

DEALING WITH GOVERNANCE AND CORRUPTION RISKS IN PROJECT LENDING

EMERGING GOOD PRACTICES

ABBREVIATIONS AND ACRONYMS

ACAP	Anticorruption Action Plan
CAS	Country Assistance Strategy
CDD	Community-driven development
CGAC	Country Governance and Anticorruption
INT	Department of Institutional Integrity
GAC	Governance and anticorruption
MRIL	Management Review of Investment Lending
NGO	Nongovernmental organization
PREM	Poverty Reduction and Economic Management Network
RIW	Risk Identification Worksheet
WBI	World Bank Institute

ACKNOWLEDGMENTS

This note was developed by the Working Group for GAC in Projects, under the direction of Peter Harrold, Director, OPCOS. A core team within the Working Group—Ivor Beazley, Naseer Rana, Steve Burgess, and Anders Agerkov—coordinated the work, with Richard Calkins (consultant) the principal author. The note draws on the work of staff from across the Bank who have contributed to the Bank's governance and anticorruption agenda over the past several years. The following staff provided ideas or commented on earlier drafts: Anushay Anjum, Asha Ayoung, T.K. Balakrishnan, Rachid Benmessaoud, Pamela Bigart, Stephen Brushett, Anca Dumitrescu, Frank Fariello, Ben Fisher, Jonathan Halpern, Guenter Heidenhof, Charles Kenny, Omowunmi Ladipo, Irina Luca, Edward Mountfield, Mark Nelson, Kathy Ogawa, David Steel, Rajeev Swami, Maria Vannari, Mona Wasfy, Skip While, Edith Wilson, Anders Zeijlon, and Sally Zeijlon.

FOREWORD

Improving governance and fighting corruption are central to the Bank’s mission of promoting sustainable growth and reducing poverty. This note contributes to that effort by providing a framework for action at the sector and project levels. The intention is not to introduce new requirements or procedures, but to stimulate greater innovation in this challenging—and still relatively new—area of Bank work.

The paper begins with an overview of the country-level GAC agenda, linking governance issues and opportunities at the national level with those at the sector and project levels. It then highlights some of the emerging good practices in the areas of risk assessment (including concepts such as “value chain analysis”) and risk mitigation (including both supply-side and demand-side innovations). Finally, it suggests some approaches that task teams may find useful in supervising “high-risk” projects, taking into account what we have learned in recent years about the challenges of project oversight and Bank supervision.

This note is part of a much broader agenda that is being pursued Bankwide through the GAC in Projects Peer Learning Network—a major effort to capture the lessons of experience, develop case studies and good practice notes, and disseminate those lessons through publications, learning events and activities, and a [web page](#).

As we move forward with this agenda, it is important to keep in mind the key message that motivates our work: that the best way to improve outcomes is to improve governance. Thus the GAC in Projects agenda is about improving development outcomes.

This note represents a “snapshot in time” of our progress in the GAC agenda. Given the momentum of progress, which continues to build in the Bank and among our development partners, we plan to revisit this note in about a year’s time to update our approach to these important issues. Stay tuned!

Jeffrey S. Gutman
Vice President
Operations Policy and Country Services

February 2009

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I. Introduction

*We need to address transparency, accountability, and institutional capacity.
And let's not mince words: we need to deal with the cancer of corruption.*

President James D. Wolfensohn, October 6, 1996

1. Governance is a country's exercise of power in managing its economic and social resources for development. Good governance is generally associated with faster, private sector-led growth and with more pro-poor development outcomes. Poor governance has the opposite effects, providing greater scope for corruption to occur.

2. The World Bank Group's interest in these topics arises from the effect that poor governance and corruption may have on the effectiveness of the development programs it supports. For most of its first 50 years, however, the Bank considered governance and corruption to be "political issues" and thus not within its mandate. All of that changed with President Wolfensohn's "cancer of corruption" speech at the 1996 Annual Meetings.¹

3. Since then, the focus of attention has been primarily on country-level governance issues, led by PREM and WBI, and fiduciary issues, led by the Procurement and Financial Management groups. More recently, however, INT investigations have found, in a number of Bank-financed projects, evidence of pervasive and systemic fraud and corruption, and significant shortcomings in the quality and sustainability of outcomes. Thus staff are now giving greater attention to assessing critical governance and corruption risks at the sector level and incorporating measures to mitigate those risks in the design and implementation of Bank-financed projects.

The Bank's New Strategy

4. Reflecting the evolution of the Bank's work in this area, in March 2007 the Board approved a [new strategy](#) (*Strengthening World Bank*

Engagement on Governance and Anti-Corruption) based on three pillars:

- **Country level.** The Bank focuses on helping countries strengthen their effectiveness, transparency, and accountability. To improve growth rates and enhance the delivery of services, especially to poor people, the Bank supports initiatives to improve governance and reduce corruption.
- **Operational level.** The Bank aims to improve the development impact and integrity of Bank-funded projects. It focuses both on long-term approaches—strengthening country systems—and on short-term risk management: enhancing project design, supervision, and evaluation.
- **Global level.** The Bank works to harmonize approaches with other international actors, coordinate action in countries where governance issues pose a significant challenge for development, and support international conventions like the OECD Anti-bribery Convention, the Extractive Industry Transparency Initiative (EITI), and the Stolen Asset Recovery (StAR) initiative.

5. The strategy has been put into operation through an [implementation plan](#) launched by President Robert B. Zoellick on December 6, 2007. A Governance Council of senior Bank managers, chaired by the Managing Directors on a rotating basis, meets monthly to monitor progress and provide guidance on strategic issues and the challenges of implementation.

¹ The agenda for action was further elaborated in the 1997 *Helping Countries Combat Corruption: The Role of the World Bank*; the 1997 World Development Report, *The State in a Changing World*; and the 2000 World Bank strategy paper, *Reforming Public Institutions and Strengthening Governance*.

Purpose of This Note

6. This note is part of the Bank’s effort to mainstream a focus on sector and project-related governance and anticorruption (GAC) issues across operations, particularly investment operations, to enhance their development impact. It aims to:

- provide task teams with a common conceptual framework for understanding and dealing with GAC issues at the sector and project levels;
- highlight some of the key lessons learned about GAC issues, and provide linkages to innovative work and good practice examples; and
- indicate areas where further work is required to mainstream GAC issues in operations.

7. This note is *not* intended to provide a detailed “how to” manual for practitioners. First, such an effort would be premature at this relatively early stage of learning about what works and what doesn’t in this area; and second, most of the diagnostic work and the development of “toolkits” will have to be done at the sector and country levels: no single source could hope to

provide a comprehensive “how to” guide that would be applicable to all sectors in all countries. Similarly, this note does *not* propose any new policies or procedures for this area of the Bank’s work. It relies on existing investment lending policies and procedures, highlighting how work on the GAC agenda fits within that framework, including the Management Review of Investment Lending ([MRII](#)). It will be updated from time to time to reflect developments in this evolving area of Bank work.

8. **Organization.** This note follows the GAC agenda as it relates to each step in the project cycle—from the articulation of the Bank’s Country Assistance Strategy and the associated priorities for support, through identification and design of lending operations, confirmation of government commitment during appraisal and negotiations, ensuring readiness for implementation between Board approval and project effectiveness, monitoring project implementation, and finally, evaluating results and extracting lessons learned for the benefit of future Bank strategy and operations. It includes electronic links to resources—policies and procedures, sector and country-specific advice and guidance, and good practice examples of analytic work and lending operations.

The GAC Strategy: Guiding Principles

1. The WBG’s focus on GAC follows from its mandate to reduce poverty—a capable and accountable state creates opportunities for poor people, provides better services, and improves development outcomes.
2. The country has primary responsibility for improving governance—country ownership and leadership are key to successful implementation, and the WBG is committed to supporting a country’s own priorities. The country’s government remains the principal counterpart for the WBG.
3. The WBG is committed to remaining engaged in the fight against poverty, and seeking creative ways of providing support even in poorly-governed countries—“don’t make the poor pay twice.”
4. The form of WBG engagement on GAC will vary from country to country, depending on specific circumstances—while there is no “one size fits all,” the WBG will adopt a consistent approach towards operational decisions across countries, systematically anchored in national strategies.
5. Engaging systematically with a broad range of government, business, and civil society stakeholders is key to GAC reform and development outcomes—so, consistent with its mandate, the WBG will scale up existing good practice in engaging with multiple stakeholders in its operational work, including by strengthening transparency, participation, and third-party monitoring in its own operations.
6. The WBG will strive to strengthen, rather than bypass, country systems—better national institutions are the more effective and long term solution to governance and corruption challenges and to mitigating fiduciary risk for all public money, including that from the Bank.
7. The WBG will work with donors, international institutions, and other actors at the country and global levels to ensure a harmonized approach and coordination based on respective mandates and comparative advantage—“the WBG should not act in isolation.”

II. Country Context

The principal objective of the Bank's Governance work should be to help develop capable and accountable states to deliver services to the poor, promote private sector-led growth and tackle corruption effectively.

Strengthening World Bank Group Engagement on Governance and Anti-Corruption

9. Over the past decade, the Bank has supported good governance initiatives in many member countries. Led by WBI, the PREM Public Sector Management Group, and the Bank's fiduciary staff, this support has focused on reforms in the areas of fiscal management, public sector procurement, government accounting and auditing, the civil service, the legal and judicial system, and—consistent with the Bank's Articles of Agreement—support for “voice for the people,” including public access to information and freedom of the press. Under the Bank's new GAC strategy, the intention is to build on the lessons of experience of the past decade and scale up successful approaches more consistently across countries.

10. **Starting Point: The CAS.** The starting point is to systematically consider GAC issues in the preparation of the Country Assistance Strategy (CAS). Ideally, the CAS incorporates the government's own assessment of governance issues and priorities, and the Bank's role is to support the government's reform program. In countries where GAC issues are central to the challenges of growth and poverty reduction, they may become a major theme of the CAS. Where governance reform is a high priority for the government, the Bank attempts to match that commitment with greater support. However, even in countries with poor governance, where reform is not a priority for the government, the Bank remains engaged.

CGAC Approaches

11. The Country Governance and Anti-corruption (CGAC) Initiative aims to support enhanced efforts to incorporate GAC concerns in the Bank's dialogue with the borrower. This initiative involves three key elements: defining country-specific GAC constraints and opportunities; engaging the whole country team in the process, not just PREM and the fiduciary staff; and identifying GAC impediments to growth and poverty reduction as potential entry points for Bank engagement.

12. **Engaging with the Borrower.** This approach means that sector staff need to focus more explicitly on assessing governance and corruption risks in their sectors, and on gauging the effect those risks may be having on development outcomes. Where the Bank has completed country-level diagnostics and has developed an active dialogue and work program on GAC issues, there is an enabling environment for progress at the sector level.² In other cases, diagnostic work at the sector or project level—focused on concrete issues that are impeding development outcomes—may create entry points for engaging with the government on GAC issues.³ The results of this engagement—whether it results in a major, government-led reform program or a more limited approach—should be reflected in the

² This was the case in Albania, where the CAS incorporated a “Governance Filter”—four “pillars” of good governance that are expected to be applied to Bank operations at the sector level (See [CAS Progress Report 2008](#)). Similarly, in Yemen, progress across a wide range of GAC issues at the country level provided an entry point for the assessment of GAC risks in the water sector and the incorporation of an [Anti-Corruption Action Plan \(ACAP\)](#) in the design of a sector-wide support program.

³ In Uzbekistan, progress in incorporating GAC issues in the CAS was facilitated by the outcomes of a governance and accountability assessment of the health sector. In Indonesia, intensive work on the resolution of procurement issues in urban infrastructure projects in Bali led to significant reforms in the national procurement laws and regulations [[See Annex 8 on Procurement Improvement](#)].

CAS and in the design of Bank operational support, specifically in the following:

- the priority accorded GAC concerns at the country, sector, and project levels;
- the overall level of Bank financial support (particularly for IDA countries);
- the allocation of operational support by thematic issue and by sector, including the identification of GAC-related economic and sector work and technical assistance initiatives;
- the identification of projects to be included in the lending program; and
- the approach to be taken in dealing with GAC issues in portfolio management.

13. ***Balancing Need and Resources.*** The level of support for GAC initiatives under the CAS must reflect the reality that not every issue can be addressed fully and immediately. The country team needs to define a multiyear

strategy that is both targeted and selective, reflecting a pragmatic balance between the most serious GAC constraints and potential entry points. Hard choices may be required. For example, while it is important not to be risk-averse in project identification, the pursuit of high-risk/high-reward projects may mean including fewer projects in the lending program to ensure that sufficient resources are available for risk mitigation during project design and implementation.

14. ***Engaging the Country Team.*** The engagement of the entire country team in assessing GAC issues and incorporating them in the CAS is critical for mainstreaming GAC issues in the Bank's work. Reflecting this fact, a growing number of country teams have created a GAC Committee to coordinate work in this area, including sharing experience across sectors, defining country-specific guidelines for risk assessment and mitigation at the project level, and reviewing new operations at the Project Concept Note stage to ensure that they reflect what has been learned about GAC risks in the country, and about what works and doesn't work in risk mitigation.

III. Overview: GAC in the Project Cycle

15. The Bank is not introducing new policies or procedures for mainstreaming GAC concerns in project lending. The GAC in Projects agenda is intended to lead to better project outcomes, so GAC concerns should be addressed as part of normal project processes. Standards are situational, reflecting the GAC priorities and potential entry points identified in the CAS, constraints and opportunities in the relevant sector, resources available to the task team to pursue the GAC agenda, the priority of the sector for growth and poverty reduction, and the prospects for achieving the project's development objectives—taking into account the results of the risk and vulnerability assessment and proposals for risk mitigation. Task teams should consult both sector and country managers for advice and guidance. (Annex A provides details.)

From Project Concept Note to Board Approval

16. At a minimum, the Project Concept Note should reflect the Bank's experience with GAC concerns in the sector, including the results of INT investigations and the government's track record in dealing with identified GAC issues. This assessment is incorporated in the Risk Identification Worksheet (RIW), which captures the key risks and vulnerabilities facing the project, proposes measures to reduce and mitigate those risks, and determines—on the basis of the level of residual risks—the level of management review required of the project. In most Regions, the PCN Review Meeting confirms the risk rating of the project and the corresponding level of subsequent management review.

17. ***Management Review of Investment Lending (MRIL)***. Through the MRIL, the level of risks is compared with the project's potential importance to the borrower's development goals. The intention is to achieve an appropriate balance between risks and rewards, avoiding a risk-averse approach while ensuring that efforts

to mitigate critical risks will receive appropriate attention and support during project design, management review and approval, and subsequent implementation.

18. ***Project Design and Preparation***. During preparation, attention shifts to engaging with sector stakeholders, both to refine the risk assessment and to identify cost-effective mitigation measures to deal with the project's critical risks and vulnerabilities. Where governance is poor and corruption risks are high, there can be no illusion that corruption will be eliminated; instead, the intention should be to find realistic and practical actions that will reduce corruption in a meaningful way, taking progressive steps in the right direction over time.

- ***Project oversight***. In designing project oversight arrangements, it may be necessary to build special procedures into the project and to incorporate their costs in the project's financing plan. For example, in highly decentralized projects operating over a wide geographic area, it cannot be assumed that Bank supervision will provide an adequate level of oversight; it may be appropriate to introduce independent, third-party oversight, including the engagement of project beneficiaries and affected communities.
- ***Communications plan***. Work on GAC issues should be as transparent as possible: it is important that there be no surprises for any participants. Therefore, it is important to develop a consultation and communications strategy and plan that seeks to take into account the concerns and perspectives of all of the stakeholders involved, explains what is to be done differently—and why—and emphasizes enhancing development outcomes.

19. *From Appraisal to Board Approval.*

Appraisal plans should reflect the results of the quality-at-entry review and instructions from the Appraisal Review Meeting. The appraisal itself should confirm the results of project preparation, while negotiations should confirm government ownership of and commitment to the mitigation measures. Board documents and presentations should reflect the nature and level of residual GAC risks in the project.

From Effectiveness to Project Completion

20. Once the project is approved by the Board, attention returns to the project to ensure that it is ready to begin operations. Careful attention to project readiness can eliminate a multitude of problems later on.

21. *From Board to Effectiveness.* One of the key lessons of INT investigations are how highly poor record keeping is correlated with indications of fraud and corruption and poor quality results. Good record keeping makes it possible to audit procurement processes and financial flows, while poor records may be impossible to audit satisfactorily. At project launch, therefore, it is critical to double-check that systems and procedures, and the staff to operate them, are in place.

22. *From Effectiveness to the Midterm Review.* A risk management approach may be useful in allocating supervision resources, with higher-risk projects receiving a higher level of supervision support, in line with the needs of the project and the supervision plans agreed

during project design and preparation. During normal supervision missions, it is important to record both progress in implementing GAC initiatives that were included in the project, and any indications of problems. Closer, more effective supervision is likely to turn up problems that might have been overlooked in previous projects—the “red flags” that suggest something isn’t right in procurement, financial flows, or the implementation of project components. It is equally important to seek government action to resolve any irregularities identified during supervision, and to follow up on any unresolved issues during subsequent supervision missions.

23. *From Midterm Review to Project Completion.*

The midterm review provides an opportunity to take stock of any GAC initiatives included in the project, and to make appropriate adjustments in how they are being implemented. Later, in the Project Completion Report exercise, adequate resources should be devoted to summarizing the results and the lessons learned from those GAC initiatives. Lessons learned should be shared within the sector, and across sectors at the country level, and successful initiatives should be considered for inclusion in other projects and sectors, as appropriate.

24. *Project Evaluation.* During the evaluation process, the assumptions about risks and the efficacy of the project’s mitigation measures should be carefully assessed, and the lessons learned identified for use in future Bank strategies and lending operations.

IV. Project Identification and Design

Our aim is to mainstream governance in the operations and program of every country in every sector.

President Robert B. Zoellick, December 10, 2007

25. GAC good practices to improve development outcomes at the sector and project levels fall into two broad categories—risk assessment and risk mitigation. Of course, task teams have long been required to assess and mitigate project risks; but under the Bank’s GAC strategy this activity has new dimensions.

- ***Naming it.*** Talking, explicitly, about GAC issues is critical, but it is not always easy. Communicating with reluctant clients is a key challenge for task teams and an area in which more effective approaches must be developed.
- ***Digging deeper.*** Fully understanding GAC risks, and designing effective mitigation measures, requires “drilling down” on the nature of those risks at the sector and project level—identifying key stakeholders, their behaviors and motivations, and potential entry points for changing the governance equilibrium.
- ***Applying the “TAP” principles.*** Mitigation measures build on the three key principles of good governance: transparency, accountability, and participation (see box).

Key Principles of Good Governance

Transparency implies openness and visibility, and should apply to almost all aspects of the conduct of governmental affairs. It is the foundation upon which both accountability and participation are built. Information in the public domain is the “currency” of transparency and, together with open and visible decision-making processes, signals that there is really nothing to hide. Transparency facilitates good governance; its absence provides cover for conflicts of interest, self-serving deals, bribery, and other forms of corruption.

Accountability has both internal and external dimensions. Internal accountability implies probity in how and why resources are mobilized and used; it involves issues of financial accountability, efficiency, and effectiveness in the collection of taxes and other revenue, in the creation of public goods, and in the delivery of basic services. External accountability refers to political leaders’ responsiveness to citizens’ needs and aspirations, including accountability for the overall performance of the economy (sustainable growth and job creation) and for the level and quality of basic services. Such accountability implies that the institutions—including the civil service—have the capacity to respond to citizens’ demands, and that salary levels and other incentives are consistent with those expectations.

Participation, or inclusion, is important not just on principle, but in practical terms. It represents the “demand side” of good governance, and implies that people have rights that need to be recognized; that they should have a voice in the decisions that may affect them; that they should be treated fairly and equally; and that they should benefit from the protection of the rule of law. The benefits of participation are well documented: they are particularly important in decisions on the types of investment projects to be done, their design and implementation, and their operation and maintenance. The involvement of civil society organizations, consumer groups, project beneficiaries, and affected communities in all stages of Bank-financed projects can simultaneously improve development outcomes and reduce the scope for fraud and corruption.

Risk Assessment at the Sector Level: Value Chain Analysis

26. Governance and corruption indices, such as those of Transparency International and the World Bank's WBI, can provide a measure of aggregate country-level risk; and investment climate or business environment surveys can help identify which sectors are more prone to corruption than others, and specify the nature of some of those risks from the point of view of the business community. However, these indices do not provide an adequate framework for the detailed analysis of governance and corruption risks within a given sector, or for the development of mitigation measures.

27. ***Mapping the Value Chain.*** Recent work on the assessment of governance and corruption risks at the sector level⁴ suggests the usefulness of creating a generic model of the sector's "value chain"—the series of critical points where decisions are taken or value added is created. The task team can use this model to assess the extent to which each point is actually at risk in a particular country. Such maps differ by sector; and, within a sector, it may be necessary to further disaggregate the model by subsector: in transport, for example, by roads, rails, and air; in water, by urban water supply and sanitation, rural water supply and sanitation, and irrigation.

28. Some sectors are well advanced in mapping value chains, while others are less so. Therefore, task teams beginning work on a new project may or may not have benefit of a fully articulated, subsector-specific value chain analysis. If they do not, a few hours of brainstorming by a group of experienced sector specialists should result in a reasonable approximation of the sector risk and vulnerability map, which can then be refined and elaborated over time as the need and opportunity arise.

Assessing Country-specific Risks and Vulnerabilities

29. More challenging than creating the sector value chain is assessing country-specific risks

and vulnerabilities in the sector. In any sector, governance and corruption risks—and the appropriate mitigation measures to deal with them—can vary enormously across countries, depending on political, social, economic, historical, and other factors.

30. ***Sector Analysis.*** Traditional sector analysis is useful for identifying such governance concerns as policy and regulatory issues, problems of budget allocation and resource management, and weaknesses in institutional capacity. Good practice risk assessments go beyond these symptoms of poor governance to understand the underlying causes, which may include state capture, interference in decision-making by influential persons, conflicts of interest among senior officials, nepotism and patronage in appointments to the civil service, collusion with bidders, and bribery and kickbacks in public procurement.

31. ***Task Team Assessment.*** The thoroughness with which a task team can assess governance and corruption risks at the sector level depends on a combination of circumstances, including—first and foremost—the government's receptivity to addressing those issues; having a "champion" of good governance at a senior level in the relevant government agency can make all the difference. Other factors include the availability of relevant diagnostic work at the country and sector level, the resources the task team has to pursue this analysis, and the scope for engaging in frank and open exchanges with relevant sector stakeholders. One of the most effective approaches to risk assessment is simply to ask those involved in the sector—government officials, private sector contractors, suppliers, consultants, and project beneficiaries—what they see as the key issues.

32. ***Constrained Environment.*** In some countries, however, the environment for an open and frank exchange on governance and corruption issues may be seriously constrained. In those circumstances, it may be possible to organize constructive consultations among the

⁴ See *The Many Faces of Corruption: Tracking Vulnerabilities at the Sector Level*, edited by J. Edgardo Campos and Sanjay Pradhan, World Bank, 2007.

various stakeholders, focusing simply on identifying shortcomings in sector outcomes and recommending concrete measures to overcome those shortcomings. The results of such consultations could provide a useful starting point for the design of sector- and project-level initiatives to improve governance and reduce the scope for corruption. A harmonized approach within the donor community, always important for the GAC agenda, is especially critical in these circumstances.

From Risk Assessment to Risk Mitigation: Smart Project Design

33. Mitigation measures generally apply to either the supply side or the demand side of good governance. Supply side refers to things the government can do to strengthen internal efficiency and effectiveness in the delivery of public goods and services, while demand side refers to initiatives that support the constructive engagement of citizens—especially project beneficiaries and affected communities—in improving development outcomes. Within these two broad areas, task teams tailor their tools and approaches to the specific governance and corruption risks of their sector and project, subject to the unique circumstances of the country.

34. ***Smart Project Design.*** Smart Project Design is a good practice approach to incorporating country/sector governance and corruption risks into the identification and design of Bank-financed investment projects. This approach has evolved primarily through experience, often as a result of INT investigations that reveal the existence of fraud and corruption and serious shortcomings in the quality and sustainability of project outcomes.⁵ Several country teams (Indonesia and India, in particular) have issued guidelines applicable to all new projects in the country, specifying the factors that task teams should take into account in their risk assessment and mitigation efforts. Six elements are key to Smart Project Design.

- ***Pursuing the sectorwide governance and anticorruption agenda through both project and non-project activities.*** Once the task team has identified what the governance and corruption risks are at the sector level, and which ones have the most critical development impact, it can consider which of these risks might be tackled effectively through the proposed lending operation, and which are better pursued through a parallel track involving non-project activities. For example: policy reforms might be pursued through diagnostic studies combined with a joint government/donor policy dialogue; budget and resource management issues may require a medium-term expenditure framework, more objective criteria for investment selection, or adoption of an expenditure tracking system; and capacity building may involve technical assistance at the project level or support for civil service reform at the country level. In all of these areas, donor coordination and a harmonized approach may be critical for success.
- ***Focusing project design on measures that will help to achieve development objectives by overcoming the identified GAC risks and vulnerabilities.*** The task team should take full advantage of the detailed assessment of governance and corruption risks to develop concrete measures that will reduce the effect of those risks on the achievement of the project's development objectives. Focusing on GAC issues improves the chances of achieving those objectives. Depending on country and sector circumstances, the measures may involve a rather low-key approach targeting specific weaknesses in the delivery of public goods and services, or a more explicit and extensive effort

⁵ Noteworthy examples include Indonesia (several infrastructure projects), the Philippines (a roads project), Kenya (transport and health projects), and India (several projects in the health sector).

involving the design of a detailed Anticorruption Action Plan (ACAP), discussed below.

- ***Strengthening internal controls and accountability mechanisms.*** One way to improve development outcomes is to focus on internal controls that help to ensure that project funds are used for the intended purposes: procurement, financial management, monitoring and evaluation, and information disclosure. The Bank’s standard review of procurement and financial management risks provides a framework for assessing policies, procedures, systems, and institutional capacity. However, this assessment needs to be informed by the sector-specific governance and corruption risk assessment, including the incentives and disincentives for complying with policies and procedures. This is also the time to strengthen relations with government accountability agencies. One of the most effective ways to improve accountability is to enhance the transparency of information and the openness of government processes. “Right to information” laws provide a powerful instrument for ensuring access to information, and newer technologies (from websites to cell phones) can ensure that information is publicly available. Where governance is relatively good and corruption risks are low, it may be possible to rely on existing country systems. Where governance is poor and corruption risks are high, the task team needs to consider alternative approaches, ranging from stand-alone project management units to complete outsourcing of these functions (usually something between those two extremes). Where it is not advisable to rely on country systems, task teams should consider including in project design support for strengthening those systems so they can be used in future projects. In that sense, the tension between relying on country systems and seeking alternative solutions is
- more of a short-term reality versus longer-term aspirations dilemma that, with appropriate support, can eventually be resolved.
- ***Strengthening participation and external accountability mechanisms.*** In many projects (particularly community-driven development—CDD—projects and others with decentralized implementation), the participation of beneficiaries and affected communities in project identification and design can improve the quality of implementation and the sustainability of development outcomes. It can also reduce the potential for fraud and corruption, especially when supported by an effective “complaints line.” In addition, informed “voice”—through consumer satisfaction surveys and citizen report cards—can strengthen the responsiveness and accountability of public sector service providers.
- ***Ensuring effective project oversight and supervision.*** Smart Project Design focuses on how “manageable” a project will be in terms of oversight by the government and supervision by the Bank. For large-scale, centrally managed projects in countries where governance is good and corruption risks are low, the Bank itself may be able to ensure reasonably effective oversight of procurement and contract management during implementation. Where governance is poor and corruption risks are high, however, it may be appropriate to introduce an independent agent to ensure acceptable outcomes. For sub-national projects, especially those implemented by local governments that have limited technical capacity, other mechanisms may be helpful. In CDD-type projects, for example, it may be possible to supplement government oversight with oversight by local nongovernmental organizations (NGOs) and community groups; this approach has been used

with good effect in Indonesia over the past several years.

- ***Implementing a communications plan to send the right signals, consistently, to all of the players.*** In countries and sectors where the Bank has not previously focused explicitly on governance and corruption issues, it is vital to develop and implement a communications plan as part of Smart Project Design. The plan should begin with an assessment of where the government and other key stakeholders are coming from and where the Bank would like the dialogue on these issues to go. A central theme is one of “no surprises.” At the project identification and design stage, the focus should be on what the Bank proposes to do differently and why, with an emphasis on enhancing development outcomes. The plan should also include expectations of probity in project management, and the consequences if those expectations are not met, including the sanctions and remedies that may be applied if fraud or corruption is detected during project implementation.

Anticorruption Action Plans: When Smart Project Design Isn’t Enough

35. Where governance is poor and corruption risks are high, the government—with the Bank’s help—may need to develop a more formal, project-specific, Anticorruption Action Plan (ACAP).⁶ The design of an ACAP, like Smart Project Design, takes into account both sector-specific and country-specific risks and includes a combination of sector-specific and country-specific solutions. Preparing an ACAP, therefore, involves selecting activities from the growing menu of good practice options that Bank task teams have developed to deal with these kinds of risks. A key test of an ACAP is the extent of government ownership and commitment to its implementation.

36. ***ACAP Content.*** Broader issues of sector policy, budget and resource management, and institutional capacity should be dealt with in the overall design of the project or through a parallel-track approach. Therefore, the ACAP focuses on initiatives to strengthen transparency, accountability, and participation at the project level and, ideally, within the sector as a whole. One obvious focus is to ensure appropriate treatment of the risks identified through the Bank’s standard procurement and financial management reviews. Country conditions permitting, however, an ACAP can also be used to “push the envelope”—piloting new initiatives that could have broader application in other sectors as well. The following good practice examples have been used in recent Bank-financed projects:

- Introducing e-procurement to provide greater openness and transparency and counter collusive arrangements that undermine the competitive bidding process.
- Introducing transparent budget and expenditure tracking systems that “follow the funds” through the system, reducing opportunities for diversion and delays and making it more likely that the funds will reach the intended beneficiaries.
- Expanding the scope of the audit function to include technical and/or “value for money” audits that make it more difficult for contractors, suppliers, and consultants to get away with short-changing the project during implementation.
- Enhancing accountability by increasing the amount of critical information available to the public regarding sector plans, budgets, performance, and results.

⁶ When INT investigations reveal serious problems of fraud and corruption in previous Bank projects in the sector, future lending may be contingent on a credible action plan by the government to deal with the underlying issues. In other cases, where governance and anticorruption reforms are a priority for the government in a given sector, an ACAP can provide both visibility and concrete support for those reforms.

- Using consumer satisfaction surveys and citizen report cards to strengthen the “voice” of consumers and make providers more responsive and accountable for the services they deliver.
- Engaging with NGOs, project beneficiaries, and affected communities to involve them more closely in project design and oversight of project implementation.
- Developing an effective “complaints line” program, operating 24/7, to increase the probability of detecting irregularities in project processes.

37. Like other project components, the ACAP should have a clearly defined set of objectives, activities, and expected results; an imple-

mentation plan and schedule; detailed cost estimates and a financing plan; and monitoring and evaluation arrangements.

38. ***Using the ACAP.*** While some parts of the ACAP are not optional (e.g., ensuring that procurement and financial management controls are in place), other components should be seen as part of a “learning by doing” approach to improving governance and reducing corruption at the project and sector levels. For that reason, monitoring and evaluation are especially important. Where piloted initiatives are successful, they should be scaled up in the sector. Pilots that fail should be “fixed,” or dropped and replaced with other initiatives. In either case, the results should be captured and recorded as lessons learned for the benefit of future Bank operations.

V. Project Implementation

On the Bank's side, there were weaknesses in project design, supervision and evaluation. There are also systemic flaws. I intend to fix these problems.

President Robert B. Zoellick, January 11, 2008

39. For much of the Bank's history, it was assumed that the Bank's procurement and financial management rules are broadly adequate to prevent fraud and corruption. However, in countries with weak governance, the reality is rather different. Despite borrowers' apparent compliance with Bank requirements for procurement, disbursements, accounting, and auditing, INT investigations yield increasing evidence of collusion in the bidding process, bribes and kickbacks paid to government officials, fraud in the submission of invoices (inflated prices and bills of quantity), and serious shortcomings in the quality of the works, goods, and services delivered.

40. A fundamental principle of Bank lending is that borrowers are responsible for the proper use of Bank funds, including complying with the Bank's procurement rules and financial management requirements. However, the Bank also has a responsibility to ensure that loan proceeds are used for the intended purposes. Where governance is poor and corruption risks are high, therefore, both the government and the Bank need to reduce and mitigate those risks. Where project design includes the preparation of an ACAP, that plan represents what the government will do to reduce and mitigate corruption risks. The Bank's plan for closer and more effective project supervision represents what it will do to detect and deter fraud and corruption in Bank-funded projects. Both plans are necessary; neither, alone, is sufficient.

Laying the Groundwork for Project Supervision

41. The starting point for closer and more effective supervision lies in project identification and design, when decisions are made that determine the challenges of supervision. Smart

Project Design should lead to manageable requirements. For example, for a decentralized project covering many different locations, the design would include provisions for effective project oversight—directly by government, through supervisory consultants or other third-party observers, and/or by engaging civil society. Task teams should develop a detailed supervision plan for the first two years, and should agree with country and sector managers on how that plan will be staffed and funded. Well-planned and -staffed supervision missions are critical, but may not be sufficient. Task teams should consider enhanced supervision activities, such as joint Bank/ government learning events that focus on the extent to which development outcomes are being achieved. As part of project design and implementation planning, it is also important to ensure that the government's project implementation team will be fully staffed and prepared to carry out its responsibilities—with adequate, competent, and trained personnel; sufficient budget; operating manuals for key functions (including procurement and financial management); hardware and software for records management; and the space, facilities, equipment, and vehicles needed for effective management and oversight of the project.

Supervising High-Risk Projects: A More Effective Approach

42. Not all Bank projects face a high corruption risk, and thus not all Bank projects require closer supervision. For this reason, some Regions have adopted a risk-based approach to the allocation of resources for supervision: projects with higher risks (of all types, not just governance and corruption risks) are eligible for additional funding. However, country and Regional managers are increasingly recognizing that since supervision funds are

limited, such an approach also implies a limit on how many high-risk projects can be taken on.

43. ***Elements of Supervision.*** For projects that require more careful supervision, task teams should consider the following eight elements.

- ***Integrating reviews of procurement, financial management, and technical aspects.*** The corruption game is usually played out in private, with money changing hands in cash, often in the proverbial plain brown envelope. While this means that the money trail may be hard to follow, a careful review of the documentation required under the Bank's procurement and financial management rules often reveals important clues that something is amiss. An integrated approach involves tracing the paper trail on specific contracts from the bid specifications through to the winning contract; tracing transactions under the contract from contract signing to whatever stage implementation is at when supervision occurs; and comparing the contract specifications and subsequent transactions with what exactly has been built or delivered to the project site. If the paperwork is in order, and the goods and works at the site correspond to the contract and the record of transactions, all is well. An integrated approach requires the right set of skills—procurement, financial management, and technical expertise corresponding to the nature of the project. These skills, as well as the staff time and costs, should therefore be featured in the detailed supervision plan prepared, and approved by management, at the project design stage.
- ***Conducting an in-depth review of selected contracts.*** The Bank's normal supervision practices often fail to turn up the "red flags" of fraud and corruption. Therefore, for high risk projects it may be useful to apply the methodology developed by INT for their Detailed Implementation

Reviews. When the relevant procurement and contract data have been entered into the database, the program highlights any discrepancies, irregularities, or suspicious correlations—such as companies sharing the same address, phone number, or bank account; bid prices that are identical for all of the losing bidders; and bid bonds that are consecutively numbered. The procurement review is accompanied by a review of the financial transactions under the project, including various tests of the validity of supporting documentation. Certain types of transactions are especially susceptible to fraudulent invoices, such as travel and subsistence, training and workshop expenditures, and rental of space or vehicles. The documentation may appear to be in order, but only because those responsible have accumulated stationary, stamps, receipt forms, and the like, and are able to create whatever is needed to support the alleged expenditures.

- ***Carrying out site visits corresponding to the selected contracts, without advance notice.*** The purpose of the site visit is to compare what was called for under the contract, and invoiced, approved, and paid for by the PMU, with what has actually been built on, or delivered to, the site. It also offers an opportunity to test the adequacy of the PMU's record-keeping system⁷ and to make clear to the PMU that the Bank is serious about fraud and corruption and intends to discover and disclose fraudulent or corrupt activities. Depending on the nature of the project, the site visit step may require a bit of "digging"—literally and figuratively. For example, technical specifications may call for pipes of a certain standard and size, but if they are already buried, inspection requires at least a test hole. For a road, the width is easily measurable, but testing for depth requires a core sample. Therefore, it may be better to select a

⁷ See Annex 4 for a discussion of risk management considerations at various points in the project cycle.

site where construction is still under way, to gain easier access to materials and in-progress construction. Such visits should be unannounced. The team and the government should agree on this approach during project design; and as part of the communications plan, the team should make the PMU aware of this approach, so that they are not taken by surprise. The earlier in the project the first such exercise is undertaken, the better. Such detailed reviews are more resource-intensive than normal supervision, and thus must be applied selectively. Depending on the nature of the project, the task team would normally be expected to include one or more contracts each for civil works, goods, and consultant services. The exact number of contracts depends on several factors, including the size and scope of each of the contracts selected (the larger the scope, the fewer the contracts).

- ***Referring suspicious transactions to the government, as well as to INT.*** As part of the project design process, the task team should identify the appropriate investigative body to which any evidence of possible fraud and corruption should be referred, in addition to INT. If the state audit agency, the relevant inspectorate general, or the anti-corruption agency has worked closely with the Bank's task team in carrying out the detailed reviews described above, it would be natural for the staff of that agency to process such referrals. The Bank will expect the authorized investigative agency to pursue the evidence appropriately and to report back to the Bank on its findings and conclusions, including the extent to which the evidence of fraudulent or corrupt acts was substantiated.
- ***Recording findings and required follow-up actions clearly in mission reports.*** As part of the communications plan, the government should know that the Bank will cover any

issues of fraud and corruption in the aide-mémoire, with a description of the findings and the follow-up steps the Bank expects the government to take in response. Candor will be required on both sides in discussing how best to proceed with specific incidents, and the emphasis should be as forward looking and as positive as possible. Weaknesses in procurement or disbursement practices, or in the oversight of physical implementation, will need to be addressed, and action plans for doing so—with agreed timetables—developed. These, too, should be captured in the aide-mémoire and back-to-office report and clearly referenced in the subsequent management letter.

It is especially important to document the findings of the site visit, preferably using a digital camera to provide graphic and compelling evidence of the best and the worst of project implementation. The photographs can be downloaded and incorporated in the aide-mémoire and back-to-office report to inform both government officials and Bank managers of the status of the project.

- ***Following up on previously identified issues during the next supervision missions.*** Failure to follow up on issues raised in previous supervisions—whether the issue is inadequate documentation, poor project quality, or actual allegations of fraud and corruption—sends absolutely the wrong signal to the PMU. For projects at high risk of corruption, it is especially critical for each supervision activity to begin where the last one left off, focusing first and foremost on progress in the agreed action plans. Full credit should be given for efforts to correct the specified problems, but any problems that remain unresolved should be noted in the aide-mémoire, along with appropriate warnings of what may happen if they remain unresolved.

- ***Making timely decisions on misprocurement and/or suspension of disbursements, when appropriate (in consultation with the country management team).*** Depending on the availability and nature of the evidence, if collusion, fraud, or corruption has occurred, it may be appropriate for the Bank to declare misprocurement. In most cases, a declaration of misprocurement involves cancelling the portion of the loan that was wrongly used and requiring the government to immediately repay any amounts already disbursed for ineligible expenditures. It is important to note, however, that there is flexibility in the Bank's procurement policy regarding misprocurement. Depending on the circumstances, and in consultation with the country management team, it may be possible to take advantage of that flexibility to counter the incentive for the government to avoid pursuing allegations of fraud and corruption in Bank-funded projects.
- ***Publicizing both good practices and suspensions/misprocurement actions.*** Good works, high quality results, effective project management—all of these should be recognized, celebrated, and publicized to emphasize progress in achieving the project's development objectives. Awards and other forms of recognition help support the champions of good governance and integrity. Pride can be contagious, and the Bank's objective should be to foster a culture of integrity and pride. That's the upside. To be credible going forward, however, the government and the Bank also need to publicize the results of the fight against fraud and corruption in Bank-funded projects, including any cases in which such allegations have been substantiated—along with whatever sanctions and remedies may have been applied.

Closing the Loop: Monitoring and Evaluation

44. Dealing explicitly with governance and corruption risks at the sector and project levels is relatively new for the Bank. Thus it is especially important to be able to monitor progress toward objectives and evaluate results. The following actions are important:

- Taking a “learning by doing” approach that recognizes the experimental nature of many of the activities that will be attempted in this new area.
- Defining clear objectives for GAC initiatives, and a limited number of monitorable indicators that will track progress toward those objectives.
- Establishing baseline numbers for those indicators, and setting up a monitoring system that will report regularly on the direction of progress.
- Monitoring and evaluating the results, and assessing the factors that aided or hindered the effectiveness of the activities.

- Using the midterm review and the end-of-project impact assessment to evaluate all of the activities and extract the lessons learned for future reference.

45. Of course, it can be difficult to define outcomes and indicators. Some indicators of development outcomes are relatively straightforward, but others are not. Results may not lend themselves to precise measurement, especially when the objective involves reducing fraud and corruption, for which there is not likely to be a meaningful “baseline.” In fact, the number of cases of fraud and corruption may increase as a result of expanded audits and complaints lines. What is important is that adequate resources be committed to monitoring and evaluation, and to recording the results and lessons learned, so that they can be shared

with operations staff across the Bank. Successful outcomes can also have a positive demonstration effect, helping to make the case that such initiatives make good economic sense in terms of their impact on development outcomes.

46. ***Using the Results.*** Finally, it is important to give some time and attention to capturing and disseminating the lessons learned from this new emphasis on fighting fraud and corruption at the project level. Developments in individual projects—including photographic evidence—should be captured in the supervision documents, but additional resources will be needed to extract the lessons learned and disseminate them to the broader Bank community.

VI. Roles and Responsibilities

47. The responsibility for mainstreaming GAC issues and concerns at the sector and project levels falls mainly on the Bank’s task team, and especially on the task team leaders. Fortunately, they are not alone in this endeavor: many other groups across the Bank have a shared responsibility for advancing this agenda—from OPCS and the Network Anchors, to INT and External Relations.

48. **Task Team.** Within the task team, it is important to take an integrated approach. First, the team should work in collaboration to carry out the risk assessment and the risk mitigation effort, rather than having each of the specialists treat their individual components as an isolated piece of the project. Second, because the focus of project design should be on overcoming the identified risks to achieving development outcomes, teams should build GAC issues into the design rather than viewing them as an “add-on” element of the project.

49. **Country Team.** Country teams play an important role supporting GAC work at the sector and project levels, beginning with support for the diagnostic work that is needed to incorporate GAC issues appropriately in the CAS. The country team

- identifies the entry points for the Bank in support of the country’s GAC program;
- sets the priorities for work on GAC issues;
- allocates resources against those priorities
- carries the dialogue with the Bank’s key interlocutors on the government side, with the donor community, and with other interested stakeholders within the country
- if issues arise in connection with revelations of fraud and corruption,

manages country relations and seeks constructive solutions.

The country team also needs to coordinate GAC in Projects initiatives across sector units within the team, sharing the evolving stock of knowledge about what has been tried in the country, what has worked or not worked (and why), and what kinds of initiatives are under way. Several country teams have established GAC Committees whose role includes vetting project proposals at the Concept Note stage to ensure that known governance and corruption risks are fully reflected in the project’s risk rating, and that the lessons learned from experience in all sectors are fully reflected in proposed operations. Some country teams—those for Indonesia and India, for example—have issued guidelines on dealing with GAC issues that staff apply to all investment loans in those countries.

50. **Managers.** Managers play a critical role in two key areas.

- First, they should help ensure that task teams are equipped to carry out their responsibilities in this arena—with adequate staffing, skills, experience, and resources to meet the higher expectations that arise from the GAC in Projects agenda. Since resources are limited, both country and sector managers need to establish clear priorities, target the sectors and projects that require immediate attention, and prioritize others for attention in future periods. Sector managers, in particular, should be available for advice and guidance in navigating through the often delicate and sensitive issues of governance and corruption at the sector and project levels.
- Second, managers should help ensure that the incentives for task teams are aligned with the higher priority being

given to GAC in Projects under the Bank's new strategy. They should provide not only appropriate recognition for innovative work and successful achievements, but also unequivocal support when issues of poor governance or fraud and corruption arise in connection with their projects—especially when disbursements need to be suspended until issues are resolved satisfactorily, or when new lending may be affected by problems in the portfolio. These are often difficult situations, involving important trade-offs between country relations and project realities on the ground, and between meeting lending or disbursement targets and applying the necessary leverage to resolve important issues.

It is important for the institution to act with one voice, taking a constructive approach, and keeping in mind the central objective of the GAC in Projects initiative: to improve the development outcomes of Bank-financed projects for the benefit of the people in our member countries—especially poor people, who often suffer the most from poor governance and corruption.

51. **Other Staff.** Other Bank staff and units with key roles and responsibilities include the following:

- **OPCS (Investment Lending Unit).** Responsible for operational policy and guidance.
- **Sector Boards.** Take the lead in defining the generic models for risk and vulnerability assessments at the sector/subsector level, as well as for identifying, at each key point of vulnerability, best practice governance approaches (or good practice, if conditions are not suitable for global best practice). Contribute to the GAC in Projects learning agenda for their sector/subsectors.
- **Procurement Board.** Provides operational policy and guidance on

procurement issues, as well as the generic models for risk and vulnerability assessments of the procurement processes for civil works, goods and services, and consultants, including best practice approaches to risk mitigation at each step in the procurement process. Contributes to the GAC in Projects learning agenda for procurement staff.

- **Financial Management Board.** Provides operational policy and guidance on issues of budget management, financial control systems, accounting and auditing (including value for money, technical, and performance audits), as well as best practice mitigation measures. Contributes to the GAC in Projects learning agenda for FMS staff.
- **Social Development Department.** Leads in articulating and advocating the “Demand for Good Governance” agenda; has established the DFGG Peer Learning Network to support further progress in this area across the Bank and with the NGO community.
- **INT (Preventive Services Unit).** Extracts the lessons learned from investigations and assists task teams to incorporate them in proposed lending operations; provides advice and guidance for ongoing operations, and knowledge management products and learning opportunities for operational staff.
- **External Relations (Development Communications Unit).** Provides advice and guidance to task teams working on GAC in Projects issues to enhance the contribution that communications can play in this area, through direct support and through training programs for operational staff.

52. **Next Steps: Roles.** There is much to be done in further developing the concepts, tools, and approaches described in this paper.

ROLES AND RESPONSIBILITIES

- Network Anchors will continue work on value chain analysis in their sectors and subsectors.
- INT will contribute training and “lessons learned” notes.
- OPCS and others will prepare good practice notes on specific GAC tools and approaches, as well as case studies of successful GAC initiatives.
- DevCom and the Social Development group will be consulted in the development of more effective approaches for dealing with clients and other stakeholders across the full range of possible country circumstances—from “reluctant” clients to those who are keen to engage with us in moving this agenda forward.

All of these activities will be coordinated under the GAC in Projects Peer Learning Network, and shared with the growing community of practitioners across the Bank through the [web page](#).

Annex A. GAC Action Matrix by Project Cycle

Project cycle step	GAC interventions	Who does what		Output
		Client	Bank team	
Identification	<p>New client: assess key governance structures/systems, processes; and capacity.</p> <p>Existing client: review engagement from a governance enhancement perspective.</p> <p>Prioritize governance issues to be addressed during project preparation.</p>	<p>Understanding and broad acceptance of governance risks as identified in the PCN.</p>	<p>Review and update sector governance knowledge, experience, and track record on governance.</p> <p>Develop plan, including additional resource needs, to address governance issues during project preparation.</p>	<p>PCN includes a preliminary assessment of governance risks in the Risk Identification Worksheet (RIW).</p> <p>Team member assigned to lead preparation of governance enhancement program.</p>
Preparation	<p>Refine preliminary assessment of governance framework, identifying key issues within the control of the project and external influences on the governance environment.</p> <p>Build client awareness of governance issues and ownership of actions to enhance transparency, accountability, and participation.</p> <p>Develop plans to address priority issues—identify what needs to be addressed during preparation and what during implementation</p>	<p>Undertake analytic studies needed to fill critical gaps in governance knowledge.</p> <p>Design project components (TA, etc.) to improve governance performance.</p> <p>Agree on overall action plan to address key governance issues.</p> <p>Implement critical actions to address identified governance weaknesses.</p>	<p>Engage key stakeholders who will lead initiatives to strengthen governance; on both supply and demand sides.</p> <p>Analyze governance risks and mitigation measures: risk impact, cost-benefit of mitigation measures, results.</p> <p>Mobilize TA support; help prepare TORs; identify qualified consultants, financial resources (TF), etc.</p> <p>Arrange consultations, thematic workshops, etc. (to raise awareness and/or generate solutions).</p>	<p>By QER and RRR meeting, team prepares its assessment of key governance issues (revised RIW), action plan to address key issues, and progress.</p>
QER stage	<p>As part of QER documentation, task team presents to QER/RRR panel a summary of its assessment of key governance issues, action plan to address key issues, progress to date, actions to be taken by appraisal, and monitoring framework.</p>		<p>Task team prepares QER documentation, including governance assessment, etc.</p> <p>Task team estimates Bank costs and resources needed to prepare and supervise GAC enhancement measures (if not already done).</p>	<p>QER/RRR Panel categorizes project—low/moderate or substantial/high governance risk—and endorses/refines governance risk mitigation action plan.</p>
Appraisal	<p>Decision package includes a summary of team's assessment of governance framework and issues, action plans, progress, QER/RRR findings and how they have been incorporated, and a results monitoring framework.</p>	<p>Complete agreed actions, including necessary staffing actions.</p> <p>Continue preparing/implementing governance action plans.</p> <p>Discuss with government the final scope of the project, including borrower's governance action plan.</p>	<p>Team justifies that there has been sufficient progress in implementing agreed actions, including those highlighted by QER/RRR panel.</p> <p>Team ensures that the government is briefed on project design and borrower's proposed governance action plan.</p> <p>Team may seek advice from OPCS and INT on design of high-risk projects.</p>	<p>Decision Meeting issues note reflects discussion, next steps, and agreed governance risk assessment and mitigation arrangements.</p>

<i>Project cycle step</i>	<i>GAC interventions</i>	<i>Who does what</i>		<i>Output</i>
		<i>Client</i>	<i>Bank team</i>	
Negotiations	For projects with high risk of governance issues, brief country's Executive Director's office. Ensure government team presents governance plan.	Detailed discussion of governance and anticorruption elements of PAD, Loan Agreements, and legal agreements.	Ensure that client understands GAC provisions and obligations, including the Anticorruption Guidelines. For projects with high risk of governance issues, brief country's Executive Director's office.	Agreement on appropriate governance action plan and monitoring framework.
Supervision	For high-risk projects, designated team member reviews, supports, and monitors implementation of borrower's governance action plan.	Provide regular progress reports on governance aspects, highlighting achievements, lags, and areas needing special attention. Report suspected corruption cases to the Bank and relevant authorities	Support and advise the borrower on implementing governance measures and managing risks. Target high-risk areas, monitor the effectiveness of risk mitigation measures, and maintain vigilance (red flags). Consistently follow up on GAC issues during and between missions.	Aide-mémoire and management letters highlight governance issues that borrower needs to address. Progress is regularly reported in BTORs and ISRs. Referral to INT and application of remedies as necessary.
Midterm review	Reappraise effectiveness of borrower's governance framework (structures/systems, processes, and capacity). Review status report and effectiveness enhancement plan (if needed).	Prepare status report and update action plan to enhance governance effectiveness (if needed). Where appropriate, complete third-party verification of governance effectiveness. Propose adjustments in project design to address any changes in governance action plan.	Reappraise borrower's governance framework (structures/systems, processes, and capacity) and its effectiveness. Discuss/agree on updated action plan.	Restructure/reinforce project to support updated governance action plan (if necessary).
Implementation completion	Highlight lessons learned. Estimate incremental costs and benefits of enhanced focus on governance issues.	For Completion Report, prepare special section on progress and impact of governance improvement. Third-party assessment of borrower's progress.	Review progress and incorporate into ICR. Mainstream into other similar Bank operations.	Candid reflection of experience and lessons in ICR.