



THE GROUP OF EXTERNAL ADVISORS FOR GAC IMPLEMENTATION

2009 REPORT ON THE WORLD BANK'S IMPLEMENTATION OF THE GOVERNANCE AND ANTICORRUPTION STRATEGY

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I. INTRODUCTION

The Group of External Advisors ["External Advisors"] met at the World Bank in Washington from December 1-3, 2009 to consider:

- Progress on the issues raised in its 2008 report
- The World Bank Group's implementation of the GAC Strategy during 2009.
- Key issues going forward, and options for addressing them.

At the outset, we note that, from the President down to the field operations, significant attention, resources and energy have been devoted to the Governance and Anticorruption Strategy. We believe it is at heart of the Bank's efforts to reduce poverty. The Bank is to be commended for its growing commitment to GAC, although many issues remain and results of the effort will only become clear in an arc over the near, middle and long term.

We also note limitations on our role. The Group's time together was relatively short, and we had no independent staff. The Bank has many other internal and external groups which conduct in-depth analysis of various dimensions of the GAC strategy. We viewed our job as raising issues, posing questions and offering comments based on our interviews and our diverse personal experiences, not, obviously, an extended or in-depth study.

In this report, we focus on some major issues from last year's report as well as additional important issues which emerged in this year's review. In Appendix A, Bank staff have indicated, at our request, priority actions that the Bank currently is undertaking on issues raised in last year's report. In Appendix B, Bank staff have indicated additional actions that were taken over the past year to address issues raised in that report. The External Advisors thank the Bank staff, both from Washington and from the field, for high quality presentations and for their candid responses.

II. DEVELOPMENTS IN THE PAST YEAR

Since we met last, important developments have occurred which affect the World Bank in general and the GAC strategy in particular.

- The global recession has strained the budgets and finances of recipient nations and worsened the conditions affecting the poor. In response to the crisis, the World Bank Group committed in 2008 to provide an extra \$100 billion over three-years; between FY08 and FY09 alone, IBRD lending almost tripled. But this increase in funding creates more pressure to push money out the door quickly without normal planning disciplines aimed at program effectiveness and integrity.
- Donors to the World Bank are also facing severe financial and budgetary distress. As a result, many are especially sensitive to proper use of outlays, given the many competing claims on scarce public resources in the donor community, too. This financial distress puts counter-pressure on the Bank to use its funds carefully. A widely publicized case of fraud or corruption involving large amounts could cause a political backlash in donor nations.
- The Bank's Governance and Anticorruption Strategy is gaining momentum not just among the Bank's policy thinkers and staff specialists but, most importantly, in country and regional operations. The idea is that GAC concepts are essential in the life cycle of Bank lending---from design to final audit---in order to enhance governance capacity in the recipient nation and ensure, to the greatest extent possible, that funds are used for intended purposes. The Bank has yet to measure systematically whether GAC is being "mainstreamed" in its diverse units and complex culture. But there is no question that the momentum is positive. On the other hand, there is also no question that resistance to the GAC agenda still exists and must be addressed. Important new emphases on assessment of the nation's political economy or the demand side of projects from governments or citizens, for example, should continue to be developed and used.
- An important new initiative is to institute a system, in every project, of "risk-based" lending -
- paying attention to many risk factors from the broad political economy of the nation, to the bad practices in a particular sector, to specific points of risk in a particular project, the Bank hopes to conduct risk assessments and then devise appropriate risk mitigation efforts. This initiative, which will be discussed in more detail below, builds GAC concerns into the very center of every project. All Bank projects are scheduled to use this methodology starting in July, 2010. But the conceptual framework cannot hide one of the most profound issues in Bank operations: how to work effectively in nations with corrupt governments or sectors and limited, if any, institutional legitimacy and regulatory capacity?
- There are increasing pressures to move away from traditional investment lending (about 70 percent of the Bank's efforts) to programmatic lending efforts such as budget support or policy development lending. Although both investment and programmatic lending will be subject to the new risk approach, the careful contracting, management, monitoring, and auditing disciplines of traditional investment lending are replaced, in theory, by a different

set of control mechanisms in programmatic lending. Programmatic lending, and its different controls, can be appropriate. But there is a risk that some recipient countries (and indeed some Bank staff) may push for more programmatic lending, in part, to avoid investment lending disciplines and, in part, to get money to distressed nations more quickly. The challenge is to make sure that programmatic lending does not become a guise for investment lending, simply with fewer requirements.

III. AN ASSESSMENT TEMPLATE

The Bank has a remarkable capacity to write long, jargon filled reports which are sometimes hard to read. Many development subjects---including GAC strategy----are complex and require detailed analysis. But there is also a need for clear, comprehensible communications of essentials.

Thus, the External Advisors strongly urge that, with respect to GAC, core communication follows a relatively straightforward template.

- 1) What are the top priorities in the three dimensions of GAC?---and why?
 - a. Building governance capacity in developing nations
 - b. Protecting program integrity and proper use of Bank funds
 - c. Program integrity efforts as models for capacity building

2) What policy, system or process response was devised to carry out the priority? Was it communicated effectively to a clearly defined universe of people inside the Bank who would be responsible for its implementation? Often GAC papers speak of a new system or a new process but do not give a sense of the universe of intended recipients and the degree to which they have been reached.

- 3) What was the impact in several key dimensions?
 - a. Did the affected individuals in the Bank act on the policy, systems or processes?
 - b. Did these actions protect program integrity or was there leakage of funds?
 - c. Did these actions build governance capacity---and lead to enhanced country ownership of an improved governance and anticorruption agenda?
 - d. As a result of the actions, were there impacts on the ultimate Bank mission---poverty reduction and more effective development?

These are hard questions, but they must be asked and answered systematically. Even if it will take time for impact to occur, a definition of what a good impact would be, in understandable terms, should be kept clearly in view at all times.

Rigorous attention to concise, crisp communication of these fundamentals (even if they must be built on much more detailed analysis) is important to bring plain-speaking and candor to this subject.

IV. SOME KEY ISSUES

From our discussions with Bank personnel, key issues emerged which build upon and supplement the issues identified last year.

1) The Implementation of the Risk Based Lending Program.

As noted, this will apply to all Bank projects starting in July of next year. Some of the key questions are:

- a. Will project task teams in the countries have enough time to review carefully the 11 risk factors upon which risk based lending is based?
- b. What kind of resources from the rest of the Bank can those task teams draw upon in making risk assessments and devising risk mitigants? We heard of many different units which might have broader perspectives, but it appeared that a core clearinghouse mechanism was needed to communicate coherently and effectively to task teams.
- c. When are the ‘risks’ of the project so significant that decision should go beyond the Country Director to the Regional Vice President or a Managing Director? How should that ‘escalation’ of decision-making as risk levels rise be defined?
- d. At the other end of the spectrum, what are the characteristics of low risk projects that can be ‘fast-tracked’ to a degree?
- e. Ultimately, despite the new methodology, the old problems exist: is the country or sector too corrupt for any project? Is it so corrupt that a “ring-fenced” project must be used? How can “ring-fencing” be made most consistent not just with delivering the particular service or result but also with aiding broader development? If zero risk is not a feasible goal how does the Bank characterize “acceptable” risk in high risk nations?

2) Ensuring Proper Treatment of Investment and Programmatic Lending.

As noted, there is increasing pressure to use programmatic, as opposed to traditional investment lending. Such programmatic lending takes different forms and serves different purposes---from budget support to policy reform. Several important issues emerged in our discussions:

- a. Are the different safeguards for programmatic lending adequate and appropriate? A review of programmatic approaches and the range of safeguards from a GAC perspective---coupled with rigorous assessment of lessons learned from experience to date -- seems appropriate as such lending assumes greater importance in development theory and Bank practice.
- b. What safeguards are needed to make sure that, given time pressures and a desire to avoid the detailed requirements of investment lending, investment lending projects are not mischaracterized so that fewer requirements are triggered? Clearly defining the differences between investment lending, on one hand, and the various types of programmatic lending, on the other, and ensuring that projects are, at the outset,

being evaluated in the appropriate category is important.

3) Systematic Oversight and Use of Best Practices Where Appropriate.

Because of its enormous programmatic and geographic reach, the Bank, working with recipient states and other donors, has a tremendous amount of experience each year in developing nations. As a matrix organization, many different units of the Bank have partial responsibility for many issues. One can celebrate this diversity---in GAC and in development generally. It can lead to creativity and innovation

The GAC Council and GAC Secretariat provide a useful platform for co-ordination and information sharing. But we also had a strong impression that there is not a sufficiently robust mechanism for assuring systematic quality management and oversight. For example:

- a. The GAC progress report noted the mixed performance of Bank country teams in the country-GAC (CGAC) process, and a continuing gap in terms of setting systematic priorities and quality management for incorporating GAC in Country Assistance Strategies.
- b. We note that (building on our earlier recommendation) the GAC Council moved some distance to defining the responsibility of selected country directors and country managers for addressing GAC issues, but this process was not completed.

We urge that the Managing Directors that chair the GAC Council be more proactive in identifying key priority actions that require systematic follow-through and assuring, under their personal supervision, that this takes place.

4) Accountability

The external advisors are concerned that there are not clear systems of accountability at a variety of levels in GAC implementation. We are mindful that the Bank needs people to take considered risks and that not impair creativity.

But, we are concerned that appropriate accountability systems still need to be devised which can be combined with incentives for attainment or performance above base line goals and objectives.

- a. For individuals in operations, there should be clearer GAC objectives and incentives.
- b. For Country Directors and Country Managers, there should be a clearer set of expectations on what comprises appropriate risk.
- c. Similarly, there should be a clearer set of expectations for Regional Vice Presidents who will need to make decisions on higher risk projects.
- d. Also, various DC-based Bank staff units working on the GAC agenda should have near and mid-term GAC goals and objectives to which they are held accountable.

We are also concerned that when the Bank uncovers wrong doing, the record is not strong in having the recipient country investigate---and take action---against corrupt contractors or corrupt government officials. How to improve this record should be a subject of more analysis---and possible action. Recipient nations should also be accountable.

We also note the importance of employee and citizen “voice” in encouraging accountability at all levels of the Bank and in recipient nations. We further note that The Department of Institutional Integrity is only able to review about one-third of the concerns which they receive via the Bank hotline and other mechanisms. A failure to take concerns seriously undermines the motivation of people to express them. We hope that the Bank will consider methods, not necessarily in INT, of giving all credible concerns respectful attention.

5) People

Although in the first year of GAC implementation the Bank conducted a strategic assessment of GAC staffing needs, and in the second year has followed through on the results of this assessment, the External Advisors believe that, because the success of the GAC strategy is so dependent on people, further action is needed on the human resources front.

Key actions would include.

- a. Clarifying where key GAC-related skill gaps still remain at all levels of Bank operations, e.g. more experts on political economy or experts on fraud and corruption who can work at the country level, not in headquarters.
- b. Defining the appropriate education and training needed by Bank personnel. A good start has been made on bringing together disparate programs to create baseline GAC education, but next steps would include risk assessing job positions for people with significant responsibility and customizing GAC training for them. Methods of assessing retention of knowledge and skills from education and training should be developed.
- c. Developing a system for defining annual GAC goals and objectives for key people in the GAC process, as noted above, and for conducting meaningful evaluation of their performance against those goals and objectives, which can be both quantitative and qualitative.
- d. Developing systematic incentives for rewarding GAC performance on the goals and objectives---and explicitly including GAC performance in promotion considerations.
- e. Developing a network of outside experts on clearly defined areas of GAC expertise, both in other IFIs and in the private sector, who can be consulted on specific problems and who can also be consulted regularly on developing trends on important GAC topics.

- f. Make World Bank training for its employees available for public and private sector persons in all recipient nations.

6) Impact

We understand, of course, the complexity of the development process, and the time it will take for many of the GAC initiatives to be implemented and then have effect. We recognize that serious operational attention to GAC issues is only a few years old at the Bank.

Nonetheless, we do not believe that it is too early to begin developing honest and candid assessments of impact on the dimensions we noted above:

- a. Did the changed policy, process, or system reach the appropriate universe of Bank (or other) individuals?
- b. Did action/implementation of that policy, process, or system occur?
- c. Did it have impact on program integrity? (What? How?)
- d. Did it have impact on governance capacity in the host nation---and enhance country ownership of the governance and anti-corruption agenda?
- e. Did it have an impact on the Bank's ultimate goals of poverty reduction and sustained development?

We recognize the difficulty of impact assessment and the importance of doing it carefully in a manner that improves GAC performance. But we believe that the GAC strategy, to continue building momentum and credibility, must begin the systematic process of defining and measuring expected and actual near, mid and long term impacts in the basic dimensions noted above.

7) Leadership

The External Advisors believe that strong messages have come from the President and the Managing Directors to internal Bank staff on the importance of the GAC strategy. They have also shown their commitment through deployment of resources and requests that senior operational and staff managers devote significant attention to this set of issues.

The External Advisors raise these additional issues.

- a. Given the importance of governance and anticorruption across the globe---and the failures of governance and the noted instances of corruption in the past two years—should the President speak to nations and organizations about the importance of this agenda and what needs to be done both at an international and national level, given the prominence of the World Bank and the power of its voice?
- b. Can the President, at a suitable time, candidly address the fundamental problem of reconciling risk in difficult nations with the Bank's mission---the fundamental conflict which lies at the heart of improving governance capacity and promoting program integrity—and move towards articulation of principles which should be used



to guide the exercise of discretion in these difficult situations?

- c. Would it make sense for the President to define, with as much specificity as possible, priority goals of the GAC strategy---on both a near term and mid-term basis---the achievement of which he will hold himself and the whole Bank accountable?

Taking these, and other appropriate steps, would be an important demonstration to the external world of Bank leadership's "ownership" of the GAC strategy---a demonstration important to leaders outside the Bank all across the globe.

APPENDIX A: PRIORITY YEAR THREE ACTIONS THAT ADDRESS MAJOR THEMES HIGHLIGHTED IN THE 2008 GEA REPORT,

Notes: (i) *This appendix has been prepared by World Bank staff, and reflects their views as to which ongoing actions in the current, third year of GAC implementation address most directly the six priority categories for action highlighted in the 2008 GEA report, which is appended below as Appendix B. (ii) Appendix B includes details provided by World Bank staff of actions undertaken in year two of implementation that address priorities highlighted in the GEA report. (iii) For a comprehensive list of year three actions proposed by World Bank staff, see “Strengthening World Bank Group Engagement on Governance and Anticorruption: Second Year Progress Report”, Annex C.*

1 & 2.: BANK LEADERSHIP; CANDID DEFINITION OF KEY CHALLENGES FACING GAC, AND CONCRETE GOALS AND OBJECTIVES

Action #1: A major internal and external communications push on GAC, championed at all levels, including by senior management.

Action #2: Develop (for incorporation into the Year Three GAC Progress Report) an implementation plan for Phase II of GAC, which will include detailed milestones and accountabilities -- and will build on intensive review with all Regional Vice Presidencies (to be undertaken in the first half of 2010) of progress, challenges, weaknesses and priorities for next phase of GAC implementation.

Action #3: Review by the Independent Evaluation Group of progress and challenges in the first three years of GAC strategy implementation, to be initiated in early 2010, and completed by the first quarter of 2011.

3. EDUCATION, TRAINING AND CROSS-FUNCTIONAL TEAMS

Action #4: Major ongoing investment in the GAC knowledge platform – both training and online knowledge – organized around active communities of practice. The online platform (which will incorporate core training modules) is programmed to go ‘live’ as of April 2010.

Action #5: Further development and streamlining of applied political economy assessments – with a specific focus on making them problem-driven, cost-effective offerings that support operational teams (including for ORAF) – and increasing utilization of these assessments by operational teams.

4. PREVENTION, ACCOUNTABILITY AND EFFECTIVENESS

Action #6: Full-scale roll-out Bank-wide of the new Operational Risk Assessment Framework (ORAF), to be incorporated into preparation of all new operations as of July, 2010, with follow-on support to improved project design via:

- Continued dissemination of ‘GAC in project’ good practice approaches.
- Continued strengthening of the Integrity Vice Presidency’s Preventive Services Unit.

Action #7: Review and report on GAC-related quality management arrangements at RVP and corporate levels for each phase of the operational cycle.

Action #8: Strengthen GAC dimensions of programmatic approaches to lending, by action on multiple fronts including:

- Develop ‘next-generation’ institution-building and results-focused lending instrument, as part of investment lending reform;
- Continue to focus on the development, dissemination, and use of Actionable Governance Indicators that monitor the effectiveness of institution-building efforts;
- Undertake a learning review, led by QAG, on GAC challenges and good practice approaches in programmatic lending – including extent of inclusion of demand-side measures;
- Prepare a new approach paper on how to intensify the results-orientation of public sector reform – and how to systematically tailor these reform efforts to different country settings;
- Pilot intensified multi-stakeholder engagement in design of operations, and disseminate lessons; and
- Continue implementation and lesson-learning from country procurement systems pilot.

Action #9: Strengthen the quality management from a GAC perspective of the WBG’s Country Assistance Strategies, including by:

- Clarifying which CASs will give priority to addressing GAC impediments to development effectiveness;
- Clarifying ‘GAC in CAS’ quality management arrangements at Regional Vice Presidency and corporate levels;
- Strengthening systematic lesson learning and dissemination on ‘GAC in CAS’ good practice approaches.

5 & 6. DETECTION, COMPLAINTS HANDLING AND REMEDIES

Action #10: Harmonize GAC policies and procedures (including investigative procedures, debarments and other sanctions) across Multilateral Development Banks.

APPENDIX B:

The 2008 Group of External Advisers Report on the World Bank's Implementation of The Governance and Anticorruption (GAC) Strategy –

with an annotated summary prepared by World Bank staff of actions taken in year two of GAC implementation that address directly the suggestions made by the GEA. (For further details of these actions, see “Strengthening World Bank Group Engagement on Governance and Anticorruption: Second Year Progress Report”.)

BACKGROUND

The Group of External Advisors (GEA) acknowledges the important Bank effort in the first year of implementing its Governance and Anticorruption Strategy (GAC) and the high quality of the Bank staff, who presented to it. The Group believes the strategy is at the heart of the Bank's efforts to reduce poverty.

Per the Bank's design, the Group notes that its review was based on study of the GAC One Year Progress Report and two days of interviews with Bank staff.

Accordingly, what follows are the Group's initial views of important issues in the future implementation of the GAC strategy for consideration by the Bank – issues which will, in part, guide our review a year hence.

1. BANK LEADERSHIP

A. Building on his Integrity Day remarks, there is a need for a comprehensive statement from the Bank President on the GAC strategy which is aimed at employees, clients, and the public, and which candidly addresses issues surrounding GAC. This statement should, among other things:

- Provide a powerful re-statement of the vision behind the Governance and Anticorruption strategy – it is an integral part of Bank activities and central to sustainable development.
- Demonstrate that there is complementarity and positive interaction for achievement of development goals between capacity building in nations and integrity, transparency, and accountability in the Bank's programs.
- Discuss the needs, problems, and mitigants when the Bank provides resources to high risk nations.
- Address employee concerns about the challenges of simultaneously promoting poverty reduction, improvement of in-nation governance/corruption reduction, and program integrity.

WB Actions: Policy statement by President Zoellick on GAC, April 21, 2009.

B. There should be more intense day-to-day ownership of the GAC strategy by senior management – either through a single MD with direct responsibility and accountability for the strategy, with strong support and cooperation from the other MDs, or with clarification of roles and responsibilities for each MD.

***WB Actions:** Discussed at GAC Council, which affirmed its preference for the current arrangement of rotating MDs chairing GAC Council.*

C. Senior Bank leadership should overcome current problems within the Bank of ad hoc responses, and ambivalence about the GAC mission, with clear statements about institutional and individual responsibility and accountability.

- Define precise responsibilities of staff and operational units – and key personnel – in assessing GAC needs, setting goals, developing systems and processes which are embedded in Bank activities, and effectively implementing programs. . .
- Promptly implement the Bank’s existing needs assessment of current capabilities and capacities of staff and close any ‘capabilities gap’ through education/training or hiring of new people on a clear timetable.
- Ensure accountability through individual goals and objectives. Design and perform appropriate performance reviews on GAC responsibilities for all affected employees as part of their customary review processes – and *develop incentives to reward exceptional performers.*
- Build GAC issues into the Bank’s existing staff surveys and 360’ evaluations of key people. Take all other appropriate steps to make GAC central to the Bank’s culture – *truly to make it ‘everyone’s business’ — as well as to systematize and integrate GAC into Bank’s mission.*

***WB Actions:** (i) Operational Risk Assessment Framework to be adopted for all investment projects as of July 2010; (ii) An in-depth needs assessment was undertaken as part of Year One GAC implementation. Each VPU identified targets for incremental recruitment – financed by a combination of scale-up GAC resources and redeployment. Most OVPs have either completed their recruitment targets or are advanced in the process. (iii) Performance review proposal discussed at GAC Council; a modified version, focused on Country Directors and Managers in countries where GAC is a high priority was supported in principle, but implementation has lagged. (iv) A question on GAC implementation was included in 2009 Bank-wide staff survey.*

D. D. Regional Vice Presidents should collectively agree on good practices for embedding GAC in all operations. These Regional VPs should then implement them in their regions, including enhanced supervision, skills and resources in operations with high GAC risks. Country Directors have a critical role in GAC implementation which must be recognized and supported. Best Country Director practices should be identified and disseminated. .

***WB actions:** (i) Each Regional Vice President reported on its RVP’s approach to GAC at GAC Council, the Region’s Operations Directors followed up with collective, comparative reflection, and a joint statement as to good GAC practice. (ii) the GAC Council agreed in principle on an approach to incorporating GAC in the performance reviews of selected Country Directors (see WB actions in C above).*

2. CANDID DEFINITION OF KEY CHALLENGES FACING GAC AND CONCRETE GOALS AND OBJECTIVES FOR 2009 AND 2010

A. Although the GAC progress report defines future objectives, *the Group is concerned that there is not sufficient specificity, milestones and accountability.* Need to discuss even more candidly the issues/problems in GAC implementation based on clear, concise statement of facts.

WB actions: Year 2 Progress Report, Annexes A & C detail specific results vis-à-vis milestones set for years 1 and 2 of GAC implementation, and lay out actions and milestones for year 3.

B. Need to focus in greater detail on need for changes in key areas such as the Bank's:

- organizations
- systems
- processes
- tools
- evaluations
- education

C. Need to state crisply and clearly the priority actions which should be taken in 2009 to implement GAC so that progress can be measured and Bank leaders and staff measured against those actions.

D. Develop a review process that is more fact-based and candid about problems for setting 2010 goals and objectives.

E. Need to focus evaluations:

On regular basis for programs – evaluations conducted at project, country and regional level – and concisely state key lessons learned for broad dissemination.

- On special basis in 2009, the Quality Assurance Group should conduct a bench-marking review of progress on GAC. And, in 2010, the Independent Evaluation Group should assess, among other things, whether GAC is embedded in Bank operations, whether it is effective in reducing corruption and whether it is effective in improving development effectiveness, reducing corruption country governance and accountability – and, if not, how to alter Bank practice.
- On select basis: use of review by peer institutions and other outside evaluators on discrete, high impact dimensions of GAC strategy, e.g. diagnostic tools or project management techniques.

WB Actions: (i) An in-depth GAC benchmarking and learning review was completed by the Quality Advisory Group . (ii) A review of GAC after three years will be undertaken by Independent Evaluation Group in FY11; preliminary work has commenced; (iii) The consulting group, Accenture, partnered with WB in development of Operational Risk Assessment Framework.

3. EDUCATION, TRAINING AND CROSS FUNCTIONAL TEAMS

Need to provide base-line education for all Bank employees on how GAC is fundamental to the Bank's mission.

Need for timely, comprehensive and systematic approach to education and training for those employees with direct GAC responsibilities.

***WB Actions:** Investing in knowledge and learning to help mainstream GAC is a major ongoing priority for GAC implementation. A training plan was developed and presented to the GAC Council in July 09. A scaled-up, systematic on-line GAC knowledge platform (supported by the Governance Partnership Facility) is in an advanced stage of design*

A. Define key decision points in Bank processes

B. Assess whether skills of decision-makers include necessary breadth about political economy and about governance challenges to capacity building and program integrity and effectiveness

***WB Actions:** Work to apply political economy assessments to Bank operations is a major thrust in GAC implementation.*

C. Address skills gap systematically through:

- Developing core education and training program for Bank as a whole, including core training materials and case studies.
- Developing supplementary training for budget support funding and for investment projects in specific nations and sectors in addition to core training.
- Assessing need for teams with different but relevant GAC skills at key decision points – and then create them.

Providing necessary outside skills if not available inside Bank.

***WB Actions:** Major new effort on GAC knowledge and learning (see above) Strategic staffing plan implemented.*

D. Review best practices in education and training at other IFIs and private sector organizations: Special attention should be given to making learning come alive through development of case studies and lessons learned which can be taught across Bank. Need to train the trainers.

- Develop data banks of internal and external experts – and key documents – on different dimensions of GAC strategy. Provide appropriate access to these resources for Bank personnel.

***WB Actions:** Addressed in knowledge and learning efforts.*

4. PREVENTION, ACCOUNTABILITY AND EFFECTIVENESS

Need for systematic, core Bank systems, processes and tools which are *essential to achieving* the foundational goals of prevention, accountability and effectiveness in Bank programs. Country and program variations can be built off this foundation.

A. Need to understand differences in types of countries, sectors, and leaders and understand implications of those differences articulated in methods of assuring prevention, accountability and effectiveness, promoting good governance and preventing corruption.

WB Actions: This is an ongoing theme of the Bank's applied political economy work; see 3B above.

B. Development or re-examination of Bank-wide methodologies, management systems and tools, including:

- Diagnosis of country risk and project risk, including early warning systems on emerging problems and trends especially in light of financial crisis and changing private and public sector roles in the economy. Program design and control systems to mitigate such risk.
- Essentials of robust country project management and Bank supervision, with focus on assuring effectiveness and integrity at key milestones.
- Auditing and evaluation processes for: (a) determining that money was properly spent; and (b) lessons learned to feed back into central prevention “bank” and subsequent dissemination across WBG.

WB Actions: (i) New operational risk assessment framework adopted; (ii) Multiple guidance notes prepared to support program design and control (including (a) Dealing with GAC risks in Project Lending; (b) Guidance note on multistakeholder engagement; (c) Red flags of fraud and corruption in procurement in Bank-financed projects; (d) Good practices for financial management specialists; (e) GAC audit and assurance toolkit; (f) Good practice framework for problem-driven governance and political economy analysis.

(iii) A comprehensive re-examination of the supervision model is a core element of the Investment Lending (IL) reform agenda. (iv) Enhanced attention in Bank supervision to quality of independent audits.

C. Periodic assessments of whether methodologies and prevention tools are state-of-the-art, including of assessment of such specific elements of sound practices as, e.g.:

- Procurement
- Contracting.
- disbursements/financial management.
- project management:

WB Actions: (i) A new guidance note was prepared on financial management; (ii) Strengthening country procurement systems was a priority for year two of GAC implementation, supported by International Technical Advisory Group. Implementation has been more difficult, and slower, than initially anticipated.

D. Every new project should have a governance and anticorruption plan for all phases of that

project.

WB Actions: *Discussed at Governance Council, where the general view was to disagree with the suggestion as it could likely lead to GAC as “box-checking”, but to encourage RVP and country-specific decision making.*

E. Increase involvement of civil society (including user groups and community organizations) at key decision-making points: concept development, project scope, design, contracting, implementation, monitoring and evaluation.

- Special attention to the increased participation of third parties in monitoring Bank operations and fiduciary control. Assess this trend, benchmark it in different countries and regions and report on good practices at end of 2009.

World Bank Actions: *These recommendations are strongly in line with the Bank’s GAC approach. See (i) Guidance Note on Multistakeholder Engagement; (ii) “Dealing with Governance and Corruption Risks in Project Lending” guidance note, and (iii) QAG benchmarking study.*

F. Address “ring-fencing” and risk explicitly in policy papers and examples. Define limiting cases: pure “ring-fencing” with Bank controls and pure integration in client nation systems of governance

- Explain gradations along the spectrum between the limiting cases. Demonstration projects can be important at different points on that spectrum.
- Large issues about trade-offs between Bank controls and reliance on country systems should be surfaced and candidly discussed in Bank.
- Require explicit analysis and decision at appropriate level.
- Analysis of third party service delivery: Define need, assess anticorruption risk, set appropriate standards for prevention and accountability.

WB Actions: *(i) Investment lending reform will consider options for more results-based and institutional-reform focused instruments; value added of these emerged at GAC Council review of operational challenges at sector level. (ii) Use of country systems is a continuing pre-occupation – with good practices well developed for financial management, and challenging for country procurement systems (see above).*

G. Improve due diligence on companies allowed to bid and/or provide services.

WB Actions: *New INT systems provide earlier signals to staff.*

H. Importantly, country assistance strategies should:

- Analyze the governance and corruption constraints on development.
- Address those constraints.
- Be consistent in such assessment methods and such actions across Bank in similar situations to extent possible.
- Evaluate effectiveness (see 2.d. above)
- Include robust participation by stakeholders at all stages.

WB Actions: *Strengthening attention to GAC in CASs is a priority for GAC strategy implementation. As the Second-Year Progress Report details, the results have so far been mixed. There has been valuable progress in clarification and consolidation of good practices – but these*

are not being systematically adopted across the Bank.

5. DETECTION AND COMPLAINTS HANDLING

A. Affirm central importance in Bank itself and in all projects by encouraging broad participation of all stakeholders in the detection and lodging of concerns.

***WB Actions:** This is strongly in line with the Bank's GAC approach. See "Dealing with Governance and Corruption Risks in Project Lending" guidance note, and QAG benchmarking study.*

B. Assess systems in Bank for handling complaints from its employees without retaliation and with prompt, professional handling of concerns:

***WB Actions:** This has been addressed within INT renewal.*

C. Design of complaint-handling systems in all investment projects – and good practices sharing in such design:

***WB Actions:** This is strongly in line with the Bank's GAC approach. See "Dealing with Governance and Corruption Risks in Project Lending" guidance note, and QAG benchmarking study.*

D. When country systems are used for funding, the Bank needs to recognize possible problems and support systems for anticorruption detection and complaints handling:

***WB Actions:** Assessing country systems, and strengthening observed weaknesses is part of current guidance and good practice for budget support operations.*

E. Recognize importance of transparency for stakeholders to advance detection and lodging of concerns:

***WB Actions:** This is strongly in line with the Bank's GAC approach. A new disclosure policy for Bank activities (including on lending) has been agreed. Transparency to advance detection also is comprehensively addressed in "Dealing with Governance and Corruption Risks in Project Lending" guidance note, and QAG benchmarking study.*

F. Where appropriate, the Bank should cooperate with country accountability and anticorruption institutions to address specific problems arising from projects:

***WB Actions:** This is a core part of the new INT strategy.*

6. REMEDIES

A. Develop good practices about anticipating possible problems and how to build in appropriate remedies at front end of project:

***WB Actions:** This is a central part of the agenda of both INT's preventive services unit, and of the GAC in Projects working group.*

B. Analysis of effectiveness about different kinds of remedial actions at different stages of project when issues are identified through good project management and monitoring and when remedial actions short of cancellation are appropriate:

WB Actions: *Review of remedies is part of the work program under the supervision component of IL reform.*

CONCLUSION

The Group of External Advisors believes that putting governance and anticorruption upfront and center is key to achieving the Bank's mission of poverty reduction. We appreciate the work that has gone into the first year of implementation of the GAC strategy.

From a review of implementation and intensive discussions over two days with Bank staff, the Group has highlighted six areas that we believe will particularly require enhanced focus and concerted effort over the next year of implementation. These include: (a) a re-statement of commitment from the top leadership to this agenda; (b) candor about the challenges; (c) heightened focus on GAC-related education and training; (d) enhanced core Bank systems, processes, and tools to address prevention, accountability, and effectiveness; (e) enhanced attention to detection and complaints handling mechanisms; and (f) remedies.

The Group will re-convene at the end of the second year of implementation to review progress made on the above issues, as well as seek to address future challenges. We are looking forward to taking stock of the achievements of the second year, and in the interim, are available to be helpful in any way.