

Enhancing Transparency and Accountability in Public Finances.

By Ruzanna Taverdyan

“We need to explore new and creative solutions to make systems more comprehensive and robust, and ultimately build a coherent ecosystem of institutions and frameworks for transparency, accountability and integrity.”

*Ibrahim Assane Mayaki Dalia Grybauskaite
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1. Background

Sustainable development is the most significant collective challenge facing humanity. As stated in the report of the UN Secretary-General: A Life of Dignity for All, the world’s quest for dignity, peace, prosperity, justice, sustainability and an end to poverty has reached an unprecedented moment of urgency. Addressing it without compromising our shared prosperity and the right to development of future generations requires alteration of public sector governance and development of monitoring and reporting framework for tracking implementation and follow-through on the agreed strategies and policies to achieve the Sustainable Development Goals. The need for accelerated reform and capacity-building must span public sector management broadly, including public expenditure and financial management, but especially transparency, accountability, and control of corruption. There is a consensus that given the political complexity of reforms, sustained progress will require ownership and entail a strong focus on capacity-building in key public institutions.

The main target of ongoing United Nations reform is to deepen coherence and enhance the effectiveness and impact of UN development operations, intensify efforts in pursuit of the internationally agreed Sustainable Development Goals. It aims to enhance the system’s efficiency and make the Organization more results-oriented at the country level. Within the new context the UN operational activities should orientate on implementing national comprehensive development strategies that could achieve sustainable development goals. Giving appropriate consideration to the importance of combating illicit financial flows and strengthening good practices on asset return to foster sustainable development; the General Assembly resolution 74/206 invited the President of the General Assembly and the President of the ECOSOC to convene the High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda and the Panel was formed in February 2020.

2. Anti-Corruption and SDGs

The COVID-19 pandemic that struck the entire world in 2020 and resulted in dramatic draining of financial resources from development, along with the high probability of more unforeseen catastrophic events, call for more effective legal and institutional frameworks with more resilient policies, innovative solutions; better implementation and stronger international cooperation.

There is growing evidence and awareness about the impact of transparency and accountability on ensuring the development outcomes and there exists a firm acknowledgement, that corruption

seriously undermines human developmentⁱ. The history has demonstrated that non-transparent public expenditure administration systems provide fertile grounds inefficient fund management and allow for corrupt practices towards diverting public resources away from the provision of essential social services.

After the adoption of the United Nations Agenda 2030, Sustainable Development has been identified to be an ultimate objective of national/international policies globally. The Sustainable Development Goals (SDGs) now make an explicit link between corruption and peaceful, just and inclusive societies. SDG 16 aims to “*Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels*”. There is an acknowledgement that its targets on reducing bribery, strengthening institutions and accessing information are not only valuable aspirations in their own right, they are also vital conditions for the achievement of all the 17 goals.

Implementation of an integrated approach to sustainable development, in this age of globalization, requires policy coherence and the political will to create a strong partnership between national and international actors including governments, legislators, employers, workers and the financial system and also academics and civil society representatives. Although economic, social and environmental objectives are often complementary, there is no *a natural trade-off* between various policies, it is a matter of policy choices and prioritization in the framework of given strategic development goals of countries. These legitimate but opposing interests and objectives cannot always be balanced by judicial systems; and, it is sometimes necessary to make trade-offs' between them. The extent to which certain interests override others is a matter of policy choice supported by stakeholder power and political will. The choice between these interests inevitably leads to conflicts between stakeholders. A need for partnership and social dialogues to facilitate the process of negotiating compromises has emerged.

3. Towards Enhanced Transparency and Accountability in Public Finances

There is an overwhelming consensus among the development practitioners, that inadequate global governance holds back progress towards the common goal of sustainable development and corruption affects all countries; rich and poor alike, it results in loss of resources, weakens service delivery and undermines trust in governments and the social contract. According to the World Bank Institute estimations the financial and economic costs of corruption are enormous: US\$1 trillionⁱⁱ are paid in bribes per year. Needless to say, that not only corruption corrodes rule of law but it also destroys public trust in governments and leaders. It further increases inequality, hinders national and local economic development and as a serious consequence significantly slows down the achievement of development objectives. Countries must, therefore, come together, unite their efforts in the framework of global cooperation, and by engagement of all stakeholders, not only the governments but also non-state actors, forge comprehensive solutions.

The UN Convention Against Corruptionⁱⁱⁱ (UNCAC) is the first legally binding universal anti-corruption instrument. Adopted by the UN General Assembly on 31 October 2003; by resolution 58/4, the Convention covers five main areas: preventive measures, criminalization and law enforcement, international cooperation, asset recovery, and technical assistance and information exchange. It covers many different forms of corruption, such as bribery, trading in influence, abuse

of functions, and various acts of corruption in the private sector and its far-reaching approach and the mandatory character of many of its provisions make it a unique tool for developing a comprehensive response to a global problem. The vast majority of UN Member States are parties to the Convention: it has 140 signatories; entered into force on 14 December 2005 and as of 6 February 2020 it accounts for 187 Parties. As noted by the FACTI Panel, even though the UNCAC came into force in 2005 with legally binding provisions and a global footprint, yet perceptions about the volume of corruption have not changed and reviews found gaps and shortcomings in the domestic frameworks of at least 74 per cent of States. After its deliberations; towards meeting the joint aim of financing sustainable development and achieve the SDGs, the Panel calls for a common and shared understanding about problems and solutions: lack of financial accountability, transparency and integrity is a global problem that needs global solutions, while taking into account specific country contexts.

In order to successfully overcome the systemic shortcomings and challenges of corruption and to redistribute its benefits, we believe, a strong political commitment and institutional capacity will be needed.

4. World Treasury

Towards creation of a global enabling environment and building peaceful and inclusive societies, the private sector, civil society all have to make important contributions in determining systemic responses. A paradigm shift is needed to enhance efficiency, effectiveness, transparency, accountability and create a new basis for achievement of Sustainable Development Goals and also providing access to justice for all with accountable and inclusive institutions at all levels.

The FACTI Panel has identified gaps, impediments and vulnerabilities in the international systems that allow abuses and related outflows. In response to the Panel's search of legitimate and coherent ecosystem of instruments and institutions dedicated to financial accountability, transparency and integrity and technically feasible, politically viable recommendations which have direct bearing on releasing resources for the SDGs; below we provide some international instruments and initiatives to address financial accountability, transparency and integrity that would hopefully contribute to collective efforts against financial crime and tax abuses towards building of effective, accountable and inclusive institutions at all levels

There is a wide consensus that economic, environmental and information globalization outpaced regulatory-institutional and political globalization. With a remarkable progress in coordination of operations at a county level, the current model of international institutional setting and decision making mechanisms at the global level still remain fragmented. The current structure of the governing bodies of the United Nations system organizations does not ensure a democratic and transparent organization for a world government in a multi-hierarchical integrated global world.

Already in 1987 in his article entitled *Revitalizing the United Nations System*^{iv} and with his special contribution to the 1994 Human Development Report^v, by Nobel Prize winner and development expert Jan Tinbergen submitted that *“mankind's problems can no longer be solved by national governments. What is needed is a World Government.”* He suggested strengthening existing UN System, changing their nature from advisory to administrative character. Tinbergen noted that

some essential institutions crucial for global income redistribution and financial stability are still missing and particularly highlighted that as the world economy is becoming increasingly integrated so the global income redistribution shall become. Consequently he identified a need for creation of a World Treasury and taxes on the extraction industry, that through various systems of automatic taxation will connect resource and direct these revenues to cover urgent needs of individual countries where needed.

5. Aid Fungibility

As stated above, there seems to be a universal consensus, that government ownership must have paramount importance in the implementation of institutional reform to fight corruption, restore accountability, along with local capacity building and institutional development. The strengths and weaknesses, advantages and shortcomings of provision of international development assistance in the framework of programme-based approaches versus individual project finance in development cooperation to foster national ownership, has been at the heart of research by major financial and research institutions^{vi}. It has been recognized that provision of budget support increases ownership and accountability of national governments, it facilitates donor coordination and harmonization of procurement and financial management practices, and clearly reduces project support costs. Within the budget management cycle, inherent in public administration, it disseminates timely information among key national stakeholder and hence facilitates dialogue.

My own experience, as the Director of Aid Coordination Center of Armenia, confirmed that budget support is flexible and quickly disbursable, reduces transaction costs; it provides predictable development funding and contributes to building institutional capacity in developing countries and improves their efficiency and transparency when making choices over public investment programmes and other publicly funded projects. However, the development aid provided through budget support programmatic approaches is indeed fungible, which provides corrupt governments with ample opportunity to manipulate. Wherever the governments are not able to receive money for specific categories expenditures, they manipulate during the budget circle, by increasing the contribution from government local resources to the projects in the same category, redirecting the government's public resources to those fields where donor agencies might not be interested to finance, thus getting donor funding for other eligible categories for which the resources were artificially decreased. So, Donor accepts to give the Government Aid for Good Thing A and refuses to fund Bad Thing B ineligible under the project management and the procurement practices. And the "clever" Government then reduces its own spending on Good Thing A, one for one with the aid, eligible for donor funding.

Some researchers argue^{vii} that fungible^{viii} aid might entail significant risks as money might end up in the pockets of corrupt government officials or financing things unwarranted by taxpayers in the donor countries. The implementation of Agenda 2030 and continuous reliance of foreign aid in recipient countries with varying degrees of corruption, will call for more results-based aid or aid on delivery as this provides donors with better control over the use of aid resources.

6. Sustainable Procurement

Procurement statistics have been collected from organizations in the United Nations system and reported together since 1984, through the Annual Statistical Report on United Nations Procurement (ASR)^{ix}. According to the most recent data available is for the calendar year 2019,

when **39 organizations** reported a collective **\$19.9 billion in procurement of goods and services**. These 39 organizations increased their procurement by a combined **\$1.1 billion, or 5.9 per cent**, compared to 2018.

\$12.3 billion dollars of UN funds were spent in developing countries, countries with economies in transition and least developed countries in 2019. Overall, this amount makes up 62 percent of the UN's total procurement spend for its operations around the world. UN spending on goods and services from least developed countries increased by \$395 million compared to 2018, to reach a total of \$3.9 billion – a 11.4 percent increase.

What is sustainable procurement?

The UN operates to achieve the goals of peace, equality, sustainable development and respect for human rights. The way the UN manages its operations and procures should reflect these goals by providing clear signals to the market in favor of sustainability, innovation, and the promotion of the cleaner and more socially responsible products and services.

With the adoption of the 2030 Agenda for Sustainable Development, the UN system has been called to internalize the Sustainable Development Goals (SDGs), across policy, operational and administrative aspects.

SDG 12. “Ensure sustainable consumption and production patterns” and its Target 12.7 therein referring to the need to “Promote public procurement practices that are sustainable, in accordance with national policies and priorities” is clearly pointing at public procurement as one of the strategies towards the achievement of the Sustainable Development Goals.

Procurement can be seen as a “soft” governance mechanism to encourage markets to produce more sustainable products, and contribute to global efforts working to achieve resource efficiency, tackle climate change and address social issues ranging from human rights and gender equality, to decent work and employment.

The implementation of Agenda 2030 will entail addressing effectiveness and efficiency considerations when spending the limited financial resources. Definition of effectiveness:

Effectiveness consists of

- 1. Ability to state goals*
- 2. Ability to achieve the stated goals.*

This is in contrast to the definition of efficiency which is as follows. Definition of efficiency: Efficiency relates to

- 1. Benefits realized*
- 2. Resources used.*

And when speaking about efficiency the one thing where we have to try to get more for less, which means to get more sustainable development for the given the level of the government resources and the best way of doing it is clearly through the means of public procurement.

The underlying principles of the procurement process are achieving efficient use of limited resources ensuring value for money on the basis of analyzing and evaluating the life-cycle costs of goods, services or works. Since its inception; the United Nations procures goods and services from suppliers all over the world to support its activities and operations. During the recent years United Nations organizations' undertook significant efforts to integrate sustainability

considerationsx into their procurement processes, in the context of the United Nations' continued focus on sustainable development. The UN Procurement Practitioner's Handbook (PPH), that is the main reference document and provides guidance in best procurement practices, processes and procedures was originally published in 2006, and has undergone an extensive update, improvement and re-design and content aligned with latest UN Initiatives, such as, the SDGs, One-UN procurement reform initiatives, and the UN Global Compact.

Sustainable Procurement is about ,modification of ongoing practices and policies by taking social and environmental factors into consideration alongside economic factors in making procurement decisions. The High Level Committee on Management Procurement Network^{xi} has defined SP as procurement that *“integrates requirements, specifications and criteria that are compatible and in favour of the protection of the environment, of social progress and in support of economic development, namely by seeking resource efficiency, improving the quality of products and services and ultimately optimizing costs”*.

I would like to conclude, by stating that the world today, is much advanced from the time of Tinbergen, who unfortunately went before us, unable to implement his greatest ideas during this bright culmination of professional career because of unavailability of data and much restricted communication and information technologies. With the advent of information and communication technologies, today we are given the luxury of application and a widespread use of electronic procurement systems where the governments' procurement administration by the virtue of the e-Procurement standards and requirements provides sufficient level of transparency.

Our generation is offered a unique opportunity of having real time data, enjoying the advent of information, communication technologies and the fruits of fourth industrial revolution, that create solid basis be able to monitor, control, supervise various policy actions to deliver maximum development impact towards the achievement of SDGs. Never than before there is a fertile ground for application of various detection and enforcement methods, regulations and tax systems that will enable policy makers to promote good governance; identify, assess and act on money-laundering risks; significantly reduce illicit financial flows; and deter, detect, prevent and counter corruption and bribery.

ⁱ <https://www.undp.org/content/undp/en/home/2030-agenda-for-sustainable-development/peace/governance/fighting-corruption.html>

ⁱⁱ <https://www.undp.org/content/undp/en/home/2030-agenda-for-sustainable-development/peace/governance/fighting-corruption.html>

ⁱⁱⁱ <https://www.unodc.org/unodc/en/corruption/uncac.html>

^{iv} Tinbergen, J../ Revitalizing the United Nations system. / Waging peace series, booklet 13.

^v <http://hdr.undp.org/en/content/human-development-report-1994>

^{vi} <https://www.wider.unu.edu/sites/default/files/wp2012-068.pdf>

^{vii} Kolstad, I. (2005): [Direct Budget Support and Corruption, U4 Anti-Corruption Resource Centre](#), Chr. Michelsen Institute, Bergen, U4 Issue 1:2005

^{viii} Morrissey, O. (2006): Fungibility, Prior Actions, and Eligibility for Budget Support, in: S. Koeberle / Z. Stavreski / J. Walliser (eds.), Budget Support as More Effective Aid? Recent Experiences and Emerging Lessons, Washington D.C.: World Bank, 333-343

^{ix} <https://www.ungm.org/Shared/KnowledgeCenter/Pages/ASR>

^x https://www.ungm.org/Shared/KnowledgeCenter/Pages/asr_sustainableprocurement

^{xi} https://www.ungm.org/Shared/KnowledgeCenter/Pages/PT_SUST