance is much needed.

Tools for Public Accountability

The recent International Development Association (IDA) 12 replenishment report suggests that IDA views governance as one of the four key areas. It highlights accountability and the mitigation of corruption as important components of good governance. IDA recommends that the Bank develop a public sector management strategy by June 2000 that focuses on institutional development and capacity building. Tools such as the institutional and governance review have been designed for this purpose and are expected to complement knowledge-building exercises currently under way. A new strategy and new tools would help the Bank forge a link between knowledge and its application in dialogue with stakeholders, especially if integrated with the Country Assistance Strategy (CAS). (See box 2.1)
Country Indicators of Public Financial Accountability

At the broad country level, the presence of sound public financial accountability has several indicators. For one, a country is likely to manifest public financial accountability if its legislative committees and audit committees provide for its citizens crucial oversight of the country’s public finances. Another indicator is the existence of budgeting and accounting systems that promote performance and that capture public organizations’ transactions and their actual and contingent assets and liabilities accurately and in a timely way.

A country may be publicly accountable financially if it maintains internal control and performance reporting systems that check bad recordkeeping, noncompliance with rules and regulations, lack of due regard for economy and efficiency, weak evaluation and internal audit capacity, breaches in codes of ethics, and misrepresentations of performance information. Another indicator is a country’s reporting of external audits and reviews to the legislature and the stakeholders on how government manages risk.

The clear delineation of stakeholders’ responsibilities and partners’ mutual accountability signals public financial accountability, as does balance between governing bodies’ and their executives’ expectations and their capacity to meet them. With these go transparency in decisionmaking. Finally, if a country is publicly financially accountable, it has the capacity for evaluation that ensures that it can capture its lessons from experience and act on them in a timely way.

Box 2.1. IDA 12 Emphasis on Good Governance and Performance-based Lending

IDA’s mission is “to support efficient and effective programs and improve the quality of life in its poorest member countries.” In furthering this mission, the recent IDA 12 report suggests that donors’ policy frameworks and priorities should focus on good governance.

The report defines the components of good governance as:
- accountable public institutions that give priority to productive social policies and programs
- and that support sound fiscal choices for them;
- transparent policymaking and implementation;
- clarity, stability, and fairness in the rule of law; and
- openness to the participation of citizens in the design and implementation of policies and programs that affect them.

In the context of these components, the report classifies corruption as requiring focus within the broader concept of governance.

IDA’s deputies have pushed for performance-based lending that makes governance an area of primary consideration for selectivity in providing lending and nonlending support to poor policy performers. The IDA 12 report suggests that the Bank systematically assess the quality of governance in all countries and strengthen its linkage to selective lending levels. The report explicitly requires cutting back and, if necessary, stopping lending to countries whose governance is weak. The country policy and institutional assessment, which is currently being developed, especially in the area of governance, is expected to provide a benchmark for measuring performance.

CASs can thus explicitly cover governance in country dialogue. To promote transparency, the Bank is expecting to make CASs public documents. This highlights the need to improve the CAS process in terms of comprehensive diagnosis, programmatic selectivity, openness, and participatory preparation.
Chapter 3

How Has the Bank Strengthened Public Financial Accountability?

The Bank’s financial accountability work has so far focused on strengthening financial accounting, financial management, and reporting in relation to its investment projects and to compliance with the terms of the loan agreements. This focus has been very narrow. The general conditions of loan agreements include a clause on the borrower’s accountability. That borrowers spend the money the Bank lends them only on the purposes intended in the loan agreements has been one of the main criteria for determining their financial accountability. The issue of value for money or in other words, wise and results-oriented expenditure has not received equal importance from the financial management and auditing community. The project has been the unit of account, and the Bank actively promoted sound financial management mainly at this level, seeking assurances from the clients’ external auditors that the borrowed funds are expended for intended purposes.

Solutions to Insufficient Project Control

Increasing Project Supervision

A recent Quality Assurance Group report suggested that the Bank has paid insufficient attention to financial management during supervision. Thus, at the project level, at least, the Bank is finding that it has much to revisit. Internal Audit Department (IAD) findings from 1996 also pointed to poor internal control in Bank projects. The Operational Core Services (OCS) community at the Bank has also informally identified issues of concern regarding the control and skill mix the Bank employs at the project level.

The Bank has been responding to such concerns by strengthening its capacity to appraise and supervise Bank-financed projects. It has assigned financial management specialists (FMS) to the regions who are expected to help task managers review and assist clients improve their accounting and control systems. After a long hiatus, the Bank has recruited about 85 FMSs in Washington and in the field offices (World Bank, 1999). IAD has also increased its surveillance of financial accountability and control within the Bank. The potential for fraud and abuse in Bank-funded projects is being closely monitored. Recently, the Operations Evaluation Department (OED) has started to build evaluation capacity in financial management and accountability both within the Bank and in client countries.
Strengthening Borrower Capacity

The Bank has also recently initiated the loan administration and change initiative (LACI) to build borrowers' capacity for project-level financial management and accountability. This initiative resulted from lengthy discussions between operations staff and the controllers department on the need to strengthen project financial management and manage related fiduciary risks. Besides being designed to help borrowers build their capacity for strong financial management in Bank projects, LACI is useful for other donor-funded development activities. Its premise is that local capacity for sound financial management is essential to a project’s success. LACI effectively transfers to borrowers the burden of proof on how Bank funds are used. Borrowers that want additional funds and more time for their projects have to prove that more time and money are project-specific needs. It also links funding requests to project performance, and it integrates project management, procurement, audit, and contract management and disbursement with a new project management report (PMR). LACI's designers recognized that sustainability requires the Bank to strengthen financial management capacity within both the Bank and the countries.

The full implementation of PMR-based disbursements, a LACI requirement, has been slow. Reasons include delays in the recruitment of suitable financial management specialists and the inability to fully convince regional management across the Bank and in the borrowers' ministries of finance that financial management and accountability matter. At the time of this report, the Bank was disbursing LACI-based funds for only 10 projects under implementation. However, the Bank has held workshops with staff as well as client countries on the need for better project financial management and accountability. Results have so far been mixed. Some borrowers have been too slow to enhance their capacity. Indonesia and parts of India, for example, are operating with weaker than necessary accountability mechanisms. Several other borrowers, however, have committed plans to improve financial management in order to comply with LACI’s requirements. A full assessment of LACI is also under way (IBRD, 1999).

Widening the Bank’s Focus

Governments and their external auditors are unable to give the Bank sufficient assurance that their leaders and officials have spent the money that lenders and taxpayers have provided them wisely or exclusively for the intended purposes. The media reports leakage and diversion of funds weekly. In Bangladesh, the auditor general has expressed the opinion that given his country’s lack of institutional capacity for good financial accountability, he is obviously the wrong person from whom to seek assurance about the use of Bank funds at the project level. He believed that his country’s systems of internal control, accounting, auditing, and financial management are simply weaker than what the Bank is entitled to. A senior official of the Bangladesh ministry of finance who is equally concerned about the widespread financial irregularities reported across government departments endorsed the auditor general’s view. The Bank’s traditional focus of attention almost exclusively at the project level and only on financial accounting and auditing systems may no longer be good enough in the face of a rising incidence of fraud and corruption and the realization that “ring fencing” at the project level is somewhat brittle.
Emerging Concepts of Country Accountability

Knowledge-building Tools
The Bank’s emphasis on public financial management and accountability is moving slowly toward the concept of country governance. CASs are beginning to acknowledge that the relationship between accountability and governance merits attention. Bangladesh is a good example of one that fully recognizes this relationship. Recognition of the need to assess the accountability relationship between governing bodies and the executive arm of government has also emerged in the Bank. The first step has been to gather information about the nature and extent of existing capacity. The Bank has initiated a knowledge-building exercise with a series of products that include country financial accountability assessments, country profiles of financial accountability, and country procurement assessment reports as well as related assessments of a country’s implementing agency’s capacity to make its procurements according to Bank procedures. These products are being complemented more informally with increased dialogue with governments about building their institutional capacity and their anticorruption tools.

The plethora of available diagnostic instruments—more than this paper can discuss—do not quite add up to a coherent whole. The Bank has undertaken 22 assessments of country-level financial accountability (OCS, 1999). It is too early to tell how consistent these assessments have been in scope and how the Bank will use them. Their value is an open question. Are they instruments that strengthen accountability at the level of project authority or at the level of country governance or both? This too needs to be clarified. Debate on their utility is likely to widen because clients have so far not taken ownership for conducting them.

Demand-side Instruments of Ownership
The Bank needs instruments that deal with the demand side of accountability and that support country leadership for governance. So far, the Bank has invested little “on the ground” to build country capacity for financial accountability from a governance, and not just a management, perspective. OED’s work suggests that until very recently such investments have been conspicuous more by their absence. This may be about to change. The Poverty Reduction and Economic Management (PREM) network is proposing a framework that appears to broaden the Bank’s thinking, but linking the ideas of the Bank’s many contributing actors will require work. The Bank country team for Sri Lanka is building links with legislators, civil society, and market participants to identify areas for future investment. The work being done by PREM and the World Bank Institute (WBI) could be very useful in this regard.

Evaluation of Institutional Capacity
Investments that have been made in other parts of the world at the project level through grants and technical assistance credits are too recent for independent evaluation. One promising example the Guatemala Integrated Financial Management Project, whose overarching goal is to modernize the government’s budgeting, cash management, accounting, and auditing subsystems. Preliminary results indicate that the project has served as a building block for greater transparency, better financial accountability, and diminished
corruption (Myers, 1999). However, its ultimate success will depend on the success of related activities aimed at building the country’s institutional capacity from a government perspective. And this will take time and resources.

Meanwhile, the Bank and other donors are exerting very little evaluative effort toward building borrowers’ capacity for public financial accountability at the country level, although the United Nations Development Programme (UNDP) has been active in this area for some time. There may be others. We need to know more about their approaches and learn from their experience. A project to strengthen parliamentary democracy in Bangladesh was approved several years ago but has not yet fully gotten off the ground. Some donors’ initiatives are under way in several countries in the form of providing technical assistance. Computerizing accounting systems is being strongly advocated. The British have for some time been supporting the computerization of government accounting systems, but the lead time for demonstrating results is long, so that little systematic evaluation has emerged. Some believe that such projects are insignificant because the effect of exclusive reliance on technical assistance on governance and accountability remains untested.

**Technical Training**

Canada, Sweden, the United Kingdom, and the United States have provided training for auditors from developing countries for several years, but funds are limited and results are somewhat mixed. Training without concurrent improvements in institutional capacity is only marginally effective. As one country official put it, there is no point in training fighter pilots if they have no runways to land on. Bangladesh and Sri Lanka are clear examples of this. The United States Agency for International Development is supporting the improvement of Ethiopia’s accounting systems in partnership with the government’s ministry of finance, but the project has not advanced far enough to yield substantive evaluation results.

**OED’s Ongoing Work**

One of OED’s capacity building initiatives is a pilot learning program on financial accountability. OED has also conducted an exploratory case study on Bangladesh, and case studies are under way in Sri Lanka and Papua New Guinea. OED expects ongoing country assistance evaluations to explicitly cover issues of financial accountability. The results of OED’s work to date highlight the need to induce demand for financial accountability by investing for better legislative oversight, better donor-stakeholder coordination, greater dialogue with countries on how continued mismanagement and a lack of accountability affect development, and more home-grown strategies for strengthening clients’ capacity to improve performance and the situations of the poorest half of their countries. OED is keen to help country teams develop and assess strategies that fit the local environment. OED is proposing to support research on the accountability relationships between government’s executive and legislative branches with a view toward formulating strategies that will strengthen governance and public financial accountability.

The inability of developing countries to act does not seem to be a problem. Rather, the will officials have to embrace the benefits of accountability and transparency and to accept their associated costs seems to be the key challenge for the development community and its
country counterparts. Senior public servants in South Africa, for instance, are reported to have launched a silent campaign against the likely effects of the new Public Management Act, which places heavy responsibility on them for the management of public funds. Inducing demand for better accountability and management control will require much work.
Chapter 4

What Do the CDF’s Principles Imply?

The Balanced, Holistic Approach

Tracing the Use of Funds
The Comprehensive Development Framework (CDF) suggests that while opportunities are expanding, the stakes are rising. The stakes are higher because the risk of malfeasance has gone up as the share of program lending relative to investment lending has increased.

This makes a burning issue of the Bank’s ability to trace the use of the funds it destines for government policies and programs. An environment of strong financial control has become a prerequisite for prudent lending. Russia provides the most recent example of willingness to accept the lesson that economic management without integrity and financial accountability is unacceptable. In the past, such lessons were brushed aside as isolated instances that policymakers were not expected to bother with. The change in attitude among Bank staff is a very positive product of widespread publicity on the lack of financial accountability in countries such as Russia, Pakistan, and Indonesia.

Balancing Country Oversight
The CDF promotes using the country as the unit of account and therefore places constraints to better financial accountability at the national level. The CDF broadens the scope of the Bank’s efforts from project accounting and control systems to embrace significant governance issues in financial accountability and management. This, in turn, takes the Bank’s concern well beyond government toward other elements of the state, such as how to balance the role of parliamentary committees, auditors general, the judiciary, and other oversight bodies of the legislature against the role of civil society and its markets. Legislative control of the public purse, acceptable accounting and auditing standards in the public and private sectors, judicious financial and investigative reporting by the media, and other related issues of institutional capacity have become new areas of interest to the Bank. But how many managers are willing to give priority to developing a strategy and funding activities aimed at institutional capacity building in areas that may be outside the ambit of traditional sector-oriented economists? The Bank’s staff view this question as a mandate that only the Bank’s board and senior management can clarify.

Managing for Risk
Opportunities for using risk management techniques are also increasing. Assessing gaps and vulnerabilities at the country level, for instance, allows for better coordination with
development partners. This encourages the Bank to place priority on significant risk areas as it addresses capacity building. Its attention to accounting and auditing at the project level is in the process of broadening to building capacity for financial accountability within national and local governments as well as public and private markets. The time has come to develop strategies for strengthening the rules of financial accountability that are specifically aimed at mitigating risks such as misrepresentation; misallocation; misprocurement; leakages and diversion of funds; unethical practices; the uneconomic, inequitable, and inefficient use of resources; and unsustainable activities that waste scarce financial and human resources. This is particularly important in the context of adjustment lending to countries with weak financial management and accountability arrangements.

Furthermore, the CDF encourages the Bank to accommodate and be aware of a country’s cultural sensitivities. It therefore advocates the reduction of risk by moving away from Washington-driven checklists and best practices that are based on the Bank’s experience in industrialized countries, which may or may not match a country’s particular requirements.

**Ownership**

**Reporting Performance**
The CDF calls for country-driven accountability. This moves the Bank’s assistance strategy from its traditional emphasis on the borrower’s accountability for financial accounting and compliance to the borrower’s performance reporting and from an “outside-in” approach to an “inside-out” approach. The responsibility for developing a strategy for enhancing accountability moves from the Bank’s Loans Department and government officials in the client countries to the stakeholders at large—especially country watchdog agencies charged with monitoring and protecting the public interest under the laws of the country, civil society, and the market. Other arms of the state such as the judiciary and the legislature also take on new emphasis in capacity building.

**Fostering Transparency**
The most recent development in the response to the CDF that “scales up” public financial accountability to national levels and that emphasizes ownership is the proposed country disclosure statement (CDS). The CDS is “a self-assessment transparency report concerning selected affairs of relevance of the country’s financial architecture” (CTRVP, 1999). It aims to highlight accountability in both the public and private sectors of a country as it relates directly to the financial system. It expects the country to take full responsibility for the accuracy of the information presented in the disclosure statement. The CDS is expected to contribute to the recommendations of the G22 Working Group on Accountability and Transparency and to the International Monetary Fund’s (IMF) initiatives on fiscal transparency. It is also expected to complement the Bank’s current “outside-in” assessments and to contribute to the Bank’s fiduciary obligations. The CDS provides a framework for appropriately strengthening a country’s financial infrastructure and should be piloted with IMF’s help.

**Promoting Reform**
A key OED recommendation from recent work in Bangladesh is that the Bank should work with stakeholders—beyond government parliamentarians, heads of oversight agencies such
as the Securities and Exchange Commission (SEC), and civil society- to promote reform in the area of financial accountability. The Bank should identify and work with “champions” who could then build coalitions for promoting and inducing local demand for reform. The Bank assumes the role of facilitator and catalyst for change while local champions take charge of implementation. It becomes possible to enlist support for reform from a wider network of organizations. The Bank’s experience with national audit institutions in the South Asia and Latin America and Caribbean regions indicates that public reporting and the media play significant roles in an accountability loop (Asselin, 1999).

**Partnership**

**Donors’ Institutional Relationships**
A prerequisite for effective partnership is the clarification of mutual accountability relationships. Collaboration yields better results when roles and responsibilities are clearly delineated. In this context, the Bank and other donors should formalize lateral, or interdonor, accountabilities. Several agencies need to work on strengthening their own institutional capacity, the Bank and IMF perhaps leading by example. These institutions seem to have the most at stake and will have to allocate appropriate funds. In countries heavily dependent on aid, donors constitute part of the institutional framework that may need reform. This raises interesting questions about the revision of the donors’ incentive structures and their own institutional frameworks. For the Bank, it raises questions about how to strengthen internal partnerships, such as those between the Office of the Vice President and Controller (CTR), OCS, OED, IAD, and PREM among others. Not last is the issue of ownership for institutional capacity building within the donor community and within the Bank.

**Clarifying the Bank’s Role**
The Bank needs to examine its area of comparative advantage, not only as it perceives it but also as the countries and partners perceive it. The first step is for the Bank to clarify its role in governance and financial accountability in relation to UNDP’s. The CDF levels the playing field: the Bank’s accountability and the borrower’s accountability come up for mutual scrutiny. The Bank’s comparative advantage may be that it can act as a catalyst for strengthening institutions that prevent fraud, waste, and abuse in the use of public funds. In Sri Lanka, the chair of the parliamentary public accounts committee was keen to work with the Bank and his government to help capacity building efforts the country team proposed. Is the Bank comfortable and willing to work in partnership with such oversight bodies?

**Transparency at the Bank**
The Bank must lead by example. Delivering development results through collaborative arrangements often requires more transparency than traditional delivery by a government agency. However, partnerships can easily diffuse accountability if mutual accountability is not clearly established. Consequently, the Bank needs to be as open as possible with information about agreements, deliveries, and the results of arrangements it makes under the CDF. This raises sensitive questions: How much of the Bank’s diagnostic work can it share with its partners? Are the Bank’s disclosure policies in line with its partners’ needs?
Collaborative Balance

Striking a balance between capacity and accountability is called for to make sure that partners' objectives and priorities are compatible. It is also necessary to educate the public in order to avoid confusion about who is responsible and who is answerable and for what. Collaborative arrangements work best when the partners share power and authority in making decisions and when they respect their respective positions. The risks to watch for include establishing poor arrangements that limit partners' chances for success, hinder partners in meeting their commitments, attend insufficiently to protecting the public interest, and make for insufficient transparency and inadequate accountability.

Results Orientation

Selecting What Can Make a Difference

The CDF encourages a more performance-oriented approach to accountability and development effectiveness than the Bank has taken in the past. For financial accountability, the focus shifts from project performance to systemic reform at higher levels. To deliver results, the Bank should work on selected aspects of financial accountability and with elements of society that can make a difference. In this context, the Bank should accommodate a higher level of country-level knowledge on how financial accountability and management practices and on the effectiveness of financial accountability standards and systems. This is a challenge as financial accountability skills and control are not fully developed in many countries.

Using Resources Creatively

Building alliances with counterparts such as the International Organization of Supreme Audit Institutions, the International Federation of Accountants, and major accounting firms and regulatory bodies such as the SEC could help the Bank compensate for its shortage of financial management and accountability resources.

The potential for making a difference is high, but so is the challenge for task managers who have restrained their creativity in making financial accountability an instrument for good governance and clean government. An example of this is learning how to move from exclusive emphasis on accounting for and auditing spending on "intended purposes" to accounting for spending on work that is prudently and wisely linked with the achievement of results.

Being Accountable for Accountability

The CDF implies the need to break down the walls between 'financial management' and 'line management.' Accountability is not an option as the Bank operates on public money. Broadening the emphasis from meeting fiduciary obligations to producing results and effective development enlarges the ambit of its accountability. In this context, giving the FMS a central point in the hierarchy to whom they would be functionally responsible is an option worth exploring. Task managers now have to deal with building the capacity of the executive arm of government to make it accountable to the public for the honest and productive use of resources. Service delivery, policymaking, and relationships of mutual accountability between stakeholders are also important.
Chapter 5

What Challenges Lie Ahead?

Unrealized Links

Russia and Indonesia have highlighted to the Bank the importance of paying attention to public financial accountability. With regard to public sector performance and integrity and their impact on the poorest half of the population, waste and inefficiency can be as detrimental as leakages and diversion of public funds. The CDF’s emphasis on clean and good government suggests that economists are increasingly realizing that financial accountability and development effectiveness are more closely linked than they previously thought. The advent of significant programmatic lending helps focus this relationship. There is a need for open and wide staff discussion of the adverse consequences of weaknesses in financial accountability in many countries. There is an urgent need to strengthen institutional capacity at the Bank and in the countries. The South Asia region was the first to take on this challenge. It remains to be seen whether the Bank’s long-standing pressure to disburse funds rather than looking to the effect of their expenditure can change in a lasting way. Only when this question has been fully and honestly answered can the Bank successfully build its own institutional capacity and that of its clients for better performance and for the prevention of corruption, fraud, waste, and abuse of taxpayers’ money.

The Broader View

The narrow focus on financial accounting and auditing as a way to strengthen financial accountability at the Bank has limitations. It is time for a broader focus on country governance for legislative oversight, management control, and performance reporting. While the Bank has taken several steps to strengthen its own ability to assess gaps in its clients’ capacity to manage projects, it has done little to strengthen their capacity to be financially accountable in the larger governmental context. A recent OED case study on Bangladesh highlights this. The Bank has yet to make the extra effort to strengthen the legislators of Bangladesh for directing and controlling public finances, despite full knowledge of the effect of this deficiency on government performance.

Task Manager Tools

Good governance is a central issue, yet the Bank’s mandate remains unclear. The borrower’s fiduciary obligation to the Bank is of course important, but so is the borrower’s fiduciary obligation to its own citizens. The Bank needs new direction and new tools. Many task managers are asking for help in understanding what is required of them and how they
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should design a strategy for building capacity in this area. It is time to support the regions that are acting to build institutional capacity and to be tough but fair with countries that consistently refuse to reform their systems of public financial accountability.

Reassessing Directions
The CDS is the most promising tool so far. It complements the country financial accountability assessment but is more robust. The underlying principles are self-assessment and public disclosure of performance against previously acceptable standards. The Bank and IMF need to work together to develop and use this tool. Forging new kinds of alliances with stakeholders such as civil society, parliamentarians, and regulatory bodies such as the SEC is also necessary. Long-term financing arrangements will be needed to fund activities aimed at enhancing institutional capacity. Where will the funds come from and who should lead this important work? The Bank may have to reassess its direction and skill mix for undertaking this work. Many of the FMSs the Bank has hired are experts on financial accounting and auditing whose skills should be deployed constructively within multidisciplinary teams that can build the underlying systems to provide timely and relevant information needed for legislative and corporate control. Working merely on projects is not enough. The CDS helps build commitment for reform and suggests a common framework for all to experiment with. Implementing the CDS is a challenge.

Economic and financial management go hand in hand; it might be timely to consider what institutional changes the Bank requires to enhance the quality of its work in the service of good governance. One need is to reach out to the public at large with effective teamwork from within the Bank. Greater cooperation between the networks and joint meeting of the Board’s Audit Committee and the Committee on Development Effectiveness for discussions on issues of borrower’s financial accountability should be encouraged. These are some of the interesting challenges that the CDF poses for institutional reform within the Bank and the rest of the donor community.
References


Endnotes

1. Supervision is expected to cover the results orientation and value for money aspects of Bank expenditures.

2. The Bank did use financial management specialists extensively at the project level before 1987.

3. The April 1998 report of the G22 Working Group on Transparency and Accountability recommended that IMF, in its Article VI consultations, prepare a transparency report that summarizes the degree to which an economy meets internationally recognized disclosure standards. The April 1999 IMF report on experimental case studies on transparency practices suggested that no single organization possesses the expertise necessary for the kind of surveillance that is necessary to prepare periodic transparency reports.