

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



ARGENTINA

(DECEMBER 12-14, 2006)

Participants:

Participants from non-executive institutions		
Dra. Marta Oyhanarte	Undersecretary	Undersecretariat for Institutional Reform and Strengthening of Democracy
Dr. Héctor Rodríguez Dr. Horacio Pernasetti	Chief of Counsellors' Cabinet Comptroller General	General Comptrollership of the Nation
Cont. Miguel Angel Bizzi	Director of Economic Law Area	National Ombudsman Office
Cont. Eduardo Prina	Deputy General Accounting Officer	General Accounting Office
Dr. Martín Montero	Director of Investigations	Administrative Control Office – Anticorruption Office
Dra. Paula Honisch	Secretary	Office of Administrative Investigations
Corina Bultynch	Administrative Deputy Director	House of Representatives

Participants from NGOs	
Nicolas Ducote Natalia Torres	CIPPEC (Center for the Implementation of Public Policies for Equity and Growth)
Maria Julia Giorgelli	Asociacion por los Derechos Civiles (Association for Civil Rights)
Daniel Taillant	CEDHA (Center for Human Rights and Environment)
Ricardo Hermello Constanza Cilley	Gallup
Laura Alonso Gaston Rosenberg Pablo Secchi Ana Egido	Poder Ciudadano (Citizen Power)
Carlos Jiménez	FEDEFSA (Federation of Argentine Foundations)
Jacobo Rabinovich	Foro del Sector Social (Forum of the Social Sector)

How did the process fit into ongoing country dialogue?

Consultations were conducted within the context of two major governance-related initiatives that constitute important components of the 2006 CAS. On the one hand, the recognition that the challenge ahead for Argentina to establish the foundations for sustainable, more equitable growth will ***require substantial initiatives aimed at improving governance conditions*** that will lay the foundations for an improved institutional environment. On the other hand, the new role of the Bank as an investment partner consists in a shift to 100% investment lending in a country where most of our lending was quick disbursing only 3-4 years ago, and there is a recognized fragile institutional environment. From a fiduciary perspective, the engagement in an investment partnership requires a much heavier reliance on the country's institutional infrastructure and, therefore, ***the need to promote initiatives that would strengthen the fiduciary environment***. These initiatives have been agreed with the Government and are geared towards improving transparency and accountability in Bank-financed operations, e.g. the Argentina Fiduciary Action Plan, which was designed precisely to ensure effective management of this perceived increased risk.

The efforts to improve overall governance conditions –one of the pillars of the current assistance strategy-- are being pursued through ongoing analytical work, including an Institutional Governance Review, and a series of investment operations designed to strengthen selected areas of public sector management, including expenditure management, transparency and service delivery. These efforts are fully consistent with the Government's course in the area of governance of avoiding a comprehensive strategy and opting instead for incremental initiatives designed to improve specific institutions as "islands of excellence". This has led to substantial improvements in the public expenditure management process and in some priority institutions such as the National Social Security Administration (ANSES) and the National Social and Fiscal Identification System (SINTyS).

In the fiduciary front, the Government and the Bank have made substantial progress in a number of critical areas. The efforts to improve transparency in Bank-supported investments have been identified by the Government and the Bank as a critical first step in improving the overall fiduciary environment. A highly innovative web-based system (the SEPA) designed to report to the public all contracts expected to be financed by the Bank over the calendar year and their actual implementation has been developed and is fully operational. The presentation by the Government alludes to this system as an important accomplishment in the area of transparency. The efforts to improve accountability and control over public expenditures have led to significant developments in two sensitive areas. In infrastructure, significant joint work aimed at addressing excessive price increases and the potential risk of collusion derived from concentrated market structures. In the social protection field, improvements in external controls aimed at ensuring the eligibility of beneficiaries in massive conditional cash-transfer programs that were initiated as a result of the social emergency. Progress achieved in these areas has been encouraged by the increased field presence of Bank staff, facilitated by the decentralization and, in particular, by the doubling of fiduciary staff in the field in recent years.

The initiatives in the overall governance and fiduciary fields are seen as mutually reinforcing and complementary with the overall Government's objectives. The institutional strengthening efforts undertaken under SINTyS have contributed significantly to improve eligibility controls under the conditional cash-transfer programs. Likewise, the Government is considering replicating SEPA as an effective transparency enhancing initiative to be applied for projects financed by other financiers and eventually across the whole public administration.

The Government and the Bank have assigned an active role both to non-executive state agencies and to civil society organizations in the ongoing efforts to improve transparency and accountability, i.e.,

the timeliness and quality of external audits and the availability to the public of relevant information on Bank-financed contracts. These consultations have provided the various actors an opportunity to further the dialogue on remaining challenges and potential areas of cooperation that we had initiated in the context of the CAS.

Reflections on consultation process

The various actors involved in the consultation process were both willing and enthusiastic in making their contribution to the proposed Bank GAC strategy. However, they were adamant in making their contribution in the manner that best suited their interests and expectations. In the case of the Government, their preferred way was to produce written comments generated by the Ministry of Economy and Production, the Bank's main interlocutor. The Government's comments emphasized the contribution the country had already made through its participation in the G24 at the time of the Development Committee discussions. Thus, the Government has privileged its bilateral relation with the Bank, but also assigned relevance to its membership in a group of countries that are important interlocutors in the setting of Bank policy.

In the case of civil society, the consultation was conducted -at their request- with no Bank or Government involvement, as they wanted this opportunity to reflect among themselves with no involvement of external actors. Bank staff participated at the early stages of the consultations to introduce the topic and the basic questions that had been designed for the consultation process and also in the wrap-up session. In the case of non-executive agencies the discussion was conducted with no input from the executive and the Bank. An important outcome of those discussions was the acknowledgement by control agencies of the need to improve their articulation in order to enhance their overall effectiveness and institutional capacity.

What were the key issues/themes raised by participants?

- A central theme in the discussions with the various actors is the role of the Bank in dealing with governance and anti corruption issues. Most actors in Argentina would welcome an increased role of the Bank in GAC but at the same time expressed concerns about the Bank assuming a centric and overbearing role. They favored an active role by the Bank in the context of a domestically-driven agenda where the Bank could be a catalyst in bringing together domestic actors and a provider of knowledge and technical assistance. The expectation was that the GAC strategy should position the Bank as a promoter of domestically-driven GAC enhancing agendas and as a valuable partner in contributing to their implementation.
- There was widespread recognition of the progress made in many GAC fields that has led to improved governance and anti corruption environment in Argentina. It was also acknowledged that much remains to be done in order to achieve adequate international standards. For the Bank to become a reliable partner in promoting the remaining GAC agenda it should consider that GAC initiatives produce outcomes in the long haul and require strong and persistent political support which cannot be imposed from the outside. The Bank could facilitate the sustainability and successful achievement of the proposed reforms by acting as a constructive proponent of dialogue and consensus among the relevant domestic actors. The alternative of the Bank picking its partners and strengthening their posture in the domestic dialogue was seen as ultimately

counterproductive to the advance of a genuine GAC enhancing agenda. Bank engagement in GAC enhancement initiatives should continue even in cases where the level of political support has waned as long as the initiatives continue to gather significant domestic support.

- The Bank should play a more decisive and proactive role in the harmonization of donor and country systems. The prevalence of widely divergent fiduciary systems in a country represents in itself a significant risk for the adequate control of public expenditures. The current practice of developing parallel structures to carry out public investment initiatives has generated tensions within domestic institutions and has conspired against the sustainability of the institutional and policy reforms that normally accompany Bank-supported operations. The development of Bank policies that harmonize with and support the strengthening of domestic institutions is perceived as an important contribution towards the improvement of governance conditions in member countries.
- A critical role the Bank can play in a country is to help the articulation among non-executive control agencies. There is strong fragmentation of the several functions performed by the various control agencies that tend to work against their effectiveness and ability to perform their control functions. The neutrality of the Bank as an external actor could greatly facilitate that interaction.
- The relative weakness of public control agencies to confront corruption is not a result of poor ethical standards or unwillingness to act, but in many cases it is associated to the lack of an adequate support environment within control organizations. A central anticorruption initiative should be geared towards building a supportive anticorruption environment at the institutional level which would encourage officials to challenge corruption. This would entail generating the legislative and institutional means to facilitate those initiatives.

Respondent Type	Consultation Reply
1. Top governance challenges in country	
Government	<p>The main challenge for the Government in this field is the development of specific anticorruption and transparency enhancing measures. The authorities provided a broad set of initiatives, including initiatives developed jointly with the Bank, aimed at addressing these two challenges. Among them it is relevant to mention the new rules on disclosure of government acts, the SEPA, the rules on fiscal responsibility of national and provincial authorities and the signing of the UN Anticorruption Convention.</p>
Non-executive State Organizations	<ul style="list-style-type: none"> • Despite significant progress made on institutional strengthening, particularly by control institutions, a sense of dissatisfaction with the levels of transparency and efficiency of the public administration remains at the level of the citizenry. Control agencies continue to focus on the compliance by public entities with accounting standards and place little attention on the results and impact of public sector activities. • Lack of a supportive environment and effective means to deal with corruption constitutes a strong disincentive for public officials to confront irregularities up front. • Lack of coordination among control agencies substantially restricts the possibilities of generating effective results in the fight against corruption.
Rep. from Civil Society	<p>Limited capacity of NGOs to play an effective role in their interaction with public sector and other relevant actors.</p>
2. Promising areas of governance and anticorruption reform and potential obstacles	
Government	<ul style="list-style-type: none"> • The Government considers indispensable that the IFIs conclude promptly the process of harmonization of their procurement policies as promised in the Declaration of Paris. The complexity and diversity of rules imposed by the various IFIs have the potential for promoting corrupt practices, as it complicates the public control process.
Non – Executive State	<ul style="list-style-type: none"> • Need to expand the capacity of control institutions to move beyond the financial and accounting aspects and focus on monitoring of results and impact evaluation of government programs. • Need to work in the adjustment of legal frameworks – such as the Code of Criminal Procedure— which are

Respondent Type	Consultation Reply
Organizations	<p>considered strategic to guarantee effective prosecution of corrupt activities. However, it is important to limit these legislative efforts to those really essential and focus otherwise on policy implementation and improved transparency..</p> <ul style="list-style-type: none"> • Improved horizontal coordination between control agencies to complement efforts and maximize the potential for achieving effective results. • Development of strong institutional support frameworks that will empower control officials to confront corruption irrespective of the political or financial clout of the offender.
Civil Society	<ul style="list-style-type: none"> • Increase the fiscalization role of non executive institutions, i.e., legislative control over the budget, improved judiciary control mechanisms. • Expand the scope of social participation in administrative processes and decision making, i.e., increased participation of NGOs in bidding processes. • Seek increased partnerships among government, non- executive and civil society actors to increase the profile and public commitment to the domestic GAC agenda. This will ensure increased synergy among these groups and make articulation a means of reaching the goal: better governments, fair societies.
3. How the Bank should engage where governance is weak, and circumstances under which to disengage	
Government	<p>The Government has cautioned against the implicit assumption in the Bank’s proposed GAC strategy that there is such a close correlation between good governance and improved economic performance and poverty reduction. There are important contributions by the academia to indicate that there is no such relation of causality among good governance and economic development or that, at least, that governance and institutions in the most successful developing countries have been often starkly at variance with the good governance model the IFIs are committed to. The Government cites the paper by Mushtaq Husain Khan on Governance and Anticorruption Reforms in developing countries: Policies, evidence and way forward.</p>
Non-Executive State Organization	<p>Bank engagement in domestic GAC agendas should be that of a valuable partner that plays a catalytic role among domestic actors in the development of governance priorities and assist through knowledge and technical assistance in the implementation of governance enhancing agendas. Some of the proposals of the Bank’s GAC initiative have been perceived as deviating from this approach and closer to a model of external interventions based on Bank standards and</p>

Respondent Type	Consultation Reply
	priorities.
Civil Society	<ul style="list-style-type: none"> • The WB should play a catalytic role in bringing together the various domestic actors and in the development of a governance enhancing agenda that is based in the reality of each country. • The Bank could play a central role in building up institutional capacity of civil society organizations to make them real partners in the design and implementation of development programs. In the past it has relied mostly on consultants and experts that fail to ensure the technical and fiduciary soundness of its operations. Instead, civil society organizations and universities should be increasingly involved in the development and implementation of Bank financed programs to ensure their contribution towards the development of domestic institutional capacity. • In countries with weak governance environment the Bank should ensure that adequate external checks and balances are built into operations to provide assurances of probity and efficiency.
4. How to ensure fair and consistent treatment across countries	
Government	The Bank should align its GAC policies and practices with the countries' national policies and priorities in line with the agreement reached under the Declaration of Paris.
Non-Executive State Organizations	The group was critical of the prevailing Bank approach of ensuring fairness of treatment across countries by applying Bank rules and systems, independent and parallel from those prevailing domestically. This has generated tensions within national public administrations and limited the sustainability of reforms introduced through Bank operations. An alternative preferred approach is that the Bank works in each country within the existing governance and institutional context with the relevant domestic actors in order to induce GAC enhancement improvements. Fairness in treatment is derived from the consistency in approach across countries with the expectation that resulting outputs and impact will vary widely across countries due to the differing priorities and commitment to GAC reform in each country.
Civil Society	As a public financial institution, the Bank should lend to countries even if the countries present a fragile governance environment. In those cases, the Bank should work with the country in identifying needs, weaknesses and strengths and ensure that operations meet adequate fiduciary standards. As referred above, domestic institutions, such as NGOs and universities, should be afforded an opportunity to work with the Bank in building local institutional capacity.

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5. How to strengthen the Bank's work with champions of reform outside the executive branch of government – parliament, judiciary, civil society, media and the private sector	
Government	The Government welcomes the initiatives aimed at increasing social participation as part of the democratic process. It cautions, however, that it is crucial that those institutions or officials that assume the representation of the people as part of the democratic process have duly established their legitimacy to do so in accordance with the established institutional process.
Non – Executive State Organizations	<ul style="list-style-type: none"> • The group considered that it would be important to encourage the development of a constructive relationship between civil society and the State. The Bank should seek to strengthen civil society organizations and non executive agencies. • The Bank could play a catalyst role in promoting joint work among non-executive agencies, particularly on preventive actions.
Civil Society	<ul style="list-style-type: none"> • The Bank could play an active role in engaging governments to further increase their involvement with NGOs and view them as partners in the development of public policies and programs. This would contribute to increased transparency and increased social trust in the initiatives promoted by the state. • There should also be increased involvement of the Bank with non-executive powers such as the judiciary and congress. These entities should benefit regularly from knowledge sharing and assistance from the Bank. • The Bank should consider expanding the existing lines of direct support to NGOs as part of the efforts to increase institutional capacity in the sector.
6. How to mitigate fiduciary risk in Bank operations?	
Government	The Bank practices should contribute to detect and sanction in an expedite manner the events of corruption that take place in Bank-financed operations.
Non-executive State Organizations	The need to strengthen domestic fiduciary systems, rather than develop parallel arrangements, should be a critical element in any strategy aimed at mitigating fiduciary risks.

Respondent Type	Consultation Reply
Civil society	Develop partnerships with civil society organizations and local institutions to build up effective external controls to Bank operations.
7. The Bank's role vis-à-vis other donors in supporting governance reform	
Non-Executive State Organization	The need to seek greater harmonization and coordination among international agencies with the goal of improving the dialogue's impact and consistency. The Bank should work closely with institutions specialized in GAC matters and support the implementation of existing international agreements to fight corruption.
Civil Society	<ul style="list-style-type: none"> International institutions should agree on a basic common strategy and improve coordination to avoid overlapping and divergent approaches. This is particularly relevant in small countries where international organizations have a greater impact.
8. How to monitor progress in governance and anticorruption at the country level	
Non-Executive State Organizations	Monitoring should be limited to some few, clear and relevant indicators based on international best practices in the field of governance and anticorruption. The Bank could undertake a more active role in monitoring practices of international entities.
Civil Society	Monitoring will require the inclusion of non-conventional actors. Promoting monitoring scenarios that build trust among the various actors is critical in order to alleviate the prevailing asymmetry of information. Civil society organizations will require training and increased capacity in this field.
9. Areas for improvement in GAC strategy and country-level support	
Non-Executive State Organizations	A critical area for improvement in the proposed GAC strategy is the proposed engagement strategy. The Bank should seek to work in partnership with the relevant actors in each country to design jointly a GAC enhancement strategy. The Bank contribution should be mainly in terms of knowledge sharing and as a catalyst in bringing together the local GAC coalition.