

2.2 Local Financial Management and Procurement

Local financial administration and the contracting of goods and services are functions that suffer from high risks of corruption and mismanagement. Important financial accountability risks are the following: (i) expenditures from public funds are not used for authorized purposes, (ii) expenditures are used appropriately, but their execution is mismanaged (inefficiency, malfeasance, or corruption), and (iii) the collection and use of public funds are not completely and adequately accounted for and not presented to the local legislature and the mayor.

A number of citizen-based initiatives have emerged to complement the internal government accountability mechanisms that manage these risks. They can be grouped under three categories:

- monitoring bidding and contracting
- monitoring public works implementation
- ex-post social auditing of government accounts

2.2.1 Monitoring Bidding and Contracting

A typical source of local government corruption and collusion involves *drafting the tender documents* in ways that unfairly benefit one contractor over others. One social accountability response to this problem has been to organize public consultations in which different parties get a chance to comment on the draft tender document before the start of the bidding process. In addition, independent outsiders can be involved in in-depth analysis of the tender document.

- In Argentina, the Municipality of Morón, assisted by the local chapter of Transparency International, introduced two mechanisms to monitor the contracting of the waste collection service which had been widely criticized for alleged corruption during the previous administration. First, through a public hearing (extraordinary session of the City Council) attended by 500 people, participants discussed the draft tender document with the bidders. Second, through an integrity pact, the hearing helped establish mutual commitments between the local government and the bidders on issues such as sanctions for bribery, and public disclosure of the award decision. As a result of the hearing process, the contract for waste collection services was reduced from about \$45 million to \$32 million.¹⁷

To increase greater transparency, citizens have also been involved in *overseeing the opening and analysis of the bidding offers*:

¹⁷ Transparency International (2001). The case is described in greater detail in http://www.transparency.org/toolkits/2001/ccinp_wastecol-argentina.html

- The Nicaragua Social Investment Fund encouraged community organizations receiving investment projects from the municipality to be present during the opening and analysis of the bidding offers.¹⁸

2.2.2 Monitoring Public Works Implementation

In these kinds of activities, citizens oversee the procurement and implementation process while it is actually taking place. Citizens are trained to oversee that investment funds are spent as budgeted and that physical construction meets the standards agreed to in the contract, e.g., the correct amount of cement, thickness of the walls, or depth of the well.

- In El Salvador, the municipality of San Antonio del Monte entered into a partnership with the beneficiaries of a six kilometer local road. The beneficiaries formed a *social audit committee* which monitored the physical construction process, from the receipt and quality of the materials to their proper use. The committee interviewed the Mayor, the head of the Institutional Procurement and Contracts Unit, project technical staff, and the general public to ascertain the project's budgetary characteristics, the quality and quantity of resources, timetable, and needs. Guided by the committee, the community conducted ongoing evaluation of the physical progress of the public works project, a task that required precise technical expertise. The committee reported to the Local Development Committee and the local government throughout the process.¹⁹

Community-driven development (CDD) has been particularly powerful in empowering poor people to monitor implementation of small-scale infrastructure projects.

- The Honduras Social Investment Fund supports the creation of community-based maintenance organizations. They supervise local government managed projects and contribute to the operations and maintenance of the facility. These organizations are trained in simple construction techniques that allow them to oversee the building process effectively.²⁰

2.2.3 Ex-Post Social Auditing of Government Accounts

Other strategies emphasize ex-post social auditing of budget execution and review of local government accounts. Some initiatives have focused their efforts in making information about local finances available to the public to promote a dialogue with local government.

- In India, the PROOF (Public Record of Operations and Finance) campaign is a project launched in 2002 by four NGOs from Bangalore to pursue financial and performance accountability of the Municipal Corporation of Bangalore. PROOF follows three stages.

¹⁸ Grun (2000).

¹⁹ World Bank (2003a), Vidaurre (2003).

²⁰ Walker et al., (1999). For other countries see WB (2005d)

First, it obtains the quarterly financial statements submitted by the Municipal Corporation which comprise (i) revenue and expenditure statements compared to original budget figures, and (ii) an indicative balance sheet, with detailed information about current and long term assets in addition to short and long term liabilities. Second, the PROOF team develops performance indicators to assess municipal projects across the city in key areas of municipal responsibility (e.g., education, health). Third, the campaign promotes open discussion through radio programs and workshops about the municipality's overall performance in financial management and service delivery. The campaign also conducts regular training sessions to enable citizens to read, understand and debate financial statements and performance indicators.²¹

In other initiatives, citizens have performed physical and financial audits of the local government accounts. By comparing the written records with the actual outputs and discussing them in public venues, citizens have forced local government to answer the following kinds of questions. Has the local government spent its money on the goods and services that its accounting books say it has? Has it paid the market price to its providers and contractors? Have the purchased goods and services been delivered to their final destination in the quantity and quality that has been paid for? For more on social audits, see the Methods and Tools chapter.

- In the Philippines, a group of professionals in the northern state of Abra formed the NGO “the Concerned Citizens of Abra for Good Government” (CCAGG). From its inception in 1987, CCAGG worked with the local government authorities to monitor the implementation of the Community Employment and Development Programme (CEDP). CCAGG soon came across serious irregularities in the reporting of CEDP projects. While the Department of Public Works and Highways claimed that it had successfully completed 20 infrastructure projects in Abra, CCAGG documented that some of the projects had not even started and that others had been completed using sub-standard materials. As a consequence of CCAGG's investigations, 11 officials were found guilty of misconduct and were dismissed. CCAGG has continued its vigilance after its first success and soon became synonymous with public vigilance. Public departments in Abra often ask each other if they have been “CCAGG'ed” recently, meaning if they have been made subject to a CCAGG audit. The organization received the Transparency International Integrity Award in 2000 for its successes in promoting public accountability. The same year, CCAGG entered an agreement with the Philippines Commission of Audit (COA) that members of CCAGG will participate in COA audit teams for audit engagements in the province of Abra. The partnership is seen to be highly beneficial for COA, as it strengthens their capacity and its ability to pursue corrective actions in the implementation of public works projects, in addition to the post-audits traditionally performed by COA.²²
- In India, the social audit of local government's Public Work Programs in the state of Rajasthan provides one of the most compelling examples in this field (see Box 2).

²¹ PROOF (2005). See also <http://www.voicesforall.org/proof/>, <http://www.janaagraha.com/campaigns>.

²² Sundet (2004, p.7), WB (2005a, p.10).