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***The Need for Accountability
to Sustain Democracy***

by

**Ambassador James H. Michel
Assistant Administrator for Latin America and the Caribbean
United States Agency for International Development**

**Presentation before the
V International Conference on
New Developments in Governmental Financial Management**

**Miami, Florida
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It is a pleasure to be here today with you in Miami. It is encouraging to see so many of you here from all quarters of the Hemisphere to discuss such an important topic as government financial management and accountability. I applaud the sponsors and Jim Wesberry and Mort Dittenhofer for making this conference happen. Each year, more and more are participating in this conference, which shows that your efforts are beginning to pay off.

A New Western Hemisphere

We are at an exciting point in the history of the Western Hemisphere. For the first time, nearly every nation in the Hemisphere has a democratically-elected government. The surge towards democracy over the past decade is now being accompanied by increased reliance on market-based economic policies. Nations throughout the region are turning away from the statist models that have stifled growth, and are looking to the power of the free market.

The economic transformation under way has the potential to be equally as profound as the democratic transformation that has swept through the Hemisphere. It is the kind of transformation that will free up trade and investment, generate employment, and improve opportunities for all to participate in the benefits of growth.

While much has been accomplished to achieve peace, democracy, and economic recovery in the Hemisphere, much remains to be done. The foundation for progress must be made permanent. More than anything else, what is needed now is the continued nurturing of the institutions of economic and political freedom in order to deepen their roots.

While elections have been held throughout the region, many democratic institutions remain weak. In order for these democratic systems to survive and flourish, they must be able to deliver economic and social progress in a politically relevant time frame. Elected governments carrying out market-based economic policies are challenged to demonstrate that their principles work in practice for the benefit of all segments of society.

Accountability and Democracy

A key ingredient to strengthening and sustaining democracy in the Hemisphere is the principle that governments and government officials are held accountable. Accountability inspires confidence and faith in the form of government. Lack of accountability leads to inefficiencies, corruption, disillusionment, and ultimately a highly political cost for the government officials, as well as a high cost for the public they were supposed to serve.

A democratically-elected government is responsible to the people. If the people do not like the performance of their elected officials they can vote them out of office. As a result, the democratic system has built in incentives to expose secrets, and coverups, and to demand full, accurate, timely, and honest reporting to the people. This is one form of accountability -- political accountability.

Also in a democratic society the government is under constant pressure to make its accounts open to independent audit by professional auditors who enjoy public confidence. The maintenance of an effective system for public reporting of financial transactions and their availability for audit is a second form of accountability -- financial accountability.

A third form of accountability is accountability under the law. In a democratic society that, by its competitive structure, encourages political and financial accountability, there is also present the notion that criminal and corrupt acts that betray the public trust be proscribed by law and that wrongdoers be fully subject to the rule of law notwithstanding their prestige, privilege or influence.

Democracy is the only form of government that has consistently proven that it can remain accountable, in good times and bad, with strong leadership and with weak leaders. Our democracy here in the United States over the last two centuries has weathered the storms of war, economic depression, crime, drugs, corruption and scandal. It survives because we make our mistakes openly, we learn from them and we correct them openly. Our government and its officials are politically, financially and legally accountable.

The burden now rests on democracy as a form of organizing our societies throughout the Hemisphere to deliver the political stability, economic prosperity, and social justice that have for so long eluded so many in Latin America and the Caribbean. Delivering this kind of progress is a tall order. In some cases expectations will not be met. However, if the region's democracies are able to put in place and sustain the institutions and systems that give effect to the principle of political, financial and legal accountability, the prospects will be considerably brighter for promoting efficiency and avoiding the costs of waste and corruption. This, in turn, improves the prospects for broadly-based economic growth and public confidence in and support for the often difficult programs of stabilization and adjustment that are needed to achieve sustained development.

What Accountability Means

Just what is involved in accountability? There are several basic elements that every system of accountability should embrace:

- o every act or action is done openly according to law and prudent judgement;
- o every actor is responsible for his or her act or action;
- o every act or action is documented and reported publicly;
- o every act or action is subject to independent, professional, non-partisan audit review and public report of results; and
- o where review shows that purposeful error has been made prompt corrective action, including punishment where appropriate, is taken

One U.S. law enforcement officer has said that accountability is "the concept that every individual is responsible for his or her actions, is liable for their consequences, and must answer to someone if these actions harm others." That might be described as the negative side of accountability.

On the positive side, accountability means the ability to justify acts or actions taken so that there is no question but that they were proper and appropriate. One who is accountable is able to show that he or she has acted responsibly. Accountability is a public matter; thus, the accountable person must be able to show publicly that the act or action was appropriate in the circumstances. Where accountability is evident, trust is earned. Thus the accountable individual is credible in the eyes of his or her peers and that credibility is reflected in the public's perception, and its expectations of the government and of government officials.

As I have already mentioned, we in the United States take accountability very seriously. I just finished filling out my annual financial disclosure form, a form that government officials are required to submit for official review and public scrutiny outlining their financial assets, their sources of income, significant gifts, and any arrangements for employment after government service.

Accountability has been built into our form of government, from the "checks and balances" between different branches of government, to the oversight agencies which have specific duties to review and report upon the work of others. Some may think that we are too "accountability conscious" in the United States. But we think that it is worth the cost and effort.

Insisting upon accountability certainly increases the costs of our foreign assistance programs, just as it increases the costs of our internal governmental operations. We believe that these added costs are worthwhile, because they are investments in preserving the credibility of our democratic form of government.

What A.I.D. is doing to Strengthen Accountability

As the evolution of democracy has been underway in the Hemisphere, the United States has made strengthening democracy a major goal of its foreign assistance program. Central to our efforts has been assisting beneficiary countries improve their own accountability.

Our overall program of support for democracy focuses on helping government institutions strengthen their competence within a framework of checks and balances and decentralization of authority that avoid the concentration of political power. We also support the efforts of national and regional institutions to foster a pluralistic, autonomous, vigorous civil society that can balance and limit state power while providing channels for the articulation and practice of democratic interests.

Our specific activities in the area of accountability have included:

- o Publishing the booklet Your Role in the Accountability Process containing six guidelines for achieving what we believe is a minimum acceptable level of accountability. The guidelines emphasize an integrated approach to financial management and audit and a professional focus upon these activities.
- o Establishing the "Working Group on Improving Financial Management in Latin America and the Caribbean" composed of representatives of all the international and bilateral donor and lender organizations which are active in the Hemisphere. The Working Group meets quarterly to discuss and coordinate efforts to improve financial management.
- o Providing funding for a project to improve financial management in the region. Activities under the project include technical assistance, training, and conferences on financial management and auditing, as well as publishing a quarterly newsletter, Accountability.

Over the past few months we have been developing a new strategy for how A.I.D. can work with various governments in the region on achieving the common accountability goals that we all have over the next decade. Our proposed accountability strategy recommends and lends support for three interrelated areas of national activities:

- (1) the development of an Integrated Financial Management System in a country's national government and in each public agency under the direction of a national "Chief Financial Officer" charged with producing useful, timely and accurate annual and interim financial reports available to the public;
- (2) the creation or strengthening of a "Legislative Auditor General" to perform independent professional audits of public activities according to generally accepted government auditing standards supported by internal audit units in all significant agencies; and
- (3) the establishment of a sound internal control environment and structure throughout the government, including emphasis on applying ethical principles in public service and seeking out, disclosing, prosecuting, and punishing corruption, fraud, and "white collar" crime in the public sector.

This strategy is already being implemented in Bolivia where, during the past 3 years, the World Bank furnished \$8 million and A.I.D. \$3 million in local currency to finance the "SAFCO Project" -- a project to set up the Integrated Financial Management and Control System. The new SAFCO law was promulgated last July and a second phase project for implementation is now being designed to be co-financed by the World Bank and A.I.D. at \$11 million each. Financial management reform is a long term proposition and we believe that a third and even more costly phase will be necessary to fully modernize Bolivia's major public sector financial management systems.

The strategy is also being applied in Panama where A.I.D. has designed a four year multi-million dollar project to implement an Integrated Financial Management System and a Comprehensive Audit System during the next four years. We also expect to assist several other countries that have expressed interest in implementing this approach and hope that the other donors and lenders will join with us in these endeavors.

Combatting Fraud and Corruption in Government

I would now like to turn to a topic to which we have been giving ever-increasing attention during recent years: fraud and corruption in government, the most pernicious consequence of a lack of accountability and the one most threatening to the democratic process.

Until a few years ago the international donor community did not see, hear or speak about the constraint on development posed by fraud and corruption in government. The impetus for greater attention to this very real constraint came from within the region. In December of 1988, we sponsored, here in Miami, the first regionwide workshop on the

needs to improve financial management in Latin America and the Caribbean. The participants clearly told us that "without greater attention to the problem of dishonesty, all efforts made to improve financial management systems will be in vain."

They recommended the holding of an "Inter-American Conference on the Problems of Fraud and Corruption in Government." In December of 1989, fourteen regional professional organizations sponsored such a conference. The participants in that conference concluded that effective control of corruption has to start with those in leadership positions. It requires high standards of ethical and moral conduct on the part of all public servants who should publicly accept their responsibility to manage effectively and efficiently the resources at their charge. They also recommended that national and international professional associations initiate a broad public relations program through every possible medium. They concluded with the following statement:

"Credibility, personal integrity and high standards of professionalism are essential for combatting corruption. But protection of the public against corruption is also rooted in the democratic system. This implies the constitutional protection of the rights of public officials. Avoidance of corruption can be found in the successful establishment of the democratic process, a solid division of powers in government, constructive opposition and a free press."

During 1990, anti-corruption seminars were held in three countries in collaboration with professional organizations and public institutions.

As a result of these meetings and the positive indications of interest by several governments in the region, A.I.D. is expanding its assistance to include a new "Accountability Initiative." Our goal is to assist those countries which desire to carry out activities to reduce the incidence of corruption and its negative impact on stability and development. Assistance will be initiated by means of pilot projects to be carried out in receptive countries within the next year. If these test efforts are successful, then anti-corruption assistance will be extended to other countries expressing strong interest. All of this, of course, will depend upon the manifest will and commitment of the countries to conduct anti-corruption campaigns. In large measure those campaigns will require the support of professional and civic organizations and other similar groups.

I would like to personally recognize and congratulate Miguel Angel Alarcon, the President of the Inter-American Accounting Association. He was the first to accept the challenge by the participants in the December, 1989 conference by declaring for his association 1991 as "The Year of Combat Against Fraud and Corruption." During this year nine different IAA sponsored events, including four regional seminars, will stress strategies for fighting corruption in government and business. Thirty thousand wall posters

are being printed for the campaign and 5,000 copies each of two anti-corruption books will be distributed through the IAA and its sponsoring national organizations of public accountants in each country. Again I congratulate IAA for taking the lead and I wish you every success.

Other positive efforts are underway. A few weeks ago an "anti-corruption day" complete with a parade involving 5,000 persons was celebrated in Antigua. Hernando de Soto's Institute for Law and Democracy in Lima, Peru has recently launched an anti-corruption campaign which will include emphasis on investigation and prosecution of corruption, identification of those regulatory procedures which appear to facilitate corrupt practices, opening up the regulatory process to greater public scrutiny, and increased information to the public on the financial condition of state owned enterprises.

According to ILD, "an important element of the program will be a campaign to mobilize public support for the anti-corruption program, showing citizens how corruption contributes to the country's poverty by nourishing the exclusionary procedures which deny equal opportunity for participation in the economic and social life of the country to all citizens."

We are seeing a rapidly growing increase in the priority being given by governments, academics, and politicians to the problem of official corruption. There are many contributing factors to this new attitude, but one seems to stand out. I believe the recent and growing interest in combatting official corruption, and the openness with which governments throughout the Hemisphere are manifesting that interest, is a natural consequence of the ongoing process of the democratization of Latin America and the Caribbean.

The existence of corruption is not new. Everyone knew it was there. But it was quietly tolerated. For years people in most countries accepted the "corruption tax" as a means of lubricating business, political, and social relationships and making complex bureaucracies function. These were the years of acceptable growth levels in the region during the 1960s and 1970s when there were sufficient fiscal resources to accommodate the "corruption tax." Many experts estimate that in many countries, the corruption tax or leakage ranges between 5 and 15 per cent of total budgeted resources and an even larger part of off budget resources.

In the late 1970s and early 1980s, as elected civilian governments were replacing military and other authoritarian regimes in a time of economic contraction and declining revenues, it became increasingly apparent to economists and politicians that their countries could no longer afford the "corruption tax." At the same time, a climate of increased political freedom began to give rise to political debate and public comment about the costs of corruption. Some governments adopted anti-corruption campaigns. Those that were credible proved to have political value in terms of popular support and electoral success; those that were mismanaged for lack of political will proved costly to several governments.

The governments of the new democracies were under intense pressures to produce economic and social benefits with a system of political and economic freedom. The momentum gained by their recognition of the costs of corruption as an impediment to progress helped to stimulate in the region's established democracies a reexamination of the harm done by corruption. By the late 1980s the common interests and shared values of what has become a community of democratic nations were converging in a broad campaign to overcome this threat to democracy and development.

In sum, in 1991 corruption is recognized in the Western Hemisphere for what it is - a critical impediment to political, economic, social development, an impediment to reform and modernization, a heavy burden that increases costs, misdirects scarce resources, reduces productivity and sows the seeds of enmity and cynicism throughout society. We all recognize that it discourages local and foreign investment, reduces the impact of external assistance and diminishes public respect for and confidence in government. Of particular concern, corruption is the acid that the drug cartels can use to corrode institutions and societies for criminal gain. We recognize these things, we are free to say so, and we are free to act on our beliefs as never before. It is critical that we join forces now to shine more light on this problem of corruption. I can assure you that A.I.D. stands ready to offer what assistance we can and we look forward to working with you over the coming years.

How Financial Managers and Other Professionals Can Help Strengthen Accountability to Sustain Democracy

I would like to close by briefly addressing what I think each of you can do as a financial manager and as a professional to help strengthen accountability and to sustain democracy. First, you can lead by example, demonstrating a personal commitment to honesty and integrity in all your official actions and in your personal life so that you avoid even the appearance of any conflict of interest or personal gain from public service. This is the first and most important step to success in combatting fraud and corruption.

If the vast majority of government employees in a country make such a personal commitment, they gradually create an environment in which corrupt individuals are not accepted or tolerated.

It is not generally known that Great Britain was extremely corrupt at the beginning of the last century. Government officials accepted bribes, sold favors and committed all sorts of corrupt practices. What happened to change the British government from generalized corruption to a model of integrity? It was middle class professionals like ourselves who joined together in professional and civic organizations beginning around 1830 and began to exercise political influence to stamp out corrupt practices in government.

These same professional and civic organizations spread to the United States in later years and seem to have had a similar effect. Our national experience, however, demonstrates that complacency is always dangerous and that constant vigilance is imperative.

It appears as though the same phenomenon is taking place now in Latin America and the Caribbean. The middle class professionals are rising both in numbers and influence. The political and economic climate is conducive to their activism in support of honesty and competence. The professional organizations in this Hemisphere have an unprecedented opportunity to work together in a massive anti-corruption campaign. They can have a dramatic impact. I urge you to follow the lead of the Inter-American Accounting Association and join in a concerted and sustained campaign against fraud and corruption.

In the United States, the American Institute of Certified Public Accountants, the Association of Government Accountants, the American Society for Public Administration, and other organizations have just completed a successful campaign to encourage the U.S. Congress to pass important legislation to strengthen the federal government's financial management. In Peru, it was the Federation of Accountancy Organizations that convinced the government to establish the Office of the Accountant General of the Republic and the National System of Accounting.

These are examples of activities that professional and civic organizations can sponsor, and are needed in many countries. As a financial officer in government in your country and as a professional who can contribute to the programs of your associations, each of you has the opportunity to help assure that the democratic process is sustained, with all that implies for the future well being of all Americans -- North, South, Central and Caribbean. Democracy promotes accountability and accountability sustains democracy. Let us seize the opportunity.