



National Accountability Systems: Public Finance

The Challenge of Accountability

Accountability is a global challenge. Failures in both the public and private sectors – ranging from the 2001 Enron scandal to the 2009 European sovereign debt crisis – have become daily news. Corruption, the clear sign marking the failure of accountability, has been noted as a significant problem both in developed and developing countries.

The global discussion of accountability is rooted in a number of common factors:

- 1. The information and communication revolution has made it possible to compare perceptions of accountability and corruption across the world.** The scoring of countries or sub-national units on criteria of accountability and transparency is becoming a driver of public discussion, with citizens and other groups invoking rankings to compare and understand the relative performance of their governments. This effect has been heightened as rapid urbanization has granted large populations greater access to news and their representatives.
- 2. Citizens have become keenly aware of public services** and therefore the degree of functionality of governmental and non-governmental organizations indicated by the effectiveness and efficiency of their delivery.
- 3. The 2008 financial crisis stimulus packages and subsequent calls for austerity created a long-term fiscal crisis.** The 2020 COVID-19 pandemic – with massive public expenditures on protecting jobs and industries and staving off economic collapse, and the loss in revenues with economic contraction – has further escalated fiscal stress. To reduce deficits and rebuild fiscal health, concern with accountability, prevention of waste and effectiveness and efficiency in delivery has become an imperative both in emerging markets and globally.

4. After more than six decades of foreign assistance failing to result in expected breakthroughs in developing countries, aid fatigue is setting in. If foreign assistance is to acquire public support in the developed countries, in a context where redistributive struggles put significant emphasis on the value of money, then accountability of aid agencies and the recipient governments to their people and their partners must be tackled.

5. Accountable expenditure has become a problem both in developing and developed countries. The expenditure constraint can be illustrated by Iraq, which during the height of US attention from 2005-2007 could never spend more than 14 percent of its massive development budget.¹ These symptoms are also present in middle income countries such as Argentina, the Philippines and Paraguay, where actual expenditure has exceeded by 15 percent or more in recent years.² As institutions are confronted on the one hand with immense needs, and on the other with lack of ability to target the expenditure towards state priorities, a need for system-level accountability has been highlighted.

6. Estimates for required global expenditure on infrastructure during the next 25 years range from \$40 to \$100 trillion.³ The building of infrastructure has been generally notorious for cost overruns, delays in implementation, and the high percentage of the work that needs to be redone by contractors. Value loss from corruption in the construction industry - the engine that builds infrastructure - is estimated to range from 10 to 30 percent.⁴

While other factors can be identified across governmental and financial systems, it should be clear that any combination of the above factors would make the need for designing, implementing and reforming accountability systems a global imperative.

1. "Stabilizing and Rebuilding Iraq Progress Report: Some Gains Made, Updated Strategy Needed (GAO -08-837)," (Washington, D.C.,: United States Government Accountability Office, 2008): <https://www.gao.gov/new.items/d08837.pdf>.

2. See Public Expenditure and Financial Accountability (PEFA) assessments, available at <https://www.pefa.org/assessments>.

3. Jonathan Woetzel, et al., "Bridging Global Infrastructure Gaps," McKinsey Global Institute, June, 2016, <https://www.mckinsey.com/business-functions/operations/our-insights/bridging-global-infrastructure-gaps>.

4. Peter Matthews, "This is why construction is so corrupt," World Economic Forum, February, 2016, <https://www.weforum.org/agenda/2016/02/why-is-the-construction-industry-so-corrupt-and-what-can-we-do-about-it/>.

Sourcebook Objectives and Typology

The objective of this sourcebook is to provide operational guidelines to governmental leaders and managers, civil society and NGOs, business organizations, and citizens. We aim to further both understanding and systematic engagement with issues of accountability while developing the concept of whole-of-government national accountability systems.

We, therefore, begin with a typology of accountability systems, differentiating between four types: **fragmented, compliance and predictability, performance and program delivery and public value.**

Under predatory or fragmented systems, corruption is not only a symptom but a system, as the formal rules are systematically subverted and distorted by those in power. Fragments and pockets of accountability, however, exist and provide international partners in the case of severely corrupt developing countries with the hope of reform.

Compliance and predictability are the key characteristics of the second type of system. Formal accountability over rights, systemic delivery, rules for the delineation of decision rights, authorization of funds, the expenditure of funds and building and use of resources are drawn with immense detail, leaving nothing to chance. Plans or factors that are not permitted in the rules will simply not be acted upon. Auditing under these systems is directed towards the old concept of “bean counting,” as compliance is the overriding characteristic of the system. While lacking in flexibility, such systems ensure predictability. Civil servants would be paid on time, contracts would be honored, and mechanisms would exist to ensure that every ‘t’ has been crossed and every ‘i’ dotted.

The third type, building on a system of compliance, changes the criteria of accountability to performance and program delivery. Here, achieving program objectives becomes the key driver. Leaders trust their managers, and managers their people, and all are bound by notions of shared integrity and purpose. They measure themselves and their effectiveness by the results achieved. National programs, which at the beginning of such systems are few in number and prepared with enormous care for learning through mistakes and feedback loops, become generalized over time across the full range of core state functions. Accountability is maintained across all levels by ensuring that the institutions perform with high efficiency and capacity. The problem, however, that this type of system encounters is synergy. Programs and ministries become established bureaucratic and political fiefdoms that can block coordination across state functions.

Furthermore, such types of program orientations have significant

difficulty in dealing with cross-cutting issues that cannot be assigned to a single implementation organ. Aging populations – one of the major challenges of developed countries, or growing young populations – one of the major challenges of developing countries, cannot be solved by creating a ministry in charge of the elderly or the young. The demographic profile requires a kind of synergy that the ossification of a division of labor among bureaucracies does not achieve.

Public value and coordination are central to the fourth type of accountability system. Here, the key assumption is that the only constant in the context of a globally interdependent economy is constant change. Assuming that crises are inevitable and cannot be fully predicted, accountability of leadership is judged by the effectiveness in responding to crises to emerge in a stronger position from these crises. Systems are designed not to create a single “best” design, but rather to strengthen the drivers and foundations of effective governance. Countries confronting large-scale public health, financial and multi-sectoral crises are finding out that the third type of programmatic system that delivered the golden age of state-citizen relationships through effective delivery of services and increasing the range of those services has become an obstacle. Whereas in the third type, audits were about performance, at this fourth level, audits become focused on system capabilities and flexibility.

Accountability in Practice

By focusing on public financial accountability as the spoke of a robust and reliable national accountability system, the sourcebook allows for a set of diagnoses of each of these types through the delineation of specific variables. ISE has developed a range of diagnostic tools to allow for rapid analysis of a context, including critical stakeholder inquiry, organizational and institutional analysis and an operational framework for governance. These – as well as careful consideration

Building Blocks of National Accountability Systems



of other key tools like the Public Expenditure and Financial Accountability (PEFA) diagnostic – allow us to understand key characteristics and compare and contrast trends within and between countries.

Economy, efficiency and effectiveness comprised the notions of accountability pertaining to the second type of structure. Transparency, outcomes and public value have been added to our expanding range of accountability definitions as a result of types three and four. Each of these notions is explained and illustrated.

Organizationally, under a variety of institutional arrangements that center around a treasury institution, the key building blocks of national accountability systems are: **fiscal policy and budgeting; procurement; accounting and reporting; project and program design; oversight and audit; risk management; and licensing and tenders.** We describe each of these building blocks and the relationships among them that result in the building of a particular system with its distinctive characteristics.

While a significant amount of attention and resources have focused on the individual building blocks, systemic approaches to bring the building blocks into a coherent whole have been rare. This effect can be seen in information management systems deployed in the treasuries in developing countries. Hundreds of millions of dollars have been spent by multilateral and bilateral development partners to install proprietary systems in treasuries of developing countries. The introduction of such systems has produced some gains – such as the timely payment of checks or the ability to know the expenditure and revenue picture on a weekly or daily basis. Yet, not being driven by clear typologies or the delivery of system-wide goals, such approaches have produced gaps between different building blocks of the system. Even after the introduction of financial management software, the submission of audit reports to parliaments and action on those findings are still the exception rather than the rule. Ministries do not effectively cooperate and monitor one another. Alternatives exist through open-source, open-standard software where the development of communities of practice is the critical catalyst.

ISE's typology of national accountability systems offers the prospect of dealing with accountability through system transformations. Given the predominant challenges of restoring public confidence in systems of accountability, we cannot simply rely on the replication of the long process of trial and error that resulted in the transition from type one to two, and in some cases from two to three; nor can we piece together new accountability systems from ready-made pieces of other countries' methodologies. By focusing on innovations in creating these systems (two, three and four), leaders, managers and practitioners can draw on a range of lessons for undertaking more transformative approaches.

In part, the purpose of developing this typology is also to open up the possibility of simultaneously tackling hybrids between types. Afghanistan in early 2002 faced a type one system of corruption. Compliance and predictability were therefore key goals for the Ministry of Finance between 2002 and 2004. Given the need to engage citizens as an instrument of strengthening government legitimacy, a number of national programs were established to focus on performance and delivery. Sadly, nearly two decades later, only ministries that have national programs still generally have a record for delivery. Because accountabilities were distinctly addressed and built at the program level, delivery took place across the country, stakeholders developed partnerships and international partners funded innovative programs. Both governance systems and funding channels were strengthened through careful early design work that prioritized accountability. These successes – along with other successful reforms and processes illustrated in the sourcebook – illustrate the power that effective systems of accountability can have on achieving poverty reduction and development financing goals while avoiding corruption.

Conclusion

As a socially constructed notion, accountability will undergo constant change, renewal and innovation in our particular time of global interdependence; yet, disenchantment with the second wave of globalization and a crisis of citizen confidence in the future is clear. Getting accountability right is not a choice but an imperative. This sourcebook is a contribution to shaping this discussion by grounding analytic insights into detailed operational processes, procedures and systems for the development of robust national accountability systems.