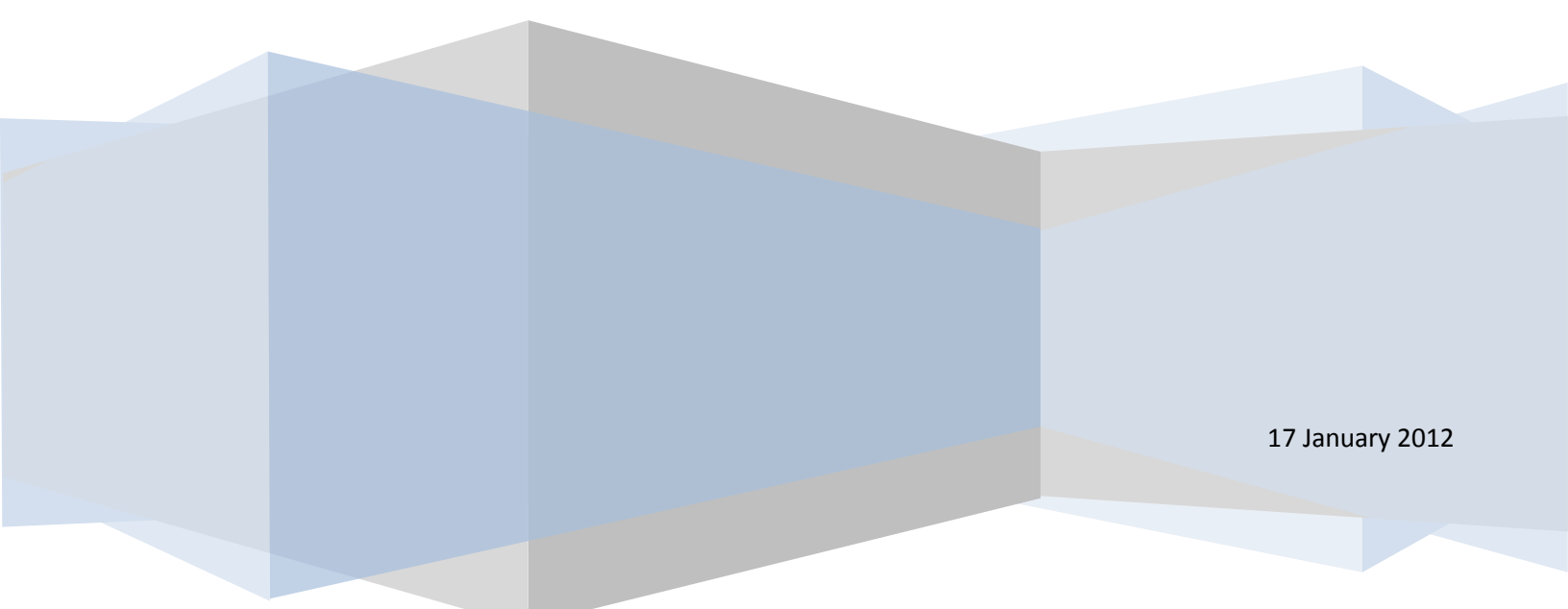


The World Bank Group

# **STRENGTHENING GOVERNANCE, TACKLING CORRUPTION**

**THE WORLD BANK'S UPDATED STRATEGY AND  
IMPLEMENTATION PLAN**

**On Line Consultation**



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## **THE WORLD BANK’S UPDATED STRATEGY AND IMPLEMENTATION PLAN**

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# CHAPTER 1: STRATEGY UPDATE

## A CHANGED LANDSCAPE

1. **Since the Bank adopted its Governance and Anti-Corruption Strategy in 2007<sup>1</sup>, fundamental changes have swept around the world.** The implication of the 2008 financial crisis continue to play out, the most prominent of which are continuing uncertainties in the Euro-zone, nervousness in the financial markets and fragile growth in most of the developed world. Emerging economies have been less affected but even there growth forecasts are down. But beyond the world of finance and economics lie a broader set of changes rooted in longstanding themes in political economy: what is the citizen's relationship with the state, and how can integrity and accountability be built into public life?

2. **The contours of a new social contract are emerging: citizens are seeking a relationship with their government based on transparency, accountability and participation.** From revolutionary change in the Arab world, to powerful anti-corruption movements in India and Brazil, to the 'Occupy' movement in some western countries, an upsurge of citizens movements signals frustration with the seeming inability of government to handle increasingly complex global problems of poverty, joblessness, fiscal crises, and environmental unsustainability. A new generation of tech-savvy citizens is at the center of several of these movements - empowered by transformations in new communications technologies that enable unprecedented opportunities to access and share information, and forge global networks. And much of their advocacy has focused on the expansion of the space for voice and participation, strong checks and balances, and transparency as essential elements of this redefined social contract.

3. While these disparate social movements have each taken a different form, they have at heart one common feature: men and women are increasingly unwilling to accept a passive role in society. Individuals are demanding the rights and the responsibilities of citizenship, and this includes a sense of fairness in the distribution of material progress as well as a say in how they are governed.

4. **In many countries the State is responding to, and in some cases leading, the move to greater openness, transparency and citizen engagement.** While some states are struggling to catch up with the legitimate aspirations of their citizens, others are leading the transformation process. Nations ranging from Brazil to South Africa have put open, transparent, and accountable governments at the forefront of their national agendas, promoting measures to improve transparency - opening up budgets, passing Right to Information laws, and publishing commercial contracts, service obligations, and assets of officials. In September 2011, 43 countries signed up to the Open Government Partnership, a multilateral initiative launched by several Heads of State at the United Nations. These are small steps in the direction of instituting a new model of governance and tackling corruption.

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<sup>1</sup> 'Strengthening World Bank Group Engagement on Governance and Anti-Corruption'. World Bank, March 2007

5. **The World Bank is responding to this agenda by improving its credibility as a partner on issues of governance and anti-corruption through enhancements to its own practices, corporate governance structure and its focus on anti-corruption.** The Bank's aim is to make itself a truly credible and trusted partner in this most difficult area of development. It seeks to do this not only through its ongoing internal reform program but also through its business model. The Bank's 'Access to Information' policy makes it a leader among multilateral institutions on disclosure (the November 2011 'Publish What You Fund' Index scored the Bank first among 58 multilateral and bilateral aid agencies on transparency). The Open Data initiative provides unprecedented access to Bank data. The 2010 Spring Meetings of the Bank increased the voting power of developing countries to over 47 %—a total shift to developing and transition countries of almost 5 percentage points over the last two years.

6. **Through its business model, the Bank has a comparative advantage to engage on governance and anti-corruption** at both the country and global level. Building on the Bank's country-driven business model, global convening power, and its track record for reliably safeguarding public funds, the Bank can serve as the essential link among global efforts, country impact, and strengthened country capacity to manage resources. The Bank not only works with country governments, but it works *through* them building country institutions by using country systems. The Bank seeks to build ministries of transport as much as it seeks to build roads.

7. **Critical too has been the sustained improvement in the Bank's capacity to detect and investigate fraud and corruption.** Pivotal has been the renewal of the Bank's Integrity Vice-Presidency (INT) which has transformed both the Bank's credibility in fighting corruption, and the working relationships between INT and Bank operational staff. While the renewal of INT's investigative capability strengthens a critical piece in the Bank's arsenal of corruption detection and investigation tools, the day-to-day front-line of this effort remains with the operational staff of the Bank. Outreach efforts by INT's Preventive Services Unit are helping to raise operational team's awareness and skills; Box 9 highlights some of these efforts.

8. **The objective for the Bank's Governance and Anti-Corruption strategy, building capable and accountable states, remains unchanged.** When states possess capability, and exercise state power with appropriate accountability and oversight mechanisms, it is difficult for corruption and malpractice to flourish. Corruption is a symptom of weak, ineffective or bad governance. This is why the governance and anti-corruption agendas are so acutely aligned and why the Bank has a conjoined governance and anti-corruption strategy. It is the broad governance environment as embedded in institutions which will either foster or bear down on corrupt behavior. Experience shows that anti-corruption strategies without effective broader governance strategies are unlikely to succeed.

9. **The 2007 Strategy and associated Implementation Plan emphasized that GAC was, in essence, an internal change management strategy.** The Bank would learn about what worked and what didn't by experimenting in different ways in different contexts and with different approaches. GAC was the opposite of a 'blue-print' approach: it was designed to be revised and updated as knowledge was generated and lessons learned. GAC annual progress reports confirmed this approach. Four years on, the Bank has learned a lot about 'what worked and what didn't', although identifying why certain approaches worked in certain contexts remains contested. While GAC's underlying objective, core principles, and entry points for action will remain the same, the lessons learned and the dynamic external and internal context

make it an opportune moment to update the Bank's GAC strategy. The revised and updated GAC Strategy and Implementation Plan therefore not only builds on what has worked well, but also establishes new directions in those areas where innovation and shifting priorities are required.

10. **Scaling-up and Systematizing Success.** This represents the agenda where, simply put, the Bank needs to do more.

- embedding a governance and anti-corruption focus in Bank-wide sector strategies, in country assistance strategies, in country sector programs and at the project level;
- continuing to strengthen core and sectoral country government institutions, not only through explicit capacity building initiatives, but through their actual use wherever appropriate; and
- further developing sector and context-specific tools, guidance and approaches to assist operational staff reflect GAC issues in selection, design and implementation.

11. **New Priorities and New Directions.** This represents the agenda where GAC requires innovation and a shift in priorities:

- a focus on closer interaction between citizens and the state- through regulations, information communications technology, and initiatives that promote transparency and access to information (such as open data initiatives, promoting rights to information, open budgets); through creating processes that enable citizen participation in policy decision-making and budgeting; and through institutions and mechanisms that strengthen oversight and monitoring of the executive's actions – whether these are formal institutions like Ombudsmen, information commissions, anti-corruption agencies and audit institutions, or civil society mechanisms such as community score-cards and third party monitoring. The proposed Partnership for Social Accountability is an example of an innovative Bank instrument (see paragraph 171 of the Implementation Plan);
- a more robust approach to measuring results and monitoring progress, by means of identifying a 'results chain' with indicators at each step of the chain. The results framework divides that chain into three components: Bank inputs and outputs, intermediate outcomes interpreted as changes in country level institutions, and final development outcomes. This is presented in more detail in paragraphs 98-113 in the Implementation Plan;
- a revised approach to risk, emphasizing risk management rather than risk avoidance, built on a corporate culture that values and promotes both candor in the discussion of risks and controlled risk-taking for increased development impact. Implementing this revised approach will require work to (i) better understand how the Bank currently manages operational risks, (ii) progressively extend risk-based decision-making across all Bank operations, (iii) integrate analysis of risks and results in operational practices and (iv) move beyond a focus on GAC risks associated with individual transactions to manage risks more effectively at a portfolio level; and
- a 'global GAC' program that uses the Bank's knowledge, convening power and connecting role in producing global public goods by linking them to country level initiatives for reform. Can the Bank engineer a 'race to the top' here?

12. Box 2 summarizes the contours of the updated GAC strategy.

### **Box 2: The Updated GAC Strategy**

The objective of updated GAC remains to help build capable and accountable states. Actions continue to be anticipated at multiple levels including: (i) at the country level; (ii) at the sector level; and (iii) at the global level, making adjustments to take into account lessons that have been learned.

Concerted efforts will be made to strengthen the governance and anti-corruption strategy along five dimensions:

- Systematizing and scaling-up successful lessons learned to date
- A more empirically based and pragmatic approach to institutional strengthening at country level, especially those institutions that bring the state and citizens together and promotes transparency, participation and accountability
- A more robust results framework
- A more effective approach to risk and risk management
- A modest global GAC program based on the Bank's role as convener, connector and generator of knowledge

The change management process within the Bank, drawing on sustained senior management support, will focus on sharing information about and creating incentives to scale up successes and 'good practice' approaches identified to date; continuing the ongoing process of updating procedures and approaches when needs are identified; and strengthening oversight procedures and internal accountabilities.

13. **This revised and updated Strategy and Implementation Plan articulates how the Bank will redefine and re-position its governance and anti-corruption work.** The next section summarizes the Bank's approach to governance and anti-corruption. It then considers what changes in the global environment and in the Bank itself mean for Bank work in this area. The fourth part looks back at the lessons learned over the last four years of GAC, while the final part looks forward by outlining the directions the Bank will take to deliver on its governance and anti-corruption objectives for the coming years. Accompanying this updated GAC Strategy is a second chapter that provides more details on this approach and its implementation.

## **THE BANK'S APPROACH TO GOVERNANCE AND ANTI-CORRUPTION**

14. **The World Bank's objectives of strengthening governance and tackling corruption arises from the impact that poor, weak or ineffective governance, as well as corrupt practice, can have on the prospects for sustainable growth and poverty reduction, including on the development initiatives the Bank helps to finance.** Governance is by no means a new subject for the World Bank. The Bank's first publication on governance was in 1991,<sup>2</sup> and which noted that governance includes the form or nature of the political regime; the processes by which authority is exercised in the management of a country's economic and social resources; and the capacity of governments to design, formulate, and implement policy and deliver goods and services. The paper emphasized that first aspect fell outside the Bank's mandate and thus its focus was on the second and third elements. This remains the Bank's position today.

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<sup>2</sup> World Bank, 1991. "Managing Development: The Governance Dimension: A Discussion Paper".

15. **Despite the significant progress made over the last few years, it is clear that the Bank needs to do even better in understanding issues of governance and institutions for development effectiveness and ways to tackle corruption and malfeasance.** It is insufficient to stress economic governance alone. The Bank's traditional strength—its economic and technical understanding—needs to be complemented by a step change in understanding a governance perspective and applying it to the development and strengthening of country institutions.

16. **For the Bank, governance is about what the state can do and how it does it.** What the state can do is determined by its capacity, its legitimacy and its authority. Capacity is the ability of the state to deliver goods and services, procure goods and services, design and implement policies, build infrastructure, collect revenue, dispense justice, and maintain a conducive environment for the private sector. Legitimacy is simply whether citizens feel the government has the right to govern – and whether they trust the government. Authority is the ability of the state to govern its territory effectively, reach all citizens regardless of their location, maintain law and order and protect citizens from predation and violence. It is the ability of the laws and rules of the state to trump all other laws and rules.

17. **But governance also includes some notion of how the state uses that capacity and authority.** First, *how accountable* is the state in its use of its power? Are there effective oversight institutions? What limits does the state impose on itself? Is the capacity and authority of the state used in a way that responds to legitimate citizen needs and aspirations? To what extent are citizens views represented and what is the nature of the process of representation? Second, *how transparent* is the state in its doings: does it make available information? Does it publish the budget and explain the basis of policy decisions? Does it seek to practice open government, in the national interest? In developing its capability in this area, the Bank must also be able to recognize that different components of this broad governance agenda may take priority: in some contexts capability may take priority over accountability for example. These judgements can only be made in discussion with clients and with their full support. The Bank must also be modest and realistic about what it can achieve: it is one actor among many in an increasingly complex international context.

18. **The revised and updated Strategy and Implementation Plan builds on the core importance of institutions.** It recognizes that effective, transparent and accountable institutions lie at the core of development. Institutions establish 'the rules of the game': the formal and informal rules which determine whether the public sector acts in its own interests or on behalf of all citizens; which influence private sector investment decisions; which create incentives that either create or curtail rent-seeking opportunities for civil servants; and which influence expectations citizens have of their governments. Institutions matter.

19. **These institutions are country specific and cannot be imposed from outside.** But it is this insight that creates the Bank's comparative advantage: its business model is country-owned and country-driven. Bank clients demand services and borrow funds for their own priorities and to meet their own aspirations. The Bank's governance and anti-corruption agenda recognizes that governance priorities will vary greatly country to country. The issues facing middle-income countries are very different from those facing countries emerging from conflict. *Governance* is not about a particular form of *government*; rather it is about a context-specific set of institutions that meet country needs and fit country circumstances that deliver development and poverty



reduction outcomes in ways that are sustainable, transparent and accountable. The Bank's country-led approach is exceptionally well-placed to assist the spectrum of Bank member countries meet their development priorities.

**20. There remain many entry points for Bank work on governance and anti-corruption.**

In addition to the Bank's 'default' mode of working with the Executive and improving the supply of public goods and services, it is now even more important to engage with civil society, the private sector and non-executive institutions of accountability, such as the judiciary, as these not only respond to, but help create, change and sustain the 'rules of the game', the institutional environment, in which development takes place.

**21. The Bank will also continue to use its convening power to mobilize efforts globally in order to make a difference at country level.**

Such initiatives are designed to improve integrity: integrity in natural resource use, financial market integrity, contract integrity and integrity in public administration. The Bank's approach to such transnational work is presented in section V of the Implementation Plan.

**22. The Bank's decisions on how to engage in difficult governance environments needs to be informed by an understanding of the nature of the governance risks and the potential impact on development effectiveness and poverty reduction.**

Weak, ineffective or corrupt governance takes many forms: from relatively minor problems in resource use – sometimes caused by a lack of capacity – at one end of the spectrum, through financial mismanagement and corrupt procurement practices, right through to grand corruption and state capture at the other end. The updated GAC Implementation Plan lays out how the Bank will seek to understand the nature of the governance challenge country by country, and what are the most appropriate entry points for strengthening governance and tackling corruption. But the quality and effectiveness of governance is never static; the question then arises what should the Bank do when the quality of governance appears to deteriorate?

**23. In determining its response to deteriorating governance environments, the Bank will consider the broad trajectory of governance and corruption in each country, considering specific events and policy decisions in the wider context of the overall trend.**

All governments face temporary hiccups in pursuing policy objectives; all countries – especially poorer ones with less resilient institutions and fewer shock-absorbers - can be blown off-course by events beyond their control. The Bank must be able to distinguish between short-term blips and longer-term trends in governance. In reaching a judgement on governance issues, it is the trend that is critical. A detailed and nuanced governance analysis is therefore central in reaching decisions on the extent and nature of Bank engagement in country.

24. The Bank's response could range from limiting the type of instruments used, to introducing protections in a project's design to protect against corruption, to disengaging from particular sectors or programs if the circumstances are not conducive to poverty reduction and the proper use of Bank funds. The Bank will always and everywhere take action if fraud and corruption is found. This is the bank's 'zero-tolerance' policy. It is discussed more fully in paragraph 121. In considering the range of appropriate Bank responses in deteriorating governance environments, the Bank will discuss its concerns first with the client and possibly also with other development partners. The Bank's aim remains building long-term relationships

which do not respond to every twist and turn of domestic policy evolution, but take a long term view of country progress.

## A CHANGED CONTEXT FOR GAC

### *A Changed World*

25. **Issues of governance, citizen engagement and the fight against corruption have dominated headlines worldwide.** Accountability, trust in government and integrity in public life are high on the global agenda, fuelled by the growing acceptance that states exist to serve their citizens and a revolution in technology that puts information in the public domain. Scenes reflecting calls for change play out daily on television screens, as citizens, businesses and even civil servants demand greater accountability and transparency of their governments. Clean government is now seen as a right, not a privilege. In increasing numbers, elections are being contested in terms of effective service delivery, responsiveness to citizen needs, improved state accountability and national integrity. The role of engagement is increasingly recognized as central to sustained development outcomes—and rapid advances in information and communications technologies have changed the landscape in how a multiplicity of stakeholders can engage and hold their governments to account.

26. **Countries of the Global South are at the forefront of these developments.** In Kenya, local groups have developed an innovative e-tool application, *Ushahidi*, to map reports of violence in Kenya after the post-election fallout. This tool has now grown to become an important resource for citizen journalists and advocates in other countries. In Jordan, *Ishki.com*, a complaint brokerage in Jordan, collects and organizes complaints from local citizens about the public and private sectors. In Russia, *Democrator* is an online initiative that enables citizens to send petitions and inquiries to government bodies in Russia. In India, pressure from a powerful civil society movement is leading to enhanced attention on a series of accountability reforms. The experience of South Africa is being used throughout the continent to promote greater transparency and scrutiny of budget processes. Box 3 summarizes some of the governance and anti-corruption priorities which emerged from consultations with clients and stake-holders.

### **Box 3: Governance and Anti-Corruption Priorities identified in Country Consultations**

Latin America and the Caribbean	Eastern Europe and Central Asia	Africa Region
<p><b>Inclusion of civil society in GAC - corruption initiatives; capacity building for CSOs to improve demand for good governance</b></p> <ul style="list-style-type: none"> <li>• support the implementation of GAC strategies</li> <li>• training of CSOs and citizens on rights wrt ATI</li> <li>• capacity building for CSOs</li> </ul> <p><b>Strengthening public procurement</b></p> <ul style="list-style-type: none"> <li>• harmonize donor and country systems</li> <li>• minimize off-budget use of public</li> </ul>	<p><b>Promote CSO/NGO capacity to act as partners in building democratic processes and to oversee projects/programs</b></p> <ul style="list-style-type: none"> <li>• engage CSOs in dialogue with Government, and support CSO capacity building</li> <li>• enhance CSO capacities to serve as ‘watch dogs’</li> </ul> <p><b>Increasing transparency/access to information associated with decision-making processes as well as project/program implementation</b></p>	<p><b>Overall Opportunities for Improving Governance in the Region</b></p> <ul style="list-style-type: none"> <li>• ensure government, civil society, and private sector grow in parallel</li> <li>• invest in political economy of poor governance and corruption</li> <li>• promote transparency and coalition building</li> <li>• governance and public sector reform to encompass demand and supply sides</li> </ul>

<p>funds</p> <ul style="list-style-type: none"> <li>• increase accountability of country systems</li> </ul> <p><b>Developing and implementing Access to Information (ATI) regimes</b></p> <ul style="list-style-type: none"> <li>• implement existing ATI frameworks</li> <li>• strengthen demand-side capacity for ATI</li> <li>• better use of technology for ATI</li> </ul> <p><b>Working at the sub-national level on governance</b></p> <ul style="list-style-type: none"> <li>• support for ATI and transparency initiatives at state and local level</li> <li>• support citizen capacity to demand accountability and improve the capacity of local authorities to respond.</li> </ul> <p>➤ technical assistance to strengthen capacity in sub-national institutions</p> <p><b>Transparency in public budgets, clarity in allocations and public investments and greater oversight</b></p> <ul style="list-style-type: none"> <li>• support citizen-led initiatives to monitor local and national budgets</li> <li>• facilitate dialogue between CSOs and government on budget issues</li> <li>• support budget analysis in the National Congress</li> </ul> <p><b>Addressing Crime and Violence</b>, particularly Central America, was a frequently raised theme relating to public institutions' capacity and strengthening accountability.</p> <p><b>Knowledge and learning</b></p> <ul style="list-style-type: none"> <li>• promote knowledge transfer among CSOs</li> <li>• improve knowledge exchange at the state level.</li> </ul> <p><b>Civil service reform</b></p> <ul style="list-style-type: none"> <li>• engage in CSR at national and local level and leverage civil society to monitor and promote reform</li> <li>• stronger merit-based system for selecting civil servants</li> </ul>	<ul style="list-style-type: none"> <li>• strengthen ATI legal and regulatory frameworks</li> <li>• e-governance and e-procurement</li> <li>• Bank support to monitor, evaluate and communicate project results</li> <li>• transparency in Bank procedures, particularly in procurement</li> <li>• accessibility of information regarding contract awards</li> </ul> <p><b>Use of country systems</b></p> <ul style="list-style-type: none"> <li>• use country systems for project implementation. If not viable, support country systems strengthening so that they may be used to implement Bank-sponsored projects</li> </ul> <p><b>Improving state legal and regulatory frameworks and institutions</b></p> <ul style="list-style-type: none"> <li>• develop / enforce transparent public procurement, antitrust, customs, tax, and property rights legislation.</li> <li>• promote civil service reform to increase efficiency and accountability of the State</li> <li>• develop measures to implement the UN Convention on Anticorruption and raise public awareness</li> <li>• strengthen the efficiency and effectiveness of the judiciary.</li> </ul> <p><b>Stepping up the fight against corruption</b></p> <ul style="list-style-type: none"> <li>• widen the focus of anti-corruption efforts</li> <li>• provide information necessary to better investigate/root out corrupt activities</li> <li>• introduce GAC related disciplines in universities</li> <li>• give higher priority to governance issues in policy-based lending</li> <li>• document progress made towards combating corruption</li> </ul>	<p><b>Better Alignment of Donor and Recipient Country Priorities</b></p> <ul style="list-style-type: none"> <li>• align donor interests and national priorities</li> <li>• promote regional integration</li> </ul> <p><b>Improve Documentation of Achievements and Lessons Learned</b></p> <ul style="list-style-type: none"> <li>• assist African Governments to document achievements and lessons learned</li> <li>• upgrade statistics and information services</li> </ul> <p><b>Promoting Transparency and Social Accountability Tools</b></p> <ul style="list-style-type: none"> <li>• strengthen citizen voice through social accountability tools</li> <li>• engage the media for disseminating information to citizens</li> <li>• involvement of beneficiaries in project design and implementation</li> </ul> <p><b>Increase Engagement and Support to Demand-Side of Governance</b></p> <ul style="list-style-type: none"> <li>• engagement with African civil society should be augmented pluralism: accountability to traditional and non-traditional constituencies</li> <li>• strengthening capacity of CSOs to hold government to account</li> </ul> <p><b>Civil Service Reform</b></p> <ul style="list-style-type: none"> <li>• public expenditure management</li> <li>• develop merit-based systems</li> </ul> <p><b>Working at the Local Level</b></p> <ul style="list-style-type: none"> <li>• support mechanisms to improve demand side</li> </ul> <p><b>A Tailored Approach to Public Management Reform</b></p> <ul style="list-style-type: none"> <li>• customized design of PSR</li> <li>• avoid 'best-practice' reforms in low capacity environments: work incrementally on small-scale, catalytic reforms designed to expand the reform space</li> </ul>
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27. **These changes are taking place against the backdrop of continued economic sluggishness.** The recovery in the world economy in 2011 has been insipid: global growth is projected to fall to 3.2% in 2011, before picking up slightly to 3.6% in both 2012 and 2013<sup>3</sup>. Market nervousness about sovereign debt in the Euro Area remains an important source of uncertainty for both high-income and developing countries, where growth is projected to decline from 7.3% to 6.2% between 2010 and 2012 before firming somewhat in 2013. This

<sup>3</sup> Global Economic Prospects, June 2011. World Bank, Washington DC.

uncompromising economic context will put extra pressure on governments the world over to ensure sound policy making, effective program and project implementation, delivering value for money and containing fraud and corruption.

28. **There have been significant changes too in the global governance architecture.** The G20 has replaced the G8 as the main fora through which global leaders meet informally, to exchange views and build trust and confidence. The voice of developing countries is now, rightly, central to the global architecture. The G7+ was formed in 2010 to represent the interest of some of the world's most vulnerable countries, including those emerging from conflict; its Secretariat is based in Dili, in Timor Leste.

### *A Changed Understanding of What Works*

29. **The Bank's commitment to governance and anti-corruption remains unequivocal.** In April 2010 five strategic priorities were set out in the 'New World, New World Bank' post-crisis directions paper, one of which is to strengthen governance at country, regional and global level. This endorses the Bank's commitment as expressed in GAC to help build capable and accountable states. President Zoellick has also urged a rethink of development economics to make it more useful to policy makers and announced a reorientation of World Bank research so it taps more effectively the experiences in developing countries through "open data, open knowledge, and open solutions". His April 2011 speech highlighted issues of transparency, and signaled an increasing recognition that citizen-state engagement is an emerging development paradigm. The World Bank works with governments to help strengthen their capacity and accountability, but—whatever the political system—there cannot be successful development without accountability and citizen participation. Finally, his September 2011 speech noted that investments in citizen voice, in civil society and in social accountability are as important to development as investments in infrastructure, firms, factories and farms.

30. **President Zoellick's speech marks the continuation of the development community's journey from 'best practice' towards 'good fit' in strengthening institutions.** The period since governance first explicitly entered the development discourse has seen a shift in reform emphasis from a concentration on *reform contents* (technical recommendations including the rise of the so-called 'Washington Consensus'), first to include an emphasis on *reform context* (country circumstances and political incentives) and more recently to the *process of reform* (how problems and solutions are identified jointly with clients, and how active feedback during implementation is ensured).

### *A Changed Bank*

31. **Alongside the step-change on transparency and access to data,** the Bank has demonstrated its willingness to confront risks corporately and to respond to the pressure to demonstrate results. This is all being achieved in a flat-budget environment. These changes have opened up a new space for the Bank which brings with it a range of challenges and opportunities. The Bank is seeking to build a global reputation in governance and anti-corruption alongside its reputation for economic and technical excellence. But it needs to demonstrate that it can move quickly and respond with imagination, creativity and flexibility in country contexts that are changing almost literally overnight, and where governance—and government—is in flux. Box 4 presents an example of such imagination, creativity and flexibility. The challenge is to make this the norm for all Bank operations.

## Box 4: Responding to the Arab Spring

In January 2011, Tunisia experienced a wave of protests that led to the toppling of the previous regime. These protests were fueled by a lack of social, economic and political opportunities, and exacerbated by deep rooted frustration of young Tunisians at their lack of voice in the management of public affairs and by severe economic governance failures that favored insiders. While macroeconomic policies were sound, the economic environment under the ex-President Ben Ali was characterized by lack of transparency, cronyism and related anti-competitive practices which discouraged entrepreneurship and private sector investment. As a result, domestic private investment remained low and increasingly focused on real estate, considered safer. A broader lack of transparency, social accountability and citizen participation in government's affairs further exacerbated a sense of denied opportunities.

To support the transition following the revolution, the Bank approved a development policy loan in June 2011 which supported a set of measures to signal a clear break from the past and set the country on a new path, in line with the aspiration of Tunisians as expressed in the January revolution. The thrust of the program supported by the DPL was to underscore that greater voice, transparency, participation, inclusion, all lead to increased investment and competition, and thereby support sustained economic growth.

The DPL measures included: removing the constraints that prevent access to information held by the administration by the public in order to promote transparency, create scope for independent analysis and inform the policy debate and public choice; opening up access to the internet and easing the registration of Tunisian websites; improving public procurement procedures to accelerate decision-making, while reducing discretion and increasing transparency; streamlining the administrative and regulatory burden faced by firms in the area of taxes and customs to reduce cronyism and arbitrariness; introducing new rules for good governance in the banking sector; reforming the National Employment Fund to break with the cronyism of the past and introduce new programs to better assist the unemployed; introducing citizen voice mechanisms in the provision and evaluation of key public services (health, education, and social assistance); adopting a national services outreach policy to expand access to health care, education and social assistance services using participatory approaches in underserved regions.

The reforms supported by this program can form the building blocks of a strong, more open and inclusive Tunisia, and set the country on a faster, more inclusive, development path.

32. In some country contexts therefore, where governments are implementing governance and anti-corruption reforms in predominantly incremental, long-term programs, the Bank's approach will necessarily focus addressing the 'nitty-gritty' of organizational change and bureaucratic reform. Occasionally though, there opens up the opportunity for more transformative change: whereby major structural changes to governance institutions and the 'rules of the game' are put in place. The Bank needs the intellectual resources and the operational instruments to respond effectively.

### LOOKING BACK: LESSONS LEARNED

33. A number of lessons and challenges have been identified over the last four years of implementation:

- **Better governance is critical for development, and problem-based approaches have more traction than 'best-practices'.** Effective GAC country and sector strategies begin with identifying a problem and not with a predetermined solution. Box 5 provides examples of a country program where teams have increasingly approached governance issues from a

problem-driven and results perspective, grounding those programs with a better understanding of the constraints to change and the incentives for reform.

### **Box 5: GAC Impacts at Country Level**

The 2009 Country Assistance Strategy defined weak governance as a binding constraint to inclusive growth in the Philippines and committed the Bank embedding more systematic approaches to governance challenges and operationalizing them across the portfolio and at each step of the project cycle. An innovation was to institutionalize upstream political economy analysis at the pre-concept stage to consider governance risks and mitigation strategies for all new proposed lending operations. This process is coordinated by a field-based governance adviser and a multi-sector Governance Advisory Team.

Based on traction and potential impact, the CAS identified three results areas: GAC in selected agencies, procurement and public financial management reforms at national and local levels and better local governance. Some of the examples of GAC in sectors/agencies include GAC in CCT, enhanced anti-corruption measures in the roads project, pilot application of a Public Expenditure and Financial Accountability-like assessment in a line ministry (Health), and just-in-time technical assistance (TA) on financial accountability in the security sector where recent high-level corruption scandals revealed fundamental weaknesses in internal governance and control. For local governance, the Bank supports nation-wide scale-up of the successful community-driven approach and top-down incentives for good local governance such as the ‘Seal of Good Housekeeping’ that rewards local governments that disclose a set of financial and other information.

Of these, a core priority is public financial management (PFM). Here the innovation was how the Bank attempted to work. Taking advantage of the strengths of the Philippine civil society and trying to compensate the weak institutional checks and balances that have often allowed the executive to act opportunistically, the Bank prioritized enhancement of budget transparency as a key objective of PFM reforms. The strategy combined flexible, low-key TA to foster a broad consensus and ownership of reforms among government technocrats on the one hand and direct support to CSOs to build capacity for evidence-based policy advocacy along the annual budget cycles on the other. The Bank’s engagements with both government counterparts and the CSO community were calibrated on the basis of detailed mapping of the relevant players and their interests, placing the Bank as ‘an honest broker behind the curtain’ to foster genuine domestic ownership of reforms.

- **Strengthening country institutions remain central to the governance agenda, but several ‘systems’ are required, and there are no simple, unequivocal and short-cut ways to put them in place.** Three sets of institutions are central to the governance and anti-corruption agenda: those relating to cross-cutting core government systems (for managing policy development, finance, people, information, assets etc); those relating to specific sectors (forestry, education, transport, natural resources etc); and those relating to the ways in which the executive is held accountable to citizens (parliaments and parliamentarians, ombudsmen, third-party mechanisms at various levels, civil society etc). For the updated GAC strategy, the objective of strengthening country *institutions* will go beyond the use of one or two specific country *systems*, such as for finance or procurement<sup>4</sup>. Entry points will vary according to the nature of the sector or institution: some will be high level, such as

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<sup>4</sup> It is noteworthy that the IEG evaluation found that in FY08-10, the Bank committed to support institutional strengthening in three times as many countries as it had in FY04-07. In Africa, projects using at least some country systems increased from 11% to 40%.<sup>4</sup> In countries with Country Policy and Institutional Assessment (CPIA) governance scores lower than 3.5, 41% of FY08-FY10 projects used at least some country systems—that is, public financial management, procurement, or personnel systems—compared to only a quarter from FY04-FY07. In Africa, projects using at least some country systems increased from 11% to 43% over these same time periods. This is encouraging – but clearly more needs to be done.

introducing new laws or changing the regulatory framework; while others may be at a lower level focusing on organizational structures or management systems.

- **Better governance can be ‘demanded’.** It is here that the global governance agenda has seen the most dramatic changes since 2007. The ‘demand side’ is not limited to civil society and its capacity to engage with government, express its legitimate needs, and hold the state to account. It includes also the institutional arrangements that facilitate constructive engagement between the state and non-state actors, such as citizens and the private sector, as well as non-state institutions of accountability, such as Parliaments and Ombudsmen, Information Commissions, Anti-Corruption Agencies, supreme audit institutions and other third party monitoring mechanisms. By bringing together different strands of the participation, rights, and public sector reform spheres, the demand for good governance (DFGG) agenda puts people at the center of development. Box 6 illustrates how DFGG mechanisms are being implemented in current Bank- supported activities.

### **Box 6: Strengthening the Demand-Side to improve Governance and Deliver Results**

In the Dominican Republic, the Bank’s current country strategy has adopted a ‘demand-side’ approach, focusing on building capacity and support for reform. It has a number of components at different levels:

- The Participatory Anti-Corruption Initiative (IPAC) brings together civil society, the private sector, and government to coordinate efforts to fight corruption. It devised a roadmap with concrete anti-corruption measures whose implementation is monitored by Civil Society.
- In September 2011, an internet portal (*‘Portal Ciudadano’*) was launched to give citizens access to budget data, thus promoting transparency and improved public expenditure. The Government will henceforth also publish Citizens Budgets, making revenue and expenditure data available to the public in simplified form.
- The Bank has supported the Conditional Cash Transfer program *‘Solidaridad’*, which pilots the country’s first Community Score Cards. These cards will help evaluate the quality and availability of health and education services received through *Solidaridad*.
- Re-establishing trust between electricity distribution companies and citizens, a bank financed project includes a community outreach component which establishes “Social Agreements” between the companies and communities. In those agreements companies commit to enhanced service quality while communities commit to increased payment rates for electricity consumption.
- At the grass-roots level, a variety of initiatives seek to improve participation in and transparency of budgeting processes and increase access to information. The Public Budget Monitoring Project aims to improve civil society’s capacity to analyze and monitor budgets. A Japan Social Development Fund financed project aims to empower rural communities to make use of the 2004 Access to Information Law through training civil society to work more effectively with local governments in order to improve their access to information, as well as to build local government capacity to respond in a timely way. A Korean Trust Fund project pilots the use of mobile technology to improve participatory budgeting which is mandatory at the municipal level.

- **GAC requires continuous county engagement, rather than occasional interventions.** The IEG evaluation noted that sustained engagement at the country level on the difficult issues of governance and anti-corruption was a major Bank strength.<sup>5</sup> Here the Bank’s country-driven model creates a real comparative advantage: its continued drive to decentralize staff, resources and decision-making authority to a global network of country offices underpins this model.

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<sup>5</sup> Op cit, p ix.

- **GAC requires rigorous and in-depth diagnostics.** This lesson emerges clearly from the Bank’s recent work in public sector management, the demand side and in the judiciary. Over the past four years, there has been a sharp acceleration in the use of diagnostics upstream of country, sector and project-level operations, including the use of political economy analysis. Box 7 provides an example of such analysis that has led to changes in project design. A majority of staff also now see some form of attention to political economy analysis as essential for development effectiveness.<sup>6</sup> Continued improvements to the quality and operational usefulness of such analysis requires that such work takes a clear problem-driven approach, there is a forward perspective, and the country team is closely involved and supported with the right skill mix.

### **Box 7: Use of Political Economy Analysis**

**In Mongolia**, the country was facing a fundamental change in dynamics: a transition from a communist state to an economic boom fuelled by a rapid expansion of mining. This posed challenges in macro-economic management, governance, and Bank engagement in the mining sector – with a view to helping Mongolia to avoid a ‘resource curse’. The Bank team developed a set of governance and political economy notes on key aspects of natural resource dynamics and management. Two key findings included the need for close engagement with Parliament as the crucial policy setting body (in addition to the traditional engagement with line ministries and the Ministry of Finance), and an awareness that institutional solutions for good natural resource management had to recognize strong political forces and high public expectations as well as policy preferences that differed from Bank orthodoxy in some areas. These findings led to an intensified engagement with Parliament which helped to bring about the adoption of a Fiscal Responsibility Law with support from MPs from across political camps. The first provisions of the law that have come into effect are now triggering considerable savings into a Stabilization Fund; and the law has a unique combination of provisions which are now also being considered by other resource rich countries. The analytic work informed a Mining Sector technical assistance operation which puts strong emphasis on public outreach and engagement to explain policy options around contentious issues such as the share of government ownership. Furthermore, the Bank mobilized additional Trust Fund resources to support the establishment of a local Think Tank which has the capacity and credibility with local stakeholders to assess and comment on economic, fiscal, and related mining sector policy issues. A high volume of website visits to the recently established institute indicates the strong demand for such locally generated policy research.

**In Zambia**, political economy analysis helped to reframe the dialogue away from first best reforms towards more incremental actions on reforms in the telecommunications and electricity sectors. In electricity, findings from a PE analysis helped shift the debate from comprehensive sector restructuring to a more incremental approach of linking new investments in the energy intensive (and dependent) mining sector. In telecoms, the entry point for dialogue was redirected towards the high cost of domestic calls away from the previous preoccupation with the liberalizing the international gateway. In both cases, proactive use of information and communications helped to inform citizens about reform needs and the drawbacks of non-reforms – high cost in the case of telecommunications and very limited access in the case of electricity. This shift in dialogue helped to unlock dysfunctional equilibrium. The power sector realized the next generation of electricity investment and three successive price increases amounting to a total tariff increase of over 80% -- which while still below cost recovery moves a step closer to sustainability. In telecoms, the dominant parastatal was privatized and a 70 percent reduction in domestic tariffs was realized.

[http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2011/05/09/000158349\\_20110509140434/Rendered/PDF/WPS5656.pdf](http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2011/05/09/000158349_20110509140434/Rendered/PDF/WPS5656.pdf)

Monica Beuran, Gael Raballand, Kapil Kapoor: *Political Economy Studies: Are they Actionable? Some Lessons from Zambia*. World Bank Policy Research Working Paper no. 5656, May 2011.

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<sup>6</sup> In a recent survey of PREM network staff (n=303), 84% agreed that PE analysis is important or very relevant for the Bank’s work.



- **Making the growing knowledge base widely known and easily accessible both inside and outside the Bank is critical if GAC is embedded in the Bank’s operational support.** The Bank’s online GAC knowledge platform (internally <http://gacknowledge> and externally [www.worldbank.org/governance](http://www.worldbank.org/governance)) integrates the resources (e.g., good practice examples, guidance, online training) of each of the Bank’s ‘Communities of Practice’, and makes them available to all Bank staff as well as globally. Going forward, it is important to further to raise visibility of and engagement with the platform so that it can realize its potential as a hub for global conversation and learning on governance and anti-corruption.

## **LOOKING FORWARD: STRENGTHENING GOVERNANCE AND TACKLING CORRUPTION**

34. **The revised and updated approach to governance and anti-corruption is built on two foundations. The first foundation recognizes that effective, transparent and accountable institutions lie at the core of development.** Institutions establish ‘the rules of the game’: the formal and informal rules which determine whether the public sector acts in its own interests or on behalf of all citizens; which influence private sector investment decisions; which create incentives that either create or curtail rent-seeking opportunities for civil servants; and which influence expectations citizens have of their governments. Institutions matter.

35. **The second foundation recognizes that these institutions are country specific and cannot be imposed from outside.** But it is this that creates the Bank’s comparative advantage: its business model is country-owned and country-driven. Bank clients demand services and borrow funds for their own priorities and to meet their own aspirations, which will vary from country to country. The issues facing middle-income countries are different from those facing countries emerging from conflict. *Governance* is not about a particular form of *government*; rather it is about a context-specific set of institutions that meet country needs and fit country circumstances that deliver development and poverty reduction outcomes in ways that are sustainable, transparent and accountable. The Bank’s country-driven approach is exceptionally well-placed to assist the spectrum of Bank member countries meet their development priorities.

36. **The important implication of this is that there are many entry points for Bank work on governance and anti-corruption: at country, sector, project and at global level.** In addition to the Bank’s ‘default’ mode of working with the Executive and improving the supply of public goods and services, it is now even more important that the Bank engage with civil society, the private sector and non-executive institutions of accountability, such as the judiciary, as these not only respond to, but help create, change and sustain the ‘rules of the game’, the institutional environment, in which development takes place. The Bank will use its role as a generator of knowledge and its connecting and convening power to make a difference at country level. These modest yet potentially powerful global initiatives are designed to improve integrity in natural resource use, in financial markets, in contracting and in public administration.

37. The revised and updated GAC has five core components.

## Systematizing Success and Scaling Up at Country and Sector Level

38. **Ensuring that country strategy, programs and operational work integrate measures to improve governance and anti-corruption has been the central element of the GAC strategy to date.** At the country-level, this mainstreaming approach has been piloted in 18 countries through the Governance Partnership Facility (GPF) Multi-Donor Trust Fund. The GPF, now funded by the UK, Norway, the Netherlands, and Australia, provides additional resources for the Bank to implement cutting-edge governance initiatives at country level. The activities and operation of the GPF is summarized in Annex 1. Going forward, the Bank will build on the successes and lessons of the 18 countries receiving GPF funding<sup>7</sup>, as well as others that have integrated GAC into country programs. Incorporation of GAC elements into country programs will become part of the regular design of Country Assistance Strategies, using regular Bank budget. Progress has been made in integrating key GAC dimensions (use of political economy analysis, transparency, accountability, civil society participation, monitoring and oversight) into sector work —especially Human Development. Going forward, the Bank will accelerate the focus on integrating GAC elements into sector strategies and operations.

39. **GAC has seen much experimentation regarding ‘smart’ project design,** through the integration of GAC Action plans, heightened attention to political economy, integration of stronger fiduciary controls, a new access to information policy, and support to the development of country systems in financial management, procurement, audits, monitoring, and oversight. A QAG review found that almost 46 per cent of a sample of 2008 projects integrated such GAC elements. Over the next phase of implementation, efforts will be directed to increasing the portion of GAC-sensitive projects. Progress will be measured by repeating the QAG exercise. Teams will also be encouraged to engage with INT’s Preventive Services Unit early in the project/programming cycle. INT’s preventive work will be planned more strategically, in particular on projects that are successors to those that were subject to INT investigations or are located in high-susceptibility sectors such as infrastructure and natural resource exploitation. Box 8 gives examples of INT support.

### Box 8: Real Time INT Support to Projects

INT has provided early preventive support to regional management, task teams and borrowers enabling them to stop potentially tainted procurement actions before they are finalized. For example, expanded communication between INT investigative teams and operational task teams during investigations has led to the withdrawal of a bid (USD 4.4M) by a consulting company suspected of falsifying its submission; and a borrower’s rejection of the award of a contract (USD 5M) based on serious issues identified by INT. INT’s Preventive Services Unit has also worked closely with task teams to improve project design and implementation by providing specific

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<sup>7</sup> An independent stock-take in 2011 found evidence of a ‘step-change’ in the country strategies in a significant portion of these 18 countries where an intensive effort was made to spearhead GAC implementation. Eleven these 18 country programs were rated as having strong support for GAC, four programs were assessed as meeting the standard for good GAC practice, and three showed room for considerable improvement. The reasons underpinning strong performance included: (i) strong management support at Vice-Presidency and country office level; (ii) the availability of governance skills within the country team, and (iii) judicious use of forward looking political economy analyses. (Source: ‘Implementing Country Level Governance Programs: A Review of Window 1 Country Programs’. September 2011).

information on integrity risks in specific sectors, regions or implementing agencies culled from the results of completed investigations, complaints, or the Bank’s Voluntary Disclosure Program. A typical example of such preventive work is the use of information received by INT from allegations to: (i) enhance fiduciary and internal control training for implementing agency staff under the proposed project; (ii) help deepen an effective inspection and complaints handling procedures for the project; and (iii) strengthen the integrity requirements in the terms of reference for supervising engineers. Other examples of preventive measures recommended by PSU and included in Bank operations include technical audits to avoid substandard quality; asset, income and conflict of interest disclosures for implementing unit staff; and integrity risk-based terms of reference for project audits.

## **Strengthening Country Institutions and using Country Systems**

40. **The updated GAC strategy recognizes that development and poverty reduction depend not only on improving the capacity of a country’s institutions to manage resources, deliver services, and foster private sector growth, but also on the legitimacy and authority of those institutions: in short are they trusted and do they serve all the people, including minorities?** The priority the Bank attaches to ensuring IBRD, IDA, and TF resources are used for the purposes intended will remain. This is core to the Bank’s business. But focusing on ‘ring-fencing’ Bank resources may not be the best way to help countries address their deeper governance issues. The need now is to match that steadfast focus with efforts to address the more deeply entrenched governance challenge of helping countries strengthen their institutions. A core foundation of this strategy is that both the formal (de jure) and informal (de facto) rules of the game the influence if not determine behavior need support and strengthening. Such institutions are not limited to only those that lie at the heart of government – for managing policy, money, people, information and assets. They include institutions within each sector: how governments plan, deliver, monitor and account for resources deployed within the fields of education, transport, water and sanitation, health etc.

41. **Reflecting on lessons learned over the past few years and from the *Arab Spring*, a critical priority for GAC going forward will be a new focus on (and revised approach to) institutions that bring together the citizen and the state.** Often referred to as ‘demand-side’ institutions, it includes initiatives to promote transparency and access to information, open budgets, citizen participation and the panoply of mechanisms to strengthen oversight and accountability of the executive branch of government, such as Anti-Corruption Commissions, Ombudsmen, information commissions and auditors-general. Box 9 summarizes how the World Bank Institute is now addressing these issues in a range of innovative ways.

### **Box 9: World Bank Institute and the Challenge of Governance: Addressing Fundamental Market Failures**

One of the main challenges confronting GAC today is aligning the supply of and the demand for governance reforms more effectively to promote and support development. But the market for governance reforms is plagued by ‘market failures’. There are serious problems of information: asymmetry (many citizens simply do not know what Government is supposed to provide and what constraints it faces in doing so) and imperfection (the news has a considerable “noise” making it difficult for the average citizen to appreciate the real facts). And it confronts even deeper coordination failures. Reform necessarily implies change, which often means the need for different parties to accept new ways of behavior and / or adopt new attitudes. This involves bringing relevant stakeholders to work collaboratively towards a new way of doing things, often over a long period of time.

The World Bank Institute (WBI) has launched innovative programs on *open and collaborative governance* to help address these fundamental market failures. These include:

**Addressing informational problems**

- *Mapping for Results*: mapping World Bank Group and other development institutions' projects around the world, so that citizens have better and more accurate information on project locations and results, a program that can easily be adopted by governments worldwide for their own expenditure programs
- *Open Budget Initiatives*: promoting better public financial management through online tools, including *BOOST*, to track public expenditure and e-procurement
- *Open Development Technology Alliance*: sharing knowledge on open government solutions that work
- *Crowd Sourcing Innovations*: managing competitions to surface, highlight, and invest in "citizen solutions" (often social entrepreneurs) as they tackle informational challenges.

**Tackling coordination failures**

- *Leadership*: developing a collaborative leadership program to support change agents (government and non-government) in navigating "the how" of moving reforms forward and achieving desired results
- *Contract Monitoring through Citizen Engagement*: fostering coalitions of stakeholders to monitor government contracts, including in particular those involving extractive industries, pharmaceuticals, and procurement, and strengthening the capability of citizen groups such as the Affiliated Networks of Social Accountability (ANSA) and other non-governmental stakeholders to engage in constructive dialogue and collaboration with governments.

42. **Furthermore, the Bank's approach in four thematic areas, all of which are crucial in establishing the institutional rules of the game have been updated: the public sector, the private sector, procurement and justice.** All now reflect more empirically-based, pragmatic, and modest approaches. In the public sector, this means a strong focus on a problem to be solved, not a solution that the Bank brings 'in advance'; it means engaging flexibly and systematically with a variety of stakeholders in identifying both the problem and the likely solution; it means asking searching questions about political economy (why is the current dysfunction so persistent?; who wins and who loses from the current arrangements?; where will support for this reform come from, and from where will opposition arise?; what can be done to persuade opponents?); and it means using empirical evidence to review the likelihood that a given reform will actually solve the problem.

43. In procurement, the Bank's approach increasingly will be to strengthen principles and performance-based procurement institutions. In the private and financial sectors, the GAC agenda includes strengthening country and industry level frameworks and institutions, public-private dialogue and other participatory mechanisms, and enterprises' approach to corporate integrity and governance. For the first time the Bank now has an institution-wide approach to justice and justice reform.

44. The full spectrum of Bank instruments (including investment lending, development policy operations, analytic and advisory work) need to be deployed. Given that support to governance reforms that require agility, navigating diverse interests, individual incentives, and political affiliations, and working with multiple stakeholders, the Bank will continue to explore whether or not existing instruments need to be buttressed with new possible new instruments to ensure GAC issues are addressed.

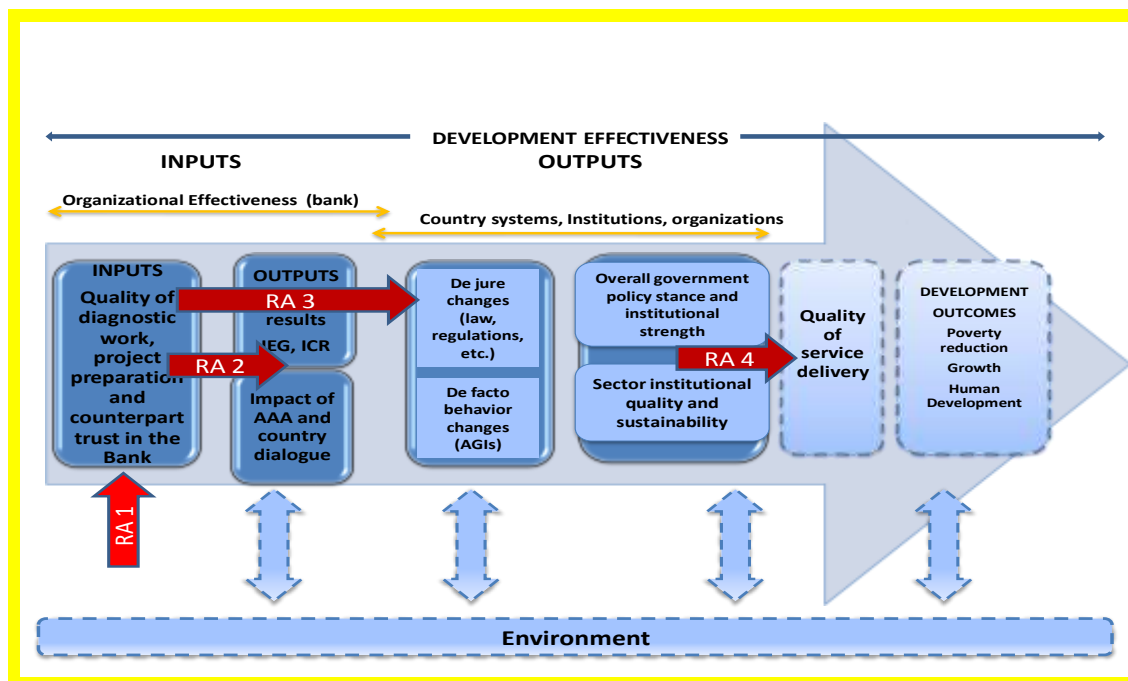
## Measuring Results

45. **The lack of a results framework has hampered the ability of the Bank both to focus consistently on priorities, and to demonstrate that its GAC work is delivering results.** Also problematic has been the inconsistent use of governance indicators: in the absence of a consistent set of “Actionable Governance Indicators”, measuring progress will remain chimerical. The development of a results framework with appropriate indicators is therefore a priority.

46. **The updated GAC Strategy articulates a clear results chain.** It posits that GAC-responsive inputs (see Results Area 1 in Figure 1), such as country strategies, analytical work, *will lead to* better outputs from Bank-supported initiatives (Results Area 2), *which combined with many other factors will lead to* an improvement in institutional quality at the country level (Results Area 3), *which will ultimately lead to* improved development outcomes (Results Area 4), e.g. service delivery and the MDGs.

47. **This GAC results chain is shown in Figure 1.** The left hand end of the chain encapsulates Bank inputs and outputs. The central part of the chain captures outputs in terms of country systems and the institutional environment. The right hand end of the chain reflects service delivery and ‘final development outcomes.

**Figure 1: The GAC Results Chain**



48. **Existing indicators of country institutions will be used more systematically to provide an overview of the institutional landscape in client countries.** Yet there is much that happens within the chain that is not well understood: in what ways do better institutions lead to better outcomes? Do the measures exist to enable country systems to be tracked? Recognizing that existing indicators are limited, during the next phase of GAC implementation, a program of

work to develop additional indicators of institutional quality will be prepared, and a concerted push will be made to interest others in partnering with the Bank to move the work forward. A research program will be piloted to better understand the link between institutions and service delivery, with an aim to inform the design and prioritization interventions with the biggest impact on service delivery.

49. **The Bank will track its progress on using a GAC lens in its operational work. It will also track its actions to strengthen organizational effectiveness in relation to implementing its GAC strategy.** For sustainability, monitoring will be increasingly incorporated into regular corporate monitoring and reporting tools. While some of this will be carried out at the corporate/central level, this will mainly need to be done at the region/country and sector levels. Recognizing their limitations, efforts will be made to develop a small set of existing country indicators (e.g., publication of budget) to track broad aspects of the institutional landscape in client countries. Similarly, the various sectors will be encouraged to develop and track sector-specific indicators of strength of country systems at the sector level.

50. **However, the Bank cannot commit to ensuring time-bound country level improvements/actions.** These are commitments for countries to make, not the Bank. GAC issues are difficult, contentious and long-term. In the GAC arena above all, states are indeed sovereign, and the Bank needs to be realistic about its reach and ability to influence.

## **Managing Risks**

51. **The Bank will continue to strengthen its approach to risk management.** The Bank has made it clear that more effectively addressing and managing risk is a corporate priority. The vision for a new approach to building institutions, managing risk and addressing malpractice has been laid out by President Zoellick:

*Some of the risks we take, on complex projects or in challenging environments, are not going to work out. This means that we need to make a special effort to clarify accountabilities so we catch problems early. Everyone needs to be accountable for the quality of their efforts to assess risks. Management needs to help their colleagues assess which risks to manage—and which not to take. And staff need to accept the responsibility for sharing difficult information with management—including, of course, information on corruption hazards.*

52. **GAC acknowledges that development is a risky business and there is no way, other than not lending at all, to guarantee the absence of fraud and corruption.** The Bank therefore will maintain the highest standards for managing and mitigating fiduciary risk. The Bank has articulated clearly its position on ‘zero tolerance’, which has two components. The first component acknowledges that the Bank has some ex-ante appetite for risk. The Bank recognizes that development initiatives in developing countries will inevitably encounter challenges and obstacles which present risks to its projects, and while the Bank seeks to mitigate these risks they will not be removed completely if the Bank is to maintain an ambitious approach to its governance work. The second component is an ex-post zero tolerance when it is shown that fraud, corruption or other malfeasance has occurred. In such circumstances the Bank will always and everywhere take action to address the problem.

53. **Delivering on this vision requires a better understanding of the governance, political and integrity impediments to achieving development goals;** management systems that balance risks and rewards; and implementation systems that better monitor and mitigate those risks that are taken on. A start on this agenda has been made by recognizing that development risks can vary significantly according to country context.<sup>8</sup> The Bank will more clearly distinguish between fiduciary risks (the risk to Bank-lent funds) and implementation risks (that the initiative could not be effectively implemented – or that it was indeed implemented but it failed to achieve its objectives). While the Bank remains committed to reducing fiduciary risk to zero or as close thereto as possible, the Bank recognizes that there will always be some initiatives that will fail – this implementation risk cannot be removed without removing development ambition.

54. **Implementation risks will be addressed** through greater flexibility in design and implementation planning, informed by political economy analysis and evidence on what works, and more active implementation supervision and support of 'risky' projects and portfolios. The revised approach seeks also to ensure strengthened project relevance, through greater attention on selectivity at both country strategy and portfolio planning levels, deeper diagnostics to identify underlying problems, and a focus on the relevant institutional and sector level 'binding constraints'. Early in the period, work will be undertaken building on existing risk identification and mitigation approaches, as well as new initiatives led by the Chief Risk Officer, to develop an approach to risk that enables Bank management to:

- make explicit the Bank's major operational risks;
- assess the effectiveness of efforts to manage those risks; and
- make informed decisions on new commitments based on the risk-reward balance.

55. **The Bank will ensure full compliance on the use of ORAF across the investment lending portfolio,** and work with front-line units and managers to use the expanding database of information on risks and mitigation measures to help strengthen country and sector level risk management, including key governance and corruption risks. The Bank will review the experience with ORAF after two years (notably its use as intended in differentiating the management of operations by risk) and make adjustments as needed.

## **Global Governance**

56. **The Global GAC agenda is an important component of GAC.** Global threats—transnational organized criminal activity, corruption, the illegal trade in natural resources, the laundering of the proceeds of crime and tax evasion— can significantly impeded efforts to improve governance and development gains at the country level. International cooperation and collective action is critical to address these challenges. While, this has been a somewhat weaker pillar of the early phase of GAC implementation, going forward, the Bank will accelerate its work in this area, supporting cooperation and mutual accountability among international actors to protect national assets and domestic income in poor countries against global threats,

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<sup>8</sup> This was recognized in the April 2010 'New World, New World Bank' post-crisis directions paper. The Bank's Board endorsed a variegated target for project effectiveness (i.e. projects rated moderately satisfactory and above); the target for IBRD countries is 80%, for LICs it is 75% and for fragile and conflict-affected states it is 70%<sup>8</sup>. This encourages greater freedom to take greater risks where justified by potential rewards in fragile situations.

embedding the governance and anti-corruption perspective into the work on global initiatives, and developing synergies between work at the global, country and sector levels.

## Organizing for Impact

57. **Continued efforts are needed to boost the Bank’s own capabilities to engage effectively with countries on governance and anti-corruption issues.** The GAC model is based on creation of knowledge, learning, awareness-raising as a means of furthering integration of GAC issues as part of the Bank’s operations. Despite the fact that during GAC a series of toolkits, guidance notes, ‘good practice’ notes were prepared, it is clear that more needs to be done in terms of delivering support, reaching the intended audiences and addressing sector specific needs. Adequate training of staff, clear accountabilities that align resources with priorities, and integrating monitoring and reporting into regular management systems are important elements for effective implementation going forward.

58. **The Bank will make adjustments in how it manages and monitors GAC, in the way it learns, the instruments at its disposal, and how staff and resources are deployed.** Key to success will be a more formal system of oversight and management, [with a strengthened role for the GAC Council. A summary is provided in Box 10.]

### Box 10: Changes in Bank Management, Learning and Resourcing

**Management and Oversight.** The Updated Implementation Plan will clarify the roles and accountabilities for GAC priority setting with better monitoring of GAC agenda and a more strategic role for GAC Council. New Terms of Reference are proposed for the Council. Implementation will also introduce new accountability and reporting arrangements for Vice-Presidents.

**Staffing and training.** A ‘governance and anti-corruption competency’, supported by a distance training program, is being developed. The program will be piloted in the Poverty Reduction and Economic Management Anchor. The experience will be reviewed to determine the viability of expanding to other sectors.

**Knowledge sharing and learning.** The objective in the updated Implementation Plan must be to put in place a more systematic Learning and Knowledge Framework—with clear sector accountabilities. It is clear that continued knowledge management activities are required across all sectors. There is a continued need for the development of on-line training materials. The GAC Update will seek further to develop the GAC Knowledge and Learning Platform. The Bank will also enhance INT’s preventive training by building on the Integrity Clinics and similar initiatives in collaboration with regions and networks.

**Instruments:** A new lending instrument was approved by the Board in January 2012, the Program for Results. It is expected that the first loans made using this instrument will be made in FY 2012. Plans are also well advanced for a Partnership for Social Accountability. It is expected that this will become operational also in FY 2012.

**Resourcing.** The GAC Implementation Update discusses what can be achieved in the context of a flat budget environment, through trade-offs and prioritization (*e.g.*, shifting Bank budget away from low risk activities to work on areas of higher or systemic risk) and through partnerships with other interested donors. The Bank will ensure that any Trust Fund resources (*e.g.*, the Governance Partnership Facility) will support regional and network priorities.

**Monitoring.** During implementation, monitoring will be increasingly incorporated into regular corporate monitoring and reporting tools (*e.g.*, agreements between Regional and Network Vice-Presidencies and the Managing Director responsible for GAC, and the Corporate Scorecard).



## CHAPTER 2: UPDATED IMPLEMENTATION PLAN

### I INTRODUCTION

59. **The updated Implementation Plan represents a consolidation and a deepening of efforts over the past four years, together with a few significant changes.** The strategy for the Bank’s governance and anti-corruption work is to scale up the successes identified to date, and to make a few important changes in the Bank’s approach to strengthening country institutions, measuring results, and in managing risk. This strategy will be underpinned by strengthened Bank management and oversight procedures and more systematic learning. Box 11 summarizes continuities and changes in implementation priorities.

**Box 11: Implementation Continuities and Changes of Emphasis**

Continuities	Changes of Emphasis
<ul style="list-style-type: none"> <li>● Protection of IDA, IBRD and Trust Fund resources from fraud and corruption</li> <li>● Focus on mainstreaming, over time, GAC in Bank work—including country strategies and sector strategies.</li> <li>● Continued reform and changes in internal Bank systems, procedures and operational instruments when needed.</li> <li>● Continued lesson learning and knowledge management across the Bank, by sector, by country and globally.</li> <li>● A modest program to help catalyze global action for strengthened global governance.</li> <li>● Strengthened Bank management and oversight of GAC.</li> </ul>	<ul style="list-style-type: none"> <li>● Institution strengthening: matching the focus on individual transactions with the strengthening and use of country systems and institutions.</li> <li>● Risk assessment and management: the challenge for GAC is to put in place a risk assessment and management system that balances risk and reward.</li> <li>● Measuring results: the updated Implementation Plan uses identified a four-step ‘results chain’ that tracks the ‘line of sight’ from Bank operations right through to development outcomes. This is a critical part of the GAC agenda; on the one hand the Bank cannot be held accountable for a comprehensive set of country level downstream outcomes, but equally it must be held accountable for a set of credible, stretching yet feasible ‘deliverables’ that demonstrate it is making a real difference to results on the ground</li> <li>● A deeper recognition of the importance of citizen-state engagement in the development paradigm. To date the Bank has not had a dedicated partnership platform or financial instrument for supporting civil society organizations (CSOs), although it has channeled significant funds to CSOs. The Bank therefore is now exploring internally the concepts underpinning investing in citizen voice and social accountability. Following internal and external consultations, the Bank will refine its proposed mechanism for supporting CSO capacity through a Partnership for Social Accountability (PSA).</li> </ul>

60. Implementation must also take into account the views from many front-line operational staff in the Bank the initial GAC strategy did not go far enough in considering what were seen as key issues in the emerging GAC agenda. These include: (i) the drive to improve project and portfolio performance in increasingly risky environments, resulting in incentives to ‘dumb down’ project objectives to ensure success; (ii) the need to demonstrate short-term results ‘on the ground’ while at the same time building country capacity and institutions; (iii) the need to

maintain—and increase—lending while at the same time adequately addressing GAC issues; (iv) the perception that in a flat budget environment staff are constantly being asked “to do more with fewer resources”; and (v) to build, strengthen and where possible use country systems yet ensure at the same time Bank resources are protected. These views need to be acknowledged and addressed to the extent possible.

61. The structure of this implementation update is as follows:

**Section II: Scaling Up and Systematizing Success.** This section presents the ways in which the bank will embed the successful lessons learned to date at country, sector and project level.

**Section III: Strengthening Country Institutions and Using Country Systems.** This section will make the important distinction between using country systems (a key issue for public financial management and procurement issues) and the updated approach the Bank will take to strengthening country institutions. The final part of this section considers the role of INT in strengthening systems and institutions.

**Section IV: Measuring Results and Managing Risks.** This section presents the results chain to be adopted for GAC, and how the Bank will make more effective its approach to risk management. The Bank’s understanding of ‘zero tolerance’ is articulated.

**Section V: GAC Global Action.** The development outcomes sought by the Bank and its clients will be influenced—indeed constrained—by the nature of the external environment and by the balance of global incentives and disincentives for good governance. It is therefore important that the Bank continue its modest program aimed at strengthening global governance.

**Section VI: Organizing for Delivery.** This section describes the supporting changes that will be put in place to the corporate management and oversight of GAC as well as summarizing staffing, resourcing and learning and knowledge management issues.

**Section VII: Conclusions.**

## **II. SCALING UP AND SYSTEMATIZING SUCCESS**

62. This section considers three elements of GAC implementation that have proved successful, and now need to be made ‘routine’ in Bank operations: GAC in country strategies, in project level operations, and GAC in sectors.

### **EMBEDDING GAC AT COUNTRY LEVEL**

63. **The high level objective of the Bank’s engagement on GAC remains to build capable and accountable states that can devise and implement sound policies, provide public services, set the rules governing markets, and provide oversight of how public resources are used.** Hence, country assistance strategies, and their implementation, stand at the center of GAC implementation. Preparing country strategies through a ‘GAC lens’ would not only help identify gaps in existing governance knowledge but would help provide an understanding of:

- severity: how severe are a country’s governance and corruption challenges – in their implications for development effectiveness, and for the World Bank (and other donors) reputational, fiduciary and implementation risks?
- prospects: what are the prospects for significant governance and anti-corruption reform?
- entry points: what are the potential entry points for improving governance and reducing corruption (either directly or as an indirect, joint product, as part of poverty-reducing interventions)?
- impact: how, specifically, might governance constraints inhibit effective implementation of the CAS?

64. Bringing together even tentative answers to the first two questions—the severity of the problem and the prospects for meaningful reform—will help design and calibrate the strategic approach to country assistance. An early priority for the updated Implementation Plan will be a ‘light-touch’ review of existing corporate country strategy guidance, in order to ensure it provides adequate coverage of GAC issues, as well as creating a ‘GAC in CAS’ training program.

## GAC IN PROJECTS

65. **Bank-funded projects increasingly need to be designed not only to meet their development objectives and protect the use of Bank-provided funds, but they must also leverage strengthening and possibly reform in the systems and institutions in which they are embedded.** This is the clear message from Bank clients. Such a shift has clear implications for project selection, how the Bank treats risk, and the use of instruments. Making the shift will require more GAC-knowledgeable sector staff, appropriate sector specific guidance, relevant and accessible tool-kits, supportive budgets, the use of governance related indicators, a more directed knowledge management and learning effort, and an incentive framework aligned with these objectives.

66. The ‘GAC in Projects’ Working Group was established by the Governance Council in 2008. It is anchored in OPCS and guided by a Working Group comprised of representatives from the Regions, Networks, INT, WBI, and EXT. Since its creation, the GAC in Projects Group has (inter alia):

- issued a guidance note for staff (“*Dealing with GAC issues in Project Lending*”), and followed this up – in collaboration with other Communities of Practice– with a “How to” Note series on GAC-related tools and approaches;
- designed a GAC in Project Core Skills Course targeted to Task Team Leaders and other task team members, offered both in Washington and – in collaboration with Regions – in country offices and training hubs;
- established a Peer Learning Network – launched with the participants of the first Core Skills course and now one of the largest Communities of Practice within the Bank; and
- created an inter-active website to connect the members of the Community of Practice (CoP) – the most visited site within the GAC Knowledge and Learning Portal, which has a searchable database of GAC-related tools and approaches, projects examples that have used those tools, and related “How To” notes, impact evaluations, and other relevant documents.

67. At the project level, the focus on ‘smart’ project design will continue. This means broadening the use of political economy analysis, the use of appropriate demand side measures, better diagnostics and flexibility in implementation. The work of the ‘GAC in Projects’ Community of Practice will be continued. Teams will be encouraged to engage with INT’s Preventive Services Unit early in the project / program cycle. INT’s preventive work on sectors will be broadened, in close collaboration with networks, in terms of diagnosis and lessons learned using the recent Road sector report as an example.

68. In order to implement GAC objectives, it is important that project teams assess how sector risks influence project design. Therefore, it will be important to continue the work that has been done at project level to create greater awareness of GAC-related issues and develop tools and knowledge products that will help teams assess how GAC issues in sectors will impact on the work that is being done at project or program levels. The GAC in Projects team will work with the networks and the regions to identify sectors that have developed processes to analyze GAC issues and to work through the GAC in projects working group to foster greater exchange of information and develop appropriate tools to be used across the Bank. Given that projects are one of the main vehicles to enable sector reform and transformation, the ‘GAC in Projects’ working group will be renamed ‘GAC in Operations’, and include a more explicit sector orientation.

## **EMBEDDING GAC IN SECTOR WORK**

69. **Individual investment projects are only as effective as the sector policy and institutional environment in which they are located.** The updated Implementation Plan sees a step-change in the emphasis the Bank gives to embedding GAC in sector work. One key strategic objective is to give as much emphasis to strengthening the various systems in which the project operates as the Bank does now to ensuring Bank resources are used for the purpose intended. This will entail matching what can be described as one of the Bank’s signature operations—the narrowly defined investment project, ‘ring-fenced’ with separate financing and implementing arrangements—with an institution-wide focus.

70. **A review of current Bank Sector Strategies<sup>9</sup> found that the term governance is ascribed three different meanings:**

- as a synonym for public sector management;
- as corporate governance, referring broadly to the rules, processes, or laws by which businesses are operated, regulated, and controlled; and
- the more commonly accepted definition of governance as the capacity, legitimacy and authority of the state, including some notion of how *accountable* is the state in its use of its power.

71. **These differences led to some confusion over GAC priorities**—mixing management issues with political economy for example. It is important that the Bank moves decisively to the third of these interpretations of governance. GAC-sensitive sector strategies, supporting tools, guidelines, training and knowledge management must play an important part in supporting front-

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<sup>9</sup> GAC Secretariat, August 2011

line staff take a ‘GAC lens’ to their operational work. An early priority for the implementation plan will be the preparation of guidance for ‘GAC responsive’ sector strategies. This will include a menu of issues to be considered, appropriate analytical and diagnostic tools, potential indicators and resources for staff training and development. A possible template for this is at Annex 3. Additional Trust Fund resources would enable this work to be accelerated.

### **ANCHORING GAC AT COUNTRY, PROJECT AND SECTOR LEVEL**

72. A stronger and more consistent focus on governance and anti-corruption issues at country, project and sector level will be ‘anchored’ in two ways: by a more robust and rigorous results framework, and by deepening and consolidating the Bank’s use of political economy diagnostics. These two critical elements of the GAC update are discussed in paragraphs 98-112 (and Annex 4) and paragraphs 161-162 respectively.

### **III. STRENGTHENING COUNTRY INSTITUTIONS AND USING COUNTRY SYSTEMS**

73. **In assessing the Bank’s performance on governance and anti-corruption, various reviews conclude that the major strategic priority for updating GAC should be a much greater focus on strengthening country institutions.** The Bank must match its legitimate concern for ‘clean projects’—transactions—with a greater emphasis on long-term strengthening and development of country institutions. A country’s institutions are the rules of the game which influence if not determine individual and collective behavior.

74. **Institutions and systems are not synonymous.** An institution is often imprecise: it includes formal and informal rules and norms. A system is precise and can be mapped. A country’s financial management system is nested within a hierarchy of institutions, often at decreasing levels of specificity. If the narrowly defined PFM system is to work effectively, then the wider institutional environment needs to be supportive.

75. This section considers how the Bank is updating its approach to strengthening country institutions in three areas of its work: first, in how the Bank will be more strategic in its approach to the ‘demand side’ agenda; second in how it will update its approach to institutional development in four key aspects of Bank operations (the public sector, procurement, the private sector and in justice work); and third, through the work of INT.

### **A MORE STRATEGIC APPROACH TO DEMAND-SIDE INSTITUTIONS**

76. **Country institutions lie at the heart of the GAC results chain** (see Figure 1 in section IV). It is the quality of a country’s institutions that determine how effectively and efficiently inputs are translated into outcomes. Poor institutions result in weak or failed service delivery, wasted public monies, demoralized civil servants and a disaffected public. Poor, weak or ineffective institutions allow corruption and malfeasance to prosper. Poor institutions fail to reflect or record citizen views and aspirations. Institutions lie at the heart of development.

77. **Bringing state and society together: an enhanced role for ‘demand-side’ approaches.** The ‘demand-side’ agenda is short-hand for the extent and capability of citizens (including civil

society groups) to hold the state accountable and make it responsive to their needs. Strengthening this aspect of governance is a core element of the GAC update, and will contribute to improving governance, transparency, accountability, and participation in client countries. While there has been good progress to date in some aspects of this agenda, its overall impact has been limited by the absence of an integrated view of how systematically to support and identify opportunities for a stronger and more strategic engagement. Often, the DFGG agenda was equated solely with supporting civil society, rather than taking a wider view of the role of non-executive institutions of accountability (Ombudsmen, Parliaments, third-party monitoring arrangements etc.) in bringing the state and the citizen more closely together.

78. **Events in the Middle East continue to highlight the importance of addressing issues of open government:** transparency, accountability, voice and participation are critical to ensuring that development is socially and politically sustainable. Open government' signals a shift in paradigm of governance – a shift from privilege, secrecy and control that has traditionally characterized the exercise of state power to a paradigm of collaboration and information-sharing. It implies that “the business of government and state administration should be opened at all levels to effective public scrutiny and oversight. In its broadest construction it opposes reason of state and racist considerations, which have tended to legitimize extensive state secrecy”<sup>10</sup>. ‘Governance’ is not only about ‘governments’; it is about the ways in which governments and their constituents interact and share information.

79. In the GAC update, one critical way of achieving the strategic objective of helping build more accountable states will be through more open government. The Bank will support strengthening both the executive and non-executive institutions of government in order to make them more transparent, participatory, and accountable. The Bank’s approach to improving the demand side will have six priorities:

- **Identifying a range of credible country-level entry points, as well focusing on strengthening the policy environment.** Support to civil society groups and citizens to take advantage of Right to Information policies and budget transparency will be critical themes. Development Policy Lending (DPLs) and multi-stakeholder policy dialogue can be key entry points;
- **Enhancing the Bank’s operational work with suitable DFGG approaches** by integrating the demand side of transparency, accountability, and participation in sector strategies and projects. Leveraging recent Bank operational reforms (such as the Access to Information policy, Operational Risk Assessment Frameworks, and the Program for Results) present key opportunities;
- **Expanding support to social intermediaries and independent accountability institutions.** This support will become part of the overall package of technical assistance provided to client countries and would be articulated in CASs and CPSs. To help expand this support, the Bank is currently designing a new Partnership for Social Accountability to strengthen the capacity and sustainability of CSOs constructively to engage with governments on social accountability (see paragraph 172);

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<sup>10</sup> From Wikipedia

- **Leveraging ICT for DFGG.** A cross-cutting priority for GAC will be the more effective use of new ICT approaches as enablers for DFGG. This will involve recognizing and expanding successful examples of using ICT for DFGG, supporting social intermediaries in becoming ‘infomediaries’ and leveraging the Bank’s access to information policy for promoting transparency
- **Developing the knowledge and evidence on DFGG.** The Bank will expand its knowledge base on DFGG by developing the monitoring and evaluation of DFGG initiatives across the current portfolio and investing in rigorous evaluations by strengthening use of mixed methods. Specific attention will be given here to studying how to handle DFGG in fragile contexts and at the local level. The program of skills building and training of staff on DFGG approaches would be expanded using the insights from these knowledge products; and
- **Broadening partnerships with others engaged in DFGG work locally and globally.**

## **AN UPDATED APPROACH TO INSTITUTIONS IN FOUR KEY AREAS**

80. **The Bank has updated its approach to institutional development in four critical areas: the public sector, procurement, justice reform and the private sector.** In each of these areas the updated approach will reflect a more empirically-based, pragmatic and modest approach, involving:

- a relentless focus on the problems to be solved – the so-called ‘binding constraints’ in designing programs of support, rather than on a presumed solution based on institutional and organizational forms elsewhere;
- ensuring the Bank identifies the same problem as the client;
- engaging flexibly and systematically with stakeholders over an extended period of time, in identifying both the problem and the likely solution;
- it means asking searching questions about political economy, in order to identify with clients potential blockages and entry points for reform; (why is the current dysfunction so persistent?; who wins and who loses from the current arrangements?; where will support for this reform come from, and from where will opposition arise?; what can be done to persuade opponents?);
- using empirical evidence to review the likelihood that a given reform will actually solve the problem;
- developing better empirical evidence about what works in (especially) public sector management reform; and
- leveraging opportunities for hands-on capacity building by doing joint work, particularly in integrity areas.

81. **In Public Sector Management (PSM),** strengthening and reform is concerned with improving public sector results by changing the way governments work. It is an extremely challenging area for development. Sustainable institutional change often requires that thousands of public agents alter their behavior, and political incentives may be at odds with improving public sector performance. ‘What works’ in PSM reform is highly context-dependent and convincing evidence is scarce.

82. The Bank's updated approach to PSM emphasizes that public sector reform is a pragmatic problem-solving activity, which seeks to improve results by identifying sustainable improvements to the public sector results chain. The approach reflects continuing evolution in the Bank's PSM work and responds to changing demands from client countries, as well as changes in the Bank's own operating environment including opportunities presented by results-based lending and risk management strategies. It puts into practice the lessons learned from significant research progress made in recent years in unpacking the nature of institutional reform. Overall, it seeks to achieve better results by better adapting the way in which the Bank supports client countries to the distinctive nature of PSM reform. The updated approach identifies three strategic directions which will enhance the Bank's ability to support PSM reforms (Box 12).

### **Box 12: Objectives for Public Sector Management**

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| <p>a. <i>As a development actor</i>, the Bank will strive for greater agility in operational and analytic work: this means adjusting to client needs. A more continuous engagement – rather than periodic discussions - will enable the client and the Bank to build trust and allow a deeper understanding of the client's long term reform trajectory. As ensuring continuity is costly and the Bank's budget envelope is tight, the Bank will discuss with partners how to ensure more continuous engagement.</p> <p>b. <i>As a knowledge generator</i>, the Bank will balance tacit with explicit knowledge to achieve results. The evidence-base for understanding what works, and why, in public sector reform remains limited. The PSM approach proposes: deepening and broadening the scope of indicators that measure the strength of country institutions; a path for asserting Bank leadership in stimulating a multi agency research agenda including more rigorous qualitative and quantitative research on reform impacts; and a mechanism for more ready lesson-learning from projects. It adopts an open-source approach to sharing data, in order to stimulate external research and internal learning.</p> <p>c. <i>As an integrator</i>, the Bank will adopt whole-Bank staffing and structures that foster collaboration. Focusing on results and better managing risks in client countries has implications for how the Bank itself works. Clients expect the Bank to provide integrated solutions to their problems backed up by deep technical skills. The approach seeks to bridge gaps within the Bank between units working on public sector reforms by promoting integrated teamwork on PSM reforms and harnessing the corporate move towards more robust technical competencies for staff.</p> |
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83. **Procurement is one of the priority areas for strengthening in most governments and is a key barometer for institutional quality.** The OECD noted in 2007 that “public procurement is the government activity most vulnerable to waste, fraud and corruption due to its complexity, the size of the financial flows it generates and the close interaction between the public and the private sectors”. Poor governance and corruption in procurement invariably reduce development outcomes and are likely to discourage foreign direct investment. The effects of corruption in procurement were addressed in a 1998 International Monetary Fund (IMF) report<sup>11</sup> that stated "a corrupt country is likely to achieve aggregate investment levels of almost 5% less than a relatively uncorrupted country" and "an increase in the corruption index by a single point reduces the inflow of foreign direct investment by about 11%".

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<sup>11</sup> IMF Report “Roads to Nowhere”, Vito Tanzi and Hamid Davoodi, 1998.



84. **This creates a major challenge for the Bank. Finding ways better to address the twin objectives of protecting IDA, IBRD and Trust Fund resources while at the same time strengthening country institutions will require a fundamental update in the Bank’s approach to procurement.** ‘Traditional’ approaches have been based on the notion of ‘best practice’ procedures. Such approaches overwhelmingly focus on regulations covering the selection and evaluation procedures of suppliers, contractors, and service providers. Evidence shows that such a focus on procedures in the absence of a clear definition of procurement performance objectives can lead to reduced accountability and possibly poor results. They also carry a broader ‘governance’ risk, in that officials who are required only to follow procedures cannot be held accountable for outcomes, especially with respect to the more complex—and increasingly important—concepts of value for money and best fit.

85. A more modern approach is to regulate principles and adherence to standards rather than procedures to guide implementation. Such models address core issues of governance and drive behavior toward the achievement of results. The ongoing review of the Bank’s procurement policy will reflect the directions highlighted in this GAC update, including a greater reliance on principles, performance and outcomes. The challenge is to consider new approaches that best fit the updated strategy while at the same time meeting stakeholder expectations. Box 13 shows how procurement reform made a significant difference in one region in Brazil.

### **Box 13: Procurement Modernization in Minas Gerais, Brazil**

Following Minas Gerais’ 1999 default, it was clear that a major overhaul of its public sector management processes was needed. A new administration took office in 2003 with a declared objective to make the state the "best place to live in Brazil". The new Governor launched a public sector reform program focused on improving the efficiency of public expenditure. The centerpiece of this reform was a performance assessment of each key sub-program on the basis of yearly results agreements. Government procurement was an important component cutting across all sectors. The specific goals of the procurement reform were to increase transparency and efficiency of government contracting and improving the effectiveness of controls.

The administration viewed procurement as a key vehicle to improve service delivery to the community while allowing full and transparent access to information which could allow taxpayers to monitor how public resources were being used. Procurement performance has consistently improved ever since and has produced significant innovation. Another important feature of the reform is a fully integrated e-government system (SIAD) which allows interface of all key government databases (including e-procurement for goods and services, supervision of civil works, planning and budget, and internal and external audit).

The Bank maintained a close partnership with the State throughout this process contributing its global knowledge, tailored to the government’s specific objectives, and leveraging analytical work as well as lending products. The diagnostic work also helped shape a set of performance indicators to monitor the procurement system. Further studies and specific improvements were funded in 2007 to modernize the management of civil works contracts and streamline suppliers’ payment processes. Using the performance indicators for supervision and to drill down in underperforming areas, the Bank worked with counterparts to improve procurement efficiency by addressing specific bottlenecks.

Further assistance helped frame a second round of ‘quick-wins’, targeting opportunities for savings within short time frames. Minas now provides a convincing example of the gains through more efficient procurement:

- increased competition resulted in annual savings of \$77 million;
- about \$25 million per year was saved through better contract management;

- details were publically available for \$11.7 billion worth of civil works contracts in 2009;
- the number of contracts that were awarded under a non-competitive process decreased from 12,904 in 2004 to 1,117 contracts in 2009<sup>7</sup>
- the cost of carrying out a procurement process was reduced by 33%; and
- the cost to the private sector for preparing bids for a government contract was reduced on average by 81%.

86. **Strengthening the Bank’s work in justice reform** is critical for strengthening country institutions. First because a lack of access to justice is itself a central dimension of poverty; and second because a functioning justice system<sup>12</sup> is an important part of the GAC definition herein of a state’s “capacity, legitimacy and authority.” Justice systems have been identified as having the following important developmental and governance functions: (a) Preventing and mitigating conflict, crime, and violence, (b) Ensuring executive accountability, (c) Fostering private sector growth, and (d) Ensuring compliance with legal and regulatory frameworks.

87. The Bank to date has not had an institution-wide approach to justice reform; the Bank’s justice work has thus been somewhat ad hoc and needs to be more integrated and strategic. The Bank’s approach to justice reform does not recommend a simple scaling up of current efforts; rather, it proposes a series of new directions in justice reform with a commitment to supporting country systems to deliver “actual realizations and accomplishments”<sup>13</sup> in the advancement of justice. Box 14 summarizes justice priorities.

#### **Box 14: Priorities in Justice Reform**

- Develop a problem-solving and empirically based approach to justice reform.* Practitioners and scholars recognize a serious knowledge gap in justice reform; a move toward an evidence-based approach to justice reform means research will inform interventions by enhancing understanding of the way justice system actually functions and of the political economy of reform and risk. A problem-solving approach means reform strategies that set out to solve concrete functional problems of most concern to citizens, rather than proceeding from assumptions about the ideal form a justice system should take.
- Identify ‘flagship’ justice reform initiatives as sites of learning and innovation,* focusing particularly on human resources of justice institutions, incorporating justice institutions at a local level, bringing core public sector management expertise to justice institutions, and refocusing assistance towards equity, inclusion and accountability.
- Integrate justice reform into targeted sector operations.* The Bank can bring expertise on enforcement against illegal logging to forestry projects, on dispute resolution to land reforms, on faster resolution of commercial disputes to private sector reform. We can strengthen administrative law institutions, crucial to dealing with disputes over service delivery in sectors such as health, education, infrastructure, etc.
- Develop a focus on justice reform in fragile and conflict-affected states.* The Bank will bring together state of the art thinking on conflict, justice and development; carry out case studies that provide an empirical basis for policy and operational recommendations; and apply these to hands-on work with operational teams.

<sup>12</sup> For the purposes of GAC II a justice system can be thought of in terms of the formal and informal institutions that perform a series of governance functions; namely those of addressing breaches of law and facilitating peaceful contests over rights and obligations.

<sup>13</sup> Amartya Sen (2009) *The Idea of Justice*, Harvard University Press, p.9.

88. **The private and financial sector.** Recent developments—in particular the 2007-2008 global financial crisis, the *Arab Spring*, and the growing public demand for open and more accountable governance—have shown how critical these areas are for the private and financial sectors. Events in the Middle East and North Africa demonstrate how lack of transparency and rent-seeking can discourage private investment and entrepreneurship, while anti-competitive practices encourage cronyism and allow firms to exercise influence to reduce competition, with negative spillover effects on innovation and productivity.

89. Poor corporate governance and broader regulatory governance failures undermine financial stability and the ability of financial sectors to catalyze growth and job creation. Corruption increases the cost of doing business, especially for micro and small firms which pay larger shares of their sales in bribes, and it may lead firms to exit.<sup>14</sup> Corruption is a particular risk in the financial sector, especially where there can be an improper relationship between the supervisor and financial sector entities, or, for example, where financial institutions controlled by criminals represent a systemic risk.

90. **The updated approach to the private sector identifies five strategic priorities across the three levels at which the private sector operates** (country, industry and firm). All five contribute to strengthening the institutional framework in which the private and financial sectors operate and which connect the three key levels:

- at the country level, which focuses on the government's role in creating a supportive institutional environment for private and financial sectors, the Bank will (i) make GAC more explicit in the Bank's investment climate work and (ii) apply anti-money laundering tools to prevent criminal capture of critical sectors of the economy.
- at the industry level, which represents a new initiative at the interface between country and firm levels, the Bank will (iii) minimize capture risk in industry solutions by developing appropriate competition policies and creating public-private dialogue mechanisms to broaden participation, create a level playing field, and ensure transparency.
- at the firm level, the Bank will: (iv) integrate good corporate governance practices supported by the development of sound legal and regulatory frameworks in client countries and in WBG operations; and (v) develop corporate integrity and governance tools for clients, consistent with internal due diligence procedures.

## USING COUNTRY SYSTEMS

91. The use and strengthening of developing countries' systems is central to efforts to build effective country institutions. Use of country procurement and public financial management systems in Bank-supported operations has increased steadily, exceeding international and internal Bank targets: the Bank's use of country procurement systems grew from 40% in 2005 to 55% in 2010, matching the Bank's Corporate Scorecard target. The Bank's use of country public financial management systems also increased from 42% in 2005 to 71% in 2010, exceeding the

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<sup>14</sup> A recent study of firms in Eastern European and Central Asian countries shows that higher costs (including bribes) and regulatory burdens raise the probability that more productive firms will exit and that legal institutions mitigate forces that would otherwise cause less productive firms to exit (Hallward-Dreimer 2009).

Bank's target of 65%. Further action is required, however, to address significant constraints to faster progress in the Bank's use of country systems in investment lending operations.

92. ***There is a need to increase the attention paid to country systems issues in country-level engagement, both in the strategic dialogue with partners and in wider public sector reform efforts.*** Revised guidance for staff on preparing CASs and related products will help focus more upstream attention on country systems issues: since October 2010 CASs are required to outline strategies to strengthen and expand the use of country systems for PFM and procurement, social and environmental safeguards, project management and statistics. The application of this guidance will be tracked and the results used to inform and promote better practice.

93. ***There is a need to step up capacity building efforts directed to strengthening public financial management and public procurement systems.*** Better integrated reporting is required concerning the level and effectiveness of Bank capacity building in public financial management and public procurement. Bank staff competencies will be strengthened, including through training and hiring and more intensified partnerships among procurement, PFM and PREM staff. Diagnostic tools will be updated and refined to focus more on systems performance and results and expand the coverage and maintaining the currency of assessments. . The Bank will also work closely with other multilateral development banks and bilateral donors to harmonize technical guidance and to mobilize and coordinate capacity building support to country clients.

94. ***Action to progressively expand the use of country systems needs to be supported by appropriate incentives.*** Using country systems is usually a riskier option than ring-fencing a project behind Bank procedures. The Bank's operational policy framework and corporate culture are important incentives in determining project implementation arrangements (see separate discussion on managing risk). High-level management and external reporting on the Bank's use of country systems is also an important incentive. Both the Corporate Scorecard and the IDA results framework incorporate the Paris Declaration measures on the use of country FM and procurement systems. Following the Busan High Level Forum and the 2011 Paris Declaration monitoring survey it is necessary to revisit both the definitions and measurement of these indicators.

95. It will remain important to take a long view: improving the performance and capacity of country systems requires multi-year programs of support and sustained commitment from clients. Objectives for Bank efforts to strengthen and expand the use of country systems during the next three to five years should be realistic; to improve the assessment of country systems using mutually agreed diagnostic tools; to develop a dialogue with partners on what is required (e.g. assistance, policy reforms) to increase use; to address the use and strengthening of country systems as part of national capacity building strategies; and to develop reporting arrangements that will enable the use of country systems to be accurately monitored.

## **STRENGTHENING COUNTRY INSTITUTIONS AND USING COUNTRY SYSTEMS: THE ROLE OF INT**

96. In parallel with enhancing its investigative work, over the past four years **INT has also focused on improving the capacity of borrower institutions to prevent, detect and investigate fraud and corruption.** In term of greater preventive capacity, INT in collaboration with PREM has provided targeted technical assistance upon request to AC agencies to strengthen

their effectiveness and improve accountability. In term of investigation and detection, and at the request of client countries, INT piloted a training program to strengthen national capacity in forensic auditing for auditors, prosecutors and anti-corruption officials in East Asia and Middle East countries. Operationally, INT's forensic auditors have provided hands-on training, working alongside national audit institutions to conduct joint audits of Bank-funded activities in the Africa region. INT also works with fiduciary colleagues to build the capacity of project implementing agencies in identifying and mitigating integrity risks. While much of this initial capacity building has been opportunistic, moving forward strategically INT is focusing on specific sectors and looking to expand its training to more clients. Building the capacity of borrower's audit, prosecutorial, implementing and anti-corruption institutions serves to increase the efficacy and impact of INT's investigative and preventive work.

97. As corruption has grown as a threat to global development, the Bank Group has responded focusing on promoting knowledge sharing among practitioners and innovation. On one side, INT has led the Bank's efforts to create and strengthen international networks of anti-corruption investigators and prosecutors. In December 2010, the World Bank convened the initial meeting of the International Corruption Hunters Alliance (ICHA) bringing together prosecution and anti-corruption enforcement officials from 134 countries. Building on the momentum from this initial meeting, INT, in collaboration with PREM and the StAR Secretariat, will seek to operationalize the participants' commitments to increase cooperation in transnational bribery, improve information sharing and use more rigorous measures for evaluating the impact of their efforts. This will be done through the expansion of INT's network of bilateral MOUs with national anti-corruption institutions and international agencies as well as an active engagement with the ICHA participants through an online platform and future biennial meetings. On the other side, PREM has created and launched a Web Portal for Anti-Corruption Authorities (ACAs), open to practitioners, civil society, academics and international organizations. The Portal allows users to articulate new ideas, collaborate with other practitioners, and collectively address common challenges. The Portal currently provides information on over 60 ACAs across the world and has a number of useful tools: i) the cross country analysis section, for example, allows users to explore and export the survey data that we have collected through interviews of ACA staff; ii) the publication and case study sections provide relevant publications and articles; and iii) the news and event sections aim to keep users up-to-date.

## **IV. MEASURING RESULTS AND MANAGING RISKS**

### **MEASURING RESULTS: THE NATURE OF THE CHALLENGE**

98. **Measuring results, being able to plot a 'line of sight' from strategy to intervention, from project activity to development outcome, and understanding what constitutes 'plausible association' along the way are among the toughest challenges in development today.** In order to assess effectiveness and value for money, the Bank must be able to find a coherent and convincing way to measure the impact of its GAC effort. The IEG Evaluation called attention to weaknesses in this regard in the original GAC strategy. The GAC Update addresses this challenge of results measurement head-on. The Bank recognizes the difficulty of this challenge, and the program of work that is outlined below presents no certainty of success. 'Governance' outcomes – a more capable and accountable state, for example - are not easily

amenable to indicators, targets and quantification. At the outset therefore it should be said that the indicators and results work will constitute a ‘work in progress’. In so doing the Bank will seek to collaborate actively with development partners and clients wherever possible.

99. **This represents a significant shift from the original GAC strategy, which focused mainly on Bank inputs and outputs rather than governance outcomes and impact at country level.** Input indicators covered actions under the country-, sector-, and project-level pillars, such as the provision of guidance, organization of conferences, establishment of GAC teams, as well as internal resourcing and staffing efforts. Other inputs, such as the number of operations that focus on the demand side of governance or sector capacity building, were also included. Intermediate outcomes relating to country governance performance, however, were omitted, as were indicators of progress on global GAC efforts. While the next phase of implementation will continue to focus on strengthening the quality of Bank inputs and outputs, the updated implementation plan will also focus tracking bank inputs, institutional strengthening in countries, governance improvements and development results/impact in client countries within a well defined results framework.

100. **Demonstrating results is not possible without first understanding the links in the results chain, and second, identifying robust indicators at each step of that chain.** In itself this presents some formidable challenges:

- the results chain from project activities and inputs, through outputs to development outcomes is a long one, and drawing conclusions about unambiguous cause and effect is fraught with conceptual and empirical difficulties;
- at the project level, consistent indicators to enable aggregation and comparison across countries are largely absent;
- on the strength of country and sector level institutions, with the possible exception of financial management,<sup>15</sup> available indicators are limited (Box 15),
- the time over which institutions emerge and are consolidated is medium-to-long term (the 2011 WDR indicated a minimum of 15-20 years); and
- the links between institutional quality and service delivery outcomes is not well understood and empirically established.

### **Box 15: Actionable Governance Indicators**

**With few exceptions, such as for example ‘PEFA’ (Public Expenditure and Financial Accountability), there are no agreed sets of indicators which measure progress in building country systems.** The Actionable Governance Indicators (AGIs) initiative has attempted to address this issue, and while some limited progress has been made in civil service, procurement, inter-governmental arrangements and revenue administration, no major data collection has taken place. Without such data, similar progress as has been made in the field of PFM reform both in the quality of reform approaches by governments and donors and in research and our understanding of “what works” in these areas will be hard to achieve.

**While access to, and information about, AGIs has increased dramatically, their use in Bank**

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<sup>15</sup> PEFA indicators (Public Expenditure and Financial Accountability)

**projects and programs remains limited, despite extensive outreach efforts.** Since 2007 the Bank has improved access to those AGI data that are available in order to facilitate and mainstream their use in Bank operations. This has led to the creation and launch of the AGI Data Portal (<http://www.agidata.info/Site/Default.aspx>), a one-stop-shop platform that currently hosts more than 1200 AGIs from 18 different sources. The portal provides access to data from Global Integrity, Public Accountability Mechanisms and Open Budget Initiative, and allows users to navigate these indicators and their documents and offers customized tools for data management, analysis and display. Renewed efforts are currently underway to identify additional indicators of the strength of country systems (ISCS), that will complement the existing AGIs and will provide Bank practitioners with a more systematic and comprehensive coverage of countries and topics for monitoring purposes. A subset of these indicators would also be used to measure progress on Institutions and Governance under Tier II of the Corporate Scorecard. Without progress on this agenda, it is hard to see how the development community can add the maximum value to governments' own reform efforts and donors themselves cannot be held to account for delivering assistance that makes a lasting difference to country systems.

101. **The Bank will henceforth make efforts to begin to address these challenges.** The next section of this chapter proposes a four-step results chain, designed to make the link between Bank internal analytical and design work at the beginning of the chain, and broad governance outcomes at the other end. This is followed by a short summary of the sorts of indicators now being tracked and the range of data that already exists which could be used to form the basis of a more robust results framework. The final section then summarizes the work program proposed.

#### **MEASURING RESULTS: A GOVERNANCE RESULTS CHAIN**

102. **The results chain from initial interventions to final governance outcomes is long and complex. Final outcomes are subject to many factors that are beyond the scope of Bank influence—so attribution is problematic and success cannot be guaranteed.** The link between upstream public sector management systems, accountability mechanisms and service delivery outcomes is not well understood. Usually, a minimum of five to six years is required for the effects of most upstream reforms to pass through the system. In spite of these challenges, the Bank needs to move the discourse beyond the inward results measurement focus of the first phase.

103. **The results chain presented in Figure 1 divides the space between interventions and development outcomes into three segments:**

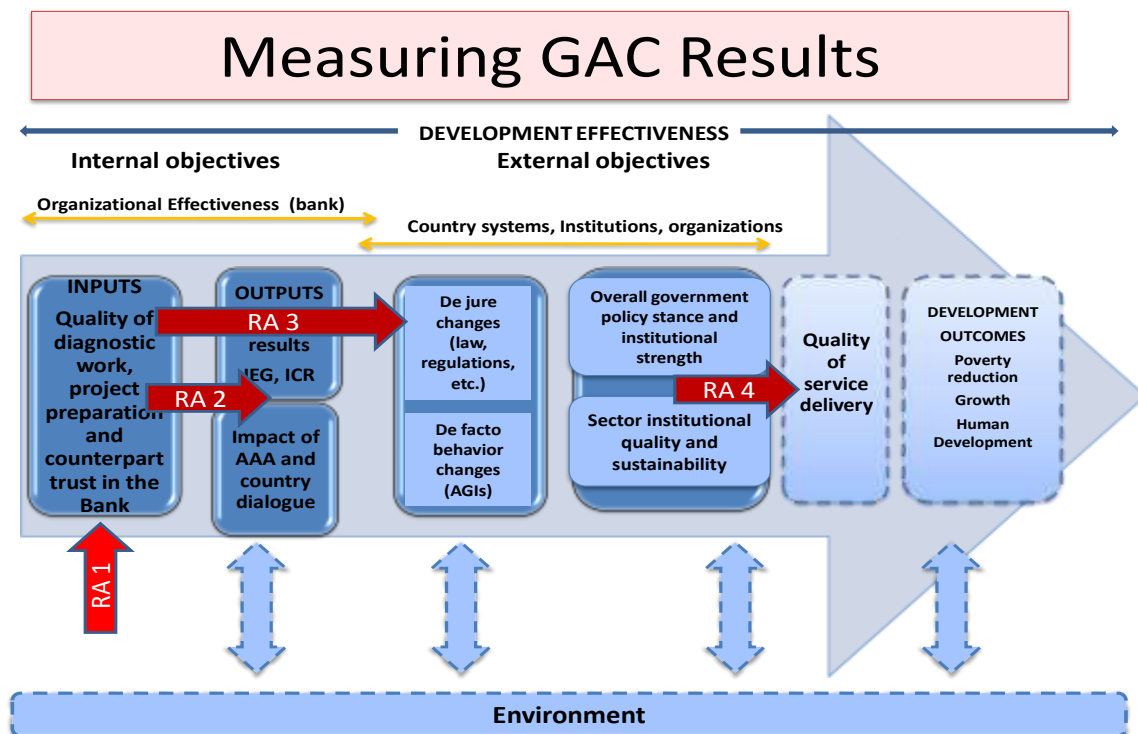
- first the Bank's organizational effectiveness, which includes inputs and outputs. This reflects the internal transformation agenda begun in the first phase of GAC. It is the process whereby the Country Assistance Strategy is turned into specific investment proposals for funding, and then which, taken together, constitute the Bank's portfolio. If the CAS is 'GAC-responsive' and program and project designs reflect GAC issues, then the outcome at this first step of the results chain should be a better performing portfolio. This is the 'organizational effectiveness' part of the chain in Figure 4 (Results Area 1 and Results Area 2);
- the second link in the chain is the institutional environment in country: its organizations, systems and 'rules of the game'. This link captures the institutions that are to be influenced by Bank interventions (while also being subject to other influences) but which are on the critical path to better service delivery and—ultimately—improved development outcomes.

Changes in performance of these institutions can be considered as ‘final’ for work in the public sector and governance, and many lie on the critical path for overall development effectiveness (RA3); and

- the final link in the chain is to final service delivery and development outcomes—located in the head of the arrow in the diagram (RA4).

104. The updated GAC Implementation Plan focuses on organizational effectiveness (RA1, RA2) and the link to institutional performance (RA3).<sup>16</sup> The first of these reflects the importance attached to continued Bank transformation, while the second segment marks a shift from the ‘internal’ focus to a focus on country institutions and country systems.

**Figure 1: The GAC Results Model**



105. **This results chain is consistent with other results tracking and measurement frameworks being used within the Bank.** The Bank’s Corporate Scorecard (CS) and the Results Measurement System for IDA 16 (RMS 16) are two Bank wide frameworks for measuring and tracking results.

<sup>16</sup> GAC focus during phase 1 was on: (i) Doing the right things (Analysis – understanding political economy, GAC constraints); (ii) Doing them right (improved project design, ORAF); (iii) Improving the country governance environment (CGAC pilots; PSM interventions) with a focus on enhancing accountability and transparency; (iv) Learning to work better within the existing environment making GAC cognizant strategic choices (GAC in CASs; GAC in sectors) and project design (GAC in projects) for better outcomes.



## MEASURING RESULTS: WHAT DATA ARE THERE?

106. While there undoubtedly scope for much greater standardization, and for the development of robust and more widely agreed indicators of the strength of country systems and institutional quality, a variety of indicators of governance and institutional strengthening are already being used by the Bank at the country and project levels both for core government and sector institutions.

107. Institutional strengthening and capacity building projects use a variety of indicators that measure inputs, outputs and outcomes related to institutional quality and governance that typically lie in the third and fourth boxes of the results chain in figure 1. A 2011 review of indicators for 66 public sector and governance projects<sup>17</sup> revealed that 100 of these indicators targeted the *de facto* (actual) performance of upstream / core government institutions and 17 measured inputs and *de jure* institutional arrangements. Forty two indicators, however, focused on outputs/outcomes further along the results chain but these were mostly from tax reform projects, which tend to have unambiguous outcome targets.

108. For a sub-set of administrative restructuring projects the same review identified a wide range of indicators from those that focused on inputs/activities (functional review of an agency completed, action plan for downsizing prepared etc.), to *de jure* institutional reforms (new law enacted, new regulations prepared) to actual changes in performance (functioning complaint handling system in place, reduction in the number of public employees in an agency) to results further along the chain (increased technical efficiency reflected in saving of financial resources and time, improved satisfaction of users and reduction in the number of complaints).

109. The considerable heterogeneity in the indicators used across projects is because: (i) within each “country system” there are several sub-systems; (ii) indicators are tailored to project and country needs and circumstances which influences the position on the results chain; and (iii) efforts at “standardization” have only recently been initiated. As a result, aggregation of the achievements and impact of institutional development projects is not straightforward. In the area of public financial management (PFM) considerable progress toward standardization has been made with the now widely accepted PEFA indicators. The PEFA group of indicators measure progress towards widely agreed standards across several sub-systems of the PFM system. However, although PEFA indicators are increasingly being used in PFM projects, aggregation remains difficult as different projects used different sub-sets of indicators from the set of PEFA indicators based on relevance.

110. For similar reasons, county strategies also use a variety of indicators based on the elements of governance and institutional strengthening targeted by the strategy. Often, the country strategies draw their milestones and indicators from the related project interventions. Box 16 provides examples from Tajikistan and Nigeria.

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<sup>17</sup> As part of preparatory work for the new Public Sector Management approach.

## Box 16: Indicators Currently Used in CASs

**The Tajikistan CPS (2010 – 2013)** commits the Bank to supporting the country in tackling three key governance challenges: (a) strengthening transparency and accountability; (b) developing capacity; and (c) fostering demand for good governance. An innovative element of the strategy is the development and adoption of a Governance Checklist - a project-level tool - to ensure proper attention to the governance challenges at all stages of the project cycle in all new and reviewed operations.

GAC related indicators in the Tajikistan Country Partnership Strategy include indicators such as (i) reduction in the time and cost of acquiring permits; (ii) reduction in the time and compliance costs of paying taxes; (iii) improvements in the efficiency of the management of education; (iv) increase in merit-based recruitment for the public service; (v) budget comprehensiveness and transparency; and (vi) timely completion and submission to parliament of audits.

**The Nigeria CPS (2009)**, while noting improvements over the previous period, continued to emphasize the implications of weak governance posed for Nigeria's development aspirations. The CPS specifically notes that "states and local governments were characterized by particularly weak institutional capacities". While previous CASs had made governance a central pillar of the Nigeria program, the 2009 strategy went beyond this to make governance both a pillar (one of three) and a crosscutting theme. Key activities and results were in the areas of public sector reform, improved accounting and auditing, and procurement.

Relevant indicators in the Nigeria CPS included; (i) improved effectiveness of anti-corruption institutions measured by an increase in recoveries; (ii) wider implementation of the performance management system in the federal civil service; (iii) timely completion of government's annual financial statements and audit reports; and (iv) increase in competitive tendering and transparency in procurement.

### MEASURING RESULTS: A WORK PROGRAM

**111. The work program within these four results areas will focus on systematic and regular tracking and monitoring, learning and research.**

- **Results Area 1- GAC responsiveness:** (i) To track and monitor the use of GAC inputs at entry and during implementation an exercise similar to the one carried out by QAG in 2009 and IEG 2010 will be repeated in 2013 based on the six dimensions of GAC responsiveness used in the IEG evaluation. (ii) Similarly, an estimated ten new CASs and CAS completion reports will be monitored annually based on the five criteria used by the IEG evaluation. (iii) This will be further institutionalized by including these criteria in Implementation Status Reports (ISRs) and Implementation Completion Reports (ICRs);
- **Results Area 2- GAC Impact:** A set of project will be evaluated to understand better how GAC responsiveness leads to better projects and outcomes and an improved portfolio. This will provided management and staff with useful data that can be used to review and revise the approach to GAC implementation. Of the 180 projects reviewed by QAG in 2009, 45 projects have already been closed out of which 23 were DPLs and 13 were ILs. By 2014, around 90% of the QAG 2009 sample projects will have been closed. Once all of the sample projects have exited the portfolio, the quality of exit/performance of the "GAC-responsive" projects ("treatment" group: 45% of the projects were GAC responsiveness according to QAG 2009) will be compared to those that were non-responsive (the "control" group);
- **Results Area 3 – Institutional Quality:** (i) At the sector level, building on the initiative taken in this regard by the HD sector, institutionalize measurement and tracking of the quality of sector institutions. (ii) At the country level, the Bank will explore—with other partners—the feasibility of developing indicators of the strength of country systems (ISCS) by following an approach similar to that used for developing the PEFA indicators; and
- **Results Area 4 – Institutions and Service Delivery:** Establish baselines and promote research to test and understand the links between institutional quality and service delivery.

Work is ongoing for measuring governance and the quality of service delivery in the HD sectors and a framework has been developed for the selection and measurement of a set of health and education indicators<sup>18</sup>). The framework focuses on the role of governance and the quality of service delivery in driving outcomes. In this framework governance influences the quality of service delivery which in turn affects human development outcomes. Exogenous factors and other inputs contribute along the way. The framework distinguishes two dimensions of governance. First, there is the set of policies, or de jure rules of the game that influence the ways that service providers function. These are the incentive and accountability arrangements. Second, governance is described in terms of de facto performance – the ways in policies actually influence the behaviors of providers.

112. **This approach provides a framework for tracking progress on GAC implementation as well as a learning and research agenda.** However, in view of the different needs and approaches across sectors, regions and countries, tracking, monitoring and learning will need to be carried out at these levels using suitably adapted version of the framework. For instance, in some cases the outcome may be global public goods; service outcomes may not be on the critical path to achieving this higher level outcome. While the PREM anchor will work on developing indicators of the strength of upstream government institutions, similar indicators of the strength of sector institutions will be developed by sectors (mirroring work already ongoing in the Human Development sector).

## MANAGING RISKS

113. **Risk is an inherent part of development.** In attempting complex, ambitious projects in challenging environments the Bank accepts a certain degree of operational risk, including risks deriving from weak capacity, governance risks, fiduciary (procurement, financial management and disbursement) risk as well as fraud and corruption risks, in order to achieve a range of desired development impacts. But how much risk is acceptable? How can we compare operational risks and rewards between instruments and across different sectors and countries? How can we ensure that our decision-making processes strike an appropriate balance between risks and developmental benefits? Such questions need to be addressed as part of any strategy to build capable and accountable states.

114. **The GAC update will seek a more effective approach to operational risk, emphasizing risk management rather than risk avoidance,** built on a corporate culture that values and promotes both candor in the discussion of risks and controlled operational risk-taking for increased development impact. Implementing this revised approach will require work to (i) better understand how we are currently managing operational risks; (ii) progressively extend arrangements for systematic risk-based decision-making across all Bank operations; (iii) integrate analysis of risks and results in our operational practices; and (iv) move beyond a focus on GAC risks associated with individual transactions to manage risks more effectively at a portfolio level. Efforts to seek a more effective approach to the management of risk in

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<sup>18</sup> “Making Services Work: Indicators, Assessments, and Benchmarking of the Quality and Governance of Public Service Delivery in the Human Development Sectors”, by Ariel Fiszbien, Dena Ringold and Halsey Rogers, World Bank, December 2009.

development activities through an updated GAC strategy will be informed by, and inform, work to enhance the Bank's corporate framework for the management and reporting of operational risk, under the leadership of the Bank's Chief Risk Officer.

**115. Taking stock of current approaches to operational risk.** Reaching a better understanding of how the Bank is currently handling operational risk is an important first step in designing arrangements for more effective risk management. This will involve identifying those operational risks that the Bank is currently assessing and mitigating, examining information on the incidence of events relating to significant operational risks and attempting to draw conclusions about the effectiveness of the Bank's management of operational risks. OPCS will lead this review, which will focus initially on investment lending.

**116. Improving and extending the use of risk-based assessment in Bank operations.** Experience with the implementation of a risk-based approach to investment lending will be kept under review, with annual reports on compliance and quality issues (e.g. quality of risk analysis, quality of risk mitigation, analysis of other governance risks beyond fiduciary risk, including capacity risks.) Building on the experience of applying a risk-based approach to investment lending, arrangements for systematic risk-based assessment will be progressively extended to development policy lending and the proposed new Program-for-Results lending instrument. This will facilitate measurement of aggregate risks across the Bank's lending portfolio. The feasibility of extending similar approaches to other instruments will also be examined.

**117. Integrating analysis of risk and results.** Economic evaluation of proposed new operations during design and appraisal will integrate results and risk assessments, through sensitivity analysis around expected impacts, geared to the nature and depth of identified risks. Implementation Status Reports and Implementation Completion and Results Reports will also review outcomes against expected impacts, the evolution of project risk analysis and the results of risk mitigating measures deployed. These requirements will be clarified in the forthcoming consolidation of investment lending policies and procedures. This also provides an opportunity to more clearly articulate the need to balance risks and results through exceptional arrangements in crises and emergencies and situations of fragility. Corporate quality monitoring will also consolidate information on risks (e.g. on compliance with requirements for risk assessment and the quality of risk mitigation) with results reporting.

**118. Reporting on risk at the portfolio level.** By developing consistent categories for risk assessments across all Bank operations it will be possible to provide management with consolidated reporting on the risk profile of the Bank's lending portfolio. The Operational Risk Assessment Framework (ORAF) already enables reporting on the risk profile of the Bank's Investment Lending portfolio; the accuracy of this profile is improving as ORAFs are completed for all new operations and extended progressively to operations under implementation. Reporting on aggregate levels of risk and the distribution of operational risks between risk categories, countries and sectors will become more comprehensive as risk assessment frameworks are established for development policy operations and operations under the proposed Program-for-Results. As part of regular risk reporting, an annual review of ORAF will be undertaken: this will continue to identify opportunities to simplify and streamline the tool and promote more integrated thinking about risks and results.

119. **Managing risk at the portfolio level.** As an initial step, OPCS will work with regions and networks to identify how ORAF data can be customized to support improved portfolio monitoring and management, for example to guide resource allocations for preparation and implementation support, to identify systemic risks and potential problem projects for proactive management, to improve the effectiveness of risk mitigation measures for particular categories of risk and to support strategy development and country dialogue. The feasibility of correlating data on assessed risks with data on development outcomes and the actual incidence of risk events will also be examined; the objective is to inform the setting of portfolio level tolerances for operational risks, including differentiated risk tolerances for categories of clients (especially low income, low capacity states and fragile and conflict-affected states), sectors or lending instruments. Portfolio level risk management will not replace the need for careful management of specific risks associated with individual transactions, but by articulating explicit and differentiated tolerances for risk at the portfolio level, staff will be more clearly empowered by management to engage with difficult development challenges without fearing failure.

120. **Clarifying the Bank’s policy of “zero tolerance” for fraud and corruption.** President Zoellick has made it clear that the Bank recognizes that development is inherently risky; other than not lending at all, there is no way to guarantee the absence of fraud and corruption in Bank-supported operations. The Bank supports borrowers in providing reasonable assurance that funds are used as intended, including by making more information widely accessible about the activities the Bank is financing; but the Bank has zero tolerance once fraud or corruption is found. Thus the Bank’s view is clear: the Bank has no appetite for corruption, but it has an ex-ante tolerance for risk combined with an ex-post zero tolerance when it is shown that fraud, corruption or other malfeasance has occurred. In such circumstances the Bank will always and everywhere take action to address the problem.

121. **Incentives for more effective management of operational risk.** A focus on fiduciary risk at the level of individual investment lending transactions diverts attention from more systemic risk factors, including the effectiveness and long-term sustainability of country partner systems and institutions and the quality of the Bank’s own support to partners. The proposed GAC implementation plan for managing risk outlined above will promote more effective management of operational risks through better information about a broader range of risks, a more conscious effort to integrate analysis of risks and results and an approach based on reporting and management of risk at a portfolio level. However, such measures need to be anchored in (i) an operational policy framework that is less focused on transaction-based compliance and (ii) a corporate culture that provides incentives for both candor in the discussion and reporting of risks and innovation and appropriate risk-taking for long-term development impact. The Bank Board and senior management have key roles in articulating such a revised operational policy framework and fostering such a corporate culture.

122. **Measurable outputs.** Progress in the above implementation plan for a more effective approach to operational risk should be measured against the following outputs:

- a stock-take of current approaches to managing operational risk;
- annual review of implementation of a risk-based approach to investment lending, including reporting on policy and procedural compliance and quality;

- progressive extension of arrangements for systematic risk-based assessment to development policy lending and the proposed new Program-for-Results lending instrument;
- updated policy and guidance relating to the integration of risk and results in design and appraisal, implementation support, completion reporting and corporate quality monitoring, starting with investment lending;
- agreed arrangements for portfolio level reporting to senior management on operational risks; and
- agreed arrangements for setting differential risk tolerances for clients, sectors and instruments to facilitate management of risk at portfolio level.

## V. GAC GLOBAL ACTION

123. **The 2011 World Development Report demonstrates how global threats—transnational organized criminal activity, corruption, the illegal trade in natural resources, the laundering of the proceeds of crime and tax evasion—impact on governance and development outcomes across the developing world.** If they are to be effective, country-level efforts to tackle these threats have to be backed by international cooperation and collective action. The Global GAC agenda stresses and seeks to support this cooperation and mutual accountability. The GAC challenge is shared among governments in developing and industrialized countries, the private sector, civil society and international investors from industrialized countries, the BRICs and elsewhere.

124. **The Global GAC agenda is an integral part of the GAC Strategy.** The strategy seeks to embed the Governance and Anti-Corruption perspective into the World Bank’s work on global initiatives and develop synergies between the World Bank’s work at the global, country and sector levels. This Chapter explains how this will be achieved over the medium term. It begins with a brief review of the experience of the GAC Global agenda which informs the design of the updated strategy and plan.

### LESSONS LEARNED TO DATE

125. **The 2007 GAC implementation plan identified five areas** for increased World Bank involvement to support global initiatives:

- intensified support for multi-stakeholder engagement, such as the Extractive Industries Transparency Initiative (EITI).
- improved donor coordination, including the common response principles for donors in high-risk countries developed by the Governance Network-Collective Action Against Corruption of OECD’s Development Assistance Committee (OECD-DAC).
- harmonization of GAC policies and procedures, including investigative practices, with other multilateral development banks (MDBs) and improved information sharing with national prosecutors, especially with respect to sanctions;
- support for global and regional conventions, with a special emphasis on asset recovery, notably by encouraging countries to sign and implement the *UN Convention Against Corruption* and the *OECD Convention on Combating Bribery of Foreign Public Officials in*

*International Business Transactions* and by the development and promotion of the StAR (Stolen Assets Recovery) Initiative; and

- working to build consensus on how GAC can improve development effectiveness, including through sponsoring a biannual conference on such linkages and financial support for research into the impact of GAC issues on development effectiveness.

126. **The results of implementation of Global activities have been mixed.** The Global Pillar presented a series of isolated activities without a coherent framework or means of measuring effectiveness. Objectives were expressed as broad generalities—“improve global governance to combat corruption”—or at the level of individual activities. Consequently, while the individual activities were implemented successfully and have delivered notable results, there is a sense that the whole is less than the sum of the parts.

127. Today we have a better understanding of the challenges posed by a World Bank Global GAC agenda. Three issues stand out:

- **Coherence and value-added.** The World Bank is engaged in a wide range of global governance issues. Global GAC will have to be selective if it is to be a coherent program with a sense of common purpose that can exploit synergies between the component global initiatives.
- **Relevance.** Global initiatives have to be anchored in issues that are relevant to the World Bank’s clients. The integration of global and country-level work is challenging, but this is the purpose of an overarching GAC strategy and therein lies the World Bank’s comparative advantage at the global level.
- **Influence and Impact.** The initiatives that the Global GAC agenda supports will be shaped and driven by national authorities, the private sector and non-governmental organizations. The World Bank can contribute to this agenda as observer at the key international forums, a source of knowledge and information on global governance issues, by enabling cooperation between national authorities and by using its convening power to bring diverse parties together. Attribution of outcomes in this context will always be problematic but the World Bank can play an important role in ensuring that global initiatives respond to developing countries’ needs and take account of their constraints.

## **OBJECTIVES, WORK STREAMS, AND CROSS-CUTTING THEMES**

128. **The objective for the GAC Global agenda is to strengthen mutual accountability to protect national assets and domestic revenues in low-income countries with weak institutions against global threats.** This formulation highlights the development imperative of the GAC, focusing on the protection of developing countries’ vulnerable assets: their natural resources and the resources managed by the public sector.

129. A combination of horizontal work streams and cross-cutting themes is proposed as a means of identifying and potentially developing synergies across the World Bank’s global initiatives and programs. The four work streams build on existing work programs within the World Bank.

130. **Financial Market Integrity.** The World Bank will encourage financial centers to take action in their own countries against the laundering of the proceeds of corruption, the theft of

natural resources, tax evasion and aggressive tax planning and will their monitor progress against commitments. It will also continue to support developing countries' efforts to tackle illegal financial flows through the effective implementation of international standards and by facilitating their access to operational-level co-operation, in particular on law enforcement and criminal justice. This brings together on-going WBG work on stolen asset recovery, anti money laundering and tax transparency.

131. **Contract Integrity.** The WBG will support international initiatives to prevent transnational corruption through its work with international standards, private sector associations and law enforcement. This will include the promotion of standards and practices for integrity risk mitigation and implementation monitoring in key sectors, such as construction. It will also continue efforts to enhance the integrity of MDB-financed contracts by sharing information and good practices on prevention, increasing the cost of fraud and corruption through coordinated sanctions and integrity-related requirements and remedies, such as the cross-debarment framework.

132. **Natural Resources Integrity.** The World Bank will strengthen mutual accountability for tackling natural resource exploitation in developing countries. This will include continued support for increased coverage and implementation of global governance initiatives addressing specific natural resource management issues (EITI, FLEG, REDD and related forestry and fisheries initiatives). It will also entail efforts to strengthen corporate governance of companies that are involved in natural resource extraction in foreign countries.

133. **Public Sector Integrity.** The World Bank will support international efforts to develop and implement appropriate standards for public sector integrity and instruments to support the implementation of these standards. Attention will focus on three issues: transparency in public financial management, since this impacts directly on susceptibility to other global threats; the integrity of public officials through standards for income and asset disclosure and to counter conflicts of interest; and the development of anti-corruption authorities and institutional arrangements that protect these authorities from undue influence.

134. There are potentially important synergies across these four work streams that would lead WBG engagement to make up more than the sum of its parts. Coordination across work streams can promote linkages between global initiatives and the World Bank's work at national level. This is particularly important for the World Bank's work on anti-money laundering, illegal trade in natural resources, corruption and tax evasion, where the global dimension provides an entry point to engage with national authorities on enforcement issues that might otherwise be seen as too sensitive for World Bank involvement. Coordination across work streams will help frame a common World Bank position on policy issues that cross the four integrity agendas, such as standards for contract disclosure, approaches to beneficial ownership and approaches to profit shifting and MNE transparency. Coordination across work streams will also strengthen the World Bank's engagement in international forums, including the G20, G24 and the bodies supporting the various international agreements, and helping align efforts in support of specific objectives. The strategy focuses on developing these kinds of synergies around four cross-cutting themes.

135. **International Standards.** As observer at the key standard setting bodies - UNCAC, OECD WGB, FATF, Global Forum among others - the World Bank serves as a voice for



developing countries' concerns and promotes standards that help balance their needs with the constraints they face. It can also support BRIC + engagement in international standard setting bodies. The World Bank will continue to participate in reviews of country progress against standards where appropriate, notably in the case of anti-money laundering. It will also assist developing countries in their efforts to implement international standards, taking into account the gaps identified in country assessments. The World Bank will integrate work on standards into country programs raising the profile of these instruments within the World Bank and in our dialogue with clients.

136. **Multi-stakeholder Initiatives.** The World Bank will help bring together national authorities, the private sector and civil society at a global-level. Global multi-stakeholder initiatives are particularly important where risks arise from international transfers of resources. The World Bank will continue to play an active role in EITI, will encourage further development of CoST (Construction) and will encourage the application of these principles in other contexts, such as fiscal transparency, taking into account the World Bank's experience in dealing with multi-stakeholder initiatives.

137. **International Cooperation.** The World Bank will facilitate developing countries access to international cooperation in support of their domestic efforts to tackle corruption, money-laundering, illegal exploitation of natural resources, tax evasion and aggressive tax planning. The World Bank cannot substitute for cooperation between states but it can enable states to cooperate more effectively: firstly, by promoting inclusive networks that respond to the needs and constraints of developing countries; and second, by enabling cooperation between national authorities at an operational level such as by providing information, facilitating contacts or playing an honest broker role. The World Bank can also play a valuable role in helping bring together international organizations to tackle issues of common concern and supporting concerted action, such as WBG collaboration with CITES, the World Customs Organization, Interpol and UNODC in the International Consortium to Combat Wildlife Crime.

138. **Knowledge and Advocacy.** The World Bank will raise awareness on global threats and global initiatives through a program of research, the consolidation of data and monitoring the international community's progress against commitments. By these means, the World Bank will encourage industrialized countries, financial centers, BRICs and the broader international community to take action against global threats in their own countries. As part of this program, the World Bank will continue to generate comparable international data on a broad range of governance indicators. Equally important is our work in consolidating global knowledge on these issues, using our convening power and through collaboration with international organizations and civil society in research.

## **MEETING THE CHALLENGE OF EFFECTIVENESS**

139. The track record of efforts to tackle global threats suggests that progress is made through collective action in a virtuous spiral. Non-governmental, private sector stakeholders and governments can spur one another into action. Norms can shift: bribery once an accepted practice of multinational enterprises is now seen as unacceptable and is a crime in most jurisdictions; the expectation of transparency in extractive industries, international contracting

and taxation is gaining momentum. Success generates momentum for further change. The GAC Global agenda will play a role in promoting this process.

140. In order to maintain coherence across the GAC Global agenda, the GAC Secretariat will convene periodic meetings of the GAC Global programs and initiatives. The purpose of these arrangements is primarily to encourage global programs to develop synergies, adopt consistent approaches to common issues and develop a coherent strategy for engagement in the principal international forums. The GAC Secretariat will also step up its efforts to support coordination between global initiatives and the GAC agenda at country level. Global initiatives consistently point to the importance of linking their activities to work of national institutions, WBG country dialogue, analytical work and operations. Part of this is a matter of raising awareness; something that the GAC Secretariat will support by improving internal communication on global issues and updating country teams on developments. Part of this is also a matter of appropriate resourcing. Governance Partnership Facility financing (see paragraphs 167-169) could make a contribution in this direction by giving greater prominence to the integration of global initiatives and country work in any future GPF funding round. Modest funding (approximately US\$200,000 per year) will also be provided from the Bank budget to support the GAC Global coordination function, facilitate collaboration across GAC Global work streams and convene events that bring together stakeholders working on GAC Global issues.

141. Progress will be monitored and assessed at two levels: first, progress in the implementation of specific actions that will be undertaken in each of the GAC Global work-streams (see Table 2); second, the operational impact of GAC Global activities. Key indicators of operational impact relate to: GAC Global successes in exploiting synergies and developing common approaches to policy issues across work-streams; and the integration of GAC Global work-streams in World Bank country programs and operations. The GAC Secretariat will report on progress in GAC Global within the broader framework of the GAC Phase II reporting arrangements.

**Table 2: Key Actions for Global GAC Agenda**

<b>Financial Market Integrity</b>	<ol style="list-style-type: none"> <li>1. Encourage financial centers to take action in their own countries against the laundering of the proceeds of corruption, tax evasion and aggressive tax planning, including by support for monitoring progress against these commitments</li> <li>2. Support efforts of developing countries to tackle illegal flows by using international standards and good practices, including technical assistance help set up effective regimes to facilitate domestic and international co-operation between law enforcement, tax authorities and others.</li> <li>3. Facilitate international co-operation between authorities in tackling corruption, tax evasion and money-laundering, including by promoting inclusive networks that facilitate developing countries participation and by enabling operational-level international co-operation on financial intelligence, tax administration, law enforcement and criminal justice.</li> <li>4. Assist low-income countries that provide financial services by exploiting arbitrages in the international regulatory framework to better understand and address the challenges of complying with international standards.</li> </ol>
<b>Contract Integrity</b>	<ol style="list-style-type: none"> <li>5. Strengthen collaboration with international associations of private contractors and consultants on the development, dissemination and promotion of international good practice standards and practices for integrity risk mitigation and implementation monitoring.</li> <li>6. Enhance the integrity of MDB-financed contracts by increasing the cost of fraud and corruption through consistently applied sanctions and integrity-related requirements and remedies (such as the MDB Cross Debarment Framework).</li> <li>7. Build momentum for the CoST initiative to be recognized as a credible measure of construction sector transparency, by broadening country membership, increasing the number of participating projects and procuring entities in each country as well as by supporting appropriate linkages with national accountability institutions.</li> </ol>
<b>Natural Resource Integrity</b>	<ol style="list-style-type: none"> <li>8. Continue support for broader geographic coverage and more effective implementation of NRM global governance initiatives (EITI, FLEG, REDD and related forestry and fisheries initiatives).and provide platform for sharing lessons learned on effectiveness.</li> <li>9. Support expanded global coverage of statutory disclosure and reporting obligations on securities issuers that engage in natural resource extraction and including options to cover SOEs/NOCs.</li> <li>10. Work with financiers of NRM investments for improved uptake and verified implementation of social, environmental, economic and governance commitments, including capacity support for verification by non-governmental actors within developing countries.</li> <li>11. Build momentum for efforts to combat the illegal trade in natural resources, including through the development and launch of an operational strategy for the International Consortium to Combat Wildlife Crime and the work of the Forest Law Enforcement Group.</li> </ol>
<b>Public Sector Integrity</b>	<ol style="list-style-type: none"> <li>12. Support the implementation of international standards on fiscal transparency, including through the development multi-stakeholder initiative in this area.</li> <li>13. Promote the development and implementation of international standards for income and asset disclosure and to counter conflicts of interest, working within the framework of existing international instruments such as UNCAC.</li> <li>14. Support and monitor implementation of international initiatives to strengthen anti-corruption coordination and enforcement, including the International Corruption Hunters Alliance, UNCAC, and OECD Conventions, and global networks of anti-corruption agencies.</li> </ol>
<b>Cross-Cutting Actions</b>	<ol style="list-style-type: none"> <li>15. Undertake knowledge-based advocacy on the development costs of global threats to governance and the necessity of addressing these threats through a global framework of mutual accountability.</li> <li>16. Dialogue with fragile and low income countries on the emerging architecture of a global regime to help combat global threats to governance, identifying how the emerging regime can address their needs and take account of their constraints.</li> <li>17. Dialogue with BRIC + countries on their roles in defining the emerging global governance architecture and development of a WBG-wide strategy to support their engagement.</li> <li>18. Champion strengthened global architecture to tackle global threats to governance including a stocktaking conference and knowledge sharing across global initiatives on ‘good practices’ in the design and implementation of global standards</li> </ol>

## VI. ORGANIZING FOR DELIVERY

142. This section presents how the Bank will organize itself to deliver the updated GAC Strategy and implementation Plan. It will consider management and oversight arrangements, knowledge and learning, tools, instruments, resources and staffing.

### REVISED GAC MANAGEMENT AND OVERSIGHT ARRANGEMENTS

143. **The current structure for the corporate oversight of GAC** planning and implementation was put in place in 2007. In creating and putting in place such a new organizational structure – the first to have a Bank-wide remit – three elements were considered necessary:

- **a high-level advisory body.** A high level body was considered critical if the new GAC strategy was to be implemented successfully. The GAC Council was designed as that body, with chairing responsibilities rotating among the three MDs to ensure ultimate commitment and ownership across the whole body of the Bank;
- **Vice-Presidency implementation structures.** Given the emerging nature of the agenda and the differing priorities and understandings across the Bank, it was considered appropriate for each Vice-Presidency to identify their own specific organizational arrangements for implementation. Thus a variety of approaches emerged across the Bank (Box 17). This has worked reasonably well and there is no reason to impose one centralized model ; and
- **a Secretariat.** A small secretariat was established with three main functions: to report on annual implementation progress; to support the deliberations of the Council, and to coordinate with the range of other governance interventions in the Bank.

144. **These arrangements now need revision.** The wider environment for the updated GAC strategy and implementation plan is very different to that which pertained in 2006–2007. Four concerns have emerged regarding current arrangements:

- the GAC Council has no executive authority, being only an advisory body. It was not until mid-2010 that a single Managing Director was charged with overall Bank-wide responsibility for the GAC agenda;
- as a result of the GAC Council being an advisory body, there is no formal accountability structure in place for GAC implementation;
- the rotating chair of the GAC Council. In order to generate Bank-wide interest and commitment, it was agreed that the chairing of the Council should rotate among MDs. With GAC now widely embedded across the Bank, and given the importance of continuity in leadership, this also needs to be changed; and
- the External Advisory Group proved a partial success. Its independent scrutiny and advice were valued in the early stages of the program, but as implementation proceeded and experience of the strategy grew, the Group found it difficult to find appropriate ways in which it could add value.

## Box 17: Diversity in RVP Organization for GAC implementation

*Africa Regional Vice-Presidency* delegated, for the first two years, responsibility for implementation to its Poverty Reduction and Economic Management (AFR PREM) directorate, which assigned staff to work on the initiative. In year three AFRVP established a multi-sector director-level A-GAC Council, chaired by a director in the office of the Vice President. AFRVP systematically supported a dozen plus country teams to mainstream GAC in the design of

*East Asia and Pacific Vice-Presidency* established a regional governance hub in the field to co-ordinate EAP GAC efforts, facilitate joint work across country offices, and foster an EAG GAC community of practice, plus a Director-level regional implementation committee to provide strategic direction.

*Europe and Central Asia Vice-Presidency* established a Director-level ECA GAC Steering Committee, with GAC champions in all sectors and country management units. ECA developed a GAC training program, which it made mandatory for all staff.

*Latin America and the Caribbean Vice-Presidency* established, at the outset of GAC implementation, a multi-sector Director level GAC team, chaired by the Operations Director. The RVP was an early pioneer in assessing GAC-related risks systematically across its operational portfolio.

*Middle East and North Africa Vice-Presidency* initially delegated responsibility for implementation to its PREM directorate. In year three it established a GAC implementation committee, with members drawn from all sectors and country management units. It is focusing on the establishment of an integrated governance review mechanism to screen all (lending and non-lending products).

*South Asia Vice-Presidency* has focused on mainstreaming ownership of the GAC agenda by transforming the RVP culture, at all levels, vis-à-vis GAC. It has integrated GAT at every step of the project cycle – including through enhanced upstream governance assessments, requiring Governance and Anti-Corruption Action Plans for all new projects, increasing supervision budgets, and mandating 100% procurement post reviews.

145. **A revised and strengthened role for the GAC Council.** In order to empower the GAC Council, some few but important changes to current practices will be put in place. The Council will meet quarterly—or more frequently if and when required—under the sole chairing of the responsible Managing Director. Membership will remain as presently configured (VPs, with Operations Directors as Alternates), and PRMPS will continue to house the Secretariat. The Council will set the agenda, and it will have strategic / policy and decision-making authority. It will be accountable for implementation, results and impact. It will have a formal Terms of Reference and will report to the President twice a year.

146. **Cascading job descriptions.** To ensure GAC is implemented throughout the organization, Vice-Presidencies shall be required to demonstrate that they have cascaded GAC objectives down to operational level, including Country Directors, Country Managers, and Sector Directors and Managers. It will remain the responsibility of Vice-Presidents to identify which posts should include a specific GAC objective.

147. **GAC Secretariat.** The GAC Secretariat, while remaining in PREM Public Sector Governance unit, will continue to include representation from INT and OPCS. The Governance Partnership Facility will report to the Head of the GAC Secretariat.

148. **The External Advisory Group.** The EAG performed a useful function in guiding the strategic direction of GAC in its formative years, but the shift to implementation at the country level means that the Group had less of a clear role to play. As was seen with the IEG Evaluation, in-depth independent assessments demand full-time and dedicated resources. External advice

will, however, continue to be a key input, but via inputs on specific activities/initiatives. Early in the period the Bank will consider the best way to make such external advice available.

149. **Progress report for GAC.** The updated implementation plan seeks to establish a robust monitoring framework to be able to track the extent to which the use of a GAC lens has been mainstreamed in country programs and the supportive sector strategies, and that the training, knowledge and tools needed by staff are available. It is anticipated that sufficient progress will be made on this front will be made to allow GAC monitoring to be mainstreamed into regular management tools. A progress report will be undertaken in three years in order to identify any remedial actions that may be needed to ensure this target is realized.

150. **Regional and Network GAC priorities.** The GAC Council will continue to monitor and oversee GAC implementation. As part of this responsibility each network and anchor Vice President will prepare a short (three or four page) statement of annual high-level GAC priorities and ‘actionables’ for the coming year, and on which they will report. While the organizational form for delivery shall remain at the discretion of each Vice Presidency, a stocktaking of the experiences of different regional arrangements will be undertaken to better learn and share lessons about what organizational features have worked well (and less well) across regions and networks.

## **THE UPDATED GAC KNOWLEDGE AND LEARNING FRAMEWORK**

151. **To date there has been remarkable progress in GAC-related knowledge generation and in staff learning.** While the majority of Bank staff are aware (and highly supportive) of the GAC agenda, however, the job of fully equipping operational staff to deal with GAC issues effectively at the country, sector and project levels is far from complete. The GAC knowledge and learning framework has therefore been updated<sup>19</sup>: its aim is to move the Bank closer to the vision of fully mainstreaming the GAC agenda. The framework therefore builds on what has been achieved so far, as well as incorporating the ‘unfinished agenda’ of GAC, and the strategic directions and operational priorities of the GAC update.

152. **The framework will be grounded in the principles, concepts, and approaches outlined in the Bank’s new Knowledge Management Strategy, and the Bank’s new Learning Strategy.** Knowledge is one of the keys to development effectiveness – for the Bank and for its borrowers. Clients look to the Bank as a source of development knowledge more than ever before. In response, the new Knowledge Management Strategy focuses on the Bank’s three key roles – as a producer, customizer, and connector. It notes that knowledge can take many forms, from explicit to the harder-to-define tacit knowledge that comes from experience, and it categorizes the Bank’s explicit knowledge (based on its objectives and audience) as: knowledge as a public good (research, WDRs); knowledge for country clients (ESW, TA); and knowledge for internal use (‘good practice’ guidance notes for staff). It also makes clear the need to strengthen the governance of knowledge management within the Bank in order to set the right priorities, provide funding, and ensure accountability for results. All of these points are relevant to the GAC agenda.

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<sup>19</sup> Strengthening Governance, Tackling Corruption: Improving Development Outcomes through Knowledge and Learning”. GAC Secretariat, November 30<sup>th</sup>, 2011

153. **Knowledge about governance and corruption issues, in terms of both diagnostics and mitigation measures, will be increasingly relevant for the development community in the years ahead,** and the Bank has a wealth of cross country and cross-sectoral experience in more than 120 countries upon which it can draw. At the operational level, one challenge will be to tailor the Bank's GAC knowledge more effectively to different country circumstances (e.g., MICs, LICs, and FCS). At the sector level, the main challenge will be to customize what has been learned about the common points of GAC risks and vulnerability, and the corresponding mitigation measures for each of those points, to the circumstances and possibilities of the sector as it operates in a given country. The Bank also needs to strengthen its knowledge partnerships by connecting with external networks, with an expanding role for knowledge and learning portals: electronic platforms for connecting knowledge, learning, and global Communities of Practice.

154. **The Bank's governance arrangements for knowledge management will be strengthened.** Currently, the strongest system is that for 'global public goods' and the weakest is for 'internal' knowledge management – including staff learning and professional development. Sector Boards have an especially critical role to play in helping staff acquire the knowledge and skills they need to achieve results for/with our clients. In parallel with the new knowledge management strategy, therefore, management has agreed a 10 Point Program for strengthening their efforts – including identification of core competencies, and any gaps, and the development of learning programs aimed at those competency gaps.

155. **Developing a learning culture is central to the Bank's knowledge agenda and the pursuit of global excellence.** Following a review of the strengths and weaknesses of the existing staff learning program, the Bank adopted a new Learning Strategy comprised of three key pillars: a Core Curriculum that includes orientation for all new staff, and a special program for new Task Team Leaders; a Professional/Technical Learning Program to ensure cutting edge skills for staff; and support for business-related unit and individual learning needs. Key principles include an emphasis on quality assurance in design and delivery of leaning programs, adoption of more modern learning methods to meet the needs of a highly decentralized organization, and a focus on the development of the core competencies Bank staff need to perform successfully in their respective jobs.

### **Knowledge and Learning in GAC to Date**

156. **Within the GAC knowledge and learning agenda, much has already been accomplished.** The CGAC initiative and the GPF supported work on GAC issues at the country level, while the Networks focused on governance and/or corruption issues at the sector level. INT established a Preventive Services Unit to provide advice to task teams in project design and supervision, and collaborated with the Procurement and Financial Management Groups in developing new guidelines for fiduciary staff. Thematic groups played a major role in advancing the GAC agenda, including the Public Sector and Governance Group, the Anti-Corruption Thematic Group, the Political Economy Analysis CoP, the Demand for Good Governance CoP, the ICT Group, and CommGAP (Communications for Governance and Accountability Program). The Regions also worked to mainstream GAC issues in their operational activities, though with significant differences in approach and in organizational structures.

157. **Despite the progress achieved, more must be learned and challenges need to be overcome in translating it into better country assistance strategies, better advice for clients, and better, more effective lending operations.** According to various staff surveys, quality reviews and evaluations, for example: only 63% of staff are *fully* familiar with the GAC strategy; most Bank staff are highly committed to GAC issues, but do not feel they have the skills needed to identify and mitigate risks at the sector and project level, or to supervise “high-risk” projects; in FY08, only 46% of Bank projects reviewed were ‘GAC responsive’; and even prior to the launch of the 2007 GAC Strategy, virtually all Bank CASs supported GAC pillars, but the depth of analysis, and the linking of GAC issues and opportunities at the country, sector and project levels, was often not there.

### **Knowledge and Learning in the GAC Update**

158. **Mainstreaming GAC will require attention to the main strategic objectives of the GAC update:** strengthening country institutions; more effective management of risks; and a robust approach to results. The updated GAC Knowledge Agenda focuses on the three main groups responsible for each of these three areas. The priorities in each case are based on a combination of their past contributions, their current plans, and the strategic objectives of the GAC update:

- **GAC-related Thematic Groups/CoPs would:** (a) become more specific about how their tools and approaches apply in different sectors and under different country circumstances; (b) define more clearly the results chain, indicators and benchmarks for assessing the impact of those tools and approaches; (c) further develop their guidance to staff on how to apply those tools and approaches (including core skills training for their own staff and “introductory level” training for staff in other sectors); and (d) ensure the availability of experts able to meet the demand from Task Teams in those other sectors (and their clients) for direct implementation support;
- **Networks and Sector Boards would:** (a) incorporate in their own analytical work and in their sector strategies the advances in knowledge being generated by the GAC-related Thematic Groups/CoPs; (b) ensure that those sector strategies support the GAC Phase II strategic priorities (shifting from transactions to institutions, strengthening the management of risks and the focus on results); and (c) develop a knowledge and learning program for their staff that equips them not just to understand and deal with GAC issues at the sector and project level, but also to engage effectively with clients, development partners and other stakeholders on those issues;
- **Regions and CMUs would:** (a) work on strengthening GAC diagnostic work at the country, sector and project level to produce more “GAC responsive” CASs and corresponding country assistance programs; (b) engage “the whole of the country team” to fully exploit linkages between country, sector and project level GAC issues; and (c) deal more effectively with incentives issues for staff and constraints to both diagnostic work and implementing the results.

159. **The primary objective of the GAC updated Learning Framework is to equip Bank staff with the knowledge and skills needed to deal with GAC issues and concerns at the country, sector and project levels.** It focuses on two sets of core GAC competencies: (a) the cross-cutting knowledge and skills generated by various GAC-related Thematic Groups/CoPs



that are applicable across Bank sectors; and (b) sector-specific knowledge about the common points of GAC risks and vulnerability, and the menu of options for mitigating those risks, that represent the core GAC competencies for staff working in that sector. **To promote GAC literacy**, the Framework proposes to revise and update the e-learning version of ‘GAC 101’ and strengthen the GAC component of the ‘Fundamentals of Bank Operations’ part of the staff orientation program. **To support Operational Core Skills**, the Framework proposes a continuation of the GAC in Project’s course, and a new “GAC in CASs” course. **To support professional/technical training**, Thematic Groups/CoPs would continue to offer training for members of their practice group, and would develop introductory level modules for use by other sectors, while Sector Boards would offer training for their practice groups that would equip them with cutting edge GAC-related training, focusing on improved management of risks and results, and a focus on institutions. Box 18 indicates the next steps for the knowledge and Learning agenda.

### Box 18: Knowledge and Learning Next steps

- OPCS will review and update the GAC 101 e-learning module and update and strengthen the existing GAC component of the “Fundamentals of Bank Operations” e-learning module ;
- OPCS and PREM will design and pilot the delivery of a “GAC in CASs” course for Country Teams, building on the current “CAS Academy” framework and AFR’s experience;
- The six key GAC-related Thematic Groups/Communities of Practice will develop (or maintain) introductory training modules for incorporation within the proposed GAC in CASs and GAC in Sectors courses;
- Sector Boards will begin the design and delivery of GAC in Sector Courses for project Task Teams, with an initial pilot program involving 3-4 volunteer Sectors (following the proposal outlined in Annex V), to test whether or not that approach will work effectively and to validate the estimated time-frame and staff inputs/costs; and
- The GAC Secretariat will work with representatives of the Learning Board, ISG, WBI and VPU Learning Coordinators to develop specific proposals for dealing with the issue of “geographically neutral” learning programs.

### GAC TOOLS: POLITICAL ECONOMY ANALYSIS

160. **Despite the progress made in using PEA, there remain issues to be addressed if the current PEA dynamic is to be sustained.** First, there is the challenge of ensuring that PEA includes clear and unambiguous operational implications. Second, there is a perception among some staff that PEA is optional and only undertaken with additional resources. Third, there is the question of how to handle potential country level sensitivities.

161. **Wherever appropriate, the Bank will incorporate PEA into its Economic and Sector Work, and unless there over-riding sensitivities, make public its findings and reports.** Where appropriate, the Bank will seek to take the lead in addressing difficult political economy issues at country level in order to sharpen the quality of the policy debate. The priorities for the next two years are to:

- provide support and guidance on quality, drawing on lessons learned as experience accumulates;
- capture lessons in a central database and drawing on this for lesson learning efforts;

- develop more sector, thematic, and situation specific guidance (e.g. infrastructure, environment, fragile states);
- develop greater clarity on (i) good practices and ways of managing sensitivity at country level and (ii) managing potential tensions between implications of PEA and Bank operational incentives (in collaboration with/from management);
- continue to ensure funding of PE analytic work and processes for taking PE issues into account when preparing and implementing operations and strategies; such funding will include BB as well as TF resources;
- continue to build/expand the pool of consultants and staff able to supervise and carry out applied problem-focused PE analysis within tight resource envelopes;
- build a cross-country research agenda of what works; this also includes contributing to other sectoral efforts in this regards (e.g. feeding a PE perspective into analysis of ‘what works’ in public sector reforms, procurement, or urban water sector development);
- continue the learning agenda for political economy analysis and related processes to improve development effectiveness. Learning efforts will also be integrated with point (ii) (building sector specific guidance). Learning offerings will take a variety of forms (e-learning, face to face trainings, tailored clinics, AskGov type advice, etc.); and
- continue working with other donor agencies in this area which will support lesson learning, as well as developing impact of this agenda.

#### **UTILIZING EXISTING INSTRUMENTS AND EXPLORING NEW ONES**

162. **The Bank must continue to ensure that its full set of instruments to instruments are GAC-responsive.** Underpinned by solid Analytic and Advisory work, Development Policy Lending and Investment Lending have both been important instruments to support governance reforms. As part of a continuously evolving institution, the Bank will also continue to explore how new instruments and approaches can support GAC objectives.

163. **For example, the ‘Program for Results’ financing instrument, approved in January 2012, will provide a powerful entry point for the Bank to support improvements in governance.** Many ‘sector’ projects already take a results-based approach, and these experiences are helping to inform the design of the new instrument. The focus on ‘whole of government’ programs (as opposed to ring-fenced ‘Bank’ projects) creates an enabling environment to build stronger governance systems and institutions. By linking disbursements to results (outputs and outcomes) the nature of the relationship between the Bank and the client moves away from individual transactions and focuses on the behavioral and institutional changes that are required to achieve those results. An essential implication of the new instrument is the development of stronger and more credible means of monitoring the achievement of results, including by enhancing the role of users and civil society organizations. This will greatly contribute to improved accountability and legitimacy.

164. **Making this promise a reality will require significant efforts including in terms of enhanced and streamlined internal processes, new skills, and a stronger focus on upstream analytical work.** Three priorities stand out:

- the new instrument requires closer collaboration across ‘silos’ within country teams. Supporting sector reforms at a systemic level requires understanding and coordination within

the broader context of public sector management. This will require intensive integration among Bank staff. Training and support to teams working across institutional boundaries will be needed as well as support for more integrated dialogue with clients (e.g. working across Ministries);

- new approaches to sector analysis and monitoring and evaluation will be needed. The shift to financing results instead of specific transactions suggests that projects will be appraised differently. Rather than costing inputs, Bank teams will assess the quality, efficiency and cost-effectiveness of the government program that will be supported. This requires an enhanced focus on public expenditure and service delivery analysis through investments in upstream analytical work. It will also require more effective monitoring and evaluation systems in place for measuring service delivery performance and results; and
- the opportunity for a broader range of actors, including citizens and civil society organizations to be involved in monitoring programs through social accountability. The Program for Results, by definition, requires new models of ‘supervision’ and implementation support. Citizens and CSOs can play important roles in monitoring and evaluation, to ensure that the results of the program are achieved. This can include the use of social accountability tools such as social audits and scorecards for third-party verification that services have been delivered, and grievance redress mechanisms. Technology can facilitate these processes. While experience with these approaches in certain sectors – notably HD - is emerging, evidence on their effectiveness remains limited, so building a knowledge base and support for task teams on when and how to integrate citizen involvement in monitoring will be critical.

165. **Engagement: creating opportunities for governance reforms.** One of the lessons to date has been that unless non-lending opportunities exist for engagement at the sector level the Bank will tend to remain limited in its ability to support stronger institutions and better governance. Going forward, the Bank’s analytical work can be further exploited as an entry point for engagement at the sector level. This includes a range of options, and should not be interpreted only (or even mainly) as the production of reports responding to specific demands from government counterparts. A more flexible range of approaches will be required: from generating data on service delivery performance to inform debates, to reports done in partnership with local think tanks, to TA for the design of innovations or impact evaluations to measure the results of those innovations. While many HD teams are already working in these ways, there is opportunity to do more in two areas:

- programmatic engagement through analytical work and non-lending technical assistance can open space for “listening” to a broader range of stakeholders, as well as support on-going analysis. It can help position the Bank to support challenging governance related reforms; and
- partnerships with non-government actors, such as think-tanks, academia and CSOs around analytical work can broaden the scope of the policy dialogue and help identify entry points beyond the mandate of a single government administration. It can also facilitate civil society involvement in the types of social accountability approaches mentioned above.

## FINANCING

166. **Ensuring that the Bank uses a governance lens in designing and implementing its programs is a corporate priority and needs to be implemented through the mainstream of Bank resources.** Using a governance lens is not always about doing something “additional”—but is often about doing business differently. These different approaches may, or may not, be more costly. Given the corporate position that a GAC lens is essential to development effectiveness, where additional resources are needed within a country program to approach a challenge from a GAC perspective, these resources will be prioritized within the available resource envelope, recognizing that this envelope can draw from Bank budget, trust funds, fee for service, and/or analysis or activities supported by other development partners.

167. **But Trust Funds can accelerate the pace of change and fund innovative cutting edge initiatives.** The Governance Partnership Facility was established in 2008 to help GAC implementation. The GPF is supported through a Multi Donor Trust Fund (MDTF) with \$74 million in contributions from the three original donors of the UK, the Netherlands, and Norway (\$50, \$15, and \$9 million respectively). To date the GPF provided grants through three thematic windows (country programs, innovative governance initiatives in sectors, and governance knowledge and learning). A fourth donor, Australia, has recently joined.

168. **The Bank considers that the GPF will remain an important tool in the GAC update in order to help:**

- create a *critical mass of countries* where governance is central to Bank operations;
- *learn more systematically* about the application of governance in sectors; and
- support the Bank’s *engagement on governance with institutions outside the executive* branch of government, with civil society and with the private sector.

169. **GPF Achievements:** Collectively with the partners, the Bank undertook three competitive rounds to select 86 highly promising GAC activities. A full report of the interim results of the GPFs support to country programs (Window 1) has recently been released<sup>20</sup>. However, it is clear from internal consultations that significant volumes of Bank budget are being used to fund governance activities, but the GPF gives additional flexibility to fund both innovative activities in governance-responsive environments, as well as more mainstream governance initiatives in less conducive environments.

170. **The Bank is currently consulting with partners regarding the establishment of a Partnership for Social Accountability to strengthen the capacity and sustainability of CSOs** constructively to engage with governments on social accountability. Formal consultations will be launched in December, with presentation to the Board expected in late March. Three priority areas for the Facility are emerging: first, the demand for the Facility to serve as a *knowledge platform* for information creation, exchange and dissemination; second, to *foster partnerships and networks* that support this work; and third, to *provide resources* that strengthen CSOs capacity, particularly core financing. Wherever possible, the Facility would leverage existing initiatives rather than starting them anew. The intention is to start small, and scale up incrementally based on evidence and lessons of experience. Initial seed capital of \$20 million

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<sup>20</sup> ‘Implementing Country Level Governance Programs: A Review of Window 1 Country Programs. September 2011.

over four years will be requested from the Bank's Board, with the aim of leveraging support from other partners, including foundations and other donors. It is envisioned that partners will have a seat on the governing board of the Facility, as will CSOs and governments to ensure a multi-stakeholder approach. A small secretariat will be set up at the Bank to administer the Facility

## **STAFFING**

171. As GAC implementation proceeds, a systematic effort will be made in defining 'governance competencies' and developing a robust (distance-based) training program associated with that competency. Initially the competency will be incorporated into the Public Sector Management and Governance stream. Following this, a pilot effort will be made to export this competency—with some customization—to another job family. This experience will be assessed, and a decision taken on the extent to which a governance competency can be successfully developed among a cadre of sector diverse sector specialists. This assessment will need to also include examining what incentives will be required to encourage staff to develop this competency. This could, for example, include accreditation and/or requirements for having a governance competency to be eligible for certain positions (e.g., sector and country management).

172. Governance specialists however will remain important. A small and specialist cadre will continue to play an important function in the Bank, providing advice at critical points in the country / project cycle as well as playing a central policy advisory role.

## **VII. CONCLUSION**

173. The Bank's Governance and Anti-corruption Strategy and Implementation Plan undoubtedly represents work in progress. Given the nature and complexity of governance issues, it will not be possible one day to claim that "it is finished", and that a GAC strategy is no longer needed. Adopting a governance lens to all the Bank's work is therefore a continuing transformational objective, and until humankind is perfected the Bank's approach to maintaining its exacting fiduciary standards is non-negotiable.

174. It is critical therefore that the Bank's governance and anti-corruption work be absorbed into the Bank's 'DNA'. For this reason the updated Strategy and Implementation Plan has set out how the Bank will seek to embed GAC in its routine operations. It will do this through:

- incorporating GAC measures and indicators into its regular corporate reporting systems (the Corporate Scorecard, monitoring systems for supporting the international 'Aid Effectiveness' agenda etc);
- incorporating a GAC lens in all its upstream analytical work, notably at country level and in Bank sector strategies, and in downstream project design and implementation;
- incorporating governance risk assessment and mitigation measures in the Bank's standard risk management tools;
- providing tools, guidance, training and learning materials customized by sector and country context;
- embedding accountabilities for GAC deliverables at the highest levels in the Bank, and cascading them through the Vice-Presidencies; and

- revising the role of the GAC Council to ensure effective management and senior level oversight.

175. The underlying philosophy of this Strategy and Implementation Plan Update is to ‘work its way out of existence’. Once governance and anti-corruption issues become routine in Bank systems, policies and procedures, and a governance and anti-corruption perspective becomes ‘second nature’ among Bank staff, the need for a stand-alone strategic document will fall away. This will be a key question for the proposed review of the updated Strategy and Plan.

## ANNEX 1

### Governance Partnership Facility

#### Overview

The GPF was established in 2008 to help GAC implementation. The GPF is supported through a Multi Donor Trust Fund (MDTF) with \$70 million in contributions from the UK, the Netherlands, and Norway (\$48 million, \$13 million, and \$9 million respectively). Currently GPF provides grants through three thematic windows (Window 1 - country programs, Window 2 - innovative governance initiatives in sectors, and Window 3 - governance knowledge and learning). Australia joined the GPF in late 2011 with a contribution of \$10 million. Also an additional Window 4 has been created to support innovative work in Public Sector Management.

The GPF will remain an important tool to assist the Bank in GAC implementation. It will help:

- create a *critical mass of countries* where governance is central to Bank operations;
- *learn more systematically* about the application of governance in sectors; and
- support the Bank's *engagement on governance with institutions outside the executive* branch of government, with civil society and with the private sector.

#### GPF Implementation

Collectively with the partners, the Bank undertook three competitive rounds in 2009-2010 to select 86 highly promising GAC activities. The initial program resources are now fully committed to these projects, which are under implementation until 2013. The additional funding from Australia is initially used to fund public financial management activities.

#### GPF Achievements: Delivering Transformative Results for GAC implementation

GAC emphasized innovation and change management, and the GPF has provided resources to undertake activities that enable Bank teams to explore approaches to governance in Bank operations and to learn lessons from these efforts.

The 2011 Annual Review finds that GPF funded activities are starting to show results:

- GPF's strategic funding is yielding tangible governance outputs and outcomes at the country level and at project level. GPF has facilitated the integration of governance priorities in various forms of Country Assistance Strategies (CAS), as well as in Development Policy Operations (DPOs) and in Investment Lending.
- The increase of staff dedicated to governance work has impact. In the past 2 years GPF funded 42 full time staff positions. The number of Bank funded positions has also increased. The Bank's capacity to integrate governance in projects and upstream work has improved and governance staff in fragile states has had particular impact.
- World Bank counterpart funding for governance has increased between FY2009 and FY2011 despite a decline in overall budget
- Collaboration between the World Bank and donor partners to integrate governance in country strategies, sectors, and projects and in knowledge and learning is growing.

Increasingly partners are interested in scaling up or replicating pilot approaches developed by GPF projects.

- Innovations have been introduced in multi-stakeholder engagement, use of political economy analysis and in organizing country teams for GAC implementation.
- GPF has been instrumental in developing Political Economy Analysis (PEA) in at least seven sectors. The majority of PEAs are sector-focused: Agriculture, Energy, Extractive Industries, Fiscal Decentralization, Health, Social Development and Water. Others identified governance constraints in Community Driven Development (CDD), Demand For Good Governance (DFGG), Decentralization, Private Sector Development, Procurement, Public Financial Management (PFM), Social Protection and Tax Administration. Political Economy Analysis has been a powerful tool for initiating dialogue between donors and governments, particularly in fragile states.
- A large portion of GPF grants support transparency and accountability by:
  - ✓ building capacity for better information management;
  - ✓ enhancing financial management capacity in sectors; developing sector capacity for M&E and developing Actionable Governance Indicators (AGIs);
  - ✓ better integration of non-executive institutions of accountability in public expenditure monitoring and regulatory oversight; and
  - ✓ enhancing the role and capacity of demand side actors to advocate for quality service delivery, monitor and report on the use of public resources.
- Governance-related Communities of Practice (CoPs) have been instrumental in harvesting and validating knowledge and innovations for mainstreaming GAC in sectors. GPF provides funding for 10 governance Communities of Practice. The CoPs are also increasing playing a role in strengthening partnerships between the World Bank and development partners in strategic areas of governance.
- The GPF sponsored GAC Portal is contributing towards increased coordination, knowledge sharing and collaboration amongst the various GAC CoPs. The Portal is now accessible to the donor partners.

It is unrealistic to expect mainstreaming of governance in all Bank operations in two to three years. As from August 2011, all Regional Vice Presidents report to MDI. This new alignment, coupled with the GAC Update provides a real opportunity to leverage GAC mainstreaming in Bank country programs. Emerging ideas include:

- using the GPF to support a “results-based compact” between MDI and the RVPs (i.e., additional resources on the basis of results delivered);
- use of Bank resources and GPF funds to supplement and scale up the most promising governance activities; and
- to support growing global demand for governance engagement on the part of clients, with the potential for scaled-up engagement between the World Bank and a wide range of stakeholders.

It is clear from GAC internal consultations that significant volumes of BB funds are being used to fund governance activities. The GPF gives Bank teams flexibility to fund both innovative activities in governance-responsive environments, as well as more mainstream governance initiatives in less conducive environments.



## ANNEX 2

### IEG RECOMMENDATIONS

S = Strategy Update

IP= Implementation Update

IEG Recommendation 1	Management Response	Paragraphs
<p><b>Focus on helping countries make tangible and time-bound governance improvements, while acknowledging and seeking to resolve trade-offs between:</b></p>	<p><b>Agreed:</b> Management notes that the first recommendation is fundamentally challenging; the 2011 WDR stresses a 20 year time horizon for institution building, while recognizing that citizens have immediate needs. Decisions regarding trade-offs can be made only at country level and congruent with Bank comparative advantage. The final three recommendations may not entail trade-offs; the alternatives in each case may be complementary. Management cannot commit to time-bound actions by countries. Management does commit to support countries that have country-owned time-bound strategies to improve governance and will report on that support as part of GAC monitoring.</p>	<p>S 33-36, 49-50</p>
<p>Committing Bank support for institution building over the long term <i>and</i> ensuring accountability for results (for example, in-service delivery) in the short term.</p>	<p>Management commits to: Articulate its approach to upstream public sector reforms (those focused on core government functions and systems) and downstream reforms (which focus on service delivery) in the context of GACII, to be discussed with Executive Directors in the second Quarter of FY 2012.</p>	<p>S 40-44, IP 76-90</p>
<p>Supporting system-wide public sector reforms <i>and</i> supporting selective public management improvements in priority service delivery sectors.</p>	<p>(see above)</p>	<p>IP 76-90</p>
<p>Helping governments respond to demand-side pressures <i>and</i> directly engaging non state actors in order to motivate demand side pressures.</p>	<p>Management commits to: A strengthened approach to supporting demand side measures will be set out in an annex to the GACII strategy.</p>	<p>S 11, 40-41, IP 76-79</p>
<p>Upgrading of country systems through their deliberate use <i>and</i> safeguarding Bank funds from abuse.</p>	<p>Management commits to: Continue and deepen work on supporting strengthening of country systems and continue to monitor and report periodically to Executive Directors on progress in use of country systems in procurement, financial management, and project management implementation.</p>	<p>S 40-41, IP 91-97</p>

IEG Recommendation 2	Management Response	Paragraphs
<b>Update the Bank’s approach to institutional strengthening:</b>	<b>Partially Agreed.</b> Management is developing a new results-based lending instrument that will finance the delivery of results in many of the critical areas listed by IEG. Management also endorses the call for strengthening country dialogue through the more widespread use of political economy analysis at country, sector and project level. However, Management believes that country context is critical, and whether or not to ‘integrate’ PEA into ESW is a decision that should be taken at country level. Management agrees that actionable governance indicators should be used more systematically in results frameworks.	IP 160-165
Leveraging innovations in financial instruments and building on lessons learned to strengthen business lines that warrant more immediate attention—civil service pay reform (particularly in fragile states); public management support for basic service delivery and the investment climate; public financial management of natural resource rents; and civil society capacity building.	Management commits to: Seek Board approval for new results-based lending instrument (the ‘Program for Results’) in FY 2012.	IP 163-164
Strengthening Bank-country dialogue primarily through better integration of political economy analysis into standard Bank economic and sector work (and less through the creation of confidential, freestanding political economy analysis products).	Management commits to: Building on guidelines contained in “Problem Driven Governance and Political Economy Analysis,” published in September 2009, Management will develop further tools as necessary but will leave the decision on whether or how to use the tools and guidance to Regional staff, who have the relevant country knowledge. The guidance on using PEA in fragile and conflict affected states will be issued in the first half of GACII.	IP 160-161
Adapting actionable governance indicators more systematically to project results frameworks.	Management commits to: Develop and disseminate guidance on using actionable governance indicators in project results frameworks, and monitor their usefulness and modify as necessary in the context of regular GAC reporting. Management will disseminate guidance in the first half of GACII.	IP 98-112

IEG Recommendation 3	Management Response	Paragraphs
<b>Clarify the Bank’s “zero tolerance” stance on corruption and improve operational controls by:</b>	<b>Partially agreed.</b> Management has a clear position vis a vis ‘zero tolerance’ and will make efforts to ensure it is widely understood. In summary, Management’s position is that while we have no appetite for corruption, we have an ex-ante tolerance for risk (in that it is recognized that such efforts in developing countries are more likely to encounter such challenges	IP 120

	<p>which the Bank seeks to manage to as close to zero as possible), combined with an ex-post zero tolerance when it is shown that fraud, corruption or other malfeasance has occurred. In such circumstances the Bank will always and everywhere take action to address the problem.</p> <p>Management commits to: Clarify its position on “zero tolerance,” explaining again to staff that development support is a risky business and there is no way, other than not lending at all, to guarantee the absence of fraud and corruption in Bank-supported operations; the Bank supports borrowers in providing reasonable assurance that funds are used as intended; but the Bank has zero tolerance once fraud or corruption is found. Management will set out its internal communications plan, involving the World Bank Group’s Chief Risk Officer, in the context of the GACII discussions. What is missing from IEG’s recommendation is the concept of reward versus risk. Management analyzes risk against expected operational development outcomes and has already differentiated across country contexts in this regard by setting a target of 70 percent Marginal Satisfactory (MS) or better average IEG ratings for operations in Fragile States (where risks are, of course, high but the returns to successful operations tend to be especially high), 75 percent or better in other IDA countries, and 80 percent in IDA countries.</p>	
<p>Developing a <i>harmonized</i> approach to reviewing and managing systems-level fiduciary and GAC risks across instruments— and not simply transaction-level risks in investment projects. The approach should provide for additional due diligence on operations with <i>specialized</i> risks.</p>	<p>Management agrees that the attention to systemic risk be increased while continuing to pay attention to ‘transactions’ risk. However, Management notes that a ‘harmonized approach’ to assessing and managing risk should not mean that responses must always and everywhere be the same. Country context matters fundamentally and explicit decisions must be based on the specifics of country circumstances.</p> <p>Management commits to: Review the experience with ORAF after two years (notably its use as intended in differentiating the management of operations by risk) and make adjustments as needed.</p>	IP 113-122
<p>Providing guidance to operational teams on the appropriate use of different Bank financial instruments in different governance settings, consistent with the institution’s overall risk appetite.</p>	<p>Management commits to: Continue to develop its comprehensive approach to risk management related to operational support to client countries, reporting progress regularly to the Board, via the Audit Committee, on the ongoing efforts to define risk appetites and the tolerances via which Management uses to ensure that risk is kept within permitted levels, and through the annual Integrated Risk Monitoring Report from the World Bank Group’s Chief Risk Officer</p>	IP 121-122
<p>Consistently defining risk tolerances for the levels and composition of lending as well as the use of country systems in</p>	<p>.(see above)</p>	IP 114-119

different settings (for example, through lending scenarios) so that expectations of governance performance are clearly understood by country stakeholders and the Bank's shareholders.		
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<b>IEG Recommendation 4</b>	<b>Management Response</b>	<b>Paragraphs</b>
<b>Clarify roles and accountabilities for setting GAC strategic priorities:</b>	<b>Partially agreed.</b>	
At the country level, Bank country strategies should continue to serve as the primary mechanisms for reflecting the priorities and needs of clients on GAC issues. Donor-funded initiatives need to be appropriately aligned.	Management concurs with the view that CASs and ISNs be the primary means by which client governance issues are raised and addressed. The Bank is committed to the Paris and Accra agendas on alignment.	S 38, IP 63-64
At the VPU level, GAC work plans should be informed by demand in partner countries and should set priorities for overall resources use—both Bank budgets and trust funds. In keeping with Bank policies on the integration of trust fund allocations with the budget process, decisions on allocations of trust funds to GAC activities should involve line management in VPUs.	Management is unconvinced of the need to create additional GAC work plans at the VPU level. There is a danger that these would create an additional task that would be of limited additional value.	IP 166-169
At the corporate level, the GAC Council should focus on institution-wide issues and risks, and on benchmarking the GAC responsiveness of Bank operations.	Management agrees that the GAC Council should focus on strategic and institution-wide issues. Management commits to restructure the GAC Council, with a further increased focus on strategic and institution-wide issues, in the context of GACII and will report in the context of a mid-term GAC update.	IP 142-150

<b>IEG Recommendation 5</b>	<b>Management Response</b>	<b>Paragraphs</b>
<b>Align GAC implementation arrangements with Bank administrative and operational processes by:</b>	<b>Partially agreed.</b>	
Consolidating current fragmented financing arrangements (that is, separate Bank budget and trust fund allocations) while improving monitoring of GAC activities.	Management is of the view that the competitive process for allocating GAC Trust Fund monies was effective and appropriate.	IP 166-169

Rather than creating a separate cadre of GAC specialists, applying GAC competencies across existing Bank networks and career streams, and allow transferability of GAC-competent staff across networks.	Management agrees on the importance of applying GAC competencies across sectors. Management commits to: Finish ongoing work on “GAC competencies” and an associated training program and put them into use by FY13.	IP 171-172
Streamlining specialized GAC institutional arrangements with a view to empowering line managers in VPUs to achieve GAC objectives.	Management is of the view that line managers are already empowered to achieve GAC objectives. As noted above, the oversight and management arrangements for GACII will be revised.	IP 142-150
Supporting increased applied research on what works in various GAC areas.	Management agrees on the importance of applied research to support learning and knowledge management. Management commits to: Set out priorities for research in the context of GACII,	IP 151-159
Developing a results framework that includes baseline indicators of Bank and country-level performance, sets targets, and integrates monitoring of <i>GAC responsiveness</i> into standard portfolio monitoring.	Management agrees that articulating a clear results framework for GACII is critical. GAC Phase II in particular will lay out a clear Bank-wide results framework, with realistic yet stretching targets which will include baseline indicators, and a functioning monitoring system. Management commits to: Set out as noted above a GAC results framework and monitoring system in the context of GACII.	S 45-50, IP 98-112

## ANNEX 3

### GAC IN SECTORS: POSSIBLE TEMPLATE

Poor, weak or ineffective governance, corruption and malfeasance undermine efforts to reduce poverty. The GAC update puts sectors centre stage in the Bank's efforts to strengthen governance and tackle corruption. The principal purpose of heightened attention to sectors in the GAC update is to help country programs better support poverty reduction, by helping clarify:

- how GAC weaknesses at sector level inhibit the achievement of a country's poverty reduction and development goals;
- how Bank operations in sectors might be designed to achieve their objectives in the face of GAC limitations; and
- which initiatives may help strengthen governance and tackle corruption over time.

A secondary purpose is to assure that the attention in any sector operation is commensurate with the reputational and fiduciary risks it poses to the WBG, as well as to poverty reduction.

The aim of this template is to suggest how – given the extent of engagement – the Bank might design 'governance-responsive' sector strategies. It is important to underscore up-front that a variety of approaches all potentially are viable.

Section I offers pointers as to the kind of diagnostic work which can inform sector strategy design. Section II suggests some specific ways in which teams might use the results of diagnostic work to incorporate GAC issues in sectors. Section III suggests an approach to benchmarking and monitoring progress in GAC reform. Finally, Section IV describes how sector strategies might address corruption in Bank operations.

#### **I Diagnosing GAC Challenges in Sectors**

Experience to date has highlighted the importance of upstream governance diagnostic work. The Bank already has many formal products which can serve as vehicles for governance diagnostic work. But the point is not that teams should 'check the box' that diagnostic work has been done. The intention is for diagnostic work to add value for sector strategy design. Key questions include"

- how severe are the sector's governance and corruption challenges in the sector– in their implications for development effectiveness, and for the WBG (and other donors') reputational and fiduciary risks?
- what are the prospects for significant governance and anti-corruption reform within the sector?
- how, specifically, might governance constraints inhibit effective implementation of the sector strategy?
- what are the potential entry points in the sector for improving governance and reducing corruption (either directly or as an indirect, joint product, as part of poverty-reducing interventions)?

## II Incorporating Governance and Anti-Corruption into Sector Strategy Design

This section suggests how sector strategies might build on diagnostic results to incorporate governance more systematically into program design.

- **aligning sector activities with ‘core governance’ reforms:** the agenda of ‘core governance’ reform potentially is vast – encompassing both supply-side efforts to strengthen public sector capability, and demand-side efforts to build the capacity of state oversight institutions, plus other efforts to empower civil society at national level. Engaging effectively continues to be a major challenge. Most low-income countries have serious weaknesses across all these dimensions. Given the size of the agenda, limited capacities, and limited political absorptive capacity in an often contentious arena for reform, the challenge is to be selective in a way which aligns priorities with country conditions;
- **strengthening public sector capability.** After two decades of supporting public administrative and financial management reforms, some lessons are becoming clear as to how to tailor an agenda of reforms to improve public sector capability. These are discussed at length in the Bank’s updated approach to Public Sector Management;
- **strengthening state oversight institutions.** Formal oversight institutions can provide important pressures for improving sector performance, and tackling corruption. Where judiciaries are independent, competent and accountable and where public accounts committees, supreme audit institutions, and ombudsmen have sufficient capacity, they often can hold the executive to account;
- **strengthening the demand-side.** It is increasingly apparent that a focus on the supply-side of sector capacity is likely to be insufficient for state-building. Gains are also needed in the ‘demand-side’ – that is, the arrangements that foster accountability for public performance. The evidence is quite strong that greater transparency and participation (e.g. via the use of service provision score-cards, community participation in local investment, parents committees in schools) can help improve development performance even in settings where state capabilities are quite weak.

In countries with significant governance challenges, micro-level quantitative and qualitative diagnostic work is sure to reveal a variety of specific governance and corruption problems at the sector-level, and can help clarify which groups in society are likely to support (or oppose) sector-specific reform. Though the operational design choices to navigate this governance environment are country and-sector specific, experience over the past decade has yielded some general pointers as to the kinds of interventions at the sector level which can help address governance shortfalls, reduce corruption, and build support for reform. These include:

- **Transparency initiatives** which provide citizens, firms and communities with information as to service standard commitments, budget flows, results – and which solicit feedback as to perceived performance;
- **Participatory initiatives** which involve users (via, for example, parents in school committees, or farmers in water users associations) in the delivery and oversight of service provision at the front-line, including participation and oversight of procurement;
- **Pro-competition initiatives** which foster institutionally pluralistic arrangements for service provision (via, for example, contracting-out and other arrangements for private participation,

or community provision), thereby providing users with choice, and pressuring poor performers to improve or exit; and

- **Targeted anti-corruption** initiatives, using an emerging operational approach to identify and address vulnerabilities within specific sectors, by preparing a detailed “road map” at the beginning of a program with indicators along the way to signal possible corruption risks that might arise at various points in the program cycle.

### **III Benchmarking and Monitoring Progress in GAC Reform**

Benchmarking and monitoring has two broad purposes. The first purpose is to assess the overall extent and patterning of governance dysfunction. For this purpose, broad/aggregate governance indicators are useful, of which there are many, including the Kaufmann-Kraay indicators compiled by the World Bank Institute on the basis of a large number of (mostly external) assessments. Broad indicators such as these:

- provide a first approximation of the patterns of variation in governance performance;
- help reveal some systematic patterns underlying the complexity and diversity of governance performance— although given margins of error, the interpretation cannot be too rigid;
- can provide some basis for monitoring overall, longer-run trends over time, although they cannot pick up with precision the modest, short-run changes in governance which specific, time-bound governance reforms are intended to foster.

The second purpose of governance benchmarking and monitoring is to help identify very specific governance weaknesses -- and thereby guide the reform agenda, and provide a basis for monitoring progress of reform efforts. This requires a more directly “actionable” approach to measurement -- monitoring at a disaggregated level, using specific measures of the quality of key governance subsystems, usually at the sector level. Narrow measures of the quality of specific governance subsystems are important complements to aggregate governance indicators.