

**STRENGTHENING WORLD BANK GROUP
ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION**

SECOND-YEAR PROGRESS REPORT

OCTOBER 20, 2009

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
AFR	Africa Region
AFRVP	Africa Region Vice President
AGIs	Actionable Governance Indicators
AIDS	Acquired Immuno-deficiency Syndrome
CAS	Country Assistance Strategy
CGAC	Country Governance and AntiCorruption (Strategy)
CommGAP	Communication for Governance and Accountability Program
CoP	Community of Practice
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CoST	Construction Sector Transparency Initiative
CSO	Civil Society Organization
DECVP	Office of the Senior Vice President for Development Economics and Chief Economist
DFGG	Demand for Good Governance
DFID	Department for International Development, UK
DPL	Development Policy Lending
DPO	Development Policy Operation
DSG	Demand Side of Governance
EAP	East Asia and Pacific Region
ECA	Europe and Central Asia Region
EITI	Extractive Industries Transparency Initiative
EO	Evaluation and Suspension Officer
EXT	External Relations Vice Presidency
FATF	Financial Action Task Force
FY	Fiscal Year
GAC	Governance and AntiCorruption
GEA	Group of External Advisors
GFA	Governance and Anticorruption in Fiduciary Aspects
GoATR	Asset Tracking and Recovery
GPE	Governance and Political Economy
GPF	Governance Partnership Facility
HD	Human Development
HRM	Human Resources Management
IAB	Independent Advisory Board
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IDF	Institutional Development Fund
IEG	Independent Evaluation Group
IFC	International Finance Corporation
INT	Institutional Integrity Vice Presidency
ISN	Interim Strategy Note
ITAG	International Technical Advisory Group
LAC	Latin America and Caribbean Region
LEGVP	Legal Vice Presidency
MNA	Middle East and North Africa Region
MRIL	Management Review of Investment Lending
NGO	Nongovernmental Organization
NLTA	Non-lending Technical Assistance
NVP	Network Vice Presidency
OECD–DAC	Organization for Economic Co-operation and Development– Development Assistance Committee
OPCS	Operations Policy and Country Services
ORAF	Operational Risk Assessment Framework

OVP	Operational Vice President
PAD	Project Appraisal Document
PAM	Public Accountability Mechanisms
PD	Program Document
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
P-RAMS	Risks Assessment Management System
PREM	Poverty Reduction and Economic Management
PRMPS	PREM Public Sector Governance
QAG	Quality Assurance Group
RTI	Right to Information
RRMP	Roads Rehabilitation and Maintenance Program
RVP	Regional Vice President
SAR	South Asia Region
SDN	Sustainable Development Network
SDV	Social Development Department
SRC	Standing Review Committee
StAR	Stolen Assets Recovery Initiative
UNCAC	United Nations Convention Against Corruption
UNODC	United Nations Office on Drugs and Crime
VPU	Vice Presidential Unit
WBG	World Bank Group
WBI	World Bank Institute
ZGAC	Zambia Governance and Anticorruption Council

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EXECUTIVE SUMMARY

The implementation of the World Bank Group's Governance and Anticorruption strategy (GAC) continues to progress well. Year two has seen steady gains in both the development of GAC tools and their mainstreaming in the work of the World Bank Group (WBG) – from upstream country assistance strategies to downstream design and implementation of lending operations. Going forward, the principal challenges are to better document and communicate development impact and to lock-in organizational arrangements that assure sustainable mainstreaming of GAC-responsive approaches in the way the World Bank Group does business. The progress report lays out a prioritized agenda for meeting these challenges.

A. GAC – Enhancing Development Effectiveness and the Management of Risk

1. This report describes and assesses progress in the second year of implementation of the World Bank Group's (WBG) Governance and Anticorruption strategy (GAC), which was endorsed by the Board of Executive Directors in March 2007. Since November 2007, a high-level GAC Council, chaired by the Managing Directors on a rotating basis, with Vice President and Director-level members and alternates, has met on a monthly basis to review and guide implementation of the strategy. The One-Year Progress Report on implementation of the strategy was issued in October 2008.

2. As the GAC strategy clarified: “The WBG 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”. GAC work is thus relevant at every step in the operational cycle of WBG's country programs:

- *Country assistance strategies* set priorities based on systematic diagnosis of country-specific GAC constraints to development effectiveness;
- *Sectoral strategies* identify feasible ways forward given the GAC context;
- *Project design and implementation* builds on sectoral strategies in ways that provide opportunities to incorporate enhanced transparency, participation, and third party monitoring, and other strengthened fiduciary controls into operational design; and
- *Country systems* capacity development enables GAC-related development benefits to be realized across the spectrum of public action, not only in donor-financed projects.

This report assesses progress in each of these areas, as well as for three cross-cutting priority themes identified in the GAC strategy – multi-stakeholder engagement, Actionable Governance Indicators (AGIs), and the global dimension. Box ES1 provides some examples of how Bank work at the operational frontline is evolving to better incorporate these GAC dimensions.

3. The GAC strategy is helping to transform development work in two complementary ways: by focusing attention on how to address governance obstacles to development effectiveness and by helping to clarify how to better manage GAC-related risks.

Box ES1: Applying GAC Tools at Country, Sectoral, Country System, and Projects levels

Country level

The WBG Program in Zambia. Assessments of underlying political economy and institutional constraints at macro and sector levels helped shape the design of the 2008-11 Country Assistance Strategy, which targets more modest, but more implementable development goals, than earlier CAS. Smart, GAC-responsive design is being mainstreamed in projects such as the 2009 Roads Rehabilitation and Maintenance Program, for which a GAC action plan is being prepared jointly with government. With the support of a US\$2 million grant from the Governance Partnership Facility (GPF), staff skills have been strengthened in the field office, a governance manual is being prepared as a guide for existing projects, enhanced support is being provided to facilitate Zambia reaching compliance status in the Extractive Industries Transparency Initiative (EITI), and to strengthen the demand-side of governance (via support for community radio, and for right to information reforms).

Sectoral level

WBG support for Brazil's flagship conditional cash transfer program, Bolsa Familia. The Bank has worked closely with the Government of Brazil to improve accountability and reduce fraud and errors in the program through two lending operations (the first under implementation and the second to be appraised in October 2009) and a structured program of analytical and advisory work on social assistance (BRASA). Program controls in the lead line ministry, the Ministry of Social Development, include cross-checks of the beneficiary registry, three hotlines, and monitoring of municipal performance. At the municipal level, all 5,560 municipalities have developed social control councils and local points of contact for complaints and appeals. Bank involvement has contributed to the consolidation of this system through support for: (i) external oversight mechanisms; (ii) monitoring and internal control systems; (iii) local controls and audits; and (iv) external impact evaluations to measure program results.

Country systems

Public expenditures in Latin America. LAC teams have positioned their GAC work as a positive contribution to building trust in government and improving citizen engagement with the state. In Peru, an evaluation was undertaken of the impact of participatory budgeting and its interface with results-based budgeting, and a grant was made available for strengthening Congressional oversight of budgetary processes. In Mexico, a memorandum of understanding with government lays out alternative ways through which the Bank might contribute to improvements in public sector transparency, effectiveness, responsiveness, and accountability. In both Peru and Bolivia, the application of traditional fiduciary tools (PEFA, OECD–DAC procurement indicators) have resulted in both countries showing an open attitude toward being evaluated against international benchmarks and developing relevant action plans to help move toward attaining such benchmarks.

Project level

Indonesia Urban Poverty Program. The Bank has been continuously engaged over 10 years in institution building in the sector. As part of the oversight mechanism of the Urban Poverty Program, which currently disburses about US\$100 million per year to over 8,000 villages across the country, 100,000 elected volunteers serve as project overseers; a website reports on individual project details, including implementation status, full consultant contracts, consultant invoices, status of disbursement, details on project-related travel expenses, and a complaints-handling mechanism.

4. ***Understanding incentives, shaping institutions.*** A central focus of the first two years of GAC implementation has been on how to design and implement programs of development support in ways that are more responsive to the actual incentives of relevant stakeholders, incentives that are influenced by institutional and political realities. Operationally, this translates into the need to:

- Understand better – and incorporate into the design of the WBG country assistance strategies (CASs) – the actual governance, institutional, and political drivers of decision-making in specific country settings, including the identification of tractable entry points; and
- Incorporate into individual operations specific institutional measures that enhance key decision-makers’ incentives to focus on development results – both capacity support and strengthened oversight.

5. ***The management of risk.*** The 2008-9 global financial and economic crisis has taught all too powerfully the perils of inadequate attention to risk. At the outset of the financial crisis, there was concern in some quarters that GAC strategy implementation would take a back seat. In the wake of the crisis, although the pull of other urgent priorities is strong, rebuilding trust in institutions has emerged as a central challenge the world over. As a result, the GAC agenda remains very much a priority – it can help build state legitimacy and trust in leaders and institutions.

6. Heightened awareness of country-specific institutional realities – and associated corruption risks – has created considerable uncertainty among WBG staff. Notwithstanding the sustained effort to clarify the value added of GAC for development effectiveness, sometimes the agenda is misinterpreted by some staff in ways that can reinforce a tendency towards risk aversion. However, as WBG President Zoellick made clear in his April 21, 2009 keynote speech at an open forum on GAC implementation, a risk-averse approach is a mistake:

It is our responsibility to set a high standard. We don't set a high standard when we retreat in paralysis.... To help our clients, especially in the poorest countries, where sometimes institutions are weak and the risks of something going wrong are high, we need initiatives that draw in civil society, stress openness, build institutions, from the village level up.... Risk-taking is part of development work. So our high standard needs to be in managing risks. Every day we put our resources and reputations at risk. So we can – and must – do better at recognizing, assessing, and managing risk.

7. A key goal of GAC strategy implementation is thus to provide an approach and tools that can help WBG staff to manage risk better – and to help put in place the management systems, processes, and organizational culture that signal unambiguously to staff that the WBG's mission requires informed risk-taking, and that staff will be rewarded for creative, professional development work (with associated risks). The result will be enhanced support for organizational norms of entrepreneurship and of transparency in sharing information, even in the face of difficult challenges. From top management down, much additional effort is still needed in this area. The new operational risk assessment framework (ORAF), discussed further below, has the potential to be a powerful mechanism for addressing these challenges.

8. ***Assessing progress in GAC implementation.*** The impact of the GAC effort should ultimately be judged by its impact on development effectiveness. Assessment thus involves two interlinked steps:

(i) Assessment of the extent to which the GAC strategy has led to more and better GAC-related actions in the WBG's development work; and

(ii) Assessment of the impact of GAC-related actions on development effectiveness.

Careful empirical research can provide insight into the second of these steps – the relevance of governance and anticorruption initiatives for development effectiveness – regardless of who undertakes the GAC actions.

9. The GAC strategy and its implementation aims in step (i) to influence the content and approach of Bank work, both upstream and downstream. The intent is to change the way in which the Bank does business at each step in the long cycle of causation that links the design of country strategies to the completed implementation of individual operations. This can, in turn, set in motion a dynamic of change that, via step (ii), can have a profound impact on development results on the ground. For this reason, years one and two of GAC implementation have focused principally on 'change management' within the WBG. The principal focus of the Second-Year Progress Report is thus on the extent to which these change management efforts are facilitating the development and mainstreaming of new GAC-responsive tools and approaches across the WBG.

10. Going forward, it will be important to anchor GAC work in credible ***evidence of impact***; an enhanced focus on the link between GAC and development results at different steps in the operational chain will thus be an important part of year three of GAC implementation. Also important will be to move forward with clarifying ***sustainable organizational arrangements*** for mainstreaming GAC across the WBG. Box ES2 summarizes specific priority actions for year three of GAC implementation that can help meet these challenges at every step in the WBG's operational cycle. Annex C details the targeted results for these priorities during year three of implementation.

B. Progress in Developing and Mainstreaming GAC Tools

11. GAC implementation aims to facilitate the development and mainstreaming of GAC-responsive tools at every step in the WBG's operational cycle: for country strategies, for project design and implementation, for strengthening country systems (both sectoral and cross-cutting), and at the global level.

1. Addressing GAC constraints in country strategies

12. To foster learning with regard to good GAC practice at the country level, at the outset of implementation 27 country programs were selected to participate in a 'country-GAC' (CGAC) process, with each program provided with US\$100,000 of incremental resources. A recent stocktaking found very wide variation in impact across country programs. Eight of the pilots

were successful in integrating GAC systematically into country programs. Five other countries used the CGAC process to better address GAC constraints within specific sectors. In the remaining CGAC countries, the impact was uneven. Clear commitment to the GAC agenda by the leadership of country programs (country directors and country managers, in partnership with relevant sector-level managers and staff) was the crucial contributor to success. An encouraging feature of the second year of GAC implementation is the increasing diffusion of good ‘GAC in CAS’ practice into the preparation of country assistance strategies that were not formally part of the CGAC process.

13. Implementation of well-designed CGACs has been supported by the multi-donor Governance Partnership Facility (GPF), which has provided up to US\$2 million for the implementation of CGAC-style country programs in each of 11 countries (Afghanistan, Albania, Burkina Faso, Cambodia, Democratic Republic of Congo, Haiti, Liberia, Mongolia, Nepal, Philippines, and Zambia). Competition for GPF resources was intense, and the quality-based review process was demanding, thus enhancing the incentive for good quality practice (not only in CGACs but also for innovations in other areas supported by the GPF, including sector programs and demand-side initiatives). Since the GPF start-up in December 2008, it has committed US\$34.8 million to support GAC work.

14. Overall, although the CGAC process has achieved its initial goal of generating new examples of good practice, the sustainability of good ‘GAC in Country Programs’ practice is far from being achieved. Going forward, a key task for year three will be to identify, through the GAC Council, which country programs will give priority in upstream preparation of CASs to understanding and addressing the governance and political economy impediments to development effectiveness, and which will prioritize GAC in downstream implementation of country programs. Other key tasks for year three include: clarifying ‘GAC in CAS’ quality management arrangements at RVP and corporate levels, and strengthening systematic lesson learning and dissemination on ‘GAC in CAS’ good practice approaches, with PREM taking a lead on the latter.

2. GAC in projects

15. A key priority for the year-two ‘GAC in projects’ agenda has been to help clarify for staff the implications of the GAC strategy for their work. The aim has been to help staff manage better the tension between, on the one hand, the need to strengthen quality management and accountability systems to deliver better on the Bank’s fiduciary responsibilities and, on the other hand, to embrace more broadly the full range of opportunities for enhancing development effectiveness provided by GAC tools. The most important overall step in the second year of GAC implementation in providing a consistent framework for addressing this tension has been the decision to introduce a new operational risk assessment framework (ORAF). Implementing the ORAF in a way that leverages the GAC agenda will be a priority for year three of implementation.

Box ES2. Priority Year-Three Actions to Facilitate Sustainable GAC Mainstreaming

Reinforce GAC in country strategies

1. Strengthen CAS quality management from a GAC perspective:
 - Clarify mechanism for identifying which CASs will give priority to addressing GAC impediments to development effectiveness, both upstream in design and downstream in implementation (GAC Council);
 - Clarify ‘GAC in CAS’ quality management arrangements at RVP and corporate levels (RVPS, OPCS, PREM).
2. Strengthen systematic lesson learning and dissemination on ‘GAC in CAS’ good practice approaches (PREM).

Draw upon GAC in projects work to strengthen risk management

3. Implement operational risk assessment framework (ORAF) for investment lending (OPCS).
 - Strengthen skills and quality management for addressing GAC dimensions of ORAF (RVP, OPCS, GAC Secretariat).
4. Continue dissemination of ‘GAC in project’ good practice approaches, including attention to demand side (GAC in projects working group, SDV, HD, INFRA).
5. Continue strengthening of the Preventive Services Unit, further develop the Detailed Implementation Review instrument, and outreach to other multilateral institutions to share experience and promote consistency in approaches (INT).

Bolster country systems work

6. Continue implementation and lesson learning from country procurement systems pilot, including a stocktaking at the GAC Council and refinement of the pilots to support such work in countries with less developed systems (OPCS).
7. Prepare and agree on approach paper for systematic tailoring of public sector reform (including cross-sectoral work on decentralization) to different country settings (PREM, with partners).
8. Strengthen GAC dimensions of institution-building and results-focused lending, with a focus on sector-level operations, and inclusion of demand-side mechanisms:
 - Continue development, dissemination, and use of Actionable Governance Indicators;
 - Undertake learning review on GAC good practice approaches in programmatic lending (QAG with GAC Secretariat, and other partners);
 - Pilot intensified multi-stakeholder engagement in design of operations and disseminate lessons (RVPS with WBI, CommGAP).

Strengthen quality support functions for sustainable mainstreaming

9. Fully implement GAC knowledge and learning platform (training, online, communities of practice) in 8-12 practice areas, including sustainable budgets beyond special purpose support (GAC Secretariat with partners).
10. Clarify organizational arrangements for coordinating, supporting and monitoring GAC mainstreaming in the next phase of GAC strategy implementation (GAC Council).

Assess the development impact of GAC

11. Work on multiple fronts to measure, assess, and communicate the development impact of GAC. Outputs to include:
 - A research program and conference to assess GAC development impact (DEC, with PREM, others);
 - Document (and disseminate) development impact of good practice operations (GAC in projects working group);
 - Review trends in intermediate outcomes of institution-building efforts, using AGIs that have been incorporated into operations as monitoring tools (AGI working groups in PREM, HD and SDN).

16. At the level of detailed operational practice, the GAC in Projects Benchmarking and Learning Review has been a key step in bringing consistency to the ‘GAC in projects’ agenda. Based on a representative sample of 180 operations drawn from 344 new approvals in FY08, the QAG-led review benchmarked the focus on GAC along three dimensions: attention to governance and political economy, GAC in fiduciary aspects, and the demand side of governance. FY08 was very much at the outset of GAC strategy implementation, so the results comprise a baseline for future progress, not an evaluation of implementation. The QAG survey shows that a large proportion of the operations already incorporate GAC dimensions, and especially many operations are strong on integrating GAC in fiduciary aspects. Fewer, but still a very significant, number of operations also paid attention to the governance and political economy context, and incorporated the demand side of governance. The intention is to repeat the exercise in two years time in order to contrast the GAC characteristics at entry of the FY08 and FY10 portfolios and assess the implementation experience of the FY08 sample.

17. A key step in bringing consistency to operational practice was the provision of guidance on how to address the GAC dimensions of WBG work. OPCS issued a note on *Emerging Good Practices in GAC in Projects*, an Audit and Assurance Toolkit (designed to enhance the effective use of audit in preventing fraud and corruption), and a good practice note on GAC for financial management specialists. INT’s Preventive Services Unit issued a Fraud and Corruption Awareness Handbook. LEGVP issued a guidance note on Bank multi-stakeholder engagement. And PREM produced a good practice framework for problem-driven governance and political economy analysis.

18. An additional step in fostering consistency has been outreach to staff on good ‘GAC in projects’ practice, facilitated by the ‘GAC in projects’ peer learning group and INT’s Preventive Services Unit. A core focal group, with staff from Regions and Networks, meets periodically to discuss key issues and share experiences and challenges. A detailed learning program is delivering courses in both Washington and field offices. And a robust web-based platform has been developed to provide easy access to good practice, guidance, and other resources. These outreach efforts are key to sustaining the GAC mainstreaming effort and will continue in year three of GAC implementation.

19. Complementing the effort to clarify good overall GAC practice in project design and implementation, there has been significant progress in year two in both detecting and sanctioning corruption in Bank operations. The recommendations of the Volcker Panel have been implemented, including: the establishment of the Independent Advisory Board (IAB), with eminent international experts to advise the President and the Audit Committee on INT policies and procedures, activities and performance; appointment of an external member of the Sanctions Board as the chairperson; development of a confidentiality protocol; transfer of the responsibility for staff misconduct from INT to the Ethics Office; enhancement of selected staff rights to improve fairness of internal investigations; expansion of the Preventive Services Unit; strengthening of communication between INT and the Regions; and refinement of INT result metrics. The development of guidelines for Detailed Implementation Reviews is also under way, and a number of tools have been developed to guide staff on the potential of fraud and corruption such as a note on Most Common Red Flags in Procurement, a dialogue-based tool entitled Self-Assessment of GAC Risks, and an online red flag tool that is incorporated into the new Risks

Assessment Management Systems (P-RAMS). INT has also scaled-up its emphasis on core investigative work, clearing backlog of investigations and investigative reports and closing 153 cases, of which it fully investigated 86 and substantiated 39.

20. The Bank's own disclosure policy is under review, with a view towards a shift to the principle of maximum disclosure of information. Consultations on an approach paper to the policy were organized globally, and the draft of a new policy is currently being prepared based on feedback. Mechanisms for handling complaints about Bank operations (including allegations of corruption) from civil society and private actors also are enjoying a higher profile in Bank work, with a how-to note currently under preparation.

21. Going forward, over the third year of implementation for GAC in Projects, key tasks will include: implementing the operational risk assessment framework (ORAF) for investment lending, as well as strengthening skills and quality management for addressing GAC dimensions of ORAF; and continuing the dissemination of 'GAC in project' good practice approaches, including attention to demand side through partnership with the sectors. INT will also focus on further strengthening the Preventive Services Unit, reforming the Detailed Implementation Review instrument, and outreach to other multilateral institutions to share experience and promote consistency in approaches.

3. Strengthening country systems: Core and sectoral

22. The WBG's commitment to help strengthen country systems – both sectoral and 'core' cross-cutting public management systems – pre-dates the GAC strategy but was reinforced by it. The second year of implementation has seen continued progress in all four of the areas where GAC work contributes to helping strengthen country systems – core, sectoral, demand-side, and results measurement:

- ***Core country systems*** include country procurement systems, public management and decentralization. The priority for year two has been intensive work on country procurement systems through the implementation of the new pilot approach to use country systems for procurement in World Bank operations. Assessments of country procurement systems were completed in 18 countries; however, progress in getting beyond the benchmarking exercise to enhanced use of country procurement systems has been slower than initially hoped. Going forward, implementation and lesson learning from the country procurement systems pilot, including a stocktaking at the GAC Council and refinement of the pilots, will continue. Important areas of focus will be on lesson learning from countries with relatively stronger procurement systems, expanding the pilots, and identifying ways forward in countries with less developed procurement systems.
- ***GAC in sectors***. Operational engagement has been scaled up. For infrastructure, a key step forward was the establishment of a 'GAC in infrastructure advisory program' (GAC Squad), which provides a combination of hands-on support to operational task teams and knowledge dissemination. The infrastructure team also launched, and disseminated widely *Sourcebooks on Deterring Corruption and Improving Governance* for the energy,

transport, and water sectors. The Health, Education, and Social Protection Networks have launched an ambitious program of knowledge and operational support, focused on strengthening incentives and accountability in service delivery through results-based financing and pay-for-performance approaches in health and education, and reducing error, fraud and corruption in social protection.

- ***Demand-side of governance.*** The QAG learning review, the finalization of a guidance note on multi-stakeholder engagement, and a series of country-based initiatives financed by the GPF, have helped accelerate the mainstreaming of transparency, participation, and third party monitoring into the design and implementation of Bank operations.
- ***Actionable governance indicators (AGIs).*** Year two of GAC implementation has seen progress in the development of new AGIs at both core and sectoral levels. Examples include the piloting of a new Human Resource Management AGI, and the identification of a core set of AGIs in health and education, to be built into already-programmed Bank operational country-level work. There has also been progress in the expansion of access and operational use of existing AGIs, including via the development of an AGI website for internal Bank use.

23. Along with these ongoing efforts, year two of GAC implementation also has seen the emergence Bankwide of a push to re-orient sectoral investment lending in a direction that is better focused on the task of building country-level institutions and better anchored in the delivery of results than is the traditional investment project. Viewed through a GAC lens, a re-oriented approach thus has the potential to meet GAC challenges at lower transactions costs than traditional lending operations. Realizing this potential will, of course, require that GAC shortfalls in country systems are identified and addressed directly. Year three of implementation will see a renewed push in the Bank's work on public sector reform.

24. Two sets of priority actions can help ensure that GAC tools are incorporated effectively into re-oriented approaches to sectoral lending. First, the re-oriented lending instruments need credible measurement of the extent to which institutions indeed are being built and are having their intended result. This, in turn, will require an intensified push to incorporate AGIs more systematically into these lending operations.

25. Second, there is a need for continued investment in knowledge and learning as to how GAC features can usefully be incorporated into results-oriented operations. The 2009 Development Policy Lending Retrospective confirmed that policy-based lending is an opportune instrument for supporting institutional strengthening: It found that 51 percent of all policy and institutional actions supported in Development Policy Operations (DPOs) for low-income countries were aimed at strengthening public expenditure management systems. One issue to examine further is the rate of inclusion of demand-side measures in DPLs; according to the QAG learning review, about one-fifth of the DPLs reviewed were 'responsive' in this dimension. The 2009 Retrospective similarly identifies the quality of attention to participation and consultation as an 'area for strengthening' in an otherwise well-performing part of the overall portfolio.

26. In year three, a follow-on QAG learning review will focus on good practice approaches to incorporating policies and institutional arrangements that facilitate transparency and participation into policy-based and programmatic investment instruments. And a set of pilot initiatives (undertaken jointly by RVPs, the WBI, and CommGAP) will seek to foster inclusive, multi-stakeholder dialogue in the design of selected operations, providing upstream support to task teams demonstrating serious interest in implementing the approach in countries and sectors where local capacity exists. Year three will also focus on strengthening other elements of the country systems agenda, including lesson learning from, and refinement of the ongoing country procurement systems pilot, preparation of an approach paper for systematic tailoring of public sector reform to different country settings (including cross-sectoral work on decentralization), and further development, dissemination, and use of Actionable Governance Indicators.

4. Global initiatives

27. In the wake of the global economic and financial crisis, there is a growing need for a new generation of GAC actions at the global level. This shift is evident in the growing demand for the IFC services that promote good governance at the corporate level. It also is evident in the intensified engagement of the WBG in a variety of global collaborative governance initiatives, including the Extractive Industries Transparency Initiative (EITI), the Construction Sector Transparency Initiative (CoST), and the Business Fighting Corruption Through Collective Action Initiative.

28. The Stolen Asset Recovery Initiative (StAR) has had an especially close association with GAC strategy implementation. The global crisis has presented StAR with a unique opportunity to raise awareness and advance reforms that will help deter flows of the proceeds of corruption and facilitate asset recovery. To respond to this opportunity, StAR has front-loaded its policy analysis work so that the products can contribute to on-going discussions, focused on the measures identified as priorities by the G20. It published its first major knowledge product, *A Good Practices Guide to Non-Conviction Based Asset Forfeiture*, in May 2009, and has a large pipeline of policy analysis and knowledge products underway. At the country level, StAR is working together with 7 countries that requested assistance (out of 21 total requests) on topics ranging from assistance on a specific high-profile case; support for an active anticorruption program where the authorities are pursuing corruption cases; and advice on the development of an asset recovery program as part of a broader anticorruption strategy.

29. StAR's current work plan, financed by contributions from France, Norway, Sweden, Switzerland, and the United Kingdom, runs to the end of 2010. A planned mid-term review will inform management decisions with regard to what, if any, adjustments may be needed in StAR's strategic direction, governance, and implementation arrangements. Beyond StAR, a further goal for year three of GAC implementation is to take stock of emerging lessons from a variety of global-level initiatives with regard to the opportunities and challenges of engaging GAC at the global level.

C. Managing for GAC Effectiveness

30. Successful GAC implementation depends not only on the ‘what’ of mainstreaming GAC into WBG’s operational work at the country, project, sectoral, country-systems, and global levels but also on the ‘who’ and ‘how’: on making available an adequate supply of GAC skills and knowledge at the operational front-line and on systematically incorporating GAC into the Bank’s quality management systems.

31. As noted, the principal challenge for year two of GAC implementation was to ‘lock-in’ the momentum for GAC engagement by *systematizing* and *scaling-up* GAC work in the many areas where good GAC practice is now well recognized. The principal challenge for year three of GAC implementation is to build on the systematization and scaling up of year two by anchoring GAC work in credible *evidence of impact* and *sustainable organizational arrangements* across the WBG. This will require locking in changes in business practices at all levels of the operational cycle:

- *At the country level* through enhanced quality management of CASs from a GAC perspective;
- *At the project level* through systematic implementation of the operational risk assessment framework (ORAF), with strengthened skills and quality management for addressing its GAC dimensions;
- *At country-systems level* by strengthening the GAC dimensions of results-based lending, including demand-side mechanisms; and
- *In quality support functions* by fully implementing the GAC knowledge and learning platform and, more broadly, clarifying the arrangements for coordinating, supporting, and monitoring GAC mainstreaming in the next phase of GAC strategy implementation.

32. Four sets of priorities will be especially important. First, the *GAC agenda needs to be anchored in credible evidence as to its value added for development results*. Year three of GAC implementation will support an enhanced focus on the link between GAC and development results at different steps in the operational chain through the following five sets of actions:

- *Overall development impact* through a research program to assess the development impact of country-level GAC reforms -- a research conference on the subject will be held in 2010;
- *Impact on design of country assistance strategies*. PREM will document the extent to which the CGAC process (and related support for implementation) is translating into impact on the ground and will highlight good practice for achieving results;

- *Sector-level impact.* The Actionable Governance Indicators working groups will intensify their efforts to facilitate the use of these indicators as monitoring tools in WBG operations;
- *Impact on design of sector-level operations.* A good practice learning review of how to incorporate GAC, including its demand-side innovations, into longer-term, institution-building and results-based lending will be undertaken; and
- *Impact at project level.* The ‘GAC in projects’ working group will systematically document and disseminate good practice examples of the development impact of including GAC features in investment projects.

33. Second, ***GAC skills development needs to be institutionalized across the OVPs.*** The GAC strategy identified both strategic staffing and GAC-related skills development among existing staff as keys to success. The first year of implementation thus saw a strong push on identifying strategic staffing needs. As of late 2009, most units have either completed their recruitment targets or are advanced in the process to complete recruitment. On skills upgrading, for the first six months of 2009, the focus of the GAC knowledge effort was to take stock of what was available and to build consensus across the Bank around a consolidated approach going forward. The implementation of the knowledge initiative, now underway, will be a priority for year three of GAC implementation. Key actions will include the successful delivery of the knowledge and learning platform in at least eight practice areas, covering training, online knowledge, and communities of practice, including strong participation of development professionals from outside the Bank.

34. The third key to successful mainstreaming is ***systematic attention to GAC as part of the Bank’s quality management processes.*** Year two of implementation has seen valuable progress in mainstreaming GAC in quality management at both the RVP and corporate levels. Over a three-month period, each of the RVPs shared with the GAC Council their approaches, experiences, organizational arrangements, and challenges in mainstreaming GAC. This peer learning exercise helped facilitate a continuing focus on GAC among the RVPs, with ongoing improvement in their approaches to quality management of CASs and operations from a GAC perspective.

35. At the corporate level, the operational risk assessment framework (ORAF) has potentially far-reaching implications for GAC work. GAC and ORAF implementation have the potential to be mutually reinforcing: ORAF provides a framework for systematizing GAC work at the country, sector, and project levels. At each of these levels, GAC implementation is generating and disseminating the good practice that will be necessary to implement effectively the proposed new risk-based approach. Going forward, the following managerial challenges will be a priority for year three:

- Implementation of the new risk framework and an associated likely increase in the use of more institution-building and results-oriented designs in investment operations.

- Clarifying the mechanisms for identifying CASs and operations that will be expected to give priority attention to addressing the GAC constraints to development effectiveness;
- Quality management of ongoing attention to GAC in operational programs, at both RVP and corporate levels; and
- Further clarification by senior management of the management systems and decision-making processes that can more effectively underpin a culture of informed risk-taking throughout the WBG.

36. Fourth, and finally, *sustainable management and budget arrangements need to be developed*. The WBG's scaled-up GAC effort has been built around special purpose arrangements – a specially-constituted GAC Council and Secretariat, and the provision of large volumes of earmarked resources from both the WBG's administrative budget (with committed resources for FY09 to FY11) and the multi-donor Governance Partnership Facility. The GAC Council has proven extremely effective in providing focused, high level attention to this key agenda – bringing together VPU and the MDs on a monthly basis. The substantial resources from the Governance Partnership Facility will continue to disburse over several years, but incremental funding from the Bank's Budget will continue only for the next year.

37. From the start, the objective of GAC strategy and implementation efforts has been to mainstream GAC across the full range of WBG staff, with the understanding that "GAC is everybody's business." By definition, mainstreaming cannot depend indefinitely on special purpose arrangements. The November 2007 GAC strategy implementation plan was geared for a three-year cycle; however, experience with other efforts at mainstreaming (e.g., gender and environmental safeguards), and the current state of progress of GAC implementation, suggest that some form of special purpose arrangements will be required for the next phase of implementation as well. The Third-Year Progress Report – to be prepared by the end of 2010 – will detail how these arrangements are expected to evolve given the progress achieved.

STRENGTHENING WBG ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION SECOND-YEAR PROGRESS REPORT

I. BACKGROUND

1. This report describes and assesses progress in year two of implementation of the World Bank Group's (WBG) strategy, *Strengthening World Bank Group Engagement on Governance and Anticorruption (GAC)*, which was endorsed by the Board of Executive Directors in March 2007. The Board approved the Implementation Plan for the strategy in October 2007. A high-level GAC Council, chaired by the Managing Directors on a rotating basis, with Vice President and Director-level members and alternates, oversees implementation. The GAC Council has met on a monthly basis for the last year and half to review and guide implementation. In October 2008, the Board discussed the One-Year Progress Report on implementation. An eminent Group of External Advisors (GEA) met in December 2008 to offer its reflections on progress and priorities for implementation and will meet again in December 2009.

2. The One-Year Progress Report outlined many specific goals for year two of GAC implementation, plus one overarching challenge, namely:

The aim should be to 'lock in' the current momentum for GAC engagement by systematizing and scaling-up GAC work...to lock in a norm among operational staff that value-adding GAC approaches should be part of strategy development, and of project design and implementation.

Progress in year two is reported in three ways: in detail in the main report; in Annex A, which summarizes continuing progress in year two in meeting the specific goals laid out in the October, 2007 GAC implementation plan; and in Annex B, with reference to the suggestions made by the GEA.

3. The purpose of the GAC strategy is to enhance development effectiveness – and its impact should be judged by the results it achieves on the ground. Measurement of results thus involves two interlinked steps:

- Assessment of the impact of GAC-related actions on development effectiveness; and
- Assessment of the extent to which the GAC strategy has led to the inclusion of more and better GAC-related actions in development operations.

4. Careful empirical research can provide insight into the relevance of GAC initiatives for development effectiveness – regardless of who undertakes the initiatives. The WBG's GAC strategy and its implementation influences results via the changes they induce in the content and approach of Bank work through both upstream and downstream processes. The GAC work is relevant at every step in the operational cycle of WBG's country programs:

- *Country assistance strategies* set priorities based on systematic diagnosis of country-specific GAC constraints to development effectiveness;

- *Sectoral strategies* identify feasible ways forward given the GAC context;
- *Project design and implementation* builds on sectoral strategies in ways that provide opportunities to incorporate enhanced transparency, participation, and third party monitoring, and other strengthened fiduciary controls into operational design; and
- *Country systems* capacity development enables GAC-related development benefits to be realized across the spectrum of public action, not only in donor-financed projects.

This report assesses progress in each of these areas, as well as for three cross-cutting priority themes identified in the GAC strategy – multi-stakeholder engagement, actionable governance indicators, and the global dimension.

5. As per the agenda laid out in the One-Year Progress Report, the focus is principally on progress in ‘change management’ efforts that have aimed to influence the content of Bank products and the processes by which they are developed and quality is managed. Section II provides the overall context. Section III examines implementation progress at the country level. Section IV examines progress at the project level. Section V looks at progress in helping strengthen country systems (both sectoral and cross-cutting). Section VI discusses progress at the global level. Section VII focuses directly on the challenges of managing for GAC effectiveness (both staff skills and management systems). And Section VIII highlights the priority actions for year three, with target results detailed in Annex C, and summarized in executive summary Box ES2.

II. ON GAC, DEVELOPMENT EFFECTIVENESS AND THE MANAGEMENT OF RISK

6. Section II prefaces the detailed review of progress by summarizing the underlying logic and approach of the WBG GAC efforts – framed within the context of the ongoing global economic and financial crisis. Bringing GAC to center stage has had profound and sometimes controversial implications for development work. Initial controversy over the purpose of GAC efforts was resolved decisively in the first guiding principle enunciated in the GAC strategy:

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.

7. But the challenge GAC poses for development work runs deeper than a debate over objectives. As the One-Year Progress Report noted, attention to GAC “moves development work beyond an exclusive focus on engineering and economic considerations to incorporate attention to the governance institutions and related incentives and constraints that shape development decision-making”. The operational implications are substantial, including the need for:

- Understanding better – and incorporating into the design of WBG country assistance strategies (CAS) – the actual governance, institutional, and political drivers of decision-making in specific country settings; and
- Incorporating into individual operations specific institutional measures that enhance the incentives of key decision-makers to focus on development results – both capacity support and strengthened oversight (including greater transparency, participation, and third party monitoring).

8. Another way in which GAC challenges traditional development work is by bringing attention to risk to center stage. As so powerfully observed in the 2008-9 global financial and economic crisis, inadequate attention to risk has been a pervasive feature of global financial markets, almost across the board. At the outset of the financial crisis, there was concern in some quarters that GAC strategy implementation would take a backseat. Although the pull of other urgent priorities – and the need for rapid, and hence institutionally light, responses – has been strong, GAC implementation has retained its visibility. WBG President Robert Zoellick in his April 21, 2009, keynote speech on GAC:

Just think about the frustration – and anger – triggered by the financial crisis. Of course, one cause is the huge losses. But another cause of anger is the sense that well-paid people, people who should be setting a standard, lost sight of their most basic responsibilities to their society. Ethics and principles and even common sense became someone else’s responsibility. We need to help governments show their people that they can have confidence in government, public institutions, and markets. As we’ve also learned the hard way over the past year, confidence is key to functioning markets. Public trust is essential to building a functioning private sector and encouraging foreign investment. Public trust is essential to the success of governments, of democracy and representative institutions. By putting the governance and anticorruption agenda at the heart of our business, we can help to build state legitimacy and trust in leaders and institutions. This may be more valuable than all the money we loan.

9. An organization committed to the mission of poverty reduction needs to manage – not avoid – risk. President Zoellick’s speech also underscored that the mission of the WBG necessarily involves risk, especially in countries with weak institutions (Box 1). Skillful risk management of Bank operations has four key elements, each addressed in GAC strategy implementation:

- *Upstream diagnosis* to better understand the political, institutional, and corruption realities with which a specific operation has to contend;
- *Smart operational design* to address these realities, including:
 - Attention to feasibility – taking care that a pre-occupation with best practice does not blind an operational team to the actual drivers of decision-making;
 - Leveraging opportunities to strengthen accountability for results to local stakeholders by fostering transparency, participation, and third party monitoring in country systems, as well as individual Bank operations; and

- Additional, appropriate fiduciary controls.
- *Managerial decision process* (including support, review, and clearance) that facilitates informed risk-taking and helps clarify accountabilities; and
- *Risk-based approaches* to supervision that focus resources on high-risk operations and high-risk actions within the operational value chain.

The first two of the above elements derive directly from the institutional perspective on development effectiveness laid out in paragraph 7 above. The latter two are managerial.

Box 1. President Zoellick on GAC, Development Effectiveness and Informed Risk-Taking

In his keynote address at an open session of the GAC Council in April 2009, WBG President Zoellick highlighted the opportunity and challenges GAC work poses for the World Bank Group.

“The quality of governance affects resource allocation; it affects provision; it affects policies. We achieve results and accountability when we build transparency, participation, and third party monitoring into the design and implementation of our country operations. When we make GAC part of the *mainstream* work of the Bank Group, we get better development results. To help our clients, especially in the poorest countries, where sometimes institutions are weak and the risks of something going wrong are high, we need initiatives that draw in civil society, stress openness, build institutions, from the village level up....

“It is our responsibility to set a high standard. We don’t set a high standard when we retreat in paralysis. Risk-taking is part of development work. So our high standard needs to be in managing risks. Every day we put our resources and reputations at risk. So we can – and must – do better at recognizing, assessing, and managing risk. We need to figure out how to take risks in a responsible way. 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.”

10. Heightened awareness of country-specific institutional realities – and associated corruption risks – has created considerable uncertainty among WBG staff. Notwithstanding the sustained effort in GAC implementation to develop and mainstream tools to help staff address each of the four elements of skillful risk management highlighted above, sometimes the agenda is misinterpreted in ways that reinforce the tendency towards risk aversion. Addressing this challenge goes to the core of WBG’s organizational systems and processes, as well as staff and managerial culture. A key goal of GAC strategy implementation is to help put in place the management systems, processes, and organizational culture that signal unambiguously to staff that the WBG’s mission requires informed risk-taking – and that staff will be rewarded for creative, professional development work (with associated risks). The result will be enhanced support for organizational norms of entrepreneurship and of transparency in sharing information, even in the face of difficult challenges. From top management down, much additional effort is still needed in this area. The new operational risk assessment framework (ORAF), discussed further below, has the potential to be a powerful mechanism for addressing these challenges.

III. ADDRESSING GAC CONSTRAINTS IN COUNTRY STRATEGIES

11. The 2007 GAC strategy identified the *country level* as a key entry point for GAC engagement. To facilitate engagement at the country level, at the outset of GAC strategy implementation, 27 country programs were selected to participate in a country-GAC (CGAC) process, with each program provided with US\$100,000 of incremental resources. At the end of year one of implementation, in many of the CGAC countries, work had only just begun making it premature to judge progress. Some clear goals, however, were set for year two of implementation:

- Take stock of the CGAC experience and draw lessons going forward;
- Champion country-specific, problem-driven governance and political economy assessments as a key part of the CGAC process (highlighted also by the Group of External Advisors); and
- Scale-up systematic CGAC-style engagement across WBG's country programs, including both implementation follow-through with good practice CGACs and a further roll-out of the process to additional countries.

12. The 2009 retrospective review of country assistance strategies confirmed that discussion of GAC issues has become a standard feature of CASs. It also pointed to a number of areas where the quality of attention to GAC in the CASs could improve. These included the assessment of risks to Bank operations, discussion of the extent to which GAC weaknesses are constraining poverty reduction and economic growth, and presentation of explicit connections between GAC diagnosis and recommendations in the CAS. The retrospective underscored the value added of the CGAC process as a way of learning how to better mainstream more effective approaches to strengthening attention to GAC in CAS design and implementation.¹

13. *The CGAC stocktaking* undertaken during the second year of GAC implementation showed wide variation across country programs in the approach to the 27 CGAC and their success. Eight of the pilots were successful in integrating GAC systematically into country programs (Albania, Cambodia, Democratic Republic of Congo, Honduras, Mongolia, Nepal, Yemen, and Zambia). In most of these countries, the CGAC was driven by an initial focus on problem-driven governance and political economy. Diagnostics typically involve drilling down deep to identify the governance and political economy constraints to sector-level development objectives identified in the CAS, and the implications of these constraints for the operational approach within the relevant sector.

- In **Zambia**, diagnostic work set in motion a comprehensive integration of GAC into the country program (Box 2).

¹ *Country Assistance Strategies: Retrospective and Future Directions*, SecM20009-441, OPCS, World Bank, September 9, 2009.

- In **Mongolia**, a cross-sectoral Bank team explored the implications for the country's development of major proposed expansion of natural resource extraction. The CGAC, which included a political economy analysis of mining reforms, was conducted in parallel with, and fed into, the new Country Partnership Strategy. The insights from the study continued to be relevant even in the face of deteriorating economic situation.
- In the **Democratic Republic of Congo**, a series of CGAC-supported assessments in three sectors at the provincial level – health, education, and agriculture – helped shape the future assistance agenda. This work opened up new spaces for engagement with provincial governments as a critical tool to support the government's decentralization agenda.
- In **Yemen**, a systematic process of countrywide stakeholder consultations led to the identification of entry points for addressing the country's governance challenges that were then incorporated into the FY2010-13 CAS. The CAS envisages integrating core reforms in areas such as public financial management, civil service reform, and anticorruption with sectoral reforms – with particular emphasis placed on the water sector where the Bank is supporting a multi-donor, multi-agency sectorwide program.

Box 2. Transforming the WBG's Country Program in Zambia

The Zambia country team's effort to integrate GAC throughout the country program has built cumulatively. It began with assessments of the underlying political economy and institutional constraints to critical development goals – both a 'macro' assessment and more in-depth political economy assessments in five sectors (energy, telecommunications, water, decentralization, and land administration). Insights from these assessments were incorporated into the design of the 2008-11 CAS, which, contrary to earlier CASs that had been assessed in reviews as being excessively ambitious, focused on more modest but more implementable development goals. CAS implementation, in turn, incorporates governance dimensions into project design, implementation, and supervision:

- New project proposals are considered based on the feasibility of governance and political economy context.
- Smart GAC-responsive project design is being mainstreamed, and project teams are being encouraged to undertake upstream GAC diagnostics, pay particular attention to issues relating to transparency and accountability, build third-party monitoring of project processes into project design (including procurement), citizen feedback and performance surveys, and develop project and sector-specific GAC action plans.
- Project implementation includes a sustained focus on the 'smart project' elements – with proactive supervision arrangements, including attention to independence and competence of auditors and a streamlined complaint-handling system.

A good example is the 2009 Roads Rehabilitation and Maintenance Program (RRMP II), which included a preparatory governance assessment; the follow-up is a GAC action plan being prepared jointly with the Government. RRMP II will also support implementation of the Construction Sector Transparency Initiative (CoST).

The GAC work continues to build momentum, supported with a US\$2 million grant from the Governance Partnership Facility. A new field-based staff person has been recruited, and a variety of additional initiatives are underway:

- A governance manual, under preparation, will be a critical tool to mainstream GAC work across projects, serving as a guide for existing projects in the development of GAC action and implementation plans and useful in Zambia and other countries as well.
- The preparation of the manual is being preceded by an assessment of public oversight institutions and public administration processes in the country, enabling a solid foundational understanding for further engagement with country governance processes.
- A political economy analysis of the mining sector will help Zambia reach EITI-compliant status, and facilitate the implementation of the broader agenda of achieving development value added throughout the extractive industries value chain.
- A critical new front is supported on right to information reforms in the country, supplemented with other demand-side initiatives, such as supporting community radio that will enable sharing information with stakeholders across the country, especially in rural communities.

Three factors have been key to the successful integration of GAC into the Zambia program. First, the leadership of the country team was squarely behind the GAC agenda and actively promoted it. Second, the up-front investment in assessments proved useful in re-orienting the operational program. Third, explicit change-management structures were set up – principally the Zambia Governance and Anticorruption Council (ZGAC) comprising the Country Manager and staff from the public sector, quality management, procurement, monitoring and evaluation, and financial management units – offering guidance on operational design, reviewing and clearing project documents, and supporting staff on GAC issues.

14. Five other CGAC countries (Bangladesh, Ethiopia, Guatemala, Paraguay, and Uzbekistan) used the CGAC process to better address GAC constraints within specific sectors, as in the following examples:

- The **Ethiopia** team has undertaken a joint governance assessment and measurement initiative with development partners and government. The assessment supports the design of actionable governance indicators for a range of sectors (education, mining, water, health, land administration, telecommunications, and village-level corruption).
- In **Paraguay**, an assessment of governance in the roads sector informed the design of a new roads project, including multi-stakeholder consultation related to project objectives and design, and a performance-based contracting system.
- The **Uzbekistan** team was able to successfully engage with the client in an otherwise difficult environment through a focus on sectoral outcomes and issues in health, and set the basis for extending this approach to other sectors such as infrastructure.

In the remaining CGAC countries, the impact was uneven.

15. A comparison of the more and less effective CGACs reveals clearly what enables successful mainstreaming of GAC into country and sector programs and CASs. Clear commitment by the leadership of the country team was the crucial factor in the successful countries. This includes: (i) early commitment to the process by key country and sector-level managers; (ii) a clear country team process to clarify the focus of the exercise; (iii) having the requisite multi-sector GAC skills within the core group leading the GAC mainstreaming effort;

(iv) clear, focused expectations across the country team; and (v) strong linkages to developmental/portfolio challenges.

16. Another finding from the CGAC stocktaking was that only two of the teams (Bangladesh and Paraguay) chose to focus directly on challenges associated with weak governance institutions. One way to interpret this result is that Bank operations can most usefully approach GAC issues through a development effectiveness lens – exploring alternative entry points for engagement, with for instance, transparency, participation, and other oversight arrangements incorporated as results-enhancing features of specific development operations, and with enhanced attention to multi-stakeholder engagement as part of operational design. Broader governance reform would be pursued where there is evident demand from immediate counterparts, or as part of the broader mission to foster dialogue globally on development challenges by, for example, the World Bank Institute. In general, it should be expected that – especially in middle-income countries where the Bank often is a small player – engagement (including on governance) will be narrowly focused rather than broad-ranging.

17. **Mainstreaming good practice.** Beyond the CGAC process, the roll-out of the Governance Partnership Facility (GPF), described in Box 3, comprised the most important initiative in year two to mainstream good ‘*GAC in country program*’ practice. Window One of the GPF specifically was targeted to support implementation of well-designed country programs; 11 programs have been supported so far. Viewed from the perspective of individual country programs, the resources (up to US\$2 million per program) were potentially very large. Consequently, the competition for these resources was intense, and the (quality-based) review process was demanding.

18. Key common characteristics of the successful GPF Window 1 proposals are that they are grounded in the Country Assistance Strategy, have strong support from the Country Management Unit, and are underpinned by high-quality background diagnostic work on underlying country conditions, especially of the governance and political economy drivers of decision-making. Against that backdrop, the preparation of an informal guidance paper, *Problem-driven Governance and Political Economy*, was an important contribution. The paper was prepared by PRMPS and was validated by an intensive process of consultation across the Bank, and with external experts (e.g., DFID, with whom collaboration in this area has been especially close). The process of preparing the paper also helped facilitate the formation of a Bankwide *community of practice* on applied political economy.

19. **Challenges going forward.** The CGAC process has achieved its initial goal of generating new good practice examples. The broader demonstration effect of these good practice examples has been evident in the improvement over time in the quality of Window 1 proposals for the GPF. A good ‘*GAC in CAS*’ practice note to provide guidance to interested country teams is under preparation. Beyond this initial success, sustainability of good ‘*GAC in country programs*’ practice has not yet been achieved.

Box 3. Roll-out of the Governance Partnership Facility

The Governance Partnership Facility is a partnership with the United Kingdom, the Netherlands, and Norway that supports GAC implementation at all levels of the World Bank. Demand has been high since start-up in December 2008, with close to 500 expressions of interests received from across the Bank. Through a competitive selection process, a total of 56 projects were selected (Annex E), with a combined budget of US\$34.8 million. Just over US\$25 million remains to be committed.

The GPF selection process is undertaken in three stages. Stage 1 involves expressions of interest, screened against the objectives of the GPF and consultations with the Regional Vice Presidents Units (VPU). Stage 2 includes preparation of full proposals by short-listed Bank teams, which are reviewed by independent peer reviewers and by members of the Standing Review Committee (SRC). Stage 3 is the final selection. Typically, for each 100 expressions of interest, about 20 go to the short-list for full proposals, and 10 are finally selected for funding.

- Window 1 is supporting comprehensive country-level governance programs in Afghanistan, Albania, Burkina Faso, Cambodia, Democratic Republic of Congo, Haiti, Liberia, Mongolia, Nepal, Philippines, and Zambia. These projects are characterized by their attempt to mainstream GAC across the country portfolio, many through the use of governance filters.
- Window 2 is supporting a range of innovative operational programs in governance, including support to GAC in sector work, multi-stakeholder engagement, and institutions of accountability. The GPF is also supporting a number of projects working to improve governance in resource rich and fragile settings.
- Window 3 focuses on governance-related research and knowledge. It is supporting knowledge development and dissemination by Bankwide governance-related Communities of Practice in demand for good governance, political economy, freedom of information, judicial reform, and GAC in projects, and is financing the development of a GAC knowledge platform to support these communities.

20. Going forward, two key challenges will need to be addressed. First, Regional Vice Presidencies selected the initial round of CGAC countries through an ad hoc process. At present, there is no mechanism for sending clearer up-front signals to those country teams that are expected to give priority in upstream preparation of CASs to understanding and addressing the governance and political economy impediments to development effectiveness, plus which will prioritize GAC in downstream implementation of country programs. A key task for year three of GAC implementation is to provide the requisite mechanism. With such a mechanism in place, the process of managing and monitoring CAS quality from a GAC perspective will be able to proceed more effectively.

21. Second, going beyond the individual cases, investment is needed in systematic ‘GAC in CAS’ knowledge that is useful operationally for Bank country teams. The ‘how to’ paper on problem-driven governance and political economy has been a useful first step. Additional knowledge products might prove useful. A typology could help distinguish across countries, according to their types of governance challenges, and suggest how these challenges might usefully be addressed across different country circumstances. Another knowledge product could be an assessment of how country-level governance and political realities can better be addressed in the design and implementation of sector-level and core public management reform programs. To help ensure that this knowledge work supports effective mainstreaming of a new generation

of GAC-responsive operational programs, it will be undertaken collaboratively, both within country teams and across thematic networks.

IV. GAC STRATEGY IMPLEMENTATION IN BANK-SUPPORTED PROJECTS

22. Strengthening GAC in Bank-supported projects was the second key pillar of the GAC strategy. Implementation has required managing tension between the need, on the one hand, to strengthen quality management and accountability systems so as to deliver better on the Bank's fiduciary responsibilities and, on the other hand, to encourage Bank staff to embrace more broadly the full range of opportunities afforded by GAC strategy implementation for enhancing development effectiveness.

23. The One-Year Progress Report highlighted three main, ongoing challenges:

- Clarifying for Bank staff in a consistent manner what is expected from the '*GAC in projects*' agenda – specifically what is the appropriate balance between concerns about fiduciary risks, and broader considerations of governance and anticorruption as means for enhancing development effectiveness;
- Achieving greater consistency of approaches through knowledge sharing; and
- Realigning resources, incentives, policies, and management processes to support more intensive engagement in GAC issues during design and supervision of high-risk projects.

Section IV reports on progress with three sets of initiatives that have sought to move the GAC in projects agenda forward in relation to these challenges.

24. '*GAC in projects*' **benchmarking and learning review**. The Quality Assurance Group (QAG), the GAC Secretariat, and the Social Development Department (SDV) undertook this review as a collaborative exercise. A panel of experienced senior staff and consultants with good knowledge of GAC benchmarked the representative sample of 180 operations² drawn from the total of 344 new approvals in FY08. The panel examined the quality of attention to GAC in operational design along three dimensions: attention to governance and political economy (GPE), GAC in fiduciary aspects (GFA), and the demand side of governance (DSG). FY08 was very much at the outset of GAC strategy implementation; therefore the results comprise a baseline for future progress, not an evaluation of implementation. Note that the benchmarking focuses on '*GAC in investment projects*' – only one part of the much broader GAC agenda. Annex D details the logical structure used in the review.

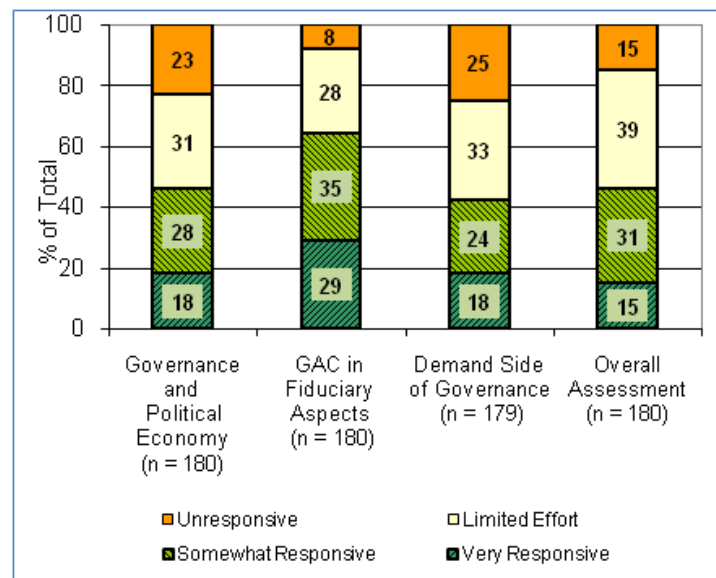
25. The review contributes directly to the first two of the '*GAC in projects*' challenges highlighted above: the design and application of the review instrument helps provide detailed clarification as to what features are good '*GAC in projects*' practice. It also facilitates greater

² At the Bankwide level the error margins are ± 5 percent at 95 percent confidence interval. At the Region and Network level, the error margin is ± 10 percent, at 90 percent confidence interval.

consistency of the Bank’s ‘GAC in projects’ work by providing a baseline benchmark of quality. The benchmark serves as a basis for monitoring impact of GAC strategy implementation; the intention is to repeat the exercise in two years in order to: (a) contrast the GAC characteristics at entry of the FY08 and FY10 portfolios; and (b) assess implementation experience of the FY08 sample.

26. The Benchmarking and Learning Review found that 46 percent of operations already were responsive to the GAC agenda, of which 15 percent were very responsive (Figure 1).³ The GAC in fiduciary aspects was the highest scoring dimension Bankwide, with a baseline 64 percent of operations being responsive. In terms of attention to governance and political economy, 46 percent were responsive. The responsiveness baseline for demand side of governance work was 42 percent. (Note that ‘optimal’ practice in relation to each of the three dimensions does not mean ‘universal’; instruments of the type considered in the QAG review need not add value across all countries, sectors, and agencies.)

Figure 1. Overall FY08 Operations Portfolio GAC Benchmark



27. **‘GAC in projects’ guidance and support.** The second ‘GAC in projects’ challenge for year two – achieving greater consistency of approaches through knowledge sharing – has also been addressed through ongoing effort to provide both guidance and knowledge support to Bank operational teams.

³ “Responsive” includes operations in the Very Responsive and Somewhat Responsive range, while those with Limited Effort or Unresponsive are considered in the “Non-Responsive” range. The assessments are based on a review of project documentation only and did not include interviews with task teams or borrowers. While this limitation added some noise, the tradeoff was considered worthwhile as it provided a reasonable benchmark at aggregate level.

28. Multiple guidance notes have been issued. OPCS issued a note on Emerging Good Practices in GAC in Projects; an Audit and Assurance Toolkit (designed to enhance the effective use of audit in preventing fraud and corruption); and a good practice note on GAC for financial management specialists. INT Preventive Services Unit issued a Fraud and Corruption Awareness Handbook. LEGVP and PREM also issued new guidance materials. Box 4 provides a consolidated summary of the full set of guidance notes to support GAC work that were issued in the second year of GAC implementation. Also noteworthy is the ongoing work to clarify the WBG policies on disclosure (Box 5) and provide appropriate guidance to staff.

29. The ‘GAC in Projects’ Working Group (a collaborative effort between OPCS and the Regions and Networks) has been proactive in communicating these good practices to operational teams. Its initiatives include a community of practice, a regular seminar series, and a good practices database of projects that feature GAC components. A web-based platform provides easy access to all these resources. The group has also developed and delivered a training course for task teams.

Box 4. Guidance Notes Issued for Bank Staff on Integrating GAC

Dealing with Governance and Corruption Risks in Project Lending: Emerging Good Practices. This note provides task teams with a common conceptual framework for understanding and dealing with GAC issues at the sector and project levels, highlights key lessons learned about GAC issues, and provides links to innovative work and good practice examples.

Guidance Note on Bank Multi-Stakeholder Engagement. This note was prepared by LEGVP (with strong collaboration by EXT and WBI and extensive consultations among Bank staff). It provides guidance to staff on good practice and mandates issues in relation to engaging a variety of stakeholders in the Bank’s work, including community organizations, the private sector, parliaments, the media, and civil society, in a manner consistent with the Bank’s legal framework and in consultation with governments.

Most Common Red Flags of Fraud and Corruption in Procurement in Bank-Financed Projects. This guide published by INT and OPCS describes the most common red flags that should alert team leaders and project teams to the potential for fraud, corruption, or collusion in projects. The red flags include complaints from bidders, multiple contracts below threshold levels, unusual bid patterns, seemingly inflated agent fees, suspicious bidder, lowest bidder not selected, repeat awards to same contractor, changes in contract terms and value, multiple contract change orders, and poor quality works and services.

Project Preparation: Good Practices for Financial Management Specialists, June 2009. This note highlights good practice on how to tailor financial management during the design and preparation of investment projects to help mitigate risks of fraud and corruption, especially in higher risk environments, along the following dimensions: financial management assessment; fiduciary risk mitigation measures, including capacity building; enhancing the effectiveness of external audit and assurance; and project readiness and supervision planning.

GAC Audit and Assurance Toolkit. This toolkit was developed to help financial management specialists, procurement specialists, team leaders, and others use financial and special purpose audits more effectively to mitigate corruption risks. It covers three main areas: (i) *financial statement audits*, looking at anticorruption provisions in auditing standards and guidelines; (ii) *internal audit*, as an effective internal control tool that may be either developed in-house or outsourced; and (iii) *special purpose audits*,

examining special audits and technical reviews to provide a deeper understanding of internal controls and the effectiveness and probity of project expenditures.

Problem-Driven Governance and Political Economy Analysis: Good Practice Framework. This good practice framework suggests approaches to governance and political economy analysis that can be applied at country, sector, and project levels. The emphasis on a problem-driven approach helps to make the analysis operationally relevant and comprises working through three layers: (i) identifying the problem or opportunity to be addressed; (ii) mapping out the institutional and governance arrangements and capacities; and (iii) drilling down to the political economy drivers.

30. Another noteworthy part of the knowledge-sharing effort is the contribution of INT's Preventive Services Unit. Over the past year, the Preventive Services Unit has provided advice on risk assessment and mitigation for fraud and corruption risks to 26 task teams responsible for preparing investment lending, technical assistance, and development policy loans (including in Bangladesh, Honduras, India, Indonesia, Kenya, Lesotho, Nepal, Pakistan, Russia, Thailand, and Vietnam) and covering such areas as education, emergency support, environment, food crisis support, health, power, roads, safety nets, and taxation. The Preventive Services Unit has also provided training for staff in 4 field offices and for operational staff at 2 events in Washington and 1 in India.

31. ***Progress in detecting and sanctioning corruption.*** The third priority challenge for GAC-in-Projects work in the second year was to re-align the incentives of Bank staff and country stakeholders in the direction of more intensive engagement in GAC issues during design and supervision of high-risk projects. Work on corruption detection and sanctioning can play a key role in meeting this challenge: high-quality detection and sanctioning mechanisms powerfully enhance the incentive of stakeholders associated with WBG operations to focus effort on development effectiveness rather than personal goals. As Box 5 details, year two of GAC implementation has seen significant progress on both sanctions reform and in reforms of Bank disclosure policies. Mechanisms for handling complaints about Bank operations (including allegations of corruption) from civil society and private actors are also enjoying a higher profile in Bank work, with a how-to note currently under preparation.

32. The INT is at the critical edge of WBG's efforts to detect and sanction corruption. Over the past year, INT has successfully addressed some organizational challenges and has made gains in its work on both detection and enforcement. On the organizational front, the recommendations of the Volcker Panel have largely been implemented. Progress includes the establishment of the Independent Advisory Board, appointment of an external member of the Sanctions Board as the chairperson, development of a confidentiality protocol, transfer of the responsibility for staff misconduct from INT to the Ethics Office, enhancement of selected staff rights to improve fairness of internal investigations, strengthening of the Preventive Services Unit, and refinement of INT result metrics. The Bank appointed the new Independent Advisory Board (IAB) in 2008 with eminent international experts to provide advice to the President and the Audit Committee on INT policies and procedures, activities and performance. In addition, a framework has been developed for Detailed Implementation Reviews and details on implementation are moving forward.

33. On corruption detection, INT has scaled-up its emphasis on core investigative work, clearing backlog of investigations and investigative reports and closing 153 cases, of which it fully investigated 86 and substantiated 39. In addition, INT has made available a variety of tools to assist operational staff in better detecting fraud and corruption, including:

- A note on Most Common Red Flags in Procurement (see Box 4);
- A dialogue-based tool entitled Self-Assessment of GAC Risks; and
- An online red flag tool that is incorporated into the new OPCPR Risks Assessment Management Systems (P-RAMS).

A noteworthy final area of focus for facilitating detection comprises stepped-up efforts to incorporate strengthened complaints mechanisms into Bank projects.

Box 5. Progress on Disclosure and Sanctions Policies

Sanctions Reform. In 2009, an early temporary suspension procedure was adopted, which allows for the temporary suspension of a company's eligibility to receive Bank-financed contracts when the Evaluation and Suspension Officer has determined that there is sufficient evidence that the company has engaged in misconduct, but INT investigates other related allegations. This helps to address the risk of additional corrupt activities by a firm already under investigation. While informing the borrower, the Bank does not make public the identity of firms under temporary suspension, enabling it to proactively protect its funds while balancing the due process rights of the firms.

New Disclosure Policy. The Bank recently launched a comprehensive review of its disclosure policy, last amended in 2002 (with a subsequent expansion of the number of disclosed documents in 2005). An approach paper to the new proposed policy, *Toward Greater Transparency: Rethinking the World Bank's Disclosure Policy*, spelling out the key principles and elements of the proposed policy, has gone through extensive rounds of global consultations conducted on the internet, as well as in 33 member countries. Feedback from the consultations will figure into a revised policy paper to be posted online for further comments and subsequently scheduled for Board discussion.

Certain key principles signify the proposed policy:

- It is based on the principle of maximum access to information, widening the scope of information to be disclosed through a shift in approach from the current *positive list* – from spelling out what information the Bank discloses (and thus restricting the mandate to disclose only to these documents) to enumerating a list of exceptions, with all information not on this list subject to a presumption of disclosure.
- Even the list of exceptions is narrowly defined, with only that information kept confidential for which there is a compelling reason.
- It sets in place clear procedures for implementing the policy, including timely responses to requests for information and reasonable fees to process requests.
- It proposes an administrative appeals mechanism, with the authority to release information consistent with the policy.

34. Turning to enforcement, over the course of the past year INT has referred an increased number of cases to the Bank's sanctions system, which is a two-tier process comprised of the Evaluation and Suspension Officer or EO (the first tier) and the Sanctions Board (the second

tier). As a result of INT's scaled-up investigative effort, the World Bank Group has debarred an additional 13 entities – ranging from individuals and small NGOs to large state-owned companies – from participating in WBG-financed activities. The WBG has debarred a total of 359 entities since the establishment of INT in 1999.

35. ***Challenges going forward for 'GAC in projects' work.*** Mainstreaming GAC into Bank operations has been underway for several years. Work on the majority of projects approved in FY08 (the QAG learning review sample) had begun prior to the GAC strategy. Even so, over the past year the implementation of the 'GAC in projects' agenda has enjoyed good momentum. Activities in the pipeline for the coming year include: (i) a series of how-to notes describing various tools and techniques (e.g., Anticorruption Action Plans, Complaints Handling Systems and Red Flags) for addressing GAC at the project level; (ii) updates to the Bank Procurement Policy (Operations Policy 11.0) and Financial Management Practices Manual; and (iii) an informal stocktaking of anticorruption action plans, as some of them have been overloaded and have proved hard to implement in practice. The how-to note on these will offer suggestions on more tailored and selective designs and approaches that achieve better integration of anticorruption activities at the project, sector, and national levels.

36. Three important challenges for the 'GAC in projects' agenda can only be addressed at a level beyond the remit of the 'GAC in projects' working group. First is the need for improvements in the alignment of roles, responsibilities, and policies in the following areas:

- *Within Bank teams*, the issue of roles, responsibilities, and accountabilities at operational level for GAC issues is an area requiring further work. In some instances responsibility for dealing with GAC is delegated to fiduciary staff rather than being taken up by the team leader. Country operations and sector managers also need to exercise a leadership role, as well as provide support to task teams tackling GAC issues.
- *At the country level*, more engagement is needed with clients and civil society organizations, to ensure a common understanding of the nature and significance of GAC risks, as well as greater ownership by governments of anticorruption measures. An experiment in India, using the COSO method to identify and evaluate GAC risks, has proved valuable and could be scaled up.
- *In working with other donors*, an ongoing challenge is to get more consistent approaches to GAC at both the country level and in projects. This requires pooling knowledge on good practice and approaches to GAC, as well as consistent policies on information sharing, debarment and sanctions procedures, and other remedies. This will be a focus of activity during the coming year.
- *In terms of Bank policies*, continuing progress in disclosure policy to support greater openness and transparency with respect to project information; and the reform of the Bank's sanctions procedures, which will enable the Bank to respond more effectively to incidences of fraud and corruption that affect Bank-financed projects directly.

37. A second broader issue concerns impact. As with other parts of the strategy, the credibility of the ‘GAC in project’ agenda depends on the demonstrated value added of GAC innovations at project level for development effectiveness; and this requires more systematic evidence and communication of value added than has happened so far in GAC implementation. In general, an enhanced focus on the link between GAC and development outcomes will be a priority for year three of GAC implementation.

38. Finally, major reforms are underway in the Bank’s approach to investment lending, with greater differentiation according to riskiness, and increased momentum for longer-term and more results-based and institution-building oriented approaches. Going forward, it will be important to ensure that the gains, which have been achieved in GAC mainstreaming in traditional investment projects, are carried over into these newer approaches as well.

V. STRENGTHENING COUNTRY SYSTEMS: SECTORAL AND ‘CORE’

39. The GAC strategy reinforces the ongoing WBG commitment to help strengthen country systems – both sectoral and ‘core’ cross-cutting public management systems. Section V reviews progress in year two of GAC implementation on four aspects of this work: (i) ‘GAC in sectors’ (human development, infrastructure, etc.); (ii) core cross-cutting systems (with a particular focus on country procurement systems, which were highlighted in the One-Year Progress Report, for priority attention); (iii) the demand side of governance; and (iv) the development and use of Actionable Governance Indicators (AGIs) to monitor trends in system quality.

40. In addition to supporting ongoing country systems work in the above four areas, year two of GAC implementation has also seen momentum for the development and use of lending instruments that are better aligned with the objective of supporting institutional development and sector-wide results than the traditional investment project. A re-oriented approach has the potential to meet GAC challenges in a way that is more effective in helping build country systems and has lower transactions costs than traditional lending operations. However, realizing this potential will, of course, require that GAC shortfalls in country systems are identified and addressed directly. Section V, Part E, details actions for year three of GAC implementation that can help ensure that GAC tools for strengthening country systems are incorporated effectively into re-oriented approaches to investment lending.

A. GAC Progress at the Sectoral Level

41. The One-Year Progress Report noted that, though there had been some progress on the ‘GAC in sectors’ agenda, activity was disproportionately focused at Network/Anchor level, not the RVP operational front-line. This gap was underscored by the RVP operational directors in a joint review of GAC implementation conducted in January 2009:

A frontier challenge across RVPs is to engage sectoral management and staff more systematically as part of GAC mainstreaming. For sector staff in RVPs, a major unaddressed GAC engagement challenge is ‘upstream’. Many sectoral operations already include GAC components in project design. But country-specific GAC realities also are especially relevant for the upstream work of setting country program priorities

and developing sectoral strategies. So far, sector staff have rarely engaged systematically with GAC challenges at these upstream levels.

42. In year two, significant efforts were made to bridge this gap in work in sectors through (i) exploring opportunities for addressing ‘*GAC in sectors*’ operational challenges in a more systematic way; and (ii) by scaling up operational support and knowledge activities.

43. ***Long-term, results-based approach.*** In the course of the year two of GAC implementation the leadership of the human development (HD) and infrastructure sectors facilitated a systematic consultative process with sectoral staff working on the operational front-line in RVPs to learn what they perceived to be the priority operational challenges of the ‘GAC in sectors’ agenda. A common conclusion emerged from both the human development and infrastructure exercises, namely the need to accelerate movement toward an overall longer-term approach that focuses on systemic reforms, institution building, and accountability for results.

44. The inherent limitation of traditional ‘projectized’ approaches was affirmed by a review of governance approaches adopted under traditional highway projects in India. The review underscored that sustainable impact needs strengthened country management, quality control, oversight, and accountability systems – and noted the limited contribution of traditional investment projects to these goals. The need for innovative lending tools to support a longer-term, results-based, institution-building-oriented approach at the sector level was emphasized by the emerging tension (which came through repeatedly in consultations among infrastructure staff) – a tension between, on the one hand, dramatic projected increase in infrastructure lending and, on the other, the current reality within the World Bank of flat budgets and stagnant staffing levels. In this environment, scaling-up the pre-existing project model is not a feasible way forward. Box 6 provides examples of the emerging longer-term, results-oriented approach.

Box 6. Longer-Term Results-Based Approaches in the Sectors

Several operations demonstrate the value of moving away from short-term engagements and budgeting mechanisms based on the project cycle to a longer-term, results-based approach focused on systemic reform, building institutions, and creating accountability for results.

In **Indonesia**, the World Bank has been continuously engaged over 10 years in institution building to address urban poverty. As part of the oversight mechanism of the Urban Poverty Program, which currently disburses about US\$100 million per year to over 8,000 villages across the country, 100,000 elected volunteers serve as project overseers. Oversight is aided by a website recording individual project details, including implementation status, full consultant contracts, consultant invoices, status of disbursement, and project-related travel expenses. There is also a complaints-handling mechanism.

In **Brazil**, more than two decades of engagement in the Sao Paulo’s urban water sector was initially focused on extending access and subsequently on improving performance through support for regulatory and institutional development. The Bank’s newly proposed Sao Paulo Water Recovery Project uses output-based investment financing, focusing on quality and efficiency with payments to water service providers being made on the basis of quantifiable and sustainable results.

The infrastructure sector, more broadly, is also strategically deploying development policy lending for longer-term impacts through triggers such as maintaining proposed allocation for writing off or swapping arrears for investment commitments; applying e-procurement systems to all national road work contracts;

initiating an energy audit for all major urban areas; and introducing construction and long-term performance-based maintenance contracts for roads. This can be a particularly powerful approach if development policy lending is linked with technical assistance loans to support the associated reforms as in the case of *Chile's* Ministry of Public Works where the establishment of a new regulatory agency for government-financed construction was complemented with the implementation of new contracting models.

The Bank has worked closely with the Government of *Brazil* to improve accountability and reduce fraud and error through two lending operations (the first under implementation and the second to be appraised in October 2009) and the Brazil Social Assistance program of analytical and advisory activities, 'BRASA'. Program controls in the lead line ministry, the Ministry of Social Development, include cross-checks of the beneficiary registry, three hotlines, and monitoring of municipal performance. All 5,560 municipalities have developed social control councils and local points of contact for complaints and appeals. Bank involvement has contributed to the consolidation of this system through support for: (i) external oversight mechanisms; (ii) monitoring and internal control systems; (iii) local controls and audits; and (iv) external impact evaluations to measure program results.

45. ***Scaling-up operational support and knowledge activities.*** The largest gains in providing sector-level support for GAC work have been in infrastructure and human development (education, health, and social protection). For infrastructure, a key step forward was the establishment of a GAC in Infrastructure Advisory Program (GAC Squad) administered by the Energy, Transport and Water Department, in the Sustainable Development Vice Presidency (with GPF financing). The GAC Squad provides a combination of hands-on support to operational task teams across sectors and regions, and knowledge dissemination gained through project assignments for broader use. Since its initial call for proposals in April 2009, the GAC Squad has committed support in the water sector in Brazil, Paraguay, Uzbekistan, and Tajikistan; the transport sector in Armenia, Bosnia and Herzegovina, Kazakhstan, and Kenya; and the energy sector in Haiti. Examples of the ways in which it is helping to build sector institutions include:

- Establishing third party monitoring for road construction and maintenance;
- Increasing accountability of water utilities to customers by enhancing outreach and complaint redressal mechanisms;
- Improving operational efficiency, transparency and accountability of power and water utilities through improved performance monitoring; and
- Introducing an innovative governance filter that provides measurable and actionable indicators to address GAC issues in the transport sector.

46. In addition to its GAC Squad initiative, the infrastructure GAC team has also taken forward knowledge products developed during the first year of implementation. Thus, following the launch of the energy, transport, and water sector *Sourcebooks on Deterring Corruption and Improving Governance*, a series of workshops were conducted for staff in each sector to discuss approaches for assessing the extent and risks of corruption and ideas on how to operationalize governance and anticorruption in the Bank's advisory work and sectoral lending. In addition, the

Finance and Private Sector Development Network has developed a comprehensive toolkit for the review of corporate governance in state-owned enterprises, which will help in promoting greater transparency and accountability in this still vital sector in many low-income countries, including Africa.

47. The GAC work in the HD sectors was also supported with strategically targeted GPF grants. Two GPF grants provided support for the identification and use of a core set of Actionable Governance Indicators in health and education to be built into already-programmed Bank operational country-level work to obtain robust measurement of service delivery. For each of the two sectors, the final products will include a tested and refined set of measurement instruments, applied in at least five countries and a series of summary documents tailored to country and global audiences. In addition to the work on indicators, the HD Network has launched an ambitious program of knowledge and operational support, focused on strengthening incentives and accountability in service delivery through results-based financing and pay-for-performance approaches in health and education; and reducing error, fraud, and corruption in social protection. The HD Network's GAC program includes four sets of activities that were started in year two and will mature in year three of GAC implementation:

- Developing toolkits and assessment instruments in select areas of governance, including policies for managing human resource policies in health and education; tackling error, fraud and corruption in social protection; and addressing corruption in the pharmaceutical sector;
- Providing support for teams using surveys for analyzing public expenditures and service delivery;
- Supporting the demand side of governance in education and health through direct work with civil society organizations and synthesizing lessons from Bank operations; and
- Outreach and support to task teams, dissemination of tools, training, and building a 'community of practice' of Bank staff working on governance within the HD sectors.

A small team under the leadership of the HD Chief Economist is taking the lead in delivering this ambitious GAC knowledge and operational support program.

48. In addition to the above list, Regional Vice Presidencies have initiated a variety of new 'GAC in sectors' work:

- *MNA* has placed considerable emphasis upon issues of service delivery, impact evaluation, and performance monitoring in the sectors. Work is underway in Morocco and Egypt to measure the quality of service delivery and probe the effectiveness of selective interventions in the health and education sectors. Work in Kuwait, Yemen, and the West Bank and Gaza is documenting empirically the impact that corruption can have upon the provision of public goods and services.

- *LAC* supported a risk mapping exercise for the Government of Guatemala’s conditional cash transfer program, plus ongoing analytical work to strengthen accountability in the pharmaceutical sector.
- In the *SAR*, the India country team has been supporting a variety of ‘GAC in sectors’ reforms championed by the Indian authorities; two innovative examples are highlighted in Box 7.
- The Governance Partnership Facility has provided major support for ‘GAC in sectors’ work at the country level by operational teams across the Bank. Annex E details the GPF grants in this area.

Box 7. Sector-Level GAC Innovations in India

Education in Bihar. Bihar, one of India’s largest, but poorest states, is trying to turn around a long legacy of weak governance through an innovative approach to integrating governance reforms into service delivery sectors. The authorities amended teacher rules to reduce malpractice in teacher hiring, increase transparency of recruitment, and improve supervision of the recruitment process. Registries with security features were made available to all recruitment agencies so that names and applications of empanelled candidates cannot be manipulated. Serialized and officially signed registers were used to compile applications at the districts. A time schedule for the recruitment process was published for the whole state, and nodal officers were appointed to monitor the recruitment process. A district-level appellate authority was also established to redress grievances of applicants. Recruitment committees comprising the Head of the Panchayat, members of the district education committee, a secondary school teacher, and the Member Secretary of the Panchayat were established and provided training. More than 70,000 teachers have been selected through this new process. With financial and technical inputs from the World Bank, a third party evaluation of the process was carried out by the Institute of Applied Manpower Research. The evaluation reported that recruitment was transparent, and the process was widely viewed to be objective with only small degrees of political pressure. Of the applicants interviewed, 75 percent indicated satisfaction with the process.

Transport sector reform. The Indian government has set ambitious goals to improve the contractual environment in the roads sector, enhance the legal framework for public-private partnership, promote transparency in day-to-day transactions, and introduce more competition in the contract cycle. Implementing agencies such as the National Highways Authority of India are introducing a number of new systems aimed at supporting these aims, including vendor registration systems, mechanisms to better monitor contractor and construction performance, and enterprise risk systems. The objective is to integrate these systems into sectoral management systems. To support this objective, World Bank teams are working with road agencies to incorporate the new systems into the design of new projects.

B. Improving Core Country Systems

49. The task of helping to strengthen core country systems pre-dates the current round of GAC work. While GAC implementation did not push the frontier of WBG engagement in this area, the One-Year Progress Report did highlight three broad areas for action in year two:

- A big push to help strengthen country procurement systems, including better alignment of the transactions-oriented skills of the WBG’s procurement cadre with the challenges of helping build country capacity;

- Investing more systematically in public sector reform approaches tailored to different types of countries, including:
 - Intensified efforts to support the heightened performance aspirations of many countries, mainly middle-income countries, through positioning the Bank as a center of global excellence on results-oriented management;
 - Focus on strengthening capacity of central finance agencies, especially relevant in institutionally weaker settings; and
 - Strengthening the linkages between different areas of public sector reform, including through the use of country-based indicators, and assessments of the interaction between political economy and reform options.
- A tractable agenda for addressing weaknesses in the Bank’s work on decentralization and local governance highlighted by the Independent Evaluation Group, with an initial emphasis on design and implementation of a comprehensive set of local governance indicators that country teams can use to co-ordinate around a clear set of targeted objectives.

50. Progress on the above agenda in year two of GAC implementation was steady, although some areas moved ahead more rapidly than others. Consistent with the priority given to it in the One-Year Progress Report, there has been intensive work on country procurement systems through implementation of the new pilot approach to use country systems for procurement in World Bank operations. Under the initiative, assessments of country procurement systems were completed in 18 countries. The assessments used the OECD–DAC benchmarking tool, which facilitates a focus of country-donor dialog on procurement reform and can help align donors with the countries around an agreed program or strategy for reform. A multi-stakeholder International Technical Advisory Group (ITAG) is actively providing feedback as the initiative proceeds.

51. For a variety of reasons, progress in getting beyond the benchmarking exercise to enhanced use of country procurement systems has been slower than initially hoped. First, in some countries, proposed implementing agencies find it more efficient and comfortable to continue to use the Bank’s procurement documents, policies, and guidelines. Second, the 2008-9 financial crisis diverted capacity and resources away from procurement reform to more immediate financial reform and basic service delivery challenges. Finally, none of the initial candidate countries met the scoring methodology criteria for migrating to the use of country procurement systems.⁴ Part of the reason had to do with rigidities in the methodology itself, which are being fine-tuned. But in some pilot countries, the assessments pointed to the need for

⁴ According to the approved methodology for identifying use of country systems pilot countries, an assessment using the OECD–DAC benchmarking tool must be conducted and validated by the Bank against a set scoring criterion. This criterion identified 17 sub-indicators out of 54 where a maximum score of “3” is mandatory. In addition, the methodology required the remaining sub-indicators to be rated at “2” or better. To date, no country has been able to meet this measurement level.

significant capacity-building assistance before country procurement systems could reach the performance benchmark to be eligible to be used within Bank operations. Additional resources for building capacity in the country systems have not yet been committed.

52. The delay in implementation has also highlighted the risks operational staff and task team leaders foresee in implementing the pilot program within the projects they supervise, especially at a time when the Bank is placing enhanced emphasis on addressing fraud and corruption issues. The extent to which these concerns are appropriate – or reflect excessive risk aversion – will require further attention.

53. Year two has also seen the emergence of efforts to tailor public sector reform more systematically to the different needs of countries. The creation and successful implementation of the Public Sector Performance Global Expert Team brought world-class knowledge and rapid response interventions on public sector issues to countries as different as Ghana and Kazakhstan. A high-level conference on Performance Budgeting in Mexico brought WBG’s middle-income country clients in Latin America together to learn about OECD experience in budgeting and performance management more generally. The LAC team has skillfully used this public expenditure management entry point to initiate a variety of innovative GAC programs. And the MNA team has placed a premium on conducting cross-country analytic work at the regional level (Box 8).

54. Much work has focused on helping countries in all income groups manage their response to the financial and economic crisis. Frequently this included providing support on expenditure allocation and management; more effective use of investment resources; and the most effective use of resources, strengthening safety nets. As core knowledge work, a major review of almost two decades of work on medium-term expenditure frameworks was initiated. With the support of a Korean Government Trust Fund, work on strengthening central financial agencies is underway. This will focus especially on building effective central financial agencies in fragile states and is complemented by on-going, in-depth work on public financial management in fragile states.

55. Overall, helping to strengthen core country systems remains a key priority for the Bank. And the agenda for work on country procurement reforms, public management, and decentralization laid out in the One-Year Progress Report continues to be valid. Ongoing lessons are expected from the country procurement systems pilot. Implementation and lessons learned on other parts of the agenda is accelerating. With a next generation of work on country systems beginning to take hold, some constraints in the availability of relevant skills are beginning to be evident. As for work on decentralization, while progress has been limited in addressing issues raised by IEG about WBG’s work in this area, this gap will be remedied as the new management team in several key areas relating to decentralization is put into place.

Box 8. Tailoring Entry Points for GAC Engagement to Regional Conditions

Comparative regional analytic work in MNA. In MNA, most countries share a common language and a related set of governance and institutional challenges. Thus MNA has placed a premium upon conducting cross-country analytic work at the regional level. This work includes comparative studies on topics such as public financial management, pay and employment, and service delivery indicators. It also includes drafting case studies of successful governance reforms, which is being done in partnership with the Dubai School of Government, as well as interviews with leading “governance newsmakers” from throughout

MNA. These efforts are disseminated electronically to over 20,000 senior officials, academics, NGOs, and representatives of civil society. Such work is valuable in positioning the Bank as the leading source of high-quality technical inputs on governance issues. It provides direct support to country-based operations, and it also provides a valuable underpinning to dialogue with new and existing clients.

GAC as a positive agenda: Public expenditures in LAC. In Latin America, the issues that preoccupy citizens and their governments are poor service provision, limited redistribution, low citizen engagement, and low trust. In response, LAC teams, rather than focusing on a more negative anticorruption message, have positioned their GAC work as a positive contribution toward an agenda of building trust in government and improving citizen engagement with the state. The following examples use the entry point of better management of public expenditures:

- In *Peru*, an evaluation was undertaken of the impact of participatory budgeting and its interface with results-based budgeting. A grant was made available for strengthening congressional oversight of budgetary processes.
- In *Mexico*, a memorandum of understanding was drawn up through which the Bank advises the government on alternatives through which the Bank might contribute to improvements in public sector transparency, effectiveness, responsiveness, and accountability.
- In *Peru* and *Bolivia*, traditional fiduciary tools (PEFA, OECD–DAC procurement indicators) were used as a catalyst contributing to a change in culture. The application of these tools have resulted in both countries showing an open attitude toward being evaluated against international benchmarks and developing relevant action plans to help move toward attaining such benchmarks.

C. Demand Side of Governance

56. As the 2007 GAC strategy recognized, the WBG has long been an innovator in incorporating the demand side of governance into development operations. The challenge has been to move these innovations from the fringe to the mainstream of WBG’s operational practice. The One-Year Progress Report described continuing progress in achieving this goal and highlighted as a task for year two to monitor “systematically the extent and quality of attention in Bank operations to transparency, participation, and accountability as part of the WBG’s tracking and quality management systems.”

57. Three areas of progress in year two in the WBG’s demand side of GAC work are noteworthy. First, the QAG learning review (discussed earlier in paragraphs 24-26) provides the missing quantitative benchmark that enables the Bank’s work on the demand side to move beyond advocacy based on good practice anecdotes. The results signaled that the use of demand-side components in Bank operations already is quite widespread, perhaps more so than many had expected. But, still there is some distance to go before incorporation of demand-side components can be regarded as optimal (though note that ‘optimal’ does not mean ‘universal’; demand-side instruments of the type considered in the QAG review need not add value across all countries, sectors, and agencies). The results have provided a baseline – and a spur – for reflection and inquiry for sectors and regions that emerged as lagging in their incorporation of demand-side features into their operational products. One noteworthy result was that the rate of inclusion of demand-side measures in DPL was half of the rate for traditional investment projects: 22 percent

of the DPL reviewed (i.e., 5 of 24 operations) were ‘Responsive’ in this dimension (with only 2 of those 5 rated as ‘Very Responsive’).

58. A second demand-side milestone was the finalization of a guidance note on multi-stakeholder engagement, prepared by LEGVP, with strong collaboration by EXT, WBI, SDN, and extensive consultations among Bank staff). The 2007 GAC strategy committed the Bank to provide such guidance. The note provides guidance to staff on good practice and mandate issues in relation to engaging a variety of stakeholders in the Bank’s work, particularly parliaments, media, and civil society, in a manner consistent with the Bank’s legal framework and in consultation with governments. Prior to the note’s finalization, an open, informal briefing was held for the WBG’s Executive Directors and their staff.

59. Finally, there have been ongoing enhancements in operational and knowledge support for the demand side of governance work, which includes the following:

- Ongoing efforts by many country teams to identify opportunities for more effectively leveraging the demand side as part of operational design and implementation, with a systematic effort in the Philippines comprising one good example (Box 9);
- A big push by WBI to expand its program of support for multi-stakeholder engagement;
- Initiation by the Demand for Good Governance (DFGG) team in the Social Development Departments, jointly with the HD Anchor, of sectoral DFGG learning programs for health, education, and water sector staff, including a help desk, a searchable database of tools, an upgraded website, and a database of governance indicators relevant to DFGG initiatives in different sectors; and
- GPF funding of a range of pilot initiatives focused on improving transparency and access to information, as well as strengthening institutions of accountability, including civil society participation, legislatures, anticorruption commissions and ombudsmen, and the judiciary. Details of GPF-funded demand-side initiatives are in Annex E.

60. Overall, the momentum for ‘locking-in’ good demand-side practice as a mainstreamed part of traditional Bank investment projects is strong. There currently are (at least) four groups that are championing the agenda: the ‘GAC in projects’ team; the Social Development group, which is also the champion of the demand side of governance community of practice; and the two sectoral GAC teams that support the Human Development (education, health, social protection) and Infrastructure (energy, transport water) sector boards. These groups should continue their current efforts, ensuring synergies among them. Along with other parts of the Bank, these groups should also work to ensure that demand-side approaches are fully incorporated into next-generation reforms of investment lending.

Box 9. Leveraging the Demand Side in Bank Operations in the Philippines

The Philippines has a well-established reputation for strong civil society organizations that help to articulate the voice of the poor, press for greater accountability in governance, and provide alternative channels for pro-poor service delivery. World Bank operations that support government development strategies across different sectors and at different levels provide opportunities for deepening and expanding openings for civic engagement to strengthen governance.

Yet, the ability to leverage this partnership has been constrained by a knowledge gap in understanding which design elements in Bank operations have greatest impact on strengthening demand-side governance.

A portfolio review of selected World Bank operations in the Philippines — 6 national-level projects and 6 community-driven development projects — identified and assessed specific approaches to enhance mainstreaming of demand-side governance. The review highlighted the strength of many project participatory approaches, capacity-building support, and efforts at promoting greater transparency. But it also noted that there had been few systematic efforts to mobilize NGO involvement; that transparency initiatives tended to be focused toward national-level audiences; and that project-supported activities did not connect well with broader planning and budgeting systems, especially at the local level.

To address these gaps, a GPF grant is being used by the WBG's Philippines Governance Advisory Team — in partnership with government agencies, academia, NGOs, and the private sector — to conduct analytical work and develop guidance for clients and project teams on how to integrate high-impact demand-side governance initiatives more systematically into development programs.

D. Actionable Governance Indicators (AGIs)

61. The measurement of governance has consistently been a central, challenging, and controversial part of the GAC agenda. As laid out in the GAC strategy, the central focus of the effort has been on the “development and use of disaggregated and actionable indicators...to help track progress in specific reforms implemented by governments.” Over the past year, the salience of the AGI agenda has risen even further with the increased interest in lending instruments that focus on institution building and results. Credible measurement of the extent to which institution-building initiatives are having their intended result is key to the ability of these newer lending instruments to add value.

62. The One-Year Progress Report described ambitious efforts to: (i) expand country coverage and accelerate the use of existing AGIs; and (ii) develop a new generation of AGI. Over the past year, there has been progress on both of these fronts:

- There has been progress in the development of new AGIs focused on core country systems.
 - The number of PEFA assessments that are available publicly has risen from 38 in mid-2008 to 56 by mid-2009.
 - Several AGIs developed and implemented by independent organizations have expanded country coverage, with financial support from Bank-managed trust funds (Global Integrity, International Budget Practices & Procedures, Afrobarometer, Asian Barometer).

- Coverage of the Public Accountability Mechanisms (PAM) initiative in 87 countries has developed a draft set of ‘in practice’ indicators for asset declaration mechanisms, which have been tested through pilot case studies in five countries.
- Pilots of the Human Resource Management (HRM) AGI instrument have now been completed in 10 countries (Ghana, Guatemala, Kyrgyz Republic, Lao PDR, Paraguay, Peru, Tajikistan, Tanzania, Uganda, and Zimbabwe).
- There also is ongoing development of new sectoral AGI, especially in the HD Network. For infrastructure, a variety of AGIs are already available, developed through the International Benchmarking Network for water supply and sanitation, and the Transport Governance Filter.
- There has also been progress in expanding access and operational use of existing core AGIs:
 - An AGI website has been constructed and launched for internal Bank use. It provides materials clarifying what AGIs are, as well as providing updates on progress with the AGI initiative. It will be made available externally in October 2009.
 - An AGI Data Portal website has been launched internally and will be launched externally in October 2009. It consolidates AGI data already publicly available and provides a one-stop shop platform to explore and use these indicators, offering customized tools for comparative data management, analysis, and display.
 - Multiple learning events and seminars have provided training on the AGI initiative and its underlying conceptual framework.

E. GAC and Country Systems: Key Challenges Going Forward

63. Overall, year two of implementation has seen continued progress in mainstreaming of GAC work in all four of the areas reviewed above – sectoral, core, demand side, and results measurement. These efforts at mainstreaming will continue in year three of implementation.

64. Beyond mainstreaming, the past year has seen the emergence of an effort to re-orient investment lending in a direction that is better anchored in the delivery of results – and better focused on the task of building institutions – than is the traditional investment project. Viewed through a GAC lens, a re-oriented approach has the potential to meet GAC challenges in a way that is both more effective in helping build country systems and has lower transactions costs than traditional lending operations. Realizing this potential will, of course, require that GAC shortfalls are identified and addressed directly.

65. The 2009 Development Policy Lending Retrospective based on a review of 121 development policy operations (DPOs) offers some guidance on the opportunities and challenges going forward for the re-oriented approach to lending.⁵ The retrospective confirmed that programmatic lending is an opportune instrument for supporting institutional strengthening. It found that 51 percent of all policy and institutional actions supported in DPOs for low-income countries were aimed at strengthening public expenditure management systems. Action areas

⁵ 2009 *Development Policy Retrospective: Flexibility, Customization and Results*, World Bank, OPCS, September 2009.

included support to strengthen public procurement, external audit, legislative oversight and transparency, budget execution, cash management, accounting policy, control and internal audit, and the legal/organizational framework for public financial management. The review affirmed that DPO efforts indeed were successful in improving performance in public financial management. But it also targeted two areas for improvement. One was in the comprehensiveness of the description of the quality of public financial management, with a sharper overall bottom-line assessment of the adequacy of fiduciary arrangements and residual fiduciary risks in the context of the DPO. The second was in better linkage of actions to results, including a greater focus on action-oriented rather than process-oriented results (e.g. completion of a study; or the preparation of draft legislation), accompanied by better indicators to monitor progress in the implementation of institutional reforms.

66. Going forward, three sets of priority actions for the GAC country systems agenda can help ensure that GAC tools are incorporated effectively into re-oriented approaches to sectoral investment lending, as well as next generation approaches to strengthen core public management systems.

67. First, consistent with the findings of the DPL Retrospective, to add value these re-oriented lending instruments need credible measurement of the extent to which institutions are actually being built and having their intended result. This, in turn, will require continuing investment in, and use of, AGIs to monitor trends in intermediate governance outcomes. While progress is being made on AGI development and outreach, the key test of value added is the extent to which AGIs are being incorporated into more results-based, institution--building lending operations. Clarifying the extent to which this is taking place – and how the ‘mainstreaming’ of AGIs in Bank operations can be accelerated – is a frontier challenge for year three of GAC implementation. This calls for close co-operation between staff championing AGIs (generally in anchor units) and operational task teams.

68. Second, there is a need for continuing investment in knowledge and learning on how GAC features can usefully be incorporated into results-oriented operations (both sectoral and core public management). One issue is the low rate of inclusion of demand-side measures in development policy lending, as found by the QAG benchmarking study. The DPL Retrospective similarly identifies the quality of attention to participation and consultation as an ‘area for strengthening’ in an otherwise well-performing part of the overall portfolio. In principle, a move towards more results-based, institution-building operations need not be at the expense of demand-side work: not only can nongovernmental actors straightforwardly be included in dialogue on design, results-based operations themselves potentially can include support for policies and institutional arrangements that facilitate transparency and participation. The QAG and DPL Retrospective findings suggest that specific effort may be needed to achieve this. Going forward, two sets of actions would thus be helpful in year three of GAC implementation:

- WBI and CommGAP are working together to develop a flagship program on fostering multi-stakeholder engagement in development and sectoral policy reform, working within the political economy tradition, and deploying tools from strategic communication and change management toward coalition building for reform. It would be useful to include in

this program some pilots that are undertaken jointly with RVP operational teams working to prepare policy, institution building, and results-based credit operations.

- Building on the QAG learning review of GAC in projects, it would be useful to undertake a follow-up learning review focused on DPL, sector-wide programs, and other longer-term instruments, focused on how to more systematically incorporate the demand side into less traditionally ‘projectized’ approaches to development engagement.

69. Third, the move to more results-based lending instruments will require changes in the Bank’s micro-level organizational culture and processes surrounding lending. Box 10 highlights some areas for possible attention.

Box 10. Organizational Requisites for Re-orienting Investment Lending

Consultations with operations staff in sectors highlighted three key areas where micro-level changes in organizational culture and processes will be key to a re-orientation of investment lending.

The need for greater clarity, appreciation, tolerance, and management of the risks involved in institutional reform. For instance, changing rules of the game on policies with the goal of replacing patronage-based systems can generate reactions by losers. This was the case in Pakistan where teachers who would have got jobs if they had offered favors/money to politicians/bureaucrats attempted to undermine policy change using media and other public resources. As another example, paying for results can lead to teachers fudging test results or doctors claiming for more visits, as well as reducing the quality of care, as providers shift to focusing on quantity rather than quality. One example of a useful risk mitigation measure is the use of third-party audits to ensure accountability, as in the Plan Nacer results-based financing program in Argentina.

The need for greater clarity in Bank rules and consistency in their application. For example, Bank rules can be unclear on financing outputs; results-based projects may require financing civil service bonuses, but teams in different sectors or parts of the Bank appear to receive inconsistent guidance as to whether this can be done.

The need for flexible allocation of budgets for longer-term, institution-building and results-based approaches. Current internal budgeting processes tend to be aligned to the traditional investment project cycle or discrete pieces of analytical work. More focused allocation to longer-term, institution-building approaches may require slightly different approaches to allocating resources such as programmatic AAA or NLTA.

VI. GAC STRATEGY IMPLEMENTATION AT THE GLOBAL LEVEL

70. The GAC strategy and implementation plan identifies global-level work as an important complement to country- and project-level efforts. The goal is to help alter those “rules of the game,” both statutory and norm-based, that are set globally or in developed countries but have an important impact on the behavior of private firms and other organizations active in low-income settings.

71. In the very short term, the need to respond urgently to the challenges posed by the global economic and financial crisis seemingly narrowed the scope for global-level innovations with long-time horizons. However, it is already becoming apparent, that the underlying root of the crisis was to be found in weak governance in both private actors and governments; and consequently, support for a new generation of GAC action at the global level is growing. This shift is evident in the growing demand for IFC services that promote good governance at the corporate level (Box 11).

Box 11. IFC: Promoting Good Governance at the Corporate Level

IFC engagements that enhance openness and competition and promote better corporate governance systems are effective tools in combating corruption and improving transparency. The ongoing financial crisis has prompted more demand for IFC advisory activity to companies and banks on how to strengthen corporate governance practices and help them build sustainable institutional capacity. Clients find that improved corporate governance and transparency help attract capital, improve performance, and place them in a better position to weather financial crises. The activities in this area focus on improving board practices, shareholder rights, internal and external controls, risk management, transparency, and reporting.

During the last year IFC provided about US\$6.5 million funding for global, regional, and country advisory projects aimed at promoting good governance at the corporate level. Projects with significant demonstration effect include a Bosnian frozen food distributor that, with the help of IFC's corporate governance program, became the first private firm to hold an initial public offering in the country. A Ukrainian wholesaler found new investors after improving its governance practices and is now Ukraine's biggest distributor of well-known consumer products and one of the country's biggest players in logistics and warehousing. And the creation of the IFC-supported S&P ESG India Index with IFC support (benchmarked to the S&P CNX Nifty) lists 50 companies that demonstrate high-level commitment to meeting environmental, social, and governance standards.

The IFC Investment Guidelines and Practices contain processes and procedures aimed at mitigating the risk of corruption in its projects. The aim of IFC due diligence is to ensure the integrity of its potential partners and prevent unethical or illegal practices such as fraud and corruption in its projects. A redesigned Integrity Due Diligence Process was piloted in FY08 and successfully rolled out throughout IFC during FY09. Training provided to staff in all operational departments in connection with this rollout raised awareness of the importance of GAC to development outcomes.

IFC's anticorruption stance is now incorporated into the legal documentation governing its investments. In addition to the World Bank Group's sanctions process that is also applicable to IFC projects, acts of fraud or corruption by a client in an IFC project give IFC the right to cancel disbursements or terminate a facility. INT and IFC continued to work jointly in order to improve the effectiveness of anticorruption tools available to WBG staff. IFC has also been working closely with the World Bank to develop an approach for the Bank to carry out due diligence in its partnership work with the private sector and foundations.

72. In addition to the IFC efforts, GAC work at the global level has targeted a few high-profile entry points for engagement and sought to complement these with ongoing analytical work to learn more about opportunities and constraints in the area. The highest profile entry point has been the Stolen Asset Recovery (StAR) initiative. Other entry points that have made progress in year two of implementation include work on extractive industries in support of the EITI initiative, on the Construction Sector Transparency Initiative, and on the Business Fighting Corruption through Collective Action initiative (Box 12).

73. The StAR initiative was founded in 2007 in partnership with the United Nations Office of Drugs and Crime (UNODC) to help developing countries recover assets stolen through corruption by officials. The key areas it identified as critical to fulfilling its mission included global knowledge sharing and advocacy aimed at lowering barriers to asset recovery, building national capacity to recover assets and deter new flows, and providing preparatory assistance aimed at collecting and sharing information to encourage progress on countries' asset recovery efforts.

Box 12. Progress in some Global GAC Initiatives

Extractive Industries Transparency Initiative (EITI). This initiative continued to build momentum with Bank-assisted support through a multi-donor trust fund. A total of 30 countries are now implementing EITI with 21 of these in Sub-Saharan Africa. Azerbaijan has completed external validation and is categorized as 'EITI compliant,' while the validation process is still underway in Liberia, Mongolia, Nigeria, and Kazakhstan. The process has proven useful not only in promoting transparency of revenues in oil, gas, and mining in line with an established global standard, but also building a participatory approach to building institutions and processes for country-level transparency and hence accountability. In Liberia, EITI principles are being expanded to others sectors like forestry, while in other countries EITI is being used as a platform to go beyond transparency to other aspects of governance reform in the extractive sectors. In resource-rich countries in Sub-Saharan Africa, the EITI approach is being expanded to the entire 'resource value chain', enhancing public investment efficiency as a key element to assist countries in converting natural resources into public assets for service delivery and growth.

Construction Sector Transparency (COST). This initiative entered the second year of its pilot phase. At this stage seven countries are moving toward greater information release around construction projects and multi-stakeholder oversight of information analysis. Strategic approaches to mainstream the initiative are under consideration.

Business Fighting Corruption through Collective Action. This initiative is being mainstreamed in WBG operations, using the tools developed during the program's first year. The program is being integrated into a Bank operation in Senegal, and further operational cooperation is being pursued with MNA and SAR. A program to establish a global peer network was initiated with a Business Fighting Corruption Executive Development Program, which was sponsored by WBI together with external partners and joined by over 30 anticorruption fighters from the private sector.

74. As per the StAR work program at start-up, the One-Year GAC Progress Report highlighted three principal goals for StAR going forward: (i) accelerate the development of knowledge products, technical tools, and information systems that will assist in countries' efforts to implement asset recovery programs; (ii) scale up capacity-building activities with a wider range of partner countries, integrating StAR activities more effectively into ongoing, country-led GAC programs; and (iii) highlight the need for international collaboration on asset recovery within the framework offered by the United Nations Convention Against Corruption (UNCAC). In year two of implementation, work has moved forward in all three areas.

75. ***Policy analysis and knowledge products.*** In the wake of the international financial crisis, StAR has a unique opportunity to raise awareness and advance reforms that will help deter flows of the proceeds of corruption and facilitate asset recovery. To respond to this opportunity, StAR has front-loaded its policy analysis work so that the products can contribute to on-going discussions, focused on the measures identified as priorities by the G20. A priority here is

collaboration with the Financial Action Task Force (FATF) around the enforcement of standards related to the identification of beneficiary ownership, and the monitoring of politically exposed persons (both areas which the G20, at its April 2009 Summit, tasked to the World Bank).

76. The StAR pipeline has many policy analysis and knowledge products underway. It published its first major knowledge product, *A Good Practices Guide to Non-Conviction Based Asset Forfeiture*, in May 2009. Other StAR-sponsored studies and knowledge products that share international experience in asset recovery and promote innovation are (a) *Asset Recovery Handbook*, (b) *Good Practice Guide to Income and Asset Declaration*; (c) *Global Architecture for Asset Recovery*, (d) *Politically Exposed Persons*, (e) *Lowering the Barriers to Asset Recovery*, (f) *Proceeds of Corruption: Managing Asset Return*, (g) *Legal Library on Asset Recovery*, (h) *Mutual Legal Assistance Request Writer Tool*, and (i) *UNODC Asset Tracking and Recovery Software Solution (GoATR)*.

77. **Country-level engagement and capacity building.** Much of StAR's country engagement has been as an honest broker facilitating collaboration between partner countries. StAR is working together with 7 countries that requested assistance (out of 17 total requests) on topics ranging from assistance on a specific high-profile case, support for an active anticorruption program where authorities are pursuing corruption cases, and advice on development of an asset recovery program as part of a broader anticorruption strategy. Progress – launching an investigation, sending a letter of request for legal assistance, freezing of assets, and launching new asset recovery initiatives – has a strong signaling effect in the fight against corruption, particularly in countries that have been unable in the past to bring prominent corruption cases to judgment. Prospects for actual asset returns are likely to improve in the medium term as countries gain experience and put in place the institutional and legislative frameworks needed to facilitate recovery.

78. To help build country-level capacity, StAR has sponsored a series of training workshops and courses in Africa, South Asia, and East Asia. Training has been delivered at two levels: introductory workshops to raise awareness about asset recovery and more advanced courses that focus on each technical aspect of asset recovery. So far over 150 participants from 13 different countries have participated in StAR introductory workshops and 190 participants from 9 different countries have participated in advanced courses.

79. **Supporting international asset recovery networks.** A key goal of StAR is to build support for asset recovery in the international arena by helping focus the attention of policymakers, regulators, supervisors, banks, and service providers on the risks associated with the proceeds of corruption. There are two noteworthy actions in this area:

- Collaboration with INTERPOL in setting up a secure focal point database that allows law enforcement to identify contact points and share information on asset recovery around the clock (operational in January 2009 with information already from more than 80 countries); and
- A study of 15 key financial centers to identify barriers to asset recovery and present recommendations aimed at facilitating the asset recovery process.

Initiatives such as these can help improve the effectiveness of supervision in money centers – thereby reducing the ease with which corrupt individuals can enjoy the ‘fruits’ of their illicit activities, and supporting prevention by helping to tilt incentives away from corruption.

80. ***Challenges going forward for global GAC work.*** The current StAR work plan, financed by contributions from Norway, Switzerland, Sweden, France, and the United Kingdom, runs to the end of 2010. A planned mid-term review will inform management decisions with regard to what, if any, adjustments may be needed in StAR’s strategic direction, governance, and implementation arrangements. Beyond StAR, a further goal is to take stock of emerging lessons with regard to the opportunities and challenges of engaging GAC at the global level. The results of this work (already underway) will be reported in the third year progress report.

VII. MANAGING FOR GAC EFFECTIVENESS

81. As sections III- VI have detailed, the first two years of GAC strategy implementation have witnessed substantial effort in delineating the ‘what’ of mainstreaming GAC into the WBG’s operational work at the country, project, sectoral, country-systems and global levels – and pushing the frontiers in terms of the use of demand-side approaches and actionable governance indicators. But successful implementation depends as much on the ‘who’ and ‘how’: on making available an adequate supply of GAC skills and knowledge at the operational front-line; and on systematically incorporating GAC into the Bank’s quality management systems. This section assesses progress in these two areas.

A. Skills Development and Learning

82. The GAC strategy and its implementation plan identified both strategic staffing and supporting GAC-related skills development among existing staff as key to successful implementation. The first year of implementation thus saw a strong push on identifying strategic staffing needs, and resulted in a commitment to bring on board 64 new and redeployed GAC-related staff for FY09. The additional staffing commitments were distributed among the key GAC-related skills areas: multi-sector governance (12), sector governance (13), core public management (14), GAC in projects (16), and other (9). The year-two goal was to recruit and deploy these additional GAC staff.

83. The strategic staffing exercise also clarified that the goal of GAC mainstreaming could not be met primarily through recruitment – a major investment was also needed in skills upgrading and continuous learning among existing staff. Thus the GAC One-Year Progress Report highlighted the following goals for year two of implementation (goals which were strongly affirmed by the Group of External Advisers):

- Ensuring that operational staff have available in sufficient quantity the knowledge and specialized expertise needed to deliver on a scaled-up agenda;
- Nurturing peer learning networks;

- Designing and implementing a structured learning program for governance; and
- Initiating a major ‘GAC for development’ knowledge program to enable systematic investment in understanding the details of specific settings, the incentives they generate for decision-makers, and the resulting processes of change.

84. Year two of GAC implementation has made progress in all of these areas. On strategic staffing, most OVPs have either completed their recruitment targets or are advanced in the process. There have been some hurdles along the way: for instance, a hiring freeze in the AFR region led to some delays. But, overall, the OVPs used the strategic staffing exercise to bridge gaps in GAC skills. There was also a shift toward decentralized staff. AFR, for instance, posted new staff in the field. SAR also hired (or was close to completing recruitment) 3 field-based governance advisors - in Bangladesh, Pakistan, and Afghanistan. EAP located 2 H-level staff in a new governance hub in Bangkok. In MNA, 3 governance advisors have been based in the field in high-risk, high-priority settings. Staff turnover has provided the opportunity for rebalancing of skills away from the core disciplines of public financial and administrative management toward new areas such as sectoral governance, impact evaluation, anticorruption, legal and judicial reform, and transparency and demand-side governance. ECA and LAC followed the strategy of GAC mainstreaming through intensified staff training across sectors rather than hiring GAC-specific staff. Among the Network Vice Presidents (NVPs), as described earlier, a key development was the appointment in both SDN and HD anchors of dedicated staff for promoting the GAC in sectors agenda. PREM invested in multi-sector governance through a political economy position.

85. Turning to skills upgrading, for over a decade different parts of the World Bank have been providing training on different aspects of GAC work and making relevant materials available online (in 2007 alone there were over 300 GAC-related training events). However, attention over time has been uneven, and there have been no recent efforts to co-ordinate the disparate GAC initiatives. The result is that the whole of what was available is very much less than the sum of its parts (although, this is not a GAC-specific problem, but one that is being addressed as a Bankwide knowledge management challenge).

86. For the first 6 months of 2009, the focus of the GAC knowledge effort was to take stock of what was available and to build consensus across the Bank around a consolidated approach going forward. This work was successfully completed, and endorsed in principle by the GAC Council, with agreement reached on the following key parameters:

- The knowledge platform will be developed on a step-by-step basis, coordinated with other Bank learning programs and focused initially on 8 to 12 areas – 5 to 7 thematic and 3 to 5 regional. In some of the key knowledge areas, work is already well underway; in others it has just begun. In each area, champions will: (i) develop a core training program; (ii) nurture a community of practice; and (iii) make key knowledge available online (leveraging synergies between (i)-(iii), as well as across the 8 to 12 areas).⁶

⁶ The thematic areas for which development of the GAC knowledge platform already has strong momentum are: (i) demand for good governance; (ii) problem-driven political economy; (iii) GAC in projects; (iv) GAC in human

- The objective for the training portion of the package is to support strengthened GAC competence broadly across Bank staff. The package thus needs to include introductory material across a range of areas and be made available in a way that reaches many Bank staff – in both decentralized and Washington, D.C., offices. The cost effective solution is a ‘blended learning’ model that combines face-to-face and online delivery.
- Quality management and monitoring will be centralized with design and delivery distributed across the relevant operational units. This thereby building in the co-ordination necessary to ensure that the whole will be greater than the sum of its parts, even as RVPs retain the flexibility to customize training to meet the specific needs of their operational staff (Box 13). A peer review group and a director-level advisory board have been created, both under the overall aegis of the GAC Council.
- A new generation of social collaboration tools (web 2.0) will be built into the online package to support interaction both among World Bank staff engaged on GAC issues, and between Bank and non-Bank development professionals active in GAC for development work.

87. **Challenges going forward.** The goal for the third year of GAC implementation will be to have the knowledge platform up and running, with a target of 8-12 core courses delivered and available online in a user-friendly format, each built into a comprehensive online knowledge and social collaboration resource, and each underpinned by a vibrant community of practice. Which, if any, portions of the training program should be mandatory will be clarified in year three of implementation. The Governance Partnership Facility has committed in principle to provide up to US\$1 million to support the development of the online package (subject to a quality review); commitments of staff and resources for development and continuing operation have also been made by the relevant operational vice-presidencies (both network and regional). Successful implementation of this knowledge platform – with empowered, motivated champions in place in each area – will send a strong positive signal with regard to the sustainability of the GAC effort over the medium term.

B. Mainstreaming GAC in the WBG’s Quality Management Systems

88. Mainstreaming GAC in quality management is key to achieving the goals of “systematizing and scaling-up GAC work” that were highlighted in the One-Year Progress Report. Year two has seen valuable progress in GAC mainstreaming in quality management at both the RVP and corporate levels. Over a three-month period, each of the RVPs shared with the GAC Council their approaches, experiences, organizational arrangements, and challenges in the GAC mainstreaming effort. This peer learning exercise revealed wide variation in the RVPs approaches. Key findings – and noteworthy examples of subsequent follow up – include:

development; and (v) GAC in infrastructure. Other thematic areas for which the knowledge platform will be developed in year three could include (vi) public institutions; (vii) anticorruption; and (viii) GAC in natural resources. The geographic/regional areas that already have strong momentum are AFR, EAP, ECA, and SAR.

- ECA, LAC, and MNA had gone furthest in putting in place formal, director-led arrangements for coordinating across sectors.
- Each RVP had mainstreamed its GAC-related quality management efforts within its overall quality and risk management systems, including the Management Review of Investment Lending (MRIL) process for risk assessments. LAC emerged as best practice in its implementation.
- AFR enhanced its effort to make GAC work ‘everybody’s business’ by raising the profile of its GAC focal points working group, which represents all sectors and country management units, meets regularly, and is linked systematically with the VPU Regional Management Team. This higher profile has been instrumental in facilitating much stronger engagement of country teams in AFRVP initiative to more systematically mainstream GAC in CAS, which has emerged as the most pro-active in the Bank.
- EAP followed up on the peer learning by establishing a new director-level GAC implementation committee, which meets monthly to oversee the GAC effort. To provide quality support for GAC implementation on a sustained and ‘just-in-time’ basis, EAP has now fully-staffed a Regional Governance Hub (located in Bangkok) and has designated a full-time regional anticorruption focal point to assure synergies between operational task teams and fiduciary and safeguard teams, and to track problems identified by INT.

Box 13. Using Training to Mainstream GAC in Operations

Regional Vice Presidencies will play a key role in implementation of the GAC knowledge platform, both in ensuring that the core program meets their operational needs and by championing customized programs to meet priority needs within their regions. In year two of GAC implementation, AFR, ECA, EAP, and SAR each used training to good effect to accelerate GAC mainstreaming.

AFR organized 2 workshops for 9 country teams preparing CAS/ISN (Angola, Burkina Faso, Cameroon, Kenya, Nigeria, Sierra Leone, Swaziland, Uganda, and Zimbabwe). During the workshops, country teams worked interactively on good practice approaches for integrating GAC issues into their strategies at country, sector and project levels. Based on positive assessments from participants as to the value added for CAS preparation, other workshops will be held for a new group of countries in FY10.

ECA made a systematic effort to assure GAC literacy across its entire staff. It mandated a ‘GAC 101’ course, which was delivered through 23 workshops (in Washington and in the field), and reached almost two-thirds of all staff. It also delivered a course on fiduciary training for task team leaders, which so far has reached about one-third of the target audience.

EAP mounted a series of workshops in the field that brought together all governance and operations advisors, all public sector group members, all operations advisors, and the 4 CGAC countries in the region, creating opportunities for direct sharing of experiences. A number of video conferences connecting country teams in the region have extended these opportunities for dialogue.

SAR mounted an intensive week-long training program for senior staff on GAC mainstreaming.

89. At the corporate level, a new push, led by OPCS, to reform investment lending has potentially far-reaching implications for GAC work, especially in relation to risk assessment and

mitigation (Box 14).⁷ The background work for the investment lending reform concluded that the Management Review of Investment Lending (MRIL) process – currently the cornerstone of risk management within the RVPs – addresses “[investment lending] risks in an overly piecemeal and ad hoc fashion, without a systematic and well-understood Bankwide risk taxonomy, one with clear risk definitions and standardized guidance”. The investment lending progress report thus proposed a new, harmonized operational risk assessment framework.

90. The proposed ORAF and GAC implementation are well aligned, with GAC work providing a strong good practice platform as to how to assess and mitigate at least 4 of the 11 risks identified in ORAF:

- ‘GAC in CAS’ work aligns directly with ORAF’s country risk (which, according to the ORAF framework includes “politics & governance, society, environment, security, civil society capacity, systemic fraud & corruption, and economic management”).
- ‘GAC in sectors’ work aligns directly with ORAF’s sector/multi-sector level institutional risk (which includes “ownership, accountability and oversight, institutional capacity, institutional fraud & corruption, decision-making, and policy”).
- ‘GAC in projects’ work aligns directly with two of the ORAF risks: (i) implementing agency governance risk (which includes ‘decision-making, accountability and oversight, behavior and norms, and ownership’); and (ii) implementing agencies fraud, and corruption risk (which includes “prevalence of fraud and corruption, transparency and controls”).

GAC and ORAF thus have the potential to be powerfully mutually reinforcing: ORAF will provide a pro-active authorizing environment for systematizing GAC work at the country, sector and project levels. At each of these levels, GAC implementation is generating and disseminating the good practices that will be necessary to implement effectively the investment lending reform’s proposed new risk-based approach.

91. One final point on risk management in investment lending: although implementation of a systematic risk framework will be a landmark step, it will not be sufficient to ‘lock-in’ a WBG business model anchored in informed risk-taking. The latter also requires clarity on where responsibility is located along the management line for making the decision as to which risks are worth taking (and which are not). Two complementary efforts are underway to provide the requisite clarity:

- The Investment Lending Progress Report includes a risk governance framework that allocates managerial and staff roles and responsibilities throughout the operational cycle.
- The uppermost levels of management are conducting a complementary assessment of governance strengths and weaknesses, with a view to addressing some of the ambiguities

⁷ As Box 14 notes, the investment lending reform will also include the development of a new, programmatic, results-based lending instrument. However, the detail design work on this has not yet been completed, so it is not discussed further here.

through managerial accountabilities that emerged in the wake of a series of Detailed Implementation Reviews conducted by INT, and of the independent Inspection Panel Investigation Report on the Albania Integrated Coastal Zone Management and Clean-up Project.

Box 14. Investment Lending Reform: Towards Risk- and Results-Based Approaches

A concept note, discussed in February 2009 by the WBG Executive Directors at an informal meeting, initiated an exercise aimed at “transforming investment lending in order to achieve greater development effectiveness through a stronger focus on results”. Two of the five pillars of the investment lending reform are especially relevant to the GAC agenda:

- (1) A risk-based approach for investment lending that differentiates across projects in terms of processing requirements and implementation support intensity; and
- (2) Preparation of a consolidated menu of investment lending instruments, including the design of a new programmatic or results-based financing instrument.

The other three pillars are:

- (3) Rebalancing of effort from project preparation to implementation support;
- (4) Enhancing the enabling environment for investment lending (including a core learning curriculum for staff, a revamped information technology platform for investment operations, and revised guidance on how implementation support activities should be recognized in performance evaluation); and
- (5) Move toward a simplified, principle-based policy framework to guide investment lending.

The overall reform is being implemented sequentially, with the new policy framework (the last step in the current proposal) planned to be presented to the Executive Directors around September 2010. So far, detailed design work has been completed for pillars (1) and (3).

The proposed risk-based approach, which is consistent with the Bankwide Risk Management System (led by the Vice President, Corporate Finance and Risk Management) will be organized around the ORAF, which identifies 11 risks, organized into 4 categories:

- Project stakeholder risks (donor, borrower, and other relationships, and Bank image/brand);
- Operating environment risks (country risk and sector/multi-sector-level institutional risks);
- Implementing agencies risks (governance, fraud and corruption, and capacity risks); and
- Project risks (design, safeguards, delivery quality, and program and donor risks).

ORAF was developed working closely with an external consulting firm that provided guidance on best practice in other public and private institutions and external validation that the new framework meets industry best practice standards. Use of the ORAF will help identify projects that are considered low risk, and so will follow simplified processes, thus freeing up resources for design and implementation support for higher-risk projects. Work is underway to clarify how the risk system will be governed, including what will be the role of a corporate function in ensuring quality, harmonization, transparency, integrity, and regular review and refinement of processes and tools. The intent is that the new risk framework and governance system will cover all RVPs by the end of FY10.

VIII. PRIORITY CHALLENGES GOING FORWARD: ACHIEVING IMPACT AND ASSURING SUSTAINABILITY

92. As noted at the outset of this progress report, the principal challenge for year two of GAC implementation was to ‘lock-in’ the momentum for GAC engagement by *systematizing* and *scaling-up* GAC work in the many areas where good GAC practice is now well recognized. Notwithstanding the pull of other priorities in the wake of the global financial and economic crisis, momentum for GAC implementation has been sustained over the past year; however, the agenda of systematizing and scaling-up remains unfinished. While year three of implementation should consolidate the initiatives now underway, it is also timely to look beyond the details and take a broad view of what GAC implementation has achieved, where it should lead, and what will be the key year-three strategic priorities for getting there.

A. Broad View of GAC Implementation: Progress and Continuing Challenges

93. GAC is one of a range of forces that are helping to transform development work, and is doing that in two complementary ways: by focusing attention on the drivers of decision-making, the institutions that shape them, and their implications for development effectiveness; and by helping to clarify how to better manage GAC-related risks.

94. *Understanding incentives, shaping institutions.* A central focus of the first two years of GAC implementation has been on how to design and implement programs of development support to be more responsive to the actual incentives of relevant stakeholders, incentives that are influenced by institutional and political realities. Key results include the following:

- The emergence of good-practice CAS, catalyzed by CGAC process that systematically assess country-specific governance, political economy, and corruption-risk realities, and identify tractable entry points for engagement with GPF support for implementation.
- Using the results of the CAS assessments to incorporate institution-building measures that help strengthen incentives to achieve development results into the design and implementation of individual operations - including more systematic attention to the use of transparency, participation, and third party monitoring as tools for enhancing accountability and effectiveness. The QAG learning review, undertaken as part of year-two implementation, provides the first ever systematic benchmark of WBG efforts in this area.
- Continuing efforts to help strengthen country systems with a renewed commitment to lesson learning.

95. Along with the above, a more upstream effort to strengthen institutions and accountability is also beginning to emerge, namely:

- Enhanced focus on shaping policies and institutions that drive results at sector-level – a focus that needs a different type of lending instrument than the traditional investment project;

- Engaging multiple stakeholders in the design of operational programs in ways that add to incentives for countries to adopt development-enhancing institutional and policy reforms; and
- Global engagement, as an upstream effort to establish global rules of the game that restrain corrupt practices by both public and private actors, and hence enhance the focus on getting development results.

96. ***The management of risk.*** The mirror image of ‘realism about incentives’ is ‘realism about risk’ – notably the risk of political or personal goals (including for some the goal of self-enrichment via corruption) undermining development effectiveness. An immediate challenge is that inclusion of GAC approaches increases the financial and transactions costs of designing and supervising traditional investment projects. Some of the GAC measures unambiguously pay off through better development outcomes in the medium and longer term, as illustrated by the Indonesia Urban Poverty Project and the other examples discussed in Box 6. Other measures (e.g., some ring-fenced fiduciary controls) reduce fiduciary risk, but add to direct costs and shift attention from how to strengthen a country’s own institutional control systems. Furthermore, enhanced GAC measures are supervision intensive. Bringing GAC to center stage thus underscores the challenge of scaling up resource transfers through the traditional project model – a particular challenge in the context of new demands in the wake of the financial and economic crisis.

97. As this progress report details, the Bank’s emerging response to this challenge is two-fold. One response is the investment lending reform that aims to differentiate project design and implementation support in ways that reflect more clearly the differences in risk across countries, sectors and implementing agencies (Box 10). A second response has as its point of departure the distinction between risk aversion and informed risk-taking. President Zoellick’s affirmation that risk taking is at the heart of the development endeavor – and that the WBG cannot allow itself to become paralyzed by risk aversion – was an important signal to staff (Box 1). Also needed are management systems and decision-making processes that clarify the locus of decisions and accountability. Such systems will give clarity to staff working on risky initiatives as to when the balance between potential development benefits and risks warrants moving forward and when it does not. Clarity nurtures a culture of professionalism, entrepreneurship, and transparency in sharing information, even when facing difficult challenges.

B. Priority Actions for Year Three of Implementation

98. Going forward, the principal challenge for year three of GAC implementation is to move beyond advocacy and special purpose arrangements and to transition toward anchoring GAC work in credible *evidence of impact* and *sustainable organizational arrangements* across the WBG.

99. To achieve these goals, this final section organizes the priority agenda for year three of GAC strategy implementation laid out in Box ES2 of the Executive Summary into three distinct groups:

- Actions by top management;
- Actions to clarify the link between GAC and development effectiveness; and
- Actions that can help to ensure long-term sustainability of GAC as integral to how WBG does its development work.

100. ***Top management actions.*** As suggested in the discussion on management of risk, the two sets of ongoing actions that will have perhaps the greatest impact on how the GAC strategy is implemented going forward are:

- Implementation of investment lending reform, including the new risk framework and an associated likely increase in the use of more institution-building and results-oriented designs in investment operations; and
- Further clarification by senior management as to the management systems and decision-making processes that can more effectively underpin a culture of informed risk-taking throughout the WBG.

101. ***GAC and development results.*** As was laid out at the beginning of this progress report, the GAC strategy should be judged according to the results it achieves on the ground. The results chain follows a sequence from (i) ‘change management’ initiatives within the Bank, to (ii) changes in the design and implementation of the Bank’s operational products, to (iii) enhanced development impact on the ground. As strategy implementation proceeds, the case for continued GAC efforts increasingly will need to be made on the basis of demonstrated results [i.e., (ii), leading into (iii)]. GAC strategy implementation must thus sharpen its focus on results at each step in this causal chain.

102. The One-Year GAC Progress Report suggested (in Annex E) a framework for monitoring and assessing GAC results. As per that framework, year three of GAC implementation will support an enhanced focus on the link between GAC and development results at different steps in the operational chain via the following five sets of actions:

- ***Overall development impact.*** The Development Research Group (working with PREM and other internal Bank partners) will seek GPF funding to initiate a research program to assess the development impact of country-level GAC reforms, including: synthesis reviews of research in areas where empirical knowledge is already robust (principally related to the impact on performance of demand-side micro and macro accountability institutions), plus an effort to develop tractable methodologies for assessing impact in hitherto under-researched areas (principally related to the extent to which supply-side interventions aimed at improving country-level public management systems are effective in improving development results). A research conference on the subject will be held in 2010.

- *Impact on design of country assistance strategies.* PREM will document the extent to which the CGAC process (and related support for implementation) is translating into impact on the ground and will highlight good practice for achieving results. To sustain the GAC in CAS process going forward, RVPs will clarify which CASs will give intensified attention to addressing the GAC dimensions of development effectiveness. Clarification as to which will be the priority countries is necessary to facilitate monitoring, quality management, and review. Thus a process will also be identified for updating annually which are the relevant CASs from a GAC perspective.
- *Sector-level impact.* The Actionable Governance Indicators working groups in the PREM and HD Networks will complement their work to develop new indicators with intensified efforts to facilitate the use of these indicators as monitoring tools in WBG operations. Before the end of the third year of GAC implementation, the working groups will report to the GAC Council the progress in this regard based on a systematic assessment of a sample of the operational portfolio.
- *Impact on design of sector-level operations.* A good practice learning review of how to incorporate GAC into longer-term, institution-building and results-based lending will be undertaken, led by QAG in partnership with the GAC Secretariat and relevant networks. The review will highlight successful approaches to incorporating GAC into development policy loans, sector-wide programs, and adaptable program loans – focusing, among other points, on innovative new operations (of the kind highlighted in Box 6) being undertaken at the sector level that include new ways of addressing GAC issues. A key focus will be on how to mainstream the demand side in these more programmatic instruments (including multi-stakeholder approaches to program design as championed by the WBI in its new flagship initiatives).
- *Impact at project level.* The ‘GAC in projects’ working group will systematically document and disseminate good practice examples of the development impact of including GAC features in investment projects.

103. ***Ensuring the sustainability of attention to GAC.*** A further fundamental challenge looms for the sustainability of the GAC agenda: All of the scaled-up effort has been built around special purpose arrangements – a specially-constituted GAC Council and Secretariat, plus the provision of large volumes of earmarked resources from both the WBG’s administrative budget (with committed resources for FY09 to FY11) and the multi-donor Governance Partnership Facility. By definition, mainstreaming cannot depend indefinitely on special purpose arrangements. The Bank’s scale-up resources are already fully committed (to pay for strategic staffing recruitments), and the GPF is expected to be fully committed by spring of 2010. To be sustainable, GAC implementation will thus need to be mainstreamed into the budgets and business processes of the Bank’s Operational Vice Presidencies (regional and network) and its corporate units. The successful institutionalization of two sets of activities will provide a strong signal that sustainable GAC mainstreaming is being locked in.

104. First is the *institutionalization of a GAC knowledge management and quality support function* across the OVPs, including the following:

- Successful delivery of the knowledge platform (training, online knowledge, plus community of practice) in at least 8-12 practice areas (as detailed in Section VII, paragraphs 86-87).
- Demonstrated momentum in building communities of practice in each of the 8-12 practice areas, including strong participation of development professionals from outside the Bank.
- Sustainable financing; the GPF is expected to provide major funding support for the initial roll-out of the knowledge platform. To assure sustainability, Bank financing will also be needed for each of the 8-12 areas to cover the costs of OVP staff that provide ongoing support for the knowledge platform, plus related quality support within each OVP.

105. The second key to successful mainstreaming is *systematic attention to GAC* as part of the Bank's quality management processes, including:

- Mechanisms for identifying which CASs and operations will be expected to give priority attention to addressing the GAC constraints to development effectiveness; and
- Clarity as to the organizational arrangements within RVPs, as well as at corporate level, for making decisions – and monitoring follow-up – through the quality of attention to GAC in selected CASs and operations. It is expected that this will be closely aligned with implementation of the new Operational Risk Assessment Framework for lending operations.

106. From the start, the objective of GAC strategy and implementation efforts has been to mainstream GAC across the full range of WBG staff, with the understanding that “GAC is everybody's business.” When this is achieved, the special purpose arrangements that support GAC implementation – the GAC Council, the Secretariat, annual GAC progress reports – will have become redundant. The agenda laid out above provides a roadmap for transition toward anchoring GAC work in credible *evidence of impact* and *sustainable organizational arrangements* across the WBG.

107. The November 2007 GAC strategy implementation plan was geared for a three-year cycle. Both experience with other mainstreaming efforts (e.g., gender and environmental safeguards, where ‘lock-in’ was achieved over a 5-7-year time period), and the current state of progress of GAC implementation, suggest that some form of special purpose arrangements will be needed for the next phase of implementation as well. The Third-Year Progress Report – to be prepared by the end of 2010 – will detail how these arrangements are expected to evolve.

GOVERNANCE AND ANTICORRUPTION STRATEGY 2007 - ACTIONS AND RESULTS FRAMEWORK RESULTS ACHIEVED

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved at end of Year One</i>	<i>Update at End of Year Two</i>
GAC Strategy at the Country Level					
Country teams conduct a stocktaking CGAC process to assess GAC implications for development effectiveness					
Deepened engagement with countries on how GAC issues impinge on poverty reduction. Support countries to develop enhanced programs to address these issues and reflect such an enhanced understanding in the CAS.	Each country team with an upcoming CAS will deepen its engagement with its client and partners to take stock of the country's critical governance and corruption impediments to achieving development goals at the country, sector, and project levels, assessing implementation, reputational, and fiduciary risks.	RVPs, country teams	Significant and credible increase of GAC programs of support built into the CAS by the end of FY08. These CASs will have explicit governance indicators to monitor for positive change.	CGAC process launched in 27 countries with incremental financing.	CGACs completed in 27 countries. Stocktaking and lessons learnt exercise completed (paras 13-16).
	Each country team will identify the further analytic, institutional, or diagnostic work needed to enhance the Bank Group's knowledge.	RVPs, country teams		Diagnostics included in 18 of 27 CGACs. Also sectoral diagnostics.	Guidance note issued on problem-driven governance and political economy analysis (Box 4).
	The CAS will outline a clear business plan indicating how it intends to support the country to address GAC issues more effectively to increase development effectiveness and reduce poverty.	RVPs, country teams		9 of 27 CGAC countries systematically mainstreamed GAC in country program.	GPF supporting next phase of CGACs in eleven countries (paras 17-18).
	By the time of finalization of the Implementation Plan in September 2007, Regional Vice Presidents (RVPs) will agree with OPCS which FY08 CASs will incorporate such a process. After a year's experience and evaluation of results to date, it would be determined how such CGAC processes could be mainstreamed.	RVPs, OPCS		RVPs identified 27 CGAC pilot countries.	CGAC process completed.
Mainstreaming GAC in sectors and improving 'core' systems for development effectiveness					
Countries are better equipped to address GAC issues at the	Network VPIs (NVPs) will develop and pilot a new generation of GAC-focused diagnostic and monitoring AAA products—both sector-specific and	PREM and NVP sector	SD and HD will have issued guidance in this regard in the areas of	New diagnostic tools piloted and guidance provided by PREM, SD, and HD.	Infrastructure GAC Squad launched to provide support to operational task

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved at end of Year One</i>	<i>Update at End of Year Two</i>
sector level, where opportunities for interventions are often more immediate.	cross-cutting—for use on a demand-driven basis by clients and by country teams.	specialists	transport, health, and education. Other sectors will be encouraged to do likewise.		teams ; Knowledge and learning program launched by HD anchor for strengthening GAC in HD operations (paras 45-47). GPF supporting both programs.
Skills are adequate to address ‘core’ governance systems improvements.	With Network assistance, each RVP will take stock of whether the supply of specialist ‘core’ public financial and administrative management skills is sufficient to meet the underlying demand.	PREM, RVPs, HR	GAC HR strategy issued to accompany first year evaluation.	GAC strategic staffing completed; commitments for 14 additional public management staff.	Recruitment of additional staff almost completed in most OVPs (para 84).
<i>Facilitating country team engagement on the demand -side of governance</i>					
Countries are supported to enable them to have a strengthened focus on demand -side drivers of accountability.	SDN to (a) sponsor training for countries and The World Bank Group staff to enable them to better incorporate demand-side and civil society initiatives (including support for demand-side initiatives at sub-national levels) into programs and operations supported by the Bank; (b) sponsor training for social development staff to enable them to more effectively work with sector and technical staff on the demand side of World Bank Group operations; (c) design and implement quality management and M&E systems to assure the effectiveness of these scaled-up efforts; and (d) institute programs of lesson-learning on what works, and disseminate them widely through open websites, training, toolkits, and guidance notes.	SDN, EXT, WBI	Significant increase in new operations in FY08 in which there is support for the demand side of governance in all Regions.	(a) New “demand for better governance” community of practice established, including training. (b) Transparency, participation and third- party monitoring being systematically included in GAC in project quality management systems. (c) Work initiated by OPCS and SDV to systematically track incorporation of demand-side components in Bank operations.	QAG learning review systematically tracked inclusion of demand side mechanisms in large sample of FY08 operations. Results showed 42 percent of operations systematically included demand side components (paras 24-26).
Ensure resources are available on terms suitable to support demand-side activities.	Building on past experience, work with partners to develop a funding mechanism that can effectively finance project and program-related demand-side activities, including capacity building and training for civil society groups, to complement existing but limited resources for this (DGF, trust funds).	PREM, SDN, WBI	Funding mechanism in place and new grants available in FY08.	(a) Window 4 of multi-donor trust fund provides financing for civil society groups (Annex B); (b) Development Grant Facility for Partnership for Transparency Fund replenished and graduated to permanent window.	GPF funded a large number of initiatives focused on demand side of governance and institutions of accountability (Annex E).
Provide guidance to staff on demand-side	Prepare staff guidance for civil society engagement, including on demand-side approaches to ensure	SDN, EXT, LEG	Guidance note issued.	SDN, EXT, and LEG are preparing joint guidance to	Multi-stakeholder engagement guidance note

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved at end of Year One</i>	<i>Update at End of Year Two</i>
good practice and mandate issues vis-à-vis civil society engagement.	positive civil society roles in such areas.			clarify these legal considerations.	issued (Box 4).
<i>Working collaboratively with the private sector</i>					
Encourage and work with firms to incorporate anticorruption into corporate governance.	IFC and WBI will take lead to intensify efforts to make the business case for anticorruption, working especially with new IFC partner companies.	IFC, WBI	Significant increase in new IFC and other World Bank Group engagements in which the firms have adopted enhanced corporate governance measures (including explicit anticorruption plans).	(a) IFC has upgraded its corporate governance work to incorporate anticorruption (Box 12); (b) WBI launched new “Business Fighting Corruption through Collective Action” initiative.	IFC provided \$ 6.5 m funding for global, regional, and country advisory projects to promote good governance at the corporate level (Box 11). WBI initiative being mainstreamed in operations (Box 12).
Help professionalize voice of organized business and related stakeholders in dialogue on investment climate.	Scale up programs of support to business associations, chambers of commerce, and professional associations to strengthen their capacities to participate in public policy dialogue on the business environment.	WBI	Such associations will have developed new advocacy programs in this area.	New WBI program will partner with associations.	WBI initiative undertaken as multi-stakeholder partnership, including private sector champions.
Enhance quality of World Bank Group engagement in collaborative initiatives that set voluntary standards of business conduct.	Establish a World Bank Group-wide technical working group to provide, in collaboration with expert external stakeholders, knowledge management and support on market-focused global collaborative initiatives; to identify good practices and share them both internally and with non-Bank stakeholders; to generate research on their developmental impact; and to deepen our knowledge as to how these voluntary commitments can usefully be applied at country level.	PREM, Global Programs Group, IFC and other NVPs	New collaborative initiatives adopt programs to enhance their developmental impact, including voluntary codes of conduct where possible.	(a) Technical working group established (para. 86); (b) Support given to new CoST and MeTA initiatives; enhanced engagement with EITI .	Knowledge products created on globalized regulation; CoST and EITI expanded (Box 12).
<i>Measuring governance better</i>					
Countries, stakeholders and staff use indicators more systematically to better monitor	Establish a technical working group to promote the more systematic utilization in relevant Bank operations and strategies of governance indicators and diagnostic tools by	PREM, WBI, and OPCS	Guidance on governance indicators issued, and work on new governance indicators	(a) Technical working group established; support provided for enhanced use of existing actionable indicators.	HRM indicators piloted in 10 countries; ‘in practice’ indicators developed for public accountability

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved at end of Year One</i>	<i>Update at End of Year Two</i>
operational effectiveness, and understand the links between GAC and development.	<ul style="list-style-type: none"> educating staff on the appropriate use of different types of indicators; actively engaging operational task teams to promote the mainstreamed use of appropriate indicators for monitoring performance of relevant Bank lending products. 		under way.	(b) Work under way on new AGIs; (c) results framework provided.	mechanisms database; AGI data portal launched (para 62).
	The Bank will support broader country use of Public Expenditure and Financial Accountability (PEFA) indicators and advocate countries' voluntary disclosure of PEFA indicators and analyses.	RVPs	PEFA exercise undertaken in increased number of countries, and with increased number of countries disclosing their indicators.	PEFA carried out in 74 countries; number disclosed risen from 8 to 38.	Number of PEFA assessments disclosed publicly rose from 38 in mid-2008 to 56 by mid-2009 (para 62).
	Sectoral networks to develop governance indicators at the sectoral level, and apply them in sector operations, focused on indicators that can be replicated across countries.	NVPs	Governance indicators for transport, health, and education under way and/or issued.	New AGI initiatives by HD and SDN.	Sectoral AGIs being developed in HD; and infrastructure indicators being mainstreamed (para 62).
	The Research Committee will issue a call for proposals for research that explores empirically, using new and existing governance indicators, the relationship between specific governance interventions and development outcomes.	DECVP, Research Committee	New research proposals in this area approved.	DECRG researchers have submitted multiple proposals on measuring the development impact of governance to the multidonor Governance Partnership Facility.	New funding round initiated.
GAC Strategy Implementation in Bank Supported Projects					
Countries build GAC issues more systematically into their projects, notably for capacity building, including those supported by the Bank.	Increase the number of projects that include elements to address GAC issues, including capacity and institution building for country systems in financial management and procurement, accountability at the sector level, and participation in decision making and other demand-side approaches for strengthening governance.	RVPs, OPCS, WBI	New operations include capacity building in sector governance and fiduciary institutions. Indicators of measurable change would be included.	(a) Ongoing mainstreaming of 'smart' project design ; (b) Work initiated by OPCS to systematically track incorporation of GAC components in Bank operations.	QAG learning review assessed incorporation of GAC in large sample of FY08 operations; review provides baseline data for further assessment (paras 24-26).
Address GAC dimensions of development effectiveness throughout project	Country and project teams will systematically address governance and corruption risk to development effectiveness throughout the project preparation and implementation cycle through means such as systematic analysis of corruption risk	RVPs, project teams, OPCS	Guidance on addressing risk in projects, including GAC risks, has been issued. Annual report to be prepared on	(a) Guidance available on risk assessment as part of 2006 Management Review of Investment Lending; (b) Guidance for task teams on	Guidance and good practice notes issued on GAC in Projects, FM, procurement, and corruption red flags in

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved at end of Year One</i>	<i>Update at End of Year Two</i>
cycle.	in project preparation; smart project design; enhanced information disclosure; stronger supervision, including through participatory or third-party monitoring and review of GAC-related aspects of each operation; more systematic pursuit of remedies; and, where appropriate, development of project-specific anticorruption plans. Bank systems will be adjusted to reflect good practice approaches on governance and anticorruption.		how GAC issues have been addressed and mitigated throughout the Regions.	GAC in investment projects currently in draft; related guidance also under preparation.	projects (Box 4).
Strengthen quality management on GAC-related aspects of operations.	For projects incorporating governance and anticorruption plans (GAAPs) or corruption-related measures, supervision will include review of GAC-related aspects, and each implementation supervision report (ISR) will explicitly report on progress in implementing GAAPs and project-related measures to improve governance and mitigate corruption.	RVPs, Project teams, QAG		(a) As Above, (b) QAG modified assessment template for most recent quality at entry review; in FY09 will be expanded to additional products.	Good practice 'GAC in projects' guidance note issued.
	The Bank's quality management processes will assure adequacy of coverage of the GAC dimensions of development effectiveness for relevant country AAA and operational products.	OPCS, RVPs		As above.	IL reform and new Operational Risk Assessment Framework include GAC dimensions; GAC increasingly incorporated into MRIL processes (paras 89-91, Box 14).
GAC Strategy Implementation at the Global Level					
Improve donor coordination on GAC approach.	Harmonize GAC policies and procedures (e.g. investigative procedures, sanctions) among MDBs, including in the field, possibly through a revived MDB GAC working group.	INT/LEG	Target agreement on harmonization of sanctions policies by end-2008.	The issue of the harmonization of sanctions regimes has been on the agenda of the discussions among the investigative and legal functions of the MDBs. Ongoing discussions in respect of harmonizing the different sanctions regimes of the MDBs may lead to a revived MDB group on harmonization, to further	Cross-debarment discussions underway among MDBs.

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved at end of Year One</i>	<i>Update at End of Year Two</i>
				guide and strengthen the ongoing process.	
	Investigate scope for common response principles for donors to improve donor coordination in countries with severe GAC constraints to development effectiveness.	PREM		Pilot work under way.	
Strengthen support for multistakeholder engagement.	Scale up support for collaborative governance initiatives and peer-based networks, such as EITI.	EXT, WBI, Networks	Support provided for new peer-based arrangements (e.g., construction industry).	Support given to new CoST and MeTA initiatives; enhanced engagement with EITI.	CoST and EITI being expanded (Box 12).
Support global and regional GAC conventions.	Intensify support for the implementation of GAC-related conventions and initiatives, including the United Nations Convention Against Corruption, and the Stolen Asset Recovery (StAR) Initiative.	PREM, WBI, NVPs	StAR has facilitated the asset recovery process in additional countries.	Implementation of StAR under way.	StAR implementation ongoing (paras 73-79).
Foster global learning on the GAC-development nexus.	Coordinate a biannual conference on GAC at the WBG' Annual Meetings. Intensify global research on the impact of GAC on development, including establishment of an electronic working paper series.	DEC, WBI, PREM	First biannual conference in 2008.	(a) Window 3 of Multi-donor trust fund targets promotion of strategic shared learning; (b) no progress on conference.	Extensive research ongoing in DECRG.
			Relevant research proposals approved.		
Organizational, Human Resource, and Budget Actions to Support GAC Implementation					
Identify a group of staff to improve GAC coordination and awareness in RVPs and NVPs.	Country teams and SMUs (both within RVPs and Network anchors) will designate a senior staff member to be the focal point on governance and anticorruption and will allocate time in the work program to enable that staff member to advise on GAC-related issues of the unit's products.	RVPs	Bankwide team in place before end 2007.	All RVPs have designated GAC focal points; ECA has systematic structure down to sector unit level.	Focal points continue to be active champions of GAC agenda.
	Each RVP will put in place an appropriate regional coordination process and/or structure and operationalize this in FY08; this process will work under the leadership of a senior person(s) designated by the VP.	RVPs		Each RVP has established a coordination process; cross RVP learning on good practices is being initiated.	RVPs have set up GAC steering committees and coordinating bodies that monitor and oversee GAC implementation at the RVP level (para 88).
	For Networks, HD and SDN will each establish immediately a VPU-level steering group (including	HDN, SDN		(a) SDN established new learning networks; (b) HD is	HD has GAC-focused staff in chief economist's office

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>	<i>Results achieved at end of Year One</i>	<i>Update at End of Year Two</i>
	representation from RVPs) to facilitate and monitor implementation of actions to mainstream GAC.			initiating a new learning network, focused on measuring and assessing results.	leading the knowledge and learning work; SDN has set up a GAC Squad in the infrastructure sector (paras 45-47).
Strengthen the Bank's human resources for GAC strategy implementation.	The Networks, supported by Regional governance focal points, will work with the Regional learning coordinators to develop GAC-related learning programs and event, and will identify critical GAC staff shortages that may need to be filled by recruitment	Sectoral VPUs with PREM and Regional focal points		Multiple learning programs delivered by Networks.	Strategy and action plan for a knowledge and learning platform has been developed, and will be implemented in FY10 (para 85).
	Initiate a GAC skills needs and assessment exercise that will be completed by the first annual review. The plan will lay the basis for a more comprehensive scale-up strategy to be implemented in FY09 and beyond, and will include (a) identification of any specific GAC frontier areas where additional in-house skills will be required; (b) attention to the specific needs of field offices; and (c) to how commitment to GAC strategy implementation can be incorporated into staff (especially management) performance evaluations.	OPCS and HR, with PREM, HD, SD, Legal, and FP	GAC HR strategy to be issued along with first-year report.	Completed.	Recruitment of additional GAC staff completed in most OVPs (paras 85-86).

TEN MAJOR GEA SUGGESTIONS AND RELEVANT BANK ACTIONS IN YEAR TWO OF GAC IMPLEMENTATION

The second year of GAC implementation has addressed the major suggestions made by the Group of External Advisors. The suggestions and the actions undertaken on each of them (*in italics*) are enumerated below.

1. **Clarify goals and objectives for implementation of GAC in the subsequent two years.**
Key goals for implementation over FY09 were presented to the GAC Council in February 2009, and this progress report is an update on progress in achieving those goals. Key goals for the third year of implementation are highlighted in Box ES2, and Annex C.
2. **A GAC strategy policy statement from WBG President.**
The WBG President, Mr. Zoellick, made a statement on GAC at an open forum of the GAC Council on April 21, 2009, attended by almost 300 Bank staff, where he highlighted the importance of GAC as a key tool for development effectiveness, and to enable the Bank to address risks associated with working in development environments (Box 1).
3. **Re-examine the Bank's core GAC-relevant management systems (including risk management, procurement, financial management, and project management).**
Major reform is underway on investment lending, organized around an operational risk assessment framework (ORAF) (Box 14). Progress on this initiative includes a risk governance framework that allocates managerial and staff roles and responsibilities throughout the operational cycle. OPCS has also issued guidance notes highlighting on procurement, financial management, and GAC in projects (Box 4.)
4. **Clarify responsibilities of management, staff, and different units in GAC implementation – and ensure accountability through surveys and performance reviews.**
The RVPs undertook a comprehensive quality management review/peer learning exercise through the GAC Council, sharing their diverse approaches to quality management (para 89). The Investment Lending Progress Report includes a detailed assignment of roles and responsibilities in the context of the ORAF (paras 89-91, Box 14).
5. **Strengthen review/evaluation of quality of WBG's GAC engagement.**
QAG conducted a benchmarking and learning review of integration of three key GAC dimensions – political economy analysis, fiduciary aspects, and demand for good governance – in a large sample of FY08 projects, providing a baseline for future evaluation of the 'GAC in projects' part of the agenda. (paras 24-26). The Independent Evaluation Group (IEG) has programmed a review of implementation of the WBG's GAC strategy for FY11.
6. **Invest intensively in GAC skills, training, learning, and knowledge.**
A strategic plan was prepared for a GAC learning and knowledge platform through Bankwide consultations and discussed at the GAC Council, and will be implemented in the upcoming year (para 86).

7. Give heightened attention to the implications of country-specific GAC characteristics for good practice operational engagement.

A guidance note was issued on problem-driven political economy analysis as a key approach to engagement at the country level, and country-level assessments were launched in many countries with funds from GPF (Box 4, Annex E).

8. Give heightened attention to managing the trade-offs between ‘country systems’ and ‘ring-fencing’ in Bank work.

OPCS undertook a retrospective of development policy lending and found that this instrument had adopted a results-based approach while enabling Bank support to stay aligned with country processes. The document also proposed a stronger assessment of country fiduciary systems going forward (2009 Development Policy Lending Retrospective). Work in sectors is also moving toward a more programmatic, results-based approach, focused on building institutions within countries (paras 43-44, Box 6).

9. Strengthen detection and complaints handling in Bank operations.

INT scaled up its emphasis on core investigative work and made available a variety of tools to assist operational staff in better detecting fraud and corruption (paras 30-34, Box 5).

10. Update approach to remedies.

An early temporary suspension procedure has been adopted that enables the Bank to suspend companies, which have engaged in some misconduct from bidding on Bank-financed contracts while INT continues to investigate other suspect activities by such firms (Box 5).

GOVERNANCE AND ANTICORRUPTION STRATEGY - YEAR THREE ACTIONS AND RESULTS FRAMEWORK

This matrix maintains, to the extent that it is feasible, the structure of the 2007 matrix reported in Annex A – though the GAC agenda continues to evolve, so some new items are added, and completed/dropped items are removed. Italicized activities are those that are highlighted in the priorities listed in Box ES2.

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>
GAC Strategy at the Country Level			
GAC in CAS process to assess GAC implications for development effectiveness mainstreamed across the WBG			
Deepened engagement with countries on how GAC issues impinge on poverty reduction. Support countries to develop enhanced programs to address these issues and reflect such an enhanced understanding in the CAS.	<i>Clarify mechanism for determining which CASs will incorporate intensified GAC in CAS process going forward.</i>	GAC Council	Mechanism in place for identifying , on a rolling two-year basis, priority countries to address GAC impediments to development effectiveness in the CAS.
	<i>Clarify GAC in CAS quality management arrangements at RVP and Corporate levels.</i>	RVPs, OPCS, PREM	Quality management arrangements in place, with appropriate staffing and ongoing review function; report on quality management arrangements issued.
	<i>Strengthen systematic lesson learning and dissemination on GAC in CAS good practice approaches.</i>	PREM	Good practice materials incorporated into GAC online knowledge and learning portal.
Mainstreaming GAC in sectors and improving ‘core’ systems for development effectiveness			
Countries are better equipped to address GAC issues at the sector level, where opportunities for intervention are often more immediate.	Enhance support to task teams to support GAC mainstreaming in HD and SDN operations.	HD, SDN	GAC in HD and GAC in infrastructure incorporated into knowledge and learning portal.
Country procurement systems are strengthened.	Building on completed assessments in 18 countries, <i>continue implementation and lesson learning of country procurement systems pilot , including GAC Council stocktaking, and refinement of pilots.</i>	OPCS, GAC Council	Review completed, with identified actions for proceeding with next phase of country systems pilot.
‘Core public sector’ interventions systematically tailored to different	<i>Prepare approach paper on better tailoring of public sector interventions to different country</i>	PREM	Approach paper completed.

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>
country settings.	<i>settings.</i>		
Enhanced use of re-oriented investment lending instrument, with stronger results-orientation and institution-building elements	(i) Detail design work of next phase of investment lending reform, including design of new financing instrument; (ii) Better alignment of internal Bank budgeting approaches with longer-term , results-oriented operational engagement.	OPCS, with RVPs and NVPs	Next phase of investment lending reform issued.
Strengthen GAC dimensions of programmatic lending instruments	<i>Continue development, dissemination and use of Actionable Governance indicators, at both sectoral and core levels.</i>	PREM, HD, SDN	Enhanced use of AGIs in programmatic lending operations.
	<i>Undertake learning review on GAC good practices in programmatic lending, with focus on sector-level operations and inclusion of demand-side mechanisms.</i>	QAG, with GAC Sect	Learning review completed.
	<i>Pilot intensified multi-stakeholder engagement in design of programmatic operations and disseminate lessons.</i>	RVPs, with WBI and CommGap	Pilots underway in selected operational programs.
Facilitating country team engagement on the demand -side of governance			
Countries are supported to enable them to have a strengthened focus on demand -side drivers of accountability.	Accelerate mainstreaming of demand-side approaches in design of investment operations.	RVPs, networks	Follow-up benchmarking review of FY10 projects at entry shows increase in proportion of projects that are responsive to demand-side criteria (FY11 deliverable).
	Strengthen quality management systems to support demand-side mainstreaming in operations.	RVPs, OPCS	Quality management arrangements in place, with appropriate staffing and ongoing review function; report on quality management arrangements issued.
	<i>Pilot intensified multi-stakeholder engagement in design of programmatic operations and disseminate lessons.</i>	RVPs, with WBI and CommGap	Pilots underway in selected operational programs.
Ensure resources are available on terms suitable to support demand-side activities.	Grant support to demand-side work via DGF.	PREM, DGF	DGF demand-side grants committed.
Provide guidance to staff on demand-side good practice	Continue support to task teams to mainstream demand-side into design of investment operations.	CoPs (GAC in projects; HD; SDN; DFGG)	Demand-side incorporated into GAC knowledge and learning portal.
Working collaboratively with the private sector			
Encourage and work with firms to	IFC will continue deepening its efforts to provide	IFC	Continuing increase in IFC engagements in which

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>
incorporate anticorruption into corporate governance.	support for improved corporate governance and transparency to clients.		the firms have adopted enhanced corporate governance measures.
Measuring governance better			
Countries, stakeholders and staff use indicators more systematically to better monitor operational effectiveness, and understand the links between GAC and development.	<i>Continue development, dissemination and use of Actionable Governance indicators, at both sectoral and core levels.</i>	PREM, HD, SDN	<i>Sectoral/Health and education:</i> AGIs incorporated in 10 already-programmed operational country work. Tested and refined measurement instruments developed and disseminated. <i>All:</i> Building on the year two internal launch of the AGI portal, accelerated outreach; quality management approaches for enhanced use of AGIs are in place.
	<i>Review trends in intermediate outcomes of institution-building efforts, using AGIs that have been incorporated into operations as monitoring tools.</i>	DECRG, PREM, HD	Research program using country system AGIs is underway.
GAC Strategy Implementation in Bank Supported Projects			
Strengthen quality management on GAC related aspects of operations	<i>Implement Operational Risk Assessment Framework for Investment Lending.</i>	RVPs, OPCS	ORAF implemented.
	<i>Strengthen skills and quality management for addressing GAC dimensions of ORAF.</i>	RVPs, OPCS	Quality management arrangements in place, with appropriate staffing and ongoing review function; report on quality management arrangements issued.
	<i>Continue dissemination of 'GAC in project' good practice approaches</i>	GAC in projects working group	Good practice materials incorporated into GAC online knowledge and learning portal.
	Accelerate mainstreaming of GAC approaches in design of investment operations.	RVPs, networks	Follow-up benchmarking review of FY10 projects at entry shows increase in proportion of projects that are responsive to GAC criteria (FY11 deliverable).
	<i>Continued strengthening of the Preventive Services Unit. Further development of the Detailed Implementation Review instrument.</i>	INT	Preventive Services unit providing proactive support to operational task teams in the regions. DIR instrument details finalized.

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>
	<i>Outreach to other multilateral institutions to share experience and promote consistency in approaches.</i>		Partnerships and knowledge-sharing strengthened with other multilateral institutions
GAC Strategy Implementation at the Global Level			
Improve donor coordination on GAC approach.	Harmonize GAC policies and procedures (e.g. investigative procedures, sanctions) among MDBs, including in the field, possibly through a revived MDB GAC working group.	INT, OPCS	Alignment among MDBs in approach to debarment.
Strengthen support for multistakeholder engagement.	Scale up support for collaborative governance initiatives and peer-based networks, such as EITI.	Networks, WBI	Continuing support provided for peer-based arrangements (e.g. CoST, EITI).
Support global and regional GAC conventions.	Intensify support for the implementation of GAC-related conventions and initiatives, including the United Nations Convention Against Corruption, and the Stolen Asset Recovery (StAR) Initiative.	StAR Secretariat	Mid-term review of StAR progress to inform management decisions on strategic direction
Foster global learning on the GAC-development nexus.	<i>Coordinate a research program and conference to assess GAC's development impact.</i>	DECRG, with WBI, PREM	Conference programmed.
			Relevant research proposals approved, and research underway.
Organizational, Human Resource, and Budget Actions to Support GAC Implementation			
Strengthen the Bank's human resources for GAC strategy implementation.	<i>Fully implement GAC knowledge and learning platform (training, online, communities of practice) in 8-12 practice areas, including sustainable budgets beyond special purpose support.</i>	GAC Secretariat, with partners	GAC knowledge and learning platform fully operational.
Move towards sustainable mainstreaming of GAC in Bank business practices	Building on year two RVP experience sharing at GAC Council of their good quality management practices vis-à-vis GAC, systematize quality management arrangements for GAC elements of operational effectiveness.	RVPs, OPCS	Issue report that reviews GAC-related quality management arrangements at RVP and corporate levels for each phase of the operational cycle.
	<i>Clarify organizational arrangements for coordinating, supporting and monitoring GAC mainstreaming in the next phase of GAC strategy implementation, including budgetary arrangements.</i>	GAC Council and Secretariat	Year Three Progress Report will detail organizational and budget arrangements for next phase of GAC implementation.

<i>Action area</i>	<i>Description of Bank activities</i>	<i>Responsible</i>	<i>Outline results</i>
Strengthen internal and external communications on GAC as value adding for development effectiveness and risk management	Develop and implement internal and external communications strategies.	EXT and GAC Secretariat, with WBI	(a) Internal and external communications plans designed and implemented; (b) consolidated GAC external web platform launched.

GAC IN PROJECTS BENCHMARKING AND LEARNING REVIEW

Annex D details the logical structure of the baseline review questionnaire used for the ‘GAC in Projects’ Benchmarking and Learning Review, a collaborative effort led by QAG with the GAC Secretariat and the Social Development Department. Project documents for each operation were assessed using a four point scale (Very Responsive, Somewhat Responsive, Limited Effort, Unresponsive) on the extent to which the different elements of GAC risks and corresponding mitigation measures outlined in the framework below were addressed.

Integrating ‘GAC in Project’ Design

As good practice, Project Appraisal Documents (PAD) summarize prior knowledge of GAC, assess additional GAC risks to the operation as part of appraisal, and integrate appropriate mitigating measures and arrangements for implementation support into project design. Prior knowledge of relevant GAC risks generally is derived from three sources: (i) the country’s CPIA Gov ratings;⁸ (ii) risks identified in country or sector analytical and advisory (AAA) work; and (iii) GAC risks and GAC priorities identified in the country assistance strategy.

The Review considered three key GAC elements in project design:

- Governance and the Political Economy (GPE)
- GAC in Fiduciary Aspects (GFA)
- Demand Side of Governance (DSG)

Attention to Governance and Political Economy

GPE typically involves analysis of formal institutions and political economy risks, followed by project design that responds to GPE constraints. Explicit identification of GPE risks from prior AAA or project appraisal allows task teams to communicate more effectively with clients and dig deeper to fully understand governance risks and enhance development effectiveness.

- ***Institutional analysis*** comprises an analysis of formal institutions responsible for project implementation to identify organizational constraints. This often includes organizational structures, decision-making rules, relevant legislation, staff skills, staff capacity and reporting, and accountability arrangements.
- ***Assessment of political economy risks.*** These risks typically fall into three categories – stakeholder interests, informal rules and behavior, and vulnerability to elite capture – which may have been assessed in background AAA and may be summarized in the PAD:
 - *Stakeholder analysis:* Relevant stakeholders are identified and their key interests in relation to the operation assessed to determine in how they can help or hinder the project.
 - *Informal rules:* Informal rules of the game, adverse incentives and informal behavioral practices embedded in institutional cultures often override formal rules. For investment projects, informal rules are identified and analyzed in the specific context of the project.

⁸ The rating for CPIA Indicator #16 (Transparency, Accountability & Corruption in Public Sector) is a good proxy for the governance environment. Ratings below 3.5 are labeled Low Gov CPIA ratings and indicate high governance risk.

For DPOs, the broader country-level assessment examines how informal rules and behaviors affect policy actions.

- *Vulnerability to corruption*: The operation’s vulnerability to rent-seeking, elite capture, and clientelism often rooted in power inequities not only individual avarice. Rigorous political economy analysis can help to identify the root causes of such behaviors and identify alternate processes that address these vulnerabilities.
- ***Design response***. When GPE risk assessments are carried out, task teams typically adapt project design to GPE constraints. In practice, design responses frequently indicate more implicit understanding of GPE risks than found in project documents. Sometimes sensitivities do not permit elaboration of GPE risks within the PAD/PD. However, good practice PADs should briefly acknowledge GPE risks and include an *explicit* description of mitigation measures to address GPE constraints.

GAC in Fiduciary Aspects

GAC in fiduciary aspects typically involves risk assessment and mitigation to address fraud and corruption risks to investment projects. Development policy operations typically include measures to strengthen financial management and procurement systems at the country (or occasionally sector) level. Good practice implies tailoring effort on risk assessment and mitigation to the degree of risk. Countries with Low Gov CPIA ratings generally need greater effort to assess and mitigate risks. In countries with higher CPIA ratings, anticorruption measures generally would be invoked only when justified by project-level risk assessment:

- ***Assessing fraud and corruption) risks***. Task teams analyze the extent to which the project faces high fraud and corruption risks within the project cycle as an integral part of procurement and financial management risk assessments. Task teams also consider the track record of previous operations within the country and sector to determine fraud and corruption risks.
- ***Anticorruption measures tailored to severity of fraud and corruption risks***. Projects utilize “smart project approaches”⁹ to mitigate identified fraud and corruption risks and operationalize GAC in financial management and procurement arrangements. High risks can warrant Anticorruption Action Plans, which need more intensive supervision. The Anticorruption Action Plans also impose costs on clients and are best used selectively, not to compensate for inadequate risk assessment.
- ***Preference for country systems and sector-wide approaches***. Good practice goes beyond a “ring-fenced” approach to GAC, toward use of country systems and systemic institutional strengthening as part of sector-wide programs to enhance client ownership and ensure that GAC measures can be sustained beyond the life of the operation.
- ***Provisions for GAC supervision***. Good practice supervision plans for investment projects generally include arrangements and resources for adequate supervision of fraud and corruption risks. Supervision of high-risk projects typically include integrated procurement,

⁹ See “Dealing with Governance and Corruption Risks in Project Lending – Emerging Good Practices”, OPCS, February 12, 2009. In particular see: paragraph 3.11 for ‘Smart Project Design’; paragraph 3.19 for ‘Anticorruption Plans’; and paragraph 4.07 for ‘enhanced supervision’.

financial management and technical reviews, random field visits, or a higher percentage of ex post reviews to mitigate fraud and corruption risks. Given the single-tranche nature of most DPOs this is largely not applicable to them.

Demand Side of Governance

Demand-side measures are risk mitigation measures that invoke the *TAP framework* (transparency, accountability, and participation) and utilize the latent potential of stakeholders and civil society to enhance public scrutiny and achieve better GAC outcomes for lending operations. To be effective, demand-side measures need careful monitoring and imply higher administrative costs to the client. Demand-side measures also add costs to civil society organizations, some of which may be reluctant to accept government funds since that could compromise their autonomy. Strategic selection of demand-side measures customized to the nature of the operation can result in better targeting and significant cost savings. Including careful monitoring and evaluation demonstrates value added and can help ensure sustained client support for these measures.

- **Transparency.** Where feasible, task teams invoke right-to-information (RTI) laws. Even without RTI legislation good practice projects disclose information on sector issues, project processes, and outputs. To be effective, these arrangements include a well-designed communication plan and monitoring of transparency mechanisms.
- **Participation.** Good practice projects include (a) institutional arrangements for beneficiary/CSO participation, and (b) grievance redress mechanisms:
 - *Explicit provisions for participation by beneficiaries, CSOs and other stakeholders*, and capacity building; where civil society is weak, increase the quality of participation in design, decision-making, and implementation.
 - *Explicit mechanisms (such as a complaints cell or ombudsman) for receiving and responding effectively to complaints and grievances* enhance beneficiary ownership and reduce corruption risks but they need to be empowered, resourced, and monitored to be effective.
- **Third party monitoring** includes (a) monitoring of project processes, and (b) independent verification of outcomes. Process monitoring and impact monitoring are best done independently of each other as their content and timeframes differ:
 - Project processes are monitored most effectively by third party entities when the project includes provisions to encourage them and review mechanisms that take account of third party monitoring reports. Many of them are supported by trust funds.
 - Projects rely on one or more of a range of independent verification instruments, including Public Service Delivery Survey, Citizens Report Card, Social Audit, Participatory Public Expenditure Tracking Survey, and Consumer Satisfaction Survey, to obtain feedback on outcomes such as access and quality of services.

SOME GRANT AWARDS BY THE GOVERNANCE PARTNERSHIP FACILITY

1. GPF Grants for ‘GAC in Sectors’ Work

In **Albania**, the GPF is facilitating a study of micro foundations of governance in the education sector, as well as promoting just-in-time sectoral governance interventions.

In **Angola**, the GPF is financing political economy analyses of three sectors: decentralization, public infrastructure planning and management, and agriculture

In **Argentina**, a grant is helping strengthen governance in the health sector by funding a National Observatory of Health Policy.

In **Kenya**, the grant will support political economy analysis of land, agriculture, and fiscal decentralization.

A multi-country grant for **Latin America** is helping an assessment of social participation in infrastructure regulation, which will include designing a learning and knowledge exchange platform and tools for citizen participation in infrastructure, accessible to practitioners at the country, regional, and global levels.

In **Mongolia**, as part of CGAC funding, the grant will support community-driven initiatives and civil society monitoring in mining and public resources management and strengthening governance across the mining value chain by promoting broader and more informed public accountability.

In **Morocco, Jordan, Yemen, and Egypt**, a multi-country grant is supporting a political economy analysis of subsidy reform and social protection strategies.

In **Morocco**, the GPF is supporting improvements in governance in social services delivery through a program of randomized impact evaluations of governance interventions in education, rural health services, and conditional cash transfer programs.

A grant for **Mozambique** targets technical assistance for community scorecards in health.

In **Sierra Leone**, the grant will support a governance and political economy analysis of decentralization, transport and power.

2. GPF Grants to Improve Transparency and Strengthen Accountability

In **Cambodia**, the grant will include mainstreaming demand-side governance initiatives across the country program and building an evidence base of their impacts and outcomes.

In the **Dominican Republic**, GPF funds are helping build demand-side capacities for increasing budget transparency, and performance accountability and building civil society's capacities for budget analysis and monitoring.

In **Honduras**, GPF funding is supporting the public service function of mainstream media, piloting new local-level governance approaches to service delivery, and developing a strategy for smart project supervision with local oversight and participation.

In the **Kyrgyz Republic**, with support from GPF, stocktaking is underway of the existing information environment; the grant will further support coalition and capacity building of civil society organizations, media, and public officials in support for greater transparency and access to information.

In **Paraguay**, the grant will support the creation of a plural system of communications, including national public media, promotion of access to public information, and the development and implementation of strategic plan and tools to improve accountability.

In **Peru**, the grant will help set up a national observatory of governance policies, establish a permanent technical unit to improve congressional oversight capacity, and help develop tools to increase timely access to general accounts and audit information.

In **South Sudan**, the grant will support a leadership program and a multi-stakeholder governance forum in six states.

In **Thailand**, the grant will help establishing mechanisms for operationalizing the Official Information Act, and pilot government–nongovernment partnerships to improve governance in public procurement.

In **Turkey**, two grants support the development of strong accountability: a grant for the Parliament supports capacity of the Budget Office and the Plan and Budget Committee, as well as assessment of the Parliament's oversight role in the budget cycle; a grant for judicial reform includes organizing innovative GAC workshops and seminars for policymakers, and a case file diagnostic of the cause for backlogs for the judicial process.

A multi-country grant for **South Asia** is helping implement right to information, including working with government entities and civil society organizations, and creating a regional network for right to information.

A multi-country grant for **Cameroon, Cote D'Ivoire, Lao People's Democratic Republic, and Nepal** will support budget publication, analysis, and expenditure tracking, as well as sensitization and capacity building among civil society regarding budgets and public expenditures.

In the **ECA**, the GPF is supporting a peer-to-peer knowledge-sharing network and web portal, and the development of actionable indicators and benchmarking in the justice sector.