

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



NEPAL

(JANUARY 5, 18 & 26 2007)

Participants: See attached list

How did the process fit into ongoing country dialogue?

Governance has remained a key thrust of the World Bank's country dialogue in Nepal going back as early as 1998 when the Nepal Country Team put together one of the first 'Governance CAS' in the Bank. Governance reforms remain central to sectoral interventions the Bank supports in Nepal, more lately moving beyond the public sector domain to corporate sector (e.g., financial sector reform).

Weak governance, manifested in poor public service delivery, corruption, exclusion and weak development outcomes more generally, has been widely credited with the rise of the Maoists as a strong political force in Nepal. The political change in Nepal in April 2006 has created what might be called an 'open moment' and the enormous popular energy that was mobilized against the old order also lifted many social and political constraints that had been accepted as given. Unless expanded with a vision and sustained action, however, this open moment will be likely to shut quickly. The resolution of the political issues no doubt remains the highest priority today so that lasting peace can be restored. Nevertheless, if the state fails in improving delivery of development quickly, the general public could easily lose patience and narrow the space in which the political agenda can be addressed.

Therefore in order to give a direction to the social energy that has been mobilized since April 2006 and to counterbalance the preoccupation with the political agenda, Nepal needs to develop a broadly shared vision of the future, especially in terms of social and economic transformation over the next 25-30 years. The World Bank is a proponent of such a vision that can then begin to help define the current as well as medium-term tasks for the country to achieve the long term goals. The GAC consultations fit into this larger process.

What were the key issues/themes raised by participants?

- Lack of a culture of performance and accountability
- The private sector's contributory role to corruption
- Corruption in the judiciary
- Corruption/impunity in the judiciary
- Political corruption
- Right to Information legislation

- Accession to UNCAC
- Systemic transparency issues
- High expectations; weak capacity
- Abuse of authority at highest political levels
- Governance 'by system' lacking – e.g., lack of rules and procedures;
- Compliance of laws – systemic issues regarding incentives and motivation;
- Public governance framework should extend to private sector and NGOs where public funds are involved;
- Need for solid indicators to measure scale of corruption;
- Authority in civil service not commensurate with responsibility

Respondent Type	Consultation Reply
1. Top governance challenges in country	
[Government]	<p>Action does not match rhetoric; Governance ‘by system’ lacking – e.g., lack of rules and procedures; Compliance of laws – systemic issues regarding incentives and motivation; Public governance framework should extend to private sector and NGOs where public funds are involved; Need for solid indicators to measure scale of corruption; Political will lacking; Institutions there – but lack of common approach; Governance should be linked with human resource management and capacity of civil service to deliver Authority in civil service not commensurate with responsibility</p>
[Representatives from Civil Society]	<p>Rule of ‘just’ law – corruption/impunity in the judiciary; Political corruption – extreme partisanship; lack of transparency in party financing; extortion commonplace; Institutions and systems ‘designed’ to extract; Need for Right to Information legislation.</p>
[Private sector]	<p>Combination of ‘feudalism’ and ‘fatalism’ leaves little room for a culture of performance and accountability to thrive; Private sector has been contributory from the ‘supply’ side of corruption in the past. Time is now ripe to set new standards of ethical corporate governance; Rampant corruption in the judiciary; Policies designed for manipulation. Loopholes need to be plugged.</p>
[Development Partners]	<p>Systemic transparency issues – lack of accountability, impunity, personal security, basic services and mobility; High expectations of change but same old institutions – challenge repeating itself; Abuse of authority exists at highest political levels.</p>

Respondent Type	Consultation Reply
2. Promising areas of governance and anticorruption reform and potential obstacles	
[Representatives from Civil Society]	<p>Awareness of costs of corruption growing. But identifying precise locus of power (in order to establish accountability) remains very challenging;</p> <p>Decentralization is promising to establish accountability for service delivery and quality.</p>
[Private sector]	<p>Some gains were made in the recent past to strengthen national institutions (e.g., CIAA) but these gains need to be protected;</p> <p>Political change is conducive to stronger action for improvements.</p>
[Development Partners]	<p>Procurement Act is step in the right direction;</p> <p>Anti corruption action is usually political but the Anti Corruption Act is positive as it shifts the burden of proof on the suspect;</p> <p>Country in a state of political flux but scaling up of governance agenda is definitely back on the horizon.</p>
3. How the Bank should engage where governance is weak, and circumstances under which to disengage	
[Government]	<p>Keep the pipeline open but strengthen checks and balances;</p> <p>Link lending to performance – “throw more mackerels as the dolphin performs more stunts”;</p> <p>Keep your options open and stimulate competition – work through better governed institutions outside government if government is the problem.</p>
[Representatives from Civil Society]	<p>From its position ‘within’ the system, Bank engagement should focus on building mechanisms of scrutiny and accountability, not just in government but among donors and civil society as well. Reduce ‘opportunities’ for corruption. Set the example among donors!</p>
[Private sector]	<p>Disengagement is not an option as it will only hurt the poor who aid is meant to serve. Link higher levels of aid with improvements in governance;</p> <p>Change will be ‘evolutionary’ Help ‘incentivize’ this change;</p>

Respondent Type	Consultation Reply
	<p>Engage public servants in this process of change – they need greater clarity of purpose; Strengthen the Public Service Commission –citizens deserve better equipped public servants! Help create forums where the private sector can come in and contribute to the dialogue; Help set up a commercial bench in the judiciary.</p>
[Development Partners]	<p>Disengagement is not the solution. Specific country context needs to be taken into account. Bank should help strengthen national institutions; Not an ‘either/or’ situation. Process based dialogue should lead to improvements in future programs; Deepen engagement in project management. Involve local communities; Require audits during implementation stage; Look into civil service incentives and help address the problems; Look into party finances – legal framework in place but enforcement lacking; Budget support a good instrument to keep the dialogue going.</p>
4. How to ensure fair and consistent treatment across countries	
[Representatives from Civil Society]	Strong networking among donors will help.
[Private sector]	Develop common terms of reference and a minimum common understanding of the problems associated with poor governance.
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	
[Representatives from Civil Society]	Look for opportunities beyond formal state structures and build alliances there. Help strengthen media’s role as watchdog.

Respondent Type	Consultation Reply
[Private sector]	Focus on sectors that promise strong professional integrity. Bring in professional groups into the wider development dialogue; Help set up a semi-judicial institution to speedily address denial of justice/services.
[Development Partners]	Administrative means alone go only so far. Strengthen public scrutiny and voice (through media). NGOs can be strong advocates and watchdogs.
6. How to mitigate fiduciary risk in Bank operations?	
[Government]	Engage the intended beneficiaries. Awareness will lead to lower fiduciary risks; Maybe turn-key projects will deliver better development results – at least in the interim while governance improvements are undertaken; Encourage more public-private partnerships in the implementation of programs;
[Private sector]	Shift focus of lending to local governments; Start with greater transparency. Intended beneficiaries should be the first to know; Community participation is key!
[Development Partners]	Certain sectors are more problematic than others. E.g., infrastructure, where administrators see it as their ‘right’ to demand top offs. Perception is that Bank’s money is nobody’s money... This needs special attention; Build anti-corruption components in high risk sectors.
7. The Bank’s role vis-à-vis other donors in supporting governance reform	
[Representatives from Civil Society]	Coordinate rather than compete.
[Private sector]	Governance needs to a key priority for all development partners. Use the Development Forum to ensure this.
[Development]	Comprehensive governance strategy is lacking;

Respondent Type	Consultation Reply
[Partners]	Informal coordination is important to better understand the political context of corruption and its perceptions.
8. How to monitor progress in governance and anticorruption at the country level	
[Government]	Link indicators with service delivery; Introduce mandatory performance audits to supplement financial audits, as these are more revealing of development outcomes;
[Representatives from Civil Society]	Emphasis on outcomes is welcome.
[Private sector]	Adopt a multi-stakeholder approach to build in more checks and balances.
[Development Partners]	Introduce public audits and hearings.
9. Areas for improvement in GAC strategy and country-level support	
[Government]	Revisit conditions laid out in Bank Development Credit Agreements – make it the function of government and national institutions to comply within its own system; Country struggling with its lawmaking legacies; need to study how best to incorporate governance frameworks – of recent origin – into lawmaking;
[Representatives from Civil Society]	Support accession to UNCAC; Support implementation of Right to Information Act.
[Private sector]	Acts of omission are a larger problem with higher, long-term costs. GAC should recognize this.
[Development Partners]	Focus is too much on large scale corruption whereas transaction costs for to the poorest usually accrue from more widespread petty corruption.

Respondent Type	Consultation Reply
10. Other key issues	
[Government]	<p>Growth of private sector should lead to ‘deglamorization’ of civil service;</p> <p>People in decision making make little distinction between grants and loans – what’s important to them is that the gravy trains needs to keep moving. This attitude needs to change.</p> <p>Help change mindsets at the top – educate politicians;</p> <p>Target young minds – help introduce curriculum on governance in the school system.</p>
[Representatives from Civil Society]	<p>Current interim constitution hastily drawn; universal standards of division of power abused. More checks and balances needed.</p>
[Private sector]	<p>Policy consistency will be key. Help bring the new powers that be up to speed.</p>
[Development Partners]	<p>Help close gaps in national capacity through technical assistance;</p> <p>Engage strategically with the Maoists when they come into government.</p>