

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



CHINA

(JANUARY 23-24, 2007)

Participants:

Two sessions were held with Representatives of 16 Government Ministries and Agencies and 8 academicians.

How did the process fit into ongoing country dialogue?

Since reforms and opening up started in 1978, China has experienced rapid development. GDP grow on average with more than 9 percent a year, poverty measured at \$1/day consumption fell from more than half of the population in 1980 to less than 10 percent today, social outcomes vastly improved, and China's capacity to manage its development process has greatly increased. The World Bank has had a close partnership with the Chinese authorities since 1980, and the Bank has supported China's development by introducing innovations and international experience through project financing and knowledge cooperation as well as the introduction of modern project management techniques. The GoC has addressed the systemic issues that contribute to corruption through rationalizing SOEs, reforming public sector management, and strengthening regulatory institutions and the judiciary. It also has an elaborate system of agencies in the government and in the ruling party to control corruption, including the Ministry of Supervision, the National Audit Office and the Party Inspection and Disciplinary Committee. The Supreme Procurator is the highest anti-corruption body in the country. China has signed the UN Anti-Corruption Convention, and has recently passed an Anti-Money Laundering Law. Under the 11th FYP, the government aims for further government reforms to improve service delivery, increase transparency and reduce corruption.

What were the key issues/themes raised by participants?

Consultations on the Bank's draft Governance and Anti-corruption Strategy (GAC) were held with the Chinese Authorities and a group of academics on January 23-24 2007. There was appreciation for the Bank's efforts to consult with clients, and many looked forward to the revised draft of the strategy. Key points made during the consultations were:

- In engaging in the area of governance, the Bank should stay within its mandate. It should remain focused on development, refrain from interference in domestic affairs and politics, and respect client ownership. Governance is a means to development, not an end, and new conditionalities related to governance are not desirable. Quantitative

measures of governance are theoretically and practically too weak a basis for making distinctions between countries.

- The World Bank should stay engaged in poor countries with weak governance. It is important to build capacity in such countries, rather than punish its poor people by withdrawal of assistance.
- The principle of cost effectiveness should apply not only to the Bank's governance work in the countries with weak governance but also in the Bank's work in other countries. The Bank should keep a balance between the cost of governance and anti-corruption interventions and benefits and local capacity...
- The World Bank should pursue a more balanced agenda in promoting its work on governance and anti-corruption, that is, the Bank should make more efforts to improve global governance. The World Bank should pay more attention to the issue of global governance and creation of a more conducive environment for developing countries to benefit from globalization and integration with the world economy.
- There was broad agreement that there were areas in which the Bank had a role to play in improving governance. The Bank's own operations could be used to demonstrate good project management principles. The Bank could further develop and share the Bank's global knowledge on governance and anti-corruption with clients. And the Bank could continue to build capacity in areas it is already engaged, including public sector management (public finance, debt management, and M&E) and relevant legislative and regulatory work.

Finally, the Government noted that improvement of governance is an integral part of a countries' development process. Whether the Bank is able to accomplish substantively on the governance and anti-corruption agenda hinges on whether the right strategy and approach is in place. They believe that the following principles should be observed to ensure the effectiveness of the Bank's work on governance and anti-corruption.

First, abiding by the principle of non-politicization as required by the Articles of Agreement. In advancing governance and anti-corruption work, the Bank has to conform to its Article of Agreement, build its work on its institutional relationship and mutual trust with governments of member countries, and refrain from interfering in members' internal political affairs.

Second, sticking to development as the Bank's core mission. The Bank work on governance and anti-corruption should serve the Bank's development mandate, strengthen its operations, and avoid increasing costs of doing business. It is essential to recognize that governance reform is a long-term endeavor. Disengaging countries with aid on the grounds of weak governance would set back efforts toward achieving the MDGs.

Third, respecting country ownership. Efforts to strengthen governance and combat corruption have to be tailored to country specifics and development stages. We believe that the most viable reform strategy is the one formulated by the government on its own initiative. It is the country that knows its context best and is accountable for its future. Therefore, the Bank can play a constructive role and achieve results only by supporting the countries' own agendas.

Fourth, evaluating Bank's governance with results on the ground. Practice is the sole criterion for testing truth. The effectiveness of the Bank's governance strategy will have to be evaluated and tested based on its actual contribution to a country's economic development, social stability and improvement in people's livelihood.

Fifth, focusing on areas where the Bank has comparative advantages. Over the past few years the Bank has accumulated rich experiences in helping member countries strengthen public management. Public management, in particular, financial resources management, should continue to be the focus of the Bank's agenda in governance.

Sixth, leading by setting the example. As the largest global development institution the Bank should improve its own governance, strengthen voices of the developing countries, increase its effectiveness and promote reform of global governance so as to create an enabling environment for developing countries.

Respondent Type	Consultation Reply
1. Top governance challenges in country	
Government	<ul style="list-style-type: none"> • Institution building and strengthening to keep pace with the accelerated reform process. • Strengthening administration by law. This includes: rationalization of administrative systems; improved internal supervision and monitoring; unification of laws and regulations; developing new economic legislation to meet new circumstances (conflict of interest, lobbying, asset recovery, etc.); improving enforcement and effecting judicial training and capacity building. • Enhancing management of public finances • Promoting transparency and information dissemination.
Academia	<ul style="list-style-type: none"> • The rapidly growing economy has resulted in increased opportunities for corruption and rent seeking. Corporate bribery and corrupt commercial practices are of increasing concern. Multinationals contribute to this problem. • Weakness in the legal system including lack of a framework to govern relations between officials and private interest groups. • Increased rent seeking in the health and education sectors.
2. Promising areas of governance and anticorruption reform and potential obstacles	
Government	<ul style="list-style-type: none"> • The ‘Harmonious Society’ framework focuses on ensuring both growth and equity and underpins an intensified commitment by the Government to addressing corruption. • Focus on performance improvement and results. Key areas of focus include economic governance, financial management and procurement. • Enhancement of the framework for dealing with economic crime (removal of legislative loopholes, development of new legislation to address conflict of interest, lobbying etc.). Development of a diversified dispute resolution system. • The introduction of best practices (procurement, financial) has begun to yield on the ground results. Intensification of supervision and monitoring at both country and project levels.

Respondent Type	Consultation Reply
	<ul style="list-style-type: none"> • New policies on information disclosure and dissemination, publication of audit reports etc. China participates in the China Gateway. • China’s increased participation in international fora on anticorruption: (i) participation in the Forum on Government Transparency (April 2006); (ii) China’s chairmanship of the newly established Association of Anti-corruption Authorities (October 2006).
Academia	<ul style="list-style-type: none"> • Strengthened Government commitment to anticorruption as evidenced in the “Harmonious Society” approach and intensified emphasis on improving the quality and efficiency of public service delivery. • Shift toward performance and results based auditing. • Greater public awareness and demand for information disclosure and transparency.
3. How the Bank should engage where governance is weak, and circumstances under which to disengage	
Government	<ul style="list-style-type: none"> • Anticorruption is not an end in and of itself. The Bank should focus on its core mandate to reduce poverty and promote growth. • International experience suggests a positive correlation between corruption and countries at earlier stages of development. Poorer countries with low capacity should not be penalized for weak governance systems. The level of corruption in a country should not be used as a tool to deny or reduce assistance. Ultimately results are the determining factor. • The principle of cost effectiveness should apply not only to the Bank’s governance work in the countries with weak governance but also in the Bank’s work in other countries. The Bank should keep a balance between the cost of governance and anti-corruption interventions and benefits and local capacity. • It is important to stay engaged and to customize assistance to specific country conditions. The legacy and burden of corruption should not be shifted to the poor. Rather, the focus should be on prevention. This is also true for post conflict states which suffer from weak governance. In those instances, the Bank should also stay engaged and use volunteers or charitable organizations as appropriate. • It is operationally difficult to accurately quantify and ‘rate’ corruption. There are no scientific and commonly

Respondent Type	Consultation Reply
	agreed standards.
Academia	<ul style="list-style-type: none"> • The Bank must meet its obligations to its shareholders but it also must remain true to its primary mandate, poverty reduction. The poor should not be penalized or victimized by weak governments and corruption. • Many countries are actively working on or are committed to anticorruption and they must be encouraged. It is understood that there are and will be gaps in this effort but this must be acknowledged rather than simply stopping assistance. The impact of such corruption is felt globally, not only by the affected citizens, hence the emphasis should be more on ‘equal’ treatment.
4. How to ensure fair and consistent treatment across countries	
Government	<ul style="list-style-type: none"> • The World Bank, as the authority of international development aid agencies, should earnestly promote governance at the international level, reflecting the concerns and voices of the developing countries, reflecting the substance of governance in a comprehensive, balanced and fair manner. • The principles of equal treatment and respect for differences should be applied. • Country participation should be voluntary, not based on conditionality. They should be able to participate as fully or selectively as their own circumstances warrant. • There should be fair opportunities for everyone and all should be treated with justice.
Academia	<ul style="list-style-type: none"> • The report poses a contradiction between ensuring fair treatment to all and differentiation of countries by performance. The Bank should focus on fostering performance improvement, not on penalizing weak capacity.
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	<ul style="list-style-type: none"> • The Bank is encouraged to work with the Government to engage other stakeholders and to raise awareness of issues through joint studies and research. • The Bank should use its comparative advantages as a knowledge bank to distill lessons of experience and application of successful policies and practices.

Respondent Type	Consultation Reply
	<ul style="list-style-type: none"> • The Bank can help by providing a platform for information exchange with civil society, the media and stakeholders through workshops, seminars, and training and published materials. • Capacity building and institutional strengthening.
Academia	<ul style="list-style-type: none"> • Facilitate dissemination of information through joint meetings, workshops, training and seminars.
6. How to mitigate fiduciary risk in Bank operations?	
Government	<ul style="list-style-type: none"> • Projects provide a good entry point for engagement. In some instances, additional analytical work may be desirable to understand the dimensions of the problems. For projects of particular complexity, there should be a focus on developing proper indicators and intensifying supervision. • Internalize the lessons of experience. Positive results from the introduction of competitive procurement practices , financial management techniques, practices and policies are beginning to be realized. These successes should be shared. • Continue to build capacity and strengthen institutions, especially at the local level. • Emphasize public awareness including through publication of audit findings
Academia	<ul style="list-style-type: none"> • Focus on prevention. Intensify supervision; possibly engage an independent firm to oversee supervision. • Increase transparency through timely disclosure and dissemination, the media can support this. Develop and disseminate materials outlining policies, standards, procedures. • Develop better indicators and enhance monitoring • Emphasize institution building; build local capacity and customize the support
7. The Bank's role vis-à-vis other donors in supporting governance reform	
Government	<ul style="list-style-type: none"> • The Bank and other donors should work collaboratively with the Government on capacity and institution building. • Work with the UN on the anticorruption agenda

Respondent Type	Consultation Reply
	Collaborative effort on issues related to anti-money laundering and asset recovery
8. How to monitor progress in governance and anticorruption at the country level	
Government	<ul style="list-style-type: none"> • Build the analytical base with research, surveys and studies. • Focus on strengthening capacity and institutions. • The Bank is a knowledge institution and as such can provide a wealth of cross country experiences and perspectives. Local demonstration impacts are of great value.
Academia	<ul style="list-style-type: none"> • The problems are institutional in nature therefore the solution lies in institution building. • Undertake surveys and studies to better understand the nature of corruption and inform decision makers. Improve understanding of relationship between public administration and corruption. Lessons from developed countries, where corruption has escalated, will be valuable. • Introduce Bank/OECD good practices and lessons of experiences. Highlight demonstration impacts as/where possible. Set up a platform for ongoing dissemination and dialogue. Enhance cross country cooperation with developed countries. • Strengthen capacity of NDRC, MoF, auditing agencies etc. to deal with emerging challenges • Intensify legislative reform. Support development of new laws and regulations governing conflict of interest, lobbying, etc.
9. Areas for improvement in GAC strategy and country-level support	
	<ul style="list-style-type: none"> • The Bank should adhere to its Articles of Agreement with an emphasis on its core mandate, poverty reduction • The process should be non-political. There should be respect for country ownership and non interference in domestic affairs. Actions should contribute to social and economic development. • Greater attention should be placed on improving the global governance environment including deepening implementation of the UN Convention on Anticorruption. The World Bank should pursue a more balanced agenda in promoting its work on governance and anti-corruption, that is, the Bank should make more efforts to improve global governance.

Respondent Type	Consultation Reply
Academia	<ul style="list-style-type: none"> • Improve understanding of country contexts. Lack of understanding of local culture can lead to failure. The World Bank should adapt lessons from other countries and regions to specific country circumstances. • Ensure that policies and practices are geared toward country circumstances and culture; • Correct terminology is important. Ensure appropriate understanding and usage of terms within the cultural context.
10. Other key issues	
Government	<ul style="list-style-type: none"> • Appreciation was expressed for the Bank's efforts in organizing consultations on governance and anticorruption.. The consultation process provides an important vehicle to exchange views and reflects an equal and respectful relationship between the Bank and its member states. There may be differences of views and it is useful to discuss these. The Government looks forward to seeing the revised draft report following the global consultations. • The Bank's engagement should also build on the basis of appropriate understanding of country contexts and ensure that policies are geared toward country circumstances and culture. The effectiveness of the Bank's governance strategy will have to be evaluated and tested based on its actual contribution to a country's economic development, social stability and improvement in people's livelihood. • Defining the World Bank's policy and strategy is one of the basic functions of the Executive Directors. The Board of Directors should continue playing an important role in the formulation and revision of CAS, meanwhile, in dealing with the sensitive and complicated issues such as governance and anti-corruption, the World Bank management should attach greater importance to the views of Executive Directors, in order to get broad support of member countries in carrying out related work. • The following issues would benefit from further discussion and consultation: <ol style="list-style-type: none"> 1. While the World Bank, as the world's largest multilateral development institution is facing the daunting task of improving its own governance, is it suitable for it to judge measurement of the level of governance of member countries? 2. What are the criteria and tools to make judgments about the level of governance in member countries? 3. Focusing on governance and anti-corruption as key concerns in a "Country Assistance Strategy", rather than the goals of economic growth and poverty in recipient countries - would this be like putting the cart before the horse?

Respondent Type	Consultation Reply
	How to choose and support reform advocates or champions in the recipient countries, how to avoid intervention in the internal affairs of the recipient countries.
Academia	<ul style="list-style-type: none"> • Anticorruption is a sensitive area. It is important that the World Bank takes the right approach and uses appropriate mechanisms. Much more needs to be done to understand country contexts. • The Bank and China view anticorruption from different starting points. For China anticorruption is policy driven, the objective is to strengthen discipline while the Bank sees it as a means or tool to improve aid effectiveness. These are complementary approaches. • WB projects have been very helpful in advancing the thinking how to address problems in remote poverty stricken areas.