

**SIZE MATTERS: FINANCIAL REPORTING
BY THE IMF AND WORLD BANK**

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Size matters: Financial reporting by the IMF and World Bank

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Abstract

Among the largest entities in the world are the World Bank Group and the International Monetary Fund (IMF) Group. From the perspective of researchers in accounting, such size is used as a proxy for political visibility; and often implicit asymmetries of power and information become explicit in such research. This context of political visibility leads to the research question in this study: do the means by which these two entities prepare financial reports compromise accountability through financial results by selective choices of GAAP? This study will offer a detailed analysis of the financial reporting in 2013 by the World Bank and the IMF, including a pro-forma consolidation to understand what might be achieved by consolidation as prescribed in GAAP. Most notable in the financial reporting are (1) a mixed-standard prescription, from standards developed for the corporate sector. (2) A failure to consolidate entities under the in-substance control of the 'parent' in the group. There is also some lack of transparency concerning the level of intra-entity transactions. This study demonstrates the implications of political visibility, being a possible driver to minimise apparent size, as reflected in accounting policy choices.

1. Introduction

From the perspective of researchers in accounting, size is used as a proxy for political visibility; and often implicit asymmetries of power and information become explicit in such research. Among the largest entities in the world are the World Bank Group and the International Monetary Fund (IMF) Group, two entities which face intermittent demands from lobbyists or stakeholders for program accountability outside of their own financial reporting.

Techniques to reduce what are called ‘political costs’ in positivist accounting research are not obscure: these two entities consistently report with unconsolidated accounts - outside of International Financial Reporting Standards (IFRS) or International Public Sector Accounting Standards (IPSAS) Board determination of Generally Accepted Accounting Principles (GAAP). Such non-consolidation results in an understatement of actual size and net assets under their control. In so doing, by avoiding consolidation, these two entities may also minimize profit/earnings results. Yet many international/intergovernmental organisations have or are in the process of full adoption of the IPSAS for their financial reporting including the European Commission, NATO organisations, the OECD, and United Nations system organisations (Alesani, Jensen, and Steccolini, 2012). These would require consolidation of all entities controlled by the topmost entity (often referred to as the parent company).

Other incentives which undermine neutrality in financial reporting are also observed in these very large entities, such as moving as closely as possible to profit neutrality i.e. making neither a profit nor a loss (Cordery, Baskerville, and Porter, 2011). Issues surrounding the valuation and reporting of effective management of fixed assets under the control of the governing body are accentuated when assets and liabilities are financial instruments of one type or another. The lengthening and divisive shadow of financial instrument recognition and measurement for entities in the public sector increases precisely because, on one hand,

regulators maintain the belief that financial reports can offer a representation of underlying reality, but the financial report remains a representation which cannot but prefer the needs of one set of users over another, especially for the World Bank and the IMF. To offer some degree of market assessment of the risks inherent in their financial instruments in their financial report belies some degree of control by these entities over many such market values. And any deficit in financial accountability means any financial ‘tremors’ may lead to more direct accusations of culpability for financial mismanagement.

This context of political visibility leads to the research question in this study: do the means by which these two entities prepare financial reports compromise accountability through financial results by selective choices of GAAP? This study will offer a detailed analysis of the financial reporting by the World Bank and the IMF. We will identify some commonalities in their financial reports, but also, in different ways, where there is evidence of lack of compliance with best practice. This study is in part a response to Turner’s call in 2002 for a better understanding of how identity, membership and loyalties can develop and function in a global context.

In order to achieve the research objective, Part one offers a summary review of some research on accountability of the World Bank and the IMF, an introduction to the two entities, including the social context in which these entities operate, as well as a summary of how financial reporting by these entities compares with large private sector entities, size-wise, and choices to follow IFRS instead of the IPSASB standards. Part two considers consolidation principles in the public sector sphere, and the current practices of consolidation for the World Bank Group and IMF, ending with discussion and conclusion. It is hoped this study will motivate a range of stakeholders, including national governments, to take more interest in how both financial and non-financial accountability goals may be achieved by such large entities.

I. Part one: Research on accountability of the World Bank and the IMF

Literature on accountability of the World Bank and IMF is diverse. Linaweaver (2002) even describes an excess of accountability, in his analysis of the Bujagali Falls Hydropower Project in Uganda where accountability is represented on three levels: inward, internal and outward accountability. Consistent with Keohane (2002), Linaweaver suggests that as the emphasis and attention shifts from internal and inward towards external accountability, the ‘distributional’ quality of accountability means inward and internal levels of accountability decreases. King and Narlikar (2003) suggested that as entities such as the World Bank and the IMF become risk-regulating organisations, it is almost inevitable that an increasing proportion of their work will become more intrusive yet more inaccessible to scrutiny. To avoid an increase in the global backlash against globalization it is essential that these bodies rethink their mandates and methods, including the transparent exercise of financial reporting. For a long time, according to Malloch-Brown, (2011) their attitude was: ‘Trust us, we know what we are doing’. It is well documented that privately owned banks appeared to be complicity assuming for a long time before the global financial crisis that these two entities were ‘Too Big to Fail’. Some critical NGOs, however, thought otherwise; with an attitude towards the WTO and other such entities of ‘Too Big to Trust’. This is a direct reflection of the extent to which size of both private and public sector financial institutions incur increasing culpability and accountability as well as political visibility, with implications of this for accounting policy choices.

In a study of ‘Governance and the Limits of Accountability: the WTO, the IMF and the World Bank’, Woods and Narlikar (2001) suggested that there are still gaps between these institutions and their accountability, due their structure not being suited to new stakeholders, their work programs expanding faster than their accountability efforts, and possibly due to a gap between legitimacy and accountability in international economic governance. In a further

study by Woods and Lombardi (in 2006) they found it astonishing that there are virtually no mechanisms to hold accountable elected Directors; i.e. those representing ‘constituencies’ of countries that gather to have a seat at the Board of the IMF. As Montek Singh Ahluwalia, head of the IMF’s own Office of Independent Evaluation, pointed out in November 2003 to the Club of Madrid, the Fund’s decisions seem to come from a ‘black box’ (Kapur and Naim, 2005, 95). With a declared aim to ‘balance modernity’s dominant and instrumental stance to global social and environmental impacts which harmonization and international accounting perpetuate’, Lehman’s 2005 essay was based on a construction of accountability by revisiting the debates between Kantian and Foucaultian perspectives, considering how we might monitor global accountability as reflected in the craft of accounting. Lehman offered a tightly argued case for a new international accounting model to better recognise the role of ‘the human agent’, whilst exploring the dialectical implications of decision-making which occurs at the levels of the global corporation (Lehman 2005) such as these entities. A selection of other studies of non-financial accountability by the World Bank would include Migliorisi and Wescott 2011; Clark, 2002; Park 2010; and Wade 2009.

For the IMF, as succinctly summarized by Tan in 2006:

The International Monetary Fund is today struggling to restore institutional credibility in the wake of its decreasing influence in the global economy. That the sixty-year-old institution is facing a crisis of legitimacy is widely acknowledged. The Fund’s role in the international financial architecture has diminished rapidly in the aftermath of the financial crises of the late 1990s. Financially and operationally, the IMF has lost relevance for the majority of its membership, with most of its middle-income members disengaged or disengaging from the institution. Its current work program focuses primarily on a little over a quarter of the 184 member states, mostly in the poorest countries of the world. This engagement is, in turn, marred by lack of clarity

about the Fund's role in low-income countries, leading to incoherence and doubts about the efficacy and sustainability of its involvement in these areas (Tan 2006, 507).

The response by these global giants is muted. There is considerable detail in one other group of studies examining the nature of accountability, led by Alnoor Ebrahim which, as with Linaweaver, distinguishes between internal and external accountabilities; and this guided the choice of the Herz and Ebrahim (2005) definition to be used in this report, as will be further described. The analysis of financial reporting in this study has to be located in the management by the World Bank and the IMF of its social relationships, as they continue to respond to the demands of those non-governmental organisations and other activists of 'Civil Society' for more accountability in their actions and outcomes (Barnett and Finnemore 1999; Woods and Narlikar 2001; Neu et al. 2006).

There is a relatively smaller body of literature which specifically addresses issues regarding financial reporting by the World Bank and the IMF. As Wood noted in her introduction,

[w]hile the crux of the accountability problem lies in the inadequate representation of members in the Executive Board, particularly those governments who borrow from the IMF, and the distance of the board from those who are affected by IMF policies, there is also a lack of mechanisms through which oversight and accountability takes place (Carin and Wood 2005, 4).

The World Bank and the IMF can be seen to be two extremely large entities where the significance of their financial reporting has been buried under the non-financial mission, objectives, aims, outcomes. At the same time these entities make extensive demands on those receiving their funding; financial accountability by recipients is prioritized over accountability by the World Bank and the IMF to funders. Funders are largely responsible for this state of affairs; there have been only two instances in the last 50 years when the US

Senate has ‘asked for answers’ about their operations (Malloch-Brown, 2011). In addition, the concerns of the World Bank with financial accountability offered to the populace by governments entailed “strengthening accounting and auditing practices as well as improving capacity for economic policy management” (Crawford 2006, 112) although this was not reflected in their own practices. Before addressing in more detail the key issues surrounding the quality of financial reporting by the World Bank and the IMF, a brief background is provided as to formation and changing attributes of each entity since their formation.

The World Bank and Affiliated Entities

The World Bank, created in 1944, appears initially to consist of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The initial emphasis on reconstruction has gradually been realigned to address ‘poverty reduction through an inclusive and sustainable globalization’¹. The mission is simplified to: ‘The World Bank has two ambitious goals: End extreme poverty within a generation and boost shared prosperity’². Then for further enquiry, by clicking through to the ‘About us’ page the heading: ‘Five Institutions, One Group’ is used by the World Bank to describe its affiliated entities. Clicking on any of the links at the bottom of the Home page moves to the three other websites.

Insert Figure 1 about here: The World Bank Group Webpage images

The function of these five bodies as described on the website as follows:

- The International Bank for Reconstruction and Development (IBRD) aims to reduce poverty in middle-income countries and creditworthy poorer countries by promoting

¹ World Bank, viewed Aug 12 2014 <http://www.worldbank.org/en/about/history>

² World Bank, viewed Aug 12 2014 <http://www.worldbank.org/en/about>

sustainable development through loans, guarantees, risk management products, and analytical and advisory services.

- The International Development Association (IDA) provides interest-free loans, called credits, and grants to governments of the poorest countries. In their annual report (appended to that of the IBRD) Note F describes how the funding works: “IDA transacts with affiliated organizations as a recipient of transfers and grants, administrative and derivative intermediation services as well as through cost sharing of IBRD’s sponsored pension and other postretirement plans”. On October 16, 2012, IBRD provided a grant to IDA of \$608 million. On January 23, 2013, IFC (see below) provided a grant to IDA of \$340 million. So by year-end, the IDA had a total of \$15,482 million transferred to it by such grants, which \$12,723 mill was from the IBRD, and \$2,570 mill. from the IFC. So this body is completely supported by the IBRD and the IFC, and should be consolidated as part of consolidation of all five entities.

But together the IBRD and IDA make up the so-called ‘World Bank’, appearing separate from the next three; within the group there are also the

- International Finance Corporation (IFC), established in 1956, the largest global institution focused exclusively on the private sector. ‘We help developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments’.
- Multilateral Investment Guarantee Agency (MIGA) established in 1988, ‘promotes foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people’s lives’.

- International Centre for Settlement of Investment Disputes (ICSID) was established in 1966, inspired by the desire to increase cross-border flows of private capital. It provides international facilities for conciliation and arbitration of investment disputes, supported by the World Bank. The World Bank advances to the ICSID were \$US2.84 million in the 2013 financial year, relative to total assets and liabilities both being \$US 32 million (i.e.no equity component on the Balance sheet).

The IBRD, the IFC and the IDA have one Board for governance; MIGA has a separate Board. However, the representatives of the USA, Japan, German, France and the UK are the same on both bodies. The integrated nature of these other entities to the operations of the World Bank is documented by writers (*inter alia* Annisette, 2004, although her analysis focuses on the IRBD alone). She noted:

“The IDA was established to make ‘soft’ loans to the world’s poorest countries unable to afford the IBRD’s terms. Although it has a different source of funds, and country eligibility for its loans is not the same as the IBRD, it is not a separate institution, but rather, a separate account managed by the officers of the IBRD. The IFC on the other hand makes loans exclusively for private enterprise in Bank borrowing countries. In addition to providing credit to local companies the IFC has helped many transnational corporations to establish themselves in developing countries. Finally the MIGA was established for the purpose of encouraging direct foreign investment in developing countries” (Annisette 2004, 305).

The IMF

The IMF has two well-differentiated roles:

“First, a regulatory role, which comes from its capacity to design conditionality, exercise surveillance on the economy of its members and oversee compliance with members’ obligation to collaborate with the Fund to assure ‘orderly exchange arrangements and to promote a stable system of exchange rates’. Second, a lending role, which comes from its capacity to serve as a multilateral pool of reserves meant to ‘give confidence to members by making the general resources of the Fund temporarily available’, so as to help them correct their [balance of payments] problems while promoting ‘high levels of employment and real income’ and ‘without resorting to measures destructive of national or international prosperity’” (Torres 2007, 17).

Woods and Lombardi (2006) find it astonishing that there are virtually no mechanisms to hold accountable the elected Directors of the IMF (those representing ‘constituencies’ of countries that have a seat on the Board). The social context within which the IMF purportedly influences its key members’ policies [through its advice, and to give confidence to potential borrowers by offering ‘opportune and meaningful’ financial assistance in case of trouble] was questioned by Torres (2007). He suggested that the governance structure appears inconsistent with its multilateral nature and is dysfunctional to its purposes; and that there is an ideological bias in its policy advice. This prevents the IMF from being responsive to stakeholders; the current reform process is ‘tinkering on the margins’ and might well fail to bring the desired additional credibility and effectiveness to the IMF. Similarly, Tan (2006) offered an analysis of the IMF’s operational framework and political program at what he terms ‘the most crucial juncture in its institutional history’. This view was derived from his analysis of four recent publications on the Bretton Woods institutions, and focused on how commentators perceive and address the current ‘crisis of legitimacy’ affecting the IMF and

the World Bank. The IMF comprises of a number of entities: Figure two indicates those which are consolidated in the annual report.

Insert Figure 2: Affiliated Trusts and Entities for the IMF - about here

Those within the dotted line (Group 1) are consolidated; those outside are not. In the IMF Annual Report there are thus four separate reports:

- i. The General Department, including its General Resources Account, Investment Account, The Special Disbursement Account and Multilateral Debt Relief Initiative—I Trust. It is stated that "As the IMF has control over the MDRI-I Trust, the latter's financial statements are consolidated with those of the General Department.
- ii. The Special Drawing Rights Department
- iii. A set of accounts combining the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust; the Poverty Reduction and Growth Facility for Heavily Indebted Poor Countries Trust; and the Multilateral Debt Relief Initiative—II Trust
- iv. A set for Other Administered Accounts of the International Monetary Fund: Administered Account—Japan; Administered Account for Selected Fund Activities—Japan; Framework Administered Account for Technical Assistance Activities; Supplementary Financing Facility Subsidy Account ; The Post-Conflict and Natural Disaster Emergency Assistance Subsidy Account ; Poverty Reduction and Growth Facility Administered Account—Indonesia; Poverty Reduction and Growth Facility Administered Account—Portugal; Administered Account Austria—II; Post-SCA-2 Administered Account - Administered Account for Liberia; SCA-1/Deferred Charges Administered Account; and the Japan Administered Account for Liberia.

The ‘consolidated’ financial statements of the General Department (see Figure 2) are prepared in accordance with IFRS under the historical cost convention, except for the revaluation of financial assets at fair value through profit and loss.

Relations between the IMF and World Bank

The recent history of both these entities suggests there is increasing overlap in their activities, and primarily, membership in the World Bank is open to all members of the IMF. The IBRD and the IMF share a weighted system of vote allocation. There have been extensive critiques of the voting allocation in the World Bank and IMF, the constituency’s represented by each Executive Directors, and the supermajority voting procedure (*inter alia* Griffith-Jones 2007; Caliari and Schroeder, 2012). According to the IBRD Articles of Agreement, a quota based on the size of new member’s economy is assigned, equivalent to the country’s subscription to the IMF. This determines for each new member country of the World Bank its voting power in the IMF; and it is allotted 250 votes plus one additional vote for each share it holds in the World Bank’s capital stock (World Bank URL, About Us, Voting Powers). However, with limitations on scope this analysis is not further examining such structural overlap in these two entities.

The social context in which these entities operate

Discussion of financial reporting and the choices these two entities make to reduce visibility must be understood in reference to social context and demands of civic society organisations. This highly politicized social context in which these two entities operate, as described in the literature review, repeatedly draws attention to accountability for their decision making and project management. This comes at a cost: the same attention is not given to financial accounting where such immunity is even more prevalent. As noted by Tan,

The World Bank and the International Monetary Fund (IMF) have enjoyed significant immunity from conventional norms of accountability and culpability in spite of their emergence as key financial institutions in the global economy in the post-war period. This historical impunity sits uncomfortably with the wide-ranging social, economic and political impacts of their complex mandates (Tan 2008, 79).

The recent analysis by Kilby (2013) suggests that there are considerable areas where there could be improvements in order to bolster the independence of the World Bank, looking towards more than the outcomes from efforts currently underway to simply reallocate voting shares. Ultimately the social context in which the World Bank or the IMF operates determines how their financial accountability crystallizes. Predictably, the higher the social and global profile, the more the funders and beneficiaries will be interested in socially measured outcomes; counterbalanced by a reduced focus on financial accountability. Yet its ability to provide outcomes consistent with its mission would be undone by financial deficits. These deficits are minimized by non-consolidation, as will be further described.

Size-wise: how does the reporting by these entities compare with large private sector entities?

In common with Whole of Government and Multi-National Enterprises (MNEs), such large entities appear to operate with a multiplicity of agency relationships, resulting in a degree of opacity of related party transactions and segment distinctions. Processes of agencification, typified by these non-consolidated affiliated entities, leads to our observation that the annual accounts of these entities disclose only a partial view of their economic and financial activities, which might be alleviated by consolidation. The impact of the absence of consolidation can be best appreciated when all affiliated entities are aggregated, as follows. The pro-forma consolidation, as offered in Table 1, might overstate assets and liabilities, as

inter-entity transfers have not been eliminated. However it is unlikely to overstate the deficits from operation.

Insert Table 1 about here

Although not being able to adjust for inter-entity transactions, Table 1 shows the World Bank would suffer more than an eleven-fold reduction in earnings: from a surplus of \$US 218 mill. to a 'consolidated' loss of \$US 2330 mill. However, for Net assets (Equity) on 'consolidation' of the World Bank group, this increases six-fold from US\$ 39 mill. to US\$ 245 mill.

For the IMF there are also increases in the pro-forma balance sheet consolidation, with Net assets (Equity) increasing by almost 50% from \$US 24 mill to \$US 35 mill. There is a lower increase of earnings by around 25%, from \$US 3,024 mill. to \$US3,790 mill. However, for the IMF the results of such a 'pro-forma' consolidation is less material, not only in the scale of change, but all the reports of affiliated entities are within the IMF report, and can be accessed simultaneously. This is not the case for the World Bank.

Nevertheless, with total 'consolidated' assets of around \$US500,343 mill. and \$US893,913 mill., these entities are not large compared with financial sector giants such as Fannie Mae, J P Morgan Chase & Co or the Bank of America. Clearly for banks, the political visibility of such an amount of assets under their management draws attention to their power to influence both local and global economies.

Having introduced these two entities, with the objective of this study to assess financial reporting by the World Bank and the IMF, the next section briefly draws attention to two issues which emerged from this analysis.

The choice to follow IFRS/US GAAP instead of the IPSAS standards

The entities in the World Bank group prepare their financial statements under a diversity of accounting policy approaches (see Table 2).

Insert Table 2 about here

Claims to be following both IFRS and US GAAP are rarely observed worldwide. IFRS are International Financial Reporting Standards determined by the London -based International Accounting Standards Board. The implications of such choices among a diversity of standards is not easily understood by the outsider. It would inhibit consolidation; but more than that, it is suspect because it offers any entities an unprecedented opportunity to make accounting policy choices which suit political agendas (maximizing or minimizing deficits in earnings, increasing or decreasing asset values etc.).

Many other entities in the public sphere are now moving away from either US GAAP or IFRS. There is a third set of standards which may be considered and are, indeed, more appropriate for entities which are not solely profit-oriented, as adopted by the European Commission, NATO organisations, the OECD, and United Nations system organisations (Alesani et al. 2012). These are termed IPSAS, referring to the New York-based International Public Sector Accounting Standards issued by that Board. The IPSAS are gaining in recognition: when the World Food Program moved to successful adoption of IPSAS standards, the Executive Director, Ms. Josette Sheeran described it as a move from “an ‘historical accumulation of rules that no one could understand’ to ‘best practice’” (Alesani et al. 2012: 62).

It would be expected that the IMF and World Bank would be in the forefront of IPSAS adoption; as it is through the imposition of ‘best practice’ internationally recognized accounting standards on the functioning of capital markets in borrower countries, the World Bank and IMF may represent the most significant actors in promoting accounting

harmonization within the non-industrialized world (Annisette, 2004). In Mikesell's review of the somewhat older Meltzer Commission Report on International Institutions, he noted that the Commission had recommended that the IMF accounts should correspond to standard accounting procedures (Mikesell 2001). So why not adopt the IPSAS? Woods' (2007) double challenge of effectiveness and legitimacy can be met with an enhanced accountability and best practices in financial reporting. These global entities may better demonstrate to their constituencies that they care about accountability and best practices in financial reporting by adopting IPSAS. Their preference to follow private-corporation oriented IFRS or US GAAP standards will become increasingly inexplicable in the next decade.

The last question to be addressed in this analysis concerns the failure to consolidate in this financial reporting arena.

III: Part 2 The question of consolidation

The conundrum of the use of consolidation for very large entities, whether in the private or public sector, has proved a challenging issue for standard-setters worldwide. Drivers to consolidation appear superficially similar in the regulation of both public and private sectors. Consolidated financial statements in both private and public spheres are suggested to provide two advantages:

- increasing accountability and transparency for external stakeholders (financial markets, suppliers, shareholders, creditors, the Government); and
- a supporting tool for the management of the group of companies, for planning strategies and verifying the impacts.

In this study we will utilize a definition of accountability developed specifically in a review of World Bank activities by Herz and Ebrahim:

Accountability implies that decision-makers must answer for their actions and, depending on the answer, be exposed to potential sanctions. Accountability mechanisms allow citizens to control the behavior of government officials and representatives to whom they have delegated public power. Effective accountability mechanisms require compliance and enforcement. Compliance involves evaluating their actions against clear standards that are based on publicly accepted norms. These include both procedural standards (regarding transparency, inclusiveness, etc.) and standards for assessing outcomes (e.g., on poverty reduction, social equity, and human rights). Enforcement involves imposing sanctions for failing to comply with those standards (Herz and Ebrahim 2005, 8).

It is conjectured such a definition of accountability can also be applied to any assessment of accountability by these entities, and issues surrounding the role of consolidation in maximizing accountability in financial reporting. Therefore the choice of accounting policies, as already described for these entities, and the selective use of the prescription in such GAAP, may be observed as a weakness; being a partial rejection of compliance with publicly accepted norms.

The purported driver to consolidated financial statements is an informational one, ensuring that data from more than one entity are condensed and adjusted (Wise, 2006) into a single set of data so that members of, and persons dealing with, a holding company are provided with accurate information concerning profits and losses of that company and its subsidiaries within the group. The view is also offered that consolidated data refer to a fictional economic unit, in both public and private sectors (Wise, 2006; Clarke and Dean, 2007), meaning that when Government and its controlled agencies are taken together, the Group is a 'fictitious structure', without legal capacity to exercise rights or incur physical or financial damage, according to these authors. In spite of such critiques, it appears that the prevailing orthodoxy

is that the benefits from consolidation outweigh the disadvantages and that consolidation is required to meet the objectives of general purpose financial reporting. But the cross-over of such objectives to regulation of reporting in the public sector has proved a challenge.

Consolidation principles in the public sector sphere

It has proposed by many investigating financial reporting requirements in the public sector, that consolidated financial statements are a useful instrument for central governments and local authorities dealing with publicly-owned entities, because it presents a clear picture of the current economic status and functioning of an entire inter-related Group (Lande 1998; Chow, Humphrey, and Moll 2007; Grossi and Mussari 2008; Grossi and Newberry 2009; Wise, 2010). Some researchers point to problems with using consolidated financial statements in the public sector, including the difficulty of comparing consolidated information across different levels of government (a problem in common with the entities in this study) and defining the area of consolidation (Heald and Georgiou, 2000; Robb and Newberry, 2007; Grossi and Pepe, 2009; Grossi and Soverchia, 2011). These problems occur also in the largest MNEs. The uncertainty such debate produces provides a safe haven for very large entities to override the directives of IFRS GAAP towards consolidation, and thus maintain a relatively small size.

Consolidation for the World Bank Group

Would a truly 'World Bank Group' consolidated financial report enhance accountability? The first issue relevant to whether or not these entities would be expected to be consolidated into a 'World Bank Group' financial report is 'Governance in Common'. The three large entities (IFC, World Bank and MIGA) are described as affiliated organisations, all being part of 'the Group'. These entities have essentially the same appointments to their governing Boards. The personnel on these boards of 25 directors have extensive knowledge in common concerning

all three entities. These characteristics of three huge affiliated organisations are reminiscent of the Japanese Keiretsu network corporations in the extent to which the governance is shared among the same groups of people, and financing arrangements might not be reported as part of the expenses of the largest entities.

Secondly, control. The principles of consolidation rely on form rather than legal substance, such as examining the extent to which any group of possibly related entities is controlled in-substance by the Parent entity in such matters as appointments, subsidies, cross-mission activities, and financial distributions. That there are extensive transference of funds and charges between affiliated entities is in no doubt. It is not always clear whether and how material transfers are reported in the financial statements. For example, in 2013, the IBRD made a transfer of \$621 million to the IDA; but also transferred \$200 million to “Surplus”, whatever that may mean³; where that \$200 ended up was not clear in any part of their Equity details. In this situation where the inter-entity activities of IBRD, IDA, IFC and MIGA, overlap to the degree as described signifies they are in-substance all under control of one Parent board, irrespective of the forms or legalities of ownership.

Thirdly, the IFRS/US GAAP standards for corporate reporting are based on assumptions of historic [Anglo-Saxon] arrangements based on publicly traded shares/stock: dispersed ownership, separation of ownership from control at corporate level, and the payment of interest and dividends to lenders and shareholders respectively. The IFRS/US GAAP standards on consolidation are based on such assumptions: the needs of shareholders to be provided with a set of integrated reports which have amalgamated all assets and liabilities of the group in order to best meet the ‘decision-usefulness’ objective of financial reporting.

Does this apply in this case?

³ Page 4 of the IBRD Management Discussion and Analysis in 2013
<http://siteresources.worldbank.org/EXTANNREP2013/Resources/9304887-1377201212378/9305896-1377544753431/FinancialStatements.pdf>

It appears consolidation would be also expected under any form of GAAP, because:

- a) The Notes to the Financial Statements for both the IBRD and the IDA cross-reference extensively to MIGA and the IFC; the trust fund administration is undertaken jointly. Operating leases, contractual purchases and capital expenditures, and other long term obligations include amounts which are shared with IDA, IFC and MIGA in accordance with cost sharing and service arrangements
- b) The administrative expenses of the IBRD are split between IBRD and IDA on the basis of the expenses being jointly incurred
- c) The IBRD may make loans to IFC without any guarantee; IBRD has a Local Currency Loan Facility Agreement with IFC capped at \$300 million⁴.
- d) All entities combine on the Pension Plans. It is clear that all four organisations take proportionate shares of contributions to three staff benefit plans that cover substantially all of their staff members. All costs, assets and liabilities associated with the plans are allocated between IBRD, IFC and MIGA, based upon their employees' respective participation in the plans⁵.
- e) In the report of the World Bank Group Internal Audit Vice Presidency, it was noted that 2010 marked an 'unprecedented shift' in the way the World Bank Group operates. The Internal Audit Department's scope included examination of internal controls over operations and compliance with key provisions of IBRD/IDA, IFC and MIGA's charters and policies.

Taken together, all of the above factors would raise an expectation for consolidation.

However, the failure to consolidate might not compromise the deliverance of accountability

⁴ 2013 IBRD Annual Report page 16

⁵ 2013 IBRD Annual Report page 44

in financial reporting if there were a full separate Note disclosure of all funds transfers, material inter-entity transactions, guarantees, assets and liabilities.

In spite of careful attention by the IPSASB to develop principles which would result in consolidation for such an entity if they were using these public sector oriented standards, the World Bank appears to overlook such guidance in its choice of accounting policies, while also supporting the operations of the IPSASB with funding support.

Consolidation for the IMF

Reference has already been made to affiliated entities of the IMF as represented in Figure two. IMF related party disclosures Note 17 in the 2013 Annual *Report* (Related party transactions)⁶ reflects the interconnectivity of the entities already represented in Figure two:

The General Resources Account holds SDRs and accepts and uses them in operations and transactions with participants in the SDR Department. The expenses of conducting the SDR Department, the SRP, the SRBP, the RSBI, and other accounts administered by the IMF as Trustee are borne by the GRA. Reimbursements are made by the SDR Department, the SRP, MDRI Trust, PCDR Trust, and the PRG Trust (except in FY2012, when the IMF Executive Board waived the reimbursement), and the RSBI, and some, but not all, of the administered accounts.

To summarize: the consolidated financial statements of the General Department of the IMF are prepared in accordance IFRS issued by the IASB, and the consolidated financial statements (Group 1) include the GRA, the IA, the SDA, and the MDRI-I Trust, an entity that the SDA controls. Control is achieved where the IMF has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All the transactions and balances between these entities have been eliminated during the

⁶ <http://www.imf.org/external/pubs/ft/ar/2013/eng/pdf/a6.pdf>

consolidation. However, as far as the Groups 2, 3 and 4 are concerned, from further investigation it is clear that there is no clear justification for non-consolidation of all these entities which form part of this IMF group.

As already noted in Herz and Ebrahim's description of the operationalisation of accountability, compliance involves evaluating accounting policy decisions of the IMF and World Bank against clear standards that are based on publicly accepted norms, including procedural standards. In both the World Bank and the IMF, their choice of GAAP and the selective use of the prescription may be observed as a weakness; a partial rejection of compliance with publicly accepted norms, and yet they require compliance with such norms by beneficiaries of their program delivery.

IV: Discussion and Conclusion

This study has offered analysis of the financial reporting by the World Bank and the IMF; it appears financial accountability may be compromised by the evidence of some shared "industry practices", leading to the question: do these bodies offer sufficient accountability in their financial results by selective choices of GAAP? There is a dearth of literature on this aspect; this review lends substance to Bovens' (2010) claim that there is a fragmentation of public accountability discourse, with many different actors providing spawning inconsistencies in the different logics which underlie fragmented practices.

This study has attempted to identify some commonalities in the accounting for financial performance offered by these two large entities, but in so doing, three paradoxes are highlighted:

1. Ultimately the social context in which an entity operates determines how its accountability crystallizes. Predictably, the higher the social profile the more the funders and beneficiaries will be interested in socially measured outcomes; counterbalanced by a

reduced focus on financial accountability. Yet the ability to provide the outcomes consistent with the mission of each entity would be undone by financial deficits. Three smaller deficits, and one surplus, are better than one big deficit.

2. The choice to follow US GAAP/ IFRS. As non-corporate entities, the IPSASB standards would be thought of as the natural source of authority, and yet these entities partially comply with standards developed for private-sector entities. There is also some lack of transparency concerning the apparent high levels of intra-entity transactions, with high levels of shared governance between affiliated entities in the World Bank group.
3. The failure to consolidate highlights that there might be a size range within which adherence to either private or public sector standards offers optimal financial reporting. Too small, and the myriad proposals for Financial Reporting Standards for Small and Medium (sized) Entities. Too large for compliance? In spite of careful attention by the IPSASB to develop principles which would result in consolidation even in the largest entities, these two entities appear to overlook such guidance. This leads us to suggest that there appears to be an ‘industry standard’ for such global entities: these two entities write their own rules, suggesting ‘trust us, we know what we are doing...’. There is now established ‘industry practice’ to determine the strange mixed-GAAP applied to these two groups of entities.

Financial reports can only ever offer a partial view of reality. There have been many changes since observations by one of our students provided the foundation for this study seven years ago: at that time accessing the financial reports was troublesome. That is no longer the case. Five years ago there was a website and URL for the World Bank Group. That is no longer the case. It is now much easier to access the individual entity reports. These two ‘groups’ of entities are being responsive to some drivers to demonstrate financial accountability,

transparency and understandability whilst at these time avoiding consolidation, perhaps reflecting an implicit driver to understatement of earnings and asset values.

There are, no doubt, some risks inherent in leaving undisclosed the levels of inter-entity liabilities guaranteed by associated entities and inter-entity transactions. When there is a deficit in financial accountability, any financial ‘tremors’ may lead to more direct accusations of culpability for financial mismanagement. This study has demonstrated the implications of political visibility, being a possible driver to minimize apparent size as reflected in accounting policy choices. Future research on this will continue, whilst financial reporting standards for this sector are evolving. However, given their size, we do not anticipate any adoption of the IPSASB consolidation standard for these two entities in the immediate future, no matter how much they commend them for financial reporting by their constituent Governmental and State stakeholders. Given their size, they have the power to choose, whilst condoning or requiring the application of international accounting standards to the beneficiaries of their largesse.

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Table 1: Pro-forma consolidation results for the 2013 financial reports

	in millions of US\$; 1 SDR = US\$1.509			
IMF	comprehensive income	assets	liabilities	equity
General Department	3,024	456,012	431,016	24,997
SDR	Inc.= exp.	24,446	24,446	-
PRG Trust	789	17,897	9,054	8,843
PRG-HIPC	-56	649	288	361
MDRI-II	-	59	-	59
PCDR etc.	-	154	-	154
12 Other Administrative	33	1,127	329	798
Total	3,790	500,343	465,133	35,211

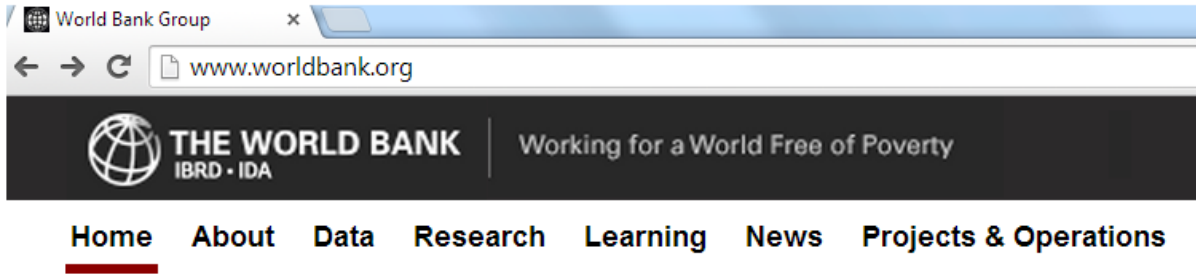
	in millions of US\$			
World Bank Group	earnings	assets	liabilities	equity
IBRD	218	324,367	284,844	39,523
IDA	-1,752	165,806	22,344	143,462
IFC	-1,010	77,525	55,250	22,275
MIGA	-4	1,848	938	910
Total	-2,330	893,913	648,220	245,693

Table 2: Description of accounting standards used

Entity	Accounting Policy
ICSID	In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).
IBRD & IDA	...prepared financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP)
MIGA	...prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with accounting principles generally accepted in the United States of America (U.S. GAAP). The policy adopted is that considered most appropriate to the circumstances...
IFC	...conform to accounting principles generally accepted in the United States of America (U.S. GAAP)
IMF	In accordance with IFRS issued by the IASB

Figure one The World Bank Group Webpage images

At the top of the World Bank Webpage:



At the bottom of the World Bank Webpage:



Figure 2: Affiliated Trusts and Entities for the IMF

