

IDA AT WORK

Improving Governance and Fighting Corruption for Development Effectiveness

IDA: AN ALLY IN GOOD GOVERNANCE AND THE FIGHT AGAINST CORRUPTION

IDA has increasingly focused over the past decade on helping countries improve their governance systems and set in place tools to fight corruption and improve transparency and accountability. Fiduciary concerns—IDA's obligation to shareholders to ensure that its funds are used for intended developmental purposes—has been a guiding principle for instituting controls against risks of fraud and corruption in projects. IDA operations in countries also increasingly recognize that attention to good governance and anticorruption is critical to its core development objectives and ensuring effective use of public resources for development results.

At a glance

- In March 2007, the Board of Executive Directors of the World Bank approved a new Governance and Anticorruption (GAC) strategy, and launched implementation in December 2007.
- The new strategy aims to make governance and anticorruption part of all of the World Bank's work across sectors in countries, including IDA countries, and also ensure that these elements are addressed in the World Bank's own operations to ensure that funds are allocated to their intended development purposes.
- The World Bank committed nearly US\$27 million out of its own core administrative budget to ensure intensified attention to governance and anticorruption across country and sector programs.
- Donor partners - UK DFID, the Netherlands, and Norway—are helping support the implementation of the strategy through a US\$65 million multi-donor Governance Partnership Facility.
- The Governance Partnership Facility is helping finance integration of governance and anticorruption in the World Bank's country assistance strategies, including in IDA countries such as Burkina Faso, Democratic Republic of Congo, Kenya, Mongolia, Sierra Leone, Uganda, and Zambia; strengthening institutions of accountability, transparency, and civil society oversight; improving governance in natural resource rich countries; and supporting the development of indicators to measure progress on governance in sectors such as health.
- Country and sector programs are increasingly being designed with attention to political economy and governance challenges in countries, based on detailed assessments.
- Programs in many sectors such as health, education, and infrastructure are focusing on developing longer term assistance approaches for institutional development and sustainable reform in their sectors for better development outcomes.
- IDA's own projects are increasingly being designed with governance and anticorruption elements that aim to address the risk of fraud and corruption in the management of the projects through mechanisms such as governance and anticorruption plans, risk assessments, civil society oversight, third party monitoring, enhanced disclosure and transparency, and better complaints handling mechanisms.

IDA has increasingly focused over the past decade on helping countries improve their governance systems and set in place tools to fight corruption and improve transparency and accountability. Fiduciary concerns—IDA’s obligation to shareholders to ensure that its funds are used for intended developmental purposes—has been a guiding principle for instituting controls against risks of fraud and corruption in projects. IDA operations in countries also increasingly recognize that attention to good governance and anticorruption is critical to its core development objectives and ensuring effective use of public resources for development results, including:

- More effective delivery of services to the poor—in health, education, roads, water, and electricity, for instance, by enabling stakeholder groups to monitor allocations and expenditure of public budgets, monitor and provide feedback on the quality of public services, and more broadly hold public service officials accountable.
- Better management of natural resources, and especially ensuring that resource revenues are channeled to developmental purposes, and by making revenues and management of these sectors more transparent.
- Efficiency and effectiveness in large infrastructure projects by guarding against risks of corruption, procurement fraud, and mismanagement of funds.

IDA assistance to help countries improve their governance systems to gain these development dividends has ranged from support to better and more efficient public financial management systems, to improving transparency, accountability, efficiency and institutional strengthening of the government agencies in various sectors, to supporting institutions and

stakeholder groups that can enforce greater accountability on governments.

Governance dimensions have a 68 percent weight in IDA’s Country Performance Ratings which determine IDA allocations. The ‘Public Sector Management and Institutions’ cluster accounts for 25 percent of the overall Country Performance Institutional Assessment (CPIA), which includes five governance dimensions: (i) property rights and rule-based governance; (ii) quality of budgetary and financial management; (iii) efficiency of revenue administration; (iv) quality of public administration; and (v) transparency, accountability and corruption in the public sector.

The Governance and Anticorruption (GAC) Strategy

Since 2007, with the adoption of the new World Bank Group strategy, *Strengthening World Bank Group Engagement on Governance and Anticorruption (GAC)*, approved by the Board of Executive Directors on March 20, 2007, this support has intensified. The fundamental driving principle of the GAC strategy was that governance and anticorruption is key to enhancing development effectiveness, and hence should be integrated into country strategies and World Bank operations in the various sectors the World Bank works in—such as health, education, roads, energy, water supply, and agriculture. The approach focused on enhancing development effectiveness through either expanding or creating a range of mechanisms, including: strengthening country systems; enhancing transparency and access to information; engaging stakeholders in the design and implementation of development operations; and supporting activities that have a ‘good fit’ with country-specific institutional realities. GAC has also focused

on an intensive process of internal learning within the World Bank, as well as generating a range of partnerships—both globally, and within countries.

Senior management commitment and leadership of the GAC agenda comes through the Governance Council, a high-level body with representation by World Bank vice-presidents from across units, and chaired by the Managing Directors, which meets regularly to provide overall guidance and oversight of GAC work. Additional resources to intensify GAC approaches have been made available from both the World Bank’s administrative budget (about US\$27 million over two years), as well as a US\$65 million Governance Partnership Facility, supported by a grant from the UK’s Department for International Development (DfID), the Netherlands, and Norway.

In many countries, the implementation of the GAC strategy is enabling innovative approaches to making IDA’s development work more effective:

- Assessments of political economy structures and corruption vulnerabilities in a number of countries—undertaken as part of the pilot Country Governance and Anticorruption (CGAC) initiative—are enabling the design of more robust Country Assistance Strategies, which are more responsive and relevant to the realities of country governance environments.
- Integration of various GAC dimensions are improving the design and implementation of World Bank projects, in particular through analysis of political economy and governance constraints, GAC plans to mitigate risks, enhanced transparency and disclosure measures, third party monitoring systems and civil society oversight,

stronger sanctions and better complaints-handling mechanisms.

- Across various sectors that comprise IDA’s work, assistance is being channeled to analyze and understand governance challenges to achieving sector development objectives, improve sector institutions, and put in place accountability mechanisms for better results.
- Many projects and initiatives are providing support to bolster core country systems of good governance—public financial management systems, procurement systems, and institutions that promote transparency and accountability.

Resources from the Governance Partnership Facility taken on an important role in the effort to intensify, systematize, and deepen these initiatives. Funds are being channeled to innovative initiatives across the regions aimed at improving governance in projects in various sectors—particularly health, education, procurement and natural resource management; and strengthening analysis as input to comprehensive governance programs or assistance strategies, in such countries as Angola, Djibouti, Kenya, Sierra Leone, and Uganda.

Making Governance and Anticorruption Work Integral to Country Programs

In many countries—through the platform of the pilot CGAC process—assessments of political economy considerations, broader governance constraints, and corruption vulnerabilities have been undertaken to better structure the design of country assistance strategies and country programs that are more relevant and cognizant of country challenges and realities. These analyses typically involve drilling down

deep to identify the governance and political economy constraints to development objectives across sectors identified in the Country Assistance Strategy, the implications of these constraints for the operational approach within the relevant sector, and an integrated assessment, which includes discussion of options for governance reform. In some countries, this approach is already beginning to pay dividends in the form of better design of development strategies:

- In **Zambia**, governance assessments in key sectors such as energy, land, water, telecommunications, and local government have informed policy dialogue, project design and implementation. The potential was illustrated by the impact on the telecommunications sector, where focusing on how domestic users can benefit from a regulatory regime that encourages entry and competition has begun to transform the discussion on reform in the sector. The dialogue has shifted from confrontation to an emerging new partnership with the regulator and other key stakeholders that would gain from pro-market regulatory reforms.
- In **Mongolia**, insights from the political economy analysis of mining reform, informed the new strategy for assistance to the country, and have continued to be relevant even in the face of a deteriorating economic situation. The findings of the Country Governance and Anticorruption assessment fed into a Governance Partnership Facility grant to finance governance activities directly supporting the Country Assistance Strategy.
- In the **Democratic Republic of Congo**, a series of assessments on key governance issues and options for reform in health, education, and agriculture at the provincial

level have helped shape future assistance at this level and encourage decentralization. This work has opened up new opportunities for engagement with provincial governments as a critical tool to support the government's decentralization agenda, and to address increasing pressures on local governments as a result of decentralization.

In other countries, the CGAC process has focused on strengthening this effort in specific sectors, such as the health sector in Uzbekistan, the construction sector in Guatemala, the health, education, and agriculture sectors in Democratic Republic of Congo, and the electricity and water sectors in Lebanon.

The Governance Partnership Facility funding is helping to deepen the diagnostic work in sector and country programs and enhance World Bank capacity for more robust governance analysis and dialogue with clients and development partners in many countries, including Cambodia, Democratic Republic of Congo, Nepal, Mongolia and Zambia.

Several country teams (Burundi, Democratic Republic of Congo, Guatemala, and Yemen) have also teamed up with the World Bank Institute to produce governance assessments with participation of a range of stakeholders, with the results disseminated widely in the country and used to help build coalitions and design GAC action plans.

Protecting Development Funds in IDA Projects

IDA has a fiduciary responsibility to its shareholders to ensure that funds intended for development purposes are used for development results. The GAC process is enabling incorporation of new and innovative approaches in IDA's own operations: enhanced

mechanisms for disclosure and transparency; monitoring of project activities by third parties; civil society oversight over project expenditures; and enhanced mechanisms for sanctions and complaints handling. Some examples include:

- **Kenya's *Total War on AIDS Project*** responded to fraud and corruption detected in preceding projects, by putting in place robust criteria for providing grants to civil society organizations, increased external oversight and verification, building a more robust platform for sustained implementation to deal with the country's potentially devastating AIDS crisis.
- In **Pakistan**, the *Sindh Water Sector Improvement Project* is strengthening procurement transparency through oversight by Transparency International Pakistan, which participates in the review of procurement documents, bid/proposal opening, and evaluation committee meetings for contracts that are above the threshold for prior review.
- In **Nepal**, a Governance and Accountability Action Plan with strong monitoring and evaluation efforts in the *Second Higher Education Project* is addressing high governance risks—especially in procurement and financial management—to ensure that the project achieves its objectives of improving higher education and access by underprivileged groups in Nepal through reform grants and student financial assistance.
- In **Moldova**, the *Road Sector Support Program*, is using independent supervision and monitoring by international consultants, forensic audits in addition to technical and financial audits, and an expanded complaints-handling process to achieve its

objective of reducing road transport costs, improving the condition and quality of the road network, and more broadly, supporting the creation of a reliable, transparent and unified system for planning and managing large-scale road network investments and maintenance.

The World Bank's Integrity Department, in addition to investing fraud and corruption allegations in projects, is also helping countries improve their own systems for preventing, detecting, addressing, and mitigating risks of fraud and corruption:

- In **Cambodia**, in response to a request from the Government, the Integrity Department assisted in strengthening the country's systems against fraud and corruption to the Ministry of National Assembly, Senate Relations and Inspection, which was appointed by the government to investigate corruption allegations arising from Integrity Department analyses. The assistance included training in the detection, investigation, and substantiation of fraud and corruption, the identification of red flags in procurement, and the conduct of due diligence, forensic accounting, and net worth analysis.
- In **Pakistan**, responding to indications of possible collusion among private companies in the Electricity Distribution and Transmission Improvement Project, the Integrity Department provided dedicated training to government officials on how to detect and combat collusion.

Improving Governance for Better Outcomes in Sectors

IDA's work across sectors faces a number of governance challenges. In education and health, for instance, service delivery chal-

lenges including absenteeism of workers, weak performance incentives, weak accountability of service providers to clients, and a weak focus on results and monitoring and evaluation. In the natural resource sector, revenues that could be used for development purposes are often lost because of corruption.

The GAC strategy has catalyzed a fundamental transformation in the way that sector teams address and respond to these challenges. IDA assistance is increasingly focusing on sector-level country institutions and accountability for results, with results-based financial support emerging as a useful approach. IDA is undertaking many innovative operational responses to these challenges:

- The World Bank's Human Development Network has developed many innovative mechanisms such as: improving effectiveness of cash transfer programs through use of debit cards; database cross-checking and working with the media, audit agencies and civil society; pay for performance through, for example, paying health care providers for results instead of inputs; and enlisting the participation of stakeholders in the design and implementation of projects in various sectors.
- IDA is also part of multi-stakeholder initiatives such as: (i) the **Extractive Industries Transparency Initiative** that seeks to promote better management of natural resources and revenues for developmental gains; (ii) the **Construction Sector Transparency** initiative, which aims to increase transparency and accountability in construction procurement; and (iii) the **Medicines Transparency Alliance**, which aims to increase the transparency and accountability of the healthcare marketplace—from medicine production and international trade, to patient use. It also aims to strengthen national capacity to collect, analyze, disclose and apply data influencing medicine procurement, promotion and supply.
- **Sourcebooks** have been developed in the Electricity and Water Supply and Sanitation sectors to explain and illustrate approaches and instruments to reduce corruption through improved governance at the sector and project level, with a focus on understanding corruption, assessing the risk, extent, and locales of corruption, reducing corruption by improving governance, and monitoring and evaluating measures.
- In **Papua New Guinea**, the *Second Mining Sector Institutional Strengthening Technical Assistance Project* is helping improve the policy and regulatory framework for the mining sector. It supports government efforts to strengthen mining sector governance, regulation, and sustainable development outcomes, and improve revenue collection and audits of the sector. It builds on previous support that helped the country increase the investment base for mineral exploration and development from US\$12 million in 1999 to US\$30 million in 2006, and is aiming to help Papua New Guinea use revenues from natural resources for development and poverty reduction.
- In **Pakistan**, the *Sindh Education Sector Reform Program*, which aims to improve access, equity and quality in the education sector, has led to improved sector governance, and improvements in net enrollment in primary schools by 25 percent between 2001/02 to 2006/07, and improvements in gender parity with girls' enrollment

increasing by more than 45 percent over the same period. In particular, the program benefited from a high level of government commitment, and the participation of key stakeholders such as heads of education, finance, planning and other key departments. Parents and communities groups, the provincial education foundation, and the private sector also participated, and helped ensure support for improvements in the quality and timeliness of monitoring and evaluation systems.

Supporting Country Governance and Accountability Systems

The GAC agenda has enabled intensifying support to core public sector management and governance systems, including initiating processes that improve the transparency and accountability of public officials. Particular emphasis has been put on: supporting central finance agencies, and the links of central finance agencies with sector ministries; strengthening country-level procurement systems and procurement reforms necessary to shift focus from purely fiduciary concerns to strengthening country systems; addressing the influence of political economy factors in public investment decision-making; and integrating anticorruption issues in country public sector management systems.

- In **Bangladesh**, the *Public Procurement Reform Project II* is helping improve management, monitoring, and performance of the public procurement system, enhancing capacity in creating a sustained program to develop skilled procurement professionals, piloting innovations such as e-government procurement, and attempting to engage civil society, think tanks, beneficiaries, and the private sector on the monitoring of

the contracting process and procurement outcomes.

- In **Nigeria**, IDA is successfully supporting Citizens' Mediation Centers through the *Lagos Metropolitan Development and Governance Project*. These centers are under the Lagos State Ministry of Justice and provide free mediation services for the poor in disputes related to employment issues, tenancy and rent issues, family matters, and debt collection. The Citizens' Mediation Centers have an excellent track record in the number of cases mediated daily and in the time it takes to conclude mediations. Thousands of Lagos residents use the centers annually. Specifically, IDA supports the opening of new centers and training for the mediators.
- In **Mongolia**, IDA has supported the Independent Agency Against Corruption to oversee the annual assets and income declarations of roughly fifty thousand public officials. It also develops and oversees ministerial and line agency anti-corruption plans. IDA assistance is helping the agency improve the business processes for declarations, including through electronic, web-based formats, resulting in compliance rates of 98 percent on asset declarations.

Expanding the Dialogue on Governance

Many countries have also accelerated dialogue with governments and other stakeholders on Governance and Anticorruption issues. In some instances, this constitutes broad multi-stakeholder dialogue, and in others, focused sector-specific dialogue, helping build local constituencies in support of key reforms. A promising initiative is in **Bangladesh**, where

a dialogue on the key statutory and constitutional institutions of accountability was built in partnership with BRAC University's Institute for Governance Studies. A program of research and a series of consensus-building workshops brought together various external stakeholders with those from the relevant institutions (for example, the Anti-Corruption Commission and the Public Service Commission) and government officials from related agencies. The process has facilitated the formation of multi-stakeholder coalitions, locally led evidence-based policy discussion and consensus on practical reform measures. Dissemination of concise policy notes containing key recommendations about all five institutions of accountability covered by the series has attempted to build further support.

The Governance Partnership Facility is providing considerable support to strengthen institutions of accountability and civil society organizations: with the support of a grant from the Governance Partnership Facility, an initiative in the **Niger Delta** will enable civil society organizations to track expenditures and monitor service delivery in support of the Bayelsa Expenditure and Income Transparency Initiative; in **Mozambique** Governance Partnership Facility funds will help promote voice and accountability by supporting the capacity of civil society organizations to undertake community score cards in the health sector.

Developing New Ways of Measuring Governance

In order to better measure the impact of governance initiatives on institutional arrangements, procedures, and practices, new “actionable governance indicators” are being developed in many areas, including human

resources management and public accountability mechanisms. Existing ‘actionable’ indicators such as public expenditure and financial accountability (PEFA) and OECD-DAC procurement indicators are also being used increasingly in country strategies and operations (such as in the Kyrgyz Country Assistance Strategy) to systematically measure improvements in governance. ‘Actionable’ indicators are also being developed to better measure service delivery in sectors such as education and health.

Fostering Partnerships for Global Governance Issues

Partnerships and collaboration at the global level have been a critical element of the GAC agenda, and one of the most promising initiatives to emerge from the GAC strategy has been a joint World Bank-United Nations Office on Drugs and Crime Stolen Assets Recovery Initiative (StAR), which supports international efforts to deter illicit flows of the proceeds of corruption and facilitate asset recovery. This initiative helps countries in specific high profile cases, supports anti-corruption and asset recovery programs, helps build capacity of asset recovery teams, and helps countries prepare mutual legal assistance requests. Over 150 participants from 13 countries have participated in StAR's introductory workshops and 190 participants from 9 countries have participated in StAR training courses.

The StAR initiative is also undertaking a range of knowledge initiatives to share international experience in asset recovery and to promote innovation, such as: analytical work to develop policy recommendations and tools on regulatory reforms in the international financial system in the wake of the financial crisis; and a study of 15 key financial centers

to identify barriers to asset recovery; and work on non-conviction based forfeiture, income and asset declaration.

LOOKING AHEAD

A key challenge faced in the implementation of the GAC strategy is measuring impact at the country level on key development results dimensions such as service delivery, increased revenues, and reduced corruption. Results frameworks and indicators are being developed to evaluate the impact of the new approaches.

A second key challenge is keeping governments and other stakeholders engaged on these issues. Governance issues are inherently difficult to address in dialogue with countries,

and especially in countries where governance concerns are likely to be particularly significant. Many programs have initiated dialogue with a range of stakeholders in developing countries, and it is important to emphasize the significant development dividends that can result from attention to governance and anticorruption.

A third challenge is building and expanding the knowledge base on what approaches to governance and anticorruption work, and sharing both within IDA and with client countries. A program to build such a knowledge base is underway now, supported by research on new approaches, best practices, and innovative tools.

July 2009.

<http://www.worldbank.org/ida>