

SPECIAL FOCUS: PUBLIC FINANCIAL ACCOUNTABILITY IN EAST ASIA

Introduction and Overview

The turbulent but essentially peaceful political transitions in Indonesia and the Philippines this year suggest that East Asia is in a transition period. This combines growing political debate and questioning of traditional governance practices, on the one hand, with a gradual emergence and consolidation of more constitutional and democratic institutions, norms and values on the other. In this context, governance and institutional reforms are increasingly important for economic and social advance in the region.

Greater political accountability in general, and public financial accountability in particular, figure prominently among the demands for better governance in the region. Notably, opposition to public corruption was a major force animating civil society engagement and protest in both Indonesia and the Philippines this year. Public financial accountability – the subject of this special study – can be defined as the obligation of those handling public finances to report on the management and use of funds through a process which enables abuses and under-performance to be corrected¹.

Better, more accountable fiscal stewardship and management of public expenditures, revenues and debts are critical to curb corruption, reduce waste and improve the volume and quality of services yielded by public resources. Such benefits are important to a wide range of stakeholders, including taxpayers, recipients of public services, investors, businesses and citizens in general. Public financial accountability contributes to wider political accountability and transparency, to political legitimacy and even stability. Public financial accountability and public financial management are made more important than ever by the straitened fiscal circumstances of countries in the aftermath of the financial crisis of 1997-98, which sharply raised public debt to GDP levels, increased interest burdens and reduced the share of discretionary expenditure in total public expenditure.

This study reviews public financial accountability in ten East Asian countries and reaches the following main conclusions:

- Public financial accountability institutions in most East Asian countries lag behind international good practice – and possibly behind practice in countries at similar levels of development in other regions. In particular, there remains a tendency to confuse control with micro-

management of inputs, and performance with compliance.

- While most countries are discussing reform, progress with implementation is modest. The most promising reforms are resulting in a shift from *ex ante* to *ex post* audit; from micro-management of inputs and processes to strategic management of performance; and from bureaucratic to civil society monitoring.
- In the short-to-medium term, the priority for reform in many East Asian countries is to achieve a fundamental restructuring of core financial and performance management processes.
- Computerization of financial management information systems is a long-term investment to be undertaken only when the fundamentals are firmly in place.

How Effective is Public Financial Accountability in East Asia?

For this Special Focus, we surveyed recent assessments² of public financial accountability in ten East Asian countries: Cambodia, China, Indonesia, Korea, Lao PDR, Malaysia, Papua New Guinea, the Philippines, Thailand and Vietnam. Recent guidelines on public financial accountability³ have identified nine elements of a sound public financial accountability system:

- quality and openness of the budget process;
- appropriateness of internal financial and performance management systems;
- adequacy of the public procurement regime;
- quality of public sector accounts and management information;
- adequacy of corporate accounting, auditing and governance;
- effectiveness of the public external audit and evaluation function;
- adequacy of legislative scrutiny;
- right and access of the public to information; and
- monitoring capacity of NGOs and CBOs.

These elements are important at national as well as at sub-national levels of government. In addition, good public financial accountability in a decentralized system requires

¹ There are strong links between public financial accountability and financial accountability in the private sector. However, the focus here is on the public sector, including central and local government and SOEs.

² In particular, the study draws on the Country Financial Accountability Assessments, Public Expenditure Reviews and Country Procurement Assessment Reports which are prepared periodically by World Bank staff in order to assist borrower governments and as part of the Bank's fiduciary responsibilities. See references.

³ Examples include the revised IMF Code for Fiscal Transparency (2001) and the report of the Treadway Commission (1992).

clarity in the assignment of financial and management responsibilities between tiers of government.

Figure 1 shows that, of the ten East Asian countries surveyed, only Malaysia and the Republic of Korea have reasonably strong public financial accountability institutions in terms of these nine elements. They are weaker in Thailand and the Philippines. In Indonesia, China, Vietnam, Cambodia, Lao PDR and Papua New Guinea (PNG), they are extremely weak. None of the nine elements of public financial accountability is generally satisfactory across East Asia.

Regarding the *quality and openness of the budget process*, most of the countries surveyed have budget systems which are generally effective in ensuring aggregate fiscal discipline. Countries as diverse as Thailand and Vietnam have demonstrated an ability to reduce overall public expenditure in times of austerity. Even Cambodia has been remarkably successful at ensuring sound fiscal policy and macroeconomic stability, despite the challenges of reconstruction. There are two important provisos. First, the prevalence of off-budget accounts, contingent liabilities and quasi-fiscal operations, by state financial institutions and State Owned Enterprises means that aggregate fiscal discipline is sometimes more apparent than real.

In China, for example; the scale of these items means that the true fiscal deficit could be as high as 10 percent of GDP compared to the explicit deficit of around 1 – 2 per cent.⁴ There are substantial off-budget operations in Indonesia, Malaysia and Cambodia, and these are also a concern in Thailand, the Philippines, PNG and elsewhere.

The second proviso is that aggregate fiscal discipline has too often been achieved at the expense of sectoral efficiency and operational effectiveness. While some countries such as Thailand maintained reasonable sectoral efficiency during the crisis, protecting social expenditure and ensuring that cuts fell on lower-priority expenditures, other countries tended to make cuts in an *ad hoc*, top down way with little regard for the sectoral implications.

These problems reflect the lack of clear processes for determining priorities and for linking budgets to policy plans. Most countries in the region maintain fiscal discipline using an input-driven budgeting process focused almost solely on fiscal discipline. With the exception of Malaysia, and to some extent recently the Philippines, Indonesia and Thailand, budget systems pay little attention to performance, service delivery, outputs or outcomes.

⁴ China has been implementing a number of reforms to tackle this problem. These include the establishment of a single treasury account, elimination of many extra-budgetary revenue channels and rationalization of the budget structure.

Figure 1: Ratings of Public Financial Accountability in Ten East Asian Countries

Elements of a sound public financial system	China	Vietnam	Indonesia	Philippines	Thailand	Korea, Rep of	Malaysia	Cambodia	Lao PDR	PNG
1. Quality and openness of the budget process	♦	♦	○	○	♦	○	○	♦	♦	♦
2. Appropriateness of internal financial and performance management systems	○	♦	♦	♦	♦	○	●	♦	♦	♦
3. Adequacy of the public procurement regime	♦	♦	♦	♦	♦	○	○	♦	♦	♦
4. Quality of public sector accounts and management information	♦	♦	♦	♦	♦	●	●	♦	♦	♦
5. Adequacy of corporate accounting, auditing and governance	♦	♦	♦	♦	○	○	○	♦	♦	♦
6. Effectiveness of public external audit and evaluation function	○	♦	♦	♦	♦	●	●	♦	♦	♦
7. Adequacy of legislative scrutiny	♦	♦	♦	○	♦	○	○	♦	♦	♦
8. Right and access of the public to information	♦	♦	○	○	●	○	♦	♦	♦	○
9. Monitoring capacity of NGOs and CBOs	♦	♦	○	○	○	○	○	♦	♦	♦
OVERALL	♦	♦	♦	○	○	○/●	○/●	♦	♦	♦

Ratings guide: ● = high, ○ = medium, ♦ = low

Source: World Bank staff assessment

The majority of countries surveyed maintain “dual budgets” for “recurrent” expenditures and “development” expenditures, with the finance ministry responsible for the former and a planning agency responsible for the latter. Such arrangements blur the trade-offs between recurrent and development expenditure, with the development budget having a lower hurdle for entry, and the recurrent cost implications of capital expenditure often being ignored. Recurrent and development budgets tend to be better coordinated in Korea, which has promoted inter-agency coordination through a new, high-level Budget Planning Office.⁵

⁵ Experience suggests that coordination is more important than functional integration. In some countries with dual budgets, such as Malaysia, there has been good coordination between the development “planning” function and the recurrent “budgeting” function. Conversely, even in countries like Thailand where recurrent and development expenditures are integrated in a single

Although most countries still have a “Five Year Plan”, this seldom includes rigorous fiscal forecasts or spending plans of the type provided by a modern “Medium-Term Fiscal Framework” (MTFF) or “Medium-Term Expenditure Framework” (MTEF). A number of countries, including the Philippines, Thailand, Lao PDR, PNG and Vietnam, have begun developing such frameworks, but these initiatives are generally in their early stages.

The Philippines Governance Forum’s “Budget Advocacy Project” serves as a vehicle for civil society engagement in Budget preparation. Vietnam recently conducted a “participatory” Public Expenditure Review, involving donors and a few NGOs. However, the region has few similar examples of civil society involvement in budget preparation.

budget, there has tended to be little coordination of donor-funded capital expenditure with the main budget.

Internal financial and performance management systems in the region are characterized by a number of problems, including *ex ante* control through rationing of cash, and complex verification, approval and authorization procedures, rather than *ex post* control through audit. Such controls are encouraged by the need for cash rationing where budgets are unrealistic. In Thailand, for example, the cash allotment process comes close to a second attempt at budget preparation, overriding the budget approved by the legislature. In the Philippines, the executive has often overridden the budget approved by the legislature through a process of cash rationing.

Other common problems include micro-management of inputs, rather than strategic control using performance information such as output and outcome indicators; and control by the Ministry of Finance, rather than control through management processes and audit arrangements at the agency level.

Malaysia's "Modified Budgeting System" is generally considered to be a relatively sophisticated system of output- and outcome-based budgeting and control. By reducing the number of budget lines and focusing to a greater extent on the delivery of results by each spending unit within a clear budget envelope, the system is generally believed to have promoted better allocation and utilization of resources. Beyond Malaysia, output and outcome performance indicators are used to only a limited extent in a few countries (the Philippines, Thailand and Indonesia). Service providers in most other countries are required to agree their budgets with the finance department in minute line item detail rather than being subject to strategic controls, and they are then not allowed to reallocate spending without formal approval.

As a control regime, this is both inefficient and ineffective. It creates over-rigidity in the allocation of resources, and encourages an approach to public service delivery that is focused on compliance with rules and red tape, rather than on responsiveness and quality of service delivery. It assumes that finance department officials know better how to allocate resources than frontline service providers. It takes away service providers' incentives to find savings, because such savings cannot be redeployed but must be forfeited.

Above all, such micro-management blurs the lines of accountability for results between the finance department and local service providers. It becomes hard to know whether failures in service delivery are due to poor management by the line agency or inappropriate interventions by the finance function. Despite the restrictive control mechanisms in place, many of the countries are not good at keeping sectoral spending within budget. Fiscal marksmanship has been poor in Indonesia, Cambodia and China, with some departments under-spending and others over-spending by significant margins.

Some kind of internal audit or inspection function at the line ministry level or below exists in Vietnam, China, Indonesia,

Lao PDR, Korea and Malaysia. In the Philippines, internal audit functions are required by law in each agency, but few are established in practice. In other countries – for example Cambodia – internal audit exists only as a centralized function within the Ministry of Finance. Typically, the internal audit function is under-resourced and staffed with few qualified accountants. The focus is on compliance rather than on value for money. There is frequently confusion about the role of internal audit as against external audit.

The **adequacy of the public procurement regime** is a concern in many East Asian countries. Weaknesses are often due to inadequate legislation (Lao PDR), a multiplicity of legal instruments (Indonesia) or lack of experience with new rules (China). Procurement manuals are often inadequate and inconsistently applied. In Thailand, the Philippines, Cambodia and PNG, cumbersome procurement procedures result in delays and make bidding unattractive. In the Philippines a contract can require up to 40 signatures. In some countries – for example, Thailand – there is institutional confusion about the respective roles of the central procurement authority, the Ministry of Finance and procurement divisions in agencies. Collusion and corruption in procurement are commonplace throughout the region. However, a few countries do have moderately robust procurement regimes. For example, Malaysia has a reasonably well defined two-step bidding system for federal and state procurement, underpinned by legislation and clear guidance documents.

In terms of the **quality of public sector accounts and management information**, only Malaysia and Korea of the surveyed countries have solid public accounting and financial reporting systems, with internationally compatible accounting standards and adequate information systems. Countries lacking integrated financial management information systems include China, Indonesia, the Philippines and Vietnam (although the last two have plans to develop more integrated systems). This results in duplication of monitoring between agencies, with inconsistent results. In Indonesia, the Directorate of Treasury, the Directorate of Budget Administration and the Government Accounting Office are all responsible for budget monitoring and record keeping, doing so in a poorly coordinated way.

Public accounting associations are generally weak. Their lack of independence from government is a major issue in most countries. Few countries use public accounting standards fully consistent with international standards. Countries yet fully to adopt the IMF's internationally recognized GFS ("Government Finance Statistics") classifications include Vietnam, China, Indonesia and Cambodia.

The **adequacy of corporate accounting, auditing and governance** is relevant to public financial accountability because State Owned Enterprises form a significant part of the public sector in many East Asian countries. Korea has a relatively sophisticated system giving greater managerial

discretion to SOEs, which are governed by “performance contracts” with the Department of Finance. However, in most countries SOEs are not accountable for service standards or financial performance. Boards of Directors are weak, often comprised of political appointees who are subject to political interference. In Lao PDR, many Boards of Directors have not even been appointed. In the Philippines, the true costs of public support for loss-making SOEs is obscured by transfers in the form of tax expenditures. In Vietnam, SOEs are not required to be independently audited. In Cambodia, accounts are frequently not prepared at all. Accounting and audit standards and practices are generally poor and not up to international standards, although China and Korea have recently taken steps to move towards international best practice.

In many countries the *effectiveness of the public external audit and evaluation function* is undermined by lack of independence, limited powers of investigation and sanction, and conflicts of interest (particularly, where the auditor is also responsible for accounting). In Cambodia and Lao PDR Auditor-General’s Offices have only recently been set up. The Auditor General is sometimes appointed by the President, rather than by the legislature, and is frequently hampered by inadequate staffing. For example, the Auditor General in Vietnam has only 600 staff, and is unable to cover all provinces and central government agencies. Auditors are frequently under-qualified. Of 2,800 staff in the Supreme Audit Agency in Indonesia only 150 are qualified auditors. Modern methods such as scientific sample-based audits, performance audits or value for money audits are often not possible due to such deficiencies.

Regarding the *adequacy of legislative scrutiny*, a growing number of countries require the Supreme Audit Institution to report directly to the legislature. The Chinese National Audit Office reported directly to the National People’s Congress for the first time in 1996. In Thailand, the Audit Act was recently amended so that the Auditor General reports directly to the legislature rather than to the Prime Minister. A Public Accounts Committee or other mechanism for legislative scrutiny is not formally established in some countries, including Vietnam and Indonesia, although in Indonesia the Parliament is becoming increasingly assertive in overseeing public finances. However, accounts and audit reports in Indonesia and other countries are submitted many years late, making follow-up difficult. In any event, in some countries – for example, Indonesia and Papua New Guinea – there is no legal basis for ensuring follow-up where a complaint is made.

Regarding the *right and access of the public to information*, a few countries have embarked on reforms. For example, Thailand passed an Official Information Act in 1997 to ensure greater access to information; the 1997 Constitution provides for enhanced transparency; and the budget is now available on the Bureau of the Budget’s website. However, as a whole the region does not perform well. Until recently,

Vietnam and Lao PDR released almost no budget data to the public. Even now, in Vietnam only 70 per cent of the budgeted funds – possibly as little as half of total public expenditure including off-budget funds – are disclosed. Many other countries exclude a proportion of expenditure as “classified information” and few make the data readily accessible on a website or present it in easily digestible form.

The Philippines Commission on Audit now puts its audit reports on the web; and in China audited public accounts are made available to the public. But in some of the surveyed countries – for example, Indonesia – audit reports are not available to the public at all. In certain countries, the ownership or regulation of the media is a constraint on financial accountability: for example, in Vietnam the press is largely state owned; in Malaysia the Press Censorship Act constrains the freedom of the press. Of the ten countries we surveyed, Freedom House rates only Thailand, the Philippines, Korea and PNG as “free media” countries; and only Indonesia as “partly free”.

Limited effort has been made to develop the *monitoring capacity of NGOs and CBOs* in the region. In Vietnam, communes have been requested by the Government to post budgets outside commune offices, in the hope that this will allow better monitoring of expenditures by CBOs. In the Philippines, the Local Government Code stipulates allocation to NGOs and CBOs of reserved seats in certain local bodies, including the local development council, the local health board and the local school board; and at national level, there has been some involvement of civil society in the monitoring of capital projects. Indonesia has been experimenting with community-led approaches to local financial management and accountability. But in other countries, civil society monitoring mechanisms are limited to donor-funded projects.

Fiscal decentralization is an important trend in many countries, including in Indonesia (decentralizing with a big bang), the Philippines (where decentralization has been underway for over a decade), Thailand (which is decentralizing cautiously), China (which is however considering re-centralization) and Vietnam.

This trend presents both opportunities and threats. Local governments may be better placed to incorporate feedback from service users and to help local people participate in financial and performance management. In this regard, the proposal to encourage communes in Vietnam to disseminate their budgets more widely is encouraging.

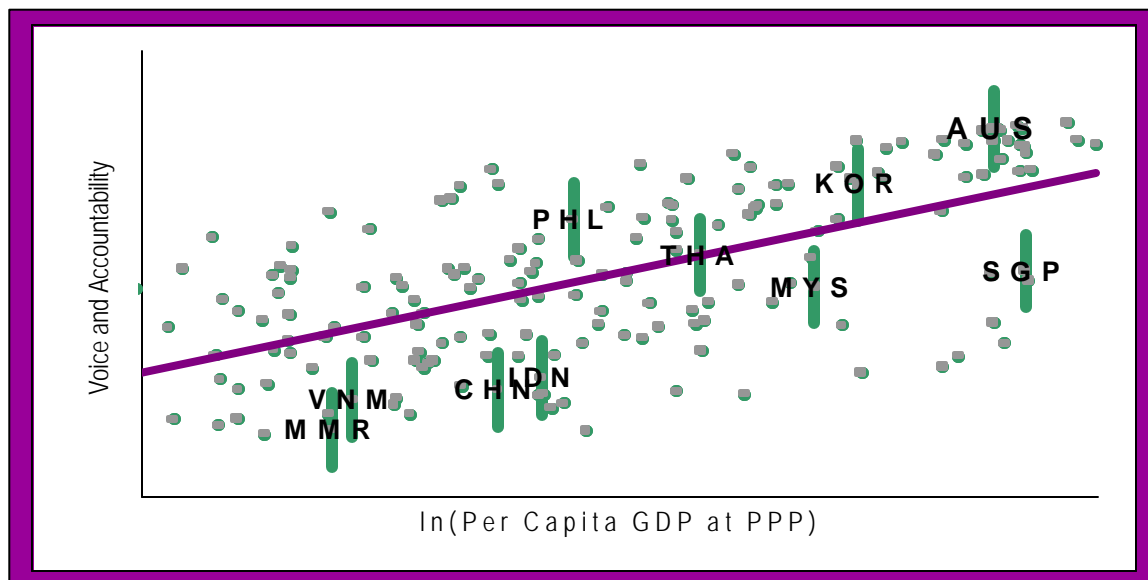
However, unless public financial accountability arrangements are strengthened at lower-tiers of government, decentralization can have negative effects – including less efficient service delivery and macro-economic instability. In the Philippines, where decentralization is relatively far advanced, financial accountability continues to be undermined by a lack of local audit capacity. If fiscal

decentralization does not go hand in hand with a clear functional assignment of responsibilities and financial relationships between different tiers of government, there is likely to be overlapping service provision in some sectors and under-funding in others. The rapid decentralizations planned in countries like Indonesia and Thailand will need to be carefully phased and managed if they are not to have perverse results.

Overall, it is clear that the countries surveyed lag well behind international good practice in public financial accountability. In the absence of established international metrics for measuring public financial accountability, it is difficult to say with certainty whether East Asian countries lag behind countries in other regions at similar levels of development. However, this seems quite plausible. Figure 2

shows the relative performance of selected East Asian countries, drawing on the work of Kaufmann, Kraay and Zoido-Lobaton (1999), who derived their index aggregating available indicators measuring subjective perceptions of “voice” and “accountability” (rather wider concepts than public financial accountability). The figure shows that East Asian countries such as China, Vietnam, Indonesia, Malaysia, Myanmar and Singapore fall behind countries at similar levels of per capita GDP in terms of these measures of voice and accountability. Similarly, Transparency International’s “Corruption Perceptions Index” ranks most East Asian countries next to African countries: the 2001 index ranks Indonesia next to Uganda, Vietnam next to Zambia, the Philippines next to Senegal and China next to Ghana.

Figure 2: Relative Performance of East Asian Countries in Indicators of Voice and Accountability



Source: Kaufmann, Kraay and Zoido-Lobaton (1999)

Strategies for Strengthening Public Financial Accountability in East Asia

Although public financial accountability institutions are currently weak in the countries surveyed, most governments are now implementing reform programs of one kind or another, although progress remains spotty and slow.

The World Bank is partnering with many governments in these reform efforts, undertaking Public Expenditure Reviews, Country Financial Accountability Assessments, Country Procurement Assessment Reports and other analytical and advisory work. This work is undertaken both as part of the Bank’s own fiduciary responsibility in borrowing countries (in particular, to ensure that

governments receiving budget support are capable of using it wisely) and as technical assistance to client countries. The Bank has also provided loans and credits to countries in the region for projects focused on strengthening aspects of countries’ public financial accountability.

Governments’ first instincts are often to attempt to tackle weaknesses in public financial accountability by investing in computerization of financial management information systems. However, in most East Asian contexts the World Bank advises countries that reforms need to start not from the technical hardware of IT but from an effectively implemented reform of the foundations of public financial accountability, starting with budget management processes and the control regime.

Immediate priority steps include:

- reforming the budget process to improve policy prioritization and fiscal discipline, including integration of off-budget accounts into the main budget;
- better coordination of planning and budgeting;
- better coordination of current and capital expenditure;
- more rigorous medium-term fiscal and expenditure planning;
- greater ownership of budgets by line departments and frontline service providers;
- the integration of performance information into the budget formulation process; and
- streamlining both internal and external management control systems.

Countries such as Thailand, Vietnam, Indonesia and the Philippines are working with the World Bank to modernize public financial accountability institutions. Early progress includes the following key shifts of emphasis:

- **From ex ante to ex post audit:** countries are beginning to experiment with public financial accountability regimes that rely less heavily on external pre-audit of expenditure and more on the combination of *ex post* external audit and stronger self-regulation by the spending unit. In Thailand an innovative series of pilots supported by the World Bank involve the Bureau of the Budget giving greater autonomy to line agencies once it is satisfied that internal control processes pass certain “hurdle standards” (Box 1).

Box 1: The Thai “Hurdle” Approach to Budget Reform

Thailand is widely regarded as a bastion of centralized budget control. This has enabled highly effective management of the overall budget balance, but is increasingly incompatible with value for money at the level of individual programs. Better results require the replacement of *ex ante* external controls on program agencies with *ex post* audit and improved internal control in each agency.

The Thai “hurdle” approach, part of the Government’s broader Public Sector Reform Program, is one strategy for handling this problem. The approach identifies pockets of ‘reform energy’ in the Thai bureaucracy and offers them reduced external control and increased financial freedom when the agency can demonstrate achievement of “hurdle standards” in seven areas: budget planning; output costing; procurement management; budget/funds control; financial and performance reporting; asset management; and internal audit.

These seven areas cover the financial and performance management competencies needed by program agencies before external controls can safely be withdrawn. The approach provides an incentive for change in reform minded agencies, by offering an escape route from the web of external controls. However, by making ‘decontrol’ conditional on meeting hurdle standards of financial and performance management, it also provides a formula more likely to be acceptable to budget offices.

Source: Geoff Dixon and Associates, April 2001: The Hurdle Approach to Budget Reform – The Thai Experience

Box 2: Pilot “Running Costs” Regime in Ho Chi Minh City, Vietnam

Public expenditure management in Vietnam is characterized by a control regime that is both inefficient and ineffective. However, a recent pilot public expenditure management reform in Ho Chi Minh City (HCMC) Province may well provide grounds for a different approach.

As in other provinces, the HCMC People’s Committee and Department of Finance are given considerable autonomy over allocation of the province’s total expenditure envelope. However, the control regime involves much micro-management of local service providers by the provincial Department of Finance. Service providers have to agree their budgets with the Department of Finance in minute detail and are not allowed to reallocate spending without formal approval.

A pilot project in HCMC gives selected front line service providers a lump sum for their “running costs” (payroll and administrative costs). Agencies are set running cost limits for three to five years. Efficiency increased substantially in the first year of the experiment. The ten service providers closed down 27 offices and cut their headcount by 152. Some service providers used the savings to increase the wages of remaining employees to more competitive levels. Others used them to increase operation and maintenance expenditure. The incentive of being able to retain any savings, rather than having to forfeit them, appears to have resulted in more efficient resource use. It may also have resulted in more effective service delivery. At the moment, few measures of service outputs and outcomes are produced in Vietnam. Over time, however, more sophisticated measures of performance could be introduced as part of a shift from micro-management of inputs to strategic management by results.

Source: World Bank staff

- **From micro-management of inputs to performance management:** Financial accountability regimes are moving away from detailed line-item budgeting, restrictive rules on transfer of funds between budget lines and subsequent assessment of compliance, and instead are placing greater emphasis on budgeting at the level of strategic aggregates and on monitoring and management of performance measured in terms of outputs and outcomes. An example is the “running costs” system being piloted by the Government of Vietnam in the Province of Ho Chi Minh City (Box 2).
- **From bureaucratic to civil society monitoring:** Governments in East Asia increasingly recognize that civil society monitoring of financial management and service delivery can be a valuable supplement to formal accountability institutions – both at the national and local levels. Examples include the Bank-funded Kecamatan Development Project in Indonesia and the Budget Advocacy Project in the Philippines (see Box 3).

Box 3: Civil Society Monitoring of Budget Management and Service Delivery in the Philippines and Indonesia

The **Budget Advocacy Project in the Philippines** is an attempt to promote greater transparency, accountability and responsiveness in the budget process by developing the capability of civil society to participate. Currently in the Philippines, the budget undergoes only limited civil society scrutiny, despite its importance in financing service delivery and shaping national development. The Budget Advocacy Project’s objectives include developing the capability of policy advocates and activists to analyze the budget and intervene in the budget process, undertaking independent analysis of the Philippines budget and fiscal issues, and raising public awareness on the impact of the budget on national development. To this end, the project maintains a database of relevant economic and fiscal information; conducts public briefings and publishes articles and papers on budget and fiscal issues; designs and delivers training programs on budget literacy; and provides technical advice to government on budget management and service delivery.

A more radical initiative at local level is the **Kecamatan Development Project in Indonesia**. This ambitious and innovative experiment in community-driven development involves engaging the community in overseeing financial management and service delivery so as to improve the capacity, transparency, responsiveness and accountability of local government. A lump sum budget is made available to all villages within a selection of poor sub-districts (kecamatan). As part of a strategy for strengthening local government, communities are empowered to manage increased funding and become accountable for it. Using their budgets, communities are able to decide the projects they wish to deliver from a menu of options, and are responsible for overseeing the project finances and ensuring service delivery. In order to ensure transparency, project performance indicators and information on financial disbursements are posted on notice boards in each community. The project has found that community capacity is higher than official agencies initially believe. Most Indonesian communities have been able to manage simple administration, procurement and book-keeping, with community-based accountability mechanisms working as an effective supplement to more formal approaches.

Source: World Bank staff

Issues for the longer term include:

- moving to adopt international accounting standards;
- enhancing the capabilities of public accountants;
- streamlining and making more transparent the procurement regime: already, procurement reforms as part of the World Bank financed Third Elementary Education Project in the Philippines have reduced the costs of textbook procurement by some 40 per cent (and a later phase is likely to include internet-enabled procurement);
- making supreme audit institutions statutorily and financially independent, allowing them to report directly to the legislature and relieving them of internal audit responsibilities;
- ensuring that appropriate committees are established by the legislature, with the powers and capacity for follow-up in the event of abuse or misuse of public money;
- making budgets, accounts and audit reports freely available and accessible; and
- enabling NGOs and CBOs to participate in the monitoring and scrutiny of public finances and public service delivery.

Successful reform of public financial accountability in East Asia needs to go much further much faster. More rapid and thoroughgoing reform will require the development of change management strategies which address the lack of capability for implementing such systems and which overcome the opposition to change from those benefiting from the status quo.

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