

Like companies, states must report

By Clare Lockhart

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Paul Wolfowitz made fighting corruption the centre-piece of his tenure at the World Bank. Building on James Wolfensohn's famous 1996 speech on the "cancer of corruption", he made a valiant attempt to tackle collusion and missing funds within World Bank projects. But by failing to look holistically at government financial management systems, he missed a chance. The challenge for his successor Robert Zoellick is to realise the World Bank dream, of a world free of poverty, by making better stewardship of the public purse the norm.

It is an extraordinary and little-discussed fact that in the modern age, the public company is far more accountable to its shareholders than most governments are to their citizens. The demise of WorldCom and Enron shows that auditing standards are fundamental to ensuring that executives are held accountable. This is based on audited financial statements, including a balance sheet of assets and liabilities, which a public company submits annually. While recent events have sparked a debate on corporate governance, the business world understands that following the money is the way to keep business honest.

By contrast, the practices for stewardship of public resources for governments have not evolved such sophisticated conventions. Attention is narrowly focused on expenditure, with some of that spending remaining "off-budget". The Open Budget Index reveals that most of the bank's client countries do not publish adequate financial information. Out of 59 countries surveyed, only six provide "extensive" information, while 23 (39 per cent of them) provide either minimal, scant or no information to citizens. On a recent visit to an African country, it was evident that audit reports were completed five years after expenditure, coinciding nicely with the electoral cycle. The failure to track billions of dollars in oil revenues and public subsidies in Iraq, post-invasion, is a vivid example of the problems arising from omitting to track finances.

The practices of external actors exacerbate the situation. Donors tend to focus on projects, run through parallel "off-budget" organisations and rarely set an example by publishing their own accounts. Most non-governmental organisations focus on projects that run in parallel to national policy, rather than acting as monitors. Extractive industries have had little interest in disclosure - until the recent Extractive Industries Transparency Initiative. Criminalised networks also undermine transparency efforts.

Even more striking than the opaqueness of "cash flow" is the absence of a convention for a balance sheet of assets and liabilities for governments. There is a standard for public companies. But the assets of the state are not systematically valued and tracked. Instead, many governments collude in divesting important national assets - whether tangible (land, forests, antiquities, oil, gas and minerals) or intangible (the rights to limit the provision of goods and services, from running bus services to the use of spectrum) - for less than their value, with little scrutiny.

To put publicly owned assets - whether tax revenues, land, licences or cultural heritage - to work for citizens, they need to be valued and monitored. The World Bank and its partners should turn their focus from corruption within World Bank-funded projects to financial systems as a whole.

The mechanism would be simple. States would be required to publish online an annual report setting out their income and expenditure, provide a balance sheet of assets and liabilities and outline which public assets had been sold to whom, at what price and through what process. This would enable global and domestic monitoring by independent auditors and citizens.

To make this a reality, a global agreement should be reached on standards for an accounting system with conventions to include off-budget government expenditure and a range of public assets. Second, an independent international body should be empowered to monitor these accounts. Technology innovations have made tracking these data easier. Last, citizens should be able to monitor the budget.

The use of tracking flows of money through auditing expenditure against a comprehensive budget is one of the most effective drivers of reform. This practice was written into the Afghan Reconstruction Trust Fund, created to channel donor money to the Afghan government in 2002. The bet taken was that only by intensive auditing and reporting could leakages in the system be fixed. Money would be released to the government only after completion of satisfactory audit reports by a reput-able international firm, ranking ministries according to their percentages of ineligible expenditures in a given month. This created a healthy race to the top between ministries. From this central pot, some money was channelled in block grants directly to villages; communities set an example by organising budgets and placing their accounts in a public place.

This approach would allow the World Bank effectively to tackle corruption in developing countries. It could also reduce countries' dependency on inefficient, opaque foreign aid. The sooner transparency of governments is demanded by both donors and citizens, the sooner the budget can become the site of policymaking and public discussion. Unless state resources are firmly evaluated and monitored we should not be surprised if, for some time to come, developing countries are subject to Enron-type collapse.

The writer is a founder of the Institute for State Effectiveness and was chief adviser to the Ministry of Finance of Afghanistan 2002-05. With Ashraf Ghani she is the author of a forthcoming book: The Framework: Fixing Failed States