Technical Annex 7: Anti-Corruption Plan

INDONESIA: Coral Reef Rehabilitation & Management Project (Phase II)

Summary

The COREMAP Phase II Program is nationally coordinated but decentralized in its implementation. It is comprehensive in scope, involving many connected activities, diverse stakeholders and covers 6 districts in 4 provinces, up to 416 villages, 2 National Marine Parks, and 4 local protected areas (KSDAS). As such, the Program is considered high risk in terms of corruption and fraud and many transactions are vulnerable to irregularities. The geographical spread of project activities and inherently weak and variable financial management capacity in the districts imposes substantial risks on financial management and accounting, and hence increases the fiduciary risk. The main risks are related to financial management issues, such as: inadequate payment validation procedures, and procurement issues, such as: collusion and improper billing practices. Additionally, significant amounts of the total program costs are spent on technical assistance consultancies, training, workshops awareness campaigns and fellowships. World Bank experiences have shown that such expenditures are often vulnerable to fraud and internal control lapses, as it is difficult to measure outputs.

A well-designed and implemented anti-corruption plan addressing the incentives of corruption and fraud is therefore essential to reach the development objective of the program. Hence, the objective of this Anti-Corruption Plan is to: (i) identify corruption risks, and (ii) suggest mitigation measures beyond the standard control systems employed by the Bank. This plan will be reviewed at least every 6 months at the national, district and village level, and modified based on lessons learned.

Recognizing the challenges of implementing a decentralized Program, the National Coordination Unit (NCU) at the Ministry of Marine Affairs and Fisheries, the Program Management Units (PMUs) in the district Governments and other implementing agencies plan to address corruption risks by enhancing the project design, and by strengthening internal controls and mechanisms for transparency and accountability in the procurement process. The following seven key action areas have been identified by the Government of Indonesia to mitigate corruption risks in the Program:

(i) Participation and Empowerment,
(ii) Enhanced Disclosure Provisions and Transparency,
(iii) Civil Society Oversight,
(iv) Strengthened Procurement Policies and Procedures,
(v) Payment Validation and Accountability Measures,
(vi) Complaints Handling System, and
(vii) Clear Sanctions and Remedies.

This annex also analyses the incentives and risks of corruption and fraud inherent in the Program structure in more detail through corruption mapping. Finally, appropriate mitigation measures are suggested for each of the risks identified.

17 This anti-corruption strategy draws upon a wide range of resources and experiences within Indonesia, most notably: the Coral Reef Rehabilitation and Management Program (COREMAP) Phase I Evaluation Report; Coral Reef Monitoring, Control and Surveillance: the COREMAP Experience; the Third Acehistan Development Program (KDP); the Water Resources & Irrigation Sector Management Program; the Health Workforce and Services Program; and the Land Management and Policy Development Program. In addition, the strategy draws upon the Anti-Corruption Guide: Developing and Anti-Corruption Program for Reducing Fiduciary Risks for New Programs; Lessons from Indonesia; Fighting Corruption in KDP; Fiduciary Management for Community-Driven Development Programs. A Reference Guide; Corruption in Indonesia, A Development Perspective.

18 This plan should be considered as a supplement to the specific control systems already outlined in Technical Annex 6(A): Procurement Arrangements, and Technical Annex 6(B): Financial Management & Disbursement Arrangements of the Project Appraisal Document.
Corruption Mapping

As outlined in the Procurement Capacity Assessment Report, the overall risk of collusion, leakage and fraud in the procurement process has been assessed as "high". This is due to the following reasons: (i) inadequate financial expertise at the District level, (ii) uncertainty because of the move to decentralization, (iii) the innovative nature of this program, (iv) lack of effective enforcement, (v) the unfamiliarity of implementing agencies with the new National Procurement Guidelines (Keppres), and new World Bank's Procurement Guidelines, and (vi) the general procurement environment in Indonesia is weak. As a result of these circumstances in the procurement environment, the following risks for corruption are triggered:

- Risk for improper billing practices. Services can be over billed or not provided according agreed plans and financial statements. Risk for improper utilization of salaries and travel allowances, and risk of price fixing between technical assistance consultants and local government (including village heads).
- A high dependency on local government staff in the bidding process, especially at the district level, which can lead to collusion.
- Contract awards could be "directed" to favored companies, regardless of qualifications or experience and over-billing and over-design is possible.
- Risk that materials can be procured inconsistent with specification and the implementation teams can pocket the difference.
- Risk of "kick-backs" where funds are irregularly channeled back to a supplier as part of a deal.
- Risk of local elite capture.

Additionally, inadequate payment validation procedures have been identified as a key risk, as a result of:

- The geographical spread of project activities in up to 416 villages, 6 districts and 4 provinces and inherently weak and variable financial management capacity in the regions, which imposes substantial risks on financial management and accounting, and can limit appropriate payment validation.
- The Program’s plan to spend a significant amount on technical assistance consultancies, training, workshops, awareness campaigns and fellowships. These activities will be carried out at national, district and village levels. Such expenditures are often vulnerable to fraud and internal control lapses, as it is difficult to measure outputs realized, and to establish or verify satisfactory completion of work.

Mitigation measures

1. Participation and Empowerment.

The Program aims to legalize the rights of communities to collaboratively manage coral reefs and associated ecosystems. Moreover, the Program will provide funds directly to each of the up to 416 villages participating in the program. Through active participation in the implementation, the Program believes there is a greater likelihood that communities will demand services of the district governments and ensure that resources earmarked for effective management and improved livelihoods are accounted for in a transparent manner. The most important actions that will be taken include:

- The constitution of a Coastal Community Empowerment Board in each participating district that will include members of various stakeholders, such as program management staff, local government, civil society, private sector representatives, traditional leaders, etc. (members varies by District) and will be chaired by Bupati.
- Substantial community empowerment and capacity-building activities to ensure that public support is effective and sustainable beyond the life of the program, such as: basic social services, social infrastructure, and income-generating opportunities to balance environmental and resource management with socioeconomic development.

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• The provision of two-way radios and a special frequency for each village to communicate with other communities and other districts in the program, which will give the beneficiaries the opportunity to increase the level of communication and thereby increase the level of transparency in the program and with their participation.


The program will ensure disclosed materials are produced in a format appropriate for communities and readily available for public display at the information centers established in each participating program village. As such, informed community participation will ensure transparency and accountability of funds use. The most important actions that will be taken include:

• Public information centers in each participating program village will be established to ensure that the simplified information is available to beneficiaries.
• All final audit reports and the mid-term review will be made publicly available.
• All annual procurement plans and schedules will be made publicly available.
• All bidding documents will be made publicly available in accordance with the World Bank procurement guidelines.
• All short lists of consultants will be made publicly available in accordance with the World Bank consultant guidelines.
• The summary of the evaluation of all bids will be available to all bidders and parties submitting proposals for specific contracts, promptly after the notification of award to the successful bidder.
• Representatives of the end-users of the goods or works being procured at the District level will be able to attend the public bid openings.
• All bid openings will be public.
• All information regarding contracts awarded will be publicly disclosed.

3. Civil Society Oversight.

The Program recognizes that greater oversight by civil society is essential to ensuring full transparency in the implementation of activities. As such, the Program involves a high degree of formal participation by NGOs, the private sector, and traditional/adat and religious leaders, through membership in the Coastal Community Empowerment Boards established in each of the six participating districts. Moreover, the majority of the 50 Senior Extension and Training Officers (SETO’s) and 200 Community Facilitators (CF’s) will likely come from civil society. The most important actions to ensure civil society oversight that will be taken include:

• Members of civil society will participate in fiduciary monitoring activities and joint surveillance patrols as well as independent evaluations.
• An independent monitoring plan, involving CSO’s (NGOs, universities and the local media) will be designed during the earliest stage of COREMAP Phase II to support national level monitoring (ME+F unit).
• The Program will encourage participation of the ‘end users’, or community representatives, as witnesses in the district level procurement process in order to increase the degree of transparency in the procurement process.

4. Strengthened Procurement Policies and Procedures

In order to ensure transparent and well-advertised procurement, the Program has proposed the procurement procedures in Technical Annex 6 (A). The most important of these procedures include:

• All goods to be procured will require at least three quotations to limit monopoly.
• The following procurement policies will be implemented: (i) wider advertising in national and regional newspapers, (ii) removal of geographic and other restrictions, (iii) qualification which allows participation by all bidders in accordance with the World Bank procurement guidelines (iv) complaints accommodated and adequately addressed, and (v) mis-procurement maybe declared for any deviations from agreed policy.
Independent technical assistance and capacity building specialist consultants, for procurement and financial management, will be hired in each district and at the national level to support NCU. They will work alongside the Programs national and district managers or "Pimpros" to ensure the timely preparation of contracts, review of proposals for funding, and the smooth execution of bidding procedures/contracts. Moreover, the Program will finance a financial management/micro-credit consultant to assist each program village creating a FM system.

The Program will initiate financial management and procurement learning programs on all levels and additionally support the learning process with workshops and supervision and monitoring to point and correct mistakes as early in the program cycle as possible.

5. Payment Validation and Accountability Measures
Inadequate payment validation procedures have been identified as a key risk. To mitigate this, detailed procedures for validation of payments have been developed for each kind of Program activity (see Project Manual). Financial control requirements for each of these activities are different and payment validation procedures will be designed to strengthen controls and reduce risks of fraud and corruption. Actions that will be taken include:

- All community project activities will be reviewed quarterly by community-based organizations, and related information will be publicly disclosed in the villages concerned through the village information center.
- A list of all project officials who are authorized to commit funds and approve payments and their financial limits will be similarly publicly disclosed.
- For technical assistance, workshop and training activities or agencies receiving training, the participants will be required to confirm completion before training expenses are reimbursed to the provider.
- For community driven development activities, individual proposals approved will be disclosed through the village info center. Community groups eligible to receive program funds will be legally constituted and trained to keep simple accounting records for all receipts and expenditures, including supporting documentation. These will be subject to annual audit. Detailed formats for this will be described in the Program Manual.
- Withdrawals of funds from each village's force account will require at least 2 signatories from community members. All transactions in Bank statements must be reflected in accounting records.
- The Program will set up a village financial management system, including bookkeeping, where village accountants will be trained and accredited. This system can account for village funds in a transparent and accountable way for the years of the program and for decades thereafter.

6. Complaints Handling System
A Complaints Handling System (CHS) will be established that provides all stakeholders with the opportunity to file a complaint when suspicion about corruption occurs. The exact procedure for complaints handling is described in more detail in the Program Manual. The most important actions that will be taken include:

- The CHS is designed to encourage local complaint resolution. This provides the opportunity to resolve the corruption issue on the same level (local, district, national) as where the complaint was filed. However, the actions, sanctions and remedies decided to mitigate the corruption issue are scrutinized by the levels above, and ultimately the ME&F are responsible for sound corruption mitigation on all levels. All complaints are reported to ME&F who maintain a comprehensive database of complaints. Each complaint needs to be proven, and if it is proven true, further action will be executed.
- An extensive financial and auditing system has been prepared as part of the Financial Management and Disbursement Agreements. Any suspicion about corrupt activities found in the existing auditing and reporting system will be reported through the Complaints Handling System.
- The program will have a monitoring system that is both internal and external. Internally the villagers themselves, field consultants, national level program staff, local government officials, and World Bank staff on supervision trip will monitor the program. An independent monitoring plan, involving CSO's (NGOs, universities and the local media) will be designed during the
earliest stage of COREMAP Phase II to support national level monitoring (ME+F unit). Any suspicion about misuse will feed into the Complaints Handling System.

7. Clear Sanctions & Remedies
The most important sanctions and remedies are:

- Any individual can be prosecuted if relevant, competence, material, and sufficient evidence is available.
- In all procurement contracts, evidence of corruption, collusion or fraud will result in termination of the relevant contract, possibly with additional penalties imposed (such as fines, blacklisting, etc.), in accordance with Bank requirements and Government laws and regulations.
- Disbursement to any given location can be frozen or stopped completely if cases of abuse are not dealt with effectively. Furthermore, anyone hired under the program, including contractors and facilitators, will be given instant dismissal if proven guilty of corruption, collusion or fraud.
- Program implementation activities (components, subcomponents and activities) and the order in which they will be implemented will be phased, and will be outcome-oriented rather than driven solely by a set implementation time schedule.