

EGPA

Institut de Management Public et Gouvernance Territoriale (IMPGT)  
de l'Université Paul Cézanne Aix-Marseille III

First Euro Mediterranean Public Management Dialogue  
Aix en Provence October 10-11, 2008

## **TRANSPARENCY FOR BETTER PUBLIC GOVERNANCE**

Alain Tobelem, PhD, HDR

IMPGT Professor and Global Consultant

<http://tobelem.org> [a.tobelem@orange.fr](mailto:a.tobelem@orange.fr)

### Abstract

Transparency means that the public sector, including public administration, delivers public services and goods openly and using participation processes from project design to implementation towards achieving results, including progress monitoring and evaluations by the public of users. This paper defines transparency-related concepts and practices and provides advice to install the related organizational culture as a very efficient way of modernizing the public administration and beyond, to upgrade the way States function.

### Key words

Transparency, accountability, public sector modernization, organizational culture.

## Introduction

Transparency for better governance has been a recurrent choice of study for thousands of researchers from all over the world for the last two decades. Public administration schools and institutes, research groups from many universities and many individual scholars in NGOs or alone, have put forward this topic as key to the better functioning of the public apparatus of any country. From the tradition of Schumpeter of the evolving complexity of state affairs, down to Douglass North's importance of institutions in development, including the Heisenberg principle of constant change, and the Aoki's system of institutions as shared values, we are theoretically equipped to understand the importance of the principles of transparency and democracy for improving the way governments and public administrations work. But the purpose of this paper, as described below, is certainly not to offer one more description of theories. Instead, it is a prescriptive paper where one should find advice for putting these theories into practice.

International organizations such as the World Bank, the International Monetary Fund and virtually all other Agencies from the UN system, have pinpointed the lack of transparency as a root cause for mismanagement in the public sector. As far back as the early 1980s, the World Bank started to worry about the lack of adamant success of its projects although they were the best academically and professionally prepared projects. Preliminary and subsequent studies, rapidly demonstrated that the lack of institutional capacity or aptitude of the public sector, including governments at all levels and their public administrations, could pay lip service to the public instead of delivering the public goods and services they deserve and expect to receive, precisely because of this lack of transparency in dealing with public affairs, public delivery and, finally a partial or total lack of accountability of political and administrative personnel.

This paper is part of the EGPA Conference sub-topic on civil society participation that transparent and democratic governments should feature. Rather than describing again the meaning of the concepts of transparency and «good governance», an effort that many other papers in this conference will probably do, this paper tries to offer practical ways of turning the transparency and good governance dreams into reality : a methodological approach to good-will decision makers in the public sector at any level, be it global (e.g. The World Bank, the IMF, The OMC, and the whole of the US System Agencies), regional (e.g. the EU, NAFTA Group, MERCOSUR, ASEAN, and so on), national, or sub-national. Public decision-makers will be guided to diagnose the

extent of the lack of transparency and good-governance practice in their respective way of conducting business and carrying out public sector affairs to the satisfactory (for the public and using quality criteria provided by the public) delivery of public goods and services in a cost-effective manner.

The philosophy behind this paper is sheer common sense. Political and administrative personnel included in what is commonly called « the public sector » should exist for the sake of the public. The public has to be considered as the manager and the political personnel and the administrative civil servants as the employees. Therefore, no employee can keep secret what he or she is doing and for what purpose. No employee should work towards an unknown objective or result and at an unknown cost. No employee should be redundant because this would increase the cost and break the principal guideline that is to deliver public goods and services at the lowest possible cost for a given quality criteria. Although many agree with such common sense, few know what to do exactly with it, how to apply it to real life in public sector organizations. This paper, again, tries to offer a possible solution and an answer to the question: « how to do this in such a way that it adhere strictly to the transparency-for-good- governance-and-ethics principles? ».

**Part One** introduces the symptoms of bad administration and bad governance trying to trace back some root, and more ordinary causes. Ethics, culture, and normative cross-cultural ethics are given as background for better governance through openness and access or transparency and participation. Then, the State-versus-Market and the State-with-the- Market are analyzed to show traditional attempts to achieve general welfare. **Part Two** describes the steps to follow to remedy such a situation using a methodological approach that I put together with colleagues at the World Bank and that has been in use in many countries and organizations for many years : the Integrated Public Resources Management (IPRM), a method derived from the Institutional Capacity Analysis and Development System (ICADS©). **Part Three** will provide a case-study of transparency approach through a law in Bolivia, a poor land-locked Latin American country that was able to decide on an excellent law that works towards democracy, transparency, and accountability of those spending public resources, but was unable to strengthen the institutional capacity of its administration to fully implement such a law.

This is a prescriptive paper, in that it suggests to governments and public decision-makers, how they can shape their public administration to meet the formidable challenges that lie ahead for them. It also attempts to define standards of conduct based on an ethical framework for governance consisting of notions of public accountability through transparency.

## **Part One : Transparency and Democracy in Public Governance : the Theory**

### Background

1. National governments and public administration credibility seems at its nadir. Ample evidence of corruption, involving politicians, public administrators, and ordinary civil servants are reported recurrently in the popular press and discussed in periodicals, books, symposia, and international seminars. They are also reviewed in many public administration and political science schools around the world. Seldom are examples cited of ethical conduct in managing public affairs. Even then, they are treated as heroic acts rather than commonly expected of government officials and those spending public money in any way. Concurrently, the extraordinary development of the new technologies of information and communication (NTIC) has made it easier for the public to get acquainted and informed on public mismanagement. Unfortunately they are aware of it only afterwards, precisely because of the lack of transparency and of timely information.

2. Therefore, there is an obvious pervasive need for restoring public trust in governance. This is particularly true in political systems that are moving sluggishly or rushing headlong toward participatory democracies, where such trust is implicit in the political contract between the electorate and elected officials. Indeed, development specialists and the donor community from country to country or from national level of government to local levels within nations, frequently fall victims to governance shortfalls. Technically, weakness in institutional capacity is the classic reason. The gap in capacity is generally proportional to the difference between a country's declared development agenda and another, « hidden » agenda based on pragmatic political motives or worse yet, simple personal gain. This is why the fact that the donor's role is fostering progress in governance is actually much more telling than the specific amount of money transferred to developing countries or organizations.

### Ethics and Culture

3. At a recent seminar held in a developing country with the assistance of the author, a seminar which included businessmen and representatives of large companies from industrial countries, the participants were asked: What should the public sector become for the private sector to be better off? And what should the public sector do to encourage development not only among the richest countries but worldwide? Although many answered with a bitter « disappear altogether » statement, most gave very serious answers. These can be epitomized in two words: « ethics », particularly the restoration of ethical behavior in governance, and « predictability » including an organized relationship between public and private sectors.

4. Normative ethical criteria –good and bad, right and wrong behavior—are commonly applied to individuals, social groups, as well as to societies and, by extension, their governments and governors. In the absence of the ethics concern, that is without an adequate ethical dimension in governance, public decision-makers and program implementers in the public administrations, can behave unchecked and they tend to work for themselves or their inner circle and increasingly less with any sense of being there to meet public demands and needs. However, ethical assumptions permeate most cultures as well as resonate in the language of constitutions worldwide. Development efforts should provide a framework for what the public and private sectors might become potentially in their national and ethical dimensions. This implies the existence of rules of the game that are respected and followed, an institutional environment that is conducive to equity, predictability, and that the preservation of national patrimony, natural resources and other resources, is an active social and economic policy objective.

5. The needs for ethics in politics and public administration is far from being a new one. About, twenty five centuries ago, one of the first social philosophers, Confucius, conceived what would be called today ***governance***, as the public trust based on the notion of general welfare, rooted in secular as opposed to purely religious foundations of governance. The superior person, Confucius thought, devoted himself/herself to the realization of moral ideals in conducting the affairs of State. In serving society, a person’s conduct becomes a prerequisite for leadership. The ultimate realization of government is to create the social and economic conditions so that the welfare of the population and thus the nation state, increases.

6. Confucius lived during a time of transition from a feudal society to one of greater wealth for more people and a loosening of the bonds of a stratified society. A bit like at the onset of the XXIst century when the globalization process is leveling the chances of everyone worldwide. Considering the change of scale, public sectors of the world at all levels, should strongly consider the importance of ethics and of reengineering the way public sector works and what its role should be, to avoid devastating anarchy. Confucius, with an astoundingly modern system of thought, advocated the renovation of old institutions rather than creating new ones. Just as today, we should be striving to agree on ethical systems of rules that generate worldwide equity through improving the rules we already have in so many national constitutions and so many versions of Human Rights and that are not enforced or adhered to.

7. For Confucius, the importance of sincerity and ethics was fundamental, with statecraft being nothing more than the application of ethics to the life, organization, and progress of societies. Although he never advocated

revolution, his teaching was revolutionary for his time, in that he insisted on the right and duties of everyone to make basic decisions for themselves, thus undermining the foundation of authoritarian government. Translated in modern terms, this comes to demand more participation in and understanding of, public decision-making processes. This is transparency and democratic participation.

### Normative Cross-Cultural Ethics

8. Culture can be defined as an inherited and preserved system of values and beliefs. In theory, this greatly complicates the development of common notions of behavioral norms based on ethical constructs. All cultures have their own values, either normative or ascriptive, in classifying acceptable and unacceptable behavior. However, a branch of logic offers four models of social behavior that seem common to all cultures and useful as a way of epitomizing ethical expectations transculturally: namely, doing what is *permitted, obligatory, forbidden, and meritorious*.

9. These behavioral suppositions are included in national constitutions with very diverse traditions and appear over the centuries in the ethical expectations inherent to government behavior, especially with the breakup of feudal societies and the advent of the idea of popular representation in national governments. Although this last feature has been given large consensus and received much respect, not much modernization of such concept has taken place. The only way the concept and practices of popular representation in government and public administration could be modernized, is by providing voice to such popular representation and granting the right to participate in many decision-making processes. This is transparency and ethics for real democratic government. This effort has been too slow or non-existent.

10. Common notions of the government's role being based on the public good persist alongside cultural differences. These notions devolve to helping governments to: **maintain** existing assets, including what has been granted by nature, and what has been built by men and women of every country; **increase** the total existing wealth; **ensure** that this increased cumulative wealth is more equitably distributed according to socially defined criteria, and transparently through citizen participation; and **achieve** this at a minimum social and economic cost. If this is what national communities want, how can their governments help them achieve it?

11. Applying the concept of ethics to the management of public resources has a clear purpose: to ensure that there is common understanding of, and agreement about the basic rules of the game that political administrations should help

define in a participatory way, according to transparent and legitimate procedures and national objectives. Participation is effective when three conditions are met: **sufficient decentralization** of the decision-making process, meaning that people are consulted at least for the decisions that affect them ; **reduction of social differences** and leveling of authoritarian styles that petrify communication processes ; and **existence of independent sources of power** to allow minorities to escape from harsh or adverse decisions by the majority.

12. Moreover, the public sector can assume a lead role in alerting the citizens and their political representatives, about wrong-doing in public stewardship, especially among those in power, to address such acts. The public sector is thus tacitly responsible for translating ethics into practical terms in the national interest, basically defined and ratified by the population and enforced as a matter of policy. Under these circumstances, the political regime with best comparable advantage to incorporate ethics as the expected standard, is a democracy.

13. Democracies should ensure that the State is the guarantor of rational decision-making and of solidarity for social action based on national consensus-building. National behavioral expectations should be cast in constitutions and enforced by the highest court of justice. The political process should inherently be ethical. Thus, the instrument and powers of state and its administrative machinery should be directed to generate value-added commensurate with the cost of operating it. What are the practical implications of this approach?

#### State, Market, and General Welfare

14. The concept of a rational-ethical State used here is based on a system of governance agreed by the majority of the population, for which representatives are selected to act on its behalf to govern in the interest of achieving improvements for the good of all citizens in the short- and long-run. This system includes rules of the game that provide for its functioning and establish specific relationships between the people and their representatives, and for the changing definition of priorities in discharging State responsibilities: this is where the **adamant need for democratic procedures and for transparency and accountability is deeply rooted**.

15. The physical locus where all this takes place is the market. Market being a physical space or increasingly electronic exchange wherein people buy and sell goods and services that they produce or convey, which constitutes the basis for their livelihood. The market ideally is created and maintained as competitive and transparent through a sufficient and free flow of high quality information. It implies the establishment, updating, and strengthening of a legal system that

enforces contracts and guarantees property rights. This describes a noble aspect of a well-functioning public sector as a whole, this is government plus its public administration at all levels. A market should also be a place where citizens can live more freely and inventively in an organized society where legal rights democratically designed and accepted are really enforced for the benefit of all.

16. Ethically, the State must be a means in the hands of individual citizens that help them achieve their collective and individual aspirations more efficiently and at a lower cost, financially or otherwise, than if they were to do so by themselves. Moreover, whenever individuals believe that they are not receiving what **they** consider to be an equitable treatment, they should be convinced that the cost is worth bearing, to avoid the society being even worse off. Also, governors of States can never consider themselves inherently more important than the people they govern. Again, citizens are the employer of State personnel, political or administrative, and not the other way around. In other words, citizens contract with the State to conduct affairs following a transparent renewable but also revocable agreement. The State, in turn, operates in a market setting, a common but organized environment where people meet to carry out this mandate. Other arenas of political power –legislative and judicial, in particular -- should incorporate the same principles. The possible conflicts between the State and the market will be reviewed in the following section from the perspective of individual well-being and the role of the State in this regard.

#### State versus Market

17. Economists frequently speak of the advantages of a free market, working with little if any State intervention. Based on what is known as liberalist theory, « free markets » are characterized by individual freedom from government restraint and are based on competition. This concept is best realized where perfect competition is presumed possible. In practice, the benefits of free enterprise come to fruition in the *interaction* of the State with the market. This implies that some kind of State intervention is necessary to ensure that the market functions in the general interest and not solely in the interest of some Small groups or individuals. Indeed, the application of this approach in industrialized (e.g. UK, the USA) and developing countries (e.g. Latin America), has not led these economies to achieve spectacular results, and frequently involved significant social costs. Some even think that the absence of State intervention is a cause of growing poverty, the inability to achieve development with equity, increased unemployment, and the degradation of urban infrastructure and social networks. Essentially, short-term economic gains receive higher priority than protecting natural resources and improving the social and economic life in the longer-term.

18. The market, left alone, clearly is not directed to achieve social balances

and has no motive to promote equity. Where economies are concentrated the rich get richer and entrepreneurs become increasingly monopolistic. This promoted much disillusionment in many of the developed countries over the last thirty years, with citizens expressing concern about restricted deregulation and uncoded disengagement of the State. Many industrial countries admit today, that the State needs to be in the forefront as regulator of the market in particular, and the facilitator of an institutional environment conducive to private sector development with a minimum of intervention but with economic efficiency, and better social protection. However, if the state should no longer be directly responsible for production, growth and social development cannot be expected to occur automatically as a consequence of State disengagement and the simultaneous generation of privatization programs. Indeed, economic development and social protection, infrastructure maintenance and development, and social justice will not become realities without some form of State involvement.

19. Paradoxically, politicians may now be held more accountable than before for economic management despite the appearance of a myriad of other influences on world and regional markets. In the wake of the collapse of formerly powerful ideologies, such as communism, the notion of market economics became a seemingly uncontested truth. On the other hand, good schools, the highest possible rate of intellectual capital deployment of a nation, efficient health services, effective communication networks, and fair and enforced rules of the game have not been achieved through market forces alone.

#### The State With the Market

20. The search for a balanced, synergistic relationship between the State and the market has been a spur to many novel, now no longer novel, development ideas. Experience now shows that both the State and the market alone cannot work the miracle of either social or economic development. In fact, neither the market nor the state can function appropriately without both functioning well. Many World Bank studies and papers have observed that modern States, in particular in the developing world, are characterized by the lack of an adequate framework for markets to operate more efficiently. This includes even mundane aspects such as commercial legal codes, regulation, and inspection of standard weights and measures used in commercial transactions. Additionally, markets need incentives to improve quality. This requires comparative assessments, recognition, and acknowledgement of value by actual and potential customers, as well as enforcement of minimum standards in the consumer (or user of public services) interest. Any market without these minimum conditions will not function well. In the absence of such criteria, markets can be seriously compromised and defeated by dishonest marketing and deceitful practices.

21. Inter-relationships between State and the market, that is, public to private sector interfaces, are developed fruitfully where transparency and related flows of information for better governance are key. Indeed, this is where the decision-making processes can benefit from better judgment from the intended beneficiaries of decisions and from potential victims thereof. Moreover, associating intended beneficiaries to such decision-making process to make them share the related responsibility, is always a good idea. To hide any information is, *a contrario*, a gap in the necessary institutional relationship. Well-intentioned decision-makers in the public sector will always find it a routine prudence to share their doubts and final decisions with all the related-share holders and/or constituencies.

22. This is why the World Bank, for instance, recommended that governments consider a range of activities to make the market more competitive and transparent, ensuring a free flow of market information, defining and maintaining quality standards, and strengthening the legal and regulatory system to enforce contracts and guarantee property rights. In other words, « marketing services (information, thus transparency in particular) add value in the same way as fertilizer or irrigation investments ». This is to recognize that the State must be strengthened if its regulatory role is to be enhanced qualitatively. To impose related rules of the game for a more efficient market, and intervene appropriately when these rules are not strictly adhered to, requires a considerably stronger and responsible State, this is where good governance is made of generalized accountability of public resources spenders which requires transparency.

23. This is not easy to achieve in developing countries and far from being fully achieved in developed ones. In countries governed by dictators, rulers generally favor dominant market forces. Competition is usually viewed as being in consumers' interest. However, it sometimes favors exploitation instead, because « more successful firms may not be more efficient firms, but only more efficient discriminators ». Competition in the consumers' interest requires that the rules of the game be comprehensive, understood, and enforced. For this to work as described, information flows and, ultimately, transparency are necessary. These are the foundations for credibility and accountability, themselves the basis for participatory and democratic governance. It is the public sector's role to design and enforce a way of functioning that fosters it. This does not seem to be part of the agenda of public sector decision-makers, at least in a sufficiently efficient and sincere way.

24. The *State-with-market* concept can work well if a solid foundation for it exists, relative to institutional capacity. Information, in particular that is generated by transparency mechanisms, must be considered as a **public good**.

Markets do not and cannot produce this kind of a good efficiently, ensuring quality, timely flow, low costs, and reliability. It is possible and useful only if the State can ensure enforcement of public information guidelines through a well-understood legal system and its related regulations. It may be even more important at the global level, as illustrated by a decision of the Governments of Japan and France to initiate an old study on ways to shield struggling commodity-exporting States from the often « vicious vagaries » of the market. Should global trade agreements ignore differences in the cost of inputs for producing similar products in different countries? In some countries low car prices may reflect very low wage structures and conditions of near servitude for the workers, while in others, the cost of highly sophisticated social protection may be implicit in the final pricing. State intervention, at the global level now, is required not only to correct imbalances of this kind but also to avoid them wherever possible.

25. The « markets » are powerless to reach such accord without State intervention which should, at least, ensure accurate information flows, nationally and globally. This last point can be illustrated by the way the WTO meetings are conducted. The public sector must show transparency in the way it functions but it should also generate transparency as a public good for markets to work better, especially because we are in a rapidly-evolving globalization process where no global power or global government can refrain the private sector from wrong-doing when operating on the global market. Therefore, transparency and democracy for good governance, that is to say in the way public organizations function and deliver the public goods and services, as important as this may be for the progress of societies, is certainly not sufficient. The public sector should also play an important role in fostering the same principles in the way the markets work and in the way public to private sector interfaces are conceived and operate.

26. A corollary to information and transparency as a public good is access to and sufficient participation in decision-making. Indeed, citizens can only be fully empowered when sufficient political and legal safeguards have been designed and are working. Some decentralization processes are aimed at creating an environment where public participation will be fostered. Governance and governing styles (this is the balance in relationships between those who govern and those who are governed), including the constraints citizens will accept because they believe it is in the general interest, should not be considered in isolation of long-term benefits for all. Desired results must take into account any cost involved in designing and implementing strategies and programs designed to achieve commonly agreed objectives as it will be discussed in Part Two.

**Part Two : Transparency and Democracy : How to achieve them in Practice ?**  
**The Integrated Public Resources Management (IPRM)**

Introduction

27. The traditional enemies of good governance are: corruption, nepotism, and incompetence, three intertwined and vicious practices that progressively undermine the credibility and efficiency of the public sector in particular in developing countries where the population is less able to intervene and demand progress in governance. Corrupt practices, often aggravated by nepotism and misuse of power, are unbearable not only in the developed world for ethical reasons and for the sake of efficiency, but specifically in developing countries where they have devastating effects that further limit already scarce resources. They make it almost impossible in these countries to fight inequities and to design effective investment programs. Knowing the level of poverty of a large portion of their populations, such practices must be seen as criminal. Naturally, the problem of public resource wastage is not new. What is new is public awareness about it and the fact that societies cannot afford to let it continue.

28. The confusion between public and private resources and the self-enrichment of politicians and public servants is an old and well known phenomenon, already reported by ancient authors such as Confucius, Plato, Aristotle, and many others in more recent times. However, the publicity given to this phenomenon makes it difficult to hide the corrupt segments of populations any longer. As a result, many governments know they now must deal with this, one way or another. Indeed, public administration bankruptcies are growing at a rapid pace throughout the world and not only in the developing countries as illustrated by the growing public debt in quite a few industrial countries.

29. Such a situation is probably largely responsible for many crises affecting the whole world that is left to the private sector by the public sector when the globalization process would require a rapid reaction from the global community to reverse extremely dangerous trends. This has to do not only with public finances but also with public resources in general, the waste of natural resources in particular that might have gone beyond recovery. The current crisis may be understood as a transition phase between the previous period of extravagant spending and wastage of financial and natural resources by both the public and the private sector, and a period of performance and efficiency that remains to be seen but that we technically know how to build and make work.

30. This crisis has already had serious economic, social, and cultural impacts that resulted from our lack of management capacity. It is a particularly acute

crisis given the number of people affected throughout the world, the profusion of waste over the last 40 to 50 years in the form of a long list of wrong-doings, theft, piracy, incompetence (too many politicians and civil servants not adequately prepared for the positions they hold), total lack of accountability and of organization, fraud, tax evasion, deterioration of services delivered and generally excessive costs. Even worse, is that in many societies, even the notion of wrong-doing is fading away. In many places, when newcomers assume positions of power, they tend to consider that they are allowed, in turn, to take advantage of these positions to enrich themselves. Such aberrations, a deviation of traditional values in the evolving cultural progress, will make it more difficult to return to normal, ethical behavior in handling public resources in ways that reward performance, efficiency, fairness, and equity. Administration sciences and related organizational technologies have made progress that allow us to offer to well-intentioned leaders, practical ways of fostering good governance and to do it with transparency and democracy ensuring the participation of all and thus guaranteeing more efficient results. This Part Two introduces the integrated public resources management (IPRM)'s concepts and procedures, a system integrating eight sub-systems in a continuous inter-related loop.

### Introducing IPRM Principles and Concepts

31. The concept of public resources is not limited to public financial revenues but also includes the accumulated stock of public capital assets, including land and natural resources. The concept of IPRM can be defined as follows : to generate the public resources necessary to efficiently perform the role of the public sector in the most cost-effective manner ; then to record and track down the corresponding financial flows and the use of natural resources in every step of programming, spending, and control processes to analyze to what extent the production of expected results has indeed been cost effective, and that the related public policies that prevailed in this spending were the best possible.

32. Technically, we do know how to do it. Difficulty arises from the above-mentioned enemies of good governance, corruption, nepotism, and incompetence to which one can add embezzlement, all ills against transparency resulting in bad governance. Additionally, decision-makers do not want to fight these ills because of either vested interests or because they lack sufficient political courage or both. Policies and work programs aimed at delivering services expected by the public and financed by it through taxation must fight these enemies before they make progress towards attacking efficiency and cost-effectiveness. We will describe how this can be done in practice using the concept of good-faith and procedures of IPRM which are available to all decision-makers. Transparency and democracy are not objectives to be achieved for their own sake, they are main features of good governance that is,

cost-effectively accomplishing the public sector role for the sake of the populations in general, and for the poorest segments in particular. Of course, such role of the State must be democratically defined through a transparent process at every level of public administration, for every Nation State.

### National Awareness of the Public Stock of Assets

33. At a time of accelerating globalization process, it is important that Nation States try to establish the concept of public stock of capital assets: the notion of common wealth that should be protected and increased over time for our children and grandchildren. « Nation » or any other jurisdiction remains an idea made more concrete by flags, anthems, customs, and immigration officers at borders, the army, and sometime the language spoken, although often more than one language is spoken in one « Nation ». However, it is important to add « public assets » to these national symbols, as this is part of companies in the market. Democracy will have made progress when one can inculcate this basic notion to every citizen: namely, that it is a common responsibility to preserve and increase public assets for the benefit of the largest segments of population. Then, it would become easier to maintain that any embezzlement of any part of these common assets is a crime of high treason that must be punished by law.

34. Furthermore, although quantitative measurement of public assets is not easily done and the corresponding indicators not easily accessible by ordinary citizens, some information should be developed and become as transparent as possible, at least up to the level allowed by people's education. Political parties that just spent a few years in power, should be able to demonstrate that their contribution has been towards increasing public assets, in addition to their efficiency in delivering the public services that were expected of them. The potential reelection of their members should be based on these two sets of results when they are well documented rather than on pledges only. They will need to show that because they had a special way of managing public resources, they have both delivered services efficiently and increased the public capital of assets during their time in power. Finally, they should also disclose what they have done to fight corruption, nepotism, and incompetence. These recommendations should be used by anyone handling people's resources whether as public or as private actors. They should be considered as the first condition to reduce public resource wastage and they cannot be carried out without transparency and participation, or openness and access.

### Process Genesis

35. At the beginning, there is a clear-cut but only implicit willingness to live together in a given physical space or land. Examples show that when this is not the case, that is when population groups do not feel they are adequately

represented by those in power, or when they feel excluded from the part of society that has a decent life, there can be serious social troubles (recently in France or more ancient conflict such as the Irish one and the Chiapas in Mexico and so many more) that eventually may lead to anarchy and/or wars (such as Burundi/Rwanda, Chad, Eastern Africa, ex-Yugoslavia, and others). Is it possible to call « Nations » countries where people do not really want to live together, are ready to fight against each other, or are suspicious that resources are used only to favor those in power and their friends? Many countries with borders drawn by colonialist powers –in Africa in particular, but also in former Soviet Union countries -- have tragically been illustrating this fact.

36. At the beginning of the XXIst Century, near half the countries in the world were experiencing ongoing conflicts that can be explained by the lack of social and political consensus, one of the most important foundations of institutional capacity that can foster growth by making the best possible use of existing resources. This willingness should be accompanied by the awareness of what these existing resources are: capital in land and natural resources belonging to either the public or to private individuals or companies, and availability of resources that must be used to finance costs and further investments. One has a better idea of what it means to « live together » when knowing what resources are shared and how they can be used in a consensual way to promote progress.

37. Then, there is the design of a « society project », **the first IPRM's sub-system** : a desired longer-term perspective. Goals should be disaggregated into project-based budgeting, addressing short-term requirements, and annual plans. It is rare that political parties, in or out of government, propose and carry out this kind of wide debate on what it is that the people want to become, how much resources they are able and willing to invest, and what sacrifices they are ready to bear. It is unusual for nations and their populations to ask: Who and what do we want to be in 10 or 20 years from now ? A question political parties should ask and answer as propositions to be debated even before election processes. Instead, populations seem content with managing their day-to-day life that is, handling the current crisis or the simple routine events. They seem happy with the recurrence of last year's budget with limited changes that more or less perpetuate what has been done in the previous year and the year before that.

38. Developing countries' budgets show that an increasing share is dedicated to the financing of recurrent costs and less to new investments. Therefore, populations do not seem to know very well where they are going, what they would like to be eventually, and what kind of society their children and grandchildren will inherit. Value systems certainly suffer from this in the absence of strategic thinking. This explains to some extent, why societies are

deeply affected by a sudden crisis due to natural disasters or severe social troubles. This lack of forward thinking certainly weakens the societies' institutional capacity, because peoples are not quite sure how much they are willing to sacrifice, and/or because the current crisis requires all available resources. Most of the time this is aggravated by a total lack of imagination.

39. Unfortunately, we do not quite know what can be the consequences of a situation in which managing the present absorbs an increasing share of the thinking and available resources. However, the absence of a « society project » is in itself a « society project » by default -- but one which remains undefined, involuntary, as if people would let contingencies manage their future, reacting with fatality when undesirable events arise -- trying to go back to square one as soon as possible as the only available response to unpredicted events. Obviously, such a « model » is among the most expensive, it achieves slim results, favors inefficiencies, and reduces the stock of capital assets, including natural resources. Instead, it would be desirable to formulate a voluntary society project, defining benchmarks and indicators that would help determine what it would be like to live together in the long run, with a mutually acceptable amount of resources and sacrifices. Such a project should focus on final results rather than being limited solely by the means and processes to get there.

40. Thus, to achieve desired results, projects must be defined and agreed upon with the participation of all communities in general and those more directly involved in particular. Better ideas must be researched and, if not adopted, explanations must be presented so as to minimize potential opponents, thus, facilitating implementation. All means based on existing public assets must be identified and quantified. Operating costs must be considered as an important element of the total cost to bear –not only to acquire goods, equipment, or necessary infrastructure. In addition, what has to be done also to use them efficiently and ensure the sustainability of their good use should be explicit. In other words, decision-makers should make statements of the following format: “We propose to mobilize the following resources (financial but also of other kind such as the natural resources that will or will not be renewed if such is the case) because we believe that this is the most efficient manner to proceed to achieve the expected results on which we already have reached a wide consensus, and because, in addition, it is the best way to augment our public capital assets at the end of the process”. The national (or territorial, local) budget document should naturally reflect all the corresponding information, all quantitative indicators necessary to monitor and ultimately, evaluate the implementation, as well as the information related to related choices showing the relationships between planned and actually achieved outputs.

41. **The second IPRM sub-system** has to do with the costing of achieving

the objectives set forth in the society project: this is the budgeting process. In a few democratic (and some other) countries this practice is enforced although budgeting and related projects are more often of a short- rather than long-term nature. The Budget Document submitted by the Executive is passed by Congress in the form of Loi de Finances (France) or Appropriation Acts (USA and Canada), or United Kingdom. If representatives who voted for such a budget are genuinely representatives of the different segments of the population that will be affected one way or another by the decisions made, the corresponding bill is truly an official document that ratifies the « society project » thus formulated. In practice, it is a decision as to how many taxes the administration will have to collect, how much of existing public assets will have to be mobilized and spent, and a decision to use the corresponding revenues in a predetermined and pre-agreed manner. Consensus will be reached more easily if it is possible to demonstrate convincingly that the set of measures announced are generally good for all or almost all, and that the ones benefiting the most are also the ones who will bear the highest cost, except when it also has been agreed that there will be some kind of revenue distribution to redress existing inequities, or for any other reasons. How could all this be achieved without transparency that is capable of generating ethics ?

42. It should be remembered in this process, that nothing is more destructive for the existing institutional capacity of public administrations than the feeling that the budget ratified by Congress is unfair or discriminatory one way or another –in particular, when affected groups of population were not consulted or informed and do not agree with the related choices. Those who feel they are unfairly treated are going to be opponents and are going to make it more difficult and eventually more expensive to implement such a budget. Same principles apply to the private sector. When a company's owner or manager asks his employees to accept a reorganization plan that means firing some of them or reducing their current salary, they would oppose the plan fiercely unless they were informed, consulted, and feel convinced that the proposed measures are for the good of the majority of them, or that there is no better idea to foster productivity and, at the same time, preserve the highest possible employment level. ***This again is transparency.***

43. From now on, and although the first steps are developed in parallel, it is important that decision-makers designate responsibilities with clarity (transparency) in using the allocated resources for achieving the outputs prescribed in the budget. The central administration of the decisions made in every sector must communicate to the specific entities in charge exactly what their respective responsibilities are. One must know who will be accountable for the use of what resources to achieve which results. Adequate distribution of inter-institutional responsibilities is a key factor of the institutional capacity

made available for budget implementation. This is a basic condition for enforcing accountability principles and procedures. *This also, is transparency.*

44. Once accepted, the responsibility assigned to an entity has to be translated into a detailed work program, that includes the following information : (a) a precise definition of the responsibility itself, with quantitative indicators and refined definition of outputs to be achieved in a pre-determined time-frame ; (b) inputs of all kinds that need to be mobilized and used in the process ; (c) a description of everyone's task in the entity so as to make it transparent who will do what to ensure that the goods and services will be acquired in time and in the most cost-effective manner, that they will be used efficiently, and that the benefits of using them efficiently will be sustained over the longest possible period of time. This last point is in fact, a condition to ensure that at the end of the spending process, additional services will have been delivered and at the same time, the overall public capital assets will have been augmented, thus justifying the rationale and legitimacy of the corresponding expenditures and the related public policies. In IPRM, a requirement is to prepare and present the budget sector-by-sector or subsector-by-subsector for every spending entity separately, always including expected results in the same Budget Document or as a reference, to separate documents with same classifiers. *This should result in more transparency.*

45. The next step, the **third sub-system** has to do with tax administration. This is the administrative procedure to ensure that all taxes are defined in the appropriations act. There is nothing new here except that tax administration should aim at collecting taxes so as to maximize the cost effectiveness of their performance, transparently. Again, besides the best technical procedures to be used, the institutional capacity required to be efficient in this respect depends essentially on securing a wide consensus on the objectives to be achieved with the money thus collected, and as long as cheating and corruption practices are known to be successfully combated by the administration. State-of-the-art tax collection procedures and norms are available to facilitate the corresponding processes including benchmarks to document progress made in improving performance overtime. These may include the reduction of fraud cases, a lower cost of administration or the reduction of collection delays –all of which are indicators that tax administrations have become more sophisticated in the interest of efficiency. *How could this be achieved without transparency ?*

46. The **fourth sub-system** the Treasury, should be organized as the public sector banking system. It should be clear to any interested party, how much money gets in and how much goes out. Cost-efficiently managed, the Treasury should not have much money in, just what it needs daily to cover public

expenses. ***Transparency will force managers to be efficient and accountable.***

47. Then come the IPRM's three control sub-systems. The **fifth sub-system**, Accounting, will use the same information included in the Budget Document, including related codes so as to make the relationships between effective spending and the achievement of expected results that justified related budgetary allocations in a transparent and clear manner. The code system thus designed will allow an easy identification of an objective, a specific earmarked resource mobilized, among others to achieve it, and the tasks carried out to achieve this output using the precise resource. Progressively, implementers will no longer think in exclusively financial terms (I need to do this or that : how much money do I have for it ? or worse : I still have so much money left : how can I spend it?) but in terms of their responsibility to achieve an expected result, what is ideally expected and claimed by the beneficiaries, and in the most cost-efficient manner. There will be a continuum of functions between the budget request, its evaluation and approval, the allocation of funds itself, the internal control to ensure adequate management of the corresponding funds, the accounting process, and the ex-post evaluation of both the financial management and the performance in achieving expected results. Ultimately, it will be easier to determine who spends what for which result and whether a result has actually been achieved as expected that is, in the most cost-effective manner. If tasks have been sufficiently disaggregated, it will be easier to determine accountabilities for partial or complete failures and of all difficulties. ***Key and relevant information here, generates transparency in an operational way.***

48. The sixth sub-system is the internal or managerial control. This is the internal responsibility of every spending entity's manager that is in charge of achieving predetermined results for which specific resources are allocated in the budget. His or her performance in achieving such results, quantitatively and qualitatively, and in the most cost-effective manner, should be assessed internally as well as in the disaggregated work program in every administrative unit residing within each entity. This too should be carried out with transparency because everybody within the organization, is accountable for results. If we are in a modern management setting, everybody is responsible for collective achievements: internal control should show what were the obtained results as compared with what had been initially planned and a description of how the organization's performance would be improved in the future, ***because of the transparent manner in which it is disclosed.***

49. The **seventh sub-system** is external control or audit. This is the responsibility of specific entities such as comptrollers' general offices, auditors, or *Cour des Comptes* in accordance with specific country legislation. These entities generally analyze financial statements generated by spenders and

prepare reports based on their findings, whether positive or negative. Eventually, such reports are published, becoming accessible, transparent to the general public, sometimes directly or through the Legislative Branch. Their independence must be guaranteed to preserve their credibility and efficiency. Audit reports should report on good or bad management of public entities or any other entity spending public money one way or another, but assessments should go beyond simple financial control as is currently most often the case. ***Transparency about expenses but also about the way managers manage to achieve the expected outputs in a cost-effective manner.***

50. Finally, the **eighth sub-system** or Public Policies Evaluation. Indeed, it is not enough to assess that budgetary and other resources have been spent honestly and efficiently for the achievement of expected results. It is important to verify –while going through the control sub-systems defined above, that the public policies that generated this kind of programs and related-spending, were the best possible in terms of available tradeoffs and among available alternatives at the time of the society project and its related budget preparation. If the above control sub-systems evaluate the performance of doers (public entities' managers) Public Policies evaluations evaluate decision-makers' performance ***turning transparency more relevant and effective yet.***

51. The functional cycle thus defined is not over. It is connected through feed-back to the new program-based budgetary process for the next cycle, during the process of evaluating public policies. Indeed, it is by means of apprehending the effectiveness of the spending process for a given result that this result can be evaluated as the best possible among all available alternatives at the time of the design process. It is also at this time that decision-makers in every sector (most often the line ministers themselves, i.e. those responsible for defining sectorized public policies -- or the corresponding sections of the society project), are evaluated and when their ability can be questioned –for instance, at the time of political debates and/or elections. Thus, modern democracies would make it easier for the political parties and their representatives to become truly accountable within the public administration and publicly. Politics here is linked functionally with administrative and development performance, the ultimate condition for effective and enforced accountability processes. ***This is how transparency and ultimately, ethics principles can be effective and enforced.***

### **Part Three : Integrated Public Resources Management for Transparency, An actual Illustration of what can be done**

#### Introduction

52. As we have seen, the lack of transparency makes it easier for corrupt practices, often aggravated by nepotism, incompetence, and misuse of power, to develop and plague government and the public administration efficiency. In developing countries, such practices have devastating effects and further limit the amelioration of social, financial, and environmental intervention. This is in part responsible for the world crisis following the 1980s bonanza, itself based on profligate spending allowed by easy access to foreign credit. In many cases, the credit availability could not be absorbed by development efforts, which led to waste of natural resources, often beyond recovery, and to gross mismanagement. The early 1990s deficit and lack of credibility crises, worldwide, can be seen as a transition between the previous period of extravagant spending and wastage of financial and natural resources by both the private and the public sectors to a period of improved performance and efficiency, in its incipient stages, based on national, and increasingly regional and global, participatory governance. This transition came about despite the unfortunate resistance on the part of quite a number of national governments.

53. Some public administrations, in particular at the local level, already have begun to try to reverse what has been seen as a dangerous trend. The cases of the SAFCO Law in Bolivia, well defined but rarely applied in practice, and the more recent experience of the Porto Alegre (Brazil) Municipality and European municipalities after it, are good examples of what can be done when well-intentioned political and administrative decision-makers decide to reengineer their organizations to foster transparency and ethics in the use of public resources towards satisfying the populations' expectations. In the selected cases, the motivation was to help redress past inefficiencies and waste. In the case of Bolivia, the system rigorously tracks public revenues from generation (tax administration) to spending (budget execution and cash management) and evaluation (accounting and control) of public policies. In the cases of Porto Alegre and a few European municipalities, the motivation was similar through improving democratic principles and practice that is, through devolving to the people the right and the possibility to keep public decision-makers and administration managers and personnel *under transparent control*.

54. Bolivian government, Porto Alegre and European cities experiences demonstrate that we do have the know-how to improve public resources management to the point that willing governments can move toward more efficiency, transparency, and accountability, an approach that should apply to

the private sector as well

## Public Financial Management Reform in Bolivia

55. Introduction. Bolivia is a land-locked territory in the middle of South America. It is slightly larger than France and has a population of about 9 million people, largely of Inca descent although only in late 2005 and for the first time in history, was an Inca candidate elected President of the Country. It is a poor country with a per capita income of US\$870 in 2003. Bolivia managed to balance its economy by the mid-1980s after a long period of severe economic decline but it can be considered as stagnant ever since. Education outputs are limited and mediocre<sup>1</sup>, and health indicators are among the worst on the continent. Agriculture is still the most important economic sector, employing about half the active population. Agro-industries is still the prevailing manufacturing sector, although a slow diversification has been underway for many years. The country is rich in mining and hydrocarbon resources traditionally processed by the public sector, but increasingly open to private initiatives and investments, an evolution opposed by the poorest segments in general, and by the Indian population in particular. Bolivia's geographical configuration, the western third landlocked in the Andes, makes it difficult to develop adequate infrastructure networks that are extremely costly but required for economic development. Recent growth rates of about 3% were among the best in Latin America with substantial growth of private sector investments.

56. Up to the mid-1980s, the lack of public financial management system had favored the development of a staggering fiscal deficit and unrestrained public spending. Before carrying out its economic reform, many laws and regulations, often self-contradicting, made it easy to prepare arbitrary budgets, which was aggravated by the absence of reliable, timely, and complete information on current and previous accounts. Furthermore, the external pre-control practice had the effect of paralyzing government programs and activities as well as promoting fraud. As a result, the Government had virtually given up on keeping track of how public and other entities spent public funds. ***Transparency and ethics in governance were unknown.*** As a result, Bolivia was wasting its scarce resources. Aware of these issues, the Government and the Office of the Comptroller General as the « external » audit entity, designed a law for government financial administration and audit, known as the SAFCO Law. Since then, the country had improved somewhat the management of its public finances as part of broader efforts undertaken to modernize the public administration. Its impact today is extremely weak for lack of enforcement. Control remains wishful thinking because of the lack of transparency in organizations, resulting in a lack of ethics. However, the Law remains a model

---

<sup>1</sup> Half the population is considered functionally illiterate

for those willing to really improve public administration and governance.

57. The SAFCO Law. The Law was conceived by the then Comptroller General of the Republic who demonstrated great foresight and administrative persistence until the law was approved by the Bolivian Congress in July 1990, after seven years of continuous effort. The SAFCO Law replaced, with an uncomplicated text, a multitude of obsolete laws and rules, many of which were largely contradictory. The SAFCO Law integrated three main subsystems : (a) the planning/programming subsystem in the form of sectoral budgets, which defines not only the financial cost but also the corresponding activities and expected outputs (program-based budgeting), to clarify the purpose of budgetary allocations and the expected result based on principles of cost-efficiency ; (b) the treasury funds management subsystem: the Treasury becoming the public sector's only Bank, including for financial programming, whose purpose is to increase cash management efficiency, reduce the need for borrowing, and reduce delays in transferring funds to spending entities, making it more difficult to rationalize treasury disbursements for political purposes ; and (c) an integrated national accounting subsystem that allows the systematic recording of expenses using the same classification as the national budget. An important feature of this approach is that data do not depend on the spending entities but on the way the budget has been prepared and disbursed by the Treasury. This guarantees data reliability and feeds back into the preparation of next budgetary cycle.

58. It was expected that with the SAFCO Law the management of public resources would be improved substantially, establishing a healthy balance between budget-making entities, those which disburse the corresponding funds, and those in charge of recording the related operations. In particular, the independence of expenditures accounting is critical to ensure transparency of the use of public funds and as a guarantee that all corresponding data are accessible to decision-makers, comptrollers, and the public in general. Also, it ensures that this information is reliable, complete, and demonstrates that spending has been efficient. Such important changes in administrative culture require substantial restructuring of the organization of public entities. Indeed, an important program of administrative reorganization was devised, institutional roles redefined accordingly, and the corresponding structures progressively adapted. The Ministry of Finance and the Comptroller's Office were the first entities to reorganize, before the rest of the public administration. The new norms could not be enforced, or even comprehended under the old management scheme, since it was not part of the culture to prepare the budget using standard formats that provide accountability among other key aspects.

59. In procedural terms, the SAFCO Law integrated the subsystems in such a

way that financial flows became transparent in their generation (tax administration), their transfer to spending entities after treasury oversight, and passed on to the users in an output format. Transparency also was provided in the spending process itself through achieved results and the financial (accounting) report, including an outcome evaluation (audit/ex-post evaluation of results). That is why it was crucial to add to the SAFCO Law guidelines for procurement of goods and services and the management of personnel -- all being major changes that were initially proposed as important conditions for its implementation.

60. Shortcomings in Implementing the SAFCO Law. The SAFCO Law surprised those in Bolivia who never expected such modern financial management concepts and procedures to be passed by congress after the prevailing anarchy. However, there were difficulties in implementing the law as intended by its designers. The first years of implementation illustrated resistance to rational management in the form of strong impulse to return to status quo ante. Resistance in this case was cultural rather than based on technical objections, in that there were no « better ideas » about the way to manage public finances than the ones proposed. Furthermore, the management of the public sector at the political level remained mainly aristocratic until recently when an Inca-origin candidate was elected as President of the country. Democracy has certainly made progress. A lot remains to be done by the newly elected administration to refresh and fully implement the SAFCO Law. Decision-makers, even democratically elected ones do not like to be told they are not managing public funds well. The conflict between the declared and hidden agenda is clearly in evidence under such circumstances. This cultural bias clearly has threatened the successful implementation of the SAFCO Law. The long-term chance of success, that is the willingness to change profoundly the prevailing administrative patterns, will be reinforced when, as a result of strict enforcement of the SAFCO Law, public officials are held publicly accountable for fraudulent acts or incompetence. Meanwhile, researchers and scholars will have this Law in mind when trying to figure out better ways to practically enforce transparency and democracy for better governance.

~~~~~

## Short Bibliography

**Joseph Schumpeter** : *Capitalism, Socialism, and Democracy* Harper Brothers, 1942

**Douglass North** *Understanding the Process of Economic Change* Princeton Economic History of the World, Princeton UP., Oxford, 2005

**Werner Heisenberg and F.S.C. Northrop** *Physics and Philosophy: the Revolution in Modern Science* Harper Collins Publishers, Prometheus Books, New York, 1999

**Masahiko Aoki** *Toward a Comparative Institutional Analysis* Massachusetts Institute of Technology USA, 2001

**Russel Freedman and Frederic Clement** (Illustrator) *Confucius: The Golden Rule* Arthur A. Levine Books, New York, 1997

**Robert E. Klitgaard** *Controlling Corruption* University of California Press, Los Angeles, 1988